

First Look Note | 2Q23

Saudi Equity Research

Sector: Banking

Market: Tadawul

Bank Albilad

Strong asset quality and higher interest income supported profitability

| Current Price | Target Price | Upside/Downside (%) | Rating |
|---------------|--------------|---------------------|--------|
| SAR 41.45 | SAR 43.00 | +3.7% | HOLD |

- Loan growth exceeded deposits pressurizing the liquidity of the bank. The loan-to-deposit ratio rose from 90.5% in 1Q23 to 93.0% in 2Q23.
- NIMs declined 21 bps YOY and 13 bps QOQ to 3.1% due to higher cost of funds.
- The Bank witnessed strong growth in net advances led by strong growth in commercial and retail loans.
- Impairment charge declined sharply 37.4% YOY and 41.5% QOQ signaling improved credit environment.

2Q23 Net Profit slightly higher than our estimate

Albilad Bank ("ALBI", "The Bank") recorded a 14.7% YOY increase in net profit to SAR 586 Mn in 2Q23, slightly higher than our estimate of SAR 566 Mn. The increase in the net profit is mainly attributable to the increase in net income from investing and financing assets and a decline in impairments partially offset by a fall in non-funded income and higher G&A expenses.

P&L Highlights

The Bank's funded income increased 61.5% YOY to SAR 1,840 Mn in 2Q23 driven by strong growth in advances and rise in asset yield. On the other hand, funded expense increased significantly from SAR 183 Mn in 2Q22 to SAR 824 Mn in 2Q23 owing to higher cost of funds as a result of an increase in benchmark rates. Thus, net funded income rose 6.2% YOY to SAR 1,016 Mn in 2023. Fees and commission income rose 2.7% YOY to SAR 167 Mn in 2Q23 while other non-funded income grew 10.8% YOY to SAR 46 Mn. However, exchange income declined 29.4% YOY to SAR 65 Mn in 2Q23. Thus, non-funded income fell 6.1% YOY to SAR 278 Mn in 2Q23. The Bank's total operating income rose 3.3% YOY to SAR 1,294 Mn in 2023. Furthermore, the Bank's operating expenses rose marginally 0.5% YOY to SAR 565 Mn in 2Q23 due to an increase in salaries and employee-related expenses and depreciation & amortization offset by a decrease in other general and administrative expenses. Thus, the Bank's cost-to-income ratio declined 122 bps YOY to 43.7% in 2023. Impairment charges witnessed a decline from SAR 120 Mn in 2Q22 to SAR 75 Mn in 2Q23. In addition, tax expenses rose 14.7% YOY to SAR 67 Mn in 2Q23 in line with growth in profitability.



| Stock Information | | | | | |
|--------------------------|------------|--|--|--|--|
| Market Cap (SAR, mm) | 41,900.00 | | | | |
| Paid Up Capital (mm) | 10,000.00 | | | | |
| 52 Week High | 56.00 | | | | |
| 52 Week Low | 35.25 | | | | |
| 3M Avg. daily value(SAR) | 33,129,450 | | | | |

| 2Q23 Result Review (SAR, mm) | | | | | |
|------------------------------|---------|--|--|--|--|
| Total Assets | 135,404 | | | | |
| Total Liabilities | 121,234 | | | | |
| Total Equity | 14,171 | | | | |
| Total Deposits | 106,287 | | | | |
| Net Profit | 586 | | | | |

| Financial Ratios | |
|-------------------------|-------|
| Dividend Yield (12m) | 1.19 |
| Dividend Pay-out (%) | 24.02 |
| Price-Earnings Ratio(x) | 18.57 |
| Price-to-Book Ratio (x) | 2.96 |
| Book Value (SAR) | 14.17 |
| Return-on Equity (%) | 16.63 |

| Stock Performance | | | | | | |
|------------------------|---------|--|--|--|--|--|
| 5 Days | -4.23% | | | | | |
| 1 Months | 9.11% | | | | | |
| 3 Months | 2.95% | | | | | |
| 6 Months | 0.24% | | | | | |
| 1 Year | -15.69% | | | | | |
| Month to Date (MTD%) | -4.11% | | | | | |
| Quarter to Date (QTD%) | 8.40% | | | | | |
| Year to Date (YTD%) | -5.62% | | | | | |



Balance Sheet Highlights

ALBI's net advances increased 8.4% YOY and 3.5% QOQ to SAR 98.9 Bn in 2Q23 due to growth in commercial and retail loans. Total assets grew 11.4% YOY to SAR 135.4 Bn in 2Q23 and remained unchanged on QOQ basis. Customer deposits recorded a strong growth of 19.3% YOY and 0.8% QOQ to SAR 106.3 Bn in 2Q23 boosting liquidity. Resultantly, the loan-to-deposit ratio increased from 90.5% in 1Q22 to 93.0% in 2Q23. The Bank's total equity increased 12.4% YOY and 0.6% QOQ to SAR 14.1 Bn in 2Q23.

