

The banking sector's strong performance continued in Q1-20, with robust growth in deposit and loan, despite the COVID-19 crisis toward the end of the quarter. Deposit grew 10.1% Y/Y, while loans increased 11.8% Y/Y. Mortgage loans continued to record triple-digit growth, as contracts rose 135% Y/Y in Q1-20. Bank Albilad and Alinma Bank continue to register double-digit Y/Y growth in deposits, whereas Al Rajhi's growth remains steady. Higher provision for impairment negatively impacted the profitability of most banks. Decrease in repo and reverse repo would lower the NIMs. We expect NPAs to increase due to impact of COVID-19 on operations of corporates, hence resulting in higher impairment expense.

- **Leading rating agencies revise forecast on Saudi banking sector:** The top agencies revised their projections for Saudi banks in line with the change in economic scenario amid COVID-19 in May 2020.
- Moody's affirmed its rating for all 11 Saudi banks, but lowered its outlook on long-term deposit ratings to "negative" from "stable" for each, except one. It added that affirmation of credit ratings is based on the resilience of Saudi banks, reflected in their financial performance, strong capital buffers, favorable funding profiles and sufficient liquidity buffers. The "negative" outlook was attributed to the deteriorating operating environment.
- Fitch stated that the standalone credit profiles of Saudi banks' are likely to weaken due to COVID-19 and lower oil prices, despite the support measures introduced by the SAMA. It expects banks' profitability to come under pressure, followed by weakening of asset quality. However, it believes that the real impact will be masked by regulatory flexibility and loan deferral programs for banks to recognize impairments under IFRS 9.
- S&P believes that Saudi banks have sufficient capacity to absorb the impact of restrictions due to COVID-19 and lower oil price, despite a decline in net interest margins. It expects most Saudi banks to remain profitable in FY-20 and FY-21 under its base case scenario. It added that the stable trend for economic risk remains contingent mainly on its oil price assumptions and resumption of economic activity in Q3-20 across the globe, as restrictions are lifted.
- **SAMA provides SAR-50bn boost:** The SAMA injected liquidity on June 1 through zero-interest, one-year deposits. It intends to improve overall liquidity and lower the burden for banks, which covered the deferral in payments of companies not included in the private sector support program. The move is also aimed at helping banks restructure or modify private sector loans without any additional charges, maintain employment levels and provide certain e-services without any charge.

#### Valuation:

Alinma's deposits grew a healthy 12.6%, driven mainly by current and savings deposits. We expect the deposit growth rate to fall slightly in FY20 due to changing business conditions. Net income in Q1-20 declined 42.0% mainly due to higher charge on impaired assets, which we expect to continue in the medium term. We maintain cautious **"Overweight"** rating on Alinma Bank with a revised TP of SAR 18.90/share. Decline in net profit in Q1-20 led to a TTM ROE of 10.0%, while the stock is trading at a TTM PE of 9.7x.

Bank Albilad's net income fell 5.2% to SAR 270mn, driven by a 63.0% Y/Y increase in impairment charges, as TTM ROE fell to 12.9%. Albilad's TTM PE stood at 13.6x, vis-à-vis the estimated forward PE of 15.0x, with an expected dividend yield of 1.6% (SAR 0.35 DPS) for FY20. We maintain our **"Neutral"** rating, with a revised TP of **SAR 19.9/share**.

Al Rajhi Bank's net profit declined 7.3% to SAR 2,380mn, driven by 77.9% rise in impairment charges, as TTM ROE fell to 20.1%. Al Rajhi's TTM PE stood at 14.5x, vis-à-vis the estimated forward PE of 15.7x. We believe the changes in the mortgage law places Alrajhi in a favorable position, given its retail-heavy portfolio. However, SAMA's discount rate cut would hit the bank's top line and bottom line. We estimate an EPS of SAR 3.67 in FY20, driven by a lower interest rate and higher impairment charges. We maintain our **"Neutral"** recommendation with a revised TP of **SAR 51.9/share**.

