



Key themes

Expect a good set of Q3 numbers. However, these may not material to stock performances

We show an analysis on possible impact on books due to worst case NPA

Overall banking fundamentals look stable with a healthy mortgages pipeline. We believe investors may be also factoring in the risk that dividends may not be distributed for the whole of 2020

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Saudi Banks Beyond quarterly numbers

1) Good but immaterial Q3: Banks are expected to start announcing its Q3 results in the coming week. While we expect good numbers for the KSA banking sector, the results will be immaterial as the full level of NPA will remain unknown even after Q3 results. We have already witnessed a strong rally in the banking sector and so a good set of numbers will likely maintain the status quo in terms of share price performance.

2) Assessing worst-case scenario for Saudi banks: To assess the worst case possible impact on equity once the SAMA deferral period ends by the year-end, we factor a 5% corporate sector NPA which is likely the worst-case considering GCC peers/global. We see that there is a convincing basis for the strong rally seen in the banking so far banks after adjusting for the current coverage ratio (refer figure 1) as this implies only a 6% average cut in book value.

3) Fundamental updates: Mortgage continues to see its potential intact. Monthly run-rate of 10bn of mortgages and implementation of the second phase of the housing program which will begin in early 2021 and continue for 5 years ensures a steady pipeline. July and August profits (pre zakat/tax) of Saudi banks showed a -6% y/y drop and a -32% YTD drop. Excluding SABB's goodwill impairment the drop is -10% YTD. Excess Liquidity continues to benefit banks via lower cost of funding. KSA business activity continues to pick up well. Non-interest income for some banks could get a boost with increased trading activities in Q3. Q3 could also likely see the culmination of NIM contraction witnessed in the past due to SAIBOR/LIBOR cuts and present a base for future earnings trajectory barring provisions. While dividends have not been paid for 1H2020, we believe investors may be also factoring in the risk that dividends may not be distributed for the whole of 2020.

Scenario analysis for KSA Banks: In March, we ran an analysis on what if the cost of risk increased 1x, 2x, and 3x (link [here](#)) as we were trying to understand the various possibilities. Now as we come closer to year-end and having seen other global and regional banks report NPAs, we can take a better guesstimate of what to expect in terms of NPA which we use in our scenario analysis. We also have seen series of Sukuk issuances by banks which may be either in anticipation of provisioning or general issuances for other reasons such as improving capital ratios (refer figure 31).

Figure 1 Impairment requirement in case of higher NPA (3% retail/5% corporate)

2020e	Reported NPA as on 2Q 2020	Provision Coverage	Adjusted NPA	Worst case NPA	Total Loans	Additional impairment required	Book value	Impairment % of book
Rajhi	1.0%	253%	2.6%	3.5%	283,794	2,534	56,660	4%
NCB	1.8%	141%	2.6%	4.1%	319,702	4,972	77,814	6%
Riyad	1.0%	194%	2.0%	4.3%	198,636	4,735	43,143	11%
Alinma	2.6%	115%	3.0%	4.6%	106,693	1,658	24,358	7%
Aljazira	1.3%	170%	2.1%	4.1%	58,503	1,123	11,952	9%
Albilad	1.3%	240%	3.2%	4.0%	66,856	591	10,550	6%
Samba	1.4%	158%	2.3%	4.7%	152,454	3,736	48,251	8%
BSF	2.9%	102%	3.0%	4.7%	140,487	2,404	34,604	7%
ANB	2.5%	123%	3.1%	4.5%	116,605	1,631	29,285	6%
SIB	3.9%	112%	4.3%	4.5%	59,006	80	14,735	1%
SABB*	5.8%	80%	4.6%	4.5%	148,790	-103	49,923	0%

