

Saudi Banking Sector – October 2021

Positive Outlook due to implementation of Vision 2030

Sector Weighting:

NEUTRAL

Preview 3Q 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 six KSA banks' Long-Term Issuer Default Ratings was revised to 'Stable' from 'Negative', while retaining the ratings at 'BBB+'. The banks are namely Arab National Bank (ANB), Banque Saudi Fransi (BSF), Alinma bank (Alinma), Saudi Investment Bank (SAIB), Bank Aljazira (BAJ) and Gulf International Bank - Saudi Arabia (GIB SA). Fitch's assessment takes into account the government's strong ability to sustain the banking sector, owing to significant, albeit decreased, foreign reserves. It also reflects a long history of support for Saudi banks of all sizes, franchises, funding structures, and government ownership levels. Given the market's small size and interconnectedness, we see a significant risk of contagion among local banks. This, we believe, adds to the state's motivation to assist any Saudi bank that needs it in order to maintain market trust and stability.

Among the Saudi banks in our coverage, our preferred stocks are **1) SNB:** We assign our HOLD rating on the stock owing to its merger with SAMBA bank, robust balance sheet with strong growth in Net Advances and Customer Deposits, superior earnings and profitability levels with consistent margins. Furthermore, SNB is rated as A- by Fitch Ratings. **2) RJHI:** The Bank dominates a strong market position with a robust balance sheet. The quality of assets has improved with more focus on HQLA. The Bank has successfully incorporated digitalized platforms to continue its core operations during the stressful market periods. The initiatives have allowed the Bank to optimize its cost structure. Lastly, the BOD announced SAR1.4 per share, with SAR3.5 Bn in total for 1H21.

Key Industry Themes

Saudi banks have reported improving financial results, indicating that the economy is recovering after a recession caused by COVID-19, declaring a net profit of SR11.06 billion (\$2.94 billion) in the second quarter of 2021 with an 11.1% gain in net interest income. Among the nine Saudi banks that reported an increase in quarterly profits, the Saudi British Bank (SABB) experienced the most gain. The Arab National Bank, on the other hand, was the only bank to record a drop in net income in the 2Q21. Saudi Arabia's top ten banks had a strong quarter-on-quarter increase in financing and deposits. Core operating income grew by 8.4% in the second quarter of the year, compared to 1.2% in the first, marking the fourth consecutive rise, while loans and advances increased by 13.1% and deposits increased by 12.6%. The merging of National Commercial Bank and SAMBA to establish Saudi National Bank boosted L&A and deposit growth. Operating expenditures increased by 13.7% quarter over quarter, while impairments increased by 81.6%, negatively impacting the banking sector's total operating efficiency in the second quarter. Net Interest Margin (NIM) fell to 3.02% in 1Q21, the lowest level in several quarters, resulting in a rebound in sector-wide margins. On a quarter-over-quarter basis, NIM and credit yield improved slightly, but the cost of funds remained constant. Asset quality improved, with most banks reporting an increase in coverage ratio, emphasizing the buffer available to mitigate any possible asset quality issues.

In 2Q21, the money supply (M3) rose 9.1% YoY, while M1 and M2 increased 8.2% and 6.3%, respectively. In June 2021, credit to the private sector climbed by 16.8% YoY, while bank claims on the public sector increased by 9.6% YoY and deposits increased by 10.2% YoY. In June 2021, POS transactions rose 4.6%, owing to increases in the Restaurants & Hotels, Clothing & Footwear, and Health categories. The economy continues to be supported by spending in the local market, particularly in the retail, food and beverage, and health categories. Mortgages, on the other hand, fell 42.8% year over year in June 2021. House and apartment mortgages were down 47% and 5% year over year, respectively, while LDR was at 77.8%. The foreign reserves of the Saudi Central Bank fell by 0.4% YoY in June 2021, meanwhile, it decreased by 2.7% YoY in May 2021.

In the next years, the expansion of financial technology businesses in Saudi Arabia will boost merger and acquisition activity. As new firms appeal to the Kingdom's youthful, digitally aware populace, the fintech growth can put pressure on established banks. Factors such as the growing breadth of rescue and restructuring transactions, private equity interests, and the growing bad loan market would boost bank M&A. The coronavirus epidemic adds to the motivation to complete merger and acquisition agreements. Fintech activity in the Kingdom has recently increased dramatically. Saudi Arabia now has 30 fintech businesses under its control, which is ten times the original objective. In addition to encouraging innovation and lowering costs, digital banks licensed in Saudi Arabia will assist enhance the quality and user experience for clients in the Kingdom. This will have a direct impact on boosting competition among local banks and financial technology firms.

Despite an Increase in Consumer Lending, Saudi Banks Are Shutting more Outlets

Even as they give out more loans to clients, Saudi banks are shutting more locations around the country. According to the Saudi Central Bank's (SAMA) monthly report, the number of bank branches in the Kingdom has decreased by 95 to 1,969, down from 2,064 in the second quarter of 2020. Commercial banks, on the other hand, boosted lending to people by 17% in the second quarter of this year. Since the second quarter of 2019, this tendency has been on the increase. The rise of online and digital banking is one of the primary causes of the drop, although some experts say it is merely an operational issue, such as shifting to places that are more accessible for clients or have higher foot traffic. 29 branches were closed in the Riyadh region, accounting for 30.5% of all closures nationally. After the closure of 27 branches, the number of branches in Makkah fell by 6.1%. Other areas with fewer branches showed a smaller decrease or perhaps an increase.

Saudi Arabia's SAMA Offers Small Businesses Extra Time to Repay Loans

The deferred payment program for micro, small, and medium companies has been extended by the Saudi Central Bank until December 31, 2021. The program was set to expire on October 1st, but the central bank decided to extend it to assist MSMEs still suffering from the effects of COVID-19. During this time, however, the central bank will review MSMEs to see if they are eligible for the program. Since its inception, the program has benefitted over 107,000 contracts, totalling SR174 billion (\$46 billion) in payment delays.

In August, the Saudi Central Bank's Assets Increased by \$6.2 Billion

According to data provided by the Saudi Central Bank, assets held by the Saudi Central Bank increased by SR23.5 billion (\$6.2 billion) MoM to SR1.872 trillion in August 2021. SAMA's assets increased by SR35.9 billion (\$9.5 billion) from August 2020 to August 2021. In August, SAMA reported a decrease in bills and repurchase agreements, which is encouraging for the Saudi economy, meanwhile reserve assets, the special drawing rights, have increased by more than 160% in September. According to the latest SAMA statistics, commercial banks' net foreign assets grew by 8.16% in August to SR58.43 billion. Bank claims against the government rose 2.36%, while bank claims against non-financial public sector businesses rose 5.25%. In comparison, private sector bank claims have grown at a pace of only 0.56% each year.

The Drop in SAMA Bills and Repos is Viewed as a Positive Indicator for the Saudi Economy

The Saudi Central Bank's (SAMA) monthly statistical report indicated a decline in SAMA bills and repurchase agreements. This is a positive indication since it indicates that banks are investing more outside of SAMA rather than depositing their surplus deposits with SAMA overnight. The special drawing rights (SDRs), SAMA's reserve assets, increased by more than 160% this month, representing Saudi Arabia's considerable contribution to third-party assistance. The monetary survey, which is the aggregate balance sheet of all deposit-taking institutions and SAMA, also indicated changes in SAMA data. Commercial banks' net foreign assets grew by 8.16% to SR58.43 billion in August. In August, bank claims on the government increased by SR10.74 billion to SR465.32 billion, or a 2.36% rise. The Saudi Arabian Monetary Agency (SAMA) recently announced its August bank lending data, which shows a modest increase in demand deposits and cash outside banks. Bank

claims on non-financial public sector companies rose 5.25% in August, from SR88.43 billion in July to SR93.07 billion. This was accompanied by significant growth in savings deposits, which grew by 2.33% and increased by almost SR10 billion. The Saudi commercial banks' involvement in new government projects might explain these changes in lending trends.

In June 2021, the Saudi Central Bank's Net Foreign Assets Increased by \$9 Billion

In June, Saudi Arabia's net foreign assets increased by more than 2% over May. Net foreign assets of the Saudi Central Bank (SAMA) increased by 34 billion riyals to 1.65 trillion riyals. SAMA's total assets grew 16.18 billion riyals month over month (MoM) to 1.842 trillion riyals in June 2021 and increased by 39.4 billion riyals from June 2020 to June 2021. SAMA's foreign securities investments, which represent 61% of its total assets, increased by over 8% year on year to 1.125 trillion riyals in June. Saudi Arabia's economy is gaining up speed as the non-oil sector's recovery gained traction in Q2. The economy will expand from 2.2% to 4.8% in 2021 and from 4.1% to 6.3% in 2022. As virus limitations are removed during a robust vaccination deployment, economic growth is projected to increase up in the second half of the year and into 2022.

Saudi Arabia's SAMA Has Launched a Research Support Program with Monetary Incentives

The Islamic Finance Research Support Program was established by the Saudi Central Bank (SAMA) to encourage financial research. The initiative intends to strengthen the Kingdom's worldwide leadership position in the Islamic finance industry by focusing on Islamic finance sectors, financial technology, and Shariah governance.

Researchers from the Kingdom and outside can choose between two paths in the program. Beginner researchers working on their Bachelor's, Master's, and Ph.D. degrees are included in Track I. Each research paper selected in Track I will receive an SR20,000 cash prize. Professional researchers with competence in Islamic finance and who have previously published papers in international publications make up Track II. Each paper selected in Track II will get an SR40,000 cash prize. Furthermore, the top two winning research articles will share an SR100,000 cash award.

In the second quarter, Islamic banks in Saudi Arabia increased their lending by 4.56%

In the second quarter, Islamic banks increased their total loan to SR 1.6 trillion, up 4.56% from the previous quarter. This increase represented a 19.49% year-over-year increase. The overall assets of Islamic banks increased by 5.11% to SR2.23 trillion. According to the SAMA data, Islamic banks' deposits grew by 1.88% in the second quarter, totalling SR1.62 trillion. This was complemented by an annual growth rate of 11.87%, up from SR1.59 trillion in the 2Q20. Saudi Arabia, on the other hand, would see faster development than the other GCC countries. It will be an outlier, with continued high credit growth, fuelled largely by mortgages and, to a lesser extent, Vision 2030 projects.

Except in Saudi Arabia, private sector financing is projected to remain limited throughout the Gulf Cooperation Council

Except for Saudi Arabia, private sector financing is anticipated to continue sluggish for the next one to two years across GCC nations. The extraordinary actions of the GCC central banks, in the form of liquidity injections and regulatory forbearance measures, helped to cushion banks from wider uncertainty while masking the actual impact on asset quality metrics. However, the impact on banks was mitigated by a steady rebound in private sector economic activity, supporting public sector credit demand, and rising oil prices, which is expected to average around \$75 per barrel in 2021 and \$65 per barrel in 2022. Saudi Arabia, on the other hand, would see faster development than the other GCC countries. It will be an outlier, with continued high credit growth, fuelled largely by mortgages and, to a lesser extent, Vision 2030 projects.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	130.00	135.20	-3.8%	HOLD
ALBI	42.00	41.95	0.1%	HOLD
RIBL	28.00	28.05	-0.2%	HOLD
ALINMA	24.50	24.72	-0.01%	HOLD
SNB	65.00	64.90	0.2%	HOLD
ARNB	23.20	23.18	0.1%	HOLD
BSFR	41.00	41.60	-1.4%	HOLD

FABS Estimate

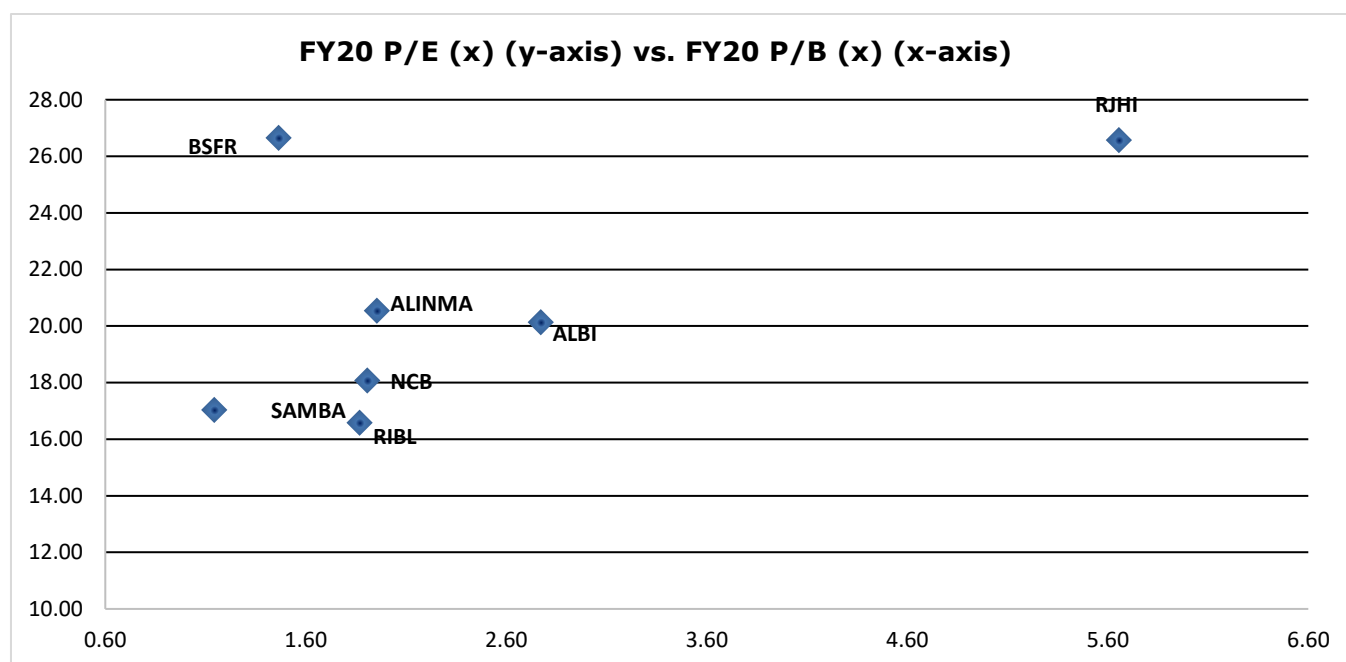
Contents

Preferred stock.....	1
Key Industry Themes	1
Banking indicators	7
SAIBOR	12
Stock performance.....	13
3Q21 preview: Saudi National Bank	14
3Q21 preview: Banque Saudi Fransi.....	17
3Q21 preview: Riyadh Bank.....	20
3Q21 preview: Arab National Bank	23
3Q21 preview: Alinma Bank.....	26
3Q21 preview: Al Bilad Bank	29
3Q21 preview: Al Rajihi Bank	32
FAB Securities Contacts:	35
FAB Securities Awards.....	36

Relative valuation and rating

RIBL's valuation is most attractive.

Of the 7 banks, RJHI and ALBI are trading at a PB of 5.66x and 2.77x, respectively. They are trading at a higher PB than Tadawul's current PB multiple of 2.40x. RJHI is trading at 2021 PE and PB of 22.2x and 5.4x, respectively. ALBI is trading with 2021 PE and PB of 19.94x and 2.75x, respectively. On the other hand, RIBL's valuation is the most attractive with the least 2021 PB multiple of 1.14x among the 7 stocks under our coverage. RIBL is also attractive as it is trading with the least PE multiple of 16.59x compared to its peers.



