

Saudi National Bank (SNB)

Healthy financing growth and stable margins supported profitability

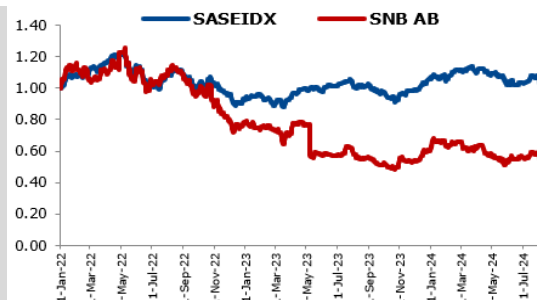
Current Price
SAR 35.05

Target Price
SAR 47.00

Upside/Downside (%)
+34%

Rating
BUY

- SNB's reported NIMs remained stable at 3.1% in 2Q24 compared to 1Q24 despite high benchmark rates, reflecting SNB's ability to deliver a solid performance amid peak interest rates.
- SNB issued a 5-year senior unsecured FRN bond worth USD 500 Mn in the Taiwanese Formosa market.
- The Bank's NPL fell 23 bps YOY to 1.1% in 2Q24, reflecting an improvement in the asset quality.
- The Bank's advances grew 10.3% YOY and 1.9% QOQ to SAR 637.2 Bn in 2Q24, owing to strong momentum across retail mortgages and wholesale financing.
- SNB announced to distribute a cash dividend of SAR 0.90 per share for 1H24, amounting to SAR 5.4 Bn.



2Q24 Net Profit in line with our estimate

Saudi National Bank ("SNB"/ "The Bank") recorded a growth of 4.3% YOY in net profit to SAR 5,231 Mn in 2Q24, in line with our estimate of SAR 5,046 Mn. The growth in the net profit is due to healthy growth in net funded income and a decline in Zakat expense partially offset by a fall in non-funded income coupled with a significant increase in non-operating expenses and impairments.

P&L Highlights

SNB's funded income rose 20.6% YOY to SAR 14,379 Mn in 2Q24 mainly driven by a rise in asset yield and growth in interest-earning assets. Funded expenses grew significantly from SAR 5,398 Mn in 2Q23 to SAR 7,328 Mn in 2Q24 owing to higher benchmark rates and growth in customer deposits. Thus, net funded income rose 8.1% YOY to SAR 7,051 Mn in 2Q24. Fees and commission income inched up 1.8% YOY to SAR 1,097 Mn in 2Q24. On the other hand, net exchange income fell 20.4% YOY to 418 Mn, while income from investments increased 25.1% YOY to SAR 719 Mn in 2Q24. Gains on Non-trading investments declined from SAR 106 Mn in 2Q23 to SAR 59 Mn in 2Q24, while other operating expenses rose 37.3% YOY to SAR 428 Mn. Thus, SNB's total non-funded income fell 5.4% YOY to SAR 1,866 Mn in 2Q24. Moreover, total operating income rose 5.0% YOY to SAR 8,916 Mn in 2Q24. The cost-to-income ratio increased marginally from 28.3% in 2Q23 to 28.5% in 2Q24. Total operating expenses increased 5.5% YOY to SAR 2,750 Mn in 2Q24 owing to an increase in depreciation and staff cost partially offset by a decline in rent and other G&A expenses. Other non-operating expense increased significantly from SAR 17 Mn in 2Q23 to SAR 317 Mn in 2Q24. Furthermore, impairment charges increased from SAR 76 Mn in 2Q23 to SAR 120 Mn in 2Q24. Moreover, Zakat expenses declined 17.2% YOY to SAR 561 Mn in 2Q24.

Stock Information

Market Cap (SAR, mn)	210,600.00
Paid Up Capital (mn)	60,000.00
52 Week High	44.35
52 Week Low	30.90
3M Avg. daily value (SAR)	196,456,800

2Q24 Result Review (SAR, mn)

Total Assets	1,088,112
Total Liabilities	908,121
Total Equity	179,991
Total Deposits	632,693
Net Profit	5,231

Financial Ratios

Dividend Yield (12m)	5.13
Dividend Pay-out (%)	26.51
Price-Earnings Ratio(x)	10.72
Price-to-Book Ratio (x)	1.27
Book Value (SAR)	27.59
Return-on Equity (%)	12.21

Stock Performance

5 Days	0.72%
1 Months	-8.36%
3 Months	2.18%
6 Months	-16.82%
1 Year	-2.23%
Month to Date (MTD%)	-7.63%
Quarter to Date (QTD%)	-3.17%
Year to Date (YTD%)	-9.18%

The share of profit attributable to non-controlling interest holders stood at SAR 101 Mn in 2Q23 compared to a of loss of SAR 63 Mn in 2Q24.