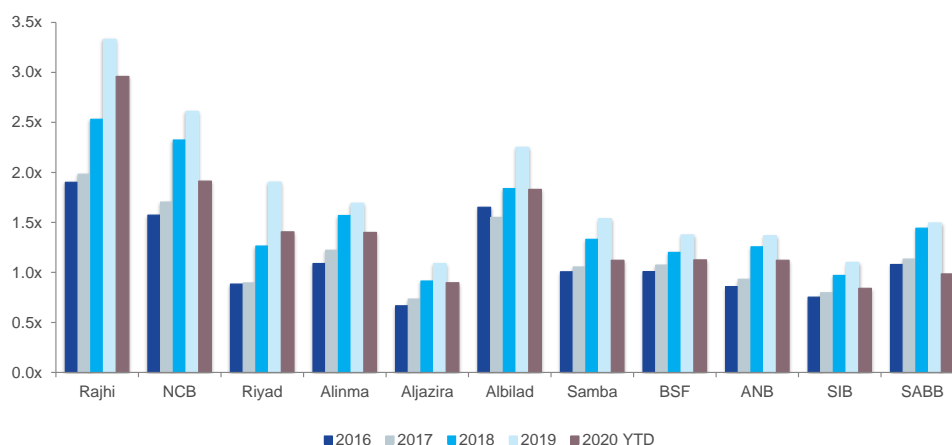
Source: Company data, Al Rajhi Capital. All data based on 2020e except for reported NPA and provision coverage ratio. *Including POCI loans, Adjusted NPA = coverage ratio * reported NPA

NOTE: We do not cover Saudi banks and this report is not to be considered as any recommendation



How to read Figure 1: ANB for instance, in the scenario of worst case NPA of 4.5% (which is based on the weighted average of 3% retail NPA and 5% corporate NPA), there is a further 6% impairment in book value. This impairment is equal to the difference between adjusted NPA and Worst case NPA multiplied by Net Loans.

Figure 2 Price to book value multiple trend



Source: Company data, Al Rajhi Capital, Bloomberg

So, with no major cut in book and Price to book still remaining broadly at fair levels, we believe the rally seen thus far may not be unjustifiable.

Figure 3 Price to book multiple analysis

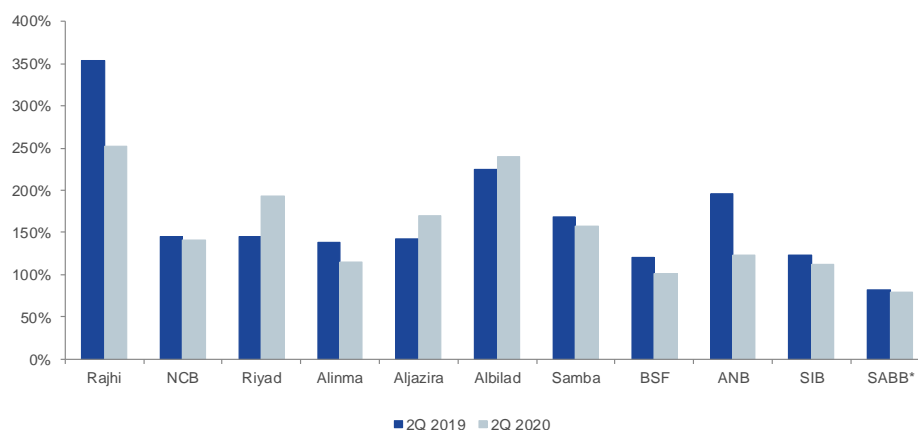
	2016	2017	2018	2019	2020 YTD	Average (past 5 years)	-1 S.Dev	+1 S.Dev	Current P/B	P/B 2020e	P/B adjusted for increased impairment*
Rajhi	1.90	1.98	2.53	3.33	2.96	2.54	1.99	3.09	3.21	2.94	3.08
NCB	1.57	1.70	2.32	2.61	1.91	2.02	1.64	2.41	1.92	1.61	1.72
Riyad	0.88	0.89	1.26	1.90	1.41	1.27	0.89	1.65	1.41	1.34	1.50
Alinma	1.09	1.22	1.57	1.69	1.40	1.39	1.17	1.61	1.40	1.25	1.34
Aljazira	0.67	0.73	0.91	1.09	0.90	0.86	0.71	1.01	1.01	0.99	1.09
Albilad	1.65	1.55	1.84	2.25	1.83	1.82	1.58	2.06	1.85	1.72	1.82
Samba	1.01	1.05	1.33	1.54	1.12	1.21	1.01	1.41	1.23	1.17	1.26
BSF	1.01	1.07	1.20	1.38	1.13	1.16	1.03	1.28	1.16	1.13	1.22
ANB	0.86	0.93	1.26	1.37	1.12	1.11	0.92	1.30	1.08	1.05	1.12
SIB	0.75	0.80	0.97	1.10	0.84	0.89	0.77	1.02	0.89	0.74	0.74
SABB	1.08	1.13	1.44	1.49	0.99	1.23	1.02	1.43	1.10	1.06	1.06

Source: Company data, Al Rajhi Capital, Bloomberg, *Book value adjusted for increased impairment required as shown in figure 1

We did some analysis on how the banks fare in terms of their current P/B multiple compared to historical average from 2016 to 2020 and with their respective +/-1 standard deviation. Most of the banks are trading in the range of 0% to -25% below their +1 standard deviation.