Company	EPS	ROE	ROA	TTM P/E(x)	P/B (x)	TP (Price/share)	Recommendation
Al-Rajhi	3.67	20.1%	2.5%	14.5	2.9	51.9	Neutral
Alinma	1.02	10.0%	1.6%	9.7	1.0	18.9	Overweight
Al-Bilad	1.48	12.9%	1.4%	13.6	1.8	19.9	Neutral

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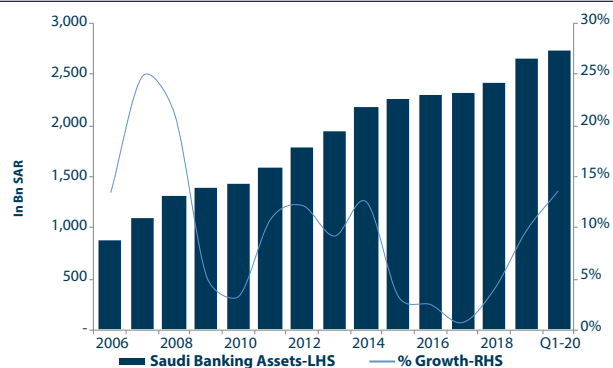
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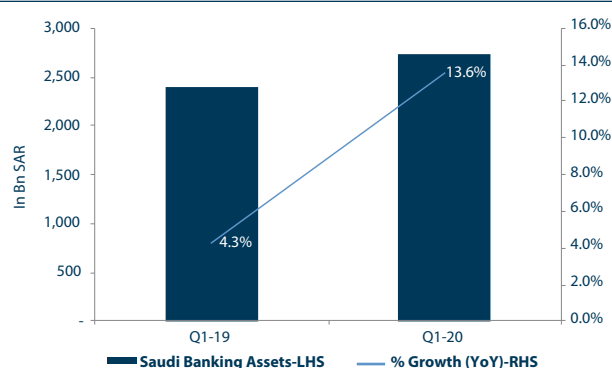
## Saudi Banking Sector Balance Sheet Growth (2006 -Q1-20)



Source: SAMA, Argaam, Aljazira Research

KSA's banking sector registered a CAGR of 7.1% during Q1-10 to Q1-20.

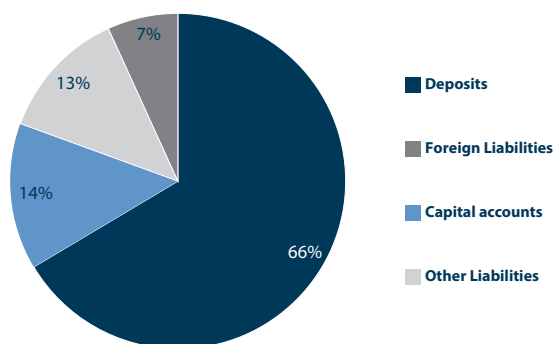
## Saudi Banking Sector Balance Sheet Growth – Q1-20



Source: SAMA, Argaam, Aljazira Research

In Q1-20, the banking sector grew 13.6% Y/Y, while it advanced 3.6% Q/Q to SAR 2,725bn.

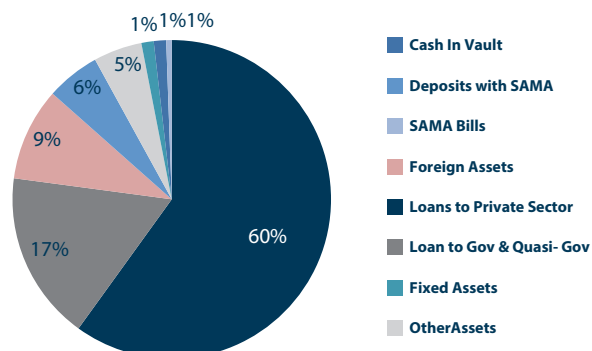
## Banking Sector-Assets Breakdown-Q1-20



Source: SAMA, Argaam, Aljazira Research

The share of deposits (as a percentage of balance sheet liabilities) declined to 66.4% in Q1-20 from 68.3% in Q4-19.

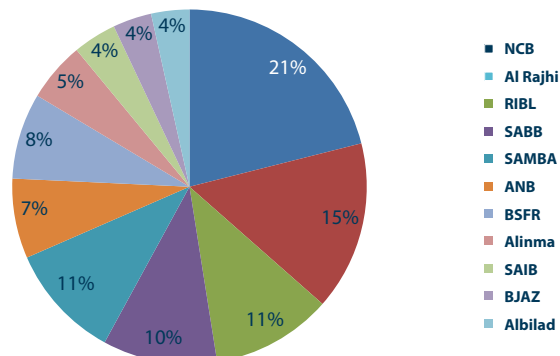
## Saudi Banking Sector Liabilities Composition (Q1-20)



Source: SAMA, Argaam, Aljazira Research

Loans to private sector rose to 60.0% in Q1-20 as compared to 58.8% in Q4-19.

