

SECTOR UPDATE

Q1 2023

Shifting towards corporate loans

We maintain our positive outlook on the Saudi banking sector. In general, we prefer banks with corporate tilt benefiting from Mega-projects' driven loan growth and higher interest rates. Moreover, the sector's CoR is expected to remain stable due to healthy asset quality metrics while support to profitability to come from the rationalization of C-I ratios. For retail banks, we expect pressure on margins given the slower re-pricing of relatively longer-duration retail loans. We note that the higher cost of funds due to the tight liquidity (indicated by LDR of 81%) remains the main concern. We expect the sector (based on the stocks under coverage) to deliver 2021-2024f earnings CAGR of c16%. We upgrade Alinma and BSFR to OW, while maintaining a Neutral rating on Rajhi, Bilad, and BJAZ. The sector trades at 2023f P/B of 1.7x (in-line with the last 10-yr avg of 1.6x) and dividends yield of 4.0%.

- Higher interest rates to benefit corporate banks**

The Fed raised the benchmark rates 7 times in 2022 to 4.25-4.50%. The market consensus projects the rate to exceed 5.0% in 2023f, driven by the Fed's hawkish tone. Accordingly, our assumption reflects another 75bps rate hike in 2023f and monetary easing from 2024f. We believe the ongoing rate hikes bode well for corporate-focused banks, such as Alinma (75% of total loans) and BSFR (82%). On the other hand, we expect margins for the retail banks to come under pressure as retail loans are usually priced at a fixed rate with minimum durations of 3-5 years (mortgages have even higher maturity). Moreover, the prevailing tight liquidity in the sector (indicated by higher LDR) is expected to increase CoF and put additional pressure on margins. Based on our covered stocks, we expect the sector's margins to decline from 3.4% in 2021 to 3.2% in 2022f and then increase to 3.4% in 2023f.

- Corporate loans - the growth driver in 2023f**

Despite higher interest rates, we expect loan growth to remain robust in 2023f with a major shift from retail to corporate. We believe credit demand for the corporate sector will remain strong in 2023f as progress on Mega-projects accelerates. Meanwhile, we estimate mortgage contribution to decline to c30% of new loans in 2023f vs c55% and c40% in 2021 and 2022f, respectively. Overall, we forecast the sector to record a strong loan growth of 12.5% yoy in 2023f, following the remarkable growth levels of c15.5% and c15.0% in 2021 and 2022f, respectively.

- Cost of risk to remain low, strong sector's earnings growth to continue**

The asset quality metrics remain strong for the sector (NPL of 1.6%, Coverage ratio of 134%). Consequently, we expect CoR to remain low at 0.6% in 2023f vs 0.7% and 0.6% in 2021 and 2022f. For C-I, the ongoing digitalization trend is expected to increase efficiency and support earnings. We expect C-I to decline from 31% in 2022f to 29% in 2023f. Overall, we expect the earnings of covered stocks to grow by c14.5% in 2023f, while a CAGR of 16.0% during 2021-2024f.

- Remain positive on the sector; prefer Alinma and BSFR**

We remain positive on the sector, with a preference for corporate banks. We upgrade Alinma and BSFR to OW while remaining Neutral on Rajhi, Bilad, and BJAZ. The sector trades at 2023f P/B of 1.7x, in line with the 10-year avg of 1.6x.

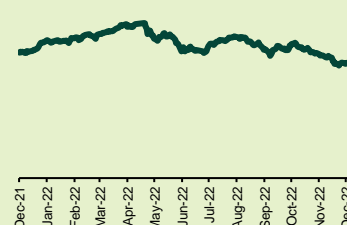
Valuation Summary

		PT	CMP	Up/	MCap	P/E (x)	P/B (x)	Div Yield	ROE (%)
	Rating	(SAR)	(SAR)	Downside (%)	(\$ mn)	2023f	2023f	(%)2023f	2023f
Rajhi	Neutral	85.2	77.3	10.3	82,249	16.5	3.2	3.9	19.9
Alinma	Overweight	38.3	33.0	16.1	17,600	14.0	2.1	4.1	15.8
BSFR	Overweight	46.6	40.4	15.4	12,953	11.2	1.3	4.7	11.6
Bilad	Neutral	43.3	44.4	(2.5)	11,210	17.8	2.8	1.7	16.6
BJAZ	Neutral	19.6	19.4	0.9	4,240	16.5	1.3	3.3	8.1

Source: SNB Capital Research estimates. All prices as of 04 January 2023

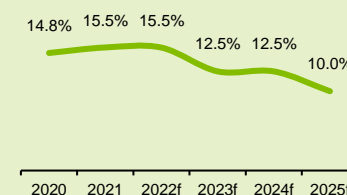
Please refer to the last page for an important disclaimer

PERFORMANCE – YTD



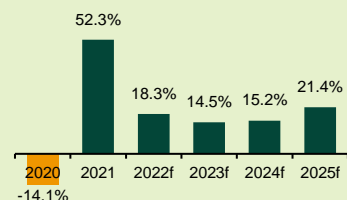
Source: Saudi Exchange, SNB Capital Research

SECTOR LOAN GROWTH



Source: SAMA, SNB Capital Research

PROFITABILITY GROWTH



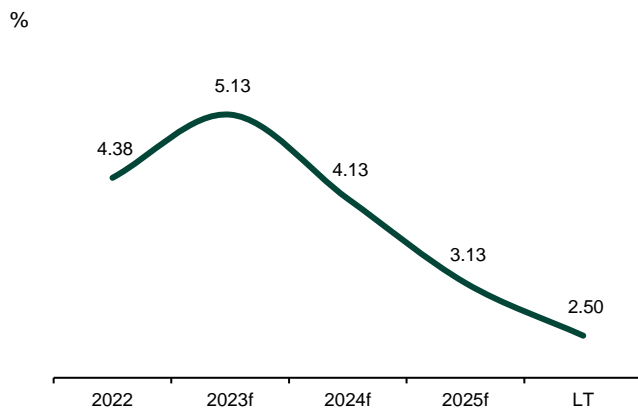
Source: Company Report, SNB Capital Research, Based on SNB Capital Coverage universe

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Sector themes

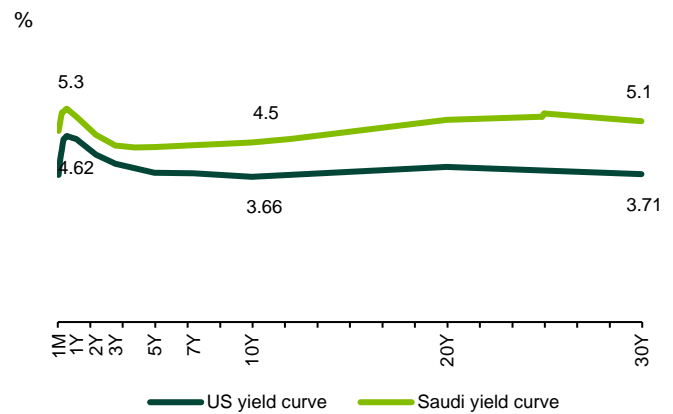
Higher interest rates to benefit corporate banks

