

Arab National Bank (ARNB)

Large exposure to corporate sector drove NIMs

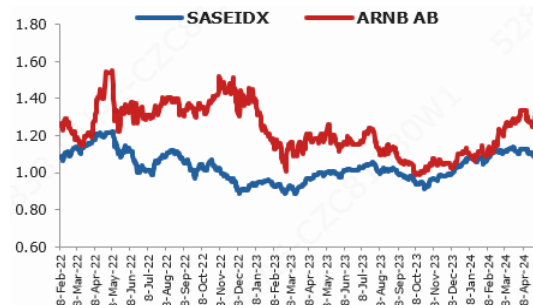
Current Price
SAR 21.14

Target Price
SAR 22.50

Upside/Downside (%)
+6.4%

Rating
HOLD

- ARNB's funded income grew 22.1% YOY to SAR 3,487 Mn in 1Q24 attributable to healthy loan growth of 9.1% and an increase in net investments portfolio by 14.0% in 1Q24.
- ARNB's NIMs grew 9 bps YOY and 11 bps QOQ to 3.5% 1Q24.
- The Bank's capitalization also stood well above the regulatory limits with a Tier 1 ratio of 17.9% and CAR of 19.8% in 1Q24.
- ARNB's asset quality improved as the NPL ratio declined 56 bps YOY and 15 bps QOQ to 1.3% in 1Q24.
- ARNB distributed one bonus share for every three shares held which increased the number of shares from 1.5 Bn to 2.0 Bn.



Stock Information

Market Cap (SAR, mm)	42,280.00
Paid Up Capital (mm)	20,000.00
52 Week High	23.51
52 Week Low	16.64
3M Avg. daily value(SAR)	36,056,920

1Q24 Net Profit higher than our estimate

Arab National Bank ("ARNB", "the Bank") recorded 15.7% YOY growth in net profit to SAR 1,236 Mn in 1Q24, higher than our estimate of SAR 1,075 Mn. The growth in net profit is mainly attributed to an increase in net funded income and a decline in impairments partially offset by a fall in non-funded income and an increase in operating expenses and tax charges.

P&L Highlights

ARNB's funded income grew 22.1% YOY to SAR 3,487 Mn in 1Q24 attributable to strong growth in net advances by 9.1% and increase in net investments portfolio by 14.0% in 1Q24 coupled with expansion in asset yield. On the other hand, funded expenses increased significantly from SAR 1,093 Mn in 1Q23 to SAR 1,560 Mn in 1Q24 due to an increase in benchmark rates. Thus, net funded income grew 9.3% YOY to SAR 1,928 Mn in 1Q24. NIMs grew 9 bps YOY and 11 bps QOQ to 3.5% in 1Q24 mainly supported by the rising interest rates. Fees and commission income rose substantially from SAR 120 Mn in 1Q23 to SAR 204 Mn in 1Q24. Exchange income declined 19.6% YOY to SAR 69 Mn in 1Q24 while unrealized gain on FVIS instrument stood at SAR 19 Mn in 1Q24 compared to a loss of SAR 9 Mn in 1Q23. Furthermore, the Bank's trading income fell 27.1% YOY to SAR 14 Mn in 1Q24 whereas dividend income grew 70.4% YOY to SAR 40 Mn. Moreover, other non-funded income declined 40.1% YOY to SAR 178 Mn in 1Q24. As a result, total non-funded income fell 8.4% YOY to SAR 382 Mn in 1Q24. Total operating income rose 5.9% YOY to SAR 2,309 Mn in 1Q24. Similarly, operating expenses grew 10.8% YOY to SAR 730 Mn in 1Q24 mainly due to a growth in an increase in salaries and employee-related expenses and other general and administrative. Impairment charges decreased 45.8% YOY to SAR 162 Mn in 1Q24 due to an improvement in asset quality. Tax expenses increased 4.2%

1Q24 Result Review (SAR, mm)

Total Assets	232,146
Total Liabilities	1,96,948
Total Equity	35,170
Total Deposits	174,541
Net Profit	1,236

Financial Ratios

Dividend Yield (12m)	4.79
Dividend Pay-out (%)	49.75
Price-Earnings Ratio(x)	7.48
Price-to-Book Ratio (x)	0.90
Book Value (SAR)	23.45
Return-on Equity (%)	12.50

Stock Performance

5 Days	-2.47%
1 Months	-2.80%
3 Months	7.58%
6 Months	17.44%
1 Year	2.68%
Month to Date (MTD%)	-8.78%
Quarter to Date (QTD%)	-3.47%
Year to Date (YTD%)	11.41%

YOY to SAR 181 Mn in 1Q24.