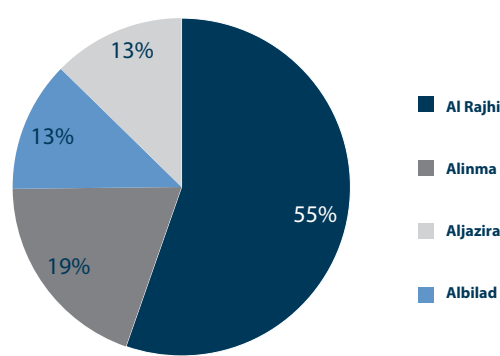
## Market Share of Total Banking Assets – Q1-20



Source: SAMA, Argaam, Aljazira Research

NCB (with assets over SAR 535bn) led the market with a share of 21.1% in Q1-20, an increase of 0.4% from its share of 20.7% in Q4-19.

## Asset Market Share of Shariah-compliant Banks – Q1-20

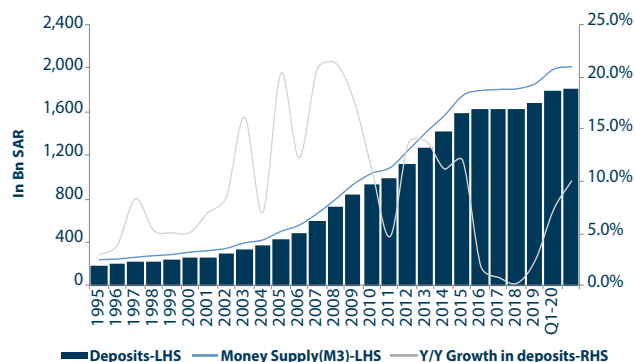


Source: SAMA, Argaam, Aljazira Research

Al Rajhi is the largest Shariah-compliant bank in KSA, holding 55.0% of the total market share in Q1-20, 1% down from the previous quarter.



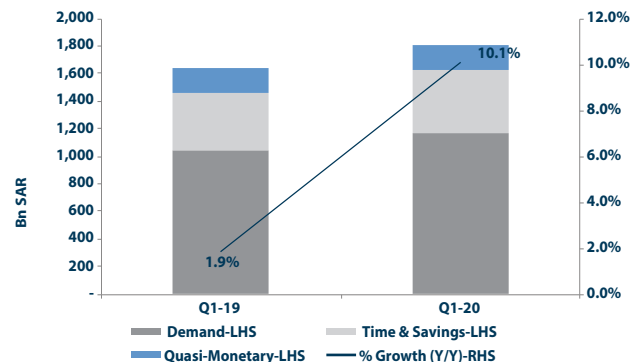
## Deposits Growth (Historical) (1995-Q1-20)



Source: SAMA, Argaam, Aljazira Research

KSA deposits and money supply rose steadily at a 10-year CAGR of 7.0% and 7.1%, respectively.

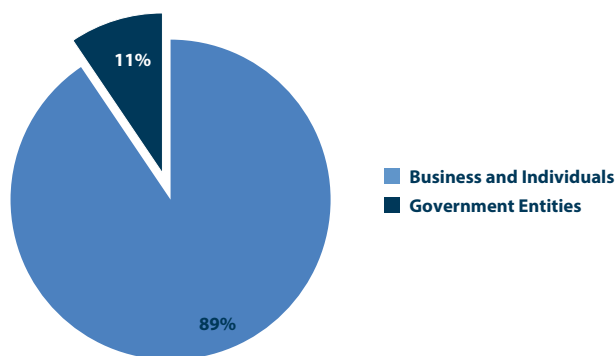
## Deposit Breakup and Growth-Q1-20



Source: SAMA, Argaam, Aljazira Research

Total deposits increased 10.1% Y/Y to SAR 1.81tn in Q1-20 from SAR 1.64tn, as compared to Y/Y deposit growth of 7.3% in Q4-19.

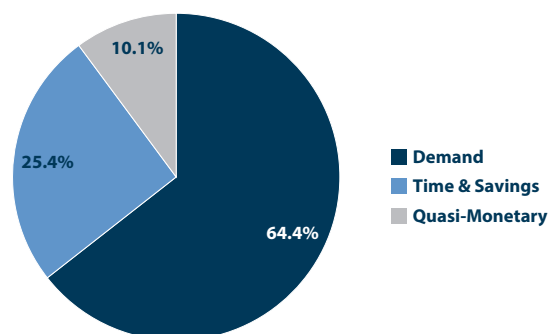
## Demand Deposits Break Down Q1-20



Source: SAMA, Argaam, Aljazira Research

Businesses and individuals held 88.9% of demand deposits in Q1-20 as compared to 91.5% in Q4-19.

