

Riyad Bank

Deposit growth will ease liquidity pressure providing headroom for loan growth

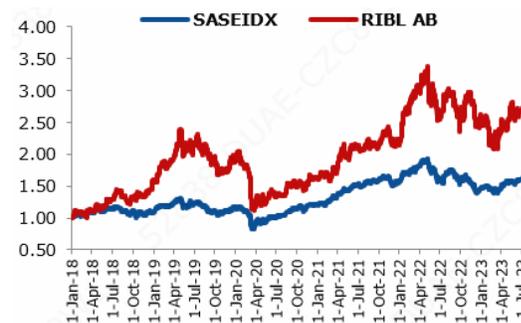
Current Price
SAR 34.60

Target Price
SAR 40.00

Upside/Downside (%)
+15.61%

Rating
BUY

- The Bank expects its advances to grow by high single-digit to low-double-digit in 2023
- Customer deposits recorded a strong growth of 14.7% YOY and 5.8% QOQ to SAR 272.3 Bn in 2Q23 boosting liquidity which will support loan growth
- CASA deposits accounted for 57.8% of total deposits in 1Q23 whereas a higher corporate loan mix benefits the NIMs due to quicker loan repricing in a rising interest rate scenario



Stock Information

Market Cap (SAR, mm)	104,100.00
Paid Up Capital (mm)	30,000.00
52 Week High	37.95
52 Week Low	25.60
3M Avg. daily value(SAR)	56,980,940

2Q23 Net Profit slightly below our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 23.0% YOY increase in net profit to SAR 1,982 Mn in 2Q23, slightly lower than our estimate of SAR 2,081 Mn. The increase in the net profit is mainly attributable to strong growth in net funded income partially offset by an increase in operating expenses, impairments, and tax charges.

P&L Highlights

The Bank's funded income increase 76.7% YOY to SAR 5,066 Mn in 2Q23 driven by strong growth in advances and an increase in asset yield. On the other hand, funded expense increased significantly from SAR 470 Mn in 2Q22 to SAR 1,957 Mn in 2Q23 owing to higher cost of funds as a result of an increase in benchmark rates. Thus, net funded income rose 29.7% YOY to SAR 3,109 Mn in 2Q23. Moreover, non-funded income grew 1.1% YOY to SAR 843 Mn in 2Q23 driven by an increase in exchange income, trading income, and other operating income partially offset by a decline in fee and commission income, dividend income, and lower gains on disposal of non-trading investments. Resultantly, the Bank's total operating income rose 22.3% YOY to SAR 3,952 Mn in 2Q23. Furthermore, the Bank's operating expenses rose 16.0% YOY to SAR 1,234 Mn in 2Q23 due to an increase in employee-related expenses and G&A expenses partially offset by lower impairments on investments. Riyad Bank's cost-to-income ratio declined 172 bps YOY to 31.2% in 2Q23. Impairment charges witnessed a big jump from SAR 353 Mn in 2Q22 to SAR 512 Mn in 2Q23. In addition, tax expenses rose 15.1% YOY to SAR 228 Mn in 2Q23 dragging profitability.

2Q23 Result Review (SAR, mm)

Total Assets	380,624.79
Total Liabilities	324,789.59
Total Equity	55,835.20
Total Deposits	272,269
Net Profit	1,982

Financial Ratios

Dividend Yield (12m)	3.31
Dividend Pay-out (%)	49.15
Price-Earnings Ratio(x)	13.47
Price-to-Book Ratio (x)	2.11
Book Value (SAR)	16.42
Return-on Equity (%)	15.38

Stock Performance

5 Days	1.46%
1 Months	4.36%
3 Months	12.30%
6 Months	8.44%
1 Year	-5.45%
Month to Date (MTD%)	3.12%
Quarter to Date (QTD%)	3.12%
Year to Date (YTD%)	9.12%

Balance Sheet Highlights

RIBL's net advances increased 9.8% YOY and 4.4% QOQ to SAR 263.1 Bn in 2Q23. Total assets grew 8.7% YOY to SAR 389.2 Bn in 2Q23. Customer deposits recorded a strong growth of 14.7% YOY and 5.8% QOQ to SAR 272.3 Bn in 2Q23 boosting liquidity. Thus, the loan-to-deposit ratio declined slightly from 97.9% in 1Q23 to 96.7% in 2Q23. The Bank's total equity increased 9.6% YOY to SAR 51.1 Bn in 2Q23.

Target Price and Rating

We maintain our BUY rating on RIBL with a target price of SAR 40.00. The Bank recorded strong growth in net profit to SAR 1,982 Mn in 2Q23 owing to a solid growth in advances. RIBL's net advances grew 9.8% YOY and 4.4% QOQ to SAR 263.1 Bn in 2Q23. The Bank expects its advances to grow by high single-digit to low-double-digit in 2023 which will boost the bank's funded income. RIBL's loan-to-deposit ratio improved from 97.9% in 1Q23 to 96.7% in 2Q23 making further room for loan growth. Riyadh Bank signed an agreement with NEOM for financing SAR 3 Bn for the Sindalah Island development project. The Bank's investment in NEOM marks as a strong contribution towards achieving KSA's Vision 2030 goals. The Bank's liquidity further improved recording a 14.7% YOY growth in customer deposits to SAR 272.3 Bn in 2Q23. CASA deposits comprise more than half of the Bank's total deposits while a higher corporate loan mix makes reprising easy in a rising interest rate scenario benefiting NIMs. Riyadh Bank announced a dividend of SAR 0.65 for the 1H23. Thus, looking at the above-mentioned factors, we assign an "BUY" rating on the stock.

