

## **Saudi Banking Sector – December 2022**

Strong advances growth and high interest rates to drive profitability

Sector Weighting:  
**MARKET WEIGHT**  
**Preview Note 4Q2022**

### **Preferred stock**

We maintain our MARKET WEIGHT rating on the Saudi banking sector. Saudi Arabia's economy continued to strengthen further in 3Q22 following strong growth in 2Q22. The real GDP grew 8.8% in 3Q22 mainly driven by a strong oil and non-oil sector. The growth is driven by an increase in oil activity which rose 14.2% YOY in 3Q22, 6.0% YOY growth in non-oil activity, and 2.5% growth in government activity. The IMF projects the KSA economy to grow 7.6% in 2022 and is further expected to expand 3.7% in 2023 despite, a slowdown in global growth from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. The KSA PMI survey data rose for the second month to 58.5 in November 2022 from 57.2 in October 2022 further indicating expansion in the non-oil sector. The PMI reading is the highest since September 2021 and higher than the long-term series average of 56.8. The expansion in PMI is driven by accelerated growth in new orders which rose to a 14-month high leading to a sharp increase in purchase activity accredited to improvement in economic conditions, rising customer demand, and growth in investments. The strong economic activity resulted in the expansion of banking activity. Total assets across the KSA banking sector rose 10.1% on YTD basis to SAR 3.6 Tn whereas, total advances expanded 13.2% on YTD basis to SAR 2.3 Tn in October 2022. During 3Q22, aggregate profit of the 10 largest KSA rose 9.3% QOQ to SAR 16.5 Bn due to increase in net interest income, other operating income and lower impairment charges.

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

**1) SNB:** The price of stock corrected 22.6% since our last rating. Post this correction, the stock offers compelling valuation and trading at PB multiple of 1.4x based on 2023 estimates as compared to sector average of 2.0x. In addition, the Bank ROE is also expected to increase from 11.8% in 2021 to 12.3% and 13.8% in 2022 and 2023, respectively. SNB stock corrected after it announced investment of SAR 5.5 Bn in Credit Suisse Group shares. The stock lost more than 10x the investment value in Credit Suisse. Furthermore, SNB balance sheet remain robust with strong capitalization, manageable asset quality with strong coverage and healthy liquidity levels.

**2) ALRAJHI:** The stock price corrected 13.8% since our last rating and after this correction the valuation has turned attractive for the stock. It is expected to generate an ROE of 22.3% and 22.0% in 2022 and 2023, respectively, this is one of the highest ROE generated by a large cap bank from the region. ALRAJHI benefits from the healthy growth in mortgages and corporates credit. The profitability is expected to grow at steady rate due to expansion in credit growth. Asset quality and capitalization remained strongest in the regional banks. The Bank is diversifying its borrowing mix to mitigate the pressure on funding.

**3) ALINMA:** Upgraded our rating from HOLD to BUY, due to the recent correction in the stock price. ALINMA balance sheet remains sensitive to high-interest rates as NIMs rose 47 bps on YTD basis to 3.62% in 3Q22. The Bank managed to keep in check its cost of funding which rose 47 bps compared to an increase in asset yield by 94 bps on YTD basis in 3Q22. Alinma's CASA ratio stood healthy at 65.5% in 9M22 bodes favorably for NIMs. It is further planning to launch super app 1Q23 which will help in further gaining access to the youth and affluent segment. This also led to the creation of a cheap source of funding and a platform to sell retail products and earn additional fee income. Alinma is further aiming to grow SME business with cross-selling, cash management, and trade finance.

**Key Industry Themes:**

The IMF recently lowered the world economic growth forecast from 2.9% to 2.7% for 2023. The global economy is marred by challenges on multiple fronts which are impacting the global growth forecast. The rise in inflation to unprecedented levels across the world is leading central banks to normalize and tighten monetary policy. The increase in inflation to record levels is due to higher energy prices, breakdown of supply chain owing to pandemic and several other factors. The normalization of fiscal and monetary is also leading to a cooling of demand as policymakers aims to lower inflation to target levels. In addition, Russia Ukraine conflict and lingering fears of a spike in COVID-19 cases in China further impact the global order. Property crisis in China is further leading to a slowdown in global growth. 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 higher energy prices, increase in hydrocarbon production, and the Saudi Governments efforts to diversify into the non-oil sector such as petrochemicals, healthcare, hotels, and real estate. The economy is further expected to grow by 3.7% in 2023. The Vision 2030 initiative laid a strong foundation for economic growth. Recently released PMI data point towards a solid growth in non-oil sector to continue going forward. The KSA PMI survey data rose for the second month to 58.5 in November 2022 from 57.2 in October 2022 further indicating expansion in the non-oil sector. KSA banking sector is expected to remain a key beneficiary of this solid economic growth. KSA's banking sector witnessed robust growth in profitability supported by a hike in benchmark rates and lower provisioning. Net profit of the KSA banks rose 9.3% QOQ in 3Q22. Advances in the KSA banking system rose to SAR 2.33 Tn in October 2022 recording a strong growth of 15.8% YOY while the overall banking assets rose 13.0% YOY and 1.3% MOM to SAR 3.61 Tn. On the other hand, deposits grew 9.8% YOY and 0.3% MOM to SAR 2.27 Tn in October 2022 supported by liquidity injection from the Saudi Central Bank. Total time and saving deposits of the KSA banking system rose 27.1% YOY to SAR 604 Bn in October 2022 driven by high benchmark rates. Similarly, Quasi Money deposits rose 24.6% YOY to SAR 337 Bn in October 2022 driven by strong growth in foreign currency deposits which grew 33.7% YOY to SAR 284 Bn. CASA deposits rose marginally 0.6% YOY to SAR 1.3 Tn in 3Q22.

A strong post-pandemic recovery in the economy boosted the demand for advances, however, the deposits rose at lower pace in the economy. In addition, advances to the Saudi's private sector rose 13.5% YOY to SAR 2.28 Tn in October 2022. Saudi's regulatory loan to deposits ratio stood at 82.11% in October 2022 below the regulatory limit of 90% provides some room for more credit expansion. However, demand deposits as a percentage of total deposits declined from 61.7% in September 2022 to 58.6% in October 2022. In addition, the KSA banking systems' asset quality improved with an NPL ratio of 1.8% in 2Q22, down from 2.1% in 2Q21. The banks' capitalization also remained healthy with CAR of 19.5% and Tier 1 capital ratio of 17.8% in 2Q22.

The Fed hiked interest rate by 50 bps in December 2022 after increasing rates by 75 bps for the fourth consecutive time. It brings the total hike to 425 bps in 2022. The Fed expects magnitude of hike is expected to reduce going forward as the inflation started to ease however it expects rates to stay higher for longer time than anticipated. SAMA also increased the interest rate by 50 bps in December 2022 with a total rate hike of 375 bps in 2022. KSA banks positively benefit from interest rate hike due to the positive interest rate sensitivity gap. However, due to slower growth in deposits, the margins of some KSA bank is expected to remain under pressure owing to the higher cost of funds. KSA Banking sector's return on equity (ROE) rose from 10.7% in 2Q21 to 12.1% in 2Q22 whereas return on assets (ROA) improved from 1.8 in 2Q21 to 2.1% in 2Q22.

**Credit growth in KSA could slowdown in 2023 without liquidity support**

Saudi Banks might require additional liquidity support as credit growth continue to outpace deposit growth leading to a widening of the interbank spread which climbed sharply in October 2022 and continue to hover at record levels. Total credit rose 12.5% on YTD basis to SAR 2.3 Tn while deposits rose 7.7% during the same period in 9M22. Resulting in a loans/deposits ratio (LDR) of 102.2%, the

highest level in at least 15 years. The tight liquidity condition might impact credit growth in 4Q22 and 2023. The liquidity squeeze resulted in a three-month SAIBOR-Libor spread to expanding more than 140 bps in October 2022, up from 36 bps in September 2022, and very closer to their pre-liquidity injection levels of 150 bps. This is significantly higher than the historical average of roughly 50 bps. Due to the SAMA's intervention, the SAIBOR-Libor spread fell marginally 2 bps by the end of August 2022, before it rose again as the US Federal Reserve continued to raise rates and credit growth remained strong. The sector's regulatory LDR of 81.9% is less as compared to the sector limit of 90%, yet it is the highest since 3Q17. Previously also, SAMA injected SAR 20 Bn liquidity when three-month SAIBOR-LIBOR spread exceeded more than 150 bps in September 2016. However, during this period credit grew only by 1% on average between 2016 and 2017. The banks are also looking at alternate sources of funding to bridge this liquidity requirement both through short- and long-term funding. Subordinated debt, additional Tier 1 (AT1) securities or senior unsecured issuance are the alternate sources of funding considered by the banks to bridge the liquidity gap. However, this would increase banks' funding costs and might not fulfil borrowers' high financing demand. The banks in Kingdom raised SAR 15.6 Bn through AT1 this year and more banks are considering to raise funding through this medium. In 9M22, the sector's profit before tax climbed 28% YOY owing to healthy credit growth, and fewer impairment charges offsetting the rising cost of funding.

### **GCC banks face uncertainty in FY2023 as potential risks loom**

Even though GCC banks will end the year on a healthy note due to robust economic activity, higher interest rates, and elevated oil prices, S&P Global Ratings identifies three primary sources of risk which might impact their performance in FY2023. The first risk is the risk of slowdown in global economic growth which is expected to affect commodities prices as demand for it recedes. According to S&P's base-case scenario, Brent oil prices will average USD 85 per barrel in FY2023 and USD 55 per barrel in FY2024 and beyond, resulting in reduced growth for the GCC economies and resulting in fewer possibilities for their banking systems. The increase in exposure of GCC banks to riskier countries is the second important threat to the banking system. A couple of GCC banks expanded into higher-risk countries, most notably Turkey and Egypt. Given the significant issues that these two countries are facing, their growth may get affected. The third risk is liquidity constraints to fund growth. As local and global liquidity reduce, potential liquidity constraint is expected to emerge as a limit to fund expansion. According to the research, the percentage of foreign funding in Qatar is declining due to weak and more costly liquidity worldwide. Furthermore, the routing of oil earnings to the Public Investment Fund rather than to the banking sector in Saudi Arabia, along with rapid loan growth, led to temporary liquidity problems in 1H22.

### **Riyad Bank issued USD 1 Bn in riyal-denominated sukuk at 5.25%**

Riyad Bank privately offered SAR 3.75 Bn in riyal-denominated Tier 1 sukuk at a yield of 5.25%. Considering the minimum denomination and total issue size, 15,000 Sukuk notes with a par value of SAR 250,000 each were issued. Moreover, the annual rate of return on the perpetual Sukuk stands at 5.25%, which will be paid quarterly beginning with the issuance date and continuing until 5 October 2027. The perpetual Sukuk will be used to strengthen the bank's capital base in line with the Basel III framework.

### **Islamic Development Bank sold USD 1 Bn Sukuk**

The Islamic Development Bank issued USD 1 Bn in Islamic bonds. The Jeddah-based multilateral lender issued the Sukuk at 62 basis points (bps) over a five-year US-secured overnight financing rate (SOFR) mid-swaps, lower than the previous guidance of mid-60s bps. The transaction received bids over USD 1.7 Bn, including USD 620 Mn from lead managers. The issue was managed by BNP Paribas, Credit Agricole, Goldman Sachs, Dukhan Bank, The Islamic Corporation for Development of the Private Sector, JPMorgan, SNB Capital, Mizuho, and Standard Chartered.

### **Al Rajhi Bank launched Tier 1 Sukuk denominated in Saudi Riyals for public subscription**

On 30 October, 2022, Al Rajhi Bank announced the launch of its Tier 1 Sukuk denominated in Saudi Riyals. Alrajhi Capital was appointed as the financial advisor and lead manager to the issue. Given

the success of the bank's previous private issuance in January 2022, and the large interest from the investors at the time, Al Rajhi Bank opted to make this a public issuance. The bank decided a minimum capital investment of SAR 5,000, indicating the value of five Sukuks, each with a face value of SAR 1,000, and set the Sukuk's annual return at 5.50%. Sukuk profits, in accordance with the bank, will be distributed to investors on a quarterly basis.

**Banque Saudi Fransi issued USD-denominated notes**

Saudi Arabian bank, Banque Saudi Fransi, under its Medium Term Note Program issued USD-denominated notes. According to a bourse filing, the size and terms of the offer would be determined by market conditions. The minimum subscription is USD 0.2 Mn with USD 1,000 increments afterward with a maturity of five years and will be listed on the London Stock Exchange. Citigroup Global Markets Limited, JP Morgan Securities, HSBC Bank, Merrill Lynch International, Standard Chartered Bank, and Saudi Fransi Capital appointed as joint lead managers by the bank.

**Saudi National Bank intends to invest USD 1.52 Bn in a Credit Suisse capital raise**

Saudi National Bank (SNB) plans to invest SAR 5.7 Bn (USD 1.52 Bn) in Credit Suisse, leading to gain 9.9% ownership in the firm. The investment is part of the SNB's contribution in Credit Suisse's capital raising to support its expansion and transformation, following which the SNB will pursue strategic collaborations with Credit Suisse. The Saudi National Bank was formed last year after National Commercial Bank and Samba Financial Group merged. SNB agreed to participate in Credit Suisse's private placement of non-pre-emptive shares as well as subsequent rights offers. SNB might also participate in future capital-raising initiatives of Credit Suisse. SNB Chairman further stated that the investment in Credit Suisse is tactical rather than strategic and plans to exit its investment in 2024-25.

**Saudi Arabian Bank's real estate loans grew 24.2% YOY to SAR 662.7 Bn in 3Q22**

Saudi Arabia's issued commercial bank's real estate loans issued to retail and corporate customers rose 24.2% YOY to SAR 662.7 Bn (USD 177 Bn) from SAR 533.5 Bn in 3Q21. This is mainly driven by retail loans growth which rose 28.3% YOY to SAR 529.6 Bn in 3Q22 and 10.2% YOY growth in corporate real estate loans to SAR 133.1 Bn in 3Q22. 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. It plans to increase this figure to 70% by 2030.

