

Bank of Sharjah

Increase in Discontinued Operations & decline in Non-funded income reduced profitability

2Q21 Net Profit significantly lower than our estimate

Bank of Sharjah (BOS) reported a Net Loss of AED345 Mn in 2Q21, down from a Net Profit of AED182 Mn in 2Q20. The Bank performed lower than our estimate. This was mainly attributed to a significant decline in the Non-Funded Income and increase in discontinued operations, as well as the increase in General & Admin Expenses.

P&L highlights

The Bank recorded an increase by 1% YOY in the Interest Income to AED306 Mn in 2Q21 from AED303 Mn in 2Q20. The Interest Expense reduced by 15% YOY to AED176 Mn in 2Q21 from AED207 Mn in 2Q20. Therefore, the Net Funded Income increased by 35.4% YOY to AED130 Mn in 2Q21 compared to AED96 Mn in 2Q20. The Net Fees and Commissions significantly increased to AED43 Mn in 2Q21 from AED19 Mn in 2Q20. While, the Exchange Profit has significantly decreased by 96.6% YOY to AED5 Mn in 2Q21, as compared to AED145 Mn in 2Q20. Other Operating Income has significantly declined by 96.4% YOY to AED2 Mn from AED65 Mn in 2Q20. As a result, the Total Non-Funded Income reduced by 69.7% YOY to AED73 Mn in 2Q21, as compared to AED241 Mn in 2Q20. Thus, the Total Operating Income declined by 39.8% YOY to AED203 Mn in 2Q21 from AED337 Mn in 2Q20. Net Impairment has decreased by 28.5% YOY to AED54 Mn in 2Q21 from AED76 Mn in 2Q20. Resultantly, the Net Operating Income declined by 43.1% YOY to AED149 Mn in 2Q21. General & Admin Expenses have increased by 35.7% YOY to AED102 Mn in 2Q21 from AED75 Mn in 2Q20. As a result, the Profit before Discontinued Operations decreased by 76% YOY to AED45 Mn in 2Q21, as compared to AED186 Mn in 2Q20. Discontinued Operations have reported a negative of AED375 Mn in 2Q21, reducing the profitability.

Balance sheet highlights

The Net Advances increased by 5.2% YOY to AED20.19 Bn in 2Q21, as compared to AED19.19 Bn in 2Q20. The Total Assets increased by 9.4% YOY to AED37.69 Bn in 2Q21 from AED34.45 Bn in 2Q20. Customer Deposits also increased by 1.9% YOY to AED23.94 Bn in 2Q21, as compared to AED23.49 Bn in 2Q20. Similarly, the Total Equity rose by 8.4% YOY to AED3.43 Bn in 2Q21 from AED3.17 Bn in 2Q20.

Target price and rating

We assign a SELL rating on Bank of Sharjah with a revised target price of AED0.13. Since the beginning of the global COVID-19 pandemic in 2020 and the situation has been challenging. Bank of Sharjah (BOS) despite the COVID-19 effects has demonstrated a resilient performance and stable operations throughout the period. The group's Balance Sheet has been strong and still following a stable trend with Assets increasing from AED 36.14 Bn as at

Rating : SELL

First Look Note – 2Q21

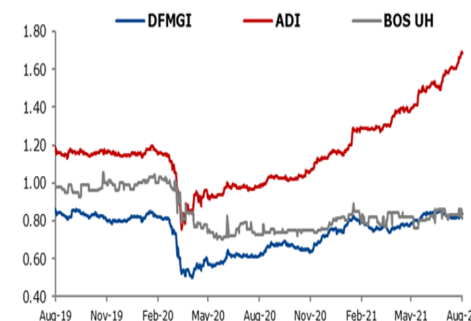
Sector: Banking

Recommendation

Current Price (10-Aug)	0.53
Target Price	0.13
Upside (%)	-75.2%

Stock Information

Market Cap (AED/mm)	1,210.00
Paid Up Capital (USD)	2,200.00
52 Week High	0.73
52 Week Low	0.48
3M Avg. daily value	182,669



