

Riyad Bank

A decline in non-funded income coupled with higher opex and impairments impacted the bottom-line

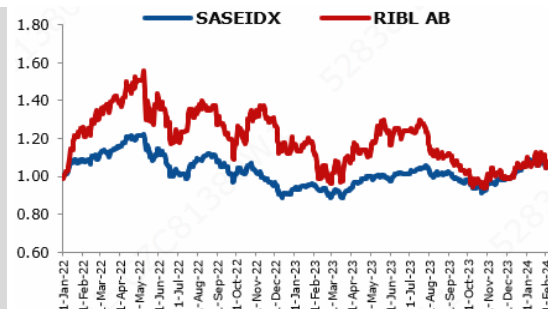
Current Price
SAR 31.35

Target Price
SAR 36.00

Upside/Downside (%)
+15%

Rating
BUY

- RIBL's net advances rose 13.2% to SAR 274.4 Bn in 2023 while customer deposits recorded a 6.2% YOY to SAR 254.9 Bn in 2023.
- RIBL's headline loan to deposits ratio rose from 104.9% in 3Q23 to 107.6% in 4Q23 pressurizing liquidity.
- RIBL's asset quality improved as NPLs declined to 1.2% in 4Q23 compared to 1.4% in 3Q23.
- RIBL's capitalization stood strong with a Tier 1 Ratio of 17.6% and CAR of 20.7% in 4Q23.
- RIBL's board of directors proposed a final dividend of SAR 0.75 per share for 2H23 resulting in a total annual dividend of SAR 1.40 per share in 2023 with a healthy dividend yield of 4.7%.



4Q23 Net Profit lower than our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 3.6% YOY decline in net profit to SAR 1,955 Mn in 4Q23, lower than our estimates of SAR 2,100 Mn. The decline in the net profit is mainly attributable to the fall in the non-funded income, increase in operating expenses, impairments, and tax charges partially offset by a healthy growth in the net funded income.

P&L Highlights

Riyad Bank's funded income significantly rose 36.9% YOY to SAR 5,600 Mn in 4Q23 mainly due to strong growth in net advances and expansion in asset yield. In contrast, funded expenses significantly grew from SAR 1,241 Mn in 4Q22 to SAR 2,459 Mn in 4Q23 owing to higher benchmark rates. Thus, net funded income grew 10.2% YOY to SAR 3,142 Mn in 4Q23. RIBL's fee and commission income fell 6.1% YOY to SAR 554 Mn in 4Q23 whereas other operating income declined 29.4% YOY to SAR 164 Mn. Trading income increased 6.3% YOY to SAR 72 Mn in 4Q23. Resultantly, non-funded income declined 11.3% YOY to SAR 790 Mn in 4Q23. Furthermore, operating income rose 5.1% YOY to SAR 3,932 Mn in 4Q23. On the other hand, operating expenses rose 12.0% YOY to SAR 1,274 Mn in 4Q23 driven by an increase in salaries and employee-related expenses, rent and premises-related expenses, and depreciation expenses partially offset by a decline in other G&A expenses and other operating expenses. Riyad Bank's cost-to-income rate rose 200 bps YOY to 32.4% in 4Q23. Moreover, impairment charges grew 32.7% YOY to SAR 483 Mn in 4Q23. In addition, Tax expenses rose 8.2% YOY to SAR 225 Mn in 4Q23 dragging profitability.

Stock Information

Market Cap (SAR, mm)	94,050.00
Paid Up Capital (mm)	30,000.00
52 Week High	35.50
52 Week Low	25.25
3M Avg. daily value(SAR)	52,805,310

4Q23 Result Review (SAR, mm)

Total Assets	326,591
Total Liabilities	326,591
Total Equity	53,696
Total Deposits	254,908
Net Profit	1,955

Financial Ratios

Dividend Yield (12m)	4.15
Dividend Pay-out (%)	52.13
Price-Earnings Ratio(x)	11.80
Price-to-Book Ratio (x)	1.75
Book Value (SAR)	17.93
Return-on Equity (%)	15.58

Stock Performance

5 Days	1.62%
1 Months	10.39%
3 Months	17.42%
6 Months	2.96%
1 Year	20.35%
Month to Date (MTD%)	10.39%
Quarter to Date (QTD%)	10.00%
Year to Date (YTD%)	10.00%

Balance Sheet Highlights

Riyad Bank's net advances rose 13.2% to SAR 274.4 Bn in 2023. Total assets increased 7.6% to SAR 386.9 Bn in 2023. In addition, customer deposits grew 6.2% YOY to SAR 254.9 Bn in 2023. Thus, the headline loan-to-deposit ratio stood at 107.6% in 2023 compared to 101.0% in 2022. The Bank's total equity increased 8.3% to SAR 53.7 Bn in 2023.

