

Saudi Banking Sector – January 2022

The banking industry in the Kingdom has continued to lead the way toward recovery.

Sector Weighting:
NEUTRAL
Preview 4Q2021

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). The rating stresses on the fact that COVID-19 impact on the banking sector has been contained. As the economy is recovering and oil prices are high, the pressure on the operating environment is declining. The sector witnessed growth with less deterioration in asset quality and profitability, as well as, improvement in financial metrics. The government supported the sector via interest-free deposits and robust growth in loans in 2020 and 1H21. Furthermore, a steady increase in retail mortgages added to the growth.

Among the Saudi banks in our coverage, our preferred stocks are **1) SNB:** The Bank has a dominant position after it's a merger with SAMBA bank, a strong increase in financials with 67.8% YOY increase in Operating Income. The Bank has a robust balance sheet and witnessed strong growth in Net Advances and Total Assets by 49.5% YOY and 56.4% YOY, respectively. **2) RIBL:** one of the largest financial institutions in the Kingdom of Saudi Arabia and the Middle East. The Bank has a strong funding and liquidity position with improvement in CAR, NSFR and LCR metrics. The BOD approved the distribution of SAR1.5 Bn in dividends for 1H21. The dividend yield stands at 1.9% **3) ALINMA:** The Bank has a robust balance sheet and improved the ADR ratio to 104% in 3Q21. The BOD approved interim dividends of SAR695.7 Mn pertaining to 1H21, with a dividend yield as of 1.3%.

Key Industry Themes

The continued opening of the Middle East, with Kuwait being the latest member of the GCC bloc to restart international air travel without severe restrictions, has allowed economies to regroup and begin a cautious recovery. Saudi Arabia's immunization success has been outstanding, allowing the country to emphasize its economic goals. In the first nine months of FY2021, the Kingdom's banking industry continued to lead the march toward recovery. Without reporting a single nationally significant company credit default, the sector continues to generate outstanding performance. The entire loan exposure of Saudi banks to the private sector is approaching SAR 2 trillion, thanks to continued robust growth in home finance. In comparison to the same period in FY2020, a drop of 18% was observed in the nine months ending 30 September. Despite the unavoidable negative impacts of Covid-19, these figures continue to highlight the government's, regulators, and banks' effective measures. Since December 31, 2020, total assets have increased by 6.3%, and net income after tax and Zakat have increased by 12% in nine months. The banks' strong capital position, together with the improving economy, will offer a significant cushion against any additional growth in non-performing loans. The industry is well-regulated, and while net external liabilities represent a danger, solid prudential indicators protect banks from any asset quality deterioration caused by the 2020 recession.

It's also worth noting that the successful merger of National Commercial Bank (NCB) and SAMBA Financial Group into Saudi National Bank (SNB) occurred during this time. The combined giant is firmly established as Saudi Arabia's largest commercial bank and the third-largest lender in the GCC, with an effective purchase value of SAR 78.5 billion. The one-time merger-related expenditures of SAR 100 million and the post-merger hypothetical ECL pick-up, on the other hand, illustrate some of the issues with large mergers. Furthermore, the combined business is obliged to iteratively monitor recognized intangibles and residual goodwill totaling SAR 28.5 billion as part of the applicable accounting rules.

During the pandemic, the growth of digital banking was undoubtedly a component in this phenomenon. STC Bank and Saudi Digital Bank were recently granted licenses as the country's first digital banks, highlighting the digital necessity and Vision 2030's goal of expanding non-cash transactions to 70% by 2025. Across all banks, there has also been an increasing focus on cybersecurity and other procedures related to the reliability of technological infrastructure. Data security is becoming a top responsibility for the whole industry. As privacy specialists work to integrate privacy into the DNA of business operations and customer interaction, full involvement throughout the bank is critical. Banks should construct a robust foundation of best practices and integrate those practices into their operations and culture to create a long-term and successful data security plan.

The earnings of Saudi National Bank increased to \$1 billion in the third quarter

The Saudi National Bank declared a net profit of 3.785 billion riyals (\$1 billion) for the 3Q21, up 19% from the same period last year. Profits increased 15.23% year on year to 9.311 billion riyals in the first nine months of the year. Operating income climbed by 38.4% due to increased net special revenue, banking service fees, and foreign exchange. Total operational expenditures climbed by 72.2%, including impairments. The rise in a net impairment charge for predicted credit losses, other general administration expenditures, wages, and employee expenses, rent and premises expenses, and depreciation of property, equipment, software, and right of use assets was primarily responsible for the rise.

Saudi banks are expanding their long-term lending portfolios, while demand deposits are increasing

Long-term credit continues to account for a larger percentage of credit granted by Saudi banks to the private and governmental sectors than short-term credit. Since the pre-pandemic period, long-term credit, which includes loans, advances, and reduced bills, has grown significantly quicker than short-term credit. Bank total long-term credit reached SR971.3 billion at the end of September 2021, up 70% from September 2019. Making long-term loans more accessible to firms and individuals benefits enterprises and families by allowing them to better manage finances for longer-term initiatives. Demand deposits increased by 21% over the same period, compared to a 7% growth in time and saving accounts. Government entities drove growth in time and saving deposits, with their share of total time and saving deposits rising to 50% from 38% at the end of September 2019. The Saudi Central Bank changed the loan-to-deposit calculation technique in April 2018, giving longer-term deposits a larger weighting to encourage banks to provide savings products. The ratio increased to 0.8 at the end of September 2021, up from 0.75 at the end of the same month the previous year, but only slightly from 0.79 at the end of September 2019.

According to data from the Saudi Arabian Monetary Agency (SAMA), the percentage of long-term loans increased by 40% in September 2021 compared to the same month in 2019, while short-term loans increased by just 14%. Meanwhile, personal loans accounted for 21% of total credit supplied to Saudi banks' private and governmental sectors.

NQOODLET, a fintech company located in Saudi Arabia, has raised \$1 million in a new round of investment

NQOODLET, a fintech platform for spending management located in Saudi Arabia, has secured \$1 million in a pre-seed fundraising round. The money will be utilized to develop the company's infrastructure as well as deploy its card and platform. The round included OMQ investments as well. In 2020, the Saudi market had 600,000 SMEs, earning \$89 billion in revenue and employing 8 million people. This number may be used to assist supply and control travel expenditures, as well as give an employee card for salary payments. NQOODLET, which was founded in 2021, is a digital platform that allows SMEs to manage their spending, purchases, and bill registrations directly using corporate cards.

The private sector loan exposure of Saudi banks is \$533 billion dollars

Saudi Arabian banks' private sector loan exposure approached SAR 2 trillion (\$533.14 billion), with total assets increasing by 6.3% to SAR 2.946 trillion in the first nine months of the year. In the third quarter of 2021, banks made a net profit after zakat and tax of SAR 36.28 billion, up from SAR 32.6 billion in the third quarter of 2020. For the nine months, expected credit losses (ECL) decreased by an average of 18.3% to SAR 9.7 billion. The number of physical bank branches has also decreased by 5% to 2,000, indicating efficiency gained via digitalization. Saudi banks' ESG goals have been re-energized by their increased exposure to global financial markets and increased scrutiny from rating agencies.

Alinma Bank makes a profit in the third quarter

Alinma Bank's net earnings in the 3Q21 were SAR 738.1 million, up 17% from SAR 629.2 million. On a quarterly basis, net earnings were SAR 710.3 million, up 3.9% from 2Q21. The Saudi lender made SAR 2.09 billion in net earnings in the first nine months of 2021, up 32.9% from SAR 1.57 billion at the same time the previous year. From January to September 2021, assets increased by 12.8% year on year to SAR 166.8 billion, up from SAR 147.85 billion. Client deposits climbed by 4.7% yearly to SAR 116.65 billion in the first nine months of this year, up from SAR 111.31 billion in the previous nine months.

The Saudi Central Bank has granted a new fintech start-up a license

The Saudi Central Bank (SAMA) has approved the license of a new fintech firm that will provide services through the kingdom's SADAD system, which allows bill payments. Al-Hulul al-Shamalah Finance is SAMA's 14th payment firm to be licensed, with seven others receiving in-principal approval. SAMA is supporting the fintech industry's growth to attract a high-value new segment of investors and businesses. SAMA's role in improving financial stability and enabling prospects for growth and economic development in Saudi Arabia is consistent with the Kingdom's Vision 2030 aims.

With \$1.5 billion, Riyadh Bank and NIDLP promote local manufacturers

Riyadh Bank and the National Industrial Development and Logistics Program (NIDLP) have announced two projects with a combined value of SR6 billion to help and finance local manufacturers. The first project seeks to use SR4 billion to fund and localize 50 items, with a focus on pharmaceuticals and medical services, nutrition, transportation, machinery, metals, and balance of payments. The second effort will use SR2 billion to support industrial investment funds for nutrition, machinery and equipment, pharmaceuticals, and medical devices.

Target price and rating

(SAR)	TP	CMP	Gain/(-loss)	Rating
RJHI	150.0	149.20	0.5%	HOLD
ALBI	42.0	53.90	-22.1%	REDUCE
RIBL	30.8	32.20	-4.3%	HOLD
ALINMA	29.0	27.80	4.3%	HOLD
SNB	74.2	73.90	0.4%	HOLD
ARNB	23.2	26.80	-13.4%	REDUCE
BSFR	41.0	48.40	-15.3%	REDUCE

FABS Estimate

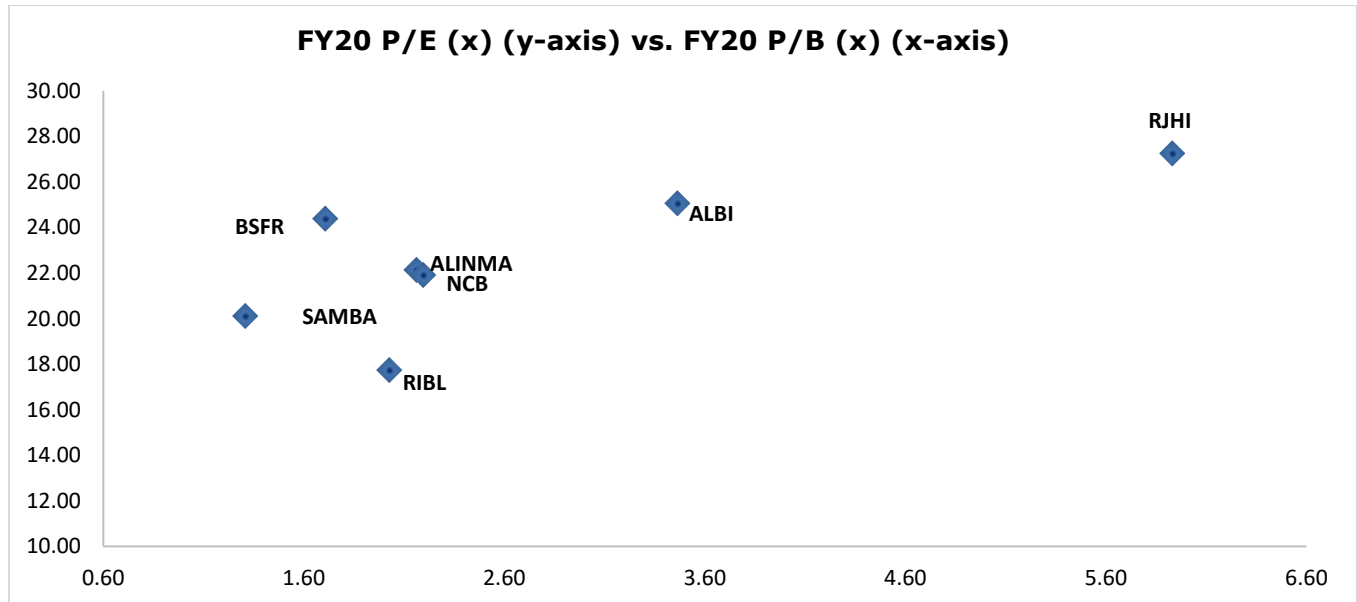
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Relative valuation and rating

RIBL's valuation is most attractive.

Of the 7 banks, RJHI, and ALBI are trading higher than Tadawul's current PB multiple of 2.37x. RJHI is trading at 2021 PE and PB of 27.26x and 5.93x, respectively. ALBI is trading with 2021 PE and PB of 25.07x and 3.46x, respectively. RIBL's valuation is the most attractive with the least 2021 PE and PB multiples of 17.74x and 2.03x, respectively, among the 7 stocks under our coverage.



Source: FABS estimate

Market Weight

We maintain our MARKET WEIGHT RATING based on 4x HOLDs and 3x REDUCE on the KSA banks under our coverage. Yet, on a comparative basis we remain inclined towards SNB, ALINMA and RJHI.

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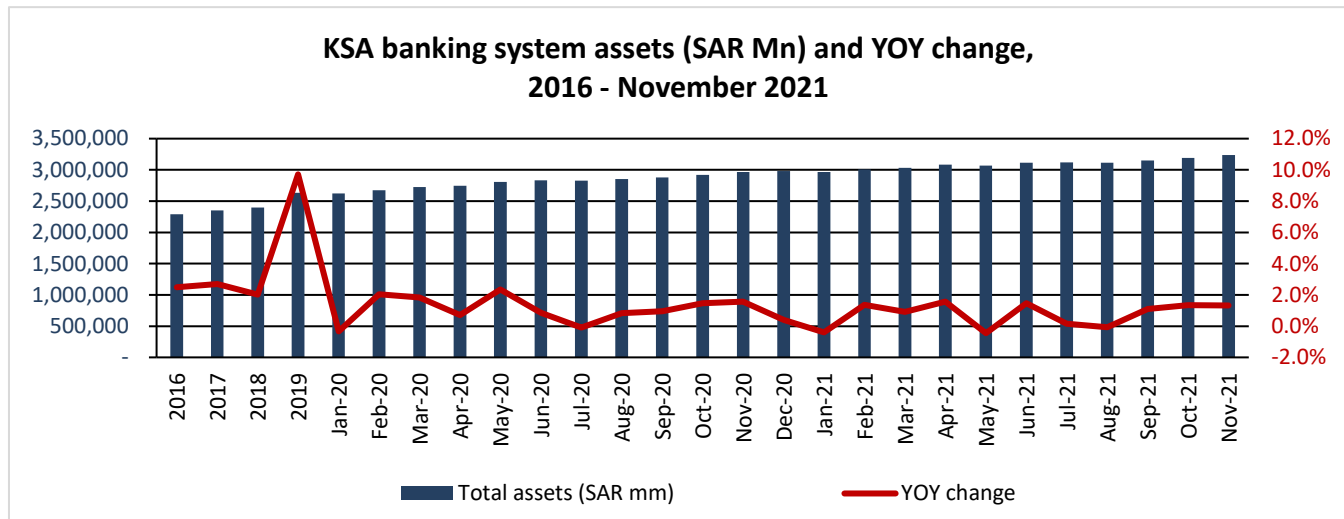
FABS Estimate

Banking indicators

1. Assets

Total banking assets increased by 1.3% MOM in November 2021.

