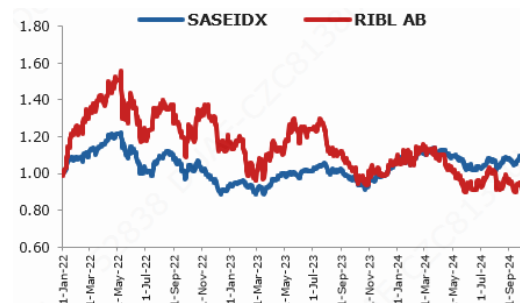


Riyad Bank (RIBL)

Strong growth in non-funded income and lower impairments boosted profit

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 25.80	SAR 36.00	+40%	BUY

- Total assets rose 12.0% YTD to SAR 433.4 Bn in 3Q24 driven by 11.3% growth in advances and 13.8% expansion in investments.
- Loan & advances expanded 14.3% YOY and 4.9% QOQ to SAR 305.4 Bn in 3Q24.
- Customer's deposits expanded 15.3% YOY and 6.4% QOQ to SAR 293.6 Bn in 3Q24.
- Total operating income rose 14.3% YOY to SAR 4.5 Bn in 3Q24 due to 7.1% YOY growth in net funded income and 38.7% YOY expansion in non-funded income.
- Operating expenses rose marginally by 0.7% YOY to SAR 1.3 Bn in 3Q24 leading to an improvement in the cost-to-income ratio by 389 bps YOY to 28.8% in 3Q24.



Stock Information

Market Cap (SAR, Mn)	77,400.00
Paid Up Capital (Mn)	30,000.00
52 Week High	31.55
52 Week Low	23.88
3M Avg. daily value(SAR)	77,331,330

3Q24 Net Profit higher than our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 27.0% YOY increase in net profit to SAR 2,654 Mn in 3Q24, higher than our estimates of SAR 2,158 Mn in 3Q24. The rise in the net profit is mainly attributable to strong growth in funded and non-funded income, decline in impairment losses and a marginal growth in operating expenses partially offset by an increase in zakat expenses.

P&L Highlights

Riyad Bank's special commission income rose 16.8% YOY to SAR 6,200 Mn in 3Q24 mainly due to a strong growth in advances and investments. The Bank's special commission expense surged 30.2% YOY to SAR 2,907 Mn in 3Q24 mainly attributed to growth in deposits and higher benchmark rates. Thus, net special commission income increased 7.1% YOY to SAR 3,293 Mn in 3Q24. Additionally, the Bank's non-funded income grew drastically by 38.7% YOY to SAR 1,253 Mn in 3Q24 owing to an increase in fee and commission income, trading income, exchange income, dividend income and non-trading investment. Hence, Riyad Bank's operating income surged 14.3% YOY to SAR 4,546 Mn in 3Q24. The Bank's operating expenses rose marginally 0.7% YOY to SAR 1,307 Mn in 3Q24 due to growth in salaries and employee-related expenses, rent and premises-related expenses, and other operating expenses. The impairment charges declined 18.9% YOY to SAR 286 Mn in 3Q24 due to a reversal in impairment charge for investments, and a lower impairment charge for credit losses and other financial assets. The tax expenses expanded 26.7% YOY to SAR 305 Mn in 3Q24 in line with growth in profit before tax.

3Q24 Result Review (SAR, Mn)

Total Assets	433,366
Total Liabilities	370,225
Total Equity	56,577
Total Deposits	293,575
Net Profit	2,654

Financial Ratios

Dividend Yield (12m)	6.01
Dividend Pay-out (%)	52.13
Price-Earnings Ratio(x)	8.59
Price-to-Book Ratio (x)	1.39
Book Value (SAR)	18.63
Return-on Equity (%)	15.82

Stock Performance

5 Days	3.86%
1 Months	2.99%
3 Months	-6.18%
6 Months	-8.35%
1 Year	1.18%
Month to Date (MTD%)	3.53%
Quarter to Date (QTD%)	3.53%
Year to Date (YTD%)	-9.47%

