

Riyad Bank

Higher net funded income partially mitigated by higher provision

1Q23 Net Profit lower than our estimate

Riyad Bank ("RIBL", "The Bank") recorded 30.1% YOY increase in net profit to SAR 2,020 Mn in 1Q23, higher than our estimate of SAR 2,120 Mn. The increase in the net profit owing to a healthy growth rate in net funded income partially offset by a rise in total operating expenses and impairment charges.

P&L highlights

The Bank's net special commission income almost doubled from SAR 2,421 Mn in 1Q22 to SAR 4,632 Mn in 1Q23 mainly due to a growth in net advances and asset yield. On the other hand, the special commission expense also rose significantly from SAR 289 Mn in 1Q22 to SAR 1,543 Mn in 1Q23 increase in benchmark rates. Thus, net funded income rose 44.9% YOY to SAR 3,088 Mn in 1Q23. Total non-funded income declined 2.2% YOY to SAR 948 Mn in 3Q22 driven by an increase in exchange income, trading gains, and other operating income partially offset by a decline in trading gain on disposal of non-trading investments, net fees and commission income and dividend income. Resultantly, operating income increased 30.1% YOY to SAR 4,036 Mn in 1Q23. Operating expenses rose 12.4% YOY to SAR 1,162 Mn in 1Q23, driven by an increase in salaries and employee related expenses, and G&A expenses. Cost to income ratio declined 454 bps YOY to 28.8% in 1Q23. Pre-provision profit increased 39.0% YOY to SAR 2.9 Bn in 1Q23. The impairment charge rose from SAR 255 Mn in 1Q22 to SAR 624 Mn in 1Q23 due to increase in impairment charge on credit losses somewhat mitigated by a decline in provision charges on investments. As a result, profit before tax grew 29.1% YOY to SAR 2,252 Mn in 1Q23. Tax expenses rose from SAR 192 Mn in 1Q22 to SAR 232 Mn in 1Q23 due to an increase in profit.

Balance sheet highlights

Net advances increased 7.3% YOY and 4.0% QOQ to SAR 252.0 Bn in 1Q23. Total assets increased 9.2% YOY to SAR 380.6 Bn in 1Q23. Customer deposits rose 10.7% YOY to SAR 257.3 Bn in 1Q23. Loan-to-deposit ratio declined from 101.0% in 1Q22 to 97.9% in 1Q23 exhibiting higher growth in deposits as compared to loans. Total equity increased from SAR 49.6 Bn in 1Q22 to SAR 49.3 Bn in 1Q23.

Target price and rating

We maintain our BUY rating on RIBL with target price of SAR 40.00. RIBL for the second straight quarter reported a net profit of more than SAR 2 Bn in 1Q23 driven by an increase in net funded income. Based on calculation, the Bank NIMs expanded in 1Q23 due to the rising interest rate environment and higher corporate loan mix. Around 62.4% of loans belong to the commercial segment whereas the Bank's CASA ratio stood strong at 59.6% in 4Q22 which results in easy and quick repricing of loans in the rising interest rate scenario benefiting the NIMs. Advances also recorded a strong growth after rising slowly in last two quarters and further expects its advances to grow by high single-digit to low double-digit in 2023. The deposits also grew by a robust 7.2% QOQ leading to a decline in loan-to-deposit ratio of 101.0% in 4Q22 to 97.9% in 1Q23 providing further room for loan growth. The Bank recorded a higher growth in impairment charges however we will for further details before commenting on the same. The Bank's as-

Rating : BUY

First Look Note – 1Q23

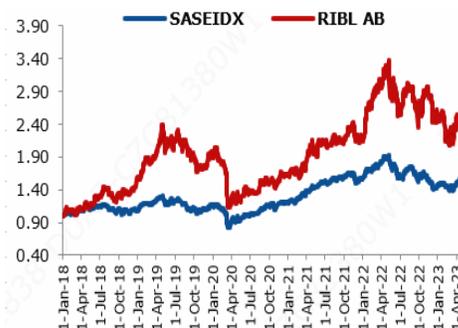
Sector: Banking

Recommendation

Current Price (3-May-23)	31.15
Target Price (SAR)	40.00
Upside/Downside (%)	+28.4%

Stock Information

Market Cap (mm)	94,950.00
Paid Up Capital (mm)	30,000.00
52 Week High	42.90
52 Week Low	25.60
3M Avg. daily value (SAR)	49,725,930



Financial Ratios

Dividend Yield (12m)	3.63
Dividend Pay-out (%)	49.15
Price-Earnings Ratio (x)	12.68
Price-to-Book Ratio (x)	1.91
Book Value (SAR)	16.53
Return-on Equity (%)	14.49
Earning Per Share (SAR)	2.46
Beta	1.34

Stock Performance

5 Days	6.21%
1 Months	1.28%
3 Months	4.63%
6 Months	-11.47%
1 Year	-22.43%
Month to Date (MTD)	4.98%
Quarter to Date (QTD)	6.57%
Year to Date (YTD)	-0.47%

set quality stood healthy with an NPL ratio of 1.7% in 4Q22 along with a strong coverage of 112%. Due to the aforementioned factors, we assign a 'BUY' rating on the stock.