Exhibit 1: The Fed dot-plot – Interest rates to peak in 2023f



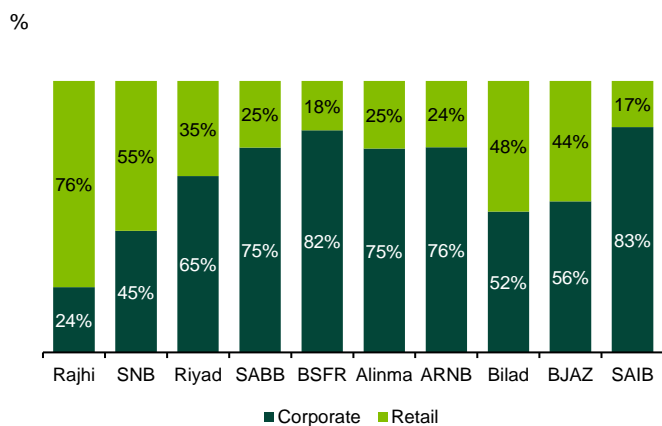
Source: Bloomberg, SNB Capital Research

Exhibit 2: Yield curves also suggest rates to peak in 2023f



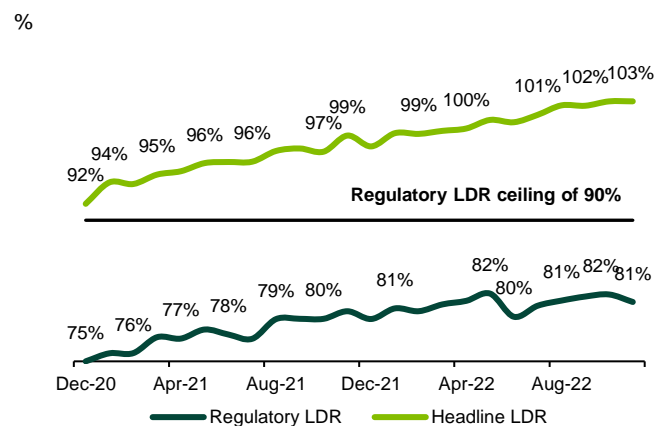
Source: Bloomberg, SNB Capital Research

Exhibit 3: Corporate banks to benefit from higher rates



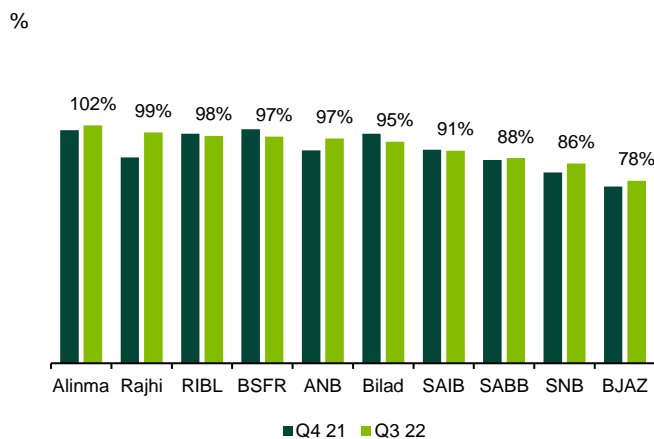
Source: Company reports, SNB Capital Research, Loan break-up as of Q3 22

Exhibit 4: However, the sector liquidity tightened significantly which may pressure CoF



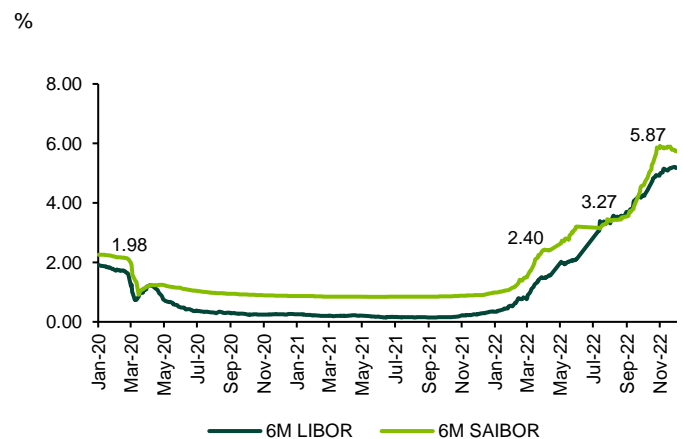
Source: SAMA, SNB Capital Research

Exhibit 5: Banks with higher LDR to be impacted the most



Source: Company reports, SNB Capital Research, include sukuk

Exhibit 6: LIBOR-SAIBOR spread has also widened

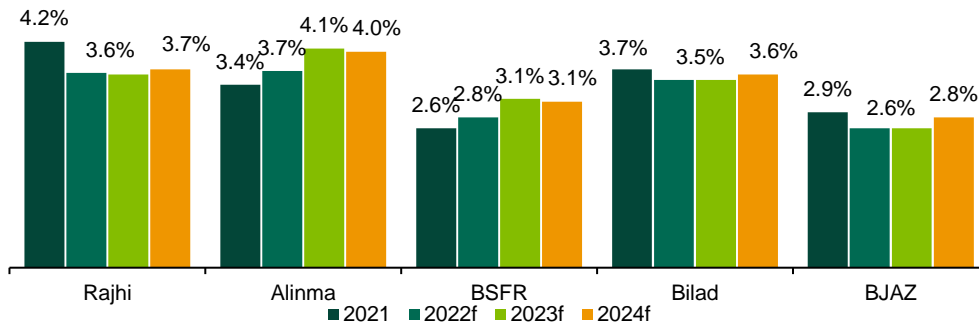


Source: Bloomberg, SNB Capital Research

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Exhibit 7: 2023f NIMs expansion to be led by corporate focused banks

%

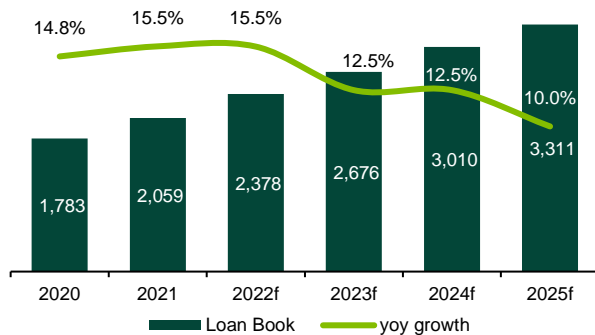


Source: Company reports, SNBC Capital Research

Corporate loans to drive growth in 2023f

Exhibit 8: Loan growth to remain strong...

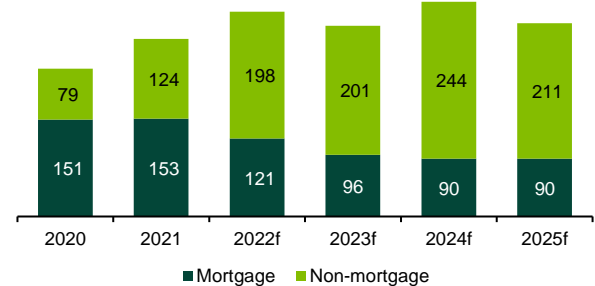
SAR bn, %



Source: SAMA, SNB Capital Research

Exhibit 9: ...but non-mortgage will drive growth

SAR bn

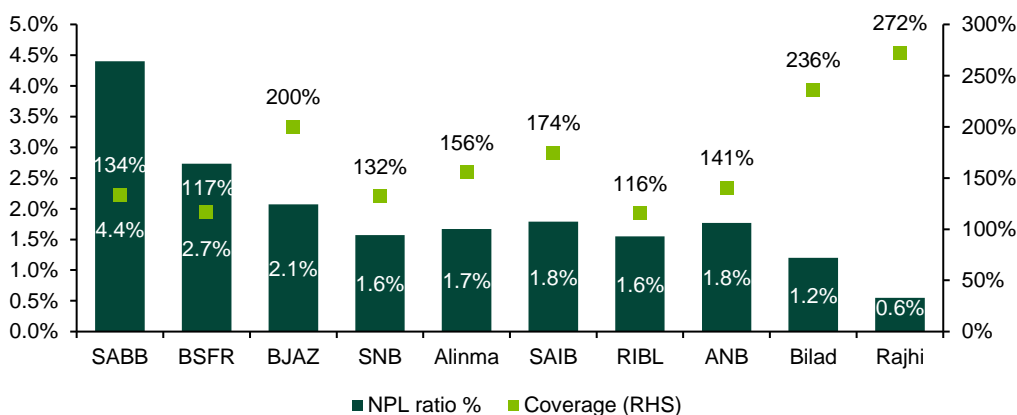


Source: SAMA, SNB Capital Research

Asset quality metrics remain strong

Exhibit 10: NPL and coverage ratios (Q3 22)

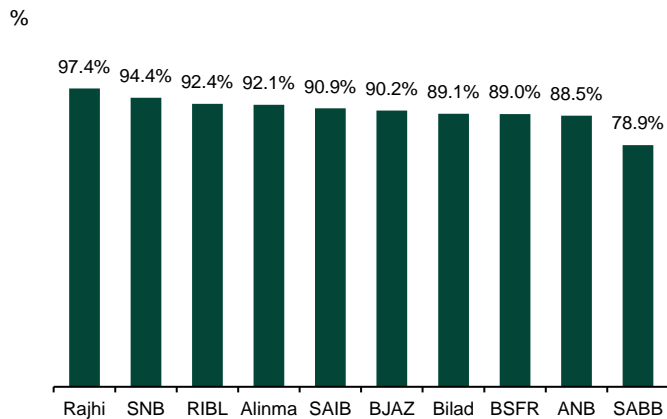
%



Source: Company reports, SNBC Capital Research

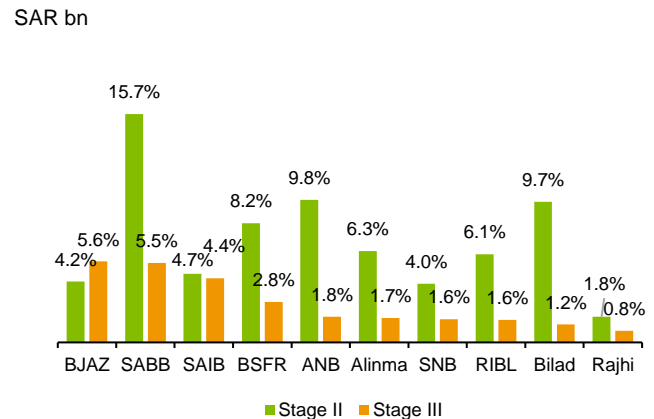
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Exhibit 11: Majority of the loans are in Stage I (Q3 22)



