

## Bank Albilad

Higher operating income and improved cost efficiency boosted profitability

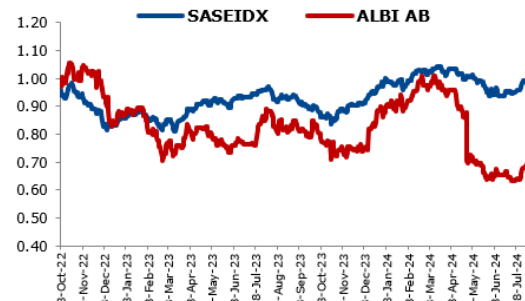
**Current Price**  
SAR 37.10

**Target Price**  
SAR 34.00

**Upside/Downside (%)**  
-8%

**Rating**  
**REDUCE**

- ALBI's net advances grew 5.5% YOY and 1.0% QOQ to SAR 104.3 Bn in 2Q24, owing to marginal growth in commercial financing while healthy growth in retail loans.
- Deposits rose 7.8% YOY and 0.7% QOQ to SAR 114.5 Bn in 2Q24 mainly attributable to a healthy growth in CASA deposits while marginal growth in time deposits.
- Cost to income improved 266 bps YOY and 167 bps QOQ to 41.0% in 2Q24, primarily due to a decline in operating expenses
- NPL declined from 1.37% in 1Q24 to 1.26% in 2Q24 and coverage stood at 203.2% in 2Q24.
- Capitalization remain healthy with a CET1 and CAR ratio of 14.3% and 18.1% in 2Q24.



### 2Q24 Net Profit higher than our estimate

Albilad Bank's ("ALBI", "The Bank") net profit grew 14.5% YOY to SAR 671 Mn in 2Q24, higher than our estimate of SAR 634 Mn. The growth in the net profit is mainly attributable to the increase in total operating income driven by higher net funded income, dividend income, exchange income, net gain on FVIS instruments, and other non-funded income partially offset by a decline in net fee and commission income.

### P&L Highlights

ALBI's funded income grew 14.4% YOY to SAR 2,105 Mn in 2Q24, driven by growth in advances, other interest-earnings assets and marginal expansion in yield. On the other hand, funded expenses grew significantly from SAR 824 Mn in 2Q23 to SAR 1,020 Mn in 2Q24 owing to higher cost of funds. NIMs rose 9 bps YOY to 3.1% in 2Q24 owing to a decline in cost of funds and growth in yield on QOQ basis. Thus, net funded income grew 6.8% YOY to SAR 1,085 Mn in 2Q24. Total non-funded income grew substantially 16.2% YOY to SAR 323 Mn in 2Q24, primarily due to a rise in dividend income, exchange income, net gain on FVIS instruments, and other non-funded income partially offset by a decline in net fee and commission income. Thus, the Bank's total operating income rose 8.8% YOY to SAR 1,408 Mn in 2Q24. Furthermore, the Bank's operating expenses rose 2.2% YOY to SAR 578 Mn in 2Q24 mainly due to the increase in salaries and employee-related expense partially offset by a decline in D&A and other operating expenses. However, the Bank's cost-to-income ratio declined 266 bps YOY to 41.0% in 2Q24 due to operating leverage. Impairment charge for expected credit losses rose 9.0% YOY to SAR 82 Mn in 2Q24. Zakat expenses grew from SAR 67 Mn in 2Q23 to SAR 77 Mn in 2Q24 in line with growth in profitability.

#### Stock Information

Market Cap (SAR, mn)	46,375.00
Paid Up Capital (mn)	12,500.00
52 Week High	41.36
52 Week Low	28.60
3M Avg. daily value(SAR)	52,828,900

#### 2Q24 Result Review (SAR, mn)

Total Assets	145,291
Total Liabilities	129,485
Total Equity	15,806
Total Deposits	114,530
Net Profit	671

#### Financial Ratios

Dividend Yield (12m)	1.08
Dividend Pay-out (%)	21.11
Price-Earnings Ratio(x)	18.16
Price-to-Book Ratio (x)	2.93
Book Value (SAR)	12.64
Return-on Equity (%)	16.93

#### Stock Performance

5 Days	2.63%
1 Months	15.22%
3 Months	4.07%
6 Months	-2.78%
1 Year	7.60%
Month to Date (MTD%)	0.82%
Quarter to Date (QTD%)	14.15%
Year to Date (YTD%)	2.04%

## Balance sheet highlights

Total assets grew 7.3% YOY and 1.1% QOQ to SAR 145.3 Bn in 2Q24 owing to growth in advances and due to banks. Net advances grew 5.5% YOY and 1.0% QOQ to SAR 104 Bn in 2Q24 mainly due to growth in financing to the retail sector and marginal growth in loans to the commercial sector. The Bank's investment portfolio grew 2.1% YOY and declined 0.5% QOQ to SAR 22.9 Bn in 1Q24. Moreover, ALBI's customer deposits grew 7.8% YOY and 0.7% QOQ to SAR 114.5 Bn in 2Q24. Loan-to-deposit ratio marginally grew from 90.8% in 1Q24 to 91.1% in 2Q24.

