

National Bank of Ras Al Khaimah (RAKBANK)

Strong funded income and cost control boosted profit

1Q23 Net Profit exceeded our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit more than doubled from AED 221 Mn in 1Q22 to AED 451 Mn in 1Q23, higher than our estimate of AED 306 Mn. The growth in the bottom line is mainly driven by a strong growth in total operating income driven by an increase in NIMs and rise in foreign exchange partially offset by higher impairments and increase in operating expenses.

P&L highlights

RAKBANK's interest income from conventional loans and investments rose significantly 79.7% YOY to AED 887 Mn in 1Q23 driven by a strong growth in asset yield whereas interest expense on conventional deposits and borrowings too recorded a sharp rise to AED 203 Mn in 1Q23 as compared to AED 51 Mn in 1Q22 due to higher benchmark rates. Thus, net interest income from conventional loans and advances rose 54.4% YOY to AED 683 Mn in 1Q23. Similarly, income from Islamic Financing rose 23.4% YOY to AED 141 Mn in 1Q23 whereas Islamic financing expense more than double from AED 16 Mn in 1Q22 to AED 35 Mn in 1Q23. Consequently, net Islamic financing income rose 7.8% YOY to AED 106 Mn in 1Q23. Resultantly, RAKBANK's net funded income rose 46.0% YOY to AED 789 Mn in 1Q23. Net fees and commission income fell 5.0% YOY to AED 162 Mn in 1Q23 while the bank recorded a foreign exchange gain of AED 81 Mn in 1Q23 as compared to a loss of AED 14 Mn in 1Q22. Thus, the Bank's non-funded income rose significantly 52.5% YOY to AED 284 Mn in 1Q23 mainly driven by strong foreign exchange and derivative income earned during the period. As a result, net operating profit rose significantly 47.6% YOY to AED 1,073 Mn in 1Q23. The Bank's operating expenses rose 4.5% YOY despite a strong growth in profitability owing to strict cost control measures. Furthermore, operating expenses mainly rose due to an increase in staff costs, card expenses, and other operating expenses partially offset by a decline in IT expenses along with lower occupancy costs, depreciation expenses, and communication expenses. Moreover, the cost-to-income ratio declined 1,498 bps YOY to 36.2% in 1Q23 due to automation, digitization, and strict cost discipline. RAKBANK's impairments rose significantly 73.9% YOY to AED 234 Mn in 1Q23 mainly owing to precautionary measures in light of changing business environment.

Balance sheet highlights

RAKBANK's total assets rose 17.8% YOY to AED 68.9 Bn in 2022 mainly due to an increase in the Bank's cash balance, investments, advances, and lending to banks. Net advances grew 7.4% YOY and 1.0% QOQ to AED 36.4 Bn in 1Q23. Customer deposits increased 20.6% YOY and 3.3% QOQ to AED 46.4 Bn in 1Q23 attributable to an increase of AED 1,090 Mn on QOQ basis in CASA deposits and AED 404 Mn on QOQ basis in time deposits. RAKBANK's CASA balance stood strong at 70.5% in 1Q23.

Target price and rating

We maintain our BUY rating on RAKBANK with a revised target price of AED 6.55. The Bank reported a sharp rise in profitability owing to a robust growth in net interest income along with gain from foreign exchange income and derivatives. RAKBANK's NIMs

Rating : BUY

First Look Note – 1Q23

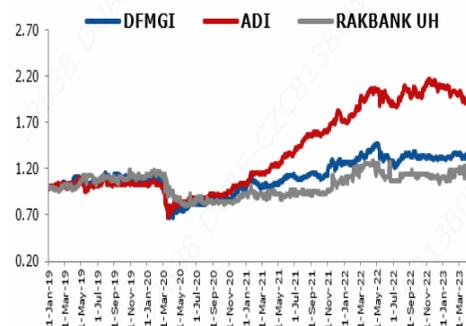
Sector: Banking

Recommendation

Current Price (27-Apr-23)	5.30
Target Price (AED)	6.55
Upside/Downside (%)	+23.58%

