

Arab National Bank (ARNB)

Healthy growth in non-funded income and sharp decline in impairments drove profitability

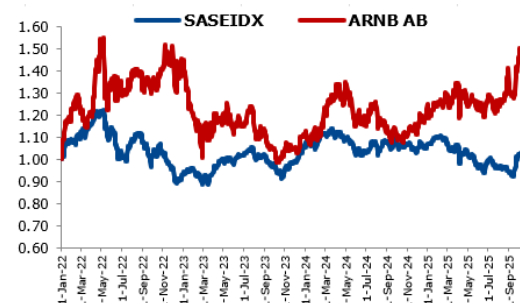
Current Price
SAR 24.20

Target Price
SAR 25.00

Upside/Downside (%)
+3.3%

Rating
HOLD

- ARNB's funded income grew 3.5% YOY to SAR 3,905 Mn, owing to 15.0% YOY rise in net advances, and 13.4% YOY growth in the investment portfolio.
- Customer deposits rose 16.5% YOY and 4.4% QOQ to SAR 210.7 Bn in 3Q25.
- Calculated Cost to income ratio rose to 34.5% in 3Q25 compared to 32.8% in 3Q24.
- Capitalization stood strong with a CAR of 19.6% and CET1 ratio of 16.5% in 2Q25.
- Loan to deposit ratio declined to 90.8% in 3Q25 compared to 92.0% in 3Q24 on a calculated basis.



3Q25 Net Profit lower than our estimate

Arab National Bank ("ARNB", "The Bank") recorded 6.9% YOY growth in net profit to SAR 1,329 Mn in 3Q25, lower than our estimate of SAR 1,392 Mn. The growth in net profit is mainly attributed to an increase in non-funded income and a sharp decline in impairment charges, partially offset by a fall in net funded income and higher operating expenses.

P&L Highlights

ARNB's funded income rose 3.5% YOY to SAR 3,905 Mn in 3Q25, owing to strong growth in net advances and investment portfolio. However, the Bank's funded expenses grew 11.7% YOY to SAR 1,897 Mn in 3Q25, primarily due to a rise in customer deposits. Thus, the net funded income declined 3.2% YOY to SAR 2,008 Mn in 3Q25. ARNB's non-funded income expanded 14.9% YOY to SAR 384 Mn in 3Q25, primarily driven by an increase in net fee and commission income, net gains on non-trading instruments, net exchange income and net gains on FVSI financial instruments, partially offset by decline in net trading income, dividend income and net other operating income. As a result, operating income decreased marginally 0.7% YOY to SAR 2,392 Mn in 3Q25. Furthermore, operating expenses rose 4.6% YOY to SAR 825 Mn in 3Q25, owing to an increase in salaries and employee-related expenses and D&A expenses, partially offset by a decline in other general and administrative expenses and premises-related expenses. Thus, cost-to-income ratio increased from 32.8% in 3Q24 to 34.5% in 3Q25. Impairment charges declined substantially from SAR 165 Mn in 3Q24 to SAR 19 Mn in 3Q25, driven by lower impairment on other real estate owned, improvement in credit quality, and favorable macroeconomic developments. This indicates the continued effectiveness of the Bank's risk management practices. Share of results of associates declined from SAR 7 Mn in 3Q24 to SAR 6 Mn in 3Q25.

Stock Information

Market Cap (SAR, Mn)	48,440.00
Paid Up Capital (Mn)	20,000.00
52 Week High	26.26
52 Week Low	18.84
3M Avg. daily value(SAR)	45,643,600

3Q25 Result Review (SAR, Mn)

Total Assets	280,486
Net Advances	191,356
Total Deposits	210,697
Shareholder Equity	47,152
Net Profit	1,329

Financial Ratios

Dividend Yield (12m)	5.34
Dividend Pay-out (%)	52.36
Price-Earnings Ratio(x)	9.39
Price-to-Book Ratio (x)	1.22
Book Value (SAR)	19.84
Return-on Equity (%)	13.27

