

Saudi National Bank (SNB)

Strong Loan growth and higher non-funded income supported profitability

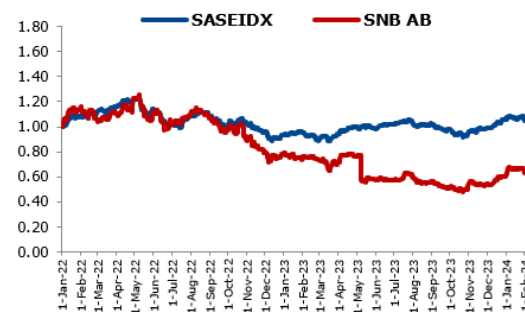
Current Price
SAR 39.40

Target Price
SAR 47.00

Upside/Downside (%)
+19%

Rating
BUY

- SNB expects its loan book to grow by high single digit in 2024. While it expects the NSCI margin to be 3.0%-3.2% in 2024.
- Net advances rose from SAR 596 Bn in 3Q23 to SAR 602 Bn in 4Q23 mainly driven by growth in wholesale and retail financing.
- The Bank's non-core income grew strongly by 29.5% in 4Q23, driven by growth in exchange income and income from FVIS investments, partially offset by a decline in fees and commission income.
- The cost-to-income ratio grew 50 bps YOY to 27.6% in 2023, while it further anticipates to be below 27% in 2024.
- Asset quality improved with an NPL ratio of 1.2% in 4Q23 as compared to 1.4% in 3Q23.



Stock Information

Market Cap (SAR, mm)	236,400.00
Paid Up Capital (mm)	60,000.00
52 Week High	44.35
52 Week Low	30.90
3M Avg. daily value (SAR)	205,283,000

4Q23 Result Review (SAR, mm)

Total Assets	1,037,081
Total Liabilities	860,452
Total Equity	175,905
Total Deposits	590,051
Net Profit	4,963

Financial Ratios

Dividend Yield (12m)	3.29
Dividend Pay-out (%)	26.51
Price-Earnings Ratio(x)	12.18
Price-to-Book Ratio (x)	1.46
Book Value (SAR)	27.05
Return-on Equity (%)	12.36

Stock Performance

5 Days	-0.63%
1 Months	-7.62%
3 Months	3.41%
6 Months	19.03%
1 Year	15.02%
Month to Date (MTD%)	-6.97%
Quarter to Date (QTD%)	1.94%
Year to Date (YTD%)	1.94%

4Q23 Net Profit lower than our estimate

Saudi National Bank's ("SNB"/ "The Bank") recorded a 4.2% YOY growth in net profit to SAR 4,963 Mn in 4Q23, lower than our estimate of SAR 5,292 Mn. The growth in the net profit is mainly attributable to an increase in operating income driven by higher net funded and non-funded income partially offset by an increase in operating expenses and higher impairments.

P&L Highlights

SNB's funded income rose 33.4% YOY to SAR 13,673 Mn in 4Q23 mainly driven by healthy growth in advances and expansion in asset yield. Advances grew 10.3% YOY to SAR 602 Bn in 4Q23 due to wholesale and retail financing expansion. On the other hand, funded expenses grew significantly from SAR 3,475 Mn in 4Q22 to SAR 6,786 Mn in 4Q23 owing to higher benchmark rates. Thus, net funded income rose 1.6% YOY to SAR 6,887 Mn in 4Q23. NIMs declined 21 bps YOY to 2.9% in 4Q23. The Bank's fee and commission income declined 16.4% YOY to SAR 794 Mn in 4Q23. Exchange income grew strongly 20.1% YOY to SAR 418 Mn in 4Q23. While income from FVIS investments grew significantly from SAR 252 Mn in 4Q22 to SAR 744 Mn in 4Q23. Whereas gains on non-trading investments declined 14.1% YOY to SAR 79 Mn in 4Q23. Other expenses declined marginally 0.5% YOY to SAR 297 Mn in 4Q23. Thus, SNB's total non-funded income grew 29.5% YOY to SAR 1,738 Mn in 4Q23. As a result, total operating income rose 6.2% YOY to SAR 8,625 Mn in 4Q23. Furthermore, salaries and employee-related expenses increased 16.0% YOY to SAR 1,113 Mn in 4Q23 while rent and premises related expenses grew 7.9% YOY to SAR 135 Mn in 4Q23. Other G&A expenses declined 0.8% YOY to SAR 681 Mn in 4Q23.

Resultantly, total operating expenses rose 7.7% YOY to SAR 2,545 Mn in 4Q23. Thus, cost-to-income grew 50 bps YOY to 27.1% in 4Q23. Other non-operating expenses declined from SAR 183 Mn in 4Q22 to SAR 138 Mn in 4Q23. Furthermore, the Bank's impairments grew significantly from SAR 166 Mn in 4Q22 to SAR 431 Mn in 4Q23. In addition, zakat expenses declined 6.2% YOY to SAR 576 Mn in 4Q23. Share of loss attributable to non-controlling interest holders stood at SAR 29 Mn in 4Q23 as compared to a share of profit of SAR 26 Mn in 4Q22.