## Target Price and Rating

We revise our rating on ALBI from HOLD to REDUCE with a target price of SAR 34.0. ALBI continued to grow the share of retail loans from 49.3% in 4Q23 to 50.1% in 2Q24. The rising share of retail will support margins in a declining interest rate scenario. ALBI reported growth in profitability primarily due to an increase in net funded and non-funded income, partially offset by an increase in interest expenses on financial liabilities and operating expenses in 2Q24. In addition, the cost-to-income ratio improved from 42.7% in 1Q24 to 41.0% in 2Q24 mainly attributable to the operating leverage. Asset quality also improved from 1.37% in 1Q24 to 1.26% in 2Q24 with a higher coverage ratio of 203.2% in 2Q24. The higher coverage ratio provides a cushion to the profit against future loan losses. While the Bank Stage 2 assets rose from SAR 8.5 Bn in 4Q23 to SAR 11.9 Bn in 2Q24 owing to the addition of fresh loans worth SAR 2.9 Bn to the asset classification in 2Q24. The marginal growth in deposits resulted in an increase in the loan-to-deposit ratio from 90.8% in 1Q24 to 91.1% in 2Q24. ALBI dividend yield will amount to 1.3% compared to the sector average of 4.3% in FY2024. The Bank continued to preserve capital to maintain growth with CET 1 and CAR ratio of 14.3% and 18.1%, respectively in 2Q24. Thus, based on our analysis, we assign a REDUCE rating to the stock.

### Albilad Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	37.29	34.39	27.50	22.28	19.58	17.57
PB	4.92	4.32	3.87	3.60	3.04	2.67
Dividend Yield	1.5%	NA	NA	1.1%	1.1%	1.3%

FABS Estimates & Co Data

### Albilad Bank - P&L

SAR mm	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Funded income	1,840	2,060	2,105	2,100	0.2%	14.4%	2.2%	7,544	8,594	13.9%
Funded expense	-824	-1,016	-1,020	-1,033	-1.3%	23.7%	0.4%	-3,434	-4,115	19.8%
<b>Net funded income</b>	<b>1,016</b>	<b>1,045</b>	<b>1,085</b>	<b>1,067</b>	<b>1.7%</b>	<b>6.8%</b>	<b>3.8%</b>	<b>4,110</b>	<b>4,479</b>	<b>9.0%</b>
Fee and Commission	167	157	155	160	-3.1%	-7.1%	-1.2%	621	640	3.0%
Exchange income	65	55	72	76	-5.3%	10.5%	30.7%	348	331	-5.0%
Other non-funded income	46	85	96	71	34.5%	108.8%	13.4%	224	304	36.0%
<b>Total non-funded income</b>	<b>278</b>	<b>297</b>	<b>323</b>	<b>307</b>	<b>5.1%</b>	<b>16.2%</b>	<b>8.9%</b>	<b>1,193</b>	<b>1,275</b>	<b>6.8%</b>
<b>Total operating income</b>	<b>1,294</b>	<b>1,341</b>	<b>1,408</b>	<b>1,374</b>	<b>2.4%</b>	<b>8.8%</b>	<b>4.9%</b>	<b>5,303</b>	<b>5,754</b>	<b>8.5%</b>
Operating expenses	-565	-573	-578	-588	-1.8%	2.2%	0.8%	-2,338	-2,425	3.7%
<b>Pre provision profit</b>	<b>729</b>	<b>768</b>	<b>830</b>	<b>786</b>	<b>5.6%</b>	<b>13.9%</b>	<b>8.0%</b>	<b>2,965</b>	<b>3,329</b>	<b>12.3%</b>
Impairment	-75	-52	-82	-79	4.4%	9.0%	59.4%	-324	-386	19.3%
<b>Profit before zakat</b>	<b>653</b>	<b>717</b>	<b>748</b>	<b>707</b>	<b>5.7%</b>	<b>14.5%</b>	<b>4.3%</b>	<b>2,641</b>	<b>2,943</b>	<b>11.4%</b>
Zakat expenses	-67	-74	-77	-73	5.7%	14.5%	4.3%	-272	-303	11.4%
<b>Net profit</b>	<b>586</b>	<b>643</b>	<b>671</b>	<b>634</b>	<b>5.7%</b>	<b>14.5%</b>	<b>4.3%</b>	<b>2,369</b>	<b>2,639</b>	<b>11.4%</b>

