

RAKBANK

Higher Profit supported by lower Impairment Charges

4Q21 net profit lower than our estimate

National Bank of Ras Al-Khaimah (RAKBANK) reported a significant increase in Net Profit reaching AED224 Mn in 4Q21, up from AED68 Mn in 4Q20, missing our estimate of AED264 Mn. This increase was mainly due to lower Impairment charges.

P&L highlights

The Interest income has declined by 4.5% YOY to AED497 Mn in 4Q21, down from AED521 Mn in 4Q20. Similarly, the Interest expenses declined by 25.6% YOY to AED47 Mn in 4Q21, compared to AED63 Mn in 4Q20. Resultantly, the Net Interest Income dropped by 1.6% YOY to AED450 Mn in 4Q21, down from AED458 Mn in 4Q20. Whereas the Net Islamic financing income decreased by 7.1% YOY to AED97 Mn in 4Q21, down from AED104 Mn in 4Q20, mainly due to a decline by 8.4% YOY in the Income from Islamic financing. Therefore, the Net Funded income declined by 2.6% YOY to AED547 Mn in 4Q21, as compared to AED562 Mn in 4Q20. Net fees and commissions increased by 14% YOY to AED163 Mn in 4Q21, up from AED143 Mn in 4Q20. Furthermore, the Other operating income have increased by 12.4% YOY to AED20 Mn in 4Q21, up from AED18 Mn in 4Q20. While the Investment Income strongly decreased by 77.3% YOY to AED7 Mn in 4Q21. As a result, the Total non-funded income slightly decreased by 0.2% YOY to AED245 Mn in 4Q21, down from AED246 Mn in 4Q20. Thus, the Net Operating Income has declined by 1.9% YOY to AED792 Mn in 4Q21, down from AED808 Mn in 4Q20. Moreover, the Operating Expenses increased by 2% YOY to AED371 Mn in 4Q21, as compared to AED364 Mn in 4Q20. Thus, the Cost-to-Income ratio "C/I" increased by 179 bps to 46.8%, up from 45% in 4Q20. Impairment charges significantly declined by 47.6% YOY to AED198 Mn in 4Q21, down from AED377 Mn in 4Q20, supporting the increase in the bottom-line.

Balance sheet highlights

RAKBANK's Net Advances increased by 7.5% YOY to AED32.3 Bn in 4Q21, up from AED30 Bn in 4Q20. Whereas the Customer Deposits have increased by 1.9% YOY to AED37.6 Bn in 4Q21 from AED37 Bn in 4Q20. The Total Assets increased by 6.7% YOY to AED56.3 Bn in 4Q21, up from AED52.8 Bn in 4Q20. Similarly, the Total Equity increased by 6.8% YOY to AED8.4 Bn in 4Q21 compared to AED7.8 Bn in 4Q20.

Target price and rating

We maintain our ACCUMULATE rating on RAKBANK with a revised target price of AED5.70. The National Bank of Ras Al Khaimah (RAKBANK) a Public Joint Stock Company, is one of the oldest and most dynamic banks in UAE, offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses, with aim to be a leading customer-

Rating : ACCUMULATE

First Look Note – 4Q21

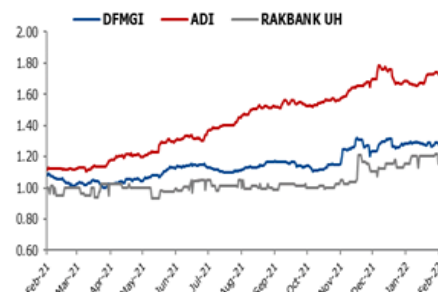
Sector: Banking

Recommendation

Current Price (10-Feb)	5.00
Target Price	5.70
Upside/Downside (%)	+14.0%

Stock Information

Market Cap (AED/mm)	8,381.23
Paid Up Capital (USD)	1,676.25
52 Week High	5.10
52 Week Low	3.63
3M Avg. daily value (AED)	322,888



Financial Ratios

Dividend Yield (12month)	3.00
Dividend Payout	49.87
Price-Earning Ratio	11.03
Price-to-Book Ratio	1.00
Book Value	4.98
Return-on Equity	9.36
Earning Per Share	0.45
Beta	0.47

