

Saudi Banking Sector – July 2021

Impairments and interest rate cuts impacted earnings and asset quality; Resumed economies to drive growth.

Sector Weighting:

NEUTRAL

Preview 2Q 2021

Preferred stock

We reiterate our MARKET WEIGHT rating on the Saudi banking sector. The last rating action by Fitch Ratings on the outlooks of eight KSA banks' Long-Term Issuer Default Ratings was revised to 'Negative' from 'Stable', while retaining the ratings at 'BBB+'. The banks are namely Arab National Bank (ANB), Riyadh Bank, Banque Saudi Fransi (BSFR), Alinma Bank, Saudi Investment (SAIB), Bank Aljazira (BAJ), Gulf International Bank – Saudi Arabia (GIB SA). Fitch Ratings has revised the Saudi National Bank's (SNB) Outlook to Stable from Negative, while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'A-', while Riyadh Bank's (Riyad) Outlook to Stable from Negative, while affirming the bank's 'BBB+' and Al Rajhi Banking and Investment Corporation's (ARB) Outlook to Stable from Negative, while affirming the bank's 'A-'. However, Despite the tough economic outlook and the negative ratings by Fitch, it is believed that the Saudi Arabian government has the ability to strengthen the banking industry, with the help of their large, although declining, external reserves. KSA banks' Net Interest Margins (NIM) are expected to be under pressure due to lower interest rates.

Among the Saudi banks in our coverage, our preferred stocks are **1) SNB:** We assign our ACCUMULATE rating on the stock owing to its merger with SAMBA bank, low non-performing financing (NPF) ratio, solid liquidity buffers, well covered with Loan loss coverage, and strong earnings and profitability. **2) BSFR:** aim is to become a modern and experienced focused bank in the region. BSFR proposed dividends with respect to 2019 is SAR1.00 per share. For 2020, the BOD recommended dividends of SAR0.40 per share. BSFR is rated BBB+ by Standard & Poor's stable & A1 by Moody's negative. **3) RIBL:** one of the largest financial institutions in the Kingdom of Saudi Arabia and the Middle East. Riyadh bank is set to distribute SAR0.50 per share for 2020 giving us 3.9% as Dividend Yield. S&P. gives Riyadh bank a rating of BBB+ The stock is trading at a PB ratio of 1.78x

Key Industry Themes

The pandemic has put financial resilience to the test, as well as the operational, organizational, reputational, and business-model resilience of banks in KSA. Accepting the new working reality opened new possibilities: robust institutions resist threats and change and develop for the better. Saudi banks are assessing how well their operational resilience strategies fared during the Covid-19 crisis. Banks have been pushed even more to invest in a solid operational resilience strategy by treating it as a business opportunity. The proper use of data may result in cost savings and efficiency advantages. The Saudi Arabian banking sector's financial highlights for FY2020 demonstrates Covid-19's unmistakable impact. However, there is complete agreement that the full-year figures show a much better conclusion to a year whether compared to the previous financial crisis or regional or worldwide economies. Except for SABB's one-time goodwill impairment, the sector has done extraordinarily well in recovering from the impending uncertainty during the height of the epidemic. This is a direct result of the outstanding government assistance provided through SAMA's relief programs. With a solid 12.6% net rise YoY, backed by solid growth across mortgage finance, the loan book has been the proverbial silver lining of the year. On the other hand, SAMA's large deposit injections under the assistance program, as well as general liquidity protection by corporations and people, have resulted in a 9.2% increase in bank and non-bank deposit growth. Despite decreased profits, Saudi banks are expected to outperform their regional counterparts on average. This is due to the pandemic's relatively minor impact on the quality of banks' loan books, as well as the greater growth of mortgage lending. Based on a large rise of 39.4% in the impairment charge for FY 2020 compared to FY 2019, the average NPL coverage ratio improved to 164% in FY 2020, up from 160% in FY 2019. Saudi banks supported the private sector by reforming or restructuring their budgets without providing additional funds. This indicates that, despite enormous uncertainty during FY 2020, financial situations have flourished rather than merely survived. In 2021, the cost of risk is expected

to remain higher at around 120 basis points. This underscores the belief that the economy is still being weighed down by the fragile global health situation and foreign travel restrictions. Meanwhile, Control testing and monitoring modifications were necessary for operational resilience during Covid-19, and banks enhanced their capacity to respond to future unanticipated incidents. Hackers and state actors now have a larger "attack surface," increasing cyber danger. As a result, there has been a rise in cyberattacks, both locally and worldwide, owing to system vulnerabilities revealed by the broad use of remote work. With cyber risk on the rise, banks had no choice but to strengthen their cybersecurity defenses by training and employing qualified staff, as well as upgrading their systems as needed. Banks may revolutionize their operations by allowing employees to work remotely. While the apparent and compelling reason for banks to encourage remote working is cost savings, there are also unanticipated advantages to this new working reality. The pool of accessible talent has broadened because of remote employment. This implies that companies may not only draw talent from across the world, but it may also prove to be an efficient tool to recruit local personnel from around the Kingdom, despite mobility constraints or isolated living circumstances. For The Moment, Digital banking must be combined with a focus on attracting and developing digital leaders. A new leadership strategy is emerging that deviates from standard corporate leadership attributes. The digital maverick approach is naturally dynamic and requires multi-modal thinking. Fintech growth in the Kingdom is moving at a rapid pace. Fintech is increasingly seen as a facilitator rather than a disruptor by banks. Banks are increasing their investments in fintech startups as well as their digital banking channels. SAMA achieved significant progress on its long-term goals of developing the Saudi fintech and digital banking industries.

1) Saudi Arabia Wants to Help Small and Medium-Sized Businesses (SMEs) Increase their Export Potential:

After its inception last year, the Saudi EXIM Bank has authorized approximately SR8 billion (\$2.13 billion) in loans to non-oil exporters. The lender was created as part of the government's Vision 2030 target of increasing the non-oil economy's export earnings. the bank provides 17 separate credit solution items focused on the needs of Saudi exporters and their international customers. Fee waivers for newly established industrial companies with up to five workers are one kind of assistance that can be used. The Saudi Export-Import Bank has approved approximately \$2.13 billion in loans to non-oil exporters since 2020. in addition to offering affordable export finance, guarantees, and export credit insurance coverage. Entrepreneurs should contact authorities with expertise in this area, and small businesses should attend overseas exhibits and conferences to be able to sell their goods outside of the Kingdom through a variety of outlets. The "Made in Saudi" campaign comes at a crucial moment, the latest skillset of young Saudis would result in a major transition in a short time. The Saudi EXIM Bank will be on hand to assist SMEs in obtaining the necessary logistics to become exporters.

2) Saudi Tourism Fund Enlists Local Bank for \$346.7 Million Project:

Saudi Arabia's Tourism Development Fund, in partnership with Riyadh Bank, will support financing a 1.3-billion-riyal (\$346.7 million) venture in Medina, as the kingdom ramps up fundraising for a crucial part of Crown Prince Mohammed bin Salman's economic diversification plan. The 15-billion-riyal investment TDF partnered with Medina-based Knowledge Economic City Co. and Riyadh Bank, which is funded by the Public Investment Fund, to fund the largest of its kind centre. TDF and Riyadh Bank will both have financing of 391 million riyals. A five-star hotel, a shopping centre, and other hospitality and leisure services will be part of the complex near the Prophet's Mosque. One of the directions Saudi Arabia plans to diversify its economy away from oil is to open to tourism. According to a roadmap drawn up by officials, the goal is to make the KSA a top-five tourist attraction. Authorities are relying on domestic banks to help the sector collect money. Red Sea Development Co. could close a 14-billion-riyal loan with a small group of local banks in the coming weeks. The arrangement on the project in Medina, where Islam's founder is buried, demonstrates that Saudi Arabia's holy cities are also being built.

3) The Saudi Banking Sector Continues to Expand:

HSBC Group has decided to transfer its asset management, retail brokerage, and retail margin lending operations to Alawwal Invest, a fully owned subsidiary of the Saudi British Bank, as the banking sector in Saudi Arabia continues to develop at a rapid pace. SABB holds 49% of HSBC Saudi Arabia, while the HSBC Group holds 51 percent. With a

31 percent stake in SABB, HSBC Group is the largest shareholder. HSBC Saudi Arabia will be able to concentrate its efforts on its market-leading investment banking, institutional brokerage, and custody operations, which service both domestic and international corporate and institutional clients in the Kingdom.

4) SAMA Hosts its Second Quarterly Workshop on Islamic Finance in 2021: Dr. Fahad bin Abdullah Aldossari, Deputy Governor of the Saudi Arabian Monetary Agency (SAMA) for Research and International Affairs, launched Thursday 3 June 2021 SAMA's second virtual workshop on Islamic Finance for 2021. The SAMA-sponsored quarterly workshop on Islamic finance focuses on current issues in the industry. The role of research and development was emphasized. Also discussed some of the most significant advances in the Kingdom's Islamic financial industry, such as SAMA's collaborative Islamic finance research effort, in addition to the Shari'ah Governance Framework's significance in the kingdom's banking sector.

5) As the Economy Improves, Saudi National Bank Announces a 20% Increase in First-Quarter Earnings: As the kingdom's economy recovers from Covid-19, Saudi National Bank, the country's largest lender, reported a 20% increase in first-quarter net profit, supported by greater fee income and fewer impairment charges. The company's net income for the three months ended in March increased to 3.4 billion Saudi riyals (\$907 million), but it fell short of EFG Hermes' expectation of 3.9 billion riyals. Quarterly operating profit increased by 8.8% to 5.77 billion riyals, aided by a 0.5% increase in net income from special commissions and finance and investment operations, which rose to 4.18 billion riyals. In March, the IHS Markit Saudi Arabia Purchasing Managers' Index fell to 53.3 from 53.9 in February, indicating a somewhat slower but still significant improvement in the non-oil private sector economy. A value over the neutral 50 thresholds implies growth, whereas a value below implies contraction.

6) Q1 Net Profits of Saudi Banks: Saudi Arabia's listed banks' cumulative net income increased 20% YoY in the 1Q21, excluding Samba Financial Group, due to fewer provisions, stronger non-financing revenue, and greater efficiency. However, due to the low-interest-rate environment and the drop-in mortgage financing rates, the net interest margin (NIM) dropped. Meanwhile, aggregate net income climbed by nearly 20% year over year in Q1, owing to a 27% increase in non-financing income and a 21% decrease in provisioning. This helped to compensate for the decrease in NIM. Loan assets increased by 13% year over year, with mortgage origination accounting for roughly 40% of new loans. Al Rajhi Bank, Albilad Bank, and Alinma Banks led the way, with loan book increases of 13% QoQ, 8%, and 5%, respectively. The non-performing assets (NPA) percentage fell 9 basis points to 2.14% in the first quarter.

7) Saudi Bank Mortgage Portfolios are Expected to Grow by 30% Each Year: Mortgage portfolios in the banking industry are predicted to rise at a rate of roughly 30% annually over the next several years, with overall growth topping 10% in 2021-2022. Saudi credit growth is likely to be supported over the next two years by strong housing demand and the government's determination to fulfill Vision 2030 ambitions. As the government phased out pandemic-related assistance packages, credit costs are projected to rise. The Kingdom's lenders also benefit from a low-cost, steady core deposit base. The banking sector's profitability has been aided by a low cost of funds and a lower-than-average cost of risk. Despite the increase in mortgage financing, home price rise in the Kingdom has been limited due to a robust supply pipeline and a lack of speculation.

8) Saudi Banks in the Right Place: The Saudi banking industry is experiencing growth that is not coming from a low base but from large numbers that are shifting the balance sheet and profitability of these institutions. The 'Shareek' program will encourage the first expansion in corporate borrowing to finance all this expenditure. Saudi banks are thought to be in a "sweet position" for business and mortgage loan growth. The Saudi government introduced the \$2.7 trillion Shareek initiative in April, intending to incentivize publicly traded firms to channel dividend payments towards long-term investment in the Kingdom. The Saudi banks are in the greatest position to benefit from this since their funding and deposit costs are low. As the Kingdom pursues its Vision 2030 aspirations, the debt

capital market in Saudi Arabia is likely to expand. The Kingdom is counting on the loan and equity markets to play a larger role in funding Vision 2030. It aspires to increase foreign direct investment.

