

RAKBANK

Significant decline in Net Funded income and Non-Funded income impacted the bottom-line

1Q21 Net profit lower than our estimate

National Bank of Ras Al Khaimah (RAKBANK) recorded a drop in Net profit by 26% YOY to AED113 mm in 1Q21 from AED153 mm in 1Q20, missing our estimate of AED124 mm. This decrease was primarily due to a significant decrease in both Net Funded and Non-Funded income.

P&L highlights

RAKBANK's Operating income decreased by 20% YOY in 1Q21 to AED801 mm, missing our forecast by 3.7%. Other Non-funded income increased by 67.7% to AED30 mm in 1Q21 from AED18 mm in 1Q20. Moreover, Non-funded income decreased to AED269 mm in 1Q21 by 11.8% from AED305 mm in 1Q20. Net Funded income decreased by 23.6% YOY to AED532 mm in 1Q21 from AED696 mm in 1Q20. Furthermore, the Funded income decreased by 26.5% YOY to AED430 mm in 1Q21, and Funded expenses decreased by 8.2% YOY to AED101 mm in 1Q21. Operating expenses decreased by 10.2% YOY to AED330 mm in 1Q21, while the Cost/Income "C/I" increased by 452 bps to 41.2% from 36.7% in 1Q20. Impairment charges decreased significantly by 25.7% in 1Q21 to AED357 mm.

Balance sheet highlights

RAKBANK's Net advances decreased by 11.1% YOY to AED30.51 bn in 1Q21 from AED34.32 bn in 1Q20. Whereas, Customer deposits dropped by 3.5% YOY to AED36.47 bn in 1Q21 from AED37.8 bn in 1Q20. Total assets decreased by 10.9% YOY to AED53.23 bn in 1Q21, and the equity increased to AED7.96 bn in 1Q21 compared to AED7.14 bn in 1Q20.

Target price and rating

We maintain our HOLD rating on RAKBANK with a target price of AED4.10. RAKBANK is well-positioned to keep on helping customers recover after the COVID-19 pandemic despite the road to full recovery being tough. The bank's top priority is to put customers' interests and demands first and the deepening of the relationships throughout better digital capabilities and platforms. RAKBANK showed a solid performance during 1Q21 highlighted by improvement in asset quality revealed by the further decrease in provisions for credit loss as compared to last quarter 2020 by AED 20.1 Million and an overall year-on-year decrease by AED 123.4 Million. Net credit losses to average loans and advances stood at 4.5% in the 1Q21 compared to 5.3% by end of 2020 with a slight increase in non-performing loans to gross loans ratio to reach 5.4% compared to 5.2% last quarter 2020. The assets showed a decrease by AED 6.5 Billion, reaching AED 53.2 compared to AED 59.8 Billion in 1Q20 while increasing 0.9% compared to the end of the year 2020 by AED 458.4 Million from AED 52.8 Billion. The decrease in assets from last year is mainly driven by the decrease in the gross loans and advances, which decreased by AED 3.5 Billion, and cash and central bank balances reducing as well by AED 2.2 Million by end of 1Q21. Customer deposits declined both on a quarter-on-quarter and a year-on-year basis

Rating : HOLD

First Look Note – 1Q21

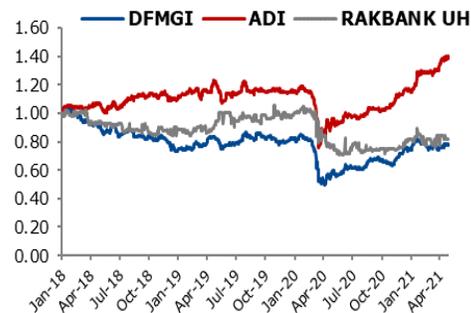
Sector: Banking

Recommendation

| | |
|------------------------|------|
| Current Price (29-Apr) | 3.90 |
| Target Price | 4.10 |
| Upside (%) | 5.1% |

Stock Information

| | |
|---------------------------|-----------|
| Market Cap (AED/mm) | 6,537.36 |
| Paid Up Capital (USD) | 1,676.25 |
| 52 Week High | 4.24 |
| 52 Week Low | 3.33 |
| 3M Avg. daily value (AED) | 5,036,325 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12month) | 3.93 |
| Dividend Payout | 49.90 |
| Price-Earning Ratio | 13.91 |
| Price-to-Book Ratio | 0.83 |
| Book Value | 4.73 |
| Return-on Equity | 6.17 |
| Earning Per Share | 0.28 |
| Beta | 0.49 |

