

Riyad Bank

Decline in Non-funded income and increase in Operating expenses reduce profitability

1Q21 net profit higher than our estimate

Riyad Bank recorded a drop by 8.3% YOY to SAR1,354 mm in 1Q21 from SAR1,476 mm in 1Q20, beating our estimate by 12.1%. This decrease was primarily due to an increase in Operating expenses and a reduction of Non-funded income.

P&L highlights

Operating income has decreased by 2.1% YOY in 1Q21 to SAR2,824 mm, beating our forecast by 1.6%. Other Non-funded income slightly decreased by 0.1% to SAR245 mm in 1Q21. Moreover, Non-funded income dropped by 18.8% YOY to SAR728 mm in 1Q21 from SAR896 mm in 1Q20, reducing the profitability. Total Non-funded income declined due to a decrease by 64.1% YOY in Trading income to SAR28 mm in 1Q21 and a decrease by 20.5% YOY in Fees and commissions to SAR454 mm in 1Q20. At the same time, the Net Funded income increased by 5.4% YOY to SAR2,096 mm in 1Q21 from SAR1,989 mm in 1Q20, due to a decrease by 67% YOY in Funded expenses to SAR204 mm from SAR619 mm in 1Q20. Whereas the Funded income decreased by 11.8% YOY to SAR2,300 mm in 1Q21 from SAR2,608 mm in 1Q20. Operating expenses have increased by 6.1% YOY to SAR982 mm in 1Q21. The Cost to Income "C/I" ratio rose by 271 bps to 34.8% from 32.1% in 1Q20. Impairment charges dropped by 2% YOY to SAR302 mm from SAR308 mm in 1Q20.

Balance sheet highlights

Net advances increased by 7.5% YOY to SAR196.4 bn in 1Q21 from SAR182.7 bn in 1Q20. At the same time, Customer deposits climbed by 3% YOY to SAR198.5 bn in 1Q21 from SAR192.9 bn in 1Q20. Total assets have increased by 10.1% YOY to SAR308 bn in 1Q21, and the equity climbed by 17% YOY to SAR44.2 bn in 1Q21 compared to SAR37.7 bn in 1Q20.

Target price and rating

We maintain BUY rating on Riyad Bank with a target price of SAR28.00. Riyad Bank is one of the largest financial institutions in the Kingdom of Saudi Arabia and the Middle East, with a mission to help people, organizations, and society achieve their aspirations by being their trusted and caring financial solutions partner. Riyad Bank, the third-largest bank in SAUDI, has recorded a drop by 8% YOY in the Net profit to SAR 1,354 million in 1Q21 compared to SAR 1,476 million in 1Q20. Whereas the Net Operating income has decreased by 2.1% YOY to SAR 2,824 million, and that before the Impairments and Zakat has also reduced by 6.4% YOY to SAR 1,842 mm in 1Q21. While the Operating expenses have increased to SAR 982 million from SAR925 in 1Q20. As a result, the Cost to income ratio has climbed to 34.8% from 34.3% in 1Q20. The Bank started to recover from the COVID-19

Rating : BUY

First Look Note – 1Q21

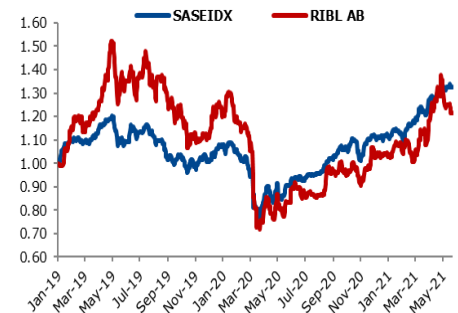
Sector: Banking

Recommendation

Current Price (23–May)	23.88
Target Price	28.00
Upside (%)	+17.25%

Stock Information

Market Cap (SAR/mm)	71,640.00
Paid Up Capital (mm)	30,000.00
52 Week High	27.20
52 Week Low	16.54
3M Avg. daily value (SAR)	45,876,460



Financial Ratios

Dividend Yield (12month)	2.1
Dividend Payout	0.00
Price-Earning Ratio	15.68
Price-to-Book Ratio	1.62
Book Value	14.74
Return-on Equity	11.20
Earning Per Share	1.52
Beta	1.21

Stock Performance

5 Days	-2.77%
1 Months	-6.35%
3 Months	20.97%
6 Months	20.00%
1 Year	45.61%
Month to Date (MTD%)	-10.39%
Quarter to Date (QTD%)	6.42%
Year to Date (YTD%)	18.22%

