

### Al Rajhi Capital Estimates (SAR mn)

	2023	2024E	2025E
Net interest income growth	10.9%	8.3%	9.8%
Total operating income growth	9.5%	7.6%	8.8%
Net income growth	11.9%	6.4%	8.6%
Loan Growth	10.0%	9.7%	9.7%
Mortgage Growth	10.4%	7.9%	6.6%
Retail Loan Growth	-1.2%	3.0%	4.0%
Corporate Loan Growth	13.8%	12.5%	12.7%
Deposit Growth	7.8%	10.7%	10.8%
Mortgage origination (SAR bn)	6.5	5.7	5.4
COR	41	49	53
NIM Change	-2.2 bp	-4.0 bp	1.2 bp
ROE (%)	16.1%	16.6%	15.8%

Source: Aggregate of Banks under coverage (Al Rajhi, Alinma, Albilad, ANB, BJAZ, BSF, Riyad, SNB, SABB, SIB). The loan growth mentioned above is system level growth (gross number) and would differ from the aggregate number for the ten banks.

## SAMA Banking Data – February Release

### Good start to the year

The February release, which contains data for January, has a positive set of data points. Among the positives, loan growth came in strong witnessing highest m-o-m growth since June 2022 driven primarily by corporate loans. Another positive was the increase in mortgage origination at SAR 7.5 bn, a sharp improvement from SAR 6.2 bn in Dec. 2023. Meanwhile, deposits matched credit growth but was led by other quasi money deposits, demand deposits mix contracted further. The profitability was encouraging, SAR 7.0 bn, +3% m-o-m and +10% y-o-y, supported by strong loan growth and ease in funding pressure (SAIBOR eased by 7bps m-o-m in Jan.) The numbers should support the sentiments; however, all eyes would be on today's core PCE data in the US. Recently, the rate cut expectations have changed drastically from 6-7 cuts to 3-4 cuts now after two consecutive readings of core CPI above expectations.

#### More details:

**Credit:** Credit growth for Jan. came in strong, growing by 1.5% m-o-m and +10.7% y-o-y (Dec.: -0.1% m-o-m, +10.0% y-o-y). Bank lending to the private sector increased 1.2% m-o-m and 10.8% y-o-y in Jan. (Dec.: -0.1% m-o-m and +10.0% y-o-y). The proxy for corporate loans (total bank credit minus personal loans) grew 2.4% m-o-m and +14.2% y-o-y after seeing muted growth in December.

**Deposits:** Deposits almost matched credit (+1.4% m-o-m, +10.3% y-o-y), but with a drop in the mix of both demand and time deposits as deposits were led by other quasi money deposits (+10% m-o-m). Demand deposit mix contracted 54bps to 52.5%, while time deposits saw slight contraction to 34.5% breaking its rising streak of 10 consecutive months. At the same time, inter bank liabilities also rose 15% m-o-m, indicating that the banks are relying on short term funding.

**Liquidity:** The simple LDR in the system came in flat m-o-m at 104.5%, however, the adjusted LDR (SAMA reported) improved 0.6% coming at 80.1%.

**Consumer spending** (includes PoS, cash withdrawals and e-commerce) increased 8.6% y-o-y in January to SAR 114.2bn (+3.4% y-o-y in December). Cash withdrawals in value terms increased 1.9% y-o-y in January (-3.7% y-o-y in December) to SAR 46.0bn.

**Mortgage:** Residential mortgage originations came in at around SAR 7.5bn in, seeing an increase from SAR 6.2bn in December. We see upside risks to our 2024 estimates of mortgage run rate of SAR 5.7 bn.

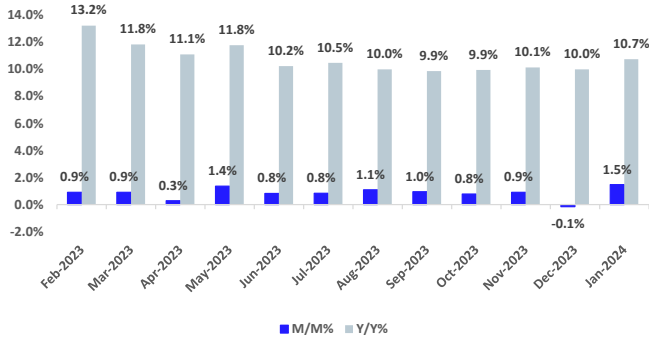
**Banking sector net profit before Zakat and tax:** Profit before zakat and tax for January came in strong at SAR 7.0bn, +3.1% m-o-m and +9.5% y-o-y (December: +11.3% m-o-m and +9.5% y-o-y). We note the growth in profitability could have been supported by acceleration in loan growth.