Riyad Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	24.2	18.5	22.0	17.2	14.93	12.0
PB	2.9	2.7	2.3	2.3	1.95	2.0
Dividend yield	2.2%	3.1%	1.4%	3.0%	3.3%	4.0%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Special comm inc	2,867	4,632	5,066	4,952	2.3%	76.7%	9.4%	12,908	20,174	56.3%
Special comm exp	-470	-1,543	-1,957	-1,862	5.1%	316.4%	26.8%	-2,855	-7,658	168.2%
Net special comm inc	2,397	3,088	3,109	3,091	0.6%	29.7%	0.7%	10,052	12,517	24.5%
Total other oper inc	834	948	843	953	-11.5%	1.1%	-11.0%	3,547	4,184	18.0%
Operating income	3,230	4,036	3,952	4,044	-2.3%	22.3%	-2.1%	13,599	16,700	22.8%
Operating expenses	-1,064	-1,162	-1,234	-1,203	2.6%	16.0%	6.2%	-4,410	-4,930	11.8%
Pre-provision profit	2,166	2,875	2,718	2,841	-4.3%	25.5%	-5.4%	9,189	11,770	28.1%
Impairment	-353	-624	-512	-521	-1.7%	44.9%	-18.0%	-1,281	-2,076	62.1%
Profit before tax	1,809	2,252	2,210	2,320	-4.8%	22.2%	-1.8%	7,828	9,695	23.8%
Tax	-198	-232	-228	-239	-4.8%	15.1%	-1.9%	-809	-999	23.4%
Net Profit attributable	1,611	2,020	1,982	2,081	-4.8%	23.0%	-1.8%	7,019	8,697	23.9%

FABS estimate & Co Data

Riyad Bank - KPI

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	74.2%	76.5%	78.7%	447	215	73.9%	74.9%	103
Cost to income	32.9%	28.8%	31.2%	-172	244	32.4%	29.5%	-291
Impairment/PPP	16.3%	21.7%	18.8%	253	-287	13.9%	17.6%	370
NP/OI	49.9%	50.0%	50.2%	28	12	51.6%	52.1%	46
ROAE	14.5%	17.9%	18.2%	372	32	16.2%	19.9%	372
ROAA	1.8%	2.0%	2.1%	27	4	2.0%	2.3%	25

FABS estimate & Co Data

Riyad Bank - Key B/S items

SAR mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	239,650	241,586	242,365	251,983	263,150	9.8%
<i>QOQ ch</i>	2.1%	0.8%	0.3%	4.0%	4.4%	
Total assets	357,954	347,881	359,653	380,625	389,236	8.7%
<i>QOQ ch</i>	2.7%	-2.8%	3.4%	5.8%	2.3%	
Customer deposits	237,477	235,892	240,007	257,277	272,269	14.7%
<i>QOQ ch</i>	2.2%	-0.7%	1.7%	7.2%	5.8%	
Total equity	46,636	46,776	49,602	49,270	51,128	9.6%
<i>QOQ ch</i>	-2.9%	0.3%	6.0%	-0.7%	3.8%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	42.06	70.0%	29.44
Relative Valuation (RV)	35.18	30.0%	10.55
Weighted Average Valuation (SAR)			40.00
Current market price (SAR)			34.60
Upside/Downside (%)			+15.61%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.79 and equity risk premium of 5.2%. 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)	15,563
Terminal value (SAR, Mn)	61,357
Book Value of Equity (as of March 2023)	49,270
FV to Common shareholders (SAR, Mn)	126,190
No. of share (Mn)	3,000
Current Market Price (SAR)	34.60
Fair Value per share (SAR)	42.06

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	8,697	8,869	9,363	10,613	12,759
(-) Equity Charge	-4,666	-5,083	-5,536	-6,070	-6,740
Excess Equity	1,672	3,768	3,808	4,521	5,995
Discounting Factor	0.97	0.89	0.81	0.75	0.69
Present Value of Excess Equity	1,614	3,341	3,102	3,383	4,122

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RIBL and it is valued using the PB multiple. It is valued at a PB multiple of 2.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		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	64,126	1.5	1.4	12.5	11.1	4.1	4.5
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		2.1x	1.9x	14.5x	13.1x	3.5x	3.9x
Median		2.0x	1.8x	14.5x	13.1x	3.7x	4.2x
Max		2.8x	2.4x	16.5x	14.8x	4.4x	4.6x
Min		1.5x	1.4x	12.4x	11.2x	2.7x	3.5x

Source: FAB Securities