Source: FABS estimate

Market Weight

Based 7X HOLDS on the KSA banks under our coverage, we maintain our MARKET WEIGHT RATING. Yet, on a comparative basis we remain inclined towards SNB and RJHI.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
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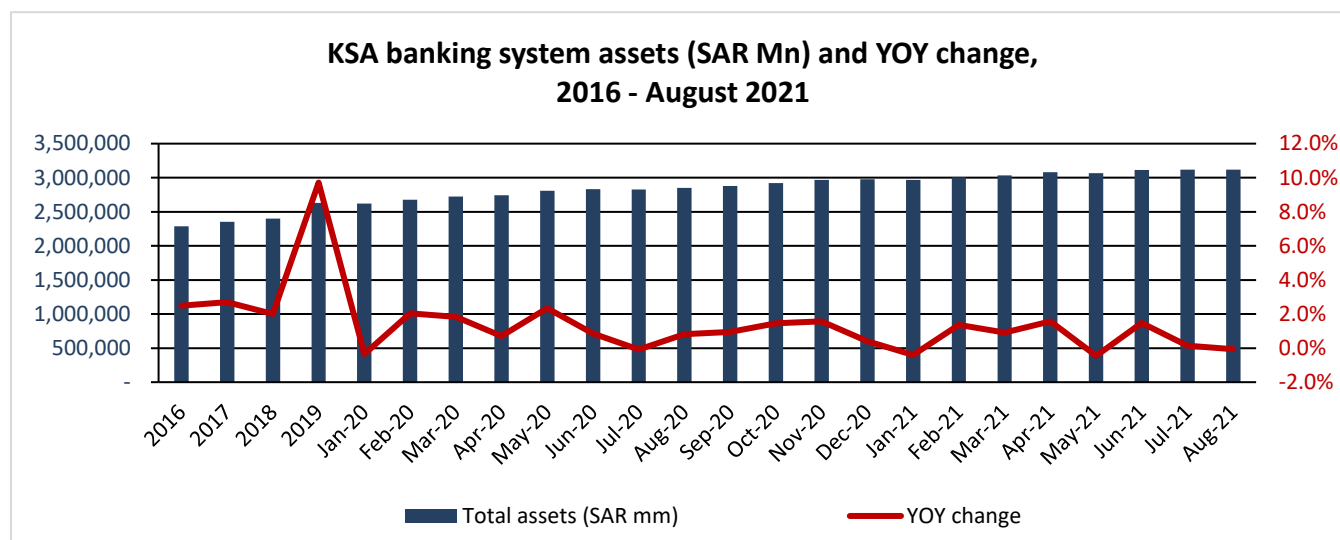
FABS Estimate

Banking indicators

1. Assets

Total banking assets contracted by 0.1% MOM in August 2021.

KSA banking system's Total assets formation decreased by 0.1% MOM to SAR3,117 Mn in August 2021 from SAR3,119 Mn in July 2021.



Source: FABS from SAMA data

Saudi National Bank witnessed the highest YOY asset growth in 2Q21

At an individual bank level, Saudi National Bank recorded the fastest growth in assets to SAR896,421 Mn (+61% YOY; +49.5% QOQ) in 2Q21. This was followed by Al Rajhi, which increased to SAR546,139 Mn (+30.8% YOY; 6.6% QOQ) in 2Q21. Arab National Bank recorded a decline to SAR181,877 Mn (-2.9% YOY; 2.5% QOQ) in 2Q21.

Total assets

(SAR mm)	2Q20	3Q20	4Q20	1Q21	2Q21	YOY%	QOQ%
Al Rajhi	417,684	430,300	468,825	512,234	546,139	30.8%	6.6%
Bank Al Bilad	88,858	92,294	95,744	102,520	107,652	21.2%	5.0%
Riyad Bank	295,083	308,558	310,088	308,036	317,266	7.5%	3.0%
Alinma Bank	142,196	147,850	156,877	159,951	164,057	15.4%	2.6%
Saudi National Bank	556,856	577,084	599,446	599,570	896,421	61.0%	49.5%
Arab National Bank	187,297	188,526	180,396	177,435	181,877	-2.9%	2.5%
Banque Saudi Fransi	201,953	197,445	194,074	202,233	211,310	4.6%	4.5%
KSA banking system	2,831,918	2,879,697	2,979,625	3,035,139	3,114,194	10.0%	2.6%

Source: FABS from co data and SAMA

Saudi National Bank remains dominant as the largest asset market share in 2Q21

The table shows that Saudi National Bank recorded the largest increase in the market share of assets to 28.8% (+912.1 Bps YOY; +903.1 Bps QOQ) in 2Q21, followed by Al Rajhi Bank at 17.5% (+278.8 Bps YOY; +66 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 5.8% (-77.4 Bps YOY; -0.58 Bps QOQ), followed by Banque Saudi Fransi at 6.8% (-34.6 Bps YOY; 12.2 Bps QOQ).

Assets market share

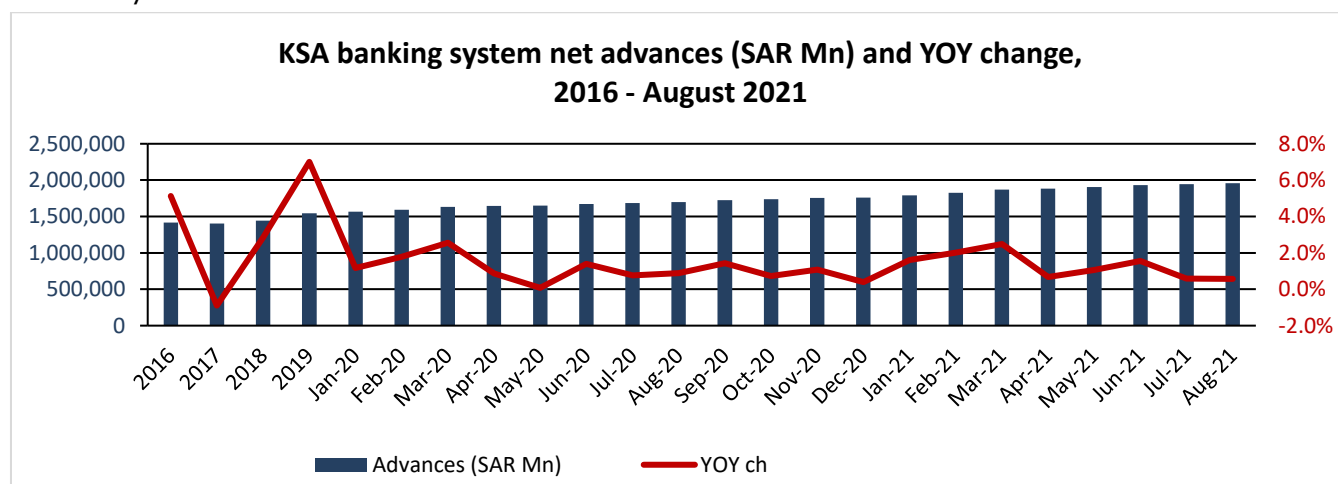
	2Q20	3Q20	4Q20	1Q21	2Q21	YOY (bps)	QOQ (bps)
Al Rajhi	14.7%	14.9%	15.7%	16.9%	17.5%	278.8	66.0
Bank Al Bilad	3.1%	3.2%	3.2%	3.4%	3.5%	31.9	7.9
Riyad Bank	10.4%	10.7%	10.4%	10.1%	10.2%	-23.2	3.9
Alinma Bank	5.0%	5.1%	5.3%	5.3%	5.3%	24.7	-0.2
Saudi National Bank	19.7%	20.0%	20.1%	19.8%	28.8%	912.1	903.1
Arab National Bank	6.6%	6.5%	6.1%	5.8%	5.8%	-77.4	-0.6
Banque Saudi Fransi	7.1%	6.9%	6.5%	6.7%	6.8%	-34.6	12.2

Source: FABS from co data

2. Advances

Advances grew by 0.6% MOM in August 2021

Advances of the KSA Banking system grew by 0.6% MOM in August 2021 to SAR1,956 Mn from 1,945 Mn in July 2021.



Source: FABS from SAMA data

Saudi National Bank net advances grew the most YOY in 2Q21

Saudi National Bank Net advances grew the most to SAR503,157 Mn in 2Q21 (59.3% YOY; 41.1% QOQ), the highest growth among the eight KSA banks under coverage. This was followed by an increase in Bank Al Rajhi Bank to SAR390,296 Mn (+42% YOY; +9.6% QOQ). On the other hand, Arab National Bank net advances increased the least to SAR117,830 Mn in 2Q21 (+0.6% YOY; +0.6% QOQ).

Net advances

(SAR mm)	2Q20	3Q20	4Q20	1Q21	2Q21	YOY%	QOQ%
Al Rajhi	274,928	289,729	315,712	356,144	390,296	42.0%	9.6%
Bank Al Bilad	64,923	67,762	70,115	75,531	79,130	21.9%	4.8%
Riyad Bank	187,651	190,823	191,347	196,443	204,743	9.1%	4.2%
Alinma Bank	103,178	105,325	111,196	117,149	119,623	15.9%	2.1%
Saudi National Bank	315,844	336,860	346,708	356,720	503,157	59.3%	41.1%
Arab National Bank	117,129	118,058	113,363	115,559	117,830	0.6%	2.0%
Banque Saudi Fransi	135,749	134,356	130,565	134,105	141,807	4.5%	5.7%
KSA banking system	1,671,929	1,723,792	1,762,440	1,871,569	1,933,963	15.7%	3.3%

Source: FABS from co data and SAMA

Saudi National Bank had the highest increase in advances market share in 2Q21

The table shows that Saudi National Bank recorded the largest increase in the advances market share to 26% (+712.6 Bps YOY; +695.7 Bps QOQ) in 2Q21, followed by Al Rajhi Bank to 20.2% (+373.7 Bps YOY; 115.2 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 6.1% (-91.3 Bps YOY; -8.2 Bps QOQ), followed by Banque Saudi Fransi at 7.3% (-78.7 Bps YOY; 16.7 Bps QOQ).

Advances market share

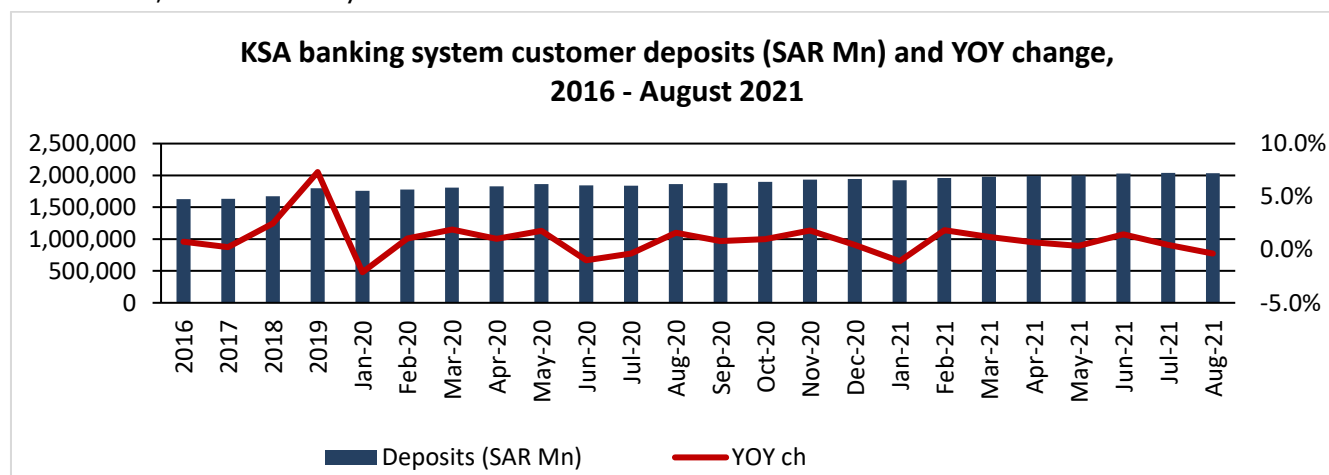
	2Q20	3Q20	4Q20	1Q21	2Q21	YOY (bps)	QOQ (bps)
Al Rajhi Bank	16.4%	16.8%	17.9%	19.0%	20.2%	373.7	115.2
Bank Al Bilad	3.9%	3.9%	4.0%	4.0%	4.1%	20.8	5.6
Riyad Bank	11.2%	11.1%	10.9%	10.5%	10.6%	-63.7	9.1
Alinma Bank	6.2%	6.1%	6.3%	6.3%	6.2%	1.4	-7.4
Saudi National Bank	18.9%	19.5%	19.7%	19.1%	26.0%	712.6	695.7
Arab National Bank	7.0%	6.8%	6.4%	6.2%	6.1%	-91.3	-8.2
Banque Saudi Fransi	8.1%	7.8%	7.4%	7.2%	7.3%	-78.7	16.7

Source: FABS from co data

3. Customer Deposits

Customer deposits growth decreased by 0.4% MOM in August 2021

The KSA banking system deposits reached SAR 2,032 Mn in August 2021, decreasing by 0.4% MOM from SAR2,040 Mn in July 2021.



Source: FABS from SAMA data

Saudi National Bank customer deposits grew the most in 2Q21

Al Rajhi's Deposits grew the most to SAR588,135 Mn in 2Q21 (+54.6% YOY; +40.2% QOQ), the highest growth among the seven KSA banks under coverage. This was followed by an increase in Al Rajhi to SAR447,506 Mn (+33.7% YOY; +6.2% QOQ) in 2Q21. On the other hand, Arab National Bank deposits declined YOY to SAR130,220 Mn (-2.7% YOY; +4% QOQ).

Deposits

(SAR mm)	2Q20	3Q20	4Q20	1Q21	2Q21	YOY%	QOQ%
Al Rajhi	334,665	345,322	382,631	421,269	447,506	33.7%	6.2%
Bank Al Bilad	64,876	68,883	71,553	76,963	81,638	25.8%	6.1%
Riyad Bank	199,987	201,292	203,039	198,598	202,453	1.2%	1.9%
Alinma Bank	107,417	111,318	119,454	120,707	125,878	17.2%	4.3%

Saudi National Bank	380,398	408,474	416,419	419,430	588,135	54.6%	40.2%
Arab National Bank	133,896	136,725	129,352	125,161	130,220	-2.7%	4.0%
Banque Saudi Fransi	138,046	135,655	127,112	132,987	140,805	2.0%	5.9%
KSA banking system	1,842,978	1,881,082	1,942,984	1,980,335	2,030,139	10.2%	2.5%

Source: FABS from co data and SAMA

Saudi National Bank saw the highest YOY gain in market share of Deposits in 2Q21

The table shows that Saudi National Bank recorded the largest increase in the Deposit market share to 29% (+833 Bps YOY; +779.0 Bps QOQ) in 2Q21, followed by Al Rajhi Bank to 22% (+388.4 Bps YOY; 77.1 Bps QOQ). On the other side, Riyadh Bank share fell the most on a YOY basis to 10% (-87.9 Bps YOY; -5.6 Bps QOQ), followed by Arab National Bank at 6.4% (-85.1 Bps YOY; 9.4 Bps QOQ).