Figure 4 Coverage ratio comparison



Source: Company data, Al Rajhi Capital, *Including POCI Loans

Dividends: Deferral of Stage 1 loans happened in March and deferral of stage 2 loans in May. There was no stage migration for deferred loans in general and deferral which was expected to end by mid-Sept has been extended till 14th December, 2020. While dividends have not been paid for 1H2020, we believe investors may be also factoring in the risk that dividends may not be distributed for the whole of 2020.

Modification losses: In Q2 banks have received interest-free deposits of SAR80bn and the modification losses are shown in Figure 5. Some banks deferred payments with no tenure increase: ARB, SAMBA, SIB, Riyad, NCB, BSF, ANB, BJAZ, and Albilad and those who have allowed an increase in tenure include: SABB, Alinma.

Figure 5 Impact of the loan modification as of 2Q 2020

(in SARmn)	Deposit	Day 1 Modification Loss (MSME)	Day 1 Modification Loss (Healthcare)	Day 1 Modification Loss (Total)	Deposit grant income	Unwinding of modification loss (6 mts ending Jun'20)	Unwinding of income (6 mts ending Jun'20)
Al Rajhi	8,644	18	0	18	134	31	6
NCB	10,800	105	0	105	320	75	25
Riyad	15,800	31	0	31	31	157	26
AlJazira	3,310	11	0	11	14	16	3
ANB	7,310	0	3	3	0	26	9
BSF	6,266	NA	0	0	28	22	6
Alinma	5,000	0	0	0	5	3	4
SABB	9,800	30	0	30	64	62	18
SAMBA	4,009	50	0	50	176	26	9
Albilad	3,630	21	0	21	21	NA	NA
SIB	5,100	21	0	21	34	41	15
TOTAL	79,669	286	3	289	827	458	121

Source: Company data, Al Rajhi Capital



Mortgage volumes back to pre-COVID levels

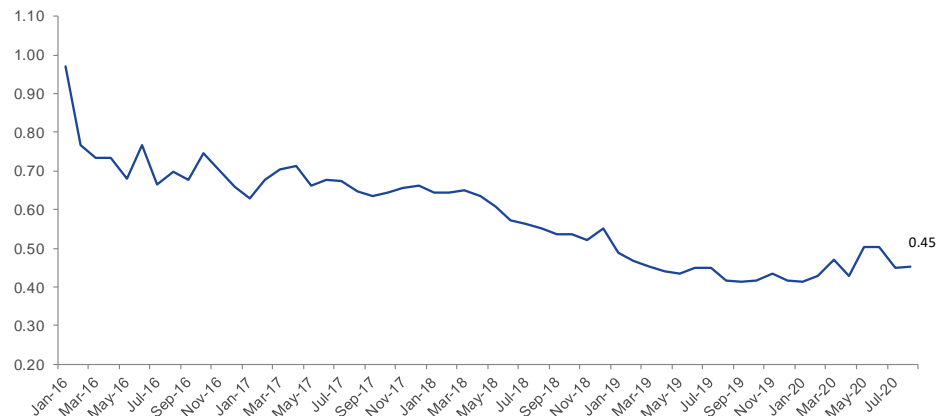
Overall, the mortgage business has been marginally subdued in August as compared to July, however, the volume in this segment now, which is an important growth driver for the banking sector (~67% of the new loans in August month were mortgage), is around the pre-COVID level. The monthly average mortgage for Jul-Aug'20 stands at SAR 10.3bn vs. SAR10.4bn in 1Q' 20. Mortgage value per contract, in general, has been trending down due to higher volumes in lower ticket size housing (refer figure 7); The recent statement from the housing minister which said, the implementation of the second phase of the housing program - a component of Vision 2030 - which will begin in early 2021 shall continue for 5 years, helps us maintain confidence in the potential of the Saudi banking sector.

