Equity Research report
SNB AB Equity
13 Nov 2023

Target Price: SAR47/share
Current Price: SAR34.8/share
Upside: 35% (+Div. Yield: 5.6%)
Rating: Overweight

Saudi National Bank (SNB)

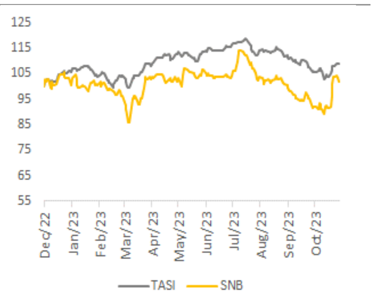
Higher interest rates to keep NIMs muted; Remain OW

- SNB's bottom line remained flat sequentially despite higher opex, driven by a rise in net interest income, ECL reversals, and lower taxes.
- Extended period of higher interest rate environment to keep SNB's NIMs muted for longer period, primarily weighted down by rise in time deposit mix.
- We revise our TP to SAR47/share; however, maintain our Overweight rating as we feel the current valuation of the stock provides a good value buy opportunity.

Stock data	
TASI ticker	1180
Mcap (SARmn)	208,800
Trd. Val (3m) (SARmn)	207.6
Free float	62.7%
QFI holding	14.3%
TASI FF weight	6.87%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Interest rates expected to remain elevated for longer… The US Fed has kept benchmark interest rates unchanged in its recent meetings; however, it has revised its stance for forward rates. The Fed now is expected to maintain interest rates higher for longer as it looks for concrete data of reduction in inflation and cooling of economy. The most recent Fed Dot Plot (Figure 3) now shows one more rate hike in 2023, likely followed by two cuts in 2024e (vs. four rate cuts predicted earlier in June 2023). The bulk of monetary policy easing is now shifted to 2025e. In line with the scenario, we expect the 3M SAIBOR to remain higher for longer period (Figure 4).

… which is likely to keep SNB's NIM expansion muted: Elevated interest rate environment pose challenges for KSA banks with substantial retail/mortgage exposure, including SNB (53% retail exposure as of 9M23). However, SNB's healthy repricing of balance sheet, strong investment portfolio, and limited time deposit mix (Figure 7) are expected to minimize the impact. Considering the current economic landscape and recent management insights, we slightly revise our NIM estimates for SNB downwards by 10-20bps for 2024-25e. We now anticipate NIM to stabilize in 2023-24e (Figure 8) due to the reduced pace of rate cuts. In 2025e, when most rate cuts are expected to be implemented, we expect NIM to gradually expand. However, the NIM expansion would be muted and less evident compared to other peer banks due to SNB's low time deposit mix.

Figure 1: Key financial metrics

SARmn	2022a	2023e	2024e	2025e
Net interest income	26,286	27,198	29,999	33,320
y/y growth	*18.8%*	*3.5%*	*10.3%*	*11.1%*
NIM Margin	*3.3%*	*3.1%*	*3.2%*	*3.2%*
Fee & other income	6,717	7,706	8,422	8,504
Total operating Income	33,003	34,904	38,421	41,824
Cost to Income Ratio[1]	27.1%	28.2%	27.9%	27.1%
Net income*	18,581	20,028	22,047	23,755
EPS (SAR)	4.1	3.2	3.5	3.8
DPS (SAR)	1.6	1.9	2.0	1.9
Net loans and advances	545,311	608,757	666,455	720,699
y/y growth	*10.0%*	*11.6%*	*9.5%*	*8.1%*
Customers deposits	568,283	641,563	705,121	763,337
y/y growth	*-3.2%*	*12.9%*	*9.9%*	*8.3%*
BVPS (SAR)	28	28	30	32
COR (bps)	32	16	30	40

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

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Corporate lending continues to drive loan growth, while time deposits remain the main source of funding: SNB's loan growth (~10% y/y 2024e) will be driven by corporate lending (47% of the loan book at the end of 9M23), supported by a favorable macroeconomic environment in KSA. Retail (ex-mortgage) loan growth is expected to remain subdued; however, mortgage lending is expected to remain resilient as banks actively promote fixed-rate mortgages (which allow banks to lock in yields and benefit from potential rate declines). The bulk of new credit growth is projected to be funded by time deposits and wholesale funding.

