

Arab National Bank (ARNB)

Growth in net funded income and lower provisions boosted profit

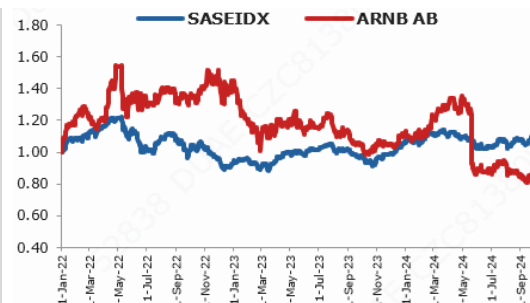
Current Price
SAR 19.20

Target Price
SAR 23.00

Upside/Downside (%)
+20%

Rating
BUY

- Total assets rose 10.4% YOY and 2.6% QOQ to SAR 240.7 Bn in 3Q24 due to growth in advances and investments.
- Net Advances rose 11.4% YOY and 2.9% QOQ to SAR 166.3 Bn in 3Q24.
- Customer's deposits expanded substantially 17.3% YOY and 3.0% QOQ to SAR 180.8 Bn in 3Q24.
- Operating income expanded 9.4% YOY to SAR 2,409 Mn in 3Q24 due to growth in net funded income partially offset decline in non-funded income.
- Operating expenses grew in line with operating income leading cost-to-income to expand from 31.5% in 2Q24 to 32.8% in 3Q24.
- Impairment charges decreased substantially 32.3% YOY to SAR 165 Mn.



Stock Information

Market Cap (SAR, Mn)	38,400.00
Paid Up Capital (Mn)	20,000.00
52 Week High	23.51
52 Week Low	17.45
3M Avg. daily value(SAR)	44,425,220

3Q24 Net Profit in line with our estimate

Arab National Bank ("ARNB", "The Bank") recorded 15.5% YOY growth in net profit to SAR 1,243 Mn in 3Q24, in line with our estimate of SAR 1,252 Mn. The growth in net profit is mainly attributed to an increase in funded income and a decline in impairment losses partially offset by an increase in operating expenses, and marginal decline in non-funded income.

P&L Highlights

ARNB's funded income grew 15.2% YOY to SAR 3,772 Mn in 3Q24 attributable to strong growth in advances and investments. On the other hand, funded expenses increased significantly 20.4% YOY to SAR 1,697 Mn in 3Q24 due to growth in deposits and higher benchmark rates. Thus, net funded income grew 11.2% YOY to SAR 2,075 Mn in 3Q24. Additionally, non-funded income fell marginally 0.7% YOY to SAR 334 Mn in 3Q24 mainly attributable to a decline in net gains/ (losses) on FVSI financial instruments, net other operating income, net exchange income and dividend income partially offset by a growth in fee & commission and net trading income. Thus, operating income expanded 9.4% YOY to SAR 2,409 Mn in 3Q24. Operating expenses grew 9.1% YOY to SAR 789 Mn in 3Q24, due to a growth in salaries and employee-related expenses, other G&A expenses, D&A expenses, and rent & premises related expenses. Thus, cost-to-income ratio fell remained flat at 32.8% in 3Q24 compared to 3Q23. Impairment charges fell substantially 32.3% YOY to SAR 165 Mn in 3Q24. Hence, profit before tax surged 17.3% to SAR 1,462 Mn in 3Q24.

3Q24 Result Review (SAR, Mn)

Total Assets	240,962
Total Liabilities	204,552
Total Equity	36,381
Total Deposits	180,843
Net Profit	1,243

Financial Ratios

Dividend Yield (12m)	6.12
Dividend Pay-out (%)	49.75
Price-Earnings Ratio(x)	8.26
Price-to-Book Ratio (x)	1.05
Book Value (SAR)	18.24
Return-on Equity (%)	13.27

Stock Performance

5 Days	0.31%
1 Months	0.52%
3 Months	-10.95%
6 Months	-17.15%
1 Year	8.38%
Month to Date (MTD%)	0.52%
Quarter to Date (QTD%)	0.52%
Year to Date (YTD%)	1.19%

Balance Sheet Highlights

ARNB's net investments rose 9.6% YOY and 3.3% QOQ to SAR 49.7Bn in 3Q24. Additionally, net loans and advances grew 11.4% YOY and 2.9% QOQ to SAR 166.3 Bn in 3Q24, furthermore customer deposits expanded substantially by 17.3% YOY and 3.0% QOQ to SAR 180.8 Bn in 3Q24. Thus, loan-to-deposit declined from remained flat at 92.0% in 3Q24 compared to 2Q24. The Bank total assets increased 10.4% YOY and 2.6% QOQ to SAR 240.7 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on Arab National Bank with a revised target price of SAR 23.00. Arab National Bank recorded a growth in profitability in 3Q24 owing to a growth in net funded income further supported by a decline in impairment losses. The Bank recorded an expansion in yield along with a growth in the cost of funds. However, asset yield expanded at a faster compared to funding cost leading to an expansion in NIMs based on our preliminary calculation. The NIM expansion bodes favourably for ARNB. ARNB continued to record healthy growth in advances on a YTD basis. Net advances rose 9.3% on a YTD basis to SAR 166.3 Bn in 3Q24. 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 49.7 Bn in 2Q24. The growth in customer deposits matched credit growth thus, the loan-to-deposit ratio stayed flat at 92.0% in 3Q24 compared to 2Q24. CASA deposits increased marginally from 52% in 1Q24 to 53% in 2Q24. 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. In addition, the stock offers an attractive dividend yield of 7.1% in FY2024. Thus, based on our analysis, we assign a BUY rating on the stock.

