

Saudi National Bank (SNB)

Strong growth in non-funded income and sharp reduction in impairment charges boosted bottom-line

Current Price
SAR 35.30

Target Price
SAR 47.00

Upside/Downside (%)
+33%

Rating
BUY

- SNB achieved 99% of revised targeted cost synergies in 2Q23
- SNB revised down its NSCI margin guidance from 3.2%-3.3% to 3.0%-3.2% in 2023.
- SNB registered strong growth in net advances from SAR 545 Bn in 4Q22 to SAR 578 Bn in 2Q23, mainly driven by growth in wholesale and retail financing.
- Loan growth exceeded deposit growth; however regulatory loan-to-deposit ratio fell 347bps on YTD basis of 79.1% in 2Q23.
- The Bank's non-funded income registered a growth of 25.9% YoY to SAR 1,973 Mn in 2Q23, driven by increased fees from banking services, foreign exchange income, and investment income.
- Impairment charge declined sharply 87.2% YOY and 84.6% QOQ mainly due to a decline in provisioning provided for the wholesale sector boosting profitability.



Stock Information

Market Cap (SAR, mm)	213,902.57
Paid Up Capital (mm)	60,000.72
52 Week High	54.71
52 Week Low	29.67
3M Avg. daily value (SAR)	187,452,600

2Q23 Result Review (SAR, mm)

Total Assets	996,163
Total Liabilities	825,285
Total Equity	170,178
Total Deposits	602,209
Net Profit	5,016

Financial Ratios

Dividend Yield (12m)	3.64
Dividend Pay-out (%)	14.92
Price-Earnings Ratio(x)	11.25
Price-to-Book Ratio (x)	1.37
Book Value (SAR)	26.05
Return-on Equity (%)	12.39

Stock Performance

5 Days	-0.97%
1 Months	-8.59%
3 Months	-3.65%
6 Months	-2.42%
1 Year	-34.39%
Month to Date (MTD%)	-7.39%
Quarter to Date (QTD%)	-2.99%
Year to Date (YTD%)	-5.28%

2Q23 Net Profit in-line with our estimate

Saudi National Bank's ("SNB", "The Bank") recorded a 9.3% YOY increase in net profit to SAR 5,016 Mn in 2Q23, in line with our estimate of SAR 5,026 Mn. The increase in the net profit is mainly attributable to strong growth in non-funded income and a decline in impairments partially offset by a fall in net funded income owing to higher cost of funds, an increase in operating expenses, and higher profit attributable to non-controlling interest.

P&L Highlights

SNB's funded income rose 45.9% YOY to SAR 11,930 Mn in 2Q23 mainly driven by healthy growth in advances and expansion in asset yield. Advances rose 2.0% QOQ to SAR 578 Bn owing to wholesale and retail financing expansion. On the other hand, funded expenses grew significantly from SAR 1,350 Mn in 2Q22 to SAR 5,406 Mn in 2Q23 owing to an increase in the cost of funds due to higher benchmark rates. Cost of funds rose 48 bps QOQ to 2.8% in 2Q23. Thus, net funded income declined 4.4% YOY to SAR 6,524 Mn in 2Q23. Fees and commission income rose 13.2% YOY to SAR 1,078 Mn in 2Q23 owing to growth in foreign exchange and international fees partially offset by a decline in fees from banking services, investment-related fees, and other fees. Exchange income grew 59.4% YOY to SAR 526 Mn while income from FVIS investments recorded a strong growth of 46.5% YOY to SAR 575 Mn in 2Q23. Gains and losses on non-trading investments declined 25.9% YOY to SAR 106 Mn in 2Q23. Moreover, other operating expenses increased 5.4% YOY to SAR 312 Mn in 2Q23. Thus, total non-funded income rose 29.7% YOY to SAR 1,973 Mn in 2Q23. As a result, operating income increased marginally 1.8% YOY to SAR 8,497 Mn in 2Q23. Furthermore, salary and

employee-related expenses rose 2.5% YOY to SAR 1,157 Mn in 2Q23. Rent and premises-related expense increased marginally 0.5% YOY to SAR 134 Mn in 2Q23 while other G&A expenses rose 11.7% YOY to SAR 778 Mn. However, depreciation expenses declined 11.7% YOY to SAR 335 Mn in 2Q23. Resultantly, total operating expenses rose 2.4% YOY to SAR 2,609 Mn in 2Q23. Other non-operating expenses stood at SAR 17 Mn in 2Q23 as compared to non-operating income of SAR 98 Mn in 2Q22. Additionally, impairment charges declined significantly from SAR 592 Mn in 2Q22 to SAR 76 Mn in 2Q23 mainly attributable to a decline in provisioning for the wholesale segment. Zakat charges declined 2.0% YOY to SAR 678 Mn in 2Q23. Moreover, share of profit attributable to non-controlling interest holders increased significantly from SAR 22 Mn in 2Q22 to SAR 101 Mn in 2Q23.