Stock Information

Market Cap (mm)	8,884.10
Paid Up Capital (mm)	1,676.25
52 Week High	5.34
52 Week Low	4.19
3M Avg. daily value (AED)	278,959



Financial Ratios

Dividend Yield (12m)	6.42
Dividend Pay-out (%)	48.68
Price-Earnings Ratio (x)	6.30
Price-to-Book Ratio (x)	0.94
Book Value (AED)	5.61
Return-on Equity (%)	15.61
Earning Per Share (AED)	0.84
Beta	0.30

Stock Performance

5 Days	0.95%
1 Months	11.34%
3 Months	11.58%
6 Months	10.42%
1 Year	0.95%
Month to Date (MTD)	2.91%
Quarter to Date (QTD)	2.91%
Year to Date (YTD)	12.77%

rose significantly 17 bps QOQ and 95 bps YOY to 4.9% in 1Q23 driven by solid growth in interest income due to higher benchmark rates. The Bank's gross loans and advances recorded healthy growth of 8.1% YOY to 1.4% QOQ in 1Q23 due to improvement in the loan mix. Personal Banking segment gross advances recorded a healthy growth of 1% YOY to AED 19.1 Bn in 1Q23 due to increased sales of auto loans, mortgages, and personal loans whereas advances in business banking gross advances rose 12% YOY to AED 9.3 Bn due to higher volumes sold in business loans. Wholesale banking gross assets grew 13% YOY to AED 19.8 Bn supported by a rise in FI bank lending. RAKBANK's CASA ratio stood strong at 70.5% due to AED 1,090 Mn growth in CASA deposit on QOQ basis. The bank witnessed strong business traction added more than 4,000 business accounts in 1Q23. Out of which, 1,600 accounts were opened for startups. Additionally, RAKBANK disbursed business loans worth AED 571 Mn out of which, AED 394 Mn are disbursed to new business customers. Furthermore, RAKBANK's asset quality stood unchanged with an NPL ratio of 3.2% in 1Q23 as compared to 4Q22. However, the provision coverage improved from 172.4% in 4Q22 to 184.1% in 1Q23. Moreover, the Bank's capitalization remained strong with a total CAR of 16.8% in 1Q23, up from 16.4% in 4Q22. Thus, considering the abovementioned factor, we maintain our BUY rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	9.73	8.11	17.63	11.75	7.59	6.81
P/B (x)	1.25	1.14	1.14	1.06	0.99	0.91
Dividend Yield (%)	5.7%	5.7%	2.8%	4.2%	6.4%	6.6%

FABS Estimates & Co Data
RAKBANK - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Interest Income	607	946	1,027	942	9.0%	69.2%	8.6%	2,993	3,768	25.9%
Interest expense	-67	-213	-238	-220	8.2%	257.0%	12.1%	-504	-755	49.8%
Net funded income	540	733	789	722	9.3%	46.0%	7.6%	2,489	3,013	21.0%
Net fees and commissions	171	155	162	157	3.8%	-5.0%	5.1%	658	671	2.0%
Foreign exchange gain	-14	81	81	61	34.1%	NM	0.6%	218	223	2.0%
Gross insurance underwriting Profit	5	3	3	3	-14.2%	-45.1%	-14.2%	7	7	0.0%
Investment Income	8	10	26	0	NM	NM	NM	8	0	NM
Other operating income	16	13	12	13	-11.6%	-27.4%	-8.9%	71	52	-26.5%
Total non-funded income	187	262	284	234	21.7%	52.5%	8.7%	962	954	-0.9%
Net operating income	727	995	1,073	956	12.3%	47.6%	7.9%	3,452	3,966	14.9%
Operating expenses	-372	-371	-389	-363	7.1%	4.5%	4.7%	-1,484	-1,626	9.6%
Pre-provision profit	355	623	684	592	15.5%	93.0%	9.8%	1,967	2,340	18.9%
Impairments	-134	-339	-234	-289	-19.0%	73.9%	-30.9%	-804	-1,039	29.3%
Profit for the year	220	285	450	303	48.4%	104.6%	58.2%	1,163	1,301	11.8%
Non-controlling interest	1	2	1	2	-62.9%	17.1%	-46.9%	7	3	-54.6%
Net profit attributable	221	286	451	306	47.5%	104.3%	57.6%	1,171	1,304	11.4%

