

Riyad Bank

Growth in funded income offset by higher provisions

2Q22 Net Profit slightly lower than our estimate

Riyad Bank ("RIBL", "The Bank") net profit rose 6.6% YoY increase in net profit to SAR 1,611 Mn in 2Q22, slightly lower than estimate of SAR 1,661 Mn. The increase in the net profit was owing to healthy growth rate in net funded income partly offset by a rise in total operating expenses and impairment charges.

P&L highlights

The Bank's net special commission income increased significantly 11.7% YOY to SAR 2.4 Bn, attributable to a significant increase in the special commission income of 23.2% YOY to SAR 2.9 Bn in 2Q22. On the other hand, the special commission expense also rose from SAR 181 Mn in 2Q21 to SAR 470 Mn in 2Q22. Non-funded income remained flat at SAR 833 Mn in 2Q22 due to increase in fee and commission and exchange income largely offset by a decline in gain on non-trading investments, trading gains and other operating income. Total operating income grew 8.5% YOY to SAR 3,230 Mn in 2Q22. Operating expenses rose 5.6% YOY to SAR 1,068 Mn in 2Q22, driven by an increase in salaries and employees related expense, partially offset by a decline in G&A expense. Cost to income ratio declined 90 bps to 33.1% in 2Q22. Pre-provision profit increased 9.9% YOY to SAR 2.2 Bn in 2Q22. The impairment charge rose from SAR 248 Mn in 2Q21 to SAR 353 Mn in 2Q22. As a result, profit before tax grew 5.8% YOY to 1.8 Bn in 2Q22. Tax expenses remained unchanged at SAR 198 Mn in 2Q22 as compared to 2Q21.

Balance sheet highlights

Net advances increased 17.0% YOY to SAR 239.7 Bn in 2Q22. Customer Deposit increased 17.3% YOY to SAR 237.5 Bn in 2Q22. Total assets increased 12.8% YOY to SAR 358.0 Bn in 2Q22. Total Equity increased from SAR 44 Bn in 2Q21 to SAR 46.6 Bn in 2Q22.

Target price and rating

We revise our rating on RIBL from 'BUY' to 'ACCUMULATE' with a target price of SAR 42.00. The Bank share price recorded a gain of 4.1% since our last rating. Riyadh Bank is the third largest Bank in KSA, and it is projected to benefit from revival in the economic activity. The Bank's loan book rose 17.0% YOY to SAR 239.7 Bn in 2Q22 and already rose 10.3% on YTD basis. It is expected to meet the management guidance of mid-teens in 2022. RIBL's balance sheet is positively geared and expected to benefit in a rising interest rate scenario. This means greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. NIMs rose in 2Q22 and it is further expected as interest rate rise. In 1Q22, CASA deposits rose to 64.7% of total deposits, up from 64.2 % in 2021. Riyadh Bank's assets remained healthy with a NPL ratio of 1.6% and a robust coverage of 122.5%. Healthy coverage protects the bank from future increases in NPLs. The bank's capitalization also remained healthy with an CET1 ratio of 15.4% and a total CAR ratio of 19.2% in 1Q22. We will look for additional reason for a rise in provision expense as it stood at highest in the last six quarters. Due to aforementioned factors, we assign 'ACCUMULATE' rating to stock.

Rating : ACCUMULATE

First Look Note – 2Q22

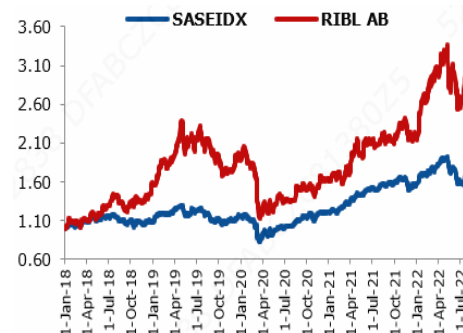
Sector: Banking

Recommendation

Current Price (04-Aug-22)	37.35
Target Price (SAR)	42.00
Upside/Downside (%)	+15%

