

Saudi Banking Sector – June 2022

KSA banks profitability to benefit despite liquidity crunch

Sector Weighting:

NEUTRAL

Preview Note 2Q 2022

Preferred stock

We reiterate our MARKET WEIGHT rating on the Saudi banking sector. In April 2022, Fitch revised the outlook on eight Saudi Banks from Stable to Positive and affirmed Long-term Foreign and Local Currency Issuer Default Ratings at 'BBB+'. The Saudi Banks from our coverage whose rating is revised were Riyadh Bank, Arab National Bank, Banque Saudi Fransi, and Alinma bank. KSA economy continues to benefit from higher energy prices and a diversification plan. In 1Q22, KSA real GDP recorded a growth of 9.9% and is further predicted to grow at 7% in 2022, driven by increasing oil output and ongoing growth in non-oil industries. The economy is on a strong footing and crude oil prices continue to remain above physiological level of USD 100 per barrel, the pressure on the operating environment is easing. Despite the liquidity crunch, KSA Banking system recorded strong credit growth which surged 4.9% QOQ to SAR 2.13 Tn, while deposits rose 3.0% QOQ to SAR 2.17 Tn in 1Q22. The sector witnessed healthy improvement in asset quality and profitability as well as improvement in financial metrics. The Saudi Central Bank infused time deposits with commercial lenders totalling around USD 13 Bn to support liquidity in the Saudi banking system.

Among the Saudi banks in our coverage, our preferred stocks are -

1) SNB: Due to the recent merger with Samba bank, SNB is expected to enjoy revenue as well as cost synergies. The bank NIM is expected to benefit in a rising interest rate scenario due to positive interest rate sensitivity gap coupled with strong growth in CASA deposits. SNB asset quality remain healthy at 1.56% with a coverage ratio of 138.0% in 1Q22.

2) RIBL: The bank NIM is expected to benefit in a rising interest rate scenario due to positively geared balance sheet. Moreover, the bank would also benefit from increase in share of CASA deposit. CASA deposit consists of 64.7% of total deposit in 1Q22 compared to 64.2% in 4Q21. RIBL net advances rose 8.1% QOQ to SAR 235 Bn in 1Q22 and the bank estimates advances to grow in mid-teens in 2022. Over the period, it diversified its loan book and increased share of mortgage loans from 20.9% in 1Q21 to 21.7% in 1Q22.

3) ALINMA: The bank NIM is expected to benefit due to the robust increase in the bank's CASA deposit which now accounts for 68.7% of total deposits in 1Q22. Alinma is further expecting strong growth in financing due to strong economic growth and robust demand for credit from their mid-corporate and retail segments.

Key Industry Themes

The world economy rebounded in 2021, aided by relaxation in COVID-19 restrictions and improved immunisation levels. The rebound was seen in both advanced and emerging economies. According to the world bank's Gulf economic update, the GCC major economies will grow at 5.9% in 2022. Saudi Arabia's economy is predicted to grow at 7% in 2022, driven by increasing oil output and ongoing growth in non-oil industries. Saudi Arabia is diversifying its economy away from oil as part of the Vision 2030 initiative by constructing projects in industries such as real estate, petrochemicals, transportation, and hotels to attract investment and generate jobs. The banking industry continues to record healthy growth. In May 2022, Saudi banks overall loan exposure reached SAR 2.17 Tn, and total banking sector assets increased 11.2% YOY to SAR 3.4 Tn in May 2022. Deposits grew 8.9% YOY to SAR 2.18 Tn in May 2022. Demand deposits are still the most important contributors to deposit which rose 2.9% YOY to SAR 1,363 Bn in May 2022. Time and saving deposits recorded a strong growth rate of 17.8% YOY to SAR 517 Bn in May 2022 due to rise in benchmark interest rates. Total public sector deposits climbed by 20.4% in 2021, mostly due to growth in quasi-money deposits and time and saving accounts, which surged by 59.1% and 15.3%, respectively. On the other hand, private sector total deposits climbed by 4.7%, in accordance with the rise in lending to the private sector.

Even though the banking sector witnessed a slight increase in non-performing loans in 2020, banks strong pre-pandemic capital and liquidity positions as well as SAMA support measures during the economic downturn, provided a solid foundation for banks to keep supporting private-sector credit demand, that is reflected in NPLs lowering from 2.2% in 2020 to 1.8% in 1Q22 due to improvement in economic activity. The financial industry is doing well as a result of increasing oil prices, solid economic growth, and rising interest rates. The risk of oil supply shortages as a result of the Russia-Ukraine conflict and the related sanctions on Russia globally kept the Brent crude oil price over USD 100 per barrel. Oil prices increased by more than 50% this year as demand recovers from the pandemic and the economic crisis. Saudi banks benefit from a low-cost, stable core deposit base as well as a limited reliance on external funding. Demand deposits accounts for the 63% of the total deposits of banks and the cost of funds for the demand deposits is lower as compared to the other financing options. The loan-to-deposit ratio (LDR) rose to 82.2% in 1Q22 from 75.0% in 2020. This is due to increase in credit expansion.

The Saudi riyal is pegged to the US dollar and KSA policy rates and bank liability rates closely track US policy rates. For the first time since 2018, the Fed raised interest rates by 25 basis points in March 2022, leaving rates around zero percent for two years to give the economy time to recover from the pandemic outbreak. Again, for second time in 2022 Fed hiked interest rates by 50 basis points during its May 2022 meeting, marking the highest rate increase since 2000 and forecasted five more rate rises in 2022, with three to four more in 2023. Lenders in the kingdom are expected to gain from the move as the increase in interest rate will lead banks to reprice the loan book at higher rate in a rising interest rate scenario and lead banks to better NIM's performance. Thus, leading banks to increase profitability. The growing emphasis on retail lending rather than business lending might explain the greater net interest margin (NIM). Retail lending frequently produces higher asset yields than commercial credit. In 2021, the return on assets (ROA) grew to 1.8%, up from 1.5% in the previous year. Return on equity (ROE) also increased, from 8.6% to 10.8% during the same time period. This expansion was mostly due to increased profitability as the domestic economy recovered. Non-interest costs and the interest margin were relatively steady in 2021, with the interest margin increasing slightly from 76.5% in 2020 to 76.8% in 2021. Non-interest costs, on the other hand, declined somewhat during the same period from 36.2% to 36.1%. Capitalization level of the KSA banks remain healthy with tier 1 capital ratio of 18.4% and CAR of 20.0% in 1Q22. While net external liabilities are a risk, robust prudential indicators shield banks from any asset quality deterioration induced by the 2020 recession. In 2021, KSA witnessed the largest bank merger between National Commercial Bank (NCB) and SAMBA Financial Group to form Saudi National Bank (SNB).

During the pandemic, the growth of digital banking was undoubtedly a component in this phenomenon. STC Bank and Saudi Digital Bank were recently granted licenses as the country's first digital banks, highlighting the digital necessity and Vision 2030's goal of expanding non-cash transactions to 70% by 2025. Across all banks, there has been an increasing focus on cybersecurity and other procedures related to the reliability of technological infrastructure. Data security is becoming a top responsibility for the whole industry. As privacy specialists work to integrate privacy into the DNA of business operations and customer interaction, full involvement throughout the bank is critical. Banks should construct a robust foundation of best practices and integrate those practices into their operations and culture to create a long-term and successful data security plan.

Al Rajhi issues USD 1.7 Bn Sukuk amid high investor demand

Al Rajhi announced the successful completion of SAR 6.5 Bn (USD 1.7 Bn) Sukuk issuance. The issuance is the first of its sort in the bank's history and the largest by a financial institution in the Kingdom. Due to strong investor appetite, the bank chose to boost the issue amount to SAR 6.5 billion with a set profit rate of 3.5% each year.

Tarabut Gateway announced four agreements as open banking set to launch in Saudi Arabia

Tarabut Gateway, the largest Advanced Banking platform in the MENA region with markets in Bahrain, the UAE, and Saudi Arabia announced four new important banking agreements in Saudi Arabia. As part of the Financial Sector Development Program, Saudi Arabia prioritised financial sector

transformation as part of its Vision 2030. Within this framework, the country declared its intention to go cashless, with a goal of 70% non-cash transactions by 2030. Traditional financial institutions and fintech can connect and construct their own apps on top of Tarabut Gateway's platform, offering payment services, digital wallets, and other use cases.

Saudi banks continued to report significant lending growth

According to Saudi Central Bank data, commercial banks' lending to the private sector increased SAR 18.5 Bn MOM to SAR 2.15 Tn at the end of April 2022. When compared to the prior year, commercial banks recorded a credit growth of 9.9%. The overall assets of Saudi banks rose SAR 18.4 Bn MOM to SAR 3.38 Tn in April 2022. Total assets rose QOQ 0.5% to SAR 3.38 Tn in April 2022. Total assets grew 9.9% YOY to SAR 3.38, up SAR 306 billion YOY in April 2022.

Saudi banks to benefit from economic growth, oil price, and higher rates

Saudi Arabia's banking sector, which survived a difficult 2021 almost unscathed, might expect to benefit this year from a bright economic prospect and rising interest rates. Overall credit growth in the kingdom is projected to be fuelled by optimism about improving economic conditions and the start of significant development projects. The Saudi sovereign wealth fund, Public Investment Fund, is projected to drive corporate lending as possibilities to contractors and subcontractors through megaprojects such as the Red Sea Project, Qiddiya, and NEOM. While commercial lending accounted for 35-40% of Saudi bank lending in the past, mortgage lending increased in recent years which grew 5% in 2017 to 11% in 2020 as a result of the government's attempts to encourage all residents to purchase a home.

Profitability of top Saudi Arabian banks jumped 17.6% QOQ in 1Q22

The profitability of Saudi Arabia's biggest banks increased 17.6% QOQ in 1Q22, due to improved cost efficiencies and decreased impairment charges. The top banks' loans and advances and deposits climbed YOY 5.2% and 3.9%, respectively.

Target price and rating:

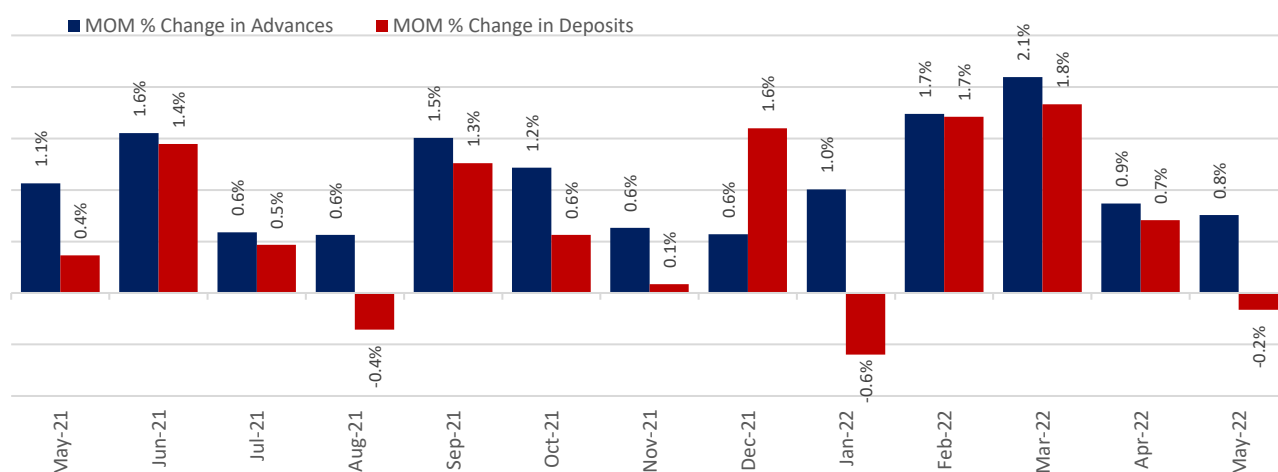
(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	90.00	82.20	9.5%	HOLD
ALBI	42.00	43.90	-4.3%	HOLD
RIBL	42.00	36.30	15.7%	BUY
ALINMA	38.00	34.40	10.5%	ACCUMULATE
SNB	80.00	68.30	17.1%	BUY
ARNB	32.00	30.10	6.3%	HOLD
BSFR	51.00	50.20	1.6%	HOLD

FABS Estimate

KSA Banking Liquidity

KSA Banking system credit growth surged 13.9% YOY to SAR 2.17 Tn, while deposits expanded 8.9% YOY to SAR 2.18 Tn in May 2022. Advances to deposits ratio increased 4.4% YOY and 0.9% QOQ to 99.6% in May 2022. Banking deposit growth trailed credit growth is mainly driven by a surge in mortgage loans and increased credit expansion in commerce, finance and real estate sector loans. During the economic downturn, SAMA support measures like Sama's Private Sector Financing Support Program provided a solid foundation for banks to keep supporting private-sector credit demand. The broader (M3) money supply rose 7.8% YOY to SAR 2.38 Tn in May 2022. The money supply grew at a slower pace as compared to the demand for loans pressurizing system liquidity. Saudi Arabia's consumer and Private sector lending is expected to grow at a healthy growth rate in 2022 according to estimates provided by majority of the Saudi Banks. Al Rajhi estimates advances to grow in mid-teens and SNB too expects financing to grow between 11-13% during 2022. Deposits grew 3.5% so far in 2022 falling short of credit demand leading to a liquidity crunch in the KSA Banking system. Thus, Saudi Banks continue to face a liquidity crunch in the near term and will be looking at government support as well as other avenues to fund this credit growth. The Saudi riyal is pegged to the US Dollar and KSA policy rates closely track US policy rates. Fed ended its loose monetary policy in March 2022 with a hike of interest rates by 25 basis points followed by a hike of 50 bps during its May 2022 meeting and 75 bps in the June 2022 meeting.

