

Riyad Bank

Strong growth in non-funded income boosted bottom-line

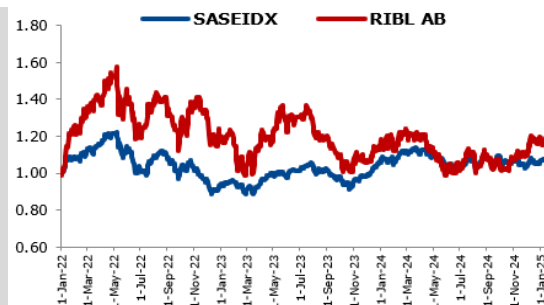
Current Price
SAR 30.00

Target Price
SAR 36.00

Upside/Downside (%)
+20%

Rating
BUY

- The Bank's witnessed robust growth in Corporate and Retail sectors, driving the net income in FY2024 with a healthy demand from corporates and SME's.
- Net Loans and advances grew 16.7% YOY and 4.8% QOQ to SAR 320.1 Bn in 4Q24.
- Riyad Bank customer deposits increased 20.2% YOY and 4.4% QOQ in 4Q24 to SAR 306.4 Bn driven by a rise in demand and time deposits.
- The Bank's asset quality improved as the NPL ratio fell to 1.0% in 4Q24 compared to 1.2% in 3Q24.
- The cost to income ratio declined 215 bps YOY to 30.2% in 4Q24.
- Proposed a dividend of SAR 0.90 per share for 2H24 equivalent to SAR 2.7 Bn resulting in a total dividend of SAR 5.1 Bn for 2024 with a dividend yield of 5.7%.



4Q24 Net Profit lower than our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 15.5% YOY increase in net profit to SAR 2,257 Mn in 4Q24, lower than our estimate of SAR 2,532 Mn in 4Q24. The increase in net profit is mainly driven by a strong growth in net funded and non-funded income partially offset by a rise in operating expenses, impairments, and tax charge.

P&L Highlights

Riyad Bank's special commission income increased 16.2% YOY to SAR 6,508 Mn in 4Q24 due to a strong growth in loans and investment. The Bank's special commission expense rose 25.1% YOY to SAR 3,075 Mn in 4Q24, primarily due to a higher cost of funds and rise in deposits. As a result, the net special commission income increased 9.2% YOY to SAR 3,432 Mn in 4Q24. Fee and commission income recorded a strong growth of 48.9% YOY to SAR 825 Mn in 4Q24 owing to an increase in fees from banking services driven by growth in fees from credit facilities & advisory and trade finance, while trading income rose 72.8% YOY to SAR 124 Mn in 4Q24 owing to higher FX income. Furthermore, other income increased significantly from SAR 164 Mn in 4Q23 to SAR 273 Mn in 4Q24 owing to solid growth in investment related income. As a result, the Bank's non-funded income surged 54.7% YOY to SAR 1,222 Mn in 4Q24. Hence, Riyad Bank's total operating income rose 18.4% YOY to SAR 4,655 Mn in 4Q24. The Bank's operating expenses increased 10.5% YOY to SAR 1,408 Mn in 4Q24 due to a rise in other operating and other general and administrative expenses due to higher employee-related costs. Impairment charges rose 52.2% YOY to SAR 735 Mn in 4Q24 due to an increased impairment charge on investments and a substantial charge for credit losses. Zakat expense rose 17.1% YOY to SAR 263 Mn in 4Q24 in line with growth in profitability.

Stock Information

Market Cap (SAR, Mn)	87,600.00
Paid Up Capital (Mn)	30,000.00
52 Week High	31.55
52 Week Low	23.88
3M Avg. daily value(SAR)	70,265,840

4Q24 Result Review (SAR, Mn)

Total Assets	450,379
Total Liabilities	382,437
Total Equity	58,556
Total Deposits	306,423
Net Profit	2,257

Financial Ratios

Dividend Yield (12m)	5.31
Dividend Pay-out (%)	49.80
Price-Earnings Ratio(x)	9.39
Price-to-Book Ratio (x)	1.49
Book Value (SAR)	19.55
Return-on Equity (%)	16.61

Stock Performance

5 Days	-1.02%
1 Months	0.00%
3 Months	5.61%
6 Months	12.52%
1 Year	-3.63%
Month to Date (MTD%)	-1.02%
Quarter to Date (QTD%)	2.10%
Year to Date (YTD%)	2.10%

