

Riyad Bank (RIBL)

Higher fee income and lower provisions aided profitability

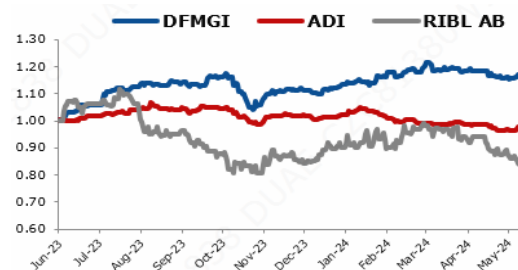
Current Price
SAR 26.25

Target Price
SAR 36.00

Upside/Downside (%)
+37%

Rating
BUY

- Riyadh Bank's net advances rose 12.3% YOY and 3.1% QOQ to SAR 282.8 Bn in 1Q24 attributed to healthy credit demand primarily from corporate and SMEs owing to a healthy economic environment.
- NPL ratio improved from 1.5% in 1Q23 to 1.2% in 1Q24 owing to healthy asset quality and proactive risk management.
- RIBL's fee and commission income rose 22.6% YOY to SAR 703 Mn in 1Q24 owing to higher lending and banking services activities.
- Cost of funds rose from 2.1% in 1Q23 to 3.3% in 1Q24 owing to the maturity of pre-covid deposits and replaced them with high-cost deposits.



1Q24 Net Profit in line with our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 2.6% YOY growth in net profit to SAR 2,073 Mn in 1Q24, in line with our estimates of SAR 2,125 Mn. The rise in the net profit is mainly attributable to strong growth in net fee and other income and lower impairment charges owing to improved asset quality, partially offset by a decline in net special income owing to the repricing of deposits.

P&L Highlights

Riyad Bank's funded income significantly rose 22.4% YOY to SAR 5,669 Mn in 1Q24, mainly due to a robust growth of 12.3% YOY in net advances partially offset by a decline in asset yield owing to competitive pricing and change in mix. Funded expenses significantly grew from SAR 1,543 Mn in 1Q23 to SAR 2,619 Mn in 1Q24 owing to a growth in customer deposits and repricing of lower cost deposits. Thus, net funded income declined 1.2% YOY to SAR 3,051 Mn in 1Q24. NIMs also fell 21 bps QOQ to 3.2% in 1Q24. RIBL's net fee and commission income rose 22.6% YOY to SAR 703 Mn in 1Q24 owing to higher fees from banking services, whereas other operating income declined 11.1% YOY to SAR 175 Mn in 1Q24. Trading income fell 10.7% YOY to SAR 159 Mn in 1Q24. Resultantly, non-funded income rose 9.4% YOY to SAR 1,037 Mn in 1Q24. Furthermore, operating income rose 1.3% YOY to SAR 4,088 Mn in 1Q24 owing to higher net fee and commission income, gains on disposal of non-trading investments, and dividend income, partially offset by a decrease in net special commission income, trading income, exchange income, net, and other operating income. On the other hand, operating expenses rose 15.8% YOY to SAR 1,346 Mn in 1Q24 driven by investments made by the bank in infrastructure, digital capabilities and strategic initiatives and increase in salaries and employee-related expenses, and other operating expenses.

Stock Information

Market Cap (SAR, mn)	78,750.00
Paid Up Capital (mn)	30,000.00
52 Week High	35.50
52 Week Low	25.25
3M Avg. daily value(SAR)	54,444,980

1Q24 Result Review (SAR, mn)

Total Assets	404,859
Total Liabilities	344,782
Total Equity	53,514
Total Deposits	270,948
Net Profit	1,955

Financial Ratios

Dividend Yield (12m)	5.33
Dividend Pay-out (%)	52.13
Price-Earnings Ratio(x)	9.73
Price-to-Book Ratio (x)	1.47
Book Value (SAR)	17.87
Return-on Equity (%)	15.76

Stock Performance

5 Days	-1.69%
1 Months	-7.57%
3 Months	-12.94%
6 Months	-4.72%
1 Year	-21.29%
Month to Date (MTD%)	-5.23%
Quarter to Date (QTD%)	-10.71%
Year to Date (YTD%)	-7.89%

As a result, Riyadh Bank's cost-to-income rate rose 414 bps YOY and 53 bps QOQ to 32.9% in 1Q24. Moreover, impairment charges declined from SAR 624 Mn in 1Q23 to SAR 437 Mn in 1Q24 owing to improved asset quality due to proactive risk management. In addition, tax expenses rose 2.7% YOY to SAR 238 Mn in 1Q24 impacting profit.

