

Target Price: SAR47/share
Current Price: SAR39.8/share
Upside: +18% (+Div. Yield: 4.7%)
Rating: Overweight

Saudi National Bank (SNB)

Balanced loan mix and high CASA mix to keep NIMs muted

- 4Q23 results were largely in line, with total income and earnings rising 6.2% y/y and 4.1%, respectively; LDR jumped +100%, due to the singular time deposit repayment.
- We believe SNB's performance to remain aligned with guidance of slower loan expansion (sector liquidity remains key monitor), muted NIMs, and higher cost of risk.
- The stock is up 14% since our last published note in Nov 2023. Post 4Q23 results, we maintain our TP at SAR47/sh. based on the equal weightage of Residual income and P/B (1.5x) multiple methods and remain Overweight rating.

Interest rate cuts likely to begin in 2H24: The US Fed maintained interest rates during its January 2024 meeting (Figure 4). Additionally, it highlighted that the FOMC currently lacks the confidence to initiate rate cuts in the March meeting, considering the current trajectory of inflation. The Fed has signaled three rate cuts for 2024 (Figure 5), totaling 75bps (versus market expectations of 4-5 cuts) and has indicated a reluctance to implement further cuts beyond this threshold. The resurgence of "Higher for Longer" interest rate sentiments gained momentum following January's US CPI reading (0.3% m/m, 3.1% y/y), which exceeded expectations (0.2% m/m, 2.9% y/y). The chart (Figure 6) below illustrates Fed rate predictions at three distinct junctures: i) October 18, 2023, when the "Higher for Longer" sentiment reached its peak; ii) January 12 of the current year, marking the pinnacle of belief in a dovish pivot by the Fed towards rate cuts; and iii) at close of trade after the January CPI release. Clearly, interest rate predictions have now once again aligned closely with last year's October "higher for longer" sentiments, marking a notable deviation from market expectations.

NIM expansion to likely remain muted in 2024: We continue to believe that SNB's NIM expansion will remain limited in 2024e due to low time deposit mix and healthy repricing of its balance sheet. However, a surge in NIM is expected from 2025e onwards (when bulk of the rate cuts are expected) driven by balanced loan mix (47% corporate, 53% retail), strong CASA mix (76%) and portfolio of high-yielding investments.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Net interest income	27,009	30,655	34,341	36,129
y/y growth	2.7%	13.5%	12.0%	5.2%
NIM Margin	3.1%	3.2%	3.3%	3.2%
Fee & other income	7,580	8,206	8,296	8,223
Total operating Income	34,589	38,861	42,637	44,352
Cost to Income Ratio ¹	27.6%	27.1%	27.1%	26.2%
Net income*	20,010	22,176	24,133	25,423
EPS (SAR)	3.2	3.5	3.9	4.1
DPS (SAR)	1.8	2.0	1.9	2.2
Net loans and advances	601,527	661,732	715,490	762,248
y/y growth	10.3%	10.0%	8.1%	6.5%
Customers deposits	590,051	676,553	732,410	781,080
y/y growth	3.8%	14.7%	8.3%	6.6%
BVPS (SAR)	29	31	33	35
COR (bps)	16	35	40	40

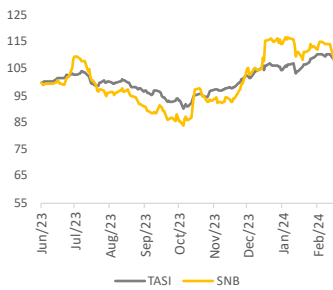
Source: Company, GIB Capital, *attributable to equity holders ¹Excluding amortization of intangibles

Stock data

TASI ticker	1180
Mcap (SARmn)	238,800
Trd. Val (3m) (SARmn)	204.5
Free float	62.7%
QFI holding	15.2%
TASI FF weight	6.37%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Kunal Doshi

+966-11-834 8372

Kunal.doshi@gibcapital.com

Corporate lending to drive loan growth, while SNB will continue to diversify its funding

profile: SNB's loan growth (+10% y/y in 2024e) will primarily be driven by corporate lending (+13.1% y/y), supported by the favorable macro environment in KSA and ongoing Vision 2030 mega and giga projects. While mortgage lending is expected to remain resilient (+10.4% y/y), overall retail loan growth is likely to lag (+8.8% y/y). However, a potential recovery in personal lending during 2H24 (as rate cuts would improve borrower eligibility) could contribute to an overall improvement in retail loan growth. On the funding front, SNB remains committed to optimizing its funding profile to efficiently manage its cost of funds. To this end, SNB recently raised funds by issuing US\$ denominated sukuk (5 year at 5.129%) under its international sukuk program announced in 2021. However, we expect the bulk of new credit growth continues to be funded through time deposits, reflecting the broader industry trend.