3Q23 results: SNB's total operating income increased to SAR8,737mn (+3.4% y/y, +2.8% q/q, in line with our estimates), driven by higher net interest income of SAR6,820mn (+3.7% y/y, +4.5% q/q). Further, non-interest income came in at SAR1,917mn (+2.5% y/y, -2.8% q/q). Meanwhile, an ECL reversal of SAR77mn due to a strong recovery in a legacy loan (vs. GIBCe ECL provision expectation of SAR370mn) mitigated the rise in operating expenses (due to inflationary pressure from Turkey; +13.6% y/y, +5.9% q/q, 14.5% higher than our estimate). This, coupled with a decline in taxes (-2.8% y/y, -14.9% q/q), led to a net income of SAR5,010mn (+6% y/y, flat q/q, in line with our estimates).

Outlook & Guidance: SNB's healthy loan (low-double digit) and deposit growth, coupled with NIM stabilization, is expected to drive profitability. The bank's conservative LDR of 94-96% (compared to peers >100%) supports better pricing and bolsters NIMs over the medium term. Also, a strong recovery in legacy loans is likely to keep the cost of risk in check. However, we expect cost pressures to limit bottom-line growth in the medium term, prompting us to raise our OPEX estimates (in line with the latest management commentary and revised guidance– Figure 2). SNB recently completed its 10mn shares repurchase for the ESOP program with a transaction value of SAR3.4bn, implying a per-share value of SAR34.78. We continue to believe the stock is poised for a reversal and is a good value buy at current levels, on the back of strong operational execution and attractive valuation.

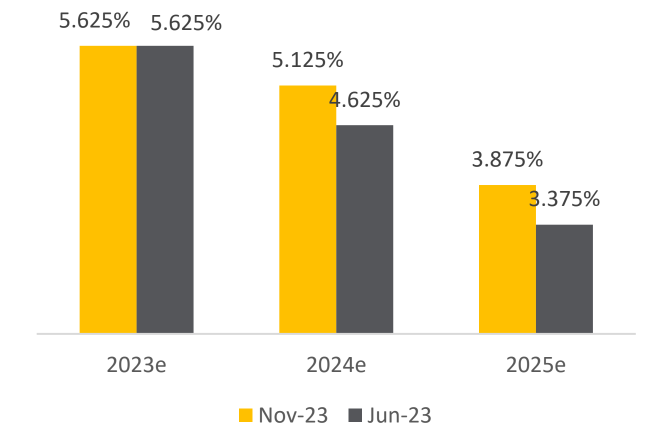
Valuation and risks: Considering the current macroeconomic environment, 3Q23 results, and the latest management commentary, we marginally reduce our forward NIM estimates, leading to a revision in our TP. We arrive at a 12-month forward residual income method TP of SAR45/share. The stock is currently trading at a forward P/B of 1.2x on 2024e BVPS (current tangible P/B of 1.9x). We use a P/B multiple of 1.5x on 2024e BVPS to arrive at a multiple-based 12-month forward valuation of SAR49/share. Given the 35% upside, we maintain our Overweight rating for the stock. Downside risks include slower loan growth due to adverse economic conditions, further increase in interest rates/cost of funds impacting NIMs, and exposure to international investments.

Figure 2: 2023 guidance

SNB Financial Guidance	*2023 Previous guidance*	*2023 Updated guidance*	*2023e GIBCe (old)*	*2023e GIBCe (Revised)*
Loan growth	Low-double digit	Maintained	11.6%	Unchanged
NIMs	3.0% to 3.2%	3.0% to 3.2%	3.14%	3.15%
Cost of Risk	30-50bps	10-30bps	31bps	16bps
Cost to income*	Below 27.0%	Below 28.5%	26.1%	28.2%

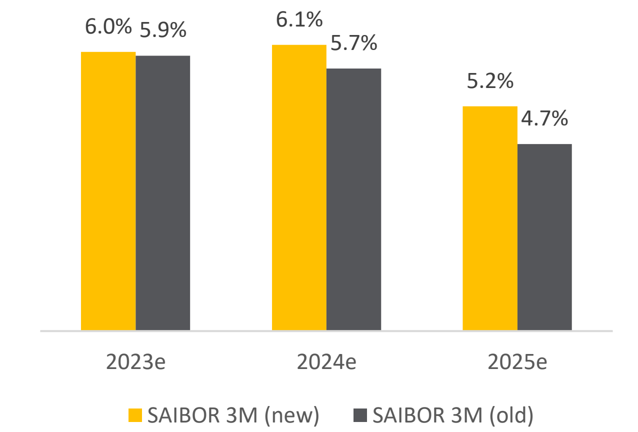
*Source: Company data, GIB Capital. *Excluding amortization of intangibles*

