

Ajman Bank

Improved asset quality drove profitability

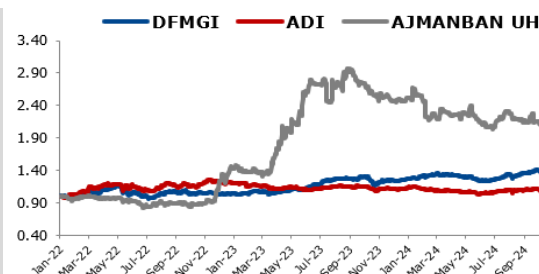
Current Price
AED 1.74

Target Price
AED 1.35

Upside/Downside (%)
-22%

Rating
SELL

- Net advances declined 8.4% YOY and 3.6% QOQ to AED 13.4 Bn in 3Q24, and customer deposits declined 1.4% YOY and remained at a similar level of 2Q24 at AED 19.3 Bn in 3Q24.
- NIMs declined 8 bps YOY and 29 bps QOQ to 2.3% in 3Q24 due to the higher cost of funds.
- NPL declined from 12.3% in 2Q24 to 11.8% in 3Q24, with an increase in coverage from 35.1% in 2Q24 to 38.9% in 3Q24.
- Capitalization improved with a Tier 1 ratio of 18.4% and a total CAR ratio of 19.5% in 3Q24.



3Q24 Net Profit lower than our estimate

Ajman Bank (AJMANBANK/ the Bank) recorded a significant increase in net profit from a loss of AED 190 Mn in 3Q23 to AED 74 Mn in 3Q24, however, lower than our estimate of AED 110 Mn. The growth in net profit is mainly attributable to the decline in impairment charges partially offset by a decline in net funded income, higher operating expenses, and corporate tax.

P&L Highlights

Ajman Bank's funded income grew 3.7% YOY to AED 309 Mn in 3Q24, mainly due to an expansion of asset yield. On the other hand, funded expenses rose 10.1% YOY to AED 198 Mn in 3Q24 due to increased cost of funds. Thus, net funded income declined 6.0% YOY to AED 111 Mn in 3Q24. Moreover, fees and commission income declined 6.8% YOY to AED 41 Mn in 3Q24, whereas income from investment securities grew 13.2% YOY to AED 36 Mn in 3Q24. Thus, total non-funded income grew marginally 1.6% YOY to AED 77 Mn in 3Q24. As a result, total operating income declined 3.1% YOY to AED 188 Mn in 3Q24. Furthermore, operating expenses grew 8.0% YOY to AED 99 Mn in 3Q24. However, the cost-to-income ratio expanded from 47.3% in 3Q23 to 52.7% in 3Q24. Impairment charges strongly declined from AED 292 Mn in 3Q23 to AED 9 Mn in 3Q24. Income tax expense amounted to AED 6 Mn in 3Q24 owing to the introduction of corporate tax in the UAE.

Balance Sheet Highlights

Ajman Bank's net advances declined 8.4% YOY and 3.6% QOQ to AED 13.4 Bn in 3Q24. Total assets also declined 3.0% YOY, however it grew 0.8% QOQ to AED 24.4 Bn in 3Q24. The Bank's customer deposits declined 1.4% YOY and remained at a similar level of 2Q24 at AED 19.3 Bn in 3Q24.

Stock Information

Market Cap (AED, mn)	4,738.89
Paid Up Capital (mn)	2,723.50
52 Week High	2.23
52 Week Low	1.66
3M Avg. daily value(AED)	10,308,590

3Q24 Result Review (AED, Mn)

Total Assets	24,440
Total Liabilities	21,415
Total Equity	3,025
Total Deposits	19,310
Net Profit	74

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	1.57
Book Value (AED)	1.11
Return-on Equity (%)	-0.45

Stock Performance

5 Days	-0.57%
1 Months	-1.69%
3 Months	-6.95%
6 Months	-7.45%
1 Year	-15.12%
Month to Date (MTD%)	-1.69%
Quarter to Date (QTD%)	-1.69%
Year to Date (YTD%)	-16.35%

Out of the total deposits, current account deposits increased 11.5% QOQ to AED 4.8 Bn, while savings account deposits grew 1.0% QOQ to AED 455 Mn in 3Q24. Moreover, CASA deposits as a percentage of total deposits stood at 27.3% in 3Q24 compared to 24.7% in 2Q24. Loan-to-deposits ratio declined from 75.3% in 2Q24 to 72.7% in 3Q24. In addition, the Bank's total equity rose 1.2% YOY and 5.0% QOQ to AED 3.0 Bn in 3Q24.

