Saudi Banks

Six Key Takeaways for CY23

Mar 2023

Summary

Tharaa Financial Center

CY23-Six Key Takeaways

- Six major Saudi Banks (SNB, Al Rajhi, RIBL, SABB, BSFR, Alinma) have recently conducted earnings updates call on CY22 results and shared management guidance on key business indicators involving earnings, balance sheet and capital adequacy. Six key highlights from earnings presentation are;

1. **NIMs**-The average NIMs of the select banks are expected to increase by 24bp to 3.4% in CY23. Al Rajhi is the only bank which has guided for the drop in NIMs while he corporate-focused banks expect to see relatively healthy upick in NIMs.
2. **Cost Efficiency:** The Cost to Income ratio of six banks is expected to drop by 90bp in CY23 to 28.9% as per the management guidance.
3. **ROE:** The weighted average ROE (actual CY22 earnings used as weight) of six banks is expected to jump by 200bp in CY23
4. **Advance Growth:** The guidance for advance growth in CY23 stands at 8.7% based on loans of each bank in CY22 (10% based on simple average) vs actual loan growth of 15% in CY22.
5. **Cost of Risk:** Based on simple average, banks expect credit cost to remain stable in CY23 at 50bp vs 52bp in CY22.
6. **Capital Adequacy:** Overall banks capital adequacy (measured as CET, TIER I or CAR) is expected to remain stable in CY23 compared to CY22. Tier I Bonds/Sukuk has supported banks capacity to raise total equity besides higher retention of profit in 2022.

CY22-Record high profit

- Earnings of listed banks at TASI has jumped to a fresh all time high of ~SAR63bn in 2022, +26% YoY.
- AlRajhi and SNB have contributed over 57% of total earnings growth in 2022.
- On Quarter on Quarter basis, earnings of listed banks at TASI has dropped 1.3% to SAR16.3bn.

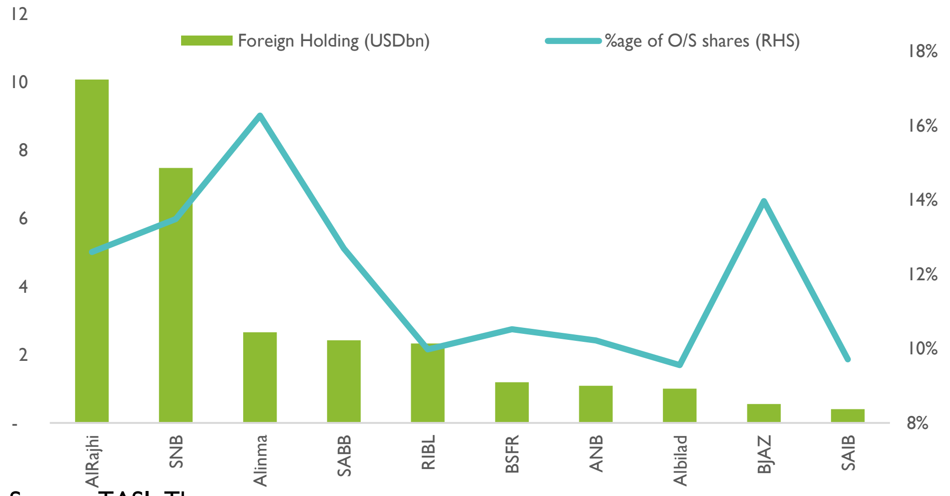
Performance & Valuation

- Al-Rajhi and Alinma's stock prices have outperformed TASI by significant margin since the Jan-2020 as other banks struggled to retain post-COVID era outperformance
- Saudi Banks' valuation as measured by P/BV escalated to over 3x in 2022, implying a 3x Standard Deviation movement. Valuation has reverted to its long-term average of 1.6x with deceleration in earnings growth and increase in interest rate.