Figure 6 Mortgage growth

SAR mn	8/31/2019	7/31/2020	8/31/2020	M-o-M	Y-o-Y
Houses	3,828	8,559	7,788	-9%	103%
Apartments	697	1,572	1,518	-3%	118%
Land	367	645	561	-13%	53%
Total	4,892	10,776	9,866	-8%	102%
Total Number of Contracts	11,737	23,909	21,755	-9%	85%
Loan size per contract	0.42	0.45	0.45	1%	9%

Source: SAMA monthly publication, Al Rajhi Capital

Figure 7 Mortgage size per contract (SAR mn)



Source: SAMA monthly publication, Al Rajhi Capital

As per the latest tax developments, real estate transactions are exempt from the VAT of 15% and instead have to pay a new real estate transaction tax of only 5%. This is expected to further bolster the demand for real estate and aid the 70% housing penetration target. Also, for the first home buyers, this tax was anyways borne by the government for properties having value up to SAR850k. This limit has now been increased to SAR1mn which also bodes well for the mortgage segment.

However, with the backdrop of lower rates in general it was time for some re-pricing in the mortgage segment as well, where the rates are largely controlled by MOF/REDF. The contraction in mortgage rate of around 60-80bps has reduced the yield to a range of 5.5% to 6.5% (previously 6.25% to 7.25%) yet mortgage continues to be the highest yielding product with the least default risk.



Figure 8 Net Interest Income (SAR mn)

NII	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	16,428	16,146	-2%	18,447	14%
NCB	15,807	15,342	-3%	24,040	57%
Riyad	7,837	8,176	4%	8,396	3%
Alinma	4,394	4,321	-2%	4,583	6%
Aljazira	2,052	2,350	15%	3,811	62%
Albilad	2,717	3,124	15%	3,292	5%
Samba	6,377	5,641	-12%	5,709	1%
BSF	5,206	4,916	-6%	5,117	4%
ANB	5,553	4,691	-16%	4,525	-4%
SIB	2,278	2,307	1%	1,578	-32%
SABB	7,364	7,074	-4%	6,439	-9%
TOTAL	76,012	74,089	-3%	85,939	16%

Source: Company data, Al Rajhi Capital

Figure 9 Non-Interest Income (SAR mn)

Non-Il	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	3,057	3,346	9%	3,368	1%
NCB	4,801	4,711	-2%	(2,564)	-154%
Riyad	2,880	2,755	-4%	4,613	67%
Alinma	1,216	1,006	-17%	924	-8%
Aljazira	925	802	-13%	(233)	-129%
Albilad	1,228	1,087	-11%	1,156	6%
Samba	2,224	3,102	40%	3,412	10%
BSF	1,667	1,990	19%	2,090	5%
ANB	1,180	1,072	-9%	1,251	17%
SIB	540	529	-2%	522	-1%
SABB	2,034	2,306	13%	2,858	24%
TOTAL	21,751	22,706	4%	17,397	-23%

Source: Company data, Al Rajhi Capital

Figure 10 Operating Income (SAR mn)

Op income	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	19,484	19,491	0%	21,815	12%
NCB	20,607	20,053	-3%	21,340	6%
Riyad	10,717	10,931	2%	11,040	1%
Alinma	5,610	5,344	-5%	5,519	3%
Aljazira	2,977	3,153	6%	3,578	13%
Albilad	3,945	4,211	7%	4,522	7%
Samba	8,600	9,330	8%	9,811	5%
BSF	6,873	6,906	0%	7,207	4%
ANB	6,733	5,763	-14%	5,776	0%
SIB	2,818	2,836	1%	2,100	-26%
SABB	9,398	9,380	0%	9,424	0%
TOTAL	97,763	97,399	0%	102,132	5%

Source: Company data, Al Rajhi Capital

Figure 11 Operating Expense (SAR mn)

Op ex	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	6,386	6,457	1%	6,629	3%
NCB	6,331	6,299	-1%	6,568	4%
Riyad	3,674	3,556	-3%	3,651	3%
Alinma	2,077	2,045	-2%	1,996	-2%
Aljazira	1,711	1,744	2%	1,791	3%
Albilad	2,023	1,870	-8%	1,829	-2%
Samba	2,878	2,972	3%	3,002	1%
BSF	2,287	2,192	-4%	2,232	2%
ANB	2,203	2,121	-4%	2,193	3%
SIB	1,234	1,229	0%	1,202	-2%
SABB	3,649	3,670	1%	3,724	1%
TOTAL	34,453	34,153	-1%	34,816	2%

