

Bank Albilad

Strong asset quality and higher interest income supported profitability

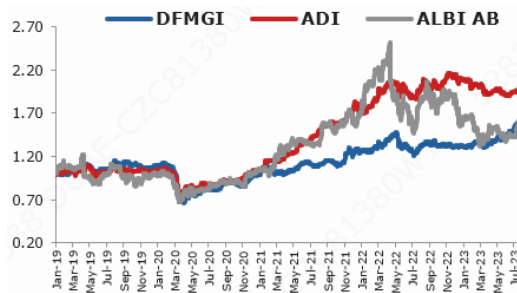
Current Price
SAR 41.45

Target Price
SAR 43.00

Upside/Downside (%)
+3.7%

Rating
HOLD

- Loan growth exceeded deposits pressurizing the liquidity of the bank. The loan-to-deposit ratio rose from 90.5% in 1Q23 to 93.0% in 2Q23 .
- NIMs declined 21 bps YOY and 13 bps QOQ to 3.1% due to higher cost of funds.
- The Bank witnessed strong growth in net advances led by strong growth in commercial and retail loans.
- Impairment charge declined sharply 37.4% YOY and 41.5% QOQ signaling improved credit environment.



Stock Information

Market Cap (SAR, mm)	41,900.00
Paid Up Capital (mm)	10,000.00
52 Week High	56.00
52 Week Low	35.25
3M Avg. daily value(SAR)	33,129,450

2Q23 Net Profit slightly higher than our estimate

Albilad Bank ("ALBI", "The Bank") recorded a 14.7% YOY increase in net profit to SAR 586 Mn in 2Q23, slightly higher than our estimate of SAR 566 Mn. The increase in the net profit is mainly attributable to the increase in net income from investing and financing assets and a decline in impairments partially offset by a fall in non-funded income and higher G&A expenses.

P&L Highlights

The Bank's funded income increased 61.5% YOY to SAR 1,840 Mn in 2Q23 driven by strong growth in advances and rise in asset yield. On the other hand, funded expense increased significantly from SAR 183 Mn in 2Q22 to SAR 824 Mn in 2Q23 owing to higher cost of funds as a result of an increase in benchmark rates. Thus, net funded income rose 6.2% YOY to SAR 1,016 Mn in 2Q23. Fees and commission income rose 2.7% YOY to SAR 167 Mn in 2Q23 while other non-funded income grew 10.8% YOY to SAR 46 Mn. However, exchange income declined 29.4% YOY to SAR 65 Mn in 2Q23. Thus, non-funded income fell 6.1% YOY to SAR 278 Mn in 2Q23. The Bank's total operating income rose 3.3% YOY to SAR 1,294 Mn in 2Q23. Furthermore, the Bank's operating expenses rose marginally 0.5% YOY to SAR 565 Mn in 2Q23 due to an increase in salaries and employee-related expenses and depreciation & amortization offset by a decrease in other general and administrative expenses. Thus, the Bank's cost-to-income ratio declined 122 bps YOY to 43.7% in 2Q23. Impairment charges witnessed a decline from SAR 120 Mn in 2Q22 to SAR 75 Mn in 2Q23. In addition, tax expenses rose 14.7% YOY to SAR 67 Mn in 2Q23 in line with growth in profitability.

2Q23 Result Review (SAR, mm)

Total Assets	135,404
Total Liabilities	121,234
Total Equity	14,171
Total Deposits	106,287
Net Profit	586

Financial Ratios

Dividend Yield (12m)	1.19
Dividend Pay-out (%)	24.02
Price-Earnings Ratio(x)	18.57
Price-to-Book Ratio (x)	2.96
Book Value (SAR)	14.17
Return-on Equity (%)	16.63

Stock Performance

5 Days	-4.23%
1 Months	9.11%
3 Months	2.95%
6 Months	0.24%
1 Year	-15.69%
Month to Date (MTD%)	-4.11%
Quarter to Date (QTD%)	8.40%
Year to Date (YTD%)	-5.62%