KSA banking system's total assets formation increased by 1.3% MOM to SAR3,235 mm in November 2021 from SAR3,193 mm in October 2021.



Source: FABS from SAMA data

Saudi National Bank witnessed the highest YOY asset growth in 3Q21

At an individual bank level, Saudi National Bank recorded the fastest growth in assets to SAR902,720 mm (+56.6% YOY; +0.7% QOQ) in 3Q21. This was followed by Bank Al Bilad, which increased to SAR111,606 mm (+20.9% YOY; 3.7% QOQ). Arab National Bank recorded the lowest increase (-3.3% YOY; 0.2% QOQ) to SAR182,275 mm in 3Q21.

Total assets

(SAR mm)	3Q20	4Q20	1Q21	2Q21	3Q21	YOY%	QOQ%
Al Rajhi	430,300	468,825	512,234	546,139	582,684	35.4%	6.7%
Bank Al Bilad	92,309	95,744	102,520	107,652	111,606	20.9%	3.7%
Riyad Bank	308,558	310,088	308,036	317,266	318,657	3.3%	0.4%
Alinma Bank	147,850	156,877	159,951	164,057	166,808	12.8%	1.7%
Saudi National Bank	576,632	599,446	599,570	896,421	902,720	56.6%	0.7%
Arab National Bank	188,526	180,396	177,435	181,877	182,275	-3.3%	0.2%
Banque Saudi Fransi	197,445	194,074	202,233	211,310	213,335	8.0%	1.0%
KSA banking system	2,879,697	2,979,625	3,035,139	3,114,194	3,118,745	8.3%	0.1%

Source: FABS from co data and SAMA

Saudi National Bank remains dominant as the largest asset market share in 3Q21

The table shows that Saudi National Bank recorded the largest increase in the market share of assets to 28.9% (+892.1 Bps YOY; +16 Bps QOQ) in 3Q21, followed by Al Rajhi Bank at 18.7% (+374.1 Bps YOY; +114.6 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 5.8% (-70.2 Bps YOY; 0.4 Bps QOQ), followed by Riyad Bank at 10.2% (-49.7 Bps YOY; 3 Bps QOQ).

Assets market share

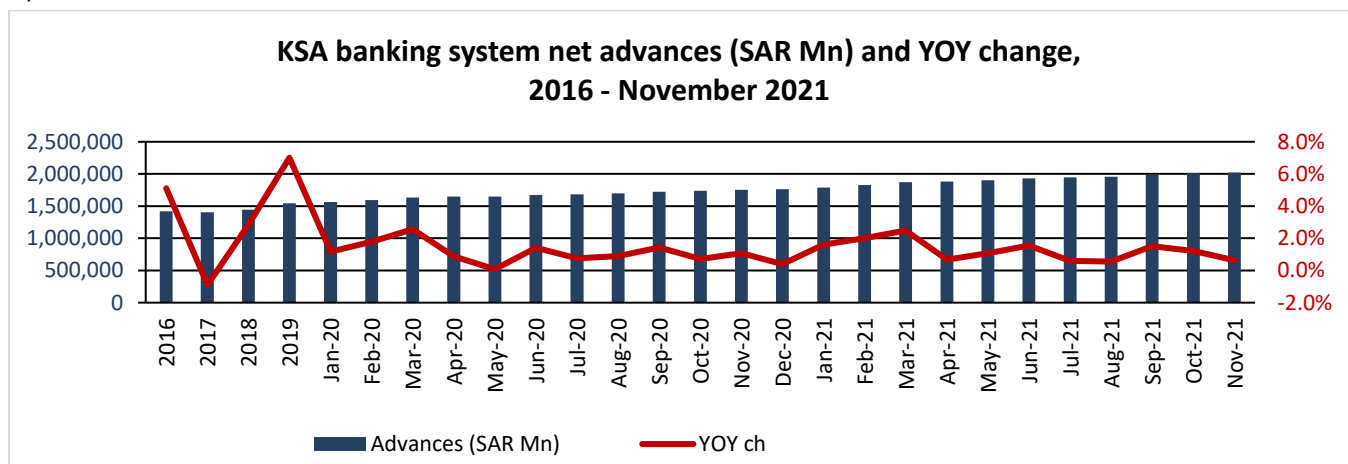
	3Q20	4Q20	1Q21	2Q21	3Q21	YOY (bps)	QOQ (bps)
Al Rajhi	14.9%	15.7%	16.9%	17.5%	18.7%	374.1	114.6
Bank Al Bilad	3.2%	3.2%	3.4%	3.5%	3.6%	37.3	12.2
Riyad Bank	10.7%	10.4%	10.1%	10.2%	10.2%	-49.7	3.0
Alinma Bank	5.1%	5.3%	5.3%	5.3%	5.3%	21.4	8.1
Saudi National Bank	20.0%	20.1%	19.8%	28.8%	28.9%	892.1	16.0
Arab National Bank	6.5%	6.1%	5.8%	5.8%	5.8%	-70.2	0.4
Banque Saudi Fransi	6.9%	6.5%	6.7%	6.8%	6.8%	-1.6	5.5

Source: FABS from co data

2. Advances

Advances grew by 1.2% MOM in November 2021

Advances of the KSA Banking system grew by 0.6% MOM in November 2021 to SAR2,022mm from 2,009 mm in October 2021.



Source: FABS from SAMA data

Saudi National Bank net advances grew the most YOY in 3Q21

Saudi National Bank Net advances grew the most to SAR503,696 mm in 3Q21 (49.7% YOY; 0.1% QOQ), the highest growth among the eight KSA banks under coverage. This was followed by an increase in Bank Al Rajhi Bank to SAR420,954 mm (+45.3% YOY; +7.9% QOQ). On the other hand, Arab National Bank net advances increased the least to SAR120,016 mm by 1.7% YOY in 3Q21, and by 1.9% QOQ.

Net advances

(SAR mm)	3Q20	4Q20	1Q21	2Q21	3Q21	YOY%	QoQ%
Al Rajhi	289,729	315,712	356,144	390,296	420,954	45.3%	7.9%
Bank Al Bilad	67,762	70,115	75,531	79,130	81,799	20.7%	3.4%
Riyad Bank	190,823	191,347	196,443	204,743	210,482	10.3%	2.8%
Alinma Bank	105,325	111,196	117,149	119,623	121,318	15.2%	1.4%
Saudi National Bank	336,409	346,708	356,720	503,157	503,696	49.7%	0.1%
Arab National Bank	118,058	113,363	115,559	117,830	120,016	1.7%	1.9%
Banque Saudi Fransi	134,356	130,565	134,105	141,807	144,393	7.5%	1.8%
KSA banking system	1,723,792	1,762,440	1,871,569	1,933,963	1,945,331	12.9%	0.6%

Source: FABS from co data and SAMA

Saudi National Bank had the highest increase in advances market share in 3Q21

The table shows that Saudi National Bank recorded the largest increase in the advances market share to 25.9% (+637.7 Bps YOY; -12.4 Bps QOQ) in 3Q21, followed by Al Rajhi Bank to 21.6% (+483.2 Bps YOY; 145.8 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 6.2% (-67.9 Bps YOY; 7.7 Bps QOQ), followed by Banque Saudi Fransi at 7.4% (-37.2 Bps YOY; 9 Bps QOQ).

Advances market share

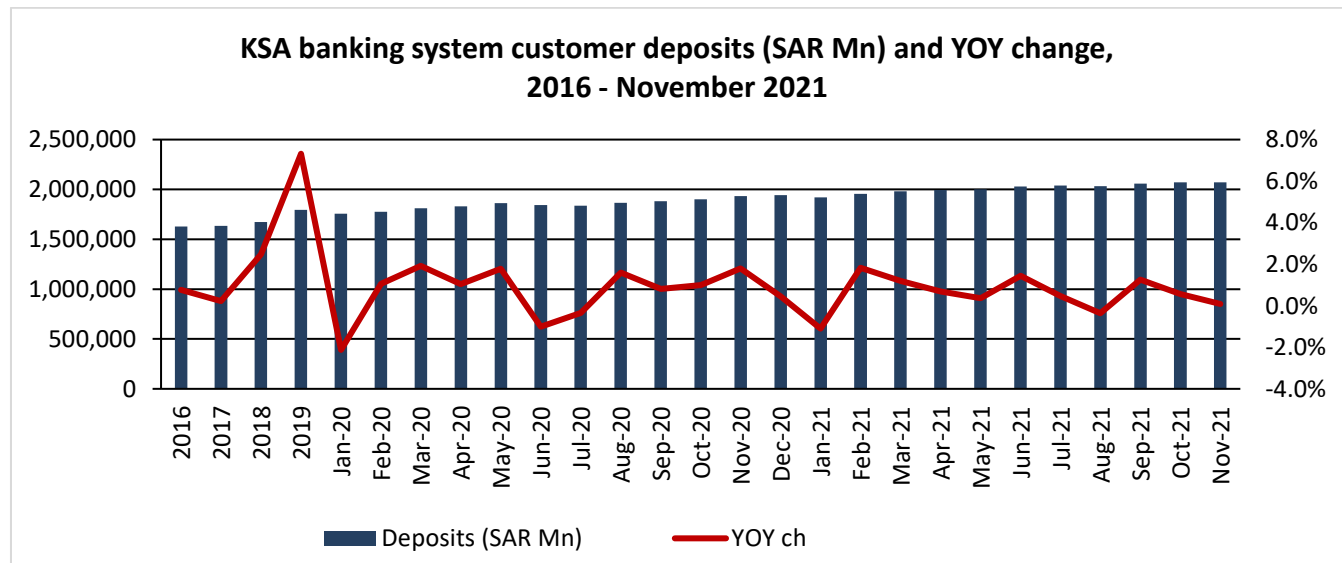
	3Q20	4Q20	1Q21	2Q21	3Q21	YOY (bps)	QOQ (bps)
Al Rajhi Bank	16.8%	17.9%	19.0%	20.2%	21.6%	483.2	145.8
Bank Al Bilad	3.9%	4.0%	4.0%	4.1%	4.2%	27.4	11.3
Riyad Bank	11.1%	10.9%	10.5%	10.6%	10.8%	-25.0	23.3
Alinma Bank	6.1%	6.3%	6.3%	6.2%	6.2%	12.6	5.1
Saudi National Bank	19.5%	19.7%	19.1%	26.0%	25.9%	637.7	-12.4
Arab National Bank	6.8%	6.4%	6.2%	6.1%	6.2%	-67.9	7.7
Banque Saudi Fransi	7.8%	7.4%	7.2%	7.3%	7.4%	-37.2	9.0

Source: FABS from co data

3. Customer Deposits

Customer deposits growth increased by 0.6% MOM in November 2021

The KSA banking system deposits reached SAR 2,071 million in November 2021, increased by 0.1% MOM from SAR2,069 in October 2021.



Source: FABS from SAMA data

Saudi National Bank customer deposits grew the most in 3Q21

Saudi National Bank's Deposits grew the most to SAR589,190 mm in 3Q21 (+44.2% YOY; +0.2% QOQ), the highest growth among the seven KSA banks under coverage. This was followed by an increase in Al Rajhi to SAR478,331 mm (+38.5% YOY; +6.9% QOQ). On the other hand, Arab National Bank deposits declined to SAR129,395 mm by -5.4% YOY in 3Q21 and by -0.6% QOQ.

Deposits

(SAR mm)	3Q20	4Q20	1Q21	2Q21	3Q21	YOY%	QoQ%
Al Rajhi	345,322	382,631	421,269	447,506	478,331	38.5%	6.9%
Bank Al Bilad	68,883	71,553	76,963	81,638	82,346	19.5%	0.9%
Riyad Bank	201,292	203,039	198,598	202,453	203,996	1.3%	0.8%
Alinma Bank	111,318	119,454	120,707	125,878	116,652	4.8%	-7.3%
Saudi National Bank	408,474	416,419	419,430	588,135	589,190	44.2%	0.2%
Arab National Bank	136,725	129,352	125,161	130,220	129,395	-5.4%	-0.6%
Banque Saudi Fransi	135,655	127,112	132,987	140,805	143,322	5.7%	1.8%
KSA banking system	1,881,082	1,942,984	1,980,335	2,030,139	2,039,633	8.4%	0.5%

Source: FABS from co data and SAMA

Saudi National Bank saw the highest QOQ gain in market share of Deposits in 3Q21

The table shows that Saudi National Bank recorded the largest increase in the Deposit market share to 28.9% (+717.2 Bps YOY; -8.3 Bps QOQ) in 3Q21, followed by Al Rajhi Bank to 23.5% (+509.4 Bps YOY; 140.9 Bps QOQ). On the other side, Arab National Bank share fell the most on a YOY basis to 6.3% (-92.4 Bps YOY; -7 Bps QOQ), followed by Riyad Bank at 10% (-69.9 Bps YOY; 2.9 Bps QOQ).

Deposits market share

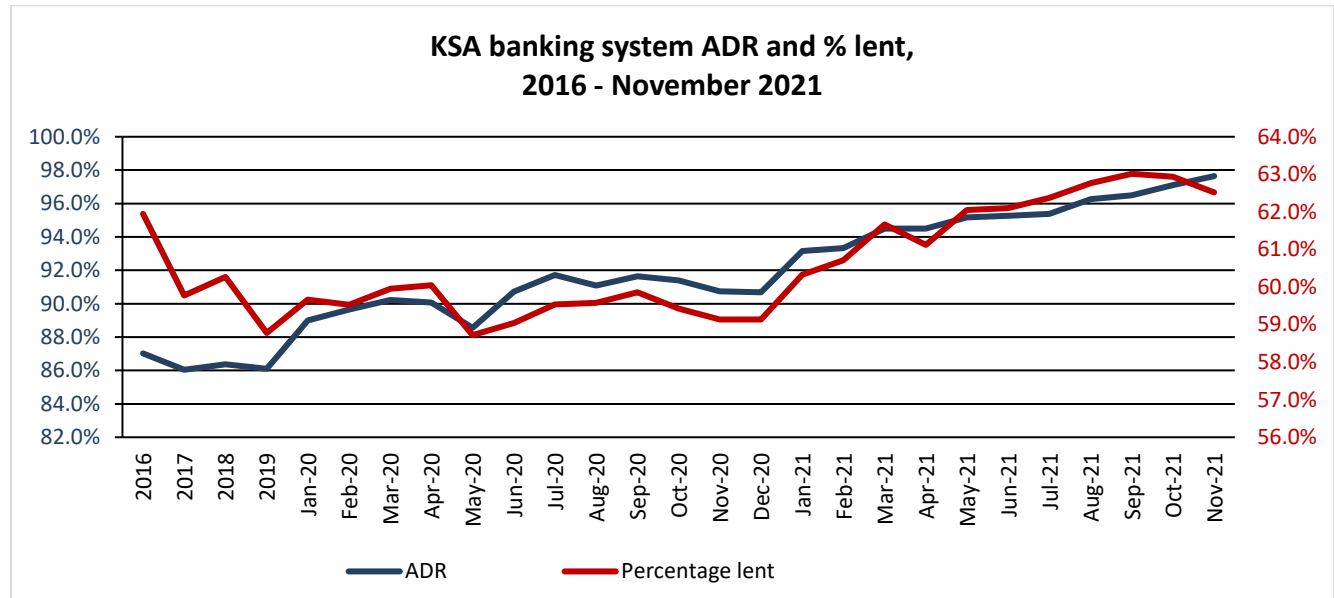
	3Q20	4Q20	1Q21	2Q21	3Q21	YOY (bps)	QOQ (bps)
Al Rajhi	18.4%	19.7%	21.3%	22.0%	23.5%	509.4	140.9
Bank Al Bilad	3.7%	3.7%	3.9%	4.0%	4.0%	37.5	1.6
Riyad Bank	10.7%	10.4%	10.0%	10.0%	10.0%	-69.9	2.9
Alinma Bank	5.9%	6.1%	6.1%	6.2%	5.7%	-19.9	-48.1
Saudi National Bank	21.7%	21.4%	21.2%	29.0%	28.9%	717.2	-8.3
Arab National Bank	7.3%	6.7%	6.3%	6.4%	6.3%	-92.4	-7.0
Banque Saudi Fransi	7.2%	6.5%	6.7%	6.9%	7.0%	-18.5	9.1

Source: FABS from co data

4. Liquidity

System liquidity has eased in November 2021

KSA banking system's liquidity stayed stable in November 2021 with an ADR of 97.6%. Percentage lent decreased to 62.5% in November 2021, from 62.9% in October 2021.



