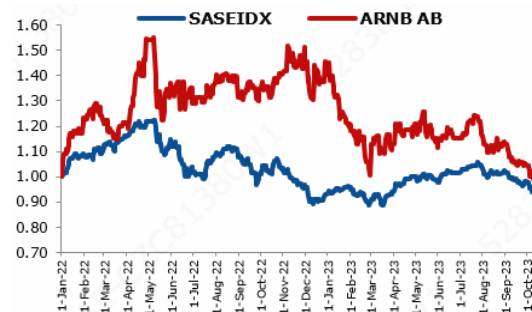


Arab National Bank (ARNB)

Strong growth in funded and non-funded income coupled with lower impairment supported profit

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 23.66	SAR 30.00	+27%	BUY

- Loan growth exceeded deposits pressurizing the liquidity of the bank. The loan-to-deposit ratio rose from 94.0% in 2Q23 to 96.9% in 3Q23
- ARNB's net advances rose 0.3% QOQ to SAR 149.4 Bn in 3Q23, while deposits declined 2.6% QOQ to SAR 154.2 Bn pressurizing liquidity
- CASA deposits made up 48.2% of total deposits in 2Q23 as compared to 47.9% in 1Q23
- Operating expenses rose 7.3% QOQ and exceeded our estimate of SAR 723 Mn while provisions on impairments fell 8.9% QOQ even better our estimate to SAR 244 Mn due to better economic prospects.



3Q23 Net Profit above our estimate

Arab National Bank ("ARNB", "the Bank") recorded 16.8% YOY growth in net profit to SAR 1,076 Mn in 3Q23, above our estimate of SAR 1,022 Mn. The increase in net profit is mainly attributed to growth in net funded income and non-funded income partially offset by an increase in operating expenses and impairments.

P&L Highlights

ARNB's funded income grew 55.5% YOY to SAR 3,250 Mn in 3Q23 attributable to growth in net advances and expansion in asset yield. On the other hand, funded expenses increased significantly from SAR 593 Mn in 3Q22 to SAR 1,410 Mn in 3Q23 due to an increase in interest rates. Thus, net funded income grew 22.9% YOY to SAR 1,840 Mn in 3Q23. Moreover, the Bank's non-funded income recorded a healthy growth of 13.6% YOY to SAR 362 Mn in 3Q23 mainly driven by growth in net fee and commission income, dividend income, and net other operating income partially offset by a decline in net trading income and lower gain on sale of investment in non-trading instruments. As a result, total operating income rose significantly 21.3% YOY to SAR 2,202 Mn in 3Q23. Furthermore, operating expenses rose 21.4% YOY to SAR 723 Mn in 3Q23 due to an increase in G&A expenses, employee-related expenses and rent and premises-related expenses. Thus, cost to income ratio increased 2 bps YOY to SAR 32.8% in 3Q23. In addition, impairment charges rose substantially from SAR 173 Mn in 3Q22 to SAR 244 Mn in 3Q23.

Balance Sheet Highlights

ARNB's net advances further increased 2.7% YOY and 0.3% QOQ to SAR 149.4 Bn in 3Q23. Total assets rose 5.3% YOY and 1.0% QOQ to SAR 218.2 Bn in 3Q23. Similarly, customer deposits rose 4.3% YOY but declined 2.6% QOQ to SAR 154.2 Bn in 3Q23. The loan-to-deposit

Stock Information

Market Cap (SAR, mm)	35,490.00
Paid Up Capital (mm)	15,000.00
52 Week High	35.00
52 Week Low	22.18
3M Avg. daily value(SAR)	24,066,070

3Q23 Result Review (SAR, mm)

Total Assets	149,372
Total Equity	33,732
Total Deposits	154,220
Net Profit	1,076

Financial Ratios

Dividend Yield (12m)	5.28
Dividend Pay-out (%)	53.74
Price-Earnings Ratio(x)	9.05
Price-to-Book Ratio (x)	1.05
Book Value (SAR)	22.47
Return-on Equity (%)	11.63

Stock Performance

5 Days	3.41%
1 Months	-1.00%
3 Months	-16.10%
6 Months	-10.55%
1 Year	-25.71%
Month to Date (MTD%)	-1.42%
Quarter to Date (QTD%)	-1.42%
Year to Date (YTD%)	-26.18%

ratio stood at 96.9% in 3Q23 as compared to 94.0% in 2Q23. Consequently, total equity increased 6.2% YOY and 0.1% QOQ to SAR 33.7 Bn in 3Q23.

Target Price and Rating

We maintain our BUY rating on Arab National Bank with an unchanged target price of SAR 30.00. ARNB reported a strong growth in profitability of 16.8% YOY in 3Q23 driven by growth in advances and an increase in non-funded income. The Bank's advances rose 2.7% YOY and 0.3% QOQ to SAR 149.4 Bn in 3Q23 whereas deposits grew 4.3% YOY but fell 2.6% QOQ to SAR 154.2 Bn. The Bank's loan-to-deposit ratio moderated to 96.9% in 3Q23 from 94.0% in 2Q23 due to a decline in deposits. ARNB's asset quality stood healthy with an NPL ratio of 2.3% in 2Q23 as compared to 1.9% in 1Q23 and provisioning declined 8.9% QOQ to SAR 244 Mn in 3Q23 supporting profit. Additionally, provision coverage stood at 120.8% in 2Q23 providing a strong buffer against loan losses which will provide support to margins in the forthcoming period. The CASA deposit rose marginally from 47.9% in 1Q23 to 48.2% in 2Q23. Furthermore, the Bank's capitalization stood well above the regulatory limits with a Tier 1 ratio of 20.2% and CAR of 22.6% in 2Q23. The Bank also declared an interim dividend of SAR 0.65 per share during 1H23. Thus, based on our analysis, we assign a BUY rating on the stock.