Balance Sheet Highlights

ALBI's net advances increased 8.4% YOY and 3.5% QOQ to SAR 98.9 Bn in 2Q23 due to growth in commercial and retail loans. Total assets grew 11.4% YOY to SAR 135.4 Bn in 2Q23 and remained unchanged on QOQ basis. Customer deposits recorded a strong growth of 19.3% YOY and 0.8% QOQ to SAR 106.3 Bn in 2Q23 boosting liquidity. Resultantly, the loan-to-deposit ratio increased from 90.5% in 1Q22 to 93.0% in 2Q23. The Bank's total equity increased 12.4% YOY and 0.6% QOQ to SAR 14.1 Bn in 2Q23.

Target Price and Rating

We revise our rating on ALBI from ACCUMULATE to HOLD with an unchanged target price of SAR 43.00. The Bank's share price rose 8.3% since our last rating (i.e., 11 July 2023). The Bank recorded strong growth in net profit to SAR 586 Mn in 2Q23 owing to a solid growth in advances. ALBI's net advances grew 8.4% YOY and 3.5% QOQ to SAR 98.9 Bn in 2Q23 owing to a solid rise in commercial as well as retail financing. On the other hand, the Bank's deposits rose 11.4% YOY to SAR 135.4 Bn in 2Q23 due to strong growth in direct investment and Mudarabah deposits partially offset by a decline in demand deposits. However, growth in net advances exceeded deposits growth in 2Q23 which led to an increase in loan-to-deposit ratio. Thus, the Bank's loan-to-deposit ratio stood at 93.0% in 2Q23 as compared to 90.5% in 1Q23. This too pressurized Albilad's NIMs in 2Q23. Albilad's asset quality moderated in 2Q23 with an NPL ratio of 1.5% in 2Q23 as compared to 1.4% in 1Q23 while the coverage ratio declined from 203.3% in 1Q23 to 190.8% in 2Q23. In addition, the Bank recorded significantly lower impairment charges in 2Q23 compared to 2Q22 and 4Q22 as a result of strong asset quality. The bank maintained a strong capitalization with a CAR of 17.6% and a Tier 1 ratio of 13.5% in 2Q23. ALBI is trading at a 2023 dividend yield of 1.1% compared to the industry average of 3.7, renders it expensive. Thus, looking at the above-mentioned factors, we assign "HOLD" rating on the stock.

Albilad Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	68.2	33.6	31.0	24.8	20.1	17.9
PB	5.3	4.4	3.9	3.5	3.2	2.8
Dividend Yield	NA	1.6%	NA	NA	1.2%	1.2%

FABS Estimates & Co Data

Albilad Bank - P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	YOY Ch
Funded income	1,139	1,698	1,840	1,785	3.1%	61.5%	8.4%	4,972	7,140	43.6%
Funded expense	-183	-660	-824	-668	23.3%	351.1%	24.8%	-1,085	-2,650	144.3%
Net funded income	957	1,037	1,016	1,116	-9.0%	6.2%	-2.1%	3,887	4,490	15.5%
Fees and commissions	163	149	167	152	10.0%	2.7%	12.2%	669	655	-2.0%
Exchange income	92	86	65	90	-27.8%	-29.4%	-25.0%	398	390	-2.0%
Other non-funded income	42	63	46	37	26.0%	10.8%	-26.8%	238	176	-26.0%
Total non-funded income	296	298	278	278	-0.1%	-6.1%	-6.8%	1,305	1,221	-6.4%
Total operating income	1,253	1,336	1,294	1,394	-7.2%	3.3%	-3.1%	5,191	5,712	10.0%
General & admin. Expenses	-563	-583	-565	-607	-6.8%	0.5%	-2.9%	-2,320	-2,486	7.2%
Pre provision profit	690	753	729	787	-7.5%	5.6%	-3.3%	2,871	3,225	12.3%
Impairment	-120	-129	-75	-157	-51.9%	-37.4%	-41.5%	-551	-619	12.3%
Profit before zakat	570	624	653	631	3.6%	14.7%	4.6%	2,321	2,607	12.3%
Zakat expenses	-59	-64	-67	-65	3.6%	14.7%	4.6%	-239	-268	12.3%
Net profit	511	560	586	566	3.6%	14.7%	4.6%	2,082	2,338	12.3%

