

Impairments to grow back to normalised levels; At 2025e PB of 2.0x, we reiterate ‘Neutral’ rating with revised down target

Albilad’s positive gearing to declining interest rates, high single digit balance sheet growth and improving operating efficiencies would drive 7.5% earnings CAGR over 2024-28. However, we highlight key risks/challenges such as (1) increase in cost-of-risk to normalised levels (CoR stood at 12bps in 2024 vs 5 year average of 54bps), (2) a more measured decline in interest rates (that will limit NIM expansion), (3) volatile oil price environment and tight liquidity conditions (that are likely to affect balance sheet growth). Note that bank’s recent performance on deposit, loans and NIMs front has undershot our expectations. Overall, we cut our 2025/26 earnings estimates by 4.7/11.2% to SAR 2,936/3,150mn on downward revision in deposits, financing and NIMs expansion. Due to likely normalisation of impairment charges, we see ROE to decline from 17.6% in 2024 to average at 15.1% over 2025-28. Hence, we maintain our “Neutral” recommendation with a revised TP of SAR 29.0 per share.

Albilad posted earnings growth of 8.9% Y/Y in Q1-25; supported by balances sheet growth and NIM expansion: Albilad posted earnings of SAR 700mn in Q1-25, up 8.9% Y/Y (down 11.3% sequentially). The Q1-25 net income was in line with our estimates (-3.9% deviation). The slight deviation is mainly owed to higher operating expenses. The Y/Y improvement in earnings is owed to 11.2% Y/Y growth in Net Special Commission Income (NSCI). Overall, operating income grew by 9.1% Y/Y (largely unchanged Q/Q) in Q1-25 (-0.1% deviation). Net financing and investment margins improved by 9bps Y/Y, gross financing and investment income grew by 6.4% Y/Y (0.1% Q/Q), whereas funding costs increased by 1.5% Y/Y (-1.5% Q/Q). Operating expenses (excluding debt provisions) totalled at SAR 630mn up 10.0% Y/Y (-3.6% Q/Q), +5.3% deviation to AJC estimate. Cost to income ratio stood at 43.0% in Q1-25, as compared to 42.7% witnessed in Q1-24. Provision expenses grew by 2.6% Y/Y to SAR 53mn, -2.1% deviation to AJC estimate. Cost of risk stood at 19bps in Q1-25, down 1bps Y/Y. Loan book expanded by 8.8% Y/Y & 2.9% Q/Q to SAR 112.4bn in Q1-25, 0.8% higher than our estimate. Meanwhile, deposits grew 9.0% Y/Y and 1.8% Q/Q to SAR 124.0bn. Investments expanded by 14.7% Y/Y (5.4% on a Q/Q basis) to SAR 26.3bn.

NIM’s movement is positive to declining rates due to high share of fixed rate investments & even split between retail & corporate loans: Due to the heavy weightage (48.2% of loans as of Q1-25) of long dated retail loans (33% of retail loans mature in 1-5 years, while 56% mature in more than 5 years), Albilad underwent a 30bps decline in NIMs during the 2022-24 rate upcycle. With the beginning of rate cuts (SAMA has slashed rates by 100bps over last twelve months) this trend has reversed, NIMs are up 9bps Y/Y to 3.26% in Q1-25. We see two 25bps cuts in interest rates in remaining 2025 and 2026, hence we expect NIMs to improve by 10bps Y/Y each in 2025/26 to 3.37/3.46%. NIM expansion would be supported by the higher weight of fixed rate sukuk investments and interest rate sensitive deposits which stand at 63.5% of total deposits in Q1-25 vs 46.9% in the mid 2022 when SAMA began increasing rates. A deep dive into the maturity profile of income earning assets and interest-bearing liabilities of the bank shows that only 25.7% of earning assets mature in less than one year, compared to 57.3% of interest-bearing liabilities. 38.3/34.8% of earning assets mature in 1-5year/over 5 years, respectively. This duration mismatch places bank well in a declining rate scenario. The liabilities with no fixed maturity shown in the table below are mainly Albilad Mudarabah accounts.

