

## Arab National Bank (ARNB)

Strong core income and healthy asset quality supported profitability

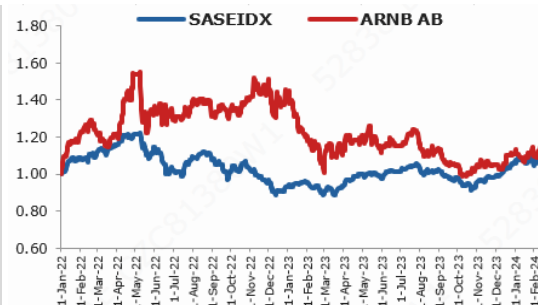
**Current Price**  
SAR 27.85

**Target Price**  
SAR 30.00

**Upside/Downside (%)**  
+8%

**Rating**  
HOLD

- ARNB's net advances grew 5.8% to SAR 152 Bn in 2023 while deposits also grew 7.1% to SAR 166 Bn in 2023.
- The Bank's retail and corporate sector loan book grew 10% and 4% respectively in 2023.
- CASA deposits account for 53.2% of total deposits in 4Q23 compared to 51.7% in 3Q23.
- NIMs grew 20 bps YOY to 3.5% in 4Q23. While cost-to-income grew 61 bps YOY to 37.8% in 4Q23.
- The Bank's non-core income declined 4.0% YOY to SAR 263 Mn in 4Q23 mainly due to the decline in fees and commission income, and exchange income.
- Capitalization stood healthy with a Tier 1 ratio of 18.8% and CAR of 20.9% in 4Q23.



### Stock Information

|                          |            |
|--------------------------|------------|
| Market Cap (SAR, mm)     | 41,775.00  |
| Paid Up Capital (mm)     | 15,000.00  |
| 52 Week High             | 29.40      |
| 52 Week Low              | 22.18      |
| 3M Avg. daily value(SAR) | 47,855,460 |

### 4Q23 Result Review (SAR, mm)

|                   |         |
|-------------------|---------|
| Total Assets      | 220,683 |
| Total Liabilities | 185,585 |
| Total Equity      | 35,069  |
| Total Deposits    | 165,861 |
| Net Profit        | 941     |

### Financial Ratios

|                         |       |
|-------------------------|-------|
| Dividend Yield (12m)    | 4.85  |
| Dividend Pay-out (%)    | 49.75 |
| Price-Earnings Ratio(x) | 10.27 |
| Price-to-Book Ratio (x) | 1.19  |
| Book Value (SAR)        | 23.38 |
| Return-on Equity (%)    | 12.08 |

### Stock Performance

|                        |        |
|------------------------|--------|
| 5 Days                 | 6.30%  |
| 1 Months               | 11.40% |
| 3 Months               | 16.04% |
| 6 Months               | 7.95%  |
| 1 Year                 | 11.40% |
| Month to Date (MTD%)   | 0.00%  |
| Quarter to Date (QTD%) | 10.08% |
| Year to Date (YTD%)    | 10.08% |

### 4Q23 Net Profit lower than our estimate

Arab National Bank ("ARNB", "the Bank") recorded 19.0% YOY growth in net profit to SAR 941 Mn in 4Q23, lower than our estimate of SAR 1,037 Mn. The growth in net profit is mainly attributed to growth in net funded income and lower impairments partially offset by a decline in non-funded income and an increase in operating expenses.

