

Poised for higher loan growth

We initiate our coverage on Riyadh Bank (RIBL) with an Overweight rating and a PT of SAR33.6. The bank's corporate tilt, makes its NIMs positively geared to higher interest rates and a key beneficiary of the Mega-projects' related loan growth. Strong Fee income is another key positive, providing revenue diversification. However, with one of the lowest coverage ratios in the sector (112% in 2022), we expect CoR to remain elevated. We expect the bank to deliver a 2022-2027f earnings CAGR of 11.5%, translating into an average ROE of 16.3%. The stock is trading at 2023f P/B of 1.6x, in-line with the peer group average. We believe the stock deserve to trade at a premium to the sector due to relatively higher ROEs.

- Well positioned for Mega-projects' related loan growth**

In terms of total assets, the bank is the 3rd largest bank in Saudi, with a market share of c11% across key balance sheet items. It also has a strong corporate tilt (65% of total loan book), with a focus on MSMEs which represents c14% of the loan book. We believe the corporate tilt makes it one of the key beneficiaries from Mega-projects' related loan growth. We expect the bank's loan book to grow by 12% yoy in 2023f (similar to 2022).

- Strong fee and commission income contribution**

Another key strength of the bank is strong fee income generation, which contributed c18% to total revenues in 2022 (vs the industry avg of c13%). This is the highest contribution in the sector, followed by Rajhi (16% contribution) and Alinma (15%). Riyadh Bank generates an average return of 0.8% on its earnings assets, the highest in the industry. Going forward, we expect fee income to remain at c0.8% of earnings assets.

- Liquidity position is relatively tight**

RIBL's LDR is 95%, slightly above the industry average of 93%. Given a relatively higher LDR, the bank deposits mix is skewed towards expensive deposits (T&S represents 41% of total deposits vs industry avg of 36%). Therefore, we estimate the impact of higher yields on earnings assets to be partially offset by higher cost of funds. We expect the bank's NIMs to expand by 39bps yoy to 3.7% in 2023f vs 3.3% in 2022.

- Improved coverage to keep CoR elevated**

RIBL has consistently reported a moderate CoR, with relatively low NPL ratio (1.7%). However, its coverage ratio remains low at 112% vs the sector's avg of c149%. It's coverage for stage 3 loans is 54% vs the sector avg of c62%. We expect the bank to improve its coverage ratio to 160% by 2027f, which is expected to keep its CoR elevated.

- Initiate coverage on RIBL with an Overweight rating and PT of SAR33.6**

We initiate coverage on RIBL with an Overweight rating and a PT of SAR33.6. The stock is trading at a 2023f P/B of 1.6x, in-line with sector. However, we believe a premium is justified, driven by higher than average ROEs. The bank is also expected to be one of the key beneficiaries of higher interest rates as well as Mega projects related loan growth.

Summary Financials

SAR mn	2022	2023f	2024f	2025f	2026f	2027f
Revenues	13,599	15,567	17,369	18,213	19,701	21,634
Pre-provision profit	9,189	10,672	11,910	12,580	13,629	15,171
Net Income	7,828	8,967	9,945	10,605	11,658	13,420
NIMS (%)	3.3	3.7	3.8	3.6	3.6	3.6
C-I Ratio (%)	32.4	31.4	31.4	30.9	30.8	29.9
COR (%)	0.4	0.6	0.7	0.6	0.5	0.4
Loans & advances (bn)	242	272	299	328	361	397
Deposits (bn)	240	268	295	325	357	393
EPS (SAR per share)	2.3	2.7	3.0	3.2	3.5	4.0

Source: The company, SNB Capital Research estimates

Please refer to the last page for important disclaimer

OVERWEIGHT

Price target (SAR)	33.6
Current price (SAR)	28.6
Upside/Downside (%)	17.5

VALUATION MULTIPLES

	22	23f	24f
P/E (x)	12.3	10.8	9.7
P/B (x)	1.7	1.6	1.5
Div Yield (%)	4.0	5.2	6.3
ROE (%)	14.4	15.4	15.8

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
PIF	21.8%
GOSI	10.4%
Foreign Investors	9.9%
Alnahla	8.8%
Assila	8.0%

Source: Saudi Exchange, SNB Capital Research

STOCK DETAILS

M52-week range H/L (SAR)	43/26
Market cap (\$mn)	22,843
Shares outstanding (mn)	3,000
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	1.1	(7.1)	(24.4)
Rel. to market	3.7	(6.6)	(4.1)

Reuters code	1010.SE
Bloomberg code	RIBLAB
	www.riyadbank.com

Nauman Khan +966 11 874 9774
n.khan@alahlicapital.com

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