Deposits market share

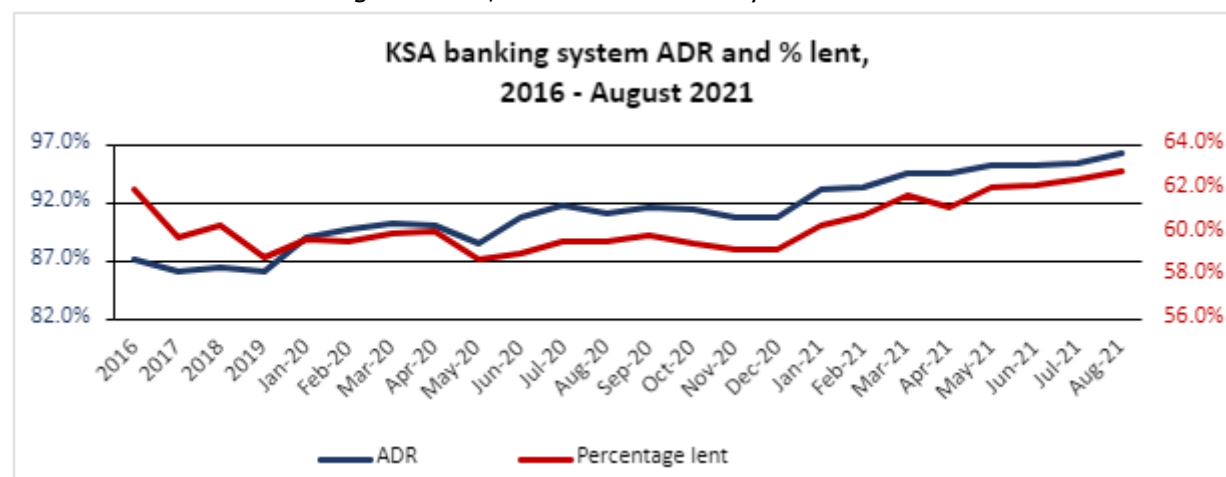
	2Q20	3Q20	4Q20	1Q21	2Q21	YOY (bps)	QOQ (bps)
Al Rajhi	18.2%	18.4%	19.7%	21.3%	22.0%	388.4	77.1
Bank Al Bilad	3.5%	3.7%	3.7%	3.9%	4.0%	50.1	13.5
Riyadh Bank	10.9%	10.7%	10.4%	10.0%	10.0%	-87.9	-5.6
Alinma Bank	5.8%	5.9%	6.1%	6.1%	6.2%	37.2	10.5
Saudi National Bank	20.6%	21.7%	21.4%	21.2%	29.0%	833.0	779.0
Arab National Bank	7.3%	7.3%	6.7%	6.3%	6.4%	-85.1	9.4
Banque Saudi Fransi	7.5%	7.2%	6.5%	6.7%	6.9%	-55.5	22.0

Source: FABS from co data

4. Liquidity

System liquidity has eased in 2021

KSA banking system's liquidity stayed stable in August 2021 with an ADR of 96.3%. Percentage lent increased to 62.8% in August 2021, from 62.4% in July 2021.



Source: FABS from SAMA data

KSA banks recorded higher levels of ADR in 2Q21

Riyadh Bank showed the highest increase in its ADR ratio to 103.5% in 2Q21 (+778.7 Bps YOY; +213 Bps QOQ). Followed by Al Rajhi Bank with an increase to 89.1% (+477.5 YOY; +264 QOQ). On the other side, Bank Al Bilad reported a decrease in ADR ratio to 100.1% in 2Q21 (-319.8 YOY; -130.2 QOQ).

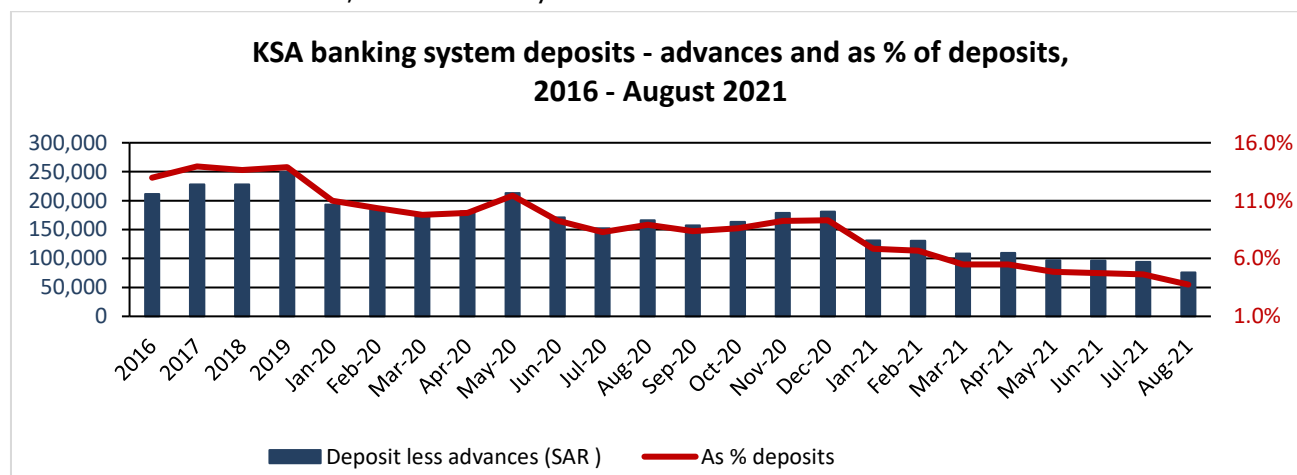
ADR

	2Q20	3Q20	4Q20	1Q21	2Q21	YOY (bps)	QOQ (bps)
Al Rajhi	84.3%	86.0%	84.5%	86.5%	89.1%	477.5	264.0
Bank Al Bilad	103.3%	101.7%	101.3%	101.4%	100.1%	-319.8	-130.2
Riyad Bank	95.7%	96.9%	96.5%	101.4%	103.5%	778.7	213.7
Alinma Bank	99.1%	97.1%	95.8%	100.0%	98.1%	-92.5	-190.5
Saudi National Bank	85.2%	84.6%	85.4%	87.2%	87.5%	223.3	27.1
Arab National Bank	90.3%	89.2%	90.8%	95.8%	93.4%	315.7	-234.1
Banque Saudi Fransi	101.4%	101.9%	106.4%	104.3%	104.2%	282.4	-14.3

Source: FABS from co data

KSA banking system deposits - advances decreased by 19.3% MOM in August 2021

The KSA banking system deposits - advances reached SAR76,106 Mn in August 2021, decreasing 19.3% MOM from SAR94,302 Mn in July 2021.



Source: FABS from SAMA data

Banque Saudi Fransi decreased the most in deposit surplus in 2Q21

Banque Saudi Fransi deposit surplus fell to deficit at -SAR1,002 mm in 2Q21 from SAR2,296 mm in 2Q20 (-143.6% YOY; -10.3% QOQ), followed by Riyad Bank which fell to deficit at -SAR2,290 mm in 2Q21 from SAR12,336 mm in 2Q20 (-118.6% YOY; 206.2% QOQ). On the other hand, Bank Al Bilad reported a significant rise in deposit from deficit to surplus at SAR2,508 mm in 2Q21 from -SAR47 mm in 2Q20 (NM YOY; 75.2% QOQ).

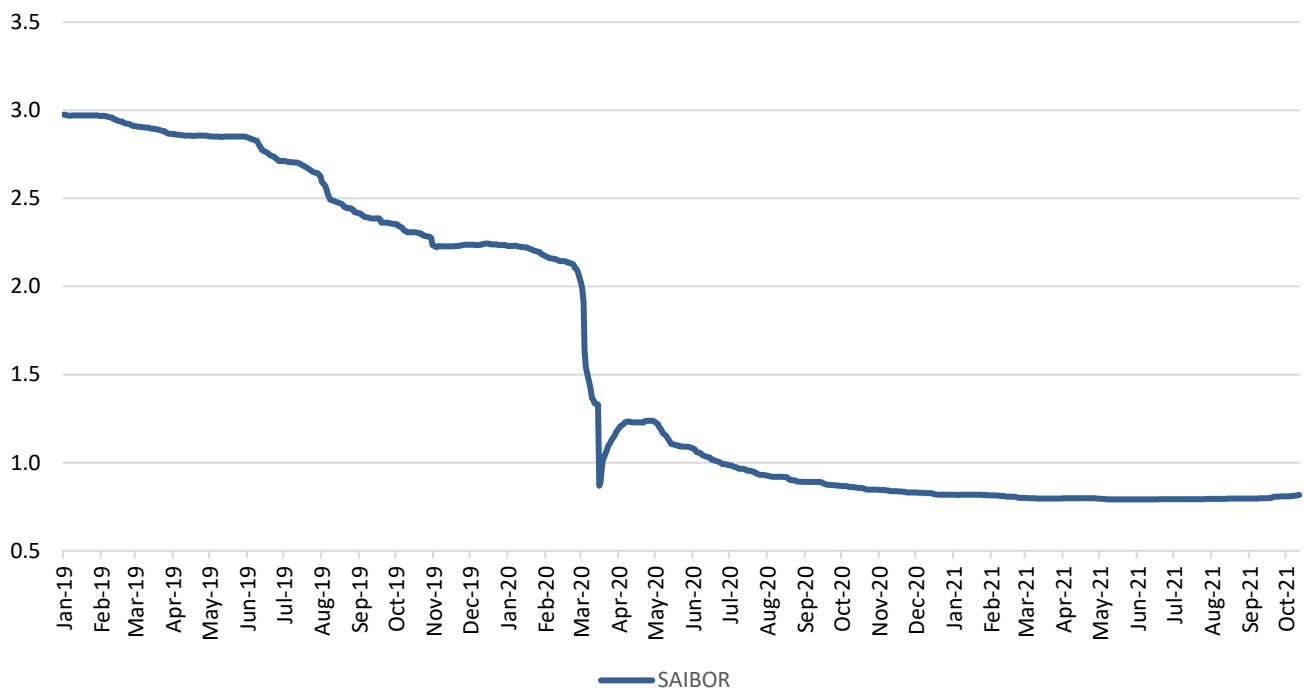
Deposit surplus/-deficit

SAR mm	2Q20	3Q20	4Q20	1Q21	2Q21	YOY%	QOQ%
Al Rajhi	59,737	55,594	66,919	65,125	57,210	-4.2%	-12.2%
Bank Al Bilad	-47	1,121	1,438	1,432	2,508	NM	75.2%
Riyad Bank	12,336	10,469	11,693	2,156	-2,290	-118.6%	-206.2%
Alinma Bank	4,239	5,993	8,259	3,558	6,256	47.6%	75.8%
Saudi National Bank	64,554	71,613	69,711	62,710	84,978	31.6%	35.5%
Arab National Bank	16,767	18,667	15,990	9,602	12,390	-26.1%	29.0%
Banque Saudi Fransi	2,296	1,299	-3,453	-1,118	-1,002	-143.6%	-10.3%

Source: FABS from co data

SAIBOR

3-month SAIBOR(%), Jan 2019 - October 2021



SAIBOR is still at a low level compared to the historical levels as seen in the chart. As of 12th October 2021, the SAIBOR was at 0.81571 from 0.8175 in 3rd of January 2021.

Stock performance

RJHI, ALINMA and RIBL performed among the top ten

RJHI (83.4%), ALINMA (53.2%) and RIBL (49%) headed KSA banks in terms of stock performance from YE21 till October 2021. Overall, the KSA banking stocks, ranked 1st in comparison to the countries in the MENA region with an average return of 45.9%, based on a simple average. SNB outperformed the market index TASI performance by 49% returns over the same period. The two banks that did not outperform the Index were ARNB (15.2%), BSFR (32.8%) and RIBL (38.6%).

25 MENA bank stocks: YE21 to 17 October 2021, ranked

		UAE	KSA	Qatar	Egypt	Ranking
QIBK	6.7%			6.7%		19
CBD	2.3%	2.3%				21
MARK	0.9%			0.9%		23
NBS	40.9%	40.9%				6
MASQ	6.8%	6.8%				18
CBQK	39.7%			39.7%		7
QNBK	12.1%			12.1%		16
DSM	12.3%					
RJHI	83.4%		83.4%			1
ADI	55.0%					2
ALBI	49.0%		49.0%			4
TASI	35.3%					
ALINMA	53.2%		53.2%			3
RAKBANK	1.3%	1.3%				22
DHBK	24.0%			24.0%		13
FAB	38.9%	38.9%				8
COMI	3.6%				3.6%	20
CBI	-13.3%	-13.3%				25
EGX30	1.4%					
BSFR	32.8%		32.8%			12
SNB	49.0%		49.0%			5
DFM	12.5%					
ARNB	15.2%		15.2%			15
AJMANBANK	-13.1%	-13.1%				24
ENBD	33.0%	33.0%				11
RIBL	38.6%		38.6%			9
ADIB	20.6%	20.6%				14
DIB	8.0%	8.0%				17
ADCB	33.7%	33.7%				10
		14.5%	45.9%	16.6%	3.6%	

FABS from Bloomberg

3Q21 preview: Saudi National Bank

Funded Expense is expected to decline

CMP (SAR): 64.90

Potential upside (%): +0.2%

12-m target price:

SAR 65.00

Stock rating:

HOLD

3Q21 Estimate

Saudi National Bank (SNB) is expected to robustly increase its Net Funded Income by 54.5% YOY to SAR6,336 Mn in 3Q21, up from SAR4,102 Mn in 3Q20. It is likely to be driven by 53.7% YOY growth in Funded Income to SAR7,368 Mn in 3Q21, up from SAR4,792 Mn in 3Q20. The Funded Expense is expected to increase by 49.5% YOY to SAR1,031 Mn in 3Q21, up from SAR690 Mn in 3Q20. The Non-Funded Income is forecasted to increase by 22.6% YOY to SAR1,882 Mn in 3Q21, up from SAR1,535 Mn in 3Q20. It is likely to be driven by 46.4% YOY growth in Fees and Commissions to SAR880 Mn in 3Q21, up from SAR601 Mn in 3Q20. The Other Non-Funded Income is expected to increase by 7.3% YOY to SAR1,002 Mn in 3Q21, up from SAR934 Mn in 3Q20. As a result, the Operating Income is expected to increase strongly by 45.8% YOY to SAR8,218 Mn in 3Q21, up from SAR5,638 Mn in 3Q20. The Impairments are expected to decline by 17.4% YOY to SAR313 Mn in 3Q21, down from SAR379 Mn in 3Q20. The Profit Before Tax is expected to increase by 55.9% YOY to SAR5,565 Mn in 3Q21, up from SAR3,569 Mn in 3Q20. The Tax Expense is likely to increase by 61.5% YOY to SAR612 Mn in 3Q21, up from SAR379 Mn in 3Q20. The Profit After Tax is forecasted to increase by 55.3% YOY to SAR4,953 Mn in 3Q21, up from SAR3,190 Mn in 3Q20. The contribution from NCI is expected to increase by 5.9% YOY to SAR34 Mn in 3Q21, up from SAR32 Mn in 3Q20. As a result, the Net Profit is expected to strongly increase by 55.7% YOY to SAR4,919 Mn in 3Q21, up from SAR3,158 Mn in 3Q20.

2021 Forecast

We expected SNB's Net Funded Income to increase by 3.1% YOY to SAR23,046 Mn in 2021, up from SAR22,359 Mn in 2020. It is likely to be driven by 16.8% YOY decline in Funded Expense to SAR3,768 Mn in 2021, down from SAR4,527 Mn in 2020. The Funded Income is forecasted to decline slightly by 0.3% YOY to SAR26,814 Mn in 2021. The Non-Funded Income is expected to decline by 15% YOY to SAR7,247 Mn in 2021, down from SAR8,524 Mn in 2020. It is expected to be mainly driven by decline in Trading Gain. The Fees and Commission Expense is expected to decline by 6.7% YOY to SAR3,275 Mn in 2021, down from SAR3,512 Mn in 2020. The Other Non-Funded Income is expected to decline by 16.6% YOY to SAR3,972 Mn in 2021, down from SAR4,763 Mn in 2020. As a result, the Operating Income is likely to decline by 1.9% YOY to SAR30,293 Mn in 2021, down from SAR30,883 Mn in 2020. The Operating Expenses are likely to decline by 6.9% YOY to SAR8,939 Mn in 2021, down from SAR9,605 Mn in 2020. The Impairment charges are expected to decline by 0.8% YOY to SAR3,323 Mn in 2021, down from SAR3,351 Mn in 2020. As a result, the Net Profit is forecasted to increase by 1.6% YOY to SAR15,895 Mn in 2021, up from SAR15,641 Mn in 2020.