CY23 in Perspective-Six Key Takeaways

- Six major Saudi Banks (SNB, AlRajhi, RIBL, SABB, BSFR, Alinma) have recently conducted earnings updates call on CY22 results and shared management guidance on key business indicators involving earnings, balance sheet and capital adequacy.
- Following discussion is based on consolidation of management guidance on key indicators from earnings presentations.
- Given the huge significance of the banks in terms of market cap (37% weight of TASI) share of foreign investment (28%), and banking loans (~80% of the sector), the discussion hold relevance not only for KSA Banks but also for TASI.

Banks represent 28% of total foreign investment in TASI

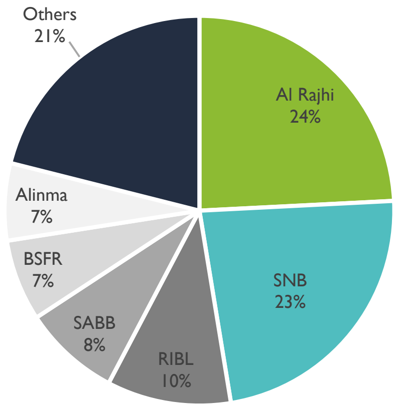


Source: TASI, Tharaa

Banking sector carries ~37% weight in Tadawul All Share Index (TASI)

Source: TASI, Tharaa

Top six banks account for 80% of total loans in banking sector



Source: Tharaa

1-NIMs Guidance

CY23 NIMs Guidance by Banks (%)

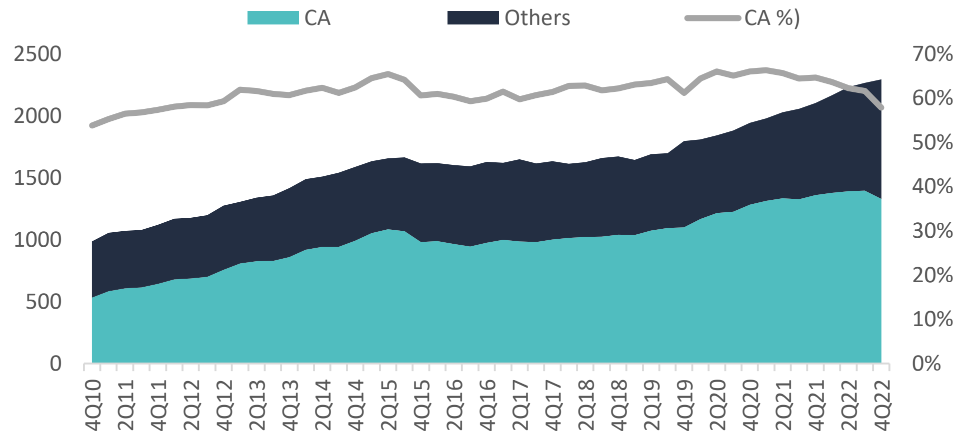
NIM Guidance	2021	2022	2023	Comment
Al Rajhi	4.2	3.6	3.4	Drop of 15-25bp
SNB	2.9	3.2	3.3	Increase of 5-15bp
RIBL	2.8	3.1	3.3	Increase of 15-25bp
SABB	2.3	2.5	3.1	Minimum of 3.1
BSFR	3.0	3.1	3.4	Range of 3.3-3.5
Alinma	3.4	3.6	4.0	Increase of 35-45bp
W.A NIMs	3.3	3.2	3.3	

*CY22 Net Interest Income used as weight
Source: Tharaa, Banks' Presentations

- NIMs Outlook-The average NIMs of the select banks are expected to increase by 12bp to 3.35% in CY23. The NIMs guidance broadly builds in peak Fed Rate of 5.25-5.5% in CY23.
- The increase is premised on both further rate hike by SAMA, in-line with expected rate hike by Fed, and the impact of asset repricing (duration mismatch of assets vs liabilities) to reflect rate hikes affected in late 2H.
- Just for reference, the weighted average NIMs of the six banks dropped by 10bp YoY in CY22 vs the increase of 374bp in 6M-SAIBOR. Excluding Alrajhi, W.A NIMs increased by 20bp YoY in CY22.

