# Saudi National Bank
**10 January 2024**

## Banking

## Saudi National Bank – Growth To Continue

### BUY: 12M TP @ 48

| Valuation Summary (TTM) | |
|---|---|
| Price (SAR) | 43.000 |
| PER TTM (x) | 13.4 |
| P/Book (x) | 1.7 |
| Dividend Yield (%) | 4.0 |
| Free Float (%) | 59% |
| Shares O/S (mn) | 6,000 |
| YTD Return (%) | 11% |
| Beta | 1.2 |

| (mn) | SAR | USD |
|---|---|---|
| Market Cap | 258,000 | 68,800 |
| Total Assets | 1,027,133 | 273,902 |

| Price performance (%) | 1M | 3M | 12M |
|---|---|---|---|
| Saudi National Bank | 24% | 35% | 16% |
| Tadawul All Share Index | 9% | 16% | 15% |

| Trading liquidity (,000) | 1M | 3M | 6M |
|---|---|---|---|
| Avg daily turnover (SAR ,000) | 242,271 | 206,102 | 209,168 |
| Avg Daily Volume (,000) | 5,350 | 5,805 | 5,839 |

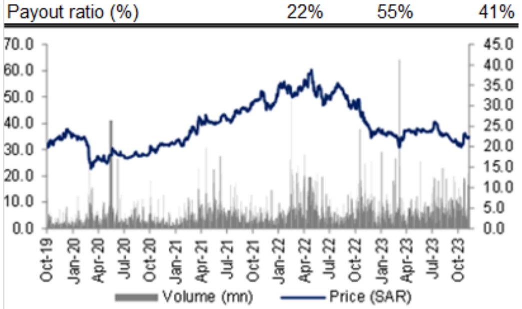
| 52 week | High | Low | CTL* |
|---|---|---|---|
| Price (SAR) | 44.35 | 29.67 | 44.6 |

* CTL is % change in CMP to 52wk low

| Major shareholders | |
|---|---|
| Public Investment Fu | 37% |
| Vanguard Group Inc/T | 2.0% |
| BlackRock Inc | 1.3% |
| Others | 59.5% |

| Other details | |
|---|---|
| Exchange | Saudi Arabia |
| Sector | Banks |
| Index weight (%) | 7.0% |

| Key ratios | 2020 | 2021 | 2022 |
|---|---|---|---|
| EPS (SAR) | 2.75 | 2.11 | 3.10 |
| BVPS (SAR) | 17.27 | 25.00 | 25.08 |
| DPS (SAR) | 0.60 | 1.16 | 1.27 |
| Payout ratio (%) | 22% | 55% | 41% |




**Saudi National Bank (SNB) is the largest bank in the Kingdom and the 2nd largest in GCC based on its asset size and loan book. It has a strong market position across verticals (28% in terms of total assets, 20% in wholesale banking, 29% in retail banking, and 25% in terms of total deposits), making it one of the most important and influential banks in the Kingdom. We view this positively, given that the Saudi economy is in a state of change, as the country has planned an investment of more than USD1.25tn in various infrastructure projects to transform its economy. With the deadline of its Vision 2030 fast approaching, along with the country's recent successful bid to host Expo 2030 and FIFA World Cup 2034, we expect the pace of execution to pick up. Given SNB's strong standing in the industry, with a robust market share in both retail and corporate banking, we see strong potential for growth. We also take into account the strong parentage of the bank, with PIF holding 37% of the bank's stake, which provides it with a competitive advantage.**

**SNB has a balanced loan book with material exposure to both retail (53% of total loans) and corporate loans (c.40%). This is in contrast with most of its peers, where the loan book is predominantly concentrated in one vertical. We feel that this is a key differentiator for the bank, which helps it to manage its credit exposure, while also limiting the impact of fluctuating interest rates. We also view positively the ability of the bank to manage its net commission margins (NCM), which came under pressure in 2023 due to a tightening interest rate scenario (average 3M-SIBOR increased from 3.1% in 2022 to 5.9% in 2023). However, SNB was largely able to limit the fall in its NCM (3.2% in 2022 to c.3% in 9M23). The loan book of SNB has witnessed strong growth in the past couple of years, and this momentum has largely continued in 2023 (9% YTD as of Sep-23). This, despite an adverse interest rate scenario that had impacted the growth in retail loans (industry average of 5% YTD in Sep-23 vs 8% of SNB) of most of its peers. Going forward we expect the interest rates to soften in the next couple of years, which in turn will aid in the growth rates picking up, as we forecast the loan book of SNB to grow at a CAGR of c.10% between 2023e-27e. We also forecast a favourable impact on the NIM, though the same will improve gradually. The NPL levels (including POCI) of SNB at 1.9% was higher than the industry average of c.1.5%. An 11% increase in the purchase of impaired receivables (POCI) was the main reason for this, as excluding this the NPL levels (1.4%) were comfortable and below the industry average. We also take comfort from the high NPL coverage levels maintained by the bank (c.140%) and its robust capitalization (core tier 1 ratio of 16.4% vs industry average of 16%).**

**Despite its strong market share in deposits, SNB also has a high dependence on market funding (18% of total assets). However, this is more than mitigated by its strong liquidity profile, with a favourable loan-to-deposit ratio (95.4% in Sep-23 vs industry average of 98.4%) and comfortable statutory liquidity ratios (liquidity coverage of 282% and stable funding ratio of 113% as of Sep-23). Further the strong credit rating of SNB (A1/Moody's and A- Fitch & S&P) helps them to raise the required funds at competitive rates in both domestic and international markets. Overall, we have a positive outlook on the operating performance of the bank, and initiate coverage with a *BUY* rating at a target price of *SAR48* per share.**

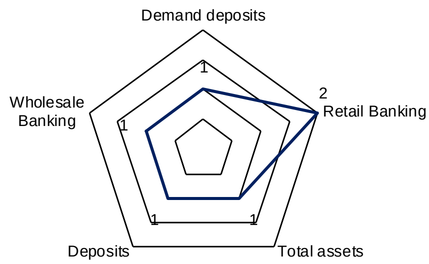
**Valuations:** We view positively SNB's strong business franchisee, aided by its leading market position across verticals. The bank's balanced loan portfolio has aided it to manage its credit risk profile, while also maintaining its NCM levels, despite market fluctuations. Though the NPL levels were slightly high, at the back of an increase in its POCI loan exposure, adequate coverage and high capitalization provide us with comfort. Its strong liquidity position and credit rating, along with its strong market share in deposits, strengthen its funding position. SNB is currently quoting at 1.5x its 2024e book value, a discount to its 3-year historical P/BV of 1.8x and the peer average of c.2.0x. We view the current valuation to be at attractive levels and initiate coverage on the bank with a ***BUY*** rating, at a target price of ***SAR48 per share.***