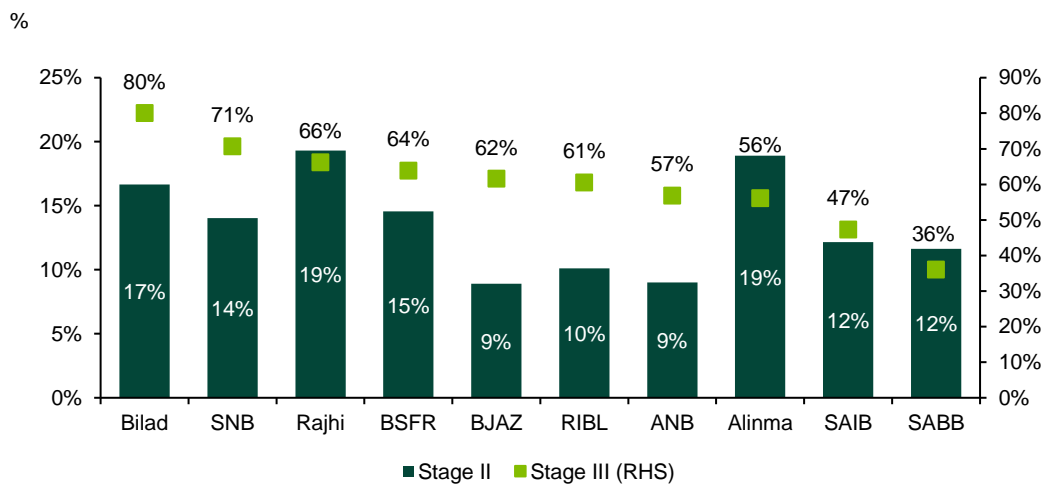
Source: Company Reports, SNB Capital Research, RIBL and ANB numbers are based on Q4 21

Exhibit 12: BJAZ has the highest loans in Stage III (Q3 22)



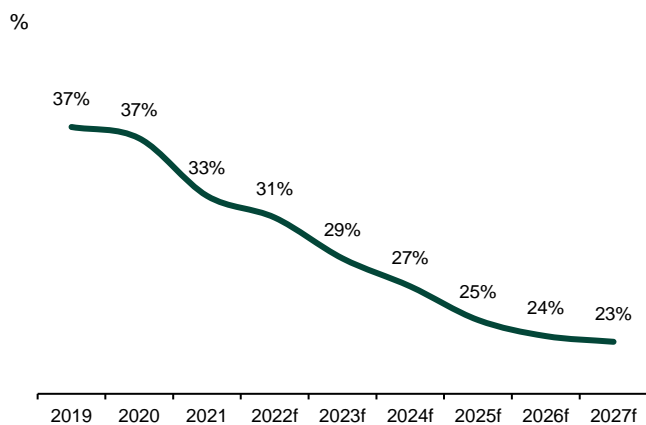
Source: Company Reports, SNB Capital Research, RIBL and ANB numbers Stage II are based on Q4 21, while Stage III is taken as NPL

Exhibit 13: AlBilad has the highest stage III coverage



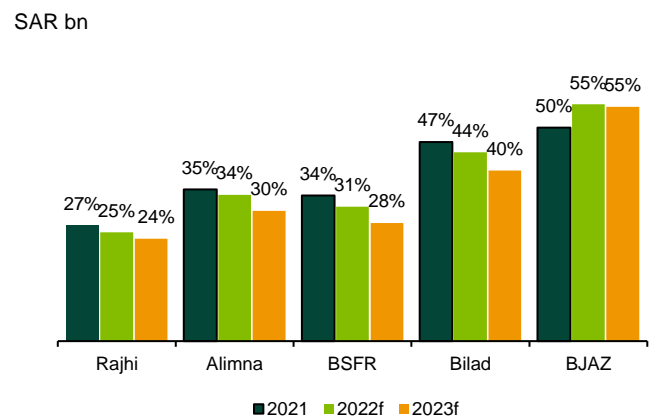
Source: Company reports, SNBC Capital Research

Exhibit 14: C-I ratio to decline given the on-going digitalization efforts



Source: Company Reports, SNB Capital Research, Based on stocks' under coverage

Exhibit 15: BJAZ has the highest C-I ratio in the sector, while Rajhi has the lowest

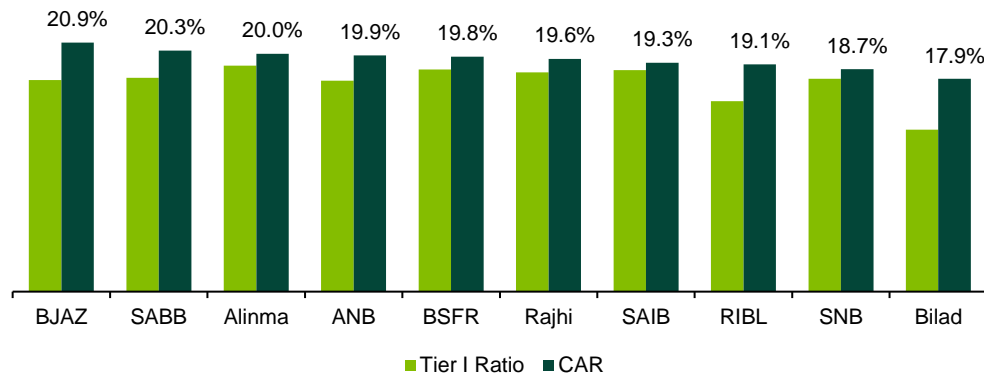


Source: Company Reports, SNB Capital Research

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Exhibit 16: The sector is adequately capitalized (Q3 22)

%



Source: Company reports, SNBC Capital Research

The sector profitability: Ongoing growth

In 2022f, we expect the combined net income for the stocks under coverage to reach SAR27.9bn (+18.3% yoy) due to 1) strong growth in the loan book and 2) lower provisioning. Furthermore, the ongoing digitalization efforts have also helped in rationalizing the cost base. In 2023f, we expect another strong year with net income increasing by 14.5% yoy to SAR32.0bn. The growth will be driven by better margins (particularly of corporate banks) and relatively strong loan growth (12.5% yoy). We also expect the C-I ratio to continue to moderate, while we CoR to remain stable.

Exhibit 17: Earnings of stocks undercoverage

SAR mn	2021	2022f	yoy %	2023f	yoy %	2024f	yoy %
Alinma	2,709	3,836	41.6%	5,027	31.1%	5,703	13.4%
BSFR	3,450	3,742	8.5%	4,540	21.3%	5,053	11.3%
Rajhi	14,746	17,175	16.5%	18,786	9.4%	21,729	15.7%
Bilad	1,687	2,091	24.0%	2,501	19.6%	2,999	19.9%
BJAZ	1,006	1,066	6.0%	1,109	4.1%	1,350	21.7%
Total	23,598	27,909	18.3%	31,963	14.5%	36,835	15.2%

Source: Company reports, SNB Capital Research

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Change in Estimates

Exhibit 18: Changes in estimates

		Old 2022f	New 2022f	% Chg	Old 2023f	New 2023f	% Chg
Alinma							
Loans	SAR mn	139,198	143,198	2.9%	150,485	161,085	7.0%
Revenue	SAR mn	7,748	8,096	4.5%	9,432	9,489	0.6%
Net profit	SAR mn	3,727	3,836	2.9%	5,186	5,027	(3.1)%
PT	SAR				38.2	38.3	0.3%
BSFR							
Loans	SAR mn	167,854	158,710	(5.4)%	187,738	171,117	(8.9)%
Revenue	SAR mn	8,239	8,230	(0.1)%	10,356	9,347	(9.7)%
Net profit	SAR mn	3,501	3,742	6.9%	5,079	4,540	(10.6)%
PT	SAR				49.9	46.6	(6.6)%
AlRajhi							
Loans	SAR mn	553,502	568,639	2.7%	636,608	665,546	4.5%
Revenue	SAR mn	31,363	28,857	(8.0)%	36,489	33,351	(8.6)%
Net profit	SAR mn	18,802	17,175	(8.7)%	21,954	18,786	(14.4)%
PT	SAR				94.3	85.2	(9.7)%
Albilad							
Loans	SAR mn	97,507	94,611	(3.0)%	112,127	106,422	(5.1)%
Revenue	SAR mn	5,547	5,148	(7.2)%	6,393	5,548	(13.2)%
Net profit	SAR mn	2,269	2,091	(7.9)%	2,825	2,501	(11.5)%
PT	SAR				47.7	43.3	(9.2)%
BJAZ							
Loans	SAR mn	69,978	69,090	(1.3)%	77,000	73,935	(4.0)%
Revenue	SAR mn	3,908	3,491	(10.7)%	4,253	3,623	(14.8)%
Net profit	SAR mn	1,371	1,066	(22.3)%	1,610	1,109	(31.1)%
PT	SAR				26.3	19.6	(25.5)%

Source: SNB Capital Research estimates

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Remain positive on the sector; prefer Alinma and BSFR

We believe the outlook of the Saudi Banking Sector is positive. The sector is trading at 2023f P/B of 1.7x, in line with the last 10-year average of 1.6x. For sector positioning, we prefer corporate-focused banks which will benefit from high-interest rates and Mega-projects' loan growth. For retail-focused banks, we expect margins to come under pressure given the limited ability to re-price the loan book. Furthermore, tight liquidity, reflected by LDR of 81.3% as of November 2022 (vs 79.5% in 2021 and 75% in 2020) should have a negative impact on margins.

