

Chartbook APRIL 2016

KSA Banks and Macro

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SAMA data for the month of Mar 2016 was mixed. Strong numbers from the banking sector with lending buoyant, interest rates higher and profitability jumping 7% Y/Y. This reinforces our view that banking sector profitability will be strong in 2016, however relatively short duration in loan portfolios and weakness in deposits are a risk. Credit impairment remains contained.

Data on the economy was weaker, where we are seeing signs of waning in consumer demand as sentiment appears weaker and REER continues to climb. Broad money supply (M2) growth dipped into negative territory. On a positive note, decline in foreign assets was contained at US\$6 bln. Stronger oil prices in March and April 2016 should bring relief. The gov't could raise oil production in the coming months to meet domestic needs as well as compete more strongly for market share in China, which should be supportive for real GDP growth in 2016. We reiterate that the gov't has plenty of ammo, including a massive foreign assets war chest, which can be utilized to engineer a soft landing or even give the economy a bounce.

Banking sector key trends:

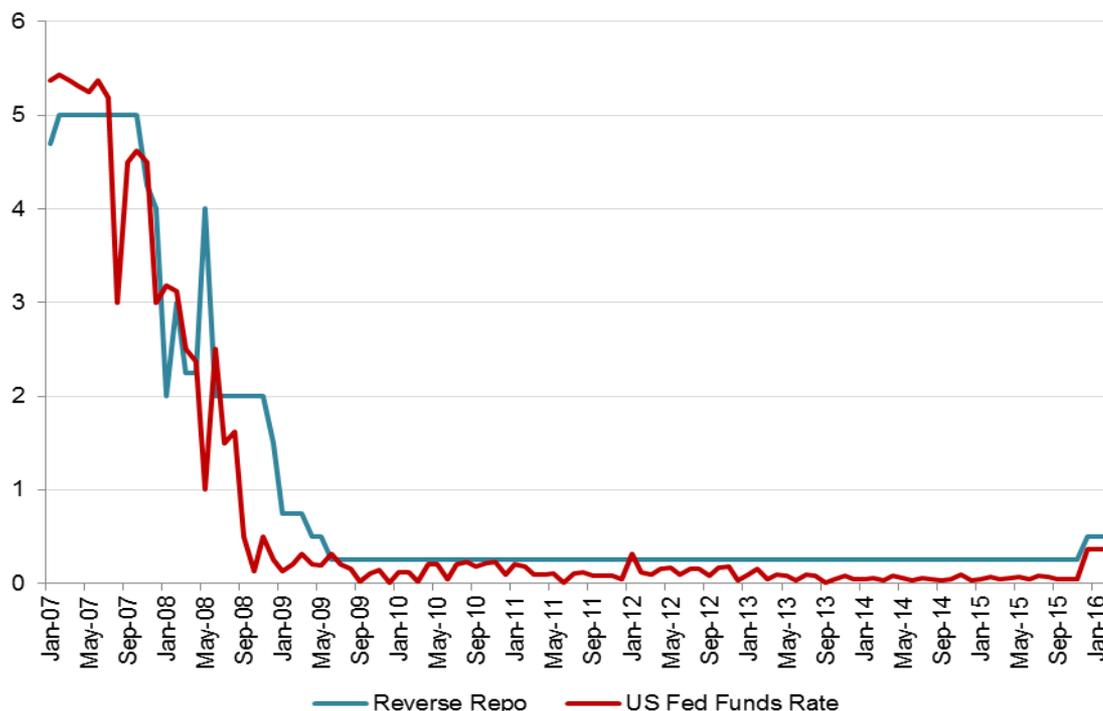
- Loan growth is buoyant (10% Y/Y), driven by demand from building/construction and commerce sectors. Our analysis indicates that this typically occurs when oil prices decline, but peters out. May happen in 2Q if the rumoured gov't payments come through or if SAMA decides to enforce 85% LDR limit
- Deposit growth remains in negative territory (down 0.6% Y/Y in Mar 2016)
- Sharp increase seen in foreign currency deposits in Mar 2016 (up US\$ 4 bln M/M)
- Banking sector out-performing TASI Y/Y as per our expectations. Sector profits from the month of Mar 2016 were SAR 3.97 bln (up 7.9% from Mar 2015)

Macroeconomic key trends:

- M1 and M2 growth remain in negative territory at -5.2% Y/Y and -2.2% Y/Y respectively
- Import and POS data show that consumer demand may be waning with weaker consumer confidence
- Imports of Machinery and Building materials are now less than half their peaks
- Foreign assets dipped US\$6 bln in Mar 2016 (US\$ 579 bln vs US\$ 609 bln at end-2015 and US\$ 691 bln a year earlier), following the US\$10 bln decline in Feb 2016. They have declined US\$ 112 bln over the past year.



Chart 1: Via the SARUSD peg, the KSA reverse repo rate and US Fed Funds Rate have had a fairly tight historical relationship. FFR hike of 25 bps in Dec-15, matched by SAMA. Fed expects to hike by 50 bps in 2H2016.