FABS estimate & Co Data

RAKBANK - P&L KPI

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	74.3%	73.7%	73.5%	-84	-19	72.1%	76.0%	384
NIM	3.9%	4.7%	4.9%	95	17	4.2%	4.9%	65
NIS	3.8%	4.5%	4.6%	81	16	4.1%	4.5%	41
Fees & comms/OI	23.5%	15.5%	15.1%	-839	-40	19.1%	16.9%	-214
Foreign exchange gain/OI	-2.0%	8.1%	7.6%	952	-55	6.3%	5.6%	-71
Other operating income/OI	2.2%	1.3%	1.1%	-111	-20	2.1%	1.3%	-74
Invnt Income/OI	1.1%	1.0%	2.4%	129	142	0.2%	0.0%	-22
Cost to income	51.2%	37.3%	36.2%	-1498	-109	43.0%	41.0%	-200
Impairment/PPP	37.9%	54.3%	34.2%	-375	-2015	40.9%	44.4%	355
NP/OI	30.4%	28.8%	42.0%	1167	1326	33.9%	32.9%	-104
ROAE	10.2%	13.3%	15.2%	500	196	13.5%	13.9%	44
ROAA	1.5%	1.8%	2.1%	57	27	1.9%	1.9%	-1

FABS estimate & Co Data

RAKBANK - Key BS Items

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	33,946	33,981	34,196	36,071	36,444	7.4%
QOQ change	5.1%	0.1%	0.6%	5.5%	1.0%	
Total assets	58,626	60,758	63,832	66,350	68,878	17.5%
QOQ change	4.1%	3.6%	5.1%	3.9%	3.8%	
Customer deposits	38,458	39,552	40,255	44,871	46,366	20.6%
QOQ change	2.2%	2.8%	1.8%	11.5%	3.3%	
Total equity	8,578	8,337	8,679	9,021	9,432	10.0%
QOQ change	2.3%	-2.8%	4.1%	3.9%	4.6%	

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	6.86	70.0%	4.80
Relative	5.82	30.0%	1.75
Weighted Average Valuation (AED)			6.55
Current market price (AED)			5.30
Upside/Downside (%)			23.6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.00 and equity risk premium of 4.4%. 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)	1,223
Terminal value (AED, Mn)	1,283
Book Value of equity (as of March 2023)	8,994
FV to Common shareholders (AED, Mn)	11,501
No. of share (Mn)	1,676
Current Market Price (AED)	5.30
Fair Value per share (AED)	6.86

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	1,304	1,264	1,249	1,221	1,183
(-) Equity charge	-844	-901	-958	-1010	-1059
Excess Equity	460	363	292	211	124
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Present Value of Excess Equity	435	315	233	155	84

2) Relative Valuation:

We have used local peers to value RAKBANK and it is valued using the PB multiple. It is valued at PB multiple of 1.01x in line with peers.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Sharjah Islamic Bank	1,636	0.9	0.9	10.8	10.3	4.6%	4.9%
Commercial Bank of Dubai	3,686	1.1	1.0	-	-	7.0%	6.4%
Emirates NBD	22,615	0.9	0.8	6.4	6.1	5.5%	6.0%
Abu Dhabi Commercial Bank (ADCB)	17,158	1.1	1.0	8.9	8.9	5.6%	5.6%
Dubai Islamic Bank	11,216	1.2	1.1	7.2	7.4	6.4%	6.4%
Mashreq Bank	5,325	0.8	0.8	6.1	6.5	5.1%	6.2%
Average		1.0x	0.9x	6.6x	6.6x	5.7%	5.9%
Median		1.0x	1.0x	6.8x	7.0x	5.5%	6.1%
Max		1.1x	1.0x	8.5x	8.6x	6.2%	6.3%
Min		0.9x	0.8x	6.1x	6.2x	5.2%	5.7%

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"