

National Bank of Ras Al Khaimah (RAKBANK)

Strong loan book growth and lower impairment boosted profitability

4Q22 Net Profit lower than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) reported an increase in net profit from AED 224 Mn in 4Q21 to AED 288 Mn in 4Q22, lower than our estimate of AED 402 Mn. The growth in the bottom line is driven by higher funded and non-funded income partially offset by higher impairment charges.

P&L highlights

Interest income including income from Islamic financing rose 54.9% YOY to AED 946 Mn in 4Q22 due to growth in net advances and rise in asset yield. Net advances rose 11.7% to AED 36.1 Bn in 2022. Whereas, the Bank's asset yield rose 76 bps YOY to 6.06% in 4Q22. Interest expense increased significantly from AED 63 Mn in 4Q21 to AED 213 Mn in 4Q22 due to a rise in the cost of funds on account of an increase in benchmark interest rates. As a result, net funded income rose 34.0% YOY to AED 733 Mn in 4Q22. NIM also rose 58 bps YOY to 4.7% in 4Q22. Net Fees and Commissions declined 5.1% YOY to AED 155 Mn in 4Q22. Other components of non-funded income increased from AED 82 Mn in 4Q21 to AED 107 Mn in 4Q22 due to higher forex gain and increase in investment income partially offset by decline in gross insurance underwriting profit. Foreign exchange gain almost doubled from AED 43 Mn in 4Q21 to AED 81 Mn in 4Q22. As a result, total non-funded income rose 6.7% YOY to AED 262 Mn in 4Q22. Resultantly, net operating income rose 25.5% YOY to AED 995 Mn in 4Q22. Moreover, operating expenses rose marginally 0.1% YOY to AED 371 Mn in 4Q22. Cost-to-income ratio "C/I" decreased 341 bps QOQ to 37.3% in 4Q22. Impairment charges increased significantly from AED 198 Mn in 4Q21 to AED 339 Mn in 4Q22 mainly due to an increase of AED 141 Mn from 4Q21 due to conservative management measures taken in anticipation of the rapidly changing regulatory landscape, and uncertain global economy, and the rising interest rates environment.

Balance sheet highlights

Total assets increased 18.1% to AED 66.5 Bn in 2022 mainly due to an increase in Bank's investments and net advances. Net Advances increased 11.7% to AED 36.1 Bn in 2022 due to an increase in lending across all the segments. Customer deposits increased strongly 19.2% to AED 44.9 Bn in 2022 with an increase in CASA deposit from AED 30.0 Bn in 3Q22 to AED 31.5 Bn in 4Q22 comprising 70.4% of the total deposit. While total equity grew 7.7% to AED 9.0 Bn in 2022.

Target price and rating

We maintain our 'BUY' rating on RAKBANK with a target price of AED 5.85. The Bank reported strong profitability growth in 2022 mainly driven by an increase in the Bank's loan book and lower impairments. RAKBANK also benefitted from the rising interest environment due to a positive interest rate sensitivity gap. The Bank's NIM rose 58 bps YOY and 33 bps QOQ to 4.7% in 4Q22 which is considered to be the highest in the industry. RAKBANK's customer deposit also increased 19.2% to AED 44.9 Bn with a CASA ratio of 70.4% in 4Q22 indicating strong franchise. Furthermore, the Bank also saw a significant increase in advances in its Wholesale, Retail, and Business Banking segments. Net advances increased to AED

Rating : BUY

First Look Note – 4Q22

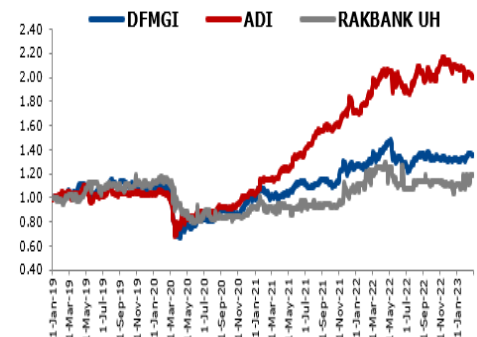
Sector: Banking

Recommendation

Current Price (01-Mar-23)	4.99
Target Price (AED)	5.85
Upside/Downside (%)	+17%

Stock Information

Market Cap (mm)	8,364.46
Paid Up Capital (mm)	1,676.25
52 Week High	5.40
52 Week Low	4.19
3M Avg. daily value (AED)	293,860



Financial Ratios

Dividend Yield (12m)	4.51
Dividend Pay-out (%)	48.68
Price-Earnings Ratio (x)	7.12
Price-to-Book Ratio (x)	0.93
Book Value (AED)	5.37
Return-on Equity (%)	13.50
Earning Per Share (AED)	0.70
Beta	0.29

Stock Performance

5 Days	-0.20%
1 Months	3.96%
3 Months	6.17%
6 Months	3.96%
1 Year	-0.20%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	6.17%
Year to Date (YTD)	6.17%

36.0 Bn in 2022. The wholesale banking segment increased to AED 10.2 Bn in 2022 owing to the UAE's resilient economic environment and the Bank's strategic balance sheet diversification roadmap. Business banking segment rose 12.4% YOY to AED 9.0 Bn mainly due to an increase in Bank's business loan and increase in trade and working capital loans portfolio. Furthermore, retail banking segment of the Bank increased to AED 102.8 Mn mainly due to the strong sales across different products. In addition, the Bank also announced the launch of a digital onboarding experience that will enable SMEs to apply business loans, term and working capital finance through the Bank's quick apply portal which will increase the Bank's business banking going forward. The Bank is also planning to reduce its reliance on unsecured lending and increase the proportion of fee and non-financing income as well as drive cross-sell across all segments. RAKBANK's asset quality also remained stable with an NPL ratio of 3.2% in 3Q22 with an increase in provisioning coverage ratio from 156.1% in 3Q22 to 172.4% in 4Q22. Capitalization also remained strong with a total CAR of 16.4% and a CET 1 ratio of 15.3% in 4Q22. RAKBANK declared a dividend of 34 fils per share amounting to a dividend of 6.8%. Considering the aforementioned factors, we assign a 'BUY' rating to the stock.

