

Riyad Bank (RIBL)

Higher fee income and lower impairment charges boosted profitability

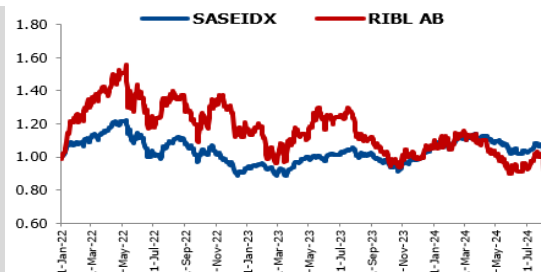
Current Price
SAR 25.15

Target Price
SAR 36.00

Upside/Downside (%)
+43%

Rating
BUY

- RIBL revised its cost of risk guidance from 65 – 75 bps to 55 – 65 bps and loan growth guidance to double-digit in FY2024.
- Riyadh Bank's net advances rose 10.6% YOY and 2.9% QOQ to SAR 291.1 Bn in 2Q24 attributed to healthy credit demand primarily from corporate and SMEs owing to a healthy economic environment.
- Fee and commission income rose 19.3% YOY to SAR 727 Mn in 2Q24 owing to higher lending, banking services and capital market activities.
- NPL ratio remained unchanged at 1.2% in 2Q24, with a coverage ratio of 145.2% in 2Q24.
- The Board of Directors announced a cash dividend of SAR 0.80 per share, amounting to SAR 2,396 Mn for 1H24, which is expected to be distributed on 22 August 2024.



2Q24 Net Profit higher than our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 17.9% YOY growth in net profit to SAR 2,338 Mn in 2Q24, higher than our estimates of SAR 2,036 Mn. The rise in the net profit is mainly attributable to strong growth in net fees and other operating income coupled with lower impairment charges owing to higher recoveries, partially offset by a marginal decline in net special income owing to higher funding costs.

P&L Highlights

Riyad Bank's funded income rose 14.6% YOY to SAR 5,805 Mn in 2Q24 mainly due to a robust YOY growth of 10.6% in net advances and a marginal uptick in asset yield. Funded expenses significantly grew from SAR 1,957 Mn in 2Q23 to SAR 2,708 Mn in 2Q24 owing to a growth in customer deposits and higher cost of funds. Thus, net funded income declined marginally 0.4% YOY to SAR 3,097 Mn in 2Q24. NIMs also fell 15 bps YOY and 2bps QOQ to 3.2% in 2Q24. RIBL's net fee and commission income rose 19.3% YOY to SAR 727 Mn in 2Q24 owing to higher fees from banking services and robust capital market activity, whereas other operating income grew 27.0% YOY to SAR 166 Mn in 2Q24. Trading income fell sharply 93.3% YOY to SAR 7 Mn in 2Q24. Resultantly, non-funded income rose 6.8% YOY to SAR 901 Mn in 2Q24. Furthermore, operating income rose 1.1% YOY to SAR 3,997 Mn in 2Q24 owing to higher net fee and commission income, exchange income and other operating income partially offset by a decrease in net special commission income, trading income and dividend income. On the other hand, operating expenses declined marginally from SAR 1,234 Mn in 2Q23 to SAR 1,225 Mn in 2Q24 as it benefitted from the investment made in digital infrastructure. As a result, Riyadh Bank's cost-to-income rate improved 58 bps YOY and 228 bps QOQ to 30.6% in 2Q24.

Stock Information

Market Cap (SAR, mm)	75,450.00
Paid Up Capital (mm)	30,000.00
52 Week High	31.55
52 Week Low	24.20
3M Avg. daily value(SAR)	68,335,880

2Q24 Result Review (SAR, mm)

Total Assets	405,029
Total Liabilities	342,682
Total Equity	55,783
Total Deposits	276,009
Net Profit	2,338

Financial Ratios

Dividend Yield (12m)	6.16
Dividend Pay-out (%)	52.13
Price-Earnings Ratio(x)	8.93
Price-to-Book Ratio (x)	1.35
Book Value (SAR)	18.63
Return-on Equity (%)	15.82

Stock Performance

5 Days	0.84%
1 Months	-8.88%
3 Months	-4.55%
6 Months	-17.27%
1 Year	-16.03%
Month to Date (MTD%)	-8.38%
Quarter to Date (QTD%)	-2.14%
Year to Date (YTD%)	-11.75%

Moreover, impairment charges declined sharply from SAR 512 Mn in 2Q23 to SAR 175 Mn in 2Q24 due to higher recoveries and proactive risk management. In addition, tax expenses rose 18% YOY to SAR 269 Mn in 2Q24 in line with a growth in profitability.