Financial Ratios

Dividend Yield (12month)	NA
Dividend Payout	NA
Price-Earning Ratio	NA
Price-to-Book Ratio	0.35
Book Value	1.50
Return-on Equity	-19.48
Earning Per Share	-0.28
Beta	0.44

Stock Performance

5 Days	3.97%
1 Months	-6.94%
3 Months	3.44%
6 Months	-7.81%
1 Year	8.71%
Month to Date (MTD%)	3.77%
Quarter to Date (QTD%)	-1.79%
Year to Date (YTD%)	-8.49%

end of 2020 to AED 37.7 Bn in 2Q21, an increase of 4% since beginning of the year while maintaining a high quality of the Assets by following a disciplined approach to lending, recovery and funding while expanding their portfolio wisely. Total Equity increased by 9% as well from AED 3.16 Bn as at end of previous year to AED 3.45 Bn in 2Q21. Customer Deposits have increased moderately by 1% reaching AED 23.94 Bn in 2Q21 from AED 23.67 Bn as at end of the year; Net Loans and Advances have increased by 4% reaching AED 20.1 Bn as compared to AED 19.45 Bn as at end of 2020 while Loans to Deposits have also increased as a ratio from 82% as of December 31, 2020, to 84% by end of 2Q21. Cost-to-Income ratio has increased drastically from 22% last year by end of second quarter to 50% by end of second quarter 2021. The bank is incurring Losses of AED 345 Mn in 2Q21 mainly due to Discontinued Operations of AED 375 Mn and due to hyperinflation effect despite the increase in Net Interest Income in 2Q20 reaching AED 130 Mn as compared to AED 96 Mn in 2Q20, an increase by 35.4%. The consolidated Profit for the Group excluding the hyperinflation effect would result in a Net Profit of AED 120 Mn in 2Q21 as compared to AED 18 Mn in 2Q20. Total Operating Income decreased by 39.8% YOY due to a significant decrease in Other Operating Income dropping to AED 2 Mn in 2Q21 from AED 65 Mn in 2Q20. General and Administrative Expenses also increased by 35.7% YOY reaching AED 102 Mn in 2Q21 from AED 75 Mn in 2Q20. The group's operations in Lebanon through Emirates Lebanon Bank (ELBank) has been witnessing some challenging political and economic situations since the beginning of the revolution in October 2019. It is worth noting despite the whole situation, the Operating Income before Impairments and application of the hyperinflation accounting standards of ELBank remains stable in comparison to last year's results. The Group has also abided by the Banque Du Liban (BDL) circular requiring increase by 20% of the bank's equity of its subsidiary in Lebanon prior to June 30, 2020. Net Interest Margin (NIM) stood at 3.2% by end of 2Q21 as compared to 2.1% same period last year and Net Interest Spread (NIS) stood at 3.8% in 2Q21 as compared to 2.9% in 2Q20. Return on Average Equity (ROAE) and Return on Average Assets (ROAA) including the hyperinflation effect are both negative at 10.4% and 1% due to the reported loss in the period but if we ignore the hyperinflation effect due to the extreme circumstances, the ROE will become 7.82% and ROA 0.64%. The Capital Adequacy Ratio (CAR) of the bank stood at 10.68% as at end of 2Q21 and Tier 1 Capital Ratio stood at 9.49% both still above the minimum requirements set by the regulators. Non-Performing Gross Loans ratio of the group stood at 14.01% as compared to 12.68% as at end of 2020 with the Coverage ratio decreasing from 71.65% by end of 2020 to 64.79% in 2Q21. The stock currently trades at a PB multiple of 0.39x. Therefore, we assign a SELL rating on the stock.

