

## Arab National Bank (ARNB)

Solid growth in non-funded income drove profitability

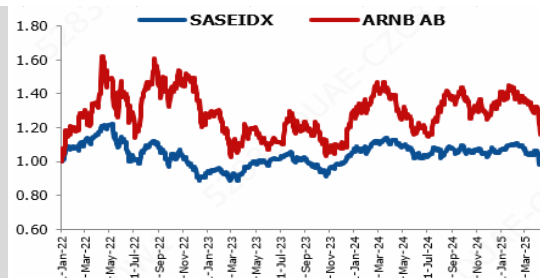
**Current Price**  
SAR 21.58

**Target Price**  
SAR 25.00

**Upside/Downside (%)**  
**+16%**

**Rating**  
**BUY**

- ARNB's funded income grew 2.3% YOY to SAR 3,569 Mn in 1Q25 due to rise in advances and investment portfolio.
- Cost-to-income ratio remained steady at 31.6% in 1Q25 compared to 1Q24.
- Impairment expenses rose 26.5% YOY to SAR 205 Mn in 1Q25 in line with portfolio growth and impending macroeconomic environment.
- Client deposits expanded by 12.1% YOY and 7.4% QOQ to SAR 195.6 Bn in 1Q25, whereas the loan-to-deposit ratio declined from 93.0% in 4Q24 to 91.5% in 1Q25.
- The Bank distributed a cash dividend of SAR 0.65 per share for 2H24. As a result, total dividend stood at SAR 1.30 per share for 2024.



### 1Q25 Net Profit in line with our estimate

Arab National Bank ("ARNB", "The Bank") witnessed 5.5% YOY growth in net profit to SAR 1,304 Mn in 1Q25, in line with our estimate of SAR 1,300 Mn. The growth in net profit is mainly attributed to a rise in both net funded and non-funded income, partially offset by an increase in operating expenses, impairments coupled with the decline in gains on non-trading instruments and dividend income.

### P&L Highlights

ARNB's funded income grew 2.3% YOY to SAR 3,569 Mn in 1Q25 driven by solid growth of 13.4% YOY in advances along with 8.2% YOY growth in investment portfolio. On the other hand, funded expenses rose 2.7% YOY to SAR 1,601 Mn in 1Q25 due to increased client deposits. As a result, the net funded income grew 2.1% YOY to SAR 1,968 Mn in 1Q25. Furthermore, the rise in fee & commission income, exchange income, trading income and gain on FVIS investments resulted in a surge of non-funded income by 47.5% YOY to SAR 563 Mn in 1Q25. Thus, the operating income grew 9.6% YOY to SAR 2,531 Mn in 1Q25, while the operating expenses rose 9.7% YOY to SAR 801 Mn in 1Q25. Thus, the cost-to-income ratio remained steady at 31.6% in 1Q25 compared to 1Q24. Impairment expenses rose 26.5% YOY to SAR 205 Mn in 1Q25 in line with portfolio growth and impending macroeconomic environment. The profit before tax rose 8.0% to SAR 1,530 Mn in 1Q25.

### Balance Sheet Highlights

ARNB's investments grew 8.2% YOY and marginally declined 0.1% QOQ to SAR 52.3 Bn in 1Q25. The net loans and advances rose 13.4% YOY and 5.6% QOQ to SAR 179.1 Bn in 1Q25. Furthermore, client deposits expanded by 12.1% YOY and 7.4% QOQ to SAR 195.6 Bn in 1Q25. As a result, the loan-to-deposit ratio declined from 93.0% in 4Q24 to 91.5% in 1Q25. The Bank's total assets rose 13.6% YOY and 6.6% QOQ to SAR 264.7 Bn in 1Q25.

### Stock Information

Market Cap (SAR, Mn)	43,200.00
Paid Up Capital (Mn)	20,000.00
52 Week High	23.51
52 Week Low	18.32
3M Avg. daily value(SAR)	37,092,220

### 1Q25 Result Review (SAR, Mn)

Total Assets	264,651
Total Deposits	195,619
Shareholder Equity	41,830
Net Profit	1,304

### Financial Ratios

Dividend Yield (12m)	6.02
Dividend Pay-out (%)	52.36
Price-Earnings Ratio(x)	8.70
Price-to-Book Ratio (x)	1.13
Book Value (SAR)	19.06
Return-on Equity (%)	13.44

### Stock Performance

5 Days	-4.17%
1 Months	-6.49%
3 Months	0.93%
6 Months	14.04%
1 Year	-6.80%
Month to Date (MTD%)	-6.49%
Quarter to Date (QTD%)	-6.49%
Year to Date (YTD%)	2.47%