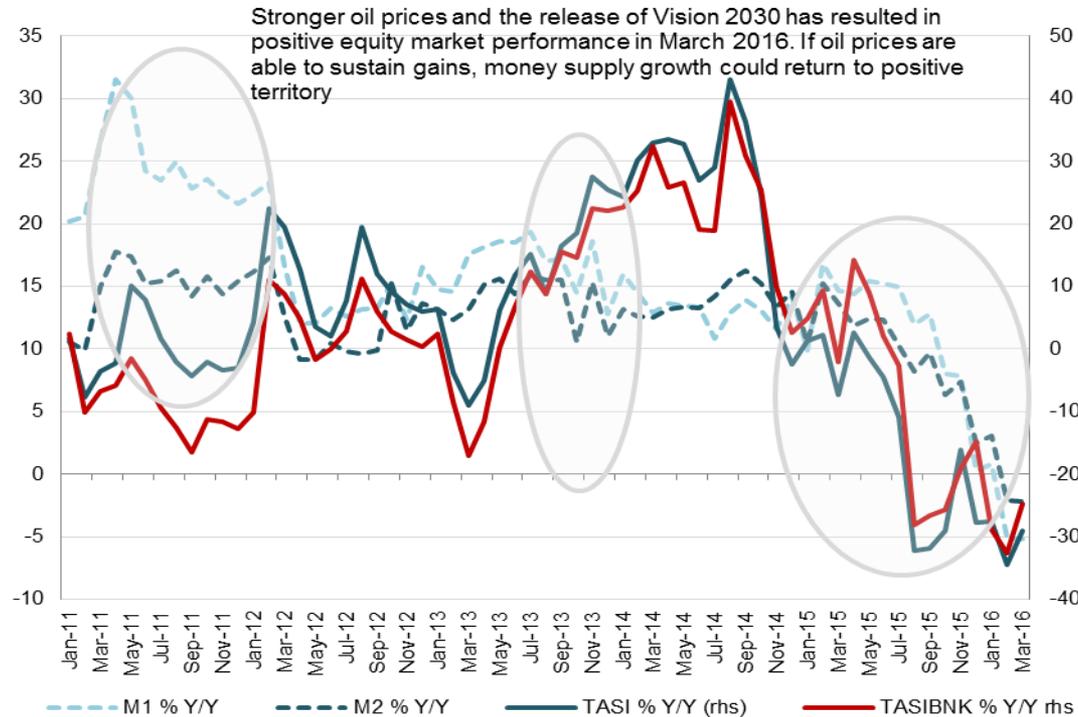


Source: SAMA, Bloomberg

- US Fed expects to hike by 50 bps in 2H 2016.
- However, the market continues to discount the possibility of a hike this year by the US Fed
- The US labour market continues to be strong while inflation has improved slightly. Stronger oil prices, strength in labour (watch NFP report at end of this week) market and calmer global markets could result in market assigning higher probability of June 2016 hike.



Chart 2: Y/Y growth in Broad Money (M2) near multi-year low, TASI has followed this decline. Banking sector maintains its Y/Y outperformance.

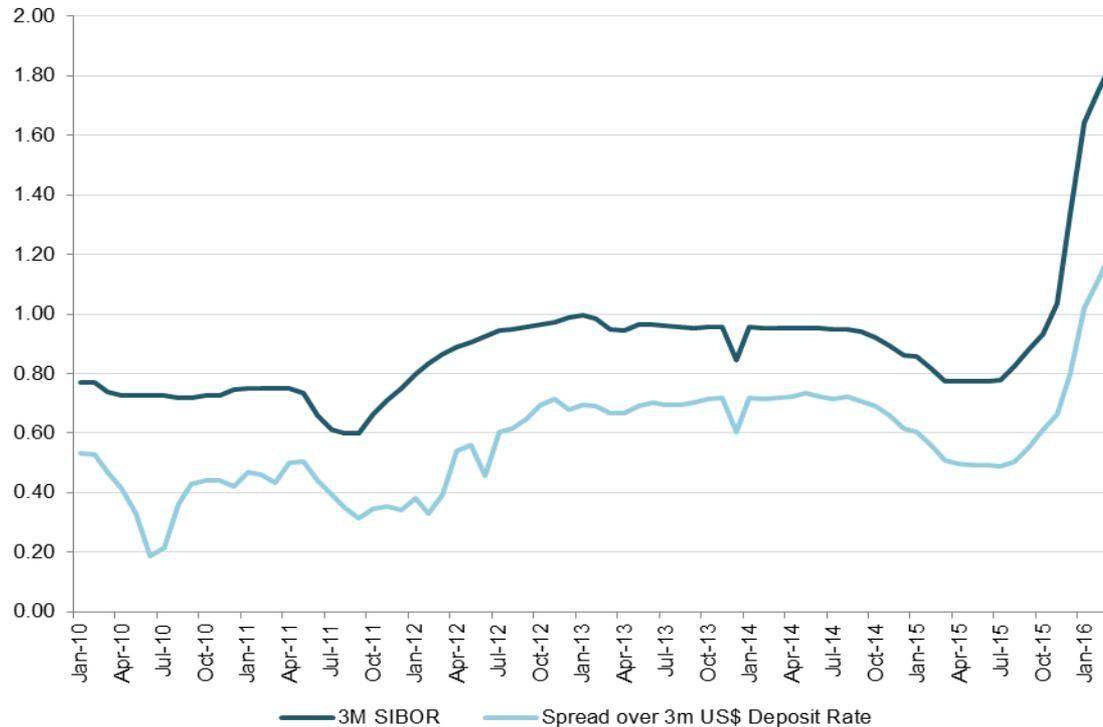


Source: SAMA, Bloomberg

- M1 and M2 both in firmly negative territory for the 2nd month in a row at -5.2% Y/Y and -2.2% Y/Y respectively
- Correspondingly, deposit growth has been weak for the banking sector.
- Equity market performance has improved over the past month bolstered by stronger oil prices (up almost 80% from low) and optimism resulting from the release of Vision 2030.



