

Saudi National Bank (SNB)

Strong deposit growth improved liquidity

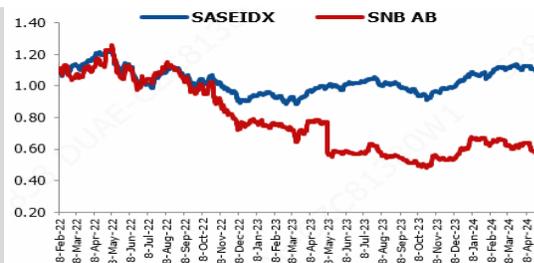
Current Price
SAR 36.15

Target Price
SAR 47.00

Upside/Downside (%)
+30%

Rating
BUY

- SNB's net advances grew 10.4% YOY and 3.9% QOQ to SAR 625.2 Bn in 1Q24, while deposits rose 7.4% YOY and 11.2% QOQ to SAR 656.3 Bn.
- SNB maintained a strong CASA ratio of 76.4% in 1Q24.
- SNB's liquidity improved as the headline loan-to-deposit ratio declined from 101.9% in 4Q23 to 95.3% in 1Q24.
- The Bank's non-core income grew 1.9% YOY to SAR 2.0 Bn in 1Q24 due to higher fees from banking services.
- SNB's NPLs improved 9 bps QOQ to 1.1% in 1Q24.
- Cost-to-income ratio (calculated) 186 bps YOY to 29.8% in 1Q24.



1Q24 Net Profit in line with our estimate

Saudi National Bank ("SNB"/ "The Bank") recorded a marginal growth of 0.4% YOY in net profit to SAR 5,040 Mn in 1Q24, in line with our estimate of SAR 4,976 Mn. The growth in the net profit is due to stable growth in funded and non-funded income, an increase in other non-operating income, and a decline in zakat and share of NCI partially offset by a rise in operating expenses and impairment charges.

P&L Highlights

SNB's funded income rose 21.9% YOY to SAR 13,552 Mn in 1Q24, which was mainly driven by a strong increase in financing and investment portfolios. Funded expenses grew significantly from SAR 4,339 Mn in 1Q23 to SAR 6,640 Mn in 1Q24 owing to higher benchmark rates. Thus, net funded income rose 1.9% YOY to SAR 6,912 Mn in 1Q24. Moreover, SNB's total non-funded income grew 3.8% YOY to SAR 2,027 Mn in 1Q24, mainly driven by increased banking service fees. As a result, total operating income rose 2.3% YOY to SAR 8,939 Mn in 1Q24. The calculated cost to income ratio increased from 27.9% in 1Q23 to 29.8% in 1Q24. Operating expenses increased 9.1% YOY to SAR 2,664 Mn in 1Q24 owing to an increase in domestic other G&A expenses and staff cost coupled with higher cost from inflationary pressure in Turkey. Furthermore, impairment charges increased 32.9% YOY to SAR 655 Mn in 1Q24. Moreover, Zakat expenses declined 7.7% YOY to SAR 640 Mn in 1Q24. The share of profit attributable to non-controlling interest holders declined from SAR 79 Mn in 1Q23 to SAR 16 Mn in 1Q24.

Balance Sheet Highlights

SNB's net advances grew 10.4% YOY and 3.9% QOQ to SAR 625.2 Bn in 1Q24. The QOQ growth in advances during 1Q24 is attributable to 2.5% rise in retail, 4.4% in mortgages, and 5.6% in wholesale financing. Total assets grew 9.8% YOY and 3.4% QOQ to SAR 1,072.1 Bn in 1Q24.

Stock Information

Market Cap (SAR, mm)	216,900.00
Paid Up Capital (mm)	60,000.00
52 Week High	44.35
52 Week Low	30.90
3M Avg. daily value (SAR)	171,077,300

1Q24 Result Review (SAR, mm)

Total Assets	1,072,144
Total Liabilities	892,157
Total Equity	179,987
Total Deposits	656,261
Net Profit	5,040

Financial Ratios

Dividend Yield (12m)	4.84
Dividend Pay-out (%)	26.51
Price-Earnings Ratio(x)	11.14
Price-to-Book Ratio (x)	1.30
Book Value (SAR)	27.72
Return-on Equity (%)	12.12

Stock Performance

5 Days	-3.86%
1 Months	-12.26%
3 Months	-12.15%
6 Months	1.97%
1 Year	-2.03%
Month to Date (MTD%)	-3.86%
Quarter to Date (QTD%)	-10.07%
Year to Date (YTD%)	-6.47%

Customer deposits recorded a growth of 7.4% YOY and 11.2% QOQ to SAR 656.3 Bn in 1Q24. The QOQ growth in advances is mainly driven by an increase in CASA and term deposits in the domestic market. In addition, SNB's total equity rose 5.8% YOY and 1.9% QOQ to SAR 180.0 Bn in 1Q24.

Target Price and Rating

We maintain our BUY rating on SNB with a target price of SAR 47.00. The Bank's advances grew 10.4% YOY and 3.4% QOQ to SAR 625.2 Bn in 1Q24 owing to strong momentum across retail and wholesale financing. The Bank's retail financing grew 2.5% QOQ whereas mortgages and wholesale financing rose 4.4% and 5.6% QOQ respectively in 1Q24. SNB is poised to benefit in the declining interest rate scenario as the Bank's primary lending focus is on the retail sector, which is expected to experience slower repricing compared to wholesale financing. Customer deposits recorded a growth of 7.4% YOY and 11.2% QOQ to SAR 656.3 Bn in 1Q24 due to growth in both CASA and term deposits. SNB maintained a strong CASA ratio of 76.4% in 1Q24 which benefits the NIMs. The bank also has call accounts, which gives it a competitive advantage. SAMA's headline loan-to-deposit ratio improved from 101.9% in 4Q23 to 95.3% in 1Q24 indicating improved liquidity driven by strong QOQ growth in deposits. SNB reported that NIMs declined 27 bps YOY and 2 bps QOQ to 3.1% in 1Q24, mainly due to the higher cost of funds. Furthermore, the Bank's asset quality improved as NPLs excluding POCI declined of 9 bps QOQ to 1.1% in 1Q24. SNB's capitalization stood strong with a CET 1 ratio of 17.3% and CAR of 20.1% in 4Q23. Thus, based on our analysis, we maintain our BUY rating on the stock.