- AlRajhi is the only bank which has guided for a drop in NIMs in CY23 despite the expected increase in SAIBOR.
- Heavy dependence on relatively higher duration retail loans (mortgage and personal) loans and change in funding mix are the likely explanations for the guidance. The NIMs guidance from SNB, another retail-asset heavy bank, and RIBL is also muted.
- In comparison, the corporate-focused banks (SABB, Alinma, BSFR) expect to see relatively healthy expansion in NIMs in 2023 of 60bp,39bp and 34bp respectively.

Funding mix for Saudi banks has undergone a structural shift



Source: SAMA, Tharaa

2-Cost Efficiency Ratio (C/I)

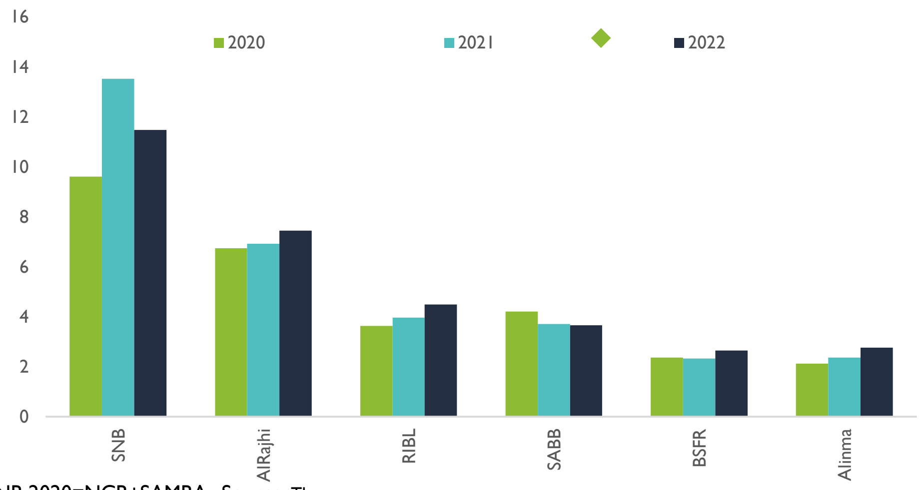
CY23 Cost to Income Ratio (%)

C/I Guidance	2021	2022	2023
Al Rajhi	26.9	26.1	26
SNB	32.7	27.7	27
RIBL	34.3	32.4	33
SABB	44.7	37.8	34
BSFR	34.3	33.1	32
Alinma	35.4	34.7	32
W.A C/I	**32.7**	**29.8**	**28.9**

*CY22 Net Interest Income used as weight
Source: Tharaa, Banks' Presentations

- The Cost to Income ratio (C/I) of six banks is expected to drop by 90bp in CY23 to 28.9% as per the management guidance.
- Investment in technology infrastructure and related staffing cost has emerged as one of the important drivers of operating cost.
- The drop in C/I ratio will likely contribute to higher profitability of Saudi banks in CY23.

Trends in total Operating Expenses (SARbn)

