Double digit earnings growth driven by NIMs expansion; however trades near justified valuation

Despite being negatively geared to rising interest rates (NIMs down 79bps over 2020-23) Albilad has delivered a phenomenal earnings CAGR of 20.7% over 2020-23. The aforementioned performance was driven by robust balance sheet expansion (2020-23 total assets CAGR 14.3%) and increasing cost efficiencies (operating expenses grew at just 4.2% CAGR over 2020-23). The bank offers top-notch asset quality, coverage and is adequately capitalized. Going forward we forecast the bank to deliver earnings CAGR of 14.4% over 2023-26, driven by asset CAGR of 9.9% and 23bps improvement in net interest margins. We estimate the bank to post earnings growth of 13.8/14.4% Y/Y in 2024/25 to SAR 2,695/3,081mn respectively, while we foresee NIMs to improve by 2/13bps Y/Y in 2024/25. According to the management, each 25bps cut in interest rate results in a 2-3bps improvement in NIMs. We expect banks ROE to increase by 98bps to 17.5% over the 2023-26. We maintain our "Neutral" recommendation with revised up TP of SAR 43.2/share.

Earnings growth stood in mid-teens in Q2-24, supported by improvement in both funded and non-funded income; deposits growth slowed down to 7.8% Y/Y: Albilad posted net income of SAR 670.8mn in Q2-24, up 14.5% Y/Y (+4.3% sequentially), the results were in line with consensus and AJC estimates (SAR 661.9mn). Earnings growth was driven by 6.8% increase in income from investment and financing activities to SAR 1,085mn (AJC estimate SAR 1,088mn), and 16.2% Y/Y growth in non-funded income to SAR 323mn (AJC estimate SAR 286mn). NIMs remained largely unchanged Y/Y at 3.28%. The bank effectively kept operating expenses under control, as they grew by just 2.2% to SAR 578mn in Q2-24 (AJC estimate SAR 577mn). Cost-to-income improved 266bps Y/Y to 41.0% in Q2-24. Debt provisions saw an increase of 9.0% Y/Y in Q2-24 (due to low base) to SAR 82mn (AJC estimate SAR 60mn), overall cost of risk stood at 25bps. Deposit growth stood at 7.8% Y/Y in Q2-24, while share of demand deposits declined by 4.3ppts to 37.1%. Total loan growth slowed down to 5.5% Y/Y, while investment growth stood at 2.1% Y/Y. Retail loans grew by 8.5% Y/Y to SAR 52.1bn, while corporate loans book expanded by 2.8% Y/Y to SAR 52.2bn.

Solid earnings track record and improving operational efficiencies; mid teen growth to sustain in the medium term, driven by declining interest rates: Despite being negatively geared to rising interest rates (NIMs down 79bps over 2020-23) Albilad has delivered a phenomenal earnings CAGR of 20.7% over 2020-23. The aforementioned performance was driven by robust balance sheet expansion (2020-23 total assets CAGR 14.3%) and increasing cost efficiencies. Operating expenses grew at just 4.2% CAGR over 2020-23, resulting in cost-to-income ratio to decline from 48.5% in 2020 to 44.1% in 2023. Going forward we forecast the bank to deliver earnings CAGR of 14.4% over 2023-26, driven by asset CAGR of 9.9% and 23bps improvement in Net interest margins. We expect Net Special Commission Income to grow at a 12.4% CAGR over 2023-2026 (7.7% CAGR over 2020-23), and operating income to post a CAGR of 10.5% over the same period. We estimate the bank to post earnings growth of 13.8/14.4% Y/Y in 2024/25 to SAR 2,695/3,081mn respectively, while we foresee NIMs to improve by 2/13bps Y/Y in 2024/25. According to the management, each 25bps cut in interest rate results in a 2-3bps improvement in NIMs.

