

## National Commercial Bank

Higher Impairment charges reduce profits for the quarter

### 4Q20 Net profit higher than our estimate

National Commercial Bank (NCB) reported a 0.9% YOY decline in Net profit to SAR3,360 mm in 4Q20 from SAR3,390 mm in 4Q19, beating our estimate of SAR2,801 mm. This is mainly due to a decline in Fees and Commissions and higher Impairment charges.

### P&L highlights

Funded income decreased by 3.7% YOY to SAR5,123 mm in 4Q20 from SAR5,322 mm in 4Q19 mainly due to a decline in investments held at amortised cost and a decline financing & advances. Funded expense decreased by 58.6% YOY to SAR434 mm in 4Q20 from SAR1,049 mm in 4Q19 due to a reduction in customer deposits. As a result, Net funded income increased by 9.8% YOY to SAR4,689 mm in 4Q20 from SAR4,272 mm in 4Q19. Fees and commissions decreased by 45.1% YOY to SAR406 mm in 4Q20 from SAR741 mm in 4Q19. Other non-funded income increased by 9.6% YOY to SAR654 mm in 4Q20 from SAR596 mm in 4Q19. Non-funded income decreased by 20.7% YOY to SAR1,060 mm in 4Q20 from SAR1,337 mm in 4Q19. Operating income increased by 2.5% YOY to SAR5,749 mm in 4Q20 from SAR5,609 mm in 4Q19 mainly due to an increase in exchange income and Income on non-FVIS financial instruments. Operating expenses increased by 11.1% YOY to SAR1,636 mm in 4Q20 from SAR1,472 mm in 4Q19 due to an increase in other general and administrative expenses. Impairments increased by 21.2% YOY to SAR348 mm in 4Q20 from SAR287 mm in 4Q19.

### Balance sheet highlights

Net advances increased by 23% YOY to SAR347 bn in 4Q20 from SAR282 bn in 4Q19. Total assets increased by 18.3% YOY to SAR599 bn in 4Q20 from SAR507 bn in 4Q19 due to an increase in investments and other assets. Customer deposits increased by 17.8% YOY to SAR416 bn from SAR353 bn in 4Q19. This also includes other customer deposits of SAR3,577 mm of margins held for irreversible contingencies and commitments.

### Target price and rating

We assign a HOLD rating to NCB with a revised target price of SAR52.54. NCB is one of the leading banks of Saudi Arabia, with the aim of merging with Samba to become a renowned bank in the region. NCB follows a one bank collaborative initiative where it transforms client business with focus on boosting non-lending revenues. Despite COVID-19 distress economic slowdown, the customer deposits increased by 17.85% in 2020. On the other hand, special commission expense on customer deposit has decreased significantly by 36.13% in 2020. Financing and advances have increased by 23.01%, however net special commission income from financing and advances has decreased by 8.06%. The primary increase in financing and advances were driven by Tawarooq and Murabaha. The cost to income ratio for NCB is 30.3% in 2020 compared to 30.6% in 2019. Due to distressed economic conditions, impairment charges have risen in 2020. The non-performing loan ratio for the group is 1.7%, slightly lower than 2019, 1.8%. On the other hand, the NPL

**Rating : HOLD**

### First Look Note – 4Q20

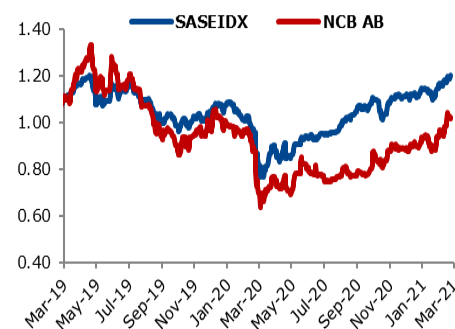
Sector: Banking

#### Recommendation

Current Price (15-Mar)	51.80
Target Price	52.54
Upside/Downside (%)	1.4%

#### Stock Information

Market Cap (SAR/mm)	155,700.00
Paid Up Capital (mm)	30,000.00
52 Week High	52.80
52 Week Low	30.50
3M Avg. daily value (SAR)	85,587,230



#### Financial Ratios

Dividend Yield (12month)	2.31
Dividend Pay out	0.00
Price-Earning Ratio	14.14
Price-to-Book Ratio	2.25
Book Value	23.14
Return-on Equity	16.84
Earning Per Share	3.67
Beta	1.16