Balance Sheet Highlights

ARNB's total assets grew 8.5% YOY and 5.2% QOQ to SAR 232.1 Bn in 1Q24. Net advances grew 9.1% YOY and 3.7% QOQ to SAR 157.9 Bn in 1Q24. The Bank's investment grew 14.0% YOY to SAR 48 Mn in 1Q24. Similarly, customer deposits rose 12.4% YOY and 5.2% QOQ to SAR 174.5 Bn in 1Q24. Resultantly, the loan-to-deposit ratio stood at 90.5% in 1Q24 compared to 91.8 % in 4Q23. The total equity grew 7.7% YOY and 0.3% QOQ to SAR 35.2 Bn in 1Q24.

Target Price and Rating

We maintain our HOLD rating on Arab National Bank with a revised target price of SAR 22.50. ARNB reported a strong growth in profitability in 1Q24 driven by an increase in loan book by 9.1% and net investments portfolio by 14.0% YOY in 1Q24. ARNB's exposure to the corporate loans stood at 73.5% in 1Q24 and retail exposure stood at 26.5%. Customer deposits recorded a healthy growth of 12.4% YOY to SAR 174 Bn in 1Q24 driven by growth in time and CASA deposits. CASA deposits account for 52.2% of total deposits in 1Q24 compared to 51.2% in 1Q23 and 53.2% in 4Q23. The Bank's liquidity improved as the headline loan to deposit ratio declined 133 bps QOQ to 90.5% in 1Q24. NIMs grew 9 bps YOY and 11 bps QOQ to 3.5% in 1Q24 driven by high interest rates and a large exposure to corporate loans. However, ARNB will face fast repricing of its loan book in the declining interest rate period owing to its large exposure to corporate credit. The Bank's cost-to-income ratio grew 138 bps YOY to 31.6% in 1Q24 owing to higher operating expenses. Moreover, ARNB's cost of risk declined from 0.67% in 1Q23 to 0.41% in 1Q24 indicating the Bank's ability to manage risk effectively. Furthermore, ARNB's asset quality improved as the NPL ratio declined 56 bps YOY and 15 bps QOQ to 1.3% in 1Q24. Provision coverage grew from 144.6% in 4Q23 to 156.3% in 1Q24 providing a solid buffer against loan losses which will support the margins in the forthcoming period. The Bank's capitalization also stood well above the regulatory limits with a Tier 1 ratio of 17.9% and CAR of 19.8% in 1Q24. Moreover, ARNB increased capital through the distribution of one bonus share for every three shares held which increased the number of shares from 1.5 Bn to 2.0 Bn. Thus, based on our analysis, we assign a HOLD rating on the stock.

ARNB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	14.00	20.40	19.42	13.77	10.39	9.44
PB	1.53	1.42	1.39	1.34	1.21	1.00
Dividend yield	3.5%	1.4%	2.8%	3.9%	4.8%	5.3%

FABS Estimates & Co Data

ARNB – P&L

SAR mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	2,857	3,332	3,487	3,333	4.6%	22.1%	4.7%	12,477	13,079	4.8%
Funded expense	-1,093	-1,529	-1,560	-1,447	7.8%	42.7%	2.0%	-5,340	-5,300	-0.8%
Net funded income	1,764	1,802	1,928	1,887	2.2%	9.3%	6.9%	7,137	7,779	9.0%
Fees and commissions	120	153	204	160	27.4%	70.4%	33.3%	637	675	6.0%
Exchange income, net	85	85	69	89	-22.6%	-19.6%	-19.3%	331	367	10.9%
Unrealized gain on FVIS inv	-9	-5	19	8	NM	NM	NM	31	31	0.0%
Trading Income	19	-1	14	19	-26.4%	-27.1%	NM	27	27	-1.0%
Dividend income	24	32	40	33	21.5%	70.4%	24.0%	143	146	2.0%
other operating income	21	29	33	30	10.0%	52.4%	13.2%	106	109	3.0%
Gain on sale of non-trad inv	156	1	3	0	NM	NM	NM	156	0	NM
Other non-funded income	297	141	178	178	-0.1%	-40.1%	26.2%	794	679	-14.4%
Non-funded income	417	294	382	338	12.9%	-8.4%	29.9%	1,430	1,354	-5.3%
Operating income	2,180	2,096	2,309	2,225	3.8%	5.9%	10.2%	8,567	9,133	6.6%
Operating expenses	-659	-792	-730	-739	-1.2%	10.8%	-7.8%	-2,848	-2,898	1.8%
Pre-provision profit	1,521	1,305	1,579	1,486	6.3%	3.8%	21.1%	5,719	6,235	9.0%
Impairment	-298	-182	-162	-229	-29.4%	-45.8%	-11.4%	-992	-948	-4.4%
Share of results of assoc.	10	-17	-1	5	NM	-108.2%	NM	20	20	0.0%
PBT	1,233	1,105	1,417	1,262	12.3%	14.9%	28.2%	4,747	5,307	11.8%
Tax	-174	-145	-181	-185	-2.5%	4.2%	24.6%	-671	-823	22.6%
Reversal of deferred tax	-9	17	0	0	NM	NM	NM	0	0	NM
Profit after tax	1,068	942	1,236	1,076	14.8%	15.7%	31.2%	4,076	4,484	10.0%
Non-controlling int.	-1	-2	0	-1	-67.4%	-31.1%	-75.2%	-5	-5	-2.5%
Net Profit attributable	1,068	941	1,236	1,075	14.9%	15.7%	31.3%	4,071	4,479	10.0%

