

## Bank Albilad

Lower opex and provisions boosted profit

**Current Price**  
SAR 36.60

**Target Price**  
SAR 43.00

**Upside/Downside (%)**  
+18%

**Rating**  
**BUY**

- ALBI's net advances recorded a strong growth of 10.1% YOY and 2.8% QOQ to c. SAR 102 Bn in 3Q23, while deposits rose 16.0% YOY and 1.6% QOQ to c. SAR 109 Bn in 3Q23
- The loan-to-deposit ratio rose remained almost remain stable at 93.3% in 3Q23 from 93.0% in 2Q23
- The Bank's cost-to-income ratio improved 142 bps YOY and 56 bps QOQ to 43.1% in 3Q23 indicating improved operating efficiency
- Impairment charge declined sharply 45.0% YOY and 3.7% QOQ to SAR 73 Mn signaling improved credit environment



### 3Q23 Net Profit higher than our estimate

Albilad Bank's ("ALBI", "The Bank") net profit grew 14.0% YOY to SAR 616 Mn in 3Q23, higher than our estimate of SAR 589 Mn. The increase in the net profit is mainly attributable to the increase in net funded income coupled with a decline in impairments and operating expenses partially offset by a decline in non-funded income and an increase in zakat expense.

### P&L Highlights

ALBI's funded income grew 50.7% YOY to SAR 1,975 Mn in 3Q23 driven by strong growth in advances. On the other hand, funded expense grew significantly from SAR 307 Mn in 3Q22 to SAR 923 Mn in 3Q23 owing to higher cost of funds as a result of an increase in benchmark rates. Thus, net funded income rose 4.8% YOY to SAR 1,052 Mn in 3Q23. Non-funded income fell 11.9% YOY to SAR 284 Mn in 3Q23. The decline in non-funded income is mainly attributable to a decrease in other operating income, fees and commission income and exchange income partially offset by an increase in income from investing, gains on FVSI instruments, and dividend income. As a result, the Bank's total operating income rose marginally 0.8% YOY to SAR 1,336 Mn in 3Q23. Furthermore, the Bank's operating expenses declined 2.4% YOY to SAR 576 Mn in 3Q23 due to a decline in other G&A and D&A expenses partially offset by an increase in salary and employee-related expenses. Thus, the Bank's cost-to-income ratio declined 142 bps YOY to 43.1% in 3Q23. Moreover, impairment charges declined 45.0% YOY to SAR 73 Mn in 3Q23. In addition, tax expenses rose 13.9% YOY to SAR 71 Mn in 3Q23 in line with growth in profitability.

### Stock Information

Market Cap (SAR, mm)	36,600.00
Paid Up Capital (mm)	10,000.00
52 Week High	53.40
52 Week Low	35.25
3M Avg. daily value(SAR)	25,279,690

### 3Q23 Result Review (SAR, mm)

Total Assets	137,573
Net advances	101,603
Total Equity	14,613
Total Deposits	108,915
Net Profit	616

### Financial Ratios

Dividend Yield (12m)	1.37
Dividend Pay-out (%)	24.02
Price-Earnings Ratio(x)	15.86
Price-to-Book Ratio (x)	2.58
Book Value (SAR)	14.17
Return-on Equity (%)	16.63

### Stock Performance

5 Days	2.23%
1 Months	-13.48%
3 Months	-18.12%
6 Months	-12.44%
1 Year	-27.67%
Month to Date (MTD%)	-13.48%
Quarter to Date (QTD%)	-13.48%
Year to Date (YTD%)	-17.66%

## Balance Sheet Highlights

ALBI's net advances increased 10.1% YOY and 2.8% QOQ to SAR 101.6 Bn in 3Q23. Total assets grew 8.3% YOY and 1.6% QOQ to SAR 137.6 Bn in 3Q23. Moreover, ALBI's customer deposits recorded a strong growth of 16.0% YOY and 2.5% QOQ to SAR 108.9 Bn in 3Q23. As a result, the loan-to-deposit ratio rose from 93.0% in 2Q23 to 93.3% in 3Q23. The Bank's total equity increased 12.1% YOY and 3.1% QOQ to SAR 14.6 Bn in 3Q23.