Source: Company data, Al Rajhi Capital

Figure 12 Provisions (SAR mn)

Provisions	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	1,772	2,409	36%	2,439	1%
NCB	1,420	2,853	101%	3,427	20%
Riyad	964	1,918	99%	2,045	7%
Alinma	706	1,164	65%	1,336	15%
Aljazira	157	659	320%	794	20%
Albilad	536	761	42%	880	16%
Samba	1,103	1,660	50%	2,041	23%
BSF	966	2,330	141%	2,728	17%
ANB	989	1,265	28%	1,496	18%
SIB	1,343	617	-54%	603	-2%
SABB	2,609	2,694	3%	2,682	0%
TOTAL	12,566	18,330	46%	20,472	12%

Source: Company data, Al Rajhi Capital

Figure 13 Profit before tax (SAR mn)

PBT	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	11,326	10,626	-6%	12,747	20%
NCB	12,919	10,951	-15%	11,395	4%
Riyad	6,232	5,473	-12%	5,360	-2%
Alinma	2,816	2,128	-24%	2,182	3%
Aljazira	1,122	765	-32%	1,030	35%
Albilad	1,387	1,580	14%	1,813	15%
Samba	4,619	4,699	2%	4,768	1%
BSF	3,619	2,384	-34%	2,246	-6%
ANB	3,551	2,410	-32%	2,119	-12%
SIB	330	1,058	221%	366	-65%
SABB	3,271	(4,482)	-237%	3,126	-170%
TOTAL	51,192	37,590	-27%	47,152	25%

Source: Company data, Al Rajhi Capital



Figure 14 Net Income (SAR mn)

Net income	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	10,159	9,546	-6%	11,473	20%
NCB	11,484	9,816	-15%	10,256	4%
Riyad	5,602	4,896	-13%	4,824	-1%
Alinma	2,535	1,915	-24%	1,964	3%
Aljazira	991	663	-33%	930	40%
Albilad	1,244	1,434	15%	1,632	14%
Samba	3,991	4,106	3%	4,291	5%
BSF	3,115	2,047	-34%	2,022	-1%
ANB	3,022	1,983	-34%	1,744	-12%
SIB	239	909	279%	329	-64%
SABB	2,812	(4,164)	-248%	2,814	NM
TOTAL	45,193	33,151	-27%	42,278	28%

Source: Company data, Al Rajhi Capital

Figure 15 Earnings Per Share (SAR)

EPS	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	4.1	3.8	-6%	4.6	20%
NCB	3.7	3.1	-16%	3.2	4%
Riyad	1.9	1.6	-13%	1.6	-1%
Alinma	1.6	1.0	-36%	1.1	3%
Aljazira	1.2	0.8	-33%	1.1	37%
Albilad	1.7	1.9	15%	2.2	14%
Samba	2.0	2.1	4%	2.1	3%
BSF	2.6	1.7	-34%	1.7	-1%
ANB	2.0	1.3	-34%	1.2	-12%
SIB	0.3	1.3	308%	0.5	-64%
SABB	1.5	(2.0)	-231%	1.4	-168%

Source: Company data, Al Rajhi Capital

Figure 16 Dividend Per Share (SAR)

DPS	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	3.0	0.0	-100%	2.8	NM
NCB	2.3	0.0	-100%	2.3	NM
Riyad	1.1	0.0	-100%	1.1	NM
Alinma	0.0	0.0	NA	0.0	NM
Aljazira	0.6	0.0	-100%	0.4	NM
Albilad	0.9	0.0	-100%	1.3	NM
Samba	1.4	0.0	-100%	1.1	NM
BSF	2.0	0.0	-100%	0.7	NM
ANB	1.0	0.0	-100%	0.7	NM
SIB	0.0	0.0	NA	0.3	NM
SABB	1.2	0.0	-100%	0.4	NM

