

Target Price: SAR47.0/share
Current Price: SAR35.2/share
Upside: +34% (+Div. Yield: 5.1%)
Rating: Overweight

Saudi National Bank (SNB)

Rate cuts to support NIM expansion gradually, Maintain TP

- 2Q24 results were in line, with total income and earnings rising 5.0% y/y and 4.3%, respectively; LDR jumped +100%, due to the offloading of certain transitory deposits.
- We believe SNB's performance to remain aligned with its 2024e guidance with healthy loan expansion, muted NIMs, and stable cost of risk.
- We maintain our TP at SAR47/sh. based on the equal weightage of residual income and P/B (1.5x on average 2024-25e BVPS) multiple methods and keep Overweight rating.

Interest rate cuts likely to begin in September 2024: The outdated June Dot Plot indicates a single 25bps rate cut in 2024 (Figure 5). However, given recent economic indicators, market expectations have shifted towards a more aggressive easing path, with rate cuts likely beginning in September 2024. Fed Chairman acknowledged a significant shift in the economic landscape compared to the previous year, characterized by a cooling job market, rising unemployment, and declining inflation. Further the Chairman in his Jackson Hole speech signaled that the Central Bank is ready to start cutting interest rates. Consequently, Bloomberg data shows (Figure 6), markets are now pricing in three to four cuts in 2024, totaling 75-100bps by year-end. This trend is expected to continue, with the Fed's policy rate potentially decreasing by a cumulative ~2.25ppt through 2025e, implying nine cuts.

SNB to see healthy loan growth in 2024: SNB's loan growth is projected to remain strong in 2024, largely driven by corporate lending. This growth will be supported by Saudi Arabia's robust economy and the ongoing execution of Vision 2030 projects. Expected interest rate cuts are likely to further stimulate corporate borrowing and expedite the realization of these initiatives. While mortgage lending is expected to remain stable, we expect retail loans (excluding mortgages) to gradually increase, starting in 2H24, as lower interest rates make borrowing more affordable. In response to this positive macroeconomic outlook, SNB has recently revised its loan growth guidance upward from "High single digit" to "Low double digit." Accordingly, we anticipate SNB's loan portfolio to expand in line with this guidance by ~11% in 2024, driven by a 15% increase in the corporate loan portfolio and a ~8% rise in retail lending.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Net interest income	27,009	28,729	32,748	35,277
y/y growth	2.7%	6.4%	14.0%	7.7%
NIM margin	3.1%	3.0%	3.2%	3.2%
Fee & other income	7,580	7,575	7,806	7,699
Total operating Income	34,589	36,304	40,554	42,976
Cost to Income Ratio ¹	27.6%	27.3%	27.0%	26.1%
Net income*	20,010	20,907	22,913	24,650
EPS (SAR)	3.2	3.3	3.7	4.0
DPS (SAR)	1.8	1.8	2.0	2.2
Net loans and advances	601,527	668,801	729,463	777,033
y/y growth	10.3%	11.2%	9.1%	6.5%
Customers deposits	590,051	697,544	756,835	807,128
y/y growth	3.8%	18.2%	8.5%	6.6%
COR (bps)	16	31	35	35

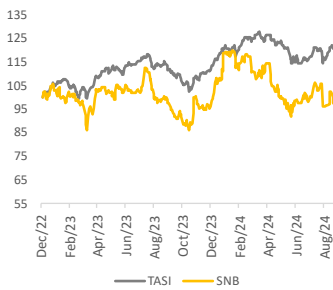
Source: Company, GIB Capital, *attributable to equity holders ¹Excluding amortization of intangibles

Stock data

TASI ticker	1180
Mcap (SARmn)	211,200
Trd. Val (3m) (SARmn)	206.7
Free float	62.7%
QFI holding	14.7%
TASI FF weight	5.76%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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CASA to remain stable at current levels in 2H24: As interest rates go down, SNB's CASA ratio is expected to stabilize, with minimal impact on the deposit mix, considering SNB's already high CASA ratio (74.2% in 1H24) and its track record of maintaining these levels of CASA. A shift in deposit mix is not expected also due to a change in consumer behavior whereby consumers are now demanding interest payments on these deposits and the scope of free deposits has become limited. Thus, we expect SNB to maintain the CASA ratio at ~74% and LDR at ~96% in 2024e.