**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.

**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 the economic partnership between the two nations.

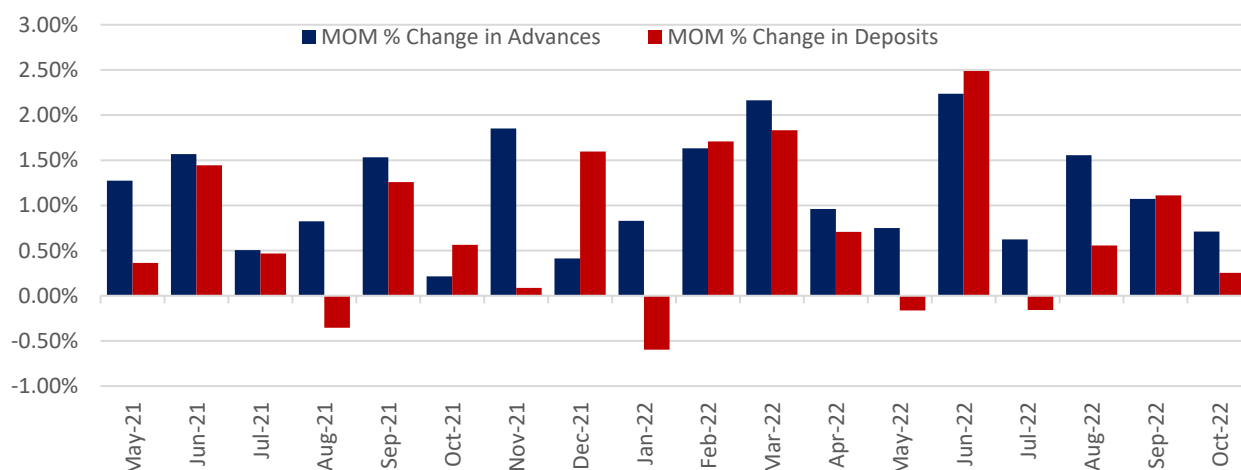
**Target price and rating**

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	95.00	73.40	29.43%	BUY
ALBI	50.00	42.80	16.82%	BUY
RIBL	42.00	31.85	31.87%	BUY
ALINMA	40.00	32.15	24.42%	BUY
SNB	83.00	49.45	67.85%	BUY
ARNB	36.00	32.50	10.77%	ACCUMULATE
BSFR	51.00	39.75	28.30%	BUY

FABS Estimate

**KSA Banking Liquidity**

Credit Growth in KSA Banking system further rose 15.8% YOY and 13.2% on YTD basis to SAR 2.33 Tn in October 2022 whereas, deposits rose only by 9.8% YOY and 8.0% on YTD basis to SAR 2.27 Tn. As a result, the advances to deposits ratio (ADR) grew 535 bps YOY and 479 bps on YTD basis to 102.6% in October 2022. Advances in KSA registered a solid growth owing to robust growth in economic activity and diversification of economy from oil sector. All KSA banks under our coverage registered a double growth in advances in 3Q22 expect Saudi National Bank (SNB) and Banque Saudi Fransi (BSFR). Al Rajhi and Arab National Bank recorded the highest growth. However, deposits rose at a slower pace as compared to advances resulting in a liquidity pressure in the KSA banking system. The broader (M3) money supply only rose 8.7% YOY to SAR 2.47 Tn in October 2022 increasing the liquidity concern in the banking system. As the Kingdom's currency is pegged to the US Dollar, KSA banks closely follow the US policy rates. Thus, an aggressive monetary policy by the Fed to curb rising inflation resulted in an interest rate hike of 425 bps in 2022 further leading to a sharp rise in the dollar index with 10-year treasury yield breaching 4.0% mark.

**Monthly change in KSA banking system Advances and Deposits**


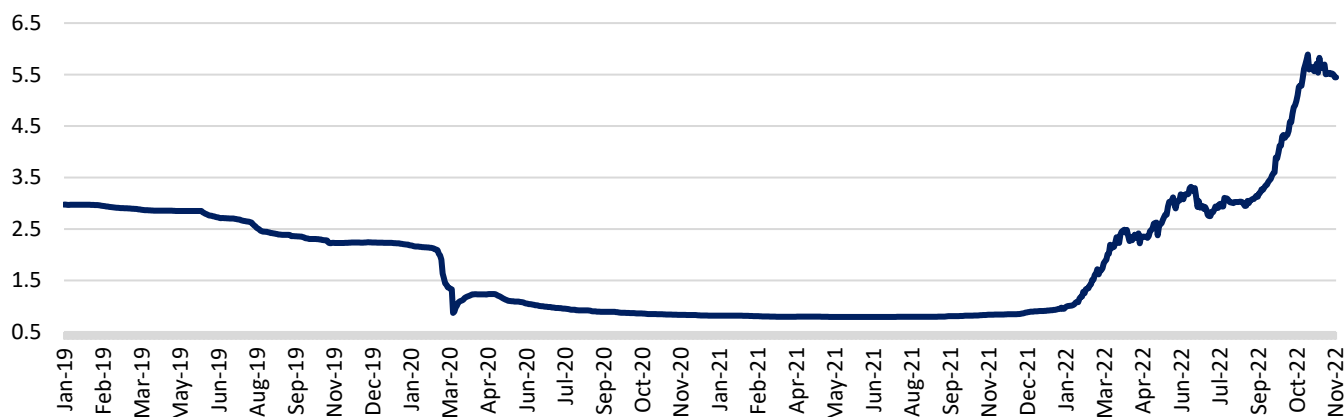
Source: FABS from SAMA data

This liquidity crunch in the KSA banking system resulted in the 3-month SAIBOR rates to rise unabated by 453.9 bps on a YTD basis to 5.44% as of 30 November 2022. The Saudi Central Bank injected SAR 50 Bn liquidity in June 2022 into the banking sector through deposits to increase liquidity whereas the Kingdom's finance minister claims the liquidity crunch is temporary caused due to high



volatility in markets. However, many banks are planning to issue additional capital to meet the growing credit demand while some banks already raised additional capital using subordinated debt, additional Tier 1 (AT1) securities and senior unsecured bonds.

### 3-Month SAIBOR (%) Jan 2019 – Nov 2022



Source: Bloomberg

Source: FABS from SAMA data

Saudi Arabia is expected to record a budget surplus of around SAR 102 Bn in 2022 due to soaring oil prices and higher production. It is further expected to record a surplus of SAR 16 Bn in 2023. Thus, the central bank and government would continue to inject liquidity into the KSA banking system to meet growing credit demand. The SAMA governor stated that the monetary conditions in the Gulf is improving owing to robust monetary policy while the Saudi Central Bank will continue managing FX reserves based on balanced investment policies.

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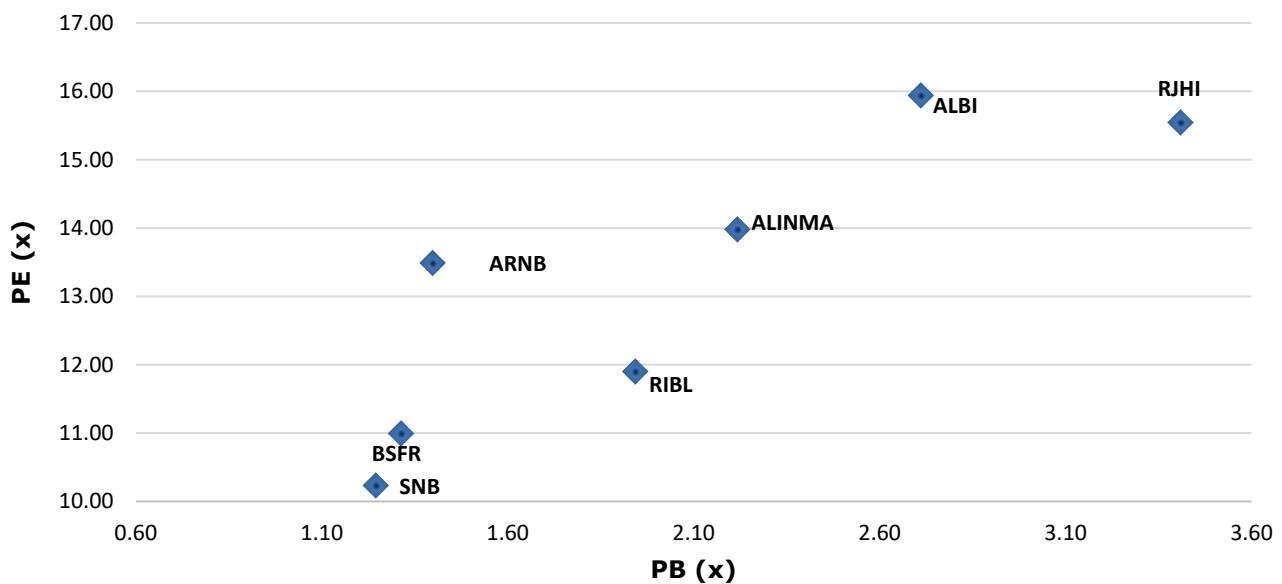
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## Relative valuation and rating

### SNB's valuation is most attractive based on PE and 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 3.41x and 2.71x, respectively based on 2023 estimated financial. ALBI and RJHI are the most expensive based on PE multiples trading at 15.94x and 15.55x, respectively based on FY2023 financials. SNB is most attractive and trading at PB and PE ratio of 1.2x and 10.2x, respectively based on 2023 estimated financial.

#### FY23 - P/E (x) vs. P/B (x)



Source: FABS estimate

### Market Weight

Based on 6x BUYs and 1x ACCUMULATE on the KSA banks under our coverage, we maintain our MARKET WEIGHT RATING. Yet, on a comparative basis we remain inclined towards SNB, ALINMA and ALRAJHI.

### Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	95.00	73.40	29.43%	BUY
ALBI	50.00	42.80	16.82%	BUY
RIBL	42.00	31.85	31.87%	BUY
ALINMA	40.00	32.15	24.42%	BUY
SNB	83.00	49.45	67.85%	BUY
ARNB	36.00	32.50	10.77%	ACCUMULATE
BSFR	51.00	39.75	28.30%	BUY

FABS Estimate



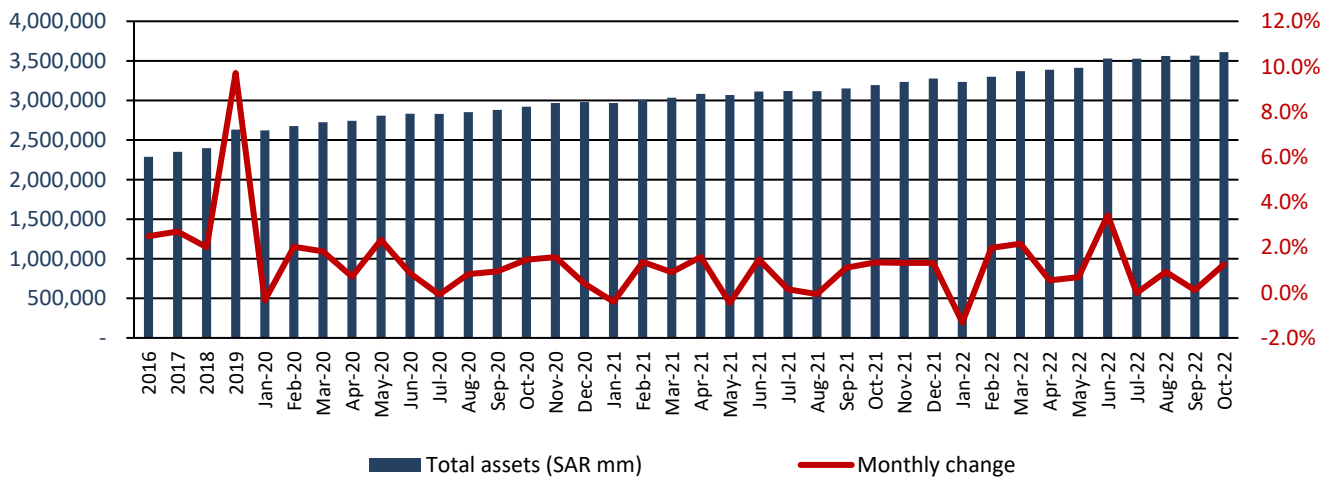
## Banking indicators

### 1. Assets

#### Total banking assets increased 13.0% YOY and 1.3% MOM in October 2022

KSA's total banking assets rose 13.0% YOY and 1.3% MOM to SAR 3,610 Bn in October 2022 as compared to SAR 3,193 Bn in October 2021.

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



Source: FABS from SAMA data

#### Al Rajhi maintains the highest asset growth in 3Q22 on a YOY basis

Al Rajhi bank recorded the highest asset growth to SAR 741 Bn (+27.1% YOY; 4.3% QOQ) in 3Q22 followed by Alinma bank whose assets rose to SAR 193 Bn (+15.8% YOY; 4.7% QOQ). Saudi National Bank witnessed the slowest asset growth to SAR 964 Bn (+6.8% YOY; +0.6% QOQ) in 3Q22. However, Saudi National Bank has the largest asset base among the below mentioned banks.

Total assets							
(SAR mm)	3Q21	4Q21	1Q22	2Q22	3Q22	YOY%	QOQ%
Al Rajhi	582,684	623,672	657,628	709,779	740,627	27.1%	4.3%
Bank Al Bilad	111,606	110,854	116,442	121,511	127,020	13.8%	4.5%
Riyad Bank	318,657	325,736	348,468	357,954	347,881	9.2%	-2.8%
Alinma Bank	166,808	173,476	179,519	184,622	193,229	15.8%	4.7%
Saudi National Bank	902,720	914,150	921,565	958,473	964,421	6.8%	0.6%
Arab National Bank	182,275	192,502	204,620	209,828	207,266	13.7%	-1.2%
Banque Saudi Fransi	213,335	215,802	222,211	231,267	231,659	8.6%	0.2%
KSA banking system	3,151,242	3,277,846	3,370,359	3,529,096	3,565,149	13.1%	1.0%

FABS from co data and SAMA

### SNB continues to hold the leading market share in assets in 3Q22

In spite of the slowest asset YOY asset growth, SNB maintained the highest asset market share of 27.3% in 3Q22 with a decline of 159.5 basis points (bps) YOY and 10.8 bps QOQ. Al Rajhi holds the second-highest asset market share of 20.8% in 3Q22. In addition, AlRajhi Bank also recorded the highest growth in market share of 228.3 bps YOY in 3Q22.

<b>Assets market share</b>							
	3Q21	4Q21	1Q22	2Q22	3Q22	YOY (bps)	QOQ (bps)
Al Rajhi	18.5%	19.0%	19.5%	20.1%	20.8%	228.3	66.2
Bank Al Bilad	3.5%	3.4%	3.5%	3.4%	3.6%	2.1	12.0
Riyad Bank	10.1%	9.9%	10.3%	10.1%	9.8%	-35.4	-38.5
Alinma Bank	5.3%	5.3%	5.3%	5.2%	5.4%	12.7	18.9
Saudi National Bank	28.6%	27.9%	27.3%	27.2%	27.1%	-159.5	-10.8
Arab National Bank	5.8%	5.9%	6.1%	5.9%	5.8%	2.9	-13.2
Banque Saudi Fransi	6.8%	6.6%	6.6%	6.6%	6.5%	-27.2	-5.5

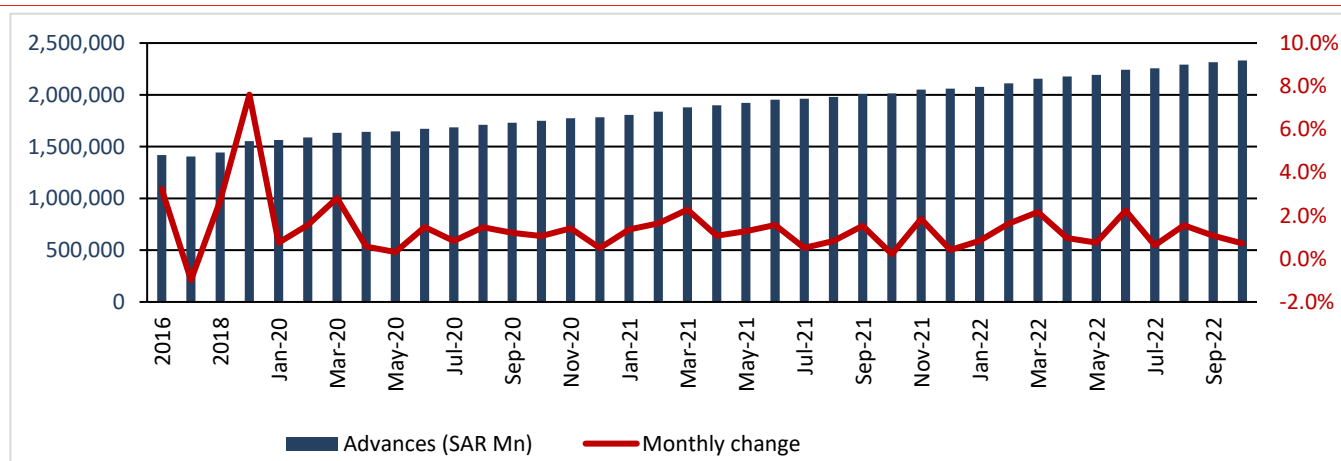
FABS from co data

## 2. Advances

### Advances rose 0.7% MOM in October 2022

KSA Banking advances recorded solid growth to SAR 2,332 Bn (+15.8% YOY; 0.7% MOM) in October 2022 due to robust economic growth in the region.

