

National Bank of Ras Al Khaimah (RAKBANK)

Profits rise supported by higher Non-Funded Income & lower Provisions

2Q21 Net profit higher than our estimate

RAKBANK recorded an increase in Net Profit by 25.6% YOY to AED191 Mn in 2Q21 from AED152 Mn in 2Q20, higher than our estimate by 40.6%. This increase in 2Q21 was mainly due to lower Impairment charges to AED297 Mn and higher both Foreign Exchange Gain to AED 49 Mn and fees and commissions to AED 180 mm.

P&L highlights

RAKBANK's Net Operating Income decreased by 7.9% YOY in 2Q21 to AED832 Mn from AED 903 Mn in 2Q20. Other Operating Income decreased by 37.6% to AED17 Mn in 2Q21 from AED27 Mn in 2Q20. Moreover, Non-Funded Income increased to AED289 Mn in 2Q21 by 22.3% from AED236 Mn in 2Q20. Net Funded Income decreased by 18.5% YOY to AED543 Mn in 2Q21 from AED667 Mn in 2Q20. Furthermore, the Net Interest Income decreased by 20.3% YOY to AED444 Mn in 2Q21, and Interest Expenses decreased significantly by 58.4% YOY to AED49 Mn in 2Q21 from AED 118 Mn in 2Q20. Operating Expenses slightly increased by 1.3% YOY to AED343 Mn in 2Q21 from AED 339 Mn in 2Q20, while the Cost-to-Income ratio "C/I" increased by 374 bps to 41.3% from 37.5% in 2Q20. Impairment Charges decreased significantly by 27.8% in 2Q21 to AED297 mm.

Balance sheet highlights

RAKBANK's Net Advances decreased by 4.6% YOY to AED31.06 Bn in 2Q21 from AED32.55 Bn in 2Q20. Whereas Customer Deposits increased by 5.6% YOY to AED37.27 Bn in 2Q21 from AED35.06 Bn in 2Q20. Total Assets decreased by 0.1% YOY to AED54.31 Bn in 2Q21 from AED 54.34 Bn in 2Q20, and the Equity increased by 5.5% to AED7.92 Bn in 2Q21 compared to AED7.51 Bn in 2Q20.

Target price and rating

We assign a HOLD rating on RAKBANK with a target price of AED4.10. RAKBANK showed a solid performance during the second quarter of 2021 highlighted by an improvement in Income which reported an increase after many periods of falling trend since the beginning of the global COVID-19 pandemic. One main point is the increase in the Deposits that is a positive sign. Net Profit was up by almost 26% to AED 191 Mn in 2Q21 from AED 152 Mn in 2Q20. Net Operating Income recorded AED 832 Mn down by 7.9% from AED 903 Mn and down by 3.9% from 1Q20. Operating Expenses for 2Q21 increased by 1.3% YOY in 2Q21 compared to 2Q20 while the bank's Cost-to-Income ratio increased to 41.3% from 37.5% at the end of the same quarter in 2020 given the decrease in Total Income. It is worth noting that the Provisions for the 2Q21 were the lowest for many years now decreasing by AED 114.4 Mn due to very good results and a better portfolio specially in the credit cards and personal loans. This demonstrates that the bank is rebounding with the economy in

Rating : HOLD

First Look Note – 2Q21

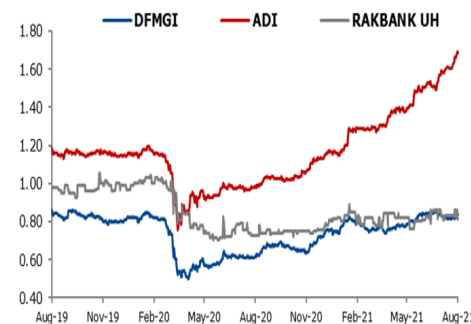
Sector: Banking

Recommendation

Current Price (10-Aug)	3.95
Target Price	4.10
Upside/Downside (%)	3.8%

Stock Information

Market Cap (AED/mm)	6,621.17
Paid Up Capital (USD)	1,676.25
52 Week High	4.24
52 Week Low	3.36
3M Avg. daily value (AED)	5,664,919



Financial Ratios

Dividend Yield (12month)	3.80
Dividend Payout	49.90
Price-Earning Ratio	12.92
Price-to-Book Ratio	0.82
Book Value	4.70
Return-on Equity	6.55
Earning Per Share	0.30
Beta	0.54

Stock Performance

5 Days	1.80%
1 Months	3.13%
3 Months	8.82%
6 Months	6.18%
1 Year	14.16%
Month to Date (MTD%)	-3.66%
Quarter to Date (QTD%)	-3.66%
Year to Date (YTD%)	1.28%

UAE and the strong consumer confidence since the beginning of the year. Total Assets have marginally decreased by 0.1% YOY to AED 54.3 Bn from AED 54.34 Bn in 2Q20 and they were up by 2.9% as compared to end of year. Nevertheless, Gross Loans and Advances were down by 3.9% in 2Q21 at AED 33.2 Bn and up by 3.1% year to date from AED 32.55 Bn in 2Q20. The Non-Performing Loans ratio has increased to 5.1% in 2Q21 as compared to 4.5% same period in 2020 but a marginal decrease was reports as compared to end of year 2020 ratio of 5.2%. The bank is well provisioned against these Non-Performing Loans with a Coverage ratio of 127.7%. Deposits followed an upward trend by 5.6% as compared to same period last year at AED 37 Bn from AED 35 Bn in 2Q20 with the main increase reported in the Time Deposits account for AED 623 Mn while being offset by a decrease of AED 540 Mn in CASA and Call Deposits. The bank's Capital Adequacy Ratio (CAR) stood at 17.8% from 18.6% as at year end 2020 and Common Equity Tier 1 (CET1) ratio was 16.7% in 2Q21 from 17.5% as at end of the previous year. Despite the marginal decrease, the ratios are still way above the requirements set by the regulators and the bank still maintains good liquidity levels with a Regulatory Eligible Liquid Assets ratio of 9.6% by end of 2Q21 and Advances to stable resources ratio of 83.7% as compared to 80.6% as at end of 2020 but below the 85.5% ratio of 1Q21. Return on Average Equity (ROAE) stood at 2.4% in 2Q21 witnessing an increase by 33 bps YOY compared to 2.1% in 2Q20 and an increase of 97 bps compared to last quarter and Return on Average Assets (ROAA) marginally increased in 2Q21 as compared to same period last year end 2020 to 0.4% from 0.3% respectively, an increase by 9 bps. The bank is rated Baa1 with a negative outlook by Moody's in July 2021, whereas it is rated BBB+ with a stable outlook by Fitch in May 2021. Moreover, the stock is trading at an PB multiple of 0.79x, leading us to our HOLD rating.