#### Stock Performance

5 Days	6.46%
1 Months	15.46%
3 Months	21.97%
6 Months	36.58%
1 Year	55.39%
Month to Date (MTD%)	9.84%
Quarter to Date (QTD%)	19.72%
Year to Date (YTD%)	19.72%

coverage ratio is slightly higher at 143% compared to 138%. The ROA for the bank stands at 2.1% compared to 2.4% in 2019 and the ROE ratio being 16.8% in 2020 compared to 18.5% in the previous year. Equity has risen primarily due to higher reserves as well as increase in Tier 1 sukuk. During 2020, the bank through sharia compliant arrangement issue Tier 1 sukuk totalling SAR 4.2 bn. During the year NCB also exercised call option on its existing Tier 1 sukuk amounting to SAR 1bn. As per SAMA's requirement cash balances with SAMA increase due to the current economic situation, this is to ensure it meets its liquidity requirements. These statutory deposits are not available day to day operations of the business. Total assets have risen along with the Net Profit for the year. To enhance its liquidity, NCB has significantly increased its money market deposits to other banks, utilizing the low interest rate environment to enhance its liquidity. However, Repos have decreased probably due to repo rates have high rates, which NCB has diverted its fund from Repo to money market security. The CET1 ratio stands at 16.9% in 2020 compared to 16.1% in 2019. The stock is currently trading at a PB ratio of 2.24x , therefore we assign a HOLD rating to NCB.

## **SAMBA**

### **4Q20 Net profit lower than our estimate**

Samba Financial Group reported a 2.1% YOY decline in Net profit to SAR744 mm in 4Q20 from SAR760 mm in 4Q19, missing our estimate of SAR1,148 mm. This is primarily due to a decline in Revenues and higher Impairment charges.

### **P&L highlights**

Funded income decreased by 18.8% YOY to SAR1,709 mm in 4Q20 from SAR2,105 mm in 4Q19 due to a decline in income from loans and advances and income due from banks & other financial institutions. Funded expense decreased by 32.8% YOY to SAR367 mm in 4Q20 from SAR546 mm in 4Q19 mainly due to a decline in customer deposits. Resultantly, the Net funded income decreased by 14.0% YOY to SAR1,342 mm in 4Q20 from SAR1,559 mm in 4Q19. Fees and commissions decreased by 2.9% YOY to SAR304 mm in 4Q20 from SAR313 mm in 4Q19. Trading loss increased to a negative SAR19 mm in 4Q20 from a positive SAR56 mm in 4Q19. Other non-funded income increased to SAR551 mm in 4Q20 from SAR110 mm in 4Q19 due to a rise in Exchange income and Income from investments held at FVIS. Non-funded income increased by 74.6% YOY to SAR837 mm in 4Q20 from SAR479 mm in 4Q19. Operating income increased by 6.9% YOY to SAR2,178 mm in 4Q20 from SAR2,039 mm in 4Q19. Operating expenses decreased by 6.3% YOY to SAR794 mm in 4Q20 from SAR847 mm in 4Q19. Impairments increased to SAR500 mm in 4Q20 from SAR231 mm in 4Q19. Tax decreased by 47.7% YOY to SAR122 mm in 4Q20 from SAR232 mm in 4Q19.

### **Balance sheet highlights**

Total assets increased by 14.41% YOY to SAR296 bn in 2020 from SAR259 bn in 2019. Total liabilities increased by 16.26% YOY to SAR248 bn from SAR214 bn in 2019. Total equity increased by 5.7% YOY to SAR48 bn from SAR45.4 bn.

### **Target price and rating**

We assign a rating of REDUCE to Samba with a revised target price of SAR30.75. Samba financial group is one of the region's largest financial service group who aims to transform banking in Saudi Arabia. Loans and advances for the bank have increased; however, there is a decrease in income from loans and advances by 10.74%. The NIM for the bank stands at 2.2% in 2020 compared to 2.9% in 2019. This is primarily due to low interest rate environments that resulted in a decrease in interest income. Further special income and commission on investments related to Shariah approved products have also decreased. Trading and fund management activity increased under Fees and commission income. Like any other bank, Provisions on impairment increased as well by 27% in 2020, with lower recoveries for the year. Despite high provisions, the company sustained a higher profit for the year by 5.4%. The bank's ROAA is 1.51% compared to 1.63% in 2019. The ROAE was 8.99% in 2020 compared to 9.10% in 2019. The cost to income ratio was stable at 33% in both the years, despite low