FABS estimate & Co Data

Albilad Bank - KPI

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	76.4%	77.7%	78.5%	216	85	74.9%	78.6%	375
NIM	3.3%	3.2%	3.1%	-21	-13	3.3%	3.3%	4
NIS	3.2%	2.9%	2.7%	-50	-19	3.2%	3.0%	-13
Fees & comms/OI	13.0%	11.2%	12.9%	-8	176	12.9%	11.5%	-141
Other opert inc./OI	10.6%	11.2%	8.6%	-208	-261	12.3%	9.9%	-234
Cost to income	44.9%	43.6%	43.7%	-122	8	44.7%	43.5%	-116
Impairment/PPP	17.5%	17.1%	10.3%	-710	-676	19.2%	19.2%	0
NP/OI	40.8%	41.9%	45.3%	449	336	40.1%	40.9%	84
ROAE	15.1%	16.2%	16.0%	97	-20	18.6%	17.7%	-94
ROAA	1.6%	1.6%	1.6%	7	2	1.7%	1.7%	-3

FABS estimate & Co Data

Albilad Bank - Key B/S items

SAR mm	2Q22	3Q22	4Q22	1Q23	2Q23	Change
Net advances	91,206	92,288	91,179	95,483	98,854	8.4%
QOQ change	5.6%	1.2%	-1.2%	4.7%	3.5%	
Total assets	121,511	127,020	129,543	135,368	135,404	11.4%
QOQ change	4.4%	4.5%	2.0%	4.5%	0.0%	
Customer deposits	89,108	93,886	94,843	105,483	106,287	19.3%
QOQ change	3.5%	5.4%	1.0%	11.2%	0.8%	
Total equity	12,607	13,035	13,399	14,082	14,171	12.4%
QOQ change	2.3%	3.4%	2.8%	5.1%	0.6%	

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	42.88	70.0%	31.02
Relative Valuation (RV)	43.27	30.0%	12.98
Weighted Average Valuation (SAR)			43.00
Current market price (SAR)			41.45
Upside/Downside (%)			+3.7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.0 and 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)	5,981
Terminal value (SAR, Mn)	22,732
Book Value of Equity (as of March 2023)	14,171
FV to Common shareholders (SAR, Mn)	42,884
No. of share (Mn)	1,000
Current Market Price (SAR)	41.45
Fair Value per share (SAR)	42.88

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	2,338	2,838	3,395	4,006	4,272
(-) Equity Charge	-1,218	-1,411	-1,692	-2,023	-2,382
Excess Equity	373	1,427	1,704	1,984	1,969
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Present Value of Excess Equity	364	1,283	1,415	1,522	1,396

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 PB multiple of 2.9x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Alinma Bank	19,446	2.5	2.3	16.4	14.8	3.4	3.8
Al Rajhi Bank	75,542	3.0	2.7	16.5	14.7	2.5	3.4
Saudi National Bank	11,303	1.9	1.8	12.8	12.1	4.0	4.2
Banque Saudi Fransi	14,126	1.5	1.4	12.3	11.4	4.5	4.6
Arab National Bank	11,083	1.2	1.2	10.9	10.7	4.9	5.2
Bank Albilad	11,563	2.8	2.5	18.3	15.9	1.4	1.8
Average		2.2x	2.0x	14.6x	13.4x	3.7x	4.0x
Median		2.8x	2.4x	16.5x	14.8x	4.3x	4.5x
Max		1.6x	1.5x	12.4x	11.6x	2.7x	3.5x
Min		2.2x	2.0x	14.6x	13.4x	3.7x	4.0x

Source: FAB Securities