Monthly change in KSA banking system Advances and Deposits



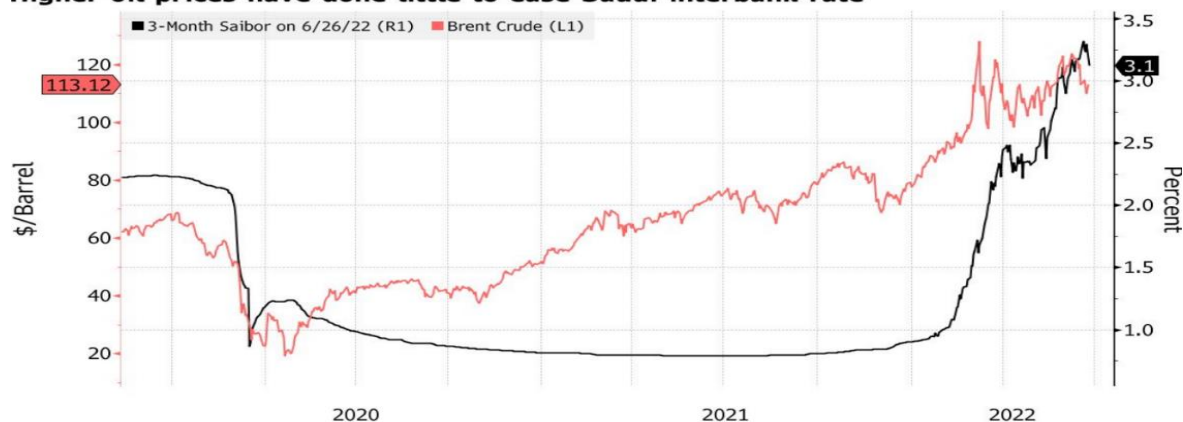
Source: FABS from SAMA data

Due to this increase in interest rates, the 3-month Saibor rate rose more than 200 bps during the year 2022 and stood at 3.114% as of 31 March 2022. To ease the rising rates, the Saudi Central Bank placed time deposits with commercial lenders totalling around USD 13 Bn to support the liquidity in the Saudi banking system. The Saudi central bank's fund infusion will ease the liquidity and help in bringing down already high SAIBOR rates. Post infusion from the Central bank, the Saibor rate fell 17 basis points to 3.13% on 26 June 2022, according to Bloomberg data, the largest drop in over a month. The decision indicates rising worries in Saudi Arabia about the cost of liquidity for banks and the impact on the economy as officials seek to mobilize funds to fuel the kingdom's megaprojects. However, the system will require more deposit mobilization from the commercial, public and private sector to fuel this credit demand. The banks are expecting strong oil prices to rapidly convert into government deposits and help in mitigating this liquidity crisis.

3 Month SAIBOR

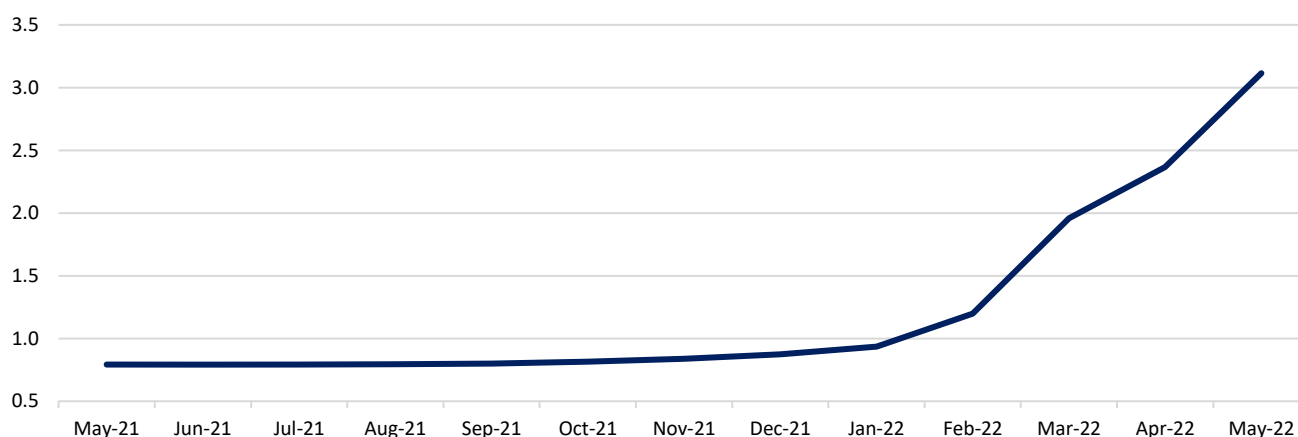
Little Relief

Higher oil prices have done little to ease Saudi interbank rate



Source: Bloomberg

3-month SAIBOR (%), May 2021 - May 2022



Source: FABS from SAMA data

Additionally, Saudi Arabia expects to post the first budget surplus in almost a decade this year, due to a rise in increase in government revenue from higher oil prices and stronger output. We could expect the Central Bank to undertake some additional measure to ease this liquidity crunch by buying back outstanding government bond. The government could also front load its capex program and the banks could also look to diversify its funding source by borrowing from issuing bonds/sukuks in the international market. These measures could help in easing of current liquidity crunch in KSA.

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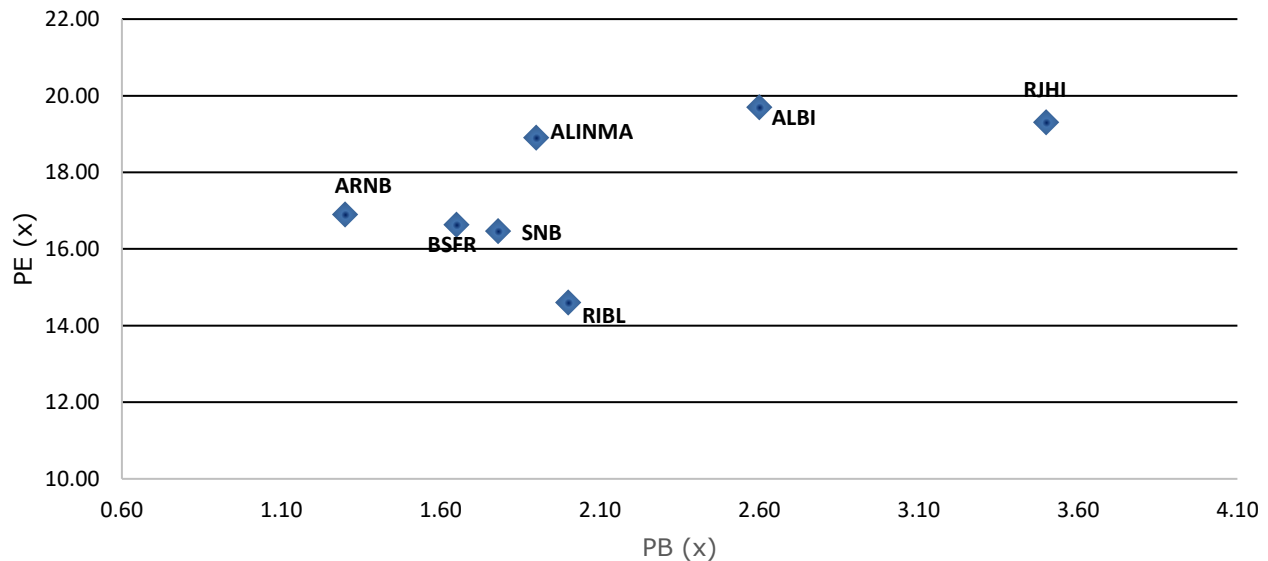
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Relative valuation and rating

ARNB's valuation is most attractive based on PB

All KSA banks under coverage are trading above the book value. Among them, RJHI and ALBI are the most expensive with PB ratio of 3.50x and 2.60x, respectively based on 2022 estimated financial. Both of them are the most expensive on PE ratio of 19.3x and 19.7x, respectively based on 2022 financial. ARNB is most attractive and trading at PB and PE ratio of 1.3x and 16.9x, respectively based on 2022 estimated financial.

FY22 - P/E (x) vs. P/B (x)



Source: FABS estimate

Market Weight

Based on 2x BUYs, 1x ACCUMULATE and 4x HOLDs on the KSA banks under our coverage, we maintain our MARKET WEIGHT RATING. Yet, on a comparative basis we remain inclined towards SNB, RIBL and RJHI.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	90.00	82.20	9.5%	HOLD
ALBI	42.00	43.90	-4.3%	HOLD
RIBL	42.00	36.30	15.7%	BUY
ALINMA	38.00	34.40	10.5%	ACCUMULATE
SNB	80.00	68.30	17.1%	BUY
ARNB	32.00	30.10	6.3%	HOLD
BSFR	51.00	50.20	1.6%	HOLD

FABS Estimate

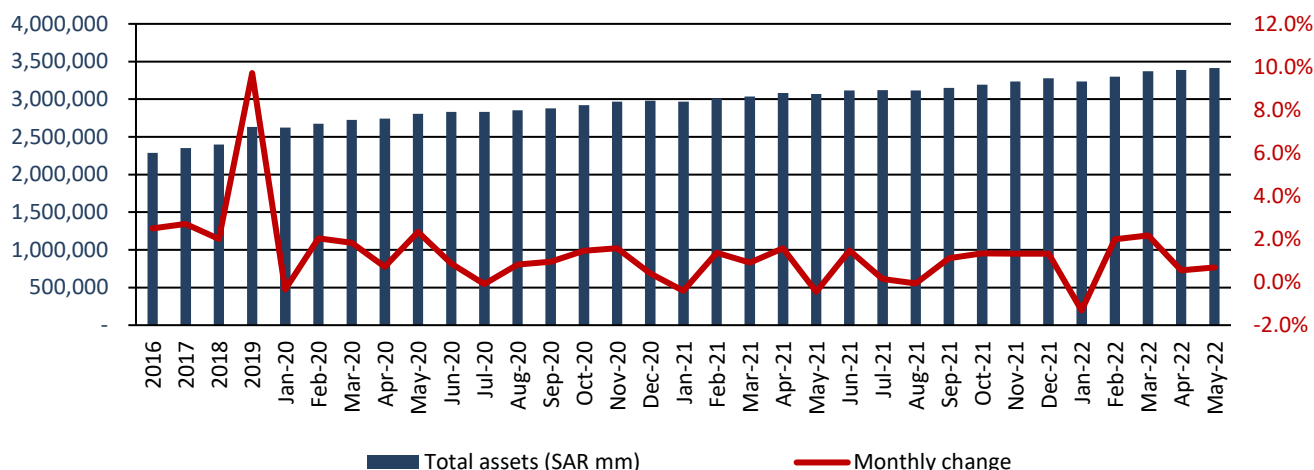
Banking indicators

1. Assets

Total banking assets increased by 0.7% MOM in April 2022

KSA banking system's total assets formation increased by 0.7% MOM to SAR3,412 Bn in April 2022 from SAR3,389 Bn in April 2022.

KSA banking system assets (SAR Mn) and Monthly change, 2016 - May 2022



Source: FABS from SAMA data

Al Rajhi witnessed the highest YOY asset growth in 1Q22

At the individual bank level, Saudi National Bank recorded the fastest growth in assets to SAR922 Bn (+53.7% YOY; +0.8% QOQ) in 1Q22 due to merger with Samba Bank. This was followed by Al Rajhi bank which recorded an increase of 28.4% YOY and 5.4% QOQ to SAR657.6 Bn. Banque Saudi Fransi recorded the lowest increase (9.9% YOY; 3.0% QOQ) to SAR222,211 mm in 1Q22.

Total assets							
(SAR mm)	1Q21	2Q21	3Q21	4Q21	1Q22	YOY%	QOQ%
Al Rajhi	512,234	546,139	582,684	623,672	657,628	28.4%	5.4%
Bank Al Bilad	102,520	107,652	111,606	110,854	116,442	13.6%	5.0%
Riyad Bank	308,036	317,266	318,657	325,736	348,468	13.1%	7.0%
Alinma Bank	159,951	164,057	166,808	173,476	179,519	12.2%	3.5%
Saudi National Bank	599,570	896,421	902,720	914,150	921,565	53.7%	0.8%
Arab National Bank	177,435	181,877	182,275	192,502	204,620	15.3%	6.3%
Banque Saudi Fransi	202,233	211,310	213,335	215,802	222,211	9.9%	3.0%
KSA banking system	3,035,139	3,114,194	3,151,242	3,277,846	3,370,359	11.0%	2.8%

FABS from co data and SAMA

SNB remained the largest bank in terms of total assets among KSA Banks in 1Q22

SNB remained the dominant bank in KSA and further widened its market share after the acquisition of SAMBA. SNB market share rose 759 basis point YOY (bps) to 27.3% by total assets in 1Q22. Followed by Al Rajhi Bank whose market share rose 264 bps YOY and 49 bps QOQ to 19.5% in 1Q22. On the other side, Banque Saudi Fransi recorded a marginal decline in market share 7bps YOY to 6.6% in 1Q22.