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



Source: FABS from SAMA data

### Strong overall credit growth recorded in 3Q22

Al Rajhi bank again records the highest growth in advances to SAR 557 Bn (+32.4% YOY; 7.3% QOQ) in 3Q22 followed by the Arab National Bank whose advances rose 21.2% YOY to SAR 145 Bn. KSA' solid economic outlook enhanced the credit growth in the region. Banque Saudi Fransi and SNB recorded the lowest growth in advances of 9.8% and 6.4% YOY respectively in 3Q22. In addition, Al Rajhi bank surpassed Saudi National Bank to become the largest lender among the below-listed banks under our coverage closely followed by the Saudi National Bank.

**Net advances**

(SAR mm)	3Q21	4Q21	1Q22	2Q22	3Q22	YOY%	QOQ%
Al Rajhi	420,954	452,831	484,526	519,701	557,498	32.4%	7.3%
Bank Al Bilad	81,799	82,933	86,391	91,206	92,288	12.8%	1.2%
Riyad Bank	210,482	217,290	234,793	239,650	241,586	14.8%	0.8%
Alinma Bank	121,318	126,271	128,965	131,193	139,987	15.4%	6.7%
Saudi National Bank	503,696	497,568	512,898	536,189	536,176	6.4%	0.0%
Arab National Bank	120,016	126,674	138,642	143,055	145,475	21.2%	1.7%
Banque Saudi Fransi	144,393	147,813	152,690	159,625	158,481	9.8%	-0.7%
KSA banking system	2,009,160	2,059,220	2,155,861	2,241,918	2,315,578	15.3%	3.3%

FABS from co data

**Al Rajhi surpassed SNB to become the market leader in advances market share**

Al Rajhi Bank surpassed SNB to lead with a 24.1% advances market share closely followed by SNB which held a market share of 23.2% in 3Q22. In addition, Al Rajhi recorded the highest growth in advances market share of 312.4 bps YOY and 89.5 bps in 3Q22. Saudi National Bank's advances market share declined the most by 191.5 bps on YOY basis and 76.1 bps in 3Q22. Bank Albilad held the lowest advances market share of 4.0% (declining by 8.6 bps YOY, +8.3 bps QOQ) followed by Alinma Bank and Arab National Bank at 6.0% (+0.7 bps YOY; +19.4 bps QOQ) and 6.3% (+30.9 bps YOY; -9.9 bps QOQ) respectively in 3Q22.

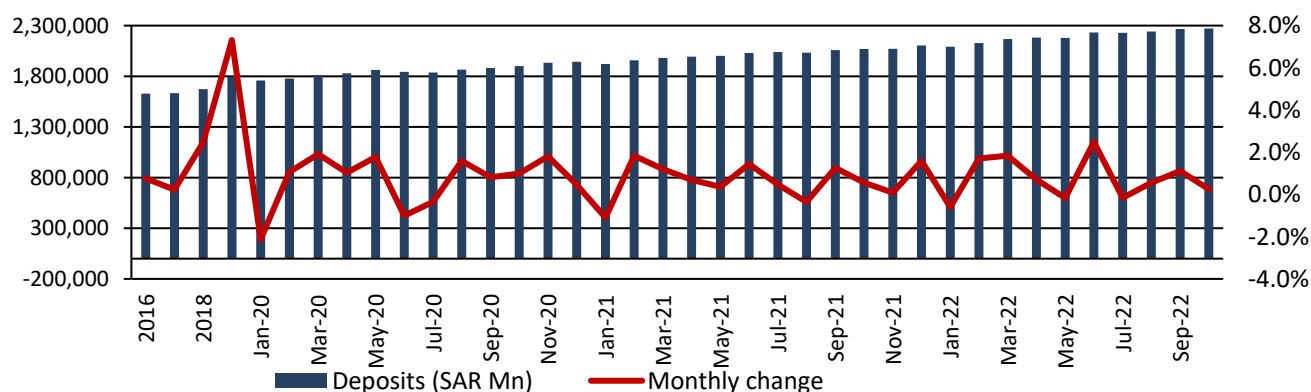
**Advances market share**

	3Q21	4Q21	1Q22	2Q22	3Q22	YOY (bps)	QOQ (bps)
Al Rajhi	21.0%	22.0%	22.5%	23.2%	24.1%	312.4	89.5
Bank Al Bilad	4.1%	4.0%	4.0%	4.1%	4.0%	-8.6	-8.3
Riyad Bank	10.5%	10.6%	10.9%	10.7%	10.4%	-4.3	-25.6
Alinma Bank	6.0%	6.1%	6.0%	5.9%	6.0%	0.7	19.4
Saudi National Bank	25.1%	24.2%	23.8%	23.9%	23.2%	-191.5	-76.1
Arab National Bank	6.0%	6.2%	6.4%	6.4%	6.3%	30.9	-9.9
Banque Saudi Fransi	7.2%	7.2%	7.1%	7.1%	6.8%	-34.3	-27.6

FABS from co data

**3. Customer Deposits**
**Customer deposits rose 0.3% MOM in Oct 2022**

KSA banking deposits rose to SAR 2,272 Bn (+9.8% YOY; +0.3% MOM) in October 2022, up from SAR 2,070 Bn in October 2022.

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


Source: FABS from SAMA data

### Al Rajhi recorded the highest growth in deposits in 3Q22

Al Rajhi's deposits rose to SAR 556 Bn (+16.2% YOY; +0.5% QOQ) in 3Q22 whereas Riyadh Banks' deposits stood at SAR 236 Bn (+15.6% YOY; -0.7% QOQ) in 3Q22. Only, Banque Saudi Fransi recorded a marginal decline in deposit by 0.1% on QOQ basis in 3Q22. Saudi National Bank holds the highest amount of deposits in 3Q22 worth SAR 597 Bn in 3Q22.

<b>Deposits</b>							
(SAR mm)	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>YOY%</b>	<b>QOQ%</b>
Al Rajhi	478,331	512,072	507,892	552,957	555,767	16.2%	0.5%
Bank Al Bilad	82,346	81,110	86,079	89,108	93,886	14.0%	5.4%
Riyad Bank	203,996	211,678	232,416	237,477	235,892	15.6%	-0.7%
Alinma Bank	116,652	121,061	128,035	130,376	132,048	13.2%	1.3%
Saudi National Bank	589,190	588,574	604,963	593,011	596,886	1.3%	0.7%
Arab National Bank	129,395	135,714	148,138	146,791	147,806	14.2%	0.7%
Banque Saudi Fransi	143,322	141,950	150,759	157,919	157,821	10.1%	-0.1%
KSA banking system	2,057,984	2,104,454	2,166,619	2,232,569	2,266,387	10.1%	1.5%

FABS from co data and SAMA

### SNB & Al Rajhi continues to maintain the highest deposit market share

SNB recorded the highest market share in deposits at 26.3% in 3Q22 followed by Al Rajhi with 24.5%. SNB's deposits market share declined sharply by 229.3 bps YOY and 22.5 bps QOQ in 3Q22 whereas Al Rajhi deposits rose significantly by 127.9 bps YOY and declined 24.6 bps QOQ in 3Q22. Among the other banks, only Bank Albilad's deposits rose marginally on a QOQ basis in 3Q22.

<b>Deposits market share</b>							
	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>YOY (bps)</b>	<b>QOQ (bps)</b>
Al Rajhi	23.2%	24.3%	23.4%	24.8%	24.5%	127.9	-24.6
Bank Al Bilad	4.0%	3.9%	4.0%	4.0%	4.1%	14.1	15.1
Riyad Bank	9.9%	10.1%	10.7%	10.6%	10.4%	49.6	-22.9
Alinma Bank	5.7%	5.8%	5.9%	5.8%	5.8%	15.8	-1.3
Saudi National Bank	28.6%	28.0%	27.9%	26.6%	26.3%	-229.3	-22.5
Arab National Bank	6.3%	6.4%	6.8%	6.6%	6.5%	23.4	-5.3
Banque Saudi Fransi	7.0%	6.7%	7.0%	7.1%	7.0%	-0.1	-11.0

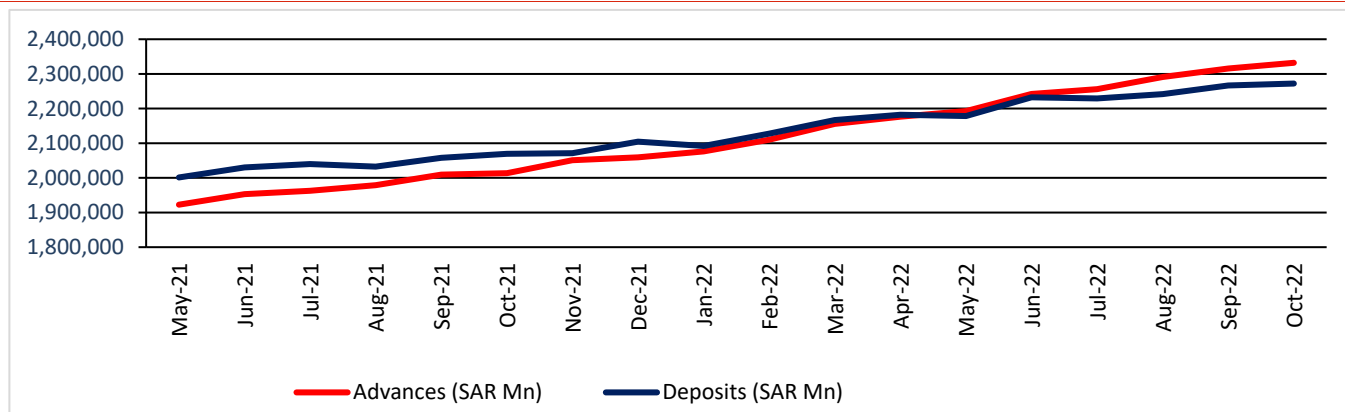
FABS from co data

## 4. Liquidity

### System liquidity contracted YOY and MOM in October 2022

KSA's banking liquidity further declined as ADR ratio rose from 102.4% in September 2022 to 102.2% in October 2022. However, the lending percentage to total assets declined marginally to 64.6% in October 2022 from 65.0% in September 2022 due to the diversification of assets.

### KSA banking system ADR and % lent, 2016 - Oct 2022



Source: FABS from SAMA data

### Most of the KSA Bank's recorded an increase in ADR on YOY basis

Al Rajhi, Alinma, SNB, and Arab National Bank ADR recorded an increase in ADR whereas the remaining banks under our coverage recorded a decline in ADR. On QOQ basis also, the banks under coverage recorded an increase in ADR. Al Rajhi recorded the highest growth in ADR to 100.3% (1230.7 bps YOY; 632.6 bps QOQ) in 3Q22 followed by Arab National Bank whose ADR rose to 98.4% (567.1 bps YOY; 96.8 bps QOQ) in 3Q22. SNB's ADR stood at 89.8% (+433.9 bps YOY; -58.9 bps QOQ) in 3Q22. Alinma bank ADR stood at 106.0% in 3Q22, the highest among all banks under our coverage.

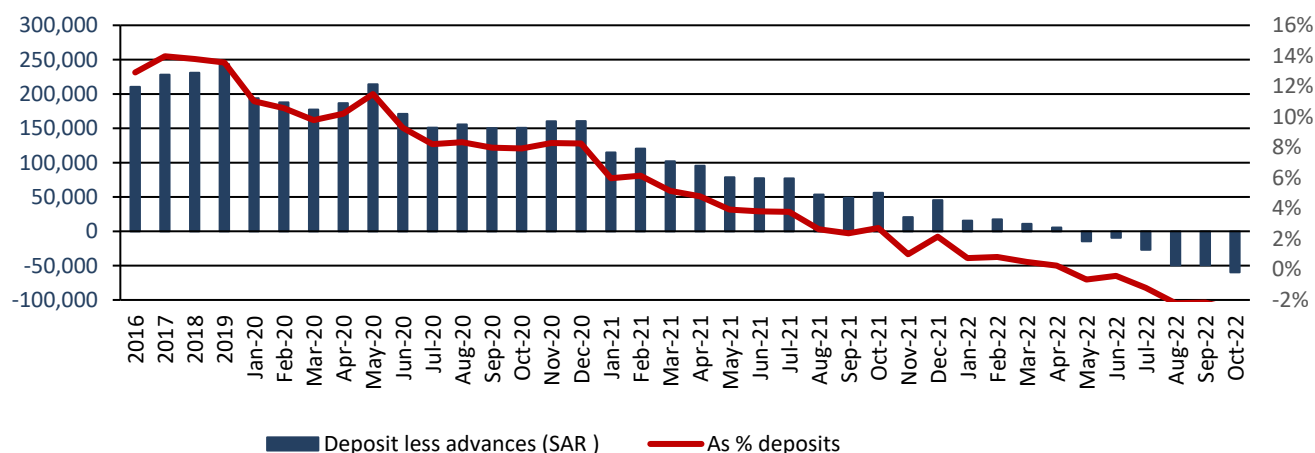
ADR							
	3Q21	4Q21	1Q22	2Q22	3Q22	YOY (bps)	QOQ (bps)
Al Rajhi	88.0%	88.4%	95.4%	94.0%	100.3%	1230.7	632.6
Bank Al Bilad	99.3%	102.2%	100.4%	102.4%	98.3%	-103.8	-405.6
Riyad Bank	103.2%	102.7%	101.0%	100.9%	102.4%	-76.6	149.9
Alinma Bank	104.0%	104.3%	100.7%	100.6%	106.0%	201.2	538.6
Saudi National Bank	85.5%	84.5%	84.8%	90.4%	89.8%	433.9	-58.9
Arab National Bank	92.8%	93.3%	93.6%	97.5%	98.4%	567.1	96.8
Banque Saudi Fransi	100.7%	104.1%	101.3%	101.1%	100.4%	-32.9	-66.2

FABS from co data

### KSA banking system deposits less advances declined 21.8% MOM in October 2022

KSA banking deposits less advances fell to a negative of SAR 60 Bn in October 2022, declining 21.8% MOM from a negative of SAR 49 Bn in September 2022.

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



Source: FABS from SAMA data

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

Out of the below-listed banks, only Albilad, BSFR, and Riyadh Bank recorded a growth in deposit surplus on a YOY basis in 3Q22. SNB deposit surplus stood highest at SAR 60 Bn in 3Q22 followed by Arab National Bank's surplus of SAR 2 Bn in 3Q22. Al Rajhi, Riyadh Bank, Alinma, and BSFR recorded a negative deposit surplus in 3Q22 on an absolute basis which indicates higher advances growth as compared to deposits. Out of the below-listed, only Bank Al Bilad, SNB, and BSFR recorded a growth in deposit surplus on QOQ basis.