Chart 3: Terms of trade shock and uptick in inflation outlook contributing to widening of spread over US\$ interest rates

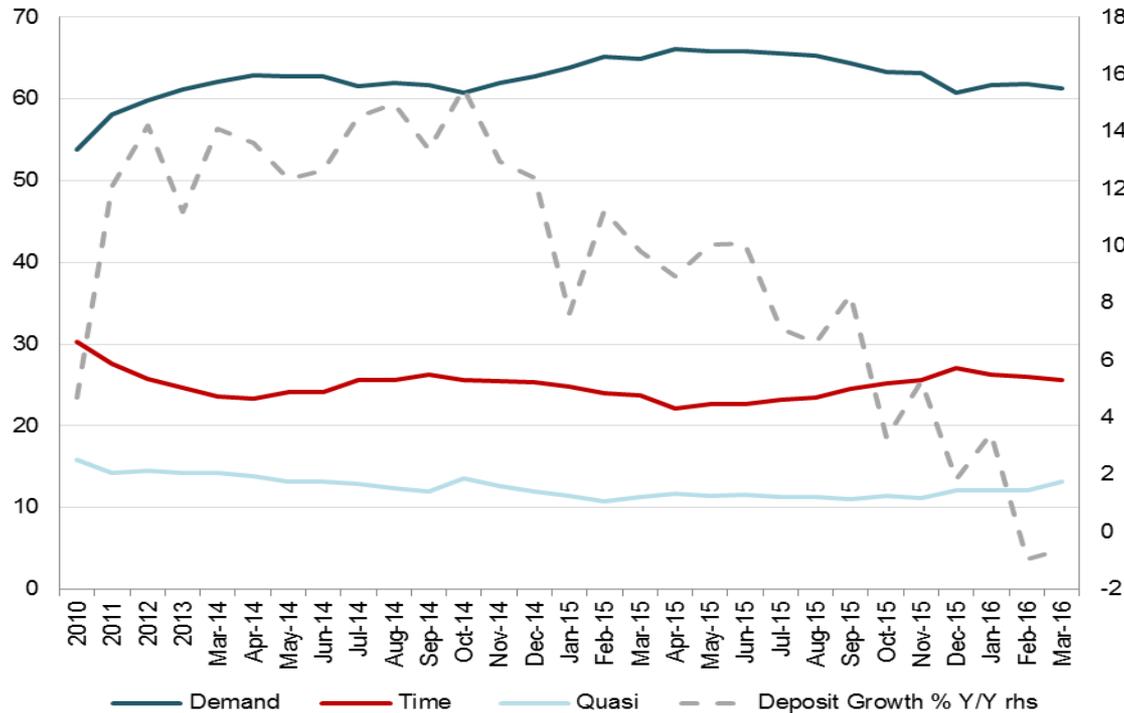


Source: SAMA, Bloomberg

- The US Fed shifted its messaging in its March meeting, with greater emphasis put on global risk factors in gauging the appropriate FFR.
- Barring an inflationary shock, we expect the spread to level out in the months ahead.
- CPI is up 4.3% Y/Y.



Chart 4: Banking sector deposit growth stayed in negative territory in Mar 2016, declining 0.6% Y/Y. This could contribute to greater funding mix volatility for the sector, and particularly for small/mid-sized banks.

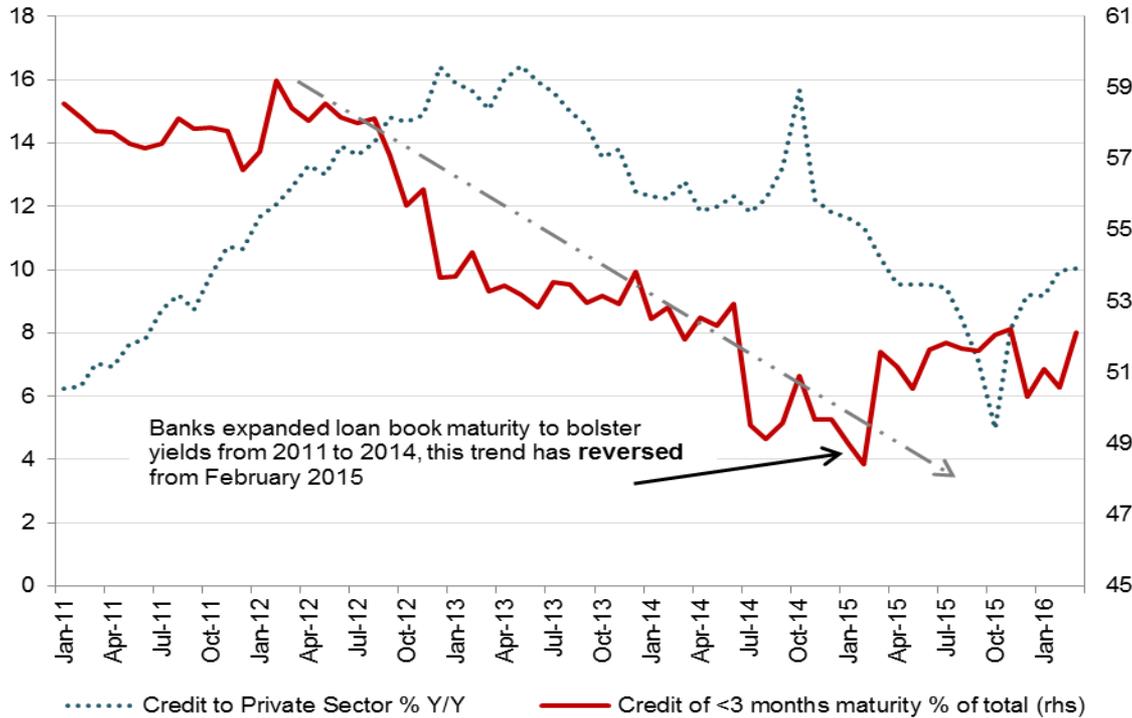


Source: SAMA

- Demand deposits as a share of total deposit remain just above 60%, against high of above 66%.
- Sharp increase seen in foreign currency deposits in March 2016, up SAR 14.8 bln (US\$ 4 bln) M/M.
- For the second successive quarter-end, Gov't/Quasi-Gov't deposits jump higher. In March 2016, SAR 10 bln of additional deposits added.