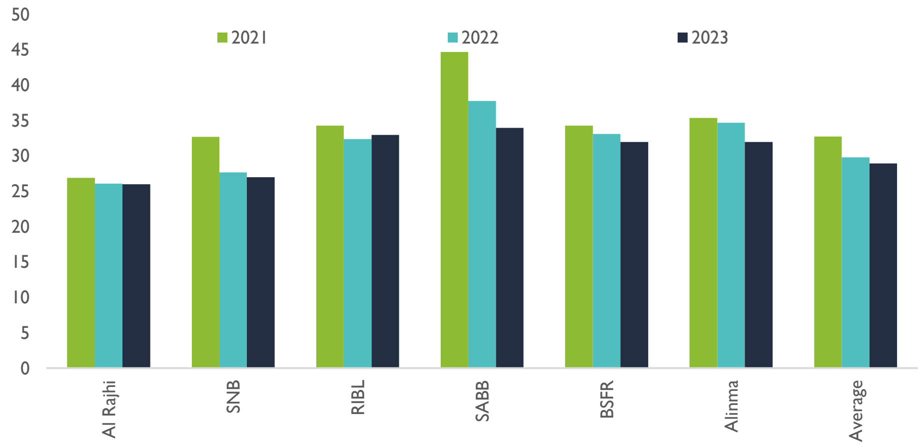


SNB 2020=NCB+SAMBA,, Source: Tharaa

- Alinma, SABB, and BSFR, the three banks which are guiding for higher NIMs expansion and relatively healthy loan growth, expect C/I ratio to see bigger improvement in CY22.

3-Return on Equity (ROE)

ROE* guidance varies for retailed and corporate-focused banks (%)

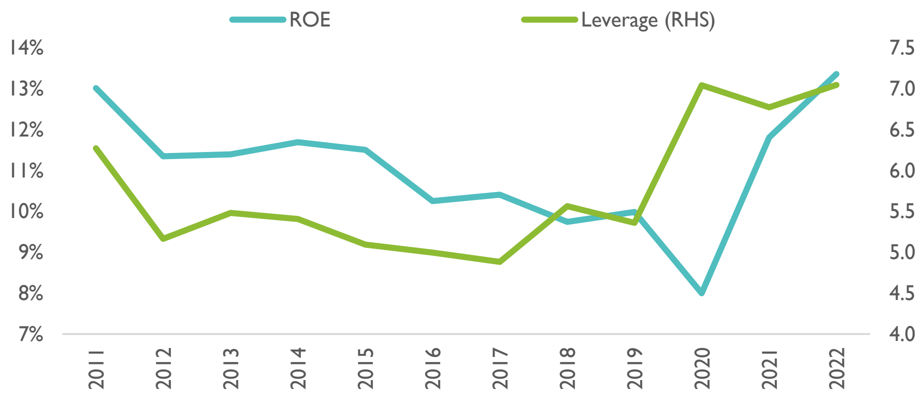


(mid-point of ROE guidance or minimum guidance), SABB & SNB have given guidance for ROTE
Source: Banks' Presentation, Tharaa

- The weighted average ROE (actual CY22 earnings used as weight) of six banks is expected to jump by 200bp in CY23

- Alinma, BSFR and SABB have guided for relatively healthy expansion in ROE of 330, 280and 250bp to 17, 12 and 14% (mid-point of ROE guidance or minimum guidance) in CY23
- Inline with trends expected in NIMs and loan growth in CY23, the ROE guidance from Alrajhi, SNB and RIBL is quite muted compared to peers.

Listed banks' ROE* has jumped 100bp YoY to 13% in CY22



Source: Tharaa
*Reported Net Income/Average Equity

4-Advance Growth

CY23 Advance Growth Guidance by Banks (%)

Advance Growth	2021	2022	2023	Comment
Al Rajhi	43.0	25.5	5.5	Mid single digit
SNB	-1.0	10.0	8.5	High Single digit
RIBL	13.0	11.5	10	High Single to low double digit
SABB	9.0	9.0	12	Low double digit
BSFR	13.0	7.6	8.5	High Single Digit
Alinma	14.0	16.0	15.5	Mid-teens
W.A	**17.8**	**15.1**	**8.7**	

