

Saudi Banking Sector – September 2022

Healthy advances growth and rising interest rates to drive net line

Sector Weighting:
MARKET WEIGHT
Preview Note 3Q2022

Preferred stock

We reiterate our MARKET WEIGHT rating on the Saudi banking sector. The KSA economic growth accelerated in 2Q22 and recorded a real GDP growth rate of 12.2% in 2Q22, the highest growth rate in more than a decade. The growth is driven by an increase in oil activity which rose 22.9 YOY in 2Q22, 8.2% YOY growth in non-oil activity, and 2.4% growth in government activity. The IMF projects real GDP to grow 7.6% and 3.7% in 2022 and 2023, respectively supported by rising energy prices. The geopolitical conflict between Russia and Ukraine is lending support to higher prices. The recently released PMI survey data for KSA indicate the business expansion in the non-oil private sector in September 2022 underpinned by a strong increase in output and new orders despite, softening in job creation and higher operating costs amid the growing threat of inflation. The seasonally adjusted S&P Global KSA PMI Index declined slightly from 57.7 in August 2022 to 56.6 in September 2022. Any reading above 50 indicates expansion while, below the same indicates contraction. The strong economic activity resulted into robust in the banking system. Total assets across the KSA banking sector rose 8.6% on YTD basis to SAR 3.6 Tn and total advances also rose 11.3% on YTD basis to SAR 2.3 Tn in August 2022. During 2Q22, aggregate profit of the 10 largest KSA rose 2.7% QOQ to SAR 15.1 Bn due to increase in benchmark interest rates.

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

1) SNB: The loan growth is further expected to benefit from increased economic activity and grow 11-13% during FY2022 as per management estimate. SNB is expected to benefit from rising interest rate scenario due to a positive commission rate gap. During 2Q22, NIMs rose from 2.91% in 1Q22 to 3.18% in 2Q22 and further expected to grow to 3.37% in 3Q22. The Bank revised its NIM guidance to 3.15% - 3.30% in FY2022. SNB achieved a cost synergy of SAR 840 Mn until 2Q22 ahead of the target of SAR 800 expected to be achieved by FY2022. It is further expected to achieve additional cost synergy of SAR 400 Mn in FY2023.

2) RIBL: Revised rating from ACCUMULATE to BUY since the stock price corrected 13.9% since our last rating. The correction provides a favorable risk-reward ratio with an attractive valuation. The advances to grow by mid-high teens in FY2022. RIBL's balance sheet is positively geared and expected to benefit in a rising interest rate scenario. Non-funded income is also expected to benefit due to an increase in economic activity and grew 16% YOY to SAR 1,803 Mn in 1H22. Due to investment in transformation program, the cost-to-income ratio declined from 34.3% in FY2021 to 33.1% in 1H22 and further expected to fall to 32.5% in FY2022.

3) ARNB: Upgraded rating from HOLD to BUY, the bank stock price remained resilient during the recent market correction. We further expect advances to grow by 19.7% in FY2022. ARNB's balance sheet is positively geared and expected to benefit in a rising interest rate scenario. The Bank NIMs grew 15 bps QOQ to 2.64% in 2Q22. The CASA ratio rose from 51.8% in 1Q22 to 52.2% in 2Q22 benefitting NIMs. ARNB's cost-to-income ratio is also expected to benefit and decline to 38.2% in FY2021 to 33.9% in FY2022. The Bank is trading at a PB ratio of 1.43x and is expected to generate a dividend yield of 3.6% in FY2022 better than the sector average of 2.23x and 2.9%, respectively during the same period.

Key Industry Themes

The global economy rebounded from the COVID-19 pandemic, the Russia-Ukraine conflict sowed seeds of geopolitical tension leaving behind a huge impact on the global frontier. Soaring oil and gas prices globally due to sanctions on Russia elevated the risk of recession across the world. Rising inflation at a rapid pace due to high consumer and energy prices in many countries resulted in central banks

around the world aggressively hike interest rates and remain hawkish in their tone on the monetary policy. On the other hand, the GCC countries benefited due to higher oil and gas prices. UAE, KSA, Qatar and Kuwait are one of the most positively impacted economies due to hike in energy oil prices. According to the IMF forecasts, Saudi Arabia is one the leading growing economies with a real GDP growth rate of 7.6% in 2022 primarily due to high inflows on oil and the Saudi Governments efforts to diversify into the non-oil sector such as petrochemicals, healthcare, hotels, and real estate. The IMF also estimates the inflation in Saudi Arabia to stay at 2.8% in 2022. The Vision 2030 initiative laid a strong foundation for economic growth. Similarly, the banking sector recorded strong growth in profitability due to the rising interest rate scenario. Overall, advances of the Saudi banks rose to SAR 2.3 Tn in August 2022 whereas total banking sector assets grew 14.3% YOY and 0.9% MOM to SAR 3.6 Tn in August 2022. Deposits also rose 10.3% YOY and 0.6% MOM to SAR 2.24 Tn in August 2022. Demand deposits increased 6.5% YOY to SAR 1.40 Tn in August 2022 mainly supported by a 42.0% YOY growth in deposits from government entities. Time and savings deposits grew 13.8% YOY to SAR 525.1 Bn in August 2022. Growth in time and savings deposits was driven by high-interest rates in the economy. Quasi-money deposits rose significantly by 23.3% YOY to SAR 320.1 Bn in August 2022 supported by a growth in foreign currency deposits which increased the most by 26.2% YOY to SAR 268.5 Bn in August 2022.

A strong post-pandemic recovery supported by high oil prices resulted a solid growth in advances in the Saudi private sector in 2Q22 growing 14.6% YOY to SAR 2.24 Tn in August 2022. The deposits also rose 10.3% YOY with a loan to deposit ratio of 81.46% in August 2022. Loan-to-deposit still remain below regulatory limit allowing credit to expand in the forecasted period. The Saudi banks also enjoy stable domestic deposits which eliminates the need for external fundings. The KSA banks benefit from a favorable deposit mix as demand deposits constitutes 62.3% of the total deposits in August 2022. KSA banks maintained healthy trend in non-performing loans as NPL ratio declined from 1.9% in 4Q21 to 1.8% in 2Q22 due to improvement in economic activity. The banks also remain well capitalised with Tier 1 capital ratio of 17.8% with a CAR of 19.4% in 2Q22.

Saudi's currency is pegged to the US dollar and the Saudi Central bank closely follows the US fed rates. The US fed raised the interest rates by 300 bps in 2022 to curb the soaring inflation in the economy. In the recent policy meet, the Fed set a hawkish tone and aims to keep hiking interest rates until it achieves long-term target inflation of 2.0% in the economy. Thus, following the Fed's decision, SAMA also hiked the interest rates by 250 bps in 2022. KSA banks are expected to benefit from the interest rate hikes because of the positive interest rate sensitivity gap which improves in NIMs in a rising interest rate scenario. The corporate lending is expected to grow as KSA plans to diversify the economy from oil to non-oil sector. Due to rise in profitability, return on assets (ROA) of the KSA banking sector rose from 1.8% in 4Q21 to 2.1% in 2Q22. Return on Equity (ROE) also grew from 10.8% in 4Q21 to 12.1% in 2Q22. It was primarily due to the increased profitability of the banks because of the rising interest rate and solid growth in advances.

Saudi Arabian Bank's mortgages grew 27% to SAR 638.26 Bn in 2Q22

Saudi Arabia's commercial bank's mortgage loan issued to retail and corporate customers rose 27% YOY in 2Q22 to SAR 638.26 Bn (USD 170 Bn) from SAR 502.73 Bn in 2Q21. However, mortgage loans granted to purchase new homes declined 23.4% YOY to SAR 7.18 Bn in July 2022 from SAR 9.38 Bn in July 2021. Retail mortgages also fell 45% MOM from SAR 13.12 Bn in June 2022. As part of its Vision 2030 initiative, Saudi Arabia plans to boost home ownership and retail mortgages rose as the government increased the number of lenders. The percentage of Saudi's owing a home rose from 47% to 62% during FY2016-20.

Saudi's Islamic Development Bank grants USD 1.12 Bn in development financing to nine member countries

The Islamic Development Bank (IsDB) approved USD 1.12 Bn for development project financing across various sectors in nine member countries along with a grant of USD 1.79 Mn for a number of other projects. The projects are approved in key sectors such as food security, health, transportation,

energy, urban development, education, water, and sanitation. The Bank authorized USD 601.70 Mn in sovereign financing for transportation projects in Guyana of USD 200 Mn, Uzbekistan USD 106.70 Mn, and Uganda USD 295 Mn. These projects are anticipated to improve access to efficient infrastructure, make marketplaces more accessible to farmers and merchants, and strengthen regional integration and tourism in member nations.

Saudi Arabia's SAMA and the UAE Central Bank signed MoU to supervise the insurance sector

The Saudi Central Bank (SAMA) and the UAE Central Bank signed an MoU to establish a general framework to supervise insurance sectors in both countries. According to the agreement, the two countries will exchange supervisory and regulatory information pertaining to solvency standards, the calculation of technical allocations, investment policy rules, and processes connected to supervision, follow-up, and enforcement of laws on insurance firms, including cross-border entities. The agreement would improve financial sector supervision system performance, investment growth, and trade cooperation, as well as enhance economic partnership between the two nations.

Saudi British Bank sells some business units from HSBC Saudi Arabia to Alawaal for USD 319 Mn

Saudi British Bank (SABB) completed the purchase and sale of its businesses from HSBC Saudi Arabia's to Alawaal Invest Company. The deal is valued at SAR 1.20 Bn and is subject to post-completion modifications as agreed between the buyer and seller. HSBC Saudi Arabia entered into an agreement with Alawaal to acquire the asset management, retail margin lending, and retail brokerage business lines of HSBC Saudi Arabia for SAR 766.49 million. Post the sale, HSBC Saudi Arabia will become a smaller, less complicated, and easier-to-manage corporation. While, Alawaal will concentrate only on asset management and retail customer service across margins.

Saudi Central Bank's assets grew 8.5% YOY to SAR 2.1 Tn in July 2022

Saudi Central Bank's assets rose 8.5% YOY in July 2022. Total assets in July 2022 exceeded SAR 2.1 Tn as compared to SAR 1.8 Tn in the previous year and SAR 1.99 Tn in June 2022. Bank deposits rose from SAR 2.04 Tn in July 2021 to SAR 2.23 Tn in July 2022. Of which, individuals and businesses contributed savings worth SAR 1.2 Tn in July 2022. Commercial bank assets rose 13.0% YOY to SAR 3.5 Tn in July 2022. International assets of banks reached SAR 262 Bn in July 2022 whereas international liabilities stood at SAR 225 Bn. IMF forecasted the Saudi economy to grow at the fastest pace in the last ten years.

SRC and Riyadh Bank signed an agreement to acquire real estate financing portfolio of USD 133 Mn

Saudi Real Estate Refinance Company (SRC) is set to acquire a real estate financing portfolio of USD 133.1 Mn as per the agreement signed with Riyadh Bank. The deal is expected to be the second largest real estate refinancing deal to be executed in KSA. The agreement is in line with SRC's target to expand in KSA by partnering with top banks. The deal will enable SRC to provide liquidity and risk management services to lenders which help in de-risking their balance sheet. It will also enhance their origination and distribution capabilities. This will result in KSA citizens getting access to suitable home financing solution and help the country in achieving its Vision 2030 goal to increase residential ownership among KSA citizens from 47% to 60% in the next four year.

Saudi National Bank starts offering SAR-denominated Additional Tier 1 Sukuk

Saudi National Bank (SNB) now offers Additional Tier 1 Sukuk in SAR currency at a par value of SAR 1 Mn. The terms and conditions of offered Sukuk will be determined by the bank on the basis of market conditions. The offering period started from 28 August 2022 which lasts till 31 December 2022. SNB Capital Company is appointed as the sole lead manager, lead arranger, and bookrunner for the ongoing offering. The intention is to issue a SAR-based Additional Tier 1 Sukuk was released by the bank in July 2022 only to eligible investors across Saudi Arabia. SNB recorded a healthy growth in net profit which rose 58.8% YOY to SAR 9.1 Bn in 1H22.

