

Saudi Banking Sector – September 2024

Interest rate cuts to benefit banks with high retail exposure

Sector Weighting:
MARKET WEIGHT

Top Picks and Rating Changes

We maintain our MARKET WEIGHT rating on the Saudi banking sector. Saudi Arabia's economy is forecasted to grow 1.7% in 2024 primarily attributed to a strong growth in the non-oil sector partially offset by a decline in oil activity. The decline in oil activity is mainly attributable to voluntary oil output cuts agreed with OPEC+ to stabilize oil prices. The GDP growth rate is further expected to bounce back to 4.7% in 2025 owing to steady growth in the non-oil sector and recovery in the oil sector due to the expected normalization of oil production. According to GSTAT estimates, KSA's real GDP fell declined 0.3% YOY in 2Q24 mainly attributable to an 8.9% YOY decline in oil activity partially supported by positive growth in the non-oil sector of 4.9% YOY and a 3.6% YOY expansion in government activities. The increase in non-oil activities is attributable to realisations from implementing the Vision 2030 program, mega projects, regional and sectoral strategies, and solid job opportunities in the private sector. The Riyadh Bank Saudi Arabia non-oil PMI remained in the expansion territory and rose for the second consecutive month from 54.8 in August 2024 to 56.3 in September 2024. The expansion of the non-oil sector is mainly driven by robust growth in sales and new orders along with tight supply conditions. The growth in new orders is attributable to new clients, promotional activities, and a higher domestic demand. Businesses hired employees to reduce workload but faced a shortage of skilled workers. However, competitive pressure increased concerns about weakening future activity and reduction in sales prices. Businesses witnessed an increase in input costs and operating expenses. KSA banking system's total advances rose 12.1% YOY to SAR 2.8 Tn in August 2024, whereas deposits grew at a slower pace of 8.7% YOY to SAR 2.7 Tn.

Among the Saudi banks in our coverage, our preferred stocks are -

1) SNB: SNB's advances grew 10.3% YOY and 1.9% QOQ to SAR 637.2 Bn in 2Q24 owing to strong momentum across retail mortgages and wholesale financing. SNB is poised to benefit in the declining interest rate scenario as the Bank's primary lending focus is on the retail sector, which is expected to experience slower repricing than wholesale financing. SNB maintained a strong CASA ratio of 74.2% in 2Q24 which benefits the NIMs. The Bank's asset quality improved as reported NPLs excluding POCI declined 1 bps QOQ and 23 bps YOY to 1.1% in 2Q24. SNB's capitalization stood strong with a CET 1 ratio of 16.6% and CAR of 19.3% in 2Q24.

2) BSF: Net advances grew 6.3% QOQ and 16.2% YOY to SAR 197.2 Bn in 2Q24 owing to an increase in commercial and consumer lending. The Bank further anticipates its loan book to record low double-digit growth primarily driven by robust demand from corporate lending. BSF's NPLs remained flat in 2Q24 at 1.0% compared to 1Q24. Capitalization stood healthy with a Tier 1 capital ratio of 17.4% and a total CAR of 18.1% in 2Q24

3) RIYAD: 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 double the credit attributed to the SME segment in the medium horizon. The Bank's asset quality remained stable as NPLs stood at 1.2% in 2Q24 compared to 1Q24 whereas, the provision coverage ratio rose to 145.2% in 2Q24 from 140.8% in 1Q24. The Bank's capitalization also stood strong with a Tier 1 Ratio of 16.7% and CAR of 19.5% in 2Q24.

Key Industry Themes

KSA's Banking sector exhibited a solid performance due to strong government spending, and healthy growth in the non-oil sector in line with the Vision 2030 program despite the ongoing geopolitical events in the Middle East. KSA's economy might face headwinds from lower oil prices owing to demand concerns from China coupled with a rise in supply and escalation of the geopolitical conflict in the region. KSA recorded a fiscal surplus for the first time after nine years in 2022 but the balance again turned to a deficit in 2023 owing to a decline in oil revenue and higher spending. However, despite these headwinds, the IMF maintains its global economic growth projection at 3.2% in 2024 in its July 2024 WEO report compared to the April 2024 WEO report. Besides, the IMF revised the 2025 global economic growth forecast upwards by 0.1% to 3.3% in the July 2024 WEO report compared to its previous report reflecting improvement in economic activity nearing maximum recovery levels from the pandemic. Developed economies growth remains unchanged in the July 2024 WEO report at 1.7% in 2024 and 1.8% in 2025 whereas emerging markets and developed economies are expected to grow by 4.3% in 2024 and 2025 which reflects an upward revision of 0.1% for both the years. As per the IMF, global headline inflation is estimated to moderate from an annual average of 6.7% in 2023 to 5.9% in 2024 and 4.4% in 2025, with advanced economies returning to their inflation targets sooner than emerging and developing economies.

IMF revised Saudi Arabia's economic growth outlook in July 2025 WEO report and expects real GDP to bounce back from negative 0.8% in 2023 to 1.7% in 2024, 0.9% lower than its projection in April 2024 WEO. Similarly, 2025 real GDP is revised lower by 1.3% to 4.7%. The revision in the KSA's growth rate is mainly attributable to the voluntary oil output cut while the bounce back in growth in 2025 is due to the expected normalization of oil production. KSA's economic growth will be positively supported in 2024 by the strong performance of the non-oil sector. The Saudi Central Bank lowered the benchmark rates by 50 bps following the revision in Fed's policy rates in September 2024 while further interest rate cuts equivalent to 50 bps are expected by the end of 2024. According to the General Authority of Statistics (GaStat), KSA's real GDP declined 0.3% YOY in 2Q24 mainly attributable to an 8.9% YOY decline in oil activity partially supported by positive growth in the non-oil sector of 4.9% YOY and a 3.6% YOY expansion in government activities. The voluntary oil output cut agreed with OPEC+ in June 2023 resulted in a decline in the KSA's oil economy. On the other hand, non-oil activities continued to expand on the back of realisations from the implementation of the Vision 2030 program, mega projects, regional and sectoral strategies, and solid job opportunities through the private sector. Saudi Arabia's banking sector experienced a healthy growth in profitability during 2Q24 mainly driven by a healthy growth in advances, core income and a marginal rise in non-core income and reduction in impairments. The Riyadh Bank Saudi Arabia non-oil PMI remained in the expansion territory and rose for the second consecutive month from 54.8 in August 2024 to 56.3 in September 2024. The expansion of the non-oil sector is mainly driven by robust growth in sales and new orders along with tight supply conditions. The growth in new orders is attributable to new clients, promotional activities, and a higher domestic demand. Businesses hired employees to reduce workload but faced a shortage of skilled workers. However, competitive pressure increased concerns about weakening future activity and reduction in sales prices. Businesses witnessed an increase in input costs and operating expenses. Additionally, inventories increased at a sharp rate while delivery times improved marginally in September 2024. Furthermore, Saudi Arabia's banking sector is expected to benefit from strong growth in the non-oil sector. KSA's overall banking assets rose 11.5% YOY to SAR 4.3 Tn in August 2024. The growth in banking assets is attributable to a strong rise in foreign assets, credit growth, fixed assets and other assets partially offset by a decline in bank reserves. Fixed assets rose 14.9% YOY to SAR 49.1 Bn in August 2024 while claims on private sector assets increased 11.9% YOY to SAR 2.7 Tn. Claims on government rose 9.9% YOY to SAR 743.6 Bn in August 2024 and claims on banks grew 4.00% YOY to SAR 43.4 Bn. KSA banking system's total advances rose 12.4% YOY to SAR 2.8 Tn in August 2024 whereas deposits grew at a slower pace of 8.7% YOY to SAR 2.7 Tn. Deposits from businesses and individuals in the KSA Banking system rose 9.8% YOY to SAR 1.8 Tn in August 2024 constituting 65.9% of total deposits whereas deposits from government entities rose 4.9% YOY to SAR 847.0 Bn accounting for 31.6% of total deposits. On the

other hand, time and savings deposits witnessed a growth of 14.6% YOY to SAR 929.7 Bn in August 2024. Demand deposits grew 9.0% YOY to SAR 1.4 Tn in August 2024 while demand deposits as a percentage of total deposits stood at 53.6% in August 2024 compared to 53.1% in December 2023.

Strong government and private sector investments in the region contributed positively toward credit growth in 2Q24. Advances in the KSA banking system recorded a strong growth of 11.4% YOY to SAR 2.8 Tn in 2Q24 whereas the KSA banking system's advances to the private sector rose 11.3% YOY to SAR 2.7 Tn. Advances to the public sector rose 8.0% YOY to SAR 715 Bn in 2Q24. All banks under our coverage recorded a solid growth in advances in 2Q24 out of which Alinma Bank and Banque Saudi Fransi witnessed the highest growth in advances. Saudi's regulatory loan-to-deposit ratio remain unchanged at 80.7% in August 2024 compared to July 2024 well below the regulatory limit of 90.00%. KSA's banking system's NPL ratio improved to 1.3% in 2Q24 from 1.4% in 1Q24. Capitalization of Saudi banks stood healthy in 2Q24 with a CAR of 19.4% and a Tier 1 capital ratio of 17.9%.

The US Federal Reserve in its latest policy meeting, held in September 2024, reduced the benchmark interest rate by 50 bps, to a range of 4.75% to 5.0%. This marks the first rate cut by the Fed in four years. Additionally, policymakers are expecting further interest rate cuts equivalent to 50 bps by the end of 2024. Since KSA's currency is pegged to the US dollar, SAMA closely monitors the Fed's monetary policy. SAMA also reduced its interest rates by 50 bps to 5.5% following the Fed's interest rate hike. The interest rate cut is expected to boost the loan growth in the economy with improvement in asset quality which will be beneficial for the banks.

Banque Saudi Fransi (BSF) to raise capital via sukuk issuance

Banque Saudi Fransi (BSF) is set to issue Saudi Riyal (SAR)-denominated sukuk through a private placement as part of its SAR 8 Bn Tier 1 capital sukuk program. The new sukuk issuance aims to solidify the bank's capital base. It appointed Saudi Fransi Capital as the book runner, lead arranger, and lead manager for this potential private placement.

Saudi Arabia's PIF likely to issue a benchmark sukuk and green bond

According to Bloomberg, Saudi Arabia's Public Investment Fund (PIF) is in preparation to issue benchmark-sized three-year sukuk along with a benchmark 2032 green bond, marking its fourth time tapping into the bond market to support its investment plans, including Giga projects. The benchmark-sized three-year sukuk is anticipated to be priced at a spread of 110 bps over US Treasuries, while the benchmark 2032 green bond is expected to be priced at 135 bps over US Treasuries.

Tabby, the BNPL app, intends to list on Tadawul and go public

Buy Now Pay Later (BNPL) app, Tabby, intends to launch an IPO and list on the Tadawul exchange. Currently, the company is focusing on its recent acquisition of Tweek, a Saudi digital wallet, and expanding its services in Saudi Arabia. Tabby was at USD 1.5 Bn in the last Series D funding round completed last year. The Company has yet to appoint banks or law firms for the anticipated IPO.

Saudi Investment Bank (SAIB) to issue dollar-denominated Tier 1 sukuk worth USD 1.5 Bn

Saudi Investment Bank (SAIB), through its recently established sukuk program, intends to issue dollar-denominated Tier 1 sukuk worth USD 1.5 Bn. The Sukuk will be available to eligible investors via private placement and will help SAIB meet its financial and strategic objectives, enhancing its Tier 1 capital.

Saudi Arabia's Riyadh Bank to issue additional dollar-denominated Tier 1 capital sukuk

Saudi Arabia's Riyadh Bank is planning to issue additional dollar-denominated Tier 1 capital sukuk to improve its Tier 1 capital and further utilize the proceeds for general banking purposes. The issuance is expected through a special purpose vehicle and will fall under Riyadh Bank's international additional

tier 1 capital sukuk programme. HSBC Bank, Kamco Investment Company, Morgan Stanley & Co. International, Merrill Lynch International, Mizuho International, Riyadh Capital, Standard Chartered Bank, SMBC Nikko Capital Markets Limited, and Warba Bank K.S.C.P. have been appointed as the joint book-runners and joint lead managers for the issuance.

Target price and rating

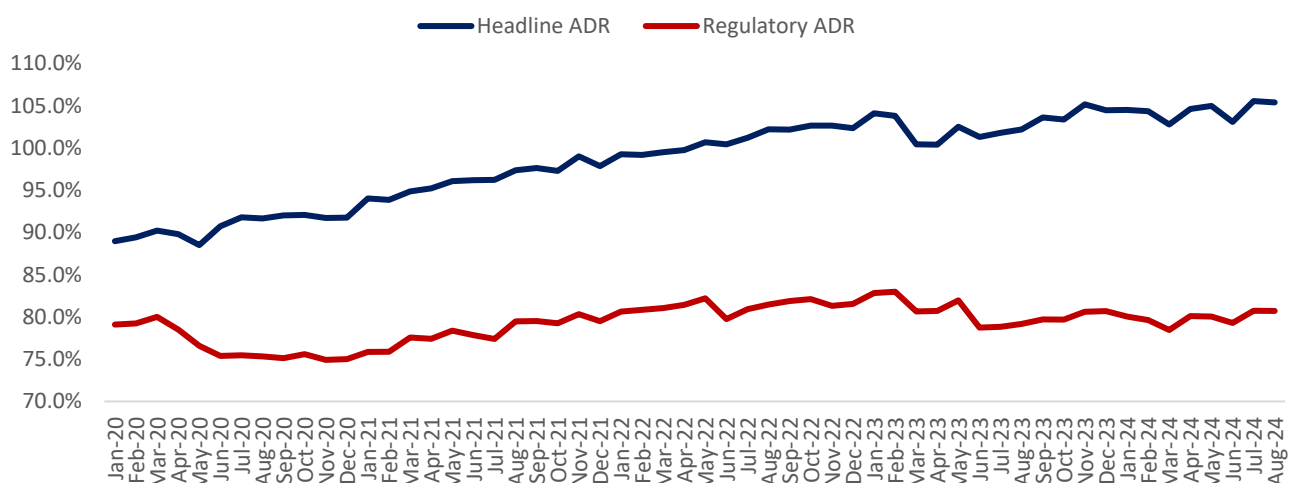
(SAR)	Target Price	Current Market Price	Gain/(-loss)	Rating
RJHI	95.00	84.90	11.9%	ACCUMULATE
ALBI	37.00	36.00	2.8%	HOLD
RIBL	36.00	24.60	46.3%	BUY
ALINMA	37.00	28.80	28.5%	BUY
SNB	47.00	35.20	33.5%	BUY
ARNB	22.50	18.68	20.4%	BUY
BSF	46.00	31.05	48.1%	BUY

FABS Estimate

KSA Banking Liquidity

Credit growth in the KSA banking system rose 12.1% YOY and 1.2% MOM to SAR 2.8 Tn in August 2024, while deposits increased at a slower rate. KSA banking system deposits rose 8.7% YOY and 1.3% MOM to SAR 2.7 Tn in August 2024. As a result, the headline loan-to-deposit ratio (ADR) grew 320 bps YOY but declined 15 bps MOM to 105.4% in August 2024. KSA's economy experienced significant growth in investing, as a result of which overall banks in the KSA's banking sector recorded strong growth in advances on QOQ and YOY basis. All the banks under our coverage witnessed healthy growth in advances during 2Q24 of which, Alinma Bank recorded the highest credit growth of 17.4% YOY and 5.1% QOQ to SAR 190 Bn in 2Q24 followed by BSF with advances growth of 16.2% YOY and 6.3% QOQ to SAR 197 Bn. In terms of deposits, Banque Saudi Fransi recorded the highest deposit growth of 21.8% YOY in 2Q24. The broader (M3) money supply rose 8.7% YOY and 1.3% MOM to SAR 2.9 Tn in August 2024, boosting the banking sector's liquidity. Mortgages in the KSA banking sector grew 11.4% YOY to SAR 815 Bn in 2Q24. According to the recent KSA census 2022, overall home ownership in KSA stood at 60.6% for the local Saudi population. Despite higher growth in advances compared to deposits, the regulated LDR almost remained unchanged at 80.7% in August 2024 as the banks are also resorting to other sources of funding easing system liquidity pressure. We believe the corporate credit is expected to maintain pace going forward due to strong growth in the non-oil sector driven by the government's initiative to boost the non-oil economy.