Figure 1 SAMA Monthly Data

(SAR bn)	Jan-24	Jan-23	y-o-y	Dec-23	m-o-m
<b>Credit</b>					
Total Credit	2,622	2,368	10.7%	2,584	1.5%
Claims on Private Sector	2,548	2,300	10.8%	2,519	1.2%
Residential Mortgage	7.5	8.4	-10.0%	6.2	20.9%
Average Mortgage Origination (YTD)	7.5	8.4	-10.0%	6.5	16.4%
<b>Deposits</b>					
Total Deposits	2,509	2,274	10.3%	2,473	1.4%
Demand Deposits	1,317	1,299	1.4%	1,312	0.4%
Time Deposits	864	662	30.7%	864	0.0%
<b>Other Key Indicators</b>					
Simple LDR (%)	104.5%	104.1%	41 bps	104.5%	5 bps
SAMA LDR (%)	80.1%	82.8%	-277 bps	80.7%	-65 bps
Interbank Liabilities	117.3	98.9	18.6%	102.3	14.7%
Profit before Zakat	7.0	6.4	9.5%	6.8	3.1%
<b>Rates (%)</b>					
SAIBOR 3M*	6.2%	5.4%	86 bps	6.3%	-7 bps
LIBOR 3M*	5.6%	4.8%	80 bps	5.6%	-2 bps

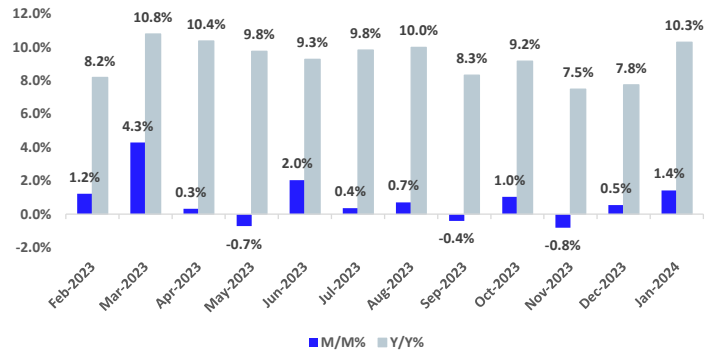
Source: SAMA, Al Rajhi Capital. \*Spot rate taken for January 2024 and average taken for January 2023 and December 2023.

Figure 2 Credit Growth (Last 12 Months)



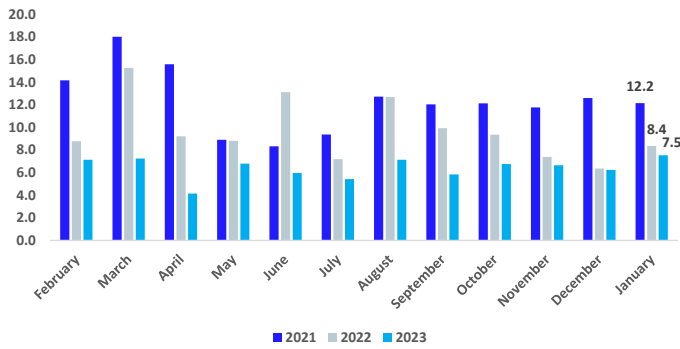
Source: Saudi Central Bank, Al Rajhi Capital

Figure 3 Deposit Growth (Last 12 Months)



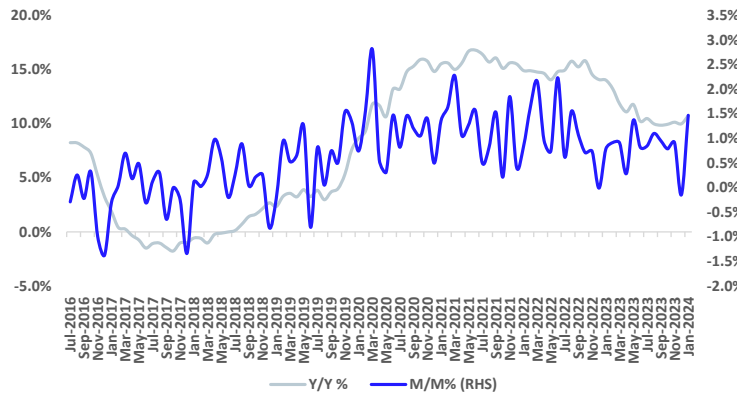
Source: Saudi Central Bank, Al Rajhi Capital