Target Price and Rating

We maintain our BUY rating on RIBL with an unchanged target price of SAR 36.00. The Bank's share price rose 7.9% since our previous rating (19 January 2024). Riyad Bank recorded a decline in the net profit to SAR 1,955 Mn in 4Q23 primarily due to a decrease in the non-funded income coupled with a rise in operating expenses and impairment charges. Riyad Bank's net advances grew 13.2% YOY and 2.7% QOQ to SAR 274.4 Bn in 4Q23 while the Bank expects its advances to grow by high single digit to low double digit in 2024. RIBL's customer deposits grew 6.2% YOY and 0.1% QOQ to SAR 254.9 Bn in 4Q23 but slightly grew 0.1% QOQ pressurizing the liquidity position of the bank. The Bank's loan-to-deposit ratio rose from 104.9% in 3Q23 to 107.6% in 4Q23 due to lower growth in deposits. Riyad Bank's NIMs improved 9 bps YOY to 3.4% in 4Q23. The Bank's NIMs are expected to moderate in the upcoming period with a decline in interest rates due to a higher exposure to corporate loans. Riyad Bank's asset quality improved as NPLs declined to 1.2% in 4Q23 compared to 1.4% in 3Q23 whereas, the coverage ratio rose 142.1% in 4Q23 compared to 127.9% in 3Q23. In addition, the Bank's capitalization stood strong with a Tier 1 Ratio of 17.6% and CAR of 20.7% in 4Q23. The board of directors proposed a final dividend of SAR 0.75 per share for 2H23 (1H23: SAR 0.65 per share) resulting in a total annual dividend of SAR 1.40 per share in 2023 with a healthy dividend yield of 4.5%. Thus, looking at the positives, we maintain our BUY rating on the stock.

Riyad Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	16.5	19.7	15.4	13.33	12.0	11.2
PB	2.4	2.1	2.0	1.95	1.7	1.6
Dividend yield	3.5%	1.6%	3.4%	3.7%	4.5%	4.9%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Special comm inc	4,092	5,308	5,600	5,569	0.6%	36.9%	5.5%	12,908	20,606	59.6%
Special comm exp	-1,241	-2,233	-2,459	-2,471	-0.5%	98.2%	10.1%	-2,855	-8,192	NM
Net special comm inc.	2,852	3,075	3,142	3,098	1.4%	10.2%	2.2%	10,052	12,414	23.5%
Fee and comm. income	591	647	554	688	-19.5%	-6.1%	-14.3%	2,429	2,385	-1.8%
Trading income	67	68	72	64	12.8%	6.3%	6.2%	219	420	91.7%
Other operating income	232	189	164	162	0.9%	-29.4%	-13.0%	899	680	-24.4%
Non-funded income	891	903	790	914	-13.6%	-11.3%	-12.5%	3,547	3,485	-1.8%
Operating income	3,742	3,978	3,932	4,013	-2.0%	5.1%	-1.2%	13,599	15,899	16.9%
Operating expenses	-1,138	-1,299	-1,274	-1,323	-3.7%	12.0%	-1.9%	-4,410	-4,969	12.7%
Pre-provision profit	2,605	2,679	2,658	2,689	-1.2%	2.1%	-0.8%	9,189	10,930	18.9%
Impairment	-364	-353	-483	-349	38.4%	32.7%	37.0%	-1,281	-1,972	54.0%
Profit before tax	2,235	2,330	2,179	2,340	-6.9%	-2.5%	-6.5%	7,828	8,971	14.6%
Tax	-208	-241	-225	-240	-6.5%	8.2%	-6.7%	-809	-925	14.3%
Net Profit attributable	2,028	2,089	1,955	2,100	-6.9%	-3.6%	-6.5%	7,019	8,046	14.6%