**Strong business franchise as the largest bank in Saudi in terms of total assets**

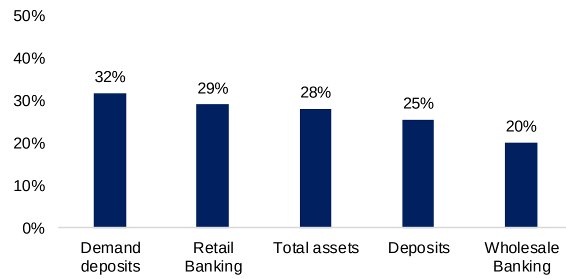
### The largest bank in Saudi across various parameters, with a strong market share in most areas it operates

Saudi National Bank (SNB) is one of the leading banks in the region, operating through c.850 branches, >4,100 ATMS, 100+ remittance centers, and 16,000+ employees across 8 countries, including Saudi Arabia, Bahrain, UAE, Singapore, Pakistan, Turkey, Shanghai, and Seoul. It was the 3rd largest bank in the GCC in terms of total assets, deposits, and total income and the 2nd largest in terms of its loan book. It was the largest player in the Kingdom in terms of total assets (market share of 28%), wholesale banking (market share of 20%), treasury operations (market share of 35%), and brokerage operations (market share of 18%). It also had a strong presence in retail banking, as the 2nd largest player in the country, with a market share of 29%.

**Strong market ranking across verticals**




**Robust market share across products**




*Source: Company filings and US Research*

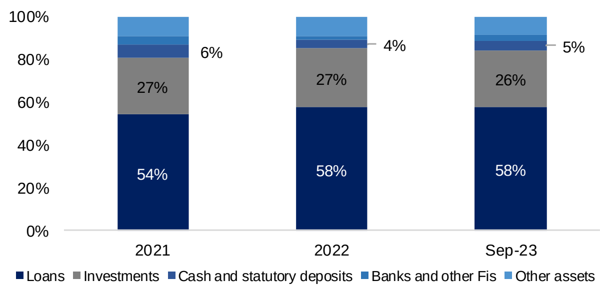
Through its strong business network and business franchise, the bank had robust access to low-cost deposits, with a market share of c.25% in terms of total deposits, and >30% market share in demand deposits. The funding position of the bank is further supported by its strong credit rating (A1 Moody's and A- S&P and Fitch), which helps it to access domestic and international markets for cost-effective borrowings.

Given its strong presence in the region, SNB is an institution with high systematic importance to the Saudi economy and will be a candidate for government support in case of need.

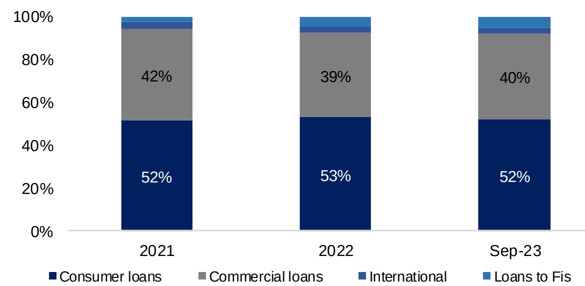
### Asset composition consistent over the period

The asset composition of SNB has been consistent over the past three years with the loan book accounting for c.58% of the total assets and investments accounting for c.26% of the total assets.

**Asset composition consistent**



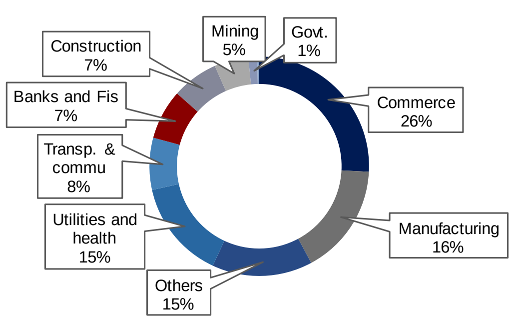

**Retail and corporate dominate loan portfolio**



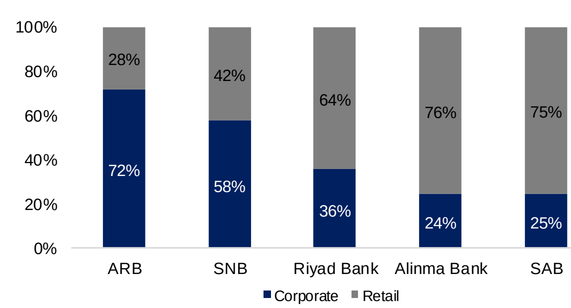

*Source: Company filings and US Research*

The loan book of SNB has grown by a strong 11% CAGR between 2021 and Sep-23 and has been driven by robust performance from consumer loans, which grew by 11% CAGR, and corporate loans, which grew by 7% CAGR for the same period. The loan book is dominated by consumer loans (52% of total loans) and corporate loans (40%), which together account for 92% of total loans. Loans to FIs accounted for 5% of total loans and have grown by a robust 77% CAGR between 2021 and Sep-23, while the international segment accounted for 3% of total loans, though it fell by 7% CAGR for the same period.