### Target Price and Rating

We maintain our BUY rating on Arab National Bank with a target price of SAR 25.00. Arab National Bank profits grew owing to a surge in non-funded income, resulting in a healthy growth in operating income. The Bank's loans and advances rose 13.4% YOY to SAR 179.1 Bn, and investments grew 8.2% YOY to SAR 52.3 Bn in 1Q25. As, ARNB meets the diverse requirements of its corporate clients and individual customers through 58 remittance centres, 122 branches, the TeleMoney app and 14 centres for SMEs coupled with a network of 997 ATMs to serve c. 2 Mn customers as of 4Q24. The Bank offers a comprehensive range of products and services across Wholesale, Retail, MSME, Private, Treasury and Investment Banking (Capital). In the commercial banking space, ARNB aims for strategic lending and engages in projects and structured finance solutions. Additionally, it provides transaction banking services, liquidity management solutions and capital market products through a partnership with anb capital. These efforts are in line with Saudi Vision 2030 to offer customised solutions and capitalise on future opportunities. Further, the Bank's retail products like customised mortgage propositions, new credit card options, and improved personal finance products would be offered to affluent customers to leverage the expanding opportunities in retail banking sector. Moreover, the Bank total deposits rose 12.1% YOY to SAR 195.6 Bn in 1Q25. ARNB further focuses on improving its infrastructure and API functionalities to strengthen its market position in the digital banking sector. Additionally, ANB Capital launched Shariah-compliant Digital & IT Equity Fund in 2024, first of the kind thematic fund in the kingdom to connect investors with companies to benefit from technology related expenditure. In 2025, Treasury aims to enhance liquidity management and proactively address interest rate and foreign exchange risks. Key priorities include expanding cross-selling opportunities, promoting the Bank's full range of Treasury products and services, and delivering value-added financial solutions that drive both client and organizational growth. The Bank's provisions grew due to the estimated macroeconomic conditions, whereas the impairment charges were declined on QOQ basis during 1Q25 due to a decline in other real estate owned. The Bank distributed a cash dividend of SAR 0.65 per share for 2H24. As a result, total dividend stood at SAR 1.30 per share for 2024. Thus, based on our analysis, we maintain our BUY rating on the stock.

#### ARNB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	20.81	19.81	14.04	10.59	8.68	8.06
PB	1.45	1.42	1.37	1.21	1.13	1.06
DPS	0.40	1.15	1.10	1.35	1.30	1.39
Dividend yield	1.9%	5.3%	5.1%	6.3%	6.0%	6.5%

FABS Estimates & Co Data

**ARNB- P&L**

SAR mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	3,487	3,639	3,569	3,786	-5.7%	2.3%	-1.9%	14,454	15,968	10.5%
Funded expense	-1,560	-1,610	-1,601	-1,684	-4.9%	2.7%	-0.6%	-6,482	-7,179	10.8%
<b>Net funded income</b>	<b>1,928</b>	<b>2,033</b>	<b>1,968</b>	<b>2,102</b>	<b>-6.4%</b>	<b>2.1%</b>	<b>-3.2%</b>	<b>7,972</b>	<b>8,790</b>	<b>10.3%</b>
<b>Non-funded income</b>	<b>382</b>	<b>413</b>	<b>563</b>	<b>467</b>	<b>20.6%</b>	<b>47.5%</b>	<b>36.3%</b>	<b>1,528</b>	<b>1,658</b>	<b>8.5%</b>
<b>Operating income</b>	<b>2,309</b>	<b>2,446</b>	<b>2,531</b>	<b>2,569</b>	<b>-1.5%</b>	<b>9.6%</b>	<b>3.5%</b>	<b>9,500</b>	<b>10,448</b>	<b>10.0%</b>
Operating expenses	-730	-872	-801	-852	-6.0%	9.7%	-8.2%	-3,128	-3,332	6.5%
<b>Pre-provision profit</b>	<b>1,579</b>	<b>1,574</b>	<b>1,730</b>	<b>1,717</b>	<b>0.8%</b>	<b>9.5%</b>	<b>9.9%</b>	<b>6,372</b>	<b>7,116</b>	<b>11.7%</b>
Impairment	-162	-271	-205	-202	1.4%	26.5%	-24.4%	-764	-883	15.5%
<b>PBT</b>	<b>1,417</b>	<b>1,435</b>	<b>1,530</b>	<b>1,529</b>	<b>0.0%</b>	<b>8.0%</b>	<b>6.6%</b>	<b>5,753</b>	<b>6,294</b>	<b>9.4%</b>
<b>Net profit attributable</b>	<b>1,236</b>	<b>1,257</b>	<b>1,304</b>	<b>1,300</b>	<b>0.3%</b>	<b>5.5%</b>	<b>3.8%</b>	<b>4,966</b>	<b>5,351</b>	<b>7.7%</b>

