

National Bank of Ras Al Khaimah (RAKBANK)

Strong loan growth and improved margins supported profitability

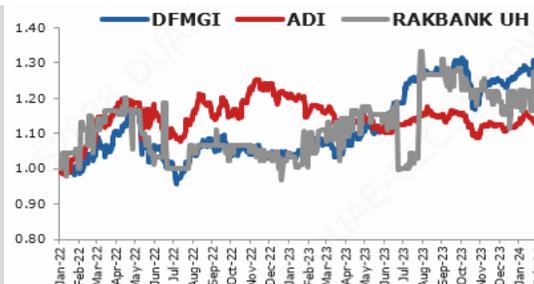
Current Price
AED 5.10

Target Price
AED 6.15

Upside/Downside (%)
+21%

Rating
BUY

- RAKBANK's net advances grew 9.4% to AED 39.5 Bn in 4Q23. Retail and Wholesale Banking accounted for 47.9% and 28.5%, respectively, of total loans in 2023
- The Bank continued to maintain its business momentum and facilitated the opening of more than 10,000 business accounts and disbursed AED 2.2 Bn loans in 2023.
- NPLs declined from 3.0% in 3Q23 to 2.6% in 4Q23. The coverage ratio stood also strengthened from 210.3% in 3Q23 to 227.0% in 4Q23.
- NIMs grew 55 bps YOY and 21 bps QOQ to 5.2% in 4Q23, while cost-to-income improved 278 bps YOY to 34.6% in 4Q23.



4Q23 Net Profit lower than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit grew 50.8% YOY to AED 432 Mn in 4Q23, lower than our estimate of AED 455 Mn. The growth in net profit is mainly attributable to a solid rise in net funded income along with lower impairments partially offset by a decline in non-funded income.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 33.2% YOY to AED 1,072 Mn in 4Q23, whereas interest expense on conventional deposits and borrowings increased significantly from AED 179 Mn in 4Q22 to AED 293 Mn in 4Q23. Thus, net interest income from conventional loans and advances rose 24.5% YOY to AED 779 Mn in 4Q23. Similarly, income from Islamic financing grew 11.7% YOY to AED 157 Mn in 4Q23 while Islamic financing expenses grew from AED 34 Mn in 4Q22 to AED 60 Mn in 4Q23. Resultantly, RAKBANK's funded income grew 30.0% YOY to AED 1,230 Mn in 4Q23 primarily driven by asset yield expansion and net advances growth. On the other hand, funded expenses increased significantly from AED 213 Mn in 4Q22 to AED 353 Mn in 4Q23 mainly due to rise in cost of funds owing to higher benchmark rates. Thus, net funded income rose 19.5% YOY to AED 876 Mn in 4Q23. NIMs grew 55 bps YOY and 21 bps QOQ to 5.2% in 4Q23. Net fee and commission income declined 3.5% YOY to AED 149 Mn in 4Q23. Foreign exchange income also declined marginally 1.0% YOY to AED 80 Mn in 4Q23. RAKBANK's gross insurance underwriting recorded a loss of AED 67 Mn in 4Q23 compared to a profit of AED 3 Mn in 4Q22. The Bank's investment income grew from AED 10 Mn in 4Q22 to AED 14 Mn in 4Q23. Other operating income also grew from AED 13 Mn in 4Q22 to AED 25 Mn in 4Q23. As a result, total non-funded income declined 22.9% YOY to

Stock Information

Market Cap (AED, Mn)	10,620.69
Paid Up Capital (Mn)	2,011.49
52 Week High	6.15
52 Week Low	3.84
3M Avg. daily value(AED)	764,685

4Q23 Result Review (AED, Mn)

Total Assets	73,995
Total Liabilities	63,600
Total Equity	10,355
Total Deposits	50,395
Net Profit	432

Financial Ratios

Dividend Yield (12m)	5.56
Dividend Pay-out (%)	34.95
Price-Earnings Ratio(x)	5.75
Price-to-Book Ratio (x)	0.99
Book Value (AED)	5.14
Return-on Equity (%)	18.46

Stock Performance

5 Days	-7.27%
1 Months	0.57%
3 Months	-4.00%
6 Months	-7.37%
1 Year	34.81%
Month to Date (MTD%)	-4.00%
Quarter to Date (QTD%)	-0.38%
Year to Date (YTD%)	-0.38%

AED 202 Mn in 4Q23. Thus, Net operating income grew 8.4% YOY to AED 1,078 Mn in 4Q23. Furthermore, operating expenses grew marginally 0.3% YOY to AED 373 Mn in 4Q23. However, the cost to income ratio declined 278 bps YOY and 363 bps QOQ to 34.6% in 4Q23 mainly due to rise in total operating income. RAKBANK's impairments declined 23.0% YOY to AED 261 Mn in 4Q23. In addition, the Bank accounted a deferred tax liability of AED 14 Mn in 4Q23 dragging profitability.