Source: FABS from SAMA data

KSA banks recorded higher levels of ADR in 3Q21

Alinma Bank showed the highest increase in its ADR ratio to 107.6% in 3Q21 from 97.1% in 3Q20 (+1050.2 Bps YOY; +945.2 Bps QOQ). Followed by Riyadh Bank with an increase to 105.3% from 96.9% in 3Q20 (+840.2 YOY; +178.2 QOQ). On the other side, Bank Al Bilad reported the lowest increase in ADR ratio to 102.7% in 3Q21 from 101.7% in 3Q20 (101.2 YOY; 252.5 QOQ).

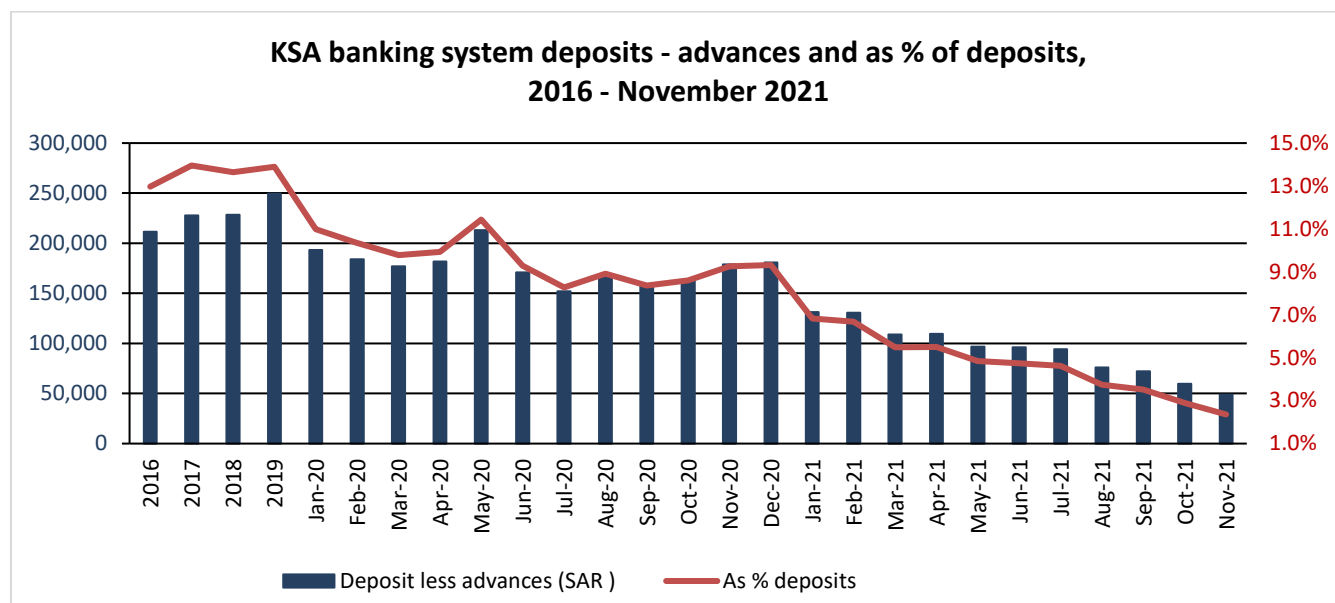
ADR

	3Q20	4Q20	1Q21	2Q21	3Q21	YOY (bps)	QOQ (bps)
Al Rajhi	86.0%	84.5%	86.5%	89.1%	89.9%	387.4	75.3
Bank Al Bilad	101.7%	101.3%	101.4%	100.1%	102.7%	101.2	252.5
Riyadh Bank	96.9%	96.5%	101.4%	103.5%	105.3%	840.2	178.2
Alinma Bank	97.1%	95.8%	100.0%	98.1%	107.6%	1050.2	945.2
Saudi National Bank	84.4%	85.4%	87.2%	87.5%	87.3%	289.1	-11.9
Arab National Bank	89.2%	90.8%	95.8%	93.4%	95.8%	659.9	232.4
Banque Saudi Fransi	101.9%	106.4%	104.3%	104.2%	104.3%	244.2	13.9

Source: FABS from co data

KSA banking system deposits - advances decreased by 18.3% MOM in November 2021

The KSA banking system deposits - advances reached SAR48,822 million in November 2021, decreasing 18.3% MOM from SAR59,739 mm in November 2021.



Source: FABS from SAMA data

Banque Saudi Fransi decreased the most in deposit surplus in 3Q21

Banque Saudi Fransi deposit surplus fell to -SAR1,071 mm in 3Q21 from SAR1,299 mm in 3Q20 (-182.4% YOY; 6.9% QOQ), followed by Alinma Bank to -SAR4,666 mm in 3Q21 from SAR5,993 mm in 3Q20 (-177.9% YOY; -174.6% QOQ). On the other hand, Saudi National Bank reported a significant rise in deposit surplus to SAR85,494 mm in 3Q21 from SAR72,065 mm in 3Q20 (18.6% YOY; 0.6% QOQ).

Deposit surplus/-deficit

SAR mm	3Q20	4Q20	1Q21	2Q21	3Q21	YOY%	QOQ%
Al Rajhi	55,594	66,919	65,125	57,210	57,377	3.2%	0.3%
Bank Al Bilad	1,121	1,438	1,432	2,508	547	-51.2%	-78.2%
Riyad Bank	10,469	11,693	2,156	-2,290	-6,486	-162.0%	183.3%
Alinma Bank	5,993	8,259	3,558	6,256	-4,666	-177.9%	-174.6%
Saudi National Bank	72,065	69,711	62,710	84,978	85,494	18.6%	0.6%
Arab National Bank	18,667	15,990	9,602	12,390	9,379	-49.8%	-24.3%
Banque Saudi Fransi	1,299	-3,453	-1,118	-1,002	-1,071	-182.4%	6.9%

Source: FABS from co data

Stock performance

ALBI, ARNB and RIBL performed among the top ten

ARNB (17.7%), ALBI (17.2%) and ALINMA (16.9%) headed KSA banks in terms of stock performance from YE21 till YE22. Overall, the KSA banking stocks, ranked 1st in comparison to the countries in the MENA region with an average return of 13.2%, based on a simple average. SNB outperformed the market index TASI performance by 15.1% returns over the same period. The two banks that did not outperform the Index were BSFR (3.5%) and RJHI (5.6%).

25 MENA bank stocks: YE21 to 18th of January 2022, ranked

		UAE	KSA	Qatar	Egypt	Ranking
QIBK	9.2%			9.2%		7
CBD	5.7%	5.7%				10
MARK	10.3%			10.3%		6
NBS	5.1%	5.1%				12
MASQ	-4.4%	-4.4%				24
CBQK	6.0%			6.0%		9
QNBK	8.3%			8.3%		8
DSM	7.5%					
RJHI	5.6%		5.6%			11
ADI	-0.7%					21
ALBI	17.2%		17.2%			2
TASI	8.6%					
ALINMA	16.9%		16.9%			3
RAKBANK	4.4%	4.4%				13
DHBK	-4.7%			-4.7%		25
FAB	3.7%	3.7%				14
COMI	0.0%				0.0%	19
CBI	0.0%	0.0%				20
EGX30	-0.8%					
BSFR	3.5%		3.5%			15
SNB	15.1%		15.1%			5
DFM	-0.3%					
ARNB	17.7%		17.7%			1
AJMANBANK	-3.9%	-3.9%				22
ENBD	-4.1%	-4.1%				23
RIBL	16.8%		16.8%			4
ADIB	0.1%	0.1%				18
DIB	1.1%	1.1%				17
ADCB	3.0%	3.0%				16
Average		1.0%	13.2%	5.8%	0.0%	

FABS from Bloomberg

4Q21 preview: Saudi National Bank

Higher Funded Income expected to increase profit

CMP (SAR): 73.90

Potential upside (%): +0.4%

12-m target price:

SAR 74.20

Stock rating:

HOLD

4Q21 Estimate

The Net Funded Income is expected to robustly increase by 43.9% YOY to SAR6,747 Mn in 4Q21, up from SAR4,689 Mn in 4Q20. It is likely to be driven by 43.7% YOY growth in Funded Income to SAR7,362 Mn in 4Q21, up from SAR5,123 Mn in 4Q20. The Funded Expense is expected to increase by 41.7% YOY to SAR615 Mn in 4Q21, up from SAR434 Mn in 4Q20. The Non-Funded Income is forecasted to increase by 9.2% YOY to SAR1,157 Mn in 4Q21, up from SAR1,060 Mn in 4Q20. It is likely to be driven by 33.2% YOY growth in Fees and Commissions to SAR541 Mn in 4Q21, up from SAR406 Mn in 4Q20. The Other Non-Funded Income is expected to decrease by 5.8% YOY to SAR616 Mn in 4Q21, down from SAR654 Mn in 4Q20. As a result, the Operating Income is expected to increase strongly by 37.5% YOY to SAR7,904 Mn in 4Q21, up from SAR5,749 Mn in 4Q20. We estimate the Operating expenses to increase by 62% YOY to SAR2,650 Mn in 4Q21, up from SAR1,636 Mn in 4Q20. Thus, the Cost to income ratio would rise by 508 bps to 33.5% in 4Q21, as compared to 28.4% in 4Q20. The Impairment charges are expected to increase by 91.3% YOY to SAR666 Mn in 4Q21, up from SAR348 Mn in 4Q20. The Profit Before Tax is expected to increase by 21.9% YOY to SAR4,588 Mn in 4Q21, up from SAR3,765 Mn in 4Q20. The Tax Expense is likely to increase by 72.3% YOY to SAR680 Mn in 4Q21, up from SAR395 Mn in 4Q20. The Profit After Tax is forecasted to increase by 15.9% YOY to SAR3,908 Mn in 4Q21, up from SAR3,371 Mn in 4Q20. The contribution from NCI is forecasted to increase by 18.4% YOY to SAR13 Mn in 4Q21, up from SAR11 Mn in 4Q20. As a result, the Net Profit is predicted to increase by 15.9% YOY to SAR3,895 Mn in 4Q21, up from SAR3,360 Mn in 4Q20.

2021 Forecast

The Net Funded Income is forecasted to increase by 1.9% YOY to SAR22,791 Mn in 2021, up from SAR22,359 Mn in 2020. It is likely to be driven by 32.5% YOY decline in Funded Expense to SAR3,057 Mn in 2021, down from SAR4,527 Mn in 2020. The Funded Income is forecasted to decline by 3.9% YOY to SAR25,849 Mn in 2021. The Non-Funded Income is expected to decline by 27.4% YOY to SAR6,187 Mn in 2021, down from SAR8,524 Mn in 2020. It is expected to be mainly driven by decline in Trading Income. The Fees and Commissions are expected to decline by 20.8% YOY to SAR2,782 Mn in 2021, down from SAR3,512 Mn in 2020. The Other Non-Funded Income is expected to decline by 28.5% YOY to SAR3,404 Mn in 2021, down from SAR4,763 Mn in 2020. As a result, the Operating Income is likely to decline by 6.2% YOY to SAR28,978 Mn in 2021, down from SAR30,883 Mn in 2020. The Operating Expenses are likely to slightly rise by 1% YOY to SAR9,702 Mn in 2021, up from SAR9,605 Mn in 2020. The Impairment charges are expected to increase by 21.7% YOY to SAR4,078 Mn in 2021, up from SAR3,351 Mn in 2020. As a result, the Net Profit is forecasted to decrease by 15.6% YOY to SAR13,206 Mn in 2021, down from SAR15,641 Mn in 2020.

3Q21 Outturn

The Net Funded Income increased robustly by 48.3% YOY to SAR6.082 Bn in 3Q21, up from SAR4.102 Bn in 3Q20. It was mainly driven by 43.7% YOY increase in Funded Income to SAR6.887 Bn in 3Q21, up from SAR4.792 Bn in 3Q20. The Funded Expenses increased by 16.6% YOY to SAR805 Mn in 3Q21, up from SAR690 Mn in 3Q20. However, the increase in Funded Income outweighed the increase in Funded Expense. The Fees and commissions increased robustly by 33.2% YOY to SAR801 Mn in 3Q21, up from SAR601 Mn in 3Q20. The Other Funded Income decreased by 1.9% YOY to SAR917 Mn in 3Q21, down from SAR934 Mn in 3Q20. As a result, the Non-Funded Income surged by 11.9% YOY to SAR1.718 Bn in 3Q21, up from SAR1.535 Bn in 3Q20. Thus, the Operating Income increased by 38.4% YOY to SAR7.8 Bn in 3Q21, up from SAR5.638 Bn in 3Q20. The Operating Expenses increased by 67.8% YOY to SAR2.751 Bn in 3Q21, up from SAR1.64 Bn in 3Q20. Therefore, the Cost to income ratio increased by 618 bps to 35.3% in 3Q21, as compared to 29.1% in 3Q20. Moreover,

the Impairments increased significantly by 91.3% YOY to SAR725 Mn in 3Q21, up from SAR379 Mn in 3Q20. While the Other operating expenses decreased by 72% YOY to SAR14 Mn in 3Q21, down from SAR50 Mn in 3Q20. As a result, the Profit Before Tax increased by 20.7% YOY to SAR4.31 Bn in 3Q21, up from SAR3.569 Bn in 3Q20. The Tax Expenses increased by 28.4% YOY to SAR487 Mn in 3Q21, up from SAR379 Mn in 3Q20. The Profit from Non-Controlling Interest increased by 18.4% YOY to SAR38 Mn in 3Q21, up from SAR32 Mn in 3Q20. The Net Advances increased by 49.5% YOY to SAR503.69 Bn in 3Q21, up from SAR336.86 Bn in 3Q20. The Total Assets increased by 56.4% YOY to SAR902.72 Bn in 3Q21, up from SAR577.08 Bn in 3Q20. The Customer Deposits increased by 44.2% YOY to SAR589.19 Bn in 3Q21, up from SAR408.47 Bn in 3Q20. The Total Equity increased significantly to SAR159.7 Bn in 3Q21, up from SAR75.9 Bn in 3Q20.