Balance Sheet Highlights

Riyad Bank's net advances rose 10.6% YOY and 2.9% QOQ to SAR 291.1 Bn in 2Q24, which is attributed to healthy credit demand primarily from corporations and SMEs driven by a positive economic environment. Corporate and SME loans accounted for almost 68% of the loan book in 1H24. Total assets increased 4.1% YOY to SAR 405.0 Bn in 2Q24 due to an increase in loans and advances, investments and other assets. The NPL ratio remained flat at 1.2% in 2Q24 compared to 1Q23. Furthermore, RIBL expects its cost of risk to improve to 55 – 65 bps in FY2024. The NPL Coverage ratio improved by 3.0% YTD to 145.2% in 2Q24. In addition, customer deposits grew 1.4% YOY and 1.9% QOQ to SAR 276.0 Bn in 2Q24 due to an increase in demand deposits, partially offset by a decline in time and saving deposits. Thus, the headline loan-to-deposit ratio stood at 105.5% in 2Q24 compared to 104.4% in 1Q24. NIBs/CASA (non-interest-bearing deposits) amounted to 56.7% of total deposits in 2Q24. Capital adequacy ratio improved 19 bps QOQ from 19.3% in 1Q24 to 19.5% in 2Q24. The CET1 ratio stood at 16.7% in 2Q24. The Bank's return on assets remained flat at 2.1% while its return on equity expanded 37 bps QOQ to 14.9% in 2Q24.

Target Price and Rating

We maintain our BUY rating on RIBL with a 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 investing banking services in the kingdom. Riyadh Bank's net advances grew 10.6% YOY and 2.9% QOQ to SAR 291.1 Bn in 2Q24, attributed to robust corporate and SME credit growth. It further plans to increase the credit attributed to the SME segment in the medium term. The Bank also plans to focus on the private and affluent segments by improving its value proposition and product offering, boosting profitability. Furthermore, the Bank's loan recoveries increased significantly driven by proactive risk management in 2Q24 and it expects this trend to continue. It has also guided a strong risk management plan which has been set up to accelerate the recovery of assets to be implemented through FY2024 and 2025. It also expects to maintain NIMs through the change in loan mix and expects NIMs to contract between 10 to 20 bps in FY2024. NIMs fell 15 bps YOY and 2 bps QOQ to 3.2% in 2Q24 owing to the repricing of lower cost deposit partially offset by a change in advances mix. NIBs/CASA (non-interest-bearing deposits) amounted to 56.7% of total deposits in 2Q24 and the Bank is focusing on further increasing this weightage, as it believes there is a potential for improvement in this segment resulting in improving its NIM. The Bank also expect to maintain strong growth in fee income owing to strong capital market activity and plans to expand the hedging business to enhance cross-selling opportunities. RIBL is also guided to grow its revenue stream further from FX and other fee income offerings by offering holistic risk management offers and services to customers. Riyadh Bank maintained healthy asset quality with an unchanged NPL ratio of 1.2% in 2Q24 compared to 1Q24, whereas the provision coverage ratio rose to 145.2% in 2Q24. In addition, the Bank's Tier 1 Ratio increased from 16.5% in 1Q24 to 16.7% in 2Q24. Moreover, CAR grew from 19.3% in 1Q24 to 19.5% in 2Q24. The Bank has undertaken various strategic initiatives which are expected to drive revenue growth and enhance customer experience. It launched its next-gen mobile app in 2Q24, which aims to offer its customers a wide set of products and services, further increasing ease of access. RIBL also launched its multi-currency Credit Card to further penetrate the micro-segmented credit card market and offer an enhanced value proposition. Furthermore, the Bank has revised its FY2024 guidance where it now expects its loan book to grow in low double digits, while improving its cost of risk to 55 – 65 bps. 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	13.3	15.8	12.4	10.7	9.6	8.9
PB	1.92	1.68	1.63	1.95	1.39	1.28
Dividend yield	4.3%	2.0%	4.2%	4.6%	5.6%	6.4%

FABS Estimates & Co Data

Riyad Bank – P&L

SAR mm	2Q23	1Q24	2Q24	2Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Special comm inc	5,066	5,669	5,805	5,768	0.6%	14.6%	2.4%	20,606	22,932	11.3%
Special comm exp	-1,957	-2,619	-2,708	-2,738	-1.1%	38.4%	3.4%	-8,192	-10,096	23.2%
Net special comm inc.	3,109	3,051	3,097	3,030	2.2%	-0.4%	1.5%	12,414	12,836	3.4%
Fee and comm. income	609	703	727	738	-1.5%	19.3%	3.4%	2,385	2,814	18.0%
Trading income	103	159	7	100	-93.1%	-93.3%	-95.7%	420	462	10.0%
Other operating income	131	175	166	167	-0.5%	27.0%	-4.6%	680	722	6.2%
Non-funded income	843	1,037	901	1,006	-10.5%	6.8%	-13.1%	3,485	3,998	14.7%
Operating income	3,952	4,088	3,997	4,036	-0.9%	1.1%	-2.2%	15,899	16,835	5.9%
Operating expenses	-1,234	-1,346	-1,225	-1,335	-8.3%	-0.8%	-9.0%	-4,969	-5,338	7.4%
Pre-provision profit	2,718	2,742	2,772	2,700	2.7%	2.0%	1.1%	10,930	11,497	5.2%
Impairment	-512	-437	-175	-436	-59.9%	-65.9%	-60.0%	-1,972	-1,776	-9.9%
Profit before tax	2,210	2,311	2,606	2,270	14.8%	17.9%	12.8%	8,971	9,740	8.6%
Tax	-228	-238	-269	-234	14.9%	18.0%	12.8%	-925	-1,003	8.5%
Net Profit for the year	1,982	2,073	2,338	2,036	14.8%	17.9%	12.8%	8,046	8,737	8.6%