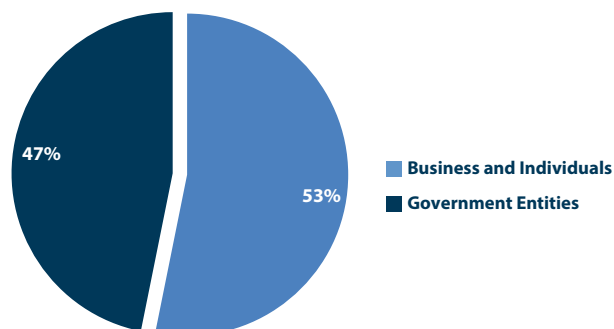
## Deposits Break Down Q1-20



Source: SAMA, Argaam, Aljazira Research

Of the total deposits, demand deposits accounted for 64.4% in Q1-20, as compared to 61.2% in Q4-19.

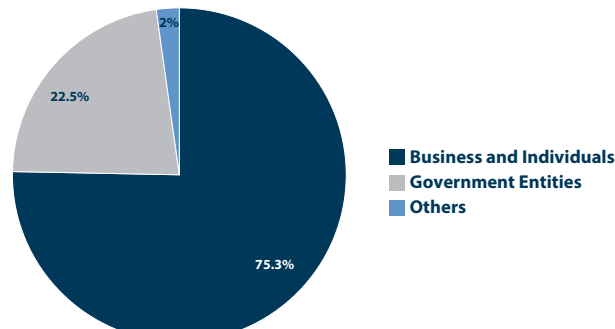
## Times &amp; Savings Deposit Break Down Q1-20



Source: SAMA, Argaam, Aljazira Research

Businesses & individuals held 53.2% of time & saving deposits in Q1-20, down from 58.5% in Q4-19.

## Sector Wise Deposits Q1-20

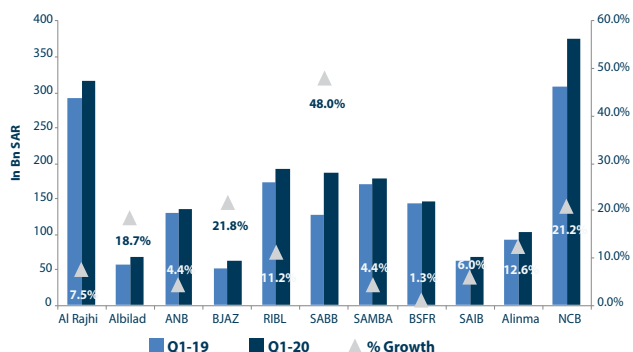


Source: SAMA, Argaam, Aljazira Research

Business & individuals held 75.3% of total deposits in Q1-20, a marginal rise of 0.1% as compared to 75.2% in Q4-19.



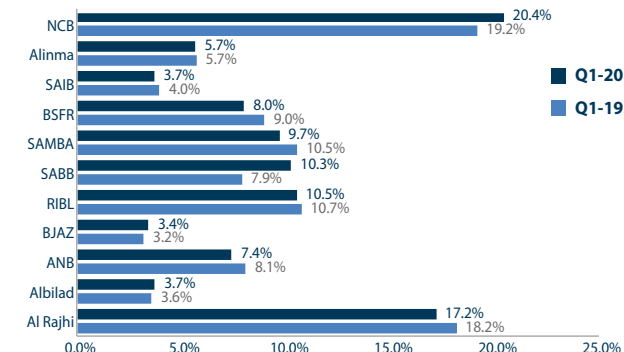
## Bank wise Deposits Growth (Q1-20 Vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

Saudi British Bank (SABBB) recorded highest growth (48.0% Y/Y) in deposits, while Bank Aljazira stood second, increasing the deposit base by 21.8% Y/Y.

## Deposits Market Share Comparison (Q1-20 Vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

National Commercial Bank (deposit base of SAR 375bn) is the largest bank in Saudi Arabia, followed by Al Rajhi Bank (deposit base of SAR 316bn).

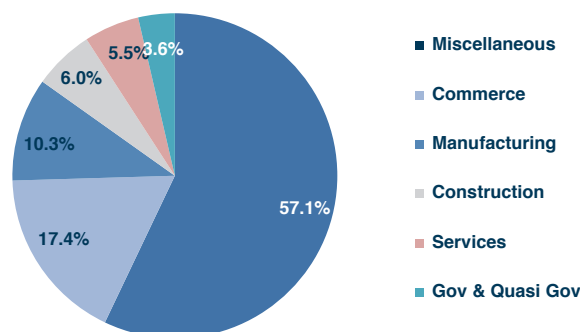
## Loan Growth Historicals (2007-Q1-20)



Source: SAMA, Argaam, Aljazira Research

Total loan book of the banking sector increased 11.8% Y/Y to SAR 1.6tn in Q1-20, registering a 10-year CAGR of 8.1%.