Chart 5: Banking sector lending growth remains buoyant driven by building/construction and commerce sectors. However, this may slow as the gov't releases delayed contractor payments and due to weak deposit growth

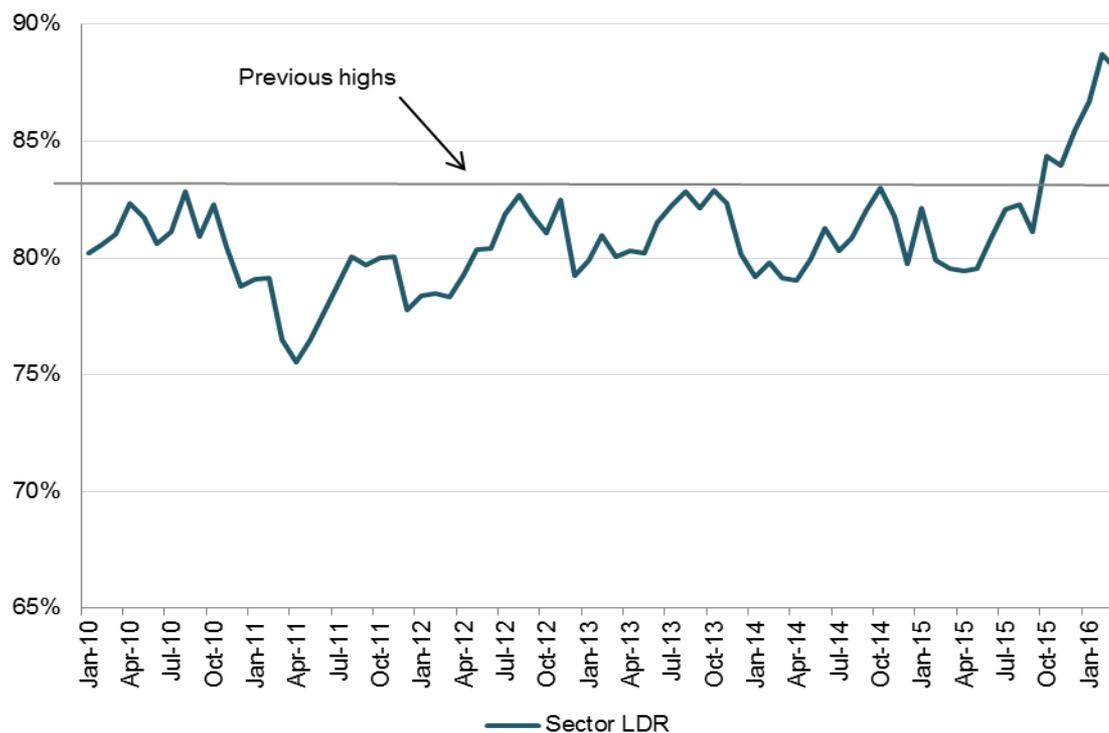


Source: SAMA

- Loan book maturity profile continues to be relatively short as loan demand is primarily for working capital financing needs.
- Maturity needs to expand before meaningful expansion is seen in sector's NIM.
- Loan growth running at 10% Y/Y.



Chart 6: Banking sector simple LDR has eased slightly in March 2016 as Gov't and Quasi-Gov't deposits flowed in



Source: SAMA

- Loan growth remained strong in March 2016, rising to 10% Y/Y.
- Higher deposits, primarily supported by quasi-Gov't deposits, resulted in slightly lower LDR for the sector.



Chart 7: Retail borrowing for real estate has slowed sharply in 2015, however corporate borrowing has surged in 4Q 2015

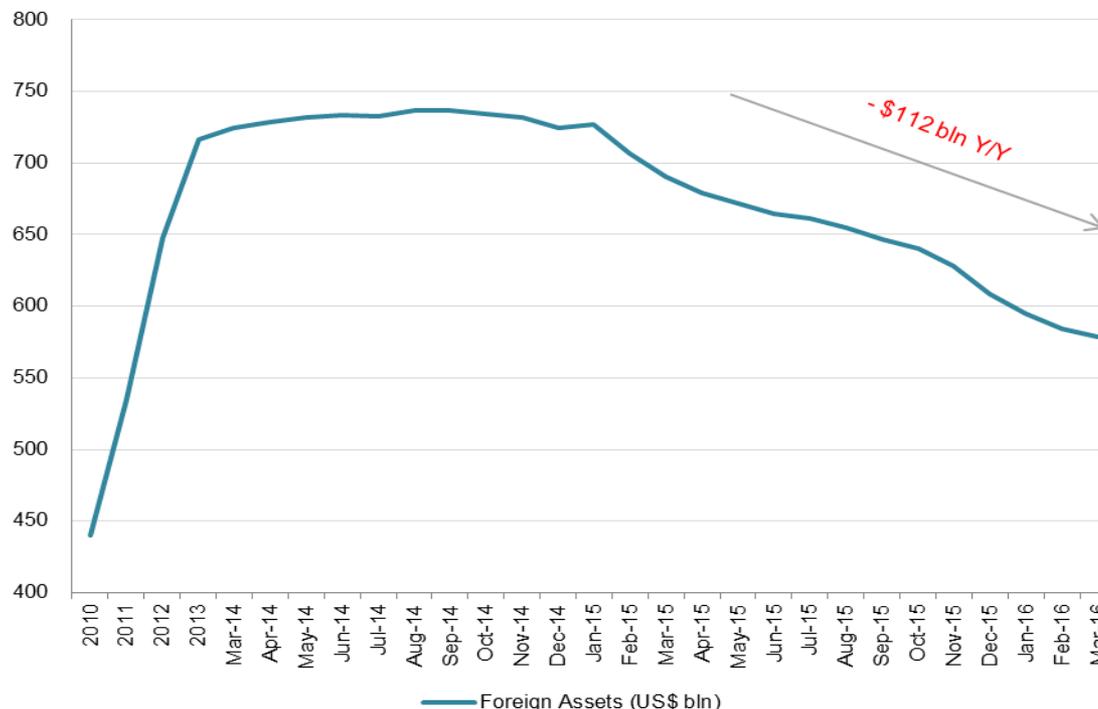


Source: SAMA

- Bulk of 4Q 2015 lending to corporate real estate was originated by Samba Financial Group