Riyad Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	22.2	17.0	20.2	15.8	13.70	11.8
P/B (x)	2.7	2.4	2.1	2.1	1.95	1.8
Dividend Yield (%)	2.4%	3.4%	1.6%	3.3%	3.6%	4.1%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Special comm inc	2,421	4,092	4,632	4,173	11.0%	91.3%	13.2%	12,908	16,736	29.7%
Special comm exp	-289	-1,241	-1,543	-1,287	19.9%	433.3%	24.4%	-2,855	-5,547	94.3%
Net special comm inc	2,132	2,852	3,088	2,886	7.0%	44.9%	8.3%	10,052	11,188	11.3%
Total other oper inc	970	891	948	971	-2.4%	-2.2%	6.4%	3,547	4,041	13.9%
Operating income	3,102	3,742	4,036	3,857	4.7%	30.1%	7.9%	13,599	15,229	12.0%
Operating expenses	-1,034	-1,138	-1,162	-1,176	-1.2%	12.4%	2.1%	-4,410	-4,765	8.0%
Pre-provision profit	2,068	2,605	2,875	2,681	7.2%	39.0%	10.4%	9,189	10,464	13.9%
Impairment	-255	-364	-624	-279	123.4%	144.9%	71.5%	-1,281	-1,168	-8.8%
Profit Before Tax	1,744	2,235	2,252	2,381	-5.5%	29.1%	0.7%	7,828	9,216	17.7%
Tax	-192	-208	-232	-262	-11.5%	20.9%	11.8%	-809	-1,060	31.0%
Net profit attributable	1,553	2,028	2,020	2,120	-4.7%	30.1%	-0.4%	7,019	8,156	16.2%

Riyad Bank - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	68.7%	76.2%	76.5%	74.8%	778	-138	73.9%	73.5%
Cost to income	33.3%	30.4%	28.8%	30.5%	-454	8	32.4%	31.3%
Impairment/PPP	12.3%	14.0%	21.7%	10.4%	939	-355	13.9%	11.2%
NP/OI	50.1%	54.2%	50.0%	55.0%	-2	77	51.6%	53.6%
ROAE	13.9%	16.5%	18.8%	18.0%	482	149	16.2%	18.8%
ROAA	1.8%	2.0%	2.6%	2.1%	71	11	2.0%	2.2%

FABS estimate & Co Data

Riyad Bank - B/S Key Items

SAR mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	234,793	239,650	241,586	242,365	251,983	7.3%
QOQ change	8.1%	2.1%	0.8%	0.3%	4.0%	
Total assets	348,468	357,954	347,881	359,653	380,625	9.2%
QOQ change	7.0%	2.7%	-2.8%	3.4%	5.8%	
Customer deposits	232,416	237,477	235,892	240,007	257,277	10.7%
QOQ change	9.8%	2.2%	-0.7%	1.7%	7.2%	
Total equity	48,051	46,636	46,776	49,602	49,270	2.5%
QOQ change	1.6%	-2.9%	0.3%	6.0%	-0.7%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	43	70.0%	30.3
Relative Valuation	32	30.0%	9.6
Weighted Average Valuation (SAR)			40.0
Current market price (SAR)			31.15
Upside/Downside (%)			28.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.4%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.71 and equity risk premium of 4.1%. Government bond yield is calculated after adding KSA 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)	18,245
Terminal value (SAR, Mn)	63,753
Book Value of equity (as of March 2023)	47,652
FV to Common shareholders (SAR, Mn)	129,650
No. of share (Mn)	3,000
Current Market Price (SAR)	31.8
Fair Value per share (SAR)	43.2

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	8,156	8,972	9,682	9,986	10,152
(-) Equity charge	-3,877	-4,254	-4,655	-5,045	-5,437
Excess Equity	2,853	4,718	5,028	4,941	4,715
Discounting Factor	0.95	0.89	0.83	0.77	0.72
Present Value of Excess Equity	2,720	4,189	4,156	3,803	3,378

2) Relative Valuation:

We have used local peers to value RIBL and it is valued using the PB multiple. It is valued at PB multiple of 0.9x in line with peers.

Company	Market Cap (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Alinma Bank	16,736	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
Saudi National Bank	58,925	1.3	1.3	12.0	10.9	4.1	4.7
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
Bank Albilad	10,887	2.7	2.4	15.4	13.3	1.4	1.7
Average		2.0x	1.8x	13.3x	12.2x	3.6%	4.0%
Median		1.8x	1.7x	13.0x	11.9x	4.0%	4.5%
Max		2.6x	2.3x	15.1x	13.2x	4.7%	4.8%
Min		1.2x	1.2x	11.2x	10.9x	2.6%	3.3%

FAB Securities Awards



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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"