Target price and recommendation

We maintain our HOLD rating on Saudi National Bank with a revised target price of SAR74.20. Saudi National Bank reported a healthy increase in Operating Income that increased by 38.4% YOY to SAR7.8 Bn in 3Q21, up from SAR5.63 Bn in 3Q20. It was driven by strong growth in Net Funded Income by 48.3% YOY given the increase in Funded Income by 43.7% YOY to SAR6.89 Bn in 3Q21 up from SAR4.79 Bn in 3Q20 despite the increase in Funded Expenses by 16.6% reaching SAR805 Mn in 3Q21 up from SAR690 Mn in 3Q20. Non-Funded Income also increased by 11.9% YOY to SAR1.72 Bn in 3Q21 from SAR1.53 Bn in 3Q20 driven by the increase in Fees and Commissions by 33.2% to SAR801 Mn compared to SAR601 Mn in 3Q20 while Other Non-Funded Income decreased by 1.9% to SAR917 Mn down from SAR934 Mn in 3Q20. Impairment almost doubled in 3Q21 increasing by 91.3% to SAR725 Mn from SAR379Mn in 3Q20. The Net Income increased by 19.9% YOY to SAR3.78 Bn in 3Q21, up from SAR3.16 Bn in 3Q20. Non-Performing Loans decreased slightly to 1.6% in 3Q21 compared to 1.8% in 3Q20. The ADR increased in 3Q21 to 85.5% compared to 82.5% in 3Q20 driven by the significant increase in Advances by 49.5% in 3Q21 to SAR503.69 Bn up from SAR336.86 Bn in 3Q20 and the increase in Deposits by 44.2% to SAR589.19 Bn in 3Q21 up from SAR408.47 Bn in 3Q20. Net Interest Margin (NIM) decreased to 3% in 3Q21 compared to 3.2% in 3Q20, while Net Interest Spread (NIS) reached 2.9% in 3Q21 down from 3.1% in 3Q20. Capital Adequacy Ratio (CAR) maintained its 19.1% level compared to last year same period but decreased compared to 20.3% at year end 2020 while Common Equity Tier 1 ratio increased to 18.2% compared to 18.1% in 3Q20 but down from 19.3% as at the end of 2020. Total Assets witnessed a significant increase in 3Q21 to SAR902.72 Bn from SAR577.08 Bn in 3Q20 with ROA decreased slightly to 0.4% in 3Q21 down from 0.5% 3Q20. ROE decreased significantly to 2.4% down from 4.2% in 3Q20 given the tremendous increase in Equity to SAR159.7 Bn in 3Q21 from SAR75.9 Bn in 3Q20. 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 - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	34.2	23.4	19.6	19.6	32.0
P/B (x)	3.8	3.7	3.5	3.1	2.0
Dividend yield	2.4%	2.9%	3.2%	1.1%	0.9%

FABS estimate and Co data

SNB - P&L

	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
SAR mm								
Funded income	5,123	6,887	7,362	43.7%	6.9%	26,886	25,849	-3.9%
Funded expense	-434	-805	-615	41.7%	-23.6%	-4,527	-3,057	-32.5%
Net funded income	4,689	6,082	6,747	43.9%	10.9%	22,359	22,791	1.9%
Fees and commissions	406	801	541	33.2%	-32.4%	3,512	2,782	-20.8%
Trading gain/(loss)	0	0	0	NA	NA	249	0	NM
Other non-funded income	654	917	616	-5.8%	-32.8%	4,763	3,404	-28.5%
Non-funded income	1,060	1,718	1,157	9.2%	-32.6%	8,524	6,187	-27.4%
Operating income	5,749	7,800	7,904	37.5%	1.3%	30,883	28,978	-6.2%
Operating expenses	-1,636	-2,751	-2,650	62.0%	-3.7%	-9,605	-9,702	1.0%
Pre-provision profit	4,114	5,049	5,254	27.7%	4.1%	21,278	19,276	-9.4%
Impairment	-348	-725	-666	91.3%	-8.1%	-3,351	-4,078	21.7%
Other non-operating income/expense	-0.4	-14	-0.1	-72.0%	-99.2%	-77	-68	-10.8%
PBT	3,765	4,310	4,588	21.9%	6.5%	17,850	15,129	-15.2%
Tax	-395	-487	-680	72.3%	39.7%	-2,086	-1,833	-12.1%
Profit after tax	3,371	3,823	3,908	15.9%	2.2%	15,764	13,296	-15.7%
Non-controlling int.	-11	-38	-13	18.4%	-65.5%	-123	-90	-26.8%
Net profit attributable	3,360	3,785	3,895	15.9%	2.9%	15,641	13,206	-15.6%

FABS estimate & Co Data
SNB - KPI

%	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	81.6%	78.0%	85.4%	380	738	72.4%	78.7%	625
NIM	4.3%	3.0%	3.2%	-109	25	4.3%	3.2%	-109
NIS	4.2%	2.9%	3.2%	-104	25	4.2%	3.2%	-104
Fees & comms/OI	7.1%	10.3%	6.8%	-22	-342	11.37%	9.60%	-177
Cost to income	28.4%	35.3%	33.5%	508	-174	31.1%	33.5%	238
Impairment/PPP	8.5%	14.4%	12.7%	421	-168	15.7%	21.2%	541
NP/OI	58.4%	48.5%	49.3%	-916	75	50.6%	45.6%	-507
ROE	4.2%	2.4%	2.4%	-182	4	19.7%	8.2%	-1151
ROA	0.6%	0.4%	0.4%	-15	0	2.6%	1.4%	-120

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

	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
SAR Mn						
Net advances	346,708	356,720	503,157	503,696	528,881	52.5%
QOQ change	2.9%	2.9%	41.1%	0.1%	5.0%	
Total assets	599,446	599,570	896,421	902,720	938,785	56.6%
QOQ change	3.9%	0.0%	49.5%	0.7%	4.0%	
Customer deposits	416,419	419,430	588,135	589,190	618,650	48.6%
QOQ change	1.9%	0.7%	40.2%	0.2%	5.0%	
Total equity	79,410	83,460	159,495	159,706	161,281	NM
QOQ change	4.6%	5.1%	91.1%	0.1%	1.0%	

FABS estimate & Co Data

4Q21 preview: Banque Saudi Fransi

Lower Impairments would support profitability

CMP (SAR): 48.40

Potential upside (%): -15.3%

12-m target price:

SAR 41.00

Stock rating:

REDUCE

4Q21 Estimate

The Net Funded Income is expected to increase by 14.7% YOY to SAR1,470 Mn in 4Q21, up from SAR1,281 Mn in 4Q20. It is likely to be driven by 12.9% YOY rise in Funded Income to SAR1,609 Mn in 4Q21, up from SAR1,425 Mn in 4Q20. The Funded Expense is likely to decline by 3% YOY to SAR139 Mn in 4Q21, down from SAR143 Mn in 4Q20. The Non-Funded Income is expected to decline by 10.1% YOY to SAR446 Mn in 4Q21, up from SAR496 Mn in 4Q20. It is expected to be driven by 56.2% YOY decline in Trading Income to SAR27 Mn in 4Q21, down from SAR61 Mn in 4Q20. We expect Fees and Commissions to decrease by 7.4% YOY to SAR300 Mn in 4Q21, down from SAR324 Mn in 4Q20. The Other Non-Funded Income would increase by 7.5% YOY to SAR118 Mn in 4Q21, up from SAR110 Mn in 4Q20. As a result, the Operating Income is expected to increase by 7.8% YOY to SAR1,915 Mn in 4Q21, up from SAR1,777 Mn in 4Q20. The Operating Expenses are expected to decline by 2.3% YOY to SAR656 Mn in 4Q21, up from SAR672 Mn in 4Q20. Thus, the Cost to income ratio would decline by 355 bps to 34.3% in 4Q21, as compared to 37.8% in 4Q20. The Impairment charges are expected to strongly decrease by 66.1% YOY to SAR295 Mn in 4Q21, down from SAR872 Mn in 4Q20. The Profit Before Tax is likely to increase significantly to SAR964 Mn in 4Q21, up from SAR233 Mn in 4Q20. Tax expense is likely to drop by 7.6% YOY to SAR129 Mn in 4Q21, down from SAR139 Mn in 4Q20. As a result, the Net Profit is expected to strongly increase to SAR835 Mn in 4Q21, up from SAR94 Mn in 4Q20.

2021 Forecast

The Net Funded Income is expected to increase by 5.2% YOY to SAR5,511 Mn in 2021, up from SAR5,240 Mn in 2020. It is expected to be driven by 51.5% YOY decline in Funded Expense to SAR506 Mn in 2021, down from SAR1,044 Mn in 2020. The Funded Income is expected to decline by 4.3% YOY to SAR6,017 Mn in 2021, down from SAR6,285 Mn in 2020. The Non-Funded Income is expected to increase by 3.5% YOY to SAR1,867 Mn in 2021, up from SAR1,804 Mn in 2020. Resultantly, the Operating Income would increase by 4.7% YOY to SAR7,378 Mn in 2021, up from SAR7,045 Mn in 2020. The Operating Expenses are expected to increase by 5% YOY to SAR2,483 Mn in 2021, up from SAR2,364 Mn in 2020. Therefore, the Cost to income ratio would slightly rise to 33.7% in 2021 from 33.6% in 2020. The Impairment charges are expected to decline by 56.8% YOY to SAR1,153 Mn in 2021, down from SAR2,670 Mn in 2020. The Tax charges are expected to decrease by 2.9% YOY to SAR451 Mn in 2021. As a result, the Net Profit is expected to increase significantly to SAR3,292 Mn in 2021, up from SAR1,546 Mn in 2020.

3Q21 Outturn

Funded Income has decreased by 1.7% YOY to SAR1.542 Bn in 3Q21, down from SAR1.569 Bn in 3Q20. Funded Expense decreased by 38.8% YOY to SAR119 Mn in 3Q21, down from SAR194 Mn in 3Q20. Therefore, the Net Funded Income increased by 3.5% YOY reaching SAR1.424 Bn in 3Q21 from SAR1.375 Bn in 3Q20. Fees and Commissions increased by 18.1% YOY to SAR295 Mn in 3Q21, up from SAR250 Mn in 3Q20. Whereas, the Trading Income has significantly increased from SAR26 Mn in 3Q20 to SAR84 Mn in 3Q21. Moreover, the Other non-funded income increased by 11.4% YOY to SAR112 Mn in 3Q21 compared to SAR100 Mn in 3Q20. As a result, the Non-Funded Income increased by 30.5% YOY to SAR490 Mn in 3Q21, up from SAR376 Mn in 3Q20. Thus, the Operating Income increased by 9.3% YOY to SAR1.914 Bn in 3Q21 from SAR1.751 Bn in 3Q20. Similarly, the Operating Expenses have increased by 5.5% YOY to SAR608 Mn in 3Q21, up from SAR576 Mn in 3Q20. Consequently, the Cost to income ratio dropped by 114 bps to 31.8% in 3Q21, down from 32.9% in 3Q20. Furthermore, the Impairment charges decreased tremendously by 61.5% YOY to SAR289 Mn in 3Q21, as compared to SAR751 Mn in 3Q20, supporting the profitability. Tax increased by 21.3% YOY to SAR110 Mn in 3Q21 from SAR90 Mn in 3Q20. Net Advances have increased by

7.5% YOY to SAR144.39 Bn in 3Q21 from SAR134.35 Bn in 3Q20. Customer Deposits increased by 5.7% YOY to SAR143.32 Bn in 3Q21, up from SAR135.65 Bn in 3Q20. Similarly, the Total assets increased by 8% YOY to SAR213.33 Bn in 3Q21 compared to SAR197.44 Bn in 3Q20. Total Equity rose majorly by 16.5% YOY to SAR39.24 Bn in 3Q21, up from SAR33.68 Bn in 3Q20. While the Total Liabilities increased by 6.3% YOY to SAR174.09 Bn in 3Q21, up from SAR163.76 Bn in 3Q20.

Target price and recommendation

We maintain our REDUCE rating on Banque Saudi Fransi with a revised target price of AED41.00. Banque Saudi Fransi is a leading Group in the Kingdom of Saudi Arabia and strategizes in local markets. The Operating Income increased by 9.3% YOY to SAR1.91 Bn in 3Q21, up from SAR1.75 Bn in 3Q20. It was driven by Net Fee and Commission Income growth by 18.1% YOY to SAR295 Mn in 3Q21, up from SAR250 Mn in 3Q20. The Net Funded Income grew by 3.5% YOY to SAR1.42 Bn in 3Q21, up from SAR1.37 Bn in 3Q20 further supporting the Operating Income. The Bank witnessed a significant increase in Trading Gain to SAR84 Mn up from SAR26 Mn in 3Q20 and Other Operating Income increased by 11.4% YOY to SAR112 Mn in 3Q21 up from SAR100 Mn in 3Q20. The Operating Expenses increased by 5.5% YOY to SAR608 Mn in 3Q21, up from SAR576 Mn in 3Q20. It was mainly driven by increase in Administrative Expenses. The Impairment Charges witnessed a significant drop of 61.5% YOY to SAR289 Mn in 3Q21, down from SAR751 Mn in 3Q20. As a result, the Net Profit increased robustly YOY to SAR907 Mn in 3Q21, up from SAR333 Mn in 3Q20. The Bank's Net Advances increased by 7.5% YOY to SAR144.39 Bn in 3Q21, up from SAR134.35 Bn in 3Q20. The Non-Performing Loans (NPL) ratio decreased to 2.54% in 3Q21 down from 2.72% in 3Q20. The Customer Deposits increased 5.7% YOY to SAR143.32 Bn in 3Q21, up from SAR135.65 Bn in 3Q20. It is worth noting that the ADR increased to 100.75% in 3Q21 up from 99.04% in 3Q20. The Total Assets increased by 8% YOY to SAR213.33 Bn in 3Q21, up from SAR197.44 Bn in 3Q20. The Corporate banking segment comprises of 51.95% of the Total Assets of the banking Group, followed by Treasury, Retail Banking, and Investment banking & brokerage. The Capital Adequacy Ratio (CAR) improved to 20.95% in 3Q21, up from 17.93% in 3Q20. The Tier I ratio improves by 19.81% in 3Q21, up from 17.19% in 3Q20. It was mainly due to increase in Risk-Weighted Assets and Total Tier I & Tier II Capital in 3Q21. 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 REDUCE on this stock.