Deposit surplus/-deficit							
SAR mm	3Q21	4Q21	1Q22	2Q22	3Q22	YOY%	QOQ%
Al Rajhi	57,377	59,242	23,366	33,256	-1,731	-103.0%	-105.2%
Bank Al Bilad	547	-1,823	-312	-2,098	1,598	192.1%	-176.2%
Riyad Bank	-6,486	-5,612	-2,377	-2,173	-5,694	-12.2%	162.0%
Alinma Bank	-4,666	-5,210	-930	-817	-7,939	70.1%	872.1%
National Commercial Bank	85,494	91,006	92,065	56,823	60,710	-29.0%	6.8%
Arab National Bank	9,379	9,040	9,496	3,736	2,331	-75.1%	-37.6%
Banque Saudi Fransi	-1,071	-5,863	-1,931	-1,706	-660	-38.4%	-61.3%

FABS from co data

## Banking Stock performance

### ALINMA and ARNB performed among the top five

KSA Banking Sector outperformed the Qatar and Egypt Banking Sector but underperformed the UAE banking sector. KSA banking sector generated an average return of 8.7%, based on a simple average. ARNB (42.2%), ALINMA (34.2%), ALBI (23.1%) and RIBL (17.5%) headed KSA banks in terms of stock performance during 2022. All Banks except SNB, RJHI and BSFR underperformed the market index TASI during 2022. ARNB generated the highest return and SNB generated the lowest return in the KSA Banking sector during 2022 (until 15 December 2022).

#### 27 MENA bank stocks: YE22 to 15th of December 2022, Ranked

			UAE	KSA	Qatar	Egypt	Ranking
QIBK QD Equity	QIBK	12.8%			12.8%		13
MARK QD Equity	MARK	-31.3%			-31.3%		30
CBD UH Equity	CBD	11.0%	11.0%				14
MASQ UH Equity	MASQ	22.6%	22.6%				10
QNBK QD Equity	QNBK	-13.1%			-13.1%		24
UAB UH Equity	UAB	24.7%	24.7%				8
SIB UH Equity	SIB	0.0%	0.0%				18
CBQK QD Equity	CBQK	-25.5%			-25.5%		29
DSM Index	<b>DSM</b>	-5.6%					21
RJHI AB Equity	RJHI	-17.2%		-17.2%			26
SASEIDX Index	<b>TASI</b>	-8.8%					22
ADSMI Index	<b>ADI</b>	19.8%					11
ALINMA AB Equity	ALINMA	34.2%		34.2%			3
ALBI AB Equity	ALBI	23.1%		23.1%			9
BSFR AB Equity	BSFR	-15.9%		-15.9%			25
RAKBANK UH Equity	RAKBANK	0.0%	0.0%				18
DHBK QD Equity	DHBK	-36.4%			-36.4%		31
COMI EC Equity	COMI	29.2%				29.2%	5
FAB UH Equity	FAB	-11.9%	-11.9%				23
EGX30 Index	<b>EGX30</b>	26.7%					7
BOS UH Equity	BOS	-22.6%	-22.6%				27
SNB AB Equity	NCB	-23.2%		-23.2%			28
DFMGI Index	<b>DFM</b>	3.7%					17
ARNB AB Equity	ARNB	42.2%		42.2%			1
RIBL AB Equity	RIBL	17.5%		17.5%			12
CBI UH Equity	CBI	36.8%	36.8%				2
EMIRATES UH Equity	ENBD	-3.3%	-3.3%				20
ADIB UH Equity	ADIB	32.8%	32.8%				4
DIB UH Equity	DIB	4.1%	4.1%				16
AJMANBAN UH Equity	AJMANBANK	27.4%	27.4%				6
ADCB UH Equity	ADCB	6.9%	6.9%				15
<b>AVERAGE</b>			<b>9.9%</b>	<b>8.7%</b>	<b>-18.7%</b>	<b>29.2%</b>	

FABS from Bloomberg



## 4Q22 preview: Saudi National Bank

Attractively Priced

CMP (SAR): 49.45

Potential upside/(downside) (%): **+67.85%**

12-m target price:

**SAR 83.00**

Stock rating:

**BUY**

### 4Q22 estimate

Saudi National Bank (SNB/the bank) is expected to witness a 51.8% growth in net profit to SAR 4,498 Mn in 4Q22 mainly due to strong growth in net funded income driven by an expected increase in net advances and growth in non-funded income. Funded income is anticipated to increase from SAR 6,465 Mn in 4Q21 to SAR 10,105 Mn in 4Q22 as we assume the credit growth to continue in 4Q22. Funded expense is expected to grow significantly from 618 Mn in 4Q21 to 3,359 Mn in 4Q22 due to a rise in benchmark rates. Non-funded income is estimated to grow 29.0% YOY to SAR 1,849 Mn in 4Q22 due to expected rise in fee & commission income, income from FVIS investments, and gains over non-trading investment partially offset by a 27.4% decline in exchange income. Fees and commission income is expected to grow 8.7% YOY to SAR 837 Mn in 4Q22 driven by solid income from banking services. As a result, total operating income is likely to grow 18.1% YOY to SAR 8,595 Mn in 4Q22. Operating expenses are expected to decline 16.1% YOY to SAR 2,617 Mn in 4Q22 mainly due to expected decline in employee-related expenses and other G&A expenses partially offset by a rise in rent expenses, depreciation and amortization charges. Furthermore, impairment charges are estimated to rise from SAR 494 Mn in 4Q21 to SAR 619 Mn in 4Q22 whereas zakat expenses are anticipated to grow 48.4% YOY to SAR 743 Mn in 4Q22.

### 2022 forecast

Saudi National Bank's net profit is expected to increase from SAR 12,668 Mn in 2021 to SAR 18,313 Mn in 2022 mainly due to a strong growth in interest earning assets of the bank and decline in net impairment charges. SNB's funded income is expected to grow 35.7% YOY to SAR 34,182 Mn in 2022. Similarly, funded expenses are expected to grow significantly from SAR 3,060 Mn in 2021 to SAR 7,990 Mn in 2022. Thus, net funded income is likely to grow 18.4% YOY to SAR 26,192 Mn in 2022. Non-funded income is estimated to rise 14.9% YOY to SAR 7,289 Mn in 2022. As a result, operating income is likely to grow 17.6% YOY to SAR 33,481 Mn in 2022. Salaries and employee-related expenses are expected to grow 3.2% YOY to SAR 4,557 Mn in 2022 whereas other general and administrative expenses are estimated to decline 16.9% YOY to SAR 2,616 Mn in 2022. Resultantly, Operating expenses are expected to grow 1.8% YOY to SAR 10,038 Mn in 2022. Impairment charges are expected to decline from SAR 3,927 Mn in 2021 to SAR 2,138 Mn in 2022 due to strong economic growth. Zakat expense is anticipated to rise from SAR 1,653 Mn in 2021 to SAR 2,676 Mn in 2022.

### 3Q22 outturn

SNB witnessed a significant net profit growth of 18.7% YOY to SAR 4,725 Mn in 3Q22 driven by a growth in net funded income along with a decline in impairments and operating expenses. SNB's funded income rose 27.4% YOY to SAR 8,933 Mn in 3Q22 due to strong growth in net advances whereas funded expenses rose sharply from SAR 805 Mn in 3Q21 to SAR 2,378 Mn in 3Q22. SNB's non-funded income rose 13.4% YOY to SAR 1,893 Mn in 3Q22 due rise in Fees and commission, exchange income, and gains on non-trading investment. The bank's financials were positively affected post-merger with Samba Financial Group. As a result, operating income rose 7.3% YOY to SAR 8,448 Mn in 3Q22. Total operating expenses declined 7.4% YOY to SAR 2,431 Mn in 3Q22 due to a decline in salary and employee-related expenses, amortization charges, and other G&A expenses offset by a rise in rent and depreciation expenses. Impairment charges declined 26.2% YOY to SAR 541 Mn in 3Q22 whereas zakat expenses rose 32.7% YOY to SAR 646 Mn dragging profitability.

### Target price and recommendation

We maintain our BUY rating on SNB with a target price of SAR 83.00. The price of stock corrected 22.6% since our last rating. Post this correction, the stock offers compelling valuation and trading at PB multiple of 1.4x based on 2023 estimates as compared to sector average of 2.0x. In addition, the Bank ROE is also expected to increase from 11.8% in 2021 to 12.3% and 13.8% in 2022 and 2023, respectively. SNB stock corrected after it announced investment of SAR 5.5 Bn in Credit Suisse Group shares. The stock lost more than 10x the investment value in Credit Suisse. SNB witnessed healthy growth in net advances which rose 7.8% on a YTD basis to SAR 536 BN in 3Q22 and further expected to grow by 12% and 9.0% in 2022 and 2023, respectively. The Bank regulatory loan-to-deposit stood at 77.3% in 3Q22 as compared to regulatory ceiling of 90% provides further room for credit expansion. SNB's cost of funds rose 48 bps QOQ in 3Q22 as compared to a 24 bps QOQ hike in asset yield due to change in deposit and loan mix. Thus, NIM's declined 19 bps QOQ to 2.99% in 3Q22. Retail loans make up 53.8% of the total loan which might lead to a delay in loan repricing. However, SNB CASA ratio remained healthy at 73.4% in 3Q22 which will keep in check borrowing cost. The bank also benefited from the merger with SAMBA group and already achieved 84.0% of targeted cost synergies worth SAR 1,010 Mn in 3Q22. Resultantly, SNB cost-to-income ratio fell from 31.7% in 9M21 to 28.0% in 9M22. The bank's asset quality remained manageable with an NPLs ratio of 1.57% with a stage 2 ratio of 4.0% in 3Q22. The coverage ratio of non-performing loans remained abundant at 131.8% in 3Q22. SNB's capitalization stood strong with a CET1 ratio of 15.6%, T1 ratio of 17.9%, and capital adequacy ratio of 18.7% in 3Q22. Thus, based on our analysis, we assign a BUY rating to the stock.

#### SNB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE (x)	16.06	13.47	13.47	16.59	12.09
PB (x)	2.72	2.56	2.14	1.52	1.46
Dividend yield %	4.2%	4.7%	1.6%	3.1%	4.7%

FABS Estimates & Co Data

#### SNB - P&L

SAR mm	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Commission income	6,465	8,933	10,105	56.3%	13.1%	25,181	34,182	35.7%
Commission expense	618	2,378	3,359	443.7%	41.3%	3,060	7,990	161.1%
<b>Net funded income</b>	<b>5,847</b>	<b>6,555</b>	<b>6,746</b>	<b>15.4%</b>	<b>2.9%</b>	<b>22,120</b>	<b>26,192</b>	<b>18.4%</b>
Fees and commissions	770	863	837	8.7%	-3.0%	3,041	3,629	19.3%
Exchange income, net	551	488	400	-27.4%	-18.0%	1,582	1,632	3.2%
Income from FVIS investment	72	632	638	784.5%	1.0%	1,524	2,081	36.5%
Gains/Loss on non-trading invst	139	160	161	15.9%	1.0%	1,027	844	-17.8%
Other Operating Income / Exp	-99	-249	-187	90.0%	-24.8%	-831	-896	7.8%
<b>Non-funded income</b>	<b>1,434</b>	<b>1,893</b>	<b>1,849</b>	<b>29.0%</b>	<b>-2.3%</b>	<b>6,342</b>	<b>7,289</b>	<b>14.9%</b>
<b>Operating income</b>	<b>7,281</b>	<b>8,448</b>	<b>8,595</b>	<b>18.1%</b>	<b>1.7%</b>	<b>28,462</b>	<b>33,481</b>	<b>17.6%</b>
Salaries and emp-related exps	1,371	1,105	1,206	-12.0%	9.2%	4,418	4,557	3.2%
Rent and premises-related exps	138	139	143	3.9%	2.9%	511	547	7.2%
Dep of property and equipment	284	355	314	10.3%	-11.8%	1,100	1,362	23.8%
Amort of intangible assets	230	205	316	37.4%	53.9%	689	955	38.7%
Other G&A expenses	1,096	626	639	-41.7%	2.0%	3,146	2,616	-16.9%
<b>Total operating Expenses</b>	<b>3,118</b>	<b>2,431</b>	<b>2,617</b>	<b>-16.1%</b>	<b>7.7%</b>	<b>9,864</b>	<b>10,038</b>	<b>1.8%</b>
Other non-operating inc (exp), net	-166	-70	-55	-66.9%	-21.3%	-234	-129	-44.8%
<b>Pre-provision profit</b>	<b>3,997</b>	<b>5,947</b>	<b>5,923</b>	<b>48.2%</b>	<b>-0.4%</b>	<b>18,365</b>	<b>23,314</b>	<b>26.9%</b>
Impairment	494	541	619	25.3%	14.5%	3,927	2,138	-45.6%
<b>PBT</b>	<b>3,503</b>	<b>5,407</b>	<b>5,304</b>	<b>51.4%</b>	<b>-1.9%</b>	<b>14,438</b>	<b>21,176</b>	<b>46.7%</b>
Zakat	500	646	743	48.4%	15.0%	1,653	2,676	61.9%
<b>Profit after tax</b>	<b>3,002</b>	<b>4,761</b>	<b>4,562</b>	<b>51.9%</b>	<b>-4.2%</b>	<b>12,784</b>	<b>18,500</b>	<b>44.7%</b>
Non-controlling interest	39	36	64	64.3%	75.5%	116	186	60.6%
<b>Profit after tax</b>	<b>2,964</b>	<b>4,725</b>	<b>4,498</b>	<b>51.8%</b>	<b>-4.8%</b>	<b>12,668</b>	<b>18,313</b>	<b>44.6%</b>

FABS estimate & Co Data

**SNB - P&L KPI**

	<b>4Q21</b>	<b>3Q22</b>	<b>4Q22</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2021</b>	<b>2022F</b>	<b>Change</b>
Net FI/OI	80.3%	77.6%	78.5%	-182	90	77.7%	78.2%	51
NIM	2.8%	2.99%	3.1%	23	6	3.2%	3.0%	-13
NIS	2.8%	2.8%	2.8%	4	0	3.1%	2.9%	-21
Fees & comms/OI	10.6%	10.2%	9.7%	-84	-48	10.7%	10.8%	15
Cost to income	42.8%	28.8%	30.4%	-1,238	-186	34.7%	30.0%	-467
Impairment/PPP	12.4%	9.1%	10.4%	-191	136	21.4%	9.2%	-1,221
NP/OI	40.7%	55.9%	52.3%	1,163	-359	44.5%	54.7%	1,019
ROAE	8.6%	11.3%	12.2%	367	90	11.8%	12.3%	51
ROAA	1.4%	1.7%	1.9%	50	14	1.4%	1.9%	49

FABS estimate & Co Data

**SNB- Key BS Items**

	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22F</b>	<b>YOY Ch</b>
SAR mm						
Net advances	497,568	512,898	536,189	536,176	543,670	9.3%
QOQ Change	-1.0%	3.1%	4.5%	0.0%	1.4%	
Total assets	914,150	921,565	958,473	964,421	974,649	6.6%
QOQ Change	1.1%	0.8%	4.0%	0.6%	1.1%	
Customer deposits	588,574	604,963	593,011	596,886	617,111	4.8%
QOQ Change	-0.1%	2.8%	-2.0%	0.7%	3.4%	
Total equity	162,770	165,143	161,721	163,183	168,352	3.4%
QOQ Change	1.2%	1.5%	-2.1%	0.9%	3.2%	

FABS estimate & Co Data

## 4Q22 preview: Banque Saudi Fransi

Multiple levers will benefit NIMs

CMP (SAR): 39.75

Potential upside/(downside) (%): **+28.30%**

12-m target price:

**SAR 51.00**

Stock rating:

**BUY**

### 4Q22 estimate

Banque Saudi Fransi (BSFR/ the bank) is expected to report a 2.0% YOY growth in net profit to SAR 1,014 Mn in 4Q22 driven by a solid growth in net funded income and improved asset yield along with a rise in non-funded income partially offset by an increase in operating expenses. Funded income is estimated to grow 64.4% YOY to SAR 2,400 Mn in 4Q22 mainly attributable to growth in net advances and rise in asset yield while funded expense is anticipated to rise from SAR 128 Mn in 4Q21 to SAR 669 Mn in 4Q22 due to a rise in benchmark rates. Non-funded income is anticipated to grow 15.5% YOY to SAR 453 Mn in 4Q22 driven by improvement in exchange income, other operating income, and trading income somewhat offset by a marginal decline in fee and commission income. As a result, operating income is likely to grow 26.6% YOY to SAR 2,148 Mn in 4Q22. Operating expenses are expected to rise 11.0% YOY to SAR 688 Mn in 4Q22 driven by an increase in salaries and employee-related expenses, other G&A expenses, and rent expenses. Impairments are anticipated to rise significantly from SAR 45 Mn in 4Q21 to SAR 376 Mn in 4Q22. Tax charges are expected to grow from SAR 66 Mn in 4Q21 to SAR 106 Mn in 4Q22 dragging profitability.