Source: Company data, Al Rajhi Capital

Figure 17 Net Interest Margin

NIM	2019	2020E	2021E
Rajhi	4.57%	4.00%	4.08%
NCB	3.47%	2.95%	4.12%
Riyad	3.21%	2.93%	2.80%
Alinma	3.57%	3.18%	3.09%
Aljazira	2.64%	2.59%	3.82%
Albilad	3.53%	3.56%	3.51%
Samba	2.70%	2.12%	1.98%
BSF	2.93%	2.68%	2.59%
ANB	3.18%	2.67%	2.60%
SIB	2.42%	2.32%	1.51%
SABB	3.57%	2.99%	2.81%

Source: Company data, Al Rajhi Capital

Figure 18 Cost of Risk (bps)

CoR	2019	2020E	2021E
Rajhi	74	90	80
NCB	52	95	103
Riyad	59	103	100
Alinma	79	116	120
Aljazira	35	104	130
Albilad	97	121	125
Samba	86	113	130
BSF	78	175	188
ANB	82	107	124
SIB	230	106	100
SABB	197	178	180

Source: Company data, Al Rajhi Capital

Figure 19 Coverage Ratio

Cov Ratio	2019	2020E	2021E
Rajhi	303%	250%	250%
NCB	138%	150%	150%
Riyad	177%	180%	180%
Alinma	140%	130%	140%
Aljazira	150%	170%	170%
Albilad	260%	250%	250%
Samba	161%	150%	150%
BSF	109%	120%	130%
ANB	136%	130%	130%
SIB	72%	120%	120%
SABB	71%	100%	100%

Source: Company data, Al Rajhi Capital



Figure 20 Return on Equity

RoE	2019	2020E	2021E
Rajhi	20.4%	17.7%	19.5%
NCB	17.1%	13.2%	12.7%
Riyad	14.5%	11.7%	10.7%
Alinma	11.6%	8.2%	7.7%
Aljazira	8.7%	5.6%	7.5%
Albilad	14.4%	14.4%	15.0%
Samba	9.1%	8.8%	8.7%
BSF	9.8%	6.1%	5.7%
ANB	11.0%	6.9%	5.9%
SIB	1.7%	6.3%	2.2%
SABB	6.4%	-7.8%	5.5%

Source: Company data, Al Rajhi Capital

Figure 21 Pay-out Ratio

Payout	2019	2020E	2021E
Rajhi	74%	0%	60%
NCB	63%	0%	70%
Riyad	57%	0%	70%
Alinma	0%	0%	0%
Aljazira	50%	0%	40%
Albilad	54%	0%	60%
Samba	71%	0%	60%
BSF	77%	0%	40%
ANB	50%	0%	60%
SIB	0%	0%	55%
SABB	78%	0%	30%

Source: Company data, Al Rajhi Capital

Figure 22 Interest-Earning Assets (SAR mn)

IEA	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	367,878	440,122	20%	463,685	5%
NCB	478,313	560,159	17%	599,038	7%
Riyad	261,268	297,005	14%	303,407	2%
Alinma	128,463	144,457	12%	152,698	6%
Aljazira	84,186	97,429	16%	102,075	5%
Albilad	82,307	93,417	13%	99,323	6%
Samba	248,375	286,133	15%	297,136	4%
BSF	170,038	197,309	16%	197,591	0%
ANB	176,110	174,803	-1%	172,964	-1%
SIB	96,536	102,629	6%	107,037	4%
SABB	241,415	231,210	-4%	236,523	2%
Total	2,334,889	2,624,675	12%	2,731,479	4%

Source: Company data, Al Rajhi Capital

Figure 23 Loans (SAR mn)

Net Loans	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	249,683	283,794	14%	326,005	15%
NCB	282,289	319,702	13%	346,213	8%
Riyad	173,982	198,636	14%	209,451	5%
Alinma	94,801	106,693	13%	116,048	9%
Aljazira	49,660	58,503	18%	63,631	9%
Albilad	59,363	66,856	13%	74,555	12%
Samba	141,595	152,454	8%	161,474	6%
BSF	125,725	140,487	12%	149,914	7%
ANB	118,837	116,605	-2%	124,222	7%
SIB	57,113	59,006	3%	61,687	5%
SABB	154,677	148,790	-4%	149,210	0%
TOTAL	1,507,725	1,651,526	10%	1,782,412	8%