ARNB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	12.58	18.34	17.46	12.38	9.34	7.74
PB	1.38	1.28	1.25	1.21	1.08	1.14
Dividend yield	3.9%	1.6%	3.2%	4.3%	7.1%	7.1%

FABS Estimates & Co Data

ARNB- P&L

SAR mm	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	3,275	3,554	3,772	3,650	3.3%	15.2%	6.1%	12,477	14,615	17.1%
Funded expense	-1,409	-1,612	-1,697	-1,636	3.7%	20.4%	5.3%	-5,340	-6,547	22.6%
Net funded income	1,866	1,942	2,075	2,015	3.0%	11.2%	6.9%	7,137	8,069	13.1%
Non-funded income	336	393	334	389	-14.2%	-0.7%	-15.1%	1,430	1,517	6.1%
Operating income	2,202	2,335	2,409	2,404	0.2%	9.4%	3.2%	8,567	9,585	11.9%
Operating expenses	-723	-737	-789	-753	4.8%	9.1%	7.1%	-2,848	-3,098	8.8%
Pre-provision profit	1,479	1,599	1,620	1,651	-1.9%	9.5%	1.3%	5,719	6,487	13.4%
Impairment	-244	-167	-165	-215	-23.3%	-32.3%	-0.9%	-992	-810	-18.3%
PBT	1,246	1,439	1,462	1,443	1.3%	17.3%	1.6%	4,747	5,696	20.0%
Net profit attributable	1,076	1,231	1,243	1,252	-0.7%	15.5%	1.0%	4,071	4,908	20.6%

FABS estimate & Co Data

ARNB - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	84.7%	83.2%	86.1%	141	298	83.3%	84.2%	87
Impairment/PPP	16.5%	10.4%	10.2%	-631	-23	17.3%	12.5%	-486
Cost to income	32.8%	31.5%	32.8%	-9	121	33.2%	32.3%	-92
NP/OI	48.9%	52.7%	51.6%	273	-112	47.5%	51.2%	369
Loan-to deposit	96.9%	92.0%	92.0%	-488	-7	91.8%	92.2%	40
ROAE	12.0%	12.8%	13.3%	130	43	12.2%	14.4%	213
ROAA	1.8%	2.0%	2.0%	18	4	1.9%	2.1%	19

FABS estimate & Co data

ARNB - Key B/S items

SAR mm	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	149,372	152,235	157,875	161,612	166,330	11.4%
QOQ change	0.3%	1.9%	3.7%	2.4%	2.9%	
Total assets	218,190	220,683	232,146	234,752	240,962	10.4%
QOQ change	1.0%	1.1%	5.2%	1.1%	2.6%	
Customer deposits	154,220	165,861	174,541	175,586	180,843	17.3%
QOQ change	-2.6%	7.5%	5.2%	0.6%	3.0%	
Total equity	33,732	35,069	35,170	36,172	36,381	7.9%
QOQ change	0.1%	4.0%	0.3%	2.9%	0.6%	

FABS estimate & Co data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	23.80	70%	16.66
Relative Valuation (RV)	21.13	30%	6.34
Weighted Average Valuation (SAR)			23.00
Current market price (SAR)			19.20
Upside/Downside (%)			+20%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using a 10-year government bond yield of 4.8%, beta of 1.0 and equity risk premium of 4.2%. Government bond yield is calculated after adding KSA 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	4,187
Terminal value (SAR, Mn)	7,034
Book Value of Equity (as of Sep 2024)	36,381
FV to Common shareholders (SAR, Mn)	47,602
No. of share (Mn)	2,000
Current Market Price (SAR)	19.20
Fair Value per share (SAR)	23.80

Residual Income Method

(All Figures in SAR Mn)	2024F	2025F	2026F	2027F	2028F
Net Profit	4,908	4,828	4,711	4,567	4,521
(-) Equity Charge	-3,002	-3,224	-3,428	-3,626	-3,822
Excess Equity	1,906	1,603	1,283	941	699
Discounting Factor	0.99	0.90	0.83	0.76	0.70
Present Value of Excess Equity	470	1,450	1,064	716	488

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.3x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	20,685	1.3	1.3	9.4	9.1	5.9	6.1
Alinma Bank	18,800	2.2	1.9	13.0	12.0	3.0	3.5
Banque Saudi Fransi	9,862	1.0	0.9	8.7	8.4	6.9	6.9
Saudi National Bank	54,456	1.2	1.2	10.3	9.5	5.4	5.8
Bank Albilad	12,000	2.6	2.3	16.7	15.0	1.8	1.9
Saudi Investment Bank	4,373	1.1	1.0	9.0	8.8	5.9	5.8
Average		1.6x	1.4x	11.2x	10.5x	4.8%	5.0%
Median		1.3x	1.2x	9.8x	9.3x	5.7%	5.8%
Max		2.0x	1.7x	12.3x	11.4x	5.9%	6.0%
Min		1.1x	1.0x	9.1x	8.8x	3.6%	4.1%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

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

Sales & Execution

Abu Dhabi Head Office

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

+971-2-6161777

Institutional Desk +971-4-4245765

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