Balance Sheet Highlights

SNB's net advances grew 10.3% to SAR 601.5 Bn in 2023 driven by healthy growth in retail and wholesale financing. Total assets grew 9.7% to SAR 1,037.1 Bn in 2023. Customer deposits recorded a growth of 3.8% to SAR 590.1 Bn in 2023. While the regulatory loan-to-deposit ratio grew from 78.2% in 3Q23 to 83.9% in 4Q23. In addition, SNB's total equity rose 5.9% to SAR 176.6 Bn in 2023.

Target Price and Rating

We maintain our BUY rating on SNB with a target price of SAR 47.00. SNB's profitability continued to grow in 4Q23 backed by growth in net funded and non-funded income. The Bank's advances grew 10.3% to SAR 601.5 Bn in 4Q23, driven by healthy growth in retail and wholesale financing. The Bank's retail financing grew 9.6% to SAR 321 Bn in 4Q23, driven by mortgage growth. Wholesale financing grew 12.9% to SAR 263 Bn in 4Q23. Retail financing and wholesale financing accounted for 53.3% and 39.0% of total financing in 4Q23. SNB further expects its advances to record high single-digit growth in 2024. 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 the wholesale banking. Customer deposits recorded a growth of 3.8% to SAR 590.1 Bn in 2023 with a CASA ratio of 75.9% in 2023. The Bank also has call accounts which gives them a competitive advantage. SAMA's regulatory loan-to-deposit ratio grew from 78.2% in 3Q23 to 83.9% in 4Q23. SNB's NIMs declined 21 bps YOY and 4 bps QOQ to 2.9% in 4Q23, mainly due to higher cost of funds. The Bank also further lowered its NIM guidance to 3.0-3.2% in 2024. The Bank's cost-to-income also grew marginally from 27.1% in 2022 to 27.6% in 2023. The Bank further expects the cost-to-income to be lower than 27% in 2024. Furthermore, the Bank's asset quality remained strong with an NPL ratio of 1.2% in 4Q23 as compared to 1.4% in 3Q23 mainly due to the write off in Wholesale segment. Provision coverage stood strong at 140% in 4Q23 compared to 137.6% in 4Q23, which will provide cushioning against bad loans going forward. SNB's capitalization stood strong with a CET 1 ratio of 19.4% and CAR of 20.1% in 3Q23. Thus, based on our analysis, we maintain our rating to BUY on the stock.

SNB Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	14.3	14.3	17.6	12.9	11.8	11.9
PB	4.1	3.4	1.5	1.4	1.3	1.3
Dividend Yield	2.9%	1.5%	2.9%	3.2%	4.4%	4.4%

FABS Estimates & Co Data

SNB Bank – P&L

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	10,251	13,137	13,673	14,653	-6.7%	33.4%	4.1%	34,392	49,857	45.0%
Funded expense	3,475	6,317	6,786	7,508	-9.6%	95.3%	7.4%	8,106	22,848	181.9%
Net funded income	6,776	6,820	6,887	7,145	-3.6%	1.6%	1.0%	26,286	27,009	2.8%
Fees and commissions	949	1,017	794	1,129	-29.7%	-16.4%	-21.9%	3,704	3,925	6.0%
Exchange income, net	348	509	418	558	-25.1%	20.1%	-17.8%	1,580	1,945	23.1%
Income from FVIS invest	252	568	744	531	40.2%	NM	31.0%	1,694	2,416	42.6%
Gains/Loss on non-trading inv	92	179	79	103	-23.8%	-14.1%	-55.9%	774	594	-23.2%
Other operating (exp) inc, net	-299	-355	-297	-280	6.1%	-0.5%	-16.1%	-1,035	-1,300	25.6%
Non-funded income	1,342	1,917	1,738	2,041	-14.9%	29.5%	-9.4%	6,717	7,580	12.8%
Operating income	8,118	8,737	8,625	9,186	-6.1%	6.2%	-1.3%	33,003	34,589	4.8%
Salaries and empl-related exp	959	1,228	1,113	1,214	-8.3%	16.0%	-9.4%	4,310	4,662	8.2%
Rent and premises-related exp	125	147	135	158	-14.5%	7.9%	-8.3%	530	549	3.7%
Depreciation of Prop & Equip	386	367	411	379	8.5%	6.4%	12.2%	1,435	1,459	1.6%
Amortization of intangible assets	205	205	205	205	0.1%	NM	NM	845	820	-2.9%
Other G&A exp	686	815	681	824	-17.3%	-0.8%	-16.4%	2,664	2,867	7.6%
Total operating Exp	2,363	2,762	2,545	2,780	-8.4%	7.7%	-7.8%	9,784	10,357	5.9%
Other non-operating inc	-183	-379	-138	-167	-17.7%	-24.8%	-63.7%	-258	-537	108.5%
Pre-provision profit	5,572	5,596	5,941	6,239	-4.8%	6.6%	6.2%	22,962	23,695	3.2%
Impairment	166	-77	431	154	NM	NM	NM	1,685	923	-45.3%
PBT	5,405	5,673	5,510	6,084	-9.4%	1.9%	-2.9%	21,277	22,773	7.0%
Zakat	614	716	576	714	-19.3%	-6.2%	-19.6%	2,548	2,664	4.5%
Profit after tax	4,791	4,957	4,935	5,370	-8.1%	3.0%	-0.4%	18,729	20,109	7.4%
Non controlling interest	26	-53	-29	78	NM	NM	NM	148	99	-33.3%
Net profit	4,765	5,010	4,963	5,292	-6.2%	4.2%	-0.9%	18,581	20,010	7.7%

