

Bank Albilad

Lower impairments and increased in lending supported profit

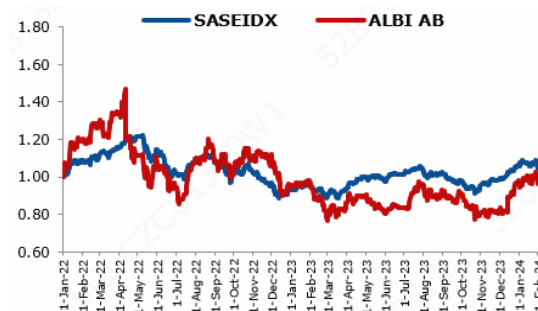
Current Price
SAR 49.55

Target Price
SAR 44.00

Upside/Downside (%)
-11%

Rating
REDUCE

- ALBI's net advances grew 10.5% to SAR 102 Bn in 4Q23, while deposits rose strongly 19.0% to SAR 113 Bn in 4Q23.
- NIMs declined 20 bps YOY and 22 bps QOQ to 2.9% in 4Q23 primarily due to higher cost of funds.
- The Bank's non-core income declined 9.1% in 4Q23 mainly due to decline in fees and commission income, exchange income and other non-funded income.
- Cost-to-income ratio grew 78 bps YOY and 274 bps QOQ to 45.9% in 4Q23.
- Impairment charges declined 66.1% YOY and 35.2% QOQ to SAR 47 Mn in 4Q23. NPLs declined from 1.5% in 3Q23 to 1.4% in 4Q23. While provision coverage strengthened to 202.1% in 4Q23.



4Q23 Net Profit lower than our estimate

Albilad Bank's ("ALBI", "The Bank") net profit grew 12.5% YOY to SAR 607 Mn in 4Q23, lower than our estimate of SAR 638 Mn. The growth in the net profit is mainly attributable to the increase in net funded income along with lower impairments partially offset by a decline in non-funded income and an increase in zakat expense.

P&L Highlights

ALBI's funded income grew 37.1% YOY to SAR 2,031 Mn in 4Q23 driven by strong growth in advances and other interest earnings assets. On the other hand, funded expense grew significantly from SAR 499 Mn in 4Q22 to SAR 1,027 Mn in 4Q23 owing to higher cost of funds as a result of an increase in benchmark rates. Thus, net funded income grew 2.3% YOY to SAR 1,004 Mn in 4Q23. NIMs declined 20 bps YOY to 2.9% in 4Q23. Fees and commission income declined 13.1% YOY to SAR 160 Mn in 4Q23. Exchange income also declined from SAR 120 Mn in 4Q22 to SAR 117 Mn in 4Q23. Other non-funded income declined 9.8% YOY to SAR 56 Mn in 4Q23. As a result, non-funded income declined 9.1% YOY to SAR 333 Mn in 4Q23. Thus, the Bank's total operating income declined marginally 0.8% YOY to SAR 1,337 Mn in 4Q23. Furthermore, the Bank's operating expenses grew marginally 0.9% YOY to SAR 614 Mn in 4Q23 due to an increase in salary and employee-related expenses and depreciation expenses partially offset by a decline in other G&A expenses. However, the Bank's cost-to-income ratio grew 78 bps YOY to 45.9% in 4Q23. Moreover, impairment charges declined substantially from SAR 139 Mn in 4Q22 to SAR 47 Mn in 4Q23. In addition, tax expenses grew 12.5% YOY to SAR 70 Mn in 4Q23 dragging profitability.

Stock Information

Market Cap (SAR, mm)	49,550.00
Paid Up Capital (mm)	10,000.00
52 Week High	51.30
52 Week Low	35.75
3M Avg. daily value(SAR)	64,010,430

4Q23 Result Review (SAR, mm)

Total Assets	143,106
Total Liabilities	127,848
Total Equity	15,258
Total Deposits	112,831
Net Profit	607

Financial Ratios

Dividend Yield (12m)	1.01
Dividend Pay-out (%)	21.11
Price-Earnings Ratio(x)	20.81
Price-to-Book Ratio (x)	3.25
Book Value (SAR)	15.26
Return-on Equity (%)	16.53

