

## Arab National Bank (ARNB)

Consistent advances growth underpins ARNB's improving profitability

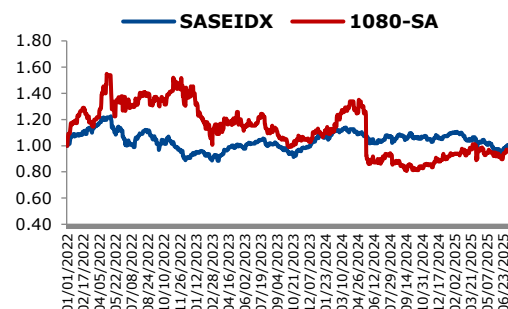
**Current Price**  
SAR 21.29

**Target Price**  
SAR 25.00

**Upside/Downside (%)**  
+17.4%

**Rating**  
**BUY**

- ARNB's funded income grew 9.8% YOY to SAR 3,901 Mn, owing to 15.4% YOY rise in net advances, and 11.1% YOY growth in the investment portfolio.
- Net loans and advances grew 15.4% YOY and 4.1% QOQ to SAR 186.5 Bn in 2Q25, whereas the customer deposits also rose by 14.9% YOY and 3.1% QOQ to SAR 201.7 Bn.
- Asset quality moderated as NPLs rose from 1.2% in 4Q24 to 1.3% in 1Q25.
- ARNB announced to distribute a cash dividend of SAR 0.65 per share for 1H25, amounting to SAR 1,294 Mn, resulting in an annual dividend yield of 6.3%.



### 2Q25 Net Profit higher than our estimate

Arab National Bank ("ARNB", "The Bank") recorded 8.5% YOY growth in net profit to SAR 1,336 Mn in 2Q25, higher than our estimate of SAR 1,232 Mn. The growth in net profit is mainly attributed to an increase in net funded and non-funded income, partially offset by a rise in operating expenses, impairments, and zakat charge.

### P&L Highlights

ARNB's funded income rose 9.8% YOY to SAR 3,901 Mn in 2Q25, owing to a 15.4% YOY growth net advances, coupled with 11.1% YOY increase in the investment portfolio. The Bank's funded expenses grew 7.2% YOY to SAR 1,728 Mn in 2Q25, primarily due to a rise in customer deposits. Thus, the net funded income rose 11.9% YOY to SAR 2,173 Mn in 2Q25. ARNB's non-funded income grew 7.0% YOY to SAR 421 Mn in 2Q25, primarily driven by an increase in dividend income, trading income, exchange income, and higher gains on FVSI financial investments. As a result, the operating income grew 11.1% YOY to SAR 2,594 Mn in 2Q25. Furthermore, the operating expenses rose 12.8% YOY to SAR 831 Mn in 2Q25 owing to an increase in other G&A expenses, D&A, and employee related expenses. As operating expenses grew at a faster rate than operating income, the cost-to-income ratio increased from 31.5% in 2Q24 to 32.0% in 2Q25. Impairment charges surged 29.7% YOY to SAR 216 Mn in 2Q25, driven by an increase in net advances. Share of results of associates increased from SAR 7 Mn in 2Q24 to SAR 8 Mn in 2Q25. In addition, ALBI's zakat and tax expenses increased 5.4% YOY to SAR 219 Mn in 2Q25.

### Stock Information

Market Cap (SAR, Mn)	42,580.00
Paid Up Capital (Mn)	1,995.00
52 Week High	23.48
52 Week Low	18.32
3M Avg. daily value(SAR)	1,135,424

### 2Q25 Result Review (SAR, Mn)

Total Assets	268,983
Net Advances	186,476
Total Deposits	201,739
Shareholder Equity	43,028
Net Profit	1,336

### Financial Ratios

Dividend Yield (12m)	6.1
Dividend Pay-out (%)	52.23
Price-Earnings Ratio(x)	8.47
Price-to-Book Ratio (x)	1.10
Book Value (SAR)	19.11
Return-on Equity (%)	13.44

### Stock Performance

5 Days	0.95%
1 Months	2.65%
3 Months	-5.55%
6 Months	-0.42%
1 Year	0.42%
Month to Date (MTD%)	-1.98%
Quarter to Date (QTD%)	-1.98%
Year to Date (YTD%)	1.00%

### Balance Sheet Highlights

ARNB's total assets expanded significantly by 14.2% YOY and 1.6% QOQ to SAR 269.0 Bn in 2Q25. The Bank's net loans and advances grew 15.4% YOY and 4.1% QOQ to SAR 186.5 Bn in 2Q25, whereas the customer deposits increased 14.9% YOY and 3.1% QOQ to SAR 201.7 Bn. Thus, the loan-to-deposit ratio rose to 92.4% in 2Q25 from 92.0% in 2Q24. Total equity attributable to shareholders increased 16.7% YOY and 2.9% QOQ to SAR 43.0 Bn in 2Q25.