Balance Sheet Highlights

Riyad Bank's total assets expanded 16.4% YOY and 3.9% QOQ to SAR 450.4 Bn in 4Q24. The Bank's customer deposits increased 20.2% YOY and 4.4% QOQ to SAR 306.4 Bn in 4Q24 driven by a rise in demand and time deposits. Net Loans and advances grew 16.7% YOY and 4.8% QOQ to SAR 320.1 Bn in 4Q24 owing to a strong growth in corporate loans. Furthermore, the Bank's headline loan-to-deposit marginally rose from 104.0% in 3Q24 to 104.5% in 4Q24. Total equity increased 9.1% YOY and 3.5% QOQ to SAR 58.6 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on Riyad Bank with a target price of SAR 36.0 per share. The Bank's net advances increased significantly 16.7% YOY to SAR 320.1 Bn in 4Q24 owing to a strong growth in corporate loans which grew 25% YOY. Riyad Bank further estimates its loan book to grow by low double digits in 2025 owing to healthy volumes expected in the corporate and SME loans. The Bank's interest rate sensitivity remained unchanged as of December 2024 with a SAR 25.3 Mn impact on net funded income for a 25-bps change in interest rate. The Bank's cost to income ratio declined 215 bps YOY to 30.2% in 4Q24 driven by solid cost efficiency owing to investments in digital initiatives. Riyad Bank asset quality improved with a healthy decline in NPL ratio to 1.0% in 4Q24 from 1.2% in 3Q24 driven by solid improvement across the manufacturing and construction sector partially offset by increase in the commerce sector, whereas the provision coverage ratio rose from 144.9% in 3Q24 to 167.1% in 4Q24. In addition, the Bank's capitalization improved with a Tier 1 ratio of 16.4% and CAR of 18.9% in 4Q24. RIBL proposed a dividend of SAR 0.90 per share for 2H24 equivalent to SAR 2.7 Bn resulting in a total dividend of SAR 5.1 Bn for 2024 with a dividend yield of 5.7%. Thus, looking at the positives, we maintain our BUY rating on the stock.

Riyad Bank - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	19.09	14.94	12.94	11.62	9.98	9.00
PB	2.03	1.97	1.95	1.68	1.54	1.41
Dividend yield	1.7%	3.5%	3.8%	4.7%	5.7%	5.7%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR Mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Special commission inc	5,600	6,200	6,508	6,905	-5.8%	16.2%	5.0%	20,606	24,182	17.4%
Special comm expense	-2,459	-2,907	-3,075	-3,143	-2.2%	25.1%	5.8%	-8,192	-11,309	38.1%
Net special comm inc	3,142	3,293	3,432	3,762	-8.8%	9.2%	4.2%	12,414	12,873	3.7%
Fee & commission income	554	735	825	815	1.2%	48.9%	12.3%	2,385	2,991	25.4%
Trading income, net	72	240	124	224	-44.8%	72.8%	-48.3%	420	529	26.1%
Other operating Income	164	277	273	335	-18.7%	66.3%	-1.6%	680	891	31.0%
Total other op. inc	790	1,252	1,222	1,375	-11.1%	54.7%	-2.3%	3,485	4,411	26.6%
Operating income	3,932	4,545	4,655	5,137	-9.4%	18.4%	2.4%	15,899	17,285	8.7%
Operating expenses	-1,274	-1,307	-1,408	-1,591	-11.5%	10.5%	7.7%	-4,969	-5,286	6.4%
Pre-provision profit	2,658	3,237	3,247	3,546	-8.4%	22.1%	0.3%	10,930	11,999	9.8%
Impairment	-483	-286	-735	-724	1.6%	52.2%	157.0%	-1,972	-1,632	-17.2%
Profit Before Tax	2,179	2,959	2,520	2,822	-10.7%	15.7%	-14.8%	8,971	10,397	15.9%
Zakat	-225	-305	-263	-290	-9.3%	17.1%	-13.8%	-925	-1,075	16.2%
Net profit for the year	1,955	2,654	2,257	2,532	-10.9%	15.5%	-14.9%	8,046	9,322	15.9%