Balance Sheet Highlights

Riyad Bank's net investments rose 14.3% YOY and 8.3% QOQ to SAR 66.1 Bn in 3Q24. Additionally, loans and advances grew 14.3% YOY and 4.9% QOQ to SAR 305.4 Bn, furthermore customer's deposits expanded 15.3% YOY and 6.4% QOQ to SAR 293.6 Bn in 3Q24. Thus, loan-to-deposit declined from 105.5% in 2Q24 to 104.0% in 3Q24. Total assets increased 14.9% YOY and 7.0% QOQ to SAR 433.4 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on Riyad Bank with a target price of SAR 36.0 per share. Riyad Bank recorded a solid growth in profitability in 3Q24 owing to strong growth in funded and non-funded income coupled with a decline in impairments and marginal growth in operating expenses. It recorded a growth in NIMs on a QOQ basis based on the available information. In addition, the Bank's strategy is paying off well as it recorded a strong growth in net advances which grew 14.3% YOY and 4.9% QOQ to SAR 305.4 Bn in 3Q24. It planned to increase the credit attributed to the SME segment in the medium term. The Bank also plans to focus on the private and affluent segments by improving its value proposition and product offering, boosting profitability. Furthermore, the Bank's loan recoveries increased significantly driven by proactive risk management in 2Q24 and it expects this trend to continue. It has also guided a strong risk management plan which has been set up to accelerate the recovery of assets to be implemented through FY2024 and 2025. It also expects to maintain NIMs through the change in loan mix and expects NIMs to contract between 10 to 20 bps in FY2024. NIBs/CASA (non-interest-bearing deposits) amounted to 56.7% of total deposits in 2Q24 and the Bank is focusing on further increasing this weightage, as it believes there is a potential for improvement in this segment resulting in improving its NIM. The Bank also expect to maintain strong growth in fee income owing to strong capital market activity and plans to expand the hedging business to enhance cross-selling opportunities. RIBL is also guided to grow its revenue stream further from FX and other fee income offerings by offering holistic risk management offers and services to customers. Riyad Bank maintained healthy asset quality with an unchanged NPL ratio of 1.2% in 2Q24 compared to 1Q24, whereas the provision coverage ratio rose to 145.2% in 2Q24. In addition, the Bank's Tier 1 ratio increased from 16.5% in 1Q24 to 16.7% in 2Q24. Moreover, CAR grew from 19.3% in 1Q24 to 19.5% in 2Q24. The Bank has undertaken various strategic initiatives which are expected to drive revenue growth and enhance customer experience. It launched its nextgen mobile app in 2Q24, which aims to offer its customers a wide set of products and services, further increasing ease of access. RIBL also launched its multi-currency Credit Card to further penetrate the micro-segmented credit card market and offer an enhanced value proposition. RIBL distributed a dividend of SAR 0.80 in 1H24 and expected to a distribute a dividend of SAR 1.75 in FY2024 equivalent to a dividend yield of 6.9%. Thus, looking at the positives, we maintain our BUY rating on the stock.

Riyad Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.6	16.2	12.7	11.0	9.9	8.5
PB	1.96	1.72	1.67	1.95	1.42	1.30
Dividend yield	4.2%	2.0%	4.1%	4.5%	5.4%	6.7%

FABS Estimates & Co Data

Riyad Bank – P&L	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
SAR Mn										
Special commission inc	5,308	5,805	6,200	5,930	4.6%	16.8%	6.8%	20,606	24,248	17.7%
Special comm expense	-2,233	-2,708	-2,907	-2,797	3.9%	30.2%	7.3%	-8,192	-11,348	38.5%
Net special comm inc	3,075	3,097	3,293	3,133	5.1%	7.1%	6.4%	12,414	12,900	3.9%
Total other operating inc	903	901	1,253	1,041	20.3%	38.7%	39.1%	3,485	4,244	21.8%
Operating income	3,978	3,997	4,546	4,174	8.9%	14.3%	13.7%	15,899	17,143	7.8%
Operating expenses	-1,299	-1,225	-1,307	-1,322	-1.1%	0.7%	6.7%	-4,969	-5,255	5.8%
Pre-provision profit	2,679	2,772	3,238	2,851	13.6%	20.9%	16.8%	10,930	11,888	8.8%
Impairment	-353	-175	-286	-451	-36.6%	-18.9%	63.8%	-1,972	-1,494	-24.2%
Profit Before Tax	2,330	2,606	2,959	2,406	23.0%	27.0%	13.5%	8,971	10,413	16.1%
Tax	-241	-269	-305	-248	23.2%	26.7%	13.6%	-925	-1,073	16.0%
Net profit for the year	2,089	2,338	2,654	2,158	23.0%	27.0%	13.5%	8,046	9,341	16.1%