FABS estimate & Co Data

Riyad Bank - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.7%	74.6%	77.5%	-120	283	78.1%	76.3%	-183
NIM	3.3%	3.2%	3.2%	-15	-2	3.4%	3.2%	-19
NIS	2.9%	2.6%	2.6%	-28	-3	2.9%	2.7%	-20
Fees & comms/OI	15.4%	17.2%	18.2%	278	99	15.0%	16.7%	172
Trading/OI	2.6%	3.9%	0.2%	-243	-372	2.6%	2.7%	10
Cost to income	31.2%	32.9%	30.6%	-58	-228	31.3%	31.7%	46
Impairment/PPP	18.8%	15.9%	6.3%	-1,254	-962	18.0%	15.5%	-259
NP/OI	50.2%	50.7%	58.5%	833	778	50.6%	51.9%	129
Cost-of-risk	0.8%	0.6%	0.2%	-53	-37	0.7%	0.6%	-11
Loan-to-deposit	96.7%	104.4%	105.5%	880	106	107.6%	104.0%	-365
NPL	1.4%	1.2%	1.2%	-26	-1	1.2%	1.3%	1
NPL coverage	120.7%	140.8%	145.2%	2,445	439	142.1%	144.0%	190
CET 1	17.9%	16.5%	16.7%	-115	27	17.6%	16.5%	-112
Capital adequacy	20.8%	19.3%	19.5%	-131	19	20.7%	19.2%	-153
ROAE	15.2%	14.5%	14.9%	-32	37	15.3%	15.1%	-21
ROAA	2.0%	2.0%	2.1%	5	4	2.2%	2.1%	-3

FABS estimate & Co Data

Riyad Bank - Key B/S items

SAR mm	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	263,150	267,151	274,398	282,854	291,051	10.6%
QOQ change	4.4%	1.5%	2.7%	3.1%	2.9%	
Total assets	389,236	377,012	386,849	404,859	405,029	4.1%
QOQ change	2.3%	-3.1%	2.6%	4.7%	0.0%	
Customer deposits	272,269	254,719	254,908	270,948	276,009	1.4%
QOQ change	5.8%	-6.4%	0.1%	6.3%	1.9%	
Total equity	51,128	50,881	53,696	53,514	55,783	9.1%
QOQ change	3.8%	-0.5%	5.5%	-0.3%	4.2%	

FABS estimate & Co Data

Valuation:

We use the 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	36.01	70%	25.21
Relative Valuation (RV)	35.97	30%	10.79
Weighted Average Valuation (SAR)			36.00
Current market price (SAR)			25.15
Upside/Downside (%)			+43%

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 the 10-year government bond yield of 5.0%, beta of 0.90 and equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year CDS spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	13,823
Terminal value (SAR, Mn)	38,241
Book Value of Equity (as of June 2024)	55,783
FV to Common shareholders (SAR, Mn)	107,847
No. of share (Mn)	2,995
Current Market Price (SAR)	25.15
Fair Value per share (SAR)	36.01

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	8,737	8,654	9,943	10,451	10,302
(-) Equity Charge	-5,022	-5,354	-5,824	-6,310	-6,761
Excess Equity	3,715	3,300	4,119	4,141	3,541
Discounting Factor	0.98	0.90	0.83	0.76	0.70
Present Value of Excess Equity	1,813	2,966	3,408	3,154	2,483

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	88,910	3.4	3.2	18.9	16.5	3.1	3.5
Bank Albilad	11,500	2.4	2.2	15.9	14.2	1.5	1.9
Alinma Bank	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Arab National Bank	11,390	1.1	1.1	9.0	9.2	5.8	5.7
Banque Saudi Fransi	11,640	1.2	1.1	9.8	9.0	5.6	6.0
Saudi National Bank	59,800	1.3	1.3	11.4	10.5	4.8	5.1
Average		2.0x	1.9x	13.4x	12.2x	4.0%	4.2%
Median		1.9x	1.8x	13.3x	12.0x	4.0%	4.3%
Max		2.5x	2.2x	15.7x	14.0x	5.4%	5.6%
Min		1.2x	1.2x	10.2x	9.5x	3.0%	3.2%

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

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