Target price and rating

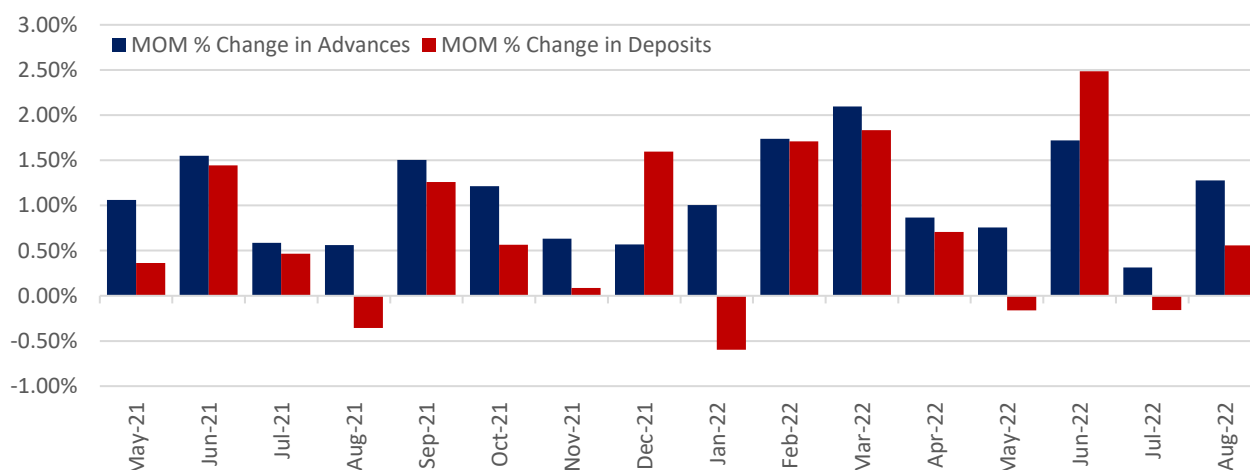
(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	95.00	85.20	11.50%	ACCUMULATE
ALBI	50.00	52.30	-4.40%	HOLD
RIBL	42.00	33.20	26.51%	BUY
ALINMA	40.00	36.95	8.25%	HOLD
SNB	83.00	63.30	31.12%	BUY
ARNB	36.00	30.65	17.46%	BUY
BSFR	51.00	42.85	19.02%	BUY

FABS Estimate

KSA Banking Liquidity

Credit Growth in KSA Banking system increased 15.8% YOY and 11.3% on YTD basis to SAR 2.3 Tn whereas, deposits rose only 10.3% YOY and 6.5% on YTD basis to SAR 2.24 Tn in August 2022. As a result, advances to deposits ratio (ADR) grew 4.8% YOY and 4.4% YTD basis to 102.2% in August 2022. Advances rose higher as compared to the deposits on a YOY basis due to solid demand in credit post-pandemic and increased economic activity in the region. Al Rajhi and SNB recorded robust growth in advances in 2Q22. However, deposits rose at a slower pace as compared to advances which resulted in squeezed liquidity in the KSA banking system. The broader (M3) money supply also rose 9.0% YOY to SAR 2.44 Tn in August 2022 creating liquidity concern in the banking system. Kingdom's currency is pegged to the strong US Dollar as a result the KSA banks closely follow the US policy rates. An aggressive interest rate hike of 300 bps in 2022 by the Fed led to an abrupt rise in the dollar index while US treasury yields also crossed the 4.0% mark.

Monthly change in KSA banking system Advances and Deposits

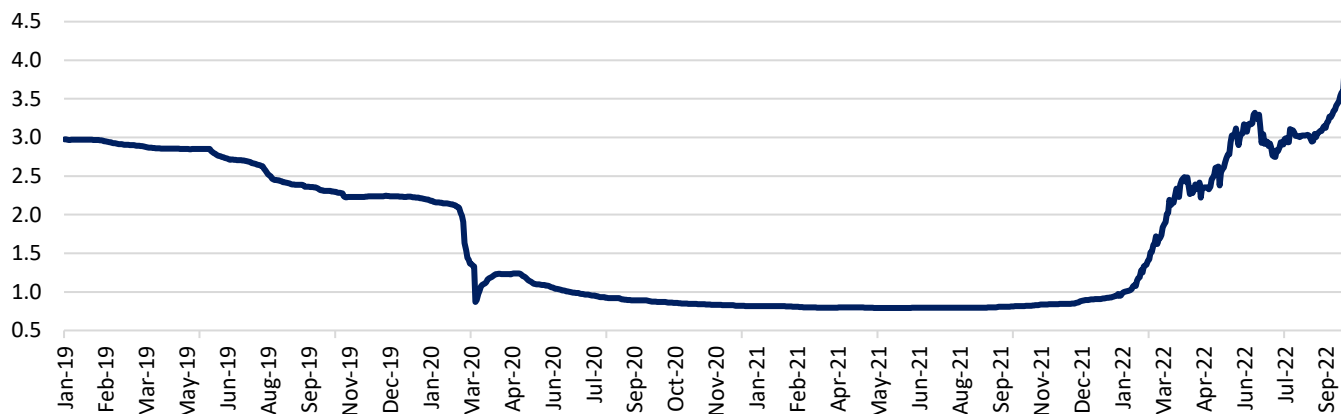


Source: FABS from SAMA data

This liquidity squeeze resulted the 3-month SAIBOR rates to rise unabated by 383.4 bps to 4.74% as of 12 October 2022. The Saudi Central Bank injected SAR 50 Bn liquidity in the banking sector in the form of deposit to mitigate this liquidity crunch. However, the banking system will need additional deposits from the private and public sector to meet this lending growth. Moreover, the Saudi government instead of adding surplus from high oil prices; indirectly injected liquidity by increasing government deposits to total deposits to control the rising rates. The injection of funds by the central

bank will help the KSA Banking system to come out of the liquidity crunch. The corporate lending and diversification of economy from oil sector would create additional demand for credit in the banking system.

3-Month SAIBOR (%) Jan 2019 – Sep 2022



Source: Bloomberg

Source: FABS from SAMA data

Saudi Arabia reported a budget surplus of around SAR 78 Bn in 2Q22 due to soaring oil prices. Thus, the central bank and government would continue to inject liquidity into the KSA banking system. However, the banks should look for additional funding sources by issuing bonds/sukuks in domestic as well as international markets to maintain positive lending growth in the economy.

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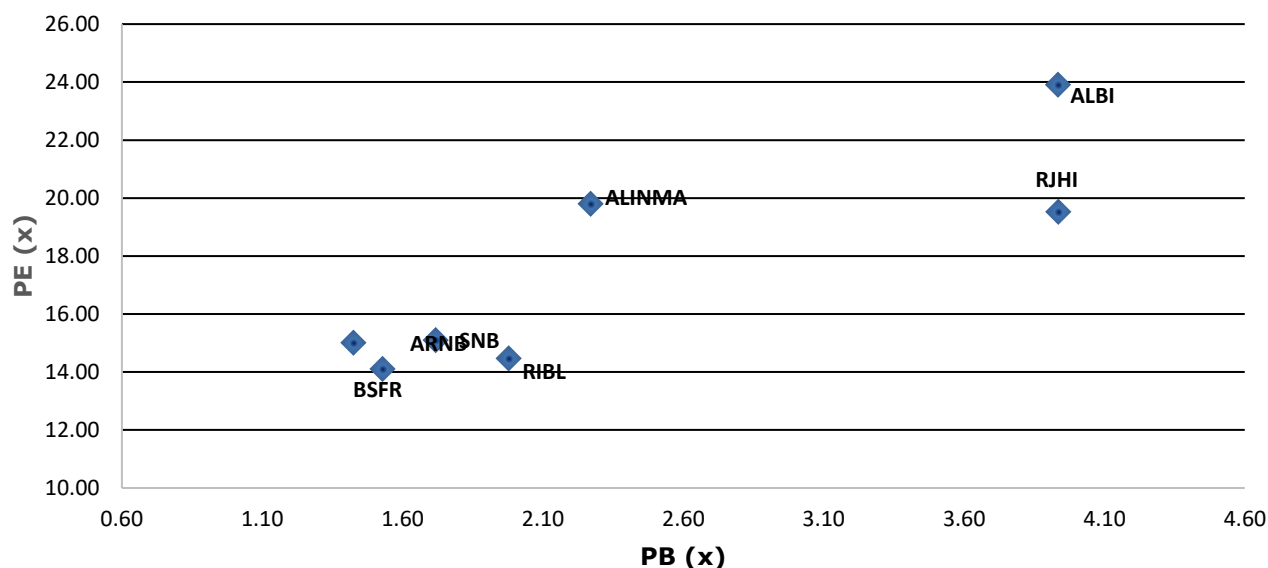
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Relative valuation and rating

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 trading at PB ratio of 3.94x and 3.93, respectively based on 2022 estimated financial. ALBI and ALINMA are the most expensive based on PE multiples trading at 23.91x and 19.79x, respectively based on FY2022 financials. ARNB is most attractive and trading at PB and PE ratio of 1.4x and 15.0x, respectively based on 2022 estimated financial.

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



Source: FABS estimate

Market Weight

Based on 4x BUYs, 1x ACCUMULATE and 2x HOLD 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 ARNB.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	95.00	85.20	11.50%	ACCUMULATE
ALBI	50.00	52.30	-4.40%	HOLD
RIBL	42.00	33.20	26.51%	BUY
ALINMA	40.00	36.95	8.25%	HOLD
SNB	83.00	63.30	31.12%	BUY
ARNB	36.00	30.65	17.46%	BUY
BSFR	51.00	42.85	19.02%	BUY

FABS Estimate

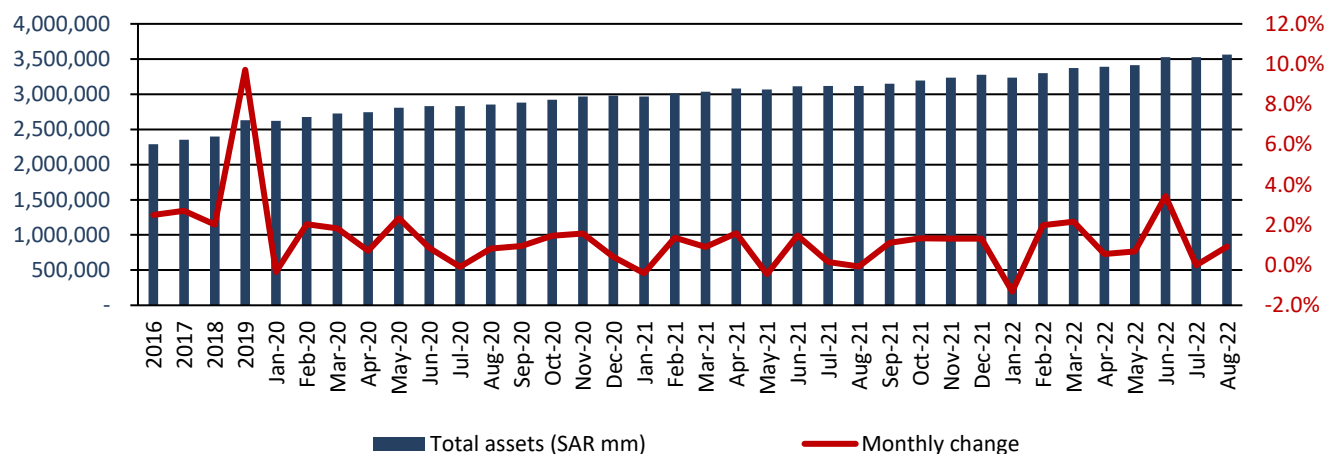
Banking indicators

1. Assets

Total banking assets increased 14.3% YOY and 0.9% MOM in August 2022

Total banking assets in KSA rose significantly 14.3% YOY and 0.9% MOM to SAR 3,561 Bn in August 2022 as compared to SAR 3,117 Bn in August 2021.

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



Source: FABS from SAMA data

Al Rajhi records the highest asset growth in 2Q22 on a YOY basis

Al Rajhi bank records the highest growth in assets to SAR 709 Bn (+30.0% YOY; 7.9% QOQ) in 2Q22 followed by Arab National Bank whose assets rose to SAR 210 Bn (+15.4% YOY; 2.5% QOQ). Saudi National Bank witnessed the slowest growth to SAR 959 Bn (+6.9% YOY; +4.0% QOQ) in 2Q22.

Total assets							
(SAR mm)	2Q21	3Q21	4Q21	1Q22	2Q22	YOY%	QOQ%
Al Rajhi	546,139	582,684	623,672	657,628	709,779	30.0%	7.9%
Bank Al Bilad	107,652	111,606	110,854	116,442	121,511	12.9%	4.4%
Riyad Bank	317,266	318,657	325,736	348,468	357,954	12.8%	2.7%
Alinma Bank	164,057	166,808	173,476	179,519	184,622	12.5%	2.8%
Saudi National Bank	896,421	902,720	914,150	921,565	958,473	6.9%	4.0%
Arab National Bank	181,877	182,275	192,502	204,620	209,828	15.4%	2.5%
Banque Saudi Fransi	211,310	213,335	215,802	222,211	231,267	9.4%	4.1%
KSA banking system	3,114,194	3,151,242	3,277,846	3,370,359	3,529,096	13.3%	4.7%

FABS from co data and SAMA

SNB holds the largest assets market share in 2Q22

SNB maintains its highest asset market share of 27.2% in 2Q22 with a decline of 162.6 basis points (bps) YOY. Al Raji holds the second-highest asset market share of 20.1% in 2Q22. Similarly, the AlRajhi Bank also recorded the highest growth of 257.5 bps YOY in 2Q22.

