

Ajman Bank PJSC

Decline in net funded income and one-off charges impacted profitability

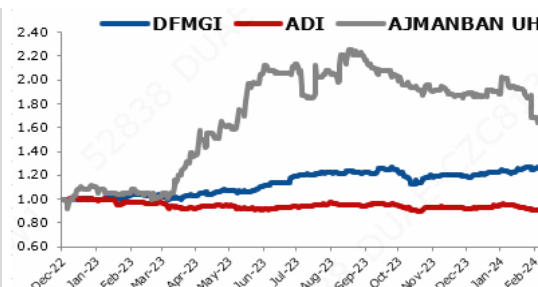
Current Price
AED 1.81

Target Price
AED 1.09

Upside/Downside (%)
-40%

Rating
SELL

- AJMANBANK's net advances grew 9.0% to AED 13.7 Bn, while deposits grew 20.8% to AED 19.7 Bn in 4Q23.
- CASA deposits as a percentage of total deposits stood low at 26.0% in 4Q23 compared to 29.8% in 3Q23.
- NIMs declined 67 bps YOY and 8 bps QOQ to 2.3% in 4Q23. While cost-to-income grew 490 bps QOQ to 60.7% in 4Q23.
- The Bank's non-core income grew significantly to AED 37 Mn in 4Q23 driven by strong rise in income from investment securities partially offset by a decline in fees and commission income.
- Asset quality deteriorated as NPLs grew from 14.1% in 3Q23 to 16.1% in 4Q23.
- Capitalization improved with a Tier 1 ratio of 14.5% and a total CAR ratio of 15.6% in 4Q23.



4Q23 Net Profit lower than our estimate

Ajman Bank's (AJMANBANK/ the Bank) recorded a net loss of AED 303 Mn in 4Q23 as compared to net profit of AED 49 Mn in 4Q22, lower than our estimate of AED 52 Mn. The decline in net profit is mainly attributable to a substantial rise in impairments, funded expenses, and operating expenses partially offset by an increase in funded income and income from investment securities.

P&L Highlights

Ajman Bank's funded income grew 51.3% YOY to AED 331 Mn in 4Q23 mainly driven by expansion in asset yield. On the other hand, funded expense rose significantly from AED 96 Mn in 4Q22 to AED 214 Mn in 4Q23 due to increase in cost of funds driven by higher benchmark rates. Thus, net funded income declined 4.6% YOY to AED 117 Mn in 4Q23. Moreover, fees and commission income declined 30.5% YOY to AED 46 Mn in 4Q23 whereas income from investment securities grew strongly from AED 23 Mn in 4Q22 to AED 79 Mn in 4Q23. Impairment loss in associate almost remained stable at AED 89 Mn in 4Q23 compared to 4Q22. Thus, non-funded income grew from AED 1 Mn in 4Q22 to AED 37 Mn in 4Q23. As a result, total operating income grew 24.8% YOY to AED 154 Mn in 4Q23. Furthermore, operating expenses grew 35.8% YOY to AED 93 Mn in 4Q23. Thus, cost-t-income grew 490 bps YOY to 60.7% in 4Q23. Impairments rose significantly from AED 5 Mn in 4Q22 to AED 363 Mn in 4Q23 dragging profitability.

Balance Sheet Highlights

Ajman Bank's net advances grew 9.0% to AED 13.8 Bn in 2023. Total assets rose 18.1% to AED 24.9 Bn in 2023. The Bank's customer deposits grew 20.8% to AED 19.7 Bn in 2023. Out of the total deposits, current account deposits grew 17.6% YOY to AED 4.8 Bn

Stock Information

Market Cap (AED, mm)	4,929.54
Paid Up Capital (mm)	2,723.50
52 Week High	2.46
52 Week Low	0.93
3M Avg. daily value(AED)	13,710,200

4Q23 Result Review (AED, mm)

Total Assets	24,936
Total Liabilities	22,261
Total Equity	2,675
Total Deposits	19,725
Net Profit	-303