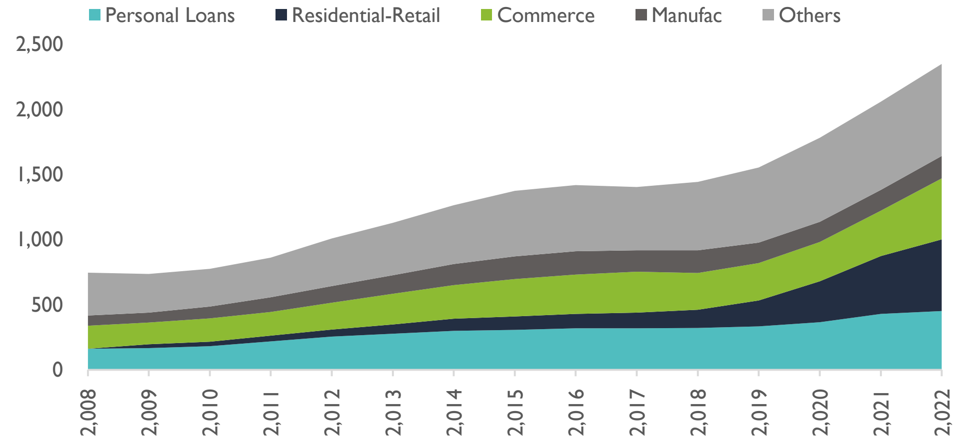
*CY22 Advances used as weight

Source: Tharaa, Banks' Presentations

- Advance Growth-The guidance for advance growth in CY23 stands at 8.7% based on loans of each bank in CY22 (10% based on simple average) vs actual loan growth of 15% in CY22.
- The slow-down in retail loan growth (change in subsidy rules), the general impact of higher interest rate on loan demand (6M SAIBOR at multi-year high) and the higher base (the stock of loans in Dec-22 has grown 63% since Dec-18) are the primary reasons for the expected slowdown in momentum of loan growth.

- Once again, the disconnect in guidance between retail and corporate focused banks is quite glaring.
- Alrajhi penciling mid-single digit loan growth while Alinma and SABB eyeing mid-double digit to low double-digit loan growth in CY23.

Growth in mortgage loans has driven overall loan growth since 2018



Source: SAMA, Tharaa

5-Cost of Risk (CoR)

CY23 CoR Guidance by Banks (bp)

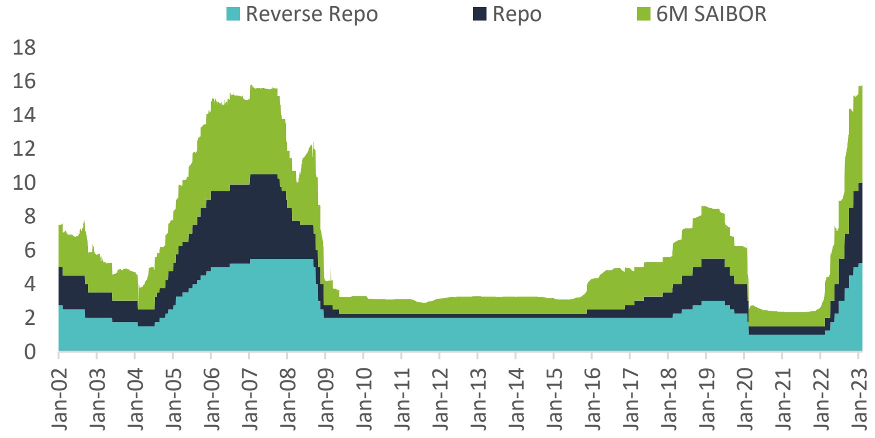
CoR Guidance	2021	2022	2023	Comment
Al Rajhi	60	39	35	30-40
SNB	60	33	40	30-50
RIBL	41	44	50	40-60
SABB	105	24	38	30-45
BSFR	67	85	75	70-80
Alinma	102	85	65	60-70
W.A	**66**	**44**	**45**	