Stock Performance

5 Days	-1.29%
1 Months	6.33%
3 Months	32.49%
6 Months	19.40%
1 Year	27.54%
Month to Date (MTD%)	0.30%
Quarter to Date (QTD%)	9.02%
Year to Date (YTD%)	9.02%

Balance Sheet Highlights

Total assets grew 10.5% to SAR 143.1 Bn in 2023. Net advances grew 12.0% to SAR 102.1 Bn in 2023. The Bank's investments grew 7.2% to SAR 22.1 Bn in 2023. Moreover, ALBI's customer deposits recorded a strong growth of 19.0% to SAR 112.8 Bn in 2023. Loan-to-deposit ratio declined from 93.3% in 3Q23 to 90.5% in 4Q23. The Bank's total equity grew 13.9% to SAR 15.3 Bn in 4Q23.

Target Price and Rating

We revise our rating on ALBI from HOLD to REDUCE with an unchanged target price of SAR 44.00. ALBI's asset quality improved as NPL ratio declined from 1.5% in 3Q23 to 1.4% in 4Q23 primarily owing to write-off in the corporate and retail segment. Provision coverage strengthened from 193.2% in 3Q23 to 202.1% in 4Q23. The Bank's capitalization also remained strong with CET 1 ratio of 13.9% and total CAR of 17.8% in 4Q23. Furthermore, net advances grew 12.0% to SAR 102 Bn in 4Q23, driven by a rise in both retail and corporate financing. Customer deposit grew 19.0% to SAR 113 Bn in 4Q23 driven by growth in CASA deposits partially offset by a decline in time deposits. ALBI's CASA deposit grew from SAR 69.6 Bn in 3Q23 to SAR 76.2 Bn in 4Q23. NIMs declined 20 bps YOY and 22 bps QOQ to 2.9% in 3Q23 mainly due to higher cost-of-funds. Cost of funds grew 163 bps YOY and 27 bps QOQ to 3.5% in 4Q23. Moreover, the Bank primary lending is focused on the corporate segment which accounts for 53.1% of total loan book in 4Q23. Whereas retail lending only accounts for 49.7% of total loan book in 4Q23. The Bank should further focus on increasing its retail sector lending as retail loans experience slower repricing compared to the corporate loan book during the declining interest rates scenario. ALBI also trades at an expensive 2024 PB multiple of 2.8x compared to the industry average of 2.2x which renders it expensive. Thus, based on our analysis we revised our rating from HOLD to REDUCE on the stock.

Albilad Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	38.9	35.9	28.7	23.2	20.4	18.4
PB	5.1	4.5	4.0	3.7	3.2	2.8
Dividend Yield	1.4%	NA	NA	1.0%	1.0%	1.1%

FABS Estimates & Co Data

Albilad Bank - P&L

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	YOY Ch
Funded income	1,481	1,975	2,031	2,176	-6.7%	37.1%	2.8%	4,972	7,544	51.7%
Funded expense	-499	-923	-1,027	-1,080	-5.0%	105.8%	11.2%	-1,085	-3,434	216.5%
Net funded income	982	1,052	1,004	1,096	-8.3%	2.3%	-4.5%	3,887	4,110	5.7%
Fees and commissions	184	145	160	174	-8.2%	-13.1%	10.5%	669	621	-7.1%
Exchange income	120	80	117	87	34.6%	-2.8%	45.4%	398	348	-12.5%
Other non-funded income	62	59	56	58	-3.1%	-9.8%	-4.2%	238	224	-6.1%
Total non-funded income	366	284	333	319	4.3%	-9.1%	17.3%	1,305	1,193	-8.6%
Total operating income	1,349	1,336	1,337	1,415	-5.5%	-0.8%	0.1%	5,191	5,303	2.1%
General & admin. Expenses	-608	-576	-614	-629	-2.5%	0.9%	6.5%	-2,320	-2,338	0.8%
Pre provision profit	740	760	724	786	-7.9%	-2.3%	-4.7%	2,871	2,965	3.3%
Impairment	-139	-73	-47	-74	-36.5%	-66.1%	-35.2%	-551	-324	-41.2%
Profit before zakat	602	687	677	712	-4.9%	12.5%	-1.5%	2,321	2,641	13.8%
Zakat expenses	-62	-71	-70	-73	-4.9%	12.5%	-1.5%	-239	-272	13.8%
Net profit	540	616	607	638	-4.9%	12.5%	-1.5%	2,082	2,369	13.8%