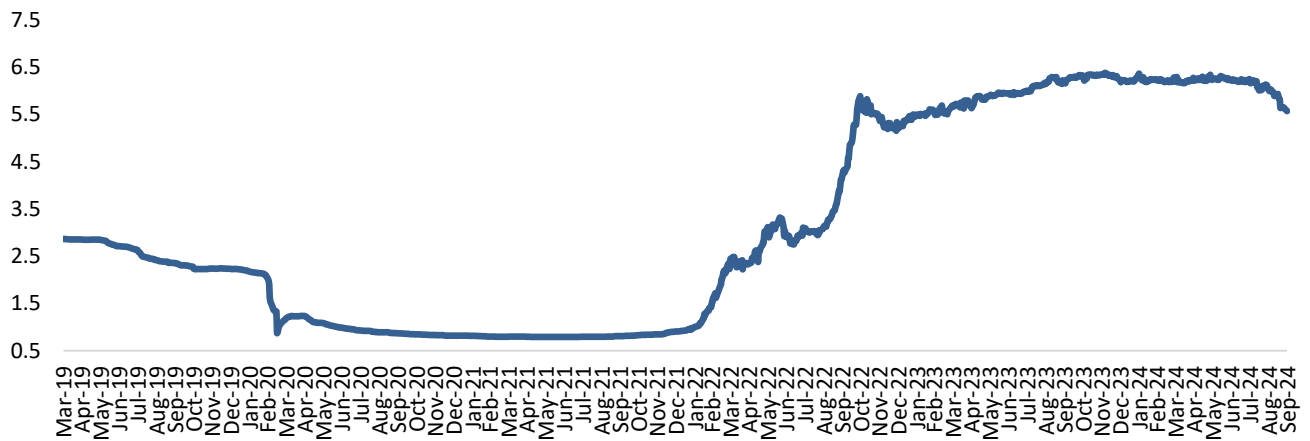
KSA banking system Headline and Regulatory Loan to Deposit Ratio



Source: FABS from SAMA data

The 3-Month SAIBOR rate during 3Q24 declined 66 bps to 5.57% on 30 September 2024 due to an interest rate cut by the Fed followed by a rate cut from SAMA. The rate averaged 6.11% in August 2024 compared to 6.21% in July 2024 due to the anticipated decline in interest rates and easing of liquidity pressure. The rates further declined in September 2024 after the 50 bps rates cut by the Federal Reserve on 19 September 2024 followed by an interest cut from SAMA. The spread between SAIBOR and the repo rate declined from negative 23 bps in June 2024 to negative 7 bps in September 2024, indicating an improvement in the liquidity situation in the overall banking system. KSA Banking system regulatory loan-to-deposit ratio increased from 79.3% in June 2024 to 80.7% in September 2024. The decline in the SAIBOR rate makes financing less expensive for borrowers and banks.

3-Month SAIBOR (%) March 2019 – September 2024



Source: Bloomberg

Contents

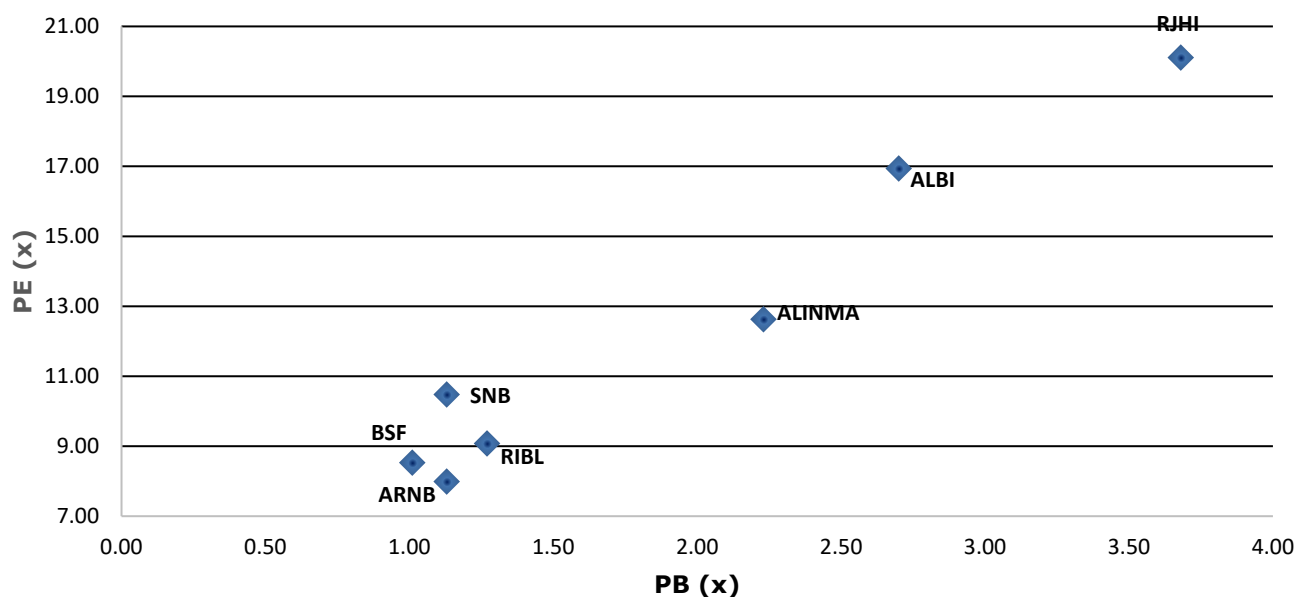
Relative valuation and rating	8
Banking indicators	9
Banking Stock performance	15
3Q24 preview: Saudi National Bank (SNB)	16
3Q24 preview: Banque Saudi Fransi	19
3Q24 preview: Riyadh Bank	22
3Q24 preview: Arab National Bank	25
3Q24 preview: Alinma Bank	28
3Q24 preview: Al Bilad Bank	31
3Q24 preview: Al Rajhi Bank	34
FAB Securities Contacts:	37

Relative valuation and rating

ARNB and BSF's valuation is most attractive based on PE and PB basis respectively

All KSA banks under coverage are trading at an average book value of 1.88x. Among them, RJHI and ALBI are the most expensive trading at PB ratio of 3.68x and 2.70x, respectively based on 2024 estimated financials. RJHI and ALBI are the most expensive based on PE multiples trading at 20.11x and 16.94x, respectively based on FY2024 financials.

FY24 - P/E (x) vs. FY24 - P/B (x)



Source: FABS estimate

Market Weight

Based on 5x BUYs, 1x ACCUMULATE and 1x HOLD on the KSA banks under our coverage, we maintain our MARKET WEIGHT RATING. Yet, on a comparative basis, we remain inclined towards RIBL, BSF and SNB.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	95.00	84.90	11.9%	ACCUMULATE
ALBI	37.00	36.00	2.8%	HOLD
RIBL	36.00	24.60	46.3%	BUY
ALINMA	37.00	28.80	28.5%	BUY
SNB	47.00	35.20	33.5%	BUY
ARNB	22.50	18.68	20.4%	BUY
BSF	46.00	31.05	48.1%	BUY

FABS Estimate

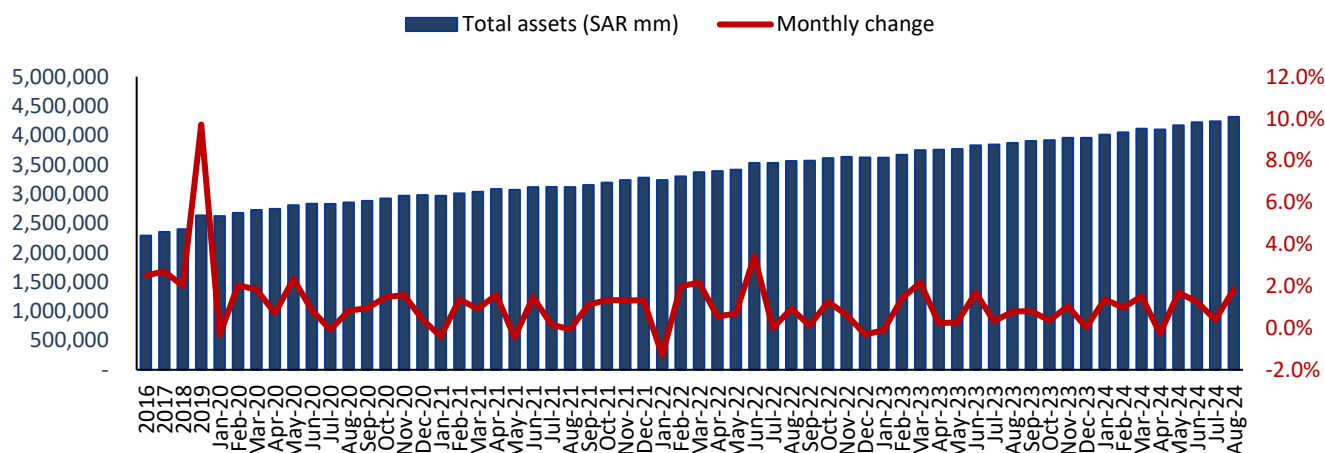
Banking indicators

1. Assets

Total banking assets rose 11.5% YOY in August 2024

KSA's total banking assets increased 11.5% YOY and 1.8% MOM to SAR 4,315.1 Bn in August 2024.

KSA banking system assets (SAR Mn) and Monthly change, 2016 - August 2024



Source: FABS from SAMA data

Banque Saudi Fransi reported the highest growth in total assets on YOY basis in 2Q24

All banks under our coverage, continue to report a growth in total assets on a YOY basis in 2Q24. Banque Saudi Fransi recorded the highest growth in total assets recording a 17.5% YOY increase to SAR 289 Bn in 2Q24. Alinma Bank reported the second-highest increase in total assets on a YOY basis, followed by Al Rajhi and Saudi National Bank, whereas even on a QOQ basis Banque Saudi Fransi witnessed the highest growth of 7.6% and Riyadh Bank showed the slowest growth rate on YOY and QOQ basis.

Total assets							
(SAR mm)	2Q23	3Q23	4Q23	1Q24	2Q24	YOY%	QOQ%
Al Rajhi	784,520	801,483	808,098	835,992	866,960	10.5%	3.7%
Bank Al Bilad	135,404	137,573	143,106	143,700	145,291	7.3%	1.1%
Riyad Bank	389,236	377,012	386,849	404,859	405,029	4.1%	0.0%
Alinma Bank	226,900	232,585	236,715	244,859	260,138	14.6%	6.2%
Saudi National Bank	996,163	1,027,133	1,037,081	1,072,144	1,088,112	9.2%	1.5%
Arab National Bank	215,984	218,190	220,863	232,146	234,752	8.7%	1.1%
Banque Saudi Fransi	245,718	249,862	253,383	268,376	288,826	17.5%	7.6%
KSA banking system	3,828,505	3,901,383	3,957,024	4,110,962	4,220,852	10.2%	2.7%

FABS from co data and
SAMA

Banque Saudi Fransi record the highest YOY growth in assets market share in 2Q24

Banque Saudi Fransi records the highest growth in asset market share of 42 bps YOY to 6.8% in 2Q24. Alinma Bank and Al Rajhi recorded a growth in assets market share of 24 bps and 5 bps YOY, respectively in 2Q24. The remaining banks under coverage recorded a decline in market share. Riyadh Bank recorded the largest decline in market share followed by Saudi National Bank, Bank Al Bilad and Arab National Bank. The Saudi National Bank holds the largest market share of assets at 25.8% in 2Q24, followed by Al Rajhi at 20.5% and Riyadh Bank at 9.6%. Riyadh Bank reported a decline in asset market share of 57 bps YOY in 2Q24.

Assets market share							
	2Q23	3Q23	4Q23	1Q24	2Q24	YOY (bps)	QOQ (bps)
Al Rajhi	20.5%	20.5%	20.4%	20.3%	20.5%	5	20
Bank Al Bilad	3.5%	3.5%	3.6%	3.5%	3.4%	-9	-5
Riyadh Bank	10.2%	9.7%	9.8%	9.8%	9.6%	-57	-25
Alinma Bank	5.9%	6.0%	6.0%	6.0%	6.2%	24	21
Saudi National Bank	26.0%	26.3%	26.2%	26.1%	25.8%	-24	-30
Arab National Bank	5.6%	5.6%	5.6%	5.6%	5.6%	-8	-9
Banque Saudi Fransi	6.4%	6.4%	6.4%	6.5%	6.8%	42	31

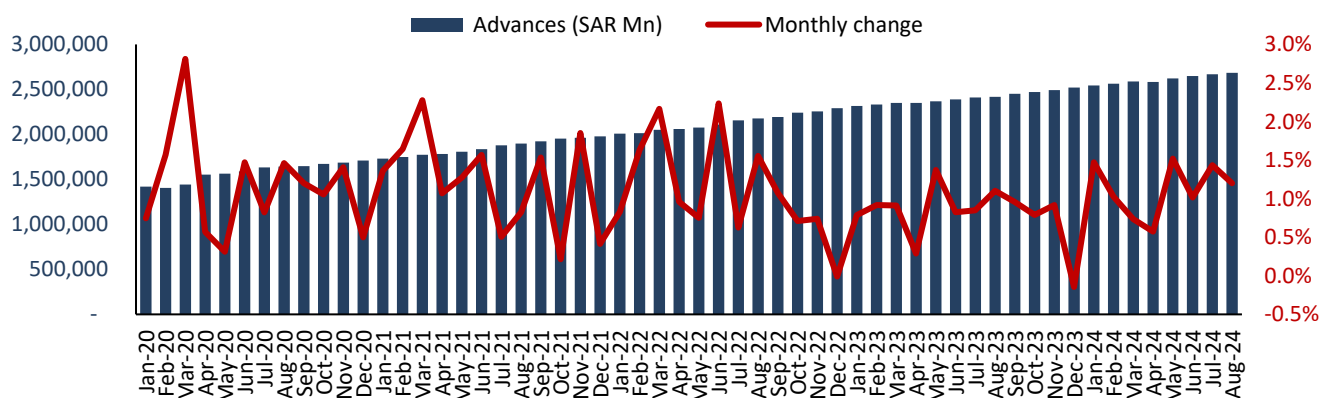
FABS from co-data

2. Advances

KSA banking system Advances grew 12.1% YOY in August 2024

KSA banking system net Advances increased 12.1% YOY and 1.2% MOM to SAR 2,824.8 Bn in August 2024.