Accordingly, we upgrade Alinma and BSFR to OW, while remaining Neutral on Rajhi, Bilad, and BJAZ.

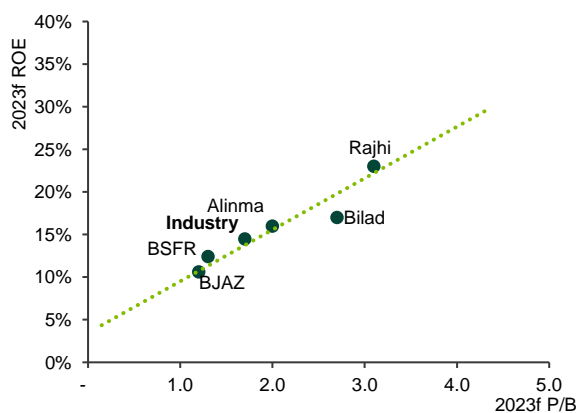
Exhibit 19: Valuation Summary

	Rating	PT (SAR)	CMP (SAR)	Up/Downside (%)	MCap (\$ mn)	P/E (x) 2023f	P/B (x) 2023f	Div Yield (%) 2023f	ROE (%) 2023f
Rajhi	Neutral	85.2	77.3	10.3	82,249	17.2	3.2	3.9	19.9
Alinma	Overweight	38.3	33.0	16.1	17,600	14.0	2.1	4.1	15.8
BSFR	Overweight	46.6	40.4	15.4	12,953	11.2	1.3	4.7	11.6
Bilad	Neutral	43.3	44.4	(2.5)	11,210	17.8	2.8	1.7	16.6
BJAZ	Neutral	19.6	19.4	0.9	4,240	16.5	1.3	3.3	8.1

Source: SNB Capital Research estimates. All prices as of 04 January 2023

Exhibit 20: ROE vs P/B

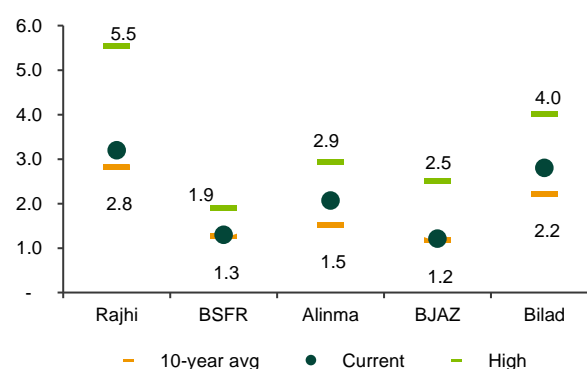
x, %



Source: Bloomberg, company reports, SNBC Capital Research

Exhibit 21: Valuations reverting to 10-year average (P/B)

x



Source: Bloomberg, company reports, SNBC Capital Research

Q1 23 – RATING CHANGE

Strong corporate portfolio to drive growth

We upgrade Alinma to Overweight with a revised PT of SAR38.3. We believe the bank is favorably positioned in this hawkish interest rate environment given its corporate tilt. Moreover, we believe the bank is one of the prime beneficiaries of Mega-project-related credit demand due to its focus on project finance. We expect Alinma's loan growth to remain strong, with a growth of 12% yoy in 2023f, after posting a solid growth of 13% yoy in 2022f. Metrics of asset quality also strengthened as 1) the NPL ratio improved to 1.7% in Q3 22 (vs 1.9% in Q2 22) and 2) the coverage ratio increased to 156% (vs 150% in Q2 22). Going forward, we expect the NPL ratio to be at c1.7%, while the coverage ratio will sequentially improve to 158.2% in 2024f. Accordingly, we expect the cost of risk to tend towards c0.6% in 2024f. We project Alinma to deliver earnings CAGR (adjusted for Tier I Sukuk) of 26.8% between 2021-2024f, with ROE improving from 10.8% in 2021 to 16.2% in 2024f. The stock is trading at 2023f P/B of 2.1x, at a premium to the industry and the last 10 years' average of 1.7x. We believe the premium is justified due to the expected improvement of ROE.

Key risks

- **Slower-than-expected loan growth:** We expect the bank to be one of the major beneficiaries of higher corporate lending driven by Vision 2030-related projects. Slower than expected growth or lower market share is the key risks.
- **Asset quality deterioration:** Alinma has one of the largest exposures to the real-estate construction sector. Although we expect the construction activity to remain relatively strong, any slowdown would negatively impact our valuations. We have reduced the cost of risk from 1.1% in 2021 to 0.6% in 2024f, as we have kept the NPL ratio in the range of 1.7% (vs an average of 2.0% between 2019-21) and improved the coverage ratio to 158.2% in 2024f from 150% in Q2 22.
- **Tight liquidity position:** The bank's LDR ratio has increased to 102% in Q3 22, indicating a tightened liquidity position. We expect this to increase its cost of funds as it attracts expensive time deposits/Sukuk issuance to fund its loan growth.

Valuation

- We are Overweight on Alinma with a PT of SAR38.3. To determine our PT, we have assigned 50% weight to each residual income and relative P/B valuations. This represents an upside of 16.1% from the current market price of SAR33.0.

Valuation Summary

			PT	Weights
Risk free (US 10-year)	3.7%	Residual Income	38.6	50%
Adj. Beta (3-year weekly)	1.1	P/B	38.0	50%
Cost of Equity	10.6%			
Terminal Growth rate	3.0%	Price Target (SAR)	38.3	

Source: SNB Capital Research estimates

Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Total Revenues	6,667	8,096	9,489	10,219	15.3%
Pre-provision profit	4,302	5,329	6,600	7,346	19.5%
PPP margin (%)	65%	66%	70%	72%	-
Net income	2,709	3,836	5,027	5,703	28.2%
Net Margin (%)	41%	47%	53%	56%	-
Net income (adj. for Tier 1 Sukuk)	2,603	3,636	4,727	5,303	26.8%
EPS (adj. for Tier 1 Sukuk)	1.3	1.8	2.4	2.7	26.8%
Loans & advances	126,271	143,198	161,085	181,212	12.8%

Source: The company, SNB Capital Research estimates

Overweight

Price target (SAR)	38.3
Current price (SAR)	33.0
Upside/Downside (%)	16.1%

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	25.4	18.2	14.0
P/B (x)	2.6	2.3	2.1
Div Yield (%)	1.2	2.9	4.1

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

	%
PIF	10.0
Foreign Investors	17.6

Source: Saudi exchange as of 04 January 2022

STOCK DETAILS

M52-week range H/L (SAR)	42.5/24.7
Market cap (\$mn)	17,556.5
Shares outstanding (mn)	2,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.1	(12.5)	32.3
Rel. to market	0.8	(3.1)	38.4

Avg daily turnover (mn)	SR	US\$
3m	153.6	40.9
12m	270.0	71.8

Reuters code	1150.SE
Bloomberg code	ALINMA AB
	www.alinma.com

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Financials

Exhibit 22: Income Statement

In SAR mn

	2021	2022f	2023f	2024f
Net Sp. Comm. Income	5,137	6,283	7,845	8,574
Net Interest Margin (%)	3.4%	3.7%	4.1%	4.0%
Change (%)	10.5%	22.3%	24.9%	9.3%
Fee Income	1,085	1,179	1,187	1,170
Forex income	215	258	270	284
Investment Income	129	254	139	146
Other Operating Income	101	122	48	44
Operating Income	6,667	8,096	9,489	10,219
Growth (%)	16.3%	21.4%	17.2%	7.7%
Pre-provision expenses	2,365	2,766	2,890	2,873
Pre-Provision Profits	4,302	5,329	6,600	7,346
Growth	19.0%	23.9%	23.8%	11.3%
Provision	1,252	1,054	989	982
Others provisioning	15	(1)	(1)	(1)
Others income/(expense)	(14)	2	6	6
Net Income before zakat	3,022	4,279	5,617	6,372
Zakat	312	443	590	669
Net Income	2,709	3,836	5,027	5,703
Net Income Margin (%)	40.6%	47.4%	53.0%	55.8%
Change (%)	37.8%	41.6%	31.1%	13.4%
Net In. (adj for Tier 1)	2,603	3,636	4,727	5,303
EPS (adj for Tier I)	1.3	1.8	2.4	2.7
DPS	0.4	1.0	1.4	1.6