Assets market share

	1Q21	2Q21	3Q21	4Q21	1Q22	YOY (bps)	QOQ (bps)
Al Rajhi	16.9%	17.5%	18.5%	19.0%	19.5%	263.5	48.5
Bank Al Bilad	3.4%	3.5%	3.5%	3.4%	3.5%	7.7	7.3
Riyad Bank	10.1%	10.2%	10.1%	9.9%	10.3%	19.0	40.2
Alinma Bank	5.3%	5.3%	5.3%	5.3%	5.3%	5.6	3.4
Saudi National Bank	19.8%	28.8%	28.6%	27.9%	27.3%	758.9	-54.6
Arab National Bank	5.8%	5.8%	5.8%	5.9%	6.1%	22.5	19.8
Banque Saudi Fransi	6.7%	6.8%	6.8%	6.6%	6.6%	-7.0	0.9

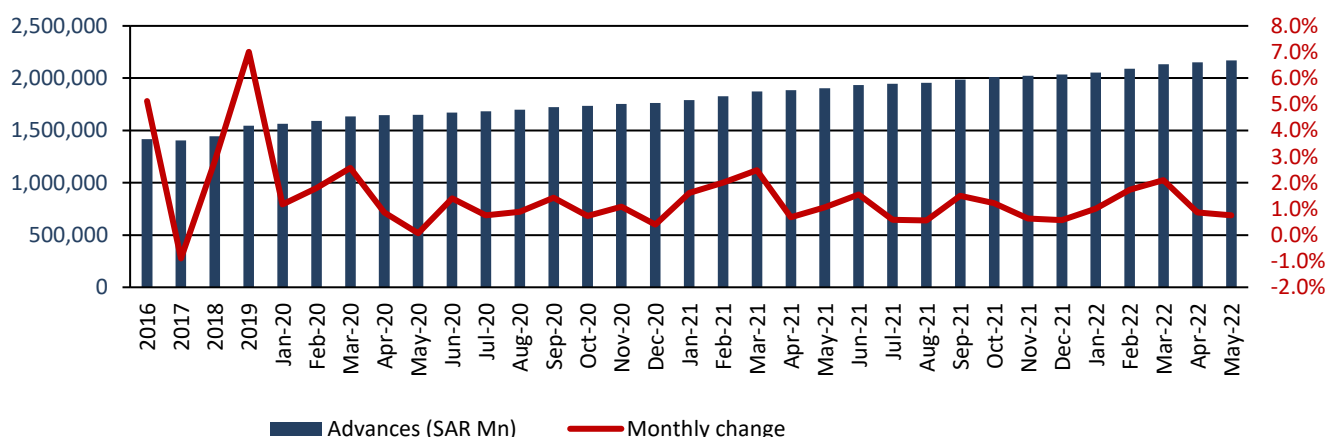
FABS from co data

2. Advances

Advances grew by 0.9% MOM May 2022

Advances of the KSA Banking system grew by 0.8% MOM in May 2022 to SAR2,169 Bn from 2,153 Bn in April 2022.

KSA banking system net advances (SAR Mn) and Monthly change, 2016 - May 2022



Source: FABS from SAMA data

All KSA Banks recorded strong credit growth in 1Q22

Saudi National Bank net advances grew the most to SAR 513 Bn in 1Q22 (43.8% YOY; 3.4% QOQ) due to merger with Samba Bank. Followed by Al Rajhi recording a credit growth of 36.0% YOY and 7.0% QOQ to SAR 484.5 Bn in 1Q22. Other banks advances rose in double digit YOY during 1Q22. ARNB recorded the highest growth in advances on QOQ basis 9.4% to SAR 138.6 Bn followed by Riyad bank advances rose 8.1% QOQ to SAR 234.8 Bn in 1Q22.

Net advances

(SAR mm)	1Q21	2Q21	3Q21	4Q21	1Q22	YOY%	QOQ%
Al Rajhi	356,144	390,296	420,954	452,831	484,526	36.0%	7.0%
Bank Al Bilad	75,531	79,130	81,799	82,933	86,391	14.4%	4.2%
Riyad Bank	196,443	204,743	210,482	217,290	234,793	19.5%	8.1%
Alinma Bank	117,149	119,623	121,318	126,271	128,965	10.1%	2.1%
Saudi National Bank	356,720	503,157	503,696	495,898	512,898	43.8%	3.4%
Arab National Bank	115,559	117,830	120,016	126,674	138,642	20.0%	9.4%
Banque Saudi Fransi	134,105	141,807	144,393	147,813	152,690	13.9%	3.3%
KSA banking system	1,871,569	1,933,963	1,985,711	2,034,085	2,134,096	14.0%	4.9%

FABS from co data

SNB remained the market leader in advances market share

SNB market share rose 497 bps YOY to 24.0% in 1Q22 due to merger with Samba Bank. AL Rajhi recorded the largest increase in market share 368 bps YOY to 22.7% in 1Q22. Al Rajhi recorded a growth in market share on quarterly basis as well. On the other hand, Alinma Bank market share fell the most on a YOY basis to 6.0% (21.6 Bps YOY; 16.5 Bps QOQ), followed by Banque Saudi Fransi declined to 7.2% (1.1 Bps YOY; 11.2 Bps QOQ).

Advances market share

	1Q21	2Q21	3Q21	4Q21	1Q22	YOY (bps)	QOQ (bps)
Al Rajhi	19.0%	20.2%	21.2%	22.3%	22.7%	367.5	44.2
Bank Al Bilad	4.0%	4.1%	4.1%	4.1%	4.0%	1.2	-2.9
Riyad Bank	10.5%	10.6%	10.6%	10.7%	11.0%	50.6	32.0
Alinma Bank	6.3%	6.2%	6.1%	6.2%	6.0%	-21.6	-16.5
Saudi National Bank	19.1%	26.0%	25.4%	24.4%	24.0%	497.4	-34.6
Arab National Bank	6.2%	6.1%	6.0%	6.2%	6.5%	32.2	26.9
Banque Saudi Fransi	7.2%	7.3%	7.3%	7.3%	7.2%	-1.1	-11.2

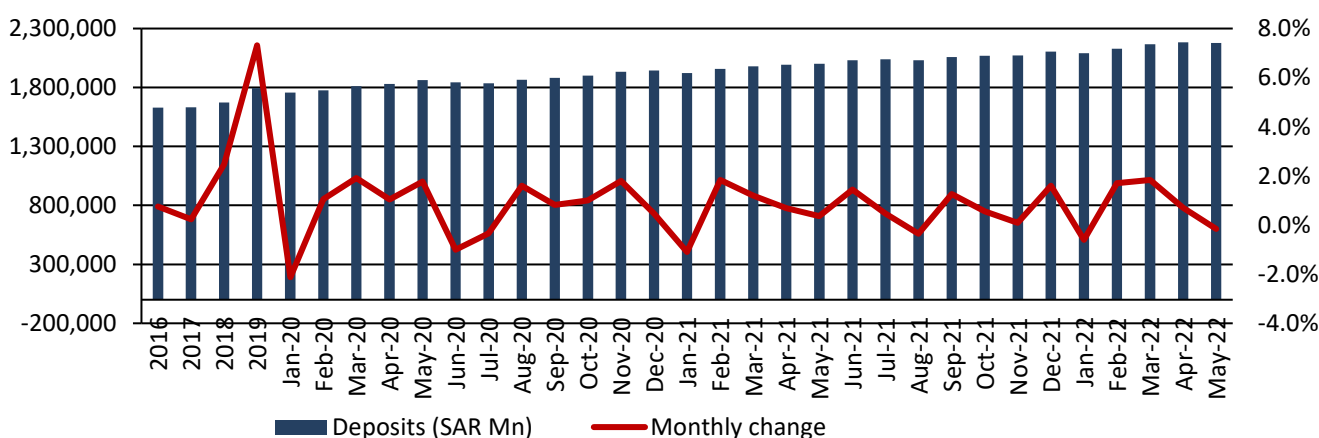
FABS from co data

3. Customer Deposits

Customer deposits growth decreased by 0.2% MOM in May 2022

The KSA banking system deposits declined 0.2% MOM to SAR 2,178 Bn in May 2022, down from SAR2,182 in April 2022.

KSA banking system customer deposits (SAR Mn) and Monthly change, 2016 - May 2022



Source: FABS from SAMA data

Riyad Bank recorded the largest growth in deposits on QOQ basis in 1Q22

SNB deposits grew to SAR605 Bn in 1Q22 (+44.2% YOY; +3.1% QOQ), due to merger with Samba Bank. Al Rajhi deposits rose 20.6% YOY to SAR508 Bn however declined 0.8% QOQ in 1Q22 due to withdrawal of CASA deposit by large wholesale and government account. Riyad Bank recorded the largest growth in deposit 9.8% QOQ to SAR 232.4 Bn and ARNB 9.2% QOQ to SAR 148.1 Bn in 1Q22.

Deposits							
(SAR mm)	1Q21	2Q21	3Q21	4Q21	1Q22	YOY%	QOQ%
Al Rajhi	421,269	447,506	478,331	512,072	507,892	20.6%	-0.8%
Bank Al Bilad	76,963	81,638	82,346	81,110	86,079	11.8%	6.1%
Riyad Bank	198,598	202,453	203,996	211,678	232,416	17.0%	9.8%
Alinma Bank	120,707	125,878	116,652	121,061	128,035	6.1%	5.8%
Saudi National Bank	419,430	588,135	589,190	586,944	604,963	44.2%	3.1%
Arab National Bank	125,161	130,220	129,395	135,714	148,138	18.4%	9.2%
Banque Saudi Fransi	132,987	140,805	143,322	141,950	150,759	13.4%	6.2%
KSA banking system	1,980,335	2,030,139	2,057,984	2,104,454	2,166,619	9.4%	3.0%

FABS from co data and SAMA

SNB is now the market leader in deposit market share

SNB market share rose 674 bps YOY and 3 bps QOQ to 27.9% in 1Q22 after merger with Samba Bank. This was followed by Al Rajhi whose market share improved 217 bps to 23.4% in 1Q22. Al Rajhi recorded a decline in market share on QOQ basis due to withdrawal of CASA deposit. Riyad Bank recorded the largest increase in market share on QOQ basis to 10.7% in 1Q22.

Deposits market share							
	1Q21	2Q21	3Q21	4Q21	1Q22	YOY (bps)	QOQ (bps)
Al Rajhi	21.3%	22.0%	23.2%	24.3%	23.4%	216.9	-89.1
Bank Al Bilad	3.9%	4.0%	4.0%	3.9%	4.0%	8.7	11.9
Riyad Bank	10.0%	10.0%	9.9%	10.1%	10.7%	69.9	66.9
Alinma Bank	6.1%	6.2%	5.7%	5.8%	5.9%	-18.6	15.7
Saudi National Bank	21.2%	29.0%	28.6%	27.9%	27.9%	674.2	3.1
Arab National Bank	6.3%	6.4%	6.3%	6.4%	6.8%	51.7	38.8
Banque Saudi Fransi	6.7%	6.9%	7.0%	6.7%	7.0%	24.3	21.3

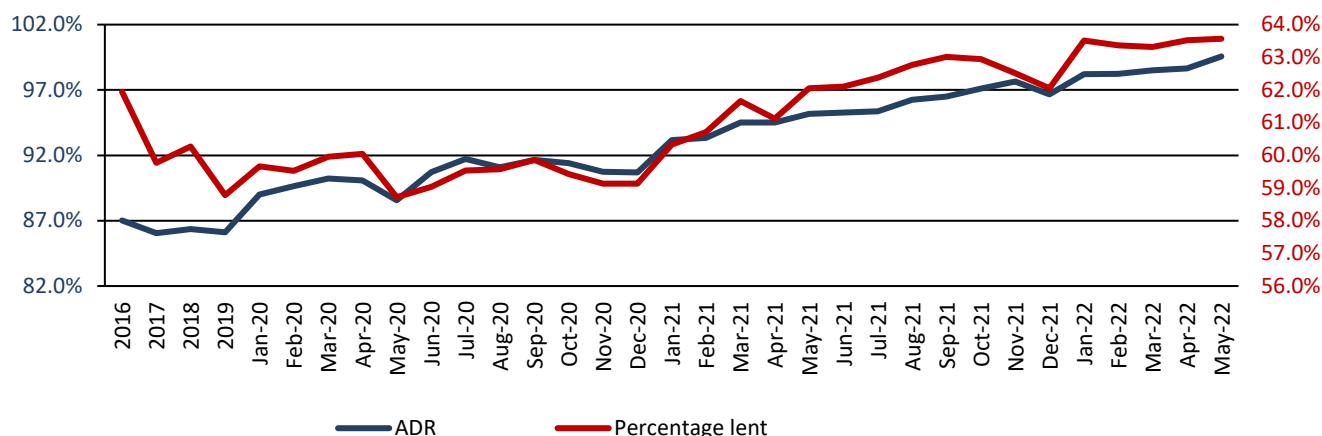
FABS from co data

4. Liquidity

System liquidity declined MOM in May 2022

KSA banking system's liquidity decreased in May 2022 with an ADR of 99.6% in May 2022 from 98.7% in April 2022. Percentage lent as percentage of total assets increased to 63.6% in May 2022, from 63.5% in April 2022.

KSA banking system ADR and % lent, 2016 - May 2022



Source: FABS from SAMA data

Most of the KSA banks recorded lower ADR in 1Q22

Al Rajhi showed the highest increase in its ADR ratio to 95.4% in 1Q22 from 86.5% in 1Q21 (+893.1 Bps YOY; +698.8 Bps QOQ) due to decline in deposit while strong growth in advances. Banque Saudi Fransi decreased most to 101.3% from 104.3% in 1Q21 (-305.5 YOY; -284.9 QOQ). Followed by SNB ADR ratio decreased to 93.6% in 1Q22 from 95.8% in 1Q21 (-220.1 YOY; 25.1 QOQ).