Assets market share

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY (bps)	QOQ (bps)
Al Rajhi	17.5%	18.5%	19.0%	19.5%	20.1%	257.5	60.0
Bank Al Bilad	3.5%	3.5%	3.4%	3.5%	3.4%	-1.4	-1.2
Riyad Bank	10.2%	10.1%	9.9%	10.3%	10.1%	-4.5	-19.6
Alinma Bank	5.3%	5.3%	5.3%	5.3%	5.2%	-3.7	-9.5
Saudi National Bank	28.8%	28.6%	27.9%	27.3%	27.2%	-162.6	-18.4
Arab National Bank	5.8%	5.8%	5.9%	6.1%	5.9%	10.5	-12.6
Banque Saudi Fransi	6.8%	6.8%	6.6%	6.6%	6.6%	-23.2	-4.0

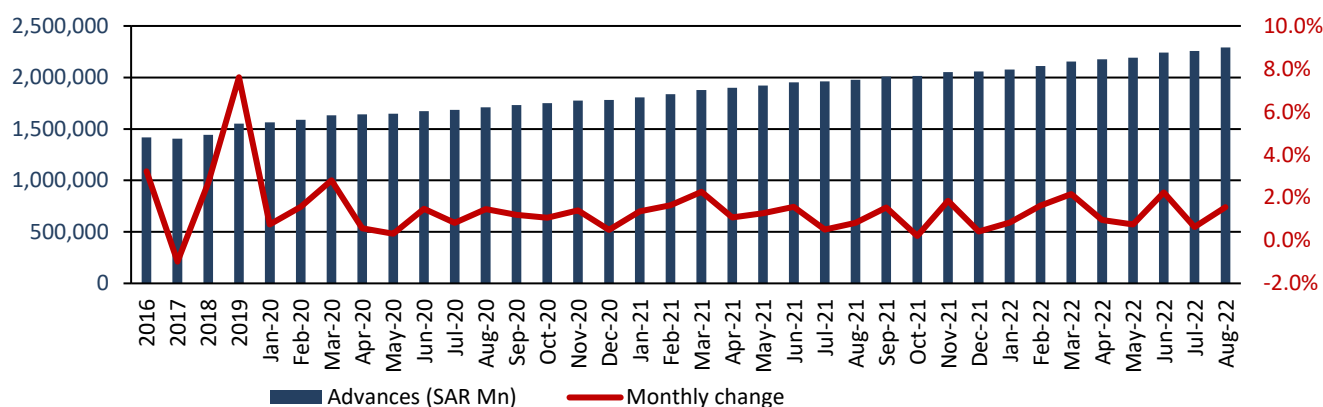
FABS from co data

2. Advances

Advances rose 1.6% MOM in August 2022

KSA Banking advances recorded solid growth to SAR 2,291 Bn (+15.8% YOY; 1.6% MOM) in August 2022 due to strong economic growth in the region.

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



Source: FABS from SAMA data

Strong overall credit growth recorded in 2Q22

Al Rajhi recorded the highest growth in advances to SAR 520 Bn (+33.2% YOY; 7.3% QOQ) in 2Q22 followed by the Arab National Bank's whose advances rose 21.4% YOY to SAR 143 Bn. The strong economic outlook across the KSA region led to a healthy growth in advances for the KSA banking sector. Alinma Bank and SNB recorded the lowest growth in advances of 9.7% and 6.6% YOY respectively in 2Q22. However, Saudi National Bank is the highest lender among the below-listed banks.

Net advances

(SAR mm)	2Q21	3Q21	4Q21	1Q22	2Q22	YOY%	QOQ%
Al Rajhi	390,296	420,954	452,831	484,526	519,701	33.2%	7.3%
Bank Al Bilad	79,130	81,799	82,933	86,391	91,206	15.3%	5.6%
Riyad Bank	204,743	210,482	217,290	234,793	239,650	17.0%	2.1%
Alinma Bank	119,623	121,318	126,271	128,965	131,193	9.7%	1.7%
Saudi National Bank	503,157	503,696	497,568	512,898	536,189	6.6%	4.5%
Arab National Bank	117,830	120,016	126,674	138,642	143,055	21.4%	3.2%
Banque Saudi Fransi	141,807	144,393	147,813	152,690	159,625	12.6%	4.5%
KSA banking system	1,952,801	2,009,160	2,059,220	2,155,861	2,241,918	14.8%	4.0%

FABS from co data

SNB remained the market leader in advances market share

SNB is leading with a 23.9% advances market share closely followed by Al Rajhi which makes up 23.2% of the total market share. However, Al Rajhi recorded the highest growth in advances market share of 319.5 bps YOY in 2Q22. Saudi National Bank's advances market share declined the most by 184.9 bps on a YOY basis. Bank Albilad has the lowest advances market share of 4.1% (1.6 bps YOY, 6.1 bps QOQ) followed by Alinma Bank and Arab National Bank at 5.9% (-27.4 bps YOY; 13.0 bps QOQ) and 6.4% (34.7 bps YOY; -5.0 bps QOQ) respectively in 2Q22.

Advances market share

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY (bps)	QOQ (bps)
Al Rajhi	20.0%	21.0%	22.0%	22.5%	23.2%	319.5	70.6
Bank Al Bilad	4.1%	4.1%	4.0%	4.0%	4.1%	1.6	6.1
Riyad Bank	10.5%	10.5%	10.6%	10.9%	10.7%	20.5	-20.1
Alinma Bank	6.1%	6.0%	6.1%	6.0%	5.9%	-27.4	-13.0
Saudi National Bank	25.8%	25.1%	24.2%	23.8%	23.9%	-184.9	12.6
Arab National Bank	6.0%	6.0%	6.2%	6.4%	6.4%	34.7	-5.0
Banque Saudi Fransi	7.3%	7.2%	7.2%	7.1%	7.1%	-14.2	3.7

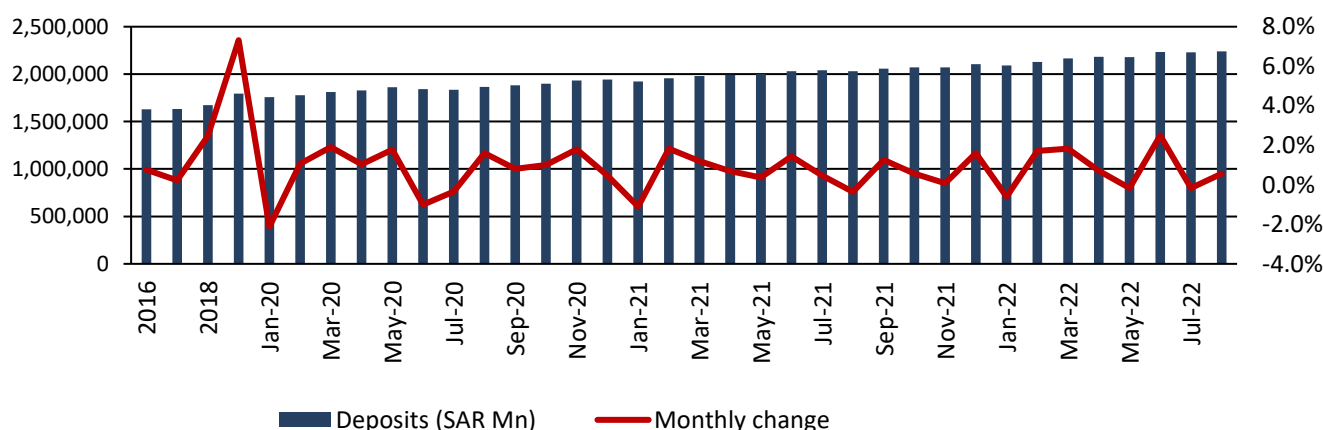
FABS from co data

3. Customer Deposits

Customer deposits rose 0.6% MOM in Aug 2022

KSA banking deposits rose to SAR 2,242 Bn (10.3% YOY; 0.6% MOM) in 2Q22, up from SAR 2,229 Bn in July 2022.

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



Source: FABS from SAMA data

Al Rajhi records the highest growth in deposits in 2Q22

Al Rajhi's deposits rose to SAR 553 Bn (+23.6% YOY; +8.9% QOQ) in 2Q22 whereas Riyad Banks' deposits increased to SAR 238 Bn (+17.3% YOY; +2.2% QOQ) in 2Q22. However, Arab National Bank and Saudi National Bank's deposits declined marginally by 0.9% and 2.0% on a QOQ basis in 2Q22. Saudi National Bank holds the highest number of deposits in 2Q22 worth SAR 593 Bn.

Deposits

(SAR mm)	2Q21	3Q21	4Q21	1Q22	2Q22	YOY%	QOQ%
Al Rajhi	447,506	478,331	512,072	507,892	552,957	23.6%	8.9%
Bank Al Bilad	81,638	82,346	81,110	86,079	89,108	9.2%	3.5%
Riyad Bank	202,453	203,996	211,678	232,416	237,477	17.3%	2.2%
Alinma Bank	125,878	116,652	121,061	128,035	130,376	3.6%	1.8%
Saudi National Bank	588,135	589,190	588,574	604,963	593,011	0.8%	-2.0%
Arab National Bank	130,220	129,395	135,714	148,138	146,791	12.7%	-0.9%
Banque Saudi Fransi	140,805	143,322	141,950	150,759	157,919	12.2%	4.7%
KSA banking system	2,030,139	2,057,984	2,104,454	2,166,619	2,232,569	10.0%	3.0%

FABS from co data and SAMA

SNB maintains highest deposit market share, while Al Rajhi share improved significantly

SNB recorded the highest market share in deposits at 26.6% in 2Q22 followed by Al Rajhi with 24.8%. SNB's deposits market share declined sharply by 240.8 bps YOY and 136.0 bps QOQ in 2Q22 whereas Al Rajhi deposits rose significantly by 272.5 bps YOY and 132.6 bps QOQ. Among other banks, ALBI and BSFR improved their deposits market share marginally on a QOQ basis in 2Q22.

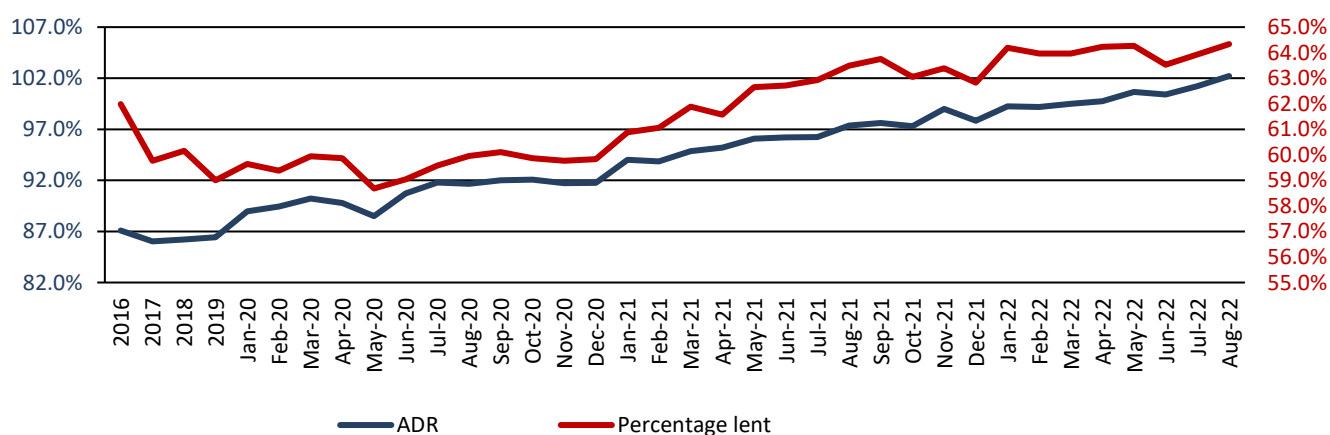
Deposits market share

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY (bps)	QOQ (bps)
Al Rajhi	22.0%	23.2%	24.3%	23.4%	24.8%	272.5	132.6
Bank Al Bilad	4.0%	4.0%	3.9%	4.0%	4.0%	-3.0	1.8
Riyad Bank	10.0%	9.9%	10.1%	10.7%	10.6%	66.5	-9.0
Alinma Bank	6.2%	5.7%	5.8%	5.9%	5.8%	-36.1	-7.0
Saudi National Bank	29.0%	28.6%	28.0%	27.9%	26.6%	-240.8	-136.0
Arab National Bank	6.4%	6.3%	6.4%	6.8%	6.6%	16.1	-26.2
Banque Saudi Fransi	6.9%	7.0%	6.7%	7.0%	7.1%	13.8	11.5

FABS from co data

4. Liquidity
System liquidity declined YOY and MOM in August 2022

KSA's banking liquidity declined in August 2022 to ADR of 102.2% from 101.2% in July 2022. The lending percentage to total assets rose marginally to 64.3% in August 2022 from 63.9% in July 2022.

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


Source: FABS from SAMA data

Most of the KSA Bank's recorded an improvement in ADR improved on a YOY basis

Al Bilad, SNB, and Arab National Bank ADR increased whereas other banks' ADR declined in 2Q22 on a QOQ basis. SNB recorded the highest growth in ADR to 90.4% (296.5 bps YOY; 563.6 bps QOQ) in 2Q22 whereas, Arab National Bank's ADR rose to 97.5% (400.5 bps YOY; 386.5 bps QOQ) in 2Q22. Al Rajhi's ADR stood at 94.0% (487.7 bps YOY; -141.4 bps QOQ) in 2Q22. Al Bilad recorded the highest ADR of 102.4% in 2Q22.

