

## Arab National Bank

Lower Operating income impacts earnings

### 4Q20 profit lower than our estimate

Arab National Bank recorded a drop in Net profit by 46.9% YOY to SAR274 mm in 4Q20 from SAR515 mm in 4Q19, missing our estimate by 62%. This decrease was primarily due to a decline in Net funded income and Operating income.

### P&L highlights

Operating income decreased by 14% YOY in 4Q20 to SAR1,401 mm from SAR1,629 mm in 4Q19. This is mainly due to unrealized losses on investments at FVTPL. Other Non-funded income decreased by 8.4% to SAR110 mm in 4Q20 from SAR120 mm in 4Q19. Moreover, Non-funded income decreased to SAR271 mm in 4Q20 by 6.3% from SAR289 mm in 4Q19. Net Funded income decreased by 12.8% YOY to SAR1,168 mm in 4Q20 from SAR1,340 mm in 4Q19. Furthermore, Funded income decreased by 27.4% YOY to SAR1,326 mm in 4Q20 from SAR1,826 mm in 4Q19 due to a decline in loans and advances and decline in investments at FVOCI. Funded expenses decreased by 67.5% YOY to SAR158 mm in 4Q20 from SAR485 mm in 4Q19 due to a reduction in customer deposits. Operating expenses decreased by 17.3% YOY to SAR468 mm in 4Q20 due to a decline in salaries, rent & premises, and other general and admin expenses. The Cost/Income "C/I" ratio decreased by 132 bps to 33.4% from 34.7% in 4Q19.

### Balance sheet highlights

Net advances decreased by 4.6% YOY to SAR113.4 bn in 4Q20 from SAR118.8 bn in 4Q19. Moreover, Customer deposits has dropped by 9% YOY to SAR129.4 bn in 4Q20 from SAR142 bn in 4Q19. Total assets decreased by 1.7% YOY to SAR180.4 bn in 4Q20 while the equity climbed by 5% YOY to SAR29.7 bn in 4Q20 from SAR28.3 bn in 4Q19.

### Target price and rating

We revised out rating to REDUCE with a target price of SAR 19.00. Arab National Bank is a Saudi Joint Stock Company located in the capital city of Riyadh, now ranks among the 10-15 largest banks in the Middle East. The Bank offers a comprehensive commercial and investment banking services, in addition to specialized services in the fields of heavy equipment leasing and home finance. ANB has recorded a drop in Net Income by 31.5% to SAR2,072 mm for the final year of 2020 from SAR3,023 mm in 2019, which was mainly due to the higher Impairment charges and economic condition of the COVID-19 outbreak. Despite the COVID-19 outbreak, Capital Adequacy Ratio (CAR) has climbed by 308 bps to 22% in 2020 which shows that the company is in a good shape to meet its financial obligations. In addition, the ADR ratio rises by 403 bps to 87.6% from 83.6% in 2019. Moreover, the NPL ratio stood at 3.5% from 2% in 2019. While, the Gross Advances has decreased by 4% to score SAR117 bn in 2020 from SAR122 bn in 2019 as well as the decline in the Provision Cover-

**Rating : REDUCE**

### First Look Note – 4Q20

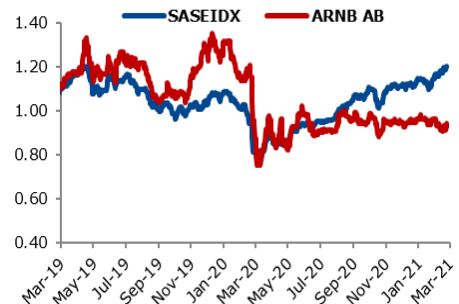
Sector: Banking

#### Recommendation

Current Price (15-March)	21.28
Target Price	19.00
Upside/(Downside) (%)	-10.3%

#### Stock Information

Market Cap (mm)	31,770.00
Paid Up Capital (mm)	15,000.00
52 Week High	21.70
52 Week Low	15.90
3M Avg. daily value (SAR)	11,403,610



#### Financial Ratios

Dividend Yield (12m)	2.36
Dividend Pay-out (%)	28.95
Price-Earnings Ratio (x)	15.32
Price-to-Book Ratio (x)	1.07
Book Value (SAR)	19.82
Return-on Equity (%)	7.14
Earning Per Share (SAR)	1.38
Beta	1.21

#### Stock Performance

5 Days	7.29%
1 Months	3.82%
3 Months	5.37%
6 Months	2.62%
1 Year	22.85%
Month to Date (MTD)	7.73%
Quarter to Date (QTD)	5.37%
Year to Date (YTD)	5.37%

age ratio (PCR), that means provisions have not been made to the extent of the rise in bad loans. In spite of the pandemic and the bad economy situation, Arab National Bank and the Saudi General Authority for Small and Medium Enterprises (Monshaat) have signed a cooperation agreement to provide franchise-related innovative financing products in line with the banking systems issued by the Saudi Central Bank (SAMA). That agreement aims to stimulate the franchise industry while developing the kingdom's SME sector and raising its contribution to the gross domestic product (GDP). The Bank has announced a cash dividend of SAR0.40 for 2020. The stock is trading at a P/B multiple of 1.07x. Overall, we maintain our REDUCE rating on the stock.