### P&L Highlights

ARNB's funded income grew 33.4% YOY to SAR 3,363 Mn in 4Q23 attributable to growth in net advances and expansion in asset yield. On the other hand, funded expenses increased significantly from SAR 876 Mn in 4Q22 to SAR 1,529 Mn in 4Q23 due to an increase in benchmark rates. Thus, net funded income grew 11.5% YOY to SAR 1,834 Mn in 4Q23. NIMs grew 20 bps YOY to 3.5% in 4Q23 mainly supported by the rising interest rates. Fees and commission income declined 5.6% YOY to SAR 122 Mn in 4Q23. Exchange income also declined 19.7% YOY to SAR 85 Mn in 4Q23. While loss on FVIS instrument stood lower at SAR 5 Mn in 4Q23 compared to SAR 16 Mn in 4Q22. Furthermore, the Bank recorded a trading loss of SAR 1 Mn in 4Q23 compared to trading income of SAR 4 Mn in 4Q22. Dividend income grew from SAR 29 Mn in 4Q22 to SAR 32 Mn in 4Q23. Other non-funded income declined 2.5% YOY to SAR 141 Mn in 4Q23. As a result, non-funded income recorded a decline of 4.0% YOY to SAR 263 Mn in 4Q23. Resultantly, total operating income rose 9.3% YOY to SAR 2,096 Mn in 4Q23. Furthermore, operating expenses grew 11.0% YOY to SAR 792 Mn in 4Q23 mainly due to a growth in G&A expenses, employee-related expenses and other general and administrative expenses. Thus, cost-to-income ratio grew 61 bps YOY to 37.8% in 4Q23. Impairment charges declined significantly from SAR 270 Mn in 4Q22 to SAR 182 Mn in 4Q23. Tax expenses declined 7.5% YOY to

SAR 145 Mn in 4Q23. While share to profit to NCI grew from SAR 1 Mn in 4Q22 to SAR 2 Mn in 4Q23.

### Balance Sheet Highlights

ARNB's total assets grew 3.8% to SAR 221 Bn in 4Q23. Net advances grew 5.8% to SAR 152 Bn in 2023 driven by growth in corporate and retail lending. The Bank's investment grew 13.8% to SAR 47 Mn in 2023. Similarly, customer deposits rose 7.1% to SAR 166 Bn in 2023. The loan-to-deposit ratio stood at 81.0% in 4Q23 as compared to 84.4% in 3Q23. Consequently, total equity grew 8.5% to SAR 35 Bn in 2023.

### Target Price and Rating

We revise our rating on Arab National Bank from BUY to HOLD with an unchanged target price of SAR 30.00. The Bank's stock price grew 5.1% since our last rating. ARNB reported a strong growth in profitability in 4Q23 driven by an increase in Bank's loan book along with a rise in other interest earning assets. ARNB's advances grew 5.8% to SAR 152 Bn in 2023 mainly due to growth in retail and corporate sector. The Bank's retail loan grew 10.1% to SAR 40.3 Bn in 2023 driven by growth in mortgage and consumer loan. While corporate loan book grew 4% to SAR 112 Bn in 2023. Corporate and retail segment accounted for 74% and 24% respectively of the total loan book in 2023. Customer deposits grew strongly 7.1% to SAR 166 Bn in 2023 driven by growth in time and CASA deposits. CASA deposits account for 53.2% of total deposits in 4Q23 compared to 51.7% in 3Q23. NIMs of the Bank grew 20 bps YOY but declined 6 bps QOQ to 3.5% in 4Q23. The Bank's cost-to-income ratio grew 61 bps YOY to 37.8% in 4Q23 owing to an increase in operating expenses. Meanwhile, ARNB reported a 21 bps QOQ decline in cost of risk to 0.48% in 4Q23, indicating the bank's ability to manage risk effectively. Furthermore, ARNB's asset quality stood healthy with a decline in the NPL ratio from 1.7% in 3Q23 to 1.5% in 4Q23. Provision coverage also grew from 131% in 3Q23 to 145% in 4Q23, providing a buffer against loan losses that will support margins in the forthcoming period. In addition, ARNB achieved a 15% improvement in its loan portfolio provisioning, primarily due to the high quality of loans within its portfolio in 2023. The Bank's capitalization also stood well above the regulatory limits with a Tier 1 ratio of 18.8% and CAR of 20.9% in 4Q23. Moreover, ARNB declared the interim cash dividend of SAR 0.70 per share for 2H23 (1H23: SAR 0.65 per share) generating a total dividend yield of 4.8% in 2023. Thus, based on our analysis, we assign an HOLD rating on the stock.

