

Riyad Bank

Healthy growth in funded and non-funded income drove profitability

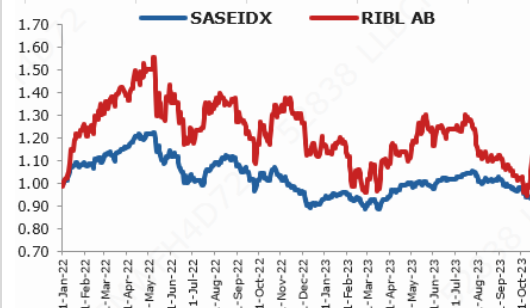
Current Price
SAR 26.30

Target Price
SAR 36.00

Upside/Downside (%)
+37%

Rating
BUY

- The Bank's net advances rose 10.6% YOY and 1.5% QOQ to SAR 267.2 Bn in 3Q23
- Customer deposits recorded a strong growth of 8.0% on YOY basis but declined 6.4% QOQ to SAR 254.7 Bn in 3Q23 resulting in a pressure on NIMs
- As a result, the Bank's loan to deposits ratio increased from 96.7% in 2Q23 to 104.9% in 3Q23 pressurizing liquidity
- RIBL's cost to income ratio improved 67 bps YOY to 32.7% in 3Q23



3Q23 Net Profit in line with our estimate

Riyad Bank ("RIBL", "The Bank") recorded a 14.3% YOY increase in net profit to SAR 2,089 Mn in 3Q23, in line with our estimate of SAR 2,097 Mn. The increase in the net profit is mainly attributable to strong growth in net funded income and other operating income partially offset by an increase in operating expenses, impairments, and tax charges.

P&L Highlights

Riyad Bank's funded income rose significantly 50.5% YOY to SAR 5,308 Mn in 3Q23 mainly driven by growth in net advances and asset yield. On the other hand, funded expense increased substantially from SAR 855 Mn in 3Q22 to SAR 2,233 Mn in 3Q23. Thus, net funded income rose 15.1% YOY to SAR 3,075 Mn in 3Q23. Moreover, non-funded income rose 5.9% YOY to SAR 903 Mn in 3Q23 mainly driven by increase in fee and commission income and trading income, partially offset by a decline in exchange income, other operating income, and lower gains on disposal of non-trading investments. As a result, operating income increased 12.9% YOY to SAR 3,978 Mn in 3Q23. Furthermore, operating expenses rose 10.6% YOY to SAR 1,299 Mn in 3Q23 mainly attributable to an increase in salary and employee related expenses, other G&A expenses, and depreciation expenses partially offset by lower impairment charge for investors, and decline in other operating expenses. Resultantly, cost to income ratio declined 67 bps YOY to 32.7% in 3Q23. Furthermore, impairments grew 14.3 YOY to SAR 353 Mn in 3Q23. In addition, tax expense rose 13.6% YOY to SAR 241 Mn in 3Q23 in line with increase in profitability.

Stock Information

Market Cap (SAR, mm)	78,900.00
Paid Up Capital (mm)	30,000.00
52 Week High	37.45
52 Week Low	25.30
3M Avg. daily value(SAR)	52,589,450

3Q23 Result Review (SAR, mm)

Total Assets	377,012
Total Equity	50,881
Total Deposits	254,719
Net Profit	2,089

Financial Ratios

Dividend Yield (12m)	4.94
Dividend Pay-out (%)	49.15
Price-Earnings Ratio(x)	9.80
Price-to-Book Ratio (x)	1.54
Book Value (SAR)	17.08
Return-on Equity (%)	16.07

Stock Performance

5 Days	-0.38%
1 Months	-6.07%
3 Months	-22.99%
6 Months	-13.49%
1 Year	-27.75%
Month to Date (MTD%)	-5.23%
Quarter to Date (QTD%)	-5.23%
Year to Date (YTD%)	-17.30%

Balance Sheet Highlights

RIBL's net advances increased 10.6% YOY and 1.5% QOQ to SAR 267.2 Bn in 3Q23. Total assets grew 8.4% YOY to SAR 377.0 Bn in 3Q23. Moreover, customer deposits grew 8.0% YOY to SAR 254.7 Bn in 3Q23 but declined 6.4% on QOQ basis. Thus, the loan-to-deposit ratio rose from 96.7% in 2Q23 to 104.9% in 3Q23. In addition, the Bank's total equity increased 8.8% YOY to SAR 50.9 Bn in 3Q23.

Target Price and Rating

We maintain our BUY rating on RIBL with a target price of SAR 36.00. Riyadh Bank recorded a strong growth in net profit to SAR 2,089 Mn in 3Q23 driven by solid growth in advances and healthy growth in non-operating income. RIBL is likely to achieve the advances growth of high single-digit to low-double-digit in 2023 which will help to boost its funded income. RIBL signed an agreement with NEOM for financing SAR 3 Bn for the Sindalah Island development project which will mark it as a Bank's strong contribution towards achieving KSA's Vision 2030 goals. However, the Bank's margins pressurized in 3Q23 due to a substantial rise in funded expense attributable to a decline in deposits as it resorted to other modes to fund advances. RIBL's net advances rose 10.6% YOY and 1.5% QOQ to SAR 267.2 Bn 3Q23. However, the Bank's deposits rose 8.4% YOY to SAR 377.0 Bn in 3Q22 but declined 3.1% on QOQ basis resulting pressure on liquidity. The Bank's loan-to-deposit ratio rose from 96.7% in 2Q23 to 104.9% in 3Q23 due to decline in deposits. Moreover, the Bank's cost to income ratio declined 67 bps YOY but rose 143 bps QOQ to 32.7% in 3Q23. Riyadh Bank's asset quality improved with an NPL ratio of 1.4% in 2Q23 as compared to 1.5% in 1Q23 whereas, coverage ratio rose to 120.7% in 2Q23 as compared to 117.5% in 1Q23. However, the Bank's capitalization stood strong with a Tier 1 Ratio of 18.1% and CAR of 21.1% in 2Q23. Thus, looking at the positives, we maintain our BUY rating on the stock.