Source: Company data, Al Rajhi Capital

Figure 24 Mortgage Loans (SAR mn)

Mortgages	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	54,370	95,082	75%	128,360	35%
NCB	37,186	62,920	69%	81,796	30%
Riyad	31,000	42,768	38%	50,466	18%
Alinma	6,448	9,183	42%	11,020	20%
Aljazira	12,345	18,074	46%	21,327	18%
Albilad	11,821	17,307	46%	20,769	20%
Samba	6,600	9,315	41%	11,178	20%
BSF	6,935	10,879	57%	13,598	25%
ANB	6,160	8,935	45%	11,169	25%
SIB	1,814	2,247	24%	2,697	20%
SABB	12,048	16,532	37%	21,161	28%
TOTAL	186,727	293,241	57%	373,540	27%

Source: Company data, Al Rajhi Capital

Figure 25 Mortgage Market Share

Mortgage mkt share	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	29.1%	32.4%	11%	34.4%	6%
NCB	19.9%	21.5%	8%	21.9%	2%
Riyad	16.6%	14.6%	-12%	13.5%	-7%
Alinma	3.5%	3.1%	-9%	3.0%	-6%
Aljazira	6.6%	6.2%	-7%	5.7%	-7%
Albilad	6.3%	5.9%	-7%	5.6%	-6%
Samba	3.5%	3.2%	-10%	3.0%	-6%
BSF	3.7%	3.7%	0%	3.6%	-2%
ANB	3.3%	3.0%	-8%	3.0%	-2%
SIB	1.0%	0.8%	-21%	0.7%	-6%
SABB	6.5%	5.6%	-13%	5.7%	0%

Source: Company data, Al Rajhi Capital



Figure 26 Deposits (SAR mn)

Deposits	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	312,406	368,968	18%	387,416	5%
NCB	353,389	425,400	20%	455,343	7%
Riyad	194,518	204,006	5%	206,046	1%
Alinma	102,063	111,757	9%	117,345	5%
Aljazira	62,697	70,182	12%	73,691	5%
Albilad	66,798	71,525	7%	75,102	5%
Samba	180,166	198,663	10%	208,597	5%
BSF	132,838	140,820	6%	154,902	10%
ANB	142,129	129,906	-9%	128,607	-1%
SIB	69,058	65,534	-5%	68,811	5%
SABB	192,167	180,898	-6%	184,516	2%
TOTAL	1,808,227	1,967,660	9%	2,060,376	5%

Source: Company data, Al Rajhi Capital

Figure 27 Investment Book (SAR mn)

Inv.book	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	46,843	60,608	29%	62,426	3%
NCB	134,077	161,302	20%	169,367	5%
Riyad	53,361	56,137	5%	58,943	5%
Alinma	23,478	28,528	22%	29,954	5%
Aljazira	27,619	30,825	12%	34,404	12%
Albilad	10,987	14,141	29%	14,848	5%
Samba	85,013	98,869	16%	101,835	3%
BSF	31,454	40,700	29%	41,107	1%
ANB	38,038	50,060	32%	52,563	5%
SIB	26,175	32,131	23%	38,558	20%
SABB	60,484	70,579	17%	71,991	2%
TOTAL	537,529	643,880	20%	675,996	5%

Source: Company data, Al Rajhi Capital

Figure 28 Book Value Per Share (SAR)

BVPS	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	20	23	11%	24	8%
NCB	23	25	8%	26	4%
Riyad	14	14	6%	15	3%
Alinma	14	13	-7%	14	8%
Aljazira	14	15	3%	15	5%
Albilad	13	14	12%	15	6%
Samba	23	24	6%	25	2%
BSF	27	29	5%	30	3%
ANB	19	20	3%	20	2%
SIB	19	22	13%	22	2%
SABB	31	24	-21%	25	4%

Source: Company data, Al Rajhi Capital

Figure 29 Dividend Yield

Dividend Yield	2019	2020E	y-o-y	2021E	y-o-y
Rajhi	5%	0%	-100%	4%	NM
NCB	5%	0%	-100%	6%	NM
Riyad	4%	0%	-100%	6%	NM
Alinma	0%	0%	NM	0%	NM
Aljazira	4%	0%	-100%	3%	NM
Albilad	3%	0%	-100%	5%	NM
Samba	4%	0%	-100%	4%	NM
BSF	5%	0%	-100%	2%	NM
ANB	4%	0%	-100%	3%	NM
SIB	0%	0%	NM	2%	NM
SABB	3%	0%	-100%	2%	NM