RAKBANK - Relative Valuation

(At CMP)	2017	2018	2019	2020	2021E
P/E	8.23	7.31	6.08	13.17	11.29
P/B	0.85	0.93	0.85	0.85	0.79
Dividend yield	7.6%	7.6%	7.6%	3.8%	5.8%

FABS estimate & Co Data
RAKBANK P&L

AED mm	2Q20	1Q21	2Q21	2Q21F	VAR	YOY ch	QOQ ch	2020	2021F	YOY ch
Interest income	675	486	493	522	-5.7%	-27.0%	1.4%	2,501	2,024	-19.1%
Interest expenses	-118	-56	-49	-60	-18.0%	-58.4%	-11.8%	-409	-212	-48.1%
Net interest income	557	430	444	463	-4.1%	-20.3%	3.1%	2,093	1,812	-13.4%
Income: Islamic financing	149	117	112	123	-8.8%	-24.6%	-4.3%	555	465	-16.3%
Islamic profit distribution	-39	-16	-13	-17	-25.4%	-67.1%	-17.9%	-123	-69	-44.1%
Net Islamic financing income	109	101	99	106	-6.1%	-9.3%	-2.1%	433	396	-8.5%
Net funded income	667	532	543	568	-4.4%	-18.5%	2.1%	2,526	2,208	-12.6%
Net fees and commissions	142	172	180	182	-0.8%	26.8%	4.7%	633	739	16.8%
Foreign exchange gain	39	27	49	29	69.0%	25.7%	85.9%	188	177	-5.9%
Gross insurance underwriting Profit	15	3	13	4	NM	-9.1%	NM	53	43	-19.6%
Investment Income	13	38	29	38	-23.5%	NM	-23.2%	90	143	59.4%
Other operating income	27	30	17	31	-45.4%	-37.6%	-42.7%	76	113	49.9%
Total non-funded income	236	269	289	284	1.7%	22.3%	7.3%	1,038	1,214	16.9%
Net operating income	903	801	832	852	-2.4%	-7.9%	3.9%	3,564	3,422	-4.0%
Operating expenses	-339	-330	-343	-341	0.7%	1.3%	4.0%	-1,395	-1,429	2.4%
Pre-provision profit	564	471	489	511	-4.4%	-13.4%	3.8%	2,169	1,993	-8.1%
Impairment	-411	-357	-297	-375	-20.9%	-27.8%	-16.9%	-1,663	-1,197	-28.0%
Profit for the year	153	114	192	137	40.7%	25.4%	68.5%	505	796	57.4%
Non-controlling interest	-1	-1	-1	-1	65.3%	-1.1%	65.3%	-2	-3	85.1%
Net profit attributable	152	113	191	136	40.6%	25.6%	68.6%	504	793	57.4%

FABS estimate & Co data

RAKBANK - KPI

	2Q20	1Q21	2Q21	YOY ch	QQQ ch	2020	2021F	YOY ch
AED mm								
Net FI/OI	73.8%	66.4%	65.3%	-855	-111	70.9%	64.5%	-634
NIM	5.7%	5.1%	4.8%	-84	-20	5.4%	4.6%	-81
NIS	5.6%	5.0%	4.8%	-82	-20	5.3%	4.5%	-80
Fees & comms/OI	15.7%	21.5%	21.7%	592	17	17.8%	21.6%	384
Trading/OI	1.4%	4.7%	3.5%	203	-122	2.5%	4.2%	166
Cost to income	37.5%	41.2%	41.3%	374	5	39.2%	41.8%	261
Impairment/PPP	72.9%	75.8%	60.7%	-1216	-1511	76.7%	60.1%	-1662
NP/OI	16.8%	14.1%	23.0%	612	881	14.1%	23.2%	903
ROAE	2.1%	1.4%	2.4%	33	97	6.4%	8.8%	236
ROAA	0.3%	0.2%	0.4%	9	14	0.9%	1.4%	50

FABS estimate & Co data

RAKBANK - Key B/S items

	2Q20	3Q20	4Q20	1Q21	2Q21	YOY ch
AED mm						
Net advances	32,554	30,421	30,041	30,518	31,063	-4.6%
QOQ change	-5.1%	-6.6%	-1.2%	1.6%	1.8%	
Total assets	54,342	52,328	52,773	53,231	54,312	-0.1%
QOQ change	-9.1%	-3.7%	0.9%	0.9%	2.0%	
Customer deposits	35,059	34,205	36,944	36,479	37,027	5.6%
QOQ change	-7.3%	-2.4%	8.0%	-1.3%	1.5%	
Total Equity	7,512	7,705	7,845	7,960	7,924	5.5%
QOQ change	5.1%	2.6%	1.8%	1.5%	-0.5%	

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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