

Ajman Bank PJSC

Strong growth in net funded income partially offset by higher impairments

1Q23 Net Profit lower than our estimate

Ajman Bank's (AJMANBANK/the Bank) net profit grew significantly from AED 34 Mn in 1Q22 to AED 49 Mn in 1Q23, lower than our estimate of AED 55 Mn. The increase in net profit growth is mainly attributable due to an increase in net funded and non-funded income partially offset by an increase in impairment charges.

P&L highlights

Ajman Bank's funded income witnessed a substantial increase from AED 124 Mn in 1Q22 to AED 305 Mn in 1Q23 primarily due to a rise in assets yield and increase in other interest-earning assets. Asset yield rose 164 bps QOQ to 7.0% in 1Q23. Funded expense rose from AED 56 Mn in 1Q22 to AED 142 Mn in 1Q23 driven by a rise in benchmark rates. As a result, net funded income increased significantly from AED 68 Mn in 1Q22 to AED 163 Mn in 1Q23. Thus, NIMs grew 73 bps QOQ to 3.7% in 1Q23. Fees and commission grew 20.2% YOY to AED 45 Mn in 1Q23 due to growth in foreign exchange and processing fees. Income from investment securities grew 30.8% YOY to AED 24 Mn in 1Q23 due to a rise in the yield on Investment securities. As a result, net non-funded income increased 23.8% YOY to AED 69 Mn in 1Q23. Thus, operating income grew from AED 124 Mn in 1Q22 to AED 232 Mn in 1Q23 primarily due to higher interest rates. Operating expenses grew marginally 2.1% YOY to AED 90 Mn in 1Q23 due to a rise in general & administrative expenses. However, the Bank's cost-to-income ratio declined from 55.8% in 4Q22 to 39.0% in 1Q23. Thus, pre-provision profit grew from AED 36 Mn in 1Q22 to AED 141 Mn in 1Q23. Impairments grew significantly from AED 2 Mn in 1Q22 to AED 92 Mn in 1Q23 dragging profitability.

Balance sheet highlights

Ajman Banks' net advances declined 8.3% YOY to AED 13.2 Bn in 1Q23. The Bank's total assets increased 4.9% to 22.9 Bn in 1Q23. Ajman's customer deposits grew significantly 15.9 % YOY to AED 19.2 Bn in 1Q23 due to 8.5% YOY growth in the current account to AED 4.9 Bn partially offset by a YOY decline in the saving accounts. CASA deposits stood at AED 5.3 Bn in 1Q23. While CASA deposits grew from 24.7% in 4Q22 to 27.6% in 1Q23. Loan to deposit declined from 80.4% in 4Q22 to 71.2% in 1Q23 mainly due to increase in deposits and decrease in loans. Furthermore, the Bank's total equity declined marginally 0.6% YOY to AED 2.6 Bn in 1Q23.

Target price and rating

We maintain our SELL rating on AJMANBANK with a revised target price of AED 1.12. The Bank reported sustained profitability driven by a growth in net funded income partially offset by an increase in impairments. It also reported a growth in advances after declining for the seven consecutive quarters which bodes well for the growth in funded income. The deposit recorded a robust QOQ growth of 18.0% in 1Q23 reducing reliance of high-cost funding. AJMANBANK's asset quality improved as the NPL ratio declined from 16.8% in 4Q22 to 14.6% in 1Q23. The non performing coverage also improved from 22.3% in 4Q22 to 27.7% in 1Q23 and the bank might have to increase provisioning impacting profitability. Furthermore, Stage 2 loans as a percentage of total loans also continued to grow from AED 3,616 Mn in 4Q22 to AED 3,893 Mn in 1Q23. The

Rating : SELL

First Look Note – 1Q23

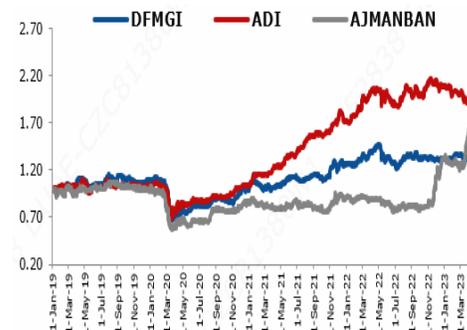
Sector: Banking

Recommendation

Current Price (11-May-23)	1.74
Target Price (AED)	1.12
Upside/Downside (%)	-36.2%

Stock Information

Market Cap (mm)	3,781.89
Paid Up Capital (mm)	2,173.50
52 Week High	1.86
52 Week Low	0.64
3M Avg. daily value (AED)	20,420,570



Financial Ratios

Dividend Yield (12m)	
Dividend Pay-out (%)	
Price-Earnings Ratio (x)	20.58
Price-to-Book Ratio (x)	1.42
Book Value (AED)	1.23
Return-on Equity (%)	6.86
Earning Per Share (AED)	0.08
Beta	0.77

Stock Performance

5 Days	-1.69%
1 Months	11.86%
3 Months	52.62%
6 Months	134.19%
1 Year	128.83%
Month to Date (MTD)	6.71%
Quarter to Date (QTD)	26.63%
Year to Date (YTD)	53.51%

portfolio is concentrated in the real estate sector further increasing the risk profile of the Bank from a downturn in a single sector. The Bank should look to diversify its credit profile and decrease its concentration of loans to a single sector. The Bank's capitalization remained healthy, with a Tier 1 ratio of 14.1% and a CAR ratio of 15.3% in 1Q23. It is also trading at PB multiple of 1.35x based 2023 financial as compared to the sector average of 1.05x renders its expensive. In addition, AJMANBANK ROA also lag the peer group. However, considering all the aforementioned factors we still maintain our SELL rating on the stock.

