

Saudi Nation Bank

SAMBA acquisition is yielding positive results

2Q22 net profit higher than our estimate

Saudi National Bank's ("SNB", "The Bank") net profit rose significantly 116.8% to SAR 4,589 Mn in 2Q22. Since the SAMBA acquisition was completed in 2Q21 hence SNB 2Q22 financial is not exactly comparable with 2Q21 financials. In order to make the comparison easier between the two periods proforma financial is calculated. SNB reported a net profit of SAR 3,403 Mn in 2Q21 after adjusting LD2 ECL provision net of zakat expenses of SAR 1,301 Mn. Its net profit grew 34.9% YOY to SAR 4,589 Mn based on proforma financials, marginally higher than our estimate of SAR 4,402 Mn. The increase in net profit was primarily due to an increase in funded income and a decline in operating expenses partially offset by a decline in non-funded income.

P&L Highlights

SNB's net funded income rose 17.7% YOY to SAR 6,806 Mn in 2Q22. It was mainly driven by 22.8% increase in funded income to SAR 8,227 Mn in 2Q22 primarily due to solid growth in net advance as well as revenue synergies arising out of recent merger with Samba Financial Group. Similarly, funded expenses rose significantly 55.2% YOY to SAR 1,421 Mn in 2Q22 due to increase in benchmark rates. Non-funded income stood at SAR 1,567 Mn in 2Q22, mainly due to higher income from fee and commission income from banking services, partially offset by decline in investment income. Thus, net operating income rose 11.6% YOY to SAR 8,373 in 2Q22. Furthermore, operating expenses decline 22.1% YOY to SAR 2,088 Mn in 2Q22, primarily driven by decline in amortization of intangible assets, lower rent and premises-related cost and other G&A expenses due to cost synergies arising out of the merger. Impairment charges declined marginally 59.4% YOY to SAR 978 Mn in 2Q22, compared to proforma impairment charges of 1,033 Mn in 2Q22. SNB recorded LD2 ECL provision of SAR 1,301 Mn net of zakat in 2Q21. Zakat expense rose 161.3% YOY to SAR 718 Mn in 2Q22 due to higher profit before tax.

Balance Sheet Highlights

Net Advance continued to record solid growth of 4.5% QOQ to SAR 536 Bn in 2Q22. While Deposits declined 2.0% QOQ to SAR 593 Bn in 2Q22. Therefore, total assets rose 4.0% QOQ to SAR 958 Bn. Total equity declined 2.5% YOY to SAR 161 Bn.

Target Price and Rating

We maintain our BUY rating on SNB with a revised target price of SAR 83.00. The Bank share price rose 3.6% since our last rating. SNB is expected to benefit from rising interest rate scenario due to a positive commission rate gap i.e., the Bank's balance sheet is positively geared in a rising interest rate scenario benefitting NIMs. Due to recent merger with Samba Financial Group, SNB is expected to enjoy revenue as well as cost synergies. It is expected to realize cost synergy of SAR 800 Mn and SAR 1,200 Mn by 2022 and 2023 respectively. SNB realized cost synergies worth SAR 720 Mn in 1Q2. The Bank's NPL excluding purchase or originated credit impaired (POCI) stood at 1.6% in 1Q22, with a healthy coverage ratio of 138.0%. The bank's stage 2 loans stood at 3.6% of total loan in 4Q21 which is the lowest among the peer group. SNB's net advanc-

Rating : BUY

First Look Note – 2Q22

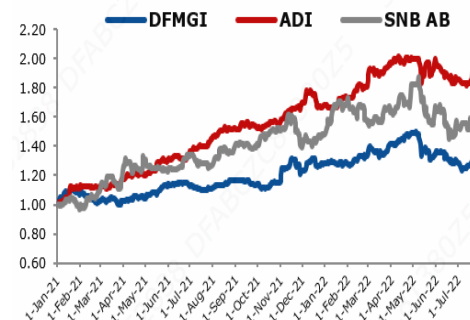
Sector: Banking

Recommendation

Current Price (2-Aug-22)	71.70
Target Price (SAR)	83.00
Upside/Downside (%)	+16%

Stock Information

Market Cap (mm)	321,072.60
Paid Up Capital (mm)	44,780.00
52 Week High	82.00
52 Week Low	55.20
3M Avg. daily value (SAR)	270,116,900



Financial Ratios

Dividend Yield (12m)	2.79
Dividend Pay-out (%)	33.08
Price-Earnings Ratio (x)	20.67
Price-to-Book Ratio (x)	2.14
Book Value (SAR)	33.53
Return-on Equity (%)	10.61
Earning Per Share (SAR)	3.47
Beta	1.10