NIMs expansion to remain muted in 2024e, followed by healthy expansion in 2025e: SNB benefits from rate cuts as a healthy portion of its loan book is fixed-rate, particularly in retail lending (~52% of the loan book), while its liabilities are predominantly floating-rate. Additionally, liabilities generally have shorter repricing durations than assets, widening the interest rate spread. We expect SNB to witness a limited NIM expansion in 2024 due to the timing of the rate cuts and its current balance sheet structure (balanced loan mix; 48% corporate, 52% retail, and already high CASA ratio at ~74% in 1H24), which suggests limited repricing benefits in 2024e. However, we anticipate NIM to witness healthy expansion in 2025e as the impact of rate cuts on the balance sheet becomes more pronounced. Recent management guidance suggests a lag of 2-3 quarters for a 2-3 bps increase in SNB's NIM following a 25-bps rate cut, further supporting our analysis. Consequently, we expect SNB's NIM to remain at 3.03% in 2024e (within the guidance range of 3.0%-3.2%), while we estimate it to expand by +15bps to 3.18% in 2025e.

Recap of 2Q24 results:

- Net interest income rose 8.1% y/y to SAR7.05bn, largely in line with our estimated SAR7.13bn. This was driven by a 20.6% y/y rise in interest income, while interest expense increased by 35.8% y/y. Faster growth in interest expenses resulted in NIM contracting by 5bps y/y, with our NIM projection remaining largely in line (GIBCe 3.1% vs. 3.05% reported). Non-interest income experienced a 5.4% y/y decline, reaching SAR1.9bn (vs. GIBCe at SAR2.1bn). This combined contributed to total operating income of SAR8.9bn (a 5.0% y/y increase; SAR9.2bn expected).
- Meanwhile, opex remained in line with our estimate. Further, ECL rose by 57.9% y/y, reaching SAR120mn, significantly below our estimate of SAR642mn, due to lower-than-expected cost of risk amid healthy recoveries. Additionally, the taxes came in lower than expected. This both compensated for a slight operating income miss, leading to an in-line net income of SAR5.23bn vs. GIBCe of SAR5.16bn (+4.3% y/y).
- On the balance sheet front, loan growth remained robust at 10.3% y/y (+2.0% q/q), in line with our sequential growth expectation of 2.3%. Deposits declined by 3.6% q/q (+5.1% y/y) vs. our estimated growth of +2% q/q.

Figure 2: SNB's 2Q24 earnings vs. GIBCe

SNB (SAR mn)	2Q24	2Q23	y/y	1Q24	q/q	GIBCe	Variance
Net interest income	7,051	6,522	8.1%	6,912	2.0%	7,131	-1.1%
NIM	3.10%	3.10%	-4bps	3.10%	-2bps	3.10%	5bps
Non-interest income	1,865	1,972	-5.4%	2,027	-8.0%	2,066	-9.7%
Total operating income	8,916	8,494	5.0%	8,939	-0.3%	9,197	-3.1%
Provisions	120	76	57.9%	655	-81.7%	642	-81.3%
Opex	2,750	2,607	5.5%	2,665	3.2%	2,713	-1.3%
Cost to Income ratio	30.8%	30.7%		29.8%		29.5%	
Net income	5,231	5,016	4.3%	5,040	3.8%	5,163	1.3%
Loan Book	637,235	577,849	10.3%	625,202	1.9%	639,440	-0.3%
Investments	286,735	264,827	8.3%	275,609	4.0%	280,861	2.1%
Deposits	632,693	602,209	5.1%	656,261	-3.6%	669,386	-5.5%
LDR (Headline)	100.7%	96.0%	5ppts	95.3%	5ppts	95.5%	5ppts