**Diversified non-retail portfolio**




**SNB retail to corporate loans more balanced**

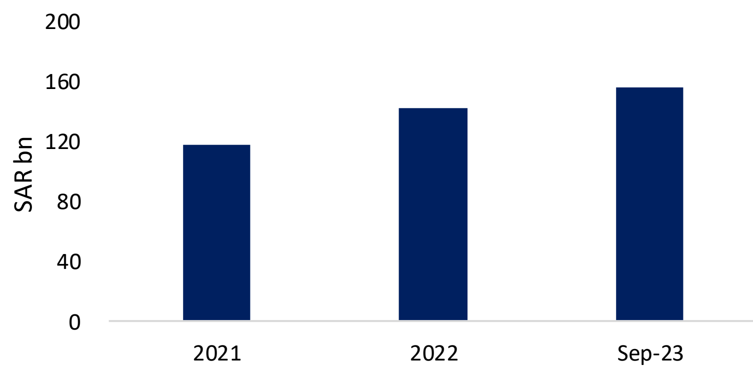



*Source: Company filings and US Research*

**SNB's loan portfolio more balanced with a material mix of both retail and corporate**

We view SNB's loan portfolio positively, as it appears to be more balanced, vis-à-vis its peers, with a reasonable mix of both retail and corporate loans. This we feel provides the company with a much more diversified asset mix, compared to the other players in the industry. The non-retail portfolio of SNB was well diversified with exposure to more than 10 industries

**Mortgage loan growth has been steady**

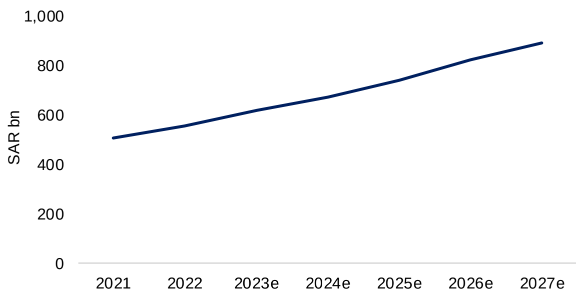



*Source: Company filings and US Research*

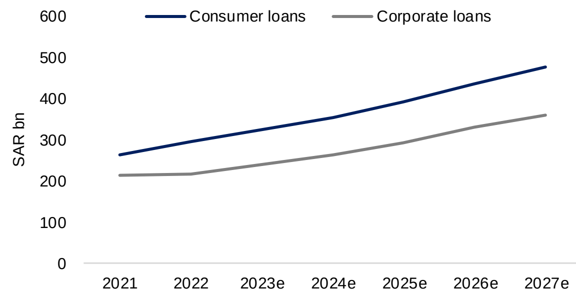
The retail loan portfolio (11% CAGR between 2021 and Sep-23) has been favorably aided by government initiatives and investments in the country, including the growth in mortgages (17% CAGR between 2021 and Sep-23). We positively view the ability of the bank to grow its retail portfolio in 2023 (+8% YTD in Sep-23), despite a nationwide slowdown in mortgage financing (the average new mortgages have declined from SAR10bn per month in 2022 to SAR6.5bn in 2023) and a scenario of increasing interest rates (average 3M SIBOR has increased from 0.8% in 2021 to 5.9% in 2023). Even in this scenario, SNB's mortgage growth has remained strong and has outperformed the industry performance in 2023 (+9.8% YTD vs +7.6% YTD industry performance in Sep-23).

Going forward, we forecast the growth in retail loan portfolio to remain strong, as we forecast a softening of interest rates gradually for the next few years (3M-SIBOR at 3.4% in 2026e from 5.9% in 2023e). Going forward, we expect the growth in consumer loan portfolio of SNB to pick up from high single digits in 2023e to low double digits in the next two years.

**Consistent growth in loan book**




**Retail and corporate loans will continue to grow**



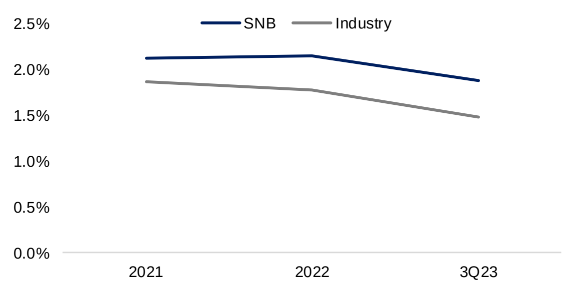

*Source: Company filings and US Research*

**Loan portfolio growth to be supported by positive macro cues**

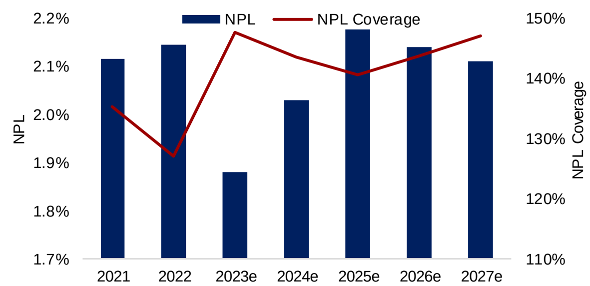
SNB's corporate loan portfolio has grown at a CAGR of 7% between 2021 to Sep-23. SNB has a leadership position in this vertical and contributed to 40% of the total loan as of Sep-23. The performance of this vertical has been aided by a strong pickup in business activities in line with the Saudi Vision 2030. With an estimated project outlay of more than USD1.25tn under various infrastructure projects, of which c.80% is yet to commence operation, we see strong potential for continued growth. We expect the execution of these projects to pick up pace, given that the country is set to host prestigious international events, Expo 2030 and FIFA World Cup in 2034. Further, we see strong potential for growth in the country's tourism segment (contribution to GDP expected to grow from the current levels of 8% to 10% by 2030), which is likely to get a further boost from the upcoming international events. We also see strong potential for growth from SMEs (35% of GDP by 2030) which are likely to achieve more focus from the government, to achieve its employment and diversification targets. Overall, we expect corporate loan growth to remain strong (+10% YTD Sep-23) and forecast for a low double digit growth rate in the medium term. Overall, we expect SNB's loan portfolio to grow at a CAGR of 10% between 2023e-27e.

Asset quality of SNB has been consistently strong, with NPL to gross loans falling from 2.1% (including POCI) in 2021 to the levels of 1.9% in Sep-23. The asset quality was aided by a favorable retail portfolio (0.5% NPL in Sep-23). The retail portfolio of SNB was aided by mortgages making up c.50% of the retail and c.25% of the total loan portfolio. We take into account the recent growth in the mortgage loan portfolio, which is likely to make the portfolio less mature. This increases the risk of an increase in impairments in the coming year. However, we remain comfortable with the current macro environment in Saudi, which is likely to keep the systematic risk of deterioration in asset quality at bay. Further, a strong NPL coverage of 164% (retail loans) provides a buffer on any downside risk.