BSFR Bank – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	16.7	41.9	18.8	39.5	25.5
P/B (x)	1.9	1.9	1.8	1.7	1.5
Dividend yield	2.9%	3.5%	4.1%	0.8%	1.3%

FABS estimate & Co Data

BSFR - P&L

SAR mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	1,425	1,542	1,609	12.9%	4.3%	6,285	6,017	-4.3%
Funded expense	143	119	139	-3.0%	17.2%	1,044	506	-51.5%
Net funded income	1,281	1,424	1,470	14.7%	3.2%	5,240	5,511	5.2%
Fees and commissions	324	295	300	-7.4%	1.9%	1,082	1,227	13.4%
Trading gain/(loss)	61	84	27	-56.2%	-67.9%	168	211	25.4%
Other non-funded income	110	112	118	7.5%	5.8%	555	430	-22.4%
Non-funded income	496	490	446	-10.1%	-9.1%	1,804	1,867	3.5%
Operating income	1,777	1,914	1,915	7.8%	0.1%	7,045	7,378	4.7%
Operating expenses	672	608	656	-2.3%	7.9%	2,364	2,483	5.0%
Pre-provision profit	1,105	1,306	1,259	13.9%	-3.6%	4,681	4,895	4.6%
Impairment	872	289	295	-66.1%	2.1%	2,670	1,153	-56.8%
PBT	233	1,017	964	NM	-5.2%	2,010	3,742	86.2%
Tax	139	110	129	-7.6%	17.5%	464	451	-2.9%
Net profit attributable	94	907	835	NM	-8.0%	1,546	3,292	NM

FABS estimate & Co Data

BSFR - KPI

SAR mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	72.1%	74.4%	76.7%	463	236	74.4%	74.7%	30
NIM	3.0%	2.9%	2.9%	-14	-3	3.1%	2.9%	-25
NIS	2.9%	2.8%	2.8%	-12	-3	3.0%	2.8%	-21
Fees & comms/OI	18.3%	15.4%	15.7%	-257	28	15.4%	16.6%	127
Trading/OI	3.5%	4.4%	1.4%	-205	-297	2.4%	2.9%	47
Cost to income	37.8%	31.8%	34.3%	-355	249	33.6%	33.7%	9
Impairment/PPP	78.9%	22.1%	23.5%	-5545	131	57.1%	23.6%	-3349
NP/OI	5.3%	47.4%	43.6%	3832	-380	21.9%	44.6%	2266
ROAE	4.6%	7.0%	8.9%	420	186	4.3%	8.4%	404
ROAA	0.8%	1.3%	1.6%	80	34	0.8%	1.6%	72

FABS estimate & Co Data

BSFR - BS Key items

SAR mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	130,565	134,105	141,807	144,393	153,344	17.4%
QOQ Change	-2.8%	2.7%	5.7%	1.8%	6.2%	
Total Assets	194,074	202,233	211,310	213,335	229,443	18.2%
QOQ Change	-1.7%	4.2%	4.5%	1.0%	7.6%	
Customer deposits	127,112	132,987	140,805	143,322	155,223	22.1%
QOQ Change	-6.3%	4.6%	5.9%	1.8%	8.3%	
Total Equity	38,636	39,198	39,259	39,242	40,101	3.8%
QOQ Change	14.7%	1.5%	0.2%	-0.04%	2.2%	

FABS estimate & Co Data

4Q21 preview: Riyadh Bank

Expected Decline in Impairments to support Net Profit

CMP (SAR): 32.20

Potential upside (%): -4.3%

12-m target price:

SAR 30.80

Stock rating:

HOLD

4Q21 Estimate

The Net Funded Income is expected to increase by 9.5% YOY to SAR2,228 Mn in 4Q21, up from SAR2,036 Mn in 4Q20. It is expected to be driven by 15.8% YOY decline in Funded Expense to SAR218 Mn in 4Q21, down from SAR259 Mn in 4Q20. The Funded Income is expected to increase by 6.6% YOY to SAR2,446 Mn in 4Q21, as compared to SAR2,294 Mn in 4Q20. The Non-Funded Income is expected to increase by 22.6% YOY to SAR924 Mn in 4Q21, up from SAR754 Mn in 4Q20. It is likely to be driven by a strong increase in Trading gain to SAR82 Mn in 3Q21, up from a nil in 4Q20. We estimate the Fees and commissions to increase by 30.4% YOY to SAR570 Mn in 4Q21. The Other Non-Funded Income is expected to decrease by 14.2% YOY to SAR272 Mn in 4Q21, down from SAR317 Mn in 4Q20. As a result, the Operating Income is expected to increase by 13% YOY to SAR3,152 Mn in 4Q21, up from SAR2,790 Mn in 4Q20. The Operating Expenses are expected to increase by 10% YOY to SAR1,054 Mn in 4Q21, up from SAR958 Mn in 4Q20. Resultantly, the Cost to income ratio would drop by 91 bps to 33.4% in 4Q21, compared to 34.3% in 4Q20. The Impairment charges are likely to strongly decrease by 61.4% YOY to SAR263 Mn in 4Q21, down from SAR681 Mn in 4Q20. As a result, the Net Profit is expected to significantly increase by 83% YOY to SAR1,610 Mn in 4Q21, up from SAR880 Mn in 4Q20.

2021 Forecast

The Net Funded Income is expected to increase by 2.9% YOY to SAR8,452 Mn in 2021, up from SAR8,214 Mn in 2020. It is expected to be driven by 50.2% YOY decline in Funded Expenses to SAR797 Mn in 2021, down from SAR1,600 Mn in 2020. The Funded Income is likely to decline by 5.8% YOY to SAR9,248 Mn in 2021, down from SAR9,813 Mn in 2020. The Non-Funded Income is likely to increase by 10.9% YOY to SAR3,319 Mn in 2021, up from SAR2,992 Mn in 2020. The Fees and Commissions is expected to increase by 10.9% YOY to SAR2,078 Mn in 2021, up from SAR1,874 Mn in 2020. The Trading gain is likely to increase by 23.5% YOY to SAR270 Mn in 2021, up from SAR218 Mn in 2020. The Other Non-Funded Income is likely to increase by 8% YOY to SAR971 Mn in 2021, up from SAR900 Mn in 2020. As a result, the Operating Income is expected to increase by 5% YOY to SAR11,771 Mn in 2021, up from SAR11,205 Mn in 2020. The Operating expenses are expected to increase by 11.6% YOY to SAR4,056 Mn in 2021, up from SAR3,635 Mn in 2020. The Impairment charges are expected to decrease by 58.1% YOY to SAR882 Mn in 2021, down from SAR2,106 Mn in 2020. As a result, the Net Profit is expected to increase by 27.6% YOY to SAR6,018 Mn in 2021, up from SAR4,715 Mn in 2020.

3Q21 Outturn

Riyad's Funded income has decreased by 8.5% YOY to SAR2,175 Mn in 3Q21, down from SAR2,376 Mn in 3Q20. Funded expense declined by 36.3% YOY to SAR194 Mn in 3Q21. Resultantly, the Net funded income has decreased by 4.4% YOY to SAR1,982 Mn, as compared to SAR2,073 Mn in 3Q20. While the Fees and commission income has dropped by 1% YOY to SAR537 Mn in 3Q21 from SAR542 Mn in 3Q20. Trading income strongly increased by 91.5% YOY to SAR78 Mn in 3Q21, up from SAR41 Mn in 3Q20. Similarly, the Other Non-funded income increased by 32.9% YOY to SAR20 Mn from SAR166 Mn in 3Q20. As a result, the Non-funded income has shown a growth by 11.6% YOY to SAR835 Mn in 3Q21. Therefore, the Operating income marginally decreased to SAR2,817 Mn in 3Q21, as compared to SAR2,821 Mn in 3Q20. Operating expenses have increased by 13.3% YOY to SAR1,008 Mn in 3Q21, up from SAR890 Mn in 3Q20. Thus, the Cost to income ratio increased by 425 Bps to 35.8% from 31.5% in 3Q20. Moreover, the Impairment charges significantly dropped by 85.4% YOY to SAR69 Mn in 3Q21, as compared to SAR471 Mn in 3Q20, supporting the increase in the Net profit. Net advances increased by 10.3% YOY to SAR210.48 Bn in 3Q21, up from SAR190.82

Bn in 3Q20. Whereas the Customer deposits climbed by 1.3% YOY to SAR203.99 Bn in 3Q21 from SAR201.29 Bn in 3Q20. Total assets have increased by 3.3% YOY to SAR318.65 Bn in 3Q21, and the Equity climbed by 8% YOY to SAR46.05 Bn in 3Q21, as compared to SAR42.65 Bn in 3Q20.

Target price and recommendation

We maintain our HOLD rating on Riyadh Bank with a revised target price of SAR30.80. Riyadh Bank is the third largest bank in Saudi Arabia with 341 branches, 2,285 ATMs and more than 118,765 POS. The bank is working on a new phase of transformation throughout 2025 focusing on value growth and innovation by penetrating new and existing fields by launching new products and services and improve the bank's customer experience, more efficient digitalized operations by improving the productivity, including front to back digitalization and a next-generation model transforming the core technology infrastructure and the operating model itself. During 9M21, the bank reported a 14.9% YOY increase to SAR4.41 Bn up from SAR3.84 Bn in 9M20. Net Operating Income, on the other hand, decreased to SAR5.61 Bn in 9M21 from SAR5.74 Bn in 9M20, a decrease by 2.1% YOY. Impairment charges decreased in 9M21 to SAR619 Mn from SAR1,425 Mn in 9M20 while Zakat reached SAR557 Mn in 9M21 from SAR492 Mn in 9M20, an increase by 13.2% YOY. As a result, the Cost to Income ratio has increased to 34.8% in 9M21 from 31.8% in 9M20. The bank has recovered from COVID-19 global pandemic effects and recorded a strong growth in its balance sheet with Total Assets increasing by 3.3% YOY reaching SAR318.65 Bn in 3Q21 from SAR308.55 Bn in 3Q20, while Loans and Advances recorded an increase by 10.3% YOY to SAR210.48 Bn in 3Q21 from SAR190.82 Bn in 3Q20. Besides, Customer Deposits increased by 1.3% YOY to SAR203.99 Bn in 3Q21 from SAR201.29 Bn in 3Q20. The increase led the Loans to Deposits ratio (LDR) to increase to 103.2% in 3Q21 up from 94.8% in 3Q20. The Bank's NPL ratio stood at 1.58%, decreasing from 1.86% as at end of year 2020 and NPL coverage ratio stood at 126.27% improving from 124.15% as at end of year 2020. The Risk-Weighted Assets have increased by 8.24% to SAR287 Bn in 3Q21 as compared to SAR265 Bn in 3Q20 and the Common Equity Tier 1 capital ratio recorded 16% in 3Q21 almost stable compared to 16.1% in 3Q20. As a result, the Bank's Capital Adequacy Ratio (CAR) remained strong at 19.3% in 3Q21 increasing from 18.5% in 3Q20. As for the Net Stable Funding ratio (NSFR) and Liquidity Coverage ratio (LCR), they stood at 125% and 168% in 3Q21, respectively, reflecting strong funding and liquidity. Finally, Riyadh bank's Board of Directors recommend the distribution of 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)	23.4	30.0	16.6	19.7	21.1
P/B (x)	2.4	2.5	2.3	2.1	2.0
Dividend yield	2.4%	2.5%	3.5%	1.6%	1.6%

FABS Estimates & Co Data

Riyad Bank - P&L

SAR mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	2,294	2175	2446	6.6%	12.5%	9,813	9,248	-5.8%
Funded expense	-259	-194	-218	-15.8%	12.5%	-1,600	-797	-50.2%
Net funded income	2,036	1,982	2,228	9.5%	12.4%	8,214	8,452	2.9%
Fees and comm.	437	537	570	30.4%	6.2%	1,874	2,078	10.9%
Trading gain/(loss)	0	78	82	NM	5.5%	218	270	23.5%
Oth. non-funded inc.	317	220	272	-14.2%	23.4%	900	971	8.0%
Total Non-funded income	754	835	924	22.6%	10.7%	2,992	3,319	10.9%
Operating income	2,790	2,817	3,152	13.0%	11.9%	11,205	11,771	5.0%
Operating expenses	-958	-1,008	-1,054	10.0%	4.6%	-3,635	-4,056	11.6%
Pre-provision profit	1,831	1,808	2,098	14.6%	16.0%	7,571	7,715	1.9%
Impairment	-681	-69	-263	-61.4%	NM	-2,106	-882	-58.1%
Share in assoc.	6	-13	-7	NM	-45.5%	19	-40	NM
PBT	1,157	1,727	1,828	58.1%	5.9%	5,484	6,793	23.9%
Tax	-277	-184	-219	-21.1%	18.8%	-769	-776	0.9%
Net profit attributable	880	1,543	1,610	83.0%	4.3%	4,715	6,018	27.6%

FABS estimate & Co Data

Riyad Bank - KPI

SAR mm	4Q20	3Q21	4Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	73.0%	70.4%	70.7%	-229	33	73.3%	71.8%	-150
NIM	3.2%	3.1%	3.1%	-13	-2	3.3%	3.0%	-27
NIS	3.2%	3.1%	3.1%	-9	-2	3.3%	3.0%	-25
Fees & comms/OI	15.7%	19.1%	18.1%	241	-97	16.7%	17.7%	93
Trading/OI	0.0%	2.8%	2.6%	261	-16	1.9%	2.3%	34
Cost to income	34.3%	35.8%	33.4%	-91	-235	32.4%	34.5%	202
Impairment/PPP	37.2%	3.8%	12.5%	-2,466	873	27.8%	11.4%	-1,639
NP/OI	31.5%	54.8%	51.1%	1,953	-371	42.1%	51.1%	904
ROAE	11.8%	12.4%	13.9%	214	155	11.1%	13.5%	242
ROAA	1.7%	1.8%	2.0%	22	20	1.6%	1.9%	25

FABS estimate & Co Data

Riyad Bank - BS Key items

SAR mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	191,347	196,443	204,743	210,482	212,993	11.3%
QOQ change	0.3%	2.7%	4.2%	2.8%	1.2%	
Total assets	310,088	308,036	317,266	318,657	326,052	5.1%
QOQ change	0.5%	-0.7%	3.0%	0.4%	2.3%	
Customer deposits	203,039	198,598	202,453	203,996	207,617	2.3%
QOQ change	0.9%	-2.2%	1.9%	0.8%	1.8%	
Total equity	44,355	44,228	44,551	46,050	44,651	0.7%
QOQ change	4.0%	-0.3%	0.7%	3.4%	-3.0%	

FABS estimate & Co Data

4Q21 preview: Arab National Bank

Lower Impairment charges expected to increase Profit

CMP (SAR): 26.80

Potential upside (%): -13.4%

12-m target price:

SAR 23.20

Stock rating:

REDUCE

4Q21 Estimate

Arab National Bank (ARNB) is estimated to report an increase by 9.3% YOY in Net funded income to SAR1,277 Mn in 4Q21 compared to SAR1,168 Mn in 4Q20, this is mainly due to the decrease by 15.1% YOY in Funded Expense to SAR134 Mn in 4Q21, down from 158 Mn in 4Q20. Funded Income is expected to rise by 6.4% YOY to SAR1,412 Mn in 4Q21 from SAR1,326 Mn in 4Q20. Total Non-funded income is likely to increase by 5.9% YOY to SAR247 Mn in 4Q21, up from SAR233 Mn in 4Q20, mainly driven by an expected increase by 6.1% YOY in Fees and commissions income to SAR130 Mn in 4Q21, up from SAR122 Mn in 4Q20. Therefore, the Operating Income is expected to rise by 8.8% YOY to SAR1,524 Mn in 4Q21, up from SAR1,401 Mn in 4Q20. Operating Expenses are projected to increase by 19.7% YOY to SAR560 Mn in 4Q21 from SAR468 Mn in 4Q20. Thus, the Cost to income ratio would increase by 335 bps to 36.7% in 4Q21, compared to 33.4% in 4Q20. Impairment charges are estimated to significantly decrease by 66.3% YOY to SAR180 Mn in 4Q21 from SAR535 Mn in 4Q20. As a result, the Net profit is likely to strongly increase to SAR704 Mn in 4Q21, up from SAR274 Mn in 4Q20.