2Q21 Outturn

The Net Funded Income increased robustly by 49% YOY to SAR5,783 Mn in 2Q21, up from SAR3,882 Mn in 2Q20. It was mainly driven by 44.7% YOY increase in Funded Income to SAR6,698 Mn in 2Q21, up from SAR4,628 Mn in 2Q20. The Funded Expenses increased by 22.7% YOY to SAR915 Mn in 2Q21, up from SAR746 Mn in 2Q20. However, the increase in Funded Income outweighed the increase in Funded Expense. The Fees and Commissions increased robustly by 30.4% YOY to SAR819 Mn in 2Q21, up from SAR628 Mn in 2Q20. The Other Funded Income increased significantly to SAR900 Mn in 2Q21, up from SAR256 Mn in 2Q20. As a result, the Non-Funded Income surged by 94.4% YOY to SAR1,719 Mn in 2Q21, up from SAR884 Mn in 2Q20. Thus, the Operating Income increased by 57.4% YOY to SAR7,501 Mn in 2Q21, up from SAR4,766 Mn in 2Q20. The Operating Expenses increased by 75.2% YOY to SAR2,679 Mn in 2Q21, up from SAR1,530 Mn in 2Q20. The Impairments increased significantly to SAR2,408 Mn in 2Q21, up from SAR828 Mn in 2Q20. As a result, the Profit Before Tax increased by 1.1% YOY to SAR2,414 Mn in 2Q21, up from SAR2,388 Mn in 2Q20. The Tax Expenses increased by 5.7% YOY to SAR275 Mn in 2Q21, up from SAR260 Mn in 2Q20. The Profit from Non-

Controlling Interest declined by 44.3% YOY to SAR22 Mn in 2Q21, down from SAR40 Mn in 2Q20. As a result, the Net Profit increased by 1.4% YOY to SAR2,117 Mn in 2Q21, up from SAR2,088 Mn in 2Q20. The Net Advances increased by 59.1% YOY to SAR503.2 Bn in 2Q21, up from SAR316.3 Bn in 2Q20. The Total Assets increased by 60.8% YOY SAR896.4 Bn in 2Q21, up from SAR557.3 Bn in 2Q20. The Customer Deposits increased by 54.6% YOY to SAR588.1 Bn in 2Q21, up from SAR380.4 Bn in 2Q20. The Total Equity increased significantly to SAR159.5 Bn in 2Q21, up from SAR73.1 Bn in 2Q20. The ADR ratio stood at 85.6% as of June 2021.

Target price and recommendation

We revise our rating on Saudi National Bank to HOLD with a target price of SAR65.0. Saudi National Bank reported a robust growth in Operating Income that increased by 57.4% YOY to SAR7,501 Mn in 2Q21, up from SAR4,766 Mn in 2Q20. It was driven by strong growth in Net Funded Income by 49% YOY and Non-Funded Income by 94.4% YOY. The Net Income increased by 11% YOY to SAR5,565 Mn in 1H21, up from SAR4,999 Mn and the Net Income for Equity holders stood at SAR5,526 Mn in 1H21. It was driven due to consolidation with SAMBA and the amortization of purchase price allocation related charges. These effects outweighed the merged bank's ECL provisions. The Net Special Commissions increased by 22.8% YOY to SAR9,962 Mn in 1H21, up from SAR8,114.7 Mn in 1H20. Similarly, the Operating Income increased strongly by 32% YOY to SAR13,274 Mn. It was mainly attributable to the SAMBA 2Q results that were consolidated and the PPA adjustments that outweighed the market repricing adjustments due to lower interest rates. The Operating Expenses (before ECL) increased by 34% YOY to SAR4,301 Mn in 1H21, up from SAR3,221.3 Mn in 1H20. It was due to the incremental costs related to the merger and certain one-offs transactions. However, the Bank reduced some transactions through realizing cost synergies. The Operating Results increased by 11.7% YOY to SAR6,285.6 Mn in 1H21, up from SAR5,625.6 Mn in 1H20. The results are mainly driven by the consolidation of SAMBA figures. The Impairment charges increased significantly to SAR2,687 Mn in 1H21, up from SAR1,224 Mn in 1H20. It was due to the requirement to mark assets at fair value due because of an accounting requirement. The merger, along with purchase price allocation has positively impacted the results of the Bank and increased the size of the balance sheet by 55%. The Net Advances increased by 59.1% YOY to SAR503.2 Bn in 2Q21, up from SAR316.3 Bn in 2Q20. Similarly, the Customer Deposits increased by 54.6% YOY to SAR588.1 Bn in 2Q21, up from SAR380.4 Bn in 2Q20. The robust increase reflects the merger related positive impact on the Bank's balance sheet. As a result, the Total Assets increased strongly by 60.8% YOY to SAR896.4 Bn in 2Q21, up from SAR557.3 Bn in 2Q20. Similarly, the Total Equity boosted significantly to SAR159.495 Bn in 2Q21, up from SAR73.1 Bn in 2Q20. Due to the merger, around 1.478 bn of total ordinary shares with a nominal face value of SAR10 per share were issued for the SAMBA shareholders. Therefore, the Total equity increased significantly in 2Q21. The ADR ratio improved by 240 bps to 85.6% in 2Q21, up from 83.1% in 2Q20. The Bank has improved its Cash and Balances with SAMA position to SAR55.7 Bn in 2Q21, up from SAR38 Bn in 2Q20. The Operating Cash flow declined to negative SAR18.3 Bn in 2Q21, down from SAR4.107 Bn in 2Q20. It was mainly due to unfavorable changes in Operating Assets and the Operating Liabilities reported by the bank. However, the Net Cash flow from Investing Activities improves significantly to SAR16.504 Bn in 2Q21, up from negative SAR12.003 Bn in 2Q20. It was mainly due to sale of investments and cash acquired due to consolidation with SAMBA. The Cash Flow from Net Financing Activities declined further to negative SAR2.167 Bn in 2Q21, down from SAR908.9 Bn in 2Q20. It was driven by debt repayments, Sukuk issuances and Dividend Payments undertaken by the Bank in 2Q21. In August 2021, the BOD recommended SAR2,911 Mn in dividends that amount to SAR0.65 per share pertaining to 1H21. It is expected to be paid in full by August 2021. In April 2021, the BOD recommended final dividends worth SAR3,582 Mn that is worth SAR0.80 per share. It was fully paid in April 2021. The Bank's diluted EPS declined to 1.41 in 1H21, down from 1.58 IN 1H20. Therefore, we assign a rating of HOLD on this stock.

SNB Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	30.7	21.0	17.6	17.6	16.0
P/B (x)	3.4	3.3	3.1	2.8	3.6
Dividend yield	2.6%	3.3%	3.6%	1.2%	3.3%

FABS Estimates & Co data

SNB - P&L

SAR mm	3Q20	2Q21	3Q21F	YOY ch	QOQ ch	2020	2021F	Change
Funded income	4,792	6,698	7,368	53.7%	10.0%	26,886	26,814	-0.3%
Funded expense	-690	-915	-1,031	49.5%	12.7%	-4,527	-3,768	-16.8%
Net funded income	4,102	5,783	6,336	54.5%	9.6%	22,359	23,046	3.1%
Fees and commissions	601	819	880	46.4%	7.5%	3,512	3,275	-6.7%
Trading gain/(loss)	0	0	0	NM	NM	249	0	NM
Other non-funded income	934	900	1,002	7.3%	11.3%	4,763	3,972	-16.6%
Non-funded income	1,535	1,719	1,882	22.6%	9.5%	8,524	7,247	-15.0%
Operating income	5,638	7,501	8,218	45.8%	9.6%	30,883	30,293	-1.9%
Operating expenses	-1,640	-2,679	-2,340	42.7%	-12.6%	-9,605	-8,939	-6.9%
Pre-provision profit	3,998	4,822	5,878	47.0%	21.9%	21,278	21,354	0.4%
Impairment	-379	-2,408	-313	-17.4%	-87.0%	-3,351	-3,323	-0.8%
Other non-operating income/expense	-50	0	0	NM	-40.0%	-77	-54	-29.2%
PBT	3,569	2,414	5,565	55.9%	NM	17,850	17,977	0.7%
Tax	-379	-275	-612	61.5%	NM	-2,086	-1,958	-6.1%
Profit after tax	3,190	2,140	4,953	55.3%	NM	15,764	16,019	1.6%
Non-controlling int.	-32	-22	-34	5.9%	50.0%	-123	-124	0.5%
Net profit attributable	3,158	2,117	4,919	55.7%	NM	15,641	15,895	1.6%

FABS estimate & Co Data

SNB - KPI

P&L KPI	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	72.8%	77.1%	77.1%	433	1	72.4%	76.1%	368
NIM	3.2%	2.7%	2.9%	-29	23	4.3%	3.2%	-112
NIS	3.1%	2.6%	2.9%	-27	23	4.2%	3.1%	-108
Fees & comms/OI	10.7%	10.9%	10.7%	4	-21	11.37%	10.81%	-56
Cost to income	29.1%	35.7%	28.5%	-61	-724	31.1%	29.5%	-160
Impairment/PPP	9.5%	49.9%	5.3%	-415	-4461	15.7%	15.6%	-19
NP/OI	56.0%	28.2%	59.9%	383	3163	50.6%	52.5%	183
ROE	4.2%	1.3%	3.1%	-108	175	19.7%	9.9%	-980
ROA	0.5%	0.2%	0.5%	-2	29	2.6%	1.6%	-98

FABS Estimate & Co Data

SNB -Key B/S Items

SAR mm	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	336,860	346,708	356,720	503,157	533,346	58.3%
QOQ change	6.5%	2.9%	2.9%	41.1%	6.0%	
Total assets	577,084	599,446	599,570	896,421	936,491	62.3%
QOQ change	3.5%	3.9%	0.0%	49.5%	4.5%	
Customer deposits	408,474	416,419	419,430	588,135	617,542	51.2%
QOQ change	7.4%	1.9%	0.7%	40.2%	5.0%	
Total equity	75,908	79,410	83,460	159,495	159,818	NM
QOQ change	3.9%	4.6%	5.1%	91.1%	0.2%	

FABS Estimate & Co Data

3Q21 preview: Banque Saudi Fransi

Non-Funded Income expected to grow

CMP (SAR): 41.60

Potential upside (%): -1.4%

12-m target price:

SAR 41.00

Stock rating:

HOLD

3Q21 Estimate

Banque Saudi Fransi (BSFR) is expected to increase its Net Funded Income by 1.4% YOY to SAR1,394 Mn in 3Q21, up from SAR1,375 Mn in 3Q20. It is likely to be driven by 28.9% YOY decline in Funded Expense to SAR138 Mn in 3Q21, down from SAR194 Mn in 3Q20. The Funded Income is likely to decline by 2.4% YOY to SAR1,532 Mn in 3Q21, down from SAR1,569 Mn in 3Q20. The Non-Funded Income is expected to grow strongly by 27.4% YOY to SAR479 Mn in 3Q21, up from SAR376 Mn in 3Q20. It is expected to be driven by 35.8% YOY growth in Fees and Commissions to SAR339 Mn in 3Q21, up from SAR250 Mn in 3Q20. The Other Non-Funded Income increased by 14.8% YOY to SAR115 Mn in 3Q21, up from SAR100 Mn in 3Q20. The Trading Gains are likely to decline by 4.9% YOY to SAR24 Mn in 3Q21, down from SAR26 Mn in 3Q20. As a result, the Operating Income is expected to increase by 7% YOY to SAR1,873 Mn in 3Q21, up from SAR1,751 Mn in 3Q20. The Operating Expenses are expected to increase by 11.9% YOY to SAR645 Mn in 3Q21, up from SAR576 Mn in 3Q20. The Impairment charges are expected to decrease by 57.4% YOY to SAR320 Mn in 3Q21, down from SAR751 Mn in 3Q20. The Profit Before Tax is likely to increase significantly to SAR908 Mn in 3Q21, up from SAR424 Mn in 3Q20. As a result, the Net Profit is expected to increase significantly to SAR790 Mn in 3Q21, up from SAR333 Mn in 3Q20.

2021 Forecast

We forecast BSFR's Net Funded Income to increase by 4.6% YOY to SAR5,482 Mn in 2021, up from SAR5,240 Mn in 2020. It is expected to be driven by 49.7% YOY decline in Funded Expense to SAR526 Mn in 2021, down from SAR1,044 Mn in 2020. The Funded Income is expected to decline by 4.4% YOY to SAR6,007 Mn in 2021, down from SAR6,285 Mn in 2020. The Non-Funded Income is expected to increase by 6.1% YOY to SAR1,914 Mn in 2021, up from SAR1,804 Mn in 2020. The Operating Income is likely to increase by 5% YOY to SAR7,395 Mn in 2021, up from SAR7,045 Mn in 2020. The Operating Expenses are expected to increase by 6.6% YOY to SAR2,520 Mn in 2021, up from SAR2,364 Mn in 2020. The Impairment charges are expected to decline by 54.2% YOY to SAR1,222 Mn in 2021, down from SAR2,670 Mn in 2020. The Tax charges are expected to increase slightly by 0.4% YOY in 2021. As a result, the Net Profit is expected to increase significantly to SAR3,188 Mn in 2021, up from SAR1,546 Mn in 2020.

2Q21 Outturn

Funded Income has decreased by 8.3% YOY to SAR1,459 Mn in 2Q21 from SAR1,592 Mn in 2Q20. Funded Expense decreased by 56.4% YOY to SAR129 Mn in 2Q21 from SAR295 Mn in 2Q20. Therefore, the Net Funded Income remained almost stable reaching SAR1,330 mm in 2Q21 from SAR1,297 Mn in 2Q20, an increase by 2.6%. Fees and Commissions increased by 31.4% YOY to SAR294 Mn in 2Q21 from SAR223 Mn in 2Q20. Whereas the Trading Income has significantly decreased from SAR87 Mn in 2Q20 to SAR22 Mn in 2Q21. As a result, the Non-Funded Income decreased by 8.6% YOY to SAR423 Mn in 2Q21 from SAR463 Mn in 2Q20. Operating Income insignificantly decreased by 0.4% YOY to SAR1,754 Mn in 2Q21 from SAR1,760 Mn in 2Q20. While the Operating Expenses have increased by 12.6% YOY to SAR627 Mn in 2Q21 from SAR557 Mn in 2Q20. Impairment charges decreased tremendously by 58.4% YOY to SAR270 Mn in 2Q21 from SAR650 Mn in 2Q20. Tax also decreased by 25.3% YOY to SAR86 Mn in 2Q21 from SAR116 Mn in 2Q20. Net Advances have increased by 4.46% YOY to SAR141.81 Bn in 2Q21 from SAR135.75 Bn in 2Q20. Customer Deposits increased by 2% YOY to SAR140.80 Bn in 2Q21 from SAR138.05 Bn in 2Q20. Total Equity rose majorly by 16.58% YOY to SAR39.26 Bn in 2Q21 from SAR33.67 Bn in 2Q20. While the Total Liabilities increased by 2.24% YOY to SAR172.05 Bn in 2Q21 compared to SAR168.27 Bn in 2Q20.