## Target Price and Rating

We revise our rating ALBI from HOLD to BUY with an unchanged target price of SAR 43.00. ALBI's share price declined 6.5% since our previous rating (12 October 2023). The Bank witnessed a healthy growth in profitability of 14.0% to SAR 616 Mn in 3Q23. ALBI recorded a strong growth in net advances which rose 10.1% YOY to SAR 101.6 Bn in 3Q23. On the other hand, the Bank's customer deposits rose 16.0% YOY to SAR 108.9 Bn in 3Q23. As a result, the Bank's liquidity stood stable with a loan-to-deposit ratio of 93.3% in 3Q23 compared to 93.0% in 2Q23. Moreover, the Bank's operating efficiency improved as the cost-to-income ratio declined 142 bps YOY and 56 bps QOQ to 43.1% in 3Q23. The Bank recorded significantly lower impairment charges in 3Q23 as compared to 3Q22 on account of improved economic outlook. ALBI's asset quality moderated as NPLs rose to 1.5% in 2Q23 from 1.4% in 1Q23 while the coverage ratio declined to 190.8% in 2Q23 from 203.3% in 1Q23. Furthermore, ALBI's capitalization stood healthy with a Tier 1 ratio of 13.6% and CAR of 17.6% in 2Q23. Thus, based on our analysis, we assign a "BUY" rating on the stock.

### Albilad Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	59.7	29.4	27.1	21.7	17.6	15.4
PB	4.7	3.9	3.4	3.1	2.8	2.5
Dividend Yield	NA	1.8%	NA	NA	1.4%	1.4%

FABS Estimates & Co Data

### Albilad Bank - P&L

SAR mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	3Q22
Funded income	1,310	1,840	1,975	1,870	5.6%	50.7%	7.3%	4,972	7,371	1,310
Funded expense	-307	-824	-923	-844	9.3%	200.5%	12.0%	-1,085	-3,202	-307
<b>Net funded income</b>	<b>1,003</b>	<b>1,016</b>	<b>1,052</b>	<b>1,026</b>	<b>2.6%</b>	<b>4.8%</b>	<b>3.5%</b>	<b>3,887</b>	<b>4,170</b>	<b>1,003</b>
<b>Total non-funded income</b>	<b>322</b>	<b>278</b>	<b>284</b>	<b>307</b>	<b>-7.6%</b>	<b>-11.9%</b>	<b>2.1%</b>	<b>1,305</b>	<b>1,230</b>	<b>322</b>
<b>Total operating income</b>	<b>1,325</b>	<b>1,294</b>	<b>1,336</b>	<b>1,333</b>	<b>0.2%</b>	<b>0.8%</b>	<b>3.2%</b>	<b>5,191</b>	<b>5,400</b>	<b>1,325</b>
General & admin. Expenses	-591	-565	-576	-585	-1.5%	-2.4%	1.9%	-2,320	-2,361	-591
<b>Pre provision profit</b>	<b>735</b>	<b>729</b>	<b>760</b>	<b>747</b>	<b>1.6%</b>	<b>3.4%</b>	<b>4.2%</b>	<b>2,871</b>	<b>3,039</b>	<b>735</b>
Impairment	-132	-75	-73	-90	-19.7%	-45.0%	-3.7%	-551	-387	-132
<b>Profit before zakat</b>	<b>603</b>	<b>653</b>	<b>687</b>	<b>657</b>	<b>4.5%</b>	<b>14.0%</b>	<b>5.2%</b>	<b>2,321</b>	<b>2,652</b>	<b>603</b>
Zakat expenses	-62	-67	-71	-68	4.5%	13.9%	5.1%	-239	-273	-62
<b>Net profit</b>	<b>541</b>	<b>586</b>	<b>616</b>	<b>589</b>	<b>4.5%</b>	<b>14.0%</b>	<b>5%</b>	<b>2,082</b>	<b>2,379</b>	<b>541</b>