9) Saudi Payments Partners with IBM and Mastercard to Build the 'sarie' Fast Payment System: Saudi Payments, which is regulated by the Saudi Central Bank (SAMA), has announced the introduction of 'sarie,' Saudi Arabia's immediate payment system, in collaboration with IBM and Mastercard. This partnership represents a turning point for regional payments innovation, and it aligns with Saudi Payments' goal of improving the Kingdom's financial environment. The launch of 'sarie' is under Saudi Arabia's Financial Sector Development Program (FSDP), which aims to achieve 70% non-cash transactions by 2030 as part of Saudi Vision 2030. 'sarie' enables bank clients to send and receive money in real-time via a broader choice of services and transfer alternatives. Customers of local banks can use the system to conduct fast transactions worth up to SAR 20,000 (USD 5,300). Furthermore, "sarie" users can utilize aliases to send up to SAR 2,500 (USD 660) utilizing the rapid transfer service.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	109.20	109.00	0.2%	HOLD
ALBI	37.00	36.35	1.8%	HOLD
RIBL	28.00	26.95	3.9%	HOLD
ALINMA	21.00	20.14	4.3%	HOLD
SNB	62.00	54.40	14.0%	ACCUMULATE
ARNB	21.00	22.10	-5.0%	HOLD
BSFR	41.00	37.65	8.9%	HOLD

FABS Estimate

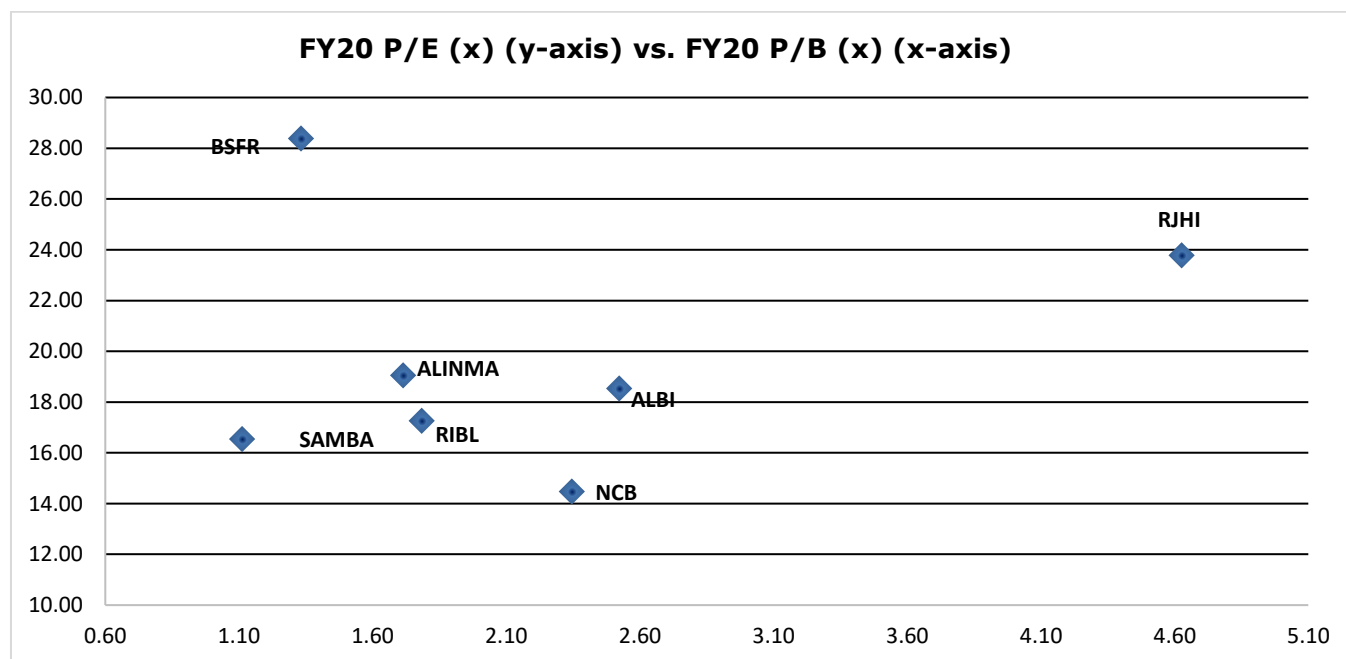
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Relative valuation and rating

RIBL's valuation is most attractive.

Of the 7 banks, RJHI, ALBI, and SNB are trading higher than Tadawul's current PB multiple of 2.2x. RJHI is trading at 2021 PE and PB of 23.78x and 4.63x, respectively. ALBI is trading with 2021 PE and PB of 18.54x and 2.52x, respectively. SNB is trading with 2021 PE and PB of 14.37x and 2.33x, respectively. ARNB's valuation is the most attractive with the least 2021 PE and PB multiples of 16.55x and 1.11x, respectively, among the 7 stocks under our coverage.



Source: FABS estimate

Market Weight

Based on 1x ACUMULATE, 6x HOLDS on the KSA banks under our coverage, we maintain our MARKET WEIGHT RATING. Yet, on a comparative basis we remain inclined towards SNB, BSFR and RIBL.

Target price and rating

	(SAR)	TP	CMP	Gain/(-loss)	Rating
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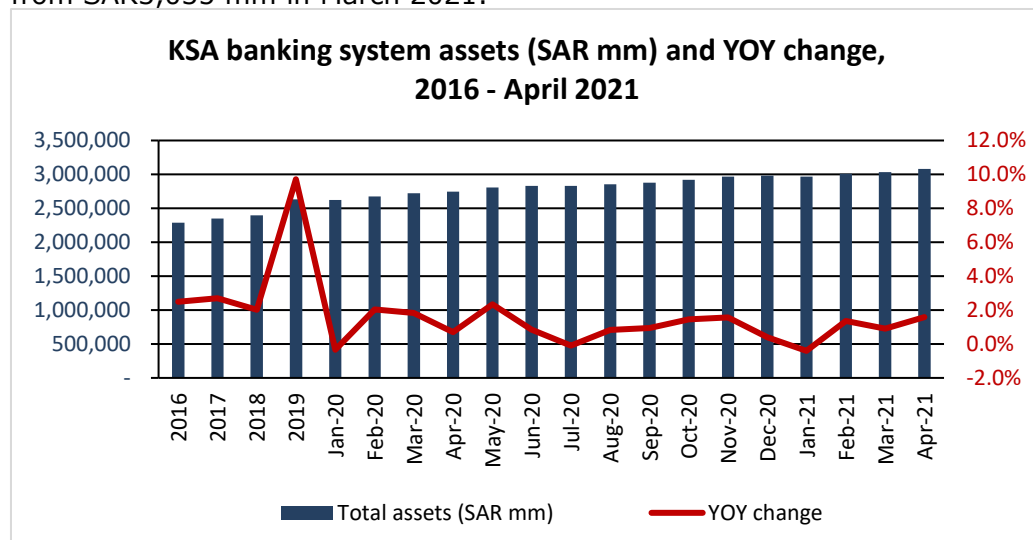
Overview:

Banking indicators

1. Assets

Total banking assets expanded by 1.6% MOM in April 2021.

KSA banking system's total assets formation rose by 1.6% MOM to SAR3,083 mm in April 2021 from SAR3,035 mm in March 2021.



Source: FABS from SAMA data

Al Rajhi witnessed the highest YOY asset growth in 1Q21

At an individual bank level, Al Rajhi recorded the fastest growth in assets to SAR512,234 mm (+30.7% YOY; +9.3% QOQ) in 1Q21. This was followed by Bank Al Bilad, which increased to SAR102,520 mm (+16% YOY; 7.1% QOQ). Arab National Bank recorded a decline of (-4% YOY; -1.6% QOQ) to SAR177,435 mm in 1Q21.

Total assets

(SAR mm)	1Q20	2Q20	3Q20	4Q20	1Q21	YOY%	QoQ%
Al Rajhi	391,901	417,684	430,300	468,825	512,234	30.7%	9.3%
Bank Al Bilad	88,399	88,824	92,294	95,744	102,520	16.0%	7.1%
Riyad Bank	279,697	295,083	308,558	310,088	308,036	10.1%	-0.7%
Alinma Bank	138,021	142,196	147,850	156,877	159,951	15.9%	2.0%
Saudi National Bank	534,560	557,310	577,084	599,446	599,570	12.2%	0.0%
Arab National Bank	184,871	187,297	188,526	180,396	177,435	-4.0%	-1.6%
Banque Saudi Fransi	199,178	201,953	197,445	194,074	202,233	1.5%	4.2%
KSA banking system	2,724,134	2,831,918	2,879,697	2,979,625	3,035,139	11.4%	1.9%

Source: FABS from co data and SAMA

Saudi National Bank remains dominant as the largest asset market share in 1Q21

The table shows that Saudi National Bank recorded the largest increase in the market share of assets to 19.8% (+13.12 Bps YOY; +16.45 Bps QOQ) in 1Q21, followed by Al Rajhi at 16.9% (+249.05 Bps YOY; +114.24 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 5.8% (-94.04 Bps YOY; -20.83 Bps QOQ), followed by Banque Saudi Fransi at 6.7% (-64.86 Bps YOY; 14.97 Bps QOQ).

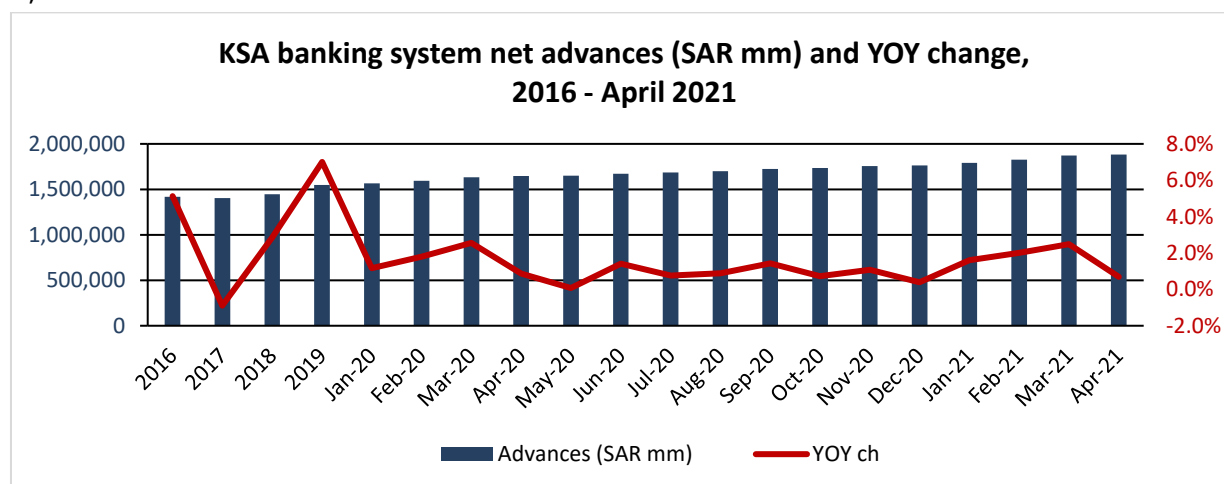
Assets market share

	1Q20	2Q20	3Q20	4Q20	1Q21	YOY (bps)	QOQ (bps)
Al Rajhi	14.4%	14.7%	14.9%	15.7%	16.9%	249.05	114.24
Bank Al Bilad	3.2%	3.1%	3.2%	3.2%	3.4%	13.27	16.45
Riyad Bank	10.3%	10.4%	10.7%	10.4%	10.1%	-11.84	-25.79
Alinma Bank	5.1%	5.0%	5.1%	5.3%	5.3%	20.34	0.50
Saudi National Bank	19.6%	19.7%	20.0%	20.1%	19.8%	13.12	-36.39
Arab National Bank	6.8%	6.6%	6.5%	6.1%	5.8%	-94.04	-20.83
Banque Saudi Fransi	7.3%	7.1%	6.9%	6.5%	6.7%	-64.86	14.97

Source: FABS from co data

2. Advances
Advances grew by 0.7% MOM in April 2021

Advances of the KSA Banking system grew by 0.7% MOM in April 2021 to SAR1,884.34mm from 1,871.6 mm in March 2021.



Source: FABS from SAMA data

Al Rajhi's net advances grew the most YOY in 1Q21

Al Rajhi's Net advances grew the most to SAR356,144 mm in 1Q21 (36.3% YOY; 12.8% QOQ), the highest growth among the eight KSA banks under coverage. This was followed by an increase in Bank Al Bilad to SAR75,531 mm (+20.9% YOY; +7.7% QOQ). On the other hand, Arab National Bank net advances declined to SAR115,559 mm by 3.7% YOY in 1Q21, yet it recorded and increase by 1.9% QOQ.

Net advances

(SAR mm)	1Q20	2Q20	3Q20	4Q20	1Q21	YOY	QOQ
Al Rajhi	261,385	274,928	289,729	315,712	356,144	36.3%	12.8%
Bank Al Bilad	62,465	64,923	67,762	70,115	75,531	20.9%	7.7%
Riyad Bank	182,784	187,651	190,823	191,347	196,443	7.5%	2.7%
Alinma Bank	97,784	103,178	105,325	111,196	117,149	19.8%	5.4%
Saudi National Bank	304,767	316,299	336,860	346,708	356,720	17.0%	2.9%
Arab National Bank	119,938	117,129	118,058	113,363	115,559	-3.7%	1.9%
Banque Saudi Fransi	134,882	135,749	134,356	130,565	134,105	-0.6%	2.7%
KSA banking system	1,633,077	1,671,929	1,723,792	1,762,440	1,871,569	14.6%	6.2%

Source: FABS from co data and SAMA

Al Rajhi bank had the highest increase in advances market share in 1Q21

The table shows that Al Rajhi bank recorded the largest increase in the advances market share to 19% (+302.35 Bps YOY; +111.58 Bps QOQ) in 1Q21, followed by Saudi National Bank to 19.1% (+39.78 Bps YOY; -61.21 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 6.2% (-116.98 Bps YOY; -25.77 Bps QOQ), followed by Banque Saudi Fransi at 7.2% (-109.4 Bps YOY; -24.28 Bps QOQ).

Advances market share

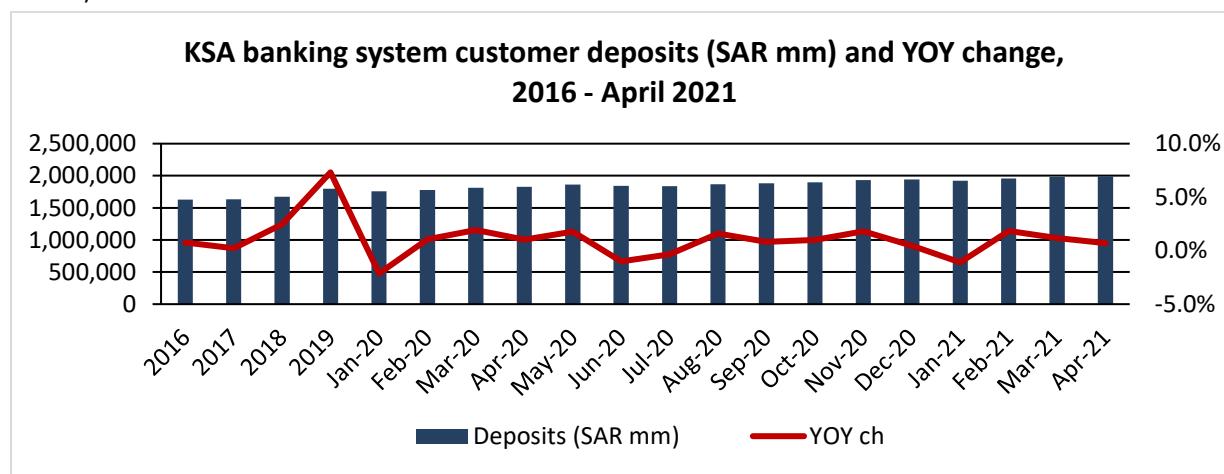
	1Q20	2Q20	3Q20	4Q20	1Q21	YOY (bps)	QOQ (bps)
Al Rajhi Bank	16.0%	16.4%	16.8%	17.9%	19.0%	302.35	111.58
Bank Al Bilad	3.8%	3.9%	3.9%	4.0%	4.0%	21.08	5.74
Riyad Bank	11.2%	11.2%	11.1%	10.9%	10.5%	-69.65	-36.08
Alinma Bank	6.0%	6.2%	6.1%	6.3%	6.3%	27.17	-4.98
Saudi National Bank	18.7%	18.9%	19.5%	19.7%	19.1%	39.78	-61.21
Arab National Bank	7.3%	7.0%	6.8%	6.4%	6.2%	-116.98	-25.77
Banque Saudi Fransi	8.3%	8.1%	7.8%	7.4%	7.2%	-109.40	-24.28

Source: FABS from co data

3. Customer Deposits

Customer deposits growth improved by 0.7% MOM in April 2021

The KSA banking system deposits reached SAR 1,993.97 million in April 2021, rising 0.7% MOM from SAR1,980 in March 2021.