### ARNB - Relative valuation

| (at CMP)       | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F |
|----------------|------|------|------|------|------|-------|
| PE             | 13.8 | 20.2 | 19.2 | 13.6 | 10.3 | 10.0  |
| PB             | 1.5  | 1.4  | 1.4  | 1.3  | 1.2  | 1.1   |
| Dividend yield | 3.6% | 1.4% | 2.9% | 3.9% | 4.8% | 5.0%  |

FABS Estimates & Co Data

**ARNB – P&L**

| SAR mm                         | 4Q22         | 3Q23         | 4Q23         | 4Q23F        | Var.          | YOY Ch       | QOQ Ch        | 2022         | 2023         | Change       |
|--------------------------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|
| Funded income                  | 2,521        | 3,250        | 3,363        | 3,417        | -1.6%         | 33.4%        | 3.5%          | 7,657        | 12,477       | 63.0%        |
| Funded expense                 | -876         | -1,409       | -1,529       | -1,511       | 1.2%          | 74.7%        | 8.5%          | -2,020       | -5,340       | 164.3%       |
| <b>Net funded income</b>       | <b>1,645</b> | <b>1,840</b> | <b>1,834</b> | <b>1,906</b> | <b>-3.8%</b>  | <b>11.5%</b> | <b>-0.3%</b>  | <b>5,636</b> | <b>7,137</b> | <b>26.6%</b> |
| Fees and commissions           | 129          | 179          | 122          | 184          | -33.8%        | -5.6%        | -32.1%        | 546          | 637          | 16.6%        |
| Exchange income, net           | 106          | 84           | 85           | 92           | -7.3%         | -19.7%       | 1.7%          | 354          | 331          | -6.5%        |
| Unrealized gain on FVIS inv    | -16          | 23           | -5           | 30           | NM            | -68.4%       | NM            | 53           | 31           | -41.7%       |
| Trading Income                 | 4            | 1            | -1           | 6            | NM            | NM           | NM            | 39           | 27           | -31.6%       |
| Dividend income                | 29           | 48           | 32           | 36           | -10.3%        | 10.8%        | -32.2%        | 160          | 143          | -10.3%       |
| other operating income         | 22           | 29           | 29           | 33           | -12.8%        | 30.3%        | 0.4%          | 74           | 106          | 42.3%        |
| Gain on sale of non-trad inv   |              | 0            | 1            | 0            | NM            | NM           | -325.0%       | 0            | 156          | NM           |
| Other non-funded income        | 144          | 183          | 141          | 196          | -28.3%        | -2.5%        | -23.1%        | 680          | 794          | 16.7%        |
| <b>Non-funded income</b>       | <b>273</b>   | <b>362</b>   | <b>263</b>   | <b>380</b>   | <b>-31.0%</b> | <b>-4.0%</b> | <b>-27.5%</b> | <b>1,226</b> | <b>1,430</b> | <b>16.7%</b> |
| <b>Operating income</b>        | <b>1,919</b> | <b>2,202</b> | <b>2,096</b> | <b>2,286</b> | <b>-8.3%</b>  | <b>9.3%</b>  | <b>-4.8%</b>  | <b>6,862</b> | <b>8,567</b> | <b>24.8%</b> |
| Operating expenses             | -713         | -723         | -792         | -782         | 1.3%          | 11.0%        | 9.5%          | -2,458       | -2,848       | 15.9%        |
| <b>Pre-provision profit</b>    | <b>1,206</b> | <b>1,479</b> | <b>1,305</b> | <b>1,504</b> | <b>-13.3%</b> | <b>8.2%</b>  | <b>-11.8%</b> | <b>4,405</b> | <b>5,719</b> | <b>29.9%</b> |
| Impairment                     | -270         | -244         | -182         | -301         | -39.4%        | -32.3%       | -25.2%        | -880         | -992         | 12.8%        |
| Share of results of assoc.     | 17           | 10           | -17          | 35           | NM            | NM           | NM            | 108          | 20           | -82.0%       |
| <b>PBT</b>                     | <b>953</b>   | <b>1,246</b> | <b>1,105</b> | <b>1,238</b> | <b>-10.8%</b> | <b>15.9%</b> | <b>-11.3%</b> | <b>3,633</b> | <b>4,747</b> | <b>30.7%</b> |
| Tax                            | -157         | -178         | -145         | -182         | -20.1%        | -7.5%        | -18.6%        | -566         | -671         | 18.6%        |
| Reversal of deferred tax       | 5            | -10          | 17           | 17           | 0.0%          | 269.2%       | -267.2%       | 0            | 0            | NM           |
| <b>Profit after tax</b>        | <b>792</b>   | <b>1,078</b> | <b>942</b>   | <b>1,039</b> | <b>-9.3%</b>  | <b>19.1%</b> | <b>-12.6%</b> | <b>3,067</b> | <b>4,076</b> | <b>32.9%</b> |
| Non-controlling int.           | -1           | -2           | -2           | -2           | -35.9%        | NM           | 2.5%          | 3            | -5           | NM           |
| <b>Net Profit attributable</b> | <b>791</b>   | <b>1,076</b> | <b>941</b>   | <b>1,037</b> | <b>-9.3%</b>  | <b>19.0%</b> | <b>-12.6%</b> | <b>3,070</b> | <b>4,071</b> | <b>32.6%</b> |