Balance Sheet Highlights

SNB's net advances increased 7.8% YOY and 2.0% QOQ to SAR 577.9 Bn in 2Q23 driven by a healthy growth in retail and wholesale financing. Total assets grew 3.9% YOY and 2.1% QOQ to SAR 996.2 Bn in 2Q23. Customer deposits recorded a strong growth of 1.6% YOY to SAR 602.2 Bn in 2Q23. CASA deposits as a percentage of total deposits stood at 74.1% in 2Q23. The loan-to-deposit ratio increased from 92.7% in 1Q23 to 96.0% in 2Q23. While the regulatory loan-to-deposit ratio declined 81.2% in 1Q23 to 79.1% in 2Q23. The Bank's total equity increased 6.1% YOY but declined 0.1% QOQ to SAR 170.9 Bn in 2Q23.

Target Price and Rating

We maintain our BUY rating on SNB with a target price of SAR 47.00. SNB achieved SAR 1,379 Mn through merger synergies until 2Q23 slightly falling short of the revised target of SAR 1,400 Mn. The cost synergies is achieved through operational efficiencies, technology stack optimization, and natural FTE attrition. SNB recorded strong growth in advances in 2023 and further expects advances to grow by double digits in 2023. Advances rose 6.0% on a YTD basis to SAR578 Bn in 2Q23. The decline in the regulatory loan-to-deposit ratio will further support growth in financing. However, NIM is expected to remain under pressure due to 53.3% of total loans constitute retail loans. Out of which, the majority is made up of mortgage loans. The Bank's asset quality improved as NPLs declined from 1.4% in 1Q23 to 1.3% in 2Q23 whereas provision coverage strengthened 165 bps QOQ to 137.4% in 2Q23. The Bank's NPLs improved mainly due to healthy write-offs in the wholesale segment. Additionally, SNB's CASA ratio stood strong at 74.1% in 2Q23 as compared to 76.8% in 1Q23. SNB's capitalization stood strong with a CET 1 ratio of 19.1% and CAR of 19.8% in 2Q23. Thus, looking at the above-mentioned factors, we maintain our "BUY" rating on the stock.

SNB Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	15.24	12.79	12.79	15.70	11.56	10.37
PB	2.59	2.43	2.03	1.34	1.29	1.35
Dividend Yield	4.5%	4.9%	2.5%	3.3%	3.6%	4.3%

FABS Estimates & Co Data

SNB Bank – P&L

	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
SAR mm										
Funded income	8,174	11,117	11,930	11,733	1.7%	45.9%	7.3%	34,392	47,790	39.0%
Funded expense	1,350	4,339	5,406	4,751	13.8%	300.4%	24.6%	8,106	19,468	140.2%
Net funded income	6,824	6,778	6,524	6,982	-6.6%	-4.4%	-3.7%	26,286	28,322	7.7%
Fees and commissions	952	1,037	1,078	1,047	3.0%	13.2%	4.0%	3,704	4,038	9.0%
Exchange income, net	330	493	526	419	25.5%	59.4%	6.7%	1,580	1,738	10.0%
Income from FVIS invst., net	392	529	575	449	27.9%	46.5%	8.7%	1,694	1,728	2.0%
P&L on non-trading invst, net	143	231	106	197	-46.2%	-25.9%	-54.3%	774	836	8.0%
Other operating income, net	-296	-336	-312	-286	9.1%	5.4%	-7.3%	-1,035	-1,138	10.0%
Non-funded income	1,521	1,953	1,973	1,826	8.0%	29.7%	1.0%	6,717	7,201	7.2%
Operating income	8,345	8,731	8,497	8,808	-3.5%	1.8%	-2.7%	33,003	35,523	7.6%
Salaries & emp.-related exp.	1,128	1,164	1,157	1,170	-1.2%	2.5%	-0.7%	4,310	4,526	5.0%
Rent & premises-related exp.	133	133	134	138	-2.9%	0.5%	0.5%	530	540	2.0%
Depreciation on PPE	380	346	335	325	3.4%	-11.7%	-2.9%	1,435	1,319	-8.1%
Amort. of intangible assets	205	205	205	213	-3.9%	0.0%	0.0%	845	845	0.0%
Other G&A expenses	701	593	778	599	30.0%	11.0%	31.3%	2,664	2,450	-8.0%
Total operating Expenses	2,547	2,441	2,609	2,444	6.7%	2.4%	6.9%	9,784	9,681	-1.1%
Other non-operating inc., net	98	-3	-17	-71	-76.9%	NM	NM	-258	-245	-5.0%
Pre-provision profit	5,896	6,287	5,871	6,292	-6.7%	-0.4%	-6.6%	22,962	25,598	11.5%
Impairments	592	493	76	551	-86.2%	-87.2%	-84.6%	1,685	2,278	35.2%
PBT	5,303	5,794	5,795	5,741	1.0%	9.3%	0.0%	21,277	23,320	9.6%
Zakat	693	693	678	689	-1.5%	-2.0%	-2.1%	2,548	2,798	9.8%
Profit after tax	4,611	5,101	5,117	5,052	1.3%	11.0%	0.3%	18,729	20,521	9.6%
Non controlling interest	22	79	101	25	NM	NM	27.8%	148	164	10.8%
Net profit	4,589	5,022	5,016	5,026	-0.2%	9.3%	-0.1%	18,581	20,357	9.6%