**ARNB - Relative valuation**

(at CMP)	2016	2017	2018	2019	2020
P/E (x)	11.14	10.53	12.02	10.53	15.42
P/B (x)	1.37	1.31	1.20	1.13	1.07
Dividend yield	2.8%	3.8%	4.7%	4.7%	1.9%

*FABS Estimates & Co data*
**ARNB**

SAR mm	4Q19	3Q20	4Q20	4Q20F	Var.	YOY ch	QOQ ch	2019	2020	YOY ch
Funded income	1,826	1,406	1,326	1,482	-10.5%	-27.4%	-5.7%	7,633	5,992	-21.5%
Funded expense	-485	-195	-158	-217	-27.3%	-67.5%	-19.0%	-2,080	-1,123	-46.0%
<b>Net funded income</b>	<b>1,340</b>	<b>1,211</b>	<b>1,168</b>	<b>1,265</b>	<b>-7.6%</b>	<b>-12.8%</b>	<b>-3.5%</b>	<b>5,553</b>	<b>4,869</b>	<b>-12.3%</b>
Fees and commissions	169	154	122	169	-27.7%	-27.5%	-20.7%	658	550	-16.4%
Trading gain/(loss)	0	1	0	1	-67.2%	-424.8%	-77.6%	-10	5	-152.1%
Other non-funded income	120	98	110	108	2.3%	-8.4%	13.0%	533	400	-24.8%
Non-funded income	289	253	271	278	-2.6%	-6.3%	6.9%	1,180	956	-19.0%
<b>Operating income</b>	<b>1,629</b>	<b>1,464</b>	<b>1,401</b>	<b>1,543</b>	<b>-9.2%</b>	<b>-14.0%</b>	<b>-4.3%</b>	<b>6,733</b>	<b>5,824</b>	<b>-13.5%</b>
Operating expenses	-565	-506	-468	-503	-7.0%	-17.3%	-7.5%	-2,203	-2,047	-7.1%
<b>Pre-provision profit</b>	<b>1,064</b>	<b>958</b>	<b>933</b>	<b>1,040</b>	<b>-10.2%</b>	<b>-12.3%</b>	<b>-2.6%</b>	<b>4,530</b>	<b>3,778</b>	<b>-16.6%</b>
Impairment	-420	-196	-535	-205	160.8%	27.4%	173.0%	-989	-1,271	28.5%
Share of results of associates	11	22	7	10	-31.7%	-36.1%	-68.5%	10	65	567.1%
PBT	655	784	421	845	-50.2%	-35.7%	-46.3%	3,551	2,572	-27.6%
Tax	-139	-116	-147	-125	17.7%	5.3%	26.6%	-529	-503	-4.9%
Profit after tax	515	668	274	720	-62.0%	-46.9%	-59.0%	<b>3,022</b>	<b>2,069</b>	<b>-31.5%</b>
Non-controlling int.	1	1	1	1	-25.6%	32.1%	12.0%	1	3	128.1%
<b>Net profit attributable</b>	<b>515</b>	<b>669</b>	<b>274</b>	<b>721</b>	<b>-62.0%</b>	<b>-46.9%</b>	<b>-59.0%</b>	<b>3,023</b>	<b>2,072</b>	<b>-31.5%</b>

*FABS estimate & Co Data*
**ARNB**

P&L KPI	4Q19	1Q20	2Q20	3Q20	4Q20	YOY Ch (bp)
Net FI/OI	82.3%	86.7%	81.6%	82.7%	83.4%	112
NIM	5.04%	5.77%	6.63%	6.44%	3.48%	-155
NIS	4.94%	5.33%	6.29%	6.14%	3.31%	-163
Fees & comms/OI	10.3%	10.3%	8.2%	10.5%	8.7%	-163
Trading/OI	0.0%	0.2%	0.0%	0.1%	0.0%	3
Cost to income	34.7%	36.6%	35.9%	34.5%	33.4%	-132
Impairment/PPP	39.4%	20.4%	36.9%	20.4%	57.3%	1,784
NP/OI	31.6%	43.2%	33.1%	45.7%	18.5%	-1,209
ROAE	1.8%	2.3%	1.7%	2.3%	0.9%	-90
ROAA	0.3%	0.3%	0.3%	0.4%	0.2%	-13

*FABS estimate & Co Data*

**ARNB**

SAR mm	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>YOY ch</b>
Net advances	118,837	119,938	117,129	118,058	113,363	-4.6%
QOQ change	0.8%	0.9%	-2.3%	0.8%	-4.0%	
Total assets	183,442	184,871	187,297	188,526	180,396	-1.7%
QOQ change	7.3%	0.8%	1.3%	0.7%	-4.3%	
Customer deposits	142,129	135,983	133,896	136,725	129,352	-9.0%
QOQ change	8.6%	-4.3%	-1.5%	2.1%	-5.4%	
Total equity	28,308	27,683	28,427	29,339	29,734	5.0%
QOQ change	2.5%	-2.2%	2.7%	3.2%	1.3%	

FABS estimate & Co Data

**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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