Source: FABS from SAMA data

Al Rajhi customer deposits grew the most in 1Q21

Al Rajhi's Deposits grew the most to SAR421,269 mm in 1Q21 (+33.5% YOY; +10.1% QOQ), the highest growth among the seven KSA banks under coverage. This was followed by an increase in Alinma Bank to SAR120,707 mm (+16.2% YOY; +1.0% QOQ). On the other hand, Banque Saudi Fransi deposits declined to SAR132,987 mm by 9.4% YOY in 1Q21, yet it recorded and increase by 4.6% QOQ.

Deposits

(SAR mm)	1Q20	2Q20	3Q20	4Q20	1Q21	YOY%	QOQ%
Al Rajhi	315,661	334,665	345,322	382,631	421,269	33.5%	10.1%
Bank Al Bilad	68,377	64,876	68,883	71,553	76,963	12.6%	7.6%
Riyad Bank	192,902	199,987	201,292	203,039	198,598	3.0%	-2.2%
Alinma Bank	103,874	107,417	111,318	119,454	120,707	16.2%	1.0%

Saudi National Bank	375,053	380,398	408,474	416,419	419,430	11.8%	0.7%
Arab National Bank	135,983	133,896	136,725	129,352	125,161	-8.0%	-3.2%
Banque Saudi Fransi	146,772	138,046	135,655	127,112	132,987	-9.4%	4.6%
KSA banking system	1,810,488	1,842,978	1,881,082	1,942,984	1,980,335	8.2%	3.3%

Source: FABS from co data and SAMA

Al Rajhi saw the highest QOQ gain in market share of Deposits in 1Q21

The table shows that Al Rajhi bank recorded the largest increase in the Deposit market share to 21.3% (+383.75 Bps YOY; +157.97 Bps QOQ) in 1Q21, followed by Saudi National Bank to 21.2% (+46.42 Bps YOY; -25.22 Bps QOQ). On the other side, Banque Saudi Fransi share fell the most on a YOY basis to 6.7% (-139.14 Bps YOY; +17.33 Bps QOQ), followed by Arab National Bank at 6.3% (-119.07 Bps YOY; -33.72 Bps QOQ).

Deposits market share

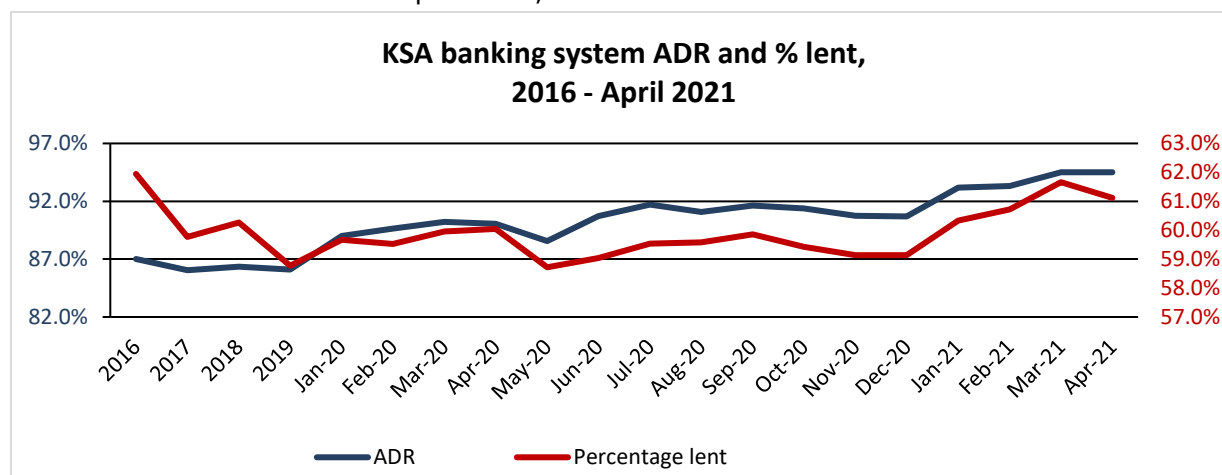
	1Q20	2Q20	3Q20	4Q20	1Q21	YOY (bps)	QOQ (bps)
Al Rajhi	17.4%	18.2%	18.4%	19.7%	21.3%	383.75	157.97
Bank Al Bilad	3.8%	3.5%	3.7%	3.7%	3.9%	10.96	20.37
Riyad Bank	10.7%	10.9%	10.7%	10.4%	10.0%	-62.62	-42.14
Alinma Bank	5.7%	5.8%	5.9%	6.1%	6.1%	35.79	-5.27
Saudi National Bank	20.7%	20.6%	21.7%	21.4%	21.2%	46.42	-25.22
Arab National Bank	7.5%	7.3%	7.3%	6.7%	6.3%	-119.07	-33.72
Banque Saudi Fransi	8.1%	7.5%	7.2%	6.5%	6.7%	-139.14	17.33

Source: FABS from co data

4. Liquidity

System liquidity has eased in 2021

KSA banking system's liquidity stayed stable in April 2021 with an ADR of 94.5%. Percentage lent decreased from to 61.1% in April 2021, from 61.7% in March 2021.



Source: FABS from SAMA data

KSA banks recorded higher levels of ADR in 1Q21

Banque Saudi Faransi showed the highest increase in its ADR ratio to 104.3% in 1Q21 from 94.7% in 4Q20 (+967 Bps YOY; -207.27 Bps QOQ). Followed by Bank Al Bilad with an increase to 101.4% from 94.3% in 1Q20 (+713.39 YOY; +14.69 QOQ). On the other side, Al Rajhi reported a decrease in ADR ratio to 86.5% in 1Q21 from 85.1% in 1Q20 (+134.92 YOY; +200.51 QOQ).

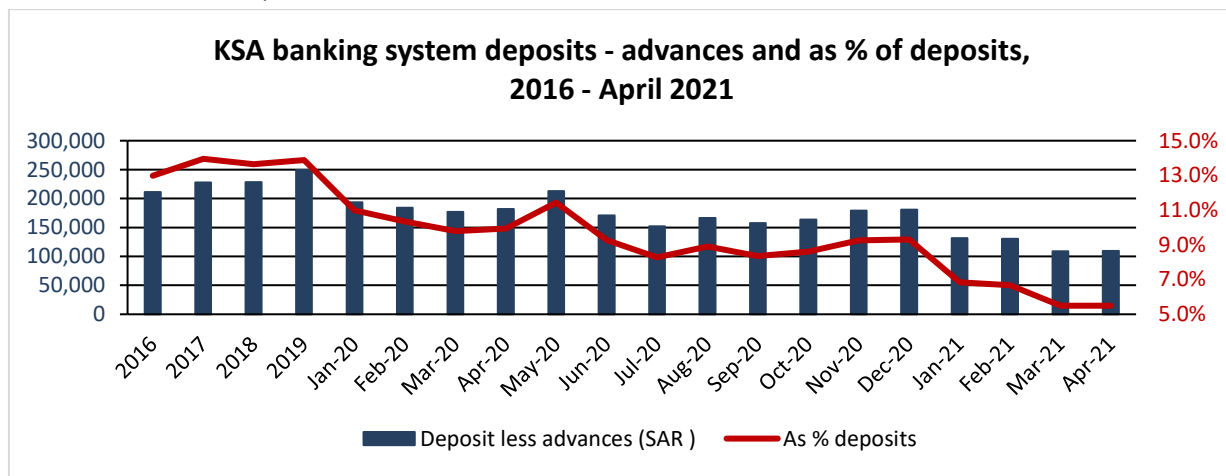
ADR

	1Q20	2Q20	3Q20	4Q20	1Q21	YOY (bps)	QOQ (bps)
Al Rajhi	85.1%	84.3%	86.0%	84.5%	86.5%	134.92	200.51
Bank Al Bilad	94.3%	103.3%	101.7%	101.3%	101.4%	713.39	14.69
Riyad Bank	96.5%	95.7%	96.9%	96.5%	101.4%	490.36	488.82
Alinma Bank	97.0%	99.1%	97.1%	95.8%	100.0%	301.24	418.52
Saudi National Bank	83.3%	85.3%	84.6%	85.4%	87.2%	391.75	181.16
Arab National Bank	90.8%	90.3%	89.2%	90.8%	95.8%	494.90	504.05
Banque Saudi Fransi	94.7%	101.4%	101.9%	106.4%	104.3%	967.00	-207.27

Source: FABS from co data

KSA banking system deposits - advances increased by 0.8% MOM in April 2021

The KSA banking system deposits - advances reached SAR109,600 million in April 2021, rising 0.7% MOM from SAR108,766 mm in March 2021.



Source: FABS from SAMA data

Banque Saudi Fransi decreased the most in deposit surplus in 1Q21

Banque Saudi Fransi deposit surplus fell to -SAR1,118 mm in 1Q21 from SAR11,890 mm in 1Q20 (-109.4% YOY; -67.6% QOQ), followed by Riyad Bank to SAR2,156 mm in 1Q21 from SAR10,118 mm in 1Q20 (-78.7% YOY; -81.6% QOQ). On the other hand, Al Rajhi reported a significant rise in deposit surplus to SAR65,125 mm in 1Q21 from SAR54,276 mm in 1Q20 (+20% YOY; -2.7% QOQ).

Deposit surplus/-deficit

	1Q20	2Q20	3Q20	4Q20	1Q21	YOY%	QOQ%
SAR mm							
Al Rajhi	54,276	59,737	55,594	66,919	65,125	20.0%	-2.7%
Bank Al Bilad	5,913	(47)	1,121	1,438	1,432	-75.8%	-0.4%
Riyad Bank	10,118	12,336	10,469	11,693	2,156	-78.7%	-81.6%
Alinma Bank	6,091	4,239	5,993	8,259	3,558	-41.6%	-56.9%
Saudi National Bank	70,286	64,100	71,613	69,711	62,710	-10.8%	-10.0%
Arab National Bank	16,046	16,767	18,667	15,990	9,602	-40.2%	-40.0%
Banque Saudi Fransi	11,890	2,296	1,299	(3,453)	(1,118)	-109.4%	-67.6%

Source: FABS from co data

Stock performance

RJHI, ALINMA and RIBL performed among the top ten

RJHI (47%), ALINMA (32.1%) and RIBL (28.0%) headed KSA banks in terms of stock performance from YE21 till 18 July 2021. Overall, the KSA banking stocks, ranked 1st in comparison to the countries in the MENA region with an average return of 27.3%, based on a simple average. SNB outperformed the market index TASI performance by 28% returns over the same period. The two banks that did not outperform the Index were BSFR (17.1%) and ARNB (10%).

25 MENA bank stocks: YE20 to 18 July 2020, ranked

		UAE	KSA	Qatar	Egypt	Ranking
QIBK	-0.5%			-0.5%		20
CBD	1.8%	1.8%				17
MARK	-2.9%			-2.9%		21
NBS	14.4%	14.4%				12
MASQ	-11.3%	-11.3%				25
CBQK	21.9%			21.9%		9
QNBK	-0.2%			-0.2%		19
DSM	2.5%					
RJHI	47.0%		47.0%			1
ADI	40.0%					2
ALBI	28.0%		28.0%			5
TASI	24.2%					
ALINMA	32.1%		32.1%			3
RAKBANK	1.3%	1.3%				18
DHBK	17.0%			17.0%		11
FAB	26.4%	26.4%				8
COMI	-3.0%				-3.0%	22
CBI	-6.7%	-6.7%				24
EGX30	-1.8%					
BSFR	17.1%		17.1%			10
SNB	28.0%		28.0%			6
DFM	10.1%					
ARNB	10.0%		10.0%			14
AJMANBANK	-5.6%	-5.6%				23
ENBD	27.2%	27.2%				7
RIBL	28.5%		28.5%			4
ADIB	14.0%	14.0%				13
DIB	3.3%	3.3%				16
ADCB	9.4%	9.4%				15
		6.7%	27.3%	7.1%	-3.0%	

FABS from Bloomberg

2Q21 preview: Saudi National Bank

SNB profit to edges up post-merger with Samba

CMP (SAR): 54.4

Potential upside (%): +14.0%

12-m target price:

SAR 62.00

Stock rating:

ACCUMULATE

2Q21 Estimate

Saudi National Bank (SNB) is estimated to significantly increase Net profit to SAR4,298 mm in 2Q21, primarily due to the increase in the Net Funded income & Non-Funded income. Net funded income is expected to rise by 56.1% YOY to SAR6,061 mm in 2Q21 from SAR3,882 mm in 2Q20. The increase is due to 57.8% YOY increase in Funded income to SAR7,303 mm in 2Q21, outweighing the 66.4% YOY increase in Funded expense. We expect Non-funded income to rise significantly to SAR2,210 mm in 2Q21, led by a significant increase in the Other non-funded income to SAR1,144 in 2Q21 compared to SAR256, as well as the increase in Fees and commissions to SAR876 mm in 2Q21, up by 39.6% YOY. Operating income is estimated to increase by 69.6% YOY to SAR8,081 mm in 2Q21 from SAR4,766 mm in 2Q20. Similarly, we expect the Operating expenses to increase by 55.1% YOY to SAR2,373 mm in 2Q21 from SAR1,530 mm in 2Q20. The Cost to income ratio is expected to decline by 274 bps to 29.4% from 32.1% in 2Q20. Impairment charges are forecasted to decrease slightly by 1% YOY to SAR820 mm in 2Q20, from SAR828 mm in 2Q20.