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	1.84
Book Value (AED)	0.98
Return-on Equity (%)	-15.04

Stock Performance

5 Days	-3.72%
1 Months	-13.81%
3 Months	-10.84%
6 Months	-25.51%
1 Year	95.46%
Month to Date (MTD%)	-11.71%
Quarter to Date (QTD%)	-12.98%
Year to Date (YTD%)	-12.98%

while savings account deposits grew 6.6% YOY to AED 382 Mn in 4Q23. Moreover, CASA deposits as a percentage of total deposits stood at 26.0% in 4Q23 compared to 29.8% in 3Q23. Loan-to-deposits ratio declined from 77.9% in 3Q23 to 73.1% in 4Q23. In addition, the Bank's total equity rose 6.4% to AED 2.7 Bn in 4Q23.

Target Price and Rating

We maintain our SELL rating on AJMANBANK with a target price of AED 1.09. Ajman Bank reported a significant decline in profitability in 4Q23 mainly due to the one-off charge. The Bank's net advances recorded a healthy growth of 9.0% to AED 13.7 Bn in 2023. Deposits grew 20.8% to AED 19.7 Bn in 2023. The Bank's CASA deposits as a percentage of total deposits stood low at 26.0% in 4Q23 compared to 29.8% in 3Q23. NIMs declined 67 bps YOY and 8 bps QOQ to 2.3% in 4Q23 mainly due to higher cost of funds. Cost of funds grew 186 bps YOY and 52 bps QOQ to 3.9% in 4Q23. The Bank should focus to increase its CASA balance in order to support margins. AJMANBANK's cost-to-income grew 490 bps YOY to 60.7% in 4Q23 mainly due to the rise in operating expenses. The Bank should effectively manage expenses and focus on improving its core and non-core income going forward. AJMANBANK's asset quality also deteriorated as NPLs increased from 14.1% in 3Q23 to 16.1% in 4Q23. Provision coverage also declined from 28.7% in 3Q23 to 27.4% in 4Q23 which indicates that the Bank has kept aside lower reserves to cover against bad loans. However, the Bank's stage 2 loans as a percentage of gross loans improved to 13.2% in 4Q23 from 21.0% in 3Q23. The Bank's capitalization improved with a Tier 1 ratio of 14.5% and a total CAR ratio of 15.6% in 4Q23. Moreover, the Bank is trading at an expensive 2024 P/E ratio of 28.3x compared to its peer average of 8.4x. In addition, AJMANBANK also does not pay any dividend as compared to its peers. Thus, considering the abovementioned factors, we maintain our SELL rating on the stock.

AJMAN BANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	55.9	85.8	39.4	28.3	NM	28.3
PB	1.8	1.8	1.7	1.8	1.9	1.8
Dividend yield	1.7%	NM	NM	NM	NM	NM

FABS Estimates & Co Data

AJMAN BANK - P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	219	298	331	312	6.3%	51.3%	11.2%	674	1,210	79.5%
Funded expenses	-96	-180	-214	-198	8.3%	122.4%	18.9%	-288	-702	144.0%
Net funded income	123	118	117	114	2.9%	-4.6%	-0.5%	386	508	31.5%
Fees and commissions	66	44	46	47	-2.4%	-30.5%	4.1%	185	180	-2.6%
Income from Invest. Securities	23	32	79	32	NM	NM	149.4%	84	170	103.1%
Share of result of associate	-89	0	-89	0	NM	NM	NM	-89	-89	0.1%
Total non-funded income	1	76	37	80	-53.8%	NM	-51.7%	180	261	45.2%
Total operating income	123	194	154	193	-20.4%	24.8%	-20.6%	566	769	35.9%
Operating expenses	-69	-92	-93	-95	-1.2%	35.8%	1.9%	-321	-370	15.3%
Pre provision profit	54	102	60	99	-38.80%	11.0%	-40.8%	245	399	62.9%
Impairment	-5	-292	-363	-47	NM	NM	NM	-83	-789	NM
Profit for the period	49	-190	-303	52	NM	NM	NM	162	-390	NM