FABS estimate & Co Data

### Albilad Bank - KPI

Tuesday, August 13, 2024

Bank Albilad 2Q24

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	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.5%	77.9%	77.1%	-146	-83	77.5%	77.8%	34
NIM	3.1%	3.0%	3.1%	0	9	3.1%	3.1%	0
NIS	2.7%	2.5%	2.6%	-8	8	2.7%	2.6%	-7
Fees & comms/OI	12.9%	11.7%	11.0%	-189	-68	11.7%	11.1%	-59
Other opert inc./OI	8.6%	10.4%	11.9%	335	151	10.8%	11.0%	25
Cost to income	43.7%	42.7%	41.0%	-266	-168	44.1%	42.1%	-195
Impairment/PPP	10.3%	6.7%	9.9%	-45	319	10.9%	11.6%	68
NP/OI	45.3%	47.9%	47.7%	238	-29	44.7%	45.9%	120
Cost of risk	0.3%	0.2%	0.3%	1	12	0.4%	0.4%	0
Loan-to-deposit (regulatory)	93.0%	90.8%	91.1%	-193	25	90.5%	91.6%	113
NPL calculated	1.5%	1.4%	1.3%	-23	-11	1.4%	1.3%	-12
Coverage excluding collateral	190.8%	199.8%	203.2%	1,242	341	202.1%	204.0%	191
CET 1	13.6%	14.0%	14.3%	68	27	13.9%	14.5%	64
Capital adequacy	17.6%	17.8%	18.1%	49	32	17.8%	18.1%	33
ROAE	16.0%	16.1%	16.4%	32	26	16.8%	16.2%	-66
ROAA	1.6%	1.7%	1.8%	11	5	1.7%	1.8%	4

#### Albilad Bank - Key B/S items

SAR mn	2Q23	3Q23	4Q23	1Q24	2Q24	Change
Net advances	98,854	101,603	102,080	103,306	104,310	5.5%
QOQ change	3.5%	2.8%	0.5%	1.2%	1.0%	
Total assets	135,404	137,573	143,106	143,700	145,291	7.3%
QOQ change	0.0%	1.6%	4.0%	0.4%	1.1%	
Customer deposits	106,287	108,915	112,831	113,741	114,530	7.8%
QOQ change	0.8%	2.5%	3.6%	0.8%	0.7%	
Total equity	14,171	14,613	15,258	15,701	15,806	11.5%
QOQ change	0.6%	3.1%	4.4%	2.9%	0.7%	

FABS estimate & Co Data

## Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	33.96	70.0%	23.77
Relative Valuation (RV)	34.10	30.0%	10.23
<b>Weighted Average Valuation (SAR)</b>			<b>34.00</b>
Current market price (SAR)			37.10
Upside/Downside (%)			-8%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. The cost of equity is calculated by using a 10-year government bond yield of 5.0%, a beta of 0.92, and an equity risk premium of 3.8%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	5,457
Terminal value (SAR, Mn)	21,182
Book Value of Equity (as of June 2024)	15,806
<b>FV to Common shareholders (SAR, Mn)</b>	<b>42,445</b>
No. of share (Mn)	1,250
Current Market Price (SAR)	37.10
<b>Fair Value per share (SAR)</b>	<b>33.96</b>

### Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,639	2,905	3,385	3,808	4,282
(-) Equity Charge	-1,478	-1,671	-1,885	-2,113	-2,338
<b>Excess Equity</b>	<b>581</b>	<b>1,233</b>	<b>1,501</b>	<b>1,696</b>	<b>1,944</b>
Discounting Factor	0.95	0.88	0.81	0.75	0.69
<b>Present Value of Excess Equity</b>	<b>554</b>	<b>1,084</b>	<b>1,216</b>	<b>1,266</b>	<b>1,338</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value ALBI and it is valued using the PB multiple. We have applied a premium to the median valuation multiple and is valued at a 2024 PB multiple of 2.5x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	22,360	10.1	9.4	1.4	1.3	5.2	5.5
Alinma Bank	21,670	15.2	13.5	2.5	2.2	2.9	3.1
Al Rajhi Bank	83,840	18.9	16.5	3.4	3.2	3.1	3.5
Saudi National Bank	59,340	11.4	10.5	1.3	1.3	4.8	5.1
Banque Saudi Fransi	11,500	9.8	9.0	1.2	1.1	5.6	6.0
<b>Average</b>		<b>13.1x</b>	<b>11.8x</b>	<b>2.0x</b>	<b>1.8x</b>	<b>4.3%</b>	<b>4.6%</b>
<b>Median</b>		<b>11.4x</b>	<b>10.5x</b>	<b>1.4x</b>	<b>1.3x</b>	<b>4.8%</b>	<b>5.1%</b>
<b>Max</b>		<b>15.2x</b>	<b>13.5x</b>	<b>2.5x</b>	<b>2.2x</b>	<b>5.2%</b>	<b>5.5%</b>
<b>Min</b>		<b>10.1x</b>	<b>9.4x</b>	<b>1.3x</b>	<b>1.3x</b>	<b>3.1%</b>	<b>3.5%</b>

Source: FAB Securities

## Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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