### 2022 forecast

BSFR's net profit is anticipated to increase 6.8% YOY to SAR 3,686 Mn in 2022 due to growth in net funded income partially offset by an increase in operating expenses and impairments. Funded income is expected to increase 33.7% YOY to SAR 7,847 Mn in 2022 due to growth in bank's loan book and a rise in asset yield. Funded expenses are estimated to increase from SAR 495 Mn in 2021 to SAR 1,679 Mn in 2022. As a result, net funded income is anticipated to increase 14.8% YOY to SAR 6,168 Mn in 2022, which will benefit NIM to rise 7 bps YOY to 2.8% in 2022. Non-funded income is anticipated to rise 4.6% YOY to SAR 1,898 Mn in 2022, mainly due to an increase in other operating income and exchange income partially offset by a decline in fee & commission income and trading income. Operating expenses are expected to rise 7.0% YOY to SAR 2,619 Mn in 2022. Cost to income ratio is expected to decline 158 bps YOY to 32.5% in 2022. Impairment charges are expected to rise from SAR 904 Mn in 2021 to SAR 1,367 Mn in 2022. Tax expense is expected to increase marginally 1.7% YOY to SAR 394 Mn in 2022.

### 3Q22 outturn

BSFR reported a 5.9% YOY growth in net profit to SAR 961 Mn in 3Q22 driven by growth in net funded income partially offset by a rise in operating expenses and provisions. Funded income rose 41.9% YOY to SAR 2,188 Mn in 3Q22 due to growth in advances whereas funded expenses inclined from SAR 119 Mn in 3Q21 to SAR 542 Mn in 3Q22. Thus, net funded income rose 15.6% YOY to SAR 1,646 Mn in 3Q22. Non-funded income declined marginally 0.2% YOY to SAR 489 Mn in 3Q22 owing to a decline in fee & commission income and trading income partially offset by a rise in exchange income and other operating income. As a result, operating income grew 11.6% YOY to SAR 2,135 Mn in 3Q22. Furthermore, operating expenses rose 11.5% YOY to SAR 678 Mn mainly due to a rise in employee-related expenses and other G&A expenses. Impairments rose significantly from SAR 289 Mn in 3Q21 to SAR 400 Mn in 3Q22. Tax charges fell 12.4% YOY to SAR 96 Mn in 3Q22.

### Target price and recommendation

We maintain our BUY rating on Banque Saudi Fransi with a target price of SAR 51.00. We like the Bank strategy of scaling retail banking while maintaining consistent growth in corporate segment. BSFR NIM is likely to benefit from a decline in legacy cash flow hedges which fell from SAR 27.5 Bn in 2021 to SAR 24.9 bn in 3Q22. It declined from a high of SAR 73.1 Bn in 2017. Thus, NIMs rose 32 bps QOQ to 3.0% in 3Q22. We expect NIMs to further benefit as CASA deposit rose from 62.0% of

total deposit in 2Q22 to 65.5% in 3Q22. Also, the majority of loans and advances consists of corporate loans, the bank would be able to reprice the loan without any lag befitting NIMs. This will also benefit ROE and ROA. Asset quality remain manageable with an NPL ratio of 2.8% and coverage ratio of 114.4% in 3Q22. We also expect cost of risk to decline from the current levels going forward due to improvement in economic environment in KSA. The stock is trading at attractive valuation post recent correction at a PB value of 1.2x based on 2022 financial compared to sector average of 2.0x. BSFR also maintained a healthy capitalization with a Tier 1 Capital ratio of 18.7% in 3Q22 along with a total capital adequacy ratio of 19.8%. The bank is expected to generate a dividend yield of 3.9% in 2022. Thus, based on our analysis, we maintain our BUY rating on the stock.

**BSFR – Relative valuation**

(At CMP)	2018	2019	2020	2021	2022F
PE	33.97	15.29	32.06	14.72	12.95
PB	1.60	1.50	1.42	1.42	1.41
Dividend Yield	4.2%	4.9%	1.0%	3.8%	4.2%

*FABS Estimates & Co Data*
**BSFR – P&L**

SAR mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Special commission income	1,460	2,188	2,400	64.4%	9.7%	5,869	7,847	33.7%
Special commission expense	128	542	669	424.4%	23.5%	495	1,679	239.2%
<b>Net special commission income</b>	<b>1,332</b>	<b>1,646</b>	<b>1,731</b>	<b>29.9%</b>	<b>5.2%</b>	<b>5,373</b>	<b>6,168</b>	<b>14.8%</b>
fee and commission income	287	278	281	-2.2%	1.0%	1,213	1,142	-5.8%
Exchange income, net	93	136	109	17.0%	-20.0%	336	442	31.6%
Trading income, net	-12	20	20	-268.7%	1.0%	172	147	-14.2%
Other operating income	19	52	44	134.4%	-15.0%	64	152	138.0%
<b>Non-funded income</b>	<b>393</b>	<b>489</b>	<b>453</b>	<b>15.5%</b>	<b>-7.4%</b>	<b>1,814</b>	<b>1,898</b>	<b>4.6%</b>
<b>Operating income</b>	<b>1,725</b>	<b>2,135</b>	<b>2,184</b>	<b>26.6%</b>	<b>2.3%</b>	<b>7,188</b>	<b>8,066</b>	<b>12.2%</b>
Salaries and employee-related exp	347	391	383	10.3%	-2.0%	1,397	1,465	4.8%
Rent and premises-related exp	18	18	19	7.8%	8.5%	66	69	4.5%
Depreciation and amortization	65	58	67	2.8%	14.1%	225	238	5.6%
Other G&A exp	190	211	219	15.2%	4.0%	758	847	11.7%
<b>Total operating Expenses</b>	<b>620</b>	<b>678</b>	<b>688</b>	<b>11.0%</b>	<b>1.5%</b>	<b>2,447</b>	<b>2,619</b>	<b>7.0%</b>
<b>Pre-provision profit</b>	<b>1,104</b>	<b>1,457</b>	<b>1,496</b>	<b>35.4%</b>	<b>2.6%</b>	<b>4,741</b>	<b>5,447</b>	<b>14.9%</b>
Impairment	45	400	376	725.9%	-6.1%	904	1,367	51.3%
<b>PBT</b>	<b>1,059</b>	<b>1,057</b>	<b>1,120</b>	<b>5.8%</b>	<b>6.0%</b>	<b>3,837</b>	<b>4,080</b>	<b>6.3%</b>
Tax	66	96	106	62.0%	10.8%	388	394	1.7%
<b>Net profit attributable</b>	<b>993</b>	<b>961</b>	<b>1,014</b>	<b>2.0%</b>	<b>5.5%</b>	<b>3,450</b>	<b>3,686</b>	<b>6.8%</b>

*FABS Estimates & Co Data*
**BSFR – P&L KPI**

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	77.2%	77.1%	79.2%	201	217	74.8%	76.5%	171
NIM	2.60%	3.00%	3.09%	49	9	2.8%	2.8%	7
NIS	2.52%	2.66%	2.66%	14	0	2.7%	2.6%	-12
Fees & comms/OI	16.63%	13.01%	12.84%	-379	-16	16.9%	14.2%	-272
Trading/OI	-0.7%	0.9%	0.9%	160	-1	2.4%	1.8%	-56
Cost to income	36.0%	31.8%	31.5%	-445	-24	34.0%	32.5%	-158
Impairment/PPP	4.1%	27.5%	25.1%	2100	-235	19.1%	25.1%	604
NP/OI	57.6%	45.0%	46.4%	-1118	141	48.0%	45.7%	-230
ROAE	10.2%	11.2%	11.1%	90	-12	10.1%	10.9%	83
ROAA	1.6%	1.6%	1.6%	-5	-3	1.7%	1.6%	-7

*FABS estimate & Co Data*

**BSFR- Key BS Items**

	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
SAR mm						
Net advances	147,813	152,690	159,625	158,481	165,145	11.7%
QOQ Change	2.4%	3.3%	4.5%	-0.7%	4.2%	
Total assets	215,802	222,211	231,267	231,659	242,080	12.2%
QOQ Change	1.2%	3.0%	4.1%	0.2%	4.5%	
Customer deposits	141,950	150,759	157,919	157,821	159,114	12.1%
QOQ Change	-1.0%	6.2%	4.7%	-0.1%	0.8%	
Total equity	39,686	39,428	37,742	37,805	38,818	-2.2%
QOQ Change	1.1%	-0.7%	-4.3%	0.2%	2.7%	

FABS estimate & Co Data



## 4Q22 preview: Riyadh Bank

Diversified funding and loan mix to support NIMs

CMP (SAR): 31.85

Potential upside/(downside) (%): **+31.87%**

12-m target price:

**SAR 42.00**

Stock rating:

**BUY**

### 4Q22 estimate

Riyadh Bank (RIBL, the bank) is expected to report a 9.9% YOY increase in net profit to SAR 1,778 Mn in 4Q22 driven by strong growth in net special commission income partially offset by a significant increase in impairment charges and a rise in operating expenses. Special commission income is estimated to grow from SAR 2,306 Mn in 4Q21 to SAR 3,773 Mn in 4Q22 due to the strong growth in net advances and rise in asset yield. Special commission expenses is expected to rise from SAR 236 Mn in 4Q21 to SAR 958 Mn in 4Q22 due to a rise in benchmark rates. Thus, net special commission income is anticipated to grow 36.0% YOY to SAR 2,814 Mn in 4Q22. Furthermore, total other operating income is expected to decline 8.3% YOY to SAR 806 Mn due to expected decline in fee and commission income and other operating income partially offset by a rise in trading income. Resultantly, total operating income is expected to grow 22.8% YOY to SAR 3,621 Mn in 4Q22. Consequently, operating expenses are estimated to rise 26.1% YOY to SAR 1,214 Mn in 4Q22. In addition, we expect the cost-to-income ratio to increase 88 bps YOY to 33.5% in 4Q22. Impairment charges are anticipated to grow from SAR 234 Mn in 4Q21 to SAR 348 Mn in 4Q22 while tax expense is anticipated to reach SAR 231 Mn in 4Q22, up from SAR 136 Mn in 4Q21.

### 2022 forecast

Riyadh Bank is expected to report a 12.3% YOY increase in net profit to SAR 6,769 Mn in 2022, owing mainly due to the increase in special commission income which is partially offset by a rise in special commission expenses and an increase in operating expenses. Special commission income is expected to rise 38.2% YOY to SAR 12,588 Mn in 2022, while the special commission expense is anticipated to increase to SAR 2,573 Mn in 2022, up from SAR 815 Mn in 2021 resulting in a 20.8% YOY increase in net special commission income to SAR 10,015 Mn in 2022. Total other operating income is estimated to increase 5.7% YOY to SAR 3,463 Mn in 2022, as we expect a 15.0% YOY rise in fees and commissions income to SAR 2,436 Mn in 2022, which is partially offset by an expected decline in other operating income to SAR 832 Mn in 2022 as compared to SAR 951 Mn in 2021. As a result, total operating income is likely to grow 16.5% YOY to SAR 13,478 Mn in 2022. Total operating expenses are predicted to increase 13.2% YOY to SAR 4,486 Mn in 2022 mainly driven by the bank's ongoing transformation program. Subsequently, the cost-to-income ratio is expected to improve 99 bps YOY to 33.3% in 2022 mainly due to higher revenue. Impairments charges are anticipated to increase from SAR 853 Mn in 2021 to SAR 1,265 Mn in 2022. Tax expense is expected to increase 20.2% YOY to SAR 833 Mn in 2022.

### 3Q22 outturn

Riyadh Bank recorded 18.5% YOY growth in net profit to SAR 1,828 Mn in 3Q22, driven by growth in net special commission income and other operating income. Special commission income rose 62.2% YOY to SAR 3,527 Mn in 3Q22 mainly due to growth in net advances whereas special commission expenses rose from SAR 194 Mn in 3Q21 to SAR 855 Mn in 3Q22 owing to a hike in benchmark rates. Thus, NIM's rose 28 bps QOQ to 3.04% in 3Q22. Total non-funded income rose 2.2% YOY to SAR 853 Mn in 3Q22 mainly due to a rise in fee and commission income partly offset by a decline in trading income and other operating income. As a result, total operating income rose 25.2% YOY to SAR 3,525 Mn in 3Q22. Operating expenses inclined 16.5% YOY to SAR 1,174 Mn in 3Q22 due to a rise in employee-related expenses and other expenses. Impairments rose to SAR 308 Mn in 3Q22, up from SAR 69 Mn in 3Q21 leading to a profit before tax to SAR 2,040 Mn in 3Q22. Tax expense rose from SAR 184 Mn in 3Q21 to SAR 212 Mn in 3Q22 mainly due to an increase in profitability.



### Target price and recommendation

We maintain our BUY rating on RIBL with a target price of SAR 42.00. Riyadh is the third largest bank in KSA with a diversified income mix. The Bank continues to maintain a balanced focus on retail, corporate and SME segment as a result loan mix between retail and corporate segment stood at 35% and 65% since 2021 till 3Q22. As a result, RIBL NIM is expected to benefit in a rising interest rate scenario. The NIMs rose from 2.77% in 2Q22 to 3.04% in 3Q22 and further expected to rise to 3.30% in 4Q22. Riyadh bank's net advances rose 11.2% on a YTD basis to SAR 242 Bn in 3Q22 with an expected rise in corporate and mortgage loans. Riyadh bank estimates its advances to grow in the mid-teens in 2022 due to healthy economic outlook and diversification of the economy. The customer deposits rose 11.4% on a YTD basis to SAR 236 Bn in 3Q22. Riyadh bank's investment in the transformation program added to efficiency and the cost-to-income ratio declined 250 bps YOY to SAR 33.3% in 3Q22 and further expected to end at this level during 2022. The bank's asset quality improved with a marginal decline in the NPL ratio from 1.7% in 2Q22 to 1.6% in 3Q22. It also maintained a healthy NPL coverage ratio of 115% in 3Q22. RIBL's capitalization remained healthy with a CET 1 Ratio of 15.2%, Tier 1 ratio of 16.0%, and Capital Adequacy ratio of 19.1% in 3Q22. Thus, based on our analysis, we assign a BUY rating to the stock.