interest rate environment. The bank's loan to deposit ratio is 72.4% in 2020 compared to 73.8% in 2019. This is primarily due to an increase in sharia complaint customer deposits in current account deposits. This is primarily due to low interest rate environment, that has shifted interest in Islamic deposits. Commercial loans and advances are the main drivers for loans and advances in 2020 with an increase of 7.78%. Samba has a favorable LCR ratio at 263% in 2020 compared to 229%, giving space for more loan distribution. The NPL to gross loans ratio has increased to 1.49%, compared to 1.33% The second drawdown of USD 500 million through its SPV was complete in January. The notes are unsecured, 7-year tenor, fixed rate and subject to early redemption. The bank issued SR0.7 per share dividends for the year 2019. Total dividend for the year 2019 to shareholders is SR1.42 with SR0.72 was paid as interim dividends during the year. The bank has a given a rating of A1 by Moodys and BBB+ by S&P. The stock is currently trading at PB multiple of 1.6x, therefore we assign a rating of REDUCE to Samba.

Samba and NCB merger will be taking place this year on 1<sup>st</sup> April. The merged bank will be called Saudi National Bank with NCB owning 67.4% and Samba owning 32.6%. NCB is the largest asset lender; with the new merger Samba will be delisted from Tadawul effective on the merger date. Last year October, NCB confirmed that it will be paying \$15bn to buy Samba Financial group, paying SAR28.45 per samba share. NCB will also increase its share capital from SAR 30bn to SAR 44.78bn to issue new shares to Samba with a swap ratio of 0.739 NCB ordinary shares.

#### NCB - Relative Valuation

(At CMP)	2016	2017	2018	2019	2020
P/E	17.209	24.55	16.818	14.076	14.07
P/B	2.9249	2.7656	2.6825	2.5219	2.24
Dividend yield	2%	2%	4%	4%	-

FABS estimate & Co data

#### NCB – P&L

SAR mm	4Q19	1Q20	2Q20	3Q20	4Q20	4Q20F	YOY ch	QOQ ch	2019	2020	YOY ch
Funded income	5,322	4,897	4,628	4,792	5,123	4,956	-3.7%	6.9%	20,527	19,441	-5.3%
Funded expense	-1,049	-884	-746	-690	-434	-726	-58.6%	-37.1%	-4,721	-2,754	-41.7%
<b>Net funded income</b>	<b>4,272</b>	<b>4,013</b>	<b>3,882</b>	<b>4,102</b>	<b>4,689</b>	<b>4,230</b>	<b>9.8%</b>	<b>14.3%</b>	<b>15,807</b>	<b>16,687</b>	<b>5.6%</b>
Fees and commissions	741	624	628	601	406	628	-45.1%	-32.4%	2,527	2,260	-10.6%
Other non-funded income	596	669	256	934	654	387	9.6%	-30.0%	2,273	2,512	10.5%
Non-funded income	1,337	1,293	884	1,535	1,060	1,016	-20.7%	-31.0%	4,801	4,771	-0.6%
<b>Operating income</b>	<b>5,609</b>	<b>5,306</b>	<b>4,766</b>	<b>5,638</b>	<b>5,749</b>	<b>5,245</b>	<b>2.5%</b>	<b>2.0%</b>	<b>20,607</b>	<b>21,458</b>	<b>4.1%</b>
Operating expenses	-1,472	-1,692	-1,530	-1,640	-1,636	-1,664	11.1%	-0.3%	-6,331	-6,497	2.6%
<b>Pre-provision profit</b>	<b>4,137</b>	<b>3,615</b>	<b>3,236</b>	<b>3,998</b>	<b>4,114</b>	<b>3,582</b>	<b>-0.6%</b>	<b>2.9%</b>	<b>14,276</b>	<b>14,961</b>	<b>4.8%</b>
Impairment	-287	-396	-828	-379	-348	-421	21.2%	-8.1%	-1,420	-1,951	37.4%
Other non-operating income/ expense	1	-7	-20	-50	0	-54	-151.0%	-99.2%	62	-77	NM
Non-controlling int.	-47	-37	-40	-32	-11	-38	-76.6%	-65.5%	-82	-120	45.6%
<b>Net profit attributable</b>	<b>3,390</b>	<b>2,835</b>	<b>2,088</b>	<b>3,158</b>	<b>3,360</b>	<b>2,801</b>	<b>-0.9%</b>	<b>6.4%</b>	<b>11,401</b>	<b>11,440</b>	<b>0.3%</b>