2021 Forecast

SNB's Net profit is predicted to rise by 15.4% to SAR 18,055 mm in 2021 from SAR 15,641 mm in 2020, led by an expected increase in Funded income outweighing the expected decrease in Non-Funded income. Net Funded income is assumed to increase by 5.1% YOY to SAR 23,508 mm in 2021 compared to SAR 22,359 mm in 2020. Funded income is likely to rise by 4.8% to SAR 28,189 mm in 2021 from SAR 26,886 mm in 2020 due to decrease in fees and commissions by 1.5% expected to reach SAR 3,461 mm in 2021 from SAR 3,512 mm in 2020 and the decrease in other Non-Funded income by 2.3% to SAR 4,652 mm in 2021 compared to SAR 4,763 mm in 2020. Funded expenses would increase by 3.4% YOY to SAR 4,681 mm in 2021 from SAR 4,527 mm in 2020. Conversely, the Non-funded income is estimated to decrease by 4.8% YOY to SAR 8,112 mm in 2021 from SAR 8,524 mm in 2020. Operating income is likely to rise by 2.4% to SAR 31,620 mm in 2021 compared to SAR 30,883 mm in 2020. We expect the operating expenses to fall by 10.5% YOY to SAR 8,600 mm in 2021 compared to SAR 9,605 mm in 2020. Furthermore, the Impairment charges are expected to decrease significantly by 25.3% YOY to SAR 2,502 mm in 2021 from SAR 3,351 mm in 2020.

1Q21 Outturn

Saudi National Bank recorded an increase by 20.3% YOY in Net profit to SAR3,408 mm in 1Q21 compared to SAR2,834 mm in 1Q20. This was mainly attributed to an increase in the Non-funded income and a decline in both Operating expenses and Impairment charges. SNB's Funded income has decreased by 2.8% YOY to SAR4,901 mm in 1Q21 from SAR5,042 mm in 1Q20. Whereas the Funded expenses has also decreased by 18.3% YOY to SAR722 mm from SAR884 mm in 1Q20. Therefore, the Net funded income has marginally increased by 0.5% YOY to SAR4,179 mm in 1Q21. Moreover, the Fees and commissions has increased by 29.5% YOY to SAR621 mm in 1Q21 from SAR480 mm in 1Q20. Besides that, Other Non-funded income climbed by 45.5% YOY to SAR972 mm in 1Q21 from SAR668 mm in 1Q20. As a result, the Total Non-funded income has increased by 38.8% YOY to SAR1,594 mm compared to SAR1,148 mm in 1Q20. Thus, the Operating income has increased by 8.8% YOY to SAR5,773 mm in 1Q21 from SAR5,305 mm in 1Q20. While the Operating expenses has decreased by 4.1% YOY to SAR1,622 mm in 1Q21. SNB's Cost to income (C/I) ratio deteriorated by 379 bps to 28.1% from 31.9% in 1Q20. Impairment charges has decreased by 29.4% YOY to SAR280 mm in 1Q21, supporting the Net profit to increase. Furthermore, the NCI has decreased by 54.1% YOY to SAR17 mm from SAR37 mm in 1Q20. SNB's Net advances has increased by 17% YOY to SAR356.7 bn from SAR304.7 bn in 1Q20. Moreover, the Total Assets increased by 12.2% YOY to SAR599.5 bn in 1Q21 compared to SAR534.5 mm in 1Q20. Whereas the Customer deposits has also increased by 11.8% YOY to SAR419.4 bn in 1Q21. The equity has increased by 31% YOY to SAR83.4 bn from SAR63.7 bn in 1Q20.

Target price and recommendation

We revise our rating on Saudi National Bank to ACCUMULATE with a target price of SAR62.00. Saudi National Bank (SNB) officially came into the world recently, with the formal approval by shareholders of the merger between National Commercial Bank (NCB) and Samba Financial Group (Samba). the new entity – heralded as the national champion of the Kingdom's banking industry – can live up to the ambitions that sparked the biggest ever merger in the Saudi financial sector. SNB came with a strategy to finance economic development, support Vision 2030 projects, and facilitate trade and capital flows with the region and the rest of the world. Despite the pandemic impact, the customer deposits increased by 11.8% YOY in 1Q21. On the other hand, Financing and advances have increased by 17% YOY. Therefore, the ADR ratio climbed by 379 bps to 85% in 1Q21. However net special commission income from financing and advances has decreased by 10.8% YOY. The Cost to income ratio for NCB is 28.1% for the 1Q21. The recovery from the COVID-19 outbreak impact has started, thus, the Impairment charges have declined by 29.4% YOY to in 1Q21. The non-performing loan ratio for the group is 1.7%, slightly lower than 1Q20 by 7 bps. The ROA for the bank stands at 0.6% compared to 0.5% in 1Q21 and the ROE ratio being 4.1% in 1Q21 compared to 4.4% in 1Q20. Equity has risen primarily due to higher reserves as well as an increase in Tier 1 sukuk. During the first quarter of 2021, the bank through sharia-compliant arrangements, issued Tier 1 sukuk totalling SAR 4.7 billion. SNB also exercised call option on its existing Tier 1 sukuk amounting to SAR 2.7 billion during the same period. As per SAMA's requirement cash balances with SAMA increase due to the current economic situation, this is to ensure it meets its liquidity requirements. Moreover, the bank Net Interest Margin (NIM) and the Net Interest Spread have increased to 4.4% and 4.3% in 1Q21, respectively. SNB's Total assets have risen along with the Net Profit for 1Q21. The CET1 ratio stands at 20% in 1Q21 compared to 15.9% in 1Q20. As a result, the Total CAR ratio has increased by 427 bps to 21.1% from 16.8% in 1Q21 the stock is currently trading at a PB ratio of 2.26X against Peer average of 2.09X; therefore we assign an ACCUMULATE rating to SNB.

SNB Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	26.3	18.0	15.1	15.1	13.8
P/B (x)	3.0	2.9	2.7	2.4	3.1
Dividend yield	3.1%	3.8%	4.1%	1.4%	3.8%

FABS Estimates & Co data

SNB - P&L

SAR mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
Funded income	4,628	4,901	7,303	57.8%	49.0%	26,886	28,189	4.8%
Funded expense	-746	-722	-1,241	66.4%	71.9%	-4,527	-4,681	3.4%
Net funded income	3,882	4,179	6,061	56.1%	45.0%	22,359	23,508	5.1%
Fees and commissions	628	621	876	39.6%	41.0%	3,512	3,461	-1.5%
Trading gain/(loss)	0	0	0	NM	NM	249	0	-100.0%
Other non-funded income	256	972	1,144	346.5%	17.6%	4,763	4,652	-2.3%
Non-funded income	884	1,594	2,020	128.5%	26.7%	8,524	8,112	-4.8%
Operating income	4,766	5,773	8,081	69.6%	40.0%	30,883	31,620	2.4%
Operating expenses	-1,530	-1,622	-2,373	55.1%	46.3%	-9,605	-8,600	-10.5%
Pre-provision profit	3,236	4,151	5,708	76.4%	37.5%	21,278	23,021	8.2%
Impairment	-828	-280	-820	-1.0%	NM	-3,351	-2,502	-25.3%
Other non-operating income/expense	-20	-55	-33	62.3%	-40.0%	-77	-119	54.8%
PBT	2,388	3,817	4,855	103.3%	27.2%	17,850	20,400	14.3%
Tax	-260	-391	-534	105.6%	36.4%	-2,086	-2,216	6.2%
Profit after tax	2,128	3,425	4,321	103.1%	26.2%	15,764	18,184	15.4%
Non-controlling int.	-40	-17	-24	-41.4%	40.0%	-123	-129	5.0%
Net profit attributable	2,088	3,408	4,298	105.9%	26.1%	15,641	18,055	15.4%

FABS estimate & Co Data

SNB - KPI

	2Q20	1Q21	2Q21F	YOY Ch.	QOQ Ch.	2020	2021F	YOY Ch.
P&L KPI								
Net FI/OI	81.5%	72.4%	75.0%	-645	261	72.4%	74.3%	195
NIM	3.3%	4.4%	3.2%	-15	-122	4.3%	2.7%	-159
NIS	3.2%	4.3%	3.1%	-11	-121	4.2%	2.7%	-151
Fees & comms/OI	13.2%	10.8%	10.8%	-233	8	11.37%	10.94%	-43
Cost to income	32.1%	28.1%	29.4%	-274	127	31.1%	27.2%	-390
Impairment/PPP	25.6%	6.7%	14.4%	-1122	763	15.7%	10.9%	-488
NP/OI	43.8%	59.0%	53.2%	938	-586	50.6%	57.1%	645

FABS Estimate & Co Data

SNB -Key B/S Items

	2Q20	3Q20	4Q20	1Q21
SAR mm				
Net advances	316,299	336,860	346,708	356,720
QOQ change	3.8%	6.5%	2.9%	2.9%
Total assets	557,310	577,084	599,446	599,570
QOQ change	4.3%	3.5%	3.9%	0.0%
Customer deposits	380,398	408,474	416,419	419,430
QOQ change	1.4%	7.4%	1.9%	0.7%
Total equity	73,088	75,908	79,410	83,460
QOQ change	14.7%	3.9%	4.6%	5.1%

FABS Estimate & Co Data

2Q21 preview: Banque Saudi Fransi

Lower Impairments support the increase in profits

CMP (SAR): 37.65

Potential upside (%): +8.9%

12-m target price:

SAR 41.00

Stock rating:

HOLD

2Q21 Estimate

Banque Saudi Fransi (BSFR) is estimated to record a 96% YOY increase in Net profit to SAR856 mm in 2Q21, primarily due to an expected drop in Impairment Charges. Net funded income is expected to rise by 3.2% YOY to SAR1,338 mm in 2Q21 from SAR1,297 mm in 2Q20. The increase is due to a drop in Funded expense by 55.1% despite a drop in Funded income by 7.6% YOY. We expect Non-funded income to rise by 13.8% YOY to SAR527 mm in 2Q21, led by a significant increase in fees from banking services to SAR348 mm in 2Q21 from SAR223 in 2Q20. Operating income is estimated to increase by 6% YOY to SAR1,865 mm in 2Q21 from SAR1,760 mm in 2Q20, and Operating expenses is estimated to rise by 6% YOY to SAR590 mm in 2Q21 from SAR557 mm in 2Q20. The Cost to income ratio marginally rises by 1 bps YOY to 31.7% from 31.6% in 2Q20. We forecast the Impairment charges to decline by 54.7% YOY to SAR295 mm in 2Q21 from SAR650 mm in 2Q20. We foresee the bank's Net Interest Margin (NIM) to slightly decline by 7 bps to 3% in 2Q21 from 3.1% in 2Q20.

2021 Forecast

BSFR's Net profit is predicted to significantly rise to SAR3,381 mm in 2021, led by an expected increase in Fees and commissions and a decrease in Impairment charges. Net funded income is assumed to increase by 3.1% YOY to SAR5,403 mm in 2021 compared to SAR5,240 mm in 2020. Funded income is likely to decline by 5.6% to SAR5,931 mm in 2021, and Funded expenses would decrease by 49.5% YOY to SAR527 mm in 2021 from SAR1,044 mm in 2020. Conversely, the Non-funded income is estimated to rise by 16.5% YOY to SAR2,101 mm in 2021. Operating income is likely to rise by 6.5% to SAR7,505 mm in 2021 compared to SAR7,045 mm in 2020. Whereas the Operating expense is estimated to increase by 1.3% YOY to SAR1,394 mm in 2021 from SAR2,364 mm. BSFR's Cost-to-income (C/I) ratio would decline by 166 bps to 31.9% in 2021 from 33.6% in 2020. We expect Impairment to decline by 54.3% YOY to SAR1,220 mm in 2021 from SAR2,670 mm in 2020. The Net interest margin (NIM) is expected to decline by 10 bps to 3% compared to 3.1% in 2020.

1Q21 Outturn

Banque Saudi Fransi reported an increase by 14.3% YOY in Net profit to SAR780 mm in 1Q21, compared to a Net profit of SAR682 mm in 1Q20, beating our Estimate of SAR251 mm. This was mainly due to the decrease in the Impairment charges and an increase in the Trading income. Bank's Funded income has decreased by 17.2% YOY to SAR1,407 mm in 1Q21 from SAR1,699 mm in 1Q20. Funded expense decreased by 70.9% YOY to SAR120 mm in 1Q21 from SAR412 mm in 1Q20. Therefore, the Net funded income remained stable at SAR1,287 mm in 1Q21. Fees and commissions increased by 18.8% YOY to SAR338 mm in 1Q21 from SAR284 mm in 1Q20. Whereas the Trading income has significantly increased to SAR78 mm in 1Q21. As a result, the non-funded income increased by 8.2% YOY to SAR508 mm in 1Q21 from SAR470 mm in 1Q20. Operating income increased by 2.2% YOY to SAR1,796 mm in 1Q21 from SAR1,757 mm in 1Q20. While the Operating expenses have increased by 5.8% YOY to SAR591 mm in 1Q21 from SAR559 mm in 1Q20. Impairment charges decreased by 24.8% YOY to SAR299 mm in 1Q21 from SAR397 mm in 1Q20. Tax increased by 6.1% YOY to SAR126 mm in 1Q21 from SAR119 mm in 1Q20. Net advances has marginally decreased by 0.6% YOY to SAR134.1 bn in 1Q21 from SAR134.8 bn in 1Q20. Customer deposits declined by 9.4% YOY to SAR132.9 bn in 1Q21 from SAR146.7 bn in 1Q20. Total equity rose majorly by 15.5% YOY to SAR39.1 bn in 1Q21. While the Total liabilities has increased by 1.5% YOY to SAR202.2 bn compared to SAR199.1 bn in 1Q20.

