

Bank Aljazira (BJAZ)

Target Price: SAR 19.0/share

Downside: 1.1%

Recommendation

Hold

Current Market Price (SAR)	19.2
52wk High / Low (SAR)	19.8/15.3
Mkt. Cap. (USD/SAR Mn)	4,196/15,744
Shares Outstanding (mn)	820
Free Float (%)	99.5%
3m Average Vol. (000)	2,666.9
3m Avg Daily Turnover (SAR'000)	46,912
Dividend Yield '24e (%)	3.1%
Adjusted P/E'24e (x)*	16.3
P/B'24e (x)	1.2

Source: Bloomberg

*EPS post sukuk payment

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Net yield income	2,717	2,607	2,384	2,717
Non yield income	922	888	938	936
Operating income	3,547	3,495	3,322	3,653
Impairment charge	625	286	212	328
Net income	1,006	1,109	1,018	1,161
Cost to income (%)	50%	55%	57%	54%
EPS (SAR)	1.23	1.35	1.24	1.42
Adjusted EPS (SAR)*	1.18	1.26	1.08	1.18
RoE (%)	9%	9%	8%	9%
Financing	62,434	70,599	83,750	90,641
Customers' deposits	78,365	86,023	91,959	95,060

Source: Company Reports, Yaqeen Capital

*EPS post sukuk payment

Major Shareholders (%)

Ibraheem Abdurahman Mohammed Al Konaibit	5.94%
Consolidated Brothers Company	5.00%

Source: Bloomberg, Yaqeen Capital

Lower provisions contributed to bottom-line growth

- BIAZ net income increased by 18.6% YoY and 5.9% QoQ to SAR 276mn in 3Q2023 largely on account of a significant decline in provisions (SAR 49mn vs. SAR 103mn in 3Q2022) and decreased operating expenses.
- Operating income came lower by 3.2% YoY (+5.6% QoQ) to SAR 853mn in 3Q2023 owing to lower net yield income (-7.1% YoY, +7.5% QoQ). However, the impact was mitigated by higher net fee income (+19.7% YoY, +13.2% QoQ) during the quarter.
- Operating expenses declined to SAR 488mn (-3.0% YoY, +5.3% QoQ) in 3Q2023 mainly led by lower other operating expenses (SAR 3mn vs. SAR 20mn in 3Q2022). Yet, cost to income ratio remained broadly flat at 57.2% in 3Q2023 compared to 57.1% in 3Q2022.
- Gross financing portfolio grew 16.4% YoY to SAR 82.2bn (+5.7% QoQ) in 3Q2023 driven by Commercial segment (63% of total portfolio as of Sep 2023, +32.1% YoY) while Consumer segment (35%, -3.8% YoY) posted sluggish performance.
- Customer deposits of SAR 90.6bn were higher by +10.2% YoY (-1.6% QoQ) in 3Q2023 attributable to higher time deposits (~56% of total deposits, +35.7% YoY). Meanwhile, demand deposits declined by 15.8% YoY (-1.1% QoQ) in 3Q2023.
- Capital adequacy ratio (CAR) dropped marginally to 20.2% as of Sep 2023 compared to 20.9% as of Sep 2022.
- For 9M2023, net income declined by 14.4% YoY to SAR 741mn due to lower net yield income (-14.0% YoY), however, lower provisions (-31.8% YoY) provided some support to the bottom-line.

Outlook & Valuation: We maintain a positive outlook on domestic banks due to the anticipated sustained strong credit demand propelled by government-backed mega investment projects. This is reinforced by the likely surge in funding demand from the private sector as interest rates are projected to decline. Furthermore, robust margins, strong capitalization levels, and excellent asset quality fortify our optimism toward domestic banks. Given this backdrop, we expect BIAZ earnings to grow steadily in the medium to long term. However, the bank may continue to underperform among Shariah-compliant peers due to relatively lower NIMs, a significantly higher cost-to-income ratio, and lower ROE. Accordingly, we have valued the bank at a much lower P/B multiple compared to its peers. Based on a 1-year forward average P/B of 1.2x and FY2024e BVPS of SAR 15.8, we arrive at a fair value of SAR 19.0/share (1.1% downside from current level), implying Hold recommendation on the stock.

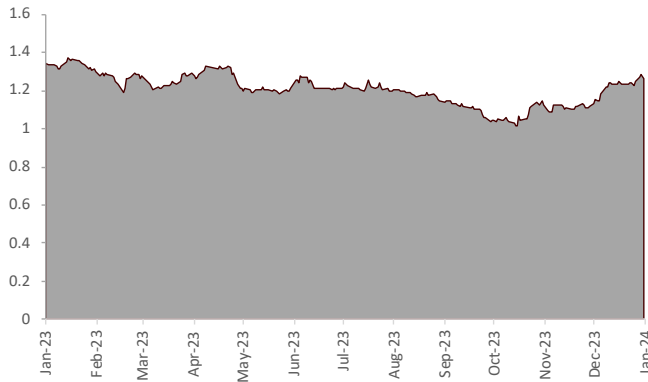
Financial Summary

SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Net yield income	608	654	-7%	566	7%
Non yield income	245	227	8%	242	1%
Operating income	853	881	-3%	808	6%
Impairment charge	49	103	-52%	52	-7%
Net income	276	233	19%	261	6%
Cost to income (%)	57%	57%		57%	
EPS (SAR)	0.34	0.28	19%	0.32	6%
Adjusted EPS (SAR)*	0.67	0.28	18%	0.27	24%

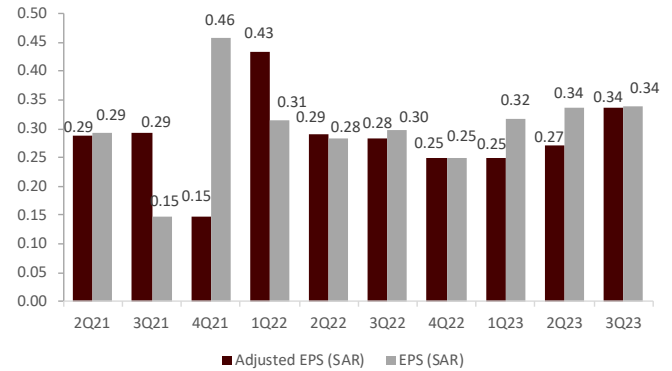
Source: Company Reports, Yaqeen Capital

*EPS post sukuk payment

Price to Book Ratio Trend



EPS & Adjusted EPS* (SAR) Trend



*EPS post sukuk payment

Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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