

## Saudi Banking Sector Report

AGM-Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa



## Banking sector posts another quarter of strong performance; Al Rajhi leads its peer in terms of market share gains in terms of deposits and loans

The Saudi banking sector had another strong quarter driven by economic recovery and increase in oil prices. Credit growth rate was in double-digits, driven by surging retail demand, while deposits posted high single-digit growth. Oil prices hit a two-year high in early June driven by production cuts by OPEC+, which is expected to boost the economy.

Al Rajhi continued to be the top performer among peers. It gained the highest market share in terms of loans and deposits. The bank's market share (loans) increased 360 bps to 21.8% as its loan book registered an astounding growth of 35.6% Y/Y, while its deposits rose 33.5% Y/Y. It continued to generate the highest operating income (SAR 5.95bn), contributing close to one-fourth of the sector's overall earnings in Q1-21. The bank has gained momentum in the last few quarters and looks poised to increase its market share further.

**Loan growth driven by real estate sector; loans with maturity over three years account for majority of loans:** Loan growth remained robust, increasing 15.0% Y/Y to SAR 1.88tn in Q4-20, led by a 44.1% Y/Y increase in real estate loans. All sectors, barring agriculture & fishing, manufacturing, and construction, registered Y/Y loan growth during the quarter. The miscellaneous sector was the major contributor, posting a 26.7% Y/Y loan growth in Q1-21. In terms of maturity, loan growth was driven by loans of maturity over three years, which increased 29.6% to SAR 895.0bn, and constituted 47.6% of total loans in Q1-21.

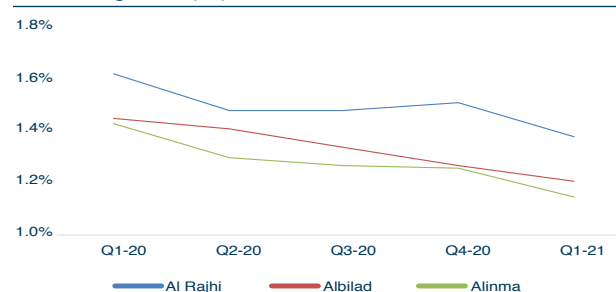
**Demand deposits drive deposit growth:** Total banking deposits grew 9.4% Y/Y to SAR 1.98tn in Q1-21. Growth was mainly led by demand deposits which rose 12.5%, while time and savings deposits fell 1.6% Y/Y.

**Continued uptrend in money supply:** Money supply increased 8.9% Y/Y to SAR 2,187bn, driven by a 12.5% rise in demand deposits. On Q/Q basis, it rose 1.8%, led by a 2.3% increase in demand deposits. Meanwhile, time and saving deposits declined 1.6% Y/Y to SAR 452.7bn.

### Recent results indicate trend of decline in financing rate; interest rate expected to remain low as Fed refrains from raising rates:

The financing rate of banks have been declining over the past few quarters due to the low interest rate environment. In April-21, the US Fed refrained shifting from its easy money policy, despite acknowledging that the economy was accelerating. As the Saudi interest rate is pegged to the US Fed, in the near term, the interest rate is expected to remain low; this implies that the downtrend in financing rate could continue for a few more quarters.

Financing rate (%)



Source: SAMA, Argam, Aljazira Research

**Al Rajhi and Albilad relatively well placed than Alinma to cover short-term maturity of deposits:** As of December-20, Al Rajhi has customer time deposit maturity of SAR 43bn in FY21; this is well covered by financing maturity of more than SAR 73bn. Albilad has customer time deposit maturity of SAR 9.2bn in FY21, well covered by financing maturity of SAR 21.7bn. Meanwhile, Alinma has customer time deposits maturity to the tune of SAR 54.5bn in FY21, while the financing maturity in FY21 is SAR 48.7bn. Hence, we believe Alinma has greater short-term maturity risk as compared to Al Rajhi and Albilad.

**Al Rajhi best placed among peers in terms of NPLs due to higher proportion of retail loans:** Al Rajhi had the lowest NPL ratio (0.70%) among its peers in Q1-21. One of the reasons for this is the high percentage of retail loans (78.2% of gross loans in Q1-21). Alinma had NPL ratio of 2.25%, while Albilad had 1.09%. The higher NPL of Alinma can be attributed to the higher percentage of corporate loans (78.2% in Q1-21), while Albilad has an even split of loans between corporate and retail.

## Valuation

### Al Rajhi Bank: Colossal increase in loans and deposits enabling Al Rajhi to gain market share; double-digit earnings growth expected in FY21

Al Rajhi Bank's net profit increased 40.1% Y/Y to SAR 3,335mn in Q1-21, driven by a 16.1% Y/Y rise in net financing and investment income. Fee from banking services surged 47.1% Y/Y, resulting in a 19.7% increase in total operating income. Growth in loans was phenomenal (up 36.3% Y/Y) and driven largely by the retail sector (up 41.9% Y/Y). With another strong performance, Al Rajhi seems well positioned to increase its market share in the near future.

The share of the retail sector in total loans was 79.1% in Q1-21, relatively unchanged from 78.9% in FY20. It increased 41.7% Y/Y to SAR 283.1bn in Q1-21, a net quarterly addition of SAR 28.0bn. Retail loans are mainly driven by mortgages, which form the major chunk. With the continued increase in market share, Al Rajhi seems well placed to capitalize on the increasing demand for mortgages and is expected to be the biggest beneficiary among its peers.