Source: Company data, GIB Capital

Valuation and risks: Post in line 2Q24 results and considering the current macro-economic landscape, interest rate outlook, and recent management insights, we maintain our TP at SAR47/share based on the equal weightage of residual income and P/B (1.5x on average 2024-25e BVPS) multiple methods and keep Overweight rating. Downside risks include slower loan growth due to adverse economic conditions, interest rate risks impacting NIMs, and exposure to international investments.

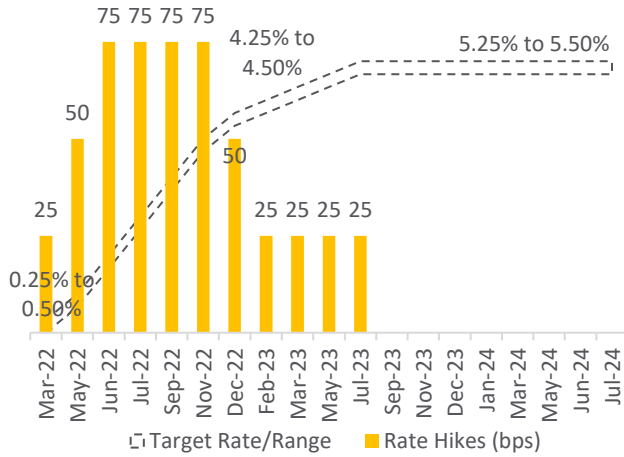
Figure 3: 2024 guidance vs. GIBCe

SNB Financial Guidance	1H24 actual	2024 Guidance		GIBC 2024e
		Earlier	New	
Loan growth	+6%	High-single digit	Low-double digit	11.2%
NIMs	3.09%	3.0% to 3.2%	3.0% to 3.2%	3.03%#
Cost of Risk	26 bps	30-50bps	30-50bps	31bps
Cost to income*	28.0%	Below 27.0%	Below 27.0%	27.3%

Source: Company data, GIB Capital. *Excluding amortization of intangibles. #GIBCe calculations

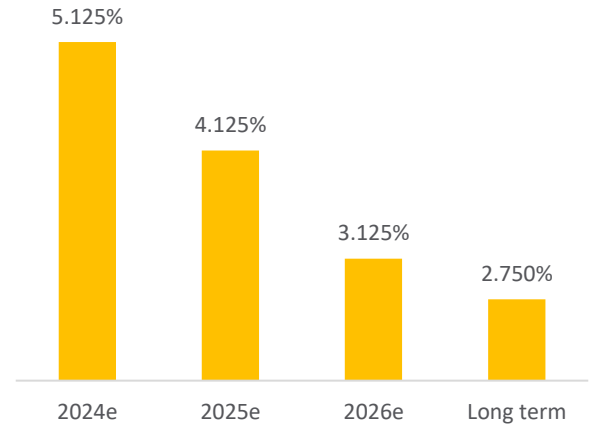
Interest rate outlook

Figure 4: The US Fed maintained its target interest rates in the July meeting...



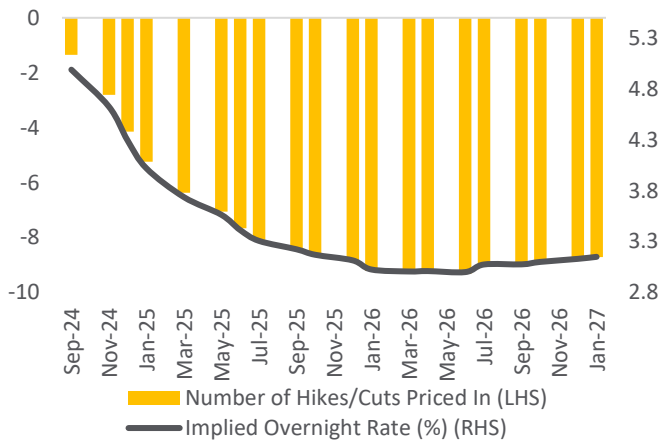
Source: Bloomberg, GIB Capital

Figure 5: ...with the latest Fed Dot Plot suggesting just one 25bps cut in 2024e...



