

## Bank Albilad (ALBI)

Lower operating expenses and improved loan quality boosted the bottom-line

**Current Price**  
SAR 35.35

**Target Price**  
SAR 34.00

**Upside/Downside (%)**  
-3.8%

**Rating**  
HOLD

- ALBI's net advances grew 8.2% to SAR 103 Bn in 1Q24, while deposits rose strongly 7.8% to SAR 113 Bn in 1Q24.
- Cost to income improved 91 bps YOY and 318 bps QOQ to 42.7% in 1Q24, primarily due to a decline in operating expenses.
- The Bank's non-core income declined 0.5% YOY to SAR 297 Mn in 1Q24, mainly due to a decline in exchange income and lower gains on FVIS instruments.
- Impairment charges declined 60.3% YOY to SAR 51 Mn in 1Q24 attributed to a decline in net impairment charge for expected credit losses on financing due to better quality and composition of the portfolio.



### 1Q24 Net Profit higher than our estimate

Albilad Bank's ("ALBI", "The Bank") net profit grew 14.9% YOY to SAR 643 Mn in 1Q24, higher than our estimate of SAR 609 Mn. The growth in the net profit is mainly attributable to the increase in total operating income driven by higher dividend income, net fee and commission income, net income from investing and financing assets, and other operating income partially offset by a decline in exchange income and net gain on FVIS instruments.

### P&L Highlights

ALBI's funded income grew 21.4% YOY to SAR 2,060 Mn in 1Q24, driven by strong growth in advances and other interest earnings assets. On the other hand, funded expenses grew significantly from SAR 660 Mn in 1Q23 to SAR 1,016 Mn in 1Q24 owing to higher cost of funds. Thus, net funded income grew marginally 0.7% YOY to SAR 1,045 Mn in 1Q24. Total non-funded income declined 0.5% YOY to SAR 297 Mn in 1Q24, primarily due to a decline in exchange income and lower gains on FVIS instruments partially offset by an increase in dividend, net fee and commission income, and other operating income. Thus, the Bank's total operating income rose marginally 0.4% YOY to SAR 1,341 Mn in 1Q24. Furthermore, the Bank's operating expenses declined marginally 1.7% YOY to SAR 573 Mn in 1Q24 mainly due to the decrease in other general and administrative expenses and depreciation & amortization partially offset by an increase in salaries and employee related benefits. However, the Bank's cost-to-income ratio declined 91 bps YOY to 42.7% in 1Q24. Moreover, impairment charges declined substantially from SAR 129 Mn in 1Q23 to SAR 51 Mn in 1Q24 attributed to decrease in net impairment charge for expected credit losses on financing due to better quality and composition of the portfolio. Zakat expenses grew from SAR 64 Mn in 1Q23 to SAR 74 Mn in 1Q24.

### Stock Information

Market Cap (SAR, mn)	44,187.50
Paid Up Capital (mn)	12,500.00
52 Week High	41.36
52 Week Low	28.60
3M Avg. daily value(SAR)	57,934,980

### 1Q24 Result Review (SAR, mn)

Total Assets	143,700
Total Liabilities	127,999
Total Equity	15,701
Total Deposits	113,741
Net Profit	643

### Financial Ratios

Dividend Yield (12m)	1.13
Dividend Pay-out (%)	21.11
Price-Earnings Ratio(x)	14.32
Price-to-Book Ratio (x)	2.25
Book Value (SAR)	15.70
Return-on Equity (%)	16.47

### Stock Performance

5 Days	-1.12%
1 Months	-8.80%
3 Months	-5.08%
6 Months	20.24%
1 Year	10.33%
Month to Date (MTD%)	-0.98%
Quarter to Date (QTD%)	-7.56%
Year to Date (YTD%)	-2.78%

### Balance sheet highlights

Total assets grew 6.2% YOY and 0.4% QOQ to SAR 144 Bn in 1Q24. Net advances grew 8.2% YOY and 1.2% QOQ to SAR 103 Bn in 1Q24. The Bank's investment portfolio grew 8.0% YOY and 4.3% QOQ to SAR 23 Bn in 1Q24. Moreover, ALBI's customer deposits grew 7.8% YOY and 0.8% QOQ to SAR 114 Bn in 1Q24. Loan-to-deposit ratio marginally grew from 90.5% in 4Q23 to 90.8% in 1Q24. The Bank's total equity grew 11.5% YOY and 2.9% QOQ to SAR 16 Bn in 1Q24.

