

Ajman Bank PJSC

Decline in impairments boosted profitability despite one-offs

4Q22 Net Profit exceeding our estimate

Ajman Bank PJSC (AJMANBANK/the Bank) net profit almost doubled to AED 49 Mn in 4Q22 as compared to AED 26 Mn in 4Q21, exceeding our estimate of AED 12 Mn. The net profit mainly rose due to a sharp fall in impairments and growth in fee, commission and other income partially offset by an increase in loss of associates.

P&L highlights

Ajman Bank's funded income rose 18.7% YOY to AED 219 Mn in 4Q22 mainly due to a rise in asset yield partially offset by a decline in interest-earning assets. On the other hand, funded expenses grew significantly from AED 56 Mn in 4Q21 to AED 96 Mn in 4Q22 owing to higher benchmark rates. Thus, net funded income declined 4.4% YOY to AED 123 Mn in 4Q22. Fees and commission income rose 65.6% YOY to AED 66 Mn in 4Q22 due to growth in processing fee, foreign exchange and rental income. Income from investment securities declined 6.7% YOY to AED 23 Mn in 4Q22 due to a loss on disposal of Islamic investment securities. However, the loss on share of result of associates declined significantly from AED 2 Mn in 4Q21 to AED 89 Mn in 4Q22 due to an impairment loss on Makaseb 3 Real Estate Investment SPV Limited. Thus, total non-funded income declined from AED 63 Mn in 4Q21 to AED 1 Mn in 4Q22. As a result, total operating income declined 35.6% YOY to AED 123 Mn in 4Q22. Furthermore, operating expenses marginally declined 5.2% YOY to AED 69 Mn in 4Q22. The cost-to-income ratio rose 428 bps QOQ to 55.8% in 4Q22 due to a decline in operating income. In addition, the Bank's impairment charges declined from AED 93 Mn in 4Q21 to AED 5 Mn in 4Q22.

Balance sheet highlights

Net Advances declined 15.3% YOY to AED 12.6 Bn in 2022, mainly due to a decrease in Commodities Murabaha and Ijarahs'. Total assets fell 5.5% to AED 21.1 Bn in 2022. Customer deposits rose 7.0% to AED 16.3 Bn in 2022. CASA deposits rose marginally from 26.0% in 2021 to 26.9% in 2022. Furthermore, total equity declined 4.5% to AED 2.5 Bn in 2022.

Target price and rating

We maintain our SELL rating on AJMANBANK with an unchanged target price of AED 0.80. The Bank's asset quality improved slightly with an NPL ratio of 16.8% in 4Q22 as compared to 17.1% in 3Q22 mainly due to the write-off of non-performing loans. AJMANBANK non-performing loan coverage remained weak with a coverage ratio of 22.3% in 4Q22 and the bank might need to increase provisioning impacting profitability. Stage 2 loans as a percentage of gross loans stood high at 27.5% might further weaken the asset quality and increase NPLs. Moreover, the Bank's financing portfolio continued to decline since 3Q21. The portfolio is concentrated in the real estate sector further increasing the risk profile of the Bank from a downturn in a single sector. Ajman bank should look diversify its credit profile and decrease its concentration of loans to a single sector. On the other hand, the Bank's NIMs rose 32 bps QOQ to 3.0% in 4Q22. Furthermore, the Bank's deposits rose 1.7% QOQ to AED 16.3 Bn in 4Q22 whereas the low-cost CASA borrowings as a percentage of total deposits stood at 26.9% in 4Q22 benefit the NIMs.

Rating : SELL

First Look Note – 4Q22

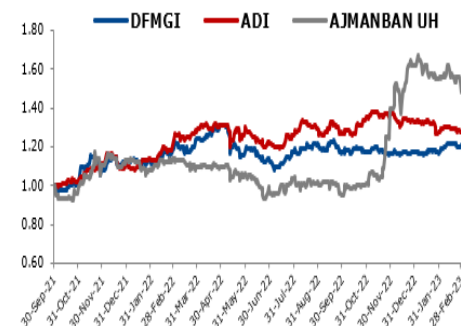
Sector: Banking

Recommendation

Current Price (02-Mar-23)	1.12
Target Price (AED)	0.80
Upside/Downside (%)	-29%

Stock Information

Market Cap (mm)	2,352.00
Paid Up Capital (mm)	2,100.00
52 Week High	1.24
52 Week Low	0.66
3M Avg. daily value (AED)	16,768,840



Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	14.44
Price-to-Book Ratio (x)	0.94
Book Value (AED)	1.20
Return-on Equity (%)	6.29
Earning Per Share (AED)	0.08
Beta	0.73

Stock Performance

5 Days	-1.75%
1 Months	-1.75%
3 Months	9.80%
6 Months	53.42%
1 Year	36.42%
Month to Date (MTD)	3.70%
Quarter to Date (QTD)	-5.08%
Year to Date (YTD)	-5.08%

The Bank's capitalization stood healthy with a Tier 1 ratio of 14.4% and a CAR ratio of 15.6% in 4Q22. Considering all these factors, we retain our SELL rating on the stock.

Ajman - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	11.57	28.72	44.04	20.25	14.51	12.73
P/B (x)	0.96	0.94	0.94	0.89	0.94	0.87
Dividend Yield	3.1%	3.1%	NM	NM	NM	NM

FABS Estimates & Co Data

Ajman Bank - P&L

(AED mn)	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Funded income	185	185	219	203	7.8%	18.7%	18.3%	706	674	-4.6%
Funded expenses	-56	-76	-96	-84	14.0%	71.6%	26.3%	-232	-288	24.0%
Net funded income	128	109	123	119	3.3%	-4.4%	12.6%	474	386	-18.6%
Fees and commissions	40	39	66	35	89.8%	65.6%	70.8%	106	185	74.3%
Inc. from Invst securities	25	22	23	18	28.0%	-6.7%	5.3%	96	84	-12.9%
Share of result of assoc	-2	0	-89	0	NM	NM	NM	-8	-89	NM
Total non-funded inc.	63	61	1	53	-99.0%	-99.2%	-99.1%	194	180	-7.2%
Total operating inc.	191	169	123	172	-28.1%	-35.6%	-27.3%	668	566	-15.3%
Operating expenses	-73	-87	-69	-89	-22.8%	-5.2%	-21.2%	-285	-321	12.8%
Pre provision profit	119	82	54	82	-33.9%	-54.2%	-33.7%	384	245	-36.1%
Impairment	-93	-44	-5	-71	-93.0%	-94.6%	-88.8%	-267	-83	-69.0%
Net profit	26	38	49	12	328.0%	90.0%	31.2%	116	162	39.5%

FABS estimate & Co Data

Ajman Bank - KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	67.1%	64.3%	99.6%	3245	3528	71.0%	68.2%	-276
NIM	2.8%	2.7%	3.0%	14	32	2.6%	2.2%	-33
NIS	2.9%	2.8%	3.2%	29	36	2.6%	2.4%	-22
Fees & comms/OI	20.9%	22.9%	53.8%	3285	3088	15.9%	32.7%	1678
Investment Securities/OI	12.8%	12.8%	18.6%	575	574	14.4%	14.8%	40
Cost to income	37.9%	51.5%	55.8%	1791	428	42.6%	56.7%	1413
Impairment/PPP	78.1%	54.1%	9.2%	-6892	-4493	69.7%	33.8%	-3589
NP/OI	13.6%	22.2%	40.1%	2652	1789	17.4%	28.6%	1125
ROAA	0.5%	0.7%	0.8%	25	11	0.5%	0.7%	22
ROAE	4.4%	5.5%	6.5%	201	94	4.5%	6.3%	177

FABS estimate & Co Data

Ajman Bank - BS key items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YoY Ch
Net advances	14,924	14,346	13,502	13,386	12,634	-15.3%
QOQ change	-5.6%	-3.9%	-5.9%	-0.9%	-5.6%	
Total assets	22,342	21,792	21,150	20,569	21,110	-5.5%
QOQ change	3.9%	-2.5%	-2.9%	-2.7%	2.6%	
Customer deposits	15,263	16,633	16,652	16,055	16,332	7.0%
QOQ change	8.9%	9.0%	0.1%	-3.6%	1.7%	
Total equity	2,635	2,592	2,526	2,507	2,515	-4.5%
QOQ change	1.4%	-1.6%	-2.5%	-0.8%	0.3%	

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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