

Ajman Bank PJSC

Strong growth in funded and non-funded income drove profitability

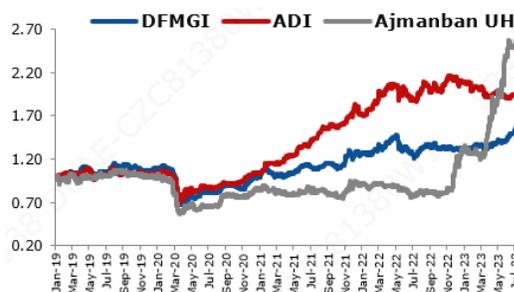
Current Price
AED 2.25

Target Price
AED 1.09

Upside/Downside (%)
-52.0%

Rating
SELL

- AJMANBANK completed the rights issuance of AED 550 Mn strengthening the capital base
- The Bank relied on external funding to fund loan growth as deposit growth fell marginally 0.3% QOQ to AED 19.2 Bn with a loan-to-deposit ratio of 71.4% in 2Q23 as compared to 68.3% in 1Q23
- AJMANBANK's net advances recorded a healthy growth of 1.7% YOY and 4.3% QOQ to AED 13.7 Bn in 2Q23
- NIMs fell 133 QOQ to 2.4% in 2Q23
- AJMANBANK's operating expenses remain steady as cost-to-income rose from 39.9% in 1Q23 to 49.9% in 2Q23



Stock Information

Market Cap (AED, mm)	6,666.88
Paid Up Capital (mm)	2,723.50
52 Week High	2.35
52 Week Low	0.57
3M Avg. daily value(AED)	39,924,810

2Q23 Result Review (AED, mm)

Total Assets	23,582
Total Liabilities	20,935
Total Equity	2,648
Total Deposits	19,213
Net Profit	53.2

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	26.14
Price-to-Book Ratio (x)	1.86
Book Value (AED)	1.22
Return-on Equity (%)	7.32

Stock Performance

5 Days	2.27%
1 Months	9.29%
3 Months	44.88%
6 Months	130.19%
1 Year	257.03%
Month to Date (MTD%)	2.27%
Quarter to Date (QTD%)	13.18%
Year to Date (YTD%)	122.33%

2Q23 Net Profit lower than our estimate

Ajman Bank's (AJMANBANK/ the Bank) net profit rose 29.7% YOY to AED 53 Mn in 2Q23, lower than our estimate of AED 61 Mn. Solid growth in net profit is mainly driven by strong growth in funded and non-funded income partially offset by a rise in operating expenses and impairments.

P&L Highlights

Ajman Bank's funded income rose 89.7% YOY to AED 276 Mn in 2Q23 mainly driven by growth in interest-earning assets and growth in asset yield on YOY basis. On the other hand, funded expense rose significantly from AED 59 Mn in 2Q22 to AED 166 Mn in 2Q23 due to an increase in cost of funds owing to higher benchmark rates. Thus, net funded income rose 28.0% YOY to AED 110 Mn in 2Q23. Moreover, fees and commission income grew 5.8% YOY to AED 45 Mn in 2Q23 whereas income from investment securities inclined 67.4% YOY to AED 34 Mn in 2Q23. Thus, non-funded income rose 25.8% YOY to AED 79 Mn in 2Q23. As a result, total operating income grew 27.1% YOY to AED 190 Mn in 2Q23. Furthermore, operating expenses rose 23.9% YOY to AED 95 Mn in 2Q23 resulting in a 129 bps YOY decline in cost-to-income ratio to 49.9% in 2Q23. Additionally, impairments rose 31.5% YOY to AED 42 Mn in 2Q23.

Balance Sheet Highlights

Ajman Bank's net advances increase 1.7% YOY and 4.3% QOQ to AED 13.7 Bn in 2Q23. Total assets rose 11.5% YOY and 3.2% QOQ to AED 23.6 Bn in 2Q23. The Bank's customer deposits increased 15.4% YOY but declined 0.3% QOQ to AED 19.2 Bn in 2Q23. Out of the total deposits, current account deposits rose 13.5% YOY to AED 4.8 Bn while savings account deposits increased 10.1% YOY to AED 421 Mn in 2Q23. Moreover, CASA deposits as a percentage of total deposits

stood at 27.1% in 2Q23 as compared to 27.6% in 1Q23. Loan-to-deposits ratio increased from 68.3% in 1Q23 to 71.4% in 2Q23. In addition, the Bank's total equity rose 4.8% YOY and 2.7% QOQ to AED 2.6 Bn in 2Q23.

Target Price and Rating

We maintain our SELL rating on AJMANBANK with a target price of AED 1.09. Ajman Bank reported steady profitability during 2Q23. The Bank's net advances grew at a healthy rate of 1.7% YOY and 4.3% QOQ to AED 13.7 Bn in 2Q23. However, the Bank's NIMs declined 133 bps QOQ to 2.4% in 2Q23 owing to the high cost of funds and decline in in asset yield. The bank's CASA deposits as a percentage of total deposits stood low at 27.1% in 2Q23 as compared to 27.6% in 1Q23. A low CASA deposit pressurizes the Bank's margins in high-interest rate scenario. The Bank's asset quality improved with an NPL ratio of 13.5% in 2Q23 as compared to 14.6% in 1Q23 but still stood higher than its peers. The coverage ratio marginally rose from 27.7% in 1Q23 to 28.1% in 2Q23. AJMANBANK should further increase its buffer against NPLs to ensure growth in profitability in the forthcoming period. Furthermore, the Bank's stage 2 loans as a percentage of total loans stood at 25.7% in 2Q23, down from 28.4% in 2Q23. AJMANBANK recently raised AED 550 MN through rights strengthens the capital base. In addition, the Bank's capitalization stood healthy with a CAR of 15.0% and a Tier 1 ratio of 13.9% in 2Q23. Thus, considering the abovementioned factors, we maintain our SELL rating on the stock.