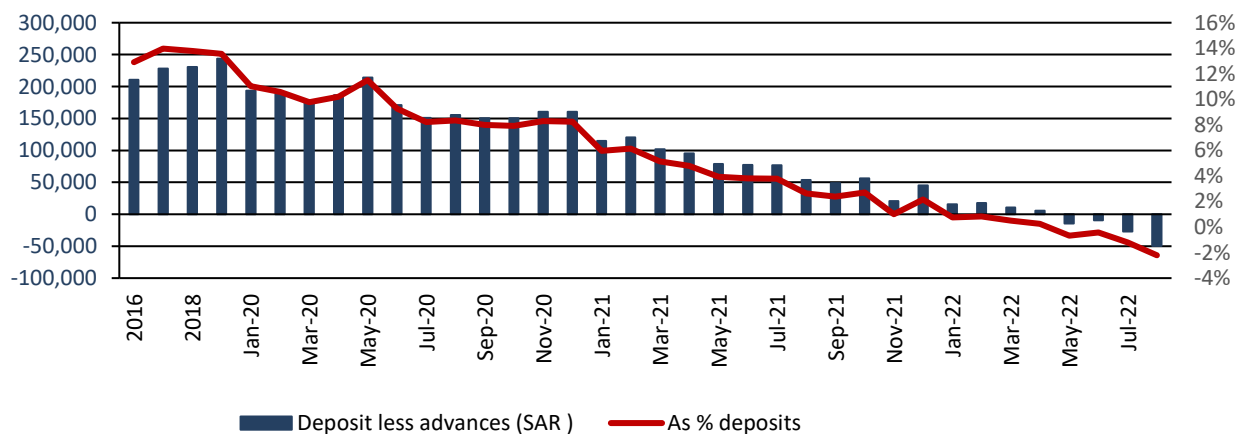
ADR	2Q21	3Q21	4Q21	1Q22	2Q22	YOY (bps)	QOQ (bps)
Al Rajhi	89.1%	88.0%	88.4%	95.4%	94.0%	487.7	-141.4
Bank Al Bilad	100.1%	99.3%	102.2%	100.4%	102.4%	221.6	199.2
Riyad Bank	103.5%	103.2%	102.7%	101.0%	100.9%	-258.4	-10.8
Alinma Bank	98.1%	104.0%	104.3%	100.7%	100.6%	249.7	-10.0
Saudi National Bank	87.5%	85.5%	84.5%	84.8%	90.4%	296.5	563.6
Arab National Bank	93.4%	92.8%	93.3%	93.6%	97.5%	400.5	386.5
Banque Saudi Fransi	104.2%	100.7%	104.1%	101.3%	101.1%	-311.3	-20.1

FABS from co data

KSA banking system deposits less advances declined 84.4% MOM in August 2022

KSA banking deposits less advances fell to a negative of SAR 50 Bn in August 2022, declining 84.4% MOM from a negative of SAR 26.9 Bn in July 2022.

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



Source: FABS from SAMA data

More than half of the KSA Banks recorded increase in deposit surplus (in absolute terms)

All banks except Banque Saudi Fransi recorded a growth in deposit surplus on a YOY basis in 2Q22. National Commercial Bank's deposit surplus stood highest at 57 Bn in 2Q22 followed by Al Rajhi's surplus of 33 Bn which provides further room to grow credit at a sustainable growth rate. Al Bilad, Riyad Bank, Alinma, and Banque Saudi Fransi recorded a negative deposit surplus in 2Q22 on absolute basis which indicates higher advances as compare to deposits.

Deposit surplus/-deficit

	2Q21	3Q21	4Q21	1Q22	2Q22	YOY%	QOQ%
SAR mm	57,210	57,377	59,242	23,366	33,256	-41.9%	42.3%
Al Rajhi	2,508	547	-1,823	-312	-2,098	-183.6%	572.4%
Bank Al Bilad	-2,290	-6,486	-5,612	-2,377	-2,173	-5.1%	-8.6%
Riyad Bank	6,256	-4,666	-5,210	-930	-817	-113.1%	-12.2%
Alinma Bank	84,978	85,494	91,006	92,065	56,823	-33.1%	-38.3%
National Commercial Bank	12,390	9,379	9,040	9,496	3,736	-69.8%	-60.7%
Arab National Bank	-1,002	-1,071	-5,863	-1,931	-1,706	70.3%	-11.7%
Banque Saudi Fransi							

FABS from co data

Banking Stock performance

ALINMA, ALBI and ARNB performed among the top five

KSA Banking Sector outperformed the UAE, Qatar and Egypt Banking Sector with an average return of 24.6%, based on a simple average. ALINMA (54.4%), ALBI (50.2%) ARNB (34.3%) and RIBL (22.3%) headed KSA banks in terms of stock performance during 2022. All Banks except SNB, RJHI and BSFR underperformed the market index TASI during 2022. ALINMA generated the highest return and BSFR generated the lowest return in the KSA Banking sector during 2022 (until 17 October 2022).

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

			UAE	KSA	Qatar	Egypt	Ranking
QIBK QD Equity	QIBK	32.4%			32.4%		4
MARK QD Equity	MARK	-12.8%			-12.8%		27
CBD UH Equity	CBD	12.6%	12.6%				10
MASQ UH Equity	MASQ	30.2%	30.2%				6
QNBK QD Equity	QNBK	-3.0%			-3.0%		22
UAB UH Equity	UAB	1.0%	1.0%				19
SIB UH Equity	SIB	2.1%	2.1%				18
CBQK QD Equity	CBQK	5.2%			5.2%		16
DSM Index	DSM	9.4%					12
RJHI AB Equity	RJHI	-4.1%		-4.1%			23
SASEIDX Index	TASI	3.9%					17
ADSMI Index	ADI	18.2%					9
ALINMA AB Equity	ALINMA	54.4%		54.4%			1
ALBI AB Equity	ALBI	50.2%		50.2%			2
BSFR AB Equity	BSFR	-9.4%		-9.4%			25
RAKBANK UH Equity	RAKBANK	6.7%	6.7%				13
DHBK QD Equity	DHBK	-28.1%			-28.1%		31
COMI EC Equity	COMI	-24.2%				-24.2%	30
FAB UH Equity	FAB	-6.0%	-6.0%				24
EGX30 Index	EGX30	-15.2%					29
BOS UH Equity	BOS	-14.5%	-14.5%				28
SNB AB Equity	NCB	-1.9%					20
DFMGI Index	DFM	6.3%					14
ARNB AB Equity	ARNB	34.3%		34.3%			3
RIBL AB Equity	RIBL	22.3%		22.3%			7
CBI UH Equity	CBI	19.0%	19.0%				8
EMIRATES UH Equity	ENBD	-2.6%	-2.6%				21
ADIB UH Equity	ADIB	31.0%	31.0%				5
DIB UH Equity	DIB	12.1%	12.1%				11
AJMANBAN UH Equity	AJMANBANK	-11.4%	-11.4%				26
ADCB UH Equity	ADCB	5.6%	5.6%				15
AVERAGE			6.6%	24.6%	-1.3%	-24.2%	

FABS from Bloomberg

3Q22 preview: Saudi National Bank

Advances growth and cost synergy to drive bottom line

CMP (SAR): 63.30

Potential upside/(downside) (%): **+31.12%**

12-m target price:

SAR 83.00

Stock rating:

BUY

3Q22 estimate

Saudi National Bank's (the bank/SNB) net profit is forecasted to grow 29.2% YOY to SAR 4,892 Mn in 3Q22 primarily due to robust growth in net advances driving the bank's top line. SNB's funded income is likely to grow 39.00% YOY to SAR 9,574 Mn in 3Q22. Whereas, funded expenses are expected to grow from SAR 805 Mn in 3Q21 to SAR 2,142 Mn in 3Q22 due to a rise in benchmark rates. Non-funded income is forecasted to decline marginally by 5.1% YOY to SAR 1,630 Mn due to a 25.0% YOY growth in other operating expenses and a sharp decline in income from FVIS investments partially offset by growth in fee and commission income. Fees and commission income is estimated to grow significantly by 25.2% YOY to 1,003 Mn in 3Q22 mainly due to solid fee income from banking services which grew 9% YOY in 1H22. Resultantly, operating income is likely to grow 16.2% YOY to SAR 9,063 Mn in 3Q22. Total Operating expenses are expected to decline marginally by 1.6% YOY to AD 2,707 Mn in 3Q22 as we expect a 20.1% YOY decline in amortization expenses and a fall of 9.1% YOY in other general and administrative expenses. Furthermore, impairments are expected to decline 14.6% YOY to SAR 619 Mn in 3Q22 whereas zakat expenses are likely to increase from SAR 487 Mn in 3Q21 to SAR 804 Mn in 3Q22 due to growth in profit before tax.

2022 forecast

Saudi National Bank's net profit is expected to increase significantly from SAR 12,668 Mn in 2021 to SAR 18,777 Mn in 2022 mainly due to a strong growth in the SNB's revenue driven by growing net advances. SNB's funded income is expected to grow 41.4% YOY to SAR 35,595 Mn in 2022. Similarly, funded expenses are expected to grow significantly from 3,060 Mn in 2021 to SAR 7,568 Mn in 2022. Thus, net funded income is likely to grow 26.7% YOY to SAR 28,028 Mn in 2022. Non-funded income is estimated to rise 7.9% YOY to SAR 6,845 Mn in 2022. As a result, operating income is likely to grow 22.5% YOY to SAR 34,872 Mn in 2022. Employee-related expenses are expected to grow 8.3% YOY to SAR 4,783 Mn in 2022 whereas other general and administrative expenses are estimated to decline 7.2% YOY to SAR 2,919 Mn. Resultantly, Total Operating expenses are expected to grow 7.5% YOY to SAR 10,607 Mn in 2022. Impairment charges are expected to reduce 37.9% YOY to SAR 2,440 Mn in 2022 due to strong economic growth. Zakat expense is anticipated to rise from SAR 1,653 Mn in 2021 to SAR 2,881 Mn in 2022.

2Q22 outturn

SNB's funded income grew 20.9% YOY to SAR 8,227 Mn in 2Q22 due to strong growth in net advances. Similarly, funded expenses rose significantly from SAR 915 Mn in 2Q21 to SAR 1,421 Mn in 2Q22 due to the interest rate hike. The bank's financials were positively impacted due to the merger with Samba Financial Group. The bank's non-funded income declined 7.8% YOY to SAR 1,567 Mn in 2Q22. Therefore, operating income grew 10.4% YOY to SAR 8,373 Mn in 2Q22. Furthermore, SNB's operating expenses declined marginally by 2.2% YOY to SAR 2,565 Mn in 2Q22 mainly due to a decline in amortization cost and lower rent expenses, and other general and administrative expenses as a result of cost synergies due to the merger. Impairment charges declined sharply from SAR 2,415 Mn in 2Q21 to SAR 593 Mn in 2Q22. Zakat expenses increase significantly from SAR 275 Mn in 2Q21 to SAR 696 Mn in 2Q22 due to a higher profit before tax. Resultantly, net profit rose 103.8% YOY to SAR 4,589 Mn in 2Q22.

Target price and recommendation

We maintain our BUY rating on SNB with a target price of SAR 83.00. SNB recorded a loan growth of 7.8% on YTD basis to SAR 536.2 Bn in 2Q22 led by a 7% YTD growth in wholesale financing and 9% growth in retail loans. In the retail loans, mortgages recorded strong growth of 12% on YTD basis to SAR 132.3 Bn in 2Q22. The loan growth is further expected to benefit from increased economic activity and grow 11-13% during FY2022 as per management estimate. SNB is expected to benefit from rising interest rate scenario due to a positive commission rate gap i.e., the Bank's balance sheet is positively geared in a rising interest rate scenario benefitting NIMs. During 2Q22, NIMs rose from 2.91% in 1Q22 to 3.18% in 2Q22 and further expected to grow to 3.37% in 3Q22. The Bank revised its NIM guidance to 3.15% - 3.30% in FY2022. CASA deposits make up 78.5% of total deposit in 2Q22 declining marginally from 78.8% in 1Q22. Due to recent merger with Samba Financial Group, SNB is expected to enjoy revenue as well as cost synergies. SNB achieved a cost synergy of SAR 840 Mn until 2Q22 ahead of the target of SAR 800 expected to be achieved by FY2022. It is further expected to achieve additional cost synergy of SAR 400 Mn in FY2023. Thus, cost-to-income ratio is expected to decline from 34.7% in FY2021 to 30.4% in FY2022. The Bank's NPL excluding purchase or originated credit impaired (POCI) stood at 1.63% in 2Q22, with a healthy coverage ratio of 132.2%. SNB's stage 2 loans stood at 4.1% of total loan in 2Q22 which is the lowest among the peer group. According to 2Q22 financials, the loan book comprises of 52.9% retail loan and 40.4 % corporate loans allowing to reprice its assets with little or some delay. The Bank is expected to generate an ROA of 1.9% in FY2022 which is inline with industry average, while it is trading at PB of 1.7x compared to industry average of 2.2x in FY2022. Due to the aforementioned factors, we assign a BUY rating on the stock.