*FABS estimate & Co Data*
**ARNB - KPI**

|                  | 4Q22   | 3Q23   | 4Q23   | YOY Ch | QOQ Ch | 2022   | 2023   | Change |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net FI/OI        | 85.8%  | 83.6%  | 87.5%  | 172    | 392    | 82.1%  | 83.3%  | 117    |
| NIM              | 3.3%   | 3.5%   | 3.5%   | 20     | -6     | 2.9%   | 3.4%   | 53     |
| NIS              | 3.0%   | 3.0%   | 2.9%   | -5     | -10    | 2.7%   | 2.9%   | 24     |
| Fees & comms/OI  | 6.7%   | 8.1%   | 5.8%   | -92    | -233   | 8.0%   | 7.4%   | -53    |
| Impairment/PPP   | 22.4%  | 16.5%  | 14.0%  | -838   | -251   | 20.0%  | 17.3%  | -263   |
| Cost to income   | 37.2%  | 32.8%  | 37.8%  | 61     | 494    | 35.8%  | 33.2%  | -257   |
| NP/OI            | 41.2%  | 48.9%  | 44.9%  | 366    | -399   | 44.7%  | 47.5%  | 277    |
| Cost of risk     | 0.7%   | 0.7%   | 0.5%   | -17    | -21    | 0.6%   | 0.5%   | -15    |
| Loan-to-deposit  | 80.1%  | 84.4%  | 81.0%  | 87     | -335   | 80.1%  | 81.0%  | 87     |
| NPL              | 1.8%   | 1.7%   | 1.5%   | -31    | -20    | 1.8%   | 1.5%   | -31    |
| NPL Coverage     | 148.1% | 130.8% | 144.6% | -346   | 1,381  | 148.1% | 144.6% | -346   |
| Tier 1           | 17.6%  | 18.5%  | 18.8%  | 123    | 29     | 17.6%  | 18.8%  | 122    |
| Capital adequacy | 19.8%  | 20.7%  | 20.9%  | 108    | 15     | 19.8%  | 20.9%  | 108    |
| ROAE             | 9.7%   | 11.6%  | 11.8%  | 212    | 21     | 9.9%   | 12.2%  | 232    |
| ROAA             | 1.5%   | 1.8%   | 1.9%   | 39     | 5      | 1.5%   | 1.9%   | 36     |

*FABS estimate & Co Data*

#### ARNB - Key B/S items

| SAR mm            | 4Q22    | 1Q23    | 2Q23    | 3Q23    | 4Q23    | YOY Ch |
|-------------------|---------|---------|---------|---------|---------|--------|
| Net advances      | 143,829 | 144,727 | 148,852 | 149,372 | 152,235 | 5.8%   |
| QOQ change        | -1.1%   | 0.6%    | 2.8%    | 0.3%    | 1.9%    |        |
| Total assets      | 212,628 | 214,042 | 215,984 | 218,190 | 220,683 | 3.8%   |
| QOQ change        | 2.6%    | 0.7%    | 0.9%    | 1.0%    | 1.1%    |        |
| Customer deposits | 154,871 | 155,247 | 158,378 | 154,220 | 165,861 | 7.1%   |
| QOQ change        | 4.8%    | 0.2%    | 2.0%    | -2.6%   | 7.5%    |        |
| Total equity      | 32,334  | 32,644  | 33,710  | 33,732  | 35,069  | 8.5%   |
| QOQ change        | 1.8%    | 1.0%    | 3.3%    | 0.1%    | 4.0%    |        |