**NPA levels slightly higher due to POCI**



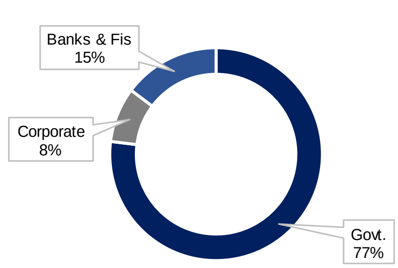

**Asset quality to remain comfortable**



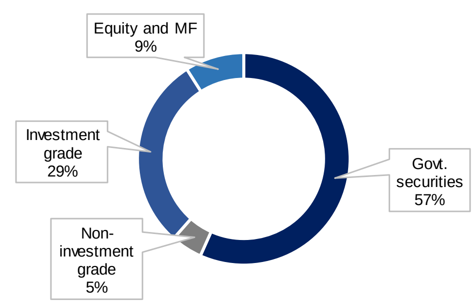

*Source: Company filings and US Research*

The asset quality of the corporate loan portfolio on the other hand was relatively weak (4.0% in Sep-23). High levels of POCI (Purchased or Originated Credit Impaired – these are receivables that were credit impaired at the time of origination. Allowances for impairment in these assets are considered at the time of origination and factored in during pricing) receivables at SAR3.2bn in Sep-23 were the main reason for this. However, the overall NPL coverage of SNB at 138% for Sep-23 appears to be adequate.

**Investments dominated by government entities**




**Investments dominated by debt instruments**




*Source: Company filings and US Research*

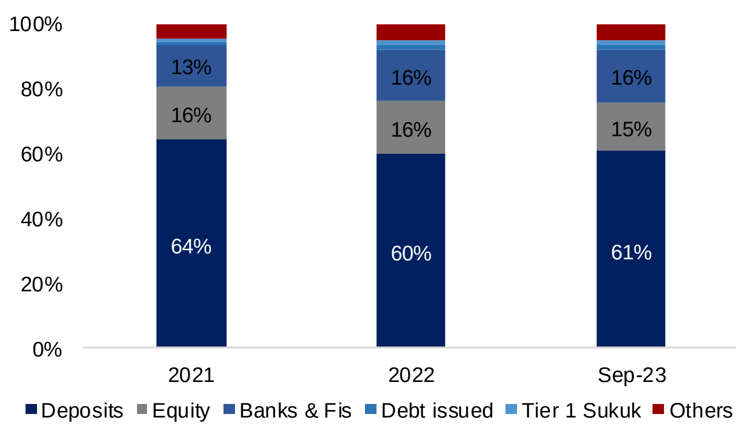
The proportion of investments to total assets has been steady at around 26-27% in the past three years, with the investment book growing by 6%

CAGR during 2021 to Sep-23. The investment book appears to be fairly conservative with c.90% of it being accounted for by debt instruments, with the exposure to equity at c.4% and mutual/hedge funds at 6%. The quality of the investment book appears to be fairly strong, with non-investment grade and unrated investments accounting for a mere 5% of the investments. The investments were predominantly in KSA (67%) and US (13%). GCC and Middle East countries accounted for 6%, Europe 4%, Turkey 3%, and others 8%.

In 2023, SNB took a provision of c.SAR3bn, through their comprehensive income, to account for the loss in the value of investment in Credit Suisse, post its takeover by UBS. However, the impact of the same was restricted, given that its investments in the beleaguered financial institution was only 1.7% of its total investment portfolio in 2022 and less than 0.5% of the total assets. Overall, the carrying value of the investments stands reduced to SAR1.3bn currently, compared to SAR4.4bn in 2022.

### Funding profile impacted by high dependence on market funding

**Deposits to total assets falls marginally**




*Source: Company filings and US Research*

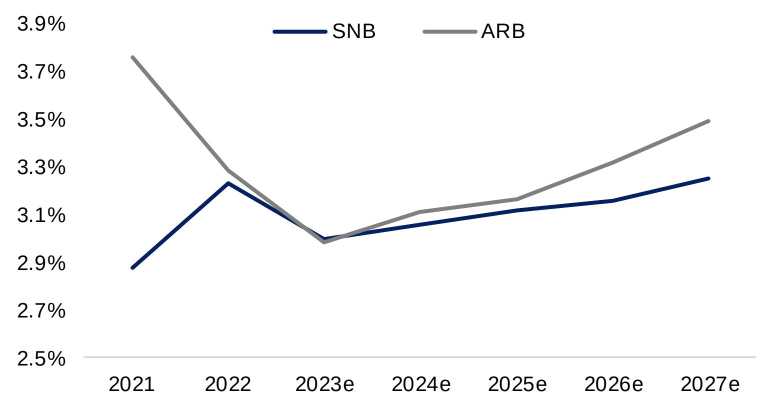
**Dependence on market funding high**

Deposits to total liabilities accounted for 61% of total assets (67% industry average) in Sep-23, down from 64% in 2021 and was relatively weaker than its peers. The bank also had a high dependence on market funding, which accounted for 18% of assets in Sep-23, an increase from 14% in 2021. However, the deposit profile of SNB was strong, as despite a fall in

CASA from 77% in 2021 to 73% in Sep-23, it was higher than the peer average of 58.4%. Increasing interest rates and a resultant increase in the demand for time deposits were the main reasons for the fall in the CASA ratio for SNB. Going forward, we expect no major change in the bank's funding profile, as we expect its high dependence on market funding to continue. This is to a certain extent mitigated by the strong credit rating of the bank, which makes it easier for SNB to tap both domestic and international capital markets for funds. However, we expect the deposit profile to improve, as interest rates soften in the next 2 to 3 years, as we forecast the CASA ratio to rebound by 2027e.

