

Banking

Riyad Bank

First Cut – Riyadh Bank

Total income grows YoY on higher net commission income: Total income of Riyadh Bank (RIBL) for 4Q23 increased by 5.1% YoY to SAR3.9bn, though it fell by 1.2% QoQ. The YoY improvement in total income was at the back of an 10.2% YoY improvement in net commission income, which was aided by a 13.2% YoY and 2.7% QoQ increase in loans and advances and 11.3% YoY and 0.4% QoQ improvement in investments. Fee and other income fell by 11.3% YoY and 12.5% QoQ, impacting the total income. Going forward, we expect loans and advance to grow at low double-digit rates for the next 2-3 years, while we expect net commission margins (NCM) to moderate in the medium term.

Increase in opex and provisions impact profit growth: Operating expenses at SAR1.3bn for 4Q23 increased by 12.0% YoY, though the same lower by 1.9% QoQ. However, the cost to income ratio remained under control for the full year as it fell to 31.3% in 2023, compared to 32.4% in 2022. Provisions on the other hand increased by 32.7% YoY and 37.0% QoQ for 4Q23, as the full year cost of risk increased to 0.6% for 2023 from 0.4% for 2022.

Net income falls: Net income of RIBL fell by 3.6% YoY and by 6.5% QoQ, to SAR2.0bn, as an improvement in net commission income was more than made up by lower fee & other income, higher operating expenses, and provisions. The performance was however better than our estimate of SAR1.8bn.

L/D ratio increases on sluggish deposits offtake: Deposits increased by 6.2% YoY and was flattish QoQ, as loans to deposits ratio increased to 107.6% as of 2023, compared to 104.9% as of Sep-23 and 101% in 2022. We expect the situation to improve in 2024e, as we forecast liquidity pressure in the market to ease, in line with the softening of interest rate.

Financial performance to remain strong: We expect the full year performance in 2024e and in the medium term to remain strong and will be aided by a steady growth in loans, even as NCM moderates from 2023 levels. Profitability is also likely to be aided by a moderation in provisions. We had initiated coverage on RIBL with a BUY rating and a target price of SAR33/share and we continue to remain positive on the bank and maintain our target price at these levels.

in SAR mn	4Q23	3Q23	QoQ	4Q22	YoY	2022	2023	YoY	2024E	YoY
Total income	3,932	3,978	-1.2%	3,742	5.1%	13,599	15,899	16.9%	17,075	7.4%
NCI*	3,142	3,075	2.2%	2,852	10.2%	10,052	12,414	23.5%	13,100	5.5%
NCM**	3.8%	3.8%		3.9%		3.4%	3.7%		3.6%	
Operating expenses	(1,274)	(1,299)	-1.9%	(1,138)	12.0%	(4,410)	(4,969)	12.7%	(5,651)	13.7%
cost to income ratio	32.4%	32.7%		30.4%		32.4%	31.3%		33.1%	
Operating profit	2,658	2,679	-0.8%	2,605	2.1%	9,189	10,930	18.9%	11,424	4.5%
Provisions	(483)	(353)	37.0%	(364)	32.7%	(1,281)	(1,972)	54.0%	(1,714)	-13.1%
COR	0.6%	0.4%		0.5%		0.4%	0.6%		0.5%	
Profit post provisions	2,175	2,327	-6.5%	2,241	-2.9%	7,909	8,959	13.3%	9,710	8.4%
Other expenses	4	3	14.5%	(5)	-175.4%	(80)	12	-115.3%	9	-30.7%
Profit before Zakat	2,179	2,330	-6.5%	2,235	-2.5%	7,828	8,971	14.6%	9,719	8.3%
Zakat	(225)	(241)	-6.7%	(208)	8.2%	(809)	(925)	14.3%	(1,002)	8.3%
effective tax rate	10.3%	10.3%		9.3%		10.2%	10.3%		10.3%	
Profit after tax	1,955	2,089	-6.5%	2,028	-3.6%	7,019	8,046	14.6%	8,717	8.3%
Balance Sheet items										
Investments	58,109	57,882	0.4%	52,196	11.3%	52,196	58,109	11.3%	64,231	10.5%
Loans and advances	274,398	267,151	2.7%	242,365	13.2%	242,365	274,398	13.2%	295,659	7.7%
Deposits	254,908	254,719	0.1%	240,007	6.2%	240,007	254,908	6.2%	294,105	15.4%
L/D ratio	107.6%	104.9%		101.0%		101.0%	107.6%		100.5%	

*Net Commission Income

** Calculated on total investment and loans

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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