Target price and recommendation

We assign the rating of Banque Saudi Fransi to HOLD with a revised target price of SAR41.0. Banque Saudi Fransi is a leading Group in the Kingdom of Saudi Arabia and strategizes in local markets. The Operating Income increased slightly by 0.9% YOY to SAR3,549.2 Mn in 1H21, up from SAR3,517 Mn in 1H20. It was driven by robust growth in Net Fee and commission Income by 24% YOY to SAR631.5 Mn in 1H21, up from SAR507.9 Mn in 1H20. The Net Special Commission Income grew by 1.3% YOY to SAR2,617.7 Mn in 1H21, up from SAR2,584 Mn in 1H20, further supporting the Operating Income. The Bank witnessed drop in Exchange Income and Other Operating Income by 26% YOY and 77% YOY respectively in 1H21, as compared to 1H20. It was mainly due to sluggish activity in the 2Q21. However, the Trading Income increased by 23.6% YOY to SAR99.8 Mn in 1H21, up from SAR80.7 Mn in 1H20. The Operating Expenses increased by 9.2% YOY to SAR1,218.6 Mn in 1H21, up from SAR1,116.1 Mn in 1H20. It was mainly driven by increase in Other Operating expenses and administrative expenses. The Impairment charges witnessed a drop in 1H21 of 46% YOY to SAR557.1 Mn, down from SAR1,031.9 Mn in 1H20. It was mainly due to strong decline in Impairment charges of 58.4% YOY in 2Q21, down from 2Q20. As a result, the Net Profit increased robustly by 38.5% YOY to SAR1,549.4 Mn in 1H21, up from SAR1,118.9 Mn in 1H20. The Bank has four reporting segments namely – Retail Banking, Corporate Banking, Treasury, and Investment Banking & brokerage. The Corporate Banking division comprises of the highest Operating Income in 1H21, followed by Retail banking, Treasury, and Investment banking & brokerage. However, the Treasury segment reported the highest contribution to Net Profit, followed by Corporate Banking, Retail Banking and lastly Investment Banking & Brokerage. The Bank's Net Advances increased by 4.5% YOY to SAR141.81 Bn in 2Q21, up from SAR135.75 Bn in 2Q20. It is dominated by Loans from the Corporate banking segment by 77% of the Total Loans & Advances. It is followed by Retail Banking and Investment banking & brokerage. The Customer Deposits increased 2% YOY to SAR140.81 Bn in 2Q21, up from SAR138.1 Bn in 2Q20. The deposits are mainly attributable to Retail Banking & Corporate Banking and dominated by Retail Banking segment. The Total Assets increased by 4.6% YOY to SAR211.3 Bn in 2Q21, up from SAR201.9Bn in 2Q20. The Corporate banking segment comprises of 52% of the Total Assets of the banking Group, followed by Treasury, Retail Banking, and Investment banking & brokerage. The Capital Adequacy ratio improved to 21.43% in 1H21, up from 17.93% in 1H20. The Tier I ratio improves by 20.23% in 1H21, up from 17.04% in 1H20. It was mainly due to increase in Risk Weighted Assets and Total Tier I & Tier II Capital in 1H21. The Bank's shareholders approved SAR0.40 per share in final net dividend for FY2020. The Board of Directors recommended SAR0.65 per share that amounts to SAR780 Mn as interim dividend on July 2, 2021, pertaining to 1H20. Therefore, we assign a rating of HOLD on this stock.

BSFR Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	14.3	35.9	16.1	33.8	15.9
P/B (x)	1.6	1.6	1.5	1.5	1.3
Dividend yield	3.3%	4.1%	4.7%	1.0%	1.5%

FABS Estimates & Co data

BSFR - P&L

	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
SAR mm								
Funded income	1569	1459	1532	-2.4%	5.0%	6285	6007	-4.4%
Funded expense	194	129	138	-28.9%	7.1%	1044	526	-49.7%
Net funded income	1375	1330	1394	1.4%	4.8%	5240	5482	4.6%
Fees and commissions	250	294	339	35.8%	15.5%	1082	1329	22.9%
Trading gain/(loss)	26	22	24	-4.9%	10.0%	168	151	-9.9%
Other non-funded income	100	107	115	14.8%	7.3%	555	434	-21.8%
Non-funded income	376	423	479	27.4%	13.1%	1804	1914	6.1%
Operating income	1751	1754	1873	7.0%	6.8%	7045	7395	5.0%
Operating expenses	576	627	645	11.9%	2.8%	2364	2520	6.6%
Pre-provision profit	1175	1126	1228	4.6%	9.0%	4681	4876	4.2%
Impairment	751	270	320	-57.4%	18.5%	2670	1222	-54.2%
PBT	424	856	908	NM	6.1%	2010	3654	81.8%
Tax	90	86	118	30.2%	36.0%	464	466	0.4%
Net profit attributable	333	770	790	NM	2.7%	1,546	3,188	NM

FABS Estimates & Co data

BSFR - KPI

	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
P&L KPI								
Net FI/OI	78.5%	75.9%	74.4%	-410	-143	74.4%	74.1%	-27
NIM	3.1%	2.9%	2.9%	-20	-6	3.1%	2.9%	-26
NIS	3.0%	2.9%	2.8%	-17	-6	3.0%	2.8%	-23
Fees & comms/OI	14.3%	16.7%	18.1%	384	136	15.4%	18.0%	261
Trading/OI	1.5%	1.3%	1.3%	-16	4	2.4%	2.0%	-34
Cost to income	32.9%	35.8%	34.4%	151	-135	33.6%	34.1%	51
Impairment/PPP	63.9%	24.0%	26.1%	-3786	207	57.1%	25.1%	-3199
NP/OI	19.0%	43.9%	42.2%	2316	-169	21.9%	43.1%	2116
ROAE	1.0%	2.1%	2.2%	115	4	4.3%	8.1%	378
ROAA	0.2%	0.4%	0.4%	20	0	0.8%	1.5%	67

FABS Estimates & Co data

BSFR - BS Key items

	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
SAR mm						
Net advances	134,356	130,565	134,105	141,807	148,897	11%
QOQ Change	-1.0%	-2.8%	2.7%	5.7%	5.0%	
Total Assets	197,445	194,074	202,233	211,310	221,515	12%
QOQ Change	-2.2%	-1.7%	4.2%	4.5%	4.8%	
Customer deposits	135,655	127,112	132,987	140,805	149,253	10%
QOQ Change	-1.7%	-6.3%	4.6%	5.9%	6.0%	
Total Equity	33,683	38,636	39,198	39,259	39,680	18%
QOQ Change	0.0%	14.7%	1.5%	0.2%	1.1%	

FABS Estimates & Co data

3Q21 preview: Riyadh Bank

Growth in Non-Funded Income to support Net Profit

CMP (SAR): 28.05

Potential upside (%): -0.2%

12-m target price:

SAR 28.00

Stock rating:

HOLD

3Q21 Estimate

Riyadh Bank (RIBL) is expected to increase its Net Funded Income by 5.7% YOY to SAR2,190 Mn in 3Q21, up from SAR2,073 Mn in 3Q20. It is expected to be driven by 37.3% YOY decline in Funded Expenses to SAR190 Mn in 3Q21, down from SAR304 Mn in 3Q20. The Funded Income is expected to increase slightly by 0.2% YOY to SAR2,380 Mn in 3Q21. The Non-Funded Income is expected to increase by 18.2% YOY to SAR885 Mn in 3Q21, up from SAR748 Mn in 3Q20. It is likely to be driven by 99.9% YOY increase in Trading gain to SAR82 Mn in 3Q21, up from SAR41 Mn in 3Q20. The Other Non-Funded Income is expected to increase by 57.3% YOY to SAR260 Mn in 3Q21, up from SAR166 Mn in 3Q20. As a result, the Operating Income is expected to increase by 9% YOY to SAR3,075 Mn in 3Q21, up from SAR2,821 Mn in 3Q20. The Operating Expenses are expected to increase by 16% YOY to SAR1,033 Mn in 3Q21, up from SAR890 Mn in 3Q20. The Impairment charges are likely to decrease by 45.7% YOY to SAR255 Mn in 3Q21, down from SAR471 Mn in 3Q20. As a result, the Net Profit is expected to increase by 21.7% YOY to SAR1,578 Mn in 3Q21, up from SAR1,296 Mn in 3Q20.

2021 Forecast

We expected RIBL's Net Funded Income to increase by 7.4% YOY to SAR8,819 Mn in 2021, up from SAR8,214 Mn in 2020. It is expected to be driven by 51% YOY decline in Funded Expenses to SAR783 Mn in 2021, down from SAR1,600 Mn in 2020. The Funded Income is likely to decline by 2.1% YOY to SAR9,602 Mn in 2021, down from SAR9,813 Mn in 2020. The Non-Funded Income is likely to increase by 12.6% YOY to SAR3,369 Mn in 2021, up from SAR2,992 Mn in 2020. The Fees and Commissions is expected to increase by 11.2% YOY to SAR2,084 Mn in 2021, up from SAR1,874 Mn in 2020. The Trading gain is likely to increase by 25.1% YOY to SAR273 Mn in 2021, up from SAR218 Mn in 2020. The Other Non-Funded Income is likely to increase by 12.5% YOY to SAR1,012 Mn in 2021, up from SAR900 Mn in 2020. As a result, the Operating Income is expected to increase by 8.8% YOY to SAR12,188 Mn in 2021, up from SAR11,205 Mn in 2020. The Operating expenses are expected to increase by 12.3% YOY to SAR4,081 Mn in 2021, up from SAR3,635 Mn in 2020. The Impairment charges are expected to decrease by 49.3% YOY to SAR1,069 Mn in 2021, down from SAR2,106 Mn in 2020. As a result, the Net Profit is expected to increase by 31.7% YOY to SAR6,212 Mn in 2021, up from SAR4,715 Mn in 2020.

2Q21 Outturn

Riyadh's Funded income has decreased by 8.2% YOY to SAR2,327 Mn in 2Q21 from SAR2,534 Mn in 2Q20. Funded expense declined by 56.7% YOY to SAR181 Mn in 2Q21. Resultantly, the Net funded income has increased by 1.4% YOY to SAR2,146 Mn, as compared to SAR2,116 Mn in 2Q20. While the Fees and commission income has significantly increased by 60.2% YOY to SAR517 Mn in 2Q21 from SAR323 Mn in 2Q20. Similarly, the Other Non-funded income increased by 36.3% YOY to SAR234 Mn from SAR172 Mn in 2Q20. As a result, the Non-funded income has shown a growth by 40.3% YOY to SAR832 Mn in 2Q21. Therefore, the Operating income increased by 9.9% YOY to SAR2,978 Mn in 2Q21 compared to SAR2,709 Mn in 2Q20. Operating expenses have increased by 17.5% YOY to SAR1,012 Mn from SAR861 Mn in 2Q20. Thus, the Cost to income ratio increased by 218 Bps to 34% from 31.8% in 2Q20. Moreover, the Impairment charges dropped by 61.6% YOY to SAR248 Mn in 2Q21, as compared to SAR646 Mn in 2Q20. Net advances increased by 9.1% YOY to SAR204.74 Bn in 2Q21 from SAR187.65 Bn in 2Q20. Whereas Customer deposits climbed by 1.2% YOY to SAR202.45 Bn in 2Q21 from SAR199.98 Bn in 2Q20. Total assets have increased by 7.5% YOY to SAR317.26 Bn in 2Q21, and the Equity climbed by 9.2% YOY to SAR44.55 Bn in 2Q21 compared to SAR40.78 Bn in 2Q20.

Target price and recommendation

We revise our rating on Riyadh Bank to HOLD with a target price of SAR28.00. Riyadh Bank is the third largest bank in Saudi Arabia. Following the recent changes in conditions worldwide the bank has shifted its strategy and is now more focused toward increasing its digital services to improve its competitive advantage in the market by penetrating the market with new and innovative products to improve the clients' experience. To become the best bank in Saudi Arabia, Riyadh bank has set a strategy which will be delivered across 3 areas. First, the value which comes through innovation by creating new markets through digital eco-systems, outstanding value 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. The bank has recorded an increase by 12.8% YOY in 1H21 reaching SAR2.865 Bn from SAR2.539 Bn in 1H20. Net operating income increased as well to SAR3.258 Bn in 1H21 from 2.854 Bn in 1H20, an increase by 14.2% YOY. Impairment charges decreased in 1H21 to SAR550 Mn from SAR954 Mn in 1H20 while Zakat reached SAR373 Mn in 1H21 from SAR315 Mn in 1H20, an increase by 18.4% YOY. As a result, the cost to income ratio has increased to 34.4% in 1H21 from 31.9% in 1H20. The bank has recovered from COVID-19 global pandemic effects and recorded a strong growth in its balance sheet with Total Assets increasing 7.5% YOY reaching SAR317.26 Bn in 2Q21 from SAR295.08 Bn in 2Q20, while Loans and Advances recorded an increase by 9.1% YOY to SAR204.73 Bn in 2Q21 from SAR187.65 Bn in 2Q20. Besides, Customer Deposits increased by 1.2% YOY to SAR202.45 Bn in 2Q21 from SAR199.98 Bn in 2Q20. The increase led the Loans to Deposits ratio (LDR) to increase to 101.1% in 2Q21 up from 93.8% in 2Q20. The Bank's NPL ratio stood at 1.84% decreasing QOQ from 1.96% in 1Q21 and NPL coverage ratio stood at 124.4% improving from 123.2% in 1Q21. The Risk-weighted assets have increased by 5% to SAR281 Bn in 2Q21 as compared to SAR268 Bn as at end of 2020 and the Common Equity Tier 1 capital ratio recorded 15.9% in 2Q21. As a result, the Bank's Capital Adequacy Ratio (CAR) remained strong at 19.3% in 2Q21 despite the decrease from 19.7% in 1Q21. As for the Net Stable Funding ratio (NSFR) and Liquidity Coverage ratio (LCR), they stood at 126% and 176% in 2Q21, respectively, reflecting strong funding and liquidity. Finally, Riyadh bank's Board of Directors recommend the distribution of 5% cash dividend equivalent to SAR0.5 per share and amounting to SAR1.5 Bn for the first half of 2021. Therefore, we assign a rating of HOLD on this stock.

Riyadh Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	21.3	27.2	15.0	17.9	13.6
P/B (x)	2.2	2.3	2.1	1.9	1.9
Dividend yield	2.6%	2.7%	3.8%	1.8%	3.6%

FABS Estimates & Co Data

Riyadh Bank – P&L

SAR mm	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	2,376	2327	2380	0.2%	2.3%	9,813	9,602	-2.1%
Funded expense	-304	-181	-190	-37.3%	5.2%	-1,600	-783	-51.0%
Net funded income	2,073	2,146	2,190	5.7%	2.0%	8,214	8,819	7.4%
Fees and comm.	542	517	543	0.2%	5.0%	1,874	2,084	11.2%
Trading gain/(loss)	41	81	82	99.9%	1.0%	218	273	25.1%
Oth. non-funded inc.	166	234	260	57.3%	11.1%	900	1,012	12.5%
Non-funded income	748	832	885	18.2%	6.3%	2,992	3,369	12.6%
Operating income	2,821	2,978	3,075	9.0%	3.2%	11,205	12,188	8.8%
Operating expenses	-890	-1,012	-1,033	16.0%	2.1%	-3,635	-4,081	12.3%
Pre-provision profit	1,931	1,967	2,042	5.7%	3.8%	7,571	8,107	7.1%
Impairment	-471	-248	-255	-45.7%	2.9%	-2,106	-1,069	-49.3%
Share in assoc.	13	-9	-8	-162.5%	-10.0%	19	-35	-278.2%
PBT	1,473	1,710	1,779	20.8%	4.0%	5,484	7,004	27.7%
Tax	-177	-198	-201	13.6%	1.5%	-769	-793	3.1%
Net profit attributable	1,296	1,512	1,578	21.7%	4.4%	4,715	6,212	31.7%

FABS Estimate & Co Data

Riyad Bank - P&L KPI

SAR mm	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	73.5%	72.1%	71.2%	-225	-84	73.3%	72.4%	-94
NIM	3.4%	3.2%	3.2%	-18	-1	3.3%	3.2%	-9
NIS	3.3%	3.2%	3.2%	-10	-1	3.3%	3.2%	-5
Fees & comms/OI	19.2%	17.4%	17.7%	-156	30	16.7%	17.1%	38
Trading/OI	1.4%	2.7%	2.7%	121	-6	1.9%	2.2%	29
Cost to income	31.5%	34.0%	33.6%	204	-38	32.4%	33.5%	104
Impairment/PPP	24.4%	12.6%	12.5%	-1,187	-11	27.8%	13.2%	-1,464
NP/OI	45.9%	50.8%	51.3%	537	55	42.1%	51.0%	889
ROAE	3.2%	3.5%	3.6%	45	7	11.1%	13.9%	282
ROAA	0.5%	0.5%	0.5%	4	1	1.6%	1.9%	30

FABS Estimate & Co Data

Riyad Bank - Key BS Items

SAR mm	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	190,823	191,347	196,443	204,743	208,837	9.4%
QOQ change	1.7%	0.3%	2.7%	4.2%	2.0%	
Total assets	308,558	310,088	308,036	317,266	323,623	4.9%
QOQ change	4.6%	0.5%	-0.7%	3.0%	2.0%	
Customer deposits	201,292	203,039	198,598	202,453	206,907	2.8%
QOQ change	0.7%	0.9%	-2.2%	1.9%	2.2%	
Total equity	42,655	44,355	44,228	44,551	44,599	4.6%
QOQ change	4.6%	4.0%	-0.3%	0.7%	0.1%	

FABS Estimate & Co Data

3Q21 preview: Arab National Bank

Lower Funded Income expected to decrease Profit

CMP (SAR): 23.18

Potential upside (%): +0.1%

12-m target price:

SAR 23.20

Stock rating:

HOLD

3Q21 Estimate

Arab National Bank (ANB) is estimated to report a 17.4% decrease in Net Profit to SAR552 Mn in 3Q21 compared to a Net Profit of SAR669 Mn in 3Q20, this is mainly due to the decrease by 7.3% YOY in Funded Income to SAR1.3 Bn in 3Q21 from 1.4 Bn in 3Q20. Funded Expenses is expected to decline by 41.5% YOY to SAR114 Mn in 3Q21 from SAR195 Mn in 3Q20. Operating Income is expected to fall by 1.2% YOY to SAR1.44 Bn in 3Q21 from SAR1.46 Bn in 3Q20. Operating Expenses are projected to increase by 4.2% YOY to SAR527 Mn in 3Q21 from SAR506 Mn in 3Q20. Impairment charges are estimated to significantly increase by 40.4% YOY to SAR275 Mn in 3Q21 from SAR196 Mn in 3Q20. The Cost-to-Income ratio (C/I) is expected to rise by 188 bps to 36.4% in 3Q21 compared to 34.5% in 3Q20. While the Net Interest Margin (NIM) is expected to decrease by 33 bps to 2.8% in 3Q21 from 3.1% in 3Q20.