SNB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE (x)	20.55	17.25	17.25	21.24	15.10
PB (x)	3.49	3.28	2.74	1.79	1.72
Dividend yield %	3.3%	3.6%	1.3%	2.4%	3.3%

FABS Estimates & Co Data

SNB - P&L

SAR mm	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Commission income	6,887	8,227	9,574	39.0%	16.4%	25,181	35,595	41.4%
Commission expense	805	1,421	2,142	166.1%	50.7%	3,060	7,568	147.3%
Net funded income	6,082	6,806	7,432	22.2%	9.2%	22,120	28,028	26.7%
Fees and commissions	801	983	1,003	25.2%	2.0%	3,041	3,956	30.1%
Exchange income, net	363	334	340	-6.2%	2.0%	1,582	1,432	-9.5%
Income from FVIS investment	634	387	391	-38.3%	1.0%	1,524	1,597	4.8%
Gains/Loss on non-trading invst	119	144	145	22.0%	1.0%	1,027	814	-20.7%
Other Operating Income / Exp	-200	-281	(250)	25.0%	-11.1%	-831	-954	14.8%
Non-funded income	1,718	1,567	1,630	-5.1%	4.0%	6,342	6,845	7.9%
Operating income	7,800	8,373	9,063	16.2%	8.2%	28,462	34,872	22.5%
Salaries and emp-related exps	1,196	1,139	1,202	0.5%	5.6%	4,418	4,783	8.3%
Rent and premises-related exps	137	135	143	3.8%	5.8%	511	552	8.0%
Dep of property and equipment	303	382	381	25.9%	-0.2%	1,100	1,442	31.0%
Amort of intangible assets	293	205	234	-20.1%	14.1%	689	911	32.3%
Other G&A expenses	822	704	747	-9.1%	6.0%	3,146	2,919	-7.2%
Total operating Expenses	2,751	2,565	2,707	-1.6%	5.5%	9,864	10,607	7.5%
Other non-operating inc (exp), net	-14	93	10	-172.1%	-89.2%	-234	16	-106.7%
Pre-provision profit	5,035	5,900	6,366	26.4%	7.9%	18,365	24,282	32.2%
Impairment	725	593	619	-14.6%	4.3%	3,927	2,440	-37.9%
PBT	4,310	5,307	5,746	33.3%	8.3%	14,438	21,842	51.3%
Zakat	487	696	804	65.3%	15.6%	1,653	2,881	74.2%
Profit after tax	3,823	4,611	4,942	29.3%	7.2%	12,784	18,961	48.3%
Non-controlling interest	38	22	49	31.1%	126.8%	116	184	58.6%
Profit after tax	3,785	4,589	4,892	29.2%	6.6%	12,668	18,777	48.2%

FABS estimate & Co Data

SNB - P&L KPI

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	78.0%	81.3%	82.0%	403	73	77.7%	80.4%	265
NIM	3.0%	3.18%	3.37%	39	19	3.2%	3.2%	5
NIS	2.9%	3.1%	3.2%	30	15	3.1%	3.1%	-2
Fees & comms/OI	10.3%	11.7%	11.1%	80	-68	10.7%	11.3%	66
Cost to income	35.3%	30.6%	29.9%	-540	-77	34.7%	30.4%	-424
Impairment/PPP	14.4%	10.1%	9.7%	-467	-33	21.4%	10.0%	-1,134
NP/OI	48.5%	54.8%	54.0%	545	-82	44.5%	53.8%	934
ROAE	13.9%	14.6%	16.1%	226	153	11.6%	12.4%	84
ROAA	2.3%	2.3%	2.5%	25	21	1.4%	1.9%	51

FABS estimate & Co Data

SNB- Key BS Items

	3Q21	4Q21	1Q22	2Q22	3Q22F	YOY Ch
SAR mm						
Net advances	503,696	497,568	512,898	536,189	544,134	8.0%
QOQ Change	0.4%	-1.2%	3.1%	4.5%	1.5%	
Total assets	902,720	914,150	921,565	958,473	972,528	7.7%
QOQ Change	0.6%	1.3%	0.8%	4.0%	1.5%	
Customer deposits	589,190	588,574	604,963	593,011	610,850	3.7%
QOQ Change	0.2%	-0.1%	2.8%	-2.0%	3.0%	
Total equity	160,522	162,770	165,143	161,721	165,885	3.3%
QOQ Change	0.0%	1.4%	1.5%	-2.1%	2.6%	

FABS estimate & Co Data

3Q22 preview: Banque Saudi Fransi

Rising advances and interest rates to boost bottom line

CMP (SAR): 42.85

Potential upside/(downside) (%): **+19.02%**

12-m target price:

SAR 51.00

Stock rating:

BUY

3Q22 estimate

We forecast Banque Saudi Fransi (the bank/BSFR) to report net profit growth of 3.4% YOY to SAR 938 Mn in 3Q22 primarily due to expected growth in net funded income. The net funded income is estimated to rise significantly by 16.5% YOY to SAR 1,658 Mn in 3Q22 driven by solid growth in net advances. Funded expenses are anticipated to increase from SAR 119 Mn in 3Q21 to SAR 486 Mn in 3Q22 mainly due to a rise in benchmark rates. Non-funded income is expected to decline 8.8% YOY to SAR 447 Mn in 3Q22 driven by an expected decline in fee and commission income and trading income. Therefore, operating income is likely to grow 10.0% YOY to SAR 2,105 Mn in 3Q22. We expect the total operating expenses to grow 17.2% YOY to SAR 713 Mn in 3Q22 due to growth in employee-related expenses and an increase in other general and administrative expenses. The cost-to-income ratio will likely rise by 208 bps to 33.8% in 3Q22. Provisions are estimated to increase 23.3% YOY to SAR 356 Mn in 3Q22. Tax expense is anticipated to decline 10.1% YOY to SAR 98 Mn in 3Q22.

2022 forecast

We expect BSFR's net profit to grow by 6.2% YOY to SAR 3,663 Mn in 2022 due to an increase in net funded income partially offset by rise in operating expenses. Net funded income is expected to grow 17.9% YOY to SAR 6,333 Mn in 2022 due to growth in benchmark rates. Non-funded income is expected to grow marginally by 2.2% YOY to SAR 1,855 Mn in 2022 due to growth in exchange income and a rise in trading income partially offset by a decline in fee and commission income. As a result, operating income is likely to grow 13.9% YOY to SAR 8,188 Mn in 2022. Operating expenses are anticipated to rise by 12.2% YOY to SAR 2,746 Mn in 2022. Similarly, we expect impairment charges to grow from SAR 904 Mn in 2021 to SAR 1,382 Mn in 2022. Tax charges are anticipated to rise 2.4% YOY to SAR 397 Mn in 2022 due to a higher profit before tax.

2Q22 outturn

The bank's funded income grew 21.1% YOY to SAR 1,767 Mn in 2Q22 mainly due to solid growth in net advances. Funded expenses rose significantly from SAR 129 Mn in 2Q21 to SAR 318 Mn in 2Q22 due to hike in interest rates. Therefore, net funded income rose 8.9% YOY to SAR 1,449 Mn in 2Q22. Non-funded income stood at 447 Mn in 2Q22 due to growth in trading and exchange income. As a result, operating income increased 8.1% YOY to SAR 1,896 Mn in 2Q22. Operating expenses stood at SAR 648 Mn mainly due to growth in employee-related costs. Whereas, impairment charges rose significantly by 18.4% YOY to SAR 319 Mn in 2Q22. Tax expenses rose 5.2% YOY at SAR 91 Mn in 2Q22.

Target price and recommendation

We revise our rating on Banque Saudi Fransi from HOLD to BUY with a target price of SAR 51.00. The Bank stock price corrected 21.6% since our last rating (i.e., 02 August 2022). This correction in the stock price provides a favorable risk-reward ratio with an attractive valuation. We have also revised our net profit estimate upward by 2% for FY2022. BSFR registered an advances growth of 8.0% on the YTD basis which is in line with the total banking advances growth registered across KSA. It further expects advances to grow by the low to mid-teens in FY2022. The Bank is expected to benefit from the credit growth in the corporate segment. The commercial segment constitutes 82% of total credit as of 1H22. We also expect BSFR NIM to benefit in a rising interest rate environment due to the positive interest rate sensitivity gap. The NIMs rose 12 bps QOQ to 2.68% in 2Q22. Operating expenses rose 3% YOY to SAR 1,253 Mn in 1H22 with a cost-to-income ratio of 33.4% in

1H22 compared to 34.0% in FY2021. We expect by FY2022 cost-to-income ratio will amount to 33.5%. Coverage of the non-performing loans also remains abundant with a ratio of 126.5% in 1H22 compared to 122.7% in FY2021. BSFR is able to maintain healthy capitalization with a Tier 1 Capital ratio of 18.1% in 2Q22 and expects to maintain such levels in the forecasted period. The Bank is trading at a PB ratio of 1.53x and is expected to generate a dividend yield of 3.9% in FY2022 compared to the sector average of 2.23x and 2.9%, respectively during the same period. Thus, based on our analysis, we revise our rating to BUY.

BSFR – Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	36.62	16.48	34.56	15.87	14.10
PB	1.73	1.63	1.54	1.53	1.53
Dividend Yield	3.8%	4.6%	0.9%	3.5%	3.9%

FABS Estimates & Co Data

BSFR – P&L

SAR mm	3Q21	2Q22	3Q22E	YOY Ch	QOQ Ch	2021	2022F	Change
Special commission income	1,542	1,767	2,144	39.0%	21.3%	5,869	7,953	35.5%
Special commission expense	119	318	486	309.6%	52.7%	495	1,620	227.3%
Net special commission income	1,424	1,449	1,658	16.5%	14.5%	5,373	6,333	17.9%
fee and commission income	295	278	281	-4.8%	1.0%	1,213	1,148	-5.3%
Exchange income, net	87	99	100	15.1%	1.0%	336	399	18.6%
Trading income, net	84	41	42	-50.2%	1.0%	172	192	11.6%
Dividend income	0	4	0	NM	NM	2	7	371.7%
Gains/ Losses on non-trading invst	8	0	0	NM	NM	28	3	-90.0%
Other operating income	17	25	25	49.6%	2.0%	64	106	66.3%
Non-funded income	490	447	447	-8.8%	0.1%	1,814	1,855	2.2%
Operating income	1,914	1,896	2,105	10.0%	11.1%	7,188	8,188	13.9%
Salaries and employee-related exp	355	362	404	13.7%	11.5%	1,397	1,546	10.7%
Rent and premises-related exp	17	18	20	16.7%	8.0%	66	73	10.6%
Depreciation and amortization	54	58	63	16.8%	9.6%	225	239	6.1%
Other G&A exp	182	210	226	24.3%	7.6%	758	887	17.0%
Total operating Expenses	608	648	713	17.2%	10.0%	2,447	2,746	12.2%
Pre-provision profit	1,306	1,248	1,393	6.7%	11.6%	4,741	5,442	14.8%
Impairment	289	319	356	23.3%	11.5%	904	1,382	53.0%
PBT	1,017	928	1,037	1.9%	11.7%	3,837	4,060	5.8%
Tax	110	91	98	-10.1%	7.9%	388	397	2.4%
Net profit attributable	907	837	938	3.4%	12.1%	3,450	3,663	6.2%

FABS Estimates & Co Data

BSFR – P&L KPI

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	74.4%	76.4%	78.8%	437	234	74.8%	77.3%	259
NIM	2.8%	2.68%	2.95%	13	27	2.8%	2.8%	9
NIS	2.7%	2.48%	2.63%	-11	15	2.7%	2.6%	-9
Fees & comms/OI	15.4%	14.66%	13.33%	-207	-133	16.9%	14.0%	-285
Trading/OI	4.4%	2.2%	2.0%	-240	-20	2.4%	2.3%	-5
Cost to income	31.8%	34.2%	33.8%	208	-34	34.0%	33.5%	-51
Impairment/PPP	22.1%	25.6%	25.6%	345	-2	19.1%	25.4%	634
NP/OI	47.4%	44.2%	44.6%	-285	40	48.0%	44.7%	-326
ROAE	7.4%	10.9%	11.1%	367	20	10.1%	10.9%	76
ROAA	1.2%	1.6%	1.5%	34	-5	1.7%	1.6%	-11

FABS estimate & Co Data

BSFR- Key BS Items

	3Q21	4Q21	1Q22	2Q22	3Q22F	YOY Ch
SAR mm						
Net advances	144,393	147,813	152,690	159,625	165,444	14.6%
QOQ Change	1.8%	2.4%	3.3%	4.5%	3.6%	
Total assets	213,335	215,802	222,211	231,267	240,151	12.6%
QOQ Change	1.0%	1.2%	3.0%	4.1%	3.8%	
Customer deposits	143,322	141,950	150,759	157,919	159,403	11.2%
QOQ Change	1.8%	-1.0%	6.2%	4.7%	0.9%	
Total equity	39,242	39,686	39,428	37,742	37,776	-3.7%
QOQ Change	0.0%	1.1%	-0.7%	-4.3%	0.1%	

FABS estimate & Co Data

3Q22 preview: Riyadh Bank

Upgraded to Buy

CMP (SAR): 33.20

Potential upside/(downside) (%): **+26.51%**

12-m target price:

SAR 42.00

Stock rating:

BUY

3Q22 estimate

Riyadh Bank is forecasted to report a substantial 15.4% YOY increase in net profit to SAR 1,780 Mn in 3Q22. The improvement in performance is mainly expected due to increase in bank's special commission income and lower impairments which is partially offset by an increase in special commission expense. Special commission income is anticipated to increase significantly 51.3% in 3Q22 to SAR 3,291 Mn mainly due to increase in bank's loan portfolio and rise in asset yield. While, on the other hand, special commission expense of the bank is expected to increase to SAR 711 Mn in 3Q22, as compared to SAR 194 Mn in 3Q21. Resultantly, net special commission income is anticipated to increase 30.2% YOY to SAR 2,579 Mn in 3Q22. We forecast NIM to further increase 29 bps YOY to 2.8% in 3Q22. While, total other operating income is expected to marginally decline 0.4% YOY to SAR 832 Mn in 3Q22. Thus, net operating income is expected to rise 21.1% YOY to SAR 3,411 Mn in 3Q22. Operating expenses are forecasted to rise to SAR 1,107 Mn in 3Q22 compared to SAR 1,008 Mn in 3Q21 due to bank's expected investment in transformation program. We forecast the Cost-to-Income ratio to improve to 32.5% in 3Q22 compared to 35.8% in 3Q21. Impairment charges are expected to reduce to SAR 315 Mn in 3Q22, down from SAR 355 Mn in 2Q22.

2022 forecast

We expect Riyadh Bank to record a 14.2% YOY increase in net profit to SAR 6,883 Mn in FY2022, owing to the increase in special commission income of the bank which is partially offset by an increase in special commission expenses and an increase in operating expenses. Special commission income is forecasted to rise 33.7% YOY to SAR 12,177 Mn in FY2022, while the special commission expense is anticipated to increase to SAR 2,271 Mn, resulting in a 19.5% YOY increase in net special commission income to SAR 9,906 Mn in FY2022. Total other operating income is estimated to increase 6.2% YOY to SAR 3,476 Mn in FY2022, led by an expected 19.0% YOY increase in fees and commissions to SAR 2,521 Mn in FY2022, which is partially offset by an expected decline in other non-operating income to SAR 764 Mn in FY2022 from SAR 951 Mn in FY2021. Total operating expenses are predicted to increase 9.8% YOY to SAR 4,355 Mn in FY2022 mainly due to bank's ongoing transformation program. Subsequently, the cost-to-income ratio is expected to improve by 173 bps to 32.5% in FY2022 mainly due to higher revenue. Impairments charges are anticipated to increase to SAR 1,247 Mn in FY2022 as compared to SAR 853 Mn in FY2021.

