

National Bank of Ras Al Khaimah (RAKBANK)

Increased operating expenses and corporate tax impacted profitability

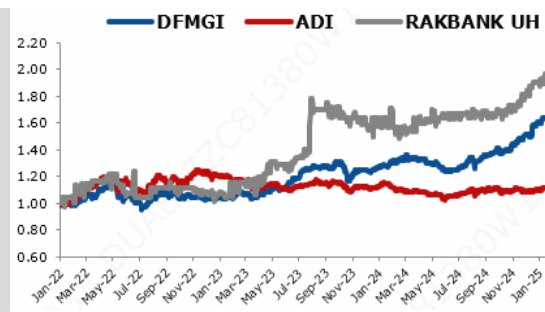
Current Price
AED 6.73

Target Price
AED 7.15

Upside/Downside (%)
+6.2%

Rating
HOLD

- Net advances grew strongly, 19.7% YOY and 2.2% QOQ to AED 47.2 Bn in 4Q24, driven by strong growth across all the segments with major increase in retail and wholesale banking.
- The Bank added around 13,000 new customers through SME lending business.
- Calculated NPLs declined from 2.8% in FY2023 to 2.2% in FY2024, while cost-to-income rose to 40.1% in 4Q24 compared to 33.5% in 3Q24.
- Capital adequacy ratio of 18.1% in 4Q24 compared to 17.8% in 4Q23.
- The Bank witnessed a decline in ROE to 18.8% and an ROA of 2.6% in 4Q24 compared to ROE of 19.9% and ROA of 2.7% during 3Q24.



4Q24 Net Profit lower than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit declined 10.8% YOY to AED 385 Mn in 4Q24, lower than our estimate of AED 552 Mn. The decrease in net profit is primarily by growth in interest expenses, operating expenses and income tax.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 8.5% YOY to AED 1,164 Mn in 4Q24, whereas interest expense on conventional deposits and borrowings grew significantly from AED 293 Mn in 4Q23 to AED 386 Mn in 4Q24. Thus, net interest income from conventional loans and advances steadily declined 0.2% YOY to AED 778 Mn in 4Q24. Similarly, income from Islamic financing grew 17.9% YOY to AED 185 Mn in 4Q24, while Islamic financing expenses rose 7.3% YOY to AED 65 Mn in 4Q24. Resultantly, RAKBANK's funded income grew 9.7% YOY to AED 1,349 Mn in 4Q24. Funded expenses grew significantly from AED 353 Mn in 4Q23 to AED 451 Mn in 4Q24. As a result, net funded income rose 2.5% YOY to AED 899 Mn in 4Q24. However, NIMs declined 68 bps YOY and 22 bps QOQ to 4.3% in 4Q24. Net fee and commission income declined 6.2% YOY to AED 140 Mn in 4Q24. Foreign exchange income increased 9.3% YOY to AED 87 Mn in 4Q24. RAKBANK recorded a loss from gross insurance underwriting of AED 14 Mn in 4Q24 compared to a loss of AED 38 Mn in 4Q23. The Bank's investment income declined 13.3% YOY to AED 12 Mn in 4Q24. Other operating income grew 40.6% YOY to AED 36 Mn in 4Q24. As a result, total non-funded income grew 13.1% YOY to AED 262 Mn in 4Q24. Thus, total operating income grew 4.7% YOY to AED 1,160 Mn in 4Q24. Furthermore, operating expenses increased 16.5% YOY to AED 466 Mn in 4Q24, mainly due to staff and outsourcing costs,

Stock Information

Market Cap (AED, mn)	13,537.36
Paid Up Capital (mn)	2,011.49
52 Week High	7.00
52 Week Low	5.00
3M Avg. daily value(AED)	2,335,330

4Q24 Result Review (AED, Mn)

Total Assets	88,325
Total Liabilities	76,529
Total Equity	11,797
Total Deposits	59,650
Net Profit	385

Financial Ratios

Dividend Yield (12m)	4.61
Dividend Pay-out (%)	34.95
Price-Earnings Ratio(x)	6.39
Price-to-Book Ratio (x)	1.17
Book Value (AED)	5.73
Return-on Equity (%)	19.91

Stock Performance

5 Days	2.59%
1 Months	10.69%
3 Months	25.79%
6 Months	26.98%
1 Year	28.19%
Month to Date (MTD%)	2.44%
Quarter to Date (QTD%)	11.24%
Year to Date (YTD%)	11.24%

technology costs and marketing expenses partially offset by a decrease in credit card expenses. The Group's Cost to income ratio increased from 36.1% in 4Q23 to 40.1% in 4Q24. RAKBANK's impairments increased 2.6% YOY to AED 270 Mn in 4Q24. The Bank recorded an income tax expense of AED 38 Mn in 4Q24 compared to AED 14 Mn in 4Q23, owing to the introduction of the UAE corporate tax.