2021 Forecast

We expect ARNB to report an increase by 2.6% YOY in Net Profit to SAR2.12 Bn in 2021 compared to SAR2.07 Bn in 2020. This is mainly due to an increase in Other Non-Funded Income by 46.4% to SAR586 Mn in 2021 from SAR400 Mn in 2020. Net funded Income is expected to decrease by 1.4% YOY to SAR4.79 Bn in 2021, led by an expected decline in Funded Expenses and in Funded Income by 61.7% and 12.7% YOY in 2021, respectively. Fees and Commissions are also expected to fall by 6.5% YOY to SAR514 Mn in 2021 from SAR550 Mn in 2020. Trading Income is expected to increase significantly YOY to SAR13 Mn in 2021 from SAR5 Mn in 2020. Thus, Total Non-Funded Income would rise by 16.5% YOY to SAR1.11 Bn in 2021 compared to SAR956 Mn in 2020. Operating Expenses are expected to increase by 7.5% to SAR2.2 Bn in 2021 from SAR2.04 Bn in 2020. ARNB's Cost-to-Income ratio is expected to increase by 209 bps to 37.2% from 35.1% in 2020. Impairment charges are estimated to decrease by 5.4% YOY to SAR1.2 Bn in 2021 down from SAR1.27 Bn in 2020.

2Q21 Outturn

Funded Income has decreased by 17.5% YOY to SAR1,238 Mn in 2Q21, as compared to SAR1,501 Mn in 2Q20. Whereas, the Funded Expenses has decreased by 64.2% YOY to SAR108 Mn in 2Q21. Resultantly, the Net Funded Income declined by 5.7% YOY to SAR1,130 Mn in 2Q21 from SAR1,199 Mn in 2Q20. Fees and Commissions have increased by 1.6% YOY to SAR122 Mn in 2Q21. While the Other Non-Funded Income decreased by 14.2% YOY to SAR129 Mn from SAR150 Mn in 2Q20. As a result, the Non-Funded Income declined by 7.3% YOY to SAR251 Mn in 2Q21 from SAR271 Mn in 2Q20. Therefore, the Operating Income decreased by 6% YOY to SAR1,381 Mn in 2Q21. ANB's Operating Expenses have increased by 1.1% YOY to SAR533 Mn in 2Q21. Thus, the Cost/Income "C/I" ratio increased by 274 Bps to 38.6% from 35.9% in 2Q20. Impairment has decreased by 14% YOY to SAR299 Mn in 2Q21 compared to SAR348 Mn in 2Q20. Net Advances increased by 0.6% YOY to SAR117.83 Bn in 2Q21 from SAR117.12 Bn in 2Q20. While the Customer Deposits has dropped by 2.7% YOY to SAR130.22 Bn in 2Q21 from SAR133.89 Bn in 2Q20. Therefore, the ADR ratio has increased by 301 Bps to 90.5% from 87.5% in 2Q20. Total Assets decreased by 2.9% YOY to SAR181.87 Bn in 2Q21, while the Equity climbed by 5.6% YOY to SAR30.03 Bn in 2Q21 from SAR28.42 Bn in 2Q20.

Target price and recommendation

We maintain a HOLD rating with a revised target price of SAR23.20. 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. ANB offers a range of banking and financial services to its customers including Shariah compliant products. The Bank has recorded a decrease in Net Income by 2.7% YOY

to SAR473 Mn in 2Q21 down from SAR486 Mn in 2Q20 mainly due to a decrease in Funded Income by 17.5 % YOY to SAR1.23 Bn in 2Q21 compared to SAR1.5 Bn in 2Q20 affected by the global situation driven by COVID-19 pandemic. ANB's Capital Adequacy Ratio (CAR) increased to 22.02% in 2Q21 compared to 19.65% in 2Q20 while Tier 1 ratio increased to 19.48% in 2Q21 up from 17.7% in 2Q20 showing that the group is maintaining and actively managed capital base to mitigate the business risks and is able to meet its financial obligations. Total Assets decreased by 2.9% reaching SAR181.87 Bn in 2Q21 compared to SAR187.29 Bn in 2Q20 with financing and advances increasing slightly by 0.6% to SAR117.83 Bn up from SAR117.12 Bn in 2Q20. Total Liabilities decreased as well by 4.4% YOY to SAR151.81 Bn in 2Q21 compared to SAR158.83 Bn in 2Q20 with Deposits decreasing by 2.7% reaching SAR130.22 Bn in 2Q21 from SAR133.89 Bn in 2Q20. The slight increase in Advances and the decrease in Deposits have increased the Advances to Deposits Ratio (ADR) to 90.5% in 2Q21 up from 87.5% same period last year. Total Equity increased by 5.6% YOY to SAR30 Bn in 2Q21 up from SAR28.46 Bn in 2Q20. Non-Performing Loans (NPL) stood at 2.86% of Total Advances in 2Q21 compared to 2.61% in 2Q20. The Provision Coverage ratio (PCR) stood at 114.54% in 2Q20 from 123.18% in 2Q20, that means provisions have not been made to the extent of the rise in bad loans. The Board has approved a cash dividend for SAR525 Mn as at end of 2Q21 resulting in a net payment after deduction of Zakat for SAR0.4 per share. Therefore, we maintain our HOLD rating to the stock.

ARNB – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	11.5	13.1	11.5	16.8	16.3
P/B (x)	1.4	1.3	1.2	1.2	1.2
Dividend yield	3.5%	4.3%	4.3%	1.7%	3.5%

FABS Estimates & Co Data
ARNB- P&L

	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
SAR mm								
Funded income	1,406	1,238	1,303	-7.3%	5.2%	5,992	5,228	-12.7%
Funded expense	-195	-108	-114	-41.5%	5.3%	-1,123	-430	-61.7%
Net funded income	1,211	1,130	1,189	-1.8%	5.2%	4,869	4,798	-1.4%
Fees and commissions	154	122	134	-13.2%	9.5%	550	514	-6.5%
Trading gain/(loss)	1	0	2	36.4%	4247.8%	5	13	142.4%
Other non-funded income	98	129	122	24.6%	-5.6%	400	586	46.4%
Non-funded income	253	251	257	1.7%	2.5%	956	1,113	16.5%
Operating income	1,464	1,381	1,446	-1.2%	4.7%	5,824	5,912	1.5%
Operating expenses	-506	-533	-527	4.2%	-1.2%	-2,047	-2,200	7.5%
Pre-provision profit	958	848	919	-4.0%	8.4%	3,778	3,711	-1.8%
Impairment	-196	-299	-275	40.4%	-8.1%	-1,271	-1,202	-5.4%
Share of results of associates	22	28	20	-7.9%	-29.8%	65	93	43.3%
PBT	784	577	664	-15.2%	15.1%	2,572	2,602	1.2%
Tax	-116	-108	-113	-2.8%	4.7%	-503	-481	-4.3%
Profit after tax	668	469	552	-17.4%	17.5%	2,069	2,120	2.5%
Non-controlling int.	1	3	1	0.0%	-80.4%	3	5	65.4%
Net profit attributable	669	473	552	-17.4%	16.8%	2,072	2,126	2.6%

FABS estimate & Co Data

ARNB - KPI

	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
P&L KPI								
Net FI/OI	82.7%	81.8%	82.2%	-50	38	83.6%	81.2%	-243
NIM	3.1%	2.9%	2.8%	-33	-7	3.1%	2.9%	-21
NIS	3.0%	2.8%	2.8%	-27	-7	3.0%	2.8%	-16
Fees & comms/OI	10.5%	8.8%	9.2%	-128	40	9.4%	8.7%	-74
Trading/OI	0.1%	0.0%	0.1%	4	13	0.1%	0.2%	13
Cost to income	34.5%	38.6%	36.4%	188	-219	35.1%	37.2%	209
Impairment/PPP	20.4%	35.3%	29.9%	947	-539	33.6%	32.4%	-124
NP/OI	45.7%	34.2%	38.2%	-749	396	35.6%	36.0%	38
ROAE	2.3%	1.6%	1.8%	-51	22	7.1%	7.0%	-11
ROAA	0.4%	0.3%	0.3%	-8	3	1.1%	1.1%	-3

FABS estimate & Co data

ARNB - Key B/S items

	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
SAR mm						
Net advances	118,058	113,363	115,559	117,830	117,086	-0.8%
QOQ change	0.8%	-4.0%	1.9%	2.0%	-0.6%	
Total assets	188,526	180,396	177,435	181,877	197,459	4.7%
QOQ change	0.7%	-4.3%	-1.6%	2.5%	8.6%	
Customer deposits	136,725	129,352	125,161	130,220	136,347	-0.3%
QOQ change	2.1%	-5.4%	-3.2%	4.0%	4.7%	
Total equity	29,339	29,734	29,974	30,032	30,268	3.2%
QOQ change	3.2%	1.3%	0.8%	0.2%	0.8%	

FABS estimate & Co data

3Q21 preview: Alinma Bank

Higher Fees and Commissions and Funded Income support the profitability

CMP (SAR): 24.72

Potential upside (%): 0.0%

12-m target price:

SAR 24.5

Stock rating:

HOLD

3Q21 Estimate

We forecast Alinma Bank to report a rise by 26.6% YOY in Net Profit to reach SAR797 Mn in 3Q21 as compared to a Net profit of SAR629 Mn in 3Q20. The rise is projected mainly due to a YOY increase in Net Funded Income by 12.8% & in Fees and Commissions by 23.7%. Funded Income is expected to rise by 10.7% YOY to SAR1.48 Bn in 3Q21 from SAR1.33 Bn in 3Q20. We expect Funded Expense to decline by 3.2% YOY to SAR164 Mn in 3Q21 from SAR170 Mn in 3Q20. Non-Funded Income is expected to significantly increase by 29.6% YOY to SAR417 Mn in 3Q21 as compared to SAR322 Mn in 3Q20, led by an expected increase in Fees and Commissions to SAR306 Mn in 3Q21 and a significant increase in Other Non-Funded Income to SAR55 Mn in 3Q21 compared to SAR26 Mn in 3Q20. Operating Expenses are expected to slightly decrease by 2.2% YOY to SAR535 Mn in 3Q21 from SAR547 Mn in 3Q20. We expect Impairment charges to increase by 39% YOY to SAR325 Mn in 3Q21 compared to SAR234 Mn in 3Q20. Bank's Cost-to-Income ratio (C/I) is estimated to decline by 586 bps to 30.9% from 36.7% in 3Q20. Net Interest Margin (NIM) is expected to decline slightly by 23 bps to 3.4% in 3Q21 from 3.6% in 3Q20.

2021 Forecast

We expect ALINMA to post a Net Profit of SAR2.89 Bn in 2021, which is an increase by 47.5% from a Net Profit of SAR1.96 Bn in 2020. This is primarily due to an anticipated increase in Net Funded Income and in the Non-Funded Income by 9.2% and 55.8% YOY, respectively. Funded Expense is expected to fall significantly by 25.6% YOY to SAR612 Mn from SAR822 mm in 2020. Operating Expenses are expected to rise by 3.3% YOY to SAR2.18 Bn from SAR2.11 Bn in 2020. Other Non-Funded Income is expected to rise significantly to SAR276 Mn in 2021 from a negative SAR122 Mn in 2020. Impairment charges are expected to decrease by 3.4% YOY to SAR1.37 Bn from SAR1.48 Bn in 2020. The Cost-to-Income ratio (C/I) is expected to decline by 462 bps to 32.3% in 2021 from 36.9% in 2020.

2Q21 Outturn

Operating Income increased by 22.9% YOY in 2Q21 to SAR1,655 Mn. The increase in Operating Income is mainly due to the significant increase by 89.2% YOY in the Total Non-Funding Income to SAR424 Mn from SAR224 Mn in 2Q20, led by a significant increase in the Other Non-Funding Income to SAR90 Mn in 2Q21 from SAR5 Mn in 2Q20, in addition to an increase by 86.3% YOY in Fees and Commissions to SAR282 Mn in 2Q21 compared to SAR152 Mn in 2Q20. Whereas the Net Funded Income increased by 9.7% YOY to SAR1,231 Mn in 2Q21 from SAR1,122 Mn in 2Q20, due to an increase by 1.8% YOY in Funded Income to SAR1,362 Mn in 2Q21 from SAR1,338 Mn in 2Q20 and a decrease by 39% YOY in Funded Expenses to SAR131 Mn in 2Q21 from SAR215 Mn in 2Q20. While the Operating Expenses have increased by 1% YOY to SAR521 Mn in 2Q21 from SAR515 Mn in 2Q20. Thus, the Cost to Income "C/I" ratio decreased by 616 Bps to 31.5% from 37.6% in 2Q20. Impairment charges increased by 78.1% YOY to SAR342 Mn in 2Q21 compared to SAR192 Mn in 2Q20. Net Advances increased by 15.9% YOY to SAR119.62 Bn in 2Q21 from SAR103.17 Bn in 2Q20. While Customer Deposits climbed by 17.2% YOY to SAR125.87 Bn in 2Q21, as compared to SAR107.41 Bn in 2Q20. Therefore, the ADR ratio decreased by 102 Bps to 95% in 2Q21 from 96.1% in 2Q20. Whereas Total Assets increased by 15.4% YOY to SAR164.05 Bn in 2Q21, and the Total Equity increased by 7.8% YOY to SAR25.19 Bn in 2Q21 compared to SAR23.38 Bn in 2Q20.