Stock Performance

5 Days	-1.96%
1 Months	6.38%
3 Months	23.46%
6 Months	26.58%
1 Year	34.41%
Month to Date (MTD%)	11.11%
Quarter to Date (QTD%)	11.11%
Year to Date (YTD%)	11.11%

focused bank in the UAE. The Bank has reported a strong increase by 50.1% YOY in the Net Profit reaching AED 756 Mn at the year ended 31 December 2021, up from AED 504 Mn in the same period last year. This increase was mainly driven by lower Impairment Charges. The Interest Income from conventional loans and investments declined by 21.2% YOY standing at AED 1.97 Bn in the year ended 2021. Whereas the Interest costs on conventional deposits and borrowings have dropped significantly by 51.7% YOY to reach AED 197 Mn in 2021, down from AED 409 Mn in 2020. As a result, the Net Interest Income declined by 15.2% YOY to AED 1.8 Bn in 2021. Moreover, the Net Islamic Financing Income fell by 8.9% YOY reaching AED 394 Mn, as compared to AED 433 Mn in 2020, mainly due to a drop by 18.1% YOY in the Income from Islamic Financing. Therefore, the Bank's Net Funded Income stood at AED 2.2 Bn in the year ended 2021. Furthermore, Non-Funded Income increased by 2.3% YOY to AED 1.1 Bn, up from AED 1 Bn in 2020, led by AED 54.1 Mn increase in the Net fees and commission income and AED 21.4 Mn increase in Other operating income. This was partially offset by a decline in Forex and derivative income, Net Insurance Underwriting Profit, and Investment Income. Resultantly, the Total Operating Income for the year ended 31 December 2021, has declined by 9.4% YOY reaching AED 3.2 Bn, down from AED 3.6 Bn in the same period last year. While the Bank's Operating expenses remained stable at AED 1.4 Bn. Thus, the Cost to income (C/I) ratio stood at 43.2% compared to 39.2% in 2020. Moreover, the Impairment Charges have dropped by 35.3% YOY to AED 1 Bn, down from AED 1.7 Bn in 2020, supporting profitability. This decrease was mainly attributed to lower IFRS 9 credit loss provisions.

On the other hand, the Bank has shown strong balance sheet with an increase by 6.7% YOY in the Total Assets to AED 56.3 Bn in 2021, up from AED 52.8 Bn in 2020. Whereas the Net Advances have also increased by 7.5% YOY standing at AED 32.3 Bn at the end of the year 2021. Similarly, the Customer Deposits have increased by 1.9% YOY reaching AED 37.6 Bn in 2021. Thus, the Advances to Deposits (ADR) ratio rose by 444 bps to 85.8%, down from 81.3% in 2020. Bank's Profitability ratios such as ROAE and ROAA have increased to 9.3% and 1.4% in the year ended 2021, respectively. During FY 2021, the Bank's Capital Adequacy ratio as per Basel III stood at 17%, While the Bank's Common Equity Tier 1 ratio stood at 15%. However, the Loans to Stable Resources (LSR) ratio stood at 82.9% as of 31 December 2021, which is strongly lower than the maximum limit of 110%. Similarly, the Eligible Liquid Assets ratio stood at 11.6%, down from 14.5% in 2020, reflecting a healthy liquidity position. As the UAE economy continues to rebound swiftly from the effects of the COVID-19 pandemic, the Bank has demonstrated a similar form of resilience in 2021, this reflects the Bank's overall improvement. The Bank has recommended distribution of a cash dividend of 22.5 fils per share, it is subject to approval. Finally, the Bank will continue focusing on its digital transformation to deliver Simply Better banking solutions. Based on our analysis, we assign an ACCUMULATE rating on the stock.