2021 Forecast

We expect ARNB to report a slight decrease by 0.6% YOY in Net funded income to SAR4,840 Mn in 2021 compared to SAR4,869 Mn in 2020, led by an expected decline in Funded Income by 11.6% YOY to SAR5,296 Mn in 2021, down from SAR5,992 Mn in 2020. Fees and Commissions are also expected to fall by 7.8% YOY to SAR507 Mn in 2021 from SAR550 Mn in 2020. Trading Income is expected to increase significantly YOY to SAR12 Mn in 2021 from SAR5 Mn in 2020. Other non-funded income would increase by 45.4% YOY to SAR582 Mn in 2021, up from SAR400 Mn in 2020. Thus, the Total Non-Funded Income would rise by 15.3% YOY to SAR1,101 Mn in 2021 compared to SAR956 Mn in 2020. Therefore, the Operating income is expected to increase by 2% YOY to SAR5,941 Mn in 2021, as compared to SAR5,824 Mn in 2020. Operating Expenses are expected to increase by 6.5% YOY to SAR2,180 Mn in 2021 from SAR2,047 Mn in 2020. Thus, the Cost-to-Income ratio is expected to increase by 155 bps to 36.7% from 35.1% in 2020. Impairment charges are estimated to decrease by 21.3% YOY to SAR1,000 Mn in 2021 down from SAR1,271 Mn in 2020.

3Q21 Outturn

Funded Income has decreased by 1.6% YOY to SAR1.38 Bn in 3Q21, as compared to SAR1.40 Bn in 3Q20. Whereas, the Funded Expenses has decreased significantly by 32.6% YOY to SAR131 Mn in 3Q21 down from SAR195 Mn in 3Q20. Resultantly, the Net Funded Income increased by 3.4% YOY to SAR1.25 Bn in 3Q21 from SAR1.21 Bn in 3Q20. Fees and Commissions have decreased by 17.9% YOY to SAR126 Mn in 3Q21 from SAR154 Mn in 3Q20 while Other Non-Funded Income increased slightly to SAR99 from SAR98, an increase by 1.8% YOY. As a result, the Non-Funded Income declined by 10.4% YOY to SAR227 Mn in 3Q21 from SAR253 Mn in 3Q20. Therefore, the Operating Income insignificantly increased by 1.1% YOY to SAR1.47 Bn in 3Q21 up from SAR1.46 Bn in 3Q20. ANB's Operating Expenses have increased by 8.9% YOY to SAR551 Mn in 3Q21 up from SAR506 Mn in 3Q20. Thus, the Cost/Income "C/I" ratio increased by 269 Bps to 37.2% from 34.5% in 3Q20. Impairment has decreased by 4.2% YOY to SAR188 Mn in 3Q21 compared to SAR196 Mn in 3Q20. As a result of all the above, Net Income decreased by 0.5% YOY to SAR665 Mn in 3Q21 down from SAR669 Mn in 3Q20. Net Advances increased by 1.7% YOY to SAR120.01 Bn in 3Q21 from SAR118.05 Bn in 3Q20. While the Customer Deposits has dropped by 5.4% YOY to SAR129.39 Bn in 3Q21 from SAR136.72 Bn in 3Q20. Therefore, the ADR ratio has increased by 301 Bps to 92.8% in 3Q21 from 86.3% in 3Q20. Total Assets decreased by 3.3% YOY to SAR182.27 Bn in 3Q21 down from SAR188.52

Bn in 3Q20, while the Equity climbed by 4.8% YOY to SAR30.74 Bn in 3Q21 from SAR29.33 Bn in 3Q20.

Target price and recommendation

We revised our rating to REDUCE with a 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 0.5% YOY to SAR665 Mn in 3Q21 down from SAR669 Mn in 3Q20 mainly due to a decrease in Non-Funded Income by 10.4% YOY to SAR227 Mn in 3Q21 compared to SAR253 Mn in 3Q20. ANB's Capital Adequacy Ratio (CAR) increased to 22.3% in 3Q21 compared to 20.27% in 3Q20 while Tier 1 ratio increased to 19.8% in 3Q21 up from 18.4% in 3Q20 showing that the group is maintaining an actively managed capital base to mitigate the business risks and is able to meet its financial obligations. Total Assets decreased by 3.3% YOY to SAR182.27 Bn in 3Q21 down from SAR188.52 Bn in 3Q20 with financing and advances increasing slightly by 1.7% YOY to SAR120.01 Bn in 3Q21 from SAR118.05 Bn in 3Q20. Total Liabilities decreased as well by 4.8% YOY to SAR151.50 Bn in 3Q21 compared to SAR159.15 Bn in 3Q20 with Deposits decreasing by 5.4% YOY to SAR129.39 Bn in 3Q21 from SAR136.72 Bn in 3Q20. The slight increase in Advances and the decrease in Deposits have increased the Advances to Deposits Ratio (ADR) to 92.8% in 3Q21 up from 86.3% same period last year. Total Equity increased by 4.8% YOY to SAR30.74 Bn in 3Q21 from SAR29.33 Bn in 3Q20. Non-Performing Loans (NPL) stood at 2.56% of Total Advances in 3Q21 compared to 3.04% in 3Q20. The Provision Coverage ratio (PCR) stood at 123.1% in 3Q21 up from 104.17% in 3Q20, that means provisions have been made higher than the extent of the rise in bad loans. Net Interest Margin (NIM) and Net Interest Spread (NIS) have both decreased to 2.9% in 3Q21 down from 3.1% and 3% respectively in 3Q20. The Board has approved a cash dividend for SAR505 Mn at the end of 3Q21 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)	13.1	15.0	13.1	19.2	23.0
P/B (x)	1.6	1.5	1.4	1.3	1.3
Dividend yield	3.0%	3.8%	3.8%	1.5%	1.5%

FABS Estimates & Co Data

ARNB- P&L

	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
SAR mm								
Funded income	1,326	1,384	1,412	6.4%	2.0%	5,992	5,296	-11.6%
Funded expense	-158	-131	-134	-15.1%	2.0%	-1,123	-457	-59.3%
Net funded income	1,168	1,252	1,277	9.3%	2.0%	4,869	4,840	-0.6%
Fees and commissions	122	126	130	6.1%	2.5%	550	507	-7.8%
Trading gain/(loss)	0	1	2	NM	NM	5	12	NM
Other non-funded income	110	99	115	4.2%	15.7%	400	582	45.4%
Non-funded income	233	227	247	5.9%	8.7%	956	1,101	15.3%
Operating income	1,401	1,479	1,524	8.8%	3.0%	5,824	5,941	2.0%
Operating expenses	-468	-551	-560	19.7%	1.7%	-2,047	-2,180	6.5%
Pre-provision profit	933	928	964	3.3%	3.8%	3,778	3,761	-0.4%
Impairment	-535	-188	-180	-66.3%	-4.0%	-1,271	-1,000	-21.3%
Share of results of associates	22	24	24	6.9%	0.0%	65	96	48.2%
PBT	421	764	808	92.0%	5.7%	2,572	2,858	11.1%
Tax	-148	-100	-105	-29.0%	5.0%	-503	-439	-12.7%
Profit after tax	273	665	703	NM	5.8%	2,069	2,418	16.9%
Non-controlling int.	1	1	1	0.0%	-6.6%	3	6	69.5%
Net profit attributable	274	665	704	NM	5.8%	2,072	2,424	17.0%

FABS estimate & Co Data

ARNB - KPI

	4Q20	3Q21	4Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
P&L KPI								
Net FI/OI	83.4%	84.7%	83.8%	43	-85	83.6%	81.5%	-213
NIM	3.0%	2.9%	2.9%	-8	2	3.1%	2.9%	-19
NIS	2.9%	2.9%	2.9%	-4	2	3.0%	2.8%	-14
Fees & comms/OI	8.7%	8.5%	8.5%	-21	-4	9.4%	8.5%	-91
Trading/OI	0.0%	0.1%	0.1%	11	7	0.1%	0.2%	11
Cost to income	33.4%	37.2%	36.7%	335	-49	35.1%	36.7%	155
Impairment/PPP	57.3%	20.2%	18.7%	-3,861	-153	33.6%	26.6%	-706
NP/OI	19.5%	45.0%	46.2%	2,662	119	35.6%	40.8%	522
ROAE	0.9%	2.2%	2.4%	142	15	7.1%	8.1%	99
ROAA	0.2%	0.4%	0.4%	22	1	1.1%	1.3%	13

FABS estimate & Co Data

ARNB - Key B/S items

	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
SAR mm						
Net advances	113,363	115,559	117,830	120,016	116,969	3.2%
QOQ change	-4.0%	1.9%	2.0%	1.9%	-2.5%	
Total assets	180,396	177,435	181,877	182,275	200,335	11.1%
QOQ change	-4.3%	-1.6%	2.5%	0.2%	9.9%	
Customer deposits	129,352	125,161	130,220	129,395	142,760	10.4%
QOQ change	-5.4%	-3.2%	4.0%	-0.6%	10.3%	
Total equity	29,734	29,974	30,032	30,744	29,873	0.5%
QOQ change	1.3%	0.8%	0.2%	2.4%	-2.8%	

FABS estimate & Co Data

4Q21 preview: Alinma Bank

Lower Impairments expected to support the profitability

CMP (SAR): 27.80

Potential upside (%): +4.3%

12-m target price:

SAR 29.00

Stock rating:

HOLD

4Q21 Estimate

We forecast Alinma Bank to report a rise by 13.3% YOY in Net Funded Income to SAR1,401 Mn in 4Q21, mainly due to an expected increase by 11.2% YOY in Funded Income to SAR1,557 Mn in 4Q21 from SAR1,400 Mn in 4Q20. We expect Funded Expense to decline by 4.5% YOY to SAR156 Mn in 4Q21, down from SAR163 Mn in 4Q20. Non-Funded Income is expected to increase by 6.8% YOY to SAR420 Mn in 4Q21, as compared to SAR394 Mn in 4Q20, led by an expected increase by 31.6% YOY in the Trading income to SAR60 Mn in 4Q21, up from SAR46 Mn in 4Q20 and a significant increase in Other non-funded income to SAR51 Mn in 4Q21. We estimate Fees and Commissions to decline by 15.9% YOY to SAR309 Mn in 4Q21. Operating Income is expected to increase by 11.7% YOY to SAR1,821 Mn in 4Q21, up from SAR1,631 Mn in 4Q20. Operating Expenses are expected to increase by 17.2% YOY to SAR638 Mn in 4Q21 from SAR544 Mn in 4Q20. Thus, the Cost to income ratio would rise by 164 bps to 35% from 33.4% in 4Q20. We expect Impairment charges to decrease by 44.6% YOY to SAR360 Mn in 4Q21 compared to SAR650 Mn in 4Q20. As a result, Net profit would strongly increase by 90.7% YOY to SAR751 Mn in 4Q21, up from SAR394 Mn in 4Q20.

2021 Forecast

We expect ALINMA to post an increase by 12.5% YOY in Net funded income to SAR5,229 Mn in 2021, up from SAR4,648 Mn in 2020, led by an anticipated decline by 33.1% YOY in Funded Expense to SAR550 Mn in 2021, compared to SAR822 Mn in 2020. We estimate the Funded Income to increase by 5.6% YOY to SAR5,779 Mn in 2021. Non-funded income is expected to increase by 46.4% YOY to SAR1,590 Mn in 2021, compared to SAR1,086 Mn in 2020, mainly due to a strong increase in Other Non-funded income to SAR220 Mn in 2021, up from a loss of SAR122 Mn in 2020. Therefore, the Operating income would increase by 18.9% YOY to SAR6,819 Mn in 2021, up from SAR5,734 Mn in 2020. Operating Expenses are expected to rise by 10.1% YOY to SAR2,332 Mn from SAR2,119 Mn in 2020. Impairment charges are expected to decrease by 6.6% YOY to SAR1,325 Mn, down from SAR1,418 Mn in 2020.

3Q21 Outturn

Operating Income increased by 15.8% YOY in 3Q21 to SAR1.72 Bn up from SAR1.48 Bn in 3Q20. The increase in Operating Income is mainly due to the significant increase by 19.3% YOY in the Net-Funded Income to SAR1.39 Bn in 3Q21 from SAR1.16 Bn in 3Q20, led by an increase by 13% YOY in Funded Income to SAR1.51 Bn in 3Q21 up from SAR1.33 Bn in 3Q20, in addition to a significant decrease by 30% YOY in Funded Expenses to SAR119 Mn in 3Q21 down from SAR170 Mn in 3Q20. Nevertheless, Non-Funded Income increased by 3% YOY to SAR331 Mn in 3Q21 from SAR322 Mn in 3Q20, due to an increase by 19.3% YOY in Trading Game to SAR57 Mn in 3Q21 up from SAR48 Mn in 3Q20 and the increase in Fees and Commission by 4.6% YOY to SAR259 Mn in 3Q21 from SAR247 Mn in 3Q20. The Operating Expenses have increased by 13% YOY to SAR618 Mn in 3Q21 from SAR547 Mn in 3Q20. Thus, the Cost to Income "C/I" ratio decreased by 87 Bps to 35.8% from 36.7% in 3Q20. Impairment charges increased by 19.3% YOY to SAR279 Mn in 3Q21 compared to SAR234 Mn in 3Q20. Net Advances increased by 15.2% YOY to SAR121.31 Bn in 3Q21 from SAR105.32 Bn in 3Q20. While Customer Deposits climbed by 4.7% YOY to SAR116.65 Bn in 3Q21, as compared to SAR111.36 Bn in 3Q20. Therefore, the ADR ratio increased to 104% in 3Q21 from 94.6% in 3Q20. Whereas Total Assets increased by 12.8% YOY to SAR166.8 Bn in 3Q21, and the Total Equity increased by 25.5% YOY to SAR30.16 Bn in 3Q21 compared to SAR24.04 Bn in 3Q20 mainly driven by the issuance of Tier 1 Sukuks for SAR5 Bn.