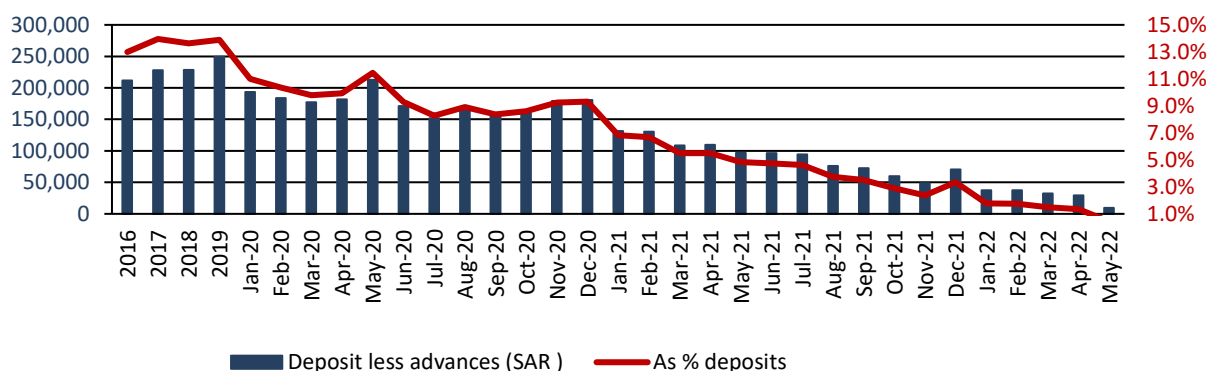
ADR	1Q21	2Q21	3Q21	4Q21	1Q22	YOY (bps)	QOQ (bps)
Al Rajhi	86.5%	89.1%	88.0%	88.4%	95.4%	893.1	696.8
Bank Al Bilad	101.4%	100.1%	99.3%	102.2%	100.4%	-107.9	-188.5
Riyad Bank	101.4%	103.5%	103.2%	102.7%	101.0%	-34.0	-162.8
Alinma Bank	100.0%	98.1%	104.0%	104.3%	100.7%	69.2	-357.7
Saudi National Bank	87.2%	87.5%	85.5%	84.5%	84.8%	-240.1	29.4
Arab National Bank	95.8%	93.4%	92.8%	93.3%	93.6%	-220.1	25.1
Banque Saudi Fransi	104.3%	104.2%	100.7%	104.1%	101.3%	-305.5	-284.9

FABS from co data

KSA banking system deposits less advances decreased 67.6% MOM in May 2022

The KSA banking system deposits less advances reached SAR 9.5 Bn in May 2022, decreasing 67.6% MOM from SAR 29.3 Bn in April 2022.

KSA banking system deposits less advances and as % of deposits, 2016 - May 2022



Source: FABS from SAMA data

All KSA Banks recorded increase in deposit surplus (in absolute terms) except Al Rajhi

All banks registered increase in deposit surplus except Al Rajhi in 1Q22. Al Rajhi deposit surplus fell from SAR 59.2 Bn in 4Q21 to SAR 23.4 Bn in 1Q22. Riyadh bank, Bank Al Bilad and Saudi Fransi registered a negative surplus during 1Q22. This means total outstanding advances are greater than total outstanding deposits. SNB has largest deposit surplus outstanding and further headroom to expand credit at a healthy growth rate.

Deposit surplus/-deficit							
SAR mm	1Q21	2Q21	3Q21	4Q21	1Q22	YOY%	QOQ%
Al Rajhi	65,125	57,210	57,377	59,242	23,366	-64.1%	-60.6%
Bank Al Bilad	1,432	2,508	547	-1,823	-312	-121.8%	-82.9%
Riyad Bank	2,156	-2,290	-6,486	-5,612	-2,377	-210.3%	-57.6%
Alinma Bank	3,558	6,256	-4,666	-5,210	-930	-126.1%	-82.1%
National Commercial Bank	62,710	84,978	85,494	91,046	92,065	46.8%	1.1%
Arab National Bank	9,602	12,390	9,379	9,040	9,496	-1.1%	5.0%
Banque Saudi Fransi	-1,118	-1,002	-1,071	-5,863	-1,931	72.8%	-67.1%

FABS from co data

Banking Stock performance

ALINMA, ARNB and RIBL performed among the top five

KSA Banking Sector outperformed the UAE, Qatar and Egypt Banking Sector with an average return of 20.0%, based on a simple average. ALINMA (43.6%), RIBL (34.1%) and ARNB (31.7%) headed KSA banks in terms of stock performance during 2022. All Banks except RJHI outperformed the market index TASI during 2022. ALINMA generated the highest return and RJHI generated the lowest return in the KSA Banking sector during 2022 (until 18 July 2022).

27 MENA bank stocks: YE21 to 18th of July 2022, Ranked

			UAE	KSA	Qatar	Egypt	Ranking
QIBK QD Equity	QIBK	25.6%			25.6%		6
MARK QD Equity	MARK	-15.2%			-15.2%		28
CBD UH Equity	CBD	9.9%	9.9%				8
MASQ UH Equity	MASQ	0.6%	0.6%				15
QNBK QD Equity	QNBK	-4.6%			-4.6%		22
UAB UH Equity	UAB	-3.4%	-3.4%				21
SIB UH Equity	SIB	-14.4%	-14.4%				26
CBQK QD Equity	CBQK	-0.5%			-0.5%		17
DSM Index	DSM	3.7%					12
RJHI AB Equity	RJHI	-7.4%		-7.4%			23
SASEIDX Index	TASI	1.5%					14
ADSMI Index	ADI	9.0%					9
ALINMA AB Equity	ALINMA	43.6%		43.6%			2
ALBI AB Equity	ALBI	26.0%		26.0%			5
BSFR AB Equity	BSFR	6.0%		6.0%			10
RAKBANK UH Equity	RAKBANK	0.0%	0.0%				16
DHBK QD Equity	DHBK	-23.3%			-23.3%		29
COMI EC Equity	COMI	-31.1%				-31.1%	31
FAB UH Equity	FAB	-0.7%	-0.7%				18
EGX30 Index	EGX30	-25.6%					30
BOS UH Equity	BOS	-14.5%	-14.5%				27
SNB AB Equity	NCB	5.9%		5.9%			11
DFMGI Index	DFM	-1.0%					19
ARNB AB Equity	ARNB	31.7%		31.7%			4
RIBL AB Equity	RIBL	34.1%		34.1%			3
CBI UH Equity	CBI	80.6%	80.6%				1
EMIRATES UH Equity	ENBD	-8.1%	-8.1%				24
ADIB UH Equity	ADIB	23.7%	23.7%				7
DIB UH Equity	DIB	2.4%	2.4%				13
AJMANBAN UH Equity	AJMANBANK	-11.7%	-11.7%				25
ADCB UH Equity	ADCB	-1.3%	-1.3%				20
AVERAGE			4.9%	20.0%	-3.6%	-31.1%	

FABS from Bloomberg

2Q22 preview: Saudi National Bank

Positively geared balance sheet and merger synergy will drive profitability

CMP (SAR): 68.30

Potential upside/(downside) (%): **+17.1%**

12-m target price:

SAR 80.00

Stock rating:

BUY

2Q22 estimate

Saudi National Bank net profit more than doubled to SAR 4,402 Mn in 2Q22 compared to 1Q21. The bank incurred one-time expense of SAR 1,375 Mn towards LD2 ECL provision in 1Q21. After excluding this provision, net profit rose 28.8% YOY to SAR 4,402 Mn in 2Q22. The growth in profit is driven by improvement across all parameters especially due to a decline in impairment expense. Funded income will grow 7.3% YOY to SAR 7,185 Mn in 2Q22 due to increase in assets yield and loan book as well as we expect revenue synergies arising out of recent merger with Samba Financial Group. Net funded expense is expected to increase 6.3% YOY to SAR 973 Mn in 2Q22 due to rise in benchmark yield. Thus, net funded income is expected to grow 7.4% YOY to SAR 6,212 Mn in 2Q22. Non-funded income is expected to increase 9.1% YOY to SAR 1,875 Mn in 2Q22 due to increase in fee & commission, exchange and other operating income. Resultantly, total operating income is anticipated to grow 7.8% YOY to SAR 8,087 Mn in 2Q22. Operating expenses is expected to decline 7.2% YOY to SAR 2,487 Mn in 2Q22, mainly due to cost synergies arising out of merger. Impairment charges is expected to decline 78.1% to SAR 527 Mn in 2Q22 and excluding one-time provision against LD2 ECL provision expense will decline 49.0% YOY. Zakat expense will more than double to SAR 577 Mn in 2Q22 impacting bottom line.

2022 forecast

We forecast SNB's net profit to grow 41.1% to SAR 17,877 Mn in 2022 mainly due to improvement across parameters especially net funded and non-funded income. SNB completed acquisition of Samba during 2Q22 as a result of this acquisition SNB recorded one-time expense of SAR 1,315 Mn on merger related adjustment, SAR 121 Mn on merger cost, SAR 1,375 Mn LD2 ECL provision and SAR 89 Mn on zakat. After excluding one-time items, proforma net profit stood at SAR 14,662 Mn in 2021 and 2022 net profit will grow 21.9% based on pro forma 2021 financial. Funded income will increase 18.5% to SAR 29,846 Mn in 2022 as we expect revenue synergies arising out of recent merger with Samba Financial Group and increase in interest bearing assets. Net funded expense is expected to rise 35.4% to SAR 4,143 Mn in 2022 due to rise in benchmark yield. Non-funded income is anticipated to rise 21.0% to SAR 7,676 Mn in 2022, mainly due to increase in fee & commission income, exchange income and non-trading investment income. Thus, total operating income is anticipated to increase 17.3% YOY to SAR 33,378 Mn in 2022. Operating expenses is expected to increase marginally 2.0% to SAR 10,057 Mn in 2022 leading to improvement in cost to income ratio to 30.1% in 2022 compared to 34.7% in 2021. Impairment charges is expected to decline 32.4% to SAR 2,654 Mn in 2022 and excluding one-time provision against LD2 ECL provision expense will decline 26.8%. Zakat expense will increase from SAR 1,653 Mn in 2021 to SAR 2,345 Mn in 2022 impacting net line.

1Q22 outturn

SNB net profit rose 32.1% YOY to Sar 4,502 Mn in 1Q22 due to strong growth in net funded and non-funded income partially offset by increase in operating and provision expense. Since SAMBA acquisition was completed in 2Q21 hence SNB 1Q22 financial is not exactly comparable with 1Q21 financial. In order make the between two period easier proforma financial is calculated. SNB reported proforma net profit of SAR 4,249 Mn in 1Q21 after adjusting SAR 1,315 Mn related to merger adjustment. The Bank net funded income grew 45.6% YOY to SAR 6,085 million in 1Q22. This was mainly driven by significant rise in special commission income by 41.1% YOY to SAR 6,918 million in 1Q22, mainly due growth in average earning assets and rise in assets margins. While special commission expense increased 15.3% YOY to SAR 833 Mn in 1Q22. The fee and commission income grew significantly by 52.3% YOY to SAR 946 million in 1Q22. Non-funded income grew 28.5% YOY

to SAR 1,980 Mn in 1Q22 due to growth in exchange and investment income partially offset by loss on trading and other operating income. Thus, total operating income rose 28.5% YOY to SAR 1,980 Mn in 1Q22. Furthermore, operating expenses grew 55.3% YOY to SAR 2,425 million in 1Q22 driven by higher salaries and employee-related expenses, rent and premises-related expenses, depreciation/ amortization of property, other general and administrative expenses partially offset by realized synergies saving and cost optimization efforts. Impairment charges inclined 34.4% YOY to SAR 385 million in 1Q22. Zakat expense rose 51.3% YOY to SAR 592 Mn in 1Q22 impacting bottom line.

Target price and recommendation

We revised our rating to BUY from HOLD on Saudi National Bank with a revised target price of SAR 80.00. SNB is expected to benefit from the rising interest rate scenario due to a positive interest rate gap. The banks' balance sheet is positively geared in a rising interest rate scenario. This means greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. Due to the recent merger with Samba bank, SNB is expected to enjoy revenue as well as cost synergies. It is expected to realize cost synergy worth SAR 800 Mn and SAR 1,200 Mn by 2023, respectively. And by 1Q22 cost synergies worth SAR 720 Mn is realized by the bank. Bank's NPL excluding purchase or originated credit impaired (POCI) stood at 1.56% in 1Q22 and coverage remain healthy at 138.0%. The bank's stage 2 loans stood at 3.6% of total loan in 4Q21 which is lowest among the peer group. SNB's net advances recorded solid growth of 3.4% QOQ to SAR 513 Bn in 1Q22 supported by strong growth in retail loans. Loan book comprises of 52.8 % retail loan and 41.7 % corporate loans allowing to reprice its assets with little or some delay. Saudi National bank witnessed healthy growth in CASA leading to funding mix optimizations. CASA stood at SAR 477 billion which grew 4.81% QOQ contributing to 78.8% of total customer deposits. Due to aforementioned factors, we assign BUY rating to the stock.