Al Rajhi Bank's TTM PE stood at 23.7x vis-à-vis the estimated forward PE of 20.3x. Al Rajhi is well positioned to honor near-term commitments as it has customer time deposit maturity of SAR 43bn in FY21, which is well covered by financing maturity of more than SAR 73bn. We revise our EPS estimate for FY21 to SAR 5.41 from SAR 4.91, based on the significant increase in net financing and investment income driven by the growth in market share. We maintain our "Neutral" recommendation for Al Rajhi with a revised TP of **SAR 112.0/share**.

### Bank Alinma: Strong earnings growth posted in Q1-21; provisions expected to increase in H2-FY21 once the deferred payments program is completed amid high corporate exposure

Alinma Bank posted strong earnings growth of 73.3% Y/Y, driven by a 7.4% Y/Y increase in net income from investing and financing assets and increase in income from FVIS financial instruments. Loans and deposits grew a healthy growth of 19.8% Y/Y and 16.2%, respectively.

The bank depends on corporate loans for growth; these contributed 78.2% to total loans in Q1-21. A higher concentration of corporate loans leaves the bank susceptible to higher NPLs. Higher corporate exposure could result in the re-pricing of loans, consequently impacting NIMs. Once the deferred payments program is complete, we expect the bank to record higher impairment charges. We revise our EPS estimate for FY21 to SAR 1.17 from SAR 1.09, based on the strong results recorded in Q1-21. We maintain our cautious "Overweight" rating with a revised TP of **SAR 23.0/share**.

### Bank Albilad: Strong earnings driven by significant growth in loans; withdrawal of loan deferral program expected to impact earnings in H2-FY21

Bank Albilad's net income rose 45.4% Y/Y to SAR 392.8mn in Q1-21, driven by 61.8% Y/Y decrease in return on deposits and financial liabilities. Loans grew 20.9% Y/Y to SAR 75.5bn, while deposits increased 12.6% Y/Y.

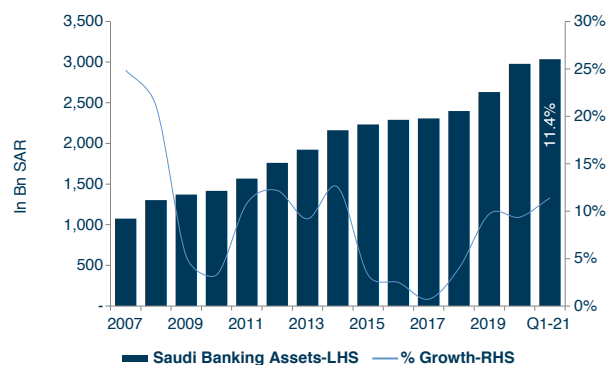
Bank Albilad has an even mix of corporate and retail loans. Its NPL ratio improved to 1.09% in Q1-21 from 1.29% in Q1-20. As corporate loans account for 50% of loans, we expect higher provisioning once the loan deferral program is completed. We revise our EPS for FY21 to SAR 1.97 from SAR 1.86, following the strong performance in Q1-21. We maintain our "Neutral" rating on Bank Albilad with a revised TP of **SAR 38.0/share**.

Company	EPS (FY-21)	ROE (TTM)	ROA (TTM)	TTM P/E(x)	P/B(x)	TP(Price/share)	Recommendation
Al-Rajhi	5.41	21.2%	2.6%	23.7	4.2	112.0	Neutral
Alinma	1.17	9.4%	1.5%	17.9	1.5	23.0	Overweight
Al-Bilad	1.97	14.4%	1.5%	18.9	2.4	38.0	Neutral

Source: Bloomberg, Argam, Aljazira Capital Research



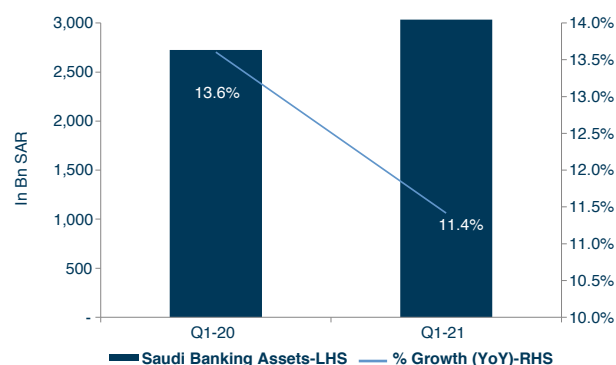
## Saudi Banking Sector Balance Sheet Growth – Q1-21



Source: SAMA, Argaam, Aljazira Research

KSA's banking sector registered a CAGR of 7.3% from Q1-11 to Q1-21.

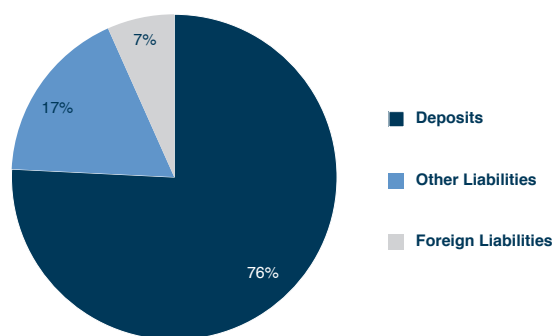
## Saudi Banking Sector Balance Sheet Growth – Q1-21



Source: SAMA, Argaam, Aljazira Research

In Q1-21, the banking sector advanced 11.4% Y/Y and 1.9% Q/Q to SAR 3,035bn.