Source: Company data, Al Rajhi Capital



Appendix: 1

Modification treatment explained

Figure 30 Illustration for Modification loss

Year	Beginning Carrying Value	Impairment	Modification on Gain / (loss)	Interest Revenue	Cash Flow	Ending Carrying Value	Loss Allowance	Ending Amortized cost
	A	B	C	D Gross: A * 5%	E	F = A + C + D - E	G	H = F - G
1	1,000	(20)		50	50	1,000	20	980
2	1,000	(130)		50	50	1,000	150	850
3	1,000	40	(136)	50	50	864	110	754
4	864	24		43	0	907	86	821
5	907	72		45	0	952	14	938
6	952	14		48	1,000	0	0	0

Source: Al Rajhi Capital

As per SAMA guidelines all banks have carried out a deferral of MSME and stage 2 loans causing a day 1 modification loss. SAMA has made interest free deposits with banks to mitigate these losses (refer figure 5). The total amount of deposits in 2Q was ~SAR80bn more than 3 times of deposits received in 1Q (~SAR19bn). Total modification loss for the sector in 2Q stands SAR289mn, a -82% drop compared to SAR1,630mn in 1Q whereas deposit grant income recognized in 2Q stands at SAR827mn, a -26% drop compared to SAR1122mn in 1Q 2020.

These modification losses due to deferrals and subsequent gains from SAMA deposits are mostly presented as a part of net financing income and in some cases other operating income (like in case of SABB). In the absence of income from free SAMA deposits the modification loss alone represents ~2% of the net financing income in 2Q (~8% in 1Q 2020).

Figure 30 illustrates how modification loss arises in the case where the tenure is not increased. Assuming the bank has provided relief to the borrower at the end of year 3 for a 3 years period, the subsequent interest payments starting year 4 are forgone and the present value of these cash flows (50 every year discounted at original contract rate of 5% = 136) is recorded as day 1 modification loss. Also since the carrying value of the loan has reduced now the impairment balance requirement also reduces leading to a reversal of the impairment charge. As the loan reaches its maturity the probability of default further reduces causing more impairment reversals.



Appendix 2:

Sukuk issuance data for banks

Figure 31 Sukuk data as on 2Q 2020

	Total Sukuk (SAR mn)	Classified into		Equity (SAR mn)	Sukuk (equity) as % of Equity	Total Assets (SAR mn)	Sukuk (total) % of assets	Tier 1 OR Tier 2	Interest %	Maturity (equity)	Maturity (Liability)
		Equity (SAR mn)	Liability (SAR mn)								
Rajhi	0	0	0	51,930	0%	417,684	0%	NA	NA	NA	NA
NCB	10,896	10,200	696	62,888	16%	557,310	2%	Tier 1	NA	Perpetual	2021
Riyad	5,683	0	5,683	40,786	0%	295,083	2%	NA	3.17%	NA	2030
Alinma	0	0	0	23,386	0%	142,196	0%	NA	NA	NA	NA
Aljazira	2,005	0	2,005	11,636	0%	91,869	2%	NA	6mth Saibor + 190 bps reset semi annually	NA	Jun-26
Albilad	2,005	0	2,005	9,852	0%	88,824	2%	NA	3mth Saibor + 200 bps	NA	Aug-26
Samba	0	0	0	46,284	0%	279,261	0%	NA	NA	NA	NA
BSF	0	0	0	33,677	0%	201,953	0%	NA	NA	NA	NA
ANB	2,012	0	2,012	28,427	0%	187,297	1%	Tier 2	SIBOR plus 140 bps	NA	Oct-25
SIB	2,000	2,000	0	12,239	16%	104,616	2%	Tier 1	NA	Perpetual	NA
SABB*	0	0	0	48,244	0%	266,991	0%	NA	NA	NA	NA

Source: Company data, Al Rajhi Capital

*SABB's sukuk issuance is a post 2Q 2020 balance sheet event hence not included in the table

*SABB sukuk is a Tier 2 capital, Size: SAR5bn, maturity: 2030, Interest rate: 6mth Saibor + 195 bps payable semi annually



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