Balance Sheet Highlights

Riyadh Bank's net advances rose 12.3% YOY and 3.1% QOQ to SAR 282.9 Bn in 1Q24 attributed to healthy credit demand primarily from corporate and SMEs driven by a positive economic environment. Total assets increased 6.4% YOY and 4.7% QOQ to SAR 404.9 Bn in 1Q24 due to increase in loans and advances, investments and other assets. In addition, customer deposits grew 5.3% YOY and 6.3% QOQ to SAR 270.9 Bn in 1Q24 due to increase in demand, saving, time and other deposits. Thus, the headline loan-to-deposit ratio stood at 104.4% in 1Q24 compared to 107.6% in 4Q23. The Bank's total equity rose 8.6% YOY and declined 0.3% QOQ to SAR 53.5 Bn in 1Q24.

Target Price and Rating

We maintain our BUY rating on RIBL with an unchanged target price of SAR 36.00. The Bank plans to unlock value through the IPO of Riyadh Capital. Riyadh Capital is the second largest asset manager in the KSA and provides custody and investment banking services in the kingdom. Riyadh Bank's net advances grew 12.3% YOY and 3.1% QOQ to SAR 282.8 Bn in 1Q24 attributed to robust growth in corporate and SME credit. It further plans to double the credit attributed to the SME segment in the medium horizon. The Bank also plans to focus on the private and affluent segments by improving its value proposition and product offering, boosting profitability. It also expects to maintain NIMs through the change in loan mix and expects NIMs to decline between 10 to 20 bps in FY2024. NIMs fell 24 bps YOY and 21 bps QOQ to 3.2% in 1Q24 owing to repricing of lower cost deposit partially offset by a change in advances mix. The Banks also expect to maintain strong growth in fee income owing to strong capital market activity, growth in trade finance and fee earned from asset management business. Riyadh Bank's asset quality improved as NPLs declined to 1.2% in 1Q24 compared to 1.5% in 1Q23, whereas the provision coverage ratio rose to 140.8% in 1Q24 compared to 117.5% in 1Q23. In addition, the Bank's CET 1 Ratio declined from 17.6% in 4Q23 to 16.5% in 1Q24. Moreover, CAR declined from 20.7% in 1Q23 to 19.3% in 1Q24. Thus, looking at the positives, we maintain our BUY rating on the stock.

Riyadh Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	14.5	17.3	13.5	11.7	10.5	10.0
PB	2.1	1.8	1.8	2.0	1.5	1.4
Dividend yield	3.9%	1.8%	3.8%	4.2%	5.3%	5.5%

FABS Estimates & Co Data

Riyad Bank – P&L

SAR mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Special comm inc	4,632	5,600	5,669	5,969	-5.0%	22.4%	1.2%	20,606	22,551	9.4%
Special comm exp	-1,543	-2,459	-2,619	-2,597	0.8%	69.7%	6.5%	-8,192	-9,519	16.2%
Net special comm inc.	3,088	3,142	3,051	3,373	-9.5%	-1.2%	-2.9%	12,414	13,032	5.0%
Fee and comm. income	574	554	703	577	22.0%	22.6%	26.8%	2,385	2,516	5.5%
Trading income	178	72	159	77	105.1%	-10.7%	121.5%	420	462	10.0%
Other operating income	196	164	175	175	0.0%	-11.1%	6.4%	680	736	8.2%
Non-funded income	948	790	1,037	829	25.1%	9.4%	31.2%	3,485	3,714	6.6%
Operating income	4,036	3,932	4,088	4,201	-2.7%	1.3%	4.0%	15,899	16,745	5.3%
Operating expenses	-1,162	-1,274	-1,346	-1,342	0.3%	15.8%	5.6%	-4,969	-5,303	6.7%
Pre-provision profit	2,875	2,658	2,742	2,859	-4.1%	-4.6%	3.1%	10,930	11,442	4.7%
Impairment	-624	-483	-437	-494	-11.6%	-30.0%	-9.6%	-1,972	-2,033	3.1%
Profit before tax	2,252	2,179	2,311	2,369	-2.4%	2.6%	6.0%	8,971	9,421	5.0%
Tax	-232	-225	-238	-244	-2.3%	2.7%	6.1%	-925	-970	4.9%
Net Profit attributable	2,020	1,955	2,073	2,125	-2.4%	2.6%	6.0%	8,046	8,451	5.0%