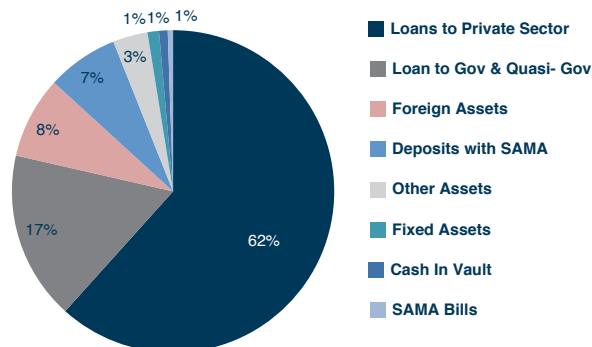
## Saudi Banking Sector Liabilities Composition (Q1-21)



Source: SAMA, Argaam, Aljazira Research

The share of deposits (as a percentage of BS liabilities) remained unchanged at 75.8% in Q1-21 from that in Q4-20.

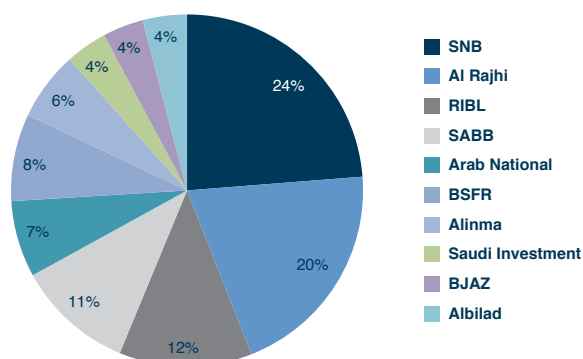
## Banking Sector-Assets Breakdown-Q1-21



Source: SAMA, Argaam, Aljazira Research

Loans to private sector increased to 61.7% in Q1-21 compared with 59.2% in Q4-20.

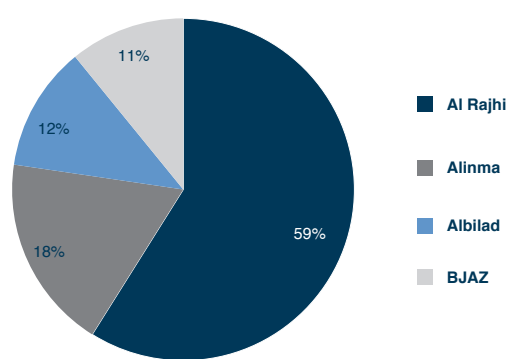
## Market Share of Total Banking Assets – Q1-21



Source: SAMA, Argaam, Aljazira Research

SNB (ex-SAMBA)(with assets of SAR 600bn) led the market with a share of 23.8% in Q1-21, an increase of 2.2% from 21.6% in Q4-20.

## Asset Market Share of Shariah-compliant Banks – Q1-21

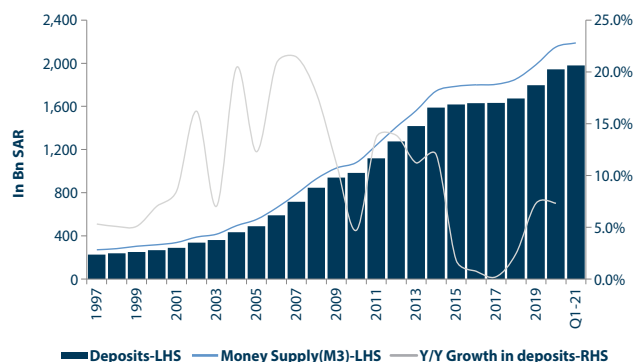


Source: SAMA, Argaam, Aljazira Research

Al Rajhi is the largest Shariah-compliant bank in the KSA, holding 58.9% of the total market share in Q1-21, 1.3% up from that in the previous quarter.



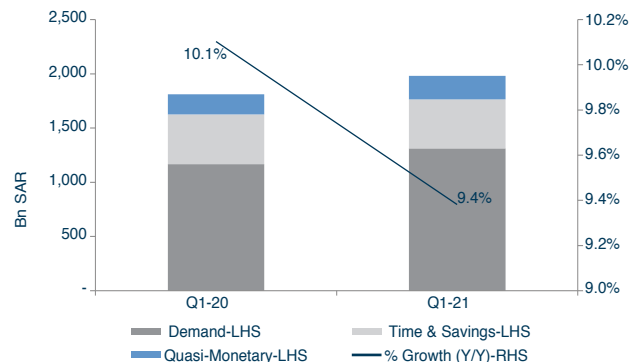
## Deposits Growth (Historicals) (1997-Q1-21)



Source: SAMA, Argaam, Aljazira Research

KSA deposits and money supply rose steadily at a 10-year CAGR of 6.5% each.