Target price and recommendation

We maintain a HOLD rating with a revised target price of SAR24.5. 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 24.1% in Net Profit reaching SAR710 Mn in 2Q21 compared to SAR572 Mn in 2Q20. This increase in Net Profit by 41.2% was due to the increase in net financing and investment income, and the significant increase by 22.9% in Total operating income in 2Q21 reaching SAR1.65 Bn from SAR1.35 Bn in 2Q20, due to the increase in Fees and Commissions by 86.3% to SAR282 Mn in 2Q21 up from SAR152 Mn in 2Q20 and a significant increase in other non-funded income to SAR90 Mn in 2Q21 compared to SAR5 Mn in 2Q20. Total operating expenses increased by 3.9% partly offset by the decrease in Depreciation Expense. ADR ratio has slightly decreased to reach 95% in 2Q21 from 96.1% in 2Q20 amid an increase in Deposits by 17.18% reaching SAR125.87 Bn in 2Q21 from SAR107.41 Bn in 2Q20 representing 76.73% of Total Assets which increased by 15.37% in 2Q21 reaching SAR164.05 Bn up from SAR142.19 Bn in 2Q20 accompanied with an increase in Advances by 15.9% reaching SAR 119.62 Bn in 2Q21 as compared to SAR 103.17 Bn same period last year. Total Liabilities increased by 16.87% to reach SAR138.85 Bn in 2Q21 compared to SAR118.81 Bn in 2Q20 and Total Equity increased as well to SAR25.2 Bn from SAR23.38 Bn in 2Q20, an increase by 7.75% YOY. The annualized NIM and NIS have both decreased to 3.4% in 2Q21 from 3.8% and 3.7% in 2Q20, respectively. Cost to income ratio decreased in second quarter 2021 to 31.5% from 37.6% same period 2020. The Bank's Common Tier 1 Capital ratio stood at 18% as at end of 2Q21, same as last year's percentage and the CAR ratio maintained its level at 19% as compared to 20% in 2Q20. The board has decided to distribute cash dividends for SAR0.35 per share for 1H21. The stock is trading at a P/B multiple of 1.54x and therefore, we maintain our HOLD rating on the stock.

ALINMA – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	24.5	17.2	25.8	25.0	17.1
P/B (x)	2.4	2.3	2.2	2.0	2.0
Dividend yield	3.2%	4.0%	0.0%	1.2%	2.8%

FABS Estimates & Co Data

Alinma Bank- P&L

SAR mm	3Q20	2Q21	3Q21F	YOY Ch.	QOQ Ch.	2020	2021F	Change
Funded income	1,337	1,362	1,481	10.7%	8.7%	5,470	5,686	3.9%
Funded expense	-170	-131	-164	-3.2%	25.1%	-822	-612	-25.6%
Net funded income	1,167	1,231	1,316	12.8%	7.0%	4,648	5,074	9.2%
Fees and commissions	247	282	306	23.7%	8.3%	989	1,199	21.3%
Trading gain/(loss)	48	52	56	17.4%	8.5%	220	218	-1.0%
Other non-funded income	26	90	55	NM	-39.2%	-122	276	NM
Non-funded income	322	424	417	29.6%	-1.7%	1,086	1,692	55.8%
Operating income	1,489	1,655	1,733	16.4%	4.7%	5,734	6,766	18.0%
Operating expenses	-547	-521	-535	-2.2%	2.7%	-2,119	-2,188	3.3%
Pre-provision profit	942	1,134	1,198	27.2%	5.6%	3,616	4,579	26.6%
Impairment	-234	-342	-325	39.0%	-5.0%	-1,418	-1,371	-3.4%
Share of profit of associates	6	0	3	-47.9%	NM	5	3	-40.3%
Net profit before zakat	715	792	877	22.6%	10.7%	2,202	3,211	45.8%
Zakat	-86	-82	-80	-6.7%	-2.0%	-236	-311	32.1%
Net profit attributable	629	710	797	26.6%	12.2%	1,966	2,899	47.5%

FABS estimate & Co Data

Alinma Bank P&L KPI

	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
SAR mm								
Net FI/OI	78.4%	74.4%	76.0%	-245	158	81.1%	75.0%	-606
NIM	3.6%	3.4%	3.4%	-23	-3	3.6%	3.3%	-22
NIS	3.5%	3.4%	3.4%	-17	-3	3.5%	3.3%	-18
Fees & comms/OI	16.6%	17.1%	17.7%	104	58	17.2%	17.7%	48
Trading/OI	3.2%	3.1%	3.2%	3	11	3.8%	3.2%	-62
Cost to income	36.7%	31.5%	30.9%	-586	-60	36.9%	32.3%	-462
Impairment/PPP	24.8%	30.2%	27.1%	231	-304	39.2%	29.9%	-929
NP/OI	42.3%	42.9%	46.0%	371	305	34.3%	42.8%	856
ROAE	2.7%	2.9%	3.2%	46	27	8.5%	11.7%	323
ROAA	0.5%	0.5%	0.5%	4	4	1.4%	1.7%	37

FABS estimate & Co Data

Alinma Bank - Key B/S items

	3Q20	4Q20	1Q21	2Q21	3Q21F	YOY ch
SAR mm						
Net advances	105,325	111,196	117,149	119,623	123,500	17.3%
QOQ change	2.1%	5.6%	5.4%	2.1%	3.2%	
Total assets	147,850	156,877	159,951	164,057	171,411	15.9%
QOQ change	4.0%	6.1%	2.0%	2.6%	4.5%	
Customer deposits	111,365	119,454	120,707	125,878	137,413	23.4%
QOQ change	3.7%	7.3%	1.0%	4.3%	9.2%	
Total equity	24,039	23,937	24,590	25,199	25,833	7.5%
QOQ change	2.8%	-0.4%	2.7%	2.5%	2.5%	

FABS estimate & Co Data

3Q21 preview: Al Bilad Bank

Increase in Fees and Commissions Income support the increase in Profit

CMP (SAR): 41.95

Potential upside (%): +0.1%

12-m target price:

SAR 42.00

Stock rating:

HOLD

3Q21 Estimate

Al Bilad's Net Profit is forecasted to increase by 21.1% YOY to SAR463 Mn in 3Q21 from SAR383 Mn in 3Q20, mainly due to an expected increase in Fees and Commissions Income. Net Funded Income is expected to slightly decrease by 1.1% YOY to SAR846 Mn in 3Q21 from SAR856 Mn in 3Q20, as Income from Investing and Financing is forecasted to increase by 0.4% YOY to SAR915 Mn in 3Q21 from SAR911 Mn in 3Q20 and Return on Deposits is estimated to increase by 23.2% YOY to SAR69 Mn in 3Q21 from SAR56 Mn in 3Q20. Total Non-Funded Income is expected to increase by 20% YOY to SAR310 Mn in 3Q21 from SAR258 Mn in 3Q20. This would be led by a 17.6% YOY increase in Fees and Commission Income to SAR201 Mn in 3Q21 from SAR171 Mn in 3Q20. Exchange Income is expected to decrease by 4.4% YOY to SAR85 Mn in 3Q21 from SAR89 Mn in 3Q20. Operating Income is estimated to increase by 3.8% YOY to SAR1.15 Bn in 3Q21, as we estimate Operating Expenses to slightly decrease by 1.1% YOY to SAR521 Mn in 3Q21 from SAR527 Mn in 3Q20. The Cost-to-Income (C/I) ratio would decrease by 224 bps to 45.1% in 3Q21 compared to 47.3% in 3Q20. Impairment charges are forecasted to decrease by 22% YOY to SAR125 Mn in 3Q21 from SAR160 Mn in 3Q20.

2021 Forecast

Al Bilad's Net Profit is forecasted to increase by 29.4% YOY to SAR1.74 Bn in 2021 from SAR1.34 Bn in 2020. Net Funded Income is expected to increase by 3.3% YOY to SAR3.4 Bn in 2021 from SAR3.29 Bn in 2020, as an increase by 0.9% YOY to SAR3.66 Bn in 2021 is foreseen for Interest Income from SAR3.62 Bn in 2020, and Interest Expense is estimated to decrease by 22.5% YOY to SAR259 Mn in 2021 from SAR334 Mn in 2020. Total Non-Funded Income is expected to rise by 23% YOY to SAR1.19 Bn in 2021 from SAR969 Mn in 2020. This would be led by a significant increase in Other Non-Funded Income to SAR66 Mn in 2021. Fees and Commissions are estimated to rise by 27.5% YOY to SAR800 Mn in 2021 from SAR627 Mn in 2020. Operating Income is also expected to increase by 7.8% YOY to SAR4.59 Bn in 2021 from SAR4.26 Bn in 2020. We expect Operating Expenses to increase by 2.2% YOY to SAR2.11 Bn in 2021 compared to SAR2.06 Bn in 2020. The Bank's Cost-to-income (C/I) ratio would decrease by 249 bps to 46% in 2021 from 48.5% in 2020. Impairments are forecasted to decrease by 20.8% YOY to SAR550 Mn in 2021 from SAR695 Mn in 2020.

2Q21 Outturn

Net Profit increased by 30.8% to SAR416 Mn in 2Q21 up from SAR318 Mn in 2Q20. The Income from Investment decreased slightly by 0.7% YOY to SAR911 Mn from SAR917 Mn while the Return on Deposits & Financial Liabilities decreased by 21.4% YOY to SAR68 Mn in 2Q21 down from SAR87 Mn in 2Q20 which leads to an increase by 1.5% in 2Q21 to SAR842 Mn as compared to SAR830 Mn in 2Q20. Fees and Commissions increased significantly by 72.2% YOY to SAR197 Mn in 2Q21 up from SAR114 Mn in 2Q20 outweighing the decrease in Exchange Income by 26.7% and the decrease in Other Non-Funded Income and resulting in an increase in Total Non-Funded Income by 70.4% YOY to SAR289 Mn compared to SAR169 Mn in 2Q20. Total Operating Income increased by 13.2% YOY to SAR1.13 Bn in 2Q21 compared to SAR1 Bn in 2Q20. General & Administrative Expenses increased by 7.3% in 2Q21 reaching SAR531 Mn up from SAR495 Mn in 2Q20 while the Cost-to-Income (C/I) decreased by 257 Bps to 46.9% in 2Q21 compared to 49.5% in 2Q20. Pre-Provision Profit increased by 18.9% to SAR600 Mn in 2Q21 from SAR505 Mn in 2Q20 and the Impairment Charges decreased

by 9.4% in 2Q21 to SAR136 Mn down from SAR151 Mn in 2Q20 supporting the increase in Profit before Zakat by 31% to SAR464 Mn in 2Q21 compared to SAR354 Mn in 2Q20. Net Profit increased by 30.8% despite the increase in Zakat Expenses by 32.3% in 2Q21 reaching SAR48 Mn up from SAR36 Mn. The Banks's Net advances increased by 21.9% YOY to SAR79.13 Bn in 2Q21 from SAR64.92 Bn in 2Q20. While Customer Deposits improved by 25.8% YOY to SAR81.63 Bn in 2Q21 from SAR64.87 Bn in 2Q20. Total Assets increased by 21.2% YOY to SAR107.65 Bn in 2Q21 from SAR88.82 Bn in 2Q20, Total Liabilities increased by 21.9% to SAR93.24 Bn in 2Q21 up from SAR78.97 Bn in 2Q20. Total Equity grew by 15.9% YOY to SAR11.41 Bn in 2Q21 from SAR9.85 Bn in 2Q20.

Target price and recommendation

We maintain a HOLD rating with a revised target price of SAR42.00. 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 SAR416 Mn in second quarter 2021, an increase by 30.8% compared to SAR318 Mn same period 2020 and an increase by 5.9% QOQ from SAR393 Mn. The YOY increase was mainly driven by an increase of 13.2% in Total Operating income reaching SAR1.13 Bn in 2Q21 up from SAR1 Bn in 2Q20 due to the increase in fees and commissions to SAR197 Mn in 2Q21 up from SAR114 Mn in 2Q20, an increase by 72.2% YOY despite the persistent situation of COVID-19 global pandemic. Income from investment and financing decreased YOY by 0.7% reaching SAR911 Mn compared to SAR917 Mn in 2Q20, the Return on Deposits & Financial Liabilities also decreased by 21.4% to SAR68 Mn in 2Q21 from SAR87 Mn in 2Q20, outweighing the decrease in Income, which led to an increase in Net Funded Income by 1.5% YOY to SAR42 Mn compared to SAR830 Mn in 2Q20. During the first half of 2021, the bank has been trying to maintain a Cost to Income ratio at its lowest levels which was improved by 3% reaching 47% in 1H21 declining from 50% in 1H20, while Operating Expenses recorded an increase by 7.3% to SAR531 Mn in 2Q21 from SAR495 Mn in 2Q20. Profit before Zakat increased in 1H21 to SAR92 Mn up from SAR655 Mn, an increase by 38% YOY. The annualized NIM for the bank decreased to 3.9% compared to 4.2% 2Q20 annualized NIS decreased as well to 3.9% in 2Q21 as compared to 4.2% in 2Q20. Total assets increased by 21.2% in 1H21 to SAR107.65 Bn up from SAR88.58 Bn in 1H20, while Investments increased by 30.6% in 1H21 reaching SAR16.79 Bn compared to SAR12.86 Bn in 1H20 and Financing increased by 21.9% reaching SAR79.13 Bn in 1H21 up from SAR64.92 Bn in 1H20 with the portfolio distributed evenly between corporate and retail exposure with the increase in Corporate and Retail recording 19% and 24% respectively mainly due to the mortgage retail segment. Total Liabilities also increased in 1H21 by 21.9% reaching SAR96.23 Bn from SAR78.97 Bn in 1H20 and Total Equity increased as well by 15.5% reaching SAR11.41 Bn in 1H21 compared to SAR9.8 Bn in 1H20. Total deposits increased by 25.8% reaching SAR84.63 Bn in 1H21 up from SAR64387 Bn in 1H20 driven by the significant increase in Time Deposits to SAR14 Bn in 1H21 up from SAR5 Bn in 2H20. The ADR ratio decreased to 96.9% in 2Q21 down from 100.1% in 2Q20. The ROAE stands at 14.06% in 1H21 compared to 12% in 1H20 and the ROAA stands at 1.59% in 1H21 compared to 1.36% in 1H20. The NPL ratio decreased slightly in 2Q21 to 1.2% up from 1.3% with NPL coverage ratio increasing to 259% in 2Q21 compared to 240% in 2Q20 comfortably covering the NPL portfolio. Cost of risk is following a decreasing trend reaching 0.79% in 1H21 compared to 1.1% in 1H20. The Bank's CAR increased in 2Q21 to 19.3% as compared to 17.7% in 2Q20 and 18% as at end of 2020 being above minimum requirements. LCR and NSFR also being well monitored and above the minimum requirements at 139% and 112% respectively in 2Q21. In 1H21, the EPS increased to 1.08 per share as compared to 0.79 per share in 1H20 and therefore, we maintain our HOLD rating on the stock.