Source: Company reports, SNB Research estimates

Exhibit 23: Balance Sheet

In SAR mn

	2021	2022f	2023f	2024f
Cash & bal with SAMA	9,177	13,675	17,078	19,967
Due from Banks	738	627	565	593
Investments, net	33,278	38,269	40,183	42,192
Loans and advances, net	126,271	143,198	161,085	181,212
Net Fixed Assets	2,383	2,587	2,681	2,685
Other assets	1,629	1,466	1,503	1,540
Total assets	173,476	199,823	223,094	248,189
Due to Banks	15,240	23,622	24,803	26,043
Customer Deposits	121,061	135,588	151,858	170,081
Other liabilities	6,465	7,062	7,554	8,083
Total liabilities	142,765	166,271	184,215	204,208
Share capital	20,000	20,000	20,000	20,000
Reserves	5,711	8,552	11,379	13,982
Total stockholders' funds	25,711	28,552	31,379	33,982
Sukuk Tier I	5,000	5,000	7,500	10,000
Total liabilities & equity	173,476	199,823	223,094	248,189

Source: Company reports, SNB Research estimates

Exhibit 24: Key Ratios

In SAR mn

	2021	2022f	2023f	2024f
Per Share Ratios				
Earnings per share	1.3	1.8	2.4	2.7
Book value per share	12.9	14.3	15.7	17.0
DPS	0.4	1.0	1.4	1.6
Profitability ratios				
Yield on earning assets	3.8	4.5	5.9	5.8
Cost of funds	0.4	0.9	2.0	1.9
Net Interest spread	3.4	3.6	3.9	3.9
Net interest margin	3.4	(2.6)	(1.9)	(2.0)
Cost to income	35.5	34.2	30.5	28.1
Asset Quality (%)				
NPL ratio	1.8	1.7	1.7	1.7
Net NPLs	(1.3)	(1.0)	(1.0)	(1.0)
NPL coverage	177	160	159	158
Cost of risk	1.1	0.8	0.7	0.6
Return ratios (%)				
ROE	10.8	13.4	15.8	16.2
ROA	1.6	1.9	2.2	2.3
Payout Ratio	29.3	52.3	57.1	60.3
Capital Ratios (%)				
Tier I	21.6	17.1	16.8	16.3
CAR	22.8	18.1	17.7	17.1
Growth Rates (yoy) (%)				
Loan growth	13.6	13.4	12.5	12.5
Deposit growth	1.3	12.0	12.0	12.0
Asset growth	10.6	15.2	11.6	11.2
Earnings growth	37.8	41.6	31.1	13.4
Other Ratios (%)				
Loan/Deposits	100	102	101	101
Loans/ total Assets	72.8	71.7	72.2	73.0
Liquid asset/total asset	10.0	11.4	11.9	12.1
Deposits/ total funding	84.8	81.5	82.4	83.3
Valuation ratios (x)				
P/E	25.4	18.2	14.0	12.0
P/B	2.6	2.3	2.1	1.9
Div. yield (%)	1.2	2.9	4.1	4.8

Source: Company reports, SNB Research estimates, EPS, ROE, ROA, Payout Ratio, P/E is based on Net income adjusted for Tier I. Loan/Deposit ratio include Sukuk and other debt offering

Q1 23- RATING CHANGE

Corporate portfolio to benefit from rising interest rates

We upgrade BSFR to Overweight with a PT of SAR46.6. The bank is amongst our preferred picks driven by its higher exposure to the corporate segment. Last year the bank reduced its interest rate hedge, increasing its margins sensitivity to rising interest rates. Asset quality has marginally declined to 2.73% in Q3 22 vs 2.48% in Q2 22. While the coverage ratio of 117% (as of Q3 22) is one of the lowest in the industry (average of 134%), which remains a concern. We expect the bank to increase its coverage ratio, leading to elevated CoR. We have factored in a CoR of 0.9% each for 2023f and 2024f, in-line 2022f. We expect the bank to deliver a 4-year earnings CAGR of 14.3% (adjusted for Tier I Sukuk), with average ROE of 10.8%. The stock is trading at 2023f P/B of 1.3x, in line with the 10-year average of 1.3x and discount to the sector average of 1.7x. We expect the bank to maintain a 60% payout in 2023f, which translate into a dividend yield of 4.7%.

Key risks

- **Slower-than-expected loan growth:** We expect the bank to be one of the main beneficiaries of higher corporate lending driven by Vision 2030-related projects. Slower than expected growth or lower market share is a key risk.
- **Asset quality deterioration:** We expect the cost of risk to rise to 0.9% in 2023f (similar to 2022f), while we have kept the NPL ratio at 2.8% for 2023f (vs an average of 2.7% during 2017-2021). However, the bank has one of the lowest coverage ratios in the industry, and we expect it to increase in line with the industry average.
- **Tight liquidity position:** The bank's LDR ratio increased from 80% in 2017 to 97% in Q3 22, indicating a tightened liquidity position. We expect this to increase its cost of funds as it attracts expensive time deposits/Sukuk issuance to fund loan growth.

Valuation

- We are Overweight on BSFR with a PT of SAR46.6, representing an upside of 15.2%. To determine our PT, we have assigned 50% weight to each residual income and relative P/B valuations.

Valuation Summary

			PT	Weights
Risk free (US 10-year)	3.7%	Residual Income	41.5	50%
Adj. Beta (3-year weekly)	1.0	P/B	51.6	50%
Cost of Equity	10.5%			
Terminal Growth rate	3.0%	Price Target (SAR)	46.6	

Source: SNB Capital Research estimates

Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Total Revenue	7,188	8,230	9,347	9,892	11.2%
Pre-provision profit	4,741	5,648	6,768	7,217	15.0%
PPP margin (%)	66%	69%	72%	73%	
Net income	3,450	3,742	4,540	5,053	13.6%
Net Margin (%)	48%	45%	49%	51%	
Net income (adj. for Tier I)	3,246	3,538	4,335	4,849	14.3%
EPS (adj. for Tier I)	2.7	2.9	3.6	4.0	14.3%
Loans & advances	147,813	158,710	171,117	183,825	7.5%

Source: The company, SNB Capital Research estimates

OVERWEIGHT

Price target (SAR)	46.6
Current price (SAR)	40.4
Upside/Downside (%)	15.2%

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	15.0	13.8	11.2
P/B (x)	1.4	1.3	1.3
Div Yield (%)	3.7	4.1	4.7

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

	%
Kingdom Holding Co.	16.2
Al Rashed Group	9.8
Foreign Investors	10.4

Source: Saudi exchange as of 04 January 2022

STOCK DETAILS

M52-week range H/L (SAR)	57.2/36.0
Market cap (\$mn)	12,953.6
Shares outstanding (mn)	1,199.6
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.5	(5.4)	(12.7)
Rel. to market	(0.8)	3.9	(6.6)

Avg daily turnover (mn)	SR	US\$
3m	17.5	4.7
12m	47.2	12.76

Reuters code	1050.SE
Bloomberg code	BSFR AB
	www.alfransi.com.sa

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Financials

Exhibit 25: Income Statement

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Net Interest Income	5,373	6,316	7,477	7,962
Change (%)	2.5	17.5	18.4	6.5
Fee income	1,213	1,198	1,187	1,219
Forex Income	336	403	424	445
Investment Income	172	175	178	181
Other Operating income	93	138	81	85
Operating income	7,188	8,230	9,347	9,892
Change (%)	2.0	14.5	13.6	5.8
Pre-prov operating exp.	2,447	2,582	2,578	2,675
Pre-provision profits	4,741	5,648	6,768	7,217
Growth (%)	1.3	19.1	19.8	6.6
Provisions	1,021	1,479	1,598	1,527
Other Provisions	(118)	(3)	12	13
Other income/exp	-	-	-	-
Net income before zakat	3,837	4,172	5,159	5,678
Taxes & Zakat	388	430	619	625
Net income	3,450	3,742	4,540	5,053
Net income Margin (%)	48.0	45.5	48.6	51.1
Change (%)	123	8.5	21.3	11.3
Net in.(adj. for Tier I)	3,246	3,538	4,335	4,849
EPS (adj. for Tier I)	2.7	2.9	3.6	4.0
DPS	1.5	1.9	2.2	2.5