FABS estimate & Co Data

Riyad Bank - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	76.2%	77.3%	79.9%	370	261	73.9%	78.1%	416
NIM	3.3%	3.3%	3.4%	9	9	3.0%	3.4%	42
NIS	3.0%	2.8%	2.9%	-16	4	2.8%	3.0%	13
Fees & comms/OI	15.8%	16.3%	14.1%	-168	-217	17.9%	15.0%	-286
Trading/OI	1.8%	1.7%	1.8%	2	13	1.6%	2.6%	103
Cost to income	30.4%	32.7%	32.4%	200	-25	32.4%	31.3%	-118
Impairment/PPP	14.0%	13.2%	18.2%	420	501	13.9%	18.0%	410
NP/OI	54.2%	52.5%	49.7%	-448	-281	51.6%	50.6%	-101
Cost-of-risk	0.6%	0.5%	0.7%	10	17	0.5%	0.7%	19
Loan-to-deposit	101.0%	104.9%	107.6%	666	277	101.0%	107.6%	666
NPL	1.7%	1.4%	1.2%	-48	-12	1.7%	1.2%	-48
NPL coverage	112.0%	127.9%	142.1%	3,010	1,420	112.0%	142.1%	3,010
CET 1	15.9%	15.6%	15.7%	-20	10	15.9%	15.7%	-20
Capital adequacy	21.1%	20.7%	20.7%	-32	3	21.1%	20.7%	-32
ROAE	14.9%	15.9%	15.4%	52	-53	15.0%	15.9%	84
ROAA	2.0%	2.1%	2.1%	12	-1	2.0%	2.2%	11

FABS estimate & Co Data

Riyad Bank - Key B/S items

SAR mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	242,365	251,983	263,150	267,151	274,398	13.2%
QOQ ch	0.3%	4.0%	4.4%	1.5%	2.7%	
Total assets	359,653	380,625	389,236	377,012	386,849	7.6%
QOQ ch	3.4%	5.8%	2.3%	-3.1%	2.6%	
Customer deposits	240,007	257,277	272,269	254,719	254,908	6.2%
QOQ ch	1.7%	7.2%	5.8%	-6.4%	0.1%	
Total equity	49,602	49,270	51,128	50,881	53,696	8.3%
QOQ ch	6.0%	-0.7%	3.8%	-0.5%	5.5%	

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	34.45	70.0%	24.12
Relative Valuation (RV)	39.61	30.0%	11.88
Weighted Average Valuation (SAR)			36.00
Current market price (SAR)			31.35
Upside/Downside (%)			+15%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.00 and equity risk premium of 4.1%. 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)	12,896
Terminal value (SAR, Mn)	25,770
Book Value of Equity (as of June 2023)	53,696
FV to Common shareholders (SAR, Mn)	103,361
No. of share (Mn)	3,000
Current Market Price (SAR)	30.90
Fair Value per share (SAR)	34.45

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	8,612	8,887	9,651	10,263	10,295
(-) Equity Charge	-5,087	-5,465	-5,897	-6,346	-6,768
Excess Equity	1,469	3,421	3,754	3,917	3,528
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Present Value of Excess Equity	1,418	3,038	3,065	2,941	2,435

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 2.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Alinma Bank	22,730	2.6	2.4	16.0	14.9	3.1	3.3
Al Rajhi Bank	93,910	3.5	3.2	19.8	17.4	2.9	3.4
Saudi National Bank	68,190	1.5	1.4	12.3	11.2	4.2	4.5
Banque Saudi Fransi	13,190	1.3	1.2	10.4	9.8	5.2	5.5
Arab National Bank	9,840	1.0	1.0	9.2	9.2	6.0	6.1
Bank Albilad	12,450	2.7	2.4	17.3	15.8	1.8	2.2
Average		2.1x	1.9x	14.2x	13.1x	3.8%	4.1%
Median		2.0x	1.9x	14.2x	13.1x	3.6%	3.9%
Max		2.7x	2.4x	17.0x	15.6x	5.0%	5.3%
Min		1.3x	1.3x	10.9x	10.2x	2.9%	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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