Chart 8: KSA Foreign Assets have declined by US\$ 6 bln in Mar 2016, taking the YTD decline to US\$ 30 bln (US\$ 112 bln Y/Y). The gov't continues to utilize its foreign assets to buffer the economy

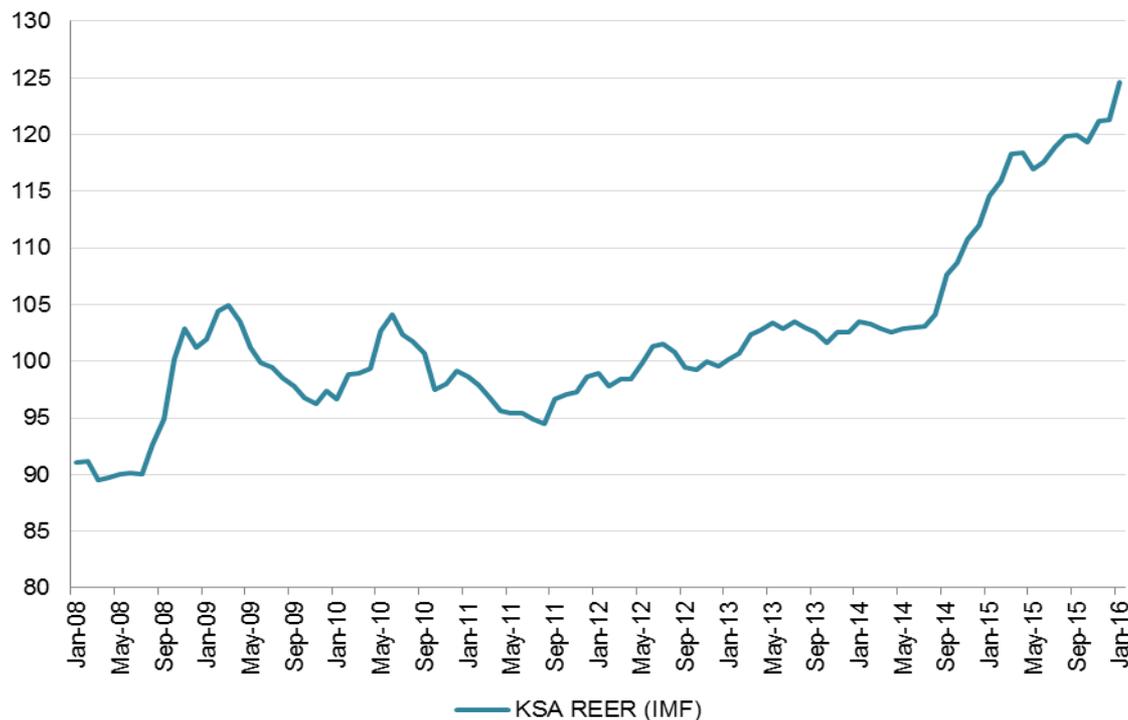


Source: SAMA

- Foreign assets held by SAMA peaked in August 2014 at US\$ 737 bln.
- The US\$ 6 bln decline in March 2016 is the lowest since July 2015.
- Stronger oil prices, the US\$ 10 bln syndicated loan facility and more focused gov't spending should be supportive for foreign assets in April 2016.



Chart 9: KSA's terms of trade shock has coincided with sharp appreciation in SAR REER, which has appreciated by 5.3% from Mar 2015 to Jan 2016.

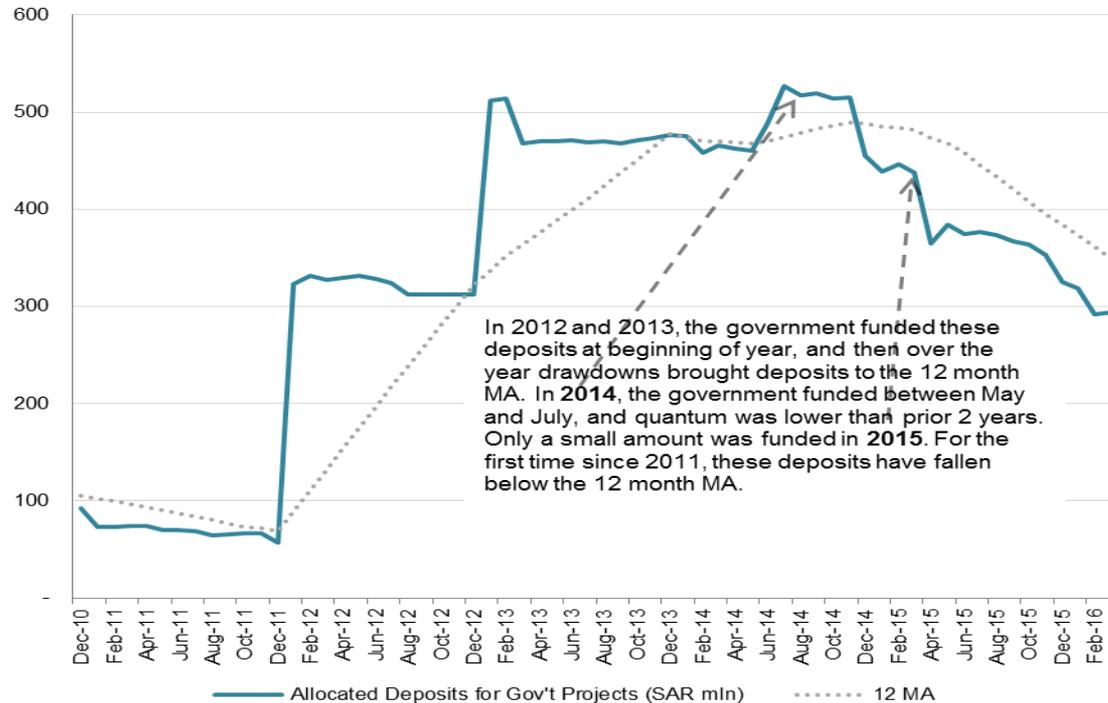


Source: IMF

- KSA CPI has ticked up to above 4% Y/Y in 2016 following removal / modification of some subsidies in the Budget.
- The relatively strong KSA CPI versus US inflation should have resulted in stronger REER in Feb and Mar 2016, as the US\$ will be the most prominent component in KSA REER trade-weighted basket, despite SAR depreciating against most currencies on nominal basis over past couple of months.