### Target Price and Rating

We maintain our BUY rating on Arab National Bank with a target price of SAR 25.00. Arab National Bank's net profits continue to increase steadily in 2Q25 compared to the previous quarter driven by solid growth in interest bearing assets. The Bank's net loans and advances expanded by 15.4% YOY and 4.1% QOQ, while the investment portfolio grew 11.1% YOY and 3.8% QOQ in 2Q25. ARNB's corporate segment is the primary contributor, accounting for c. 75% of the loan portfolio, with corporate banking being the major contributor. On the other hand, in the retail segment, mortgages and personal loans remain the major contributors to retail lending in the 1Q25. ARNB further aims to optimize its ATM and branch network through closures, relocations, consolidations, selective openings, and establish dedicated affluent centers to target wealthy customers in every region of operation. Digital initiatives such as delivering hyper-personalized banking experience, engagement with data-driven marketing strategies, and partnerships with the fintech ecosystem are expected to significantly boost the Bank's non-core income. ARNB's asset quality moderate as NPLs rose from 1.2% in 4Q24 to 1.3% in 1Q25. Meanwhile, the Bank maintained a strong capitalization with a CET 1 ratio of 16.6% and CAR of 19.8% in 1Q25. Additionally, ARNB announced to distribute a cash dividend of SAR 0.65 per share for 1H25, amounting to SAR 1,294 Mn, resulting in an annual dividend yield of 6.3%. 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	20.55	19.56	13.87	10.46	8.57	7.69
PB	1.43	1.40	1.35	1.19	1.12	1.03
DPS	0.400	1.150	1.100	1.350	1.300	1.342
EPS	1.036	1.088	1.535	2.035	2.483	2.764
BVPS	15.226	15.754	17.889	19.060	20.630	22.045
Dividend yield	1.9%	5.4%	5.2%	6.3%	6.1%	6.3%

FABS Estimates & Co Data

**ARNB- P&L**

SAR mn	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	3,554	3,569	3,901	3,601	8.3%	9.8%	9.3%	14,454	15,179	5.0%
Funded expense	-1,612	-1,601	-1,728	-1,603	7.8%	7.2%	8.0%	-6,482	-6,418	-1.0%
<b>Net funded income</b>	<b>1,942</b>	<b>1,968</b>	<b>2,173</b>	<b>1,998</b>	<b>8.8%</b>	<b>11.9%</b>	<b>10.4%</b>	<b>7,972</b>	<b>8,761</b>	<b>9.9%</b>
<b>Non-funded income</b>	<b>393</b>	<b>562</b>	<b>421</b>	<b>418</b>	<b>0.7%</b>	<b>7.0%</b>	<b>-25.1%</b>	<b>1,528</b>	<b>1,944</b>	<b>27.2%</b>
<b>Operating income</b>	<b>2,335</b>	<b>2,531</b>	<b>2,594</b>	<b>2,416</b>	<b>7.4%</b>	<b>11.1%</b>	<b>2.5%</b>	<b>9,500</b>	<b>10,705</b>	<b>12.7%</b>
Operating expenses	-737	-801	-831	-761	9.2%	12.8%	3.8%	-3,128	-3,406	8.9%
<b>Pre-provision profit</b>	<b>1,599</b>	<b>1,730</b>	<b>1,763</b>	<b>1,655</b>	<b>6.5%</b>	<b>10.3%</b>	<b>1.9%</b>	<b>6,372</b>	<b>7,299</b>	<b>14.6%</b>
Impairment	-167	-205	-216	-210	2.8%	29.7%	5.2%	-764	-882	15.5%
Share of result in Associate	7	6	8	4	100.0%	18.6%	32.1%	145	60	-58.6%
<b>PBT</b>	<b>1,439</b>	<b>1,530</b>	<b>1,555</b>	<b>1,449</b>	<b>7.3%</b>	<b>8.1%</b>	<b>1.6%</b>	<b>5,753</b>	<b>6,477</b>	<b>12.6%</b>
Tax	-208	-226	-219	-216	1.4%	5.4%	-3.1%	-786	-965	22.9%
<b>Net profit attributable</b>	<b>1,231</b>	<b>1,304</b>	<b>1,336</b>	<b>1,232</b>	<b>8.4%</b>	<b>8.5%</b>	<b>2.5%</b>	<b>4,966</b>	<b>5,507</b>	<b>10.9%</b>