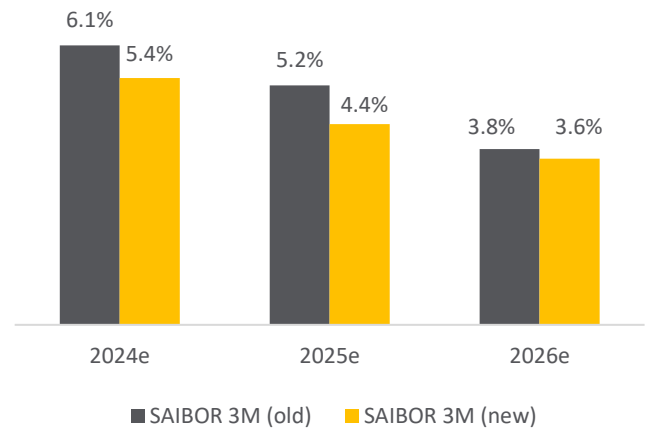
Source: Bloomberg, GIB Capital

Figure 6: ... however, markets are expecting aggressive rate cuts in 2024e considering the latest economic data releases...



Source: Bloomberg, GIB Capital

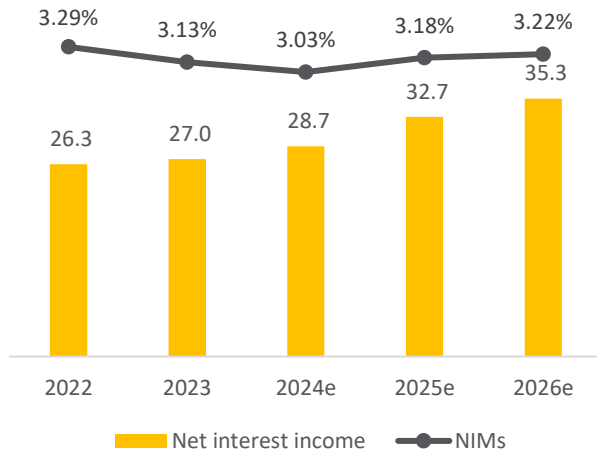
Figure 7: ...we maintain our year-end 3M SAIBOR expectations