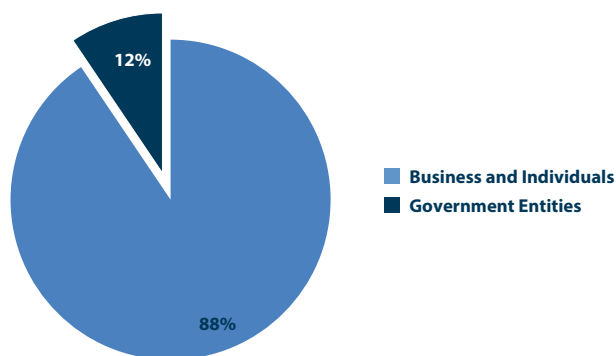
## Deposit Breakup and Growth-Q1-21



Source: SAMA, Argaam, Aljazira Research

Total deposits increased 9.4% Y/Y to SAR 1.98tn in Q1-21 from SAR 1.81tn, compared with 8.2% Y/Y increase in Q4-20.

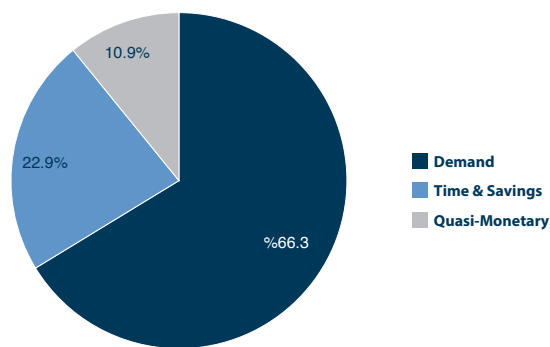
## Demand Deposits Breakdown Q1-21



Source: SAMA, Argaam, Aljazira Research

Businesses and individuals held 88.4% of the demand deposits in Q1-21, down from 88.7% in Q4-20.

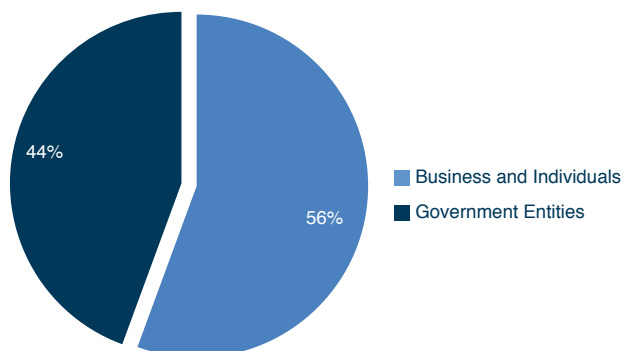
## Deposits Breakdown Q1-21



Source: SAMA, Argaam, Aljazira Research

Of the total deposits, demand deposits accounted for 66.3% in Q1-21 compared with 66.0% in Q4-20.

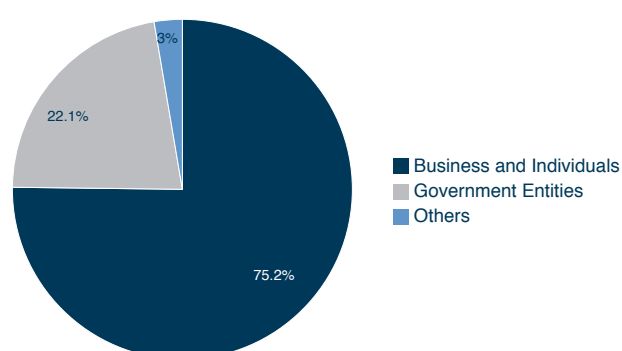
## Times &amp; Savings Deposit Breakdown Q1-21



Source: SAMA, Argaam, Aljazira Research

Businesses & individuals held 55.6% of the time & saving deposits in Q1-21, up from 55.3% in Q4-20.

## Sector-Wise Deposits Q1-21

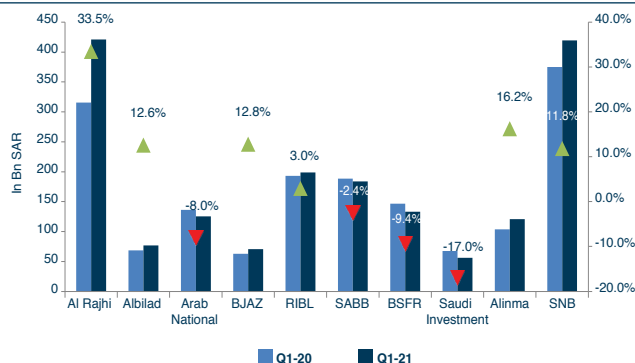


Source: SAMA, Argaam, Aljazira Research

Business & individuals held 75.2% of the total deposits in Q1-21, a decline of 0.8% compared with 76.0% in Q4-20.



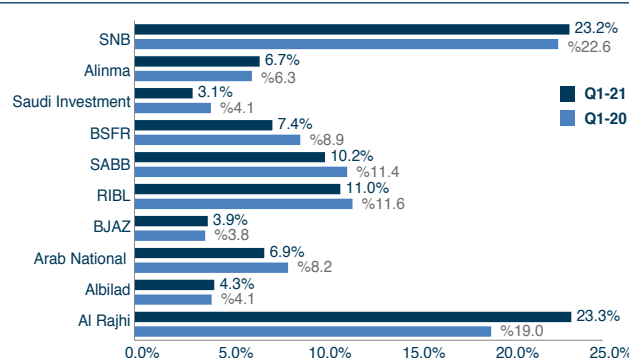
## Bank wise Deposits Growth (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

Al Rajhi recorded the highest growth (33.5% Y/Y) in deposits, while Alinma stood second, increasing the deposit base by 16.2% Y/Y.

