

## Saudi National Bank

Growth in interest-earning assets drove bottom line

### 1Q23 Net profit higher than our estimate

Saudi National Bank's ("SNB/The Bank") net profit rose 11.6% YOY to SAR 5,022 Mn in 1Q23 higher than our estimate of SAR 4,714 Mn. SNB's net profit was mainly driven by an increase in net funded income partially offset by a fall in non-funded income and an increase in impairment charges.

### P&L Highlights

SNB's funded income rose 58.5% YOY to SAR 11,117 Mn in 1Q23 mainly driven by growth in interest-earning assets and growth in asset yield. Similarly, the Bank's funded expenses witnessed a sharp rise from SAR 904 Mn in 1Q22 to SAR 4,339 Mn in 1Q23 due to higher benchmark rates. Thus, net funded income rose 11.0% YOY to SAR 6,778 Mn in 1Q23. The Bank's non-funded income declined marginally 1.6% YOY to SAR 1,953 Mn in 1Q23 mainly due to growth in fee, exchange, and gain from fair value through investment and non-investment income. As a result, total operating income rose 7.9% YOY to SAR 8,731 Mn in 1Q23. Furthermore, SNB's operating expenses slightly declined 0.1% YOY to SAR 2,441 Mn in 1Q23. Resultantly, the cost-to-income ratio declined 223 bps YOY and 115 bps QOQ to 28.0% in 1Q23 due to stable total operating expenses and an increase in operating profit base. Impairment charges rose 27.7% YOY to SAR 493 Mn in 1Q23.

### Balance Sheet Highlights

SNB witnessed strong growth in net advances of 10.0% YOY and 3.9% QOQ to SAR 566.3 Bn in 1Q23. SNB's total assets rose 5.9% YOY and 3.2% QOQ to SAR 976.1 Bn in 1Q23. However, the Bank's deposits rose marginally 0.7% YOY and 7.5% QOQ to SAR 610.8 Bn in 1Q23 leading to an improvement in CASA ratio. In addition, total equity rose 3.4% YOY and 2.0% QOQ to SAR 170.2 Bn in 1Q23.

### Target Price and Rating

We maintain our BUY rating on SNB with an unchanged target price of SAR 50.55. SNB's net advances recorded a healthy growth of 10.0% YOY to SAR 566.3 Bn in 1Q23 leading to strong growth in funded income. The Bank recorded a healthy growth in its loan book during the quarter and further expected to grow in the high single digit in 2023. SNB's net advances rose 3.9% QOQ mainly driven by a 3% growth in retail financing, 4% in mortgage, and 4% in wholesale financing. The Bank's customer deposits rose 7.5% QOQ mainly due to a solid growth in domestic CASA deposits. The higher growth in deposit as compared to loans will lead to a decline in loan-to-deposit ratio enabling further room for credit growth in 2023. SNB's SAR 5.5 Bn investment in Credit Suisse declined significantly 76.4% to SAR 1.3 Bn as of 31 March 2023. As a result, SNB's equity declined by SAR 3.1 Bn during 1Q23. In addition, SNB's 9.88% share in Credit Suisse will convert into UBS' shares of 0.5% post-merger of Credit Suisse and UBS. However, there was no impact on SNB's income statement due to an irrevocable election made by the company. SNB declared a total dividend of SAR 1.7 per share for the year ended 2022 with a dividend yield of 3.4%. Thus, considering the abovementioned factors, we maintain our BUY rating on the stock.

**Rating : BUY**

## First Look Note – 1Q23

**Sector: Banking**

### Recommendation

Current Price (10-May-23)	36.15
Target Price (SAR)	50.55
Upside/Downside (%)	+40%

### Stock Information

Market Cap (mm)	216,902.61
Paid Up Capital (mm)	60,000.72
52 Week High	59.63
52 Week Low	29.67
3M Avg. daily value (SAR)	178,857,600



### Financial Ratios

Dividend Yield (12m)	3.51
Dividend Pay-out (%)	14.92
Price-Earnings Ratio (x)	8.68
Price-to-Book Ratio (x)	1.04
Book Value (SAR)	34.60
Return-on Equity (%)	12.07
Earning Per Share (SAR)	4.16
Beta	1.18

### Stock Performance

5 Days	-2.54%
1 Months	-2.93%
3 Months	0.08%
6 Months	-11.77%
1 Year	-37.82%
Month to Date (MTD)	-1.95%
Quarter to Date (QTD)	5.64%
Year to Date (YTD)	-4.09%

**SNB- Relative Valuation**

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	15.97	13.41	13.41	16.45	12.12	11.18
P/B	2.71	2.55	2.13	1.39	1.35	1.25
Dividend yield	4.3%	4.7%	1.6%	3.2%	3.5%	4.0%

