

Arab National Bank (ARNB)

Higher non-funded income and lower impairment drove profitability

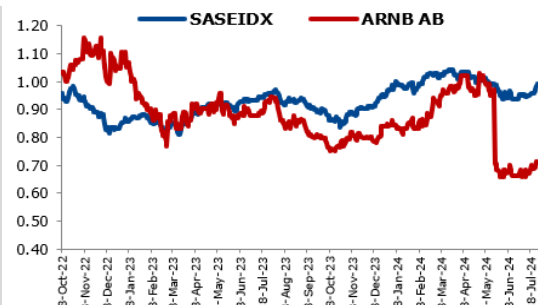
Current Price
SAR 20.22

Target Price
SAR 22.50

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- ARNB's funded income grew 15.7% YOY to SAR 3,554 Mn in 2Q24 attributable to healthy loan growth of 8.6% and an increase in net investments portfolio by 7.8% in 2Q24.
- Non-funded income rose 21.3% YOY to SAR 393 Mn in 2Q24 owing to growth in fee & commission, trading, dividend, and other income.
- The cost-to-income ratio dropped from 32.3% in 2Q23 to 31.6% in 2Q24, owing to a growth in operating income.
- The Bank's capitalization also stood well above the regulatory limits with a Tier 1 ratio of 17.3% and CAR of 19.1% in 2Q24.
- ARNB declared an interim cash dividend of SAR 0.65 per share equivalent to a distribution of SAR 1,300 Mn in 1H24. The dividend will be paid on 21 August 2024.



2Q24 Net Profit slightly lower than our estimate

Arab National Bank ("ARNB", "the Bank") recorded 24.8% YOY growth in net profit to SAR 1,231 Mn in 2Q24, lower than our estimate of SAR 1,251 Mn. The growth in net profit is mainly attributed to an increase in net funded & non-funded income and a decline in impairments partially offset by an increase in operating expenses and zakat charges.

P&L Highlights

ARNB's funded income grew 15.7% YOY to SAR 3,554 Mn in 2Q24 attributable to strong growth in net advances of 8.6% and an increase in net investments portfolio by 7.8% in 2Q24. On the other hand, funded expenses increased significantly from SAR 1,308 Mn in 2Q23 to SAR 1,612 Mn in 2Q24 due to an increase in benchmark rates. Thus, net funded income grew 10.1% YOY to SAR 1,942 Mn in 2Q24. Non-funded income rose 21.3% YOY to SAR 393 Mn in 2Q24 mainly attributable to growth in net fees and commission income, net trading income, dividend income and net gains/ (losses) on non-trading instruments. Thus, operating income rose 11.8% YOY to SAR 2,335 Mn in 2Q24. Operating expenses grew 9.4% YOY to SAR 737 Mn in 2Q24 mainly due to a growth in salaries and employee-related expenses, other G&A expenses and D&A expenses. Thus, the cost-to-income ratio declined from 32.3% in 2Q23 to 31.6% in 2Q24. Impairment charges decreased 37.6% YOY to SAR 167 Mn in 2Q24.

Balance Sheet Highlights

ARNB's total assets grew 8.6% YOY and 1.1% QOQ to SAR 234.7 Bn in 2Q24 owing to a growth in advances and investments. Net advances grew 8.6% YOY and 2.4% QOQ to SAR 161.6 Bn in 2Q24. The Bank's investment grew 7.8% YOY to SAR 48 Bn in 2Q24. Similarly, customer deposits rose 10.9% YOY and 0.6% QOQ to

Stock Information

Market Cap (SAR, mm)	40,440.00
Paid Up Capital (mm)	20,000.00
52 Week High	23.51
52 Week Low	16.64
3M Avg. daily value(SAR)	28,302,830

2Q24 Result Review (SAR, mm)

Total Assets	234,752
Total Liabilities	198,580
Total Equity	36,172
Total Deposits	175,586
Net Profit	1,231

Financial Ratios

Dividend Yield (12m)	5.81
Dividend Pay-out (%)	49.75
Price-Earnings Ratio(x)	9.02
Price-to-Book Ratio (x)	1.12
Book Value (SAR)	18.09
Return-on Equity (%)	12.83

Stock Performance

5 Days	2.33%
1 Months	-2.13%
3 Months	-7.19%
6 Months	6.77%
1 Year	6.14%
Month to Date (MTD%)	-5.69%
Quarter to Date (QTD%)	-0.20%
Year to Date (YTD%)	6.56%

SAR 175.6 Bn in 2Q24. The loan-to-deposit ratio stood at 92.0% in 2Q24 compared to 90.5 % in 1Q24. The total equity grew 7.3% YOY and 2.8% QOQ to SAR 36.2 Bn in 2Q24.

Target Price and Rating

We revise our rating from HOLD to ACCUMULATE on Arab National Bank with a target price of SAR 22.50. The bank share price dropped 4% since our last rating. ARNB continued to record healthy growth in advances on a YTD basis. Advances rose 6.4% on a YTD basis to SAR 234.8 Bn in 2Q24. The management expects advances to grow by the mid-teens in FY2024. It also plans to benefit from the higher interest rate regime by boosting its investment value from SAR 46.7 Bn in 4Q23 to SAR 48.1 Bn in 2Q24. In addition, ARNB maintained its profitability in 2Q24 compared to 1Q24. Although it reported a strong growth in profitability in 2Q24 driven by an increase in loan book and net investments. The Bank also recorded a strong growth in non-funded income in 2Q24 both on a YOY and QOQ basis. The growth in the customer deposits was muted at 0.6% QOQ to SAR 175.6 Bn in 2Q24 leading to an increase in the loan-to-deposit ratio to 92.0% in 2Q24 compared to 90.5% in 2Q23. CASA deposits account for 52.9% of total deposits in 1Q24 compared to 53.2% in 4Q23. We believe NIMs declined in 2Q24 owing to an increase in the cost of funds based on available limited information. ARNB has a large exposure to corporate loans. As a result, it will face fast repricing of its loan book in the declining interest rate period owing to its large exposure to corporate credit. Furthermore, ARNB's asset quality improved as the NPL ratio declined 56 bps YOY and 15 bps QOQ to 1.3% in 1Q24. Provision coverage grew from 144.6% in 4Q23 to 156.3% in 1Q24 providing a solid buffer against loan losses in the forthcoming period. The Bank's capitalization also stood well above the regulatory limits with a Tier 1 ratio of 17.3% and CAR of 19.1% in 2Q24. Moreover, ARNB declared an interim cash dividend of SAR 0.65 per share in 1H24 leading to a dividend yield of 6.4% in 2024. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