SNB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE (x)	21.33	17.90	17.90	22.05	16.46
PB (x)	3.62	3.41	2.85	1.86	1.78
Dividend yield %	3.2%	3.5%	1.2%	2.4%	3.2%

FABS Estimates & Co Data

SNB - P&L

SAR mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Commission income	6,698	6,918	7,185	7.3%	3.9%	25,181	29,846	18.5%
Commission expense	915	833	973	6.3%	16.8%	3,060	4,143	35.4%
Net funded income	5,783	6,085	6,212	7.4%	2.1%	22,120	25,703	16.2%
Fees and commissions	819	946	965	17.9%	2.0%	3,041	3,902	28.3%
Exchange income, net	356	411	419	17.8%	2.0%	1,582	1,693	7.1%
Income from FVIS investments, net	555	423	296	-46.6%	-30.0%	1,524	1,320	-13.4%
Gains/Losses on non-trading investments, net	159	379	382	140.8%	1.0%	1,027	1,537	49.8%
Other operating (expenses) income, net	-169	-179	-188	10.9%	5.0%	-831	-777	-6.5%
Non-funded income	1,719	1,980	1,875	9.1%	-5.3%	6,342	7,676	21.0%
Operating income	7,501	8,065	8,087	7.8%	0.3%	28,462	33,378	17.3%
Salaries and employee-related expenses	1,139	1,107	1,117	-2.0%	0.9%	4,418	4,608	4.3%
Rent and premises-related expenses	147	131	140	-4.8%	6.8%	511	535	4.7%
Depreciation of property and equipment	303	311	229	-24.4%	-26.3%	1,100	1,008	-8.4%
Amortization of intangible assets	293	230	200	-31.7%	-12.9%	689	822	19.3%

Other general and administrative expenses	797	647	801	0.5%	23.9%	3,146	3,084	-2.0%
Total operating Expenses	2,679	2,425	2,487	-7.2%	2.5%	9,864	10,057	2.0%
Other non-operating income (expenses), net	0	-97	-50	NA	-48.4%	-234	-247	5.5%
Pre-provision profit	4,822	5,543	5,550	15.1%	0.1%	18,365	23,075	25.7%
Impairment charge for financing losses, net	2,408	385	527	-78.1%	36.9%	3,927	2,654	-32.4%
PBT	2,414	5,158	5,023	108.1%	-2.6%	14,438	20,421	41.4%
Zakat	275	592	577	109.9%	-2.6%	1,653	2,345	41.8%
Profit after tax	2,140	4,566	4,446	107.8%	-2.6%	12,784	18,076	41.4%
Non-controlling interest	22	64	44	97.7%	-30.8%	116	199	71.9%
Profit after tax	2,117	4,502	4,402	107.9%	-2.2%	12,668	17,877	41.1%

FABS estimate & Co Data

SNB - P&L KPI

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	77.1%	75.5%	76.8%	-28	136	77.7%	77.0%	-71
NIM	3.4%	2.9%	3.0%	-32	12	3.2%	3.0%	-20
NIS	3.3%	2.9%	3.0%	-32	10	3.1%	2.9%	-21
Fees & comms/OI	10.9%	11.7%	11.9%	102	20	10.7%	11.7%	101
Cost to income	35.7%	30.1%	30.7%	-497	68	34.7%	30.1%	-453
Impairment/PPP	49.9%	6.9%	9.5%	-4,044	255	21.4%	11.5%	-988
NP/OI	28.2%	55.8%	54.4%	2,621	-138	44.5%	53.6%	905
ROAE	15.0%	11.7%	10.8%	-415	-86	11.6%	11.8%	25
ROAA	2.2%	1.9%	1.7%	-46	-14	1.4%	1.8%	44

FABS estimate & Co Data

SNB- Key BS Items

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
SAR mm						
Net advances	503,157	503,696	495,898	512,898	521,670	3.7%
QOQ Change	41.1%	0.1%	-1.5%	3.4%	1.7%	
Total assets	896,421	902,720	914,150	921,565	937,107	4.5%
QOQ Change	49.5%	0.7%	1.3%	0.8%	1.7%	
Customer deposits	588,135	589,190	586,944	604,963	623,180	6.0%
QOQ Change	40.2%	0.2%	-0.4%	3.1%	3.0%	
Total equity	160,300	160,522	162,770	165,143	160,915	0.4%
QOQ Change	90.4%	0.1%	1.4%	1.5%	-2.6%	

FABS estimate & Co Data

2Q22 preview: Banque Saudi Fransi

Benefits of high-interest rates offset by rise in provision and operating expense

CMP (SAR): 50.20

Potential upside/(downside) (%): +1.6%

12-m target price:

SAR 51.00

Stock rating:

HOLD

2Q22 estimate

We anticipate Banque Saudi Fransi (BSFR) net profit to increase 15.5% YOY to SAR 889 Mn in 2Q22 mainly due to rise in net funded and non-funded income partially offset by increase in operating and provision expense. Funded income is expected to increase 15.1% YOY to SAR 1,679 Mn due to increase in interest bearing assets and assets yield. Assets yield is rising due to increase in benchmark rate as the bank's major part of loans and advances consists of corporate loan and it would be able to reprice the loan without any lag. Funded expense is likely to rise by 50.1% YOY to SAR 193 Mn in 2Q22 due to increase in benchmark rates. Thus, net funded income is anticipated to increase 11.7% YOY to SAR 1,486 Mn in 2Q22. Non-funded income is likely to grow 10.7% YOY to SAR 469 Mn in 2Q22, due to increase in fee and commission income, exchange income and other operating income. Total operating expense is expected to increase 2.6% YOY to SAR 644 Mn due to increase in other general and administrative expenses. Cost to income ratio will decline 283 bps YOY to 32.9% in 2Q22. We expect impairment expenses to increase 18.1% YOY to SAR 319 Mn in 2Q22. We expect zakat expense to grow 18.2% YOY to SAR 102 Mn in 2Q22 mainly due to increase in profit.

2022 forecast

We forecast BSFR's net profit to increase 4.1% to SAR 3,592 Mn in 2022 due to increase in net funded income and non-funded income partially offset by increase in operating and provision expense. Funded income is expected to increase 19.5% to SAR 7,011 Mn due to increase in loan book and asset yield. Funded expense is likely to increase 75.4% to SAR 868 Mn due to increase in benchmark yield. Thus, net funded income is anticipated to increase 14.3% to SAR 6,142 Mn in 2022. Non-funded income is likely to grow 12.3% YOY to SAR 8,071 Mn in 2022, mainly due to increase in other operating income, exchange income and marginal increase in fee and commission income. Operating expenses is expected to rise 10.5% to SAR 2,703 Mn in 2022 mainly due to increase in other G&A expense. Thus, cost to income ratio will decline 56 bps to 33.5% in 2022. Impairment charges are expected to grow 50.9% YOY to SAR 1,364 Mn in 2022. Zakat expense is expected to increase 6.6% YOY to SAR 413 Mn in 2022 due to increase in net line.

1Q22 outturn

BSFR net profit rose 12.2% YoY to SAR 875 million Mn in 1Q22 driven by increase in funded income and decline in impairment allowances partially offset by the increase in funded expenses. Net funded income rose 4.3% YOY to SAR 1,343 Mn in 1Q22. It was mainly driven by rise in special commission income by 6.0% YOY to SAR 1,492 Mn in 1Q22. This was driven mainly due to growth in interest-bearing assets by 2.9% QOQ in 1Q22. Similarly, special commission expenses rose significantly by 24.2% YoY to SAR 149 Mn in 1Q22 due to high mobilization of deposits and increase in time deposits. The non-funded income remains unchanged at SAR 508 Mn in 1Q22, mainly due to increase in exchange income and other operating income, partially offset by decline in net fee and commission income and trading income. Thus, net operating income increased 3.1% YoY to SAR 1,851 Mn in 1Q22. Furthermore, operating expenses rose 2.2% YOY to SAR 604 Mn in 1Q22, primarily due to increase in other G&A expenses partially offset by decline in salaries and employee-related expenses. Impairment charges declined by 9.0% YOY to SAR 275 Mn in 1Q22. Zakat expenses declined 20.0% YOY to SAR 101 Mn in 1Q22 supporting net line.

Target price and recommendation

We revised our rating to HOLD from REDUCE on Banque Saudi Fransi (BSFR) with a revised target price of SAR 51.00. The bank's balance sheet is positively geared in a rising interest rate scenario. This means greater amount of assets priced at a higher rate as compared to liabilities benefitting

NIMs. Moreover, the bank would also benefit from rising interest rate scenario, since 76.3% of total loans and advances comprise of corporate loans, hence BSFR will be able to reprice interest rates without a lag. BSFR also maintained a healthy growth in loan portfolio which rose 3% QOQ and 14% YOY and expects advances to grow in low to mid-teens in 2022. BSFR's high quality investment portfolio consists of significant portion of Government Bonds. BSFR is able to maintain healthy capitalization with Tier 1 Capital ratio of 19.48% in 1Q22 and expects to maintain such levels in the forecasted period. Despite all these positives, BSFR is expected to generate ROA of 1.57% compared to industry average of 1.95% in 2022. Considering all these positives, we retain our HOLD rating on the stock.

BSFR - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	42.35	19.06	39.96	18.35	16.63
PB	2.00	1.88	1.78	1.77	1.65
Dividend Yield	3.4%	3.9%	0.8%	3.0%	3.3%

FABS Estimates & Co Data

BSFR - P&L

SAR mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Special commission income	1,459	1,492	1,679	15.1%	12.5%	5,869	7,011	19.5%
Special commission expense	129	149	193	50.1%	29.5%	495	868	75.4%
Net special commission income	1,330	1,343	1,486	11.7%	10.6%	5,373	6,142	14.3%
fee and commission income	294	306	309	5.3%	1.0%	1,213	1,243	2.4%
Exchange income, net	83	99	89	7.4%	-10.0%	336	370	10.2%
Trading income, net	22	66	50	123.8%	-25.0%	172	217	26.4%
Dividend income	0	3	-	-100.0%	-100.0%	2	3	82.9%
Gains/ Losses on non-trading investments, net	11	3	-	-100.0%	-100.0%	28	3	-90.2%
Other operating income	12	31	20	64.0%	-35.0%	64	93	45.8%
Non-funded income	423	508	469	10.7%	-7.8%	1,814	1,929	6.3%
Operating income	1,754	1,851	1,954	11.4%	5.6%	7,188	8,071	12.3%
Salaries and employee related expenses	352	329	346	-1.8%	5.0%	1,397	1,458	4.4%
Rent and premises related expenses	16	13	14	-9.3%	8.0%	66	61	-8.2%
Depreciation and amortization	51	55	56	9.3%	1.9%	225	223	-1.0%
Other general and administrative expenses	208	207	228	9.4%	10.0%	758	961	26.7%
Total operating Expenses	627	604	644	2.6%	6.5%	2,447	2,703	10.5%
Pre-provision profit	1,126	1,247	1,310	16.3%	5.1%	4,741	5,369	13.2%
Impairment	270	272	319	18.1%	17.4%	904	1,364	50.9%
PBT	856	975	991	15.8%	1.7%	3,837	4,005	4.4%
Tax	86	101	102	18.2%	1.7%	388	413	6.6%
Net profit attributable	770	875	889	15.5%	1.7%	3,450	3,592	4.1%

BSFR - P&L KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	75.9%	72.5%	76.0%	15	348	74.8%	76.1%	134
NIM	2.7%	2.56%	2.7%	4	19	2.8%	2.8%	3
NIS	2.6%	2.47%	2.6%	1	16	2.7%	2.7%	-1
Fees & comms/OI	16.7%	16.53%	15.8%	-93	-71	16.9%	15.4%	-148
Trading/OI	1.3%	3.6%	2.5%	128	-104	2.4%	2.7%	30
Cost to income	35.8%	32.6%	32.9%	-283	29	34.0%	33.5%	-56
Impairment/PPP	24.0%	21.8%	24.3%	36	255	19.1%	25.4%	634
NP/OI	43.9%	47.2%	45.5%	161	-174	48.0%	44.5%	-349
ROAE	5.8%	10.6%	10.8%	501	25	10.1%	10.3%	19
ROAA	1.0%	1.6%	1.6%	67	0	1.7%	1.6%	-12

FABS estimate & Co Data

BSFR- Key BS Items

	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
SAR mm						
Net advances	141,807	144,393	147,813	152,690	156,656	10.5%
QOQ Change	5.7%	1.8%	2.4%	3.3%	2.6%	
Total assets	211,310	213,335	215,802	222,211	229,350	8.5%
QOQ Change	4.5%	1.0%	1.2%	3.0%	3.2%	
Customer deposits	140,805	143,322	141,950	150,759	150,936	7.2%
QOQ Change	5.9%	1.8%	-1.0%	6.2%	0.1%	
Total equity	39,259	39,242	39,686	39,428	40,317	2.7%
QOQ Change	0.2%	0.0%	1.1%	-0.7%	2.3%	

FABS estimate & Co Data

2Q22 preview: Riyadh Bank

Favourable loan mix to support profitability during rising interest rates.

CMP (SAR): 36.30

Potential upside/(downside) (%): +15.7%

12-m target price:

SAR 42.00

Stock rating:

BUY

2Q22 estimate

Riyad Bank (RIBL) net profit expected to increase 9.9% YOY to SAR 1,661 Mn in 2Q22 due to increase in both net funded and non-funded income partially offset by increase in operating and impairment expense. Funded income is expected to rise 15.0% YOY to SAR 2,675 Mn in 2Q22 due to increase in assets yield and increase in interest bearing assets. Assets yield is rising due to increase in benchmark rate. RIBL 63.0% of the total loans and advances consists of commercial loan and we expect it to reprice them without any lag. Whereas, funded expense is likely to rise 90.0% YOY to SAR 344 Mn in 2Q22 due to increase in benchmark yield. Thus, net funded income is anticipated to increase 8.9% YOY to SAR 2,331 Mn in 2Q22. Non-funded income is expected to grow 14.4% YOY to SAR 952 Mn in 2Q22 mainly due to increase in fee and commission income and other operating income. Operating expenses is expected to rise 9.7% YOY to SAR 1,110 Mn in 2Q22 due to on-going transformation of bank and its investment for future growth. Impairment charges is likely to increase 23.5% to SAR 307 Mn in 2Q22. Zakat expense is expected to rise 3.7% YOY to SAR 205 Mn in 2Q22 dragging bottom line.