Balance Sheet Highlights

RAKBANK's total assets grew 19.4% YOY and 5.3% QOQ to AED 88.3 Bn in 4Q24, mainly due to growth in gross loans and advances by AED 8.1 Bn, investments by AED 3.4 Bn, cash and balance with CBUAE by AED 3 Bn. Net advances grew 19.7% YOY and 2.2% QOQ to AED 47.2 Bn in 4Q24. The customer deposits grew 18.4% YOY and 4.2% QOQ to AED 59.7 Bn in 4Q24. The growth came from both CASA deposits, accounting for AED 3.6 Bn, and Time deposits of AED 5.6 Bn. CASA Deposits increased 10% YOY with a CASA ratio of 62.7% in FY2024, and growth was broad across segments.

Target Price and Rating

We revised our rating from BUY to HOLD on RAKBANK with an unchanged target price of AED 7.15. RAKBANK recorded strong growth in profit after tax of 16.2% YOY to AED 2,072 Mn and profit before tax and NCI of AED 2,278 Mn, 26.7% YOY with total gross customer loans & advances above AED 50 Bn in 2024. The Bank's net advances grew 19.7% YOY and 2.2% QOQ to 47.2 Bn in 4Q24, mainly due to growth across all the segments. The Bank's wholesale segment grew 35% YOY in FY2024, mainly driven by lending to corporate and financial institutions and strategically diversifying the portfolio mix. The business banking segment recorded growth of 7.5% YOY, with 9% YOY growth in SME loans and business loans growth. The gross retail banking segment grew 15.9% YOY to AED 23.3 Bn in 4Q24, primarily due to sales across products with increases in mortgage loan portfolio and credit. The Bank's customer deposits grew 18.4% YOY and 4.2% QOQ to AED 59.7 Bn in 4Q24. CASA deposits accounted for 62.7% of total deposits in 4Q24 as compared to 62.4% in 3Q24. NIMs of the Bank declined 68 bps YOY and 22 bps QOQ to 4.3% in 4Q24. However, the Bank's asset quality improved as the calculated NPLs declined to 2.2% in 4Q24 compared to 2.8% in 4Q23. Calculated provision coverage ratio increased from 217.5% in 4Q23 to 253.2% in 4Q24. Capitalization stood at a CET 1 ratio of 15.7% and a total CAR of 18.1% in 4Q24. RAKBANK also recorded return ratios with a calculated ROE of 18.8% and an ROA of 2.6% in 4Q24. As the ROE & ROA has declined along with increased operating expenses and considering the above-mentioned factors, we recommend a HOLD rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	26.83	17.88	11.55	7.58	6.52	26.83
PB	1.73	1.62	1.50	1.31	1.26	1.73
Dividend yield	1.9%	2.8%	4.2%	4.6%	7.4%	7.4%

FABS Estimates & Co Data

RAKBANK P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Interest Income	1,230	1,350	1,349	1,360	-0.8%	9.7%	0.0%	4,570	5,234	14.6%
Interest expense	-353	-448	-451	-440	2.4%	27.6%	0.6%	-1,233	-1,672	35.6%
Net funded income	876	902	899	920	-2.3%	2.5%	-0.3%	3,336	3,562	6.8%
Net fees and commissions	149	167	140	170	-17.5%	-6.2%	-16.4%	660	644	-2.5%
Foreign exchange gain	80	89	87	95	-7.5%	9.3%	-2.2%	326	352	7.8%
Gross insurance underwriting Profit	-38	-2	-14	-4	284.3%	-63.0%	478.8%	-41	-45	10.2%
Investment Income	14	17	12	21	-39.9%	-13.3%	-24.5%	49	88	80.9%
Other operating income	25	32	36	38	-5.7%	40.6%	13.3%	74	112	52.0%
Total non-funded income	231	302	262	319	-18.0%	13.1%	-13.5%	1,068	1,150	7.7%
Net operating income	1,108	1,204	1,160	1,239	-6.4%	4.7%	-3.6%	4,404	4,713	7.0%
Operating expenses	-400	-404	-466	-410	13.7%	16.5%	15.3%	-1,601	-1,658	3.6%
Pre-provision profit	708	800	694	829	-16.3%	-1.9%	-13.2%	2,803	3,054	9.0%
Impairment	-264	-141	-270	-200	35.5%	2.6%	91.3%	-1,005	-776	-22.8%
Profit before tax	445	659	424	630	-32.7%	-4.6%	-35.6%	1,797	2,278	26.7%
Income tax expense	-14	-59	-38	-77	-50.9%	175.4%	-35.9%	-14	-202	NM
Profit After Tax & before NCI	431	600	386	553	-30.1%	-10.4%	-35.6%	1,784	2,076	16.4%
Non-controlling interest	1	-2	-1	0	NM	NM	-52.5%	0	-3	NM
Net profit attributable	432	598	385	552	-30.3%	-10.8%	-35.5%	1,784	2,072	16.2%