Largely in line 4Q23 results:

- 4Q23 results remained largely in line with our expectations. Net interest income reached SAR6.9bn, showing a 1.6% y/y increase (+4.1% q/q, GIBCe SAR7.2bn). The slight deviation in net interest income vs. our estimate was mainly due to a higher-than-expected cost of funds. Non-interest income also experienced a healthy growth of 29.4% y/y (-9.4% q/q), contributing to a total operating income of SAR8.6bn (a 6.2% y/y increase, -1.3% q/q; SAR9bn expected).
- Meanwhile, operating expenses (including provisions) rose by 17.7% y/y, with provisions rising 2.6x y/y. Conversely, tax expenses declined by 14.4% y/y in 4Q23. This combined with topline growth fueled earnings growth, reaching SAR5bn, a substantial 4.1% y/y increase (SAR5.1bn expected).
- On the balance sheet front, loan growth stood at 10.3% y/y (in line with guidance of low-double-digit growth and slightly lower than GIBCe of 11.5%, largely due to the year-end repayment cycle). Deposit growth significantly lagged loan growth (+3.8% y/y in FY23), primarily due to a large repayment in time deposits (-18% q/q) in 4Q23.
- Accordingly, the LDR ratio reached 102% at year-end (crossing the 100% mark for the first time and against the SNB's general guidance of ~95%). However, management clarified that this temporary spike was solely due to the singular time deposit repayment, and liquidity pressures have eased since January 2024. Nevertheless, monitoring overall liquidity remains crucial for the KSA banking system, in our view.

Figure 2: SNB's 4Q23 earnings vs. GIBCe

SNB (SAR mn)	4Q23	4Q22	y/y	3Q23	q/q	GIBCe	Variance
Net interest income	6,887	6,777	1.6%	6,820	1.0%	7,179	-4.1%
<i>NIM</i>	<i>3.2%</i>	<i>3.4%</i>	<i>-21bps</i>	<i>3.2%</i>	<i>0bps</i>	<i>3.2%</i>	
Non-interest income	1,737	1,342	29.4%	1,917	-9.4%	1,863	-6.8%
Total operating income	8,624	8,119	6.2%	8,737	-1.3%	9,042	-4.6%
Total Opex	2,977	2,530	17.7%	2,685	10.9%	3,307	-10.0%
Cost to Income ratio	29.5%	29.1%		31.6%		31.5%	
Net income	4,963	4,766	4.1%	5,010	-0.9%	5,084	-2.4%
Loan Book	601,527	545,311	10.3%	595,721	1.0%	608,757	-1.2%
Investments	269,129	258,292	4.2%	266,772	0.9%	278,398	-3.3%
Loan book + Investments	870,656	803,603	8.3%	862,493	0.9%	887,155	-1.9%
Deposits	590,051	568,283	3.8%	624,769	-5.6%	641,563	-8.0%
LDR (simple)	101.9%	96.0%	6ppts	95.4%	6.9%	94.9%	7.4%

Source: Company data, GIB Capital

Valuation and risks: Considering the current macro-economic landscape, largely in-line 4Q23 results, and recent management insights, we remain comfortable with our forward NIM estimates. Consequently, we maintain our TP at SAR47/share, and an Overweight rating. This implies a potential 18% upside from the current market price of SAR42.2 (the stock is up 14% since our last note in November 2023). 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.

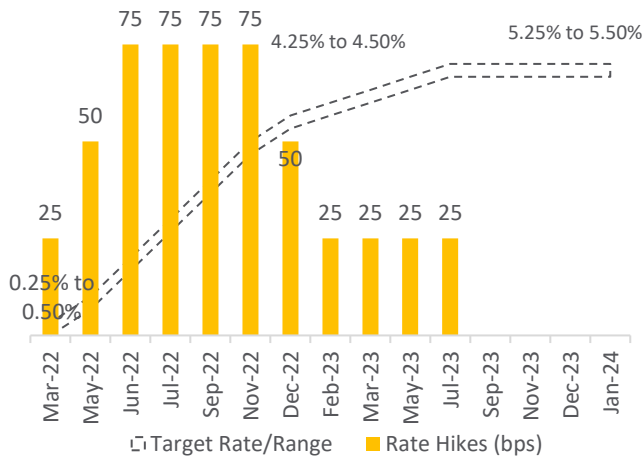
Figure 3: 2024 guidance vs. GIBCe

SNB Financial Guidance	2023 guidance	2023 actual	2024 Guidance	2024e GIBCe
Loan growth	Low-double digit	10%	High-single digit	10.0%
NIMs	3.0% to 3.2%	3.06%	3.0% to 3.2%	3.19%
Cost of Risk	10-30bps	0.16%	30-50bps	35bps
Cost to income*	Below 28.5%	27.6%	Below 27.0%	27.1%