FABS estimate & Co Data

Riyad Bank - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	79.9%	72.5%	73.7%	-616	128	78.1%	74.5%	-360
NIM	3.4%	3.3%	3.2%	-19	-4	3.4%	3.1%	-28
NIS	2.9%	2.7%	2.7%	-20	-3	2.9%	2.6%	-39
Fees & comms/OI	14.1%	16.2%	17.7%	363	157	15.0%	17.3%	231
Trading/OI	1.8%	5.3%	2.7%	84	-261	2.6%	3.1%	42
Cost to income	32.4%	28.8%	30.2%	-215	148	31.3%	30.6%	-67
Impairment/PPP	18.2%	8.8%	22.6%	447	1,381	18.0%	13.6%	-443
NP/OI	49.7%	58.4%	48.5%	-121	-990	50.6%	53.9%	333
Cost-of-risk	0.7%	0.4%	0.9%	21	54	0.7%	0.5%	-20
Loan-to-deposit	107.6%	104.0%	104.5%	-319	43	107.6%	104.5%	-319
NPL calculated	1.2%	1.2%	1.0%	-26	-22	1.2%	1.0%	-26
NPL coverage	142.1%	144.9%	167.1%	2,496	2,213	142.1%	167.1%	2,496
Tier 1	17.6%	15.6%	16.4%	-124	79	17.6%	16.4%	-124
Capital adequacy	20.7%	18.2%	18.9%	-179	79	20.7%	18.9%	-179
ROAE	15.3%	16.2%	16.0%	78	-17	15.3%	16.0%	78
ROAA	2.2%	2.2%	2.2%	7	0	2.2%	2.2%	7

FABS estimate & Co Data

Riyad Bank - BS Key items

SAR mm	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	274,398	282,854	291,051	305,408	320,089	16.7%
QOQ change	2.7%	3.1%	2.9%	4.9%	4.8%	
Total assets	386,849	404,859	405,029	433,366	450,379	16.4%
QOQ change	2.6%	4.7%	0.0%	7.0%	3.9%	
Customer deposits	254,908	270,948	276,009	293,575	306,423	20.2%
QOQ change	0.1%	6.3%	1.9%	6.4%	4.4%	
Total equity	53,696	53,514	55,783	56,577	58,556	9.1%
QOQ change	5.5%	-0.3%	4.2%	1.4%	3.5%	

FABS estimate & Co Data

Valuation:

We use the Residual Income and Relative Valuation (RV) method to value RIBL. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	37.94	70%	26.56
Relative Valuation (RV)	31.48	30%	9.44
Weighted Average Valuation (SAR)			36.00
Current market price (SAR)			30.0
Upside/Downside (%)			+20%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.2%. Cost of equity is calculated by using the 10-year government bond yield of 5.3%, beta of 0.95 and equity risk premium of 4.1%. Government bond yield is calculated after adding KSA 10-year CDS spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	15,637
Terminal value (SAR, Mn)	39,441
Book Value of Equity (as of Dec 2024)	58,556
FV to Common shareholders (SAR, Mn)	113,634
No. of share (Mn)	2,995
Fair Value per share (SAR)	37.94

Residual Income Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	10,297	10,035	10,304	11,128	12,072
(-) Equity Charge	-5,859	-6,285	-6,736	-7,262	-7,820
Excess Equity	4,438	3,749	3,568	3,866	4,252
Discounting Factor	0.93	0.85	0.78	0.71	0.65
Present Value of Excess Equity	4,124	3,191	2,782	2,760	2,780

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RIBL and it is valued using the PB multiple. It is valued at a PB multiple of 1.5x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Bank Albilad	12,770	2.3	2.1	15.9	13.8	1.8%	2.3%
Al Rajhi Bank	108,832	3.6	3.3	18.3	16.4	3.0%	3.4%
Alinma Bank	20,273	2.1	1.8	12.5	11.4	3.6%	3.9%
Arab National Bank	11,811	1.1	1.0	8.8	8.7	5.8%	6.0%
Banque Saudi Fransi	11,437	1.0	1.0	9.2	8.9	6.2%	6.4%
Saudi National Bank	56,296	1.2	1.1	9.6	8.8	5.8%	6.3%
Average		1.9x	1.7x	12.4x	11.3x	4.4%	4.7%
Median		1.6x	1.5x	11.1x	10.2x	4.7%	5.0%
Max		2.3x	2.0x	15.0x	13.2x	5.8%	6.2%
Min		1.1x	1.0x	9.3x	8.8x	3.2%	3.5%

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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