SNB Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.06	13.06	16.03	11.81	10.78	10.40
PB	3.73	3.12	1.36	1.30	1.23	1.16
Dividend Yield	3.2%	1.7%	3.2%	3.5%	4.9%	5.1%

FABS Estimates & Co Data

SNB Bank - P&L

SAR mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	11,120	13,673	13,552	13,937	-2.8%	21.9%	-0.9%	49,857	55,750	11.8%
Funded expense	4,339	6,786	6,640	6,869	-3.3%	53.0%	-2.1%	22,848	26,403	15.6%
Net funded income	6,780	6,887	6,912	7,068	-2.2%	1.9%	0.4%	27,009	29,347	8.7%
Non-funded income	1,953	1,738	2,027	1,779	13.9%	3.8%	16.7%	7,580	7,734	2.0%
Operating income	8,734	8,625	8,939	8,847	1.0%	2.3%	3.6%	34,589	37,081	7.2%
Total operating exp.	2,441	2,545	2,664	2,563	4.0%	9.1%	4.7%	10,357	10,616	2.5%
Other non-operating inc./(exp.), net	-3	-138	76	-141	NM	NM	NM	-537	-548	2.0%
Pre-provision profit	6,290	5,941	6,351	6,144	3.4%	1.0%	6.9%	23,695	25,917	9.4%
Impairments	493	431	655	461	42.1%	32.9%	52.0%	923	2,226	141.2%
PBT	5,797	5,510	5,696	5,683	0.2%	-1.7%	3.4%	22,773	23,691	4.0%
Zakat	693	576	640	682	-6.1%	-7.7%	11.1%	2,664	2,843	6.7%
Profit after tax	5,104	4,935	5,056	5,001	1.1%	-0.9%	2.5%	20,109	20,848	3.7%
NCI	79	-29	16	25	-36.0%	-79.8%	NM	99	104	5.4%
Net profit attributable	5,022	4,963	5,040	4,976	1.3%	0.4%	1.5%	20,010	20,744	3.7%

FABS estimate & Co Data

SNB Bank - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	77.6%	79.9%	77.3%	-30	-253	78.1%	79.1%	106
Cost to income (calculated)	27.9%	29.5%	29.8%	186	29	29.9%	28.6%	-131
Impairment/PPP	7.8%	7.3%	10.3%	248	306	3.9%	8.6%	469
NP/OI	57.5%	57.5%	56.4%	-112	-116	57.8%	55.9%	-191
Loan-to-deposit (Headline)	92.7%	101.9%	101.6%	885	-37	101.9%	102.7%	74

FABS estimate & Co Data

SNB Bank - Key B/S items

SAR mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	566,337	577,849	595,721	601,527	625,202	10.4%
QOQ change	3.9%	2.0%	3.1%	1.0%	3.9%	
Total assets	976,063	996,163	1,027,133	1,037,081	1,072,144	9.8%
QOQ change	3.2%	2.1%	3.1%	1.0%	3.4%	
Customer deposits	610,791	602,209	624,769	590,051	656,261	7.4%
QOQ change	7.5%	-1.4%	3.7%	-5.6%	11.2%	
Total equity	170,151	170,878	168,971	176,629	179,987	5.8%
QOQ change	2.0%	0.4%	-1.1%	4.5%	1.9%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	49.48	70.0%	34.63
Relative Valuation (RV)	41.21	30.0%	12.36
Weighted Average Valuation (SAR)			47.00
Current market price (SAR)			36.15
Upside/Downside (%)			+30%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90 and equity risk premium of 3.2%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	32,909
Terminal value (SAR, Mn)	109,198
Book value of Equity (as of Mar, 2024)	154,761
FV to Common shareholders (SAR, Mn)	296,868
No. of share (Mn)	6,000
Current Market Price (SAR)	36.15
Fair Value per share (SAR)	49.48

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	20,744	22,037	23,887	25,589	27,687
(-) Equity Charge	-13,949	-14,797	-15,773	-16,820	-17,952
Excess Equity	6,794	7,240	8,113	8,769	9,735
Discounting Factor	0.96	0.88	0.82	0.75	0.70
Present Value of Excess Equity	6,490	6,393	6,622	6,616	6,789

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value SNB and it is valued using the PB multiple. It is valued at a PB multiple of 1.5x in line with its peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Alinma Bank	21,670	2.5	2.2	14.8	13.6	2.9	3.1
Al Rajhi Bank	83,840	3.1	2.8	17.8	15.7	3.2	3.7
Arab National Bank	11,660	1.1	1.1	9.6	9.7	5.2	5.4
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Riyad Bank	22,360	1.5	1.4	10.3	9.6	5.2	5.4
Average		1.8x	1.7x	12.5x	11.5x	4.4%	4.7%
Median		1.5x	1.4x	10.3x	9.7x	5.2%	5.4%
Max		2.5x	2.2x	14.8x	13.6x	5.2%	5.4%
Min		1.1x	1.1x	10.2x	9.6x	3.2%	3.7%

Source: FAB Securities