**Net commission margins are under pressure, improvement will be gradual**

**SNB's NCM lower, but more stable than ARB**




*Source: Company filings and US Research*

**NCM relatively stable, aided by the bank's balance portfolio**

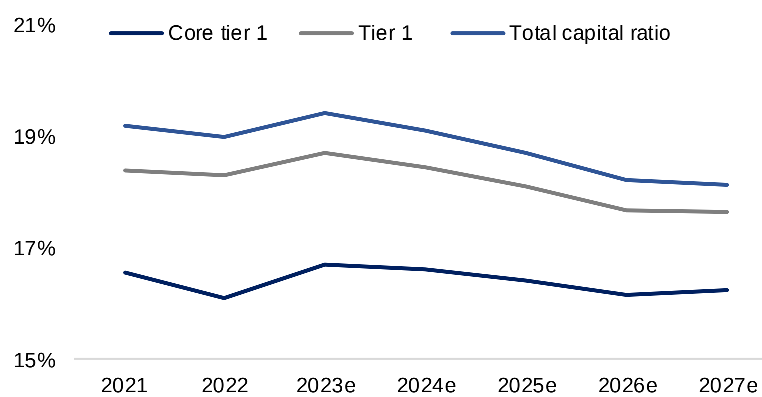
Al Rajhi Bank (ARB) and SNB are the only banks in Saudi with a retail loan portfolio higher than corporate loans. As a result of this, increasing interest rates impact these banks adversely, while benefitting the rest of the peers. In line with this, the net commission margins of SNB witnessed a fall from 3.2% in 2022 to 3.0% for 9M23, as the average 3M-SIBOR increased from 3.1% in 2022 to 5.9% in 2023. However, the fall in NCM was restricted to a certain extent by a more balanced loan portfolio of SNB (retail loans to total loans of SNB is at 52% compared to 72% for ARB) and a high proportion of CASA deposits, relative to its peers. Going forward, we expect the NCM of SNB to recover gradually, as we expect the interest rates to soften.

### Capitalization is strong with one of the best core tier 1 ratios in the industry

SNB's capital quality has been consistently strong and comfortable, with a tier 1 ratio of a robust 18.4% and a core tier 1 ratio of 16.4% in Sep-23. The quality of the capital too was strong with c.90% of the tier 1 capital being made up of equity. These ratios were one of the best in the industry and were better than the peer average of 16.0% core tier 1 and 18.0% tier 1.

Going forward we expect this trend to continue, as we expect the bank to maintain its strong capital adequacy ratios, which would be better than its peers.

**Core capital ratios expected to remain strong**



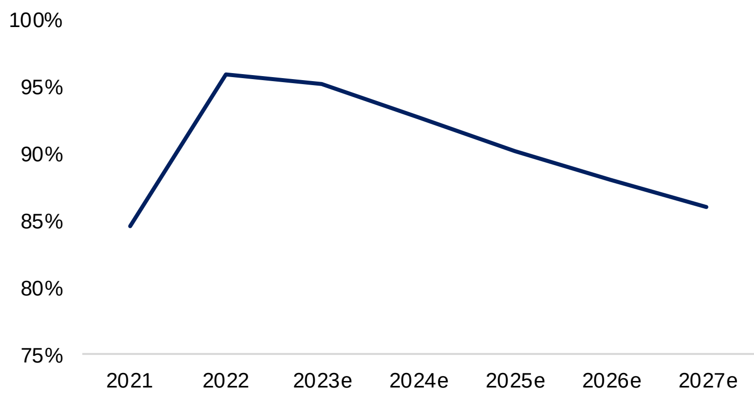

*Source: Company filings and US Research*

### Liquidity continues to be strong

**Liquidity position strong, with robust L/D and statutory liquidity ratios**

The loan-to-deposit (L/D) ratio of SNB has been under pressure since 2021, as it increased from 85% in 2021 to 95% in Sep-23. However, it was better than the industry average of 98.4%. The bank has also continued to maintain its statutory liquidity ratios well above the minimum requirement (liquidity coverage ratio of 282% vs the requirement of 100% and a net stable funding ratio of 113% vs the requirement of 100% in Sep-23). The robust liquidity of SNB mitigates to a certain extent the relatively high dependence on market funding.

**L/D ratio comfortable and likely to improve**



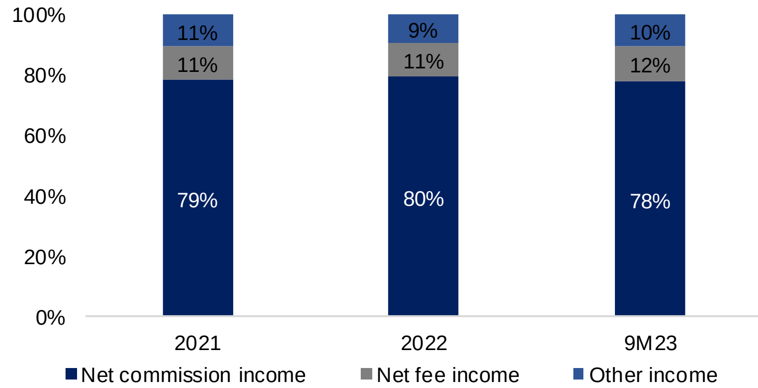

*Source: Company filings and US Research*

### Financial performance to remain strong aided by growth in loan book and a steady NCM

**NCI contributes to a high proportion of total operating income**

The total operating income of SNB increased by 16.9% YoY in 2022 and was aided by a strong 21.1% growth in net fee income and an 18.4% improvement in net commission income (NCI). Growth in NCI was aided by growth in loan (10% YoY) & investment books (6%), and an improvement in NCM from 2.9% in 2021 to 3.2% in 2022. Other income on the other hand was flat at 2021 levels. Total operating income is predominantly made up of net commission income (c.80% of total operating income), while net fee income (11-12%) and other income (8-9%) make up the balance.  Overall, the composition of the revenue stream was moderate, with a relatively high proportion of it coming from other income, which could make the operating income volatile and subject to the vagaries of the market.

**Commission income dominates operating income**



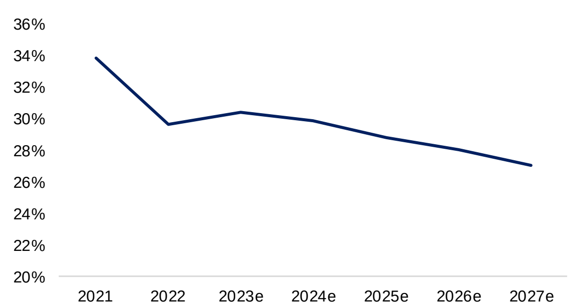

*Source: Company filings and US Research*

**Consistent growth in loan book and a recovery in NCM to aid operating income growth**

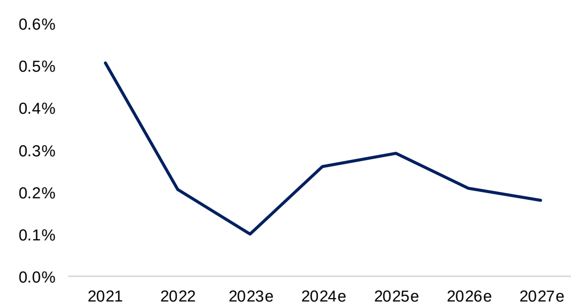
SNB's performance in 2023 has continued to grow, as total income for 9M23 increased by 4% YoY, at the back of 9% YoY growth in net fee income and a 3% YoY growth in NCI and other income. Loan growth continued to remain strong at 11% YoY for Sep-23, even as NCM fell to 3.0% for 9M23, compared to 3.2% a year back, restricting the growth in NCI.