FABS estimate & Co Data

Riyad Bank - KPIs	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	77.3%	77.5%	72.4%	-485	-502	78.1%	75.2%	-284
Cost to income	32.7%	30.6%	28.8%	-389	-188	31.3%	30.7%	-60
Impairment/PPP	13.2%	6.3%	8.8%	-433	253	18.0%	12.6%	-547
NP/OI	52.5%	58.5%	58.4%	586	-10	50.6%	54.5%	388
Loan-to-deposit	104.9%	105.5%	104.0%	-85	-142	107.6%	104.0%	-365
ROAE	16.1%	15.2%	16.8%	70	155	15.3%	16.0%	78
ROAA	2.2%	2.1%	2.2%	-1	10	2.2%	2.3%	10

FABS estimate & Co Data

Riyad Bank - Key B/S items

SAR Mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	267,151	274,398	282,854	291,051	305,408	14.3%
QOQ change	1.5%	2.7%	3.1%	2.9%	4.9%	
Total assets	377,012	386,849	404,859	405,029	433,366	14.9%
QOQ change	-3.1%	2.6%	4.7%	0.0%	7.0%	
Customer deposits	254,719	254,908	270,948	276,009	293,575	15.3%
QOQ change	-6.4%	0.1%	6.3%	1.9%	6.4%	
Total equity	50,881	53,696	53,514	55,783	56,577	11.2%
QOQ change	-0.5%	5.5%	-0.3%	4.2%	1.4%	

FABS estimate & Co Data

Valuation:

We use the 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	37.02	70%	25.91
Relative Valuation (RV)	33.62	30%	10.08
Weighted Average Valuation (SAR)			36.00
Current market price (SAR)			25.80
Upside/Downside (%)			+40%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using the 10-year government bond yield of 4.8%, beta of 0.95 and equity risk premium of 4.10%. Government bond yield is calculated after adding KSA 10-year CDS spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	13,672
Terminal value (SAR, Mn)	40,623
Book Value of Equity (as of Sep 2024)	56,577
FV to Common shareholders (SAR, Mn)	110,872
No. of share (Mn)	2,995
Fair Value per share (SAR)	37.02

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	9,341	8,831	10,273	10,804	10,716
(-) Equity Charge	-5,115	-5,428	-5,922	-6,428	-6,904
Excess Equity	4,226	3,404	4,351	4,375	3,812
Discounting Factor	0.98	0.90	0.83	0.76	0.70
Present Value of Excess Equity	1,031	3,056	3,594	3,325	2,666

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 1.7x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Bank Albilad	12,000	2.6	2.3	16.7	15.0	1.8	1.9
Al Rajhi Bank	90,411	3.4	3.1	19.3	16.2	3.0	3.6
Alinma Bank	18,800	2.1	1.9	13.0	12.0	3.0	3.5
Arab National Bank	10,283	1.0	1.0	8.0	8.3	7.6	6.4
Banque Saudi Fransi	9,862	1.0	0.9	8.7	8.4	6.9	6.9
Saudi National Bank	54,456	1.2	1.2	10.3	9.5	5.4	5.8
Average		1.9x	1.7x	12.6x	11.6x	4.6%	4.7%
Median		1.7x	1.5x	11.6x	10.8x	4.2%	4.7%
Max		2.5x	2.2x	15.8x	14.3x	6.5%	6.2%
Min		1.1x	1.0x	9.1x	8.7x	3.0%	3.6%

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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