Loan growth to remain in high single digits, demand deposit's share to increase as interest rates come down: Albilad has seen loans and investments grow in mid-teens over the past three years, we see loan growth to slow down to 9.7% (2023-26 CAGR) and investment growth to stand at 8.9% (2023-26 CAGR). We expect loans to remain well balanced between corporate and retail. We see share of retail loans in total loans to increase by 220bps over 2023-28 to 50.5%, while share of commercial loans is expected to decline to 49.5% by 2028. Albilad's deposit after expanding at a CAGR of 16.4% over 2020-23, is expected to slow down to 9.9% (2023-26 CAGR), with declining interest rates we expect share of demand deposits to rise from 38.0% in 2023 to 41% in 2026.

Recommendation	Neutral
Target Price (SAR)	43.2
Upside / (Downside)*	10.5%

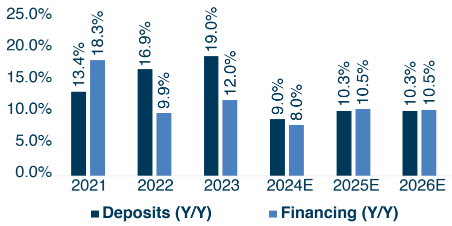
Source: Tadawul *prices as of 24th of September 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Net financing & investment income	3,887	4,110	4,542	5,158
Growth %	11.4%	5.7%	10.5%	13.6%
Net Profit	2,082	2,369	2,695	3,081
Growth %	23.4%	13.8%	13.8%	14.4%
EPS	1.67	1.90	2.16	2.47
DPS	0.50	0.50	0.75	0.75

Source: Company accounts, Aljazira Capital Research

Fig 1: Financing and Deposit Growth



Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
NIMs	3.5%	3.3%	3.3%	3.4%
P/E	23.5	20.6	18.1	15.9
P/B	3.6	3.2	2.9	2.6
Dividend Yield	1.3%	1.3%	1.9%	2.2%
ROA	1.7%	1.7%	1.8%	1.9%
ROE	16.4%	16.5%	16.7%	17.1%
Gross loan growth	9.9%	12.0%	8.0%	10.5%

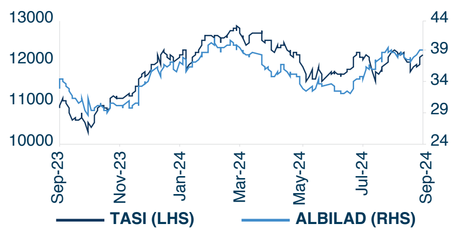
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	48.9
YTD%	7.54%
52 weeks (High)/(Low)	41.4/28.6
Share Outstanding (mn)	1,250

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Bloomberg, Aljazira Capital Research

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Top-notch asset quality, coverage and capital adequacy: Asset quality for Albilad continued to improve, NPL ratio declined from 1.49% in Jun-23 to 1.26% in Jun-24. While coverage rose to 203.2% in Jun-24 from 190.8% in Jun-23. Cost of risk declined from 42bps in Jun-23 to 25bps in Jun-24. Total NPLs declined from SAR 1,433mn in Dec-23 to SAR 1,352mn in Jun-24, the decline is mainly owed to SAR 134mn reduction in corporate NPLs, retail book on the other hand saw a SAR 53mn increase in NPLs. Bank remained well capitalised with CAR of 18.1% as of Jun-24 vs 17.6% in Jun-23.

Investment thesis and valuation: Albilad experienced a 79bps decline in NIMs over 2020-23, with declining rates NIMs are expected to increase over the medium term (+14/8bps in 2025/26E). We expect banks ROE to increase by 98bps to 17.5% over the 2023-26, and earnings growth to stand at 13.8/14.4% in 2024/25 respectively. Trading at 2024/25E PB of 2.9/2.6x we believe bank trades near its justified PB hence there is less room for rerating.

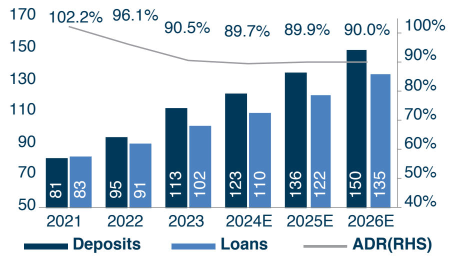
We value the stock based on equal weight to Residual Income and Two staged Gordon growth. Our residual income-based TP assuming the cost of equity of 11.4% is SAR 43.5 per share whereas; through the Two staged Gordon growth model, based on ROE of 17.1%, we arrive at a justified P/B multiple of 2.9x. Hence, the equal weight revised up TP stands at **SAR 43.2 per share** which translates to an upside of 10.5%, hence we maintain our "**Neutral**" recommendation.