Target Price and Rating

We maintain our SELL rating on AJMANBANK with an unchanged target price of AED 1.35. AJMANBANK reported strong growth in profitability driven by a healthy decline in impairment charges in 3Q24. The Bank's net advances declined 8.4% YOY and 3.6% QOQ to AED 13.4 Bn in 3Q24. NIMs also declined 8 bps YOY and 29 bps QOQ to 2.3% in 3Q24 due to the higher cost of funds. Cost of funds grew 44 bps YOY and 28 bps QOQ to 3.9% in 3Q24. Customer deposits declined 1.4% YOY and remained at a similar level of 2Q24 at AED 19.3 Bn in 3Q24. The Bank's cost-to-income ratio increased 539 bps YOY to 52.7% in 3Q24, mainly due to the rise in operating expense and decline in operating income. AJMANBANK's asset quality improved as NPLs declined from 12.3% in 2Q24 to 11.8% in 3Q24. As a result, cost of risk also declined to 0.2% in 3Q24 from 0.6% in 2Q24 and 7.9% in 3Q23. Provision coverage rose from 35.1% in 2Q24 to 38.9% in 3Q24. AJMANBANK's capitalization improved with a Tier 1 ratio of 18.4% and a total CAR ratio of 19.5% in 3Q24. Despite all the positives, the Bank trades at an expensive 2024 P/B ratio of 1.5x as compared to its peer average of 1.2x. Thus, we maintain our SELL rating on the stock.

AJMAN BANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	52.03	79.80	36.69	26.30	NM	12.58
PB	1.70	1.70	1.62	1.69	1.77	1.54
Dividend yield	1.8%	NM	NM	NM	NM	NM

FABS Estimates & Co Data

AJMAN BANK - P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	298	298	309	308	0.3%	3.7%	3.6%	1,210	1,229	1.6%
Funded expenses	-180	-179	-198	-175	13.2%	10.1%	10.5%	-702	-782	11.4%
Net funded income	118	119	111	133	-16.8%	-6.0%	-6.8%	508	447	-12.1%
Fees and commissions	44	79	41	67	-38.8%	-6.8%	-48.0%	180	234	30.0%
Income from Invest. Securities	32	35	36	39	-8.3%	13.2%	1.7%	170	168	-1.2%
Share of result of associate	0	0	0	0	NM	NM	NM	-89	0	NM
Total non-funded income	76	115	77	107	-27.5%	1.6%	-32.6%	261	402	53.9%
Total operating income	194	233	188	240	-21.6%	-3.1%	-19.5%	769	848	10.3%
Operating expenses	-92	-96	-99	-98	0.8%	8.0%	3.0%	-370	-383	3.5%
Pre provision profit	102	137	89	141	-37.2%	-13.0%	-35.2%	399	465	16.6%
Impairment	-292	-22	-9	-20	-56.2%	NM	-59.3%	-789	-51	NM
Profit before tax	-190	116	80	121	-34.0%	NM	-30.7%	-390	414	NM
Corporate tax		-7	-6	-11	-44.4%	NM	-18.5%	0	-37	NM
Profit for the period	-190	108	74	110	-33.0%	NM	-31.6%	-390	377	NM