2022 forecast

We forecast Riyadh bank's net profit to increase 14.9% to SAR 6,9823 Mn in 2022 due to increase in net funded and non-funded income partially offset by increase in operating and provision expense. Funded income is expected to grow 22.6% to SAR 11,163 Mn in 2022 due to increase in assets yields and increase in interest bearing assets. Assets yield is rising due to increase in benchmark rate. While funded expense is expected to grow 76.1% to SAR 1,435 Mn in 2022 due to increase in benchmark yield. Resultantly, net funded income will rise 17.3% to SAR 9,728 Mn in 2Q22. Non-funded income is anticipated to grow 17.8% to SAR 3,859 Mn in 2Q22 mainly due to improvement in fee and commission income and other operating income. Operating expenses is expected to rise 16.6% to SAR 4,623 Mn in 2022 due to ongoing transformation of bank and its investment in future for growth. Impairment charges is likely to increase by 39.9% to SAR 1,193 Mn in 2022.

1Q22 outturn

Riyad Bank's net funded income rose 1.7% YOY to SAR 2,132 Mn due to growth of 5.3% YOY in the funded income somewhat offset by increase in funded expense. Funded income grew 5.3% YOY to SAR 2,421 Mn in 1Q22 due to strong growth in loans and asset yield. Funded expense rose 41.5% YOY to SAR 289 Mn in 1Q22 due to increase in benchmark rates. Non-funded income rose strongly 33.2% YOY to SAR 970 Mn in 1Q22 robust growth in fee and commission income and other operating income due to revival of economic activity. Thus, operating income rose by 9.8% YOY to SAR 3,102 Mn in 1Q22. Operating expenses grew 5.2% YOY to SAR 1,034, driven by an increase in salary, rental and other general and administrative expenses. Cost-to-income ratio declined from 34.8% in 1Q21 to 33.3% in 2Q22. The impairment charge reduced 15.7% YOY to SAR 255 Mn in 1Q22. As a result, cost of risk reduced to 26bps in 1Q22 from 50bps in 1Q21. Share of loss from associates rose from SAR 11 in 1Q21 to SAR 69 Mn in 2Q22 impacting profit.

Target price and recommendation

We revise our rating to BUY on Riyadh Bank with a revised target price of SAR 42.00. Riyadh Bank is the third largest bank in Saudi Arabia and expected to benefit from revival in economic activity. The bank's balance sheet is positively geared in a rising interest rate scenario. This means greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. Moreover, the bank would also benefit from increase in share of CASA deposit. CASA deposit consists of 64.7% of total deposit in 1Q22 compared to 64.2% in 4Q21. RIBL is also diversifying its funding source in a tight liquidity

and rising interest rate scenario which should lead to improvement in net interest margin. RIBL net advances rose 8.1% QOQ to SAR 235 Bn in 1Q22 and the bank estimates advances to grow in mid-teens in 2022. Over the period, it diversified its loan book and increased share of mortgage loans from 20.9% in 1Q21 to 21.7% in 1Q22. The bank capital position stood strong with a CET1 ratio of 15.9% and CAR at 19.2% in 1Q22. KSA banks are experiencing a strong demand for credit supported by increased economic activity. This also led to a liquidity crunch in the banking sector and might impact funding cost in the near-term. Due to aforementioned factors, we assign BUY rating to stock.

RIBL - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	32.7	18.0	21.5	16.8	14.6
P/B (x)	2.8	2.6	2.3	2.2	2.0
Dividend Yield	2.3%	3.2%	1.5%	3.1%	3.4%

FABS Estimates & Co Data

RIBL - P&L

SAR mm	2Q21	1Q22A	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Special commission income	2,327	2,421	2,675	15.0%	10.5%	9,108	11,163	22.6%
Special commission expense	-181	-289	-344	90.0%	18.8%	-815	-1,435	76.1%
Net special commission income	2,146	2,132	2,331	8.6%	9.3%	8,293	9,728	17.3%
Fee and commission income, net	517	617	624	20.7%	1.0%	2,118	2,507	18.4%
Trading losses, net	81	68	69	-14.4%	1.0%	206	278	35.1%
Other Operating Income	234	284	259	10.6%	-8.6%	951	1,074	12.8%
Total other operating income	832	970	952	14.4%	-1.8%	3,275	3,859	17.8%
Operating income	2,978	3,102	3,283	10.2%	5.9%	11,568	13,587	17.5%
Operating expenses	-1,012	-1,034	-1,110	9.7%	7.4%	-3,965	-4,623	16.6%
Pre-provision profit	1,967	2,068	2,173	10.5%	5.1%	7,603	8,963	17.9%
Impairment	-248	-255	-307	23.5%	20.3%	-853	-1,193	39.9%
Share in earnings of associates, net	-9	-69	0	NA	NA	-32	0	NA
Profit Before Tax	1,710	1,744	1,867	9.2%	7.0%	6,718	7,770	15.7%
Tax	-198	-192	-205	3.7%	7.0%	-693	-847	22.3%
Net profit	1,512	1,553	1,661	9.9%	7.0%	6,025	6,923	14.9%

FABS estimate & Co Data

RIBL - KPI

	2Q21	1Q22A	2Q22	YOY	QOQ	2021	2022F	Change
Net FI/OI	72.1%	68.7%	71.0%	-106	226	71.7%	71.6%	-9
NIM	2.8%	2.6%	2.7%	-11	6	2.8%	2.8%	-2
NIS	2.7%	2.6%	2.6%	-15	4	2.8%	2.7%	-9
Fee & Comm/OI	17.4%	19.9%	19.0%	164	-91	18.3%	18.5%	15
Trading/OI	2.7%	2.2%	2.1%	-61	-10	1.8%	2.0%	27
Cost to income	34.0%	33.3%	33.8%	-16	48	34.3%	34.0%	-24
Impairment/PPP	12.6%	12.3%	14.1%	149	178	11.2%	13.3%	210
NP/OI	50.8%	50.1%	50.6%	-16	54	52.1%	51.0%	-113
ROAE	11.4%	13.5%	13.5%	213	-3	13.4%	14.4%	99
ROAA	1.6%	1.8%	1.8%	19	-5	1.9%	1.9%	5

FABS estimate & Co Data

RIBL - Key B/S items

	2Q21	3Q21	4Q21	1Q22A	2Q22	YoY
SAR mm						
Net advances	204,743	210,482	217,290	234,793	240,336	17.4%
QOQ change	4.2%	2.8%	3.2%	8.1%	2.4%	
Total assets	317,266	318,657	325,736	348,468	360,281	13.6%
QOQ change	3.0%	0.4%	2.2%	7.0%	3.4%	
Customer deposits	202,453	203,996	211,678	232,416	235,623	16.4%
QOQ change	1.9%	0.8%	3.8%	9.8%	1.4%	
Total equity	44,551	46,050	47,300	48,051	48,093	8.0%
QOQ change	0.7%	3.4%	2.7%	1.6%	0.1%	

FABS estimate & Co Data

2Q22 preview: Arab National Bank

Intense competition pressurize yield and NIMs in the near-term

CMP (SAR): 30.10

Potential upside/(downside) (%): +6.3%

12-m target price:

SAR 32.00

Stock rating:

HOLD

2Q22 estimate

Arab National Bank (ARNB) is forecasted to report a net profit of SAR 618 Mn in 2Q22 compared to a profit of SAR 473 Mn in 2Q21. The performance improvement is mainly due to higher net funded income and a decline in provision expense partially offset by a decline in non-funded income. Funded income is anticipated to increase 18.8% YOY to SAR 1,471 Mn in 2Q22 due to an increase in the interest rate and expansion of the loan book. Funded expenses will increase to SAR 214 Mn in 2Q22 from SAR 108 Mn in 2Q21 due to rise in benchmark rates. Resultantly, net funded income will grow 11.2% YOY to SAR 1,257 Mn in 2Q22. Non-Funded Income is expected to decline marginally from SAR 251 Mn in 2Q21 to SAR 245 Mn in 2Q22. As a result, total operating income is likely to improve to SAR 1,502 Mn in 2Q22 from SAR 1,381 Mn in 2Q21. Operating expenses will grow from SAR 533 Mn in 2Q21 to SAR 545 Mn in 2Q22 and the cost-to-income ratio to decrease from 38.6% in 2Q21 to 36.3% in 2Q22. Impairment expense is expected to decline from SAR 299 Mn in 2Q21 to SAR 217 Mn in 2Q22 supporting bottom line.

2022 forecast

We forecast ARNB's net profit to increase 18.5% to SAR 2,636 Mn in 2022. The rise is mainly driven by higher expected net funded income and a decline in provisioning expenses which will be offset by an increase in operating expenses. Funded income is expected to grow 18.8% to SAR 6,145 Mn in 2022 primarily due to an increase in strong growth in loans. Similarly, the funded expense is expected to rise 79.5% to SAR 897 Mn in 2022. Non-funded income will decline marginally from SAR 1,092 Mn in 2021 to SAR 1,075 Mn in 2022 mainly due to one-time gain recognized in 2021 which is not expected to repeat in 2022. Consequently, total operating income will rise 9.7% to SAR 6,323 Mn in 2022. Impairment expenses will decline from SAR 1,034 Mn in 2021 to SAR 880 Mn in 2022 boosting the bottom line.

1Q22 outturn

The bank's funded income increased 5.7% YOY to SAR 1,334 Mn in 1Q22, due to a rise in advances by 20.0% YOY in 1Q22 somewhat offset by pressure on yield. Funded expense climbed 80.2% YOY to SAR 150 Mn in 1Q22, mostly due to a rise in deposits by 18.4% YOY and an increase in benchmark interest rates. As a result, the bank's cost of funds climbed from 0.23% in 1Q21 to 0.38% in 1Q22. As a result, net funded income increased 0.4% YOY to SAR 1,185 Mn in 1Q22. Thus, NIMs declined from 2.64% in 1Q21 to 2.49% in 1Q22. Total non-funded income fell 28.3% YOY to SAR 270 Mn in 1Q22, as the bank earned a one-time gain on non-trading investment of SAR 133 Mn in 1Q21 and fee and commission income declined 0.9% YOY to SAR 128 Mn. As a result, overall operating income declined 6.5% YOY to SAR 1,455 Mn in 1Q22. Operating expenditures grew 7.3% YOY to SAR 575 Mn in 1Q22, owing to increases in wage, rental, and other G&A expenses. Due to a decrease in operating revenue and an increase in operating costs, the cost-to-income ratio increased from 34.4% in 1Q21 to 39.5% in 1Q22. Net impairment charges decreased considerably from SAR 333 Mn in 1Q21 to SAR 155 Mn in 1Q22 due to lower provision for loan losses and increased recoveries from previously written-off loans. In 1Q22, tax costs were reduced by 3.6% YOY to SAR 122 Mn, improving profitability.

Target price and recommendation

We revise our rating on ARNB from REDUCE to HOLD with a revised target price of SAR 32.00. ARNB registered a healthy growth in advances, which rose 9.4% YOY in 1Q22, driven by increased demand for commercial loans. We also anticipate a continued rise in advances, driven by KSA's robust economic prospects. Due to a positive interest rate sensitivity gap, the bank NIM is predicted to increase in a rising interest rate situation. However, a rise in time deposits of 22.5% QOQ in 1Q22

may negate some of the advantages of the interest rate sensitivity gap. ARNB advances to corporates increased 11.7% YOY to SAR 101.9 billion, accounting for 72.9% of total gross advances in 1Q22. In a low-growth environment, a disproportionate increase in advances to corporations without considerable growth in consumer loans may have an impact on asset quality. The NPL ratio climbed to 3.46% towards the end of 2020 during the pandemic asset and then fell to 1.55% in 1Q22 due to an improving economic outlook. The bank's stage 2 loans accounted for 9.8% of total loans in 4Q21, which might lead to an increase in NPLs in the short-term, putting profitability under pressure. ARNB is predicted to earn a ROA of 1.28% in 2022, compared to the industry average of 1.85%, making it expensive. Based on these factors we assign a HOLD rating to the stock.