Weighted Average TP

Method	Value	Weight	W.Value
RI	44.9	50%	22.5
Justified P/B	41.4	50%	20.7
Price Target			**43.2**
Upside/Downside			10.5%

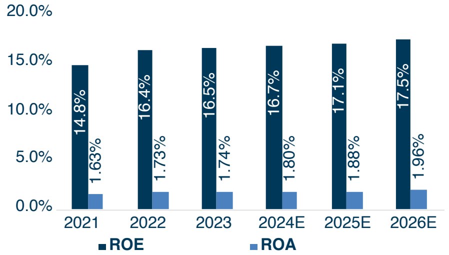
Source: Company reports, AlJazira Capital research

Fig 2: Deposits, Loans (SAR bn) and ADR



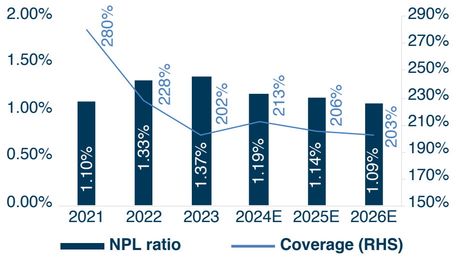
Source: Company accounts, Aljazira Capital Research

Fig 3: ROE and ROA



Source: Company accounts, Aljazira Capital Research

Fig 4: Asset quality and coverage



Source: Company accounts, Aljazira Capital Research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement									
Net financing and investments income	**3,293**	**3,489**	**3,887**	**4,110**	**4,542**	**5,158**	**5,833**	**6,585**	**7,428**
Fee and commission income, net	627	731	669	621	661	712	766	841	920
Exchange income, net	362	313	398	348	278	292	307	322	338
Dividend and other operating income	(20)	50	238	224	269	243	257	269	270
Total operating income	**4,262**	**4,584**	**5,191**	**5,303**	**5,750**	**6,405**	**7,163**	**8,017**	**8,956**
Impairment charge for financing	(695)	(570)	(551)	(324)	(307)	(375)	(446)	(534)	(641)
Other operating expenses	(2,066)	(2,134)	(2,320)	(2,338)	(2,439)	(2,595)	(2,762)	(2,956)	(3,162)
Operating Profit	**1,502**	**1,880**	**2,321**	**2,641**	**3,004**	**3,435**	**3,955**	**4,527**	**5,153**
Y/Y	**8.3%**	**25.2%**	**23.4%**	**13.8%**	**13.8%**	**14.4%**	**15.1%**	**14.5%**	**13.8%**
Zakat	(153)	(194)	(239)	(272)	(309)	(354)	(407)	(466)	(531)
Net income	**1,349**	**1,687**	**2,082**	**2,369**	**2,695**	**3,081**	**3,548**	**4,061**	**4,622**
Y/Y	**8.4%**	**25.1%**	**23.4%**	**13.8%**	**13.8%**	**14.4%**	**15.1%**	**14.5%**	**13.8%**
EPS	**1.08**	**1.35**	**1.67**	**1.90**	**2.16**	**2.47**	**2.84**	**3.25**	**3.70**
DPS	**-**	**-**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.25**	**1.25**
Balance sheet									
Assets									
Cash and balances with SAMA	5,745	6,097	8,711	6,983	9,221	10,173	11,223	12,639	14,209
Due from banks and other financial institutions	2,179	2,137	6,067	8,170	8,903	9,821	10,836	12,202	13,719
Investments, net	14,884	17,092	20,600	22,080	23,446	25,864	28,536	32,135	36,128
Financing, net	70,115	82,933	91,179	102,080	110,294	121,904	134,686	151,877	170,891
Property and equipment, net	1,896	1,925	2,105	2,158	2,374	2,611	2,872	3,159	3,475
Other assets, net	935	669	881	1,635	1,716	1,802	1,892	1,987	2,086
Total assets	**95,754**	**110,854**	**129,543**	**143,106**	**155,954**	**172,175**	**190,045**	**213,999**	**240,509**
Liabilities & owners' equity									