Going forward, we expect total operating income will be aided by consistent growth in the loan book and a gradual improvement in NCM, aided by the softening of interest rates. Overall, we expect total operating income to grow by 11% CAGR between 2023e-27e.

**Cost to income ratio to moderate**




**Cost to risk to be range bound**




*Source: Company filings and US Research*

**Operating cost and cost to risk to remain under control**

Operating expenses increased by 2% YoY in 2022, and despite a strong growth in its loan book, SNB has been able to largely keep its costs under check. This has aided in its cost to income ratio falling from the levels of 33.9% in 2021 to 29.6% in 2022. Though the same has increased marginally to 30.1% in 9M23, we expect it to largely remain under control going forward.

Impairments fell by 57.4% YoY, despite a growing loan portfolio, as cost to risk declined to 0.2% in 2022, compared to 0.5% in 2021. The substantial fall in impairments in 2022, was at the back of a higher base in 2021. It has reduced further by 68% YoY for 9M23, as cost to risk dropped to 0.1% for 9M23. Higher recoveries from corporate banking during the year were the main reason for the drop. Going forward we expect the impairments to increase from 2023 levels, though the same will remain under control.

The overall net income of SNB grew by a robust 47% YoY in 2022, driven by a higher total operating income, stable operating expenses, and lower impairments. The growth has continued in 2023, albeit normalized, as net income increased by 9% YoY for 9M23. Going forward, we expect the robust performance to continue, as we forecast the net income of SNB to grow at a CAGR of 12% between 2023e-27e.

### Key risks

- Slowdown in the Saudi economy, resulting in lower-than-expected growth in loan book and higher than expected stress in asset quality.
- SNB’s international exposure coming under stress.
- The investment portfolio of the bank coming under stress due to a slowdown in the global economy.

## Valuation:

**Blended target price at SAR48/share**

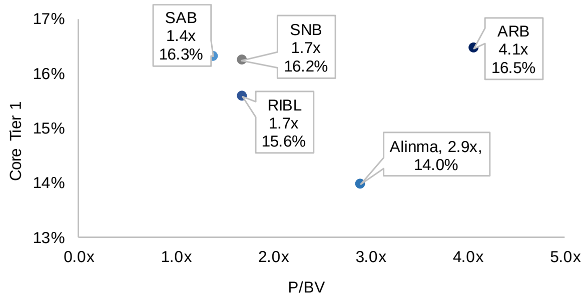
Investment in SNB is supported by its strong business franchisee, as the largest bank in the Kingdom, strong capitalization, diversified loan book, and strong liquidity. Despite some headwinds in 2023, the bank has managed to grow its retail loans, while the corporate loan book growth has remained robust. Though there have been some pressures on the NCM, the bank has been able to keep it under control, aided by its balanced loan book. We expect interest rates to soften from 2024, which is likely to boost the retail loan growth, while providing some leeway on its NCM. SNB is currently quoting at a P/BV of 1.5x, which is at a discount to its last three-year average P/BV of 1.8x. The bank is also quoting at a discount to the average P/BV of c.2.0x of its peers. Given this, we see a strong upside potential for the bank and initiate coverage on SNB with a ***BUY*** rating at a target price of ***SAR48/share***.

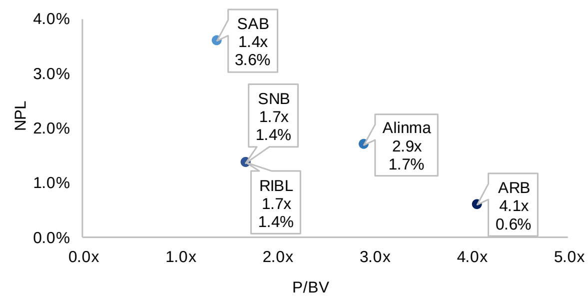
We arrive at the target price using an equal-weighted combination of residual valuation and relative valuation (P/BV). The residual valuation is based on a risk-free rate of 4.1%, a market risk premium of 4.7%, and a beta of 1.2x, giving us a cost of equity of 9.6%. Based on these inputs we arrive at a fair value price of SAR49/share, using the residual valuation methodology.

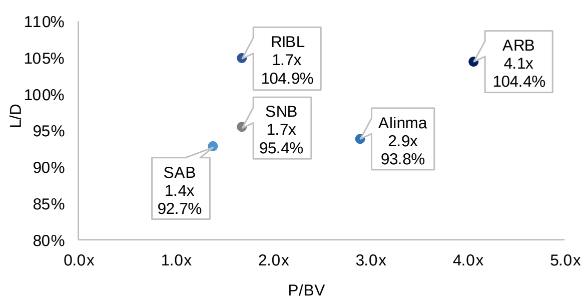
| Residual Valuation (SAR mn) | 2023E | 2024E | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|
| Equity | 159,718 | 172,070 | 185,953 | 202,236 | 220,892 |
| Net income | | 20,587 | 23,138 | 27,139 | 31,094 |
| Less Cost of equity | | (15,353) | (16,540) | (17,875) | (19,440) |
| Residual value | | 5,234 | 6,598 | 9,264 | 11,654 |
| **Discounted residual value** | | **4,786** | **5,504** | **7,050** | **8,091** |
| **Current equity value** | | | | | **159,718** |
| **Terminal value** | | | | | **108,416** |
| **Equity value** | | | | | **293,566** |
| ***Fair value per share (SAR)*** | | | | | ***49*** |