ARNB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	11.2	14.7	21.5	20.4	16.9
P/B (x)	1.7	1.6	1.5	1.5	1.3
Dividend yield	3.4%	3.4%	1.3%	2.7%	2.7%

FABS Estimates & Co Data
ARNB- P&L

SAR mm	2Q21	1Q22A	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	1,238	1,334	1,471	18.8%	10.3%	5,172	6,145	18.8%
Funded expense	-108	-150	-214	97.6%	43.0%	-500	-897	79.5%
Net funded income	1,130	1,185	1,257	11.2%	6.1%	4,672	5,248	12.3%
Fees and commissions	122	128	125	2.5%	-2.0%	489	515	5.3%
others operating income	11	42	33	200.0%	-23.2%	229	184	-19.7%
Other non-funded income	129	142	120	-6.8%	-15.6%	603	560	-7.2%
Non-funded income	251	270	245	-2.3%	-9.1%	1,092	1,075	-1.6%
Operating income	1,381	1,455	1,502	8.8%	3.3%	5,765	6,323	9.7%
Operating expenses	-533	-575	-545	2.1%	-5.2%	-2,201	-2,324	5.6%
Pre-provision profit	848	880	958	13.0%	8.8%	3,563	3,998	12.2%
Impairment	-299	-155	-217	-27.4%	39.7%	-1,034	-895	-13.5%
Share of results of associates	20	13	13	-38.8%	0.0%	93	86	-7.3%
PBT	577	773	753	30.5%	-2.6%	2,622	3,190	21.7%
Tax	-108	-122	-136	25.9%	10.9%	-450	-557	23.8%
Profit after tax	469	651	617	31.6%	-5.1%	2,171	2,633	21.2%
Non-controlling int.	3	0	1	-70.4%	NA	5	3	-42.0%
Net profit attributable	473	651	618	30.8%	-5.0%	2,177	2,636	21.1%

FABS estimate & Co Data
ARNB - KPI

	2Q21	1Q22A	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	81.8%	81.4%	83.7%	184	223	81.0%	83.0%	196
NIM	2.6%	2.5%	2.5%	-13	2	2.6%	2.6%	-4
NIS	2.8%	2.4%	2.5%	-29	8	2.6%	2.5%	-4
Fees & comms/OI	8.8%	8.8%	8.3%	-51	-45	8.5%	8.1%	-34
Cost to income	38.6%	39.5%	36.3%	-236	-325	38.2%	36.8%	-143
Impairment/PPP	35.3%	17.7%	22.7%	-1,262	500	29.0%	22.4%	-666
NP/OI	34.2%	44.7%	41.2%	694	-358	37.8%	41.7%	393
ROAE	6.6%	7.1%	7.5%	83	35	7.2%	8.2%	102
ROAA	1.1%	1.1%	1.1%	4	2	1.2%	1.3%	9

FABS estimate & Co data

ARNB - Key B/S items

SAR mm	2Q21	3Q21	4Q21	1Q22A	2Q22F	YOY Ch
Net advances	117,830	120,016	126,674	138,642	141,333	19.9%
QOQ change	2.0%	1.9%	5.5%	9.4%	1.9%	
Total assets	181,877	182,275	192,502	204,620	212,093	16.6%
QOQ change	2.5%	0.2%	5.6%	6.3%	3.7%	
Customer deposits	130,220	129,395	135,714	148,138	151,573	16.4%
QOQ change	4.0%	-0.6%	4.9%	9.2%	2.3%	
Total equity	30,032	30,744	31,101	32,035	32,004	6.6%
QOQ change	0.2%	2.4%	1.2%	3.0%	-0.1%	

FABS estimate & Co data

2Q22 preview: Alinma Bank

Positive geared balance sheet and strong growth in CASA to benefit NIMs

CMP (SAR): 34.40

Potential upside/(downside) (%): +10.5%

12-m target price:

SAR 38.00

Stock rating:

ACCUMULATE

2Q22 estimate

Alinma Bank is forecasted to witness a net Profit of SAR 874 Mn in 2Q22 compared to SAR 710 Mn in 2Q21 mainly due to increase in funded income and decline in provision expenses partially offset by a decline in non-funded income and increase in operating expenses. Funded income is anticipated to grow 13.9% YOY to SAR 1,552 Mn in 2Q22 due to robust growth in loans and a marginal increase in asset yield. On the other hand, funded expense is anticipated to grow 33.1% YOY to SAR 175 Mn in 2Q22 due to increase in benchmark interest rates. As a result, the net funded income is expected to rise 11.8% YOY to SAR 1,377 Mn in 2Q22. Non-funded income is expected to decline 10.2% YOY to SAR 381 Mn in 2Q22 driven by a marginal growth in fee and commission income and decline in other operating income. Thus, total operating income is anticipated to increase 6.2% YOY to SAR 1,758 Mn in 2Q22. Operating expense is anticipated to grow 4.5% YOY from SAR 544 Mn in 2Q21 and the cost-to-income ratio to decrease from 31.5% in 2Q21 to 30.9% in 2Q22. Impairment charge is anticipated to decline from SAR 342 Mn in 2Q21 to SAR 243 Mn in 2Q22 due to improving economic outlook. Zakat expense will increase from SAR 82 Mn in 2Q21 to SAR 97 Mn in 2Q22 due to higher profit.

2022 forecast

We forecast the bank's net profit to increase to SAR 3,384 Mn in 2022, up from SAR 2,709 Mn in 2021. The rise is mainly driven by an increase in both net funded and non-funded income and a decline in provision expense partially offset by increase in operating expenses. Funded income is expected to increase 11.3% to SAR 6,316 Mn in 2022 primarily due to an increase in expected credit demand and an increase in the interest rates. On the other hand, funded expense is expected to increase to SAR 733 Mn in 2022 from SAR 537 Mn in 2021. Non-funded income is expected to grow 6.7% to SAR 1,633 Mn in 2022 due to increase in trading gains and other operating income. Consequently, total operating income is expected to rise 6.7% to SAR 7,271 Mn in 2022. Operating expense is anticipated to increase to SAR 2,482 Mn in 2022 from SAR 2,365 Mn in 2021. Impairment expense is expected to decline from SAR 1,266 Mn in 2021 to SAR 969 Mn in 2022 supporting the bottom line. While zakat expense will increase from SAR 312 Mn in 2021 to SAR 379 Mn in 2022 due to increase in net profit.

1Q22 outturn

The Bank reported a significant increase in net profit to SAR 825 Mn in 1Q22, up from SAR 642 Mn in 1Q21, mainly attributed to a significant increase in operating income and a decrease in impairment charges. Net funded income increased 8.7% YOY to SAR 1,310 Mn in 1Q22 due to 13.0% YOY increase in interest-earning assets partially offset by 9.0% YOY growth in interest-earning liabilities. Asset yield fell 8 basis point QOQ to 3.4%, while cost of funding rose 4 bps QOQ to 0.47% in 1Q22. Thus, NIM fell 12 bps QOQ to 3.0% in 1Q22. Total non-funded income increased 20.1% YOY to SAR 498 Mn in 1Q22 mainly due to a higher exchange income, increase in other non-funded income due to investment gains/dividends which is partly offset by a decrease in fees and commission income. Resultantly, net operating income increased 11.6% to SAR 1,808 Mn in 1Q22. Total operating expenses increased 15.6% YOY to SAR 642 Mn in 1Q22 due to higher salaries, increased commercial expenses from POS deployments, higher SMS communications costs and a decrease in the VAT recoverability file. As a result, cost-to-income ratio increased from 34.3% in 1Q21 to 35.5% in 1Q22. Impairment charges declined significantly to SAR 243 Mn in 1Q22, down from SAR 344 Mn in 1Q21. Resultantly, net profit before tax rose 28.5% YOY to SAR 920 Mn in 1Q22. Zakat expenses rose 28.5% YOY to SAR 95 Mn in 1Q22 due to higher profit.

Target price and recommendation

We revise our rating from HOLD to ACCUMULATE on Alinma Bank with a revised target price of SAR 38.00. The bank is expected to benefit from the rising interest rate scenario due to a positive interest rate sensitivity gap. This means a greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. The NIM is expected to benefit due to the robust increase in the bank's CASA deposit which now accounts for 68.7% of total deposits in 1Q22 from 65.8% in 4Q21. Alinma is also expected to maintain a healthy balance sheet growth rate through deeper penetration of the existing customer base. The bank is further expecting strong growth in financing due to strong economic growth and robust demand for credit from their mid-corporate and retail segments. NPLs rose marginally from 1.8% in 1Q21 to 2.0% in 1Q22 while coverage also remain healthy at 150%. The bank capitalization also remain healthy and CET 1 ratio stood at 18.2% in 1Q22. However, intense competition in the retail portfolio is pressurizing the yield and NIMs in the near term. Considering all these factors, we recommend an ACCUMULATE rating on the stock.

Alinma - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	27.8	25.2	32.6	24.4	18.9
P/B (x)	3.2	3.7	2.6	2.1	1.9
Dividend Yield	2.3%	NM	0.9%	2.3%	2.8%

FABS Estimates & Co Data

Alinma Bank- P&L

SAR mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	1,362	1,472	1,552	13.9%	5.4%	5,674	6,316	11.3%
Funded expense	-131	-163	-175	33.1%	7.6%	-537	-733	36.4%
Net funded income	1,231	1,310	1,377	11.8%	5.1%	5,137	5,584	8.7%
Fees and commissions	282	273	277	-2.0%	1.4%	1,085	1,091	0.6%
Trading gain/(loss)	52	72	53	3.0%	-26.1%	215	243	13.2%
Other non-funded income	90	153	51	-43.4%	-66.7%	230	299	29.6%
Non-funded income	424	498	381	-10.2%	-23.5%	1,530	1,633	6.7%
Operating income	1,655	1,808	1,758	6.2%	-2.8%	6,667	7,217	8.2%
Operating expenses	-521	-642	-544	4.5%	-15.3%	-2,365	-2,482	4.9%
Pre-provision profit	1,134	1,165	1,214	7.0%	4.2%	4,302	4,735	10.1%
Impairment	-342	-243	-243	-29.0%	-0.2%	-1,266	-969	-23.5%
Share of profit of associates	0	-2	0	-100.0%	-100.0%	-14	-2	-83.3%
Net profit before zakat	792	920	971	22.6%	5.6%	3,022	3,764	24.6%
Zakat	-82	-95	-97	18.9%	2.4%	-312	-379	21.5%
Net profit attributable	710	825	874	23.0%	5.9%	2,709	3,384	24.9%

FABS estimate & Co Data

Alinma Bank - KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	74.4%	72.4%	78.3%	395	588	77.0%	77.4%	32
NIM	3.1%	3.0%	3.1%	-2	6	3.2%	3.1%	-13
NIS	3.0%	2.9%	2.9%	-9	1	3.2%	3.1%	-13
Fee & Comms/OI	17.1%	0.0%	15.8%	-132	1575	16.3%	15.1%	-115
Trading/OI	3.1%	0.0%	3.0%	-9	303	3.2%	3.4%	15
Cost to income	31.5%	35.5%	30.9%	-52	-459	35.5%	34.4%	-109
Impairment/PPP	30.2%	20.9%	20.0%	-1014	-87	29.4%	20.5%	-897
NP/OI	42.9%	45.6%	49.7%	679	409	40.6%	46.9%	626
ROAE	9.6%	11.4%	11.7%	212	26	12.4%	11.6%	-81
ROAA	1.5%	1.6%	1.7%	21	4	1.6%	1.8%	18

FABS estimate & Co Data

Alinma Bank - Key B/S items

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
SAR mm						
Net advances	119,623	121,318	126,271	128,965	132,864	11.1%
QOQ change	2.1%	1.4%	4.1%	2.1%	3.0%	
Total assets	164,057	166,808	173,476	179,519	184,032	12.2%
QOQ change	2.6%	1.7%	4.0%	3.5%	2.5%	
Customer deposits	125,878	116,652	121,061	128,035	131,705	4.6%
QOQ change	4.3%	-7.3%	3.8%	5.8%	2.9%	
Total equity	25,199	30,164	30,711	31,518	32,392	28.5%
QOQ change	0.5%	19.7%	1.8%	2.6%	2.8%	

FABS estimate & Co Data

2Q22 preview: Al Bilad Bank

Strong loan growth and NIM expansion to boost net line

CMP (SAR): 43.90

Potential upside/(downside) (%): -4.3%

12-m target price:

SAR 42.00

Stock rating:

HOLD

2Q22 Estimate

Bank Albilad (ALBI) is forecasted to report a 20.3% YOY increase in net profit to SAR 500 Mn in 2Q22 mainly due to increase in net funded income and increase in operating and provision expenses. Income from investment and financing is estimated to grow 20.4% YOY to SAR 1,096 Mn in 2Q22 mainly driven by an increase in loans and asset yield. Similarly, funded expense is forecasted to reach SAR 108 Mn in 2Q22 due to higher mobilization of deposits and benchmark rates. Resultantly, net funded income will grow 17.3% YOY to SAR 988 Mn in 2Q22. Total non-funded income is anticipated to decline marginally 0.9% YOY to SAR 286 Mn in 2Q22 mainly due to decline in fee and commission income partially offset by growth in other operating income. Total operating income is expected to increase 12.7% YOY to SAR 1,274 Mn in 2Q22 while operating expenses to witness 5.5% YOY growth to SAR 560 Mn in 2Q22. Pre-Provision Profit is anticipated to increase from SAR 600 in 2Q21 to SAR 714 in 2Q22. Impairment is likely to grow 15.9% YOY to SAR 158 Mn. Zakat expense is likely to grow 16.4% YOY to SAR 56 Mn in 2Q22 due to increase in pre-tax profit.

2022 Forecast

Albilad's net Profit is forecasted to grow 26.5% to SAR 2,133 Mn in the 2022. It will be mainly driven by a rise in net funded and non-funded income partially offset by a decline in operating and provision expenses. Income from Investment and financing is expected to grow significantly from SAR 3,761 Mn in 2021 to SAR 4,461 Mn in 2022 due to increase in loans and asset yield. Return on deposits and financial liability is anticipated to reach SAR 452 Mn in 2022 due to the mobilisation of higher deposit and rise in benchmark rates. Thus, net funded income is estimated to grow 14.9% to SAR 4,008 Mn in 2022. Total non-funded income is expected to rise 8.0% to SAR 1,182 Mn in 2022 due to increase in other operating income partially offset by a decline in fee and commission expense. As a result, operating income is likely to increase 13.2% to SAR 5,191 Mn in 2022. On the other hand, operating expenses is expected to increase 4.0% to SAR 2,220 Mn with a cost-to-income ratio of 42.8%. Provision expense is expected to grow 5.2% YOY to SAR 599 in 2022 impacting bottom line.