BOS - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	4.58	9.17	-2.39	-1.83	-14.17
P/B (x)	0.30	0.32	0.40	0.38	0.39
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

FABS Estimates & Co data

Bank of Sharjah- P&L

AED mm	2Q20	1Q21	2Q21	2Q21F	Var.	YOY Ch.	QOQ Ch.	2020	2021F	Change
Interest Income	303	296	306	311	-1.7%	1.0%	3.2%	1431	1260	-12.0%
Interest expense	-207	-183	-176	-192	-8.5%	-15.0%	-4.0%	-861	-740	-14.1%
Net interest income	96	113	130	119	9.2%	35.4%	14.7%	569	519	-8.8%
Net fees and commission income	19	42	43	45	-6.0%	NM	2.5%	106	183	71.8%
Exchange profit	145	1	5	1	NM	-96.6%	NM	156	17	-88.9%
(Loss)/gain on investments	13	12	23	12	90.7%	80.8%	94.5%	-20	83	NM
Other Operating Income	65	13	2	12	-80.8%	-96.4%	-81.2%	-149	22	NM
Total non-funded income	241	67	73	71	3.0%	-69.7%	8.9%	93	305	NM
Total operating income	337	180	203	190	6.9%	-39.8%	12.5%	663	825	24.4%
Net impairment loss on financial assets	-76	0	-54	0	NM	-28.5%	NM	-744	-300	NM
Net operating income	261	180	149	190	-21.7%	-43.1%	-17.6%	-81	524	NM
Other Non-Operating income	0	0	0	0	NM	NM	NM	449	0	NM
General & admin. Expenses	-75	-85	-102	-83	22.6%	35.7%	20.1%	-401	-385	-4.1%
Amortisation of intangible assets	0	-1	-2	-1	47.8%	NM	50.8%	-4	-7	63.5%
Profit before discontinued operations	186	94	45	105	-57.5%	-76.0%	-52.6%	-38	132	NM
Discontinued operations	0	-201	-375	-150	NM	NM	86.5%	-577	-1027	78.0%
Profit before tax	186	-107	-331	-45	NM	NM	NM	-615	-895	45.6%
Income tax expense - overseas	-5	-15	-14	-4	NM	NM	-6.9%	-52	-58	11.4%
Non-controlling interest	0	0	0	0	NM	-50.2%	-43.7%	12	1	-94.9%
Net profit attributable	182	-122	-345	-49	NM	NM	NM	-655	-952	45.3%

FABS estimate & Co Data
BOS - P&L KPI

AED mm	2Q20	1Q21	2Q21	YOY Ch.	QOQ Ch.	2020	2021F	Change
Net FI/OI	28.4%	62.8%	64.0%	3555	119	85.9%	63.0%	-2293
NIM	2.1%	3.0%	3.2%	104	15	3.0%	2.5%	-53
NIS	2.9%	3.7%	3.8%	91	14	3.8%	3.1%	-68
Fees & comms/OI	5.5%	23.1%	21.0%	1553	-206	16.1%	22.2%	612
Other non-funded/OI	71.6%	37.2%	36.0%	-3555	-119	14.1%	37.0%	2293
Cost to income	22.3%	47.1%	50.3%	2797	318	60.5%	46.7%	-1384
Impairment/PPP	29.0%	-0.1%	54.8%	2588	5496	NM	69.4%	-21970
NP/OI	54.0%	-67.6%	-169.9%	-22386	-10224	-98.8%	NM	-1663
ROAE	5.2%	-3.9%	-10.4%	-1561	-656	-20.9%	-35.2%	-1431
ROAA	0.6%	-0.4%	-1.0%	-152	-60	-1.9%	-2.5%	-59

FABS estimate & Co Data

BOS Key B/S items

(AED MM)	2Q20	3Q20	4Q20	1Q21	2Q21	YOY Ch.
Net advances	19198	19417	19456	19879	20191	5.2%
QOQ change	1.6%	1.1%	0.2%	2.2%	1.6%	
Total assets	34450	34769	36143	37088	37699	9.4%
QOQ change	7.1%	0.9%	4.0%	2.6%	1.6%	
Customer deposits	23498	23253	23673	24055	23941	1.9%
QOQ change	7.5%	-1.0%	1.8%	1.6%	-0.5%	
Total shareholders' equity	3174	3248	3157	3308	3439	8.4%
QOQ change	5.9%	2.3%	-2.8%	4.8%	4.0%	

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%

FAB Securities Contacts:

Research Analysts

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2-6161628	shiv.prakash@Bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	Online Trading Link
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"