KSA banking system net advances (SAR Mn) and Monthly change, 2016 – August 2024



Source: FABS from SAMA data

Most of the banks recorded double-digit YOY growth in advances during 2Q24

All the banks under our coverage reported a growth in net advances on both YOY and QOQ basis in 2Q24 and four out of seven banks under our coverage witnessed a double-digit YOY growth in advances in 2Q24. Alinma Bank reported the highest growth of 17.4% YOY and 5.1% QOQ to SAR 190 Bn in 2Q24 followed by Banque Saudi Fransi with a growth of 16.2% YOY to SAR 197 Bn. Al Bilad Bank recorded the lowest growth in advances of 5.5% YOY in 2Q24. Saudi National Bank's net advances stood highest at SAR 637 Bn in the KSA banking system, closely followed by Al Rajhi Bank with SAR 622 Bn in 2Q24.

Net advances

(SAR mm)	2Q23	3Q23	4Q23	1Q24	2Q24	YOY%	QOQ%
Al Rajhi	579,080	590,826	594,205	608,990	621,891	7.4%	2.1%
Bank Al Bilad	98,854	101,603	102,080	103,306	104,310	5.5%	1.0%
Riyad Bank	263,150	267,151	274,398	282,854	291,051	10.6%	2.9%
Alinma Bank	161,773	169,063	173,624	180,702	189,912	17.4%	5.1%
Saudi National Bank	577,849	595,721	601,527	625,202	637,235	10.3%	1.9%
Arab National Bank	148,852	149,372	152,235	157,875	161,612	8.6%	2.4%
Banque Saudi Fransi	169,695	174,681	179,391	185,408	197,160	16.2%	6.3%
KSA banking system	2,471,333	2,543,851	2,583,698	2,668,079	2,751,842	11.4%	3.1%
FABS from co-data							

SNB recorded the highest advances in market share in 2Q24

Saudi National Bank secured the top place in the advanced market share, holding a market share of 23.2% in 2Q24 closely followed by Al Rajhi Bank at 22.6%, Riyad Bank at 10.6%, and BSF at 7.2%. Only Alinma Bank and Banque Saudi Fransi recorded YOY and QOQ growth in market share in 2Q24. Alinma Bank recorded the highest growth in advances market share by 36 bps YOY in 2Q24. Likewise, Banque Saudi Fransi witnessed the highest growth on a QOQ basis recording 22 bps growth in advances market share during 2Q24. Al Rajhi Bank's advances market share declined the most 83 bps YOY in 2Q24 followed by Saudi National Bank with 23 bps YOY decline in advances market share.

Advances market share

	2Q23	3Q23	4Q23	1Q24	2Q24	YOY (bps)	QOQ (bps)
Al Rajhi	23.4%	23.2%	23.0%	22.8%	22.6%	-83	-23
Bank Al Bilad	4.0%	4.0%	4.0%	3.9%	3.8%	-21	-8
Riyad Bank	10.6%	10.5%	10.6%	10.6%	10.6%	-7	-2
Alinma Bank	6.5%	6.6%	6.7%	6.8%	6.9%	36	13
Saudi National Bank	23.4%	23.4%	23.3%	23.4%	23.2%	-23	-28
Arab National Bank	6.0%	5.9%	5.9%	5.9%	5.9%	-15	-4
Banque Saudi Fransi	6.9%	6.9%	6.9%	6.9%	7.2%	30	22

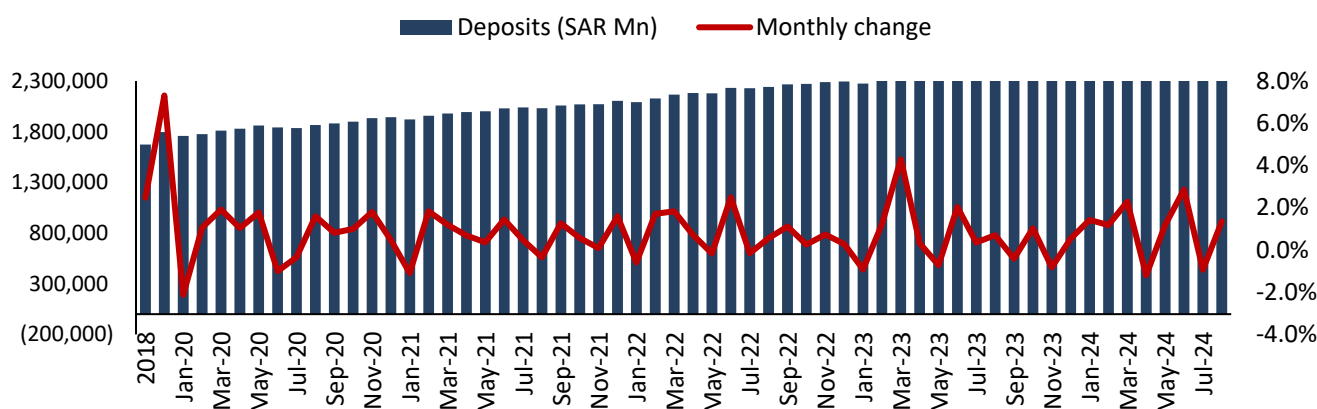
FABS from co data

3. Customer Deposits

KSA banking system customer deposits grew 8.7% YOY in August 2024

KSA banking system deposits reported a growth of 8.7% YOY and 1.3% MOM to SAR 2,680.2 Bn in August 2024.

KSA banking system customer deposits (SAR Mn) and Monthly change, 2016 – August 2024



Source: FABS from SAMA data

Saudi National Bank deposits stood highest in 2Q24 but declined on a QOQ basis

All the banks under our coverage experienced a growth in deposits on a YOY basis in 2Q24. Banque Saudi Fransi witnessed the highest growth in deposits of 21.8% YOY to SAR 196 Bn in 2Q24. Alinma bank recorded second highest YOY growth in deposits followed by Arab National Bank and Al Rajhi in 2Q24. Riyadh Bank witnessed the slowest deposit growth on a YOY basis in 2Q24. SNB deposits stood highest at SAR 633 Bn followed by Al Rajhi Bank at SAR 623 Bn in 2Q24.

Deposits (SAR mm)	2Q23	3Q23	4Q23	1Q24	2Q24	YOY%	QOQ%
Al Rajhi	570,665	565,719	573,101	603,978	622,572	9.1%	3.1%
Bank Al Bilad	106,287	108,915	112,831	113,741	114,530	7.8%	0.7%
Riyad Bank	272,269	254,719	254,908	270,948	276,009	1.4%	1.9%
Alinma Bank	177,874	180,233	187,901	188,988	205,357	15.5%	8.7%
Saudi National Bank	602,209	624,769	590,051	656,261	632,693	5.1%	-3.6%
Arab National Bank	158,378	154,220	165,861	174,541	175,586	10.9%	0.6%
Banque Saudi Fransi	161,165	166,367	172,209	174,828	196,248	21.8%	12.3%
KSA banking system	2,448,385	2,455,348	2,473,458	2,596,255	2,565,033	4.8%	-1.2%

FABS from co-data and SAMA

Banque Saudi Fransi recorded the highest YOY growth in deposit market share during 2Q24

Saudi National Bank continues to lead the KSA banking system deposits market share with a market share of 23.7% in 2Q24 followed by Al Rajhi Bank with 23.3%. Only Alinma Bank and Banque Saudi Fransi recorded growth in deposits market share both on YOY and QOQ basis in 2Q24 while the remaining banks under coverage recorded a decline in market share. Banque Saudi Fransi recorded the highest growth in market share both on YOY and QOQ basis of 75 bps YOY and 62 bps QOQ to 7.4% in 2Q24. Saudi National Bank recorded the highest degrowth in deposit market share by 98 bps YOY and 158 QOQ to 23.7% in 2Q24.

Deposits market share

	2Q23	3Q23	4Q23	1Q24	2Q24	YOY (bps)	QOQ (bps)
Al Rajhi	23.4%	23.0%	23.2%	23.3%	23.3%	-7	6
Bank Al Bilad	4.4%	4.4%	4.6%	4.4%	4.3%	-7	-9
Riyad Bank	11.2%	10.4%	10.3%	10.4%	10.3%	-82	-10
Alinma Bank	7.3%	7.3%	7.6%	7.3%	7.7%	40	41
Saudi National Bank	24.7%	25.4%	23.9%	25.3%	23.7%	-98	-158
Arab National Bank	6.5%	6.3%	6.7%	6.7%	6.6%	9	-15
Banque Saudi Fransi	6.6%	6.8%	7.0%	6.7%	7.4%	75	62

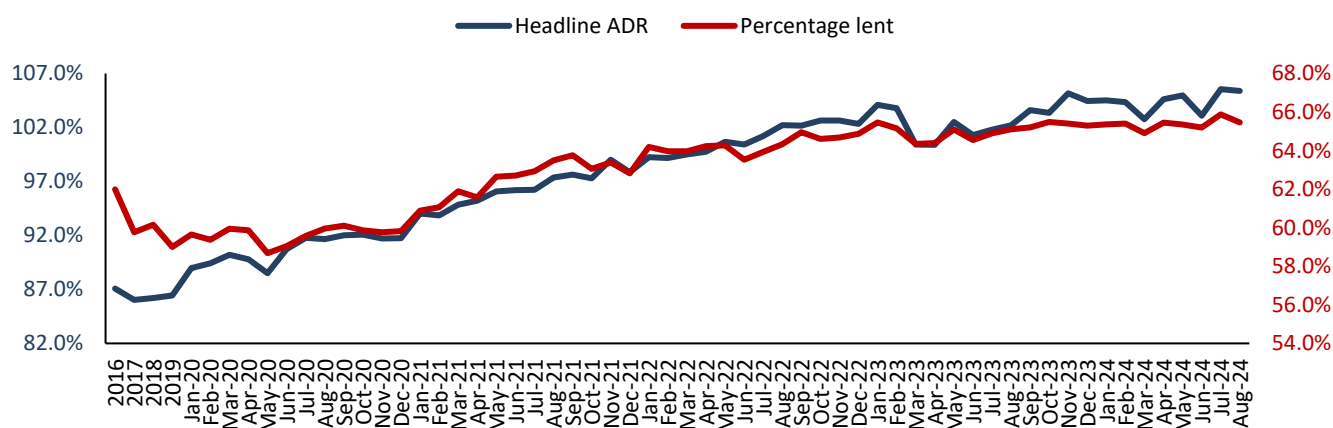
FABS from co data

4. Liquidity

KSA banking system's liquidity marginally eased in August 2024

KSA's banking system's headline ADR ratio marginally fell from 105.5% in July 2024 to 105.4% in August 2024. Additionally, the lending percentage to total assets declined 42 bps MOM and reached 65.5% in August 2024.

KSA banking system ADR and % lent, 2016 - August 2024



Source: FABS from SAMA data

Bank Al Bilad recorded the lowest ADR in 2Q24

All Banks under our coverage continued to record a loan-to-deposit ratio of more than 90% in 2Q24. Four out of seven banks reported a decline in ADR on a YOY basis in 2Q24. Riyadh Bank saw the highest growth in ADR of 880 bps YOY, followed by Saudi National Bank with an increase of 476 bps in 2Q24. On the other hand, Banque Saudi Fransi reported a decline in ADR of 483 bps YOY to 100.5% in 2Q24. On a QOQ basis, three out of seven banks witnessed a decline in ADR, with Banque Saudi Fransi reporting the highest decline of 559 bps, followed by Alinma Bank whose ADR fell 314 bps in 2Q24. Riyadh Bank recorded the highest ADR of 105.4% in 2Q24, followed by Saudi National Bank with 100.7% and Banque Saudi Fransi with 100.5%. On the other hand, Bank Al Bilad's ADR stood the lowest at 91.1% in 2Q24.

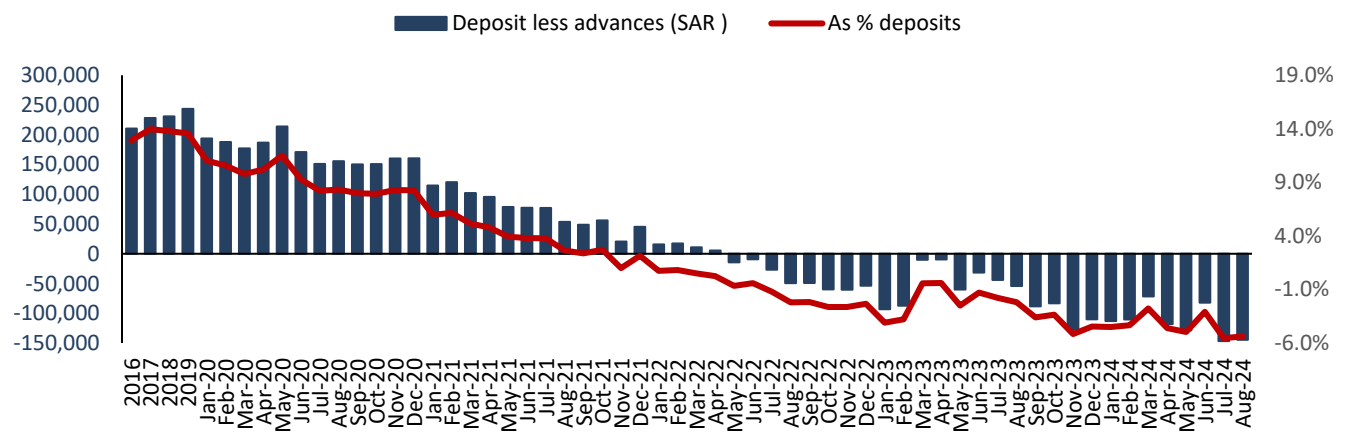
ADR

	2Q23	3Q23	4Q23	1Q24	2Q24	YOY (bps)	QOQ (bps)
Al Rajhi	101.5%	104.4%	103.7%	100.8%	99.9%	-158	-94
Bank Al Bilad	93.0%	93.3%	90.5%	90.8%	91.1%	-193	25
Riyad Bank	96.7%	104.9%	107.6%	104.4%	105.4%	880	106
Alinma Bank	90.9%	93.8%	92.4%	95.6%	92.5%	153	-314
Saudi National Bank	96.0%	95.4%	101.9%	95.3%	100.7%	476	545
Arab National Bank	94.0%	96.9%	91.8%	90.5%	92.0%	-194	159
Banque Saudi Fransi	105.3%	105.0%	104.2%	106.1%	100.5%	-483	-559

FABS from co data

KSA banking system deposits less advances rebounded slightly in August 2024

KSA banking deposits less advances rose slightly from negative SAR 146.7 Bn in July 2024 to negative SAR 144.5 Bn in August 2024.

KSA banking system deposits less advances and as % of deposits, 2016 – August 2024


Source: FABS from SAMA data

Alinma Bank recorded the highest deposit surplus in 2Q24

Four out of seven banks under our coverage recorded a deposit surplus in 2Q24. Alinma Bank reported the highest surplus of SAR 15.4 Bn in 2Q24, followed by Arab National Bank with a deposit surplus of SAR 14.0 Bn and Bank Al Bilad with SAR 10.2 Bn. Riyadh Bank recorded the largest deposit deficit of SAR 15.0 Bn followed by Saudi National Bank with a deposit deficit of SAR 4.5 Bn in 2Q24. Arab National Bank saw the highest growth in surplus on YOY basis in 2Q24. While on QOQ basis, Alinma Bank recorded the highest increase in deposit surplus in 2Q24.