*CY22 loans used as weight

Source: Tharaa, Banks' Presentations

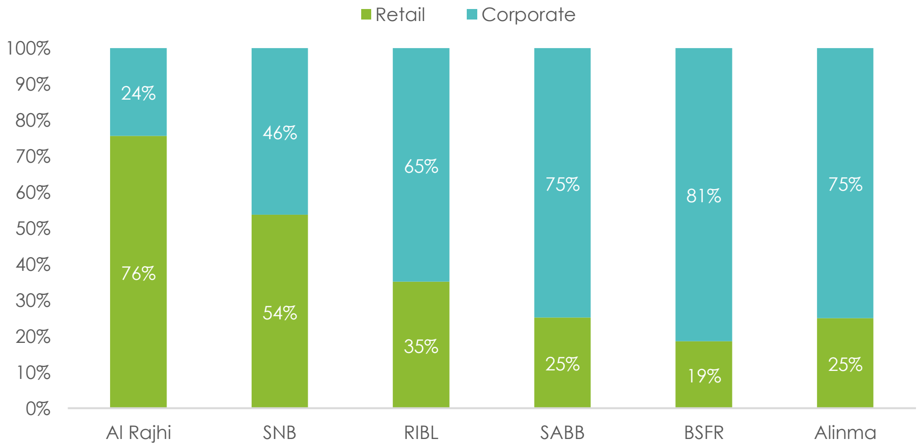
- Cost of Risk (CoR)-Based on simple average, banks expect credit cost to remain stable in CY23 at 45bp vs 44bp in CY22.
- This is one area where high interest rate environment may throw up unexpected negative surprises for banks in CY23.
- Cost of risk of retail-focused banks will particularly be in limelight in CY23.

6-M SAIBOR has escalated to multi-year high



Source: Bloomberg, Tharaa

Loan Book Profile of Six Major Banks (CY22)



Source: Banks Annual Report, Tharaa

6-Capital Adequacy

Capital Adequacy- Guidance by Banks (%)

	2021	2022	2023	Comment
Al Rajhi	16.4	20.3	>20	Tier I
SNB	18.4	18.3	18-16	Tier I
RIBL	15.8	15.9	>15	CETI
SABB	19.3	17.7	N/A	CET I
BSFR	17.47	16.6	17-18	CET I
Alinma	18.2	19.8	17-18	CAR

Source: Tharaa, Banks' Presentations

- Capital Adequacy-Overall banks capital adequacy (measured as CET, TIER I or CAR) is expected to remain stable in CY23 compared to CY22.
- Risk to earnings associated with higher interest rate environment (CoR, loan growth) and liquidity (NIMs due to funding mix or competition among banks) are the two clear risks for banks in CY23.
- The rollout of BASEL IV regulations may have limited implications for Saudi banks.

- Tier I Bonds/Sukuk has supported banks capacity to raise total equity besides higher retention of profit in 2023
- BSFR remains the only bank in the sample which has recorded drop in total equity. Adjusted for change in Tier I bonds/sukuk, Riyad's equity also dropped YoY.
- AlRajhi and Alinma have the highest reliance (16% each) on Tier I bonds/sukuk among the six banks

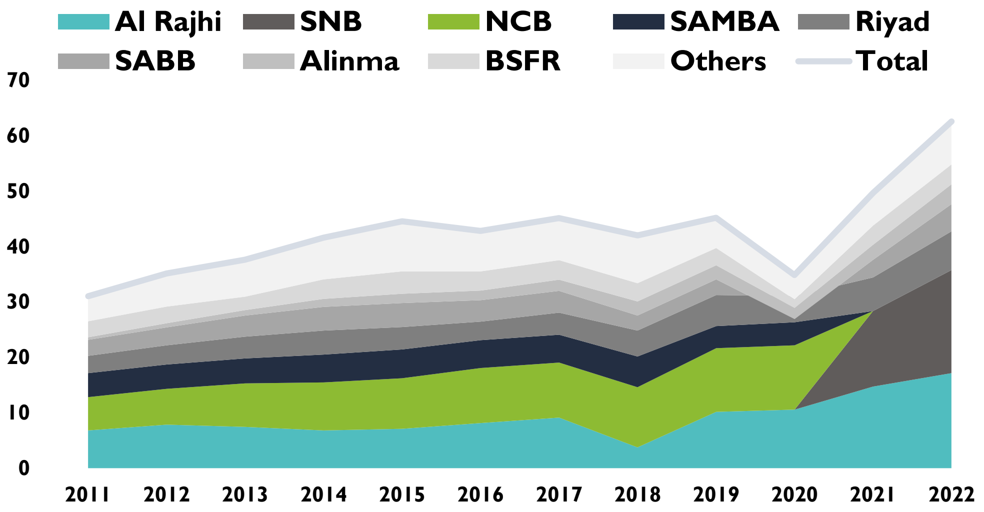
Banks Total Equity Trend and Contribution of Tier I Debt