Maturity profile as of 2024 (SAR bn)

	< 1 year	1-5 years	> 5 years	No fixed maturity	Total
Earning assets	35.77	53.45	48.51	1.70	139.44
% share in total	25.7%	38.3%	34.8%	1.2%	
Interest-bearing liabilities	49.96	0.10	3.15	34.03	87.24
% share in total	57.3%	0.1%	3.6%	39.0%	

Source: Company financials, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	29.0
Upside / (Downside)*	9.8%

Source: Tadawul *prices as of 15th July 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
NSCI	4,110	4,434	4,906	5,504
Growth %	-4.10%	7.88%	10.66%	12.19%
Oper. Income	5,303	5,672	6,205	6,869
Growth %	2.14%	6.96%	9.41%	10.69%
Net Profit	2,369	2,807	2,936	3,150
Growth %	-6.80%	18.47%	4.62%	7.26%
EPS	1.58	2.25	1.96	2.10
DPS	0.50	0.50	0.50	0.60

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
NIMs	3.29%	3.26%	3.37%	3.46%
P/E	23.02	17.36	13.49	12.57
P/B	2.60	2.37	2.05	1.81
Dividend Yield	1.38%	1.89%	1.87%	2.25%
ROA	1.74%	1.88%	1.81%	1.79%
ROE	16.5%	17.7%	16.3%	15.3%
Net loan growth	12.0%	7.1%	8.4%	8.5%
Deposit growth	19.0%	7.9%	8.2%	8.3%

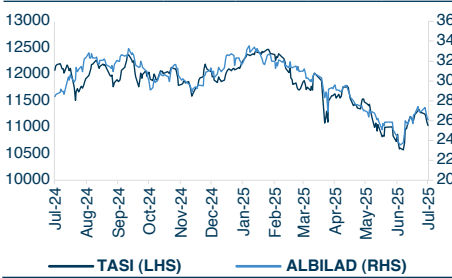
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	39.2
YTD%	-18.8%
52 weeks (High)/(Low)	33.8/23.4
Share Outstanding (mn)	1500

Source: Company reports, Aljazira Capital Research

Price Performance



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Set to deliver 7.5% income CAGR on high single-digit loan growth, widening of NIMs & improving C/I; ROE is expected to drop from 2024 level due to provision expenses: Albilad is expected to deliver 2024-28 earnings (post sukuk) CAGR of 7.5% led by: (1) 11.0% NII CAGR, underpinned by 29bps NIM expansion and 2024-28 loan CAGR of 8.8%, (2) 4.9% non-yield income CAGR, and (3) 6.8ppts reduction in cost-to-income ratio. NPL ratio is likely to move up to 1.31% by 2028 from 1.19% in 2024. Cost of risk is estimated at 26bps in 2025 (average 34bps over 2025-28), as compared to 12bps in 2024, which denotes a 139% Y/Y increase in impairment charge in 2025. Note that impairment charge dropped by 60% Y/Y in 2024 due to SAR 58mn net reversal made in Q4-24. In this backdrop, we forecast ROE to move down from 17.6% in 2024 to 16.3% in 2025 and average around 15.1% between 2025-28.

Earnings were lowered by 4.7/11.2% in 2025/26 on downward revision in deposits, financing and NIMs expansion: Albilad undershot our estimates for deposits and loans in 2024. Due to the current tight liquidity condition, we revise down our 2025/26 deposit assumptions by 2.9/4.6% which imply growth of 8.2/8.3% Y/Y (as compared to increase of 10.3% Y/Y each in 2025 and 2026, previously). Given the more volatile oil price environment, we also revise down 2025/26 loan assumptions by 2.8/4.6%, which denote growth of 8.4/8.5% Y/Y in 2025/26 as compared to 10.5% Y/Y each in 2025/26 previously. Investment growth is likely to remain in low double digits. Due to a change in interest rate outlook, where we now see a more modest decline in rates (we expect two 25bps cuts in interest rates in remaining 2025 and 2026, against earlier estimates of three cuts each in 2025/26), we trim our 2025/26 expectation for NIMs by 7/6bps which now suggests expansion of 10bps each in respective years. The bank recorded much lower-than-expected impairment charge in 2024; we cut our 2025/26 estimate for impairment charge by 17.3/3.2%, due to the substantial write offs made in 2024 and slower loan growth. Overall, we cut 2025/26 earnings estimates (post sukuk) by 4.7/11.2% to SAR 2,936/3,150mn.

AJC view and valuation: Albilad is set to benefit from lower rates and improving operating efficiencies. However, bank's recent performance on deposit, loans and NIMs front has undershot our expectations. Moreover, we highlight key risks/challenges such as (1) increase in cost-of-risk to normalised levels (CoR stood at 12bps in 2024 vs 5 year average of 54bps), (2) a more measured decline in interest rates (that will limit NIM expansion), (3) volatile oil price environment and tight liquidity conditions (that are likely to affect balance sheet growth). Due to likely normalisation of impairment charges, we see ROE to decline from 2024 levels. In this backdrop, we believe all the positives are priced in at 2025e PB of 2.0x.

