

Bank Albilad

Strong advances and investments growth boosted bottom line

1Q23 Net Profit in line with our estimate

Bank Albilad's (ALBI/the Bank) net profit rose 14.2% YOY to SAR 560 Mn in 1Q23, in line with our estimate of SAR 552 Mn. The rise in net profit is mainly attributable to growth in net funded income coupled with decline in impairments partially offset by a decline in non-funded income and increase in operating expenses.

P&L Highlights

Bank Albilad's funded income rose 63.1% YOY to SAR 1,698 Mn in 1Q23 driven by a strong growth in interest-earning assets and investments. On the other side, funded expenses significantly rose from SAR 96 Mn in 1Q22 to SAR 660 Mn in 1Q23 primarily due to higher benchmark rates leading to an increase in cost of funds. Thus, net funded income rose 9.8% YOY to SAR 1,037 Mn in 1Q23. On the other hand, total non-funded income declined 6.8% YOY to SAR 298 Mn in 1Q23 owing to a decline in fee & commission income, exchange income, and other non-funded income. As a result, total operating income increased 5.6% YOY to SAR 1,336 Mn in 1Q23. Furthermore, operating expenses increased 4.3% YOY to SAR 583 Mn in 1Q23 primarily because of the rise in salaries & employee-related benefits along with depreciation & amortization costs partially offset by an increase in other general and administrative expenses. Cost to income ratio declined 54 bps YOY to 43.6% in 1Q23 due to an increase in operating profit. Impairments dropped 19.3% YOY to SAR 129 Mn in 1Q23. Zakat expenses rose 14.2% YOY to SAR 64 Mn in 1Q23 in line with growth in profitability.

Balance sheet highlights

ALBI's Net advances witnessed a strong growth of 10.5% YOY and 4.7% QOQ to SAR 95.5 Bn in 1Q23. Customer deposits rose significantly 22.5% YOY and 11.2% QOQ to SAR 105.5 Bn in 1Q23 strengthening the bank's liquidity with a loan-to-deposit ratio of 90.5% in 1Q23 compared to 96.1% in 4Q22 and 100.4% in 1Q22. On the other hand, total assets increased 16.3% YOY and 4.5% QOQ to SAR 135.4 Bn in 1Q23 whereas total equity rose 14.3% YOY and 5.1% QOQ to SAR 14.1 Bn in 1Q23.

Target price and rating

We maintain our HOLD rating on Bank Albilad with a revised target price of SAR 43.00. Bank Albilad recorded a strong growth in interest-earning assets and investments which drove its net profit growth in 1Q23. ALBI's net advances rose 10.5% YOY and 4.7% QOQ to SAR 95.5 Bn in 1Q23 whereas investments rose 18.6% YOY and 3.5% QOQ to SAR 21.3 Bn. Deposits grew 16.3% YOY to SAR 135.4 Bn in 1Q22 resulting in a healthy loan-to-deposit ratio of 90.5% in 1Q23 as compared to 96.1% in 4Q22 providing further room for loan growth. However, based on our calculation, the Bank's NIMs declined on QOQ basis due to pressure on funding cost. Albilad's asset quality stood strong with a low NPL ratio of 1.3% in 4Q22 with a solid coverage ratio of 228%. In addition, the Bank recorded lower impairments charges in 1Q23 compared to 1Q22 and 4Q22 which indicates improvement in asset quality, however, we will look for further details after the release of full financials. Albilad's cost-to-income ratio declined 54 bps YOY and 148 bps QOQ to 43.6% in 1Q23 improving the efficiency mainly due to

Rating : HOLD

First Look Note – 1Q23

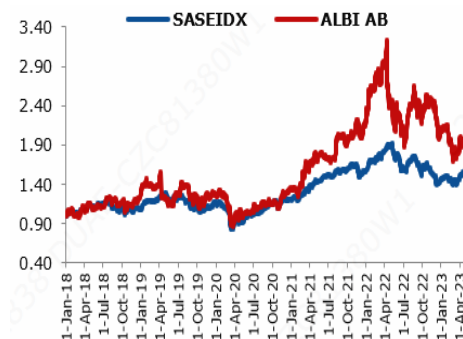
Sector: Banking

Recommendation

Current Price (3-May-23)	40.20
Target Price (SAR)	43.00
Upside/Downside (%)	6.97%

Stock Information

Market Cap (mm)	44,775.00
Paid Up Capital (mm)	7,500.00
52 Week High	61.50
52 Week Low	31.15
3M Avg. daily value (SAR)	58,993,719



Financial Ratios

Dividend Yield (12m)	3.33
Dividend Pay-out (%)	36.28
Price-Earnings Ratio (x)	10.88
Price-to-Book Ratio (x)	1.27
Book Value (SAR)	11.78
Return-on Equity (%)	11.72
Earning Per Share (SAR)	1.38
Beta	1.02

Stock Performance

5 Days	-0.33%
1 Months	8.70%
3 Months	18.11%
6 Months	8.70%
1 Year	24.48%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	0.00%
Year to Date (YTD)	10.70%

growth in income base. Albilad distributed a dividend of SAR 0.50 per share for the year ended 2022 with a dividend yield of 1.2%. Thus, considering the abovementioned factors, we maintain our HOLD rating on the bank.