Target price and recommendation

We maintain our HOLD rating on Banque Saudi Fransi with a target price of SAR41.00. Banque Saudi Fransi is a leading banking group in Saudi Arabia with their prime focus on local operations. 17.7% of BSF is foreign-owned. Their aim is to become a modern and experience-focused bank in the region. The bank's net income increased by 14.3% to SAR 780 mm as compared to SAR 682 mm in Q1 2020 mainly due to reduction in total operating expenses and due to an increase in net operating income by 2.2% reaching SAR 1,796 mm in Q1 2021 as compared to SAR 1,757 mm in Q1 2020. The net profit margin (NPM) in Q1 2021 was 55.4% as compared to 40.1% in Q1 2020. This was primarily due to a decrease in impairment charges from SAR 397 mm in Q1 2020 to SAR 299 mm in Q1 2021. The bank's loans and Advances decreased by 0.6% in Q1 2021 while deposits decreased by 9.4% as compared to same period last year due to a decline in interest bearing deposits due to lower interest rates leading to a decrease of almost 48% in time deposits; this has led to a Loan-to-Deposit ratio (LDR) of 101% as at end of first quarter 2021 as compared to 92% same period last year. Total assets have increased due to a significant increase in investments showing a growth of 21% in Q1 2021 reaching SAR 41,114 mm as compared to SAR 33,940 mm in Q1 2020. Liabilities, on the other hand, decreased by 1.33% due to a decrease in deposits which was partially offset by an increase in interbank funding as well as SAMA's profit-free funding. The NPL ratio has been fairly stable at 2.7% in Q1 2021. The NPL coverage ratio stands at 124% in Q1 2021. The NIM for the bank stands at 3.00% in Q1 2021 a decrease of 11ps YOY. ROAA for the bank is 0.4% in Q1 2021 stable as compared to the same period the previous year. Similarly, ROAE remained stable at 2.1% in Q1 2021 as compared to Q1 2020. The Capital Adequacy Ratio was at 22.08% in Q1 2021 as compared to 18.37% in Q1 2020 and Tier 1 ratio was 20.99% in Q1 2021 as compared to 17.43% same period last year. The leverage ratio of the bank was at 16.51% in Q1 2021. Liquidity Coverage Ratio (LCR) for first quarter 2021 stood at 192% as opposed to 217% same period last year with the decrease mainly due to a fall in High-Quality Liquid Assets (HQLA) as compared to Q1 2020. BSFR proposed dividends with respect to 2019 is SAR1.00 per share. For 2020, the BOD recommended dividends of SAR0.4 per share. BSFR is rated BBB+ by Standard & Poor's stable & A1 by Moody's negative. Therefore, we maintain our HOLD rating on the stock.

BSFR Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	12.6	31.6	14.2	29.8	13.2
P/B (x)	1.4	1.4	1.3	1.3	1.1
Dividend yield	3.8%	4.6%	5.4%	1.1%	2.7%

FABS Estimates & Co data

BSFR - P&L

SAR mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	YoY Ch
Funded income	1592	1407	1471	-7.6%	4.5%	6285	5931	-5.6%
Funded expense	295	120	132	-55.1%	10.3%	1044	527	-49.5%
Net funded income	1297	1287	1338	3.2%	4.0%	5240	5403	3.1%
Fees and commissions	223	338	348	55.8%	3.0%	1082	1383	27.9%
Trading gain/(loss)	87	78	81	-6.2%	5.0%	168	326	94.2%
Other non-funded income	153	93	97	-36.3%	5.0%	555	392	-29.4%
Non-funded income	463	508	527	13.8%	3.7%	1804	2101	16.5%
Operating income	1760	1796	1865	6.0%	3.9%	7045	7505	6.5%
Operating expenses	557	591	590	6.0%	-0.2%	2364	2394	1.3%
Pre-provision profit	1203	1204	1275	6.0%	5.9%	4681	5110	9.2%
Impairment	650	299	295	-54.7%	-1.4%	2670	1220	-54.3%
PBT	553	905	980	77.3%	8.3%	2010	3891	93.6%
Tax	116	126	124	7.0%	-1.5%	464	510	9.9%
Net profit attributable	437	780	856	96.0%	9.8%	1,546	3,381	NM

FABS Estimates & Co data

BSFR - KPI

	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
P&L KPI								
Net FI/OI	73.7%	71.7%	71.8%	-194	6	74.4%	72.0%	-239
NIM	3.1%	3.0%	3.0%	-7	6	3.1%	3.0%	-10
NIS	3.0%	2.9%	2.9%	-4	5	3.0%	3.0%	-7
Fees & comms/OI	12.7%	18.8%	18.7%	597	-16	15.4%	18.4%	308
Trading/OI	4.9%	4.3%	4.4%	-57	5	2.4%	4.3%	196
Cost to income	31.6%	32.9%	31.7%	1	-128	33.6%	31.9%	-166
Impairment/PPP	54.1%	24.8%	23.1%	-3094	-170	57.1%	23.9%	-3319
NP/OI	24.8%	43.4%	45.9%	2109	249	21.9%	45.1%	2310
ROAE	1.3%	2.1%	2.3%	101	20	4.3%	8.5%	422
ROAA	0.2%	0.4%	0.4%	20	4	0.8%	1.7%	86

FABS Estimates & Co data

BSFR - BS Key items

	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY ch
SAR mm						
Net advances	135,749	134,356	130,565	134,105	133,454	-1.7%
QOQ Change	0.6%	-1.0%	-2.8%	2.7%	-0.5%	
Total Assets	201,953	197,445	194,074	202,233	199,775	-1.1%
QOQ Change	1.4%	-2.2%	-1.7%	4.2%	-1.2%	
Customer deposits	138,046	135,655	127,112	132,987	130,994	-5.1%
QOQ Change	-5.9%	-1.7%	-6.3%	4.6%	-1.5%	
Total Equity	33,677	33,683	38,636	39,198	39,877	18.4%
QOQ Change	-0.8%	0.0%	14.7%	1.5%	1.7%	

FABS Estimates & Co data

2Q21 preview: Riyadh Bank

Lower Impairments supports profitability

CMP (SAR): 26.95

Potential upside (%): +4.3%

12-m target price:

SAR 28.00

Stock rating:

HOLD

2Q21 Estimate

We forecast Riyadh Bank to report an increase in Net profit by 22% YOY to SAR1,297 mm in 2Q21 from SAR1,063 mm in 2Q20. The is mainly due to an expected increase in Total Non-Funded Income and a decrease in Impairment Charges. The Net Funded Income is expected to decrease by 2.8% YOY to SAR2,057 mm as compared to SAR2,116 mm in 2Q20. It is mainly due to 3.9% YOY decrease in Funded Income to SAR2,434 mm in 2Q21 from SAR2,534 mm in 2Q20. The Fees and Commissions are forecasted to increase by 46.6% YOY to SAR473 mm in 2Q21 from SAR323 mm in 2Q20. Resultantly, the Total Non-Funded Income is expected to increase by 26.2% YOY to SAR749 mm in 2Q21 from SAR593 mm in 2Q20. The Operating Income is forecasted to increase by 3.6% YOY to SAR2,806 mm in 2Q21, supported by the Non-Funded Income. The Operating Expenses are forecasted to increase by 3.1% YOY to SAR887 mm in 2Q21 compared to SAR861 mm in 2Q20. The Impairment charges are expected to reduce by 30.3% YOY to SAR450 mm in 2Q21, down from SAR646 mm in 2Q20. We forecast the Cost-to-Income ratio to improve slightly by 16 bps to 31.6% in 2Q21 compared to 31.8% in 2Q20. We expect the Net Interest Margin (NIM) to decline by 39 bps to 3.1% in 2Q21 from 3.5% in 2Q20. We also expect the Net spread (NIS) to decline by 26 bps to 3.1% in 2Q21 to from 3.3% in 2Q20. We expect ADR to decrease by 61 bps to 93.2% in 2Q21 from 93.8% in 2Q20.

2021 Forecast

We expect Riyadh Bank to record a 12.9% YOY increase in Net profit to SAR5,321 mm in 2021, due to an expected 18.7% YOY decline in Impairment charges to SAR1,713 mm in 2021 compared to SAR2,106 mm in 2020. Funded income is forecasted to rise slightly by 0.9% YOY to SAR9,900 mm in 2021, and the Funded expense would drop by 4.1% YOY to SAR1,534 mm, resulting in a 1.8% increase in Net funded income to SAR8,365 mm in 2021. Non-funded income is estimated to increase by 4.4% YOY to SAR3,124 mm in 2021 from SAR2,992 mm in 2020, led by an expected 5.9% YOY increase in Fees and commissions to SAR1,984 mm in 2021, followed by a 6.1% YOY increase in Other non-funded income to SAR954 mm in 2021 from SAR900 mm in 2020. Total operating expenses are predicted to increase by 3.2% YOY to SAR3,751 mm in 2021 from SAR3,635 mm in 2020. Subsequently, the Cost-to-income (C/I) ratio would advance by 21 bps to 32.6% in 2021. We expect the Net Interest Margin (NIM) to decline by 28 bps to 3% in 2021 compared to 3.3% in 2020. ADR ratio is projected to rise by 258 bps to 96.8% in 2021 from 94.2% in 2020.

1Q21 Outturn

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. 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 recommendation

We maintain HOLD rating on Riyadh Bank with a target price of SAR28.00. Riyadh 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. Riyadh 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 1Q21. 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 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 long-term liability rating of BBB+ by S&P. Riyadh Bank is trading at a P/B of 1.78X against its peer average of 2.2X. Based on the above, we revise our rating to HOLD rating on this stock.

Riyadh Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	19.4	24.9	13.7	16.3	14.3
P/B (x)	2.0	2.1	1.9	1.7	1.5
Dividend yield	2.8%	3.0%	4.2%	1.9%	3.9%

FABS Estimates & Co Data

Riyadh Bank – P&L

SAR mm	2Q20	1Q21	2Q21F	YOY Ch	QoQ Ch	2020	2021F	Change
Funded income	2,534	2300	2,434	-3.9%	5.8%	9,813	9,900	0.9%
Funded expense	-418	-204	-377	-9.8%	84.7%	-1,600	-1,534	-4.1%
Net funded income	2,116	2,096	2,057	-2.8%	-1.9%	8,214	8,365	1.8%
Fees and comm.	323	454	473	46.6%	4.1%	1,874	1,984	5.9%
Trading gain/(loss)	99	28	45	-54.2%	59.5%	218	185	-15.1%
Oth. non-funded inc.	172	245	231	34.1%	-6.0%	900	954	6.1%
Non-funded income	593	728	749	26.2%	2.9%	2,992	3,124	4.4%
Operating income	2,709	2,824	2,806	3.6%	-0.6%	11,205	11,489	2.5%
Operating expenses	-861	-982	-887	3.1%	-9.6%	-3,635	-3,751	3.2%
Pre-provision profit	1,848	1,842	1,918	3.8%	4.2%	7,571	7,738	2.2%
Impairment	-646	-302	-450	-30.3%	48.9%	-2,106	-1,713	-18.7%
Share in assoc.	-7	-11	6	NM	NM	19	21	9.4%
PBT	1,195	1,529	1,474	23.3%	-3.6%	5,484	6,047	10.3%
Tax	-132	-175	-177	34.0%	1.1%	-769	-726	-5.6%
Net profit attributable	1,063	1,354	1,297	22.0%	-4.2%	4,715	5,321	12.9%

FABS Estimate & Co Data

Riyad Bank - P&L KPI

	2Q20	1Q21	2Q21F	YOY Bps	QQQ Bps	2020	2021F	Ch. Bps
SAR mm								
Net FI/OI	78.1%	74.2%	73.3%	-479	-91	73.3%	72.8%	-49
NIM	3.5%	3.2%	3.1%	-39	-10	3.3%	3.0%	-28
NIS	3.3%	3.2%	3.1%	-26	-8	3.3%	3.0%	-27
Fees & comms/OI	11.9%	16.1%	16.9%	495	77	16.7%	17.3%	55
Trading/OI	3.6%	1.0%	1.6%	-203	61	1.9%	1.6%	-33
Cost to income	31.8%	34.8%	31.6%	-16	-315	32.4%	32.6%	21
Impairment/PPP	34.9%	16.4%	23.5%	-1,149	705	27.8%	22.1%	-569
NP/OI	39.2%	47.9%	46.2%	699	-170	42.1%	46.3%	424
ROAE	2.7%	3.3%	3.0%	31	-34	11.1%	11.3%	21
ROAA	0.4%	0.5%	0.4%	2	-5	1.6%	1.7%	2

FABS Estimate & Co Data
Riyad Bank – Key BS Items

	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch.
SAR mm						
Net advances	187,651	190,823	191,347	196,443	195,756	4.3%
QOQ change	2.7%	1.7%	0.3%	2.7%	-0.3%	
Total assets	295,083	308,558	310,088	308,036	334,458	13.3%
QOQ change	5.5%	4.6%	0.5%	-0.7%	8.6%	
Customer deposits	199,987	201,292	203,039	198,598	210,000	5.0%
QOQ change	3.7%	0.7%	0.9%	-2.2%	5.7%	
Total equity	40,786	42,655	44,355	44,228	46,860	14.9%
QOQ change	7.9%	4.6%	4.0%	-0.3%	6.0%	

FABS Estimate & Co Data

2Q21 preview: Arab National Bank

Lower Funded expenses and decline in costs help the increase in profit

CMP (SAR): 22.10

Potential upside (%): -5.0%

12-m target price:

SAR 21.00

Stock rating:

HOLD

2Q21 Estimate

Arab National Bank (ANB) is estimated to report a 27% increase in Net profit to SAR617 mm in 2Q21 compared to a Net profit of SAR486 mm in 2Q20, this is mainly due to an expected decrease by 52% YOY in Funded expenses to SAR145 mm to SAR302 mm in 2Q20. Funded income is expected to decline by 3.3% YOY to SAR1,452 mm in 2Q21 from SAR1,501 mm in 2Q20. Operating income is expected to rise by 5.1% YOY to SAR1,545 mm in 2Q21 from SAR1,470 mm in 2Q20. Operating expenses are projected to decline by 9.6% YOY to SAR477 mm in 2Q21 from SAR527 mm in 2Q20. Impairment charges are estimated to fall by 6.6% YOY to SAR325 mm in 2Q21 from SAR348 mm in 2Q20. The Cost-to-income ratio (C/I) is expected to decline by 503 bps to 30.9% in 2Q21 compared to 35.9% in 2Q20. While the Net Interest Margin (NIM) is expected to decrease by 38 bps to 3% in 2Q21 from 3.3% in 2Q20. ADR ratio would decline by 86 bps to 86.6% in 2Q21 from 87.5% in 2Q20.