### Target Price and Rating

We maintain our HOLD rating on ALBI with a revised target price of SAR 34.00. The Bank's share price declined 19.3% since our previous rating in April 2024. ALBI reported growth in profitability primarily due to an increase in net advances and lower impairments in 1Q24. The Bank's net advances grew 8.2% YOY and 1.2% QOQ to SAR 103 Bn in 1Q24. Customer deposits grew 7.8% YOY and 0.8% QOQ to SAR 114 Bn in 1Q24. ALBI's CASA deposit grew from SAR 70 Bn in 3Q23 to SAR 76 Bn in 4Q23. NIMs declined 20 bps YOY and 22 bps QOQ to 2.9% in 4Q23 mainly due to higher cost of funds. The Bank's cost of funds grew 163 bps YOY and 27 bps QOQ to 3.5% in 4Q23. Moreover, the Bank's primary lending is focused on the corporate segment which accounts for 53.1%, while retail lending only accounts for 49.7% of the total loan book in 4Q23. Cost of risk improved 42 bps YOY and 11 bps QOQ to 0.2% in 4Q23, indicating the Bank's ability to manage risk effectively. Furthermore, ALBI's asset quality improved as the NPL ratio declined from 1.5% in 3Q23 to 1.4% in 4Q23, primarily owing to write-offs in the corporate and retail segments. Provision coverage strengthened from 193.2% in 3Q23 to 202.1% in 1Q24. The Bank's capitalization also remained strong, with a CET 1 ratio of 14.0% and a total CAR of 17.8% in 1Q24. Despite all the positives, ALBI trades at an expensive 2024 PB multiple of 2.3x compared to the industry average of 1.8x, which renders it expensive. Thus, based on above mentioned factors, we assign a HOLD rating on the stock.

### Albilad Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	36.8	33.9	27.1	22.0	19.3	17.8
PB	4.9	4.3	3.8	3.5	3.0	2.3
Dividend Yield	1.5%	NA	NA	1.1%	1.1%	1.2%

FABS Estimates & Co Data

### Albilad Bank - P&L

SAR mm	1Q23	4Q23	1Q24A	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Funded income	1,698	2,031	2,060	2,111	-2.4%	21.4%	1.4%	7,544	7,979	5.8%
Funded expense	-660	-1,027	-1,016	-1,059	-4.1%	53.8%	-1.1%	-3,434	-3,337	-2.8%
<b>Net funded income</b>	<b>1,037</b>	<b>1,004</b>	<b>1,045</b>	<b>1,052</b>	<b>-0.7%</b>	<b>0.7%</b>	<b>4.0%</b>	<b>4,110</b>	<b>4,642</b>	<b>12.9%</b>
<b>Total non-funded income</b>	<b>298</b>	<b>333</b>	<b>297</b>	<b>300</b>	<b>-1.2%</b>	<b>-0.5%</b>	<b>-10.9%</b>	<b>1,193</b>	<b>1,246</b>	<b>4.5%</b>
<b>Total operating income</b>	<b>1,336</b>	<b>1,337</b>	<b>1,341</b>	<b>1,352</b>	<b>-0.8%</b>	<b>0.4%</b>	<b>0.3%</b>	<b>5,303</b>	<b>5,888</b>	<b>11.0%</b>
Operating expenses	-583	-614	-573	-596	-3.9%	-1.7%	-6.6%	-2,338	-2,491	6.5%
<b>Pre provision profit</b>	<b>753</b>	<b>724</b>	<b>769</b>	<b>756</b>	<b>1.7%</b>	<b>2.1%</b>	<b>6.2%</b>	<b>2,965</b>	<b>3,397</b>	<b>14.6%</b>
Impairment	-129	-47	-51	-78	-34.2%	-60.3%	8.7%	-324	-537	65.7%
<b>Profit before zakat</b>	<b>624</b>	<b>677</b>	<b>717</b>	<b>678</b>	<b>5.8%</b>	<b>14.9%</b>	<b>6.0%</b>	<b>2,641</b>	<b>2,861</b>	<b>8.3%</b>
Zakat expenses	-64	-70	-74	-70	6.3%	15.6%	6.6%	-272	-295	8.3%
<b>Net profit</b>	<b>560</b>	<b>607</b>	<b>643</b>	<b>609</b>	<b>5.7%</b>	<b>14.9%</b>	<b>6.0%</b>	<b>2,369</b>	<b>2,566</b>	<b>8.3%</b>