Target Price and Rating

We revise our rating on ALBI from ACCUMULATE to HOLD with an unchanged target price of SAR 43.00. The Bank's share price rose 8.3% since our last rating (i.e., 11 July 2023). The Bank recorded strong growth in net profit to SAR 586 Mn in 2Q23 owing to a solid growth in advances. ALBI's net advances grew 8.4% YOY and 3.5% QOQ to SAR 98.9 Bn in 2Q23 owing to a solid rise in commercial as well as retail financing. On the other hand, the Bank's deposits rose 11.4% YOY to SAR 135.4 Bn in 2Q23 due to strong growth in direct investment and Mudarabah deposits partially offset by a decline in demand deposits. However, growth in net advances exceeded deposits growth in 2Q23 which led to an increase in loan-to-deposit ratio. Thus, the Bank's loan-to-deposit ratio stood at 93.0% in 2Q23 as compared to 90.5% in 1Q23. This too pressurized Albilad's NIMs in 2Q23. Albilad's asset quality moderated in 2Q23 with an NPL ratio of 1.5% in 2Q23 as compared to 1.4% in 1Q23 while the coverage ratio declined from 203.3% in 1Q23 to 190.8% in 2Q23. In addition, the Bank recorded significantly lower impairment charges in 2Q23 compared to 2Q22 and 4Q22 as a result of strong asset quality. The bank maintained a strong capitalization with a CAR of 17.6% and a Tier 1 ratio of 13.5% in 2Q23. ALBI is trading at a 2023 dividend yield of 1.1% compared to the industry average of 3.7, renders it expensive. Thus, looking at the above-mentioned factors, we assign "HOLD" rating on the stock.

Albilad Bank - Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|----------------|------|------|------|------|------|-------|
| PE | 68.2 | 33.6 | 31.0 | 24.8 | 20.1 | 17.9 |
| РВ | 5.3 | 4.4 | 3.9 | 3.5 | 3.2 | 2.8 |
| Dividend Yield | NA | 1.6% | NA | NA | 1.2% | 1.2% |

FABS Estimates & Co Data

Albilad Bank - P&L

| SAR mm | 2Q22 | 1Q23 | 2Q23 | 2Q23F | Var. | YOY Ch | QOQ Ch | 2022 | 2023F | YOY Ch |
|---------------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Funded income | 1,139 | 1,698 | 1,840 | 1,785 | 3.1% | 61.5% | 8.4% | 4,972 | 7,140 | 43.6% |
| Funded expense | -183 | -660 | -824 | -668 | 23.3% | 351.1% | 24.8% | -1,085 | -2,650 | 144.3% |
| Net funded income | 957 | 1,037 | 1,016 | 1,116 | -9.0% | 6.2% | -2.1% | 3,887 | 4,490 | 15.5% |
| Fees and commissions | 163 | 149 | 167 | 152 | 10.0% | 2.7% | 12.2% | 669 | 655 | -2.0% |
| Exchange income | 92 | 86 | 65 | 90 | -27.8% | -29.4% | -25.0% | 398 | 390 | -2.0% |
| Other non-funded income | 42 | 63 | 46 | 37 | 26.0% | 10.8% | -26.8% | 238 | 176 | -26.0% |
| Total non-funded income | 296 | 298 | 278 | 278 | -0.1% | -6.1% | -6.8% | 1,305 | 1,221 | -6.4% |
| Total operating income | 1,253 | 1,336 | 1,294 | 1,394 | -7.2% | 3.3% | -3.1% | 5,191 | 5,712 | 10.0% |
| General & admin. Expenses | -563 | -583 | -565 | -607 | -6.8% | 0.5% | -2.9% | -2,320 | -2,486 | 7.2% |
| Pre provision profit | 690 | 753 | 729 | 787 | -7.5% | 5.6% | -3.3% | 2,871 | 3,225 | 12.3% |
| Impairment | -120 | -129 | -75 | -157 | -51.9% | -37.4% | -41.5% | -551 | -619 | 12.3% |
| Profit before zakat | 570 | 624 | 653 | 631 | 3.6% | 14.7% | 4.6% | 2,321 | 2,607 | 12.3% |
| Zakat expenses | -59 | -64 | -67 | -65 | 3.6% | 14.7% | 4.6% | -239 | -268 | 12.3% |
| Net profit | 511 | 560 | 586 | 566 | 3.6% | 14.7% | 4.6% | 2,082 | 2,338 | 12.3% |