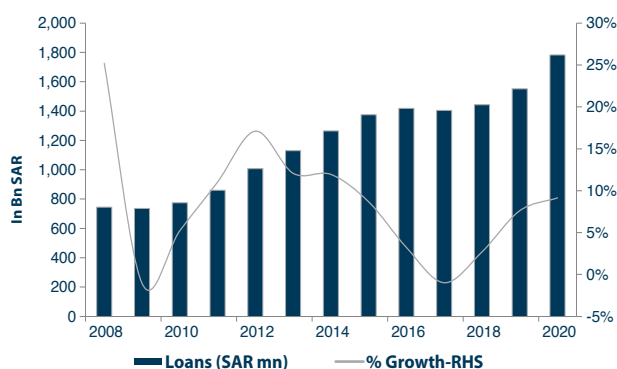
## Deposits Market Share Comparison (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

Al Rajhi Bank had the highest deposit base of SAR 421bn, closely followed by SNB (excluding SAMBA) (deposit base of SAR 419bn).

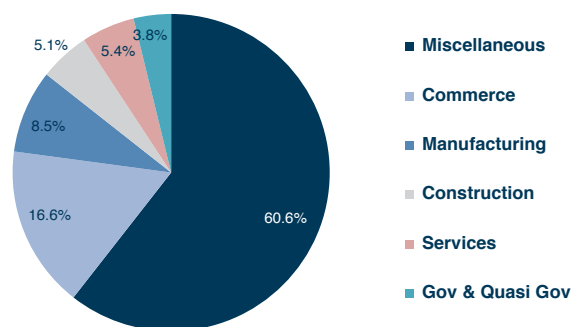
## Loan Growth Historicals (2007-2020)



Source: SAMA, Argaam, Aljazira Research

Total loan book of the banking sector increased 15.0% Y/Y to SAR 1.88tn in Q1-21, clocking a 10-year CAGR of 8.9%.

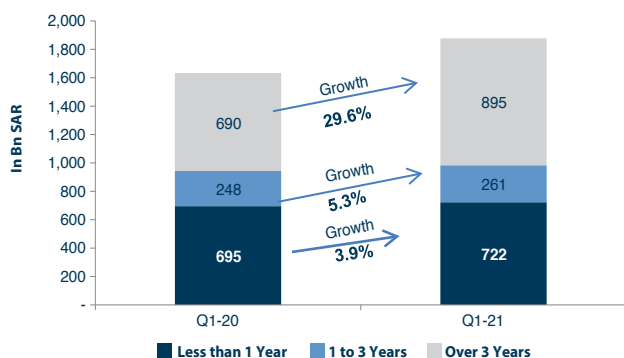
## Sector-wise Loan Distribution Q1-21



Source: SAMA, Argaam, Aljazira Research

The commerce sector accounted for 16.6% of the total loans, decreasing 0.2% from that in the prior quarter.

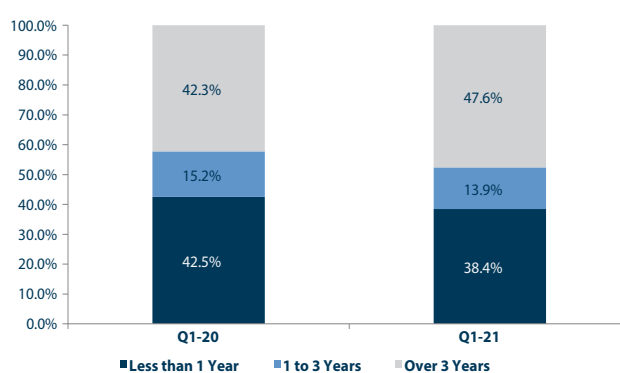
## Loan Maturity-Growth (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

Loans with maturity of over three years grew 29.6% Y/Y, while those with maturity of less than one year rose 3.9%.

## Loan Share according to Maturity Profile (Q1-21 vs. Q1-20)

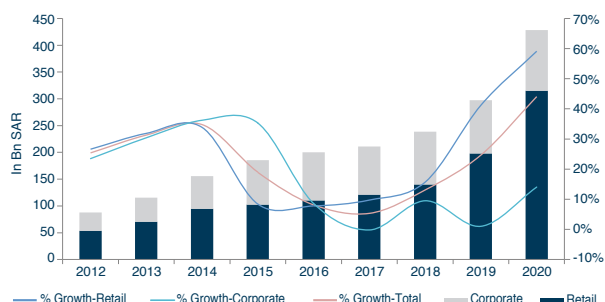


Source: SAMA, Argaam, Aljazira Research

The share of loans with maturity of more than three years rose to 47.6% in Q1-21 from 42.3% in Q1-20.



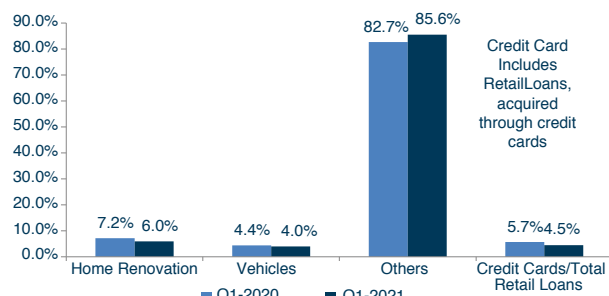
## Real Estate Loan Historicals



Source: SAMA, Argaam, Aljazira Research

In Q1-21, the retail sector accounted for 75.4% of the loans, increasing 1.8% from that in the previous quarter.