2021 Forecast

We expect ARNB to post a rise by 14.9% YOY in Net profit to SAR2,381 mm in 2021 compared to SAR2,072 mm in 2020. This is mainly due to an expected decrease in the Operating expenses and increase in the Funded and Non-Funded income. Net funded income is expected to rise by 4.9% YOY to SAR5,105 mm in 2021, led by an expected decline in Funded expenses and increase in Funded income by 16.2% and 0.9% YOY in 2021, respectively. Fees and commissions are expected to advance by 3% YOY to SAR566 mm in 2021 from SAR550 mm in 2020. Trading income is expected to increase by 47.7% YOY to SAR8 mm in 2021 from SAR5 mm in 2020. Thus, Total Non-funded income would rise by 7.7% YOY to SAR1,029 mm in 2021 compared to SAR956 mm in 2020. While the Operating expenses are expected to decline by 5.9% to SAR1,925 mm in 2021 from SAR2,047 mm in 2020. ARNB's Cost-to-income ratio is expected to decline by 376 bps to 31.4% from 35.1% in 2020. Impairment charges are estimated to increase by 4.6% YOY to SAR1,329 mm in 2021.

1Q21 Outturn

Arab National Bank recorded a Funded income decrease by 28.2% YOY to SAR1,263 mm compared to SAR1,759 mm in 1Q20. While the Funded expenses has decreased by 82.3% YOY to SAR83 mm in 1Q21. Resultantly, the Net funded income declined by 8.6% YOY to SAR1,180 mm in 1Q21 from SAR1,291 mm in 1Q20. Fees and commissions have decreased by 16% YOY to SAR129 mm in 1Q20. While the Other non-funded income significantly increased to SAR239 mm from SAR42 mm in 1Q20. Therefore, Operating income increased by 4.5% YOY to SAR1,556 mm in 1Q21. ANB's Operating expenses have decreased by 1.8% YOY to SAR536 mm in 1Q21 due to a decline in salaries, rent & premises. The Cost/Income "C/I" ratio decreased by 221 bps to 34.4% from 36.6% in 1Q20. Impairment has increased by 72.8% YOY to SAR333 mm in 1Q21 compared to SAR193 mm in 1Q20, reducing the profitability. Net advances decreased by 3.7% YOY to SAR115.5 bn in 1Q21 from SAR119.9 bn in 1Q20. Moreover, Customer deposits has dropped by 8% YOY to SAR125.1 bn in 1Q21 from SAR135.9 bn in 1Q20. Total assets decreased by 4% YOY to SAR177.4 bn in 1Q21 while the equity climbed by 8.3% YOY to SAR29.9 bn in 1Q21 from SAR27.6 bn in 1Q20.

Target price and recommendation

We maintain our HOLD rating with a target price of SAR21.00. Arab National Bank (ANB) is a Saudi Joint Stock Company located in the capital city of Riyadh, now ranks among the 10-15 largest banks in the Middle East. The Bank offers comprehensive commercial and investment banking services, in addition to specialized services in the fields of heavy equipment leasing and home finance. ANB has recorded a drop in Net Income by 9.6% to SAR582 mm for the first quarter 2021 from SAR644 mm in 1Q20, mainly due to the higher Impairment charges and economic condition COVID-19 outbreak and a decrease in net special commission income by 8.6% YoY. Despite the COVID-19 outbreak,

Capital Adequacy Ratio (CAR) has increased to 22.12% in Q1 2021 as compared to 18.33% in Q1 2020 and the Tier-1 Capital ratio has also increased to reach 19.64% in Q1 2021 as compared to 16.51% over the same period 2020, which shows that the company is in a good shape to meet its financial obligations. Total assets decreased by 4%, reaching SAR 177.44 Bn in Q1 2021 as compared to SAR 184.87 Bn in Q1 2020. In addition, the ADR ratio increased to 92.3% in Q1 2021 from 88.2% in Q1 2020. However, Deposits decreased by 8% YoY, reaching SAR 125.16 Bn in Q1 2021 as compared to SAR 135.98 Bn in Q1 2020, while the Gross Advances has decreased by 3.6% to score SAR115 bn in Q1 2021 from SAR120 bn over the same period 2020; the NPL ratio stood at 3.38% in Q1 2021 as compared to 2.03% in Q1 2020, as well as the decline in the Provision Coverage ratio (PCR) from 143.2% in Q1 2020 to 107% in Q1 2021, that means provisions have not been made to the extent of the rise in bad loans. ANB has signed at the end of 2020 an agreement with the Saudi General Authority for Small and Medium Enterprises (Monshaat) to provide franchise-related innovative financing products in line with the banking system issued by the Saudi Central Bank (SAMA). That agreement aims to stimulate the franchise industry while developing the kingdom's SME sector and raising its contribution to the gross domestic product (GDP). The Bank has announced a cash dividend of SAR0.40 for 2020. We maintain our HOLD rating on the stock.

ARNB – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	11.0	12.5	11.0	16.0	13.9
P/B (x)	1.4	1.3	1.2	1.1	1.0
Dividend yield	3.6%	4.5%	4.5%	1.8%	3.6%

FABS Estimates & Co Data

ARNB – P&L

	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
SAR mm								
Funded income	1,501	1,263	1,452	-3.3%	15.0%	5,992	6,046	0.9%
Funded expense	-302	-83	-145	-52.0%	74.8%	-1,123	-941	-16.2%
Net funded income	1,199	1,180	1,307	9.0%	10.8%	4,869	5,105	4.9%
Fees and commissions	120	129	137	14.3%	6.6%	550	566	3.0%
Trading gain/(loss)	0	9	2	NM	-78.0%	5	8	47.7%
Other non-funded income	150	239	99	-34.2%	-58.6%	400	455	13.5%
Non-funded income	271	377	238	-12.0%	-36.8%	956	1,029	7.7%
Operating income	1,470	1,556	1,545	5.1%	-0.7%	5,824	6,134	5.3%
Operating expenses	-527	-536	-477	-9.6%	-11.0%	-2,047	-1,925	-5.9%
Pre-provision profit	942	1,021	1,068	13.4%	4.7%	3,778	4,209	11.4%
Impairment	-348	-333	-325	-6.6%	-2.4%	-1,271	-1,329	4.6%
Share of results of associates	2	20	8	NM	-63.1%	65	30	-53.6%
PBT	597	708	751	25.9%	6.0%	2,572	2,910	13.1%
Tax	-112	-127	-136	20.9%	7.0%	-503	-532	5.8%
Profit after tax	484	582	615	27.0%	5.8%	2,069	2,378	14.9%
Non-controlling int.	2	1	2	0.0%	NM	3	3	0.0%
Net profit attributable	486	582	617	27.0%	6.0%	2,072	2,381	14.9%

FABS Estimate & Co Data

ARNB – KPI

P&L KPI	2Q20	1Q21	2Q21F	YOY Ch (bp)	QOQ Ch (bp)	2020	2021F	Change
Net FI/OI	81.6%	75.8%	84.6%	300	880	83.6%	83.2%	-37
NIM	3.3%	2.9%	3.0%	-38	2	3.1%	3.0%	-3
NIS	3.2%	2.9%	2.9%	-31	3	3.0%	3.0%	-2
Fees & comms/OI	8.2%	8.3%	8.9%	71	61	9.4%	9.2%	-20
Trading/OI	0.0%	0.6%	0.1%	10	-45	0.1%	0.1%	4
Cost to income	35.9%	34.4%	30.9%	-503	-356	35.1%	31.4%	-376
Impairment/PPP	36.9%	32.6%	30.4%	-650	-219	33.6%	31.6%	-206
NP/OI	33.1%	37.4%	39.9%	687	252	35.6%	38.8%	324
ROAE	1.7%	2.0%	2.1%	34	6	7.1%	7.7%	56
ROAA	0.3%	0.3%	0.3%	5	0	1.1%	1.2%	10

FABS Estimate & Co Data

ARNB - Key B/S items

	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY ch
SAR mm						
Net advances	117,129	118,058	113,363	115,559	118,869	1.5%
QOQ change	-2.3%	0.8%	-4.0%	1.9%	2.9%	
Total assets	187,297	188,526	180,396	177,435	197,326	5.4%
QOQ change	1.3%	0.7%	-4.3%	-1.6%	11.2%	
Customer deposits	133,896	136,725	129,352	125,161	137,230	2.5%
QOQ change	-1.5%	2.1%	-5.4%	-3.2%	9.6%	
Total equity	28,427	29,339	29,734	29,974	30,796	8.3%
QOQ change	2.7%	3.2%	1.3%	0.8%	2.7%	

FABS Estimate & Co Data

2Q21 preview: Alinma Bank

Higher Fees and commissions and Funded income support the profitability

CMP (SAR): 20.14

Potential upside (%): +4.3%

12-m target price:

SAR 21.00

Stock rating:

HOLD

2Q21 Estimate

We forecast Alinma Bank to report a rise by 18.4% YOY in Net profit to reach SAR678 mm in 2Q21 as compared to a Net profit of SAR572 mm in 2Q20. The rise is projected mainly due to a YOY increase in Net Funded income by 14.6% & in Fees and commissions by 90.2%. Funded income is expected to rise by 8% YOY to SAR1,445 mm in 2Q21 from SAR1,338 mm in 2Q20. We expect Funded expense to decline by 26.2% YOY to SAR159 mm in 2Q21 from SAR215 mm in 2Q20. Non-Funded income is expected to significantly increase by 66.6% YOY to SAR373 mm in 2Q21 as compared to SAR224 mm in 2Q20, led by an expected increase in Fees and commissions to SAR288 mm in 2Q21. Operating expenses are expected to increase by 3.2% YOY to SAR532 mm in 2Q21 from SAR515 mm in 2Q20. We expect Impairment charges to almost double YOY to SAR394 mm in 2Q21 compared to SAR192 mm in 2Q20. Bank's Cost-to-Income ratio (C/I) is estimated to decline by 622 bps to 32.1% from 38.3% in 2Q20. Net Interest Margin (NIM) is expected to decline slightly by 29 bps to 3.5% in 2Q21 from 3.8% in 2Q20.

2021 Forecast

We expect ALINMA to post a Net profit of SAR2,460 mm in 2021, which is an increase by 25.1% from a Net profit of SAR1,966 mm in 2020. This is primarily due to an anticipated increase in Net Funded income and in the Non-funded income by 7% and 30.1% YOY, respectively. Funded expense is expected to rise by 4.7% YOY to SAR861 mm from SAR822 mm in 2020. Operating expenses are expected to rise by 1.2% YOY to SAR2,143 mm from SAR2,119 mm in 2020. Other non-funded income is expected to rise to SAR15 mm in 2021 from a negative SAR122 mm in 2020. Impairment charges are expected to increase by 10.7% YOY to SAR1,570 mm from SAR1,418 mm in 2020. The Cost-to-income ratio (C/I) is expected to decline by 338 bps to 33.6% in 2021 from 36.9% in 2020.

1Q21 Outturn

Alinma Bank recorded an increase by 73.3% YOY in Net profit to SAR642 mm in 1Q21, from SAR370 mm in 1Q20, beating our Estimate by 37.8%. This increase was primarily due to a significant rise in Other Non-funded income. Bank's Operating income increased by 27.7% YOY in 1Q21 to SAR1,619 mm, beating our forecast by 4%. The increase in Operating Income is mainly due to the significant increase in the Total Non-funding income to SAR415 mm from SAR147 mm in 1Q20, led by a significant increase in the Other non-funding income to SAR64 mm in 1Q21, in addition to an increase by 35.7% YOY in Fees and Commissions to SAR301 mm in 1Q21 compared to SAR222 mm in 1Q20. At the same time, the Net Funded income increased by 7.4% YOY to SAR1,204 mm in 1Q21 from SAR1,121 mm in 1Q20. While the Funded income has decreased by 3.3% YOY to SAR1,349 mm in 1Q21 from SAR1,395 mm in 1Q20, and Funded expenses have also decreased by 47.3% YOY to SAR144 mm in 1Q21 from SAR274 mm in 1Q20. Operating expenses have increased by 8.5% YOY to SAR556 mm in 1Q21 from SAR512 mm in 1Q20, while the Cost/Income "C/I" decreased by 694 bps to 34.3% from 40.4% in 1Q20. Impairment charges slightly increased by 0.4% YOY to SAR344 mm in 1Q21 compared to SAR343 mm in 1Q20. Net advances increased by 19.8% YOY to SAR117.14 bn in 1Q21 from SAR97.78 bn in 1Q20. While the Customer deposits climbed by 16.2% YOY to SAR120.7 bn in 1Q21 from SAR103.87 bn in 1Q20. Total Assets increased by 15.9% YOY to SAR159.95 bn in 1Q21, and the Total Equity increased by 10.1% YOY to SAR25.08 bn in 1Q21 compared to SAR22.77 bn in 1Q20.