Deposit surplus/-deficit

SAR mm	2Q23	3Q23	4Q23	1Q24	2Q24	YOY%	QOQ%
Al Rajhi	-8,415	-25,107	-21,104	-5,012	681	-108.1%	-113.6%
Bank Al Bilad	7,433	7,313	10,751	10,435	10,220	37.5%	-2.1%
Riyad Bank	9,119	-12,432	-19,491	-11,906	-15,042	-264.9%	26.3%
Alinma Bank	16,101	11,170	14,277	8,285	15,445	-4.1%	86.4%
Saudi National Bank	24,360	29,047	-11,476	31,059	-4,542	-118.6%	-114.6%
Arab National Bank	9,526	4,848	13,626	16,666	13,974	46.7%	-16.2%
Banque Saudi Fransi	-8,530	-8,314	-7,182	-10,580	-912	-89.3%	-91.4%

FABS from co data

Banking Stock performance

Six out of seven KSA banks generated negative YTD returns in 2024

The average return generated by the KSA Banking Sector stood lower than the market headline indices such as DSM, TASI, Abu Dhabi, Egypt, and Dubai. EGX30 recorded the highest growth rate among the below listed indices. Six out of seven KSA banks under our coverage registered a YTD decline in 2024. BSF (-22.8%), RIBL (-13.8%), SNB (-10.1%), ALINMA (-6.2%), ARNB (-0.5%), and RJHI (-0.1%) recorded a decline in the following order, whereas only ALBI (2.4%) witnessed YTD growth in 2024. Except ALBI all six banks under coverage underperformed the YTD return generated by market index TASI in 2024.

27 MENA bank stocks: YE23 to 14th of October 2024, Ranked

			UAE	KSA	Qatar	Egypt	Ranking
QIBK QD Equity	QIBK	-2.9%			-2.9%		17
MARK QD Equity	MARK	-10.5%			-10.5%		26
CBD UH Equity	CBD	34.8%	34.8%				3
MASQ UH Equity	MASQ	57.9%	57.9%				1
QNBK QD Equity	QNBK	4.4%			4.4%		11
UAB UH Equity	UAB	-16.3%	-16.3%				28
SIB UH Equity	SIB	-6.2%	-6.2%				22
CBQK QD Equity	CBQK	-30.6%			-30.6%		31
DSM Index	DSM	-3.1%					18
RJHI AB Equity	RJHI	-0.1%		-0.1%			14
SASEIDX Index	TASI	0.9%					13
ADSMI Index	ADI	-3.3%					19
ALINMA AB Equity	ALINMA	-6.2%		-6.2%			23
ALBI AB Equity	ALBI	2.4%		2.4%			12
BSF AB Equity	BSF	-22.8%		-22.8%			30
RAKBANK UH Equity	RAKBANK	-0.9%	-0.9%				16
DHBK QD Equity	DHBK	-6.0%			-6.0%		20
COMI EC Equity	COMI	10.1%				10.1%	8
FAB UH Equity	FAB	-6.2%	-6.2%				21
EGX30 Index	EGX30	20.3%					6
BOS UH Equity	BOS	22.0%	22.0%				4
SNB AB Equity	NCB	-10.1%		-10.1%			25
DFMGI Index	DFM	9.4%					9
ARNB AB Equity	ARNB	-0.5%		-0.5%			15
RIBL AB Equity	RIBL	-13.8%		-13.8%			27
CBI UH Equity	CBI	39.4%	39.4%				2
EMIRATES UH Equity	ENBD	13.6%	13.6%				7
ADIB UH Equity	ADIB	20.6%	20.6%				5
DIB UH Equity	DIB	6.8%	6.8%				10
AJMANBAN UH Equity	AJMANBANK	-16.8%	-16.8%				29
ADCB UH Equity	ADCB	-8.7%	-8.7%				24
AVERAGE			10.8%	-7.3%	-9.1%	10.1%	

FABS from Bloomberg

3Q24 preview: Saudi National Bank (SNB)

Modest profit growth, despite rising expenses and impairments

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 35.20	SAR 47.00	+33.5%	BUY

3Q24 estimate

Saudi National Bank's (SNB/the Bank) net profit is expected to rise 1.4% YOY to SAR 5,080 Mn in 3Q24 mainly driven by an increase in net funded and non-funded income and reduction in zakat expenses partially offset by an anticipated rise in impairments and NCI. The Bank's funded income is forecasted to rise 13.2% YOY to SAR 14,872 Mn in 3Q24, driven by strong growth expected in net advances and high asset yield. However, SNB's funded expense is expected to rise significantly from SAR 6,317 Mn in 3Q23 to SAR 7,613 Mn in 3Q24, attributable to higher benchmark rates. Thus, net funded income is likely to grow 6.5% YOY to SAR 7,260 Mn in 3Q24. Fees and commission income and other operating expenses are expected to increase 15.5% YOY and 2.5% YOY respectively to SAR 1,174 Mn and SAR 364 Mn, respectively. Net Income from FVIS Investments is forecasted to increase 20.3% YOY to SAR 683 Mn in 3Q24, while exchange income is anticipated to decline 13.6% YOY to 439 Mn. Gains on non-trading investments are anticipated to decrease significantly from SAR 179 Mn in 3Q23 to SAR 117 Mn in 3Q24. Thus, non-funded income is predicted to grow 6.9% YOY to SAR 2,050 Mn in 3Q24. Resultantly, operating income is expected to rise 6.6% YOY to SAR 9,310 Mn in 3Q24. Furthermore, total operating expenses are expected to decline 1.8% YOY to SAR 2,713 Mn in 3Q24, driven by an expected decrease in salaries, rent charges, and Other G&A expenses partially offset by an increase in depreciation. Other non-operating expenses are anticipated to decline 37.3% YOY to SAR 238 Mn in 3Q24. Furthermore, impairments are estimated to increase significantly to SAR 655 Mn in 3Q24 compared to a reversal of SAR 77 Mn in 3Q23. Additionally, zakat expense is expected to decline 16.4% YOY to SAR 599 Mn in 3Q24. In addition, the share of profit attributable to non-controlling interest holders is expected to decline significantly to SAR 26 Mn in 3Q24 from a profit of SAR 53 Mn in 3Q23.

2024 forecast

SNB's net profit is expected to grow 3.1% YOY to SAR 20,623 Mn in 2024 owing to a healthy growth expected in funded and non-funded income partially offset by an increase in operating expenses and impairments. Funded income is expected to increase 17.0% YOY to SAR 58,339 Mn in 3Q24 driven by a solid growth expected in net advances and an increase in asset yield. On the other hand, the funded expense is anticipated to increase from SAR 22,848 Mn in 2023 to SAR 29,317 Mn in 2024 owing to higher benchmark rates. SNB's non-funded income is estimated to rise 4.1% YOY to SAR 7,890 Mn in 2024 due to a strong rise expected in fees and commission income and other operating income coupled with healthy growth anticipated in income from FVIS investments and gains on trading investments partially offset by an estimated decline in exchange income. Resultantly, total operating income is anticipated to rise 6.7% YOY to SAR 36,912 Mn in 2024. Total operating expenses are expected to rise 3.4% YOY to SAR 10,706 Mn in 2024 driven by an anticipated rise in depreciation, salaries and other G&A expenses. Furthermore, impairments are anticipated to increase significantly from SAR 923 Mn in 2023 to SAR 2,593 Mn in 2024. Zakat expenses are expected to decline 9.1% YOY to SAR 2,422 Mn in 2024. In addition, the share of profit attributable to non-controlling interest holders is anticipated to decrease 79.1% YOY to SAR 21 Mn in 2024 impacting profitability.

2Q24 Outturn

SNB's funded income rose 20.6% YOY to SAR 14,379 Mn in 2Q24 mainly driven by a rise in asset yield and growth in interest-earning assets. Funded expenses grew significantly from SAR 5,398 Mn in 2Q23 to SAR 7,328 Mn in 2Q24 owing to higher benchmark rates and growth in customer deposits. Thus, net funded income rose 8.1% YOY to SAR 7,051 Mn in 2Q24. Fees and commission income inched up 1.8% YOY to SAR 1,097 Mn in 2Q24. On the other hand, net exchange income fell 20.4%

YOY to 418 Mn, while income from investments increased 25.1% YOY to SAR 719 Mn in 2Q24. Gains on non-trading investments declined from SAR 106 Mn in 2Q23 to SAR 59 Mn in 2Q24, while other operating expenses rose 37.3% YOY to SAR 428 Mn. Thus, SNB's total non-funded income fell 5.4% YOY to SAR 1,866 Mn in 2Q24. Moreover, total operating income rose 5.0% YOY to SAR 8,916 Mn in 2Q24. The cost-to-income ratio increased marginally from 28.3% in 2Q23 to 28.5% in 2Q24. Total operating expenses increased 5.5% YOY to SAR 2,750 Mn in 2Q24 owing to an increase in depreciation and staff cost partially offset by a decline in rent and other G&A expenses. Other non-operating expenses increased significantly from SAR 17 Mn in 2Q23 to SAR 317 Mn in 2Q24. Furthermore, impairment charges increased from SAR 76 Mn in 2Q23 to SAR 120 Mn in 2Q24. Moreover, Zakat expenses declined 17.2% YOY to SAR 561 Mn in 2Q24. The share of profit attributable to non-controlling interest holders stood at SAR 101 Mn in 2Q23 compared to a loss of SAR 63 Mn in 2Q24. Net profit increased 4.3% YOY to SAR 5,231 Mn in 2Q24.

Target price and recommendation

We maintain our BUY rating on SNB with a target price of SAR 47.00. The Bank's advances grew 10.3% YOY and 1.9% QOQ to SAR 637.2 Bn in 2Q24 owing to strong momentum across retail mortgages and wholesale financing. Moreover, the Bank's Customer deposits grew 5.1% YOY but declined 3.6% QOQ to SAR 632.7 Bn in 2Q24. As a result, the headline loan-to-deposit ratio rose to 100.7% in 2Q24 reducing liquidity. Besides, the CASA ratio declined from 76.4% in 1Q24 to 74.2% in 2Q24. The Bank's NPLs fell 23 bps YOY to 1.1% in 2Q24 reflecting an improvement in the asset quality. Moreover, the Provision coverage stood as per our calculation at 151.4% in 2Q24 compared to 150.5% in 1Q24, providing a strong cushion against potential bad loans. SNB's reported NIMs remained unchanged at 3.1% in 2Q24 compared to 1Q24 despite high benchmark rates, reflecting SNB's ability to deliver a solid performance amid peak interest rates. Furthermore, the Bank's cost-to-income ratio increased 27 bps YOY and 102 bps QOQ to 28.5% in 2Q24. SNB's capitalization stood strong with a CET 1 ratio of 16.6% and CAR of 19.3% in 2Q24. SNB issued 5-year senior unsecured FRN bond worth USD 500 Mn in the Taiwanese Formosa market, under its Euro Medium Term Note Programme. SNB is poised to benefit in the declining interest rate scenario as the Bank's primary lending focus is on the retail sector, which is expected to experience slower repricing compared to wholesale financing. Thus, based on our analysis, we maintain our BUY rating on the stock.

SNB - Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	12.62	12.62	15.50	11.41	10.74	10.48
PB (x)	3.60	3.01	1.32	1.26	1.19	1.13
Dividend yield %	3.3%	1.7%	3.3%	3.7%	5.0%	5.0%

FABS Estimates & Co Data

SNB - P&L

SAR mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Commission income	13,137	14,379	14,872	13.2%	3.4%	49,857	58,339	17.0%
Commission expense	6,317	7,328	7,613	20.5%	3.9%	22,848	29,317	28.3%
Net funded income	6,820	7,051	7,260	6.5%	3.0%	27,009	29,022	7.5%
Fees and commissions	1,017	1,097	1,174	15.5%	7.0%	3,925	4,435	13.0%
Exchange income, net	509	418	439	-13.6%	5.0%	1,945	1,848	-5.0%
Income from FVIS investment	568	719	683	20.3%	-5.0%	2,416	2,488	3.0%
Gains/Loss on non-trading invst	179	59	117	-34.2%	NM	594	600	1.0%
Other Operating Income / Exp	-355	-428	-364	2.5%	-15.0%	-1,300	-1,482	14.0%
Non-funded income	1,917	1,866	2,050	6.9%	9.9%	7,580	7,890	4.1%
Operating income	8,737	8,916	9,310	6.6%	4.4%	34,589	36,912	6.7%
Salaries and emp-related exps	1,228	1,213	1,189	-3.2%	-2.0%	4,662	4,708	1.0%
Rent and premises-related exps	147	128	131	-10.9%	3.0%	549	511	-7.0%
Dep of property and equipment	367	435	403	10.0%	-7.3%	1,459	1,670	14.5%
Amort of intangible assets	205	205	205	0.0%	0.0%	820	820	0.0%
Other G&A expenses	815	769	785	-3.7%	2.0%	2,867	2,996	4.5%
Total operating Expenses	2,762	2,750	2,713	-1.8%	-1.3%	10,357	10,706	3.4%
Other non-operating inc (exp), net	-379	-317	-238	-37.3%	-25.0%	-537	-548	2.0%
Pre-provision profit	5,596	5,850	6,359	13.6%	8.7%	23,695	25,659	8.3%
Impairment	-77	120	655	NM	NM	923	2,593	NM
PBT	5,673	5,729	5,704	0.6%	-0.4%	22,773	23,066	1.3%
Zakat	716	561	599	-16.4%	6.7%	2,664	2,422	-9.1%
Profit after tax	4,957	5,168	5,105	3.0%	-1.2%	20,109	20,644	2.7%
Non-controlling interest	-53	-63	26	NM	NM	99	21	-79.1%
Net Profit attri. to equity	5,010	5,231	5,080	1.4%	-2.9%	20,010	20,623	3.1%

FABS estimate & Co Data
SNB - P&L KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.1%	79.1%	78.0%	-8	-110	78.1%	78.6%	54
NIM	2.9%	2.8%	2.9%	-6	5	3.0%	2.9%	-6
NIS	2.5%	2.4%	2.4%	-6	7	2.4%	2.3%	-9
Fees & comns/OI	11.6%	12.3%	12.6%	97	30	11.3%	12.0%	67
Trading/OI	5.8%	4.7%	4.7%	-110	3	5.6%	5.0%	-62
Cost to income	29.3%	28.5%	26.9%	-233	-160	27.6%	26.8%	-79
Impairment/PPP	-1.4%	2.1%	10.3%	1,168	824	3.9%	10.1%	621
NP/OI	57.3%	58.7%	54.6%	-278	-410	57.8%	55.9%	-198
Cost of risk - Calculated	-0.1%	0.1%	0.4%	45	33	0.2%	0.4%	24
Loan-to-deposit (Headline)	95.4%	100.7%	99.1%	378	-158	101.9%	98.8%	-318
NPL (Reported)	1.4%	1.1%	1.3%	-7	19	1.2%	1.6%	39
NPL Coverage - Calculated	141.4%	151.4%	142.0%	65	-939	135.2%	138.0%	285
Tier 1	18.4%	18.5%	18.5%	8	2	19.4%	18.5%	-90
Capital adequacy	19.1%	19.3%	19.3%	21	2	20.1%	19.2%	-95
ROAE	12.7%	12.2%	12.2%	-53	-5	12.1%	12.3%	24
ROAA	2.0%	1.9%	1.9%	-8	-3	2.0%	1.9%	-11