FABS estimate & Co Data
RAKBANK - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	79.1%	74.9%	77.5%	-167	257	75.8%	75.6%	-17
NIM	5.0%	4.6%	4.3%	-68	-22	5.0%	4.8%	-15
NIS	4.7%	4.2%	4.0%	-72	-22	4.7%	4.5%	-12
Fees & comms/OI	13.5%	13.9%	12.1%	-140	-184	15.0%	13.7%	-133
Foreign exchange gain/OI	7.2%	7.4%	7.5%	31	11	7.4%	7.5%	6
Inv Income/OI	1.3%	1.4%	1.1%	-22	-30	1.1%	1.9%	76
Cost to income	36.1%	33.5%	40.1%	407	659	36.4%	35.2%	-117
Impairment/PPP	37.2%	17.7%	38.9%	172	2,128	35.9%	25.4%	-1,046
NP/OI	39.0%	49.6%	33.2%	-577	-1,644	40.5%	44.0%	348
Cost of risk	2.5%	1.2%	2.2%	-35	96	2.5%	1.7%	-82
Loan-to-deposit	78.3%	80.7%	79.2%	85	-150	78.3%	79.2%	85
NPL - Calculated	2.8%	2.4%	2.2%	-51	-14	2.8%	2.2%	-51
NPL Coverage - calculated	217.5%	233.8%	253.2%	3,571	1,944	217.5%	253.2%	3,571
CET 1	16.7%	17.1%	15.7%	-105	-146	16.7%	15.7%	-105
Capital adequacy	17.8%	19.6%	18.1%	29	-151	17.8%	18.1%	29
ROAE - Calculated	18.5%	19.9%	18.8%	30	-115	18.5%	18.8%	30
ROAA - Calculated	2.5%	2.7%	2.6%	1	-16	2.5%	2.6%	1

FABS estimate & Co data

RAKBANK - Key B/S items

AED mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	39,468	40,605	40,994	46,198	47,224	19.7%
QOQ change	2.1%	2.9%	1.0%	12.7%	2.2%	
Total assets	73,955	78,589	80,408	83,891	88,325	19.4%
QOQ change	2.7%	6.3%	2.3%	4.3%	5.3%	
Customer deposits	50,395	55,394	58,472	57,266	59,650	18.4%
QOQ change	4.0%	9.9%	5.6%	-2.1%	4.2%	
Total Equity	10,355	10,304	10,794	11,561	11,797	13.9%
QOQ change	5.8%	-0.5%	4.7%	7.1%	2.0%	

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	6.94	70.0%	4.86
Relative Valuation (RV)	7.63	30.0%	2.29
Weighted Average Valuation (AED)			7.15
Current market price (AED)			6.73
Upside/Downside (%)			+6.2%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.7%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, a beta of 1.0 and equity risk premium of 4.3%. 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)	1,308
Terminal value (AED, Mn)	892
Book Value of Equity (as of Dec 2024)	11,766
FV to Common shareholders (AED, Mn)	13,966
No. of share (Mn)	2,011
Current Market Price (AED)	6.73
Fair Value per share (AED)	6.94

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	1,689	1,686	1,843	1,723	1,673
(-) Equity Charge	-1,229	-1,311	-1,401	-1,484	-1,566
Excess Equity	459	374	443	239	107
Discounting Factor	0.92	0.89	0.76	0.70	0.63
Present Value of Excess Equity	422	314	338	166	68

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 2025 PB multiple of 1.2x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Sharjah Islamic Bank	2,326	1.2	1.1	9.8	9.1	4.6	5.0
Commercial Bank of Dubai	6,112	1.4	1.3	7.4	7.7	6.4	6.0
Emirates NBD	35,597	1.0	0.9	6.3	6.1	5.3	6.1
Mashreq Bank	11,852	1.2	1.1	7.1	7.5	6.9	6.9
Abu Dhabi Commercial Bank	23,669	1.2	1.1	9.9	9.7	4.9	5.2
Dubai Islamic Bank	14,954	1.4	1.3	8.5	9.3	6.1	6.0
Average		1.2x	1.1x	7.6x	7.8x	6.5%	6.6%
Median		1.2x	1.1x	7.6x	8.0x	6.8%	6.5%
Max		1.4x	1.3x	7.7x	8.1x	7.2%	7.0%
Min		1.1x	1.0x	7.5x	7.9x	6.0%	6.2%

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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