Target price and recommendation

We assign a HOLD rating with a revised target price of SAR21.00. Alinma Bank is a Saudi joint-stock company that provides a comprehensive range of Shariah-compliant retail and corporate banking and investment services under the best work environment that helps in achieving sustainable growth. Alinma Bank has recorded a growth of 73.3% in Net Profit, reaching SAR642 mm for the first quarter 2021 compared to SAR370mm for first quarter 2020. This increase in Net Profit was due to the remarkable increase by 27.7% in total operating income in first quarter 2021 among a rise in net financing and investment income held at fair value, fee income and other operating income. Despite the COVID-19 outbreak and an overall impact on the global and local economy, Alinma Bank has posted strong operational performances across 2020, with a number of key financial indicators showing double-digit percentage growth. Therefore, ADR ratio has increased by 20 bps to reach 97.1% in first quarter 2021 from 94.1% in first quarter 2020 amid an increase in deposits by 16.2% reaching SAR120.71 mm in first quarter 2021 from SAR103.84 mm first quarter 2020, representing 75.46% of total assets accompanied with an increase in advances by 19.8% reaching SAR 117.15 mm in first quarter 2021 as compared to SAR 97.78 mm same period last year. It is worth noting that Non-Performing Loans decreased by 4.94% as at first quarter 2021 compared to same period last year. NIM and NIS have reduced to 0.8% in the first-quarter 2021 from 0.9% during the same period 2020. Cost to income ratio decreased in first quarter 2021 to 34.3% from 40.4% same period 2020. The bank's Common Tier 1 Capital ratio stood at 18% as at the end of first quarter 2021 same as last year's percentage and the CAR ratio maintained its level at 19% same as same first quarter 2020. The stock is trading at a P/B multiple of 1.71x against its peers average of 2.2X and therefore, we assign our HOLD rating on the stock.

ALINMA – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	21.1	14.8	22.3	21.6	17.4
P/B (x)	2.1	2.0	1.9	1.8	1.7
Dividend yield	3.7%	4.7%	0.0%	1.4%	3.3%

FABS Estimates & Co Data

ALINMA – P&L

SAR mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
Funded income	1,338	1,349	1,445	8.0%	7.1%	5,470	5,832	6.6%
Funded expense	-215	-144	-159	-26.2%	10.1%	-822	-861	4.7%
Net funded income	1,122	1,204	1,286	14.6%	6.8%	4,648	4,972	7.0%
Fees and commissions	152	301	288	90.2%	-4.3%	989	1,180	19.4%
Trading gain/(loss)	68	50	52	-22.8%	5.3%	220	218	-1.1%
Other non-funded income	5	64	33	NM	-48.7%	-122	15	NM
Non-funded income	224	415	373	66.6%	-9.9%	1,086	1,413	30.1%
Operating income	1,346	1,619	1,660	23.3%	2.5%	5,734	6,385	11.3%
Operating expenses	-515	-556	-532	3.2%	-4.3%	-2,119	-2,143	1.2%
Pre-provision profit	831	1,064	1,128	35.7%	6.0%	3,616	4,241	17.3%
Impairment	-192	-344	-394	NM	14.5%	-1,418	-1,570	10.7%
Share of profit of associates	-3	-4	-4	32.2%	1.0%	5	4	-22.5%
Net profit before zakat	636	716	730	14.8%	2.0%	2,202	2,675	21.5%
Zakat	-64	-74	-52	-18.1%	-29.4%	-236	-215	-8.9%
Net profit attributable	572	642	678	18.4%	5.6%	1,966	2,460	25.1%

FABS Estimate & Co Data

ALINMA - KPI

	2Q20	1Q21	2Q21F	YOY Bps	QOQ Bps	2020	2021F	Ch (Bps)
SAR mm								
Net FI/OI	83.3%	74.4%	77.5%	-585	311	81.1%	77.9%	-318
NIM	3.8%	3.5%	3.5%	-29	0	3.6%	3.3%	-29
NIS	3.7%	3.4%	3.4%	-22	1	3.5%	3.2%	-26
Fees & comms/OI	11.3%	18.6%	17.4%	611	-123	17.2%	18.5%	124
Trading/OI	5.0%	3.1%	3.2%	-188	8	3.8%	3.4%	-43
Cost to income	38.3%	34.3%	32.1%	-622	-226	36.9%	33.6%	-338
Impairment/PPP	23.1%	32.3%	34.9%	1,180	257	39.2%	37.0%	-221
NP/OI	42.5%	39.6%	40.8%	-167	121	34.3%	38.5%	424
ROAE	2.6%	2.7%	2.8%	23	12	8.4%	9.8%	145
ROAA	0.4%	0.4%	0.4%	2	2	1.4%	1.5%	10

FABS Estimate & Co Data

ALINMA - Key B/S items

	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY ch
SAR mm						
Net advances	103,178	105,325	111,196	117,149	117,619	14.0%
QOQ change	5.5%	2.1%	5.6%	5.4%	3.5%	
Total assets	142,196	147,850	156,877	159,951	161,161	13.3%
QOQ change	3.0%	4.0%	6.1%	2.0%	2.3%	
Customer deposits	107,417	111,365	119,454	120,707	128,423	19.6%
QOQ change	3.4%	3.7%	7.3%	1.0%	2.0%	
Total equity	23,386	24,039	24,429	25,081	24,972	6.8%
QOQ change	2.7%	2.8%	1.6%	2.7%	1.4%	

FABS Estimate & Co Data

2Q21 preview: Al Bilad Bank

Increase in Fees and commissions income support the increase in profit

CMP (SAR): 36.35

Potential upside (%): +1.8%

12-m target price:

SAR 37.00

Stock rating:

HOLD

2Q21 Estimate

Al Bilad's Net profit is forecasted to increase by 28% YOY to SAR407 mm in 2Q21 from SAR318 mm in 2Q20, mainly due to an expected increase in Fees and commissions income. Net funded income is expected to increase by 3.1% YOY to SAR856 mm in 2Q21 from SAR830 mm in 2Q20, as an increase by 0.3% YOY to SAR920 mm in 2Q21 is foreseen for Interest income from SAR917 mm in 2Q20, and Interest expense is estimated to decrease by 25.8% YOY to SAR64 mm in 2Q21 from SAR87 mm in 2Q20. Total Non-funded income is expected to increase by 66.1% YOY to SAR281 mm in 2Q21 from SAR169 mm in 2Q20. This would be led by a 45.9% YOY increase in Fees and commission income to SAR167 mm in 2Q21 from SAR114 mm in 2Q20. Exchange income is expected to decrease by 9.3% YOY to SAR91 mm in 2Q21 from SAR100 mm in 2Q20. Operating income is estimated to increase by 13.7% YOY to SAR1,137 mm in 2Q21, as we estimate Operating expenses to increase by 4.8% YOY to SAR518 mm in 2Q21 from SAR495 mm in 2Q20. The Cost-to-Income (C/I) ratio would decrease by 390 bps to 45.6% in 2Q21. Impairment charges are forecasted to increase by 10.3% YOY to SAR166 mm in 2Q21 from SAR151 mm in 2Q20.

2021 Forecast

Al Bilad's Net profit is forecasted to increase by 22.6% YOY to SAR1,653 mm in 2021 from SAR1,349 mm in 2020. Net funded income is expected to increase by 4.8% YOY to SAR3,450 mm in 2021 from SAR3,293 mm in 2020, as an increase by 2.9% YOY to SAR3,731 mm in 2021 is foreseen for Interest income from SAR3,627 mm in 2020, and Interest expense is estimated to decrease by 16% YOY to SAR281 mm in 2021 from SAR334 mm in 2020. Total Non-funded income is expected to rise by 17.1% YOY to SAR1,135 mm in 2021 from SAR969 mm in 2020. This would be led by a significant increase in Other non-funded income to SAR98 mm in 2021. Fees and commissions are estimated to rise by 6.8% YOY to SAR670 mm in 2021 from SAR627 mm in 2020. Operating income is also expected to increase by 7.6% YOY to SAR4,585 mm in 2021 from SAR4,262 mm in 2020. We expect Operating expenses to increase by 1.5% YOY to SAR2,097 mm in 2021 compared to SAR2,066 mm in 2020. The Bank's Cost-to-income (C/I) ratio would decrease by 274 bps to 45.7% in 2021. Impairments are forecasted to decrease by 6.2% YOY to SAR652 mm in 2021 from SAR695 mm in 2020.

1Q21 Outturn

Albilad Bank recorded a rise by 45.4% YOY in Net Profit to SAR393 mm in 1Q21 from SAR270 mm in 1Q20. This increase was primarily due to a decrease in Impairment charges. The Bank's Operating income increased by 12.8% YOY in 1Q21 to SAR1,133 mm from SAR1,004 mm in 1Q20. Other Non-funded income significantly increased to SAR2 mm in 1Q21 from negative SAR17 mm in 1Q20. Moreover, Total Non-funded income slightly increased by 0.2% YOY to SAR274 mm in 1Q21. Net Funded income increased by 17.5% YOY to SAR859 mm in 1Q21 from SAR731 mm in 1Q20. While the Exchange Income decreased by 15.1% YOY to SAR74 mm in 1Q21 from SAR87 mm in 1Q20. General & administrative expenses increased by 5.1% YOY to SAR526 mm in 1Q21 while the Cost/Income "C/I" decreased by 340 bps to 46.4% from 49.8% in 1Q20. Impairment charges have decreased by 16.7% YOY to SAR170 mm compared to SAR203 mm in 1Q20, supporting the profit to advance. While the Banks's Net advances increased by 20.7% YOY to SAR75.5 bn in 1Q21 from SAR62.5 bn in 1Q20. While Customer deposits climbed by 12.6% YOY to SAR76.9 bn in 1Q21 from

SAR68.3 bn in 1Q20. Total Assets increased by 15.8% YOY to SAR102.5 bn in 1Q21, and the Total Equity climbed by 13.6% YOY to SAR10.8 bn in 1Q21.

Target price and recommendation

We assign a HOLD rating with a revised target price of SAR37.00. Bank AlBilad's strategy is to foster sustainable growth by leveraging its channels, networks, and expertise. To ensure success of its business, AlBilad has consistently focused on innovation, operational excellence and creating a performance-driven culture. AlBilad reported a Net profit of SAR392.8 mm in first quarter 2021, an increase by 46% compared to SAR 270 mm in 1Q20. The year-on-year increase was mainly driven by an increase of 13% in Total Operating income due to higher Net Income from investment and financing activities by almost 5% as compared to same period last year, and an increase in Fees and Commissions despite the persistent situation of COVID-19 pandemic; worth noting that a slight decrease of 1% in Total Operating expenses was recorded on lower Impairment charges for credit losses. Whereas the increase quarter-on-quarter was due to a decrease by 4% in Total Operating Expenses and a decline in General and Administrative expenses. On the other hand, Net Funded Income to Operating Income ratio of the Bank stands at 75.8% in 1Q21 compared to 72.8% in 1Q20. The annualized NIM for the bank increased at 4.1% compared to 4.2% 1Q20 while annualized NIS decreased to 4.0% in 1Q21 as compared to 4.2% in 1Q20. The Cost to Income ratio for the bank stands at 46.4% in 1Q21, compared to 49.8% over same period 2020. The ROAE for the company stands at 3.9% compared to 3% in 1Q20. ROAA for the company in 1Q21 was 0.4% witnessing an increase compared to previous year's 0.3% in 1Q20. The Bank has a CAR of 17.07% lower than CAR as at end of year for 17.95% and CAR for 17.63% in first quarter 2020 but still considered a healthy figure exceeding the requirements. The Bank's Common Equity Tier 1 (CET1) ratio also decreased to reach 13.48% from 13.66% in 1Q20 and 14.2% as at the end of previous year. Total assets have increased by 16% as compared to 1Q20 reaching SAR 102.52 mm from 88.49 mm in 1Q20 with an increase by 20.7% in Financing Investments reaching SAR 75.53 mm from SAR62.58 mm in 1Q20. Deposits on the other hand increased by 12.6% reaching SAR76.96 mm from SAR 68.38 mm which led to an increase in ADR from 91.5% in 1Q20 to 98.1% in current reporting period. In 1Q21, the EPS increased to 0.52 per share as compared to 0.36 per share in 1Q20 and the stock is currently trading at a P/B multiple of 2.52x against its peers of 2.2X. Therefore, we assign a HOLD rating.