FABS estimate and Co data

NCB - KPI	4Q19	1Q20	2Q20	3Q20	4Q20	YOY ch (bp)
P&L KPI						
Net FI/OI	76.2%	75.6%	81.5%	72.8%	81.6%	540
NIM	3.5%	4.6%	0.8%	0.8%	3.2%	-31
NIS	3.4%	4.6%	0.8%	0.8%	3.1%	-25
Fees & comms/OI	13.2%	11.8%	13.2%	10.7%	7.1%	-613
Cost to income	26.2%	31.9%	32.1%	29.1%	28.4%	220
Impairment/PPP	6.9%	11.0%	25.6%	9.5%	8.5%	152
NP/OI	60.4%	53.4%	43.8%	56.0%	58.4%	-199
ROAE	5.0%	4.4%	2.9%	4.2%	4.2%	-72
ROAA	0.7%	0.5%	0.4%	2.2%	2.3%	-11

FABS estimate and Co data

#### NCB - B/S items

SAR mm	4Q19	1Q20	2Q20	3Q20	4Q20	YOY ch
Net advances	281,843	305,214	316,299	336,860	346,708	23.0%
QOQ change	0.5%	8.3%	3.6%	6.5%	2.9%	
Total assets	506,819	535,007	557,310	577,084	599,446	18.3%
QOQ change	1.8%	5.6%	4.2%	3.5%	3.9%	
Customer deposits	353,389	375,241	380,398	408,474	416,419	17.8%
QOQ change	3.8%	6.2%	1.4%	7.4%	1.9%	
Total equity	68,443	64,159	73,088	75,908	79,410	16.0%
QOQ change	2.2%	-6.3%	13.9%	3.9%	4.6%	

FABS estimate and Co data

#### Samba - Relative valuation

	2016	2017	2018	2019	2020
P/E (x)	14.9	14.9	23.9	18.3	17.4
P/B (x)	1.8	1.7	1.8	1.6	1.6
Dividend yield	2.5%	4.0%	4.8%	3.8%	-

FABS estimate and Co Data

**Samba - P&L**

SAR mm	4Q19	3Q20	4Q20	4Q20F	Var.	YOY Ch	QOQ Ch	2019	2020	YOY Ch
Funded income	2,105	1,764	1,709	1,807	-5.4%	-18.8%	-3.2%	8,427	7,445	-11.7%
Funded expense	-546	-387	-367	-398	-7.7%	-32.8%	-5.3%	-2,050	-1,773	-13.5%
<b>Net funded income</b>	<b>1,559</b>	<b>1,377</b>	<b>1,342</b>	<b>1,409</b>	<b>-4.8%</b>	<b>-14.0%</b>	<b>-2.6%</b>	<b>6,377</b>	<b>5,672</b>	<b>-11.0%</b>
Fees and commissions	313	291	304	308	-1.3%	-2.9%	4.4%	1,268	1,252	-1.3%
Trading gain/(loss)	56	130	-19	99	NM	NM	NM	170	249	46.1%
Other non-funded inc.	110	658	551	526	4.8%	NM	-16.3%	785	2,252	NM
<b>Non-funded income</b>	<b>479</b>	<b>1,079</b>	<b>837</b>	<b>933</b>	<b>-10.3%</b>	<b>74.6%</b>	<b>-22.5%</b>	<b>2,224</b>	<b>3,753</b>	<b>68.8%</b>
<b>Operating income</b>	<b>2,039</b>	<b>2,457</b>	<b>2,178</b>	<b>2,342</b>	<b>-7.0%</b>	<b>6.9%</b>	<b>-11.3%</b>	<b>8,600</b>	<b>9,425</b>	<b>9.6%</b>
Operating expenses	-847	-782	-794	-790	0.5%	-6.3%	1.4%	-2,878	-3,108	8.0%
<b>Pre-provision profit</b>	<b>1,192</b>	<b>1,674</b>	<b>1,385</b>	<b>1,552</b>	<b>-10.8%</b>	<b>16.2%</b>	<b>-17.3%</b>	<b>5,723</b>	<b>6,317</b>	<b>10.4%</b>
Impairment	-231	-254	-500	-233	NM	NM	96.6%	-1,103	-1,400	26.9%
<b>PBT</b>	<b>961</b>	<b>1,420</b>	<b>885</b>	<b>1,319</b>	<b>-32.9%</b>	<b>-7.9%</b>	<b>-37.7%</b>	<b>4,619</b>	<b>4,917</b>	<b>6.4%</b>
Tax	-232	-161	-122	-145	-16.2%	-47.7%	-24.3%	-629	-611	-2.8%
Current and deferred tax for the peri-	36	-28	-19	-26	-29.0%	-	-34.2%	0	-102	NM
<b>Profit after tax</b>	<b>765</b>	<b>1,231</b>	<b>744</b>	<b>1,148</b>	<b>-35.1%</b>	<b>-2.6%</b>	<b>-39.5%</b>	<b>3,991</b>	<b>4,204</b>	<b>5.3%</b>
NCI	-4	-1	0	0	-	-99.3%	-	-6	-3	-51.0%
<b>Net profit attributable</b>	<b>760</b>	<b>1,230</b>	<b>744</b>	<b>1,148</b>	<b>-35.1%</b>	<b>-2.1%</b>	<b>-39.5%</b>	<b>3,984</b>	<b>4,201</b>	<b>5.4%</b>