FABS estimate & Co Data
SNB Bank - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	83.5%	78.1%	79.9%	-362	180	79.6%	78.1%	-156
NIM	3.1%	2.9%	2.9%	-21	-4	3.1%	3.0%	-13
NIS	2.8%	2.5%	2.4%	-41	-6	2.9%	2.5%	-39
Fees & comms/OI	11.7%	11.6%	9.2%	-249	-243	11.2%	11.3%	12
Trading/OI	4.3%	5.8%	4.8%	56	-97	4.8%	5.6%	84
Cost to income	26.6%	29.3%	27.1%	50	-220	27.1%	27.6%	50
Impairment/PPP	3.0%	-1.4%	7.3%	426	863	7.3%	3.9%	-345
NP/OI	58.7%	57.3%	57.5%	-116	21	56.3%	57.8%	155
Cost of risk	0.1%	-0.1%	0.3%	13	NM	0.2%	0.3%	17
Loan-to-deposit (regulatory)	82.6%	78.2%	83.9%	130	570	82.6%	83.9%	130
NPL	1.6%	1.4%	1.2%	-41	-16	1.6%	1.2%	-41
Coverage excluding collateral	127.0%	137.6%	139.6%	1,260	200	127.0%	139.6%	1,260
CET 1	18.3%	18.4%	19.4%	108	97	18.3%	19.4%	108
Capital adequacy	19.0%	19.1%	20.1%	110	100	19.0%	20.1%	110
ROE	12.5%	12.9%	12.8%	26	-11	12.5%	12.9%	32
ROA	1.9%	2.4%	2.4%	45	-2	2.0%	1.9%	-4

FABS estimate & Co Data

SNB Bank - Key B/S items

SAR mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	545,311	566,337	577,849	595,721	601,527	10.3%
QOQ change	1.7%	3.9%	2.0%	3.1%	1.0%	
Total assets	945,496	976,053	996,163	1,027,133	1,037,081	9.7%
QOQ change	-2.0%	3.2%	2.1%	3.1%	1.0%	
Customer deposits	568,283	610,791	602,209	624,769	590,051	3.8%
QOQ change	-4.8%	7.5%	-1.4%	3.7%	-5.6%	
Total equity	166,778	171,010	170,878	168,971	176,629	5.9%
QOQ change	2.2%	2.5%	-0.1%	-1.1%	4.5%	

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	50.20	70.0%	35.14
Relative Valuation (RV)	39.54	30.0%	11.86
Weighted Average Valuation (SAR)			47.00
Current market price (SAR)			39.40
Upside/Downside (%)			+19%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.0%. The cost of equity is calculated using a 10-year government bond yield of 4.7%, a beta of 0.90, and an equity risk premium of 3.7%. 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)	31,288
Terminal value (SAR, Mn)	109,182
Book value of Equity (as of Sept, 2023)	160,717
FV to Common shareholders (SAR, Mn)	301,188
No. of share (Mn)	6,000
Current Market Price (SAR)	39.40
Fair Value per share (SAR)	50.20

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	19,905	21,527	23,382	25,240	27,481
(-) Equity Charge	-13,745	-14,609	-15,548	-16,561	-17,665
Excess Equity	6,160	6,918	7,834	8,679	9,817
Discounting Factor	0.94	0.87	0.80	0.74	0.69
Present Value of Excess Equity	5,776	6,005	6,294	6,455	6,758

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value SNB and it is valued using the PB multiple. We have applied a discount to the median valuation multiple since it generates lower return on equity as compared to the sector average. It is valued at a PB multiple of 1.4x as compared to the peer valuation of 1.5x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Alinma Bank	22,730	2.6	2.4	16.0	14.9	3.1	3.3
Al Rajhi Bank	93,910	3.5	3.2	19.8	17.4	2.9	3.4
Arab National Bank	9,840	1.0	1.0	9.2	9.2	6.0	6.1
Banque Saudi Fransi	13,190	1.3	1.2	10.4	9.8	5.2	5.5
Riyad Bank	24,050	1.5	1.4	10.7	10.2	4.7	4.7
Average		2.0x	1.8x	13.2x	12.3x	4.4%	4.6%
Median		1.5x	1.4x	10.7x	10.2x	4.7%	4.7%
Max		2.6x	2.4x	16.0x	14.9x	5.2%	5.5%
Min		1.3x	1.2x	10.4x	9.8x	3.1%	3.4%

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.