Balance Sheet Highlights

SNB's net advances grew 10.3% YOY and 1.9% QOQ to SAR 637.2 Bn in 2Q24, driven by retail mortgages and wholesale financing growth. Total assets grew 9.2% YOY and 1.5% QOQ to SAR 1,088.1 Bn in 2Q24 mainly driven by interest-earning assets. Customer deposits recorded a growth of 5.1% YOY and a decline of 3.6% QOQ to SAR 632.7 Bn in 2Q24 owing to robust performance in domestic markets. In addition, SNB's total equity rose 5.3% YOY and fell 0.3% QOQ to SAR 180.0 Bn in 2Q24.

Target Price and Rating

We maintain our BUY rating on SNB with a target price of SAR 47.00. The Bank's advances grew 10.3% YOY and 1.9% QOQ to SAR 637.2 Bn in 2Q24 owing to strong momentum across retail mortgages and wholesale financing. Moreover, the Bank's Customer deposits grew 5.1% YOY but declined 3.6% QOQ to SAR 632.7 Bn. As a result, the headline loan-to-deposit ratio rose from 95.3% in 1Q24 to 100.7% in 2Q24 reducing liquidity. Besides, the CASA ratio declined from 76.4% in 1Q24 to 74.2% in 2Q24. The Bank's NPLs fell 23 bps YOY to 1.1% in 2Q24 reflecting an improvement in the asset quality. Moreover, the Provision coverage stood as per our calculation at 151.4% in 2Q24 compared to 150.5% in 1Q24, providing a strong cushion against potential bad loans. SNB's reported NIMs remained unchanged at 3.1% in 2Q24 compared to 1Q24 despite high benchmark rates, reflecting SNB's ability to deliver a solid performance amid peak interest rates. Furthermore, the Bank's cost-to-income ratio increased 27 bps YOY and 102 bps QOQ to 28.5% in 2Q24. SNB's capitalization stood strong with a CET 1 ratio of 16.6% and CAR of 19.3% in 2Q24. SNB issued 5-year senior unsecured FRNbond worth USD 500 Mn in the Taiwanese Formosa market, under its Euro Medium Term Note Programme. Furthermore, SNB announced to distribute cash dividend SAR 0.90 per share for 1H24 amounting to SAR 5.4 Bn. 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. 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	13.30	13.30	16.32	12.02	11.32	10.83
PB	3.80	3.17	1.39	1.32	1.25	1.19
Dividend Yield	3.1%	1.6%	3.2%	3.5%	5.0%	5.2%

FABS Estimates & Co Data

SNB Bank – P&L

SAR mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	11,920	13,552	14,379	13,751	4.6%	20.6%	6.1%	49,857	55,057	10.4%
Funded expense	5,398	6,641	7,328	6,718	9.1%	35.7%	10.3%	22,848	26,114	14.3%
Net funded income	6,522	6,911	7,051	7,033	0.3%	8.1%	2.0%	27,009	28,942	7.2%
Fees and commissions	1,078	1,201	1,097	1,225	-10.4%	1.8%	-8.6%	3,925	4,867	24.0%
Exchange income, net	526	514	418	498	-16.0%	-20.4%	-18.5%	1,945	1,984	2.0%
Income from FVIS inv	575	454	719	522	37.9%	25.1%	58.5%	2,416	2,536	5.0%
Gain/Los on non-trad. Inv	106	217	59	191	NM	-44.5%	NM	594	600	1.0%
Other operating (exp) inc	-312	-357	-428	-367	16.5%	37.3%	20.0%	-1,300	-1,404	8.0%
Non-funded income	1,973	2,028	1,866	2,068	-9.8%	-5.4%	-8.0%	7,580	8,584	13.2%
Operating income	8,494	8,939	8,916	9,101	-2.0%	5.0%	-0.3%	34,589	37,527	8.5%
Salaries & emp exp	1,157	1,221	1,213	1,233	-1.7%	4.9%	-0.7%	4,662	4,708	1.0%
Rent & premises exp	131	124	128	125	1.7%	-2.6%	2.7%	549	555	1.0%
Dep. of prop & eqp	335	412	435	437	-0.4%	29.7%	5.5%	1,459	1,566	7.3%
Amorts. of intang assets	205	205	205	205	0.0%	0.0%	0.0%	820	892	8.7%
Other G&A exp	778	703	769	710	8.4%	-1.2%	9.5%	2,867	2,924	2.0%
Total operating exp.	2,607	2,665	2,750	2,710	1.5%	5.5%	3.2%	10,357	10,645	2.8%
Other non-opr inc./(exp.)	-17	76	-317	-16	NM	NM	NM	-537	-548	2.0%
Pre-provision profit	5,871	6,351	5,850	6,376	-8.2%	-0.4%	-7.9%	23,695	26,334	11.1%
Impairments	76	655	120	640	-81.2%	58.3%	-81.6%	923	2,544	NM
PBT	5,795	5,696	5,729	5,736	-0.1%	-1.1%	0.6%	22,773	23,790	4.5%
Zakat	678	640	561	660	-14.9%	-17.2%	-12.3%	2,664	2,855	7.2%
Profit after tax	5,117	5,056	5,168	5,076	1.8%	1.0%	2.2%	20,109	20,935	4.1%
Non-controlling interest	101	16	-63	30	NM	NM	NM	99	105	5.9%
Net profit attributable	5,016	5,040	5,231	5,046	3.7%	4.3%	3.8%	20,010	20,830	4.1%