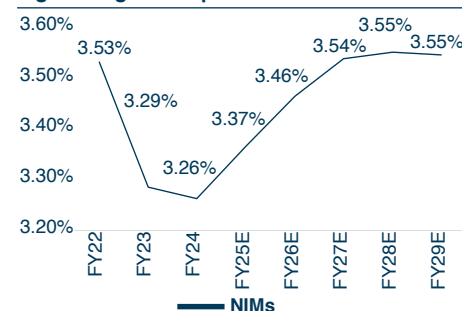
We value the stock based on equal weight to Residual Income and Two staged Gordon growth. Our residual income-based TP assuming the cost of equity of 11.44% is SAR 27.6 per share whereas; through the Two staged Gordon growth model, based on ROE of 16.3%, we arrive at a justified P/B multiple of 2.5x. Hence, the equal weight TP stands at **SAR 29.0 per share** which translates to an upside of 9.8%, hence we maintain our **"Neutral"** recommendation.

Weighted Average TP

Method	Value	Weight	W. Value
RI	27.6	50%	13.8
Justified P/B (2.5x)	30.4	50%	15.2
Price Target			29.0
Upside/Downside			9.8%

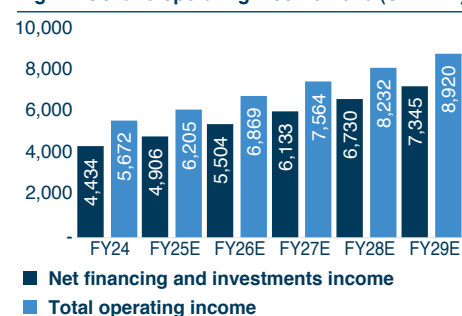
Source: Aljazira capital Research, prices as of 15th July 2025

Fig 1: Margin to improve as rates decline



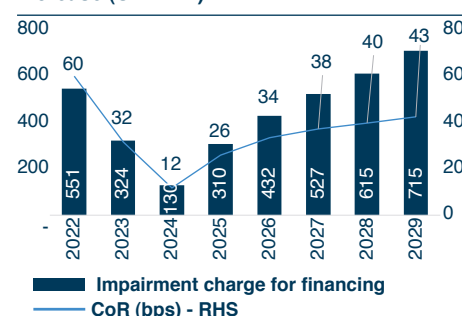
Source: Company accounts, Aljazira Capital Research

Fig 2: NSCI and operating income trend (SAR mn)



Source: Company accounts, Aljazira Capital Research

Fig 3: Impairment charge to see sizable increase (SAR mn)