Stock Performance

5 Days	-6.70%
1 Months	1.00%
3 Months	11.36%
6 Months	10.19%
1 Year	26.81%
Month to Date (MTD%)	-1.98%
Quarter to Date (QTD%)	-1.98%
Year to Date (YTD%)	14.90%

Balance Sheet Highlights

ARNB's total assets expanded significantly 15.8% YOY and 4.3% QOQ to SAR 280.5 Bn in 3Q25. The Bank's net loans and advances grew 15.0% YOY and 2.6% QOQ to SAR 191.4 Bn in 3Q25, whereas the customer deposits increased 16.5% YOY and 4.4% QOQ to SAR 210.7 Bn. Thus, the Bank's loan-to-deposit ratio declined to 90.8% in 3Q25 from 92.4% in 2Q25. Total equity attributable to shareholders increased substantially 25.1% YOY and 9.6% QOQ to SAR 47.2 Bn in 3Q25.

Target Price and Rating

We maintain our HOLD rating on Arab National Bank, with a target price of SAR 25.00. Arab National Bank witnessed healthy growth in profitability backed by strong growth in non-funded income and significant decline in impairments. The Bank's ability to boost non-core income amid declining interest rates helped to maintain its profitability. Consequently, the Bank further aims to increase its product offering by diversifying its income sources. ARNB also redesigned its Mobile Banking app and Retail Internet Banking Platform to improve its user interface and increase cross-selling opportunities. The Bank's calculated cost to income ratio rose to 34.5% in 3Q25 compared to 32.8% in 3Q24. ARNB's net advances rose 15.0% YOY in 3Q25, driving a healthy growth in investment income; however, solid growth in the deposit base and rate cuts pressurized margins. Thus, the headline loan-to-deposit ratio declined from 92.4% in 2Q25 to 90.8% in 3Q25, easing liquidity. ARNB's asset quality improved with reported NPLs declining from 1.34% in 1Q25 to 1.18% in 2Q25. Consequently, the reported coverage ratio increased from 131.7% in 1Q25 to 141.0% in 2Q25, providing a substantial buffer. The Bank's capitalization stood strong with a CAR of 19.6% and a CET1 ratio of 16.5% in 2Q25. Thus, based on our analysis, we maintain our HOLD rating on the stock.

ARNB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
P/E	23.11	22.00	15.59	11.76	9.64	8.87
P/B	1.61	1.57	1.52	1.34	1.26	1.07
EPS	1.036	1.088	1.535	2.035	2.483	2.695
BVPS	15.226	15.754	17.889	19.060	20.627	21.972
DPS	0.400	1.150	1.100	1.350	1.300	1.309
Dividend yield	1.7%	4.8%	4.5%	5.6%	5.4%	5.4%

FABS Estimates & Co Data

ARNB- P&L

SAR Mn	3Q24	2Q25	3Q25	3Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	3,772	3,901	3,905	4,168	-6.3%	3.5%	0.1%	14,454	15,923	10.2%
Funded expense	-1,698	-1,728	-1,897	-1,842	3.0%	11.7%	9.8%	-6,482	-7,162	10.5%
Net funded income	2,075	2,173	2,008	2,326	-13.7%	-3.2%	-7.6%	7,972	8,762	9.9%
Non-funded income	334	421	384	402	-4.5%	14.9%	-8.7%	1,528	1,786	16.9%
Operating income	2,409	2,594	2,392	2,728	-12.3%	-0.7%	-7.8%	9,500	10,548	11.0%
Operating expenses	-789	-831	-825	-883	-6.6%	4.6%	-0.7%	-3,128	-3,401	8.7%
Pre-provision profit	1,620	1,763	1,567	1,845	-15.1%	-3.3%	-11.1%	6,372	7,147	12.2%
Impairment	-165	-216	-19	-235	-91.9%	-88.5%	-91.2%	-764	-920	20.4%
Share of results in Associate	7	8	6	10	-40.0%	-12.8%	-22.8%	145	37	-74.4%
PBT	1,462	1,555	1,554	1,620	-4.1%	6.3%	-0.1%	5,753	6,264	8.9%
Net profit attributable	1,243	1,336	1,329	1,392	-4.5%	6.9%	-0.6%	4,966	5,370	8.1%