Source: Company reports, SNB Capital Research estimates

Exhibit 26: Balance Sheet

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Cash and bal with SAMA	9,795	12,052	18,461	26,529
Due from banks	5,324	4,925	4,678	4,445
Investments, net	43,858	43,946	44,034	44,122
Loans and advances, net	147,813	158,710	171,117	183,825
Other assets	4,950	8,722	8,600	8,531
Total assets	215,802	228,355	246,890	267,451
Due to banks	23,854	19,535	19,013	18,592
Customers' deposits	141,950	156,145	171,760	188,936
Borrowings	-	-	-	-
Other liabilities	10,312	11,372	12,591	13,993
Total liabilities	176,116	187,052	203,364	221,520
Share Capital	12,054	12,054	12,054	12,054
Reserves	22,632	24,249	26,472	28,877
Total Equity	34,686	36,303	38,526	40,931
Tier-I Sukuk	5,000	5,000	5,000	5,000
Total equity & liabilities	215,802	228,355	246,890	267,451

Source: Company reports, SNB Capital Research estimates

Exhibit 27: Key Ratios

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Per Share Ratios				
EPS	2.7	2.9	3.6	4.0
DPS	1.5	1.9	2.2	2.5
BVPS	28.8	30.1	32.0	34.0
Profitability ratios (%)				
Yield on earning assets	3.2	4.0	5.3	5.3
Cost of funds	0.3	1.1	2.3	2.1
Net interest spread	2.8	2.9	3.0	3.2
Net interest margin	2.6	2.8	3.1	3.1
Cost to income	34.0	31.4	27.6	27.0
Asset Quality (%)				
NPL ratio	2.5	2.8	2.8	2.8
Net NPLs	(0.6)	(0.7)	(0.8)	(0.9)
NPL coverage	123	125	129	131
Cost of risk	0.7	0.9	0.9	0.8
Return ratios (%)				
ROE	9.5	10.0	11.6	12.2
ROA	1.6	1.6	1.8	1.9
Payout Ratio	61.0	64.2	61.2	63.1
Capital Ratios (%)				
Tier I	19.9	16.8	16.5	16.2
CAR	21.1	17.9	17.5	17.1
Growth Rates (yoy) (%)				
Loan growth	12.8	7.8	8.0	7.5
Deposit growth	11.7	10.0	10.0	10.0
Asset growth	14.4	5.4	5.9	5.7
Earnings growth	123.1	8.5	21.3	11.3
Other Ratios (%)				
Loan/Deposits	104	102	100	97
Loans/ total Assets	68.5	69.5	69.3	68.7
Liquid asset/total asset	13.9	14.0	15.4	17.2
Deposits/ total funding	80.6	83.5	84.5	85.3
Valuation ratios (x)				
P/E	15.0	13.8	11.2	10.0
P/BV	1.4	1.3	1.3	1.2
Div. yield (%)	3.7	4.1	4.7	5.4

Source: Company reports, SNB Research estimates, EPS, ROE, ROA, Payout Ratio, P/E is based on Net income adjusted for Tier I. Loan/Deposit ratio include Sukuk and other debt offering

COMPANY UPDATE

Q1 23

Best in class asset quality and profitability metrics

We maintain our Neutral rating on Rajhi with a revised PT SAR85.2. The bank remains one of the strongest player in the sector, underpinned by its strong business profile (highest loan book growth in Q3 22), robust asset quality metrics, and best-in-class profitability (ROE is more than 20%). It is also one of the key beneficiaries of mortgage loan growth. However, we expect the bank's margins to come under pressure due to a combination of 1) the fixed rate on mortgages that accounts for 56.8% of the total loan book and 2) the offering of relatively lower pricing on the corporate loans to gain market share following to the major revamp of the corporate franchise. The bank's liquidity position has also come under pressure (LDR: 99%), which should increase its cost of funds to 1.7% in 2023f from 1.0% in 2022f. The stock is trending at 2023f P/B of 3.2x vs 10 years average of 2.9x and an industry average of 1.7x.

Key risks

- **Changes in mortgage market:** As mortgages remain the key driver of the bank's loan book and earnings growth over the forecasted period, change in mortgage demand is a key risk.
- **Unfavourable change in deposit mix:** The bank's deposit mix has changed significantly over the past few years. Demand deposits declined from 91% in 2019 to 68% by the end of Q3 22. Any changes in the deposit mix will impact the bank's NIMs.
- **Increase in the cost of risk:** The bank has recently increased its focus on the corporate segment, which can potentially increase its cost of risk from its historical levels of 0.7%.
- **Contraction in the credit spreads:** We expect the tilt towards corporate lending to suppress the bank's credit spread. Moreover, increased competition may pressure credit spreads and eventually NIMs.
- **Tight liquidity position:** The bank's LDR ratio increased from 79% in 2018 to 99% in Q3 2022, indicating a tightened liquidity position which could increase cost of funds going forward.

Valuation

- We are Neutral on Rajhi with PT of SAR85.2. To determine our PT, we have assigned 50% weight to each residual income and relative P/B valuations. This represents an upside of 10.3% from the current market price of SAR77.3.

Valuation Summary

			PT	Weights
Risk free (US 10-year)	3.7%	Residual Income	90.6	50%
Adj. Beta (3-year weekly)	1.0	P/B	79.9	50%
Cost of Equity	10.3%			
Terminal Growth rate	3.0%	Price Target (SAR)	85.2	

Source: SNB Capital Research estimates

Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Revenues	25,716	28,857	33,351	38,127	14.0%
Pre-provision profit	18,790	21,517	25,374	29,556	16.3%
PPP margin (%)	73%	75%	76%	78%	-
Net income	14,746	17,175	18,786	21,729	13.8%
Net Margin (%)	57%	60%	56%	57%	-
Net income (adj. for Tier 1 Sukuk)	14,746	16,597	17,961	20,904	12.3%
EPS (adj. for Tier 1 Sukuk)	3.7	4.1	4.5	5.2	12.3%
Loans & advances	452,831	580,048	665,546	757,509	18.7%

Source: The company, SNB Capital Research estimates

NEUTRAL

Price target (SAR) **85.2**

Current price (SAR) 77.3

Upside/Downside (%) 10.3%

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	21.0	18.6	17.2
P/B (x)	4.6	3.7	3.2
Div Yield (%)	0.0	0.0	3.9

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

	%
Abdullah S. Al Rajhi	2.2%
Foreign Investors	12.4%

Source: Saudi exchange as of 04 January 2022

STOCK DETAILS

M52-week range H/L (SAR)	117.4/71.8
Market cap (\$mn)	82,249.4
Shares outstanding (mn)	4,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.4	(8.2)	(13.4)
Rel. to market	(1.9)	1.1	(7.3)

Avg daily turnover (mn)	SR	US\$
3m	341.8	91.0
12m	547.5	145.6

Reuters code	1120.SE
Bloomberg code	RJHI AB
	www.alrajhibank.com

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JANUARY 2023

Financials

Exhibit 28: Income Statement

In SAR mn

	2021	2022f	2023f	2024f
Net Sp. Comm. Income	20,392	22,462	26,498	30,702
Change (%)	20.6	10.2	18.0	15.9
Fee Income	3,933	4,669	5,369	5,875
Forex Income	788	1,182	886	909
Other Operating Income	603	543	597	642
Operating Income	25,716	28,857	33,351	38,127
Growth (%)	24.1	12.2	15.6	14.3
Pre-provision expenses	6,927	7,340	7,977	8,572
Pre-Provision Profits	18,790	21,517	25,374	29,556
Provision	2,345	2,349	4,408	5,304
Other provision	-	-	-	-
Other income/exp	-	-	-	-
Income before zakat/tax	16,445	19,168	20,966	24,252
Tax & Zakat	1,699	1,993	2,180	2,522
Net Income	14,746	17,175	18,786	21,729
Net Income Margin (%)	57.3	59.5	56.3	57.0
Change (%)	39.2	16.5	9.4	15.7
Net Income (adj Tier 1)	14,746	16,597	17,961	20,904
EPS (adj. Tier 1)	3.7	4.1	4.5	5.2
DPS	0.0	0.0	3.1	3.7

Source: Company reports, SNB Capital Research estimates

Exhibit 29: Balance Sheet

In SAR mn

	2021	2022f	2023f	2024f
Cash & bal with SAMA	40,363	49,703	65,683	71,861
Due from Banks	26,065	15,639	14,075	13,372
Investments, net	84,433	105,542	108,180	110,885
Loans and advances, net	452,831	580,048	665,546	757,509
Net Fixed Assets	10,666	11,117	11,478	12,057
Other assets	7,902	8,139	8,383	8,634
Total assets	623,672	771,599	874,757	975,729
Due to Banks	17,952	80,785	96,942	106,636
Customer Deposits	512,072	563,279	636,506	719,252
Other liabilities	26,339	27,129	27,943	28,781
Total liabilities	556,363	671,193	761,390	854,668
Share capital	25,000	40,000	40,000	40,000
Reserves	42,309	43,906	56,867	64,560
Total stockholders' funds	67,309	83,906	96,867	104,560
Tier I Sukuk	-	16,500	16,500	16,500
Total liabilities & equity	623,672	771,599	874,757	975,729