Albilad - Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	65.3	32.2	29.7	23.7	19.2	15.9
PB	5.1	4.2	3.7	3.3	3.1	2.7
Dividend Yield	NA	1.7%	NA	NA	1.2%	1.2%

FABS estimate & Co Data

Albilad Bank - P&L

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Funded Income	1,041	1,481	1,698	1,567	8.3%	63.1%	14.6%	4,972	6,872	38.2%
Funded Expense	-96	-499	-660	-565	16.9%	585.8%	32.4%	-1,085	-2,362	117.7%
Net funded income	944	982	1,037	1,003	3.5%	9.8%	5.6%	3,887	4,510	16.0%
Total non-funded inc.	320	366	298	337	-11.4%	-6.8%	-18.6%	1,305	1,429	9.5%
Total operating income	1,265	1,349	1,336	1,339	-0.3%	5.6%	-1.0%	5,191	5,939	14.4%
G&A Expenses	-558	-608	-583	-573	1.7%	4.3%	-4.2%	-2,320	-2,460	6.0%
Pre provision profit	706	740	753	766	-1.8%	6.6%	1.7%	2,871	3,479	21.2%
Impairment	-160	-139	-129	-151	-14.6%	-19.3%	-7.1%	-551	-677	22.9%
Profit before zakat	547	602	624	616	1.4%	14.2%	3.7%	2,321	2,802	20.7%
Zakat expenses	-56	-62	-64	-63	1.4%	14.2%	3.7%	-239	-280	17.2%
Net profit	490	540	560	552	1.4%	14.2%	3.7%	2,082	2,522	21.1%

FABS Estimates & Co Data

Albilad Bank - KPI

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	74.7%	72.8%	77.7%	298	485	74.9%	75.9%	108
Cost to Income	44.2%	45.1%	43.6%	-54	-148	44.7%	41.4%	-327
Impairment/PPP	22.6%	18.7%	17.1%	-549	-162	19.2%	19.5%	27
NP/OI	38.8%	40.0%	41.9%	315	190	40.1%	42.5%	237
ROAE	14.7%	16.1%	15.9%	125	-12	18.6%	19.1%	54
ROAA	1.6%	1.6%	1.6%	8	2	1.7%	1.8%	11

FABS estimate & Co Data

Albilad Bank - Key B/S Items

SAR mm	1Q22	2Q22	3Q22	4Q22	1Q23	Change
Net advances	86,391	91,206	92,288	91,179	95,483	10.5%
QOQ change	4.2%	5.6%	1.2%	-1.2%	4.7%	
Total assets	116,442	121,511	127,020	129,543	135,368	16.3%
QOQ change	5.0%	4.4%	4.5%	2.0%	4.5%	
Customer deposits	86,079	89,108	93,886	94,843	105,483	22.5%
QOQ change	6.1%	3.5%	5.4%	1.0%	11.2%	
Total equity	12,325	12,607	13,035	13,399	14,082	14.3%
QOQ change	2.9%	2.3%	3.4%	2.8%	5.1%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value Bank Albilad. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	44.9	70.0%	31.4
Relative	38.6	30.0%	11.6
Weighted Average Valuation (SAR)			43.0
Current market price (SAR)			40.2
Upside/Downside (%)			6.97%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 3.7%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	6,745
Terminal value (SAR, Mn)	24,931
Book Value of equity (as of March 2023)	13,035
FV to Common shareholders (SAR, Mn)	44,711
No. of share (Mn)	996
Current Market Price (SAR)	40.2
Fair Value per share (SAR)	44.9

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	2,522	3,094	3,670	4,300	4,584
(-) Equity charge	-1,221	-1,433	-1,733	-2,085	-2,460
Excess Equity	434	1,661	1,937	2,215	2,124
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Present Value of Excess Equity	423	1,496	1,612	1,704	1,511

2) Relative Valuation:

We have used local peers to value Bank Albilad and it is valued using the PB multiple. We applied premium to peer valuation since it generates superior return on assets as compared to its peers also, expect this premium to be maintained. It is valued at PB multiple of 2.6x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Alinma Bank	16,735	2.2	2.1	14.1	12.9	3.9	4.4
Al Rajhi Bank	79,892	3.3	2.8	17.1	15.1	2.2	3.0
Riyad Bank	24,203	1.7	1.6	11.7	11.0	4.2	4.5
Banque Saudi Fransi	12,399	1.2	1.1	10.5	10.3	4.9	5.3
Arab National Bank	10,613	1.2	1.1	11.0	10.9	4.8	4.9
Saudi National Bank	58,925	1.3	1.3	12.0	10.9	4.1	4.7
Average		1.8x	1.7x	12.7x	11.9x	4.0%	4.4%
Median		1.5x	1.4x	11.8x	11.0x	4.2%	4.6%
Max		2.1x	1.9x	13.5x	12.5x	4.7%	4.8%
Min		1.2x	1.2x	11.1x	10.9x	3.9%	4.4%

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

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
+971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

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