FABS estimate & Co Data
ARNB - KPI

	3Q24	2Q25	3Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	86.1%	83.8%	83.9%	-218	16	83.9%	83.1%	-85
Impairment/PPP	10.2%	12.3%	1.2%	-894	-1,104	12.0%	12.9%	88
Cost to income	32.8%	32.0%	34.5%	174	247	32.9%	32.2%	-68
NP/OI	51.6%	51.5%	55.6%	396	404	52.3%	50.9%	-137
Loan-to deposit – Cal.	92.0%	92.4%	90.8%	-115	-161	93.0%	91.5%	-152

FABS estimate & Co data
ARNB - Key B/S items

SAR Mn	3Q24	4Q24	1Q25	2Q25	3Q25	YOY Ch
Net advances	166,330	169,495	179,057	186,476	191,356	15.0%
QOQ change	2.9%	1.9%	5.6%	4.1%	2.6%	
Total assets	242,290	248,307	264,651	268,983	280,486	15.8%
QOQ change	2.9%	2.5%	6.6%	1.6%	4.3%	
Customer deposits	180,852	182,230	195,619	201,739	210,697	16.5%
QOQ change	3.0%	0.8%	7.3%	3.1%	4.4%	
Total equity (deduct. Minority Int)	37,679	38,119	41,830	43,028	47,152	25.1%
QOQ change	2.2%	1.2%	9.7%	2.9%	9.6%	

FABS estimate & Co data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	24.47	70%	17.13
Relative Valuation (RV)	26.23	30%	7.87
Weighted Average Valuation (SAR)			25.00
Current market price (SAR)			24.20
Upside/Downside (%)			+3.3%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.5%. Cost of equity is calculated by using a 10-year government bond yield of 5.3%, beta of 1.0 and equity risk premium of 4.3%. Government bond yield is calculated after adding KSA 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	4609
Terminal value (SAR, Mn)	4,418
Book Value of Equity (as of June 2025)	39,678
FV to Common shareholders (SAR, Mn)	48,705
No. of share (Mn)	1,990
Current Market Price (SAR)	24.20
Fair Value per share (SAR)	24.47

Residual Income Method

(All Figures in SAR Mn)	2025F	2026F	2027F	2028F	2029F	2030F
Net Profit	5,370	5,463	5,438	5,594	5,527	5,462
(-) Equity Charge	-3,637	-3,916	-4,171	-4,422	-4,683	-4,931
Excess Equity	1,733	1,547	1,266	1,172	844	531
Discounting Factor	0.98	0.89	0.81	0.74	0.68	0.62
Present Value of Excess Equity	424¹	1,381	1,031	871	573	329

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the P/B multiple. It is valued at a 2025 P/B multiple of 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	21,792	1.3	1.2	8.6	8.2	3.5%	6.3%
Alinma Bank	17,558	1.8	1.7	11.2	10.7	4.3%	4.4%
Banque Saudi Fransi	11,967	1.1	1.0	9.2	9.1	6.1%	6.1%
Saudi National Bank	61,843	1.3	1.2	10.3	9.7	5.3%	5.8%
Bank Albilad	11,567	2.3	2.0	14.6	13.6	2.6%	2.4%
Saudi Investment Bank	4,556	1.0	1.0	9.7	8.2	5.9%	6.1%
Average		1.5x	1.3x	10.6x	9.9x	4.6%	5.2%
Median		1.3x	1.2x	10.0x	9.4x	4.8%	5.9%
Max		1.7x	1.5x	10.9x	10.4x	5.7%	6.1%
Min		1.1x	1.1x	9.3x	8.4x	3.7%	4.7%

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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