FABS estimate & Co Data



Albilad Bank - KPI

| | 2Q22 | 1Q23 | 2Q23 | YOY Ch | QOQ Ch | 2022 | 2023F | Change |
|---------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Net FI/OI | 76.4% | 77.7% | 78.5% | 216 | 85 | 74.9% | 78.6% | 375 |
| NIM | 3.3% | 3.2% | 3.1% | -21 | -13 | 3.3% | 3.3% | 4 |
| NIS | 3.2% | 2.9% | 2.7% | -50 | -19 | 3.2% | 3.0% | -13 |
| Fees & comms/OI | 13.0% | 11.2% | 12.9% | -8 | 176 | 12.9% | 11.5% | -141 |
| Other opert inc./OI | 10.6% | 11.2% | 8.6% | -208 | -261 | 12.3% | 9.9% | -234 |
| Cost to income | 44.9% | 43.6% | 43.7% | -122 | 8 | 44.7% | 43.5% | -116 |
| Impairment/PPP | 17.5% | 17.1% | 10.3% | -710 | -676 | 19.2% | 19.2% | 0 |
| NP/OI | 40.8% | 41.9% | 45.3% | 449 | 336 | 40.1% | 40.9% | 84 |
| ROAE | 15.1% | 16.2% | 16.0% | 97 | -20 | 18.6% | 17.7% | -94 |
| ROAA | 1.6% | 1.6% | 1.6% | 7 | 2 | 1.7% | 1.7% | -3 |

FABS estimate & Co Data

Albilad Bank - Key B/S items

| SAR mm | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | Change |
|-------------------|---------|---------|---------|---------|---------|--------|
| Net advances | 91,206 | 92,288 | 91,179 | 95,483 | 98,854 | 8.4% |
| QOQ change | 5.6% | 1.2% | -1.2% | 4.7% | 3.5% | |
| Total assets | 121,511 | 127,020 | 129,543 | 135,368 | 135,404 | 11.4% |
| QOQ change | 4.4% | 4.5% | 2.0% | 4.5% | 0.0% | |
| Customer deposits | 89,108 | 93,886 | 94,843 | 105,483 | 106,287 | 19.3% |
| QOQ change | 3.5% | 5.4% | 1.0% | 11.2% | 0.8% | |
| Total equity | 12,607 | 13,035 | 13,399 | 14,082 | 14,171 | 12.4% |
| QOQ change | 2.3% | 3.4% | 2.8% | 5.1% | 0.6% | |

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 | 42.88 | 70.0% | 31.02 |
| Relative Valuation (RV) | 43.27 | 30.0% | 12.98 |
| | | | |
| Weighted Average Valuation (SAR) | | | 43.00 |
| Current market price (SAR) | | | 41.45 |
| Upside/Downside (%) | | | +3.7% |

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.0 and equity risk premium of 3.6%. 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) | 5,981 |
|---|--------|
| Terminal value (SAR, Mn) | 22,732 |
| Book Value of Equity (as of March 2023) | 14,171 |
| FV to Common shareholders (SAR, Mn) | 42,884 |
| No. of share (Mn) | 1,000 |
| Current Market Price (SAR) | 41.45 |
| Fair Value per share (SAR) | 42.88 |

Residual Income Method

| (All Figures in SAR Mn) | FY 2023E | FY 2024E | FY 2025E | FY 2026E | FY 2027E |
|--------------------------------|----------|----------|----------|----------|----------|
| Net Profit | 2,338 | 2,838 | 3,395 | 4,006 | 4,272 |
| (-) Equity Charge | -1,218 | -1,411 | -1,692 | -2,023 | -2,382 |
| Excess Equity | 373 | 1,427 | 1,704 | 1,984 | 1,969 |
| Discounting Factor | 0.97 | 0.90 | 0.83 | 0.77 | 0.71 |
| Present Value of Excess Equity | 364 | 1,283 | 1,415 | 1,522 | 1,396 |

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 PB multiple of 2.9x.

| Company | Market | Market P/B (x) | | P/E (x) | | Dividend Yield (x) | |
|---------------------|----------|----------------|-------|---------|-------|--------------------|-------|
| | (USD Mn) | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F |
| Alinma Bank | 19,446 | 2.5 | 2.3 | 16.4 | 14.8 | 3.4 | 3.8 |
| Al Rajhi Bank | 75,542 | 3.0 | 2.7 | 16.5 | 14.7 | 2.5 | 3.4 |
| Saudi National Bank | 11,303 | 1.9 | 1.8 | 12.8 | 12.1 | 4.0 | 4.2 |
| Banque Saudi Fransi | 14,126 | 1.5 | 1.4 | 12.3 | 11.4 | 4.5 | 4.6 |
| Arab National Bank | 11,083 | 1.2 | 1.2 | 10.9 | 10.7 | 4.9 | 5.2 |
| Bank Albilad | 11,563 | 2.8 | 2.5 | 18.3 | 15.9 | 1.4 | 1.8 |
| Average | | 2.2x | 2.0x | 14.6x | 13.4x | 3.7x | 4.0x |
| Median | | 2.8x | 2.4x | 16.5x | 14.8x | 4.3x | 4.5x |
| Max | | 1.6x | 1.5x | 12.4x | 11.6x | 2.7x | 3.5x |
| Min | | 2.2x | 2.0x | 14.6x | 13.4x | 3.7x | 4.0x |

Source: FAB Securities



Research Rating Methodology:

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
Between +10% to +15%
Lower than +10% to -5%
Between -5% to -15%
Lower than -15%

FAB Securities Contacts:

Research Analyst

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

Sales & Execution
Abu Dhabi Head Office

Trading Desk +971-2-6161700/1

+971-2-6161777

Institutional Desk +971-4-4245765

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