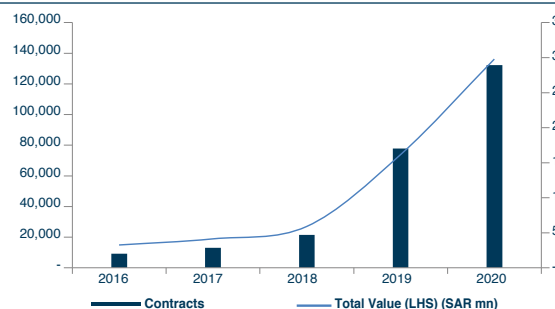
## Retail Loans-Breakdown (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

Loans for home renovation financing accounted for 6.0% in Q1-21. Retail loans acquired through credit cards constituted 4.5% in Q1-21, a decline of 0.3% from Q4-20.

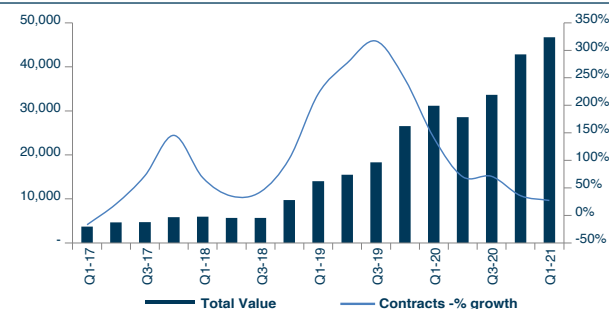
## Mortgage (Contracts and Total Value) Historical



Source: SAMA, Argaam, Aljazira Research

Mortgage contracts increased 70% Y/Y to 289.3k, while the total value rose 84% Y/Y to SAR 136.2bn in FY20.

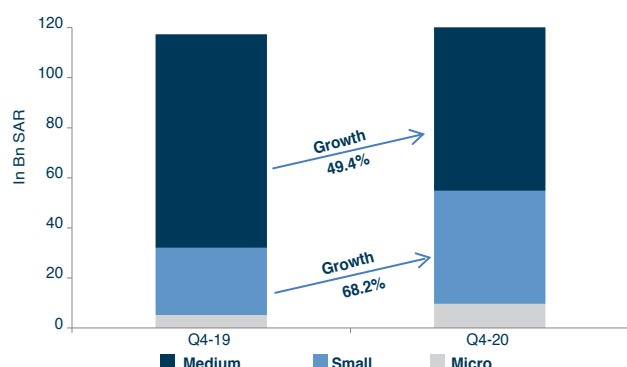
## Contract Value and Growth (Quarterly)



Source: SAMA, Argaam, Aljazira Research

New contracts in Q1-21 stood at 90.5k with a value of SAR 46.7bn, up 49.9% Y/Y.

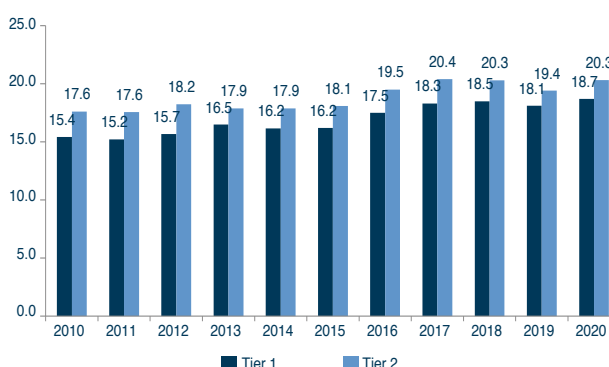
## Credit Facilities to SME (SAR mn) (Q4-20 vs. Q4-19)



Source: SAMA, Argaam, Aljazira Research

Total credit facilities to SMEs increased 55.3% Y/Y to SAR 182.2bn, while those to medium enterprises rose 49.4% Y/Y to SAR 127.5bn in Q4-20.

## Capital Adequacy Ratio (Historicals)



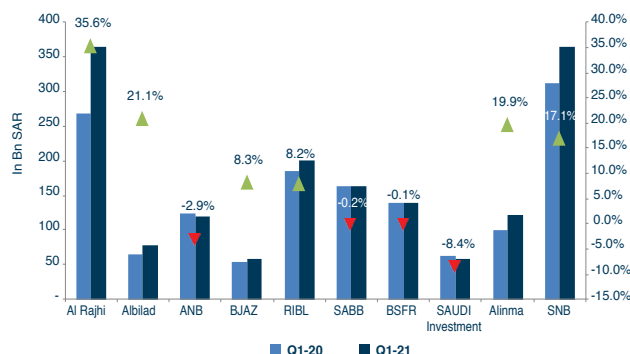
Source: SAMA, Argaam, Aljazira Research

The Tier 1 capital ratio increased to 18.7% in Q4-20 compared with 18.1% in Q4-19, while the Tier 2 ratio increased to 20.3% in Q4-20 from 19.4% in Q4-19.