Target price and recommendation

We maintain our HOLD rating with a revised target price of SAR29.00. Alinma Bank is a Saudi joint stock company that provides a comprehensive range of Shariah-compliant Retail and Corporate Banking and Investment services under the best work environment that helps in achieving sustainable growth. Alinma Bank has recorded a growth of 17.3% in Net Profit reaching SAR738 Mn in 3Q21 compared to SAR629 Mn in 3Q20. This increase in Net Profit was due to the increase in Income from Investment and Financing Activities, and the significant increase by 15.8% in Total Operating Income in 3Q21 reaching SAR1.72 Bn from SAR1.48 Bn in 3Q20, due to the increase in Fees and Commissions by 4.6% to SAR259 Mn in 3Q21 up from SAR247 Mn in 3Q20 and a significant increase in Trading Gain to SAR57 Mn in 3Q21 compared to SAR48 Mn in 3Q20. Total Operating Expenses increased by 13% to SAR618 Mn in 3Q21 up from SAR547 Mn in 3Q20. ADR ratio increased to reach 104% in 3Q21 from 94.6% in 3Q20 amid an increase in Deposits by 4.7% reaching SAR116.65 Bn in 3Q21 from SAR111.36 Bn in 3Q20 representing 69.93% of Total Assets which increased by 12.8% in 3Q21 reaching SAR166.80 Bn up from SAR147.85 Bn in 3Q20 accompanied with an increase in Advances by 15.2% reaching SAR121.31 Bn in 3Q21 as compared to SAR105.32 Bn same period last year. Total Liabilities increased by 10.36% to reach SAR136.64 Bn in 3Q21 compared to SAR123.81 Bn in 3Q20 and Total Equity increased as well to SAR30.16 Bn from SAR24.03 Bn in 3Q20, an increase by 25.5% YOY, mainly driven by the issuance of Tier 1 Sukuks for SAR5 Bn in 3Q21. The annualized NIM and NIS have both decreased to 3.5% and 3.4% respectively in 3Q21 from 3.6% and 3.5% in 3Q20, respectively. Cost to Income ratio decreased in third quarter 2021 to 35.8% from 36.7% same period 2020, a decrease by 87 Bps. The Bank's Common Tier 1 Capital ratio stood at 21% as at the end of 3Q21, up from 19% in 3Q20 and 18% as at end of 2020 and the CAR ratio increase to 22% as at 3Q21 up from 20% same period last year and compared to 19% as at year-end 2020. The Board of Directors approved in August 2021 an interim Dividend for SAR695.7 Mn for 1H21 amounting to SAR0.35 per share. 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)	27.3	19.2	28.8	27.9	26.8
P/B (x)	2.7	2.6	2.5	2.3	1.8
Dividend yield	2.9%	3.6%	0.0%	1.1%	1.1%

FABS Estimates & Co Data

Alinma Bank- P&L

SAR mm	4Q20	3Q21	4Q21F	YOY Ch.	QOQ Ch.	2020	2021F	Change
Funded income	1,400	1,511	1,557	11.2%	3.0%	5,470	5,779	5.6%
Funded expense	-163	-119	-156	-4.5%	31.0%	-822	-550	-33.1%
Net funded income	1,237	1,393	1,401	13.3%	0.6%	4,648	5,229	12.5%
Fees and commissions	368	259	309	-15.9%	19.6%	989	1,152	16.5%
Trading gain/(loss)	46	57	60	31.6%	5.3%	220	219	-0.6%
Other non-funded income	-19	16	51	NM	NM	-122	220	NM
Non-funded income	394	331	420	6.8%	26.9%	1,086	1,590	46.4%
Operating income	1,631	1,724	1,821	11.7%	5.7%	5,734	6,819	18.9%
Operating expenses	-544	-618	-638	17.2%	3.2%	-2,119	-2,332	10.1%
Pre-provision profit	1,086	1,106	1,184	8.9%	7.0%	3,616	4,487	24.1%
Impairment	-650	-279	-360	-44.6%	29.0%	-1,418	-1,325	-6.6%
Share of profit of associates	3	-4	4	21.8%	NM	5	-5	NM
Net profit before zakat	439	823	827	88.3%	0.5%	2,202	3,158	43.4%
Zakat	-45	-85	-76	67.7%	-10.5%	-236	-316	34.1%
Net profit attributable	394	738	751	90.7%	1.8%	1,966	2,842	44.5%

FABS estimate & Co Data

Alinma Bank - KPI

	4Q20	3Q21	4Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
SAR mm								
Net FI/OI	75.9%	80.8%	76.9%	107	-387	81.1%	76.7%	-438
NIM	3.6%	3.5%	3.5%	-11	-2	3.6%	3.4%	-12
NIS	3.5%	3.4%	3.4%	-8	-1	3.5%	3.4%	-7
Fees & comms/OI	22.5%	15.0%	17.0%	-556	198	17.2%	16.9%	-35
Trading/OI	2.8%	3.3%	3.3%	50	-1	3.8%	3.2%	-63
Cost to income	33.4%	35.8%	35.0%	164	-82	36.9%	34.2%	-275
Impairment/PPP	59.8%	25.2%	30.4%	-2943	518	39.2%	29.5%	-971
NP/OI	24.2%	42.8%	41.2%	1709	-157	34.3%	41.7%	739
ROAE	1.7%	2.7%	3.1%	141	39	8.5%	11.8%	330
ROAA	0.3%	0.5%	0.4%	18	-2	1.4%	1.7%	33

FABS estimate & Co Data

Alinma Bank - Key B/S items

	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
SAR mm						
Net advances	111,196	117,149	119,623	121,318	125,970	13.3%
QOQ change	5.6%	5.4%	2.1%	1.4%	3.8%	
Total assets	156,877	159,951	164,057	166,808	178,179	13.6%
QOQ change	6.1%	2.0%	2.6%	1.7%	6.8%	
Customer deposits	119,454	120,707	125,878	116,652	144,695	21.1%
QOQ change	7.3%	1.0%	4.3%	-7.3%	24.0%	
Total equity	23,937	24,590	25,199	30,164	24,329	1.6%
QOQ change	-0.4%	2.7%	2.5%	19.7%	-19.3%	

FABS estimate & Co Data

4Q21 preview: Al Bilad Bank

Expected decline in Impairments support the increase in Profit

CMP (SAR): 53.90

Potential upside (%): -22.1%

12-m target price:

SAR 42.00

Stock rating:

REDUCE

4Q21 Estimate

Al Bilad's Net Profit is forecasted to increase by 21.9% YOY to SAR460 Mn in 4Q21, up from SAR378 Mn in 4Q20, mainly due to an expected decrease in Impairment charges. Net Funded Income is expected to increase by 3.8% YOY to SAR879 Mn in 4Q21, up from SAR847 Mn in 4Q20, as Income from Investing and Financing is forecasted to increase by 5.6% YOY to SAR950 Mn in 4Q21 from SAR900 Mn in 4Q20 and Return on Deposits is estimated to increase by 34.9% YOY to SAR71 Mn in 4Q21 from SAR53 Mn in 4Q20. Total Non-Funded Income is expected to decrease by 1.8% YOY to SAR293 Mn in 4Q21, down from SAR298 Mn in 4Q20. This would be led by a 48.6% YOY decrease in Other non-funded income to SAR22 Mn in 4Q21, down from SAR44 Mn in 4Q20. We expect the Fees and Commission Income to increase by 4.5% YOY to SAR176 Mn in 4Q21. Exchange Income is expected to increase by 9.4% YOY to SAR94 Mn in 4Q21 from SAR86 Mn in 4Q20. Operating Income is estimated to increase by 2.3% YOY to SAR1,171 Mn in 4Q21, as we estimate Operating Expenses to slightly decrease by 1.8% YOY to SAR534 Mn in 4Q21 from SAR544 Mn in 4Q20. Thus, the Cost-to-Income (C/I) ratio would decline by 192 bps to 45.6% in 4Q21, as compared to 47.5% in 4Q20. Impairment charges are forecasted to decrease by 28.1% YOY to SAR130 Mn in 4Q21, down from SAR180 Mn in 4Q20.

2021 Forecast

Al Bilad's Net Profit is forecasted to increase by 27.5% YOY to SAR1,719 Mn in 2021 from SAR1,349 Mn in 2020. Net Funded Income is expected to increase by 5.3% YOY to SAR3,467 Mn in 2021 from SAR3,293 Mn in 2020, mainly driven by 3% YOY increase in Interest Income to SAR3,736 Mn in 2021 from SAR3,627 Mn in 2020, and expected decline by 19.4% YOY in Interest Expense to SAR269 Mn in 2021 from SAR334 Mn in 2020. Total Non-Funded Income is expected to rise by 17.9% YOY to SAR1,143 Mn in 2021 from SAR969 Mn in 2020. This would be led by a significant increase in Other Non-Funded Income to SAR71 Mn in 2021. Fees and Commissions are estimated to rise by 19.6% YOY to SAR750 Mn in 2021 from SAR627 Mn in 2020. Therefore, the Operating Income would increase by 8.2% YOY to SAR4,610 Mn in 2021 from SAR4,262 Mn in 2020. We expect Operating Expenses to increase by 2.7% YOY to SAR2,121 Mn in 2021 compared to SAR2,066 Mn in 2020. The Bank's Cost-to-income (C/I) ratio would decrease by 246 bps to 46% in 2021 from 48.5% in 2020. Impairments are forecasted to decrease by 16.8% YOY to SAR578 Mn in 2021, down from SAR695 Mn in 2020.

3Q21 Outturn

The Income from Investment increased by 5.7% YOY to SAR963 Mn in 3Q21, up from SAR911 Mn in 3Q20. Similarly, the Return on Deposits & Financial Liabilities increased by 37.5% YOY to SAR77 Mn in 3Q21, up from SAR56 Mn in 3Q20 which leads to an increase by 3.7% YOY in the Net funded income to SAR887 Mn in 3Q21, as compared to SAR856 Mn in 3Q20. Fees and Commissions increased 4.6% YOY to SAR179 Mn in 3Q21, up from SAR171 Mn in 3Q20. While the Exchange Income declined by 10.1% YOY to SAR80 Mn in 3Q21. Moreover, Other non-funded income significantly increased to SAR29 Mn in 3Q21, up from a negative of SAR2 Mn in 3Q20. Therefore, Total Non-Funded Income increased by 11.5% YOY to SAR288 Mn in 3Q21, as compared to SAR258 Mn in 3Q20. As a result, Total Operating Income increased by 5.5% YOY to SAR1.174 Bn in 3Q21, up from SAR1.113 Bn in

3Q20. Furthermore, General & Administrative Expenses marginally increased by 0.7% YOY reaching SAR531 Mn from SAR527 Mn in 3Q20. Thus, the Cost-to-Income (C/I) ratio dropped by 216 Bps to 45.2% in 3Q21 compared to 47.3% in 3Q20. Impairment Charges declined by 11.1% YOY to SAR142 Mn in 3Q21, down from SAR160 Mn in 3Q20 supporting the increase in Profit. The Banks's Net advances increased by 20.7% YOY to SAR81.79 Bn in 3Q21 from SAR67.76 Bn in 3Q20. While Customer Deposits improved by 19.5% YOY to SAR82.34 Bn in 3Q21 from SAR68.88 Bn in 3Q20. Total Assets increased by 20.9% YOY to SAR111.6 Bn in 3Q21, up from SAR92.31 Bn in 3Q20, Total Liabilities increased by 21.7% YOY to SAR99.74 Bn in 3Q21, as compared to SAR81.98 Bn in 3Q20. Total Equity grew by 14.9% YOY to SAR11.87 Bn in 3Q21 from SAR10.33 Bn in 3Q20.

Target price and recommendation

We Revised our rating to REDUCE with a target price of SAR42.00. To ensure the success of its business, AlBilad has consistently focused on innovation, operational excellence and creating a performance-driven culture. AlBilad reported a Net profit of SAR450 Mn in the third quarter of 2021, an increase by 17.5% compared to SAR383 Mn in the same period 2020 and an increase by 8.1% QOQ from SAR416 Mn 2Q21. The YOY increase was mainly driven by an increase of 5.5% in Total Operating Income reaching SAR1.17 Bn in 3Q21 up from SAR1.11 Bn in 3Q20 due to the increase in Fees and Commissions to SAR179 Mn in 3Q21 up from SAR171 Mn in 3Q20, an increase by 4.6% YOY despite the persistent situation of COVID-19 global pandemic. Income from Investment and Financing increased YOY by 5.7% reaching SAR963 Mn up from SAR911 Mn in 3Q20, the Return on Deposits & Financial Liabilities also increased significantly by 37.5% to SAR77 Mn in 3Q21 from SAR56 Mn in 3Q20, not able to outweigh the increase in Income, which led to an increase in Net Funded Income by 3.7% YOY to SAR887 Mn compared to SAR856 Mn in 3Q20. The bank has been trying to maintain a Cost to Income ratio at its lowest levels which was improved by 216 Bps reaching 45.2% in 3Q21 declining from 47.3% in 3Q20, while Operating Expenses recorded a minimal increase by 0.7% to SAR531 Mn in 3Q21 from SAR527 Mn in 3Q20. Profit before Zakat increased in 3Q21 to SAR501 Mn up from SAR426 Mn, an increase by 17.7% YOY. The annualized NIM for the bank decreased to 3.7% compared to 4.2% 3Q20 annualized NIS decreased as well to 3.7% in 3Q21 as compared to 4.2% in 3Q20. Total assets increased by 20.9% in 3Q21 to SAR111.61 Bn up from SAR92.31 Bn in 3Q20, while Investments increased by 23.51% in 3Q21 reaching SAR17.34 Bn compared to SAR14.04 Bn in 3Q20 and Financing increased by 20.71% reaching SAR81.80 Bn in 3Q21 up from SAR67.76 Bn in 3Q20. Total Liabilities also increased in 3Q21 by 21.66% reaching SAR99.73 Bn from SAR81.98 Bn in 3Q20 and Total Equity increased as well by 14.9% reaching SAR11.86 Bn in 3Q21 compared to SAR10.32 Bn in 3Q20. Total Deposits increased by 19.5% reaching SAR82.34 Bn in 3Q21 up from SAR68.88 Bn in 3Q20. The ADR ratio increased to 99.3% in 3Q21 up from 98.4% in 3Q20. The ROAE stands at 14.75% in 3Q21 compared to 13.38% in 3Q20 and the ROAA stands at 1.6% in 3Q21 compared to 1.5% in 3Q20. The NPL ratio remained stable in 3Q21 as compared to 3Q20 at 1.24% with NPL coverage ratio maintained its level as well at 260% in 3Q21 compared to 3Q20 comfortably covering the NPL portfolio. The Bank's CAR increased in 3Q21 to 18.73% YOY as compared to 17.75% in 3Q20 and 17.95% as at end of 2020 being above minimum requirements. In 3Q21, the EPS stands at 0.6 per share in 3Q21 as compared to 0.51 per share in 3Q20 and the stock is currently trading at a P/B multiple of 2.58x. Therefore, we assign a REDUCE rating.