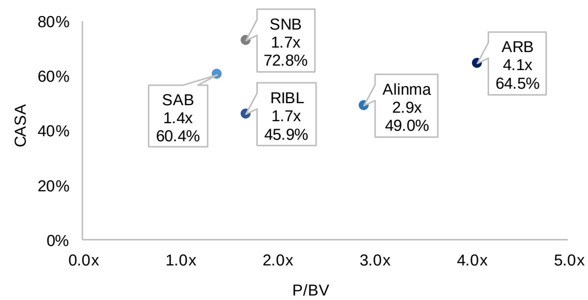
| Cost of Capital | |
|---|---|
| Risk free rate | 4.1% |
| Adjusted beta | 1.2x |
| Equity risk premium | 4.7% |
| Cost of equity | 9.6% |
| Terminal growth | 2.0% |

**Valuation at a discount having strong operating parameters**




| **Relative valuation** | |
|---|---|
| BV (2024e) | 29 |
| 5 year median P/BV | 1.7x |
| ***Fair Value*** | ***47*** |

| **Methodology** | **Tp/Sh SAR** | **Wt** | **Avg./Sh SAR** |
|---|---|---|---|
| Residual valuation | 49 | 50% | 24 |
| Relative valuation | 47 | 50% | 24 |
| **Value per share** | | | **48** |

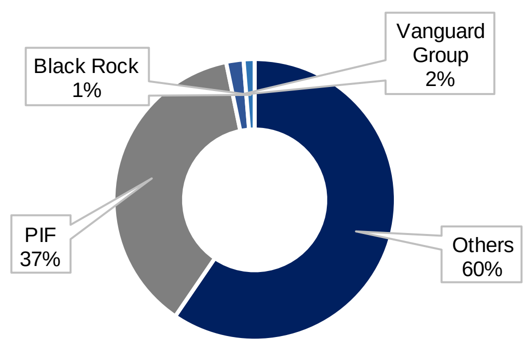
For relative valuations we have used P/BV; SNB is currently quoting at a discount to its peers and given the better-than-average operating quality under most parameters, we feel that this discount is unjustified. Overall, we use a P/BV multiple of 1.7x, a discount of c.15% to its 3-year average historical P/BV, and arrive at a fair value of SAR47/share. Using an equally weighted average, we arrive at a target price of ***SAR48/share*** and a ***BUY*** rating on SNB.

### About the Company

SNB was formed by the merger of National Commercial Bank (NCB) and Samba Financial Group (SFG) in April 2021, making it the largest bank in Saudi Arabia in terms of total assets, loan books, and deposits. NCB was the first bank to be officially licensed and operate in Saudi Arabia in 1953. NCB established its Shariah Board in 1996 and became a joint stock company in 1997. SFG is a leading banking and financial institution in the Kingdom. Its first branch was established in 1955 under Citibank's name. In 1980, this was transformed into the Saudi American Bank. In 1999, it was merged with United Saudi Bank, and in the year 2003 it came under complete local management and was renamed Samba Financial Group.

SNB is currently a leading player in the Kingdom and the region, with a market share of 28% of the total assets, 20% in wholesale banking, and 29% in retail banking. It was the largest player in terms of total assets and wholesale banking, and the 2nd largest in retail banking in the Kingdom.

### Share Holding Pattern



| Board of Directors | | |
|---|---|---|
| S.no | Name | Position |
| 1 | Saeed Mohammed Alghamdi | Chairman |
| 2 | Yazeed Abdulrahman Alhumied | Vice Chairman |
| 3 | Ibrahim Saad Almojel | Director |
| 4 | Naif Sufouk Bashir Almarshed | Director |
| 5 | Saoud Solaiman Aljuhni | Director |
| 6 | Rashed Ibrahim Sharif | Director |
| 7 | Abdulrahman Mohammed Alodan | Director |
| 8 | Zaid Abdulrahman Algwaiz | Director |
| 9 | Ziad Mohammed Altunisi | Director |
| 10 | Abdullah Abdulrahman Alrowais | Director |
| 11 | Huda Mohammed Bin Ghoson | Director |

*Source: Company filings and US Research*

| Income Statement (SAR mn) | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|
| Net commission income | 22,208 | 26,286 | 26,945 | 29,878 | 33,563 | 37,696 | 42,259 |
| Net fee income | 3,059 | 3,704 | 4,251 | 4,637 | 5,079 | 5,615 | 6,095 |
| Other income | 2,970 | 3,013 | 3,634 | 3,587 | 3,890 | 4,254 | 4,580 |
| **Total income** | **28,236** | **33,003** | **34,830** | **38,102** | **42,532** | **47,565** | **52,934** |
| Operating expenses | (9,562) | (9,784) | (10,599) | (11,377) | (12,267) | (13,343) | (14,311) |
| **Profit before impairments** | **18,674** | **23,220** | **24,232** | **26,725** | **30,265** | **34,222** | **38,623** |
| Impairments | (3,961) | (1,685) | (910) | (2,564) | (3,166) | (2,523) | (2,375) |
| Other non-operating expenses | (259) | (258) | (532) | (543) | (554) | (565) | (576) |
| **Profit before tax** | **14,454** | **21,277** | **22,790** | **23,618** | **26,545** | **31,135** | **35,672** |
| Zakat | (1,670) | (2,548) | (2,756) | (2,856) | (3,210) | (3,766) | (4,314) |
| **Profit before minority interest** | **12,784** | **18,729** | **20,033** | **20,762** | **23,334** | **27,369** | **31,357** |
| Minority interest | (116) | (148) | (168) | (175) | (196) | (230) | (264) |
| **Profit after tax** | **12,668** | **18,581** | **19,865** | **20,587** | **23,138** | **27,139** | **31,094** |