FABS estimate & Co Data

AJMAN BANK - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	99.6%	60.7%	76.1%	NM	NM	68.2%	66.0%	-219
NIM	3.0%	2.4%	2.3%	-67	-8	2.2%	2.8%	53
NIS	3.2%	2.6%	2.6%	-63	-4	2.4%	3.0%	67
Fees & comms/OI	53.8%	22.8%	29.9%	NM	709	32.7%	23.4%	-924
Invt Securities/OI	18.6%	16.4%	51.6%	NM	NM	14.8%	22.1%	731
Cost to income	55.8%	47.3%	60.7%	490	NM	56.7%	48.1%	-860
Impairment/PPP	9.2%	285.7%	601.5%	NM	NM	33.8%	197.9%	NM
NP/OI	40.1%	-97.9%	-197.0%	NM	NM	28.6%	-50.8%	NM
Cost of risk	0.1%	7.9%	9.8%	965	190	0.6%	5.7%	516
Loan-to-deposit	80.4%	77.9%	73.1%	-731	-489	80.4%	73.1%	-731
NPL	16.8%	14.1%	16.1%	-73	195	16.8%	16.1%	-73
Coverage excluding collateral	22.3%	28.7%	27.4%	508	-135	22.3%	27.4%	508
CET 1	14.4%	14.9%	14.5%	5	-46	14.4%	14.5%	5
Capital adequacy	15.6%	16.1%	15.6%	0	-47	15.6%	15.6%	4
ROAA	0.8%	-0.2%	-1.6%	NM	-140	0.7%	-1.7%	NM
ROAE	6.5%	-1.3%	-13.8%	NM	NM	6.3%	-15.0%	NM

FABS estimate & Co Data

AJMAN BANK - Key B/S items

AED mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	12,634	13,156	13,726	14,640	13,776	9.0%
QOQ change	-5.6%	4.1%	4.3%	6.7%	-5.9%	
Total assets	21,110	22,853	23,582	25,207	24,936	18.1%
QOQ change	2.6%	8.3%	3.2%	6.9%	-1.1%	
Customer deposits	16,332	19,270	19,213	19,576	19,725	20.8%
QOQ change	1.7%	18.0%	-0.3%	1.9%	0.8%	
Total equity	2,515	2,577	2,648	2,989	2,675	6.4%
QOQ change	0.3%	2.5%	2.7%	12.9%	-10.5%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value AJMANBANK. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.10	60.0%	0.66
Relative Valuation (RV)	1.07	40.0%	0.43
Weighted Average Valuation (AED)			1.09
Current market price (AED)			1.81
Upside/Downside (%)			-40%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 0.85 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	-9
Terminal value (AED, Mn)	331
Book Value of Equity (as of Dec 2023)	2,675
FV to Common shareholders (AED, Mn)	2,997
No. of share (Mn)	2,724
Current Market Price (AED)	1.81
Fair Value per share (AED)	1.10

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	180	193	225	243	254
(-) Equity Charge	-206	-218	-221	-224	-224
Excess Equity	-26	-26	4	19	30
Discounting Factor	0.94	0.86	0.80	0.74	0.68
Present Value of Excess Equity	-25	-22	3	14	20

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value AJMANBANK and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai	4,064	1.1	NM	NM	NM	5.5	6.0
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
Mashreq Bank	8,303	1.0	0.9	5.2	5.7	8.2	7.2
RAK Bank	2,875	1.0	0.9	7.4	5.5	7.2	9.1
Abu Dhabi Commercial Bank	17,714	1.0	0.9	8.6	8.4	5.8	5.9
Dubai Islamic Bank	11,374	1.1	1.0	8.0	7.3	5.9	6.1
Average		1.0x	0.9x	7.1x	6.6x	6.3%	6.5%
Median		1.0x	0.9x	7.4x	6.0x	5.9%	6.1%
Max		1.1x	0.9x	8.0x	7.3x	6.9%	7.0%
Min		1.0x	0.9x	6.1x	5.7x	5.6%	5.9%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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