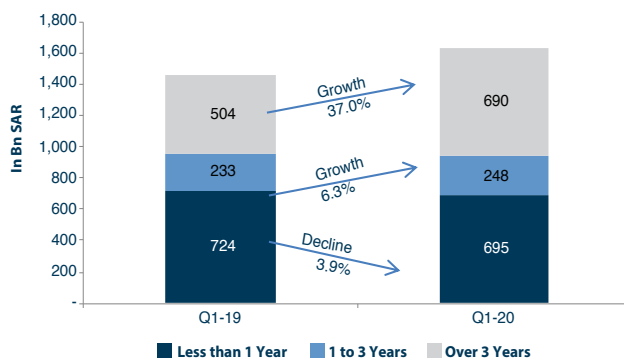
## Sector wise Loan Distribution Q1-20



Source: SAMA, Argaam, Aljazira Research

The commerce sector accounted for 17.4% of total loans, followed by the manufacturing sector (10.3%).

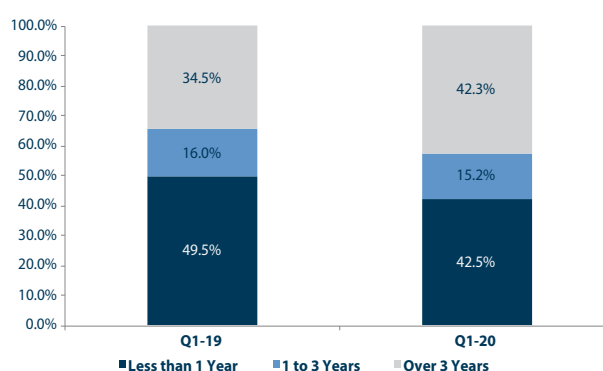
## Loan Maturity-Growth (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

Loans with maturity of over three years have grown at 37.0% Y/Y in Q1-20, while those with maturity of less than one year have declined 3.9%.

## Loan Share according to Maturity Profile (Q1-20 Vs. Q1-19)

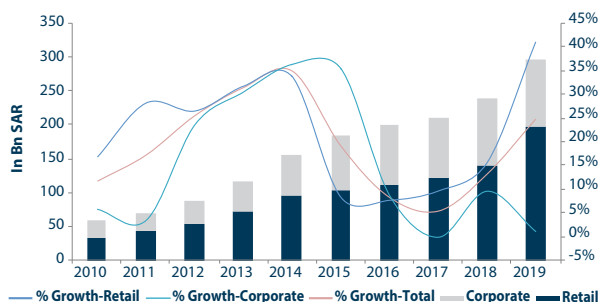


Source: SAMA, Argaam, Aljazira Research

The share of loans with maturity of less than one year plunged to 42.5% in Q1-20 from 49.5% in Q1-19.



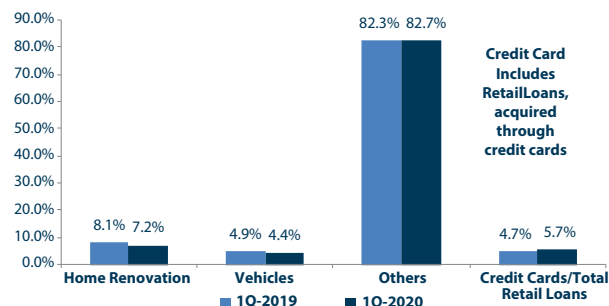
## Real Estate Loan Historicals



Source: SAMA, Argaam, Aljazira Research

In Q1-20, the retail and corporate sectors accounted for 68.4% and 31.6% of total real estate loans, respectively.

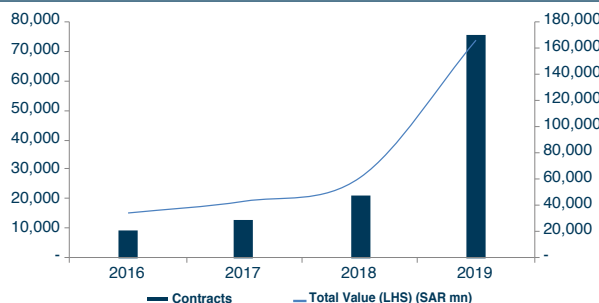
## Retail Loans-Break down (Q1-20 Vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

Loans for home renovation financing accounted for 7.2% in Q1-20. Retail loans acquired through credit cards constituted 5.7% in Q1-20, a jump from 1.0% in Q1-19.

