

Bank Albilad (ALBI)

Higher operating income and improved asset quality boosted profitability

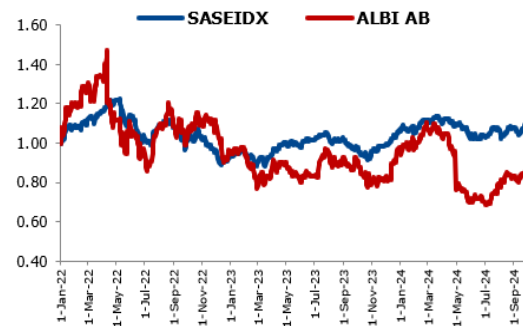
Current Price
SAR 36.65

Target Price
SAR 37.00

Upside/Downside (%)
+1.0%

Rating
HOLD

- ALBI's net advances grew 5.0% YOY and 2.3% QOQ to SAR 106.7 Bn in 3Q24.
- Customer deposits grew 12.3% YOY and 6.8% QOQ to SAR 122.3 Bn in 3Q24. Loan-to-deposit ratio declined from 91.1% in 2Q24 to 87.2% in 3Q24.
- Cost to income improved 102 bps YOY, however increased 109 bps QOQ to 42.1% in 3Q24, primarily due to a decline in D&A and G&A expenses.
- The Bank announced a dividend of SAR 0.5 per share for the period of 1H24, equivalent to SAR 625 Mn.
- The impairment charges for 3Q24 declined to SAR 54 Mn compared to SAR 73 Mn in 3Q23 due to improved asset quality and favorable portfolio mix.



3Q24 Net Profit in line with our estimate

Albilad Bank's ("ALBI", "The Bank") net profit grew 14.0% YOY to SAR 703 Mn in 3Q24, in line with our estimate of SAR 690 Mn. The growth in the net profit is mainly attributable to the increase in total operating income driven by higher net funded income, exchange income, net fee and commission income, and other non-funded income coupled with decline in net impairment charge for expected credit loss and G&A expenses partially offset by a decline in net gain on FVIS instruments and dividend income.

P&L Highlights

ALBI's funded income grew 11.6% YOY to SAR 2,205 Mn in 3Q24, driven by growth in advances. On the other hand, funded expenses grew 13.2% YOY to SAR 1,045 Mn in 3Q24. Thus, net funded income grew 10.2% YOY to SAR 1,160 Mn in 3Q24. Total non-funded income grew marginally 0.9% YOY to SAR 287 Mn in 3Q24, primarily due to a rise in exchange income, net fee and commission income, and other non-funded income partially offset by a decline in dividend income and net gain on FVIS instruments. Thus, the Bank's total operating income rose 8.3% YOY to SAR 1,446 Mn in 3Q24. Furthermore, the Bank's operating expenses rose 5.7% YOY to SAR 609 Mn in 3Q24 mainly due to the increase in salaries and employee-related expense partially offset by a decline in D&A and other G&A expenses. However, the Bank's cost-to-income ratio declined 102 bps YOY to 42.1% in 3Q24. Impairment charge for expected credit losses declined 26.0% YOY to SAR 54 Mn in 3Q24 due to improvements in asset quality and favourable portfolio mix. Zakat expenses grew 14.1% YOY to SAR 81 Mn in 3Q24 in line with growth in profitability.

Stock Information

Market Cap (SAR, mn)	45,812.50
Paid Up Capital (mn)	12,500.00
52 Week High	41.36
52 Week Low	28.84
3M Avg. daily value(SAR)	50,443,600

3Q24 Result Review (SAR, Mn)

Total Assets	153,722
Total Liabilities	137,590
Total Equity	16,132
Total Deposits	122,342
Net Profit	703

Financial Ratios

Dividend Yield (12m)	2.73
Dividend Pay-out (%)	21.11
Price-Earnings Ratio(x)	17.32
Price-to-Book Ratio (x)	2.84
Book Value (SAR)	12.91
Return-on Equity (%)	17.07

Stock Performance

5 Days	1.81%
1 Months	-6.98%
3 Months	-0.41%
6 Months	2.66%
1 Year	23.15%
Month to Date (MTD%)	-6.98%
Quarter to Date (QTD%)	-6.98%
Year to Date (YTD%)	0.52%

Balance sheet highlights

Total assets grew 11.7% YOY and 5.8% QOQ to SAR 153.7 Bn in 3Q24 owing to growth in advances and investments. Net advances grew 5.0% YOY and 2.3% QOQ to SAR 106.7 Bn in 3Q24. The Bank's investment portfolio grew 6.6% YOY and 0.5% QOQ to SAR 23.0 Bn in 3Q24. Moreover, ALBI's customer deposits grew 12.3% YOY and 6.8% QOQ to SAR 122.3 Bn in 3Q24. Loan-to-deposit ratio declined from 91.1% in 2Q24 to 87.2% in 3Q24. Total shareholders equity rose 10.4% YOY and 2.1% QOQ to AED 16.1 Bn in 3Q24.

