

National Bank of Ras Al Khaimah (RAKBANK)

Improvement in NIMs and solid asset quality drove the bottom-line

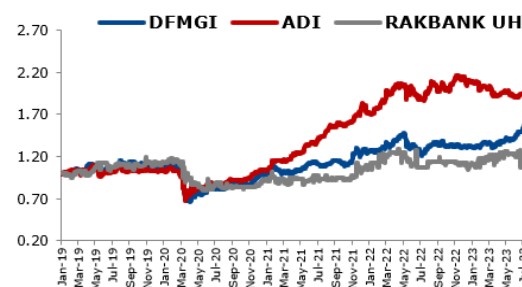
Current Price
AED 6.00

Target Price
AED 6.15

Upside/Downside (%)
+2.50%

Rating
HOLD

- RAKBANK recorded the highest-ever half-yearly profit in 1H23.
- RAKBANK's asset quality stood among the highest in the industry with an NPL ratio of 2.5% and a coverage ratio of 231.5% in 2Q23.
- RAKBANK recorded robust growth in advances as it rose 10.7% YOY to AED 37.6 Bn in 2Q23, while deposits recorded solid growth of 23.8% YOY to AED 49.0 Bn in 2Q23, which will aid further loan growth.
- RAKBANK's CASA deposits accounted for 68% of total deposits, which benefitted the NIMs resulting in 10 bps QOQ growth in NIMs to 5.0% in 2Q23.



Stock Information

Market Cap (AED, mm)	12,068.97
Paid Up Capital (mm)	2,011.49
52 Week High	6.09
52 Week Low	3.63
3M Avg. daily value(AED)	789,202

2Q23 Result Review (AED, mm)

Total Assets	71,865
Total Liabilities	62,510
Total Equity	9,355
Total Deposits	48,965
Net Profit	450

Financial Ratios

Dividend Yield (12m)	4.72
Dividend Pay-out (%)	48.68
Price-Earnings Ratio(x)	7.83
Price-to-Book Ratio (x)	1.29
Book Value (AED)	4.64
Return-on Equity (%)	17.47

Stock Performance

5 Days	29.59%
1 Months	33.33%
3 Months	35.85%
6 Months	50.00%
1 Year	53.19%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	33.33%
Year to Date (YTD%)	53.18%

2Q23 Net Profit in line with our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit rose 44.8% YOY to AED 450 Mn in 2Q23, in line with our estimate of AED 441 Mn. Strong growth in net profit is mainly attributable to a solid rise in net funded and non-funded income partially offset by an increase in operating expenses and impairments.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 82.0% YOY to AED 968 Mn in 2Q23 while interest expense on conventional deposits and borrowings increased significantly from AED 69 Mn in 2Q22 to AED 251 Mn in 2Q23. Thus, net interest income from conventional loans and advances rose 55.1% YOY to AED 717 Mn in 2Q23. Similarly, income from Islamic financing rose 35.4% YOY to AED 159 Mn in 2Q23, whereas Islamic financing expenses more than doubled from AED 17 Mn in 2Q22 to AED 48 Mn in 2Q23. As a result, RAKBANK's funded income rose 73.6% YOY to AED 1,127 Mn in 2Q23 mainly due to strong growth in net advances, a healthy loan-mix, and an increase in asset yield. On the other hand, funded expense increased significantly from AED 86 Mn in 2Q22 to AED 298 Mn in 2Q23 due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income rose 47.1% YOY to AED 828 Mn in 2Q23. The Bank's NIMs rose 104 bps YOY and 10 bps QOQ to 5.0% in 2Q23. Net fee and commission income grew 2.8% YOY to AED 174 Mn in 2Q23 due to an increase in card spending while foreign exchange income rose marginally 0.9% YOY to AED 75 Mn in 2Q23. The Bank witnessed a net underwriting profit of AED 13 Mn in 2Q23 as compared to a loss of AED 2 Mn in 2Q22. Similarly, investment income stood at AED 5 Mn in 2Q23 as compared to a loss of AED 9 Mn in 2Q22. Moreover, other operating income rose 10.5% YOY to AED

21 Mn in 2Q23. Thus, non-funded income rose 14.2% YOY to AED 288 Mn in 2Q23. As a result, total operating income inclined 36.9% YOY to AED 1,116 Mn in 2Q23. Furthermore, Operating expenses increased 10.3% YOY to AED 406 Mn in 2Q23 due to an increase in staff cost, other operating expenses, card expenses, and technology expenses partially offset by lower occupancy and communication cost. Thus, the cost-to-income ratio declined 878 bps YOY and increased 9 bps QOQ to 36.3% in 2Q23 due to a higher operating profit base. RAKBANK's impairments increased significantly from AED 140 Mn in 2Q22 to AED 260 Mn in 2Q23.