FABS estimate & Co Data

AJMAN BANK – KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	60.7%	50.9%	58.9%	-187	801	66.0%	52.6%	-1,341
NIM	2.4%	2.6%	2.3%	-8	-29	2.8%	2.2%	-55
NIS	2.6%	2.9%	2.5%	-5	-36	3.0%	2.4%	-65
Fees & comms/OI	22.8%	33.9%	21.9%	-89	-1,201	23.4%	27.6%	417
Invst Securities/OI	16.4%	15.2%	19.2%	276	400	22.1%	19.8%	-230
Cost to income	47.3%	41.2%	52.7%	539	1,149	48.1%	45.2%	-296
Impairment/PPP	285.7%	15.8%	9.9%	NM	-585	197.9%	11.0%	NM
NP/OI	-97.9%	46.4%	39.4%	NM	-695	NM	44.4%	NM
Cost of risk	7.9%	0.6%	0.2%	-766	-37	5.7%	0.4%	-538
Loan-to-deposit	77.9%	75.3%	72.7%	-520	-254	73.1%	70.0%	-305
NPL	14.1%	12.3%	11.8%	-234	-53	16.1%	11.8%	-425
Coverage excluding collateral	28.7%	35.1%	38.9%	1,016	378	27.4%	38.0%	1,060
Tier 1	14.9%	16.4%	18.4%	344	197	14.5%	17.5%	301
Capital adequacy	16.1%	17.5%	19.5%	341	196	15.6%	18.7%	308
ROAA	-0.2%	-1.2%	-0.1%	NM	NM	-1.7%	1.5%	NM
ROAE	-1.4%	-10.0%	-0.4%	NM	NM	-15.0%	13.1%	NM

FABS estimate & Co Data

AJMAN BANK - Key B/S items

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	14,640	13,776	13,113	13,906	13,404	-8.4%
QOQ change	6.7%	-5.9%	-4.8%	6.1%	-3.6%	
Total assets	25,207	24,936	23,070	24,235	24,440	-3.0%
QOQ change	6.9%	-1.1%	-7.5%	5.0%	0.8%	
Customer deposits	19,576	19,725	18,431	19,306	19,310	-1.4%
QOQ change	1.9%	0.8%	-6.6%	4.7%	0.0%	
Total equity	2,989	2,675	2,766	2,881	3,025	1.2%
QOQ change	12.9%	-10.5%	3.4%	4.2%	5.0%	

FABS estimate & Co Data

Valuation:

We use the 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	1.37	70.0%	0.96
Relative Valuation (RV)	1.30	30.0%	0.39
Weighted Average Valuation (AED)			1.35
Current market price (AED)			1.74
Upside/Downside (%)			-22%

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 5.4%, beta of 0.70 and equity risk premium of 4.4%. 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)	221
Terminal value (AED, Mn)	620
Book Value of Equity (as of Mar 2024)	2,881
FV to Common shareholders (AED, Mn)	3,722
No. of share (Mn)	2,724
Current Market Price (AED)	1.74
Fair Value per share (AED)	1.37

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	377	299	300	282	302
(-) Equity Charge	-220	-230	-236	-241	-245
Excess Equity	156	69	64	41	57
Discounting Factor	0.96	0.89	0.82	0.75	0.69
Present Value of Excess Equity	38¹	61	52	31	39

Source: FAB Securities, ¹Adjusted for partial year

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 1.1x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai	5,543	7.5	7.9	1.4	1.3	6.3	5.8
Emirates NBD	34,200	5.5	6.2	1.1	1.0	5.9	5.8
Mashreq Bank	13,490	7.7	8.1	1.5	1.4	6.1	6.1
RAK Bank	2,930	5.4	5.8	0.9	0.9	6.9	7.5
Sharjah Islamic Bank	2,017	9.5	8.8	1.1	1.1	5.2	5.7
Dubai Islamic Bank	12,258	7.5	8.0	1.2	1.1	7.2	7.2
Average		7.2x	7.5x	1.2x	1.1x	6.3x	6.3x
Median		7.5x	8.0x	1.1x	1.1x	6.2x	5.9x
Max		7.6x	8.1x	1.3x	1.2x	6.7x	6.9x
Min		6.0x	6.6x	1.1x	1.0x	5.9x	5.8x

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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