Source: Banks Annual Reports, Tharaa

CY22 Earnings Highlights

Tharaa Financial Center

Banks' earnings has jumped 26% YoY to a new fresh all time high



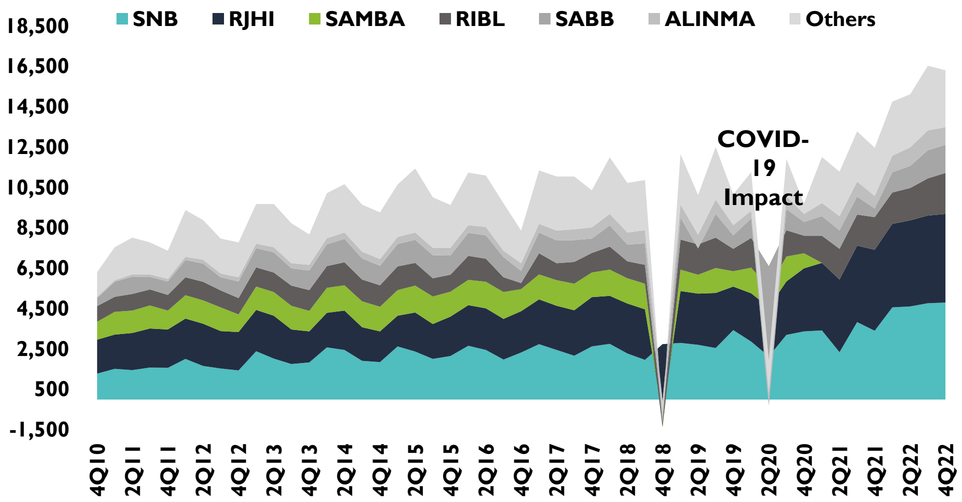
Source: Bloomberg, Tharaa

1: NCB pre-merger data up to Q4 2020, 2: SAMBA pre-merger data up to Q4 2020

- On Quarter on Quarter basis, earnings of listed banks at TASI has dropped 1.3% to SAR16.3bn.
- The drop in earnings is due to mismatch in timing of repricing of liabilities and assets in response to increase in interest rate hikes in 4Q22 by SAMA, higher provisioning cost and competition among banks

- Earnings of listed banks at TASI has jumped to a fresh all time high of ~SAR63bn in 2022, +26% YoY.
- Continuation of strong asset growth, positive impact of increased interest rates (SAIBOR:+490bp in 2022) and normalization of provisioning cost are the three main drivers of earnings growth.
- AlRajhi and SNB have contributed over 57% of total earnings growth in 2022.