Balance Sheet Highlights

RAKBANK's total assets rose 18.3% YOY and 4.3% QOQ to AED 71.9 Bn in 2Q23. Net advances rose 10.7% YOY and 3.3% QOQ to AED 37.6 Bn in 2Q23. Moreover, customer deposits increased 23.8% YOY and 5.6% QOQ to AED 49.0 Bn in 2Q23, whereas the Bank's CASA deposits accounted for 68% of total deposits. RAKBANK's total equity rose 12.2% YOY but declined 0.8% QOQ to AED 9.4 Bn in 2Q23.

Target Price and Rating

We revise our rating from BUY to HOLD with a revised target price of AED 6.15. The Bank's share price rose 32.2% since our previous rating. RAKBANK recorded the highest half-yearly profit in 1H23. Strong loan growth, a healthy mix, and a solid expansion in asset yield drove the Bank's bottom line in 2Q23. RAKBANK's net advances rose 10.7% YOY to AED 37.6 Bn in 2Q23. The wholesale banking segment grew 3.7% YTD due to strong growth in the corporate portfolio. Solid growth in the Retail banking segment was supported by strong sales momentum where mortgages rose 11.4% YTD, Auto loans increased 11.2% YTD while credit cards increased by 4.1% YTD in 2Q23. Likewise, the Business banking segment witnessed a 5.5% YTD rise on the back of robust growth in business loans and working capital loans. RAKBANK's CASA deposits accounted for 68% of total deposits which benefitted the NIMs. Moreover, the Bank's asset quality improved with an NPL ratio of 2.5% in 2Q23 as compared to 3.0% in 1Q23 while the coverage ratio stood strong at 231.5% in 2Q23 as against 192.1% in 1Q23. The provision buffer will shield the balance sheet from unforeseen losses. Additionally, the Bank's capitalization improved and stood healthy with a CAR of 17.7% and a CET1 ratio of 16.6% in 2Q23. The Bank also witnessed strong growth in card spending and higher digital transactions in 1H23 as compared to 1H22. RAKBANK's loan book rose 27.6% since FY2021 and given the high-interest rate environment, asset quality might get impacted as a result of this. Thus, considering the abovementioned factors, we assign a HOLD rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	13.22	11.02	23.96	15.96	10.31	6.68
PB	1.70	1.55	1.55	1.45	1.34	1.18
Dividend yield	4.2%	4.2%	2.1%	3.1%	4.7%	4.8%

FABS Estimates & Co Data

RAKBANK – P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Interest Income	649	1,027	1,127	1,057	6.6%	73.6%	9.7%	2,993	4,578	52.9%
Interest expense	-86	-238	-298	-252	18.3%	246.4%	25.3%	-504	-1,218	141.9%
Net funded income	563	789	828	805	3.0%	47.1%	5.0%	2,489	3,359	34.9%
Net fees and commissions	169	162	174	169	2.8%	2.8%	6.9%	658	691	5.0%
Foreign exchange gain	74	81	75	82	-8.0%	0.9%	-7.6%	218	317	45.0%
Gross insurance underwriting Profit	-2	3	13	0	NM	NM	NM	7	15	NM
Investment Income	-9	26	5	10	-49.4%	NM	NM	8	61	NM
Other operating income	19	12	21	12	78.9%	10.5%	84.2%	71	52	-26.5%
Total non-funded income	252	284	288	273	5.4%	14.2%	1.2%	962	1,136	18.0%
Net operating income	815	1,073	1,116	1,078	3.6%	36.9%	4.0%	3,452	4,495	30.2%
Operating expenses	-368	-389	-406	-388	4.6%	10.3%	4.3%	-1,484	-1,654	11.4%
Pre-provision profit	447	684	711	690	3.0%	58.8%	3.8%	1,967	2,841	44.4%
Impairment	-140	-234	-260	-249	4.4%	85.8%	11.2%	-804	-1,031	28.3%
Profit for the year	307	450	450	440	2.3%	46.6%	0.0%	1,163	1,810	55.5%
Non-controlling interest	3	1	-1	1	NM	NM	NM	7	-2	NM
Net profit attributable	310	451	450	441	1.9%	44.8%	-0.4%	1,171	1,808	54.4%