FABS estimate & Co Data

**Albilad Bank - KPI**

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	75.7%	78.5%	78.8%	306	23	74.9%	77.2%	235
Cost to income	44.6%	43.7%	43.1%	-142	-56	44.7%	43.7%	-96
Impairment/PPP	18.0%	10.3%	9.6%	-841	-79	19.2%	12.7%	-645
NP/OI	40.8%	45.3%	46.1%	534	85	40.1%	44.1%	396
ROAE	15.4%	16.0%	15.7%	36	-32	18.6%	18.0%	-64
ROAA	1.6%	1.6%	1.7%	10	4	1.7%	1.8%	3

FABS estimate & Co Data

**Albilad Bank - Key B/S items**

	3Q22	4Q22	1Q23	2Q23	3Q23	Change
SAR mm						
<b>Net advances</b>	92,288	91,179	95,483	98,854	101,603	10.1%
QOQ change	1.2%	-1.2%	4.7%	3.5%	2.8%	
<b>Total assets</b>	127,020	129,543	135,368	135,404	137,573	8.3%
QOQ change	4.5%	2.0%	4.5%	0.0%	1.6%	
<b>Customer deposits</b>	93,886	94,843	105,483	106,287	108,915	16.0%
QOQ change	5.4%	1.0%	11.2%	0.8%	2.5%	
<b>Total equity</b>	13,035	13,399	14,082	14,171	14,613	12.1%
QOQ change	3.4%	2.8%	5.1%	0.6%	3.1%	

FABS estimate & Co Data

## Valuation:

We use Residual Income and Relative Valuation (RV) method to value ALBI. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	47.93	70.0%	33.14
Relative Valuation (RV)	32.87	30.0%	9.86
<b>Weighted Average Valuation (SAR)</b>			<b>43.00</b>
Current market price (SAR)			36.60
Upside/Downside (%)			+18%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.95 and equity risk premium of 3.9%. 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)	6,344
Terminal value (SAR, Mn)	<b>26,828</b>
Book Value of Equity (as of March 2023)	14,171
<b>FV to Common shareholders (SAR, Mn)</b>	<b>47,343</b>
No. of share (Mn)	1,000
Current Market Price (SAR)	36.60
<b>Fair Value per share (SAR)</b>	<b>47.34</b>

### Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	2,379	2,784	3,457	4,303	4,695
(-) Equity Charge	-1,214	-1,401	-1,685	-2,039	-2,424
<b>Excess Equity</b>	<b>194</b>	<b>1,383</b>	<b>1,771</b>	<b>2,265</b>	<b>2,271</b>
Discounting Factor	0.99	0.91	0.84	0.78	0.72
<b>Present Value of Excess Equity</b>	<b>192</b>	<b>1,261</b>	<b>1,493</b>	<b>1,764</b>	<b>1,634</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value ALBI and it is valued using the PB multiple. We have applied a premium to the median valuation multiple and is valued at a PB multiple of 2.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Riyad Bank	20,340	9.6	8.8	1.4	1.3	5.2%	5.6%
Alinma Bank	17,230	14.0	12.5	2.2	2.1	3.8%	4.2%
Al Rajhi Bank	68,490	15.8	14.2	2.9	2.5	3.4%	3.8%
Saudi National Bank	50,460	9.9	9.1	1.2	1.1	5.1%	5.5%
Banque Saudi Fransi	11,030	9.3	8.7	1.1	1.1	5.7%	5.9%
<b>Average</b>		<b>11.7x</b>	<b>10.7x</b>	<b>1.7x</b>	<b>1.6x</b>	<b>4.6%</b>	<b>5.0%</b>
<b>Median</b>		<b>9.9x</b>	<b>9.1x</b>	<b>1.4x</b>	<b>1.3x</b>	<b>5.1%</b>	<b>5.5%</b>
<b>Max</b>		<b>14.0x</b>	<b>12.5x</b>	<b>2.2x</b>	<b>2.1x</b>	<b>5.2%</b>	<b>5.6%</b>
<b>Min</b>		<b>9.6x</b>	<b>8.8x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>3.8%</b>	<b>4.2%</b>

Source: FAB Securities