### RIBL - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	22.3	17.1	20.3	15.9	14.1
P/B (x)	2.7	2.5	2.2	2.1	1.9
Dividend Yield	2.4%	3.4%	1.6%	3.3%	3.5%

FABS Estimates & Co Data

### RIBL - P&L

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
<b>SAR mm</b>								
Special commission income	2,306	3,527	3,773	63.6%	7.0%	9,108	12,588	38.2%
Special commission expense	-236	-855	-958	306.0%	12.1%	-815	-2,573	215.7%
<b>Net special commission income</b>	<b>2,070</b>	<b>2,672</b>	<b>2,814</b>	<b>36.0%</b>	<b>5.3%</b>	<b>8,293</b>	<b>10,015</b>	<b>20.8%</b>
Fee and commission income, net	610	592	598	-1.9%	1.0%	2,118	2,436	15.0%
Trading losses, net	18	42	43	132.3%	1.0%	206	194	-5.5%
Other Operating Income	252	218	165	-34.3%	-24.2%	951	832	-12.5%
<b>Total other operating income</b>	<b>880</b>	<b>853</b>	<b>806</b>	<b>-8.3%</b>	<b>-5.4%</b>	<b>3,275</b>	<b>3,463</b>	<b>5.7%</b>
<b>Operating income</b>	<b>2,949</b>	<b>3,525</b>	<b>3,621</b>	<b>22.8%</b>	<b>2.7%</b>	<b>11,568</b>	<b>13,478</b>	<b>16.5%</b>
Operating expenses	-963	-1,174	-1,214	26.1%	3.3%	-3,965	-4,486	13.2%
<b>Pre-provision profit</b>	<b>1,987</b>	<b>2,351</b>	<b>2,407</b>	<b>21.2%</b>	<b>2.4%</b>	<b>7,603</b>	<b>8,992</b>	<b>18.3%</b>
Impairment	-234	-308	-348	49.2%	13.0%	-853	-1,265	48.3%
Share in earnings of associates, net	0	-2	-50	NM	NM	-32	-125	283.7%
<b>Profit Before Tax</b>	<b>1,753</b>	<b>2,040</b>	<b>2,009</b>	<b>14.6%</b>	<b>-1.5%</b>	<b>6,718</b>	<b>7,602</b>	<b>13.2%</b>
Tax	-136	-212	-231	70.2%	8.8%	-693	-833	20.2%
<b>Net profit</b>	<b>1,617</b>	<b>1,828</b>	<b>1,778</b>	<b>9.9%</b>	<b>-2.7%</b>	<b>6,025</b>	<b>6,769</b>	<b>12.3%</b>

FABS estimate & Co Data

### RIBL - KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	70.2%	75.8%	77.7%	755	192	71.7%	74.3%	262
NIM	2.60%	3.0%	3.3%	70	25	2.8%	3.0%	22
NIS	2.5%	2.8%	3.1%	55	25	2.8%	2.9%	11
Fee & Comm/OI	20.7%	16.8%	16.5%	-415	-28	18.3%	18.1%	-23
Trading/OI	0.6%	1.2%	1.2%	56	-2	1.8%	1.4%	-34
Cost to income	32.6%	33.3%	33.5%	88	20	34.3%	33.3%	-99
Impairment/PPP	11.8%	13.1%	14.5%	272	135	11.2%	14.1%	285
NP/OI	54.8%	51.8%	49.1%	-574	-275	52.1%	50.2%	-186
ROAE	13.1%	13.7%	13.4%	27	-33	13.4%	13.9%	56
ROAA	1.9%	1.9%	2.0%	8	8	1.9%	2.0%	12

FABS estimate & Co Data

**RIBL - Key B/S items**

	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22F</b>	<b>YOY Ch</b>
SAR mm						
Net advances	217,290	234,793	239,650	241,586	248,308	14.3%
QOQ change	3.2%	8.1%	2.1%	0.8%	2.8%	
Total assets	325,736	348,468	357,954	347,881	345,334	6.0%
QOQ change	2.2%	7.0%	2.7%	-2.8%	-0.7%	
Customer deposits	211,678	232,416	237,477	235,892	243,440	15.0%
QOQ change	3.8%	9.8%	2.2%	-0.7%	3.2%	
Total equity	47,300	48,051	46,636	49,595	51,373	8.6%
QOQ change	2.7%	1.6%	-2.9%	6.3%	3.6%	

FABS estimate & Co Data

## 4Q22 preview: Arab National Bank

Downgraded to Accumulate

CMP (SAR): 32.50

Potential upside/(downside) (%): **+10.77%**

12-m target price:

**SAR 36.00**

Stock rating:

**ACCUMULATE**

### 4Q22 estimate

Arab National Bank (ARNB/ the bank) is expected to report a net profit of SAR 897 Mn in 4Q22, up from SAR 456 Mn in 4Q21. The increase in net profit is mainly attributable due to expected increase in net funded income and non-funded income partially offset by a rise in operating expenses and a increase in impairments. Funded income is estimated to grow from SAR 1,287 Mn in 4Q21 to SAR 2,415 Mn in 4Q22 due to expected growth in net advances and solid growth in asset yield. Funded expenses are anticipated to rise from SAR 177 Mn in 4Q21 to SAR 889 Mn in 4Q22 mainly due to a hike in benchmark rates. As a result, net funded income is expected to rise 37.5% YOY to SAR 1,527 Mn in 4Q22. Non-funded income is expected to grow 36.1% YOY to SAR 324 Mn in 4Q22 mainly due to the expected growth in fee & commission income, other operating income, and other non-funded income. Resultantly, net operating income is likely to rise 37.3% YOY to SAR 1,850 Mn in 4Q22. On the other hand, operating expenses are estimated to rise 3.6% YOY to SAR 602 Mn in 4Q22. Impairments are anticipated to grow 7.2% YOY to SAR 230 Mn in 4Q22 leading to a profit before tax of SAR 1,039 Mn in 4Q22, up from SAR 572 Mn in 4Q21. Tax expense is estimated to grow 25.4% YOY to SAR 145 Mn in 4Q22.

### 2022 forecast

ARNB's net profit is estimated to grow 49.6% YOY to SAR 3,256 Mn in 2022 primarily driven by a strong rise in funded income and decrease in impairments charges. Funded income is estimated to grow 46.0% YOY to SAR 7,551 Mn in 2022 owing to the expected growth in interest earning assets of the bank and rise in asset yield whereas funded expenses are estimated to increase from SAR 500 Mn in 2021 to SAR 2,033 Mn in 2022 owing to a hike in interest rates. Furthermore, non-funded income is expected to grow 14.4% YOY to SAR 1,250 Mn in 2022 due to the expected rise in fee & commission income along with an increase in other non-funded income partially offset by a decline in other operating income. As a result, operating income is estimated to increase 17.4% YOY to SAR 6,768 Mn in 2022. On the other hand, operating expenses are anticipated to grow marginally 1.8% YOY to SAR 2,241 Mn in 2022. Furthermore, impairment charges are estimated to decline 18.7% YOY to SAR 841 Mn in 2022. Tax expense is expected to rise 22.1% YOY to SAR 550 Mn in 2022 dragging profitability.

### 3Q22 outturn

Arab National Bank's net profit rose 38.6% YOY to SAR 921 Mn in 3Q22 mainly driven by growth in net funded income and non-funded income and a decrease in impairments charges. ARNB's funded income rose 51.0% YOY to SAR 2,090 Mn in 3Q22 whereas funded expense increased from SAR 131 Mn in 3Q21 to SAR 593 Mn in 3Q22. Thus, net funded income rose 19.5% YOY to SAR 1,497 Mn in 3Q22. Non-funded income rose 41.0% YOY to SAR 319 Mn in 3Q22 owing to a rise in fee & commission income and other non-funded income partially offset by a decline in other operating income. As a result, operating income rose 22.8% YOY to SAR 1,815 Mn in 3Q22. Operating expenses inclined 8.1% YOY to SAR 596 Mn in 3Q22. Impairments declined 7.9% YOY to SAR 173 Mn in 3Q22. Tax expenses rose significantly from SAR 100 Mn in 3Q21 to SAR 151 Mn in 3Q22. Share of profit attributable to non-controlling interest holders stood at SAR 4 Mn in 3Q22, up from 1 Mn in 3Q21.

### Target price and recommendation

We revise our rating from BUY to ACCUMULATE on ARNB with a target price of SAR 36.00. The Bank stock price rose 4.6% since our last rating on (18 October 2022). ARNB witnessed strong growth in net advances of 14.8% on YTD basis to SAR 146 Bn in 3Q22, whereas we expect the advances to

further growth in 4Q22 driven by KSA's robust economic outlook. ARNB's asset yield rose 76 bps YOY to 4.2% in 3Q22 whereas the cost of funds inclined 45 bps QOQ to 1.4%. As a result, NIMs rose 37 bps QOQ to 3.02% in 3Q22. The NIMs is further expected to benefit as three fourth of the ARNB advances made up of corporate loans and these loans benefit from faster repricing. However, decline in CASA deposit and change in funding mix might put upward on funding cost pressurizing NIMs. ARNB's deposits rose 8.9% YOY to SAR 148 Bn in 3Q22. However, loan-to-deposit ratio rose from 97.5% in 2Q22 to 98.4% in 3Q22 might limit the loan growth. Non-funded income is also expected to benefit due to an increase in economic activity and expected to grow 14.4% FY2022. ARNB's cost-to-income ratio is also expected to benefit and decline from 38.2% in FY2021 to 33.1% in FY2022. ARNB's NPL ratio largely remain rangebound in the last four quarters with a healthy coverage ratio of 140.6% in 3Q22. ARNB's board approved a cash dividend of SAR 750 Mn for 1H22. The bank's capitalization remained healthy with an CET1 ratio of 17.7% and a total CAR ratio of 19.9% in 3Q22. ARNB is trading at a PB ratio of 1.4x and is expected to generate a dividend yield of 3.5% in FY2023 better than the sector average of 2.2x and 3.2%, respectively during the same period. Thus, based on our analysis, we assign a BUY rating to the stock.

#### ARNB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	12.3	16.1	23.5	22.4	15.0
P/B (x)	1.9	1.8	1.6	1.6	1.5
Dividend yield	3.1%	3.1%	1.2%	2.5%	3.4%

FABS Estimates & Co Data

#### ARNB- P&L

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
SAR mm								
Funded income	1,287	2,090	2,415	87.7%	15.6%	5,172	7,551	46.0%
Funded expense	-177	-593	-889	402.7%	49.9%	-500	-2,033	307.0%
<b>Net funded income</b>	<b>1,110</b>	<b>1,497</b>	<b>1,527</b>	<b>37.5%</b>	<b>2.0%</b>	<b>4,672</b>	<b>5,518</b>	<b>18.1%</b>
Fees and commissions	112	164	123	10.0%	-24.8%	489	540	10.4%
others operating income	30	17	56	85.0%	232.2%	229	128	-44.1%
Other non-funded income	126	155	201	59.2%	29.4%	603	710	17.7%
<b>Non-funded income</b>	<b>238</b>	<b>319</b>	<b>324</b>	<b>36.1%</b>	<b>1.6%</b>	<b>1,092</b>	<b>1,250</b>	<b>14.4%</b>
<b>Operating income</b>	<b>1,348</b>	<b>1,815</b>	<b>1,850</b>	<b>37.3%</b>	<b>1.9%</b>	<b>5,765</b>	<b>6,768</b>	<b>17.4%</b>
Operating expenses	-582	-596	-602	3.6%	1.1%	-2,201	-2,241	1.8%
<b>Pre-provision profit</b>	<b>766</b>	<b>1,220</b>	<b>1,248</b>	<b>62.9%</b>	<b>2.3%</b>	<b>3,563</b>	<b>4,526</b>	<b>27.0%</b>
Impairment	-215	-173	-230	7.2%	33.3%	-1,034	-841	-18.7%
Share of results of associates	21	21	21	3.2%	0.0%	93	112	20.7%
<b>PBT</b>	<b>572</b>	<b>1,068</b>	<b>1,039</b>	<b>81.7%</b>	<b>-2.8%</b>	<b>2,622</b>	<b>3,798</b>	<b>44.9%</b>
Tax	-116	-151	-145	25.4%	-3.6%	-450	-550	22.1%
<b>Profit after tax</b>	<b>456</b>	<b>917</b>	<b>893</b>	<b>96.0%</b>	<b>-2.6%</b>	<b>2,171</b>	<b>3,248</b>	<b>49.6%</b>
Non-controlling int.	0	4	4	816.6%	0.0%	5	8	55.3%
<b>Net profit attributable</b>	<b>456</b>	<b>921</b>	<b>897</b>	<b>96.6%</b>	<b>-2.6%</b>	<b>2,177</b>	<b>3,256</b>	<b>49.6%</b>

FABS estimate & Co Data

#### ARNB - KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	82.4%	82.5%	82.5%	15	6	81.0%	81.5%	48
NIM	2.5%	3.0%	3.0%	50	-4	2.6%	2.8%	14
NIS	2.8%	2.5%	2.8%	-2	30	2.6%	3.3%	72
Fees & comms/OI	8.3%	9.0%	6.7%	-165	-236	8.5%	8.0%	-51
Cost to income	28.1%	14.2%	18.5%	-960	429	29.0%	18.6%	-1,046
Impairment/PPP	43.1%	32.8%	32.6%	-1,059	-26	38.2%	33.1%	-507
NP/OI	33.9%	50.7%	48.5%	1,463	-225	37.8%	48.1%	1,036
ROAE	7.0%	8.7%	9.8%	274	106	7.2%	10.1%	297
ROAA	1.2%	1.3%	1.5%	32	17	1.2%	1.6%	41

FABS estimate & Co data

**ARNB - Key B/S items**

	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>YOY Ch</b>
SAR mm						
Net advances	126,674	138,642	143,055	145,475	149,897	18.3%
QOQ change	5.5%	9.4%	3.2%	1.7%	3.0%	
Total assets	192,502	204,620	209,828	207,266	220,820	14.7%
QOQ change	5.6%	6.3%	2.5%	-1.2%	6.5%	
Customer deposits	135,714	148,138	146,791	147,806	157,512	16.1%
QOQ change	4.9%	9.2%	-0.9%	0.7%	6.6%	
Total equity	31,101	32,035	31,028	31,749	33,208	6.8%
QOQ change	1.2%	3.0%	-3.1%	2.3%	4.6%	

*FABS estimate & Co data*

## 4Q22 preview: Alinma Bank

Strong margin expansion and healthy loan growth to support valuation

CMP (SAR): 32.15

Potential upside/(downside) (%): **+24.42%**

12-m target price:

**SAR 40.00**

Stock rating:

**BUY**

### 4Q22 estimate

Alinma Bank (Alinma/the bank) is expected to record an 57.8% YOY increase in net profit to SAR 977 Mn in 4Q22. The increase in net profit is primarily expected due to a rise in net funded income and non-funded income partially offset by an increase in operating expenses. Funded income is estimated to grow 55.6% YOY to SAR 2,260 Mn in 4Q22 as the bank sees a positive outlook on project finance opportunities. Consequently, the funded expense is anticipated to rise from SAR 143 Mn in 4Q21 to SAR 485 Mn in 4Q22 due to a rise in the cost of funds driven by a rise in interest rates. Thus, net funded income is estimated to rise 35.6% YOY to SAR 1,775 Mn in 4Q22. However, we expect the NIMs to rise to 3.64% in 4Q22 as compared to 3.15% in 4Q21. Non-funded income is anticipated to rise 6.5% YOY to SAR 384 Mn in 4Q22 as we expect growth in fee and commission income, partially offset by a decline in other non-funded income. As a result, operating income is likely to grow 29.3% YOY to SAR 2,159 Mn in 4Q22. Operating expense is anticipated to rise 14.3% YOY to SAR 767 Mn in 4Q22 due to the rise in salaries and employees related expenses. Impairment charges are expected to rise marginally 0.3% YOY to SAR 302 Mn in 4Q22 while tax expense is anticipated to grow 56.2% YOY to SAR 112 Mn in 4Q22 mainly due to a rise in profitability.