FABS estimate & Co Data
SNB Bank - KPI

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	81.8%	77.6%	76.8%	-499	-85	79.6%	79.7%	8
NIM	3.18%	3.1%	2.9%	17	-19	3.1%	3.1%	4
NIS	3.1%	2.7%	2.5%	-10	-26	2.9%	2.8%	-16
Fees & comms/OI	11.4%	11.9%	12.7%	12	82	11.2%	11.4%	14
Trading/OI	4.0%	5.6%	6.2%	52	54	4.8%	4.9%	11
Cost to income	30.5%	28.0%	30.7%	-223	275	29.6%	27.3%	-239
Impairment/PPP	10.0%	7.8%	1.3%	88	-654	7.3%	8.9%	156
NP/OI	55.0%	57.5%	59.0%	189	151	56.3%	57.3%	101
ROE	10.8%	12.8%	12.8%	348	-2	12.6%	14.1%	145
ROA	1.7%	2.0%	2.0%	50	-1	2.0%	2.0%	2

FABS estimate & Co Data

SNB Bank - Key B/S items

SAR mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	536,189	536,176	545,311	566,337	577,849	7.8%
<i>QOQ change</i>	4.2%	0.0%	1.7%	3.9%	2.0%	
Total assets	958,473	964,421	945,496	976,053	996,163	3.9%
<i>QOQ change</i>	4.0%	0.6%	-2.0%	3.2%	2.1%	
Customer deposits	593,011	596,886	568,283	610,791	602,209	1.6%
<i>QOQ change</i>	-2.3%	0.7%	-4.8%	7.5%	-1.4%	
Total equity	160,988	163,183	166,778	171,010	170,878	6.1%
<i>QOQ change</i>	-2.2%	1.4%	2.2%	2.5%	-0.1%	

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	47.16	70.0%	33.01
Relative Valuation (RV)	46.61	30.0%	13.98
Weighted Average Valuation (SAR)			47.00
Current market price (SAR)			35.30
Upside/Downside (%)			+33%

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 4.7%, beta of 1.00 and equity risk premium of 3.6%. 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)	31,305
Terminal value (SAR, Mn)	96,662
Book value of Equity (as of June, 2023)	154,990
FV to Common shareholders (SAR, Mn)	282,958
No. of share (Mn)	6,000
Current Market Price (SAR)	35.30
Fair Value per share (SAR)	47.16

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	20,357	20,716	21,119	23,547	24,311
(-) Equity Charge	-11,775	-12,671	-13,553	-14,537	-15,553
Excess Equity	5,722	8,045	7,565	9,010	8,758
Discounting Factor	0.95	0.87	0.81	0.75	0.69
Present Value of Excess Equity	5,424	7,038	6,108	6,713	6,022

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 2.0x in line with peers. We have applied a discount to the median valuation multiple

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Alinma Bank	19,446	2.5	2.3	16.4	14.8	3.4	3.8
Al Rajhi Bank	75,542	3.0	2.7	16.5	14.7	2.5	3.4
Arab National Bank	11,083	1.2	1.2	10.9	10.7	4.9	5.2
Banque Saudi Fransi	14,126	1.5	1.4	12.3	11.4	4.5	4.6
Riyad Bank	11,303	1.9	1.8	12.8	12.1	4.0	4.2
Bank Albilad	11,563	2.8	2.5	18.3	15.9	1.4	1.8
Average		2.1x	2.0x	14.5x	13.3x	3.4x	3.8x
Median		2.2x	2.0x	14.6x	13.4x	3.7x	4.0x
Max		2.7x	2.4x	16.5x	14.8x	4.3x	4.5x
Min		1.6x	1.5x	12.4x	11.6x	2.7x	3.5x

Source: FAB Securities