Source: Bloomberg, GIB Capital

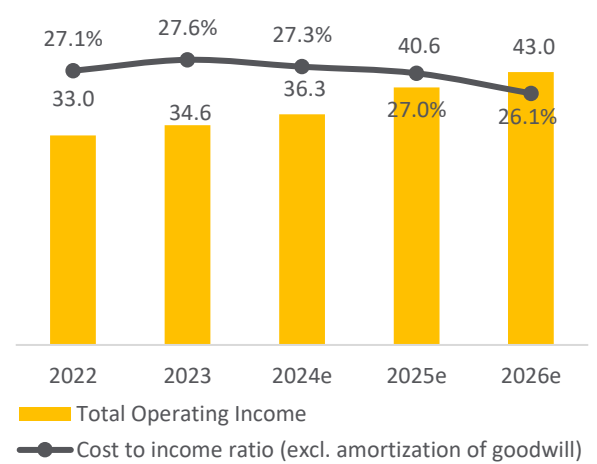
Key Charts for SNB

Figure 8: Net interest income (SARbn) and NIMs trend



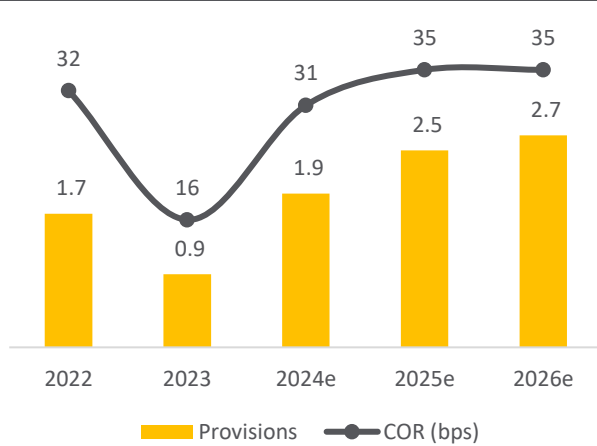
Source: Company data, GIB Capital

Figure 9: Total operating income (SARbn) and CIR trend



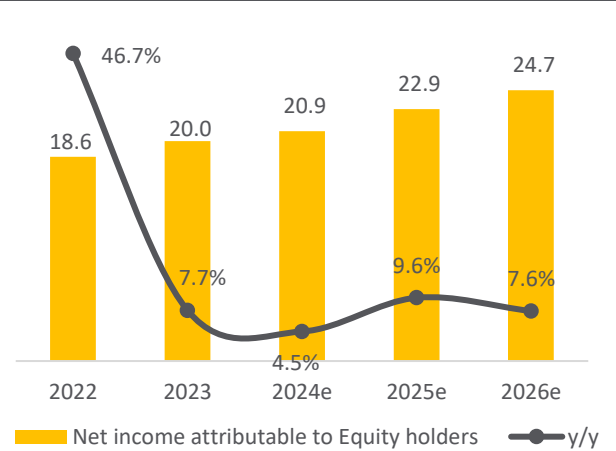
Source: Company data, GIB Capital

Figure 10: Provisions (SARbn) and COR trend



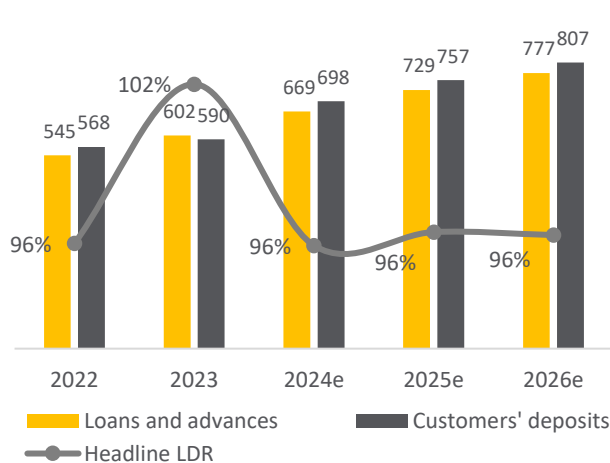
Source: Company data, GIB Capital

Figure 11: Net income trend (SARbn)