Figure 4 New Mortgage Origination (Last 12M, SAR bn)



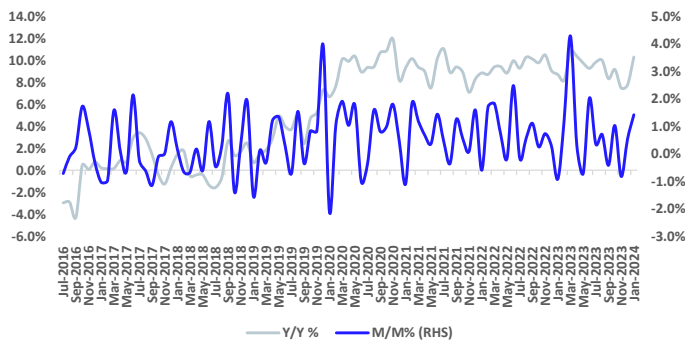
Source: Saudi Central Bank, Al Rajhi Capital.

Figure 5 Credit Growth Long Term



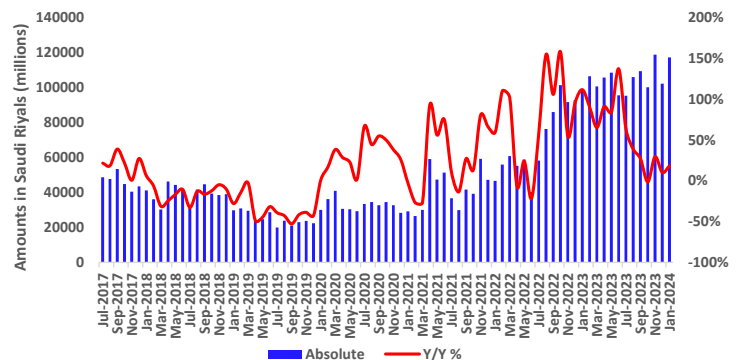
Source: Saudi Central Bank, Al Rajhi Capital

Figure 6 Deposit Growth Long Term



Source: Saudi Central Bank, Al Rajhi Capital

Figure 7 Interbank Liabilities (Long-Term)



Source: Saudi Central Bank, Al Rajhi Capital

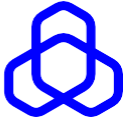
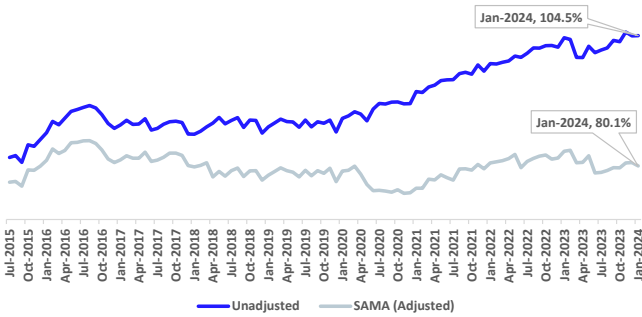
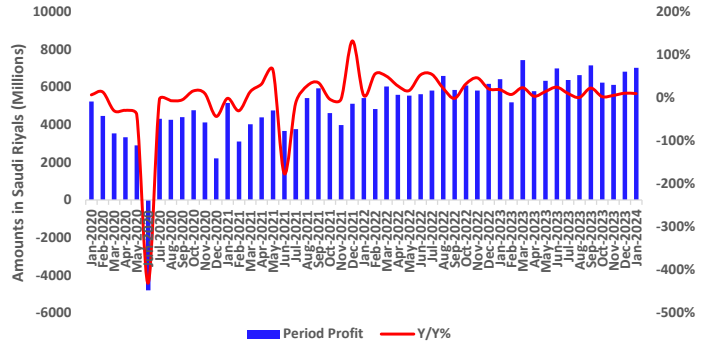


Figure 8 LDR (Long-Term)