*FAB Estimates & Co Data*
**Samba - Key P&L**

	4Q19	1Q20	2Q20	3Q20	4Q20	YoY Ch (bp)	QOQ Ch (bp)	2019	2020	YOY Ch (bp)
Net FI/OI	76.5%	64.3%	59.0%	56.1%	61.6%	-1,490	553	74.1%	60.2%	-1,396
NIM	2.9%	2.65%	2.97%	2.74%	2.2%	-57	-61	2.9%	2.2%	-57
NIS	2.5%	2.5%	2.9%	2.7%	2.0%	-49	-75	2.5%	2.0%	-57
Fees & comms/OI	15.4%	13.4%	14.1%	11.9%	13.9%	-141	210	14.7%	13.3%	-146
Trading/OI	2.7%	2.9%	2.8%	5.3%	-0.9%	-360	-614	2.0%	2.6%	66
Cost to income	41.5%	32.7%	31.3%	31.8%	36.4%	-510	458	33.5%	33.0%	-48
Impairment/PPP	19.4%	11.2%	28.5%	15.2%	36.1%	1,671	2,091	19.3%	22.2%	289
NP/OI	37.3%	52.4%	40.4%	50.1%	34.2%	-312	-1,589	46.3%	44.6%	-176
ROAE	1.7%	2.9%	2.1%	2.6%	9.0%	728	637	9.1%	8.9%	-43
ROAA	0.3%	0.5%	0.3%	0.4%	1.5%	120	107	1.6%	1.5%	-7

*FAB Estimates & Co Data*
**Samba - Key B/S Items**

SAR mm	4Q19	1Q20	2Q20	3Q20	4Q20	YOY Ch
Net advances	141,595	147,822	148,088	154,207	156,024	10.2%
QOQ change	12.8%	4.4%	0.2%	4.1%	1.2%	
Total assets	259,528	267,083	279,261	289,585	296,945	14.4%
QOQ change	9.3%	2.9%	4.6%	3.7%	2.5%	
Customer deposits	180,166	177,710	187,259	201,167	207,706	15.3%
QOQ change	8.9%	-1.4%	5.4%	7.4%	3.3%	
Total equity	45,359	44,781	46,284	47,181	47,958	5.7%
QOQ change	2.0%	-1.3%	3.4%	1.9%	1.6%	

*FAB Estimates & Co Data*

### Research Rating Methodology:

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

### FAB Securities Contacts:

#### Research Analysts

Shiv Prakash	+971-2-6161628	<a href="mailto:shiv.prakash@Bankfab.com">shiv.prakash@Bankfab.com</a>
Ahmad Banihani	+971-2-6161629	<a href="mailto:ahmad.banihani@Bankfab.com">ahmad.banihani@Bankfab.com</a>

#### Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	<a href="#">Online Trading Link</a>
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in UAE 2016  
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Best New Mobile Application in  
UAE 2016  
by "IFA"



Best Equity Finance  
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