Stock Performance

| | |
|------------------------|--------|
| 5 Days | 0.00% |
| 1 Months | -2.50% |
| 3 Months | 0.00% |
| 6 Months | 9.86% |
| 1 Year | 5.41% |
| Month to Date (MTD%) | -2.50% |
| Quarter to Date (QTD%) | -2.50% |
| Year to Date (YTD%) | 0.00% |

mainly due to a decrease in time deposits mitigated partially by the increase in CASA deposits. Despite the decrease in Capital Adequacy Ratio (CAR) from 18.6% to 18.1% it is still above the requirements set by the regulations and the bank is still considered fairly maintain good liquidity levels. The advances to stable resources witnessed a comfortable increase reaching 85.5% as compared to 80.6% by the end of 2020. The bank will keep on carefully watching its spending on capital items and operating expenses in view of the pertaining economic situation without jeopardizing the bank's franchise value; this strategy is witnessed in the decrease in CAPEX to AED 13.4 Million as compared to AED 18.3 Million in 1Q20. Nevertheless, the bank will increase its spending to further shift towards digitalizing its services and improving the e-banking services to its customers, and the bank will be switching to digital banking to follow the growing demand of UAE residents. Return on Equity (ROE) is still following a decreasing trend reaching 5.9% in 1Q21 as compared to 7.7% in 1Q20. Return on Assets (ROA) remained stable in 2021 as compared to year end 2020 at 0.9%, with a decrease by 0.2% as opposed to 1.1% in 1Q21. The profitability of the bank as reflected in net income, decreased by 25.8% to reach AED 113.9 Million as compared to AED 153.5 Million in 1Q20. This decrease was mainly due to the 20% decrease in total income by AED 200.3 Million reaching AED 800.9 Million in 2021 as compared to AED 1 Billion in 1Q20; net interest income from Islamic financing decreased by 23.6%, reaching AED 531.7 Million, and non-interest income decreased by 11.8% on a year-on-year basis as well. Operating profit before impairment and provisions also decreased by 25.7%, reaching AED 470.9 Million as compared to AED 633.9 Million in 1Q20. The cost-to-income ratio is higher than last year reaching 41.2% in 1Q21 as compared to 36.7% same period last year and 39.2% by the end of 2020. Moreover, The Bank distributed a cash dividend of 15% after regulatory and shareholder approval in the first quarter and is expected to distribute 20% in 2021F. The stock is trading at a PB multiple of 0.83x, leading us to our HOLD rating.

RAKBANK - Relative Valuation

| (At CMP) | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------|------|------|------|-------|------|
| P/E | 8.13 | 7.22 | 6.00 | 13.00 | 9.90 |
| P/B | 0.84 | 0.92 | 0.84 | 0.84 | 0.77 |
| Dividend yield | 7.7% | 7.7% | 7.7% | 3.8% | 5.1% |

FABS estimate & Co Data
RAKBANK P&L

| AED mm | 1Q20 | 4Q20 | 1Q21 | 1Q21F | VAR | YOY ch | QOQ ch | 2020 | 2021F | YOY ch |
|-------------------------------------|--------------|------------|------------|------------|--------------|---------------|--------------|--------------|--------------|---------------|
| Interest income | 729 | 521 | 486 | 552 | -12.0% | -33.4% | -6.7% | 2,501 | 2,183 | -12.7% |
| Interest expenses | -144 | -63 | -56 | -94 | -40.8% | -61.3% | -12.1% | -409 | -323 | -20.8% |
| Net interest income | 586 | 458 | 430 | 458 | -6.1% | -26.5% | -5.9% | 2,093 | 1,859 | -11.2% |
| Income: Islamic financing | 152 | 124 | 117 | 136 | -13.9% | -23.0% | -5.3% | 555 | 505 | -9.2% |
| Islamic profit distribution | -42 | -19 | -16 | -27 | -41.7% | -62.2% | -18.4% | -123 | -73 | -40.5% |
| Net Islamic financing income | 110 | 104 | 101 | 109 | -7.0% | -8.2% | -2.9% | 433 | 431 | -0.3% |
| Net funded income | 696 | 562 | 532 | 567 | -6.2% | -23.6% | -5.4% | 2,526 | 2,291 | -9.3% |
| Net fees and commissions | 190 | 143 | 172 | 154 | 12.1% | -9.5% | 20.5% | 633 | 756 | 19.4% |
| Foreign exchange gain | 60 | 38 | 27 | 46 | -41.6% | -55.5% | -29.9% | 188 | 124 | -34.1% |
| Gross insurance underwriting | 12 | 17 | 3 | 16 | -79.1% | -72.2% | -80.1% | 53 | 19 | -63.5% |
| Investment Income | 25 | 30 | 38 | 30 | 24.0% | 47.7% | 25.2% | 90 | 152 | 69.3% |
| Other operating income | 18 | 18 | 30 | 19 | 55.3% | 67.7% | 63.0% | 76 | 127 | 68.5% |
| Total non-funded income | 305 | 246 | 269 | 264 | 1.8% | -11.8% | 9.5% | 1,038 | 1,177 | 13.4% |
| Net operating income | 1,001 | 808 | 801 | 832 | -3.7% | -20.0% | -0.8% | 3,564 | 3,468 | -2.7% |
| Operating expenses | -367 | -364 | -330 | -328 | 0.5% | -10.2% | -9.3% | -1,395 | -1,384 | -0.8% |
| Pre-provision profit | 634 | 444 | 471 | 503 | -6.4% | -25.7% | 6.1% | 2,169 | 2,085 | -3.9% |
| Impairment | -480 | -377 | -357 | -380 | -6.1% | -25.7% | -5.3% | -1,663 | -1,422 | -14.5% |
| Profit for the year | 153 | 67 | 114 | 123 | -7.4% | -25.8% | 70.7% | 505 | 663 | 31.1% |
| Non-controlling interest | 0 | 1 | -1 | 1 | -163.9% | 59.6% | -163.9% | -2 | -3 | 59.2% |
| Net profit attributable | 153 | 68 | 113 | 124 | -8.7% | -26.0% | 67.3% | 504 | 660 | 31.0% |