Ajman - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	18.08	44.87	68.82	31.64	22.68	16.68
P/B (x)	1.50	1.46	1.47	1.39	1.46	1.34
Dividend Yield	2.0%	2.0%	NM	NM	NM	NM

FABS Estimates & Co Data

Ajman Bank - P&L

(AED mn)	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	124	219	305	213	42.9%	145.4%	39.2%	674	1,174	74.1%
Funded expenses	-56	-96	-142	-101	40.9%	154.3%	47.6%	-288	-568	97.5%
Net funded income	68	123	163	112	44.7%	138.1%	32.6%	386	605	56.7%
Fees and commissions	37	66	45	32	41.5%	20.2%	-32.5%	185	182	-1.5%
Inc. from Invest securities	18	23	24	19	25.8%	30.8%	5.5%	84	77	-7.3%
Share of result of assoc	0	-89	0	0	NM	NM	-100.0%	-89	0	NM
Total non-funded inc.	56	1	69	51	35.5%	23.8%	NM	180	259	44.3%
Total operating inc.	124	123	232	163	41.8%	86.8%	87.9%	566	865	52.8%
Operating expenses	-88	-69	-90	-79	13.6%	2.1%	31.1%	-321	-354	10.1%
Pre provision profit	36	54	141	84	68.6%	297.3%	159.6%	245	511	108.7%
Impairment	-2	-5	-92	-29	NM	NM	NM	-83	-291	NM
Net profit	34	49	49	55	-10.5%	44.9%	-0.6%	162	220	35.9%

FABS estimate & Co Data

Ajman Bank - KPI

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	55.1%	99.6%	70.3%	1515	-2930	68.2%	70.0%	175
NIM	1.6%	3.0%	3.7%	215	74	2.2%	3.6%	134
NIS	1.7%	3.2%	4.0%	231	80	2.4%	3.7%	137
Fees & comms/OI	30.0%	53.8%	19.3%	-1069	-3446	32.7%	21.1%	-1160
Investment Securities/OI	14.9%	18.6%	10.4%	-446	-814	14.8%	9.0%	-581
Cost to income	71.3%	55.8%	39.0%	-3234	-1686	56.7%	40.9%	-1583
Impairment/PPP	4.7%	9.2%	65.2%	6057	5606	33.8%	56.9%	2307
NP/OI	27.4%	40.1%	21.2%	-614	-1890	28.6%	25.5%	-316
ROAA	0.5%	0.8%	0.8%	27	3	0.7%	1.0%	28
ROAE	4.5%	6.5%	7.0%	242	51	6.3%	8.4%	210

FABS estimate & Co Data

Ajman Bank - BS key items

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YoY Ch
Net advances	14,346	13,502	13,386	12,634	13,156	-8.3%
QOQ change	-3.9%	-5.9%	-0.9%	-5.6%	4.1%	
Total assets	21,792	21,150	20,569	21,110	22,853	4.9%
QOQ change	-2.5%	-2.9%	-2.7%	2.6%	8.3%	
Customer deposits	16,633	16,652	16,055	16,332	19,270	15.9%
QOQ change	9.0%	0.1%	-3.6%	1.7%	18.0%	
Total equity	2,592	2,526	2,507	2,515	2,577	-0.6%
QOQ change	-1.6%	-2.5%	-0.8%	0.3%	2.5%	

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	1.01	70.0%	0.71
Relative Valuation	1.37	30.0%	0.41
Weighted Average Valuation (AED)			1.12
Current market price (AED)			1.75
Upside/Downside (%)			-36.2%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.5%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 0.8 and equity risk premium of 3.4%. Government bond yield is calculated after adding Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	23
Terminal value (AED, Mn)	-482
Book Value of equity (as of March 2023)	2,577
FV to Common shareholders (AED, Mn)	2,118
No. of share (Mn)	2,100
Current Market Price (AED)	1.01
Fair Value per share (AED)	1.75

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	220	268	239	262	247
(-) Equity charge	-206	-226	-244	-264	-282
Excess Equity	15	42	-4	-1	-35
Discounting Factor	1.0	0.9	0.9	0.8	0.7
Present Value of Excess Equity	15	39	-4	-1	-26

2) Relative Valuation:

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

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Mashreq Bank	6,554	1.1	1.0	7.3	7.8x	4.2%	5.0%
Commercial Bank of Dubai (CBD)	3,576	0.9	0.9	6.6	6.6	8.2%	8.1%
Rakbank	2,282	0.9	0.9	7.8	7.6	6.3%	6.5%
Abu Dhabi Commercial Bank (ADCB)	17,060	1.0	1.0	8.9	9.5	4.8%	4.6%
Emirates NBD	22,788	0.8	0.8	5.3	5.7	5.2%	5.2%
Abu Dhabi Commercial Bank (ADIB)	10,739	2.0	1.9	10.6	11.1	5.1%	4.9%
Dubai Islamic Bank (DIB)	10,547	1.1	1.0	7.4	7.6	6.1%	6.2%
Average		1.1x	1.0x	7.7x	8.0x	5.7%	5.8%
Median		1.1x	1.0x	7.4x	7.6x	5.2%	5.2%
Max		1.1x	1.0x	8.4x	8.7x	6.2%	6.4%
Min		0.9x	0.9x	6.9x	7.1x	5.0%	4.9%

FAB Securities Awards



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by "IFA"