Chart 10: The government has significantly reduced available funding for projects. The budget for 2016 appears to have cut allocations significantly as well.

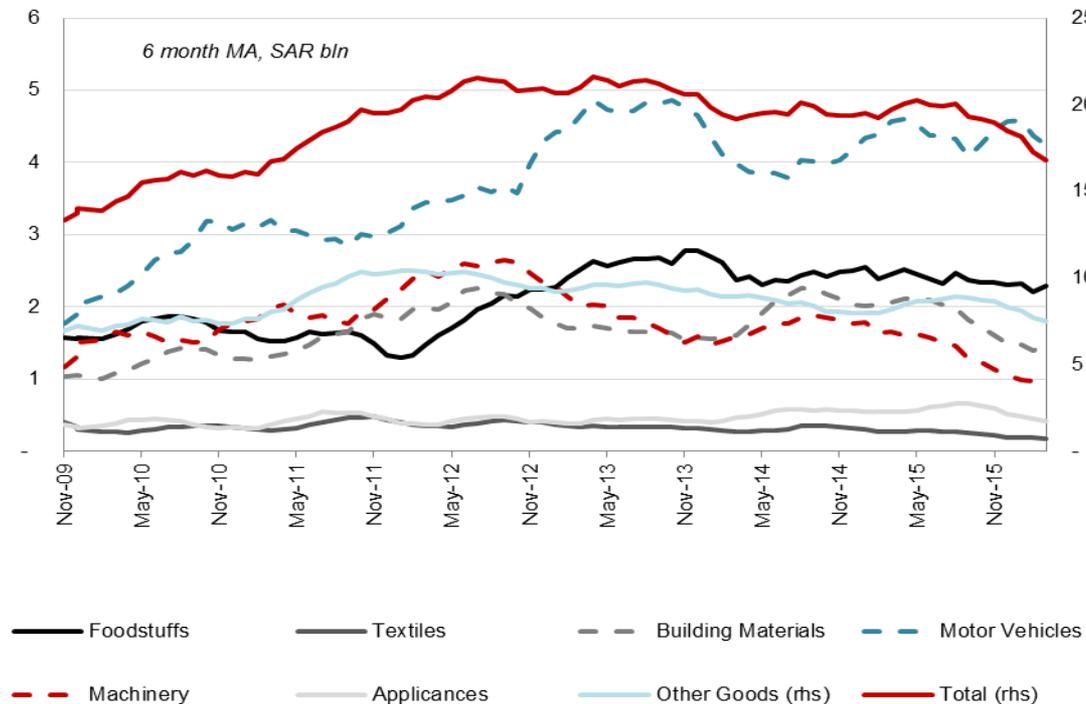


Source: SAMA

- As part of its strategy to maintain stronger controls over spending, the gov't may allow these deposits to continue to decline.



Chart 11: Total imports are trending lower, with all components except foodstuffs trending lower

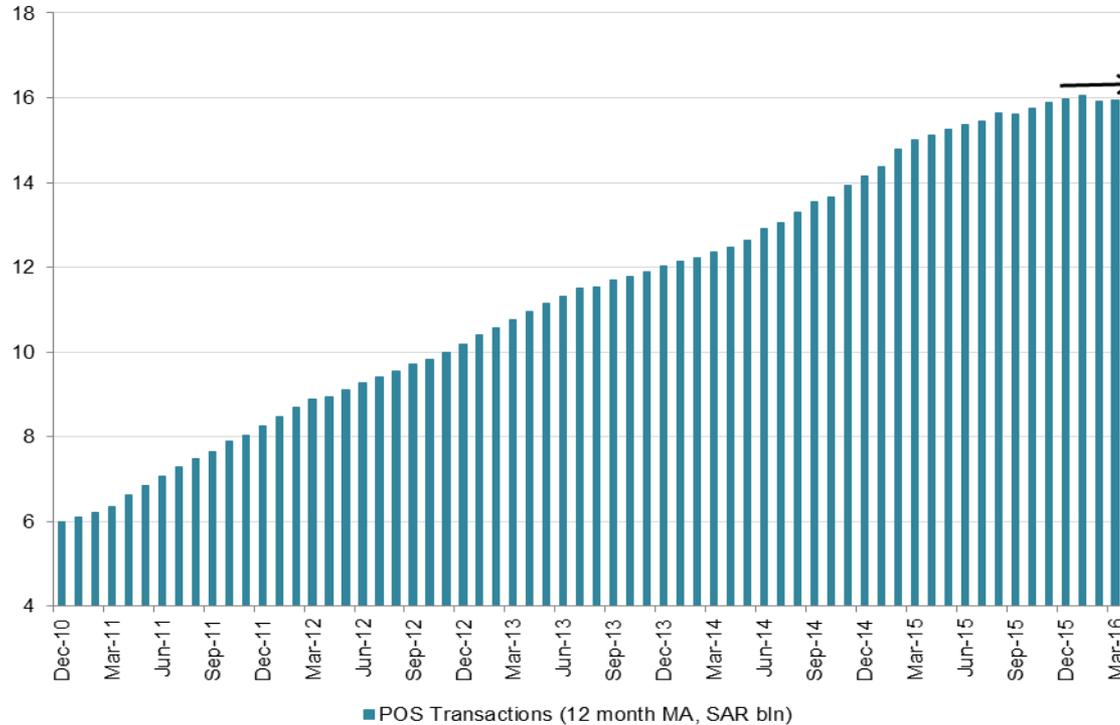


Source: SAMA

- Monthly imports have declined from above SAR 20 bln (6m MA) through most of 2012 and 2013, to just below SAR 17 bln.
- This sharp decline in imports explains the reduction in trade finance income for the banking sector.
- Machinery and building material imports have specially been hit, both declining to approximately half their peaks.