ALBI - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
PE (x)	28.7	55.3	21.7	20.1	16.5
P/B (x)	3.6	3.5	2.9	2.5	2.4
Dividend yield	2.2%	0.0%	2.5%	0.0%	2.8%

FABS Estimates & Co Data

ALBI - P&L

SAR mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
Income from invest & fin.	917	912	920	0.3%	0.9%	3,627	3,731	2.9%
Return on deposits & fin. liab.	-87	-53	-64	-25.8%	21.6%	-334	-281	-16.0%
Net funded income	830	859	865	3.1%	-0.4%	3,293	3,450	4.8%
Fees and commissions	114	199	167	45.9%	-16.1%	627	670	6.8%
Exchange income	100	74	91	-9.3%	23.1%	362	367	1.3%
Other non-funded income	-45	2	24	NM	NM	-20	98.1	NM
Total non-funded income	169	274	281	66.1%	2.5%	969	1,135	17.1%
Total operating income	1,000	1,133	1,137	13.7%	0.3%	4,262	4,585	7.6%
General & admin. Expenses	-495	-526	-518	4.8%	-1.4%	-2,066	-2,097	1.5%
Pre provision profit	505	607	618	22.5%	1.8%	2,196	2,488	13.3%
Impairment	-151	-170	-166	10.3%	-2.0%	-695	-652	-6.2%
Profit before zakat	354	438	452	27.7%	3.3%	1,502	1,837	22.3%
Zakat expenses	-36	-45	-45	25.2%	0.3%	-153	-184	19.9%
Net profit	318	393	407	28.0%	3.6%	1,349	1,653	22.6%

FABS Estimates & Co Data

ALBI - P&L KPI

	2Q20	1Q21	2Q21F	YOY Bps	QOQ Bps	2020	2021F	Ch Bps
SAR mm								
Net FI/OI	83.1%	75.8%	75.3%	-780	-53	77.3%	75.25%	-201
NIM	4.2%	4.1%	4.0%	-28	-10	4.1%	3.8%	-24
NIS	4.2%	4.0%	3.9%	-24	-10	4.0%	3.8%	-23
Fees & comms/OI	11.4%	17.5%	14.7%	323	-288	14.7%	14.6%	-11
Trading/OI	10.0%	6.5%	8.0%	-202	148	8.5%	8.0%	-50
Cost to income	49.5%	46.4%	45.6%	-390	-79	48.5%	45.7%	-274
Impairment/PPP	29.8%	27.9%	26.9%	-296	-105	31.6%	26.2%	-543
NP/OI	31.8%	34.7%	35.8%	399	114	31.6%	36.1%	441
ROAE	3.4%	3.9%	3.8%	42	-3	13.4%	15.0%	166
ROAA	0.4%	0.4%	0.4%	5	2	1.5%	1.7%	20

FABS Estimate & Co Data

ALBI - Key B/S Items

	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY ch
SAR mm						
Net advances	64,923	67,762	70,115	75,531	73,658	13.5%
QOQ change	3.7%	4.4%	3.5%	7.7%	-2.5%	
Total assets	88,824	92,294	95,744	102,520	100,517	13.2%
QOQ change	0.4%	3.9%	3.7%	7.1%	-2.0%	
Customer deposits	64,876	68,883	71,553	76,963	74,442	14.7%
QOQ change	-5.1%	6.2%	3.9%	7.6%	-3.3%	
Total equity	9,852	10,311	10,730	10,838	11,453	16.3%
QOQ change	3.3%	4.7%	4.1%	1.0%	5.7%	

FABS Estimate & Co Data

2Q21 preview: Al Rajhi Bank

Higher Funded and Non-funded income to support the profitability

CMP (SAR): 109.00

Potential upside (%): +0.2%

12-m target price:

SAR 109.20

Stock rating:

HOLD

2Q21 Estimate

We forecast Al Rajhi Bank to record 40.3% YOY increase in Net profit to SAR3,418 mm in 2Q21, as compared to SAR2,436 mm in 2Q20, largely due to estimated growth in both Net Funded income and Non-funded income. Net funded income increased by 26% YOY to SAR5,000 mm in 2Q21 mainly due to a 25.9% YOY increase in Funded income to SAR5,138 mm in 2Q21 from SAR4,082 mm in 2Q20 and a 20.2% YOY increase in Funded expense to SAR138 mm in 2Q21 compared to SAR115 mm in 2Q20. Non-funded income is expected to increase by 17.2% YOY to SAR985 mm in 2Q21 from SAR840 mm in 2Q20, mainly due to an increase in Fees and commission by 31.1% YOY SAR694 mm in 2Q21 from SAR529 mm in 2Q20. Operating income is likely to increase by 24.5% YOY to SAR5,985 mm in 2Q21 and the Cost/Income (C/I) ratio would decline by 606 bps YOY to 27.9% in 2Q21 from 34% in 2Q20. NIM and NIS are predicted to improve by 51 bps and 60 bps respectively to 4.7% in 2Q21.

2021 Forecast

Al Rajhi is estimated to post a 27.9% YOY increase in Net profit to SAR13,550 mm in 2021 from a Net Profit of SAR10,596 mm in 2020, this is mainly due to the expected increase in both Net funded income and Non-funded income. Net funded income is expected to increase by 18.2% YOY to SAR19,996 mm in 2021, due to an expected increase in Funded income by 18.3% YOY to SAR20,551 mm in 2021 from SAR17,378 mm in 2020. Non-funded income is likely to increase by 4.4% YOY to SAR3,974 mm in 2021, considering the increase in Fees and commissions by 5.4% YOY to SAR2,803 mm from SAR2,660 mm in 2020 and increase by 4.2% YOY in Trading gain to SAR817 mm in 2021 compared to SAR784 mm in 2020. Total Operating Income is expected to climb by 15.7% YOY to SAR23,971 mm in 2021, while the Operating expenses would increase by 2.1% YOY to SAR6,885 mm from SAR6,742 in 2020. Thus, the C/I ratio is expected to decrease by 381 bps to 28.7% in 2021 as compared to 32.5% in 2020. ADR is anticipated to decrease by 57 bps to 81.9% in 2021 from 82.5% in 2020. We estimate that both NIM and NIS would advance by 9 bps to 4.7% in 2021.

1Q21 Outturn

Al Rajhi Bank reported a 40.1% increase in Net Profit to SAR3,335 mm in 1Q21 from SAR2,380 mm in 1Q20. The Net Profit exceeded our expectation by 4% primarily due to increase in Non-funded income. The Net Profit surged by 40.1% YOY to SAR3,335 mm in 1Q21 from SAR2,380 mm in 1Q20. This was mainly driven by increase in Yield income, Non-yield Income and reduction in Impairment charges. The Net Funded income increased by 16.1% YOY to SAR4,771 mm in 1Q21 from SAR4,110 mm in 1Q20. This was due to 15.6% YOY increase in the Funded Income to SAR4,915 mm in 1Q21 from SAR4,253 mm. The Non-Funded Income increased by 37.3% YOY to SAR1,177 mm in 1Q21 from SAR857 mm in 1Q20. This was driven by 47.1% YOY increase in Fees and Commissions and a significant increase in Other Non-funded Income. The Operating expenses increased slightly by 1.9% to SAR1,652 mm in 1Q21 from SAR1,621 mm in 1Q20. The Impairment charges decreased by 16.7% YOY to SAR577 mm in 1Q21 from SAR693 mm in 1Q20. Net advances increased by 36.3% YOY to SAR356.1 bn in 1Q21 from SAR261.3 bn in 1Q20. Total Assets increased by 30.7% YOY to SAR512.2 bn in 1Q21 from SAR391.9 bn in 1Q20. Total Equity increased by 19.4% YOY to SAR59.2 bn in 1Q21 from SAR49.5 bn in 1Q20. Customer Deposits increased by 33.5% YOY to SAR409.7 bn from SAR315.6 bn in 1Q20.

Target price and recommendation

We maintain a HOLD rating on Al Rajhi with a revised target price of SAR109.22. We maintain a HOLD rating on Al Rajhi with a target price of SAR99. Al Rajhi Banking and Investment Corporation (RJHI) has delivered a strong performance in the first quarter of 2021. The Net Profit increased by 40.1% YOY to SAR3,335 mm in 1Q21 from SAR2,380 mm in 1Q20. The Net Profit Margin reduced to 4.56% in 1Q21 from 5% in 1Q20. This was mainly due to the negative SAIBOR Impact, lower spreads, Fee waivers, and modification loss recorded in the period. The Bank's current performance and market position is in line with their strategy 2021-2023. RJHI has distinguished certain key areas to focus on that will help it to build its core operations further. The Bank has managed to increase its market share of KSA banking assets by 17%. The Bank has witnessed 13% YOY growth in Retail Financing, including the private sector, in line with their 2021-2023 strategy. Corporate Financing, another focus area, has increased by 12% YOY, demonstrating corporate growth. The Bank wants to position itself as the 'Bank of Choice for SMEs' through increasing financing to the SMEs. Resultantly, the growth of financing to SMEs has increased by 8% YOY in 1Q21. The current accounts are an important funding mix to the bank and have increased by 8% YOY. Moreover, the Bank's core strategy is to improve the Revenue mix by increasing the contribution from the Non-yield income. During 1Q21, the contribution of the Non-Yield Income increased to 20%, up by 3% from the same period in the previous year. The Bank is heavily focused on digitalization and has transformed its technological capabilities. The Digital/Manual ratio stands at 85/15. Around 328 AI robots are incorporated to improve the customer's digital experience. Furthermore, the Bank plans to deepen relationships via XSell, a 360-degree system for the customer base. The Bank aspires to become the leading finance company through its 100% owned subsidiary Emkan financing. The digital platforms will enable the bank to achieve cost optimization leading to higher positive jaws. The Cost-to-Income ratio reduced to 27.8% in 1Q21 from 32.6% in 1Q20. The Bank's asset quality is healthy, with Impairment charges decreasing by 16.7% YOY to SAR577 mm in 1Q21 from SAR693 mm in 1Q20. The cost of risk has also reduced to 0.67% in 1Q21 from 1.05% in 1Q20. The NPL ratio had a declining trend and stood at 0.7% in 1Q21, down from 1.07% in 1Q20. The NPL coverage ratio is at a strong level at 317.7% in 1Q21. The Bank has continued to demonstrate its prudent risk management through its healthy ECL stage coverages. RJHI's LCR ratio had a declining trend throughout the year (except in 4Q20) and stood at 142% in 1Q21 from 177% in 1Q20. However, the ratio is comfortably within the minimum regulatory requirements. The NSFR also demonstrated a declining trend to 116% in 1Q21 from 127% in 1Q20. The High-Quality Liquid Assets (HQLA) increased by 17.7% to SAR79.7 bn in 1Q21 as compared to SAR67.7 bn in 1Q20. The Capital Adequacy Ratio (CAR) decreased to 17.9% in 1Q21 from 18.6% in 1Q20. This was mainly due to a 25.2% increase in Risk-Weighted Assets (RWA). The Return on Equity and Return on Assets improved to 22.43% (1Q20:18.36%) and 2.75% (1Q20:3.43%) respectively in 1Q21. The Earnings per share (EPS) increased by 40.1% YOY to SAR1.33 in 1Q21 from SAR0.95 in 1Q20. The Net financing increased by 36.3% to SAR356.1 bn in 1Q21. This was mainly driven by growth in mortgage and other retail. Total Customer Deposits increased by 33.5% to SAR421.3 bn in 1Q21 as compared to SAR315.7 bn in 1Q20. This was driven by demand deposits and time deposits. The Bank currently trades at a P/B multiple of 4.21X. We maintain a HOLD rating on Al Rajhi.

RJHI - Relative valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	29.7	71.7	26.7	25.5	20.0
P/B (x)	4.9	5.6	5.3	4.7	4.5
Dividend yield	2.4%	2.6%	2.8%	0.9%	2.8%

FABS Estimates & Co Data

RJHI - P&L

SAR mm	2Q20	1Q21	2Q21F	YOY ch	QOQ ch	2020	2021F	YOY ch
Funded income	4,082	4,915	5,138	25.9%	4.5%	17,378	20,551	18.3%
Funded expense	-115	-144	-138	20.2%	-4.4%	-465	-555	19.3%
Net funded income	3,968	4,771	5,000	26.0%	4.8%	16,913	19,996	18.2%
Fees and commissions	529	909	694	31.1%	-23.7%	2,660	2,803	5.4%
Trading gain/(loss)	170	175	203	19.6%	15.8%	784	817	4.2%
Other non-funded income	141	93	88	-37.7%	-5.3%	365	355	-2.7%
Non-funded income	840	1,177	985	17.2%	-16.3%	3,808	3,974	4.4%
Operating income	4,808	5,948	5,985	24.5%	0.6%	20,721	23,971	15.7%
Operating expenses	-1,634	-1,652	-1,671	2.3%	1.2%	-6,742	-6,885	2.1%
Pre-provision profit	3,174	4,296	4,314	35.9%	0.4%	13,979	17,085	22.2%
Impairment	-458	-577	-500	9.1%	-13.4%	-2,166	-1,965	-9.3%
Net income before zakat	2,716	3,719	3,814	40.4%	2.6%	11,814	15,121	28.0%
Zakat	-280	-383	-396	41.3%	3.2%	-1,218	-1,571	29.0%
Net profit attributable	2,436	3,335	3,418	40.3%	2.5%	10,596	13,550	27.9%

FABS Estimate & Co Data

RJHI - P&L KPI

	2Q20	1Q21	2Q21F	YOY Bps	QOQ Bps	2020	2021F	Ch Bps
Net FI/OI	82.5%	80.2%	83.5%	102	334	81.6%	83.4%	180
NIM	4.2%	4.7%	4.7%	51	3	4.61%	4.7%	9
NIS	4.1%	4.7%	4.7%	60	3	4.61%	4.7%	9
Fees & comms/OI	11.0%	15.3%	11.6%	58	-369	12.8%	11.7%	-114
Trading/OI	3.5%	3.0%	3.4%	-14	44	3.8%	3.4%	-38
Cost to income	34.0%	27.8%	27.9%	-606	15	32.5%	28.7%	-381
Impairment/PPP	14.4%	13.4%	11.6%	-284	-184	15.5%	11.5%	-399
NP/OI	50.7%	56.1%	57.1%	645	104	51.1%	56.5%	539
ROAE	4.8%	6%	6.1%	134	-1	19.4%	23.3%	393
ROAA	0.6%	0.7%	0.7%	13	1	2.5%	2.8%	27

FABS estimate & Co Data

RJHI - Key B/S Items

SAR mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net advances	274,928	289,729	315,712	356,144	338,127	23.0%
QOQ change	5.2%	5.4%	9.0%	12.8%	-5.1%	
Total assets	417,684	430,300	468,825	512,234	497,340	19.1%
QOQ change	6.6%	3.0%	9.0%	9.3%	-2.9%	
Customer deposits	334,665	345,322	382,631	4,21,269	409,797	22.5%
QOQ change	6.0%	3.2%	10.8%	10.1%	-2.7%	
Total Equity	51,930	54,919	58,119	59,222	59,827	15.2%
QOQ change	4.7%	5.8%	5.8%	1.9%	1.0%	

FABS Estimate & Co Data

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