FABS estimate & Co Data

Riyad Bank – KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	76.5%	79.9%	74.6%	-188	-527	78.1%	77.8%	-26
NIM	3.4%	3.4%	3.2%	-24	-21	3.4%	3.3%	-8
NIS	3.1%	2.9%	2.6%	-44	-22	2.9%	3.3%	37
Fees & comms/OI	14.2%	14.1%	17.2%	300	311	15.0%	15.0%	3
Trading/OI	4.4%	1.8%	3.9%	-52	206	2.6%	2.8%	12
Cost to income	28.8%	32.4%	32.9%	414	53	31.3%	31.7%	42
Impairment/PPP	21.7%	18.2%	15.9%	-579	-225	18.0%	17.8%	-27
NP/OI	50.0%	49.7%	50.7%	67	100	50.6%	50.5%	-14
Cost-of-risk	1.0%	0.7%	0.6%	-37	-8	0.7%	0.7%	-1
Loan-to-deposit	97.9%	107.6%	104.4%	645	-325	107.6%	104.0%	-365
NPL	1.5%	1.2%	1.2%	-33	-5	1.2%	1.3%	4
NPL coverage	117.5%	142.1%	140.8%	2,326	-134	142.1%	156.3%	1,415
CET 1	17.8%	17.6%	16.5%	-130	-117	17.6%	18.6%	97
Capital adequacy	20.7%	20.7%	19.3%	-140	-142	20.7%	21.6%	92
ROAE	15.4%	15.4%	15.1%	-34	-28	15.9%	15.1%	-74
ROAA	2.0%	2.1%	2.0%	2	-6	2.2%	2.1%	-5

FABS estimate & Co Data

Riyad Bank – Key B/S items

SAR mn	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	251,983	263,150	267,151	274,398	282,854	12.3%
QOQ ch	4.0%	4.4%	1.5%	2.7%	3.1%	
Total assets	380,625	389,236	377,012	386,849	404,859	6.4%
QOQ ch	5.8%	2.3%	-3.1%	2.6%	4.7%	
Customer deposits	257,277	272,269	254,719	254,908	270,948	5.3%
QOQ ch	7.2%	5.8%	-6.4%	0.1%	6.3%	
Total equity	49,270	51,128	50,881	53,696	53,514	8.6%
QOQ ch	-0.7%	3.8%	-0.5%	5.5%	-0.3%	

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	35.65	70.0%	24.96
Relative Valuation (RV)	36.80	30.0%	11.04
Weighted Average Valuation (SAR)			36.00
Current market price (SAR)			26.25
Upside/Downside (%)			+37%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.45%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90 and equity risk premium of 3.5%. 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)	13,776
Terminal value (SAR, Mn)	39,673
Book Value of Equity (as of March 2024)	53,514
FV to Common shareholders (SAR, Mn)	106,963
No. of share (Mn)	3,000
Current Market Price (SAR)	26.25
Fair Value per share (SAR)	35.65

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	8,451	8,741	9,504	10,123	10,148
(-) Equity Charge	-4,896	-5,257	-5,668	-6,095	-6,497
Excess Equity	2,222	3,485	3,837	4,027	3,651
Discounting Factor	0.95	0.88	0.81	0.75	0.69
Present Value of Excess Equity	2,112	3,054	3,101	3,001	2,509

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 1.9x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Al Rajhi Bank	83,840	3.1	2.8	17.8	15.7	3.2	3.7
Bank Albilad	11,570	2.5	2.2	16.0	14.3	1.6	1.8
Alinma Bank	21,670	2.5	2.2	14.8	13.6	2.9	3.1
Arab National Bank	11,660	1.1	1.1	9.6	9.7	5.2	5.4
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Saudi National Bank	59,340	1.4	1.2	11.0	10.1	4.7	5.1
Average		1.9x	1.8x	13.2x	12.1x	3.9%	4.2%
Median		1.9x	1.7x	12.9x	11.9x	4.0%	4.4%
Max		2.5x	2.2x	15.7x	14.1x	5.0%	5.3%
Min		1.2x	1.1x	10.4x	9.8x	3.0%	3.3%

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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