Due to SAMA, banks and other financial institutions	5,403	8,777	10,621	4,274	4,587	5,186	5,698	6,757	7,790
Customers' deposits	71,553	81,110	94,843	112,831	122,952	135,634	149,645	168,519	189,459
Sukuk	2,005	3,015	3,040	3,052	3,052	3,052	3,052	3,052	3,052
Other liabilities	6,053	5,970	7,639	7,691	8,381	9,245	10,200	11,487	12,914
Share capital	7,500	7,500	10,000	10,000	12,500	12,500	12,500	12,500	12,500
Statutory reserve	648	1,070	1,590	2,182	2,856	3,626	4,513	5,529	6,684
Other reserves	897	440	(239)	(166)	(166)	(166)	(166)	(166)	(166)
Retained earnings	1,756	522	1,590	3,371	1,923	3,227	4,733	6,452	8,406
Total shareholders' equity	10,741	11,980	13,399	15,258	16,983	19,058	21,450	24,185	27,294
Total equity & liabilities	**95,754**	**110,854**	**129,543**	**143,106**	**155,954**	**172,175**	**190,045**	**213,999**	**240,509**
Key fundamental ratios									
Capital Ratios									
Equity/ Total Assets	11%	11%	10%	11%	11%	11%	11%	11%	11%
Tier-1 ratio	14%	14%	14%	14%	14%	14%	15%	15%	15%
CAR	18%	19%	18%	18%	18%	18%	18%	17%	17%
Profitability Ratios									
NIMs	4.08%	3.69%	3.53%	3.29%	3.30%	3.44%	3.52%	3.56%	3.56%
Return On Assets (ROA)	1.5%	1.6%	1.7%	1.7%	1.8%	1.9%	2.0%	2.0%	2.0%
Return On Equity (ROE)	13.4%	14.8%	16.4%	16.5%	16.7%	17.1%	17.5%	17.8%	18.0%
ROE/ROA (Leverage Ratio) (X)	9.0	9.1	9.5	9.5	9.3	9.1	8.9	8.9	8.8
Asset Quality Ratios									
NPL ratio	1.2%	1.1%	1.3%	1.4%	1.2%	1.1%	1.1%	1.0%	1.0%
NPL Coverage	280%	280%	228%	202%	213%	206%	203%	200%	192%
Funding Ratios									
Loans/ Customer Deposits	98.0%	102.2%	96.1%	90.5%	89.7%	89.9%	90.0%	90.1%	90.2%
Liquid Assets / Total Assets	97.0%	97.7%	97.7%	97.3%	97.4%	97.4%	97.5%	97.6%	97.7%
Net Loans / Tot Assets	73.2%	74.8%	70.4%	71.3%	70.7%	70.8%	70.9%	71.0%	71.1%
Market/valuation ratios									
DPS	-	-	0.50	0.50	0.75	0.75	1.00	1.25	1.25
Dividend Yield	0.0%	0.0%	1.4%	1.4%	1.9%	2.2%	2.5%	2.9%	3.3%
Book Value Per Share (BVPS)	8.6	9.6	10.7	12.2	13.6	15.2	17.2	19.3	21.8
Market Price	17.02	27.83	35.56	36.36	39.10	39.10	39.10	39.10	39.10
PE (x)	36.2	20.6	21.4	19.2	18.1	15.9	13.8	12.0	10.6
PB (x)	2.0	2.9	3.3	3.2	2.9	2.6	2.3	2.0	1.8
Growth									
Investments (Y/Y)	35.5%	14.8%	20.5%	7.2%	6.2%	10.3%	10.3%	12.6%	12.4%
Financing (Y/Y)	18.3%	18.3%	9.9%	12.0%	8.0%	10.5%	10.5%	12.8%	12.5%
Deposits (Y/Y)	6.6%	13.4%	16.9%	19.0%	9.0%	10.3%	10.3%	12.6%	12.4%

Source: Company financials, AlJazira Capital research

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RESEARCH DIVISION

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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.

Disclaimer