*FABS Estimates & Co Data*
**SNB- P&L**

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Commission income	7,012	10,315	11,117	10,607	4.8%	58.5%	7.8%	34,392	45,384	32.0%
Commission expense	904	3,475	4,339	3,694	17.5%	380.0%	24.9%	8,106	16,920	108.7%
<b>Net funded income</b>	<b>6,108</b>	<b>6,840</b>	<b>6,778</b>	<b>6,913</b>	<b>-2.0%</b>	<b>11.0%</b>	<b>-0.9%</b>	<b>26,286</b>	<b>28,465</b>	<b>8.3%</b>
<b>Non-funded income</b>	<b>1,985</b>	<b>1,278</b>	<b>1,953</b>	<b>1,506</b>	<b>29.7%</b>	<b>-1.6%</b>	<b>52.8%</b>	<b>6,717</b>	<b>6,713</b>	<b>-0.1%</b>
<b>Operating income</b>	<b>8,093</b>	<b>8,118</b>	<b>8,731</b>	<b>8,419</b>	<b>3.7%</b>	<b>7.9%</b>	<b>7.6%</b>	<b>33,003</b>	<b>35,178</b>	<b>6.6%</b>
<b>Total operating Exps.</b>	<b>2,443</b>	<b>2,363</b>	<b>2,441</b>	<b>2,375</b>	<b>2.8%</b>	<b>-0.1%</b>	<b>3.3%</b>	<b>9,784</b>	<b>9,948</b>	<b>1.7%</b>
<b>Pre-provision profit</b>	<b>5,547</b>	<b>5,571</b>	<b>6,287</b>	<b>5,989</b>	<b>5.0%</b>	<b>13.3%</b>	<b>12.9%</b>	<b>22,962</b>	<b>24,998</b>	<b>8.9%</b>
Impairment charge for financing losses, net	386	166	493	516	-4.5%	27.7%	197.0%	1,685	2,324	37.9%
<b>PBT</b>	<b>5,161</b>	<b>5,405</b>	<b>5,794</b>	<b>5,473</b>	<b>5.9%</b>	<b>12.3%</b>	<b>7.2%</b>	<b>21,277</b>	<b>22,675</b>	<b>6.6%</b>
<b>Net profit attributable</b>	<b>4,502</b>	<b>4,765</b>	<b>5,022</b>	<b>4,714</b>	<b>6.5%</b>	<b>11.6%</b>	<b>5.4%</b>	<b>18,581</b>	<b>19,530</b>	<b>5.1%</b>

*FABS estimate & Co Data*
**SNB - KPI**

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	75.5%	84.3%	77.6%	216	-663	79.6%	80.9%	127
Cost to income	30.2%	29.1%	28.0%	-223	-115	29.6%	28.3%	-137
Impairment/PPP	7.0%	3.0%	7.8%	88	486	7.3%	9.3%	195
NP/OI	55.6%	58.7%	57.5%	189	-118	56.3%	55.5%	-78
ROE	9.3%	12.6%	12.7%	341	11	12.6%	12.8%	10
ROA	1.5%	1.9%	2.0%	50	4	2.0%	1.9%	-5

*FABS estimate & Co Data*
**SNB- Key BS Items**

SAR mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch	
<b>Net advances</b>		514,635	536,189	536,176	545,311	566,337	10.0%
<i>QOQ Change</i>		3.4%	4.2%	0.0%	1.7%	3.9%	
<b>Total Assets</b>		921,565	958,473	964,421	945,496	976,053	5.9%
<i>QOQ Change</i>		0.8%	4.0%	0.6%	-2.0%	3.2%	
<b>Customer deposits</b>		606,723	593,011	596,886	568,283	610,791	0.7%
<i>QOQ Change</i>		3.1%	-2.3%	0.7%	-4.8%	7.5%	
<b>Total Equity</b>		164,573	161,721	163,183	166,778	170,151	3.4%
<i>QOQ Change</i>		1.5%	-1.7%	0.9%	2.2%	2.0%	

*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	50.9	70.0%	35.6
Relative	49.7	30.0%	14.9
<b>Weighted Average Valuation (SAR)</b>			<b>50.55</b>
<b>Current market price (SAR)</b>			<b>36.15</b>
<b>Upside/Downside (%)</b>			<b>+40%</b>

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.12%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.0 and equity risk premium of 3.4%. 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)	33,239
Terminal value (SAR, Mn)	126,796
Book Value of equity (as of March 2023)	147,799
<b>FV to Common shareholders (SAR, Mn)</b>	<b>307,834</b>
No. of share (Mn)	5,971
Current Market Price (SAR)	36.90
<b>Fair Value per share (SAR)</b>	<b>50.90</b>

### Residual Income Method

(All Figures in SAR Mn)	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Net Profit	19,530	21,963	23,266	25,577	27,877
(-)Equity charge	-12,873	-13,810	-14,754	-15,793	-16,925
<b>Excess Equity</b>	<b>4,437</b>	<b>8,153</b>	<b>8,152</b>	<b>9,784</b>	<b>10,952</b>
Discounting Factor	0.95	0.88	0.81	0.75	0.69
<b>Present Value of Excess Equity</b>	<b>4,212</b>	<b>7,158</b>	<b>6,912</b>	<b>7,348</b>	<b>7,608</b>

## 2) Relative Valuation:

We have used local peers to value SNB and it is valued using the PB multiple. We applied a discount to peer valuation since it generates lower asset returns as compared to its peers. It is valued at PB multiple of 1.9x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Alinma Bank	16,736	2.2	2.1	14.1	12.9	3.9	4.4
Al Rajhi Bank	79,892	3.3	2.8	17.1	15.1	2.2	3.0
Arab National Bank	10,613	1.2	1.1	11.0	10.9	4.8	4.9
Banque Saudi Fransi	12,399	1.2	1.1	10.5	10.3	4.9	5.3
Riyad Bank	24,203	1.7	1.6	11.7	11.0	4.2	4.5
Bank Albilad	10,887	2.7	2.4	15.4	13.3	1.4	1.7
<b>Average</b>		2.1x	1.8x	13.3x	12.3x	3.6%	4.0%
<b>Median</b>		2.0x	1.8x	12.9x	12.0x	4.1%	4.4%
<b>Max</b>		2.6x	2.3x	15.1x	13.2x	4.7%	4.8%
<b>Min</b>		1.3x	1.2x	11.1x	10.9x	2.6%	3.3%



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