### 2022 forecast

We expect Alinma's bank net profit to increase 37.2% YOY to SAR 3,716 Mn in 2022. The rise is mainly driven by an increase in net funded and non-funded income which is partially offset by a rise in operating expenses. Funded income is expected to grow 31.0% YOY to SAR 7,434 Mn in 2022 primarily as we expect a growth in credit demand whereas funded expense is expected to increase from SAR 537 Mn in 2021 to SAR 1,262 Mn in 2022 due to a hike in benchmark rates. Non-funded income is expected to grow 17.8% YOY to SAR 1,802 Mn in 2022 due to growth in fee & commission income, trading income, and other non-funded income. Consequently, the total operating income is estimated to rise 19.6% YOY to SAR 7,974 Mn in 2022. Operating expenses are anticipated to increase 17.6% YOY to SAR 2,782 Mn in 2022. Impairment expense is expected to decline 17.1% YOY to SAR 1,050 Mn in 2022 supporting the bottom line. Zakat expense is expected to increase 36.8% YOY to SAR 427 Mn in 2022.

### 3Q22 outturn

Alinma's net profit rose significantly 34.0% YOY to SAR 989 Mn in 3Q22 due to strong growth in net funded income and non-funded income attributable to credit growth and interest rate hike partially offset by an increase in operating expenses. Funded income rose 35.6% YOY to SAR 2,049 Mn in 3Q22 while funded expenses rose from SAR 119 Mn in 3Q21 to SAR 376 Mn in 3Q22. Thus, net funded income rose 20.2% YOY to SAR 1,674 Mn in 3Q22. Non-funded income rose 21.3% YOY to SAR 402 Mn in 3Q22 due to healthy growth in fees & commission income, trading income, and other non-funded income. As a result, operating income rose 20.4% YOY to SAR 2,075 Mn in 3Q22. Operating expenses rose 14.9% YOY to SAR 710 Mn in 3Q22. Impairments declined marginally 5.3% YOY to SAR 264 Mn in 3Q22 leading to a net profit before zakat of SAR 1,103 Mn in 3Q22, up from SAR 823 Mn in 3Q21. Zakat expenses rose 34.0% YOY to SAR 114 Mn in 3Q22 dragging profitability.

### Target price and recommendation

We revise our rating on Alinma from HOLD to BUY with unchanged target price of SAR 40.00. The Bank stock price corrected 13.0% since our last HOLD rating on 18 October 2022. ALINMA balance sheet remains sensitive to high interest rates as NIMs rose 47 bps on YTD basis to 3.62% in 3Q22. The Bank managed to keep in check its cost of funding which rose 47 bps compared to increase in asset yield by 94 bps on YTD basis in 3Q22. Alinma derives majority of the non-funded income from



the sustainable source which is expected to grow at a healthy rate in the forecasted period. It is further planning to launch a super app in 1Q23 which will help in further gaining access to the youth and affluent segments. This also led to a creation of cheap source of funding and a platform to sell retail products and earn additional fee income. The Bank's net advances rose 10.9% on a YTD basis in 3Q22 and we expect the advances to grow at a healthy in 4Q22 and going forward due to healthy economic outlook. It expects financing to grow by high teens in 2022. Corporate financing rose 5.0% on YTD basis in 3Q22 due to a rise in mid-corporate and SME financing whereas retail financing rose 28.0% on YTD basis in 3Q22 due to robust growth in home and personal financing. Thus, retail growth will be mainly driven by a decline in unemployment and favorable demographics. The Bank recently revised its loan growth guidance upward in 3Q22 as it foresees a positive demand for project finance. Alinma is further aiming to grow SME business with cross-selling, cash management, and trade finance. The Bank's deposits rose 9.1% on YTD basis due to growth in time deposits. It aims to improve its CASA deposits and focus on time deposits to lower its LDR ratio. Alinma's CASA ratio stood healthy at 65.5% in 9M22. The Bank's asset quality declined from 1.9% in 2Q22 to 1.7% in 3Q22 due to write-offs and settlements whereas stage 2 loans declined due to the migration of provisioned accounts to stage 3. Cost of risk declined from 1.07% in 9M21 to 0.74% whereas the bank further estimates the cost of risk to decline with the guidance of 65-75 bps expecting more settlements in 4Q22. Alinma's capital adequacy ratio declined from 22.4% in 9M21 to 20.1% in 9M22 due to a rise in credit risk-weighted assets. Similarly, CET 1 ratio remained strong at 16.0% in 9M22. Thus, based on our analysis, we assign a BUY rating on the stock.

**Alinma - Relative valuation**

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	28.3	25.6	33.1	24.8	17.5
P/B (x)	3.3	3.7	2.7	2.6	2.38
Dividend Yield	2.3%	NM	0.9%	2.3%	2.9%

*FABS Estimates & Co Data*
**Alinma Bank- P&L**

SAR mm	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	1,452	2,049	2,260	55.6%	10.3%	5,674	7,434	31.0%
Funded expense	-143	-376	-485	239.5%	29.1%	-537	-1,262	134.9%
<b>Net funded income</b>	<b>1,309</b>	<b>1,674</b>	<b>1,775</b>	<b>35.6%</b>	<b>6.1%</b>	<b>5,137</b>	<b>6,172</b>	<b>20.1%</b>
Fees and commissions	243	307	301	23.9%	-2.0%	1,085	1,178	8.6%
Trading gain/(loss)	56	69	70	24.1%	1.0%	215	276	28.5%
Other non-funded income	61	26	13	-79.0%	-49.9%	230	348	51.1%
<b>Non-funded income</b>	<b>360</b>	<b>402</b>	<b>384</b>	<b>6.5%</b>	<b>-4.5%</b>	<b>1,530</b>	<b>1,802</b>	<b>17.8%</b>
<b>Operating income</b>	<b>1,669</b>	<b>2,075</b>	<b>2,159</b>	<b>29.3%</b>	<b>4.0%</b>	<b>6,667</b>	<b>7,974</b>	<b>19.6%</b>
Operating expenses	-671	-710	-767	14.3%	8.1%	-2,365	-2,782	17.6%
<b>Pre-provision profit</b>	<b>998</b>	<b>1,366</b>	<b>1,391</b>	<b>39.4%</b>	<b>1.9%</b>	<b>4,302</b>	<b>5,192</b>	<b>20.7%</b>
Impairment	-301	-264	-302	0.3%	14.3%	-1,266	-1,050	-17.1%
Share of profit of associates	-6	1	0	NM	NM	-14	1	NM
<b>Net profit before zakat</b>	<b>691</b>	<b>1,103</b>	<b>1,089</b>	<b>57.7%</b>	<b>-1.2%</b>	<b>3,022</b>	<b>4,143</b>	<b>37.1%</b>
Zakat	-72	-114	-112	56.2%	-1.2%	-312	-427	36.8%
<b>Net profit attributable</b>	<b>619</b>	<b>989</b>	<b>977</b>	<b>57.8%</b>	<b>-1.2%</b>	<b>2,709</b>	<b>3,716</b>	<b>37.2%</b>

*FABS estimate & Co Data*
**Alinma Bank - KPI**

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	78.4%	80.6%	82.2%	380	159	77.0%	77.4%	35
NIM	3.1%	3.62%	3.64%	49	2	3.2%	3.3%	15
NIS	3.1%	3.4%	3.4%	37	0	3.2%	3.3%	15
Fee & Comms/OI	14.6%	14.8%	13.9%	-61	-86	16.3%	14.8%	-150
Trading/OI	3.4%	3.3%	3.2%	-14	-10	3.2%	3.5%	24
Cost to income	40.2%	34.2%	35.5%	-466	136	35.5%	34.9%	-58
Impairment/PPP	30.2%	19.3%	21.7%	-847	236	29.4%	20.2%	-922
NP/OI	37.1%	47.7%	45.3%	818	-239	40.6%	46.6%	596
ROAE	10.8%	12.7%	12.7%	187	-4	12.2%	12.8%	60
ROAA	1.6%	1.8%	1.9%	27	9	1.6%	2.0%	32

*FABS estimate & Co Data*



**Alinma Bank - Key B/S items**

	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>YOY Ch</b>
SAR mm						
Net advances	126,271	128,965	131,193	139,987	146,383	15.9%
QOQ change	4.1%	2.1%	1.7%	6.7%	4.6%	
Total assets	173,476	179,519	184,622	193,229	205,286	18.3%
QOQ change	4.0%	3.5%	2.8%	4.7%	6.2%	
Customer deposits	121,061	128,035	130,376	132,048	145,106	19.9%
QOQ change	3.8%	5.8%	1.8%	1.3%	9.9%	
Total equity	30,711	31,518	31,467	31,302	32,280	5.1%
QOQ change	1.8%	2.6%	-0.2%	-0.5%	3.1%	

*FABS estimate & Co Data*

## 4Q22 preview: Al Bilad Bank

Upgraded to BUY owing to attractive valuation

CMP (SAR): 42.80

Potential upside/(downside) (%): **+16.82%**

12-m target price:

**SAR 50.00**

Stock rating:

**BUY**

### 4Q22 Estimate

Bank Albilad's (ALBI/the bank) net profit is estimated to grow 17.2% YOY to SAR 501 Mn in 4Q22 due to expected growth in net funded income partially offset by an increase in G&A expenses and increase in impairments. Funded income is expected to grow 49.7% YOY to SAR 1,460 Mn in 3Q22 driven by an expected growth in corporate and retail loan book. Similarly funded expense is estimated to increase significantly from SAR 74 Mn in 4Q21 to SAR 406 Mn in 4Q22 owing to a rise in benchmark rates. Total non-funded income is expected to rise 25.2% YOY to SAR 306 Mn in 4Q22 mainly due to expected rise in exchange income and other non-funded income partially offset by a decline in fees and commission income. Exchange income is expected to rise 16.6% YOY to SAR 100 Mn in 4Q22 whereas other non-funded income is expected to increase from SAR 1 Mn in 4Q21 to SAR 51 Mn in 4Q22. As a result, total operating income is likely to grow 18.7% YOY to SAR 1,360 Mn in 4Q22. G&A expenses are anticipated to rise 12.0% YOY to SAR 612 Mn in 4Q22. Impairment charges are estimated to rise from SAR 121 Mn in 4Q21 to SAR 188 Mn in 4Q22. Zakat expenses are expected to grow 17.2% YOY to SAR 58 Mn in 4Q22.

### 2022 Forecast

We forecast Albilad's net profit to grow 21.2% YOY to SAR 2,043 Mn in 2022. Funded income is expected to grow 31.6% YOY to SAR 4,951 Mn in 2022 whereas funded expense is expected to significantly increase from SAR 272 Mn in 2021 to SAR 992 Mn in 2022 mainly driven by a rise in benchmark rates. Fees and commission income is anticipated to decline 12.7% YOY to SAR 639 Mn in 2022. Thus, total non-funded income is expected to rise 13.6% YOY to SAR 1,244 Mn in 2022 due to growth in exchange income and other non-funded income. As a result, the total operating income will grow 13.5% YOY to SAR 5,202 Mn in 2022. General and administrative expenses are estimated to grow 8.9% YOY to SAR 2,324 Mn in 2022. Impairments are anticipated to rise 5.4% YOY to SAR 600 Mn in 2022. Zakat expenses is anticipated to grow 21.2% YOY to SAR 235 Mn in 2022.

### 3Q22 Outrun

ALBI's funded income rose 36.0% YOY to SAR 1,310 Mn in 3Q22 due to growth in interest-earning assets whereas funded expenses rose from SAR 77 Mn in 3Q21 to SAR 307 Mn in 3Q22 due to a rising interest rate scenario. Thus, net funded income rose 13.2% YOY to SAR 1,003 Mn in 3Q22. Total non-funded income rose 12.0% YOY to SAR 322 Mn in 3Q22 due to growth in exchange income and other non-funded income partially offset by a decline in fee and commission income. Resultantly, operating income rose 12.9% YOY to SAR 1,325 Mn in 3Q22. General and administrative expenses rose 11.3% YOY to SAR 591 Mn in 3Q22 whereas impairment charges declined 7.3% YOY to SAR 132 Mn in 3Q22. Zakat expenses rose 20.2% YOY to SAR 62 Mn in 3Q22. As a result, net profit increased 20.2% YOY to SAR 541 Mn in 3Q22.

### Target price and recommendation

We revise our rating on Bank Albilad from HOLD to BUY with a target price of SAR 50.00. The Bank stock corrected 17.2% since our last HOLD rating on (18 October 2022). After the recent correction, the stock is trading at an attractive valuation. ALBI ROE is expected to increase from 14.8% in 2021 to 16.3% and 17.2% in 2022 and 2023, respectively mainly due to a robust growth in profitability. The Bank recorded 15.8% growth in deposit on YTD basis higher than industry growth rate of 7.7%. The higher deposit growth led to a decline in loan-to-deposit (LTD) ratio from 102.4% in 2Q22 to 98.3% in 3Q22. The decline in LTD ratio will provide headroom to extend additional credit going

forward. We expect the credit growth remain strong owing to robust economic outlook. The Bank cost-to-income ratio remain higher compared to industry average providing significant operating leverage to grow profitability without much tinkering in the cost. ALBI cost-to income ratio will fall from 46.6% in 2021 to 44.7% in 2022. Albilad's asset yield rose 40 bps QOQ to 4.3% in 3Q22 while cost of funds inclined 44 bps QOQ to 1.2% resulting in a marginal rise in NIM from 3.29% in 2Q22 to 3.30% in 3Q22. This is mainly due to a change in benchmark interest rates and deposit mix. It seems will not benefit in a rising interest rate scenario due to multiple headwinds. Asset quality remained more or less unchanged while the coverage ratio stood strong at 236% in 3Q22 with an additional provision buffer to mitigate against unforeseen losses. Albilad's capitalization remained healthy with a CAR of 17.9% in 3Q22. Thus, based on our analysis, we assign a BUY rating on the stock.