FABS estimate & Co Data
ARNB - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	80.9%	86.0%	83.5%	257	-251	83.3%	85.2%	187
NIM	3.5%	3.4%	3.5%	9	11	3.4%	3.6%	16
NIS	3.0%	2.9%	3.0%	-6	13	2.9%	3.1%	17
Fees & comms/OI	5.5%	7.3%	8.8%	334	153	7.4%	7.4%	-4
Impairment/PPP	19.6%	14.0%	10.2%	-936	-374	17.3%	15.2%	-214
Cost to income	30.2%	37.8%	31.6%	138	-616	33.2%	31.7%	-151
NP/OI	49.0%	44.9%	53.5%	454	863	47.5%	49.0%	153
Cost of risk	0.7%	-0.2%	0.4%	-26	65	0.4%	0.6%	14
Loan-to-deposit	93.2%	91.8%	90.5%	-277	-133	91.8%	91.8%	2
NPL	1.9%	1.5%	1.3%	-56	-15	1.5%	1.6%	12
NPL Coverage	149.9%	144.6%	156.3%	645	1,171	144.6%	148.0%	337
Tier 1	19.6%	18.8%	17.9%	-171	-97	18.8%	21.8%	302
Capital adequacy	22.0%	20.9%	19.8%	-217	-105	20.9%	23.8%	294
ROAE	10.9%	11.8%	10.9%	0	-96	12.2%	11.6%	-65
ROAA	1.6%	1.9%	1.6%	0	-22	1.9%	2.0%	11

FABS estimate & Co Data

ARNB - Key B/S items

SAR mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	144,727	148,852	149,372	152,235	157,875	9.1%
QOQ change	0.6%	2.8%	0.3%	1.9%	3.7%	
Total assets	214,042	215,984	218,190	220,683	232,146	8.5%
QOQ change	0.7%	0.9%	1.0%	1.1%	5.2%	
Customer deposits	155,247	158,378	154,220	165,861	174,541	12.4%
QOQ change	0.2%	2.0%	-2.6%	7.5%	5.2%	
Total equity	32,644	33,710	33,732	35,069	35,170	7.7%
QOQ change	1.0%	3.3%	0.1%	4.0%	0.3%	

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	22.28	70%	15.60
Relative Valuation (RV)	23.01	30%	6.90
Weighted Average Valuation (SAR)			22.50
Current market price (SAR)			21.14
Upside/Downside (%)			+6.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.0 and equity risk premium of 3.3%. 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)	2,854
Terminal value (SAR, Mn)	6,540
Book Value of Equity (as of Mar 2024)	35,170
FV to Common shareholders (SAR, Mn)	44,564
No. of share (Mn)	2,000
Current Market Price (SAR)	21.14
Fair Value per share (SAR)	22.28

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	4,479	4,558	4,689	4,774	5,002
(-) Equity Charge	-3,645	-3,822	-4,003	-4,188	-4,382
Excess Equity	834	737	685	585	619
Discounting Factor	0.95	0.88	0.81	0.74	0.68
Present Value of Excess Equity	795	646	554	435	424

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. We applied a discount to peer valuation since it generates lower return on asset as compared to its peers. It is valued at a 2024 PB multiple of 1.1x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	22,360	1.5	1.4	10.3	9.6	5.2	5.4
Alinma Bank	21,670	2.5	2.2	14.8	13.6	2.9	3.1
Saudi National Bank	59,340	1.4	1.2	11.0	10.1	4.7	5.1
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Bank Albilad	11,570	2.5	2.2	16.0	14.3	1.6	1.8
Average		1.8x	1.6x	12.5x	11.3x	4.0%	4.3%
Median		1.5x	1.4x	11.0x	10.1x	4.7%	5.1%
Max		2.5x	2.2x	14.8x	13.6x	5.2%	5.4%
Min		1.4x	1.2x	10.3x	9.6x	2.9%	3.1%

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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