

Arab National Bank (ARNB)

Robust growth in non-core income boosted profitability

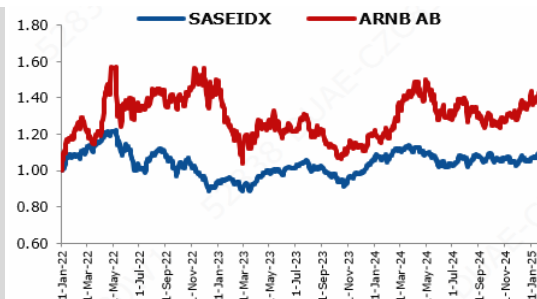
Current Price
SAR 21.66

Target Price
SAR 25.00

Upside/Downside (%)
+15.4%

Rating
BUY

- The cost-to-income ratio improved from 37.8% in 4Q23 to 35.7% in 4Q24.
- The board of directors have decided to distribute cash dividends of SAR 0.65 per share for 2H24.
- Share of results of associates grew from negative SAR 17 Mn in 4Q23 to positive SAR 132 Mn in 4Q24.
- Net Loans and advances grew 11.3% YOY and 1.9% QOQ to SAR 169.5 Bn in 4Q24 driven by solid performance of retail as well as corporate portfolio.
- ARNB's net investments rose 10.4% YOY and 5.3% QOQ to SAR 52.3 Bn in 4Q24.



Stock Information

Market Cap (SAR, Mn)	43,320.00
Paid Up Capital (Mn)	20,000.00
52 Week High	23.51
52 Week Low	18.32
3M Avg. daily value(SAR)	30,622,950

4Q24 Net Profit higher than our estimate

Arab National Bank ("ARNB", "The Bank") recorded 33.4% YOY growth in net profit to SAR 1,256 Mn in 4Q24, higher than our estimate of SAR 1,090 Mn. The growth in net profit is mainly attributed to an increase in net funded income and non-funded income partially offset by an increase in operating expenses and impairments.

4Q24 Result Review (SAR, Mn)

Total Assets	248,307
Total Liabilities	210,158
Total Equity	38,149
Total Deposits	182,198
Net Profit	1,256

P&L Highlights

ARNB's funded income grew 7.2% YOY to SAR 3,639 Mn in 4Q24 attributable to strong growth in advances and investments. On the other hand, funded expenses increased 5.3% YOY to SAR 1,610 Mn in 4Q24 due to growth in deposits and other interest-bearing liabilities. Thus, net funded income grew 8.7% YOY to SAR 2,028 Mn in 4Q24. Fee & commission rose 16.1% YOY to SAR 105 Mn, while Exchange income grew 22.6% YOY to SAR 104 Mn in 4Q24. The Bank recorded a loss from trading activities of SAR 3 Mn in 4Q24, compared to SAR 1 Mn in 4Q23. Dividend income fell 5.3% YOY to SAR 31 Mn in 4Q24. Unrealised gain of FVIS investments stood at SAR 157 Mn in 4Q24 compared to an unrealized loss of SAR 5 Mn in 4Q24. Other operating income fell 20.5% YOY to SAR 23 Mn in 4Q24. Other non-funded income grew significantly from SAR 141 Mn in 4Q23 to SAR 314 Mn in 4Q24. As a result, non-funded income rose from SAR 231 Mn in 4Q23 to SAR 418 Mn in 4Q24. The operating income expanded 16.7% YOY to SAR 2,446 Mn in 4Q24. Operating expenses grew 10.2% YOY to SAR 872 Mn in 4Q24 due to a growth in salaries and employee-related expenses, partially offset by decline in other G&A expenses. Thus, cost-to-income ratio improved from 37.8% in 4Q23 to 35.7% in 4Q24. Impairment charges increased substantially 48.7% YOY to SAR 271 Mn in 4Q24. Share of results of associates grew from negative SAR 17 Mn in 4Q23 to positive SAR 132 Mn in 4Q24.

Financial Ratios

Dividend Yield (12m)	6.00
Dividend Pay-out (%)	52.36
Price-Earnings Ratio(x)	8.72
Price-to-Book Ratio (x)	1.14
Book Value (SAR)	19.06
Return-on Equity (%)	13.44

Stock Performance

5 Days	0.28%
1 Months	1.21%
3 Months	13.40%
6 Months	12.23%
1 Year	3.70%
Month to Date (MTD%)	1.21%
Quarter to Date (QTD%)	2.75%
Year to Date (YTD%)	2.75%

Hence, profit before tax surged 29.8% to SAR 1,435 Mn in 4Q24. ARNB recorded a tax expense of SAR 178 Mn in 4Q24 compared to SAR 144 Mn in 4Q23.