Target Price and Rating

We maintain our rating of HOLD on the ALBI stock with a target price of SAR 37.0. ALBI reported growth in profitability primarily due to an increase in total operating income driven by higher net funded income, exchange income, net fee and commission income, and other non-funded income coupled with a decline in net impairment charge for expected credit loss and G&A expenses in 3Q24. In addition, the cost-to-income ratio improved from 43.1% in 3Q23 to 42.1% in 3Q24 mainly attributable to the decline in D&A and G&A charges. The asset quality improved in 3Q24 supported by a favorable portfolio mix resulting in lower impairment charges and boosted profitability. Total assets grew 11.7% YOY and 5.8% QOQ to SAR 153.7 Bn in 3Q24 owing to growth in advances and investments. Net advances grew 5.0% YOY and 2.3% QOQ to SAR 106.7 Bn in 3Q24. The Bank's investment portfolio grew 6.6% YOY and 0.5% QOQ to SAR 23.0 Bn in 3Q24. The Bank also announced a dividend of SAR 0.5 for 1H24, equivalent to SAR 625 Mn. Asset quality improved 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 cushion to the profit against future loan losses. Meanwhile, 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 Bank continued to preserve capital to maintain growth with CET 1 and CAR ratios of 14.3% and 18.1%, respectively in 2Q24. ALBI's customer deposits grew 12.3% YOY and 6.8% QOQ to SAR 122.3 Bn in 3Q24. Loan-to-deposit ratio declined from 91.1% in 2Q24 to 87.2% in 3Q24. Thus, based on our analysis, we assign a HOLD rating on the stock.

Albilad Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	36.93	34.07	27.24	22.07	19.39	16.62
PB	4.9	4.3	3.8	3.6	3.0	2.7
Dividend Yield	1.5%	NA	NA	1.1%	1.3%	2.7%

FABS Estimates & Co Data

Albilad Bank - P&L

SAR Mn	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Funded income	1,975	2,105	2,205	2,172	1.5%	11.6%	4.7%	7,544	8,621	14.3%
Funded expense	-923	-1,020	-1,045	-1,031	1.3%	13.2%	2.4%	-3,434	-4,127	20.2%
Net funded income	1,052	1,085	1,160	1,140	1.7%	10.2%	6.9%	4,110	4,494	9.3%
Total non-funded income	284	323	287	314	-8.8%	0.9%	-11.3%	1,193	1,246	4.5%
Total operating income	1,336	1,408	1,446	1,454	-0.6%	8.3%	2.7%	5,303	5,740	8.2%
Operating expenses	-576	-578	-609	-605	0.7%	5.7%	5.5%	-2,338	-2,379	1.8%
Pre provision profit	760	830	837	849	-1.4%	10.2%	0.8%	2,965	3,361	13.4%
Impairment	-73	-82	-54	-80	-32.7%	-26.0%	-34.7%	-324	-279	-13.8%
Profit before zakat	687	748	783	769	1.8%	14.0%	4.7%	2,641	3,082	16.7%
Zakat expenses	-71	-77	-81	-79	1.8%	14.1%	4.8%	-272	-317	16.7%
Net profit	616	671	703	690	1.8%	14.0%	4.7%	2,369	2,765	16.7%

FABS estimate & Co Data

Albilad Bank - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.8%	77.1%	80.2%	144	313	77.5%	78.3%	78
Cost to income	43.1%	41.0%	42.1%	-102	109	44.1%	41.4%	-264
Impairment/PPP	9.6%	9.9%	6.4%	-314	-349	10.9%	8.3%	-262
NP/OI	46.1%	47.7%	48.6%	246	93	44.7%	48.2%	349
Loan-to-deposit (regulatory)	93.3%	91.1%	87.2%	-608	-387	90.5%	91.6%	117

FABS estimate & Co Data

Albilad Bank - Key B/S items

SAR Mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Change
Net advances	101,603	102,080	103,306	104,310	106,695	5.0%
QOQ change	2.8%	0.5%	1.2%	1.0%	2.3%	
Total assets	137,573	143,106	143,700	145,291	153,722	11.7%
QOQ change	1.6%	4.0%	0.4%	1.1%	5.8%	
Customer deposits	108,915	112,831	113,741	114,530	122,342	12.3%
QOQ change	2.5%	3.6%	0.8%	0.7%	6.8%	
Total equity	14,613	15,258	15,701	15,806	16,132	10.4%
QOQ change	3.1%	4.4%	2.9%	0.7%	2.1%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	38.76	70.0%	27.13
Relative Valuation (RV)	32.90	30.0%	9.87
Weighted Average Valuation (SAR)			37.00
Current market price (SAR)			36.65
Upside/Downside (%)			+1.0%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. The cost of equity is calculated by using a 10-year government bond yield of 5.0%, a beta of 0.90, and an equity risk premium of 3.6%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	6,167
Terminal value (SAR, Mn)	26,147
Book Value of Equity (as of Sept 2024)	16,132
FV to Common shareholders (SAR, Mn)	48,446
No. of share (Mn)	1,250
Current Market Price (SAR)	36.65
Fair Value per share (SAR)	38.76

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,765	3,033	3,525	3,937	4,439
(-) Equity Charge	-1,424	-1,571	-1,738	-1,929	-2,151
Excess Equity	1,341	1,462	1,787	2,008	2,288
Discounting Factor	0.95	0.88	0.81	0.75	0.70
Present Value of Excess Equity	320¹	1,290	1,455	1,511	1,590

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local peers to value ALBI and it is valued using the PB multiple. We have applied a premium to the median valuation multiple and is valued at a 2024 PB multiple of 2.4x.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	20,310	9.1	8.8	1.3	1.2	6.0	6.3
Alinma Bank	18,790	12.9	11.8	2.1	1.9	3.0	3.5
Al Rajhi Bank	90,490	19.1	16.1	3.4	3.1	3.0	3.6
Saudi National Bank	54,420	10.2	9.6	1.2	1.2	5.4	5.8
Banque Saudi Fransi	9,860	8.6	7.9	1.0	0.9	6.6	6.9
Arab National Bank	10,280	8.0	8.3	1.0	1.0	7.6	6.4
Average		11.3x	10.4x	1.7x	1.5x	5.3%	5.4%
Median		9.7x	9.2x	1.3x	1.2x	5.7%	6.0%
Max		12.2x	11.3x	1.9x	1.7x	6.4%	6.4%
Min		8.7x	8.4x	1.1x	1.0x	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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