Balance Sheet Highlights

RAKBANK's total assets grew 11.5% to AED 74.0 Bn in 4Q23 mainly due to cash and bank balance growth with Central Bank, investment securities and net advances. Net advances grew 9.4% to AED 39.5 Bn in 4Q23 primarily due to growth in Wholesale and Retail lending. Moreover, customer deposits grew 12.3% to AED 50.4 Bn in 4Q23. The Bank's CASA deposits now account for 66.9% of total deposits as of 4Q23. The rise in customer deposits was mainly driven by growth in time and CASA deposits. The Bank opened more than 10,000 business accounts and disbursed AED 2.2 Bn loans in 4Q23.

Target Price and Rating

We revise our rating from ACCUMULATE to BUY on RAKBANK with an unchanged target price of AED 6.15. The bank's stock price has declined 7% since our last rating. RAKBANK recorded the highest-ever net profit of AED 1.8 Bn in 2023. Robust growth in loans and advances, a diversified portfolio, and an expansion in asset yield supported the profitability in 2023. RAKBANK's net advances grew 9.4% in 2023, primarily due to strong growth in Wholesale banking and Retail banking. Wholesale banking recorded a strong 16.3% YOY growth to AED 12.0 Bn in 2023 mainly due to a 23.8% rise in the corporate portfolio. Similarly, the Retail banking segment witnessed a growth of 6.9% YOY supported by strong lending across mortgages, auto loans, and credit cards in 2023. Likewise, Business banking loans recorded a 9.7% YOY rise on the back of a strong 15.7% growth in business loans in 2023. In the personal banking segment, RAKBANK achieved strong growth across its key products and witnessed a 19% rise in credit card spending, while the share of mortgages rose from 20% in 2022 to 22% in 2023. The Bank is also focusing on the introduction of digitization for account opening and credit card applications. During the year, the digitalization witnessed a 68% share in the new account opening. RAKBANK's total customer deposits grew 12.3% primarily due to an increase of AED 3.3 and AED 2.2 Bn in time and CASA deposits respectively in 2023. CASA deposits accounted for 66.9% of total deposits as of 2023. The Bank's asset quality improved as NPLs declined from 3.0% in 3Q23 to 2.6% in 4Q23. The coverage ratio stood also strengthened from 210.3% in 3Q23 to 227.0% in 4Q23. Capitalization stood strong with a CET 1 ratio of 16.7% and CAR of 17.8% in 4Q23. Furthermore, the Bank is focusing on the diversification strategy and the introduction of new products and services. During the year, RAKBANK opened more than 10,000 SME's business accounts and disbursed AED 2.2 Bn loans in order to support the growth of start-ups and SME's business. RAKBANK also maintained a strong return with a ROE of 18.5% and ROA of 2.5% in 2023. In addition, the Bank has a negative interest rate sensitivity gap as a result NIMs is expected to benefit in the declining interest rate scenario. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.37	20.36	13.57	8.76	5.75	6.52
PB	1.31	1.31	1.23	1.14	0.99	0.91
Dividend yield	4.9%	2.5%	3.7%	5.6%	6.1%	6.1%

FABS Estimates & Co Data

RAKBANK – P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Interest Income	946	1,186	1,230	1,267	-3.0%	30.0%	3.7%	2,993	4,570	52.7%
Interest expense	-213	-343	-353	-361	-2.1%	66.2%	2.9%	-504	-1,233	144.8%
Net funded income	733	843	876	907	-3.3%	19.5%	4.0%	2,489	3,336	34.0%
Net fees and commissions	155	175	149	180	-17.1%	-3.5%	-15.0%	658	660	0.3%
Foreign exchange gain	81	90	80	81	-1.8%	-1.0%	-10.9%	218	326	49.3%
Gross insurance underwriting Profit	3	11	-67	0	NM	NM	NM	7	-41	NM
Investment Income	10	3	14	11	27.7%	41.2%	NM	8	49	NM
Other operating income	13	15	25	17	46.2%	NM	66.0%	71	74	3.3%
Total non-funded income	262	294	202	290	-30.4%	-22.9%	-31.4%	962	1,068	11.0%
Net operating income	995	1,137	1,078	1,197	-9.9%	8.4%	-5.2%	3,452	4,404	27.6%
Operating expenses	-371	-434	-373	-440	-15.4%	0.3%	-14.2%	-1,484	-1,601	7.9%
Pre-provision profit	623	703	705	756	-6.7%	13.2%	0.4%	1,967	2,803	42.5%
Impairment	-339	-251	-261	-300	-13.0%	-23.0%	4.1%	-804	-1,005	25.1%
Profit before tax	285	452	445	457	-2.6%	56.2%	-1.7%	1,163	1,797	54.5%
Income tax expense			-14	0	NM	NM	NM		-14	NM
Profit after tax	285	452	431	457	-5.6%	51.4%	-4.7%	1,163	1,784	53.3%
Non-controlling interest	2	-1	1	-1	NM	NM	NM	7	0	NM
Net profit attributable	286	451	432	455	-5.2%	50.8%	-4.2%	1,171	1,784	52.3%