Stock Information

Market Cap (mm)	112,050.00
Paid Up Capital (mm)	30,000.00
52 Week High	42.90
52 Week Low	26.05
3M Avg. daily value (SAR)	51,753,910



Financial Ratios

Dividend Yield (12m)	2.78
Dividend Pay-out (%)	51.78
Price-Earnings Ratio (x)	17.73
Price-to-Book Ratio (x)	2.33
Book Value (SAR)	16.02
Return-on Equity (%)	13.49
Earning Per Share (SAR)	2.11
Beta	1.19

Stock Performance

5 Days	2.33%
1 Months	14.92%
3 Months	-8.46%
6 Months	13.87%
1 Year	38.85%
Month to Date (MTD)	3.61%
Quarter to Date (QTD)	16.36%
Year to Date (YTD)	37.82%

Riyad Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	23.8	20.0	23.8	18.6	16.3
P/B (x)	3.1	2.9	2.5	2.5	2.3
Dividend Yield (%)	2.1%	2.9%	1.3%	2.8%	3.1%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR mm	2Q21	1Q22	2Q22	2Q22F	VAR	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	2,327	2,421	2,867	2,675	7.2%	23.2%	18.4%	9,108	11,163	22.6%
Funded expense	-181	-289	-470	-344	36.6%	159.6%	62.4%	-815	-1,435	76.1%
Net funded income	2,146	2,132	2,397	2,331	2.8%	11.7%	12.4%	8,293	9,728	17.3%
Non-funded income	832	970	833	952	-12.5%	0.1%	-14.1%	3,275	3,859	17.8%
Operating income	2,978	3,102	3,230	3,283	-1.6%	8.5%	4.1%	11,568	13,587	17.5%
Operating expenses	-1,012	-1,034	-1,068	-1,110	-3.8%	5.6%	3.3%	-3,965	-4,623	16.6%
Pre-provision profit	1,967	2,068	2,162	2,173	-0.5%	9.9%	4.6%	7,603	8,963	17.9%
Impairment	-248	-255	-353	-307	15.2%	42.2%	38.5%	-853	-1,193	39.9%
Share in associates, net	-9	-69	0	0	NA	NA	NA	-32	0	NA
Profit Before Tax	1,710	1,744	1,809	1,867	-3.1%	5.8%	3.7%	6,718	7,770	15.7%
Tax	-198	-192	-198	-205	-3.6%	0.0%	3.2%	-693	-847	22.3%
Net profit attributable	1,512	1,553	1,611	1,661	-3.0%	6.6%	3.8%	6,025	6,923	14.9%

FABS Estimates & Co Data

Riyad Bank - Margins

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	72.1%	68.7%	74.2%	215	547	71.7%	71.6%	-9
Cost to income	34.0%	33.3%	33.1%	-90	-26	34.3%	34.0%	-24
Impairment/PPP	12.6%	12.3%	16.3%	371	401	11.2%	13.3%	210
NP/OI	50.8%	50.1%	49.9%	-88	-18	52.1%	51.0%	-113
ROAE	11.4%	13.5%	13.9%	251	35	13.4%	14.4%	99
ROAA	1.6%	1.8%	1.8%	19	-4	1.9%	1.9%	5

FABS estimate & Co Data

Riyad Bank - B/S Key Items

SAR mm	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
Net advances	204,743	210,482	217,290	234,793	239,650	17.0%
QOQ change	4.2%	2.8%	3.2%	8.1%	2.1%	
Total assets	317,266	318,657	325,736	348,468	357,954	12.8%
QOQ change	3.0%	0.4%	2.2%	7.0%	2.7%	
Customer deposits	202,453	203,996	211,678	232,416	237,477	17.3%
QOQ change	1.9%	0.8%	3.8%	9.8%	2.2%	
Total equity	44,551	46,050	47,300	48,051	46,636	4.7%
QOQ change	0.7%	3.4%	2.7%	1.6%	-2.9%	

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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