2Q22 outturn

The Bank's net special commission income increased significantly 11.7% YOY to SAR 2,397 Mn, mainly attributable to a significant increase in the special commission income which is partially offset by an increase in impairments charges. Special commission income rose 23.2% YOY to SAR 2,867 Mn in 2Q22 due to a significant increase in bank's interest earning asset and a rise in asset yield. While on the other hand, special commission expense significantly rose to SAR 470 Mn in 2Q22 as compared to SAR 181 Mn in 2Q21. As a result, net funded income rose 11.7% YOY to SAR 2,397 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. Resultantly, total operating income grew 8.5% YOY to SAR 3,230 Mn in 2Q22. Operating expenses increased 5.6% YOY to SAR 1,068 Mn in 2Q22, led by increases in salaries and employee-related expenses partially offset by a reduction in G&A expense. Cost to income ratio improved 102 bps to 32.9% in 2Q22. Pre-provision profit rose 10.1% YOY to SAR 2,166 Mn in 2Q22. The impairment charge rose from SAR 248 Mn in 2Q21 to SAR 353 Mn in

2Q22. Thus, profit before tax grew 5.8% YOY to 1,809 Mn in 2Q22. Tax expenses remained unchanged at SAR 198 Mn in 2Q22 as compared to 2Q21.

Target price and recommendation

We revise our rating on RIBL from 'ACCUMULATE' to 'BUY' with an unchanged target price of SAR 42.00. The Bank stock price corrected 13.9% since our last rating (i.e., 05 August 2022). This correction in the stock price provides a favorable risk-reward ratio with an attractive valuation. Riyadh Bank is the third largest Bank in KSA, and it is projected to benefit from a revival in economic activity. The Bank's loan book rose 10.3% on YTD basis to SAR 239.7 Bn in 2Q22 mainly due to an increase in commercial and mortgage loans. This loan growth is higher than the industry average of 8.5% recorded until June 2022. It further expects advances to grow by mid-high teens in FY2022. RIBL's balance sheet is positively geared and expected to benefit in a rising interest rate scenario. The Bank NIMs grew 14 bps QOQ to 2.77% in 2Q22. It further added SAR 12 Bn in CASA deposit from FY2021 until 2Q22. Non-funded income is also expected to benefit due to an increase in economic activity and grew 16% YOY to SAR 1,803 Mn in 1H22. Due to investment in transformation program, the cost-to-income ratio declined from 34.3% in FY2021 to 33.1% in 1H22 and further expected to fall to 32.5% in FY2022. Credit quality is also expected to remain stable with a coverage ratio of 119.5% during 1H22. The bank's capitalization also remained healthy with an CET1 ratio of 15.5% and a total CAR ratio of 19.5% in 2Q22. RIBL is expected to generate a ROA of 2.0% with a dividend yield of 3.3% better than the industry average of 1.9% and 2.9%, respectively in FY2022. Due to the aforementioned factors, we assign 'BUY' rating on the stock.

RIBL - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	23.2	17.8	21.1	16.5	14.5
P/B (x)	2.8	2.6	2.2	2.2	2.0
Dividend Yield	2.3%	3.2%	1.5%	3.1%	3.3%

FABS Estimates & Co Data

RIBL - P&L

SAR mm	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Special commission income	2,175	2,867	3,291	51.3%	14.8%	9,108	12,177	33.7%
Special commission expense	-194	-470	-711	267.6%	51.3%	-815	-2,271	178.7%
Net special commission income	1,982	2,397	2,579	30.2%	7.6%	8,293	9,906	19.5%
Fee and commission income, net	537	628	634	18.2%	1.0%	2,118	2,521	19.0%
Trading losses, net	78	41	41	-47.4%	1.0%	206	192	-6.7%
Other Operating Income	220	165	156	-29.0%	-5.2%	951	764	-19.7%
Total other operating income	835	834	832	-0.4%	-0.2%	3,275	3,476	6.2%
Operating income	2,817	3,230	3,411	21.1%	5.6%	11,568	13,383	15.7%
Operating expenses	-1,008	-1,064	-1,107	9.8%	4.0%	-3,965	-4,355	9.8%
Pre-provision profit	1,808	2,166	2,304	27.4%	6.4%	7,603	9,028	18.7%
Impairment	-69	-353	-315	358.5%	-10.9%	-853	-1,247	46.3%
Share in earnings of associates, net	-13	-4	0	-100.0%	-100.0%	-32	-72	123.0%
Profit Before Tax	1,727	1,809	1,989	15.2%	10.0%	6,718	7,709	14.7%
Tax	-184	-198	-209	13.5%	5.7%	-693	-826	19.2%
Net profit	1,543	1,611	1,780	15.4%	10.5%	6,025	6,883	14.2%

FABS estimate & Co Data

RIBL - KPI

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	70.4%	74.2%	75.6%	526	142	71.7%	74.0%	233
NIM	2.5%	2.77%	2.8%	29	6	2.8%	2.9%	7
NIS	2.5%	2.6%	2.6%	17	0	2.8%	2.7%	-3
Fee & Comm/OI	19.1%	19.4%	18.6%	-46	-85	18.3%	18.8%	53
Trading/OI	2.8%	1.3%	1.2%	-157	-5	1.8%	1.4%	-34
Cost to income	35.8%	32.9%	32.5%	-334	-50	34.3%	32.5%	-173
Impairment/PPP	3.8%	16.3%	13.7%	987	-265	11.2%	13.8%	260
NP/OI	54.8%	49.9%	52.2%	-258	232	52.1%	51.4%	-66
ROAE	11.7%	13.6%	13.8%	213	22	13.4%	14.3%	95

ROAA	1.7%	1.8%	1.8%	15	3	1.9%	2.0%	10
FABS estimate & Co Data								

RIBL - Key B/S items

	3Q21	4Q21	1Q22	2Q22	3Q22F	YOY Ch
SAR mm						
Net advances	210,482	217,290	234,793	239,650	246,806	17.3%
QOQ change	2.8%	3.2%	8.1%	2.1%	3.0%	
Total assets	318,657	325,736	348,468	357,954	360,950	13.3%
QOQ change	0.4%	2.2%	7.0%	2.7%	0.8%	
Customer deposits	203,996	211,678	232,416	237,477	243,158	19.2%
QOQ change	0.8%	3.8%	9.8%	2.2%	2.4%	
Total equity	46,050	47,300	48,051	46,636	48,416	5.1%
QOQ change	3.4%	2.7%	1.6%	-2.9%	3.8%	
FABS estimate & Co Data						

3Q22 preview: Arab National Bank

Upgraded to BUY

CMP (SAR): 30.65

Potential upside/(downside) (%): **+17.46%**

12-m target price:

SAR 36.00

Stock rating:

BUY

3Q22 estimate

Arab National Bank (ARNB) is expected to record a 12.4% YOY growth in net profit to SAR 748 Mn in 3Q22. Funded income will be primarily driven by strong growth in net advances. Funded income is expected to grow 48.6% YOY to SAR 2,057 Mn as we expect a robust 22.7% YOY growth in net advances in 3Q22. Funded expense is expected to increase from SAR 131 Mn in 3Q21 to SAR 596 Mn in 3Q22 mainly due to a hike in interest rates. Resultantly, net funded income will likely grow 16.6% YOY to SAR 1,461 Mn in 3Q22. Non-funded income is estimated to grow 43.6% YOY to SAR 326 Mn in 3Q22. As a result, operating income is likely to increase 20.8% YOY to SAR 1,786 Mn in 3Q22. Similarly, operating expenses are anticipated to hike by 12.8% YOY to SAR 621 Mn in 3Q22 while the cost-to-income ratio will decline to 34.8% in 3Q22 from 37.2% in 3Q21. Impairment charges are estimated to increase from SAR 188 Mn in 3Q21 to SAR 294 Mn in 3Q22. Due to increased profits, tax expenses are likely to see a 45.6% hike to SAR 145 Mn.

2022 forecast

We expect ARNB's net profit to grow 40.8% YOY to SAR 3,064 Mn in 2022 primarily driven by a strong rise in funded income backed by expected growth in net advances. Funded income is estimated to grow 45.8% YOY to SAR 7,540 Mn in 2022 whereas funded expenses are expected to increase from 500 Mn in 2021 to 1,876 Mn in 2022. Furthermore, non-funded income is expected to grow 13.7% YOY to SAR 1,242 Mn in 2022. As a result, operating income is estimated to increase 19.8% YOY to SAR 6,906 Mn in 2022. On the other hand, operating expenses are estimated to grow marginally by 6.5% YOY to SAR 2,344 Mn in 2022. Impairment charges are estimated to grow marginally by 0.8% YOY to SAR 1,042 Mn in 2022. Tax expense is expected to rise 26.8% YOY to SAR 571 in 2022 Mn due to a hike in profit.

2Q22 outturn

ARNB's funded income grew significantly by 38.2% YOY to SAR 1,712 Mn in 2Q22 owing to strong growth in net advances. Net advances rose 21.4% YOY in 2Q22. Funded expense increased from SAR 108 Mn in 2Q21 to SAR 402 Mn in 2Q22 driven by a 12.7% YOY due to growth in deposits and the rising interest rate scenario. Thus, net funded income grew 15.9% YOY to SAR 1,310 Mn in 2Q22. Non-funded income grew 44.9% YOY to SAR 364 Mn 2Q22. As a result, operating income rose significantly by 21.2% YOY to SAR 1,674 Mn in 2Q22. Impairments charges declined marginally to SAR 282 Mn in 2Q22 due to lower provisions. Tax expenses grew 21.6% YOY to SAR 131 Mn in 2Q22 due to growth in profit.

Target price and recommendation

We revise our rating on ARNB from HOLD to BUY with a revised target price of SAR 36.00. The Bank stock price largely remained resilient during the recent market correction. Also, at the current price, the stock offers a favourable risk-reward ratio due to its attractive valuation. The Bank's loan book rose 12.9% on YTD basis to SAR 143.1 Bn in 2Q22 mainly due to an increase in commercial and consumer loans. This loan growth is higher than the industry average of 8.5% recorded until June 2022. We further expect advances to grow by 19.7% in FY2022. ARNB's balance sheet is positively geared and expected to benefit in a rising interest rate scenario. The Bank NIMs grew 15 bps QOQ to 2.64% in 2Q22. The CASA ratio rose from 51.8% in 1Q22 to 52.2% in 2Q22 benefitting NIMs. Non-funded income is also expected to benefit due to an increase in economic activity and expected to grow 13.7% FY2022. ARNB's cost-to-income ratio is also expected to benefit and decline to 38.2% in FY2021 to 33.9% in FY2022. Credit quality is also expected to remain stable with a coverage ratio

of 135.8% during 1H22. The bank's capitalization remained healthy with an CET1 ratio of 17.5% and a total CAR ratio of 19.6% in 2Q22. The Bank is trading at a PB ratio of 1.43x and is expected to generate a dividend yield of 3.6% in FY2022 better than the sector average of 2.23x and 2.9%, respectively during the same period. Considering all these factors, we revise our rating to BUY.

ARNB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	11.6	15.2	22.2	21.1	15.0
P/B (x)	1.8	1.7	1.5	1.5	1.4
Dividend yield	3.3%	3.3%	1.3%	2.6%	3.6%

FABS Estimates & Co Data

ARNB- P&L

SAR mm	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	1,384	1,712	2,057	48.6%	20.2%	5,172	7,540	45.8%
Funded expense	-131	-402	-596	353.5%	48.3%	-500	-1,876	275.6%
Net funded income	1,252	1,310	1,461	16.6%	11.5%	4,672	5,664	21.2%
Fees and commissions	126	126	139	10.0%	10.6%	489	515	5.4%
others operating income	29	13	53	85.0%	321.1%	229	164	-28.4%
Other non-funded income	100	238	187	85.9%	-21.6%	603	727	20.5%
Non-funded income	227	364	326	43.6%	-10.5%	1,092	1,242	13.7%
Operating income	1,479	1,674	1,786	20.8%	6.7%	5,765	6,906	19.8%
Operating expenses	-551	-574	-621	12.8%	8.2%	-2,201	-2,344	6.5%
Pre-provision profit	928	1,099	1,165	25.5%	6.0%	3,563	4,562	28.0%
Impairment	-188	-282	-294	56.9%	4.4%	-1,034	-1,042	0.8%
Share of results of associates	24	21	21	-10.0%	0.0%	93	112	20.8%
PBT	764	839	892	16.7%	6.4%	2,622	3,632	38.5%
Tax	-100	-131	-145	45.6%	10.9%	-450	-571	26.8%
Profit after tax	665	707	747	12.4%	5.6%	2,171	3,061	41.0%
Non-controlling int.	1	0	1	25.5%	219.5%	5	2	-53.5%
Net profit attributable	665	708	748	12.4%	5.7%	2,177	3,064	40.8%