FABS estimate & Co Data
SNB- Key BS Items

SAR mm	3Q23	4Q23	1Q24	2Q24	3Q24F	YOY Ch
Net advances	595,721	601,527	625,202	637,235	652,612	9.5%
QOQ Change	3.1%	1.0%	3.9%	1.9%	2.4%	
Total assets	1,027,133	1,037,081	1,072,144	1,088,112	1,101,623	7.3%
QOQ Change	3.1%	1.0%	3.4%	1.5%	1.2%	
Customer deposits	624,769	590,051	656,261	632,693	658,302	5.4%
QOQ Change	3.7%	-5.6%	11.2%	-3.6%	4.0%	
Total equity	168,971	176,629	180,622	179,991	185,070	9.5%
QOQ Change	-1.1%	4.5%	2.3%	-0.3%	2.8%	

FABS estimate & Co Data

3Q24 preview: Banque Saudi Fransi

Strong growth in funded income to drive profit

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 31.05	SAR 46.00	+48.1%	BUY

3Q24 estimate

Banque Saudi Fransi (BSF/ the Bank) is expected to report a 6.4% YOY decline in net profit to SAR 1,166 Mn in 3Q24 owing to an expected decline in net special commission income and non-funded income coupled with a rise in operating expenses partially offset by an expected decline in impairments. BSF's funded income is expected to grow 24.2% YOY to SAR 4,334 Mn in 3Q24 driven by a healthy growth expected in net advances. On the other hand, funded expense is estimated to rise significantly from SAR 1,421 Mn in 3Q23 to SAR 2,338 Mn in 3Q24. Thus, the Bank's net funded income is forecasted to decline 3.5% YOY to SAR 1,996 Mn in 3Q24. The non-funded income is likely to decrease 2.6% YOY to SAR 389 Mn in 3Q24. As a result, operating income is expected to decline 3.3% YOY to SAR 2,385 Mn in 3Q24. Moreover, salaries and employee-related expenses are expected to marginally rise 0.5% YOY to SAR 456 Mn in 3Q24, whereas rent and premises-related expenses are anticipated to decline 15.3% YOY to SAR 15 Mn in 3Q24. Furthermore, depreciation and amortization expenses are estimated to grow from SAR 58 Mn in 3Q23 to SAR 71 Mn in 3Q24. Other G&A expenses are anticipated to rise 13.5% YOY to SAR 240 Mn in 3Q24. In addition, impairments are expected to decline 11.8% YOY to SAR 304 Mn in 3Q24. Tax expense is forecasted to decrease 2.6% YOY to SAR 134 Mn in 3Q24.

2024 forecast

BSF's net profit is expected to increase 8.3% YOY to SAR 4,574 Mn in 2024 attributable to growth in net funded and non-funded income coupled with lower impairment charges partially offset by an expected increase in operating expenses coupled with higher zakat expense. The Bank's funded income is expected to grow 26.4% YOY to SAR 16,713 Mn in 2024. On the other hand, the funded expense is anticipated to rise from SAR 5,383 in 2023 to SAR 8,837 Mn in 2024. Thus, net funded income is likely to marginally increase 0.5% YOY to SAR 7,876 Mn in 2024. Total non-funded income is expected to increase 4.7% YOY to SAR 1,558 Mn in 2024 mainly due to a rise in fee and commission, trading, dividend and other operating income. As a result, total operating income is likely to increase 1.2% YOY to SAR 9,434 Mn in 2024. Operating expenses are estimated to rise 5.2% YOY to SAR 3,180 Mn in 2024 mainly driven by an expected growth in salaries, other G&A, and depreciation expenses. Also, impairments are anticipated to decline 27.6% YOY to SAR 1,155 Mn in 2024, whereas tax expense is estimated to increase 8.3% YOY to SAR 525 Mn in 2024.

2Q24 outturn

Funded income grew 29.3% YOY to SAR 4,170 Mn in 2Q24 driven by an expansion in yield and strong loan growth, while funded expenses rose significantly from SAR 1,251 Mn in 2Q23 to SAR 2,230 Mn in 2Q24 primarily due to an increase in the cost of funds and growth in interest-bearing liabilities. Thus, net funded income fell 1.8% YOY to SAR 1,940 Mn in 2Q24. NIMs declined 51 bps YOY and 16 bps QOQ to 2.9% in 2Q24. Total non-funded income rose 8.2% YOY to SAR 402 Mn in 2Q24 due to higher net fee & commission income partially offset by a decline in exchange and trading income. Thus, the Bank's operating income fell marginally by 0.2% YOY to SAR 2,342 Mn in 2Q24. Operating expenses rose 11.8% YOY to SAR 809 Mn in 2Q24. As a result, the Bank's cost-to-income ratio grew 372 bps YOY and 139 QOQ to 34.5% in 2Q24 owing to higher salaries & employee-related expense, other G&A expenses and D&A expenses partially offset by a decline in rent. In addition, impairment charges declined 36.4% YOY to SAR 274 Mn in 2Q24 owing to a 32.0% YOY decline in impairment on loans and advances coupled with a provision reversal on investments, financial assets, & others. Tax expenses rose 8.7% YOY to SAR 130 Mn in 2Q24 owing to a rise in profitability.

Target price and recommendation

We maintain our BUY rating on BSF with an unchanged target price of SAR 46.00. BSF recorded a growth in profitability owing to a rise in non-funded and lower impairment charges. The Bank continued to record strong momentum in loan book which grew 9.9% on a YTD basis to SAR 197.2 Bn in 2Q24. It expects advances to grow by a low double-digit in FY2024 however we believe loan growth will be revised upward owing to a strong in advances until 1H24. The growth in advances is driven by a strong growth in credit to the retail and corporate sectors, while BSF recorded a decline in NIMs fell by a significant 16 bps QOQ to 2.9% in 2Q24 owing to a strong growth in interest-bearing liabilities. Deposits growth exceeded loan growth which rose 12.3% QOQ to SAR 196.2 Bn in 2Q24 with a headline loan-to-deposit ratio of 106.1% in 1Q24 to 100.5% in 2Q24. The growth in deposits is mainly driven by a growth in term deposits which will be more permanent in nature. It also parked excess cash in the investment securities which rose 4.9% QOQ to SAR 55.5 bn in 2Q24. The strong deposit will also help in fulfilling the strong demand for credit. Asset quality remained healthy with a flat NPLs ratio of 1.0% in 2Q24. In addition, the NPL coverage ratio stood at 155.8% in 2Q24 compared to 155.3% in 1Q24. A higher coverage ratio will provide sufficient cushion to absorb losses in case of a loan default. Moreover, BSF's capitalization stood healthy with a Tier 1 capital ratio of 17.4% and a total CAR of 18.1% in 2Q24. BSF announced the intention to raise additional funds through the Tier 1 Sukuk issuance program of SAR 8.0 Bn. Furthermore, the Bank announced an interim cash dividend of SAR 1 per share for 1H24 and is expected to generate a healthy cash dividend of 6.6% in FY2024. Thus, based on our analysis, we assign a BUY rating on the stock.

BSF – Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
PE	11.88	24.92	11.44	11.08	9.28	8.53
PB	1.17	1.11	1.11	1.14	1.07	1.01
Dividend Yield	6.3%	1.3%	4.8%	5.3%	6.3%	6.6%

FABS Estimates & Co Data

BSF – P&L

SAR mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Special commission income	3,489	4,170	4,334	24.2%	3.9%	13,218	16,713	26.4%
Special commission expense	1,421	2,230	2,338	64.5%	4.8%	5,383	8,837	64.2%
Net Special Commission Inc	2,068	1,940	1,996	-3.5%	2.9%	7,835	7,876	0.5%
Fee and commission income	231	264	256	10.9%	-3.0%	915	983	7.5%
Exchange income, net	113	93	90	-21.0%	-4.0%	455	387	-15.0%
Trading income, net	72	28	28	-60.8%	0.0%	114	137	20.0%
Dividend Income	4	4	5	39.0%	23.9%	15	20	31.5%
Gains on non-trading investments	-21	12	10	NM	-19.3%	-16	15	NM
Other operating income	0	0	0	NM	NM	6	16	170.0%
Non-funded income	400	402	389	-2.6%	-3.3%	1,489	1,558	4.7%
Operating income	2,468	2,342	2,385	-3.3%	1.8%	9,324	9,434	1.2%
Salaries & employee-related exp.	453	460	456	0.5%	-1.0%	1,742	1,820	4.5%
Rent & premises related exp.	18	15	15	-15.3%	0.0%	67	62	-8.0%
Depreciation and amortization	58	67	71	23.5%	5.7%	251	288	14.8%
Other G&A expenses	211	266	240	13.5%	-10.0%	962	1,010	5.0%
Total operating Expenses	740	809	782	5.6%	-3.4%	3,022	3,180	5.2%
Pre-provision profit	1,728	1,533	1,603	-7.2%	4.6%	6,302	6,254	-0.8%
Impairment	345	274	304	-11.8%	11.0%	1,594	1,155	-27.6%
PBT	1,383	1,259	1,299	-6.0%	3.2%	4,708	5,099	8.3%
Tax	137	130	134	-2.6%	2.8%	485	525	8.3%
Net profit attributable	1,245	1,129	1,166	-6.4%	3.2%	4,223	4,574	8.3%

FABS Estimates & Co Data

BSF - P&L KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	83.8%	82.8%	83.7%	-13	86	84.0%	83.5%	-55
NIM	3.5%	2.9%	2.9%	-66	-5	3.4%	3.0%	-40
NIS	2.7%	1.8%	1.8%	-90	0	2.7%	1.9%	-74
Fees & comms/OI	9.4%	11.3%	10.7%	138	-54	9.8%	10.4%	61
Trading/OI	2.9%	1.2%	1.2%	-175	-2	1.2%	1.5%	23
Cost to income	30.0%	34.5%	32.8%	279	-177	32.4%	33.7%	130
Impairment/PPP	19.9%	17.9%	19.0%	-99	110	25.3%	18.5%	-684
NP/OI	50.5%	48.2%	48.9%	-161	66	45.3%	48.5%	320
Cost of risk	0.8%	0.6%	0.6%	-18	4	0.9%	0.6%	-32
Loan-to-deposit	105.0%	100.5%	76.6%	-2836	-2383	104.2%	101.8%	-235
NPL calculated	2.0%	1.0%	1.3%	-69	33	1.1%	1.4%	32
Coverage excluding collateral	139.5%	155.8%	153.0%	1350	-284	134.2%	150.0%	1576
Tier 1	18.7%	17.4%	17.6%	-116	19	18.9%	17.9%	-102
Capital Adequacy	19.2%	18.1%	18.3%	-96	18	19.5%	18.6%	-96
ROAE	12.1%	11.5%	11.2%	-94	-34	11.8%	12.5%	66
ROAA	1.7%	1.6%	1.5%	-27	-9	1.7%	1.7%	-7

FABS estimate & Co Data

BSF- Key BS Items

SAR mm	3Q23	4Q23	1Q24	2Q24	3Q24F	YOY Ch
Net advances	174,681	179,391	185,408	197,160	201,125	15.1%
QOQ Change	2.9%	2.7%	3.4%	6.3%	2.0%	
Total assets	249,862	253,383	268,376	288,826	293,386	17.4%
QOQ Change	1.7%	1.4%	5.9%	7.6%	1.6%	
Customer deposits	166,367	172,209	174,828	196,248	199,230	19.8%
QOQ Change	3.2%	3.5%	1.5%	12.3%	1.5%	
Total equity	39,283	41,121	41,928	41,809	42,975	9.4%
QOQ Change	-1.0%	4.7%	2.0%	-0.3%	2.8%	

FABS estimate & Co Data

3Q24 preview: Riyadh Bank

Net profit growth driven by higher income despite rising expenses

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 24.60	SAR 36.00	+46.3%	BUY

3Q24 estimate

Riyad Bank (RIBL/ the Bank) is forecasted to report net profit growth of 3.3% YOY to SAR 2,158 Mn in 3Q24. The growth in net profit will be mainly driven by an expected increase in net funded and non-funded income partially offset by an estimated increase in operating expenses, impairments, and tax charges. Special commission income is anticipated to increase 11.7% YOY to SAR 5,930 Mn in 3Q24 mainly due to an expected increase in the Bank's loan book and higher asset yield. Special commission expense is expected to increase from SAR 2,233 Mn in 3Q23 to SAR 2,797 Mn in 3Q24 due to the rise in the cost of funds owing to higher benchmark rates and growth in interest-bearing liabilities. Resultantly, net special commission income is anticipated to increase 1.9% YOY to SAR 3,133 Mn in 3Q24. Thus, we forecast NIMs to decline 14 bps YOY to 3.2% in 3Q24. Non-funded income is likely to decline 15.2% YOY to SAR 1,041 Mn in 3Q24 due to an expected increase in fee and commission income and trading income. Thus, operating income is expected to increase 4.9% YOY to SAR 4,174 Mn in 2Q24. Operating expenses are forecasted to grow 1.8% YOY to SAR 1,322 Mn in 3Q24. In addition, we expect the cost-to-income ratio to decline 97 bps YOY to 31.7% in 3Q24. Impairment charges are forecasted to increase 27.9% YOY to SAR 451 Mn in 3Q24. Tax expense is anticipated to increase 2.9% YOY to SAR 248 Mn in 3Q24 in line with growth in profit before tax.

2024 forecast

We expect Riyadh Bank to witness an 4.7% YOY growth in net profit to SAR 8,426 Mn in 2024, mainly due to an expected increase in net funded and non-funded income partially offset by an estimated rise in operating expenses and tax charges. Special commission income is expected to rise 14.0% YOY to SAR 23,498 Mn in 2024, while special commission expense is expected to grow from SAR 8,192 Mn in 2023 to SAR 10,760 Mn in 2024 due to a rise in the cost of funds. Thus, net special commission income is expected to rise 2.6% YOY to SAR 12,737 Mn in 2024. Total non-funded income is expected to grow 14.7% YOY to SAR 3,998 Mn in 2024 mainly due to an expected increase in fees & commission, trading, and other operating income. Resultantly, operating income is likely to grow 5.3% YOY to SAR 16,735 Mn in 2024. Operating expenses are expected to rise 6.5% YOY to SAR 5,289 Mn in 2024 mainly due to an increase in employee-related expenses, depreciation, and other G&A expenses. The cost-to-income ratio is expected to increase 35 bps YOY to 31.6% in 2024. Impairment charges are anticipated to increase 5.1% YOY to SAR 2.073 Mn in 2024. Tax expense is expected to increase 4.6% YOY to SAR 968 Mn in 2024 dragging profitability.

2Q24 outturn

Riyad Bank's funded income rose 14.6% YOY to SAR 5,805 Mn in 2Q24 mainly due to a robust growth in net advances and a marginal increase 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 2 bps 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. On the other hand, operating expenses declined marginally 0.8% YOY 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. 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 18.0% YOY to SAR 269 Mn in 2Q24 in line with growth in profitability.

Target price and recommendation

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 growth in corporate and SME credit. 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 which will boost 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 2024 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 also guided to further grow its revenue stream from FX and other fee income offerings by extending customers with holistic risk management offers and services. 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 a wide set of products and services to its customers, 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 2024 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.