Source: Company accounts, Aljazira Capital Research


Key Financial Data

Amount in SAR mn, unless otherwise specified	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement								
Net financing and investments income	3,887	4,110	4,434	4,906	5,504	6,133	6,730	7,345
Fee and commission income, net	669	621	701	739	781	825	872	918
Exchange income, net	398	348	316	332	348	366	384	404
Dividend and other operating income	238	224	221	228	235	240	246	252
Total operating income	5,191	5,303	5,672	6,205	6,869	7,564	8,232	8,920
Impairment charge for financing	(551)	(324)	(130)	(310)	(432)	(527)	(615)	(715)
Other operating expenses	(2,320)	(2,338)	(2,413)	(2,533)	(2,661)	(2,796)	(2,939)	(3,086)
Operating Profit	2,321	2,641	3,129	3,362	3,776	4,241	4,679	5,120
Y/Y	23.4%	13.8%	18.5%	7.4%	12.3%	12.3%	10.3%	9.4%
Zakat	(239)	(272)	(322)	(346)	(389)	(437)	(482)	(527)
Net income	2,082	2,369	2,807	3,016	3,387	3,804	4,197	4,592
Y/Y	23.4%	13.8%	18.5%	7.4%	12.3%	12.3%	10.3%	9.4%
Net income post sukuk	2,082	2,369	2,807	2,936	3,150	3,433	3,747	4,142
EPS post sukuk	1.39	1.58	1.87	1.96	2.10	2.29	2.50	2.76
DPS	0.50	0.50	0.50	0.50	0.60	0.70	0.90	1.00
Balance sheet								
Assets								
Cash and balances with SAMA	8,711	6,983	11,248	12,166	13,182	14,303	15,535	16,855
Due from banks and other financial institutions	6,067	8,170	5,099	5,516	5,976	6,484	7,043	7,641
Investments, net	20,600	22,080	25,032	28,063	31,118	34,151	37,515	41,159
Financing, net	91,179	102,080	109,304	118,482	128,547	140,382	153,427	167,449
Property and equipment, net	2,105	2,158	2,371	2,608	2,869	3,155	3,471	3,818
Other assets, net	881	1,635	1,910	2,005	2,106	2,211	2,322	2,438
Total assets	129,543	143,106	154,965	168,840	183,797	200,686	219,312	239,360
Liabilities & owners' equity								
Due to SAMA, banks and other financial institutions	10,621	4,274	5,493	4,112	2,825	1,884	3,891	10,023
Customers' deposits	94,843	112,831	121,776	131,715	142,707	154,840	168,185	182,476
Sukuk	3,040	3,052	3,147	3,147	3,147	3,147	3,147	3,147
Other liabilities	7,639	7,691	7,855	8,091	8,334	8,584	8,841	9,106
Share capital	10,000	10,000	12,500	15,000	15,000	15,000	15,000	15,000
Statutory reserve	1,590	2,182	2,884	1,138	1,985	2,936	3,985	3,985
Retained earnings	1,590	3,371	1,869	3,760	5,484	7,355	9,324	8,682
AT1 Sukuk	-	-	-	2,438	4,875	7,500	7,500	7,500
Total shareholders' equity	13,399	15,258	16,693	21,775	26,784	32,231	35,249	34,607
Total equity & liabilities	129,543	143,106	154,965	168,840	183,797	200,686	219,312	239,360
Key fundamental ratios								
Capital Ratios								
Equity/ Total Assets	10%	11%	11%	13%	15%	16%	16%	14%
Tier-1 ratio	14%	14%	15%	18%	20%	22%	22%	20%
CAR	18%	18%	18%	21%	23%	25%	25%	22%
Profitability Ratios								
NIMs	3.53%	3.29%	3.26%	3.37%	3.46%	3.54%	3.55%	3.55%
CoFs	1.11%	3.09%	3.38%	2.94%	2.36%	2.00%	1.92%	1.89%
Cost-to-Income	44.7%	44.1%	42.6%	40.8%	38.7%	37.0%	35.7%	34.6%
Return On Assets (ROA)	1.7%	1.7%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%
Return On Equity (ROE)	16.4%	16.5%	17.6%	16.3%	15.3%	14.7%	14.3%	15.1%
ROE/ROA (Leverage Ratio) (X)	9.5	9.5	9.3	9.0	8.5	8.2	8.0	8.4
Asset Quality Ratios								
NPL ratio	1.3%	1.4%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%
NPL Coverage	228%	202%	198%	176%	161%	149%	139%	132%
Cost-of-Risk	-60	-32	-12	-26	-34	-38	-40	-43
Funding Ratios								
Loans/ Customer Deposits	96.1%	90.5%	89.8%	90.0%	90.1%	90.7%	91.2%	91.8%
Liquid Assets / Total Assets	97.7%	97.3%	97.2%	97.3%	97.3%	97.3%	97.4%	97.4%
Net Loans / Tot Assets	70.4%	71.3%	70.5%	70.2%	69.9%	70.0%	70.0%	70.0%
Market/valuation ratios								
DPS	0.50	0.50	0.50	0.50	0.60	0.70	0.90	1.00
Dividend Yield	1.4%	1.4%	1.9%	1.9%	2.2%	2.7%	3.2%	3.9%
Book Value Per Share (BVPS)	8.9	10.2	11.1	12.9	14.6	16.5	18.5	18.1
Market Price	35.56	36.36	39.05	38.80	38.80	38.80	38.80	38.80
PE (x)	25.6	23.0	20.9	13.5	12.6	11.5	10.6	9.6
PB (x)	4.0	2.6	2.4	2.0	1.8	1.6	1.4	1.5
Growth								
Investments (Y/Y)	20.5%	7.2%	13.4%	12.1%	10.9%	9.7%	9.8%	9.7%
Financing (Y/Y)	9.9%	12.0%	7.1%	8.4%	8.5%	9.2%	9.3%	9.1%
Deposits (Y/Y)	16.9%	19.0%	7.9%	8.2%	8.3%	8.5%	8.6%	8.5%

Source: Company accounts, Aljazira Capital Research





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RESEARCH
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RATING
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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