FABS estimate & Co Data
SNB Bank - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	76.8%	77.3%	79.1%	230	176	78.1%	77.1%	-96
NIM	2.9%	2.8%	2.8%	-6	-1	3.0%	3.0%	-3
NIS	2.5%	2.4%	2.4%	-12	-4	2.4%	2.3%	-7
Fees & comms/OI	12.7%	13.4%	12.3%	-39	-113	11.3%	13.0%	162
Trading/OI	6.2%	5.7%	4.7%	-150	-105	5.6%	5.3%	-34
Cost to income	28.3%	27.5%	28.5%	27	102	27.6%	26.0%	-158
Impairment/PPP	1.3%	10.3%	2.1%	76	-825	3.9%	9.7%	577
NP/OI	59.0%	56.4%	58.7%	-38	229	57.8%	55.5%	-234
Cost of risk - Calculated	0.1%	0.4%	0.1%	2	-34	0.2%	0.4%	24
Loan-to-deposit (Calculated)	96.0%	95.3%	100.7%	476	545	101.9%	98.8%	-318
NPL - Reported	1.3%	1.1%	1.1%	-23	-1	1.2%	1.6%	39
Coverage – Calculated	135.7%	150.5%	151.4%	1,565	87	135.2%	138.0%	285
Tier 1	19.1%	19.2%	18.5%	-59	-69	19.4%	18.6%	-80
Capital adequacy	19.8%	20.0%	19.3%	-46	-71	20.1%	19.3%	-83
ROAE	12.8%	12.3%	12.3%	-45	1	12.9%	12.6%	-23
ROAA	2.0%	2.4%	2.3%	36	-4	2.0%	2.0%	-7

FABS estimate & Co Data

SNB Bank - Key B/S items

SAR mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	577,849	595,721	601,527	625,202	637,235	10.3%
QOQ change	2.0%	3.1%	1.0%	3.9%	1.9%	
Total assets	996,205	1,027,133	1,037,081	1,072,144	1,088,112	9.2%
QOQ change	2.1%	3.1%	1.0%	3.4%	1.5%	
Customer deposits	602,209	624,769	590,051	656,261	632,693	5.1%
QOQ change	-1.4%	3.7%	-5.6%	11.2%	-3.6%	
Total equity	170,878	168,971	176,629	180,622	179,991	5.3%
QOQ change	0.4%	-1.1%	4.5%	2.3%	-0.3%	

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	50.22	70.0%	35.15
Relative Valuation (RV)	39.49	30.0%	11.85
Weighted Average Valuation (SAR)			47.00
Current market price (SAR)			35.05
Upside/Downside (%)			+34%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 0.90 and equity risk premium of 4.3%. 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)	30,822
Terminal value (SAR, Mn)	106,491
Book value of Equity (as of June, 2024)	164,015
FV to Common shareholders (SAR, Mn)	301,327
No. of share (Mn)	6,000
Current Market Price (SAR)	35.05
Fair Value per share (SAR)	50.22

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	20,830	22,730	25,905	28,635	30,585
(-) Equity Charge	-14,982	-15,934	-17,149	-18,544	-20,033
Excess Equity	3,411	6,797	8,755	10,092	10,553
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Present Value of Excess Equity	3,247	5,942	7,032	7,447	7,154

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 1.4x 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	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Al Rajhi Bank	88,910	3.4	3.2	18.9	16.5	3.1	3.5
Arab National Bank	11,390	1.1	1.1	9.0	9.2	5.8	5.7
Banque Saudi Fransi	11,640	1.2	1.1	9.8	9.0	5.6	6.0
Riyad Bank	21,660	1.4	1.3	10.1	9.4	5.2	5.5
Average		1.9x	1.8x	12.6x	11.5x	4.5%	4.8%
Median		1.4x	1.3x	10.1x	9.4x	5.2%	5.5%
Max		2.5x	2.2x	15.2x	13.5x	5.6%	5.7%
Min		1.2x	1.1x	9.8x	9.2x	3.1%	3.5%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.