RIBL - Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	13.2	15.6	12.2	10.6	9.5	9.1
P/B (x)	1.89	1.66	1.61	1.95	1.37	1.27
Dividend Yield	4.4%	2.0%	4.2%	4.7%	5.7%	6.5%

FABS Estimates & Co Data

RIBL - P&L

SAR mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Special commission income	5,308	5,805	5,930	11.7%	2.2%	20,606	23,498	14.0%
Special commission expense	-2,233	-2,708	-2,797	25.3%	3.3%	-8,192	-10,760	31.4%
Net special commission income	3,075	3,097	3,133	1.9%	1.2%	12,414	12,737	2.6%
Fees and commissions	647	727	764	18.0%	5.0%	2,385	2,814	18.0%
Trading gain/(loss)	68	7	90	32.7%	NM	420	462	10.0%
Other non-funded income	189	166	187	-0.6%	12.6%	680	722	6.2%
Total other operating income	903	901	1,041	15.2%	15.6%	3,485	3,998	14.7%
Operating income	3,978	3,997	4,174	4.9%	4.4%	15,899	16,735	5.3%
Operating expenses	-1,299	-1,225	-1,322	1.8%	8.0%	-4,969	-5,289	6.5%
Pre-provision profit	2,679	2,772	2,851	6.4%	2.8%	10,930	11,446	4.7%
Impairment	-353	-175	-451	27.9%	158.2%	-1,972	-2,073	5.1%
Share of profit of associates	3	9	5	45.2%	-41.2%	12	20	63.0%
Profit Before Tax	2,330	2,606	2,406	3.2%	-7.7%	8,971	9,393	4.7%
Tax	-241	-269	-248	2.9%	-7.8%	-925	-968	4.6%
Net profit attributable	2,089	2,338	2,158	3.3%	-7.7%	8,046	8,426	4.7%

FABS estimate & Co Data

RIBL - KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	77.3%	77.5%	75.1%	-223	-240	78.1%	76.1%	-197
NIM	3.3%	3.2%	3.2%	-14	0	3.4%	3.2%	-20
NIS	2.8%	2.6%	2.6%	-21	0	2.9%	2.7%	-24
Fees & comms/OI	16.3%	18.2%	18.3%	203	10	15.0%	16.8%	182
Trading/OI	1.7%	0.2%	2.1%	45	198	2.6%	2.8%	12
Cost to income	32.7%	30.6%	31.7%	-97	104	31.3%	31.6%	35
Impairment/PPP	13.2%	6.3%	15.8%	266	952	18.0%	18.1%	7
NP/OI	52.5%	58.5%	51.7%	-82	-678	50.6%	50.3%	-26
Cost of risk	0.5%	0.2%	0.6%	8	36	0.7%	0.7%	-1
Loan-to-deposit	104.9%	105.5%	106.0%	112	55	107.6%	104.0%	-365
NPL	1.4%	1.2%	1.2%	-13	5	1.2%	1.3%	1
NPL Coverage	127.9%	145.2%	144.5%	1,660	-65	142.1%	144.0%	190
Tier 1	17.6%	16.7%	17.2%	-43	42	17.6%	16.5%	-112
Capital Adequacy	20.7%	19.5%	20.0%	-72	48	20.7%	19.2%	-152
ROAE	16.1%	15.2%	15.1%	-99	-14	15.3%	14.5%	-72
ROAA	2.2%	2.1%	2.1%	-10	1	2.2%	2.1%	-10

FABS estimate & Co Data

RIBL - Key B/S items

SAR mm	3Q23	4Q23	1Q24	2Q24	3Q24F	YOY Ch
Net advances	267,151	274,398	282,854	291,051	299,691	12.2%
QOQ change	1.5%	2.7%	3.1%	2.9%	3.0%	
Total assets	377,012	386,849	404,859	405,029	419,027	11.1%
QOQ change	-3.1%	2.6%	4.7%	0.0%	3.5%	
Customer deposits	254,719	254,908	270,948	276,009	282,728	11.0%
QOQ change	-6.4%	0.1%	6.3%	1.9%	2.4%	
Total equity	50,881	53,696	53,514	55,783	57,937	13.9%
QOQ change	-0.5%	5.5%	-0.3%	4.2%	3.9%	

FABS estimate & Co Data

3Q24 preview: Arab National Bank

Growth in loan portfolio and lower impairments to support profitability

Current Price SAR 18.68	12-m Target Price SAR 22.50	Upside/Downside (%) +20.4%	Rating BUY
----------------------------	--------------------------------	-------------------------------	---------------

3Q24 Forecast

Arab National Bank's (ARNB/ the Bank) net profit is estimated to rise 16.3% YOY to SAR 1,252 Mn in 3Q24. The growth in net profit will mainly be driven by expected growth in net funded and non-funded income coupled with lower impairment charges partially offset by a rise in operating expenses and higher taxes. Funded income is forecasted to increase 12.3% YOY to SAR 3,650 Mn in 3Q24 due to an expected rise in the Bank's loan book. Funded expense is anticipated to grow 16.1% YOY to SAR 1,636 Mn in 3Q24, mainly due to a rise in interest-bearing liabilities. Resultantly, net funded income is expected to grow 9.5% YOY to SAR 2,015 Mn in 3Q24. Thus, we expect NIMs to decline 5 bps YOY to 3.5% in 3Q24. Non-funded income is estimated to rise 7.5% YOY to SAR 389 Mn in 3Q24. The growth will be mainly driven by an expected rise in fees & commission income and trading income partially offset by a decline in other operating income, other non-funded income, lower gains on FVIS investments, lower gains on sale of non-trading investments, dividend income, and exchange income. Moreover, operating income is expected to rise 9.2% YOY to SAR 2,404 Mn in 3Q24. Operating expenses are expected to grow 4.1% YOY to SAR 753 Mn in 3Q24. We expect the cost-to-income ratio to decline 152 bps YOY to 31.3% in 3Q24. Impairment charges are anticipated to decrease 11.8% YOY to SAR 215 Mn in 3Q24. Tax expense is estimated to grow 6.4% YOY to SAR 190 Mn in 3Q24, dragging profitability. The share of NCI amounted to SAR 1 Mn in 3Q24 compared to SAR 2 Mn in 3Q23.

2024 Forecast

ARNB's net profit is anticipated to grow 16.1% YOY to SAR 4,726 Mn in 2024, mainly due to an increase in net funded and non-funded income coupled with lower impairment expenses partially offset by a rise in operating expenses and higher tax expenses. Funded income is estimated to grow 15.3% YOY to SAR 14,387 Mn in 2024, mainly due to higher asset yield and an increase in the Bank's loan book. Funded expense is expected to rise 21.5% YOY to SAR 6,489 Mn in 2024, mainly due to the higher cost of funds. Resultantly, net funded income is expected to grow 10.7% YOY to SAR 7,898 Mn in 2024. Total non-funded income is anticipated to grow 6.0% YOY to SAR 1,517 Mn in 2024, primarily due to an expected increase in fees & commission income, trading income, other operating income, and dividend income partially offset by a decline in other non-funded income, exchange income, and lower gains on sale of trading investments. Thus, operating income is estimated to rise 9.9% YOY to SAR 9,415 Mn in 2024. Operating expenses are estimated to grow 7.1% YOY to SAR 3,049 Mn in 2024. Cost-to-income ratio is expected to improve 86 bps YOY to 32.4% in 2024. Impairment charges are estimated to fall 9.3% YOY to SAR 900 Mn in 2024. Tax expense is expected to rise 12.8% YOY to SAR 757 Mn in 2024, due to an increase in profitability.

2Q24 Outturn

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 1,309 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, trading income, and dividend income. Thus, operating income rose 11.8% YOY to SAR 2,335 Mn in 2Q24. Operating expenses grew 9.3% 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 31.5% in 2Q24. Impairment charges decreased 37.8% YOY to SAR 167 Mn in 2Q24. Tax charges rose 18.4% YOY to SAR 208 Mn in 2Q24. Moreover, net profit grew 25.1% YOY to SAR 1,231 Mn in 2Q24.

Target Price and Recommendation

We revise our rating from ACCUMULATE to BUY on Arab National Bank with an unchanged target price of SAR 22.50. The bank share price dropped 7% since our last rating. ARNB continued to record healthy growth in advances on a YTD basis. Advances rose 6.2% on a YTD basis to SAR 161.6 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. 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 increased marginally from 52% in 1Q24 to 53% in 2Q24. NIMs declined in 2Q24 owing to a decline in asset yield. 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 moderated as the reported NPL ratio rose from 1.3% in 1Q24 to 1.5% in 2Q24. Provision coverage fell from 156.3% in 1Q24 to 137.1% in 2Q24 providing a solid buffer against loan losses in the forthcoming period. The Bank's capitalization stood well above the regulatory limits with a Tier 1 ratio of 17.3% and CAR of 19.1% in 2Q24. Thus, based on our analysis, we assign a BUY rating on the stock.

ARNB - Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	12.50	18.22	17.35	12.30	9.28	7.99
P/B (x)	1.37	1.27	1.24	1.20	1.08	1.13
Dividend yield	4.0%	1.6%	3.2%	4.4%	5.4%	7.0%

FABS Estimates & Co Data

ARNB- P&L

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
SAR mm								
Funded income	3,250	3,554	3,650	12.3%	2.7%	12,477	14,387	15.3%
Funded expense	-1,409	-1,612	-1,636	16.1%	1.5%	-5,340	-6,489	21.5%
Net funded income	1,840	1,942	2,015	9.5%	3.8%	7,137	7,898	10.7%
Fees and commissions	179	216	222	23.9%	3.0%	637	840	32.0%
Exchange income, net	84	72	75	-10.2%	4.7%	331	302	-8.8%
Unrealised gain on FVIS invt, net	23	5	5	-80.0%	0.0%	31	20	-34.9%
Trading Income	1	38	15	NM	-60.0%	27	65	141.3%
Dividend income	48	42	43	-9.4%	3.0%	143	169	18.0%
Other operating income	29	21	26	-9.2%	25.0%	106	109	3.0%
Gain on sale of non trad. Inv.	0	0	3	NM	NM	156	12	NM
Other non-funded income	183	178	167	-8.6%	-5.9%	794	676	-14.8%
Non-funded income	362	393	389	7.5%	-1.0%	1,430	1,517	6.0%
Operating income	2,202	2,335	2,404	9.2%	3.0%	8,567	9,415	9.9%
Operating expenses	-723	-737	-753	4.1%	2.2%	-2,848	-3,049	7.1%
Pre-provision profit	1,479	1,599	1,651	11.6%	3.3%	5,719	6,366	11.3%
Impairment	-244	-167	-215	-11.8%	29.1%	-992	-900	-9.3%
Share of results of associates	10	7	7	-34.2%	0.0%	20	20	0.0%
PBT	1,246	1,439	1,443	15.8%	0.3%	4,747	5,485	15.6%
Tax	-178	-208	-190	6.4%	-8.7%	-671	-757	12.8%
Reversal of deferred tax	-10	0	0	NM	NM	0	0	NM
Profit after tax	1,078	1,231	1,253	16.3%	1.8%	4,076	4,728	16.0%
Non-controlling int.	-2	0	-1	NM	NM	-5	-3	-51.3%
Net profit attributable	1,076	1,231	1,252	16.3%	1.7%	4,071	4,726	16.1%

FABS estimate & Co Data

ARNB - KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	83.6%	83.2%	83.8%	25	65	83.3%	83.9%	58
NIM	3.5%	3.5%	3.5%	-5	3	3.4%	3.5%	3
NIS	3.0%	2.9%	3.0%	-3	5	2.9%	2.9%	-2
Fees & comms/OI	8.1%	9.2%	9.2%	110	0	7.4%	8.9%	149
Impairment/PPP	16.5%	10.4%	13.0%	-347	260	17.3%	14.1%	-321
Cost to income	32.8%	31.5%	31.3%	-152	-22	33.2%	32.4%	-86
NP/OI	48.9%	52.7%	52.1%	322	-64	47.5%	50.2%	268
Cost of risk	0.6%	0.4%	0.5%	-15	9	0.4%	0.5%	6
Loan-to-deposit calculated	96.9%	92.0%	91.2%	-568	-86	91.8%	92.2%	40
NPL calculated	1.7%	1.3%	1.3%	-44	-2	1.5%	1.3%	-22
NPL coverage calculated	130.8%	156.8%	155.0%	2,418	-183	144.6%	155.0%	1,037
Tier 1	18.5%	17.3%	17.2%	-138	-12	18.8%	15.5%	-334
Capital adequacy	20.7%	19.1%	18.9%	-184	-19	20.9%	17.3%	-361
ROAE	12.0%	12.8%	13.1%	113	26	12.2%	13.8%	160
ROAA	1.8%	2.0%	2.0%	17	2	1.9%	2.0%	11

FABS estimate & Co data

ARNB - Key B/S items

SAR mm	3Q23	4Q23	1Q24	2Q24	3Q24F	YOY Ch
Net advances	149,372	152,235	157,875	161,612	168,624	12.9%
QOQ change	0.3%	1.9%	3.7%	2.4%	4.3%	
Total assets	218,190	220,683	232,146	234,752	244,529	12.1%
QOQ change	1.0%	1.1%	5.2%	1.1%	4.2%	
Customer deposits	154,220	165,861	174,541	175,586	184,939	19.9%
QOQ change	-2.6%	7.5%	5.2%	0.6%	5.3%	
Total equity	33,732	35,069	35,170	36,172	37,424	10.9%
QOQ change	0.1%	4.0%	0.3%	2.9%	3.5%	

FABS estimate & Co data

3Q24 preview: Alinma Bank

Strong growth in advances to boost funded income

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 28.80	SAR 37.00	+28.5%	BUY

3Q24 estimate

Alinma Bank (Alinma/the Bank) is estimated to report a 10.4% YOY rise in net profit to SAR 1,462 Mn in 3Q24. The growth in net profit will mainly be driven by an expected rise in net funded income and non-funded income, partially offset by a rise in operating expenses, impairments, and zakat charges. Funded income is estimated to grow 15.9% YOY to SAR 4,075 Mn in 3Q24 as the bank is projected to witness an increase in advances and other interest-earning assets. Consequently, the funded expense is expected to grow significantly from SAR 1,509 Mn in 3Q23 to SAR 1,843 Mn in 3Q24 due to an estimated rise in interest bearing liabilities. Thus, net funded income is estimated to rise 11.3% YOY to SAR 2,232 Mn in 3Q24. Hence, we expect the NIMs to decline 12 bps YOY to 3.5% in 3Q24. The fee and commission income is anticipated to grow slightly 0.3% YOY to SAR 408 Mn in 3Q24. Trading gains are anticipated to rise 17.6% YOY to SAR 87 Mn in 3Q24. Other non-funded income is projected to increase from SAR 53 Mn in 3Q23 to SAR 87 Mn in 3Q24. As a result, operating income is likely to grow 10.8% YOY to SAR 2,814 Mn in 3Q24. Operating expenses are anticipated to grow 10.9% YOY to SAR 849 Mn in 3Q24 due to an increase in salaries and employee-related expenses, rent and premise related expenses, depreciation and amortization, and other G&A expenses. However, we expect the cost-to-income ratio to increase by 3 bps YOY to 30.2% in 3Q24. Impairment charges are anticipated to increase from SAR 306 Mn in 3Q23 to SAR 336 Mn in 3Q24. Zakat expense is expected to grow 10.3% YOY to SAR 168 Mn in 3Q24, mainly due to a rise in profitability.