Stock Performance

5 Days	3.31%
1 Months	8.80%
3 Months	-9.24%
6 Months	-1.65%
1 Year	28.49%
Month to Date (MTD)	2.87%
Quarter to Date (QTD)	8.80%
Year to Date (YTD)	11.34%

es recorded solid growth of 4.0% QOQ to SAR 536 Bn in 2Q22. As per 1Q22, the loan book comprises of 52.8 % retail loan and 41.7 % corporate loans allowing to reprice its assets with little or some delay. Saudi National bank witnessed healthy growth in CASA leading to funding mix optimizations. CASA stood at SAR 477 billion which grew 4.81% QOQ contributing to 78.8% of total customer deposits in 1Q22. Due to the aforementioned factors, we assign a BUY rating on the stock.

SNB- Relative Valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E	22.99	19.29	19.29	23.76	17.73
P/B	3.90	3.67	3.07	2.00	1.92
Dividend yield	3.0%	3.2%	1.1%	2.2%	3.0%

FABS Estimates & Co Data

SNB- P&L

SAR mm	2Q21	1Q22	2Q22	2Q22E	Var.	YOY Ch	QOQ Ch	2021	2022F	Ch
Commission income	6,698	6,918	8,227	7,185	14.5%	22.8%	18.9%	25,181	29,846	18.5%
Commission expense	915	833	1,421	973	46.1%	55.2%	70.6%	3,060	4,143	35.4%
Net funded income	5,783	6,085	6,806	6,212	9.6%	17.7%	11.8%	22,120	25,703	16.2%
Non-funded income	1,719	1,980	1,567	1,875	-16.4%	-8.8%	-20.9%	6,342	7,676	21.0%
Operating income	7,501	8,065	8,373	8,087	3.5%	11.6%	3.8%	28,462	33,378	17.3%
Total operating Ex- penses	2,679	2,425	2,088	2,487	-16.0%	-22.1%	-13.9%	9,864	10,057	2.0%
Pre-provision profit	4,822	5,543	6,285	5,550	13.2%	30.3%	13.4%	18,365	23,075	25.7%
Impairment charge for financing losses, net	2,408	385	978	527	85.5%	-5.3%	154.1%	3,927	2,654	-32.4%
PBT	2,414	5,158	5,307	5,023	5.7%	40.1%	2.9%	14,438	20,421	41.4%
Zakat	275	592	718	577	24.5%	97.4%	21.2%	1,653	2,345	41.8%
Profit after tax	2,140	4,566	4,589	4,446	3.2%	34.9%	0.5%	12,784	18,076	41.4%
Non controlling interest	22	64	44	44	0.0%	97.7%	-30.8%	116	199	71.9%
Net profit attributable	2,117	4,502	4,589	4,402	4.3%	34.9%	1.9%	12,668	17,877	41.1%

FABS estimate & Co Data

SNB - KPI

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Ch
Net FI/OI	77.1%	75.5%	81.3%	420	583	77.7%	77.0%	-71
Cost to income	35.7%	30.1%	24.9%	-1,078	-513	34.7%	30.1%	-453
Impairment/PPP	49.9%	6.9%	15.6%	-3,437	862	21.4%	11.5%	-988
NP/OI	28.2%	55.8%	54.8%	2,658	-101	44.5%	53.6%	905
ROE	15.0%	11.7%	10.9%	-402	-73	11.6%	11.8%	25
ROA	2.2%	1.9%	2.3%	13	44	1.4%	1.8%	44

FABS estimate & Co Data

SNB- Key BS Items

SAR mm	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
Net advances	5,03,157	5,03,696	4,95,898	5,12,898	5,36,189	6.6%
<i>QOQ Change</i>	41.1%	0.1%	-1.5%	3.4%	4.5%	
Total Assets	8,96,421	9,02,720	9,14,150	9,21,565	9,58,473	6.9%
<i>QOQ Change</i>	49.5%	0.7%	1.3%	0.8%	4.0%	
Customer deposits	5,88,135	5,89,190	5,86,944	6,04,963	5,93,011	0.8%
<i>QOQ Change</i>	40.2%	0.2%	-0.4%	3.1%	-2.0%	
Total Equity	1,60,300	1,60,522	1,62,770	1,65,143	1,60,988	0.4%
<i>QOQ Change</i>	90.4%	0.1%	1.4%	1.5%	-2.5%	

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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