ALBI - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
PE (x)	42.7	82.3	32.3	29.8	32.0
P/B (x)	5.3	5.2	4.3	3.8	3.4
Dividend yield	1.5%	0.0%	1.7%	0.0%	1.9%

FABS Estimates & Co Data

Albilad Bank - P&L

SAR mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Income from invest & fin.	900	963	950	5.6%	-1.4%	3,627	3,736	3.0%
Return on deposits & fin. liabilities	-53	-77	-71	34.9%	-7.0%	-334	-269	-19.4%
Net funded income	847	887	879	3.8%	-0.9%	3,293	3,467	5.3%
Fees and commissions	168	179	176	4.5%	-1.8%	627	750	19.6%
Exchange income	86	80	94	9.4%	18.1%	362	322	-11.2%
Other non-funded income	44	29	22	-48.6%	-22%	-20	71	254%
Total non-funded income	298	288	293	-1.8%	1.7%	969	1,143	17.9%
Total operating income	1,145	1,174	1,171	2.3%	-0.3%	4,262	4,610	8.2%
General & admin. Expenses	-544	-531	-534	-1.8%	0.6%	-2,066	-2,121	2.7%
Pre provision profit	601	644	637	6.0%	-1.0%	2,196	2,489	13.3%
Impairment	-180	-142	-130	-28.1%	-9.0%	-695	-578	-16.8%
Profit before zakat	421	501	508	20.6%	1.2%	1,502	1,911	27.2%
Zakat expenses	-43	-52	-47	9.7%	-8.8%	-153	-192	25.1%
Net profit	378	450	460	21.9%	2.4%	1,349	1,719	27.5%

FABS estimate & Co Data
Albilad Bank - KPI

%	4Q20	3Q21	4Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	74.0%	75.5%	75.0%	105	-49	77.3%	75.20%	-205
NIM	4.0%	3.7%	3.6%	-46	-15	4.1%	3.6%	-48
NIS	4.0%	3.7%	3.5%	-44	-15	4.0%	3.6%	-46
Fees & comms/OI	14.7%	15.2%	15.0%	32	-23	14.7%	16.3%	155
Trading/OI	7.5%	6.8%	8.1%	52	125	8.5%	7.0%	-152
Cost to income	47.5%	45.2%	45.6%	-192	41	48.5%	46.0%	-246
Impairment/PPP	30.0%	22.1%	20.3%	-964	-178	31.6%	23.2%	-840
NP/OI	33.0%	38.3%	39.3%	632	102	31.6%	37.3%	565
ROAE	3.7%	4.0%	4.0%	30	7	13.4%	15.1%	174
ROAA	0.4%	0.4%	0.4%	2	0	1.5%	1.6%	14

FABS estimate & Co Data
Albilad Bank - Key B/S Items

SAR mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	70,115	75,531	79,130	81,799	84,556	20.6%
QOQ change	3.5%	7.7%	4.8%	3.4%	3.4%	
Total assets	95,744	102,520	107,652	111,606	115,322	20.4%
QOQ change	3.7%	7.1%	5.0%	3.7%	3.3%	
Customer deposits	71,553	76,963	81,638	82,346	90,857	27.0%
QOQ change	3.9%	7.6%	6.1%	0.9%	10.3%	
Total equity	10,730	10,838	11,417	11,868	12,009	11.9%
QOQ change	3.9%	1.0%	5.3%	4.0%	1.2%	

FABS estimate & Co Data

4Q21 preview: Al Rajhi Bank

Net Profit to be supported by higher Funded and Non-Funded Income

CMP (SAR): 149.20

Potential upside (%): +0.5%

12-m target price:

SAR 150.00

Stock rating:

HOLD

4Q21 Estimate

We estimate Al Rajhi Bank to report an increase by 23.8% YOY in Net profit to SAR3,864 Mn in 4Q21, up from SAR3,121 Mn in 4Q20, mainly due to higher Funded and Non-Funded Income. The Net Funded Income is expected to increase by 15% YOY to SAR5,332 Mn in 4Q21, up from SAR4,638 Mn in 4Q20. It is likely to be due to 17.9% YOY increase in Funded Income to SAR5,613 Mn in 4Q21, up from SAR4,760 Mn in 4Q20. The Funded Expense is expected to increase significantly to SAR281 Mn in 4Q21, up from SAR122 Mn in 4Q20. The Non-Funded Income is likely to increase by 15.6% YOY to SAR1,336 Mn in 4Q21, up from SAR1,155 Mn in 4Q20. It is expected to robustly increase due to strong increase in Other non-funded income to SAR170 Mn in 4Q21, up from SAR82 Mn in 4Q20. We estimate the Fees and Commissions to increase by 12.5% YOY to SAR972 Mn in 4Q21, up from SAR864 Mn in 4Q20. The Trading gain is expected to decrease by 7.2% YOY to SAR194 Mn in 4Q21, down from SAR210 Mn in 4Q20. As a result, the Operating Income is expected to increase by 15.1% YOY to SAR6,668 Mn in 4Q21, up from SAR5,794 Mn in 4Q20. The Operating Expenses are expected to increase by 0.3% YOY to SAR1,769 Mn in 4Q21, up from SAR1,763 Mn in 4Q20. Thus, the Cost to income ratio would decline by 391 bps to SAR26.5% from 30.4% in 4Q20. The Impairment charges are expected to increase by 9.2% YOY to SAR600 Mn in 4Q21, up from SAR550 Mn in 4Q20.

2021 Forecast

The Net Funded Income is forecasted to increase by 20.4% YOY to SAR20,369 Mn in 2021, up from SAR16,913 Mn in 2020. The Funded Income is likely to increase by 22.6% YOY to SAR21,301 Mn in 2021, up from SAR17,378 Mn in 2020. The Funded Expenses are likely to strongly increase YOY to SAR931 Mn in 2021, up from SAR465 Mn in 2020. The Non-Funded Income is likely to increase by 35.5% YOY to SAR5,161 Mn in 2021, up from SAR3,808 Mn in 2020. It is expected to be driven by 42.5% YOY increase in Fees and Commissions to SAR3,791 Mn in 2021, up from SAR2,660 Mn in 2020. The Other Non-Funded Income is expected to increase by 66% YOY to SAR606 Mn in 2021, up from SAR365 Mn in 2020. As a result, the Operating Income is expected to increase by 23.2% YOY to SAR25,530 Mn in 2021, up from SAR20,721 Mn in 2020. The Operating expenses are likely to increase by 2.4% YOY to SAR6,904 Mn in 2021, up from SAR6,742 Mn in 2020. The Impairments are expected to increase by 8.7% YOY to SAR2,355 Mn in 2021, up from SAR2,166 Mn in 2020. The Net Profit is expected to increase by 37.8% YOY to SAR14,598 Mn in 2021, up from SAR10,596 Mn in 2020.

3Q21 Outturn

The Net Funded income increased by 24.3% YOY to SAR5.215 Bn in 3Q21, up from SAR4.196 Bn in 3Q20. This was mainly due to an increase by 29.1% YOY in the Funded Income to SAR5.530 Bn in 3Q21 from SAR4.282 Bn in 3Q20. Fees and commissions income has significantly increased by 50.4% YOY to SAR976 Mn in 3Q21, up from SAR649 Mn in 3Q20. Similarly, the Trading income has increased by 6.7% YOY to SAR210 Mn in 3Q21. Whereas the Other Non-funded Income increased by 61.1% YOY to SAR177 Mn in 3Q21, as compared to SAR110 Mn in 3Q20. As a result, the Non-funded Income has increased by 42.6% YOY to SAR1.363 Bn in 3Q21, as compared to SAR956 Mn in 3Q20. Thus, the Operating income increased by 27.7% YOY to SAR6.578 Bn in 3Q21, up from SAR5.152 Bn in 3Q20. Operating expenses increased by 1.8% YOY to SAR1.754 Bn in 3Q21 from SAR1.724 Bn in 3Q20. Resultantly, the Cost to Income ratio has declined by 679 Bps to 26.7% compared to 33.5% in 3Q20. The Impairment charges increased by 27.7% YOY to SAR594 Mn in 3Q21, up from SAR465 Mn in 3Q20. Total Assets increased by 35.4% YOY to SAR582.68 Bn in 3Q21 from SAR430.3 Bn in 3Q20. Whereas the Total liabilities increased by 38.3% YOY to SAR519.05 Bn in 3Q21, up from

SAR375.38 Bn in 3Q20. Similarly, the Customer deposits increased by 38.5% YOY to SAR478.33 Bn in 3Q21, as compared to SAR345.32 Bn in 3Q20. Total Equity increased by 15.9% YOY to SAR63.64 Bn in 3Q21 from SAR54.92 Bn in 3Q20.

Target price and recommendation

We maintain our HOLD rating on Al Rajhi with a revised target price of SAR150.0. Al Rajhi Banking and Investment Corporation (ARB) has generated robust Operating Income growth of 26.4% during the first nine months of 2021 reaching SAR18.86 Bn as compared to same period last year along a 44.2% increase in Fees and Other Income. Investments supported the income increase by increasing by 45.3% in Net Financing with retail financing increasing by 51.3% mainly driven by the increase in mortgage by 73.3%. The better operating efficiency with strong balance sheet led to the increase of Net Income by 43.6% YOY to SAR10.73 Bn during 9M21. To note that Al Rajhi's main segments are the Retail, Corporate and Treasury segments. The Retail Banking is the largest in Saudi Arabia and provides a full range of financial products to the customers and this segment increased by 6.3% YOY for the first 9 months of 2021 to SAR10.54 Bn while its Net Income decreased slightly by 3.2% YOY to SAR4.5 Bn whereas the third quarter Net income of the Retail segment increased to SAR1.36 Bn, an increase by 22.9% YOY. The Corporate Banking Department's Operating Income also increased YOY by 43.2% during 9M21 to SAR2.61 Bn while the Net Income of the segment was significantly higher reaching SAR2.04 Bn during 9M21 and recording an 86.2% increase YOY in 3Q21. The Treasury segment managing the bank's financial position and accomplishing successful maturities and liquidity also reported a robust 9-month performance in 2021 with operating Income increasing by 85.8% YOY to SAR4.93 Bn driven by higher Investment Income and Net Financing. Supported with the decrease in Operating Expenses, the Net Income of the segment increased to SAR4.78 Bn in 9M21, a significant increase of almost 94% YOY. 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 26.7% in 3Q21 from 33.5% in 3Q20. Non-Performing Loans increased to SAR2.89 Bn in 3Q21 from SAR2.46 Bn in 3Q20, an increase by 17.47% YOY with the Non-Performing Loan Ratio decreasing as well to 0.67% in 3Q21 from 0.82% in 3Q20 on the group level and the NPL coverage ratio increased to 307.48% in 3Q21 up from 292.97% in 3Q20. Capital Adequacy Ratio (CAR) decreased to 17.94% in 3Q21 down from 19.29% in 3Q20, which was mainly due to the increase in Risk Weighted Assets (RWA) to SAR395.75 Bn in 3Q21 from SAR301.66 Bn in 3Q20, but still comfortably above minimum requirements, while Common Equity Tier 1 Ratio (CET1) decreased to 16.81% in 3Q21 decreasing from 18.21% in 3Q20 but also remaining above the minimum regulatory requirements. ARB's Return on Equity (ROE) increased to 23.62% in 9M21 up from 19.16% in 9M20 while Return on Assets (ROA) stood at 2.72% in 9M21 up from 2.48% in 9M20. Earnings Per Share (EPS) stood at SAR4.29 after 9 months of 2021 up from SAR2.99 over the same period in 2020, a rise by 43.6% 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. We assign a HOLD rating on the stock.

RJHI - Relative valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	41.2	99.5	37.0	35.4	35.0
P/B (x)	6.7	7.8	7.3	6.5	5.9
Dividend yield	1.7%	1.8%	2.0%	0.7%	0.9%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
SAR mm								
Funded income	4,760	5,530	5,613	17.9%	1.5%	17,378	21,301	22.6%
Funded expense	-122	-315	-281	NM	-10.9%	-465	-931	NM
Net funded income	4,638	5,215	5,332	15.0%	2.3%	16,913	20,369	20.4%
Fees and commissions	864	976	972	12.5%	-0.4%	2,660	3,791	42.5%
Trading gain/(loss)	210	210	194	-7.2%	-7.5%	784	764	-2.5%
Other non-funded income	82	177	170	NM	-4.0%	365	606	66.0%
Non-funded income	1,155	1,363	1,336	15.6%	-2.0%	3,808	5,161	35.5%
Operating income	5,794	6,578	6,668	15.1%	1.4%	20,721	25,530	23.2%
Operating expenses	-1,763	-1,754	-1,769	0.3%	0.8%	-6,742	-6,904	2.4%
Pre-provision profit	4,030	4,824	4,899	21.6%	1.6%	13,979	18,625	33.2%
Impairment	-550	-594	-600	9.2%	1.1%	-2,166	-2,355	8.7%
Net income before zakat	3,480	4,230	4,299	23.5%	1.6%	11,814	16,270	37.7%
Zakat	-359	-436	-435	21.1%	-0.3%	-1,218	-1,672	37.3%
Net profit attributable	3,121	3,794	3,864	23.8%	1.9%	10,596	14,598	37.8%

FABS estimate & Co Data

Al Rajhi Bank - P&L KPI

	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
SAR mm								
Net FI/OI	80.1%	79.3%	80.0%	-10	68	81.6%	79.8%	-184
NIM	4.7%	4.7%	4.5%	-17	-20	4.6%	4.3%	-29
NIS	4.7%	4.7%	4.5%	-18	-20	4.6%	4.3%	-29
Fees & comms/OI	14.9%	14.8%	14.6%	-33	-26	12.8%	14.8%	201
Trading/OI	3.6%	3.2%	2.9%	-70	-28	3.8%	3.0%	-79
Cost to income	30.4%	26.7%	26.5%	-391	-14	32.5%	27.0%	-549
Impairment/PPP	13.6%	12.3%	12.3%	-139	-6	15.5%	12.6%	-285
NP/OI	53.9%	57.7%	58.0%	408	28	51.1%	57.2%	605
ROAE	5.7%	6.4%	6.2%	45	-24	19.4%	23.3%	393
ROAA	0.7%	0.7%	0.7%	-1	-2	2.5%	2.7%	26

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Al Rajhi Bank - Key B/S Items

	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
SAR mm						
Net advances	315,712	356,144	390,296	420,954	430,262	36.3%
QOQ change	9.0%	12.8%	9.6%	7.9%	2.2%	
Total assets	468,825	512,234	546,139	582,684	594,576	26.8%
QOQ change	9.0%	9.3%	6.6%	6.7%	2.0%	
Customer deposits	382,631	421,269	447,506	478,331	485,184	26.8%
QOQ change	10.8%	10.1%	6.2%	6.9%	1.4%	
Total Equity	58,119	59,222	59,670	63,637	67,377	15.9%
QOQ change	5.8%	1.9%	0.8%	6.6%	5.9%	

FABS estimate & Co Data

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