FABS estimate & Co Data

**Albilad Bank - KPI**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	77.7%	75.1%	77.9%	21	278	77.5%	78.8%	133
Cost to income	43.6%	45.9%	42.7%	-91	-318	44.1%	42.3%	-179
Impairment/PPP	17.1%	6.5%	6.6%	-1,046	15	10.9%	15.8%	487
NP/OI	41.9%	45.4%	47.9%	602	255	44.7%	43.6%	-109
Loan-to-deposit	90.5%	90.5%	90.8%	31	35	90.5%	91.6%	113
ROAE	16.2%	15.9%	15.8%	-41	-2	17.9%	17.4%	-45
ROAA	1.6%	1.7%	1.7%	9	2	1.7%	1.7%	-2

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

SAR mn	1Q23	2Q23	3Q23	4Q23	1Q24	Change
Net advances	95,483	98,854	101,603	102,080	103,306	8.2%
<i>QOQ change</i>	4.7%	3.5%	2.8%	0.5%	1.2%	
Total assets	135,368	135,404	137,573	143,106	143,700	6.2%
<i>QOQ change</i>	4.5%	0.0%	1.6%	4.0%	0.4%	
Customer deposits	105,483	106,287	108,915	112,831	113,741	7.8%
<i>QOQ change</i>	11.2%	0.8%	2.5%	3.6%	0.8%	
Total equity	14,082	14,171	14,613	15,258	15,701	11.5%
<i>QOQ change</i>	5.1%	0.6%	3.1%	4.4%	2.9%	

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	32.44	70.0%	22.71
Relative Valuation (RV)	37.63	30.0%	11.29
<b>Weighted Average Valuation (SAR)</b>			<b>34.00</b>
Current market price (SAR)			35.35
Upside/Downside (%)			-3.8%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. The cost of equity is calculated by using a 10-year government bond yield of 5.3%, a beta of 0.93, and an equity risk premium of 3.7%. 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)	5,386
Terminal value (SAR, Mn)	19,463
Book Value of Equity (as of Mar 2024)	15,701
<b>FV to Common shareholders (SAR, Mn)</b>	<b>40,551</b>
No. of share (Mn)	1,250
Current Market Price (SAR)	35.35
<b>Fair Value per share (SAR)</b>	<b>32.44</b>

### Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,566	3,045	3,512	4,200	4,735
(-) Equity Charge	-1,727	-1,939	-2,186	-2,493	-2,847
<b>Excess Equity</b>	<b>839</b>	<b>1,106</b>	<b>1,326</b>	<b>1,707</b>	<b>1,889</b>
Discounting Factor	0.95	0.88	0.81	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>799</b>	<b>969</b>	<b>1,068</b>	<b>1,264</b>	<b>1,286</b>

Source: FAB Securities

## 2) Relative Valuation:

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

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	22,360	1.5	1.4	10.3	9.6	5.2	5.4
Alinma Bank	21,670	2.5	2.2	14.8	13.6	2.9	3.1
Al Rajhi Bank	83,840	3.1	2.8	17.8	15.7	3.2	3.7
Saudi National Bank	59,340	1.4	1.2	11.0	10.1	4.7	5.1
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Arab National Bank	11,660	1.1	1.1	9.6	9.7	5.2	5.4
<b>Average</b>		<b>1.8x</b>	<b>1.6x</b>	<b>12.3x</b>	<b>11.3x</b>	<b>4.5%</b>	<b>4.8%</b>
<b>Median</b>		<b>1.4x</b>	<b>1.3x</b>	<b>10.7x</b>	<b>9.9x</b>	<b>4.9%</b>	<b>5.2%</b>
<b>Max</b>		<b>2.2x</b>	<b>2.0x</b>	<b>13.9x</b>	<b>12.7x</b>	<b>5.2%</b>	<b>5.4%</b>
<b>Min</b>		<b>1.2x</b>	<b>1.1x</b>	<b>10.2x</b>	<b>9.7x</b>	<b>3.6%</b>	<b>4.1%</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%

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