2024 forecast

We forecast Alinma's net profit to rise significantly by 22.0% YOY to SAR 5,905 Mn in 2024. The growth in net profit is mainly driven by an expected rise in net funded and non-funded income, partially offset by an estimated growth in operating expenses and higher zakat expenses. Funded income is expected to rise 22.0% YOY to SAR 16,141 Mn in 2024 as we expect strong growth in net advances and asset yield. Funded expense is expected to rise from SAR 5,573 Mn in 2023 to SAR 7,182 Mn in 2024 due to a hike in benchmark rates. Thus, net funded income is anticipated to grow 17.0% YOY to SAR 8,959 Mn in 2024. The fees and commission income is anticipated to rise 11.0% YOY to SAR 1,619 Mn in 2024. Trading gains are projected to increase by 6.0% YOY to SAR 350 Mn in 2024 while the other non-funded income is estimated to rise from SAR 282 Mn in 2023 to SAR 349 Mn in 2024. Thus, non-funded income is expected to grow 12.0% YOY to SAR 2,319 Mn in 2024. Consequently, total operating income is estimated to grow 16.0% YOY to SAR 11,278 Mn in 2024. Operating expenses are anticipated to rise 12.8% YOY to SAR 3,432 Mn in 2024. Impairment expense is expected to decline slightly by 0.8% YOY to SAR 1,262 Mn in 2024. Zakat expense is expected to grow 21.9% YOY to SAR 678 Mn in 2024 due to higher profitability.

2Q24 outturn

Funded income rose significantly 24.7% YOY to SAR 3,962 Mn in 2Q24, primarily due to an increase in net advances and other interest earnings assets. Funded expenses grew substantially from SAR 1,316 Mn in 2Q23 to SAR 1,811 Mn in 2Q24 due to higher cost of funds driven by high benchmark rates. Thus, net funded income rose 15.7% YOY to SAR 2,151 Mn in 2Q24. Fees and commission income grew 5.1% YOY to SAR 404 Mn in 2Q24 due to higher fees from banking services, whereas trading gains rose 12.6% YOY to SAR 103 Mn in 2Q24. Moreover, other non-funded income declined 13.0% YOY to SAR 88 Mn in 2Q24. Thus, the Bank's non-funded income grew 3.1% YOY to SAR 595 Mn in 2Q24. Resultantly, total operating income grew 12.7% YOY to SAR 2,746 Mn in 2Q24. Furthermore, total operating expenses rose 11.7% YOY to SAR 834 Mn in 2Q24 mainly due to an

increase in employee-related costs and G&A Expenses. However, the cost-to-income improved 26 bps YOY to 30.4% in 2Q24 and the company expects it to remain below 31% in FY2024. Impairment charges declined marginally 1.7% YOY to SAR 320 Mn in 2Q24. In addition, zakat expenses rose 15.6% YOY to SAR 163 Mn in 2Q24, in line with the rise in profitability. Thus, net profit rose 15.6% YOY to SAR 1,417 Mn in 2Q24.

Target price and recommendation

We maintain our BUY rating on Alinma Bank with an unchanged target price of SAR 37.00. The Bank reported an increase in profitability driven by an increase in core and non-core income. ALINMA's financing grew 16.7% YOY to SAR 193.6 Bn in 2Q24 mainly driven by 21.0% YOY growth in corporate financing to SAR 147.3 Bn supported by 9.0% YOY growth in retail financing to SAR 44.7 Bn. Strong growth in gross financing is attributable to a substantial rise in mid-corporate financing and SME financing. Alinma Bank also revised its loan growth guidance from mid-teens to high-teens in 2024. Customer deposits grew significantly 15.5% YOY to SAR 205.4 Bn in 2Q24. CASA deposits remained stable 50.6% of the Bank's total deposits in 2Q24 compared to 50.7% in 1Q24. ALINMA's NIMs marginally improved 7 bps QOQ to 3.5% in 2Q24 owing to a decline in cost of funds. Furthermore, the Bank expects its NIMs to remain nearly stable in 2024, attributed to declining rates along with improving margins. The cost-to-income ratio improved 26 bps YOY and 213 bps QOQ to 30.4% in 2Q24, owing to a strong rise in operating income. The Bank revised its cost-to-income from c. 30% to below 31% in 2024, mainly due to the increased spending on digitization. Additionally, the Bank lowered its cost of risk guidance from 65-75 bps to 60-70 bps due to improving economic environment. Furthermore, asset quality improved as the NPL ratio declined significantly from 1.3% in 1Q24 to 0.8% in 2Q24 due write-offs and recoveries, while provision coverage grew strongly from 181.1% in 1Q24 to 240.1% in 2Q24. ALINMA also maintained a healthy capitalization, with a CAR of 18.5% & Tier 1 capital ratio of 17.3% in 2Q24. Thus, based on the above-mentioned factors, we assign a BUY rating on the stock.

Alinma - Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	28.60	36.88	26.76	20.14	14.98	12.63
P/B (x)	4.16	2.97	2.91	2.80	2.47	2.23
Dividend Yield	NM	0.8%	2.1%	2.6%	3.0%	3.0%

FABS Estimates & Co Data

Alinma Bank- P&L

SAR mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	3,515	3,962	4,075	15.9%	2.9%	13,228	16,141	22.0%
Funded expense	-1,509	-1,811	-1,843	22.2%	1.8%	-5,573	-7,182	28.9%
Net funded income	2,006	2,151	2,232	11.3%	3.8%	7,655	8,959	17.0%
Fees and commissions	407	404	408	0.3%	1.0%	1,459	1,619	11.0%
Trading gain/(loss)	74	103	87	17.6%	-15.0%	330	350	6.0%
Other non-funded income	53	88	87	63.0%	-1.1%	282	349	23.9%
Non-funded income	535	595	583	9.0%	-2.1%	2,071	2,319	12.0%
Operating income	2,541	2,746	2,814	10.8%	2.5%	9,726	11,278	16.0%
Operating expenses	-766	-834	-849	10.9%	1.8%	-3,044	-3,432	12.8%
Pre-provision profit	1,775	1,912	1,966	10.7%	2.8%	6,682	7,846	17.4%
Impairment	-306	-320	-336	9.5%	4.9%	-1,272	-1,262	-0.8%
Impair on other financial assets	0	7	0	NM	NM	27	5	NM
Share of profit of assoc	7	-6	0	NM	NM	12	-6	NM
Net profit before zakat	1,476	1,579	1,630	10.4%	3.2%	5,396	6,583	22.0%
Zakat	-152	-163	-168	10.3%	3.1%	-556	-678	21.9%
Net profit attributable	1,324	1,417	1,462	10.4%	3.2%	4,839	5,905	22.0%

FABS estimate & Co Data

Alinma Bank - KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	79.0%	78.3%	79.3%	34	97	78.7%	79.4%	74
NIM	3.6%	3.5%	3.5%	-12	-3	3.6%	3.5%	-4
NIS	3.1%	2.9%	2.9%	-17	0	3.1%	3.0%	-10
Fees & comms/OI	16.0%	14.7%	14.5%	-152	-22	15.0%	14.4%	-64
Trading/OI	2.9%	3.7%	3.1%	18	-64	3.4%	3.1%	-29
Cost to income	30.1%	30.4%	30.2%	3	-22	31.3%	30.4%	-86
Impairment/PPP	17.3%	16.7%	17.1%	-19	35	19.0%	16.1%	-296
NP/OI	52.1%	51.6%	51.9%	-16	36	49.8%	52.4%	260
Cost of risk (calculated)	0.7%	0.7%	0.7%	-4	0	0.8%	0.7%	-12
Loan-to-deposit	93.8%	92.5%	93.4%	-44	88	94.8%	97.0%	224
NPL (calculated)	1.7%	0.8%	0.8%	-94	-3	1.6%	0.8%	-81
NPL Coverage	150.8%	240.1%	230.0%	NM	NM	154.9%	230.0%	NM
Tier 1	16.4%	17.3%	17.6%	124	29	16.3%	17.1%	76
Capital adequacy	17.5%	18.5%	18.8%	129	27	17.5%	18.1%	61
ROAE	15.2%	17.5%	17.4%	216	-9	17.7%	19.6%	196
ROAA	2.1%	2.2%	2.2%	14	-1	2.2%	2.3%	7

FABS estimate & Co Data

Alinma Bank - Key B/S items

SAR mm	3Q23	4Q23	1Q24	2Q24	3Q24F	YOY Ch
Net advances	169,063	173,624	180,702	189,912	197,828	17.0%
QOQ change	4.5%	2.7%	4.1%	5.1%	4.2%	
Total assets	232,585	236,715	244,859	260,138	269,956	16.1%
QOQ change	2.5%	1.8%	3.4%	6.2%	3.8%	
Customer deposits	180,233	187,901	188,988	205,357	211,895	17.6%
QOQ change	1.3%	4.3%	0.6%	8.7%	3.2%	
Total equity	33,460	34,334	39,348	40,037	41,449	23.9%
QOQ change	1.5%	2.6%	14.6%	1.8%	3.5%	

FABS estimate & Co Data

3Q24 preview: Al Bilad Bank

Improvement in deposit mix to benefit NIMs

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 36.00	SAR 37.00	2.8%	HOLD

3Q24 Estimate

Bank Albilad's (ALBI/ the Bank) net profit is expected to rise 12.0% YOY to SAR 690 Mn in 3Q24 mainly driven by an anticipated increase in net funded and non-funded income partially offset by an estimated rise in operating expenses, impairments, and zakat expenses. ALBI's funded income is forecasted to grow 10.0% YOY to SAR 2,172 Mn in 3Q24, driven by a rise in net advances and expansion in asset yield. However, the Bank's funded expenses are anticipated to increase from SAR 923 Mn in 3Q23 to SAR 1,031 Mn in 3Q24, due to high benchmark rates. Thus, net funded income is likely to grow 8.4% YOY to SAR 1,140 Mn in 3Q24. The Bank's exchange income is expected to fall 5.4% YOY to SAR 76 Mn in 3Q24. Fees and commission income is projected to rise 10.4% YOY to SAR 160 Mn and other non-funded income is forecasted to increase from SAR 59 Mn in 3Q23 to SAR 78 Mn in 3Q24. Thus, total non-funded income is forecasted to rise 10.6% YOY to SAR 314 Mn in 3Q24. The Bank's G&A expenses are expected to grow 5.0% YOY to SAR 605 Mn in 3Q24 mainly attributed to an increase in salaries and other G&A expenses partially offset by a decline in depreciation charges. The cost-to-income ratio is anticipated to decline 154 bps YOY to 41.6% in 3Q24. Further, the Bank's impairments are forecasted to increase 10.0% YOY to SAR 80 Mn in 3Q24. In addition, Zakat expenses are estimated to increase 12.0% YOY to SAR 79 Mn in 3Q24.

2024 Forecast

ALBI's net profit is estimated to increase 16.1% YOY to SAR 2,749 Mn in 2024 driven by growth in net funded and non-funded income coupled with a decline in impairment charge, partially offset by higher zakat expense. ALBI's funded income is anticipated to rise 14.3% YOY to SAR 8,621 Mn in 2024 mainly driven by projected growth expected in net advances coupled with an expansion in the asset yield. On the other hand, the funded expense is forecasted to increase from SAR 3,434 Mn in 2023 to SAR 4,090 Mn in 2024 owing to an expected rise in the cost of funds and customer deposits. Thus, net funded income is estimated to grow 10.3% YOY to SAR 4,531 Mn in 2024. Fee and commission income is projected to rise 5.0% YOY to SAR 652 Mn in 2024. The Bank's exchange income is expected to decline 20.0% YOY to SAR 279, whereas other non-funded income is anticipated to rise significantly 41.1% YOY to SAR 316 Mn in 2024. Thus, total non-funded income is forecasted to rise 4.5% YOY to SAR 1,246 Mn in 2024. Resultantly, total operating income is likely to increase 9.0% YOY to SAR 5,778 Mn in 2024. Moreover, G&A expenses are expected to grow 3.2% YOY to SAR 2,412 Mn in 2024. The cost-to-income ratio is predicted to improve 234 bps YOY to 41.8% in 2024. Additionally, impairments are anticipated to fall 7.2% YOY to SAR 301 Mn in 2024. Zakat expenses are expected to increase 16.1% YOY to SAR 316 Mn in 2024 owing to an increase in profit.

2Q24 Outturn

ALBI's funded income grew 14.4% YOY to SAR 2,105 Mn in 2Q24, driven by growth in advances, other interest-earnings assets and marginal expansion in yield. On the other hand, funded expenses grew significantly from SAR 824 Mn in 2Q23 to SAR 1,020 Mn in 2Q24 owing to higher cost of funds. Thus, net funded income grew 6.8% YOY to SAR 1,085 Mn in 2Q24. Total non-funded income grew substantially 16.2% YOY to SAR 323 Mn in 2Q24, primarily due to a rise in dividend income, exchange income, net gain on FVIS instruments, and other non-funded income partially offset by a decline in net fee and commission income. Thus, the Bank's total operating income rose 8.8% YOY to SAR 1,408 Mn in 2Q24. Furthermore, the Bank's operating expenses rose 2.2% YOY to SAR 578 Mn in 2Q24 mainly due to the increase in salaries and employee-related expense partially offset by a decline in D&A and other operating expenses. However, the Bank's cost-to-income ratio declined 266 bps

YOY to 41.0% in 2Q24 due to operating leverage. Impairment charge for expected credit losses rose 9.0% YOY to SAR 82 Mn in 2Q24. Zakat expenses grew from SAR 67 Mn in 2Q23 to SAR 77 Mn in 2Q24 in line with growth in profitability.

Target price and recommendation

We revise our rating on ALBI from REDUCE to HOLD with a revised target price of SAR 37.0. ALBI continued to grow the share of retail loans from 49.7% in 4Q23 to 50.1% in 2Q24. The rising share of retail will support margins in a declining interest rate scenario. ALBI reported growth in profitability primarily due to an increase in net funded and non-funded income, partially offset by an increase in interest expenses on financial liabilities and operating expenses in 2Q24. In addition, the cost-to-income ratio improved from 42.7% in 1Q24 to 41.0% in 2Q24 mainly attributable to the operating leverage. Asset quality also improved as NPLs declined from 1.37% in 1Q24 to 1.26% in 2Q24 with a higher coverage ratio of 203.2% in 2Q24. The higher coverage ratio provides a strong cushion to the profit against future loan losses. However, the Bank Stage 2 assets rose from SAR 8.5 Bn in 4Q23 to SAR 11.9 Bn in 2Q24 owing to the addition of fresh loans worth SAR 2.9 Bn to the asset classification in 2Q24. The marginal growth in deposits resulted in an increase in the headline loan-to-deposit ratio from 90.8% in 1Q24 to 91.1% in 2Q24. ALBI is expected to generate a dividend yield of 2.7% in 2024 significantly lower than its peer average. The Bank continued to preserve capital to maintain growth with CET 1 and CAR ratio of 14.3% and 18.1%, respectively in 2Q24. Thus, based on our analysis, we assign a HOLD rating to the stock.