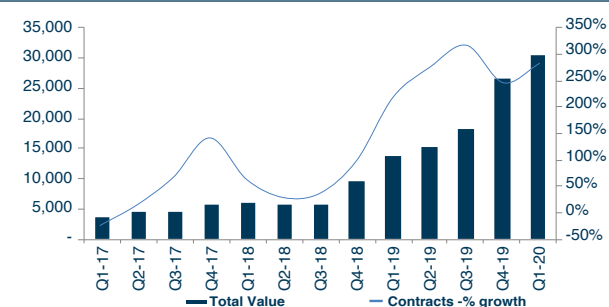
## Mortgage (Contracts and Total Value) Historicals



Source: SAMA, Argaam, Aljazira Research

Mortgage contracts increased 263% Y/Y to 170.3k, while the total value rose 173% Y/Y to SAR 73.9bn.

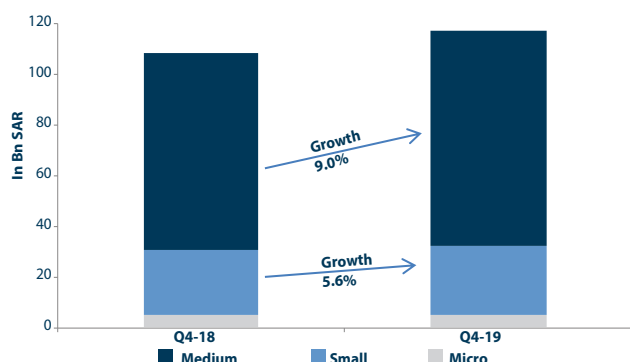
## Contract Value and Growth (Quarterly)



Source: SAMA, Argaam, Aljazira Research

New contracts in Q1-20 stood at 69.5k with a value of SAR 30.5bn, up 120% Y/Y.

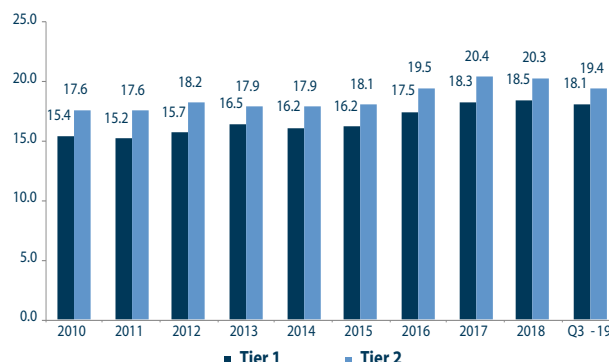
## Credit Facilities to SME (SAR mn) (Q4-19 vs. Q4-18)



Source: SAMA, Argaam, Aljazira Research

Total credit facilities to SMEs increased 8.1% Y/Y to SAR 117.3bn, while those to medium enterprises rose 9.0% Y/Y to SAR 85.2bn.

## Capital Adequacy Ratio (Historicals)

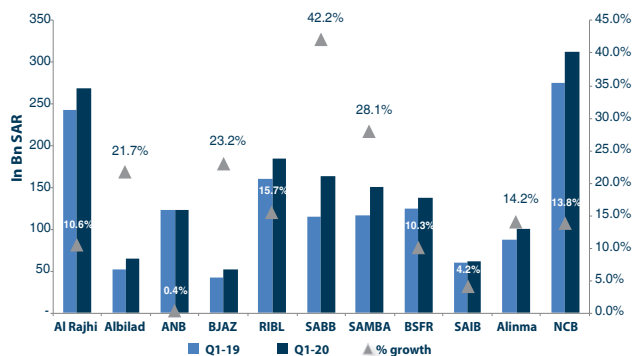


Source: SAMA, Argaam, Aljazira Research

The Tier 1 capital ratio declined to 18.1% in Q4-19 from 18.5% in Q4-18, while the Tier 2 ratio decreased to 19.4% in Q4-19 from 20.3% in Q4-18.