AJMAN BANK - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	23.45	60.24	92.39	42.47	30.44	24.24
PB	2.02	1.96	1.97	1.87	1.96	1.89
Dividend yield	1.5%	1.5%	NM	NM	NM	NM

FABS Estimates & Co Data

AJMAN BANK - P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	145	305	276	323	-14.5%	89.7%	-9.5%	674	1,195	77.4%
Funded expenses	-59	-142	-166	-173	-4.3%	179.3%	16.5%	-288	-662	130.1%
Net funded income	86	163	110	150	-26.4%	28.0%	-32.2%	386	533	38.0%
Fees and commissions	43	45	45	49	-8.0%	5.8%	0.7%	185	187	1.0%
Income from Invest. Securities	21	24	34	21	60.7%	67.4%	42.3%	84	108	28.9%
Share of result of associate	0	0	0	0	NM	NA	NA	-89	0	NA
Total non-funded income	63	69	79	70	12.9%	25.8%	15.3%	180	294	63.7%
Total operating income	149	232	190	220	-13.8%	27.1%	-18.1%	566	827	46.2%
Operating expenses	-76	-90	-95	-87	8.7%	23.9%	5.0%	-321	-361	12.3%
Pre provision profit	73	141	95	133	-28.6%	30.5%	-32.8%	245	467	90.6%
Impairment	-32	-92	-42	-72	-42.1%	31.5%	-54.7%	-83	-263	NM
Profit for the period	41	49	53	61	-12.6%	29.7%	8.2%	162	204	25.6%

FABS estimate & Co Data

AJMAN BANK - KPI

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	57.7%	70.3%	58.2%	43	-1,212	68.2%	64.4%	-381
NIM	2.0%	3.7%	2.4%	35	-133	2.2%	3.1%	85
NIS	2.2%	4.0%	2.6%	47	-135	2.4%	3.4%	101
Fees & comms/OI	28.5%	19.3%	23.7%	-478	443	32.7%	22.6%	-1,010
Invst Securities/OI	13.8%	10.4%	18.1%	436	768	14.8%	13.0%	-175
Cost to income	51.2%	39.0%	49.9%	-129	1,099	56.7%	43.6%	-1,314
Impairment/PPP	43.7%	65.2%	44.0%	33	-2,124	33.8%	56.4%	2,257
NP/OI	27.5%	21.2%	28.0%	56	681	28.6%	24.6%	-404
ROAA	0.6%	0.8%	0.8%	21	1	0.7%	0.9%	19
ROAE	5.0%	7.0%	7.3%	220	29	6.3%	7.8%	148

FABS estimate & Co Data

AJMAN BANK - Key B/S items

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YoY Ch
Net advances	13,502	13,386	12,634	13,156	13,726	1.7%
QOQ ch	-5.9%	-0.9%	-5.6%	4.1%	4.3%	
Total assets	21,150	20,569	21,110	22,853	23,582	11.5%
QOQ ch	-2.9%	-2.7%	2.6%	8.3%	3.2%	
Customer deposits	16,652	16,055	16,332	19,270	19,213	15.4%
QOQ ch	0.1%	-3.6%	1.7%	18.0%	-0.3%	
Total equity	2,526	2,507	2,515	2,577	2,648	4.8%
QOQ ch	-2.5%	-0.8%	0.3%	2.5%	2.7%	

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	0.94	70.00%	0.66
Relative Valuation (RV)	1.44	30.00%	0.43
Weighted Average Valuation (AED)			1.09
Current market price (AED)			2.25
Upside/Downside (%)			-52%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.1%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 0.95 and equity risk premium of 3.2%. 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)	-49
Terminal value (AED, Mn)	-631
Book Value of Equity (as of June 2023)	2,648
FV to Common shareholders (AED, Mn)	1,967
No. of share (Mn)	2,100
Current Market Price (AED)	2.25
Fair Value per share (AED)	0.94

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	204	260	257	280	255
(-) Equity Charge	-221	-242	-263	-286	-307
Excess Equity	-18	18	-6	-6	-52
Discounting Factor	0.99	0.92	0.85	0.79	0.73
Present Value of Excess Equity	-18	16	-5	-5	-38

Source: FAB Securities

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)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Mashreq Bank	7,926	1.2	1.1	5.4	6.5	8.6	8.6
Commercial Bank of Dubai	3,823	1.1	1.0	6.4	6.9	6.7	6.5
Rakbank	2,494	0.9	0.9	6.2	6.8	8.1	7.4
Abu Dhabi Commercial Bank (ADCB)	16,395	1.0	0.9	8.3	9.1	6.1	5.2
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
ADIB	11,025	2.0	1.8	9.9	10.2	5.4	5.3
Dubai Islamic Bank	11,167	1.1	1.1	7.3	8.2	5.9	5.8
Average		1.2x	1.1x	7.0x	7.8x	6.5%	6.2%
Median		1.1x	1.0x	6.4x	6.9x	6.1%	5.8%
Max		1.1x	1.1x	7.8x	8.6x	7.4%	7.0%
Min		1.0x	0.9x	6.0x	6.8x	5.7%	5.2%

Source: FAB Securities