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

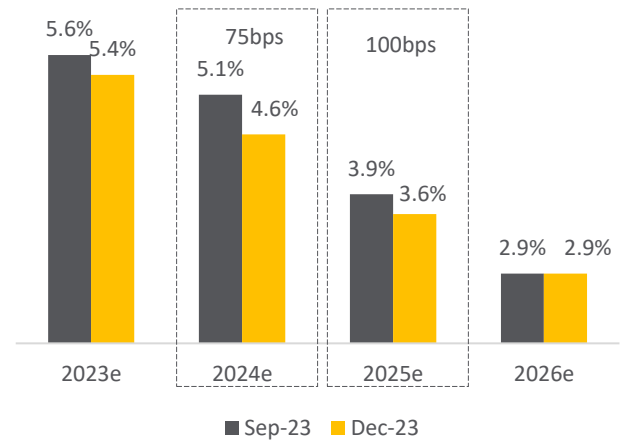
Key Charts for SNB

Figure 4: US Fed maintained its target interest rates in Jan meeting...



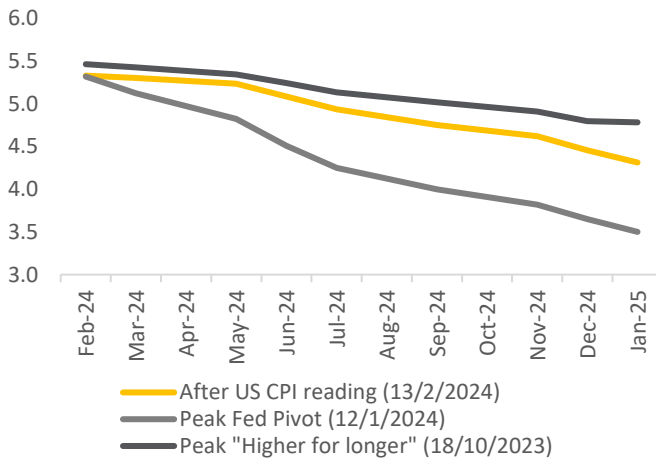
Source: Bloomberg, GIB Capital

Figure 5: ...with latest Fed Dot Plot implying 75bps cut in 2024e...



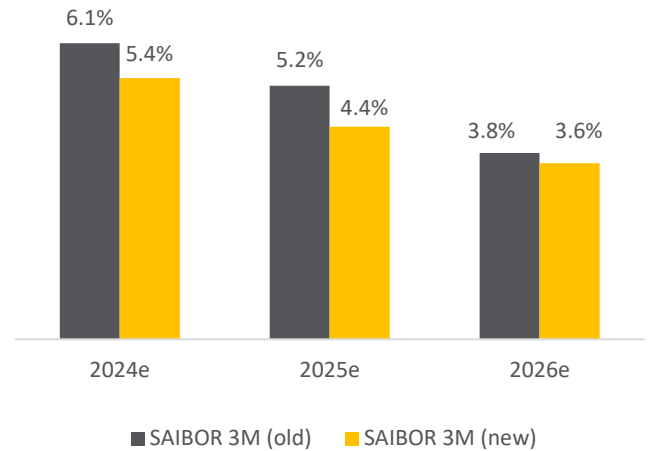
Source: Bloomberg, GIB Capital

Figure 6: Interest rates expected to remain elevated during 1H24 with market expectations also aligning with Fed forecast...



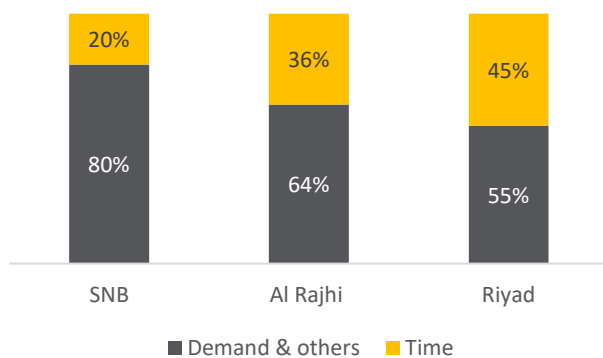
Source: Bloomberg, GIB Capital

Figure 7: ... Keeping average 3M SAIBOR higher



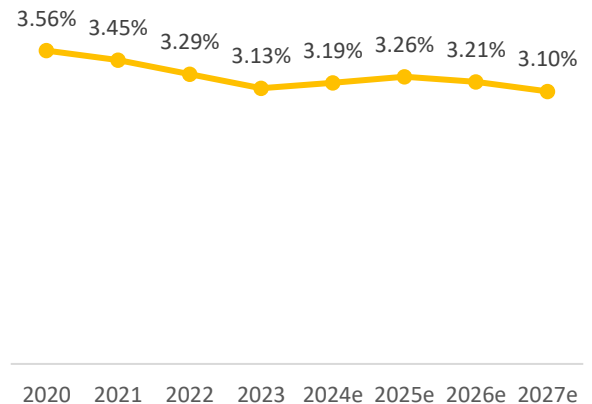
Source: Bloomberg, GIB Capital

Figure 8: SNB has the lowest time deposit mix compared to peers...