impact and approved that with having a strong growth in the Balance sheet for the 1Q21. The Bank's Net loans increased by 7.5% YOY to SAR196 billion in 1Q21 compared to SAR 183 bn in 1Q20. Besides, the Customer deposits also increased by 3% YOY to SAR 199 billion in the same period last year. Therefore, the ADR ratio has increased by 416 bps to reach 98.9% compared to 94.8% in 1Q20. The Bank's NPL ratio and NPL coverage ratio stood at 1.96% and 123% in 1Q21, respectively. The Risk-weighted assets have increased by 6.4% to SAR 275 bn in 1Q21, and the Tier 1 capital ratio recorded 16.1% in 1Q21. As a result, the Bank's Capital Adequacy Ratio (CAR) remained strong at 19.7% in 1Q21. The Bank's Loans to Deposits ratio (LDR) stood at 78% in 1Q21. As for the Net Stable Funding ratio (NSFR) and Liquidity Coverage ratio (LCR) stood at 128% and 181% in 1Q21, respectively, reflecting strong funding and liquidity. In the 1Q21, Riyadh Bank has achieved its strategic transformation exceptionally well, making it the fastest-growing bank in SAUDI for the past 3 years. To meet the customer needs during the pandemic outbreak, the Bank has developed the technical infrastructure and advanced the activation of digital capabilities. In addition, Riyadh Bank has positioned among the strongest brands and one of the best work environments by achieving specific targets. To become the best bank in Saudi Arabia, Riyadh bank has set a strategy that will be delivered across 3 areas. First, the value which comes through innovation by creating new markets through digital eco-systems, disrupting me-too propositions, and integrating Advanced Analytics into BAU. Second, the Enablement through transforming core technology infrastructure and operating model. Third and last, the Efficiency will be through digitization. Riyadh bank is given a rating of BBB+ by S&P. Riyadh Bank is trading at a P/B of 1.62X against its peer average of 1.42X. Based on the above, we assign a BUY rating on this stock.

Riyad bank - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
PE (X)	18.1	23.2	12.8	15.2	13.3
PB (X)	1.9	1.9	1.8	1.6	1.4
Dividend yield (%)	3.1%	3.2%	4.5%	2.1%	4.2%

FABS estimate and Co data

Riyad Bank-P&L

SAR mm	1Q20	4Q20	1Q21	1Q21F	Var.	YOY ch	QOQ ch	2020	2021F	Change
Funded income	2,608	2,294	2,300	2,363	-2.7%	-11.8%	0.2%	9,813	9,900	0.9%
Funded expense	-619	-259	-204	-366	-44.2%	-67.0%	-21.0%	-1,600	-1,534	-4.1%
Net funded income	1,989	2,036	2,096	1,997	4.9%	5.4%	2.9%	8,214	8,365	1.8%
Fees and comm.	572	437	454	520	-12.6%	-20.5%	4.0%	1,874	1,984	5.9%
Trading gain/(loss)	79	0	28	43	-34.2%	-64.1%	NM	218	185	-15.1%
Oth. non-funded inc.	245	317	245	219	12.0%	-0.1%	-22.5%	900	954	6.1%
Non-funded income	896	754	728	782	-6.9%	-18.8%	-3.4%	2,992	3,124	4.4%
Operating income	2,885	2,790	2,824	2,779	1.6%	-2.1%	1.2%	11,205	11,489	2.5%
Operating expenses	-925	-958	-982	-921	6.6%	6.1%	2.5%	-3,635	-3,751	3.2%
Pre-provision profit	1,960	1,831	1,842	1,858	-0.9%	-6.0%	0.6%	7,571	7,738	2.2%
Impairment	-308	-681	-302	-490	-38.3%	-2.0%	-55.6%	-2,106	-1,713	-18.7%
Share in assoc.	8	6	-11	5	NM	NM	NM	19	21	9.4%
PBT	1,659	1,157	1,529	1,373	11.4%	-7.9%	32.2%	5,484	6,047	10.3%
Tax	-183	-277	-175	-165	6.2%	-4.4%	-36.8%	-769	-726	-5.6%
Net profit attributable	1,476	880	1,354	1,208	12.1%	-8.3%	53.9%	4,715	5,321	12.9%

FABS estimate & Co Data

Riyadh Bank—P&L KPI

	1Q20	4Q20	1Q21	YOY Bps	QQQ Bps	2020	2021F	Ch. Bps
SAR mm								
Net FI/OI	68.9%	73.0%	74.2%	528	124	73.3%	72.8%	-49
NIM	3.6%	3.2%	3.2%	-221	-395	3.3%	3.0%	-208
NIS	3.4%	3.2%	3.2%	10	-181	3.3%	3.0%	-2
Fees & comms/OI	19.8%	15.7%	16.1%	-373	43	16.7%	17.3%	55
Trading/OI	2.7%	0.0%	1.0%	-173	100	1.9%	1.6%	-33
Cost to income	32.1%	34.3%	34.8%	271	43	32.4%	32.6%	21
Impairment/PPP	15.7%	37.2%	16.4%	68	-2,077	27.8%	22.1%	-569
NP/OI	51.2%	31.5%	47.9%	-323	1,641	42.1%	46.3%	424
ROAE	14.6%	10.8%	3.3%	-1,128	-754	10.8%	12%	116
ROAA	2.1%	1.5%	0.5%	-159	-106	1.5%	1.7%	14

FABS estimate & Co Data

Riyadh Bank-B/S Key items

	1Q20	2Q20	3Q20	4Q20	1Q21	YOY ch
SAR mm						
Net advances	182,784	187,651	190,823	191,347	196,443	7.5%
QOQ change	5.1%	2.7%	1.7%	0.3%	2.7%	
Total assets	279,697	295,083	308,558	310,088	308,036	10.1%
QOQ change	5.2%	5.5%	4.6%	0.5%	-0.7%	
Customer deposits	192,902	199,987	201,292	203,039	198,598	3.0%
QOQ change	-0.8%	3.7%	0.7%	0.9%	-2.2%	
Total equity	37,797	40,786	42,655	44,355	44,228	17.0%
QOQ change	-6.8%	7.9%	4.6%	4.0%	-0.3%	

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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