Source: Company reports, SNB Capital Research estimates

Exhibit 30: Key Ratios

In SAR mn

	2021	2022f	2023f	2024f
Per Share Ratios				
EPS (adj. for Tier 1 Sukuk)	3.7	4.1	4.5	5.2
Book value per share	16.8	21.0	24.2	26.1
DPS	0.0	0.0	3.1	3.7
Profitability ratios				
Yield on earning assets	4.4	4.4	5.2	5.3
Cost of funds	0.2	1.0	1.7	1.7
Net Interest spread	4.2	3.5	3.4	3.6
Net interest margin	4.2	3.6	3.6	3.7
Cost to income	26.9	25.4	23.9	22.5
Asset Quality (%)				
NPL ratio	0.7	0.6	0.7	0.7
Net NPLs	(1.3)	(1.0)	(1.1)	(1.2)
NPL coverage	306	274	270	274
Cost of risk	0.6	0.5	0.7	0.7
Return ratios (%)				
ROE	23.5	22.0	19.9	20.8
ROA	2.7	2.4	2.2	2.3
Payout Ratio	0.0	0.0	65.0	67.5
Capital Ratios (%)				
Tier I	16.6	19.4	19.6	19.1
CAR	17.7	20.2	20.6	20.1
Growth Rates (yoy) (%)				
Loan growth	43.4	28.1	14.7	13.8
Deposit growth	33.8	10.0	13.0	13.0
Asset growth	33.0	23.7	13.4	11.5
Earnings growth	39.2	16.5	9.4	15.7
Other Ratios (%)				
Loan/Deposits	88.4	100	102	103
Loans/ total Assets	72.6	75.2	76.1	77.6
Liquid asset/total asset	11.8	9.6	10.1	9.7
Deposits/ total funding	92.0	83.9	83.6	84.2
Valuation ratios (x)				
P/E	21.0	18.6	17.2	14.8
P/B	4.6	3.7	3.2	3.0
Div. yield (%)	0.0	0.0	3.9	4.7

Source: Company reports, SNB Research estimates, EPS, ROE, ROA, Payout Ratio, P/E is based on Net income adjusted for Tier I. Loan/Deposit ratio include Sukuk and other debt offering

COMPANY UPDATE

Q1 23

Positives priced-in

We maintain our Neutral rating on Albilad, with a revised PT of SAR43.3. We believe a strong retail franchise network and asset quality are the key strengths of the bank. Moreover, the focus on the corporate segment, along with rationalization of the cost base to support earnings growth. The bank's LDR in Q3 22 has marginally improved to 95% (Q2 22 99%) suggesting an improvement in its liquidity in contrast to tightening sector liquidity. We expect, the bank to deliver an earnings growth of 24% yoy and 20% yoy in 2022f and 2023f, respectively while ROE to improve from 14.9% in 2021 to 16.6% in 2023f. However, the stock is currently trading at 2023f P/B of 2.8x, reflecting all the positives.

Key risks

- **Slower than expected loan growth:** We expect the bank's increased focus on corporate lending to mitigate the impact of the foreseen deceleration in mortgage loans. However, we believe increased competition in the segment, slower-than-expected growth, and/or lower market share are the key risks.
- **Contraction in the credit spreads:** The tilt towards corporate is expected to suppress Albilad's credit spread. Moreover, increased competition may pressure credit spreads and NIMs.

Valuation

- We are Neutral on Albilad with PT of SAR43.3. To determine our PT, we have assigned 50% weight to each residual income and relative P/B valuations.

Valuation Summary

			PT	Weights
Risk free (US 10-year)	3.7%	Residual Income	31.9	50%
Adj. Beta (3-year weekly)	1.1	P/B	54.6	50%
Cost of Equity	11.1%			
Terminal Growth rate	3.0%	Price Target (SAR)	43.3	

Source: SNB Capital Research estimates

Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Revenue	4,584	5,148	5,548	6,166	10.4%
Pre-provision profit	2,450	2,877	3,337	3,899	16.8%
PPP margin (%)	53%	56%	60%	63%	-
Net income	1,687	2,091	2,501	2,999	21.2%
Net Margin (%)	37%	41%	45%	49%	-
EPS	1.7	2.1	2.5	3.0	10.1%
Loans & advances	82,933	94,611	106,422	119,770	13.0%

Source: The company, SNB Capital Research estimates

NEUTRAL

Price target (SAR)	43.3
Current price (SAR)	44.4
Upside/Downside (%)	(2.5)%

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	26.3	21.2	17.8
P/B (x)	3.7	3.2	2.8
Div Yield (%)	0.0	1.1	1.7

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

	%
AlSubaei & Sons Co.	19.3
AlSubaei Investment Co.	11.1
Foreign Investors	9.4

Source: Tadawul, SNB Capital. As of 23 December 2022.

STOCK DETAILS

M52-week range H/L (SAR)	60.4/35.8
Market cap (\$mn)	11,810.7
Shares outstanding (mn)	1,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.5)	(11.6)	23.6
Rel. to market	(10.8)	(2.2)	29.7

Avg daily turnover (mn)	SR	US\$
3m	50.8	13.5
12m	61.9	16.5

Reuters code	1140.SE
Bloomberg code	ALBI AB
	www.bankalbilad.com

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Financials

Exhibit 31: Income Statement

In SAR mn

	2021	2022f	2023f	2024f
Net sp. Comm. income	3,489	3,946	4,371	4,921
Change (%)	6.0	13.1	10.8	12.6
Fee income	731	638	709	755
Forex income	313	360	378	397
Dividend income	35	69	45	47
Other Operating income	15	135	45	46
Total operating income	4,584	5,148	5,548	6,166
Change (%)	7.6	12.3	7.8	11.1
Pre-provision expenses	2,134	2,271	2,211	2,266
Pre-provision profits	2,450	2,877	3,337	3,899
Change (%)	11.6	17.4	16.0	16.9
Provisions	570	546	549	556
Net income before zakat	1,880	2,331	2,788	3,344
Zakat and Tax	194	240	287	344
Net income	1,687	2,091	2,501	2,999
Net Income Margin (%)	36.8	40.6	45.1	48.6
Change (%)	25.1	24.0	19.6	19.9
EPS (SAR)	1.7	2.1	2.5	3.0
DPS (SAR)	0.0	0.5	0.8	0.9

Source: Company reports, SNB Capital Research estimates

Exhibit 32: Balance Sheet

In SAR mn

	2021	2022f	2023f	2024f
Cash and ba with SAMA	6,097	4,695	7,425	9,083
Due from banks	2,137	4,808	4,327	3,894
Investments, net	17,092	19,656	20,639	21,671
Loans and advances, net	82,933	94,611	106,422	119,770
Fixed assets, net	1,925	2,048	2,140	2,272
Other assets	669	883	905	928
Total assets	110,854	128,588	141,858	157,618
Due to banks	8,777	10,313	10,829	11,370
Customers' deposits	81,110	94,899	105,338	117,979
Other liabilities	8,986	9,304	9,618	9,947
Total liabilities	98,874	114,517	125,785	139,296
Share Capital	7,500	10,000	10,000	10,000
Reserves	4,480	4,071	6,073	8,322
Shareholders' funds	11,980	14,071	16,073	18,322
Total equity & liabilities	110,854	128,588	141,858	157,618

Source: Company reports, SNB Capital Research estimates

Exhibit 33: Key Ratios

In SAR mn

	2021	2022f	2023f	2024f
Per Share Ratios				
EPS	1.7	2.1	2.5	3.0
DPS	0.0	0.5	0.8	0.9
BVPS	12.0	14.1	16.1	18.3
Profitability ratios (%)				
Yield on earning assets	4.0	4.6	5.7	5.5
Cost of funds	0.3	1.1	2.4	2.1
Net interest spread	3.7	3.5	3.3	3.4
Net interest margin	3.7	3.6	3.5	3.6
Cost to income	46.6	44.1	39.9	36.8
Asset Quality (%)				
NPL ratio	1.1	1.2	1.2	1.1
Net NPLs	(2.0)	(1.8)	(1.8)	(1.9)
NPL coverage	280	243	253	272
Cost of risk	0.7	0.6	0.5	0.5
Return ratios (%)				
ROE	14.9	16.1	16.6	17.4
ROA	1.8	1.9	2.1	2.2
Payout Ratio	0.0	23.9	30.0	30.0
Capital Ratios (%)				
Tier I	14.1	14.2	14.7	15.1
CAR	18.7	18.2	18.3	18.3
Growth Rates (yoy) (%)				
Loan growth	18.3	14.1	12.5	12.5
Deposit growth	13.4	17.0	11.0	12.0
Asset growth	15.8	16.0	10.3	11.1
Earnings growth	25.1	24.0	19.6	19.9
Other Ratios (%)				
Loan/Deposits	98.6	96.6	98.2	99.0
Loans/ total Assets	74.8	73.6	75.0	76.0
Liquid asset/total asset	14.5	15.9	15.0	14.5
Deposits/ total funding	82.0	82.9	83.7	84.7
Valuation ratios (x)				
P/E	26.3	21.2	17.8	14.8
P/B	3.7	3.2	2.8	2.4
Div. yield (%)	0.0	1.1	1.7	2.0