Source: Company data, GIB Capital

Figure 9: ... leading to stable and flattish NIMs in the medium term



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

Financials

Figure 10: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e	2027e
Net Special Commission Income	27,009	30,655	34,341	36,129	36,891
<i>NIM Margin</i>	3.1%	3.2%	3.3%	3.2%	3.1%
Fee & other income	7,580	8,206	8,296	8,223	8,103
Total Operating Income	34,589	38,861	42,637	44,352	44,994
Operating Expenses	11,280	13,594	15,158	15,413	15,757
<i>Cost-to-income ratio*</i>	29.9%	29.2%	29.0%	28.0%	28.0%
Net operating income before impairments	24,232	27,503	30,272	31,933	32,395
Impairments	923	2,236	2,793	2,994	3,159
Net operating income after impairments	23,310	25,267	27,479	28,939	29,236
Other non-operating (expenses)/income	(537)	(215)	(217)	(219)	(221)
Net income for the year before zakat	22,773	25,052	27,262	28,720	29,015
Zakat/tax	(2,664)	(3,006)	(3,271)	(3,446)	(3,482)
Net Income att. to Equity holders	20,010	22,176	24,133	25,423	25,684
<i>Net margin</i>	58%	57%	57%	57%	57%
<i>y/y</i>	8%	11%	9%	5%	1%
EPS	3.2	3.5	3.9	4.1	4.1
DPS	1.8	2.0	1.9	2.2	2.5
Payout	54%	56%	50%	55%	60%

Balance Sheet	2023a	2024e	2025e	2026e	2027e
Cash and balances with SAMA	47,499	47,499	47,499	47,499	47,499
Due from banks and other financial institutions	34,563	35,255	35,960	36,679	37,413
Investments	269,129	317,162	340,650	363,383	385,229
Net loans and advances	601,527	661,732	715,490	762,248	798,283
Property & equipment	11,000	11,069	11,163	11,184	11,083
Other assets	73,362	73,479	74,059	75,091	76,162
Total Assets	1,037,081	1,146,196	1,224,821	1,296,085	1,355,668
Interest-Earning Assets	952,719	1,061,648	1,139,598	1,162,310	1,220,924
Due to banks & other financial institutions	211,666	220,260	229,071	238,233	247,763
Customers deposits	590,051	676,553	732,410	781,080	818,761
Debt securities issued	13,889	13,889	13,889	13,889	13,889
Other Liabilities	142,986	114,150	108,972	100,071	101,860
Total Liabilities	958,592	1,024,852	1,084,341	1,133,273	1,182,273
Interest Bearing Liabilities	815,606	910,702	975,369	1,033,203	1,080,413
Equity	175,905	187,011	199,518	211,443	222,245
Total Equity and Liabilities	1,037,081	1,146,196	1,224,821	1,296,085	1,355,668
BVPS	29.3	31.2	33.3	35.2	37.0

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

Figure 11: Key ratios

Key ratios	2023a	2024e	2025e	2026e	2027e
Profitability ratios					
Asset Yield	5.8%	5.7%	5.4%	5.3%	5.2%
Cost of funds	3.0%	2.8%	2.4%	2.3%	2.4%
NIM	3.1%	3.2%	3.3%	3.2%	3.1%
ROE	11.7%	12.2%	12.5%	12.4%	11.8%
ROA	2.0%	2.0%	2.0%	2.0%	1.9%
Liquidity ratios					
Loans/ Customer Deposits	102%	98%	98%	98%	97%
Loan/Total deposits	75%	74%	74%	75%	75%
Loans / Assets	58%	58%	58%	59%	59%
Capitalization ratios					
Tier I Ratio	19.4%	19.1%	19.2%	19.4%	19.6%
Total capital adequacy (CAR)	20.1%	19.5%	19.6%	19.7%	19.9%
Equity/Total assets	17.0%	16.3%	16.3%	16.3%	16.4%
Asset Quality					
Gross NPL Ratio	1.2%	1.1%	1.3%	1.3%	1.3%
Net NPL Ratio	0.5%	0.4%	0.4%	0.3%	0.3%
Coverage ratio	139.6%	135.0%	135.0%	135.0%	135.0%
COR (bps)	16	35	40	40	40
Valuation ratios					
P/E	13.1	11.9	10.9	10.3	10.2
P/B	1.4	1.4	1.3	1.2	1.1
Dividend Yield	4.1%	4.7%	4.6%	5.3%	5.9%

Source: Company data, GIB Capital

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Contact us for queries:

Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
www.gibcapital.com