Bank Al Bilad - Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
PE	37.44	34.53	27.61	22.37	19.66	16.94
PB	4.94	4.34	3.89	3.61	3.05	2.70
Dividend Yield	1.4%	NA	NA	1.1%	1.4%	2.7%

FABS Estimates & Co Data

Bank Al Bilad - P&L

SAR mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Income from invest & fin.	1,975	2,105	2,172	10.0%	3.2%	7,544	8,621	14.3%
Return on deposits & fin. liab.	-923	-1,020	-1,031	11.7%	1.1%	-3,434	-4,090	19.1%
Net funded income	1,052	1,085	1,140	8.4%	5.1%	4,110	4,531	10.3%
Fees and commissions	145	155	160	10.4%	3.0%	621	652	5.0%
Exchange income	80	72	76	-5.4%	6.0%	348	279	-20.0%
Other non-funded income	59	96	78	33.3%	-18.6%	224	316	41.1%
Total non-funded income	284	323	314	10.6%	-2.8%	1,193	1,246	4.5%
Total operating income	1,336	1,408	1,454	8.9%	3.3%	5,303	5,778	9.0%
General & admin. Expenses	-576	-578	-605	5.0%	4.7%	-2,338	-2,412	3.2%
Pre provision profit	760	830	849	11.8%	2.3%	2,965	3,366	13.5%
Impairment	-73	-82	-80	10.0%	-2.9%	-324	-301	-7.2%
Profit before zakat	687	748	769	12.0%	2.9%	2,641	3,065	16.1%
Zakat expenses	-71	-77	-79	12.0%	2.9%	-272	-316	16.1%
Net profit attributable	616	671	690	12.0%	2.9%	2,369	2,749	16.1%

FABS Estimates & Co Data

Bank Al Bilad - P&L KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.8%	77.1%	78.4%	-35	135	77.5%	78.4%	93
NIM	3.2%	3.1%	3.2%	0	8	3.1%	3.1%	1
NIS	2.7%	2.6%	2.7%	-7	5	2.7%	2.6%	-8
Fees & comms/OI	10.8%	11.0%	11.0%	15	-3	11.7%	11.3%	-43
Other Operating Inc/OI	10.4%	11.9%	10.6%	20	-131	10.8%	10.3%	-50
Cost to income	43.1%	41.0%	41.6%	-154	57	44.1%	41.8%	-234
Impairment/PPP	9.6%	9.9%	9.4%	-16	-50	10.9%	8.9%	-199
NP/OI	46.1%	47.7%	47.5%	133	-20	44.7%	47.6%	291
Cost of risk	0.3%	0.3%	0.3%	1	-2	0.4%	0.3%	-8
Loan-to-deposit	93.3%	91.1%	93.6%	33	254	90.5%	91.6%	117
NPL (calculated)	1.5%	1.3%	1.2%	-22	-2	1.4%	1.2%	-14
Coverage excluding collateral	193.2%	203.2%	200.0%	677	-317	202.1%	204.0%	191
CET1	13.7%	14.3%	14.3%	58	1	13.9%	14.3%	45
Capital Adequacy	17.7%	18.1%	18.0%	30	-15	17.8%	17.9%	11
ROAE	16.7%	16.9%	16.8%	14	-14	16.8%	16.9%	10
ROAA	1.7%	1.8%	1.8%	7	1	1.7%	1.8%	10

FABS estimate & Co Data

Bank Al Bilad-Key BS Items

	3Q23	4Q23	1Q24	2Q24	3Q24F	Change
SAR mm						
Net advances	101,603	102,080	103,306	104,310	108,578	6.9%
QOQ Change	2.8%	0.5%	1.2%	1.0%	4.1%	
Total assets	137,573	143,106	143,700	145,291	150,346	9.3%
QOQ Change	1.6%	4.0%	0.4%	1.1%	3.5%	
Customer deposits	108,915	112,831	113,741	114,530	115,978	6.5%
QOQ Change	2.5%	3.6%	0.8%	0.7%	1.3%	
Total equity	14,613	15,258	15,701	15,806	16,496	12.9%
QOQ Change	3.1%	4.4%	2.9%	0.7%	4.4%	

FABS estimate & Co Data

3Q24 preview: Al Rajhi Bank

Rising costs weigh on profits despite growth in income streams

Current Price	12-m Target Price	Upside/Downside (%)	Rating
SAR 84.90	SAR 95.00	+11.9%	ACCUMULATE

3Q24 estimate

Al Rajhi Bank (Al Rajhi/the Bank) net profit is expected to grow 15.2% YOY to SAR 4,788 Mn in 3Q24. The increase is attributed to the anticipated rise in net-funded and non-funded income partially offset by an expected increase in operating expenses, impairments charges, and higher zakat expense. Financing and investment income is expected to grow 16.0% YOY to SAR 11,562 Mn in 3Q24, driven by expected growth in interest earnings assets and asset yield. Financing and investment expenses are anticipated to grow 20.4% YOY to SAR 5,501 Mn in 3Q24 due to higher benchmark rates. Thus, net financing and investment income are forecasted to grow 12.2% YOY to SAR 6,061 Mn in 3Q24. Total non-funded income is expected to increase 14.7% YOY to SAR 1,689 Mn in 3Q24, owing to higher fees from banking services and a rise in other operating income. Thus, operating income is likely to rise 12.8% YOY to SAR 7,750 Mn in 3Q24. Further, total operating expenses are anticipated to increase 6.3% YOY to SAR 1,978 Mn in 3Q24 due to expected growth in depreciation and amortization charges coupled with an increase in salaries and employee-related benefits expenses. Impairment charges are expected to grow 19.2% YOY to SAR 452 Mn in 3Q24. Additionally, the zakat expense is predicted to grow 11.4% YOY to SAR 532 Mn in 3Q24.

2024 forecast

Al Rajhi Bank is expected to report a 10.0% YOY growth in net profit to SAR 18,288 Mn in 2024, primarily due to an anticipated increase in funded and non-funded income partially offset by a rise in operating expenses, impairment charges, and zakat expense. Financing and investment income is expected to increase 16.3% YOY to SAR 45,041 Mn in 2024, driven by expected growth in net advances and expansion in asset yield. However, financing and investment expenses are expected to increase 23.5% YOY to SAR 21,576 Mn in 2024. Resultantly, net financing and investment income is anticipated to grow 10.3% YOY to SAR 23,465 Mn in 2024. Total non-funded income is likely to increase 6.1% YOY to SAR 6,641 Mn in 2024 owing to an expected increase in fee income and other operating income. Thus, net operating income is anticipated to grow 9.4% YOY to SAR 30,106 Mn in 2024. Total operating expenses are anticipated to grow 4.5% YOY to SAR 7,837 Mn in 2024. Impairment charges are expected to increase from SAR 1,504 Mn in 2023 to SAR 1,881 Mn in 2024. Zakat expense is anticipated to increase 10.1% YOY to SAR 2,100 Mn in 2024 due to growth in profitability.

2Q24 outturn

ALRAJHI's funded income rose 20.9% YOY to SAR 11,238 Mn in 2Q24 driven by a healthy growth in net advances and higher asset yield. Funded expenses increased significantly 31.2% YOY to SAR 5,380 Mn in 2Q24 primarily due to higher cost of funds. Thus, ALRAJHI's net funded income rose 12.8% YOY to SAR 5,857 Mn in 2Q24. NIMs grew 11 bps YOY and 1 bps QOQ to 2.9% in 2Q24. ALRAJHI's total non-funded income rose 8.9% YOY to SAR 1,780 Mn in 2Q24 mainly due to higher exchange and other operating income partially offset by a marginal decline in fees and commission income. Fees and commission income declined 0.5% YOY to SAR 1,123 Mn in 2Q24. Exchange income grew 9.6% YOY to SAR 319 Mn in 2Q24. In addition, other operating income grew from SAR 214 Mn in 2Q23 to SAR 337 Mn in 2Q24. Thus, total operating income increased 11.9% YOY to SAR 7,637 Mn in 2Q24. Salaries and employee-related expenses grew 3.7% YOY to SAR 918 Mn in 2Q24. Depreciation and amortization expenses grew 24.1% YOY to SAR 474 Mn in 2Q24, whereas other general and administrative expenses declined 1.4% YOY to SAR 565 Mn in 2Q24. Thus, the Company's operating expenses rose 6.3% YOY to SAR 1,956 Mn in 2Q24. However, ALRAJHI's cost-to-income ratio improved 133 bps YOY and 58 bps QOQ to 25.6% in 2Q24. Impairments charges

grew 26.2% YOY to SAR 455 Mn in 2Q24 due to growth in its financing portfolio. Furthermore, the Bank's Zakat expense rose 10.6% YOY to SAR 528 Mn in 2Q24.

Target price and recommendation

We revise our rating from HOLD to ACCUMULATE on ALRAJHI with a revised target price of SAR 95.00. ALRAJHI witnessed strong growth in profitability driven by higher funded and non-funded income in 2Q24. The Bank's net advances rose 7.4% YOY and 2.1% QOQ to SAR 622 Bn in 2Q24, driven by strong growth of 22.9% YOY and 21.8% YOY in SME and corporate loans, respectively in 2Q24. On the other hand, deposits rose 9.1% YOY and 3.1% QOQ to SAR 623 Bn in 2Q24. Thus, the headline loan-to-deposit ratio declined 94 bps QOQ to 99.9% in 2Q24. ALRAJHI also benefited by a significant proportion of CASA deposits which stood at 70.1% of total deposits in 2Q24, compared to 67.5% in 1Q24. NIMs grew 11 bps YOY and 1 bps YOY to 2.9% in 2Q24. The Bank's growing CASA deposits are anticipated to benefit the NIMs as it is a cheaper source of funding. The Bank's cost-to-income ratio improved 133 bps YOY and 58 bps QOQ to 25.6% indicating the Bank's ability to control costs effectively. Furthermore, ALRAJHI's asset quality remained stable with reported NPLs of 0.78% in 2Q24 compared to 1Q24. However, reported provision coverage continued to decline from the previous four quarters to 168.1% in 2Q24. ALRAJHI should further increase its coverage to provide cushion against bad loans going forward. Capitalization remained healthy with a Tier 1 ratio of 20.0% and CAR of 21.0% in 2Q24. ALRAJHI also declared a cash dividend of SAR 1.25 per share for 1H24 generating a dividend yield of 3.1% in 2024. Considering the factors mentioned above, we assign an ACCUMULATE rating on the stock.

Al Rajhi Bank - Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024F
P/E (x)	34.02	32.62	23.44	20.38	21.87	20.11
P/B (x)	7.28	5.95	5.14	4.39	3.83	3.68
Dividend yield	2.2%	0.7%	1.0%	1.4%	2.7%	3.1%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	9,970	11,238	11,562	16.0%	2.9%	38,738	45,041	16.3%
Funded expense	-4,569	-5,380	-5,501	20.4%	2.2%	-17,468	-21,576	23.5%
Net Funded Income	5,401	5,857	6,061	12.2%	3.5%	21,269	23,465	10.3%
Fees from banking services	899	1,123	1,090	21.2%	-3.0%	4,226	4,395	4.0%
Exchange income, net	336	319	312	-7.0%	-2.0%	1,246	1,259	1.0%
Other operating income	237	337	287	21.0%	-15.0%	790	988	25.0%
Total non-funded Income	1,472	1,780	1,689	14.7%	-5.1%	6,262	6,641	6.1%
Total Operating Income	6,873	7,637	7,750	12.8%	1.5%	27,531	30,106	9.4%
Salaries & employee benefits	-882	-918	-936	6.1%	2.0%	-3,525	-3,666	4.0%
Rent and premises related exp	0	0	0	NM	NM	0	0	NM
Other G&A expenses	-584	-565	-582	-0.4%	3.0%	-2,395	-2,371	-1.0%
Depreciation and amortization	-394	-474	-460	16.7%	-2.9%	-1,578	-1,800	14.1%
Total operating Expenses	-1,860	-1,956	-1,978	6.3%	1.1%	-7,498	-7,837	4.5%
Profit before provisions	5,012	5,681	5,772	15.2%	1.6%	20,033	22,269	11.2%
Impairment charge	-379	-455	-452	19.2%	-0.6%	-1,504	-1,881	25.1%
Total Operating Expenses	-2,240	-2,411	-2,430	8.5%	0.8%	-9,002	-9,718	8.0%
Net income before zakat	4,633	5,226	5,320	14.8%	1.8%	18,529	20,388	10.0%
Zakat	-478	-528	-532	11.4%	0.8%	-1,908	-2,100	10.1%
Net profit for the year	4,155	4,698	4,788	15.2%	1.9%	16,621	18,288	10.0%

FABS estimate & Co Data

Al Rajhi Bank - P&L KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.6%	76.7%	78.2%	-38	151	77.3%	77.9%	69
NIM	2.8%	2.9%	2.9%	6	3	2.8%	2.9%	6
NIS	2.4%	2.4%	2.4%	-3	0	2.4%	2.4%	-3
Fees & comms/OI	13.1%	14.7%	14.1%	98	-65	15.3%	14.6%	-75
Exchange Income/OI	4.9%	4.2%	4.0%	-86	-14	4.5%	4.2%	-35
Cost to income	27.1%	25.6%	25.5%	-154	-9	27.2%	26.0%	-120
Impairment/PPP	-7.6%	-8.0%	-7.8%	-27	17	-7.5%	-8.4%	-94
NP/OI	60.5%	61.5%	61.8%	131	26	60.4%	60.7%	37
Cost of risk	0.3%	0.3%	0.3%	3	1	0.3%	0.3%	5
Loan-to-deposit	104.4%	99.9%	102.6%	-183	271	103.7%	101.6%	-210
NPL (Reported)	0.6%	0.8%	0.8%	19	1	0.7%	0.8%	8
Coverage excluding collateral	239.9%	168.1%	170.0%	-6990	190	203.0%	173.0%	-2997
Tier 1	19.6%	20.0%	12.1%	-752	-791	20.4%	20.7%	32
Capital Adequacy	20.8%	21.0%	12.7%	-803	-831	21.5%	21.7%	20
ROAA	2.2%	2.1%	2.1%	-4	4	2.1%	2.2%	3
ROAE	19.6%	18.4%	19.0%	-58	67	18.7%	18.2%	-49

FABS estimate & Co Data

Al Rajhi Bank - Key B/S Items

	3Q23	4Q23	1Q24	2Q24	3Q24F	Change
SAR mm						
Net advances	590,826	594,205	608,990	621,891	634,139	7.3%
QOQ change	2.0%	0.6%	2.5%	2.1%	2.0%	
Total assets	801,483	808,098	835,992	866,960	880,255	9.8%
QOQ change	2.2%	0.8%	3.5%	3.7%	1.5%	
Customer deposits	565,719	573,101	603,978	622,572	618,050	9.3%
QOQ change	-0.9%	1.3%	5.4%	3.1%	-0.7%	
Total Equity	102,280	106,759	108,272	116,396	116,184	13.6%
QOQ change	-0.9%	4.4%	1.4%	7.5%	-0.2%	

FABS estimate & Co Data

FAB Securities Contacts:

Research Analysts

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

Sales & Execution

Trading Desk Abu Dhabi Head Office	+971-2 -6161777
	+971-2 -6161700/1
Institutional Desk	+971-4 -5658395
Sales and Marketing	+971-2 -6161703

Customer Service

Abu Dhabi Office	+971-2 -6161600	Online Trading Link
------------------	-----------------	-------------------------------------

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorized by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.