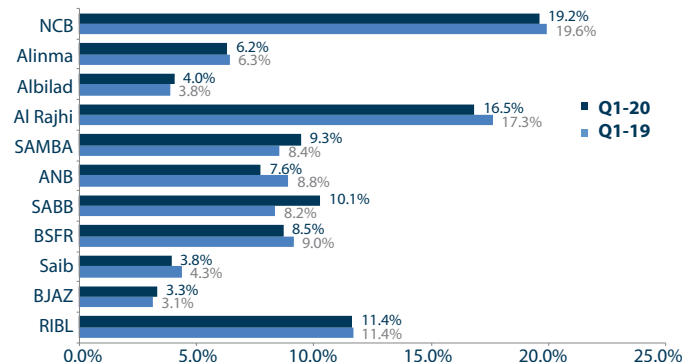
## Bank wise Loans Distribution (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

All the 11 banks in the sector registered Y/Y increases in gross loans. SABB's loan book registered the highest increase of 42.2% Y/Y in Q1-20, further strengthening its market share.

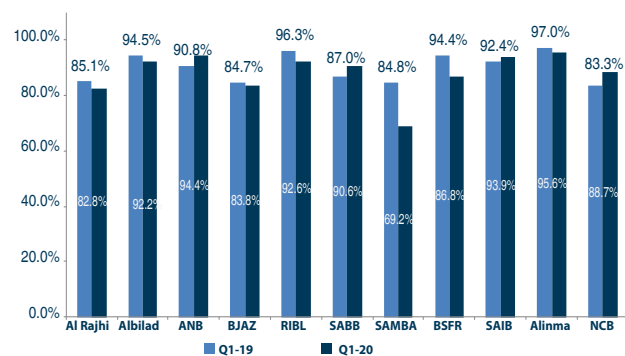
## Bank wise Market Share (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

NCB witnessed a decline in market share to 19.2% in Q1-20 from 19.6% in Q1-19. Market share of Al Rajhi Bank fell to 16.5% in Q1-20. SABB was the biggest gainer in terms of market share in the loans market.

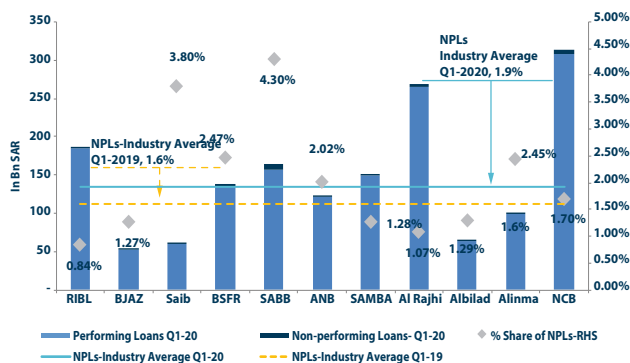
## Bank wise ADR ratio (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

The industry ADR ratio stood at 88.5% in Q1-20 compared to 87.0% in Q1-19. Bank Alinma posted the highest ADR ratio of 97.0%, followed by RIBL at 96.3% in Q1-20.

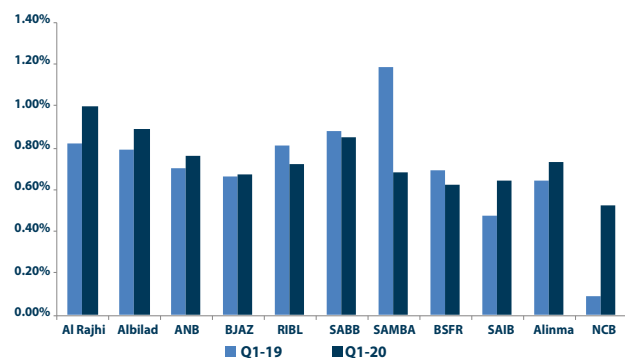
## Performing Loans to NPLs



Source: SAMA, Argaam, Aljazira Research

The sector's NPL ratio jumped to 1.91% in Q1-20 from 1.63% in Q1-19. The NPL coverage ratio decreased to 141% in Q1-20 from 171% in Q1-19.

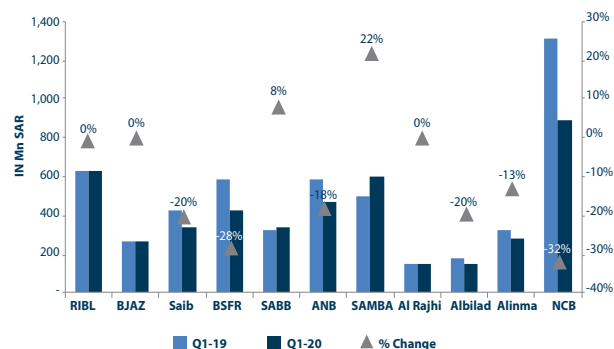
## Bank wise NIM (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

The sector's average NIMs rose to 0.74% in Q1-20 Vs. 0.70% in Q1-19. SAMBA registered the highest quarterly NIM of 1.18% in Q1-20, an increase from 0.68% in Q1-19.