Chart 12: Import data as well as POS data below are beginning to show signs of slowing consumer demand

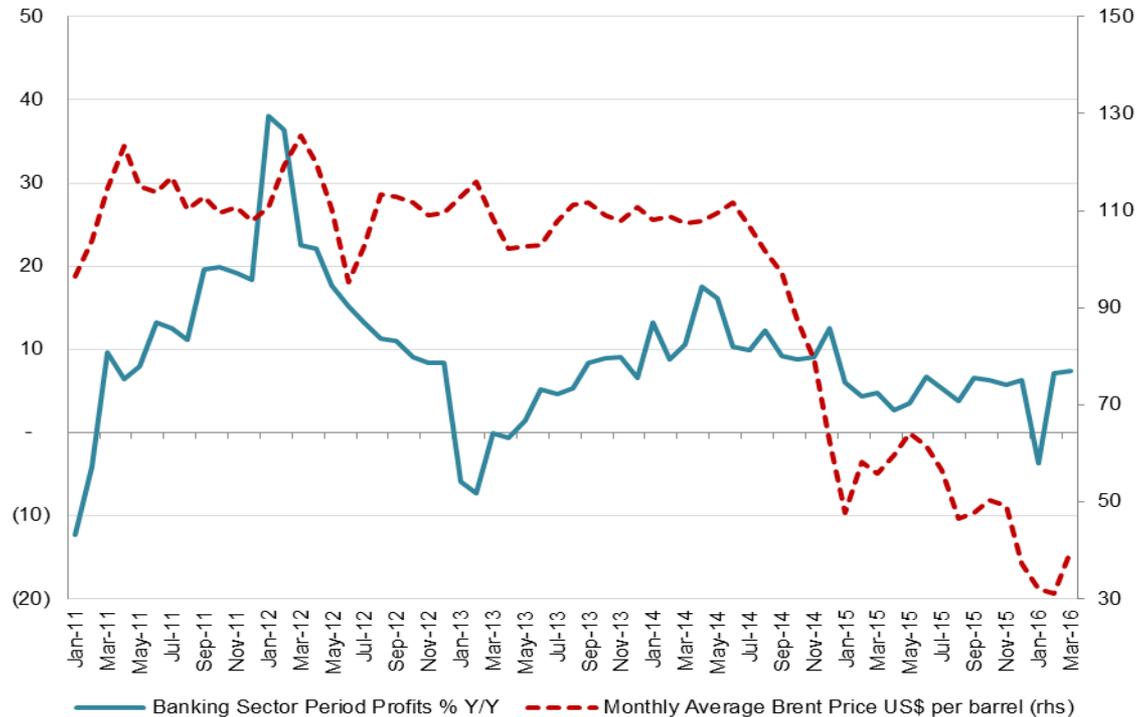


Source: SAMA

- Consumer sentiment appears to have weakened.
- Data comparison may be distorted by the one-time impact of 2 special salaries last year.



Chart 13: Banking sector profitability almost SAR 1 bln higher YTD March 2016 versus the same period last year



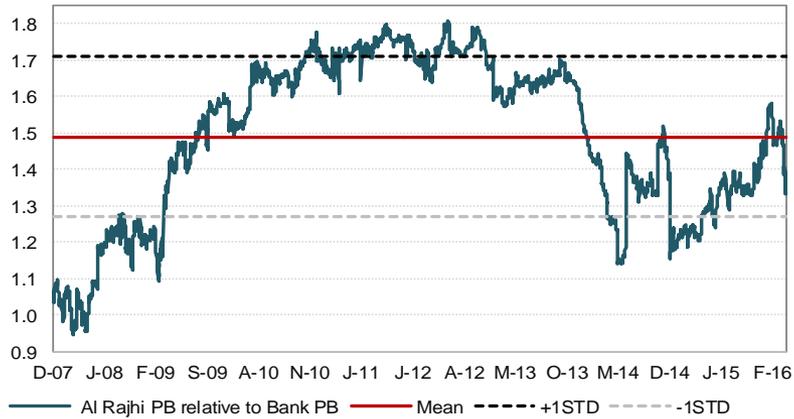
Source: SAMA, Bloomberg

- Banking sector profitability up 7.4% in YTD March 2016 versus the same period last year.
- Strong profitability has been supported by stronger NSCI and contained provisioning against credit impairment

Trailing PBV vs. Sector



Al Rajhi P/B relative to Bank index P/B



Source: Bloomberg, SFC

Bank Aljazira P/B relative to Bank index P/B



Source: Bloomberg, SFC

Riyad Bank Alinma P/B relative to Bank index P/B



Source: Bloomberg, SFC

Saudi Investment Bank P/B relative to Bank index P/B

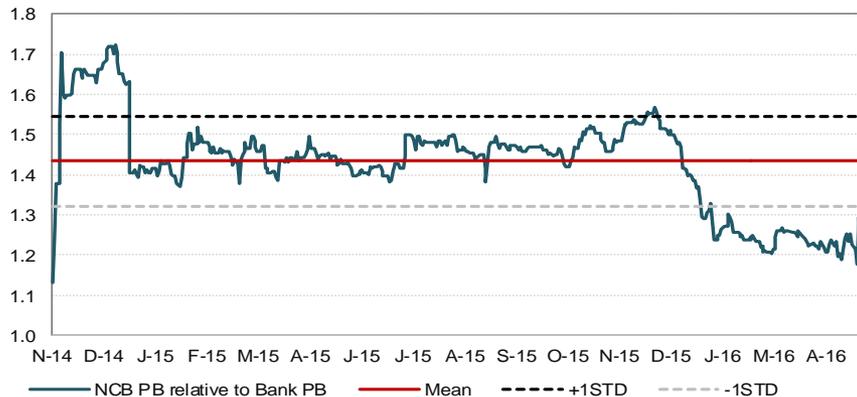


Source: Bloomberg, SFC

Trailing P/BV vs. Sector (cont.)