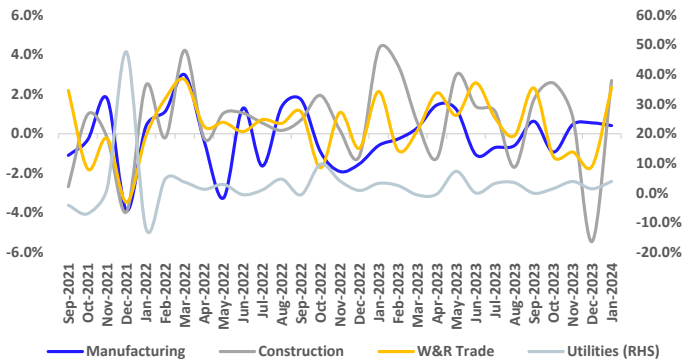
Source: Saudi Central Bank, Al Rajhi Capital

Figure 9 Bank profit before zakat



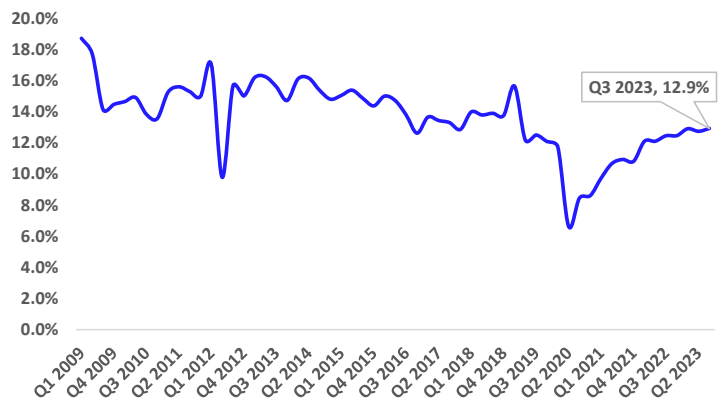
Source: Saudi Central Bank, Al Rajhi Capital

Figure 10 Bank-Credit Classified by Economic Activity



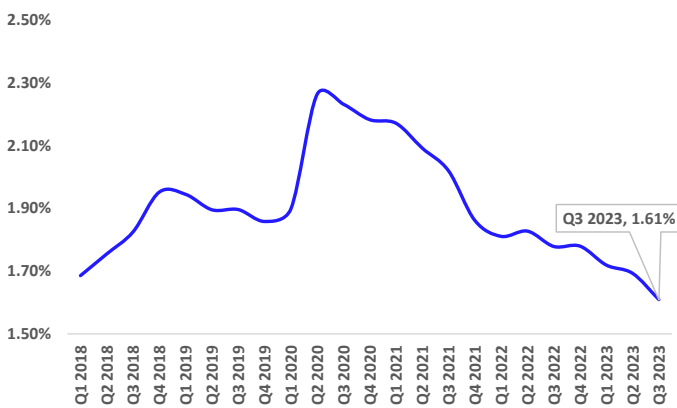
Source: Saudi Central Bank, Al Rajhi Capital

Figure 11 Return on Equity (Banks)



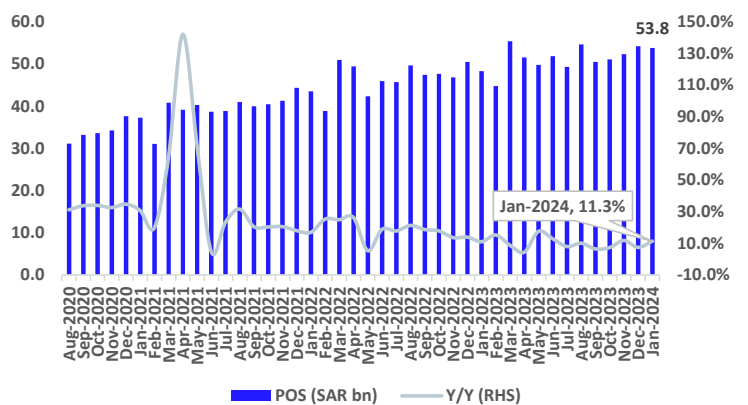
Source: Saudi Central Bank, Al Rajhi Capital

Figure 12 Non-performing loans to Gross loans



Source: Saudi Central Bank, Al Rajhi Capital

Figure 13 Point-of-sale transactions (POS) trend



Source: Saudi Central Bank, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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