1Q22 Outrun

In 1Q22, net Profit increased 24.8% YOY to SAR 490 Mn due to increase in funded and non-Funded Income, partially offset by increase in operating expenses. Funded income grew 14.2% YOY to SAR 1,041 Mn in 1Q22 due to solid growth in advances. Similarly, funded expense rose 81.8% YOY to SAR 96 Mn in 1Q22 due to high mobilization of deposits. Consequently, net funded income rose 10.0% YOY to SAR 944 Mn in 1Q22. Non-funded income increased significantly 16.7% YOY to SAR 320 Mn in 1Q22 due to increase in income from FVIS financial instruments, exchange income, other operating income, somewhat offset by a decline in fee and commission income. As a result, total operating income grew 11.6% YOY to SAR 1,265 Mn. Furthermore, operating expenses rose 6.2% YOY to SAR 558 Mn in 1Q22. Impairment charges declined 5.9% YOY to SAR160 Mn in 1Q22, while increased on QOQ basis. Zakat expenses rose 24.8% YOY to SAR 56 Mn in 1Q22 impacting profitability.

Target price and recommendation

We revise our rating on Bank Albilad from REDUCE to HOLD with a revised target price of SAR 42.00. The bank registered a strong growth in advances both on commercial and retail loan portfolio. It also managed to grow its NIMs due to strong growth in asset yield offsetting the increase in the cost of

funds despite intense competition. We anticipate loan growth to remain strong due to the robust economic outlook owing to high energy prices. Additionally, we also expect NIMs to expand amid a rise in interest rates. Albilad asset quality remained strong with an unchanged NPL ratio of 1.1%. The coverage ratio also remained strong at 280.2% in 1Q22 with an additional provision buffer to mitigate against unforeseen losses. However, the bank CET 1 ratio declined from 14.1% in 4Q21 to 13.7% in 1Q22 due to an increase in risk-weighted assets. The ratio is weak as compared to its peer group and Albilad might need to raise additional capital in the near-term considering robust loan growth. Considering all these factors, we assign a HOLD rating on the stock.

Bank Albilad - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	51.2	25.1	23.2	18.6	19.7
PB	5.4	4.5	3.9	3.5	2.6
Dividend Yield	NA	1.6%	NA	NA	1.2%

FABS Estimates & Co Data

Bank Albilad - P&L

SAR mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Income from invest & fin.	911	1,041	1,096	20.4%	5.3%	3,761	4,461	18.6%
Return on deposits & fin. liab.	-68	-96	-108	58.1%	12.0%	-272	-452	66.4%
Net funded income	842	944	988	17.3%	4.6%	3,489	4,008	14.9%
Fees and commissions	197	174	176	-10.8%	1.0%	731	706	-3.5%
Exchange income	73	87	80	9.0%	-7.9%	313	327	4.4%
Other non-funded income	18	59	30	65.1%	-48.8%	50	150	198.4%
Total non-funded income	289	320	286	-0.9%	-10.6%	1,094	1,182	8.0%
Total operating income	1,131	1,265	1,274	12.7%	0.8%	4,584	5,191	13.2%
General & admin. Expenses	-531	-558	-560	5.5%	0.3%	-2,134	-2,220	4.0%
Pre provision profit	600	706	714	19.0%	1.1%	2,450	2,971	21.3%
Impairment	-136	-160	-158	15.9%	-1.0%	-570	-599	5.2%
Profit before zakat	464	547	556	19.9%	1.7%	1,880	2,372	26.1%
Zakat expenses	-48	-56	-56	16.4%	-1.2%	-194	-239	23.3%
Net profit attributable	416	490	500	20.3%	2.1%	1,687	2,133	26.5%

Bank Albilad - P&L KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	74.5%	74.7%	77.6%	307	287	76.1%	77.2%	110
NIM	3.3%	3.4%	3.4%	12	2	3.5%	3.5%	1
NIS	3.3%	3.3%	3.4%	10	2	3.4%	3.4%	2
Fees & comms/OI	17.4%	13.7%	13.8%	-362	3	16.0%	13.6%	-236
Other Operating Inc/OI	8.1%	11.6%	8.7%	55	-290	7.9%	9.2%	126
Cost to income	46.9%	44.2%	44.0%	-297	-19	46.6%	42.8%	-379
Impairment/PPP	22.7%	22.6%	22.1%	-59	-46	23.3%	20.2%	-309
NP/OI	36.8%	38.8%	39.3%	248	50	36.8%	41.1%	430
ROAE	14.1%	18.5%	16.5%	239	-199	16.7%	18.6%	191
ROAA	1.5%	1.6%	1.6%	9	1	1.6%	1.8%	17

FABS estimate & Co Data

Bank Albilad - Key BS Items

SAR mm	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
Net advances	79,130	81,799	82,933	86,391	88,335	11.6%
QOQ Change	4.8%	3.4%	1.4%	4.2%	2.3%	
Total assets	107,652	111,606	110,854	116,442	119,559	11.1%
QOQ Change	5.0%	3.7%	-0.7%	5.0%	2.7%	
Customer deposits	81,638	82,346	81,110	86,079	89,218	9.3%
QOQ Change	6.1%	0.9%	-1.5%	6.1%	3.6%	
Total equity	11,417	11,868	11,980	12,325	12,826	12.3%
QOQ Change	5.3%	4.0%	0.9%	2.9%	4.1%	

FABS estimate & Co Data

2Q22 preview: Al Rajhi Bank

Expected increase in operating expenses likely to impact earnings

CMP (SAR): 82.20

Potential upside (%): +9.5%

12-m target price:

SAR 90.00

Stock rating:

HOLD

2Q22 estimate

We estimate Al Rajhi Bank net profit to grow 17.6% YOY to SAR 4,240 Mn in 2Q22 mainly due to increase in net funded income, non-funded income and decline in provision expense partially offset by a decline in operating expense. Net financing and investment income is expected to increase 9.6% YOY to SAR 5,539 Mn in 2Q22 driven by strong growth in loans supported by solid economic growth partially offset by an increase in cost of funds. Non-funded income is expected to grow 22.2% YOY to SAR 1,569 Mn in 2Q22 driven by an increase in fee and commission income, exchange and other operating income. Thus, total operating income is expected to increase 12.2% YOY to SAR 7,108 Mn in 2Q22. Total operating expenses before credit impairment is expected to increase 4.8% YOY to SAR 1,813 Mn in 2Q22, owing to an increase salaries and employee related expense, other G&A expense and D&A expense. Impairment charge is expected to decline 2.7% YOY to SAR 568 Mn in 2Q22. Consequently, profit before zakat rose 17.5% YOY to SAR 4,727 Mn in 2Q22. Zakat expense is expected to increase 16.6% YOY to SAR 487 Mn in 2Q22 impacting net line.

2022 forecast

Al Rajhi Bank's financing and investment income is expected to increase 17.7% to SAR 25,230 Mn in 2022 mainly driven by 19.7% increase in interest earning asset especially financing asset which rose 22.0% growth in financing assets. Funded expense will increase 158.5% to SAR 2,713 Mn in 2022 due to increase in benchmark interest rates and SAIBOR rates. Thus, net funded income will grow 10.4% to SAR 22,516 Mn in 2022. Non-funded income will increase 15.4% to SAR 6,143 Mn in 2022 due to fee and commission income, exchange and other operating income. As a result, total operating income will increase 11.4% to SAR 28,659 Mn in 2022. Total operating expenses is anticipated to increase 5.0% to SAR 7,273 Mn in 2022 with a cost to income 25.4% in 2022 compared to 26.9% in 2021. Impairment charges will grow 19.7% to SAR 2,808 Mn in 2022. Zakat expense is expected to increase 12.7% to SAR 1,915 Mn in 2022 impacting bottom line.

1Q22 outturn

Funded income grew 19.9% YOY to SAR 5,891 Mn in 1Q22 due to 7% QOQ growth in financing assets mainly led by strong increase in mortgages partially offset by decline in retail asset yield and rise in competition into the retail financing. Funded expense rose 282.3% YOY to SAR 551 Mn in 1Q22 as benchmark SAIBOR rates rose 84 basis point (bps) in 4Q21 to 139 bps in 1Q22. As a result, net funded income rose 11.9% YOY to SAR 5,340 Mn in 1Q22. Non-funded income rose 37.3% YOY to SAR 1,616 Mn in 1Q22 due to strong growth in fee income from banking services, exchange income and other operating income due to capital gain in 1Q22. Thus, total operating income rose 12.2% YOY to SAR 7,108 Mn in 1Q22. Operating expenses rose 4.8% YOY to SAR 1,813 Mn in 1Q22 due to growth in all line items with a cost to income ratio of 25.4% in 1Q22 compared to 27.8% to 1Q21. Impairment charge remain unchanged at SAR 578 Mn in 1Q22 as charges were completely offset by recoveries. Zakat expense grew 24.1% YOY to SAR 476 Mn in 1Q22 due to increase in profitability.

Target price and recommendation

We maintain our HOLD rating on Al Rajhi Bank with a revised target price of SAR 90.00. The bank NIM is expected to benefit in a rising interest rate scenario due to positive interest rate sensitivity gap. Along with this, it held 71.3% of the total deposit in the form of CASA which will further benefit NIMs in a rising interest rate scenario. Al Rajhi recorded a healthy growth in advances in 1Q22 supported by improved economic activity. The bank revised its advances growth upward for 2022 and anticipate advances to grow in low twenties in 2022 supported by growth in mortgages and

corporate loan. The market share of mortgages rose from 41.0% in 2021 to 41.5% and corporate loans from 8.7% in 2021 to 9.0% in 1Q22. Al Rajhi also revised downward its cost of risk and efficiency guidance due to improving economic outlook. The bank NPL ratio stood at 0.62% with a healthy coverage ratio of 307.8% in 1Q22. Despite all these positives, we will remain watchful on the NIM expansion and growth in CASA deposit. Al Rajhi revised down its NIM guidance due to competitive pressure and decline in CASA deposit in 1Q22. Considering these factors, we assign a HOLD rating on the stock.

Al Rajhi Bank - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	34.4	31.6	30.3	21.8	19.3
P/B (x)	7.2	6.8	5.5	4.8	3.5
Dividend yield	2.2%	2.3%	0.8%	1.1%	2.5%

FABS Estimates & Co Data
Al Rajhi Bank - P&L

SAR mm	2Q21	1Q22A	2Q22F	YOY Ch	QOQ Ch	2021	2022	Change
Funded income	5,243	5,891	6,168	17.6%	4.7%	21,442	25,230	17.7%
Funded expense	-192	-551	-629	228.3%	14.2%	-1,050	-2,713	158.5%
Net Funded Income	5,052	5,340	5,539	9.6%	3.7%	20,392	22,516	10.4%
Fees from banking services, net	934	1,148	1,159	24.1%	1.0%	3,933	4,454	13.3%
Exchange income, net	184	237	213	16.0%	-10.0%	788	860	9.1%
Other operating income	166	232	197	18.4%	-15.0%	603	828	37.3%
Total operating Income	1,285	1,616	1,569	22.2%	-2.9%	5,324	6,143	15.4%
Net Operating Income	6,336	6,957	7,108	12.2%	2.2%	25,716	28,659	11.4%
Total operating exps	-1,730	-1,769	-1,813	4.8%	2.5%	-6,927	-7,273	5.0%
Profit before provisions	4,606	5,188	5,295	15.0%	2.1%	18,790	21,386	13.8%
Impairment charge	-584	-578	-568	-2.7%	-1.7%	-2,345	-2,808	19.7%
Total Operating Expenses	-2,314	-2,347	-2,381	2.9%	1.4%	-9,272	-10,081	8.7%
Net income before zakat	4,022	4,609	4,727	17.5%	2.6%	16,445	18,578	13.0%
Zakat	-418	-476	-487	16.6%	2.3%	-1,699	-1,915	12.7%
Net profit for the year	3,605	4,134	4,240	17.6%	2.6%	14,746	16,664	13.0%

FABS estimate & Co Data
Al Rajhi Bank - P&L KPI

	2Q21	1Q22A	2Q22F	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	79.7%	76.8%	77.9%	-181	116	79.3%	78.6%	-73
NIM	4.0%	3.5%	3.4%	-53	-3	3.9%	3.4%	-47
NIS	3.9%	3.4%	3.4%	-57	-4	3.8%	3.3%	-50
Fees & comms/OI	14.7%	16.5%	16.3%	156	-19	15.3%	15.5%	25
Exchange Income/OI	2.9%	3.4%	3.0%	10	-41	3.1%	3.0%	-6
Cost to income	27.3%	25.4%	25.5%	-180	8	26.9%	25.4%	-156
Impairment/PPP	-12.7%	-11.1%	-10.7%	195	42	-12.5%	-13.1%	-65
NP/OI	56.9%	59.4%	59.7%	276	23	57.3%	58.1%	80
ROAA	2.4%	2.4%	2.4%	1	-2	2.7%	2.4%	-27
ROAE	21.4%	21.3%	20.1%	-129	-124	23.5%	21.1%	-244

FABS estimate & Co Data

Al Rajhi Bank - Key B/S Items

	2Q21	3Q21	4Q21	1Q22A	2Q22F	YoY
SAR mm						
Net advances	390,296	420,954	452,831	484,526	506,413	29.8%
QOQ change	9.6%	7.9%	7.6%	7.0%	4.5%	
Total assets	546,139	582,684	623,672	657,628	685,550	25.5%
QOQ change	6.6%	6.7%	7.0%	5.4%	4.2%	
Customer deposits	447,506	478,331	512,072	507,892	530,747	18.6%
QOQ change	6.2%	6.9%	7.1%	-0.8%	4.5%	
Total Equity	59,670	63,637	67,309	78,341	82,581	38.4%
QOQ change	0.8%	6.6%	5.8%	16.4%	5.4%	

FABS estimate & Co Data

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