FABS estimate & Co data

RAKBANK - P&L Key Items

| | 1Q20 | 4Q20 | 1Q21 | YOY ch | QQQ ch | 2020 | 2021F | YOY ch |
|-----------------|-------|-------|-------|--------|--------|-------|-------|--------|
| AED mm | | | | | | | | |
| Net FI/OI | 69.5% | 69.6% | 66.4% | -314 | -318 | 70.9% | 66.1% | -481 |
| NIM | 1.4% | 1.2% | 1.2% | -24 | -8 | 5.4% | 5.0% | -34 |
| NIS | 1.4% | 1.2% | 1.2% | -23 | -8 | 5.3% | 5.0% | -33 |
| Fees & comms/OI | 19.0% | 17.7% | 21.5% | 249 | 380 | 17.8% | 21.8% | 403 |
| Trading/OI | 2.5% | 3.7% | 4.7% | 215 | 98 | 2.5% | 4.4% | 186 |
| Cost to income | 36.7% | 45.0% | 41.2% | 452 | -384 | 39.2% | 39.9% | 74 |
| Impairment/PPP | 75.8% | 85.0% | 75.8% | 2 | -916 | 76.7% | 68.2% | -848 |
| NP/OI | 15.3% | 8.4% | 14.1% | -114 | 576 | 14.1% | 19.0% | 490 |
| ROAE | 2.2% | 0.9% | 1.4% | -74 | 57 | 6.4% | 8.1% | 163 |
| ROAA | 0.3% | 0.1% | 0.2% | -6 | 8 | 0.9% | 1.2% | 31 |

FABS estimate & Co data

RAKBANK - Key B/S items

| | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | YOY ch |
|-------------------|--------|--------|--------|--------|--------|--------|
| AED mm | | | | | | |
| Net advances | 34,320 | 32,554 | 30,421 | 30,041 | 30,518 | -11.1% |
| QOQ change | -0.7% | -5.1% | -6.6% | -1.2% | 1.6% | |
| Total assets | 59,756 | 54,342 | 52,328 | 52,773 | 53,231 | -10.9% |
| QOQ change | 4.6% | -9.1% | -3.7% | 0.9% | 0.9% | |
| Customer deposits | 37,800 | 35,059 | 34,205 | 36,944 | 36,479 | -3.5% |
| QOQ change | 2.6% | -7.3% | -2.4% | 8.0% | -1.3% | |
| Total Equity | 7,146 | 7,512 | 7,705 | 7,845 | 7,960 | 11.4% |
| QOQ change | -8.9% | 5.1% | 2.6% | 1.8% | 1.5% | |

FABS estimate & Co data

Research Rating Methodology:

| Rating | Upside/Downside potential |
|------------|---------------------------|
| BUY | >15% |
| ACCUMULATE | >10% to 15% |
| HOLD | 10% to -5% |
| REDUCE | <-5% |

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| | | |
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in UAE 2016 and 2020
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in UAE 2016
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Best Equity Finance Company
in UAE 2016
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