RAKBANK - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	9.16	7.64	16.60	11.06	7.14	9.51
P/B (x)	1.18	1.07	1.07	1.00	0.93	0.90
Dividend Yield (%)	6.0%	6.0%	3.0%	4.5%	6.8%	7.0%

FABS Estimates & Co Data
RAKBANK - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	VAR	YOY Ch	QOQ Ch	2021	2022	Change
Interest income	497	657	805	758	6.1%	61.8%	22.5%	1,972	2,487	26.1%
Interest expenses	-47	-114	-179	-170	4.8%	279.6%	56.9%	-197	-412	109.0%
Net interest income	450	543	626	588	6.5%	39.1%	15.2%	1,774	2,074	16.9%
Income: Islamic financing	113	134	141	146	-3.7%	24.4%	5.2%	455	506	11.3%
Islamic profit distribution	-16	-25	-34	0	NM	107.5%	38.4%	-61	-91	50.4%
Net Islamic financing income	97	109	107	146	-26.9%	10.3%	-2.3%	394	415	5.3%
Interest Income	611	791	946	905	4.5%	54.9%	19.5%	2,426	2,993	23.4%
Interest expense	-63	-138	-213	-170	24.7%	235.2%	53.6%	-258	-504	95.2%
Net funded income	547	653	733	734	-0.2%	34.0%	12.3%	2,168	2,489	14.8%
Net fees and commissions	163	164	155	165	-6.5%	-5.1%	-5.7%	687	658	-4.2%
Foreign exchange gain	43	77	81	45	80.0%	87.2%	4.4%	161	218	35.8%
Gross insurance underwriting Profit	12	0	3	0	1391.4%	-71.2%	NM	37	7	-80.6%
Investment Income	7	-2	10	7	46.7%	49.9%	-517.1%	80	8	-90.5%
Other operating income	20	23	13	25	-50.2%	-37.7%	-45.6%	97	71	-26.5%
Total non-funded income	245	262	262	243	7.7%	6.7%	-0.3%	1,062	962	-9.4%
Net operating income	792	915	995	977	1.8%	25.5%	8.7%	3,231	3,452	6.9%
Operating expenses	-371	-373	-371	-376	-1.3%	0.1%	-0.4%	-1,396	-1,484	6.4%
Pre-provision profit	421	542	623	601	3.7%	47.9%	14.9%	1,835	1,967	7.2%
Impairment	-198	-191	-339	-200	68.9%	71.3%	77.5%	-1,077	-804	-25.3%
Profit for the year	224	351	285	401	-28.9%	27.3%	-19.0%	758	1,163	53.4%
Non-controlling interest	0	2	3	2	83.9%	6837.0%	85.4%	-2	7	NM
Net profit attributable	224	353	288	402	-28.4%	28.7%	-18.5%	756	1,171	54.8%

FABS estimate & Co Data

RAKBANK - P&L KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	69.0%	71.3%	73.7%	465	236	67.1%	72.1%	499
NIM	4.1%	4.4%	4.7%	58	33	4.2%	4.2%	6
NIS	4.0%	4.2%	4.5%	44	26	4.1%	4.1%	1
Fees & comms/OI	20.6%	17.9%	15.5%	-502	-237	21.3%	19.1%	-220
Foreign exchange gain/OI	5.4%	8.5%	8.1%	267	-33	5.0%	6.3%	135
Other operating income/OI	2.6%	2.6%	1.3%	-129	-127	3.0%	2.1%	-94
Invt Income/OI	0.9%	-0.3%	1.0%	17	129	2.5%	0.2%	-227
Cost to income	46.8%	40.7%	37.3%	-949	-341	43.2%	43.0%	-20
Impairment/PPP	46.9%	35.2%	54.3%	741	1914	58.7%	40.9%	-1781
NP/OI	28.2%	38.6%	28.9%	71	-965	23.4%	33.9%	1051
ROAE	9.2%	13.1%	13.3%	408	22	9.4%	13.5%	414
ROAA	1.4%	1.8%	1.8%	43	2	1.4%	1.9%	52

FABS estimate & Co Data

RAKBANK - Key BS Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	32,284	33,946	33,981	34,196	36,071	11.7%
QOQ change	2.6%	5.1%	0.1%	0.6%	5.5%	
Total assets	56,304	58,626	60,758	63,832	66,504	18.1%
QOQ change	3.3%	4.1%	3.6%	5.1%	4.2%	
Customer deposits	37,647	38,458	39,552	40,255	44,871	19.2%
QOQ change	1.8%	2.2%	2.8%	1.8%	11.5%	
Total equity	8,382	8,578	8,337	8,679	9,025	7.7%
QOQ change	2.9%	2.3%	-2.8%	4.1%	4.0%	

FABS estimate & Co Data

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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