FABS estimate & Co Data

**ARNB - KPI**

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	83.2%	77.8%	83.8%	62	599	83.9%	81.8%	-208
Impairment/PPP	10.4%	11.9%	12.3%	183	38	12.0%	12.1%	10
Cost to income	31.5%	31.7%	32.0%	49	38	32.9%	31.8%	-111
NP/OI	52.7%	51.5%	51.5%	-121	-1	52.3%	51.4%	-83
Loan-to deposit – Cal.	92.0%	91.5%	92.4%	39	90	93.0%	93.2%	16
ROAE	12.8%	13.0%	12.9%	3	-9	13.4%	13.9%	47
ROAA	2.0%	2.0%	2.0%	5	1	2.1%	2.1%	-3

FABS estimate & Co data

**ARNB - Key B/S items**

SAR mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net advances	161,612	166,330	169,495	179,057	186,476	15.4%
QOQ change	2.4%	2.9%	1.9%	5.6%	4.1%	
Total assets	235,491	240,962	248,307	264,651	268,983	14.2%
QOQ change	1.1%	2.3%	3.0%	6.6%	1.6%	
Customer deposits	175,594	180,843	182,198	195,619	201,739	14.9%
QOQ change	0.6%	3.0%	0.7%	7.4%	3.1%	
Total equity	36,881	36,381	38,218	41,830	43,028	16.7%
QOQ change	2.8%	-1.4%	5.0%	9.5%	2.9%	

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	24.43	70%	17.10
Relative Valuation (RV)	26.33	30%	7.90
<b>Weighted Average Valuation (SAR)</b>			<b>25.00</b>
Current market price (SAR)			21.29
Upside/Downside (%)			+17.4%

### 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 5.2%, 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)	4,275
Terminal value (SAR, Mn)	5,860
Book Value of Equity (as of Mar 2025)	38,480
<b>FV to Common shareholders (SAR, Mn)</b>	<b>48,616</b>
No. of share (Mn)	1,990
Current Market Price (SAR)	21.29
<b>Fair Value per share (SAR)</b>	<b>24.43</b>

### Residual Income Method

(All Figures in SAR Mn)	2025F	2026F	2027F	2028F	2029F
Net Profit	5,507	5,630	5,493	5,539	5,610
(-) Equity Charge	-3,890	-4,157	-4,417	-4,679	-4,945
<b>Excess Equity</b>	<b>1,617</b>	<b>1,474</b>	<b>1,077</b>	<b>860</b>	<b>665</b>
Discounting Factor	0.93	0.85	0.78	0.71	0.65
<b>Present Value of Excess Equity</b>	<b>1,133<sup>1</sup></b>	<b>1,258</b>	<b>839</b>	<b>612</b>	<b>433</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 1.3x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	22,393	1.3	1.2	8.6	8.3	6.2	6.3
Alinma Bank	17,652	1.8	1.6	11.0	10.3	4.3	4.6
Banque Saudi Fransi	11,700	1.1	1.0	9.2	8.8	6.0	6.2
Saudi National Bank	59,751	1.2	1.2	10.0	9.3	5.5	6.0
Bank Albilad	10,791	2.2	2.0	13.8	13.3	2.1	2.0
Saudi Investment Bank	2,458	0.0	1.1	NM	9.1	0.1	NA
<b>Average</b>		<b>1.3x</b>	<b>1.4x</b>	<b>10.5x</b>	<b>9.9x</b>	<b>4.0%</b>	<b>5.0%</b>
<b>Median</b>		<b>1.3x</b>	<b>1.2x</b>	<b>10.0x</b>	<b>9.2x</b>	<b>4.9%</b>	<b>6.0%</b>
<b>Max</b>		<b>1.7x</b>	<b>1.5x</b>	<b>11.0x</b>	<b>10.1x</b>	<b>5.9%</b>	<b>6.2%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.1x</b>	<b>9.2x</b>	<b>8.9x</b>	<b>2.7%</b>	<b>4.6%</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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