QoQ earnings of banks has dropped by a marginal 1.3% in 4Q22

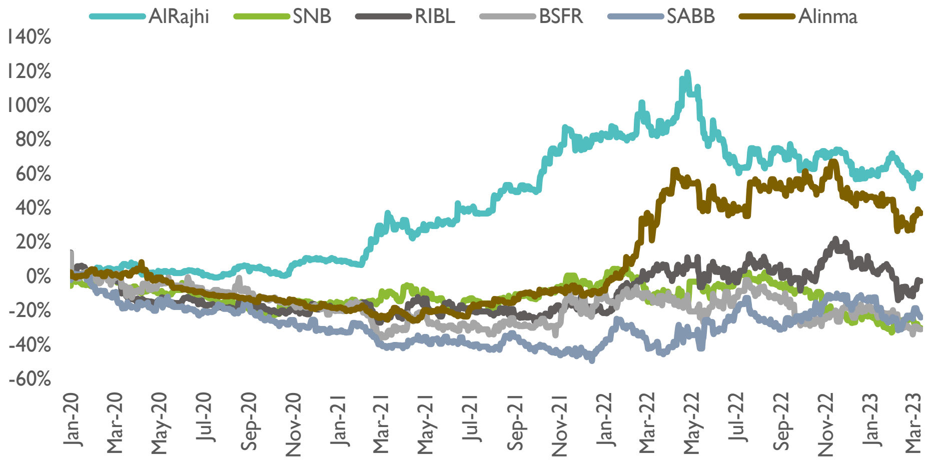


Source: Bloomberg, Tharaa Financial Center

**Mkt Stock Price as closed in 09-03-2023*

Valuation & Performance

Banks' Performance Relative to TASI Since Jan-2020

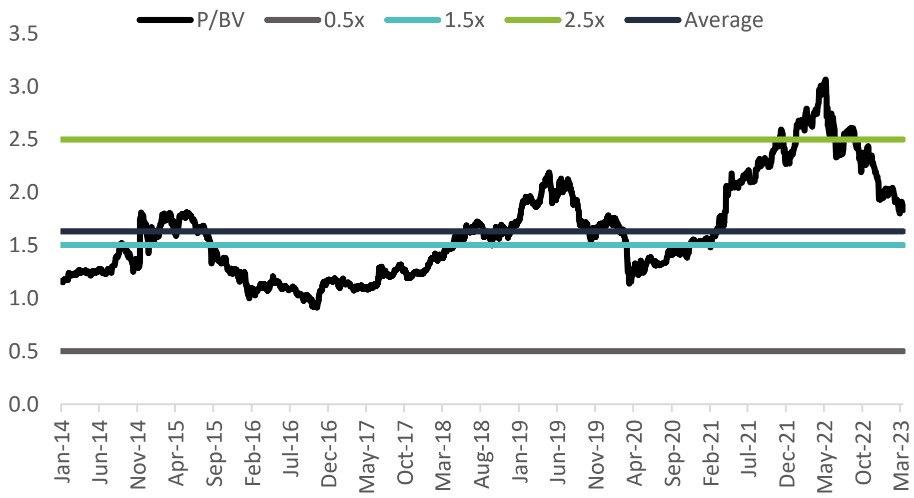


Source: Bloomberg, Tharaa Financial Center

- Al-Rajhi and Alinma's stock prices have outperformed TASI by significant margin since the Jan-2020 as other banks struggled to retain post-COVID era outperformance

- Saudi Banks' valuation as measured by P/BV escalated to over 3x in 2022, implying a 3x Standard Deviation movement. Valuation has reverted to its long-term average of 1.6x with deceleration in earnings growth and increase in interest rate.

Saudi Banks' Valuation (P/BV) has reverted to its LT average



Source: Tharaa Financial Center

Disclaimer

The document has been prepared by Tharra Financial Center (TFC, Tharaa) at Prince Sultan University. The information contained in this document was obtained from several sources such as Bloomberg, Reuters, SAMA, IMF, IEA, OPEC, Tadawul and other national and international agencies. Tharra tried its best effort to acquire the data from most reliable sources. However, Tharaa does not guarantee the accuracy of the data. Therefore, Tharaa makes no representation whether expressed or implied concerning the accuracy and completeness of any information contained in this report.

The report is not intended to provide personal investment advice nor it gives recommendation to buy or to sell any securities or any type of investment products. Tharaa shall not be liable for any direct or indirect consequences resulting from the use of the information in this document.

Contact Info

Tharaa Financial Center
011 494 8899
info@tharaafc.com
www.tharaafc.com
Building 105
Prince Sultan University
Rafha Street, Riyadh
Kingdom of Saudi Arabia