Balance Sheet Highlights

ARNB's net investments rose 10.4% YOY and 5.3% QOQ to SAR 52.3 Bn in 4Q24. Additionally, net loans and advances grew 11.3% YOY and 1.9% QOQ to SAR 169.5 Bn in 4Q24 driven by solid performance of retail as well as corporate portfolio. Furthermore, customer deposits expanded by 9.8% YOY and 0.7% QOQ to SAR 182.2 Bn in 4Q24 with CASA deposits representing 55% of the total deposits. Thus, loan-to-deposit ratio stood at 93.0% in 4Q24 compared to 92.0% in 3Q24 and 91.8% in 4Q23. The Bank's total assets increased 12.1% YOY and 3.0% QOQ to SAR 248.3 Bn in 4Q24.

Target Price and Rating

We revised our rating to BUY on Arab National Bank with a revised target price of SAR 25.00. Arab National Bank recorded a growth in profitability in 4Q24 owing to a growth in net funded as well as non-funded income. It witnessed a contraction in the asset yield which was partially offset by a decline in the cost of funds. As per our calculation, NIMs declined 8 bps YOY & 17 bps QOQ to 3.5% in 4Q24. The share of time deposits also declined from SAR 83.6 Bn in 3Q24 to SAR 82.2 Bn in 4Q24 which is likely to benefit the NIMs since time deposits are a costlier source of funding. ARNB holds a well-diversified loan portfolio with exposure to corporate as well as retail sectors. The management expects advances to grow by the mid-teens in FY2025. The Bank is poised to benefit from its growing investment portfolio in a declining interest rate scenario. ARNB witnessed an improvement in the cost to income ratio in FY2024 despite significant strategic investments in staff, infrastructure, technology, and continued digitalization initiatives. It further expects the cost to income ratio to be recorded below 32.0% in FY2025, which is likely to benefit the profitability. Furthermore, ARNB's asset quality improved as Stage 2 loans as a percentage of total loans declined from 9.3% in FY2023 to 7.1% in FY2024. The reported NPL ratio improved from 1.3% in 3Q24 to 1.2% in 4Q24. Provision coverage ratio improved from 144.5% in 3Q24 to 148.5% in 4Q24, providing cushion against potential bad loans. Moreover, strong underwriting standards led to an improvement in the quality of new loans issued. The Bank's capitalization stood well above the regulatory limits with a Tier 1 ratio of 17.2% and CAR of 18.9% in 4Q24. The regulatory liquidity coverage ratio stood at 132.0% in 4Q24, well above the limit of 100.0%. ARNB expects to record ROE of more than 13.0% in FY2025. The board of directors have decided to distribute cash dividends of SAR 0.65 per share for 2H24. Thus, based on our analysis, we assign a BUY rating on the stock.

ARNB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	20.85	19.85	14.07	10.61	8.70	8.07
PB	1.45	1.42	1.37	1.21	1.13	1.06
Dividend yield	1.4%	2.8%	3.8%	6.3%	6.0%	6.0%

FABS Estimates & Co Data

ARNB- P&L

SAR mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	3,395	3,772	3,639	3,737	-2.6%	7.2%	-3.5%	12,599	14,454	14.7%
Funded expense	-1,529	-1,698	-1,610	-1,735	-7.2%	5.3%	-5.1%	-5,340	-6,482	21.4%
Net funded income	1,865	2,075	2,028	2,002	1.3%	8.7%	-2.2%	7,259	7,972	9.8%
Non-funded income	231	334	418	398	5.0%	81.0%	25.1%	1,308	1,528	16.8%
Operating income	2,096	2,409	2,446	2,400	1.9%	16.7%	1.6%	8,567	9,500	10.9%
Operating expenses	-792	-789	-872	-705	23.8%	10.2%	10.6%	-2,848	-3,128	9.8%
Pre-provision profit	1,305	1,620	1,574	1,695	-7.2%	20.7%	-2.8%	5,719	6,372	11.4%
Impairment	-182	-165	-271	-384	-29.4%	48.7%	64.8%	-992	-764	-23.0%
PBT	1,105	1,462	1,435	1,318	8.9%	29.8%	-1.9%	4,747	5,753	21.2%
Net profit attributable	942	1,243	1,256	1,090	15.3%	33.4%	1.1%	4,071	4,966	22.0%