## Absolute Return on Saving and Time Deposits

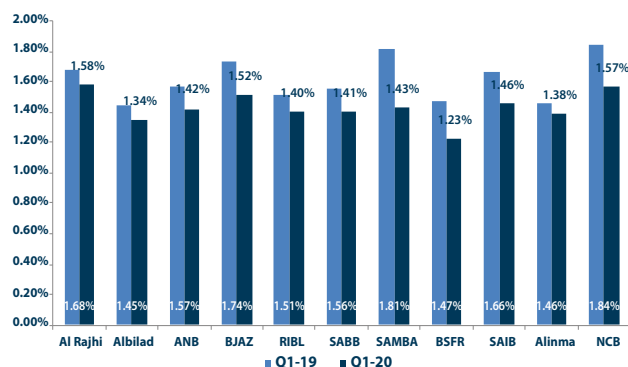


Source: SAMA, Argaam, Aljazira Research

The sector's quarterly return on savings and time deposits decreased 13.7% Y/Y in Q1-20. NCB recorded the highest return on time and savings deposit expense at 1.04%.



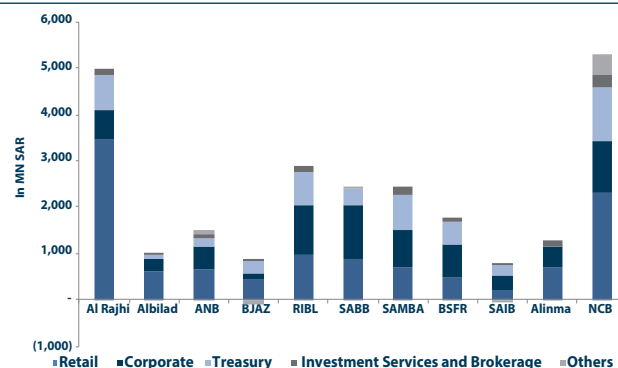
## Bank wise Lending rates (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

The average lending rate stood at 1.43% in Q1-20 as compared to 1.61% in Q1-19. Al Rajhi had the highest lending rate of 1.58%, followed by NCB at 1.57%.

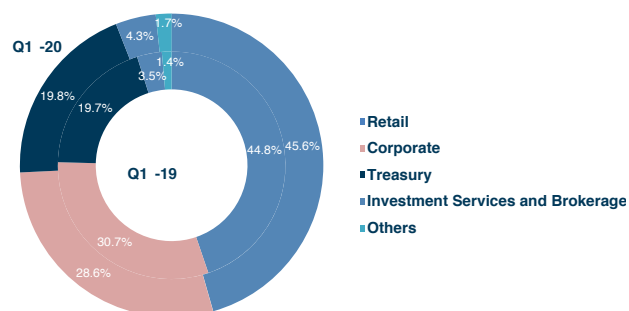
## Company wise Operating Income – Q1-20



Source: SAMA, Argaam, Aljazira Research

NCB, with an operating income of SAR 5.3bn, contributed 21.2% to total sector earnings in Q1-20, followed by Al Rajhi's contribution of 19.8% with earnings of SAR 5.0bn.

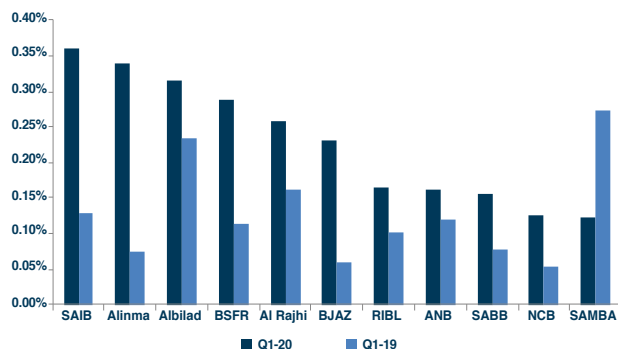
## Operating Income Break Down (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

The sector's operating income jumped 7.4% Y/Y to SAR 25.0bn in Q1-20, with retail sector accounting for 45.6%. On Q/Q basis, operating income fell 2.3%.

## Company wise Cost of Risk (Q1-20 vs. Q1-19)



Source: SAMA, Argaam, Aljazira Research

The average cost of risk increased to 0.23% in Q1-20 Vs. 0.13% in Q1-19. Saudi Investment Bank posted the highest cost of risk of 0.36% in Q1-20, an increase from 0.13% in Q1-19.





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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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