Figure 3: US Fed Dot Plot now suggests elevated rate for longer…



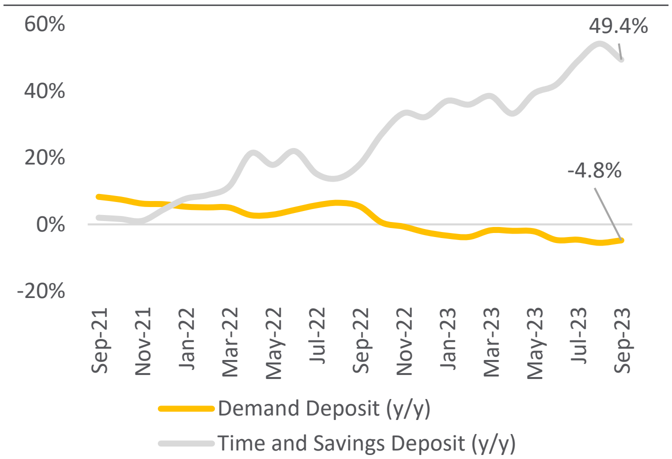
Source: Bloomberg

Figure 4: …Keeping average 3M SAIBOR higher



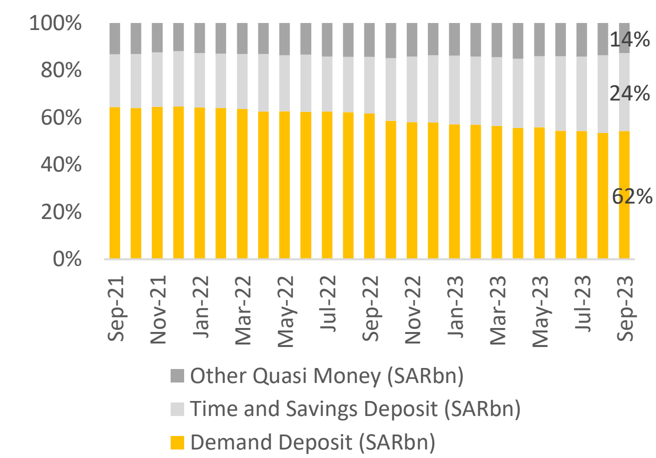
Source: Bloomberg, GIB Capital

Figure 5: Time & savings deposit growth to continue to outpace demand deposit growth on a sector level…



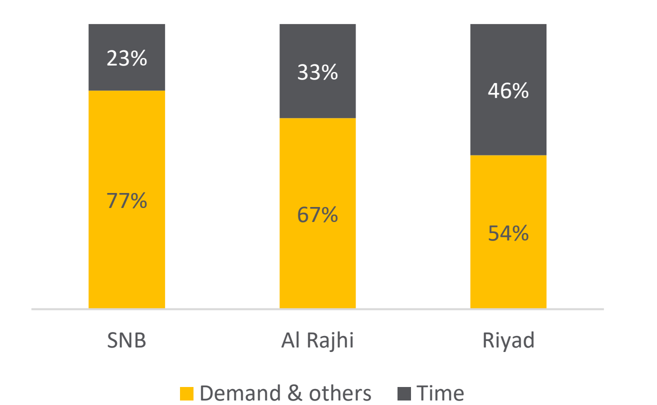
Source: SAMA

Figure 6: … leading to rise of time deposit mix industry-wide keeping the cost of funding elevated



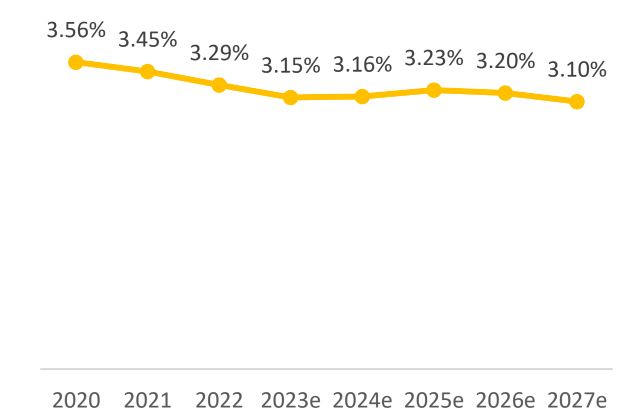
Source: SAMA

Figure 7: SNB has the lowest time deposit mix compared to peers…



Source: Company data

Figure 8:… leading to stable and flattish NIMs in the medium-term



Source: Company data, GIB Capital. Historical NIMs do not match with reported numbers as we use average IEA and IBL

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