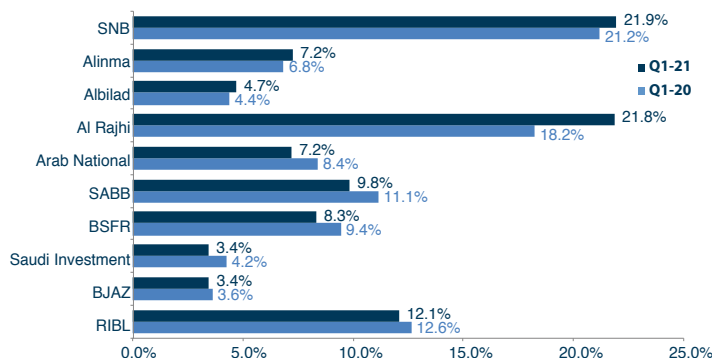
## Bank-wise Loans Distribution (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

Six of the ten banks in the sector registered Y/Y increase in gross loans. Al Rajhi's loan book registered the highest increase of 35.6% Y/Y in Q1-21, further strengthening its market share.

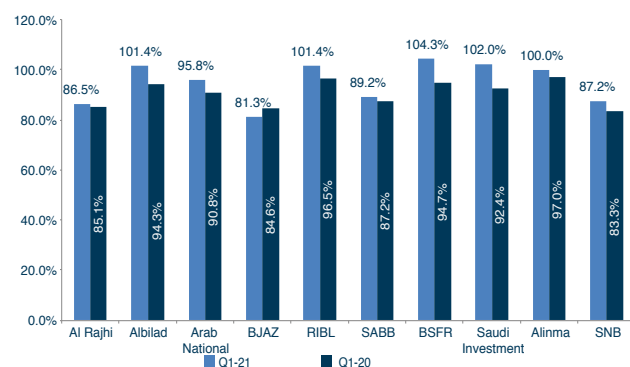
## Bank-wise Market Share (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

Al Rajhi was the biggest gainer in market share, witnessing a significant jump to 21.8% in Q1-21 from 18.2% in Q1-20. Market share of SNB (excluding SAMBA) rose to 21.9% in Q1-21.

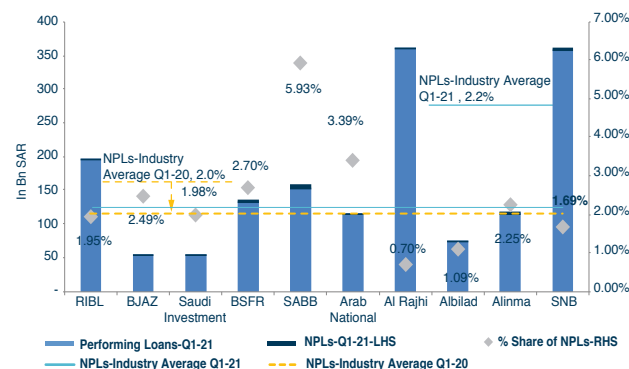
## Bank wise ADR ratio (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

The industry ADR ratio stood at 92.3% in Q1-21 compared with 89.0% in Q1-20. BSFR posted the highest ADR ratio of 104.3%, followed by Saudi Investment at 102.0% in Q1-21.

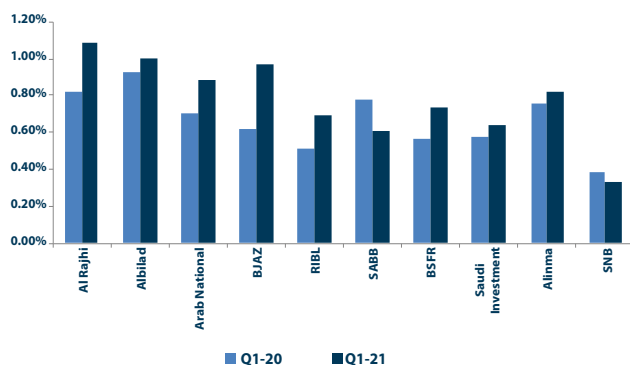
## Performing Loans to NPLs



Source: SAMA, Argaam, Aljazira Research

The sector's NPL ratio jumped to 2.18% in Q1-21 from 2.03% in Q1-20. The NPL coverage ratio decreased to 133% in Q1-21 from 136% in Q1-20.

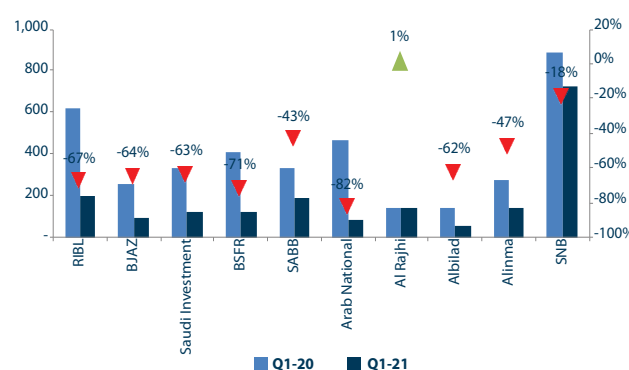
## Bank wise NIM (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

The sector's average NIMs rose to 0.78% in Q1-21 Vs. 0.66% in Q1-20. Al Rajhi Bank registered the highest quarterly NIM of 1.09% in Q1-21, an increase from 0.82% in Q1-20.