FABS estimate & Co Data

RAKBANK – KPI

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	69.1%	73.5%	74.2%	514	72	72.1%	74.7%	261
NIM	3.9%	4.9%	5.0%	104	10	4.2%	5.4%	121
NIS	3.8%	4.6%	4.7%	89	7	4.1%	5.1%	100
Fees & comms/OI	20.7%	15.1%	15.6%	-516	42	19.1%	15.4%	-369
Foreign exchange gain/OI	9.1%	7.6%	6.7%	-240	-84	6.3%	7.0%	72
Other operating income/OI	2.4%	1.1%	1.9%	-46	83	2.1%	1.2%	-90
Invnt Income/OI	-1.0%	2.4%	0.5%	152	-197	0.2%	1.4%	113
Cost to income	45.1%	36.2%	36.3%	-878	9	43.0%	36.8%	-620
Impairment/PPP	31.3%	34.2%	36.6%	531	242	40.9%	36.3%	-456
NP/OI	38.1%	42.0%	40.3%	219	-177	33.9%	40.2%	630
ROAE	11.7%	15.2%	16.4%	477	121	13.5%	18.8%	531
ROAA	1.6%	2.1%	3.3%	164	121	1.9%	2.6%	72

FABS estimate & Co Data

RAKBANK – Key B/S items

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	33,981	34,196	36,071	36,444	37,631	10.7%
QOQ ch	0.1%	0.6%	5.5%	1.0%	3.3%	
Total assets	60,758	63,832	66,350	68,878	71,865	18.3%
QOQ ch	3.6%	5.1%	3.9%	3.8%	4.3%	
Customer deposits	39,552	40,255	44,871	46,366	48,965	23.8%
QOQ ch	2.8%	1.8%	11.5%	3.3%	5.6%	
Total equity	8,337	8,679	9,021	9,432	9,355	12.2%
QOQ ch	-2.8%	4.1%	3.9%	4.6%	-0.8%	

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	6.31	70.0%	4.41
Relative Valuation (RV)	5.79	30.0%	1.74
Weighted Average Valuation (AED)			6.15
Current market price (AED)			6.00
Upside/Downside (%)			+2.50%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. The Cost of equity is calculated by using a 10-year government bond yield of 4.3%, beta of 1.00 and equity risk premium of 4.7%. 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)	2,211
Terminal value (AED, Mn)	1,144
Book Value of Equity (as of June 2023)	9,328
FV to Common shareholders (AED, Mn)	12,684
No. of share (Mn)	2,011
Current Market Price (AED)	6.00
Fair Value per share (AED)	6.31

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	1,808	1,686	1,657	1,516	1,371
(-) Equity Charge	(920)	(1,017)	(1,110)	(1,190)	(1,256)
Excess Equity	888	669	547	325	115
Discounting Factor	0.96	0.89	0.81	0.74	0.68
Present Value of Excess Equity	857	592	444	242	79

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RAKBANK, which is valued using the PB multiple. It is valued at a PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Sharjah Islamic Bank	1,993	1.1	1.1	10.8	9.5	4.8	5.3
Commercial Bank of Dubai	3,823	1.1	1.1	10.8	9.5	4.8	5.3
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
Abu Dhabi Commercial Bank (ADCB)	16,395	1.0	0.9	8.3	9.1	6.1	5.2
Dubai Islamic Bank	11,167	1.1	1.1	7.3	8.2	5.9	5.8
Mashreq Bank	7,926	1.2	1.1	5.4	6.5	8.6	8.6
Average		1.1x	1.0x	8.1x	8.3x	5.8%	5.8%
Median		1.1x	1.1x	7.8x	8.6x	5.4%	5.3%
Max		1.1x	1.1x	10.2x	9.4x	6.1%	5.7%
Min		1.1x	1.0x	6.1x	7.2x	4.8%	5.2%

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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