RAKBANK - Relative Valuation

(At CMP)	2017	2018	2019	2020	2021
P/E	10.4	9.3	7.7	16.7	11.1
P/B	1.1	1.2	1.1	1.1	1.0
Dividend yield	6%	6%	6%	3%	5%

FABS estimate & Co Data

RAKBANK - P&L

AED mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Interest income	521	495	497	528	-5.8%	-4.5%	0.4%	2,501	1,972	-21.2%
Interest expenses	-63	-46	-47	-54	-12.1%	-25.6%	2.9%	-409	-197	-51.7%
Net interest income	458	450	450	474	-5.1%	-1.6%	0.1%	2,093	1,774	-15.2%
Income: Islamic financing	124	112	113	120	-5.7%	-8.4%	0.8%	555	455	-18.1%
Islamic profit distribution	-19	-16	-16	-16	2.4%	-15.1%	4.6%	-123	-61	-50.6%
Net Islamic financing income	104	97	97	104	-6.9%	-7.1%	0.2%	433	394	-8.9%
Net funded income	562	546	547	578	-5.4%	-2.6%	0.1%	2,526	2,168	-14.1%
Net fees and commissions	143	172	163	195	-16.6%	14.0%	-5.2%	633	687	8.5%
Foreign exchange gain	38	42	43	50	-14.5%	13.6%	4.0%	188	161	-14.3%
Gross insurance underwriting Profit	17	8	12	14	-13.8%	-28.1%	42.3%	53	37	-29.9%
Investment Income	30	7	7	34	-80.0%	-77.3%	-3.3%	90	80	-10.2%
Other operating income	18	30	20	22	-7.4%	12.4%	-32.4%	76	97	28.4%
Total non-funded income	246	259	245	316	-22.3%	-0.2%	-5.3%	1,038	1,062	2.3%
Net operating income	808	805	792	894	-11.4%	-1.9%	-1.6%	3,564	3,231	-9.4%
Operating expenses	-364	-351	-371	-368	1.0%	2.0%	5.6%	-1,395	-1,396	0.0%
Pre-provision profit	444	454	421	527	-20.0%	-5.1%	-7.2%	2,169	1,835	-15.4%
Impairment	-377	-225	-198	-262	-24.5%	-47.6%	-12.2%	-1,663	-1,077	-35.3%
Profit for the year	67	229	224	265	-15.5%	NM	-2.2%	505	758	50.0%
Non-controlling interest	1	-1	0	-1	NM	-95.4%	NM	-2	-2	35.9%
Net profit attributable	68	228	224	264	-15.3%	NM	-2.0%	504	756	50.1%

FABS estimate & Co Data
RAKBANK - KPI

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Net FI/OI	69.6%	67.9%	69.0%	-52	119	70.9%	67.1%	-374
NIM	5.3%	4.6%	4.5%	-80	-4	5.4%	4.6%	-80
NIS	5.3%	4.5%	4.5%	-79	-4	5.3%	4.5%	-78
Fees & comms/OI	17.7%	21.3%	20.6%	287	-77	17.8%	21.3%	351
Trading/OI	3.7%	0.9%	0.9%	-286	-2	2.5%	2.5%	-2
Cost to income	45.0%	43.6%	46.8%	179	320	39.2%	43.2%	405
Impairment/PPP	85.0%	49.6%	46.9%	-3804	-270	76.7%	58.7%	-1802
NP/OI	8.4%	28.3%	28.2%	1984	-11	14.1%	23.4%	927
ROAE	0.9%	2.8%	2.7%	183	-13	6.4%	9.3%	290
ROAA	0.1%	0.4%	0.4%	27	-2	0.9%	1.4%	47

FABS estimate & Co Data
RAKBANK - Key B/S items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch
Net advances	30,041	30,518	31,063	31,451	32,284	7.5%
QOQ change	-1.2%	1.6%	1.8%	1.2%	2.6%	
Total assets	52,773	53,231	54,312	54,495	56,304	6.7%
QOQ change	0.9%	0.9%	2.0%	0.3%	3.3%	
Customer deposits	36,944	36,479	37,027	36,988	37,647	1.9%
QOQ change	8.0%	-1.3%	1.5%	-0.1%	1.8%	
Total Equity	7,845	7,960	7,924	8,149	8,382	6.8%
QOQ change	1.8%	1.5%	-0.5%	2.8%	2.9%	

FABS estimate & Co Data

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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