ALBI - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
PE (x)	33.3	64.3	25.2	23.3	18.1
P/B (x)	4.2	4.0	3.4	2.9	2.6
Dividend yield	1.9%	0.0%	2.1%	0.0%	2.4%

FABS Estimates & Co Data

Albilad Bank - P&L

SAR mm	3Q20	2Q21	3Q21F	YOY ch	QOQ ch	2020	2021F	Change
Income from invest & fin.	911	911	915	0.4%	0.5%	3,627	3,659	0.9%
Return on deposits & fin. liab.	-56	-68	-69	23.2%	0.6%	-334	-259	-22.5%
Net funded income	856	842	846	-1.1%	0.5%	3,293	3,400	3.3%
Fees and commissions	171	197	201	17.6%	2.3%	627	800	27.5%
Exchange income	89	73	85	-4.4%	15.8%	362	327	-9.8%
Other non-funded income	-2	18.4	23.3	-1203.0%	26.2%	-20.2	65.9	227%
Total non-funded income	258	289	310	20.0%	7.3%	969	1,192	23.0%
Total operating income	1,113	1,131	1,156	3.8%	2.2%	4,262	4,593	7.8%
General & admin. Expenses	-527	-531	-521	-1.1%	-1.8%	-2,066	-2,112	2.2%
Pre provision profit	586	600	635	8.2%	5.7%	2,196	2,481	13.0%
Impairment	-160	-136	-125	-22.0%	-8.3%	-695	-550	-20.8%
Profit before zakat	426	464	510	19.6%	9.9%	1,502	1,931	28.6%
Zakat expenses	-43	-48	-46	6.2%	-3.4%	-153	-186	21.5%
Net profit	383	416	463	21.1%	11.4%	1,349	1,745	29.4%

FABS Estimates & Co Data

Albilad Bank - P&L KPI

SAR mm	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	76.8%	74.5%	73.2%	-361	-127	77.3%	74.04%	-321
NIM	4.2%	3.9%	3.7%	-50	-19	4.1%	3.5%	-55
NIS	4.2%	3.9%	3.7%	-47	-19	4.0%	3.5%	-53
Fees & comms/OI	15.4%	17.4%	17.4%	205	2	14.7%	17.4%	269
Trading/OI	8.0%	6.5%	7.4%	-64	87	8.5%	7.1%	-139
Cost to income	47.3%	46.9%	45.1%	-224	-184	48.5%	46.0%	-249
Impairment/PPP	27.3%	22.7%	19.7%	-764	-302	31.6%	22.2%	-945
NP/OI	34.4%	36.8%	40.1%	573	331	31.6%	38.0%	635
ROAE	3.9%	3.8%	4.1%	11	23	13.4%	14.7%	135
ROAA	0.4%	0.4%	0.4%	1	3	1.5%	1.6%	16

FABS estimate & Co Data

Albilad Bank - Key B/S Items

SAR mm	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	67,762	70,115	75,531	79,130	81,798	20.7%
QOQ change	4.4%	3.5%	7.7%	9.0%	3.4%	
Total assets	92,294	95,744	102,520	107,652	111,537	20.9%
QOQ change	3.9%	3.7%	7.1%	9.1%	3.6%	
Customer deposits	68,883	71,553	76,963	81,638	86,597	25.7%
QOQ change	6.2%	3.9%	7.6%	12.4%	6.1%	
Total equity	10,311	10,730	10,838	11,417	12,119	17.5%
QOQ change	4.7%	4.1%	1.0%	-2.2%	6.2%	

FABS estimate & Co Data

3Q21 preview: Al Rajhi Bank

Operating Income to be supported by Funded and Non-Funded Income

CMP (SAR): 135.20

Potential upside (%): -3.8%

12-m target price:

SAR 130

Stock rating:

HOLD

3Q21 Estimate

Al Rajhi Bank (RJHI) is forecasted to increase its Net Funded Income by 22.3% YOY to SAR5,134 Mn in 3Q21, up from SAR4,196 Mn in 3Q20. It is likely to be due to 24.9% YOY increase in Funded Income to SAR5,348 Mn in 3Q21, up from SAR4,282 Mn in 3Q20. The Funded Expense is expected to increase significantly to SAR214 Mn in 3Q21, up from SAR86 Mn in 3Q20. The Non-Funded Income is likely to increase by 36.7% YOY to SAR1,307 Mn in 3Q21, up from SAR956 Mn in 3Q20. It is expected to robustly increase due to 46.8% YOY increase in Fees and Commission to SAR953 Mn in 3Q21, up from SAR649 Mn in 3Q20 and 53.2% YOY increase in Other Non-Funded Income to SAR168 Mn in 3Q21, up from SAR110 Mn in 3Q20. The Trading gain is expected to decrease by 5.7% YOY to SAR186 Mn in 3Q21, down from SAR197 Mn in 3Q20. As a result, the Operating Income is expected to increase by 25% YOY to SAR6,441 Mn in 3Q21, up from SAR5,152 Mn in 3Q20. The Operating Expenses are expected to increase by 1.5% YOY to SAR1,749 Mn in 3Q21, up from SAR1,724 Mn in 3Q20. The Impairment charges are expected to increase by 27.4% YOY to SAR592 Mn in 3Q21, up from SAR465 Mn in 3Q20. As a result, the Net Profit is expected to increase by 38.2% YOY to SAR3,673 Mn in 3Q21, up from SAR2,658 Mn in 3Q20.

2021 Forecast

We forecast RJHI's The Net Funded Income to increase by 19.2% YOY to SAR20,152 Mn in 2021, up from SAR16,913 Mn in 2020. The Funded Income is likely to increase by 20.4% YOY to SAR20,918 Mn in 2021, up from SAR17,378 Mn in 2020. The Funded Expenses are likely to increase 64.7% YOY to SAR766 Mn in 2021, up from SAR465 Mn in 2020. The Non-Funded Income is likely to increase by 33.9% YOY to SAR5,099 Mn in 2021, up from SAR3,808 Mn in 2020. It is expected to be driven by 41.7% YOY increase in Fees and Commissions to SAR3,768 Mn in 2021, up from SAR2,660 Mn in 2020. The Other Non-Funded Income is expected to increase by 63.7% YOY to SAR597 Mn in 2021, up from SAR365 Mn in 2020. As a result, the Operating Income is expected to increase by 21.9% YOY to SAR25,252 Mn in 2021, up from SAR20,721 Mn in 2020. The Operating expenses are likely to increase by 2.3% YOY to SAR6,900 Mn in 2021, up from SAR6,742 Mn in 2020. The Impairments are expected to increase by 8.7% YOY to SAR2,354 Mn in 2021, up from SAR2,166 Mn in 2020. The Net Profit is expected to increase by 35.3% YOY to SAR14,337 Mn in 2021, up from SAR10,596 Mn in 2020.

2Q21 Outturn

The Net Funded income increased by 27.3% YOY to SAR5,052 Mn in 2Q21 from SAR3,968 Mn in 2Q20. This was due to an increase by 28.4% YOY in the Funded Income to SAR5,243 Mn in 2Q21 from SAR4,082 Mn in 2Q20. Fees and commissions income has significantly increased by 76.5% YOY to SAR934 Mn in 2Q21 from SAR529 Mn in 2Q20. Similarly, the Trading income has increased by 8.3% YOY to SAR184 Mn in 2Q21. Whereas the Other Non-funded Income increased by 18% YOY to SAR166 Mn in 2Q21 compared to SAR141 Mn in 2Q20. As a result, the Non-funded Income has increased by 52.9% YOY to SAR1,285 Mn in 2Q21, as compared to SAR840 Mn in 2Q20. Thus, the Operating income increased by 31.8% YOY to SAR6,336 Mn in 2Q21 from SAR4,808 Mn in 2Q20. Operating expenses increased by 5.9% to SAR1,730 Mn in 2Q21 from SAR1,634 Mn in 2Q20. Resultantly, the Cost to Income ratio has declined by 668 Bps to 27.3% compared to 34% in 2Q20. The Impairment charges increased by 27.5% YOY to SAR584 Mn in 2Q21 from SAR458 Mn in 2Q20. Total Assets increased by 30.8% YOY to SAR546.13 Bn in 2Q21 from SAR417.68 Bn in 2Q20. Whereas Total liabilities increased by 33% YOY to SAR486.47 Bn in 2Q21 from SAR365.75 Bn in 2Q20.

Similarly, the Customer deposits increased by 33.7% YOY to SAR447.51 Bn in 2Q21 from SAR334.66 Bn in 2Q20. Total Equity increased by 14.9% YOY to SAR59.67 Bn in 2Q21 from SAR51.93 Bn in 2Q20.

Target price and recommendation

We assign a HOLD rating on Al Rajhi with a revised target price of SAR130. Al Rajhi Banking and Investment Corporation (ARB) has delivered a strong performance in the second quarter of 2021. The bank has been working on building core by growing the Retail sector including private sector which has increased by 24% in 2Q21 as compared to end of 2020, expanding the corporate sector by 21% increased YTD and SME financing growing by 22% after 1H21 as compared to end of 2020. Al Rajhi is also aiming to outperform its competition by expanding the customer base and its market share which has been increasing and recorded a 19% market share among KSA banks. The bank is also improving its digital banking platform and modernizing its technology with actual digital customers reaching 9.2 Mn clients. ARB's balance sheet witnessed a growth by 16% after 1H21 as compared to end of year 2020, which was mainly due to higher financing and investments. Total Assets reached SAR546 Bn in 2Q21 from SAR418 Bn in 2Q20, an increase of 31% YOY with asset quality improving with a cost of risk decreasing to 0.64% in 1H21 from 0.85% in 1H20. Investments increased 24% YTD to SAR74.47 Bn in 2Q21 and Financing has reached SAR390.30 Bn in 2Q21 an increase by also 24% YTD. Financing growth is driven by increase in mortgages and an increase in Customers' Deposits by 17% reaching SAR447.5 Bn in 2Q21 from SAR382.63 Bn as at end of 2020 and an increase by 33.7% YOY from SAR334.7 Bn in 2Q20. While Total Liabilities increased by 18% to SAR486.47 Bn in 2Q21 from SAR410.71 Bn in FY2020. Gross loans in 2Q21 stood at SAR398.8 Bn up from SAR282.2 Bn in 2Q20, an increase by 41.3% YOY. In 1H21 Non-Performing Loans decreased to SAR2.66 Bn from SAR2.89 Bn in 1H20, a decrease by 7.8% YOY with the Non-Performing Loan Ratio decreasing as well to 0.67% in 2Q21 from 1.02% in 2Q20 on the group level and the NPL coverage ratio increased to 318.1% in 2Q21 up from 252.8% in 2Q20. Shareholders' Equity rose by 3% YTD to SAR59.67 Bn in 2Q21 from SAR58.12 Bn as at end of 2020. Income statement was strong in 2Q21 as well with a solid Net Profit growth of 44% YOY to SAR7.74 Bn in 1H21 as compared to SAR5.37 Bn in 1H20 and a 48% increase YOY to SAR3.6 Bn in 2Q21 from SAR2.44 Bn in 2Q20. Total Operating Income grew by 31.8% YOY to SAR6.36 Bn in 2Q21 from SAR4.81 Bn in 2Q20 reflecting successful strategy execution. The bank has been implementing cost control procedures in order to decrease the total cost and this is reflected in the Cost to Income ratio which decreased to 27.5% in 1H21 from 33.3% in 1H20. The bank's liquidity remains within regulatory requirements with LCR standing at 126% in 2Q21 above the 100% minimum requirement, SAMA LDR increased to 83.2% but still below the 90% maximum regulatory requirement for the bank. It worth noting that the NSFR is following a decreasing trend reaching 113% in 2Q21 down from 127% in 2Q20. The High-Quality Liquid Assets (HQLA) increased to SAR87.7 Bn in 2Q21 from SAR71.4 Bn in 2Q20, an increase by 22.9% YOY. Capital Adequacy Ratio (CAR) decreased to 18% in 2Q21 down from 19% in 2Q20, which was mainly due to the increase in Risk Weighted Assets (RWA) to SAR370.8 Bn in 2Q21 from SAR289.2 Bn in 2Q20, but still comfortably above minimum requirements, while Common Equity Tier 1 Ratio (CET1) decreased to 16.9% in 2Q21 decreasing from 18% in 2Q20 but also remaining above the minimum regulatory requirements. ARB's Return on Equity (ROE) increased to 23.11% as at end of first half 2021 up from 18.78% in 1H20 while Return on Assets (ROA) increased to 2.74% in 1H21 increasing from 2.46% in 1H20. Earnings Per Share (EPS) stood at SAR1.44 in 2Q21 up from SAR0.97 in 2Q20, a rise by 48% YOY. Finally, the board approved the distribution of dividends amounting to SAR3.5 Bn for the first half of 2021, being SAR1.4 per share. Therefore, we assign a HOLD rating on this stock.

RJHI - Relative valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	37.1	89.5	33.3	31.9	23.6
P/B (x)	6.1	7.0	6.6	5.8	5.7
Dividend yield	1.9%	2.0%	2.2%	0.7%	2.2%

FABS Estimates & Co Data
RJHI - P&L

SAR mm	3Q20	2Q21	3Q21F	YOY ch	QOQ ch	2020	2021F	Change
Funded income	4,282	5,243	5,348	24.9%	2.0%	17,378	20,551	20.4%
Funded expense	-86	-192	-214	NM	11.7%	-465	-555	64.7%
Net funded income	4,196	5,052	5,134	22.3%	1.6%	16,913	19,996	19.2%
Fees and commissions	649	934	953	46.8%	2.0%	2,660	2,803	41.7%
Trading gain/(loss)	197	184	186	-5.7%	1.0%	784	817	-6.3%
Other non-funded income	110	166	168	53.2%	1.0%	365	355	63.7%
Non-funded income	956	1,285	1,307	36.7%	1.7%	3,808	3,974	33.9%
Operating income	5,152	6,336	6,441	25.0%	1.7%	20,721	23,971	21.9%
Operating expenses	-1,724	-1,730	-1,749	1.5%	1.1%	-6,742	-6,885	2.3%
Pre-provision profit	3,428	4,606	4,692	36.9%	1.9%	13,979	17,085	31.3%
Impairment	-465	-584	-592	27.4%	1.4%	-2,166	-1,965	8.7%
Net income before zakat	2,963	4,022	4,100	38.3%	1.9%	11,814	15,121	35.4%
Zakat	-306	-418	-426	39.5%	2.0%	-1,218	-1,571	36.4%
Net profit attributable	2,658	3,605	3,673	38.2%	1.9%	10,596	13,550	35.3%

FABS Estimate & Co Data
RJHI - P&L KPI

	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	81.5%	79.7%	79.7%	-174	-2	81.6%	79.8%	-182
NIM	4.7%	4.7%	4.6%	-12	-14	4.6%	4.3%	-33
NIS	4.7%	4.7%	4.6%	-12	-14	4.6%	4.3%	-33
Fees & comms/OI	12.6%	14.7%	14.8%	220	5	12.8%	14.9%	209
Trading/OI	3.8%	2.9%	2.9%	-94	-2	3.8%	2.9%	-87
Cost to income	33.5%	27.3%	27.2%	-630	-14	32.5%	27.3%	-521
Impairment/PPP	13.6%	12.7%	12.6%	-94	-6	15.5%	12.8%	-267
NP/OI	51.6%	56.9%	57.0%	545	14	51.1%	56.8%	564
ROAE	5.1%	6%	6%	128	-8	19.4%	23.3%	393
ROAA	0.7%	0.7%	0.7%	7	-1	2.5%	2.7%	21

FABS estimate & Co Data
RJHI - Key B/S Items

SAR mm	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	289,729	315,712	356,144	390,296	405,908	40.1%
QOQ change	5.4%	9.0%	12.8%	9.6%	4.0%	
Total assets	430,300	468,825	512,234	546,139	565,335	31.4%
QOQ change	3.0%	9.0%	9.3%	6.6%	3.5%	
Customer deposits	345,322	382,631	421,269	447,506	465,406	34.8%
QOQ change	3.2%	10.8%	10.1%	6.2%	4.0%	
Total Equity	54,919	58,119	59,222	59,670	60,154	9.5%
QOQ change	5.8%	5.8%	1.9%	0.8%	0.8%	

FABS Estimate & Co Data

FAB Securities Contacts:

Research Analysts

Ahmad Banihani	+971-2 -6161629	ahmad.banihani@Bankfab.com
Shiv Prakash	+971-2 -6161628	shiv.prakash@Bankfab.com

Sales & Execution

Trading Desk Abu Dhabi Head Office	+971-2 -6161777	Online Trading Link
Trading Desk Dubai DFM Branch	+971-4 -5659593	
Institutional Desk	+971-4 -5658395	
Sales and Marketing	+971-2 -6161622	

Customer Service

Abu Dhabi Office	+971-2 -6161600
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