Source: Company reports, SNB Research estimates, Loan/Deposit ratio include Sukuk and other debt offering

BANK ALJAZIRA

COMPANY UPDATE

Q1 23

Change in asset mix could improve profitability

We maintain our Neutral rating on BJAZ, with a revised PT of SAR19.6. As the bank is adequately capitalized and has a comfortable liquidity position, we believe BJAZ is well positioned to capture new opportunities through its strategy to improve product offerings to better suit its target market. The bank intends to focus more on its corporate offerings (Medium and Small Enterprises). Optimizing its cost base should also help improve profitability, given it has the highest cost-to-income ratio in the sector. We estimate the bank to deliver a 2021-24f earnings CAGR of 10.3%, resulting in an ROE of 9.6% by 2024f. The bank trades at 2023f P/B of 1.2x (vs sector average of 1.7x).

Key risks

- **Slower than expected loan growth:** We have been conservative with our loan growth assumptions, as we believe growth depends on improved product offerings. Furthermore, the competition has also recently increased, which may result in slower-than-expected growth and/or lower market share.
- **Inability to improve asset mix:** Investment accounts for c31% of total assets, higher than the industry average of 21%. Given the adequate capital position, we expect the bank to reduce its exposure to investments and convert it to lending. The slower-than-expected shift is a key risk.
- **Higher NPL:** Deterioration in asset quality can potentially increase the bank's cost of risk.

Valuation

- We are Neutral on BJAZ with PT of SAR19.6. To determine our PT, we have assigned 50% weight to each residual income and relative P/B valuations.

Valuation Summary

			PT	Weights
Risk free (US 10-year)	3.7%	Residual Income	16.2	50%
Adj. Beta (3-year weekly)	1.15	P/B	22.9	50%
Cost of Equity	11.2%			
Terminal Growth rate	3.0%	Price Target (SAR)	19.6	

Source: SNB Capital Research estimates

Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Revenues	3,547	3,491	3,623	3,919	3.4%
Pre-provision profit	1,777	1,558	1,640	1,898	2.2%
PPP margin (%)	50%	45%	45%	48%	-
Net income	1,006	1,066	1,109	1,350	10.3%
Net Margin (%)	28%	31%	31%	34%	-
Net income (adj. for Tier 1 Sukuk)	967	992	1,035	1,276	9.7%
EPS (adj. for Tier 1 Sukuk)	1.2	1.2	1.3	1.6	9.7%
Loans & Advances	62,434	69,090	73,935	79,081	8.2%

Source: The company, SNB Capital Research estimates

NEUTRAL

Price target (SAR)	19.6
Current price (SAR)	19.4
Upside/Downside (%)	0.9%

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	16.5	16.0	15.4
P/B (x)	1.3	1.2	1.2
Div Yield (%)	3.6	3.0	3.3

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

	%
Ibrahim Al-Qunaibit	5.0
Consolidated Brothers Co.	5.0
Foreign Investors	14.1

Source: Saudi Exchange, As of 04 January 2022.

STOCK DETAILS

M52-week range H/L (SAR)	32.9/18.5
Market cap (\$mn)	4,240.5
Shares outstanding (mn)	820
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.4)	(16.9)	(4.1)
Rel. to market	(3.7)	(7.5)	(2.0)

Avg daily turnover (mn)	SR	US\$
3m	65.9	17.5
12m	119.4	31.8

Reuters code	1020.SE
Bloomberg code	BJAZ AB
	www.bankaljazira.com

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Financials

Exhibit 34: Income Statement

In SAR mn

	2021	2022f	2023f	2024f
Net sp. Comm. income	2,625	2,525	2,727	3,007
Change (%)	9.8	(3.8)	8.0	10.3
Fee income	638	627	656	666
Forex income	173	199	214	225
Investment income	(12)	18	5	4
Other Operating income	123	123	20	18
Total operating income	3,547	3,491	3,623	3,919
Change (%)	7.9	(1.6)	3.8	8.2
Pre-provision expenses	1,770	1,933	1,984	2,022
Pre-provision profits	1,777	1,558	1,640	1,898
Change (%)	11.7	-12.3	5.2	15.7
Provisions	671	360	384	369
Other provision	-	-	-	-
Net income before zakat	1,153	1,225	1,275	1,552
Zakat & Tax	147	159	166	202
Net income	1,006	1,066	1,109	1,350
Net income margin (%)	28.4	30.5	30.6	34.5
Change (%)	NA	6.0	4.1	21.7
Net Income (adj. Tier 1)	967	992	1,035	1,276
EPS (adj. for Tier 1)	1.2	1.2	1.3	1.6
DPS	0.7	0.6	0.6	0.8

Source: Company reports, SNB Capital Research estimates

Exhibit 35: Balance Sheet

In SAR mn

	2021	2022f	2023f	2024f
Cash and ba with SAMA	5,387	5,574	9,041	11,885
Due from banks	664	863	906	951
Investments, net	31,434	33,477	31,803	31,008
Loans and advances, net	62,434	69,090	73,935	79,081
Fixed assets, net	1,156	1,060	980	914
Other assets	1,752	1,995	2,205	2,375
Total assets	102,827	112,057	118,870	126,214
Due to banks	6,410	8,013	8,213	8,377
Customers' deposits	78,365	85,418	91,397	97,795
Other liabilities	4,157	4,267	4,368	4,475
Total liabilities	88,932	97,697	103,979	110,647
Share Capital	8,200	8,200	8,200	8,200
Reserves	3,820	4,285	4,817	5,492
Shareholders' funds	12,020	12,485	13,017	13,692
Tier I Sukuk	1,875	1,875	1,875	1,875
Total equity & liabilities	102,827	112,057	118,870	126,214

Source: Company reports, SNB Capital Research estimates

Exhibit 36: Key Ratios

In SAR mn

	2021	2022f	2023f	2024f
Per share ratios (SR)				
EPS (adj. for Tier 1 Sukuk)	1.2	1.2	1.3	1.6
Div per share	0.7	0.6	0.6	0.8
Book value per share	14.7	15.2	15.9	16.7
Profitability ratios (%)				
Yield on earning assets	3.4	3.7	4.8	4.8
Cost of funds	0.5	1.3	2.3	2.2
Spreads	2.9	2.5	2.5	2.7
Net Interest Margins	2.9	2.6	2.6	2.8
Cost to income	49.9	55.4	54.7	51.6
Asset Quality (%)				
NPL ratio	2.1	2.1	2.1	2.1
Net NPLs	(1.9)	(2.0)	(2.0)	(2.0)
NPL coverage	191	195	194	196
Cost of risk	1.2	0.5	0.5	0.5
Return ratios (%)				
ROE	8.3	8.1	8.1	9.6
ROA	1.0	0.9	0.9	1.0
Payout Ratio	59.4	48.4	50.9	52.9
Capital Ratios (%)				
Tier I	16.0	14.9	14.2	13.7
CAR	19.1	17.6	16.7	16.0
Growth Rates (yoy) (%)				
Loan growth	15.7	10.7	7.0	7.0
Deposit growth	15.2	9.0	7.0	7.0
Asset growth	11.7	9.0	6.1	6.2
Earnings growth	NA	6.0	4.1	21.7
Other Ratios (%)				
Loan/Deposits	75.9	77.4	77.6	77.8
Loans/ total Assets	60.7	61.7	62.2	62.7
Liquid asset/total asset	5.9	5.8	8.4	10.2
Deposits/ total funding	40.1	39.2	34.8	31.7
Valuation ratios (x)				
P/E	16.5	16.0	15.4	12.5
P/B	1.3	1.3	1.2	1.2
Div. yield (%)	3.6	3.0	3.3	4.2

Source: Company reports, SNB Research estimates, EPS, ROE, ROA, Payout Ratio, P/E is based on Net income adjusted for Tier I. Loan/Deposit ratio include Sukuk and other debt offering

JANUARY 2023

SNB Capital Investment Ratings

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UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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