FABS estimate & Co Data

**ARNB - KPI**

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	83.5%	83.1%	77.8%	-572	-536	83.9%	84.1%	21
Impairment/PPP	10.2%	17.2%	11.8%	161	-539	12.0%	12.4%	41
Cost to income	31.6%	35.7%	31.6%	4	-402	32.9%	31.9%	-104
NP/OI	53.5%	51.4%	51.5%	-198	14	52.3%	51.2%	-106
Loan-to deposit – Cal.	90.5%	93.0%	91.5%	108	-149	93.0%	93.1%	9
ROAE	12.5%	13.4%	13.0%	46	-47	13.4%	13.6%	12
ROAA	1.9%	2.1%	2.0%	12	-9	2.1%	2.0%	-7

FABS estimate & Co data

**ARNB - Key B/S items**

SAR mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net advances	157,875	161,612	166,330	169,495	179,057	13.4%
QOQ change	3.7%	2.4%	2.9%	1.9%	5.6%	
Total assets	232,885	234,752	240,962	248,307	264,651	13.6%
QOQ change	5.2%	0.8%	2.6%	3.0%	6.6%	
Customer deposits	174,547	175,586	180,843	182,198	195,619	12.1%
QOQ change	5.2%	0.6%	3.0%	0.7%	7.4%	
Total equity*	35,879	36,172	36,381	38,218	41,830	16.6%
QOQ change	0.3%	0.8%	0.6%	5.0%	9.5%	

FABS estimate & Co data \*Total Shareholders' Equity (after Deducting Minority Equity)

## 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	24.60	70%	17.22
Relative Valuation (RV)	25.92	30%	7.78
<b>Weighted Average Valuation (SAR)</b>			<b>25.00</b>
Current market price (SAR)			21.58
Upside/Downside (%)			+16%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.3%. Cost of equity is calculated by using a 10-year government bond yield of 5.1%, beta of 1.0 and equity risk premium of 4.2%. 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)	4,075
Terminal value (SAR, Mn)	3,293
Book Value of Equity (as of Mar 2025)	41,830
<b>FV to Common shareholders (SAR, Mn)</b>	<b>49,198</b>
No. of share (Mn)	2,000
Current Market Price (SAR)	21.58
<b>Fair Value per share (SAR)</b>	<b>24.60</b>

### Residual Income Method

(All Figures in SAR Mn)	2025F	2026F	2027F	2028F	2029F
Net Profit	5,351	5,592	5,550	5,349	5,158
(-) Equity Charge	-3,813	-4,064	-4,313	-4,553	-4,785
<b>Excess Equity</b>	<b>1,538</b>	<b>1,528</b>	<b>1,237</b>	<b>796</b>	<b>374</b>
Discounting Factor	0.91	0.84	0.76	0.70	0.64
<b>Present Value of Excess Equity</b>	<b>1,055<sup>1</sup></b>	<b>1,278</b>	<b>946</b>	<b>557</b>	<b>239</b>

Source: FAB Securities, <sup>1</sup>Adjusted for partial year

## 2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.27x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	24,284	1.4	1.3	9.2	9.0	5.6	5.6
Alinma Bank	19,637	2.0	1.8	12.1	11.1	3.7	3.9
Banque Saudi Fransi	11,476	1.1	1.0	9.4	8.8	6.0	6.2
Saudi National Bank	53,832	1.1	1.0	9.3	8.5	6.1	6.6
Bank Albilad	11,642	2.7	2.3	17.7	15.5	1.5	1.7
Saudi Investment Bank	2,053	1.0	1.0	8.6	8.0	5.2	5.6
<b>Average</b>		<b>1.6x</b>	<b>1.4x</b>	<b>11.1x</b>	<b>10.2x</b>	<b>4.7%</b>	<b>4.9%</b>
<b>Median</b>		<b>1.3x</b>	<b>1.2x</b>	<b>9.3x</b>	<b>8.9x</b>	<b>5.4%</b>	<b>5.6%</b>
<b>Max</b>		<b>1.9x</b>	<b>1.7x</b>	<b>11.4x</b>	<b>10.6x</b>	<b>5.9%</b>	<b>6.1%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>9.2x</b>	<b>8.6x</b>	<b>4.1%</b>	<b>4.3%</b>

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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