FABS estimate & Co Data

ARNB - KPI

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	84.7%	78.3%	81.8%	-290	350	81.0%	82.0%	96
NIM	2.9%	2.6%	2.8%	-4	20	2.6%	2.8%	19
NIS	2.6%	2.4%	2.5%	-9	7	2.6%	3.3%	68
Fees & comms/OI	8.5%	7.5%	7.8%	-76	27	8.5%	7.5%	-102
Cost to income	20.2%	25.6%	25.3%	505	-40	29.0%	22.8%	-618
Impairment/PPP	37.2%	34.3%	34.8%	-246	46	38.2%	33.9%	-425
NP/OI	45.0%	42.3%	41.9%	-312	-43	37.8%	44.4%	660
ROAE	6.5%	7.9%	8.2%	167	35	7.2%	9.7%	252
ROAA	1.1%	1.20%	1.20%	11	0	1.2%	1.5%	30

FABS estimate & Co data

ARNB - Key B/S items

	3Q21	4Q21	1Q22	2Q22	3Q22	YOY Ch
SAR mm						
Net advances	120,016	126,674	138,642	143,055	147,319	22.7%
QOQ change	1.9%	5.5%	9.4%	3.2%	3.0%	
Total assets	182,275	192,502	204,620	209,828	218,436	19.8%
QOQ change	0.2%	5.6%	6.3%	2.5%	4.1%	
Customer deposits	129,395	135,714	148,138	146,791	153,980	19.0%
QOQ change	-0.6%	4.9%	9.2%	-0.9%	4.9%	
Total equity	30,744	31,101	32,035	31,028	31,374	2.0%
QOQ change	2.4%	1.2%	3.0%	-3.1%	1.1%	

FABS estimate & Co data

3Q22 preview: Alinma Bank

Rising interest rate and healthy CASA deposits to boost net line

CMP (SAR): 36.95

Potential upside/(downside) (%): **+8.25%**

12-m target price:

SAR 40.00

Stock rating:

HOLD

3Q22 estimate

Alinma Bank is forecasted to witness a net Profit of SAR 979 Mn in 3Q22 compared to SAR 738 Mn in 3Q21. The improvement in performance is mainly expected due to the increase in funded income and decrease in impairments which is partially offset by an increase in the funded expense. Funded income is anticipated to grow 26.2% YOY to SAR 1,908 Mn in 3Q22 mainly due to the increase in income from financing and investing activities of the bank. While on the other hand, the funded expense is anticipated to grow to SAR 355 Mn in 3Q22 as compared to SAR 119 Mn in 3Q21. As a result, net funded income is expected to rise 11.5% YOY to SAR 1,553 Mn in 3Q22. Thus, we forecast NIM to increase 24 bps QOQ to 3.41% in 3Q22. Non-funded income is anticipated to grow to SAR 457 Mn in 3Q22, up from SAR 331 Mn in 3Q21 driven by an expected increase in fees and commission, and other non-funded income of the bank. As a result, total operating income is likely to grow 16.6% YOY to SAR 2,010 Mn in 3Q22. Operating expenses are anticipated to grow 8.8% YOY from SAR 618 Mn in 3Q21 to SAR 672 Mn in 3Q22 due to an expected rise in salaries and employee related expenses. Cost-to-income ratio to decrease from 35.8% in 3Q21 to 33.4% in 3Q22. Impairments are anticipated to decline from SAR 279 Mn in 3Q21 to SAR 246 Mn in 3Q22.

2022 forecast

We forecast the bank's net profit to increase 37.8% YOY to SAR 3,733 Mn in FY2022. The rise is mainly driven by an increase in net funded and non-funded income which is partially offset by an increase in funded expense. Funded income is expected to increase 27.1% YOY to SAR 7,212 Mn in FY2022 primarily due to an increase in expected credit demand and an increase in the interest rates. On the other hand, the funded expense is expected to increase to SAR 1,233 Mn in FY2022. Non-funded income is expected to grow 23.0% YOY to SAR 1,883 Mn in FY2022. Consequently, the total operating income is expected to rise 17.9% YOY to SAR 7,862 Mn in FY2022. Operating expenses are anticipated to increase to SAR 2,673 Mn in FY2022 from SAR 2,365 Mn in FY2021. Impairment expense is expected to decline from SAR 1,266 Mn in FY2021 to SAR 1,027 Mn in FY2022 supporting the bottom line.

2Q22 outturn

Net funded income increased 14.8% YOY to SAR 1,414 Mn in 2Q22. The improvement in performance was mainly due to an increase in funded income which rose 21.3% YOY to SAR 1,653 Mn in 2Q22 and on the other hand funded expense increased to 82.0% YOY to SAR 239 Mn in 2Q22. Total non-funded income increased 23.0% YOY to SAR 519 Mn in 2Q22 due to growth in fee income, FVIS investment income, exchange and other operating income. Thus, net operating income rose 16.9% YOY to SAR 1,932 Mn in 2Q22. Total operating expenses increased SAR 546 Mn in 2Q22 due to a rise in salaries expenses, and an increase in G&A expense. As a result, cost to Income ratio decreased to 28.3% in 2Q22 from 31.5% in 2Q21. Impairment charges significantly declined to SAR 240 Mn in 2Q22 down from SAR 342 Mn in 2Q21. Resultantly, the net profit before tax increased to SAR 1,031 Mn in 2Q22 from SAR 792 Mn in 2Q21. Zakat expenses rose to SAR 106 Mn in 2Q22 due to a rise in profitability.

Target price and recommendation

We maintain our HOLD rating with a revised target price of SAR 40.00. Alinma advances rose 9.7% YOY to SAR 131.2 Bn in 2Q22 mainly due to growth in retail financing which was partially offset by a marginal decline in corporate loans. The Bank intends to expand its retail financing while also developing an upscale and high net worth franchise. Total share of retail financing grew from 22%

in FY2021 to 24% in 1H22. Alinma saw strong growth in the mid-corporates segment, it is concentrating to build the SME business and emphasize on cross-selling, cash management, and trade finance. NIM of the bank increased 14 bps QOQ to 3.17% in 2Q22 and is further expected to benefit due to robust increase in the bank's CASA deposit. CASA deposit of the bank now accounts for 71% of total deposits in 2Q22 as compared to 63.1% % for the same period of last year. Furthermore, the NPL ratio decreased from 2.01% in 1Q22 to 1.90% in 2Q22 while the coverage ratio remained healthy at 150.1% in 2Q22. The Bank maintained strong capitalization with CAR at 21.8% in 2Q22. Similarly, CET 1 stood at 20.7% in 2Q22. The stock valuation captures most of the positives as it is trading at PB of 2.27x with an expected dividend yield of 2.6% compared to sector average of 2.23x and 2.9%, respectively based on FY2022 financials. Hence, based on our analysis, we maintain a HOLD rating on the stock.

Alinma - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	32.1	29.2	37.6	28.2	19.8
P/B (x)	3.7	4.2	3.0	2.5	2.3
Dividend Yield	2.0%	NM	0.8%	2.0%	2.6%

FABS Estimates & Co Data

Alinma Bank- P&L

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
SAR mm								
Funded income	1,511	1,653	1,908	26.2%	15.4%	5,674	7,212	27.1%
Funded expense	-119	-239	-355	198.7%	48.4%	-537	-1,233	129.4%
Net funded income	1,393	1,413	1,553	11.5%	9.9%	5,137	5,980	16.4%
Fees and commissions	259	297	291	12.5%	-2.0%	1,085	1,146	5.6%
Trading gain/(loss)	57	65	66	15.4%	1.0%	215	269	25.5%
Other non-funded income	16	157	100	539.7%	-36.1%	230	467	103.0%
Non-funded income	331	519	457	37.9%	-11.9%	1,530	1,883	23.0%
Operating income	1,724	1,932	2,010	16.6%	4.0%	6,667	7,862	17.9%
Operating expenses	-618	-663	-672	8.8%	1.3%	-2,365	-2,673	13.0%
Pre-provision profit	1,106	1,269	1,338	20.9%	5.4%	4,302	5,189	20.6%
Impairment	-279	-240	-246	-12.0%	2.4%	-1,266	-1,027	-18.9%
Share of profit of associates	-4	2	0	-100.0%	-100.0%	-14	0	-100.4%
Net profit before zakat	823	1,031	1,092	32.7%	5.9%	3,022	4,163	37.8%
Zakat	-85	-106	-113	32.7%	5.9%	-312	-429	37.5%
Net profit attributable	738	925	979	32.7%	5.9%	2,709	3,733	37.8%

FABS estimate & Co Data

Alinma Bank - KPI

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	80.8%	73.2%	77.3%	-351	411	77.0%	76.1%	-100
NIM	3.4%	3.17%	3.4%	-3	24	3.2%	3.3%	15
NIS	3.4%	3.0%	3.2%	-15	18	3.2%	3.3%	15
Fee & Comms/OI	15.0%	0.0%	14.5%	-52	1448	16.3%	14.6%	-170
Trading/OI	3.3%	0.0%	3.3%	-3	327	3.2%	3.4%	21
Cost to income	35.8%	34.3%	33.4%	-240	-88	35.5%	34.0%	-147
Impairment/PPP	25.2%	18.9%	18.4%	-687	-55	29.4%	19.8%	-965
NP/OI	42.8%	47.9%	48.7%	592	86	40.6%	47.5%	685
ROAE	11.1%	11.9%	12.6%	148	73	12.2%	12.8%	60
ROAA	1.5%	1.7%	1.8%	30	9	1.6%	2.0%	39

FABS estimate & Co Data

Alinma Bank - Key B/S items

	3Q21	4Q21	1Q22	2Q22	3Q22F	YOY ch
SAR mm						
Net advances	121,318	126,271	128,965	131,193	133,621	10.1%
QOQ change	1.4%	4.1%	2.1%	1.7%	1.9%	
Total assets	166,808	173,476	179,519	184,622	187,911	12.7%
QOQ change	1.7%	4.0%	3.5%	2.8%	1.8%	
Customer deposits	116,652	121,061	128,035	130,376	132,456	13.5%
QOQ change	-7.3%	3.8%	5.8%	1.8%	1.6%	
Total equity	30,164	30,711	31,518	31,467	31,547	4.6%
QOQ change	19.7%	1.8%	2.6%	-0.2%	0.3%	

FABS estimate & Co Data

3Q22 preview: Al Bilad Bank

Pressure on NIMs to continue

CMP (SAR): 52.30

Potential upside/(downside) (%): -4.40%

12-m target price:

SAR 50.00

Stock rating:

HOLD

3Q22 Estimate

Bank Albilad's (the bank/ALBI) net profit is forecasted to grow 23.1% YOY to SAR 553 Mn in 3Q22 mainly due to growth in funded income partially offset by hike in funded expenses. Funded income is expected to grow 33.1% YOY to SAR 1,282 Mn in 3Q22 driven by growth in loans and advances and deposits. Funded expenses are expected to grow significantly from SAR 77 Mn in 3Q21 to SAR 255 Mn in 3Q22 due hike in benchmark rates. Fees and commissions income is anticipated to decline 7.2% YOY to SAR 166 Mn in 3Q22. Exchange income is estimated to reach SAR 92 Mn in 3Q22. Thus, total non-funded income is expected to grow marginally by 4.0% to SAR 299 Mn in 3Q22. Resultantly, operating income will grow 12.9% YOY to SAR 1,326 Mn in 3Q22. General and administrative expenses are estimated to rise 5.1% YOY to SAR 558 Mn in 3Q22 with a hike in administrative, salary, and employee-related expenses. Impairments are anticipated to reach SAR 151 Mn in 3Q22 whereas zakat expenses are to grow 23.1% YOY to SAR 64 Mn in 3Q22 with rising profit.

2022 Forecast

We forecast Albilad's net profit to grow 29.7% YOY to SAR 2,187 Mn in 2022. Funded income is expected to grow 30.0% YOY to SAR 4,891 Mn in 2022 whereas funded expense is expected to increase more than double to SAR 864 Mn in 2022 mainly driven by a rise in benchmark rates. Fees and commission income is anticipated to decline 7.7% YOY to SAR 675 Mn in 2022. Thus, total non-funded income is expected to rise 9.8% YOY to SAR 1,201 Mn in 2022. As a result, operating income will grow 14.1% YOY to SAR 5,228 Mn in 2022. General and administrative expenses are estimated to grow 4.3% YOY to SAR 2,226 Mn in 2022. Impairments are anticipated to decline 1.0% YOY to SAR 564 Mn in 2022. Zakat expenses will grow significantly by 29.7% YOY to SAR 251 Mn with increasing profits.

2Q22 Outrun

Funded income rose 25.1% YOY to SAR 1,139 Mn in 2Q22 driven by solid loan growth. Interest expense more than doubled to SAR 183 Mn growth in deposits due to a hike in benchmark interest rates in 2Q22. Thus, net funded income rose 13.6% YOY to 957 Mn in 2Q22. Non-funded income grew 2.6% YOY to SAR 296 Mn in 2Q22 due to an increase in exchange income offset by a decline in net fees and commission income and a lower gain from FVSI investments. As a result, total operating income grew 10.8% YOY to SAR 1,253 Mn in 2Q22. Impairments declined 12.0% YOY to SAR 120 Mn in 2Q22. Thus, profit before tax jumped 22.8% YOY to SAR 570 Mn in 2Q22. Zakat expenses rose in line with profit and stood at SAR 59 Mn in 2Q22.