ARNB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.24	19.30	18.38	13.03	9.83	8.61
PB	1.45	1.35	1.31	1.27	1.14	1.08
Dividend yield	3.8%	1.5%	3.0%	4.1%	5.0%	6.4%

FABS Estimates & Co Data

ARNB- P&L

SAR mm	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	3,072	3,487	3,554	3,616	-1.7%	15.7%	1.9%	12,477	14,428	15.6%
Funded expenses	-1,308	-1,560	-1,612	-1,621	-0.5%	23.2%	3.4%	-5,340	-6,544	22.5%
Net funded income	1,764	1,928	1,942	1,995	-2.7%	10.1%	0.7%	7,137	7,884	10.5%
Non-funded income	324	382	393	375	4.7%	21.3%	3.0%	1,430	1,481	3.5%
Operating income	2,088	2,309	2,335	2,370	-1.5%	11.8%	1.1%	8,567	9,365	9.3%
Operating expenses	-674	-730	-737	-757	-2.6%	9.4%	0.9%	-2,848	-2,964	4.1%
Pre-provision profit	1,414	1,579	1,598	1,614	-1.0%	13.0%	1.2%	5,719	6,401	11.9%
Impairment	-268	-162	-167	-165	1.1%	-37.6%	3.3%	-992	-948	-4.5%
PBT	1,163	1,417	1,439	1,448	-0.6%	23.7%	1.6%	4,747	5,473	15.3%
Profit after tax	988	1,236	1,231	1,252	-1.7%	24.7%	-0.4%	4,076	4,652	14.1%
Net profit attributable	986	1,236	1,231	1,251	-1.6%	24.8%	-0.4%	4,071	4,647	14.2%

FABS estimate & Co Data

ARNB - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	84.5%	83.5%	83.2%	-131	-30	83.3%	84.2%	88
Impairment/PPP	18.9%	10.2%	10.5%	-848	21	17.3%	14.8%	-254
Cost to income	32.3%	31.6%	31.6%	-70	-5	33.2%	31.6%	-159
NP/OI	47.2%	53.5%	52.7%	549	-78	47.5%	49.6%	211
Loan-to-deposit - Calculated	94.0%	90.5%	92.0%	-194	159	91.8%	92.0%	20
ROAE	11.3%	12.1%	12.6%	122	50	12.2%	12.9%	67
ROAA	1.8%	1.9%	1.9%	17	5	1.9%	2.0%	10

FABS estimate & Co data

ARNB - Key B/S items

SAR mm	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	148,852	149,372	152,235	157,875	161,612	8.6%
QOQ change	2.8%	0.3%	1.9%	3.7%	2.4%	
Total assets	215,984	218,190	220,683	232,146	234,752	8.7%
QOQ change	0.9%	1.0%	1.1%	5.2%	1.1%	
Customer deposits	158,378	154,220	165,861	174,541	175,586	10.9%
QOQ change	2.0%	-2.6%	7.5%	5.2%	0.6%	
Total equity	33,710	33,732	35,069	35,170	36,172	7.3%
QOQ change	3.3%	0.1%	4.0%	0.3%	2.8%	

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	22.70	70%	15.89
Relative Valuation (RV)	22.02	30%	6.61
Weighted Average Valuation (SAR)			22.50
Current market price (SAR)			20.22
Upside/Downside (%)			+11%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, 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)	3,384
Terminal value (SAR, Mn)	5,841
Book Value of Equity (as of June 2024)	36,172
FV to Common shareholders (SAR, Mn)	45,397
No. of share (Mn)	2,000
Current Market Price (SAR)	20.22
Fair Value per share (SAR)	22.70

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	4,647	4,823	4,681	4,639	4,760
(-) Equity Charge	-3,359	-3,543	-3,747	-3,949	-4,156
Excess Equity	1,288	1,280	934	689	603
Discounting Factor	0.95	0.87	0.80	0.73	0.67
Present Value of Excess Equity	612	1,116	746	505	405

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. We applied a discount to peer valuation since it generates a lower return on assets compared to its peers. It is valued at a 2024 PB multiple of 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	21,660	1.4	1.3	10.1	9.4	5.2	5.5
Alinma Bank	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Saudi National Bank	59,800	1.3	1.3	11.4	10.5	4.8	5.1
Banque Saudi Fransi	11,640	1.2	1.1	9.8	9.0	5.6	6.0
Bank Albilad	11,500	2.4	2.2	15.9	14.2	1.5	1.9
Average		1.8x	1.6x	12.5x	11.3x	4.0%	4.3%
Median		1.4x	1.3x	11.4x	10.5x	4.8%	5.1%
Max		2.4x	2.2x	15.2x	13.5x	5.2%	5.5%
Min		1.3x	1.3x	10.1x	9.4x	2.9%	3.1%

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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