FABS estimate & Co Data

ARNB - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	89.0%	86.1%	82.9%	-608	-322	84.7%	83.9%	-81
NIM - Calculated	3.5%	3.6%	3.5%	-8	-17	3.5%	3.6%	6
NIS	3.0%	3.1%	3.0%	-2	-12	3.0%	3.0%	0
Fees & comms/OI	4.3%	7.7%	4.3%	-2	-337	6.0%	7.5%	145
Impairment/PPP	14.0%	10.2%	17.2%	325	707	17.3%	12.0%	-536
Cost to income	37.8%	32.8%	35.7%	-211	291	33.2%	32.9%	-31
NP/OI	44.9%	51.6%	51.4%	642	-24	47.5%	52.3%	476
Cost of risk - Calc.	-0.2%	0.4%	0.4%	NM	2	0.4%	0.4%	-3
Loan-to deposit - Calc.	91.8%	92.0%	93.0%	NM	NM	91.8%	93.0%	124
NPL - Calc.	1.5%	1.3%	1.2%	-28	-15	1.5%	1.2%	-28
NPL Coverage - Calc.	144.6%	144.5%	148.5%	385	396	144.6%	148.5%	385
Tier 1	18.8%	17.4%	17.2%	-165	-23	19.0%	17.2%	-184
Capital adequacy	20.9%	19.2%	18.9%	-193	-31	21.0%	18.9%	-210
ROAE	12.1%	13.3%	13.4%	132	15	12.1%	13.4%	134
ROAA	1.9%	2.0%	2.1%	24	9	1.9%	2.1%	24

FABS estimate & Co data

ARNB - Key B/S items

SAR mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	152,235	157,875	161,612	166,330	169,495	11.3%
QOQ change	1.9%	3.7%	2.4%	2.9%	1.9%	
Total assets	221,422	232,146	234,752	240,962	248,307	12.1%
QOQ change	1.5%	4.8%	1.1%	2.6%	3.0%	
Customer deposits	165,861	174,541	175,586	180,843	182,198	9.8%
QOQ change	7.5%	5.2%	0.6%	3.0%	0.7%	
Total equity	35,778	35,170	36,172	36,381	38,218	6.8%
QOQ change	6.1%	-1.7%	2.9%	0.6%	5.0%	

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	25.24	70%	17.67
Relative Valuation (RV)	24.43	30%	7.33
Weighted Average Valuation (SAR)			25.00
Current market price (SAR)			21.66
Upside/Downside (%)			+15.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.3%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 1.0 and equity risk premium of 4.3%. 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)	5,184
Terminal value (SAR, Mn)	8,384
Book Value of Equity (as of Dec 2024)	36,918
FV to Common shareholders (SAR, Mn)	50,486
No. of share (Mn)	2,000
Current Market Price (SAR)	21.66
Fair Value per share (SAR)	25.24

Residual Income Method

(All Figures in SAR Mn)	2025F	2026F	2027F	2028F	2029F
Net Profit	5,351	5,592	5,654	5,716	5,750
(-) Equity Charge	-3,793	-4,043	-4,295	-4,550	-4,807
Excess Equity	1,558	1,549	1,359	1,166	943
Discounting Factor	0.91	0.84	0.77	0.70	0.64
Present Value of Excess Equity	1,425	1,297	1,041	817	604

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	23,206	1.4	1.3	9.3	8.9	5.7	5.9
Alinma Bank	20,571	2.1	1.9	13.1	11.9	3.9	3.8
Banque Saudi Fransi	11,026	1.0	1.0	9.4	8.8	6.1	6.4
Saudi National Bank	54,864	1.2	1.1	9.7	8.9	5.8	6.5
Bank Albilad	13,019	2.4	2.1	16.2	14.2	1.8	2.1
Saudi Investment Bank	5,104	1.2	1.1	10.6	1.1	5.9	5.8
Average		1.5x	1.4x	11.4x	9.0x	4.9	5.1
Median		1.3x	1.2x	10.2x	8.9x	5.8	5.8
Max		1.9x	1.7x	12.5x	11.2x	5.9	6.3
Min		1.2x	1.1x	9.4x	8.9x	4.3	4.3

Source: FAB Securities