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                         | 30.21  | 70.0%  | 21.14          |
| Relative Valuation (RV)                 | 29.52  | 30.0%  | 8.86           |
| <b>Weighted Average Valuation (SAR)</b> |        |        | <b>30.00</b>   |
| Current market price (SAR)              |        |        | 27.85          |
| Upside/Downside (%)                     |        |        | +8%            |

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.0 and equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

|  |               |
|--|---------------|
| Sum of PV (SAR, Mn)                        | 3,037         |
| Terminal value (SAR, Mn)                   | 7,202         |
| Book Value of Equity (as of Dec 2023)      | 35,069        |
| <b>FV to Common shareholders (SAR, Mn)</b> | <b>45,309</b> |
| No. of share (Mn)                          | 1,500         |
| Current Market Price (SAR)                 | 27.85         |
| <b>Fair Value per share (SAR)</b>          | <b>30.21</b>  |

### Residual Income Method

| (All Figures in SAR Mn)               | FY 2024E   | FY 2025E   | FY 2026E   | FY 2027E   | FY 2028E   |
|---------------------------------------|------------|------------|------------|------------|------------|
| Net Profit                            | 4,187      | 4,236      | 4,335      | 4,397      | 4,424      |
| (-) Equity Charge                     | -3,216     | -3,395     | -3,575     | -3,751     | -3,919     |
| <b>Excess Equity</b>                  | <b>970</b> | <b>841</b> | <b>760</b> | <b>646</b> | <b>505</b> |
| Discounting Factor                    | 0.93       | 0.86       | 0.79       | 0.73       | 0.67       |
| <b>Present Value of Excess Equity</b> | <b>906</b> | <b>723</b> | <b>601</b> | <b>470</b> | <b>338</b> |

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. We applied a discount to peer valuation since it generates lower return on asset as compared to its peers. It is valued at a 2024 PB multiple of 1.3x.

| Company             | Market<br>(USD Mn) | P/B (x)     |             | P/E (x)      |              | Dividend Yield (%) |             |
|---------------------|--------------------|-------------|-------------|--------------|--------------|--------------------|-------------|
|                     |                    | 2024F       | 2025F       | 2024F        | 2025F        | 2024F              | 2025F       |
| Riyad Bank          | 24,050             | 1.5         | 1.4         | 10.7         | 10.2         | 4.7                | 4.7         |
| Alinma Bank         | 22,730             | 2.6         | 2.4         | 16.0         | 14.9         | 3.1                | 3.3         |
| Al Rajhi Bank       | 93,910             | 3.5         | 3.2         | 19.8         | 17.4         | 2.9                | 3.4         |
| Saudi National Bank | 68,190             | 1.5         | 1.4         | 12.3         | 11.2         | 4.2                | 4.5         |
| Banque Saudi Fransi | 13,190             | 1.3         | 1.2         | 10.4         | 9.8          | 5.2                | 5.5         |
| Bank Albilad        | 12,450             | 2.7         | 2.4         | 17.3         | 15.8         | 1.8                | 2.2         |
| <b>Average</b>      |                    | <b>2.2x</b> | <b>2.0x</b> | <b>14.4x</b> | <b>13.2x</b> | <b>3.6%</b>        | <b>3.9%</b> |
| <b>Median</b>       |                    | <b>2.1x</b> | <b>1.9x</b> | <b>14.2x</b> | <b>13.1x</b> | <b>3.6%</b>        | <b>3.9%</b> |
| <b>Max</b>          |                    | <b>2.7x</b> | <b>2.4x</b> | <b>17.0x</b> | <b>15.6x</b> | <b>4.6%</b>        | <b>4.7%</b> |
| <b>Min</b>          |                    | <b>1.5x</b> | <b>1.4x</b> | <b>11.1x</b> | <b>10.5x</b> | <b>2.9%</b>        | <b>3.3%</b> |

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](mailto: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

## DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised 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.