## Absolute Return on Saving and Time Deposits



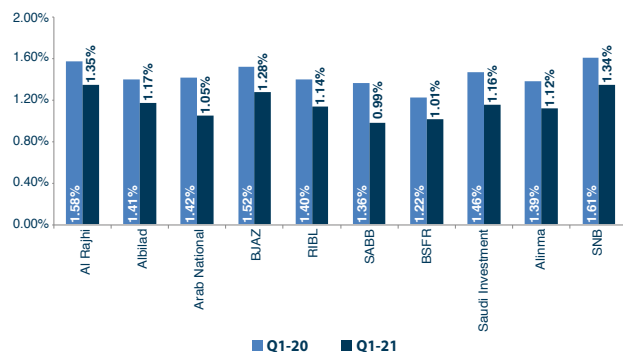
Source: SAMA, Argaam, Aljazira Research

The sector's quarterly return on savings and time deposits decreased 51.5% Y/Y in Q1-21. SNB (ex-SAMBA) recorded the highest return on time and savings deposit expense at 1.01%.





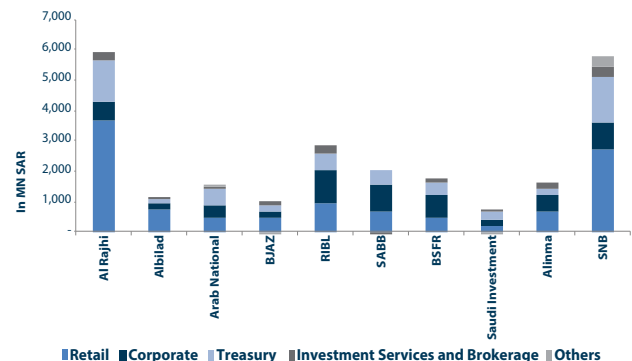
## Bank-wise Lending rates (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

The average lending rate stood at 1.16% in Q1-21 compared with 1.44% in Q1-20. Al Rajhi had the highest lending rate of 1.35%, followed by SNB (excluding SAMBA) at 1.34%.

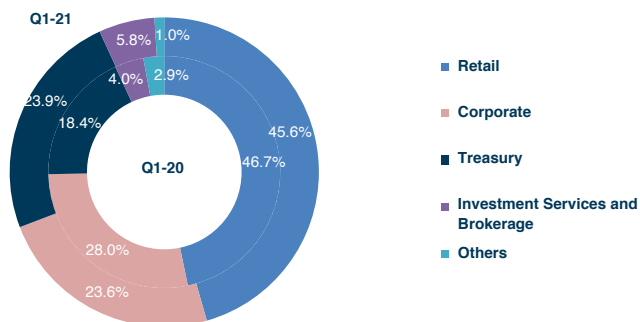
## Company wise Operating Income – Q1-21



Source: SAMA, Argaam, Aljazira Research

Al Rajhi, with an operating income of SAR 5.95bn, contributed 24.5% to total sector earnings in Q1-21, followed by SNB's contribution (ex-SAMBA) of 23.8% with earnings of SAR 5.77bn.

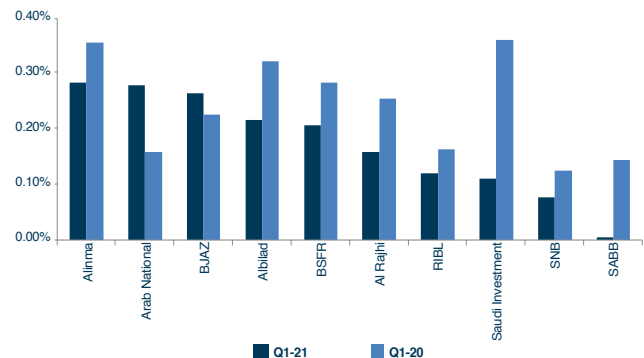
## Operating Income Breakdown (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

The sector's operating income increased 6.3% Y/Y to SAR 24.2bn in Q1-21, with the retail sector accounting for 45.6%. On Q/Q basis, operating income declined 7.2%.

## Company-wise Cost of Risk (Q1-21 vs. Q1-20)



Source: SAMA, Argaam, Aljazira Research

The average cost of risk increased to 0.17% in Q1-21 vs. 0.24% in Q1-20. Bank Alinma posted the highest cost of risk of 0.29% in Q1-21, a decrease from 0.36% in Q1-20.



RESEARCH DIVISION

AGM-Head of Research  
**Talha Nazar**  
+966 11 2256250  
t.nazar@aljaziracapital.com.sa

Senior Analyst  
**Jassim Al-Jubran**  
+966 11 2256248  
j.aljabran@aljaziracapital.com.sa

Analyst  
**Abdulrahman Al-Mashal**  
+966 11 2256374  
A.Almashal@Aljaziracapital.com.sa

Analyst  
**Faisal Alsuwelimy**  
+966 11 2256115  
F.alsuweilmy@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales  
**Alaa Al-Yousef**  
+966 11 2256060  
a.yousef@aljaziracapital.com.sa

AGM-Head of Central & Western Region Investment Centers  
**Sultan Ibrahim AL-Mutawa**  
+966 11 2256364  
s.almutawa@aljaziracapital.com.sa

AGM-Head of international and institutions  
**Ahmad Salman, CFA**  
+966 11 2256201  
a.salman@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068