Riyad Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	17.9	13.7	16.3	12.7	11.04	9.4
PB	2.2	2.0	1.7	1.7	1.95	1.5
Dividend yield	3.0%	4.2%	2.0%	4.1%	4.5%	5.7%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR mm	3Q22	2Q23	3Q23	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Special comm inc	3,527	5,066	5,308	5,433	-2.3%	50.5%	4.8%	12,908	20,709	60.4%
Special comm exp	-855	-1,957	-2,233	-2,169	2.9%	161.1%	14.1%	-2,855	-8,029	181.2%
Net special comm inc	2,672	3,109	3,075	3,264	-5.8%	15.1%	-1.1%	10,052	12,680	26.1%
Total other oper inc	853	843	903	853	5.9%	5.9%	7.1%	3,547	3,606	1.7%
Operating income	3,525	3,952	3,978	4,117	-3.4%	12.9%	0.7%	13,599	16,285	19.8%
Operating expenses	-1,174	-1,234	-1,299	-1,304	-0.4%	10.6%	5.2%	-4,410	-5,060	14.7%
Pre-provision profit	2,351	2,718	2,679	2,812	-4.7%	14.0%	-1.4%	9,189	11,226	22.2%
Impairment	-308	-512	-353	-475	-25.7%	14.3%	-31.2%	-1,281	-2,076	62.1%
Profit before tax	2,040	2,210	2,330	2,338	-0.3%	14.2%	5.4%	7,828	9,155	16.9%
Tax	-212	-228	-241	-241	0.0%	13.6%	5.8%	-809	-943	16.5%
Net Profit attributable	1,828	1,982	2,089	2,097	-0.4%	14.3%	5.4%	7,019	8,212	17.0%

FABS estimate & Co Data

Riyad Bank - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	75.8%	78.7%	77.3%	149	-137	73.9%	77.9%	394
Cost to income	33.3%	31.2%	32.7%	-67	143	32.4%	31.1%	-136
Impairment/PPP	13.1%	18.8%	13.2%	4	-568	13.9%	18.5%	456
NP/OI	51.8%	50.2%	52.5%	67	237	51.6%	50.4%	-119
ROAE	14.1%	15.7%	15.9%	177	27	15.0%	16.4%	137
ROAA	1.9%	2.0%	2.1%	25	8	2.0%	2.2%	12

FABS estimate & Co Data

Riyad Bank - Key B/S items

SAR mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	241,586	242,365	251,983	263,150	267,151	10.6%
QOQ ch	0.8%	0.3%	4.0%	4.4%	1.5%	
Total assets	347,881	359,653	380,625	389,236	377,012	8.4%
QOQ ch	-2.8%	3.4%	5.8%	2.3%	-3.1%	
Customer deposits	235,892	240,007	257,277	272,269	254,719	8.0%
QOQ ch	-0.7%	1.7%	7.2%	5.8%	-6.4%	
Total equity	46,776	49,602	49,270	51,128	50,881	8.8%
QOQ ch	0.3%	6.0%	-0.7%	3.8%	-0.5%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	39.30	70.0%	27.51
Relative Valuation (RV)	28.30	30.0%	8.49
Weighted Average Valuation (SAR)			36.00
Current market price (SAR)			26.30
Upside/Downside (%)			+37%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.85 and equity risk premium of 4.6%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	14,689
Terminal value (SAR, Mn)	52,077
Book Value of Equity (as of June 2023)	51,128
FV to Common shareholders (SAR, Mn)	117,893
No. of share (Mn)	3,000
Current Market Price (SAR)	26.30
Fair Value per share (SAR)	39.30

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	8,212	8,395	8,995	10,194	10,776
(-) Equity Charge	-4,394	-4,733	-5,151	-5,639	-6,126
Excess Equity	1,591	3,662	3,844	4,555	4,650
Discounting Factor	0.97	0.89	0.82	0.76	0.70
Present Value of Excess Equity	1,539	3,268	3,164	3,460	3,259

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RIBL and it is valued using the PB multiple. It is valued at a PB multiple of 1.6x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Alinma Bank	2,568	2.1	2.0	13.5	12.1	3.9	4.3
Al Rajhi Bank	7,330	2.7	2.5	15.7	14.2	3.4	3.8
Saudi National Bank	9,215	1.2	1.1	9.8	9.0	5.1	5.5
Banque Saudi Fransi	2,526	1.1	1.1	9.2	8.5	5.8	6.0
Arab National Bank	2,240	1.0	1.0	5.9	6.2	5.9	6.2
Bank Albilad	1,443	2.4	2.1	15.6	13.5	1.8	2.1
Average		1.7x	1.6x	11.6x	10.6x	4.3%	4.7%
Median		1.6x	1.5x	11.7x	10.5x	4.5%	4.9%
Max		2.3x	2.1x	15.1x	13.2x	5.6%	5.9%
Min		1.1x	1.1x	9.3x	8.6x	3.5%	3.9%

Source: FAB Securities

Research Rating Methodology:

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

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