ARNB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	8.6	11.3	16.6	15.8	11.2	8.4
PB	1.3	1.2	1.2	1.1	1.1	1.0
Dividend yield	4.4%	4.4%	1.7%	3.5%	4.8%	6.1%

FABS Estimates & Co Data

ARNB - P&L

SAR mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	2,090	3,039	3,250	3,232	0.5%	55.5%	6.9%	7,657	12,486	63.1%
Funded expense	-593	-1,309	-1,410	-1,440	-2.1%	137.8%	7.8%	-2,020	-5,398	167.2%
Net funded income	1,497	1,730	1,840	1,793	2.6%	22.9%	6.3%	5,636	7,088	25.8%
Non-funded income	319	357	362	375	-3.5%	13.6%	1.3%	1,226	1,561	27.4%
Operating income	1,815	2,088	2,202	2,168	1.6%	21.3%	5.5%	6,862	8,650	26.0%
Operating expenses	-596	-674	-723	-691	4.6%	21.4%	7.3%	-2,458	-2,764	12.5%
Pre-provision profit	1,220	1,414	1,479	1,477	0.2%	21.3%	4.6%	4,405	5,886	33.6%
Impairment	-173	-268	-244	-283	-13.7%	41.2%	-8.9%	-880	-1,143	30.0%
PBT	1,068	1,163	1,246	1,210	2.9%	16.7%	7.1%	3,633	4,814	32.5%
Net Profit attributable	921	986	1,076	1,022	5.3%	16.8%	9.1%	3,070	4,096	33.4%

FABS estimate & Co Data

ARNB - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	82.5%	82.9%	83.6%	111	68	82.1%	81.9%	-19
Impairment/PPP	14.2%	18.9%	16.5%	233	-244	20.0%	19.4%	-55
Cost to income	32.8%	32.3%	32.8%	2	57	35.8%	32.0%	-386
NP/OI	50.7%	47.2%	48.9%	-188	164	44.7%	47.4%	261
ROAE	8.7%	11.3%	11.6%	291	28	9.9%	12.6%	269
ROAA	1.31%	1.75%	1.81%	49	5	1.5%	1.8%	30

FABS estimate & Co Data

ARNB - Key B/S items

SAR mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	145,475	143,829	144,727	148,852	149,372	2.7%
<i>QOQ ch</i>	1.7%	-1.1%	0.6%	2.8%	0.3%	
Total assets	207,266	212,628	214,042	215,984	218,190	5.3%
<i>QOQ ch</i>	-1.2%	2.6%	0.7%	0.9%	1.0%	
Customer deposits	147,806	154,871	155,247	158,378	154,220	4.3%
<i>QOQ ch</i>	0.7%	4.8%	0.2%	2.0%	-2.6%	
Total equity	31,749	32,334	32,644	33,710	33,732	6.2%
<i>QOQ ch</i>	2.3%	1.8%	1.0%	3.3%	0.1%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	31.16	70.0%	21.81
Relative Valuation (RV)	27.28	30.0%	8.19
Weighted Average Valuation (SAR)			30.00
Current market price (SAR)			23.66
Upside/Downside (%)			+27%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. The cost of equity is calculated using a 10-year government bond yield of 4.5%, a beta of 1.0, and an equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	3,006
Terminal value (SAR, Mn)	10,023
Book Value of Equity (as of March 2023)	33,710
FV to Common shareholders (SAR, Mn)	46,739
No. of share (Mn)	1,500
Current Market Price (SAR)	23.66
Fair Value per share (SAR)	31.16

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,096	3,866	3,920	4,151	4,302
(-) Equity Charge	-2,852	-2,989	-3,119	-3,255	-3,403
Excess Equity	1,245	877	802	897	899
Discounting Factor	0.97	0.90	0.83	0.76	0.70
Present Value of Excess Equity	205	797	672	693	640

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ARNB and it is valued using the PB multiple. We applied a discount to peer valuation since it generates lower asset returns as compared to its peers. It is valued at a PB multiple of 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Riyad Bank	4,283	1.4	1.3	9.8	9.0	5.2	5.5
Alinma Bank	2,568	2.1	2.0	13.5	12.1	3.9	4.3
Al Rajhi Bank	7,330	2.7	2.5	15.7	14.2	3.4	3.8
Saudi National Bank	9,215	1.2	1.1	9.8	9.0	5.1	5.5
Banque Saudi Fransi	2,526	1.1	1.1	9.2	8.5	5.8	6.0
Bank Albilad	1,443	2.4	2.1	15.6	13.5	1.8	2.1
Average		1.8x	1.7x	12.3x	11.0x	4.2%	4.5%
Median		1.7x	1.7x	11.7x	10.5x	4.5%	4.9%
Max		2.3x	2.1x	15.1x	13.2x	5.1%	5.5%
Min		1.2x	1.1x	9.8x	9.0x	3.5%	3.9%

Source: FAB Securities

Research Rating Methodology:

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

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