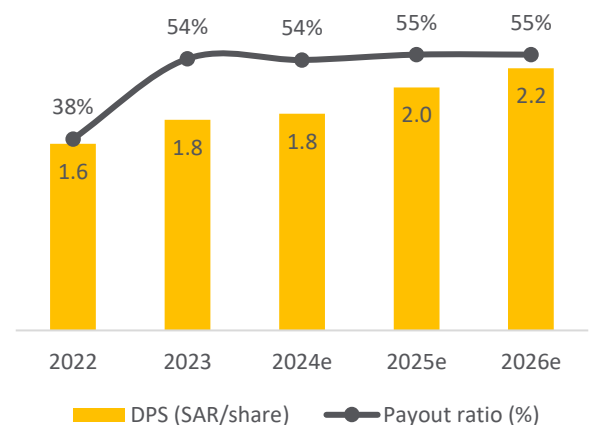
Source: Company data, GIB Capital

Figure 12: Loans, customer deposits (SARbn) and LDR trend



Source: Company data, GIB Capital

Figure 13: Trend in DPS and payout ratio



Source: Company data, GIB Capital

Financials

Figure 14: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e
Net Special Commission Income	27,009	28,729	32,748	35,277
<i>NIM Margin</i>	3.1%	3.0%	3.2%	3.2%
Fee & other income	7,580	7,575	7,806	7,699
Total Operating Income	34,589	36,304	40,554	42,976
Operating Expenses	11,280	12,657	14,245	14,706
<i>Cost-to-income ratio*</i>	29.9%	29.5%	29.0%	28.0%
Net operating income before impairments	24,232	25,586	28,793	30,943
Impairments	923	1,939	2,485	2,672
Net operating income after impairments	23,310	23,647	26,308	28,270
Other non-operating (expenses)/income	(537)	(447)	(492)	(497)
Net income for the year before zakat	22,773	23,200	25,816	27,773
Zakat/tax	(2,664)	(2,468)	(3,098)	(3,333)
Net Income att. to Equity holders	20,010	20,907	22,913	24,650
<i>y/y</i>	7.7%	4.5%	9.6%	7.6%
EPS	3.2	3.3	3.7	4.0
DPS	1.8	1.8	2.0	2.2
Payout	54%	54%	55%	55%

Balance Sheet	2023a	2024e	2025e	2026e
Cash and balances with SAMA	47,499	50,798	50,798	50,798
Due from banks & other financial institutions	34,563	29,379	29,673	29,969
Investments	269,129	296,042	307,884	320,199
Net loans and advances	601,527	668,801	729,463	777,033
Property & equipment	11,000	11,689	11,670	11,616
Other assets	73,362	81,513	90,540	104,631
Total Assets	1,037,081	1,138,221	1,220,027	1,294,245
Interest-Earning Assets	905,220	994,222	1,067,019	1,127,201
Due to banks & other financial institutions	211,666	122,953	127,871	132,986
Customers deposits	590,051	697,544	756,835	807,128
Debt securities issued	13,889	85,701	89,987	94,486
Other Liabilities	137,516	118,130	112,486	104,756
Total Liabilities	953,122	1,024,328	1,087,178	1,139,356
Interest Bearing Liabilities	815,606	906,198	974,693	1,034,600
Equity	175,905	184,439	195,234	206,811
Total Equity and Liabilities	1,037,081	1,138,221	1,220,027	1,294,245
BVPS	29.3	30.7	32.5	34.5

Source: Company data, GIB Capital *incl. goodwill amortization

Figure 15: Key ratios

Key ratios	2023a	2024e	2025e	2026e
Profitability ratios				
Asset Yield	5.8%	6.0%	5.6%	5.2%
Cost of funds	3.0%	3.3%	2.6%	2.2%
NIM	3.1%	3.0%	3.2%	3.2%
ROE	11.7%	11.6%	12.1%	12.3%
ROA	2.0%	1.9%	1.9%	2.0%
Liquidity ratios				
Loans/ Customer Deposits	102%	96%	96%	96%
Loan/Customer deposits & Due to banks	75%	82%	82%	83%
Loans / Assets	58%	59%	60%	60%
Capitalization ratios				
Tier I Ratio	19.4%	18.9%	19.0%	19.3%
Total capital adequacy (CAR)	20.1%	19.2%	19.4%	19.7%
Equity/Total assets	17.0%	16.2%	16.0%	16.0%
Asset Quality				
Gross NPL Ratio	1.2%	1.2%	1.3%	1.3%
Net NPL Ratio	0.5%	0.5%	0.4%	0.4%
Coverage ratio	139.6%	140.0%	140.0%	140.0%
COR (bps)	16	31	35	35
Valuation ratios				
P/E	10.9	10.5	9.6	8.9
P/B	1.2	1.1	1.1	1.0
Dividend Yield	5.0%	5.1%	5.7%	6.2%

Source: Company data, GIB Capital

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