National Commercial Bank P/B relative to Bank index P/B



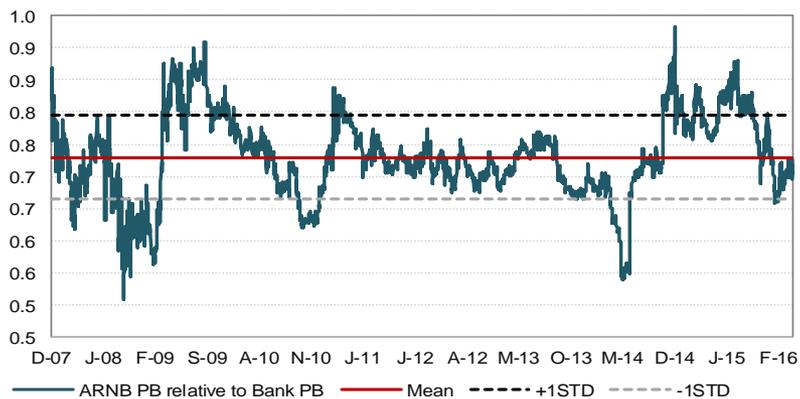
Source: Bloomberg, SFC

Samba Financial Group P/B relative to Bank index P/B



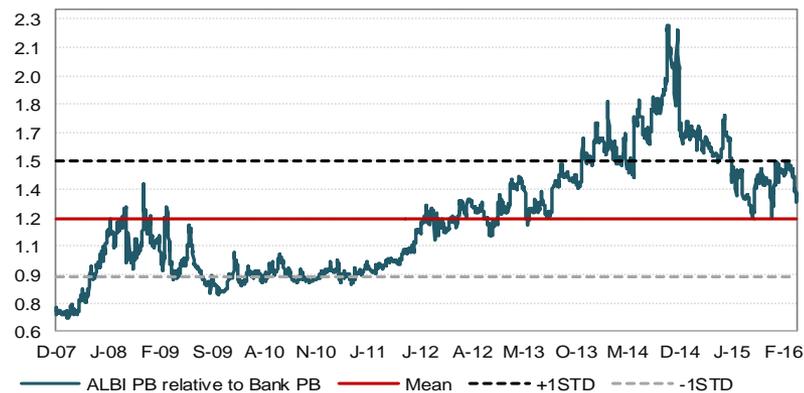
Source: Bloomberg, SFC

Arab National Bank P/B relative to Bank index P/B



Source: Bloomberg, SFC

Bank Albilad P/B relative to Bank index P/B

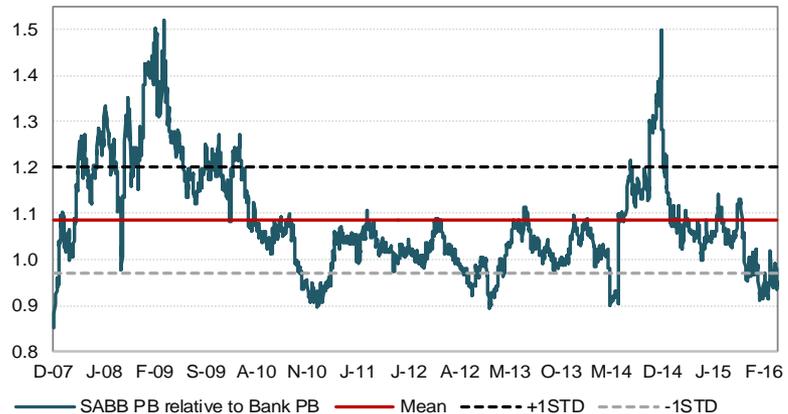


Source: Bloomberg, SFC

Trailing PBV vs. Sector (cont.)



Saudi British Bank P/B relative to Bank index P/B



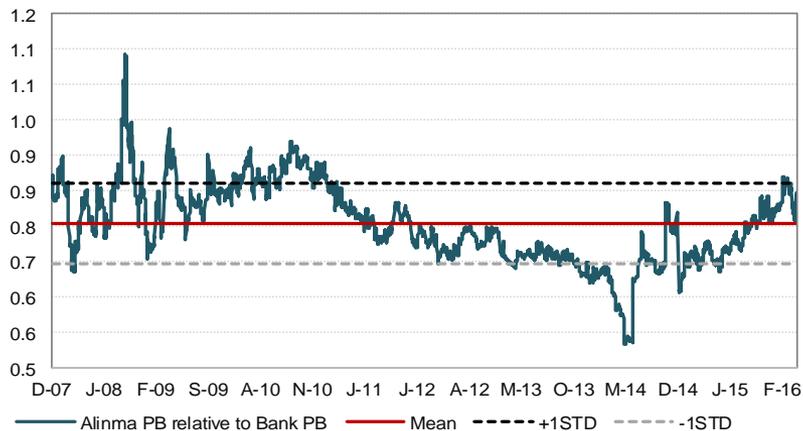
Source: Bloomberg, SFC

Saudi Hollandi Bank P/B relative to Bank index P/B



Source: Bloomberg, SFC

Alinma P/B relative to Bank index P/B



Source: Bloomberg, SFC



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