FABS estimate & Co Data

RAKBANK – KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	73.7%	74.1%	81.3%	760	717	72.1%	75.8%	364
NIM	4.7%	5.0%	5.2%	55	21	4.2%	5.0%	73
NIS	4.5%	4.8%	5.0%	52	22	4.1%	4.7%	57
Fees & comms/OI	15.5%	15.4%	13.8%	-171	-160	19.1%	15.0%	-407
Foreign exchange gain/OI	8.1%	7.9%	7.4%	-70	-48	6.3%	7.4%	108
Other operating income/OI	1.3%	1.3%	2.4%	108	101	2.1%	1.7%	-39
Invnt Income/OI	1.0%	0.2%	1.3%	31	109	0.2%	1.1%	89
Cost to income	37.3%	38.2%	34.6%	-278	-363	43.0%	36.4%	-665
Impairment/PPP	54.3%	35.7%	37.0%	-1,736	132	40.9%	35.9%	-499
NP/OI	28.8%	39.7%	40.1%	1,128	39	33.9%	40.5%	658
Cost of risk	3.7%	2.5%	2.5%	-114	4	2.2%	2.5%	29
Loan-to-deposit	80.4%	79.7%	78.3%	-210	-140	80.4%	78.3%	-210
NPL	2.8%	3.0%	2.6%	-20	-40	3.0%	2.6%	-40
NPL Coverage	181.7%	210.3%	227.0%	4,530	1,670	181.7%	227.0%	4,530
CET 1	15.3%	17.4%	16.7%	143	-66	15.3%	16.7%	143
Capital adequacy	16.4%	18.5%	17.8%	138	-67	16.4%	17.8%	138
ROAE	13.3%	17.2%	17.8%	449	60	13.5%	18.5%	496
ROAA	1.8%	2.3%	2.4%	65	17	1.9%	2.5%	63

FABS estimate & Co Data

RAKBANK – Key B/S items

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	36,071	36,444	37,631	38,647	39,468	9.4%
QOQ change	5.5%	1.0%	3.3%	2.7%	2.1%	
Total assets	66,346	68,878	71,865	72,004	73,955	11.5%
QOQ change	3.9%	3.8%	4.3%	0.2%	2.7%	
Customer deposits	44,871	46,366	48,965	48,464	50,395	12.3%
QOQ change	11.5%	3.3%	5.6%	-1.0%	4.0%	
Total equity	9,021	9,432	9,355	9,785	10,355	14.8%
QOQ change	3.9%	4.6%	-0.8%	4.6%	5.8%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	6.43	70.0%	4.50
Relative Valuation (RV)	5.49	30.0%	1.65
Weighted Average Valuation (AED)			6.15
Current market price (AED)			5.10
Upside/Downside (%)			+21%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,576
Terminal value (AED, Mn)	1,041
Book Value of Equity (as of Dec 2023)	10,327
FV to Common shareholders (AED, Mn)	12,944
No. of share (Mn)	2,011
Current Market Price (AED)	5.10
Fair Value per share (AED)	6.43

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	1,572	1,576	1,475	1,368	1,304
(-) Equity Charge	-955	-1,025	-1,089	-1,148	-1,205
Excess Equity	617	551	386	220	99
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Present Value of Excess Equity	573	472	305	160	66

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RAKBANK and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Sharjah Islamic Bank	2,176	1.2	1.1	10.3	9.5	4.9	5.3
Commercial Bank of Dubai	4,064	1.1	NA	NA	NA	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
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		1.1x	1.0x	7.6x	7.4x	5.9%	5.9%
Median		1.1x	0.9x	8.0x	7.3x	5.7%	5.9%
Max		1.1x	1.0x	8.6x	8.4x	5.9%	6.1%
Min		1.0x	0.9x	6.1x	6.0x	5.0%	5.4%

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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