**Bank Albilad - Relative valuation**

(At CMP)	2018	2019	2020	2021	2022F
PE	69.9	34.4	31.7	25.4	19.5
PB	5.5	4.5	4.0	3.6	3.1
Dividend Yield	NA	1.6%	NA	NA	1.2%

FABS Estimates & Co Data

**Bank Albilad - P&L**

SAR mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	YOY Ch
Income from invest & fin.	975	1,310	1,460	49.7%	11.4%	3,761	4,951	31.6%
Return on deposits & fin. liab.	-74	-307	-406	448.9%	32.3%	-272	-992	265.1%
<b>Net funded income</b>	<b>901</b>	<b>1,003</b>	<b>1,054</b>	<b>16.9%</b>	<b>5.1%</b>	<b>3,489</b>	<b>3,959</b>	<b>13.4%</b>
Fees and commissions	157	148	154	-1.9%	4.0%	731	639	-12.7%
Exchange income	86	99	100	16.6%	1.0%	313	378	20.8%
Other non-funded income	1	75	51	NM	-31.4%	50	227	352.8%
<b>Total non-funded income</b>	<b>244</b>	<b>322</b>	<b>306</b>	<b>25.2%</b>	<b>-5.2%</b>	<b>1,094</b>	<b>1,244</b>	<b>13.6%</b>
<b>Total operating income</b>	<b>1,145</b>	<b>1,325</b>	<b>1,360</b>	<b>18.7%</b>	<b>2.6%</b>	<b>4,584</b>	<b>5,202</b>	<b>13.5%</b>
General & admin. Expenses	-547	-591	-612	12.0%	3.7%	-2,134	-2,324	8.9%
<b>Pre provision profit</b>	<b>598</b>	<b>735</b>	<b>747</b>	<b>24.9%</b>	<b>1.7%</b>	<b>2,450</b>	<b>2,878</b>	<b>17.5%</b>
Impairment	-121	-132	-188	55.2%	42.6%	-570	-600	5.4%
<b>Profit before zakat</b>	<b>477</b>	<b>603</b>	<b>559</b>	<b>17.2%</b>	<b>-7.3%</b>	<b>1,880</b>	<b>2,278</b>	<b>21.2%</b>
Zakat expenses	-49	-62	-58	17.2%	-7.3%	-194	-235	21.2%
<b>Net profit attributable</b>	<b>428</b>	<b>541</b>	<b>501</b>	<b>17.2%</b>	<b>-7.3%</b>	<b>1,687</b>	<b>2,043</b>	<b>21.2%</b>

FABS Estimates & Co Data

**Bank Albilad - P&L KPI**

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	78.7%	75.7%	77.5%	-117	183	76.1%	76.1%	-3
NIM	3.3%	3.3%	3.3%	1	3	3.5%	3.4%	-11
NIS	3.3%	3.1%	3.1%	-18	-5	3.4%	3.2%	-18
Fees & comms/OI	13.7%	11.2%	11.3%	-237	16	16.0%	12.3%	-368
Other Operating Inc/OI	7.6%	13.1%	11.1%	354	-199	7.9%	11.6%	371
Cost to income	47.8%	44.6%	45.0%	-271	47	46.6%	44.7%	-188
Impairment/PPP	20.3%	18.0%	25.2%	492	722	23.3%	20.9%	-240
NP/OI	37.4%	40.8%	36.9%	-49	-391	36.8%	39.3%	249
ROAE	14.1%	15.4%	15.7%	153	31	14.8%	18.2%	330
ROAA	1.5%	1.6%	1.6%	6	-1	1.6%	1.7%	5

FABS estimate & Co Data

**Bank Albilad - Key BS Items**

	4Q21	1Q22	2Q22	3Q22	4Q22F	Change
SAR mm						
Net advances	82,933	86,391	91,206	92,288	95,980	15.7%
QOQ Change	1.4%	4.2%	5.6%	1.2%	4.0%	
Total assets	110,854	116,442	121,511	127,020	132,009	19.1%
QOQ Change	-0.7%	5.0%	4.4%	4.5%	3.9%	
Customer deposits	81,110	86,079	89,108	93,886	92,734	14.3%
QOQ Change	-1.5%	6.1%	3.5%	5.4%	-1.2%	
Total equity	11,980	12,325	12,607	13,035	13,036	8.8%
QOQ Change	0.9%	2.9%	2.3%	3.4%	0.0%	

FABS estimate & Co Data

## 4Q22 preview: Al Rajhi Bank

Strong credit growth to support profitability

CMP (SAR): 73.40

Potential upside (%): **+29.43%**

12-m target price:

**SAR 95.00**

Stock rating:

**BUY**

### 4Q22 estimate

We expect Al Rajhi Bank (Al Rajhi/the bank) to report an 8.1% YOY growth in net profit to SAR 4,338 Mn in 4Q22. The increase in net profit is primarily backed by strong growth in net financing and investment income partially offset by an increase in impairments and operating expenses. The bank's financing and investment income is expected to grow 34.6% YOY to SAR 7,747 Mn in 4Q22 as we expect strong credit growth in corporate as well as mortgage loans backed by the positive economic outlook of the country. Financing and investment expenses are expected to grow significantly from SAR 399 Mn in 4Q21 to SAR 1,773 Mn in 4Q22 due to a rise in interest rates. Thus, net financing and investment income is expected to increase 11.6% YOY to SAR 5,974 Mn in 4Q22. Total non-funded income is expected to grow marginally 0.2% YOY to SAR 1,503 Mn in 4Q22. Fee income is expected to grow marginally 0.8% YOY to SAR 1,124 Mn in 4Q22. On the other hand, exchange income is expected to grow 43.5% YOY to SAR 313 Mn in 4Q22. While other operating income is anticipated to decline from SAR 168 Mn in 4Q21 to SAR 66 Mn in 4Q22. Furthermore, the origination's new revenue stream in fees and cross-selling activities across different segments is expected to drive the bank's non-funded income in the near term. As a result, net operating income is anticipated to increase 9.1% YOY to SAR 7,477 Mn in 4Q22. Total operating expenses before impairments are estimated to grow 8.7% YOY to SAR 1,947 Mn in 4Q22 driven by a sharp rise in salaries and employee-related expenses and depreciation expense partially offset by a decline in rent and related expenses. Salaries and employee related expenses are expected to rise 19.3% to SAR 958 Mn in 3Q22. Impairments charges are expected to rise from SAR 590 Mn in 4Q21 to SAR 693 Mn in 4Q22. While total operating expenses are expected to increase 10.9% YOY to SAR 2,641 Mn in 4Q22. Thus, profit before zakat is likely to grow 8.1% YOY to SAR 4,837 Mn in 4Q22. Zakat charges are estimated to grow 8.0% YOY to SAR 498 Mn dragging profitability.

### 2022 forecast

We forecast Al Rajhi Bank's financing and investment income to increase to SAR 27,415 Mn in 2022, up from SAR 21,442 Mn in 2021, this increase is expected to be overshadowed majorly by financing and investment expense which is expected to increase to from SAR 1,050 Mn in 2021 to SAR 4,847 Mn in 2022. Resultantly, net financing and investment income is anticipated to increase 10.7% YOY to SAR 22,568 Mn in 2022. Total operating income is expected to increase 16.8% YOY to SAR 6,220 Mn in FY2022 due to an expected increase in fees from banking and exchange income partially offset by a decline in other operating income. Total operating expense before credit impairments is expected to grow 6.8% YOY to 7,397 Mn in 2022 mainly due to an expected increase in salaries and employee-related expenses which is estimated to rise 11.9% YOY to SAR 3,507 Mn in 2022 and an increase in depreciation and amortization expense which is anticipated to grow from SAR 1,142 Mn in 2021 to SAR 1,296 Mn in 2022. Thus, profit before provisions is expected to rise 13.8% YOY to SAR 21,391 Mn in 2022. Impairments charges are expected to decline slightly 0.1% YOY to SAR 2,342 Mn in 2022. While, Zakat expense is anticipated to increase to SAR 1,964 Mn in 2022, up from SAR 1,699 Mn in 2021. As a result, the net profit is expected to stand at SAR 17,085 Mn in FY2022, up from SAR 14,746 Mn in 2021.

### 3Q22 outturn

Al Rajhi's witnessed a net profit growth of 14.8% YOY to SAR 4,355 Mn in 3Q22 due to solid growth in financing and investing income. The bank's financing and investing income rose 32.0% YOY to SAR 7,297 Mn in 3Q22 due to strong growth in interest earning assets of the bank whereas financing and investing expenses rose from SAR 315 Mn in 3Q21 to SAR 1,610 Mn in 3Q22 due to a rise in benchmark rates. Thus, net financing and investment income grew 9.1% YOY to SAR 5,687 Mn in

3Q22. Al Rajhi's non-funded income rose 11.5% YOY to SAR 1,519 Mn in 3Q22. As a result, net operating income rose 9.6% YOY to SAR 7,206 Mn in 3Q22. Total operating expenses before credit impairment rose 6.1% YOY to SAR 1,861 Mn in 3Q22. Impairment charges declined 17.5% YOY to SAR 490 Mn in 3Q22 which led to a 0.1% growth in total operating expenses to SAR 2,351 Mn in 3Q22. Zakat charges rose 14.8% YOY to SAR 501 Mn in 3Q22 in line with increased profitability.

### Target price and recommendation

We revise our rating on Al Rajhi Bank from ACCUMULATE to BUY with a target price of SAR 95.00. The stock price corrected 13.8% since our last rating and after this correction the valuation has turned attractive for the stock. It is expected to generate an ROE of 22.3% and 22.0% in 2022 and 2023, respectively, this is one of the highest ROE generated by a large cap bank from the region. Al Rajhi's net advances rose 23.1% YTD basis to SAR 557 Bn in 3Q22 while the Bank expects the advances to grow by high twenties in FY2022 backed by solid growth in corporates and mortgage loans. In addition, the bank's strategy to expand its customer base and its focus on the Saudi Vision 2030 project will further drive the bank's credit growth. ALRAJHI is also expected to benefit from the growth in mortgages in KSA which continues to grow at a solid rate. The Bank also increased its exposure to corporate credit from 19.7% in 4Q21 to 24.1% in 3Q22 further anticipates to growth in this segment. Assets quality remained strong with a NPL ratio of 0.6% and coverage ratio of 272% in 3Q22. In addition, the stage 2 loans as a percentage of gross loans declined from 0.4% in 2Q22 to 0.3% in 3Q22 indicating an improvement in asset quality along with robust financing growth. ALRAJHI maintains a healthy Tier 1 capital ratio of 18.4% with the total capital adequacy ratio of 19.6% in 3Q22. It is facing margin pressure as the Bank needs to fund mortgages with longer-dated interest-bearing deposits which is putting pressure on the NIMs. NIMs declined 40 bps on a YTD basis to 3.3% in 3Q22. Also, the CASA deposit as percentage of total loans fell from 73.2% in 4Q21 to 68.2% in 3Q22 pressurizing margins. The loan-to-deposit (LDR) ratio rose to 88.4% in 3Q22 against the maximum regulatory limit of 90.0%. However, the bank has issued Tier 1 Sukuk up to SAR 10 Bn in 3Q22, launched an ESG-complaint dollar syndicated loan, and securitized some mortgages to improve the LDR ratio and ease the cost of funding. Furthermore, the management took initiatives preserve capital leading to strong capitalization. Thus, based on our analysis, we assign a BUY rating on the stock.

#### Al Rajhi Bank - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	31.5	28.9	27.7	19.9	17.2
P/B (x)	6.5	6.2	5.1	4.4	3.4
Dividend yield	2.4%	2.6%	0.9%	1.2%	1.5%

FABS Estimates & Co Data

#### Al Rajhi Bank - P&L

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
SAR mm	5,754	7,297	7,747	34.6%	6.2%	21,442	27,415	27.9%
Funded income	-399	-1,610	-1,773	344.5%	10.1%	-1,050	-4,847	361.8%
Funded expense	<b>5,355</b>	<b>5,687</b>	<b>5,974</b>	<b>11.6%</b>	<b>5.1%</b>	<b>20,392</b>	<b>22,568</b>	<b>10.7%</b>
Fees from banking services	1,114	1,135	1,124	0.8%	-1.0%	3,933	4,569	16.2%
Exchange income, net	218	320	313	43.5%	-2.0%	788	1,178	49.5%
Other operating income	168	65	66	-60.5%	2.0%	603	474	-21.5%
<b>Total operating Income</b>	<b>1,500</b>	<b>1,519</b>	<b>1,503</b>	<b>0.2%</b>	<b>-1.1%</b>	<b>5,324</b>	<b>6,220</b>	<b>16.8%</b>
<b>Net Operating Income</b>	<b>6,855</b>	<b>7,206</b>	<b>7,477</b>	<b>9.1%</b>	<b>3.8%</b>	<b>25,716</b>	<b>28,788</b>	<b>11.9%</b>
Salaries and employee benefits	-803	-939	-958	19.3%	2.0%	-3,132	-3,507	11.9%
Other G&A expenses	-683	-599	-659	-3.5%	10.0%	-2,652	-2,595	-2.2%
Depreciation and amortization	-305	-323	-330	8.3%	2.3%	-1,142	-1,296	13.5%
<b>Total operating Expenses</b>	<b>-1,791</b>	<b>-1,861</b>	<b>-1,947</b>	<b>8.7%</b>	<b>4.6%</b>	<b>-6,927</b>	<b>-7,397</b>	<b>6.8%</b>
<b>Profit before provisions</b>	<b>5,064</b>	<b>5,345</b>	<b>5,530</b>	<b>9.2%</b>	<b>3.5%</b>	<b>18,790</b>	<b>21,391</b>	<b>13.8%</b>
Impairment charge	-590	-490	-693	17.5%	41.5%	-2,345	-2,342	-0.1%
Total Operating Expenses	-2,381	-2,351	-2,641	10.9%	12.3%	-9,272	-9,740	5.0%
<b>Net income before zakat</b>	<b>4,474</b>	<b>4,855</b>	<b>4,837</b>	<b>8.1%</b>	<b>-0.4%</b>	<b>16,445</b>	<b>19,049</b>	<b>15.8%</b>
Zakat	-461	-501	-498	8.0%	-0.5%	-1,699	-1,964	15.6%
<b>Net profit for the year</b>	<b>4,012</b>	<b>4,355</b>	<b>4,338</b>	<b>8.1%</b>	<b>-0.4%</b>	<b>14,746</b>	<b>17,085</b>	<b>15.9%</b>

FABS estimate & Co Data

**Al Rajhi Bank - P&L KPI**

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	78.1%	78.9%	79.9%	178	98	79.3%	78.4%	-90
NIM	3.7%	3.3%	3.3%	-40	0	3.9%	3.3%	-52
NIS	3.6%	3.1%	3.1%	-50	-1	3.8%	3.2%	-59
Fees & comms/OI	16.3%	15.7%	15.0%	-123	-72	15.3%	15.9%	58
Exchange Income/OI	3.2%	4.4%	4.2%	101	-25	3.1%	4.1%	103
Cost to income	26.1%	25.8%	26.0%	-8	22	26.9%	25.7%	-124
Impairment/PPP	-11.7%	-9.2%	-12.5%	-88	-337	-12.5%	-10.9%	153
NP/OI	58.5%	60.4%	58.0%	-51	-241	57.3%	59.3%	201
ROAA	2.4%	2.3%	2.3%	-18	-5	2.7%	2.5%	-25
ROAE	22.5%	21.6%	21.5%	-105	-15	23.5%	22.3%	-123

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**Al Rajhi Bank - Key B/S Items**

	4Q21	1Q22	2Q22	3Q22	4Q22	YOY
SAR mm						
Net advances	452,831	484,526	519,701	557,498	580,240	28.1%
QOQ change	7.6%	7.0%	7.3%	7.3%	4.1%	
Total assets	623,672	657,628	709,779	740,627	769,969	23.5%
QOQ change	7.0%	5.4%	7.9%	4.3%	4.0%	
Customer deposits	512,072	507,892	552,957	555,767	579,109	13.1%
QOQ change	7.1%	-0.8%	8.9%	0.5%	4.2%	
Total Equity	67,309	78,341	81,913	86,101	86,040	27.8%
QOQ change	5.8%	16.4%	4.6%	5.1%	-0.1%	

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