Target price and recommendation

We upgrade our rating from REDUCE to HOLD on Bank Albilad with a revised target price of SAR 50.00. The Bank recorded 10.0% growth in advances on YTD basis to SAR 91.2 Bn in 2Q22. The loan demand is expected to stay high due to the positive economic outlook of the Saudi economy. Despite, this robust growth in advances NIM exhibited pressure due to higher growth in corporate advances as compared to retail and higher cost of funds. The share of demand deposit fell from 53.9% in 1Q22 to 53.1% in 2Q22 pressurizing NIMs. We expect NIMs to fall 6 bps to 3.4% in FY2022. While, asset quality remained healthy with an NPL ratio of 1.3% in 2Q22 slightly higher than 1Q22. The coverage ratio also remained strong at 223.2% in 2Q22 with an additional provision buffer to mitigate against unforeseen losses. ALBI is expected to generate an ROA of 1.8% and trades at PB multiple of 3.9x

compared to industry average of 1.9% and 2.2x, respectively in FY2022. This renders the share expensive despite robust growth in advances and profitability. Thus, based on our analysis, we assign a HOLD rating on the stock.

Bank Albilad - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	63.8	31.3	28.9	23.1	23.9
PB	6.7	5.5	4.9	4.4	3.9
Dividend Yield	NA	1.3%	NA	NA	1.0%

FABS Estimates & Co Data

Bank Albilad - P&L

SAR mm	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	YOY Ch
Income from invest & fin.	963	1,139	1,282	33.1%	12.5%	3,761	4,891	30.0%
Return on deposits & fin. liab.	-77	-183	-255	232.8%	39.6%	-272	-864	217.9%
Net funded income	887	957	1,027	15.8%	7.3%	3,489	4,027	15.4%
Fees and commissions	179	163	166	-7.2%	2.0%	731	675	-7.7%
Exchange income	80	92	92	14.8%	0.0%	313	362	15.8%
Other non-funded income	29	42	41	43.6%	-0.4%	50	164	226.4%
Total non-funded income	288	296	299	4.0%	1.0%	1,094	1,201	9.8%
Total operating income	1,174	1,253	1,326	12.9%	5.8%	4,584	5,228	14.1%
General & admin. Expenses	-531	-563	-558	5.1%	-0.9%	-2,134	-2,226	4.3%
Pre provision profit	644	690	768	19.3%	11.3%	2,450	3,003	22.6%
Impairment	-142	-120	-151	6.1%	25.5%	-570	-564	-1.0%
Profit before zakat	501	570	617	23.1%	8.3%	1,880	2,439	29.7%
Zakat expenses	-52	-59	-64	23.1%	8.3%	-194	-251	29.7%
Net profit attributable	450	511	553	23.1%	8.3%	1,687	2,187	29.7%

FABS Estimates & Co Data

Bank Albilad - P&L KPI

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	75.5%	76.4%	77.4%	188	167	76.1%	77.0%	90
NIM	3.3%	3.3%	3.4%	-1	-11	3.5%	3.4%	-6
NIS	3.3%	3.2%	3.2%	-7	-16	3.4%	3.7%	27
Fees & comms/OI	15.2%	13.0%	12.5%	-440	-75	16.0%	12.9%	-304
Other Operating Inc/OI	9.3%	10.6%	10.0%	253	-92	7.9%	10.1%	214
Cost to income	45.2%	44.9%	42.1%	-202	76	46.6%	42.6%	-399
Impairment/PPP	22.1%	17.5%	19.7%	-526	-514	23.3%	18.8%	-446
NP/OI	38.3%	40.8%	41.7%	400	201	36.8%	41.8%	504
ROAE	14.1%	16.8%	15.4%	265	-173	16.7%	19.2%	253
ROAA	1.5%	1.6%	1.6%	9	1	1.6%	1.8%	17

FABS estimate & Co Data

Bank Albilad - Key BS Items

	3Q21	4Q21	1Q22	2Q22A	3Q22F	Change
SAR mm						
Net advances	81,799	82,933	86,391	91,206	94,854	16.0%
QOQ Change	3.4%	1.4%	4.2%	5.6%	4.0%	
Total assets	111,606	110,854	116,442	121,511	126,825	13.6%
QOQ Change	3.7%	-0.7%	5.0%	4.4%	4.4%	
Customer deposits	82,346	81,110	86,079	89,108	92,091	11.8%
QOQ Change	0.9%	-1.5%	6.1%	3.5%	3.3%	
Total equity	11,868	11,980	12,325	12,607	13,160	10.9%
QOQ Change	4.0%	0.9%	2.9%	2.3%	4.4%	

FABS estimate & Co Data

3Q22 preview: Al Rajhi Bank

Robust growth in advances and non-funded income to drive profitability

CMP (SAR): 85.20

Potential upside (%): **+11.50%**

12-m target price:

SAR 95.00

Stock rating:

ACCUMULATE

3Q22 estimate

We estimate Al Rajhi Bank to report a 17.4% YOY increase in net profit to SAR 4,453 Mn in 3Q22, supported by an increase in net financing and investment income which is partially offset by an increase in impairments charges. Financing and investment income is anticipated to increase 23.9% YOY to SAR 6,854 Mn in 3Q22, driven by an increase in interest-earning assets of the bank. While financing and investing expense is anticipated to significantly rise to SAR 1,049 Mn in 3Q22 as compared to SAR 315 Mn in 3Q21. Total Operating Income is expected to increase 17.6% YOY to SAR 1,602 Mn in 3Q22 owing to an expected increase in fees from banking services which are partially offset by a reduction in other operating income of the bank. Total operating expenses before credit impairment is expected to increase 4.7% YOY to SAR 1,836 Mn in 3Q22, owing to an increase expected in salaries and employee-related expense and an increase in the depreciation and amortization expense. Impairment charges are expected to increase 2.1% YOY to SAR 607 Mn in 3Q22. As a result, profit before zakat is anticipated to stand at SAR 4,965 Mn in 3Q22, up from SAR 4,230 Mn in 3Q21. Zakat Expense is also expected to increase 17.2% YOY to SAR 511 Mn in 3Q22.

2022 forecast

We forecast Al Rajhi Bank's financing and investment income to increase to SAR 26.44 Bn in FY2022, up from SAR 21.44 Bn in FY2021, this increase is expected to be overshadowed majorly by financing and investment expense which is expected to increase to SAR 3,689 Mn in FY2022, up from SAR 1,050 Mn in FY2021. Resultantly, net financing and investment income is anticipated to increase 11.6% YOY to SAR 22.75 Bn in FY2022. Total operating income is expected to increase 19.9% YOY to SAR 6,387 Mn in FY2022 due to an expected increase in fees from banking and exchange income which is partially offset by a decline in other operating income. Total operating expense before credit impairments is expected to grow 5.0% YOY to 7,273 Mn in FY2022 mainly due to an expected increase in salaries and employee related expense which is expected to rise 2.8% YOY to SAR 3,221 Mn in FY2022 and an increase in depreciation and amortization expense which is anticipated to grow to SAR 1,349 Mn in FY2022, up from SAR 1,142 Mn in FY2021. Thus, profit before provisions is expected to rise 16.4% YOY to SAR 21.86 Bn in FY2022. Impairments charges are expected to rise 2.2% YOY to SAR 2,397 Mn in FY2022. While, zakat expense is anticipated to increase to SAR 2,006 Mn in FY2022, up from SAR 1,699 Mn in FY2021. As a result, the net profit is expected to stand at SAR 17.46 Bn in FY2022, up from SAR 14.74 Bn in FY2021.

2Q22 outturn

Al Rajhi bank reported a significant 18.1% YOY increase in net profit to SAR 4,258 Mn in 2Q22. The improvement in performance was mainly due to an increase in financing and investment income which is partially offset by an increase in financing and investment expense. Financing and investing income rose 23.6% YOY to SAR 6.48 bn in 2Q22 mainly due to strong growth in advances and a rise in asset yield on a QOQ basis. While, financing and investing expenses increased to SAR 913 Mn in 2Q22, as compared to SAR 192 Mn in 2Q21 mainly due to an increase in benchmark interest rates. Non-operating income increased 23.1% YOY to SAR 1.58 Bn in 2Q22, attributable to a rise in banking service fees and exchange income offset in part by a fall in other operating income. As a result, net operating income increased 12.8% YOY to SAR 7.14 Bn in 2Q22. Total operating expenses grew 3.7% YOY to SAR 2.40 Bn in 2Q22, owing to increases in salaries and employee benefits, depreciation expenses, and other G&A expenses. The impairment charge fell marginally 0.7% YOY to SAR 580 Mn in 2Q22. Zakat expense increased 17.1% YOY to SAR 489 Mn in 2Q22 mainly due to the increase in profit.

Target price and recommendation

We revise our rating from HOLD to ACCUMULATE on Al Rajhi Bank with a revised target price of SAR 95.00. The Bank stock price corrected 7.6% since our last rating (i.e., 02 August 2022). We have also revised our net profit estimate upward by 4.8% for FY2022 compared to previous our estimate. The net financing portfolio of the bank recorded a strong growth of 14.8% on YTD basis significantly higher than banking system credit growth. It further expects advances to grow by low twenties in FY2022. NIMs declined 5 bps QOQ to 3.4% in 2Q22, however due to healthy growth in deposits is expected to decline further. Loan to deposit declined from 97.3% in 1Q22 to 95.6% in 2Q22 will help in advances growth. Non-funded income rose 29.9% YOY to SAR 3,197 Mn in 1H22 and further expected to grow 19.9% to SAR 6,387 Mn in 2022 due to positive economic outlook. ALRAJHI asset quality remains healthy across economic cycles underscoring superior underwriting standard with a coverage ratio of approximately 293% in 2Q22. It also maintained healthy capitalization level with CET 1 ratio of 17.9% and total CAR ratio of 19.0% in 2022. Considering these factors, we assign an ACCUMULATE rating on the stock.

Al Rajhi Bank - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	36.5	33.5	32.2	23.1	19.5
P/B (x)	7.6	7.2	5.9	5.1	3.9
Dividend yield	2.0%	2.2%	0.7%	1.0%	1.3%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
SAR mm								
Funded income	5,530	6,480	6,854	23.9%	5.8%	21,442	26,441	23.3%
Funded expense	-315	-913	-1,049	233.0%	14.9%	-1,050	-3,689	251.5%
Net Funded Income	5,215	5,567	5,804	11.3%	4.3%	20,392	22,751	11.6%
Fees from banking services	976	1,163	1,186	21.5%	2.0%	3,933	4,671	18.7%
Exchange income, net	210	308	305	44.9%	-1.0%	788	1,148	45.7%
Other operating income	177	111	112	-36.7%	1.0%	603	568	-5.8%
Total operating Income	1,363	1,581	1,602	17.6%	1.3%	5,324	6,387	19.9%
Net Operating Income	6,578	7,148	7,407	12.6%	3.6%	25,716	29,138	13.3%
Total operating exps	-1,754	-1,820	-1,836	4.7%	0.9%	-6,927	-7,273	5.0%
Profit before provisions	4,824	5,328	5,571	15.5%	4.6%	18,790	21,864	16.4%
Impairment charge	-594	-580	-607	2.1%	4.5%	-2,345	-2,397	2.2%
Total Operating Expenses	-2,348	-2,401	-2,442	4.0%	1.7%	-9,272	-9,670	4.3%
Net income before zakat	4,230	4,747	4,965	17.4%	4.6%	16,445	19,468	18.4%
Zakat	-436	-489	-511	17.2%	4.6%	-1,699	-2,006	18.1%
Net profit for the year	3,794	4,258	4,453	17.4%	4.6%	14,746	17,462	18.4%

FABS estimate & Co Data

Al Rajhi Bank - P&L KPI

	3Q21	2Q22	3Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	79.3%	77.9%	78.4%	-91	49	79.3%	78.1%	-121
NIM	3.8%	3.4%	3.4%	-45	-3	3.9%	3.4%	-46
NIS	3.8%	3.3%	3.3%	-49	-3	3.8%	3.3%	-50
Fees & comms/OI	14.8%	16.3%	16.0%	117	-25	15.3%	16.0%	74
Exchange Income/OI	3.2%	4.3%	4.1%	92	-19	3.1%	3.9%	87
Cost to income	26.7%	25.5%	24.8%	-188	-68	26.9%	25.0%	-197
Impairment/PPP	-12.3%	-10.9%	-10.9%	142	1	-12.5%	-11.0%	152
NP/OI	57.7%	59.6%	60.1%	245	55	57.3%	59.9%	259
ROAA	2.5%	2.4%	2.3%	-13	-4	2.7%	2.5%	-19
ROAE	22.5%	20.2%	20.0%	-244	-18	23.5%	22.7%	-82

FABS estimate & Co Data

Al Rajhi Bank - Key B/S Items

	3Q21	4Q21	1Q22	2Q22	3Q22F	YOY
SAR mm						
Net advances	420,954	452,831	484,526	519,701	540,487	28.4%
QOQ change	7.9%	7.6%	7.0%	7.3%	4.0%	
Total assets	582,684	623,672	657,628	709,779	738,272	26.7%
QOQ change	6.7%	7.0%	5.4%	7.9%	4.0%	
Customer deposits	478,331	512,072	507,892	552,957	575,075	20.2%
QOQ change	6.9%	7.1%	-0.8%	8.9%	4.0%	
Total Equity	63,637	67,309	78,341	81,913	86,366	35.7%
QOQ change	6.6%	5.8%	16.4%	4.6%	5.4%	

FABS estimate & Co Data

FAB Securities Contacts:

Research Analysts

Ahmad Banihani	+971-2 -6161629	ahmad.banihani@Bankfab.com
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Sales & Execution

Trading Desk Abu Dhabi Head Office	+971-2 -6161777
	+971-2 -6161700/1
Institutional Desk	+971-4 -5658395
Sales and Marketing	+971-2 -6161703

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Abu Dhabi Office	+971-2 -6161600	Online Trading Link
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