FABS estimate & Co Data

Albilad Bank - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	72.8%	78.8%	75.1%	228	-365	74.9%	77.5%	264
NIM	3.1%	3.2%	2.9%	-20	-22	3.3%	3.1%	-22
NIS	2.9%	2.7%	2.5%	-42	-26	3.2%	2.7%	-44
Fees & comms/OI	13.7%	10.8%	12.0%	-168	112	12.9%	11.7%	-117
Other operating inc./OI	13.5%	10.4%	12.9%	-59	253	12.3%	10.8%	-146
Cost to income	45.1%	43.1%	45.9%	78	274	44.7%	44.1%	-60
Impairment/PPP	18.7%	9.6%	6.5%	-1,223	-306	19.2%	10.9%	-825
NP/OI	40.0%	46.1%	45.4%	537	-74	40.1%	44.7%	457
Cost of risk	0.6%	0.3%	0.2%	-42	-11	0.6%	0.4%	-27
Loan-to-deposit	96.1%	93.3%	90.5%	-567	-281	96.1%	90.5%	-567
NPL	1.3%	1.5%	1.4%	6	-10	1.3%	1.4%	4
Coverage excluding collateral	228.3%	193.2%	202.1%	-2,621	886	228.3%	202.1%	-2,621
CET 1	13.6%	13.7%	13.9%	31	19	13.6%	13.9%	31
Capital adequacy	17.7%	17.7%	17.8%	6	10	17.7%	17.8%	6
ROAE	16.1%	16.0%	15.9%	-19	-13	18.6%	17.9%	-71
ROAA	1.6%	1.7%	1.7%	7	0	1.7%	1.7%	1

FABS estimate & Co Data

Albilad Bank - Key B/S items

	4Q22	1Q23	2Q23	3Q23	4Q23	Change
SAR mm						
Net advances	91,179	95,483	98,854	101,603	102,080	12.0%
QOQ change	-1.2%	4.7%	3.5%	2.8%	0.5%	
Total assets	129,543	135,368	135,404	137,573	143,106	10.5%
QOQ change	2.0%	4.5%	0.0%	1.6%	4.0%	
Customer deposits	94,843	105,483	106,287	108,915	112,831	19.0%
QOQ change	1.0%	11.2%	0.8%	2.5%	3.6%	
Total equity	13,399	14,082	14,171	14,613	15,258	13.9%
QOQ change	2.8%	5.1%	0.6%	3.1%	4.4%	

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	46.01	70.0%	32.21
Relative Valuation (RV)	39.30	30.0%	11.79
Weighted Average Valuation (SAR)			44.00
Current market price (SAR)			49.55
Upside/Downside (%)			-11%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.93 and equity risk premium of 3.8%. 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)	6,633
Terminal value (SAR, Mn)	24,120
Book Value of Equity (as of Dec 2023)	15,258
FV to Common shareholders (SAR, Mn)	46,012
No. of share (Mn)	1,000
Current Market Price (SAR)	49.55
Fair Value per share (SAR)	46.01

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,634	3,108	3,521	4,123	4,656
(-) Equity Charge	-1,430	-1,639	-1,878	-2,163	-2,491
Excess Equity	1,204	1,470	1,643	1,959	2,165
Discounting Factor	0.94	0.86	0.80	0.74	0.68
Present Value of Excess Equity	1,127	1,271	1,313	1,446	1,476

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 2.6x.

Company	Market (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
Arab National Bank	9,840	1.0	1.0	9.2	9.2	6.0	6.1
Average		1.9x	1.8x	13.1x	12.1x	4.3%	4.6%
Median		1.5x	1.4x	11.5x	10.7x	4.4%	4.6%
Max		2.3x	2.1x	15.1x	14.0x	5.1%	5.3%
Min		1.3x	1.3x	10.5x	9.9x	3.3%	3.7%

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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