| Balance Sheet (SAR mn) | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|
| Cash and statutory deposits | 52,197 | 41,611 | 55,357 | 63,830 | 72,745 | 81,548 | 93,781 |
| Due to financial institutions | 40,446 | 16,497 | 29,162 | 31,742 | 34,926 | 38,781 | 42,218 |
| Investments - Net | 242,561 | 258,292 | 271,564 | 295,585 | 325,232 | 361,134 | 393,139 |
| Financing - Net | 497,568 | 545,311 | 605,679 | 657,781 | 722,086 | 801,270 | 871,731 |
| PP&E and right to use assets | 10,677 | 11,527 | 11,686 | 11,857 | 12,038 | 12,228 | 12,428 |
| Goodwill and other intangibles | 42,234 | 41,389 | 40,569 | 39,749 | 38,928 | 38,108 | 37,288 |
| Other assets | 28,464 | 30,869 | 36,555 | 38,877 | 41,744 | 45,216 | 48,310 |
| **Total Assets** | **914,147** | **945,496** | **1,050,572** | **1,139,421** | **1,247,698** | **1,378,286** | **1,498,895** |
| **Liabilities and Equity** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks and other FI | 117,565 | 150,995 | 172,425 | 171,495 | 170,936 | 170,071 | 163,180 |
| Customer deposits | 588,574 | 568,283 | 635,992 | 709,773 | 800,245 | 909,996 | 1,013,951 |
| Debt issued | 6,112 | 12,987 | 13,911 | 15,142 | 16,660 | 18,500 | 20,139 |
| Other liabilities | 39,126 | 46,453 | 52,366 | 54,607 | 57,372 | 60,722 | 63,707 |
| **Total liabilities** | **751,378** | **778,719** | **874,694** | **951,016** | **1,045,214** | **1,159,288** | **1,260,977** |
| **Equity** | | | | | | | |
| Share capital | 44,780 | 44,780 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 |
| Reserves | 105,230 | 105,706 | 99,718 | 112,070 | 125,953 | 142,236 | 160,892 |
| **Total shareholders' equity of the bank** | **150,010** | **150,486** | **159,718** | **172,070** | **185,953** | **202,236** | **220,892** |
| Tier 1 Sukuk | 12,188 | 15,488 | 15,188 | 15,188 | 15,188 | 15,188 | 15,188 |
| **Equity attributable to equity holders** | **162,198** | **165,973** | **174,905** | **187,258** | **201,140** | **217,424** | **236,080** |
| Minority interest | 572 | 804 | 973 | 1,148 | 1,344 | 1,574 | 1,838 |
| **Total Equity** | **162,770** | **166,778** | **175,878** | **188,405** | **202,484** | **218,998** | **237,918** |
| **Total liabilities and equity** | **914,147** | **945,496** | **1,050,572** | **1,139,421** | **1,247,698** | **1,378,286** | **1,498,895** |

| Cash Flows (SAR mn) | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|
| Cash from operations | 18,070 | (4,239) | 21,541 | 13,707 | 14,119 | 14,437 | 20,232 |
| Cash from investments | (503) | (28,550) | (1,591) | (1,623) | (1,656) | (1,689) | (1,722) |
| Cash from financing | (5,698) | 727 | (10,009) | (7,004) | (7,737) | (9,016) | (10,798) |
| Forex | (888) | (652) | - | - | - | - | - |
| Net changes in cash | 10,981 | (32,715) | 9,942 | 5,080 | 4,727 | 3,732 | 7,712 |
| **Cash balance** | **52,873** | **20,158** | **30,100** | **35,180** | **39,907** | **43,639** | **51,350** |

| Ratios | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|
| **Per Share (SAR)** | | | | | | | |
| EPS | 2.1 | 3.1 | 3.3 | 3.4 | 3.9 | 4.5 | 5.2 |
| BVPS | 25.0 | 25.1 | 26.6 | 28.7 | 31.0 | 33.7 | 36.8 |
| DPS | 1.2 | 1.3 | 1.3 | 1.4 | 1.5 | 1.8 | 2.1 |
| Total income/share | 4.7 | 5.5 | 5.8 | 6.4 | 7.1 | 7.9 | 8.8 |
| **Valuations** | | | | | | | |
| M.Cap (SAR mn) | 251,159 | 296,917 | 215,008 | 258,000 | 258,000 | 258,000 | 258,000 |
| P/E | 19.8 | 16.0 | 10.8 | 12.5 | 11.2 | 9.5 | 8.3 |
| P/BV | 1.7 | 2.0 | 1.3 | 1.5 | 1.4 | 1.3 | 1.2 |
| Div. yield | 2.8% | 2.6% | 3.7% | 3.2% | 3.6% | 4.2% | 4.8% |
| **Capital Quality** | | | | | | | |
| Equity to total assets | 16.5% | 16.0% | 15.3% | 15.2% | 15.0% | 14.8% | 14.9% |
| Tier 1 | 18.4% | 18.3% | 18.9% | 19.0% | 19.0% | 18.9% | 19.2% |
| Core Tier 1 | 16.6% | 16.1% | 16.9% | 17.1% | 17.3% | 17.4% | 17.8% |
| Total capital | 19.2% | 19.0% | 19.6% | 19.7% | 19.6% | 19.5% | 19.7% |
| **Earning Quality** | | | | | | | |
| NCM | 2.9% | 3.2% | 3.0% | 3.1% | 3.1% | 3.2% | 3.2% |
| NCI to total income | 78.7% | 79.6% | 77.4% | 78.4% | 78.9% | 79.3% | 79.8% |
| Fee income to total income | 10.8% | 11.2% | 12.2% | 12.2% | 11.9% | 11.8% | 11.5% |
| Other income to total income | 10.5% | 9.1% | 10.4% | 9.4% | 9.1% | 8.9% | 8.7% |
| Cost to income ratio | 33.9% | 29.6% | 30.4% | 29.9% | 28.8% | 28.1% | 27.0% |
| Impairment coverage | 4.7 | 13.8 | 26.6 | 10.4 | 9.6 | 13.6 | 16.3 |
| ROA | 1.4% | 2.0% | 1.9% | 1.8% | 1.9% | 2.0% | 2.1% |
| ROE | 8.4% | 12.3% | 12.4% | 12.0% | 12.4% | 13.4% | 14.1% |
| Return on RWA | 1.9% | 2.7% | 2.8% | 2.7% | 2.7% | 2.9% | 3.0% |
| **Asset Quality** | | | | | | | |
| Cost of risk | 0.5% | 0.2% | 0.1% | 0.3% | 0.3% | 0.2% | 0.2% |
| NPL | 2.1% | 2.1% | 1.9% | 2.0% | 2.2% | 2.1% | 2.1% |
| NPL coverage | 135.3% | 127.0% | 147.6% | 143.5% | 140.6% | 143.7% | 147.1% |
| Stage 1 ratio | 94.7% | 93.8% | 94.1% | 93.7% | 93.2% | 93.0% | 92.8% |
| Stage 2 ratio | 3.6% | 4.5% | 4.5% | 4.7% | 4.9% | 5.1% | 5.3% |
| Stage 3 ratio | 1.7% | 1.6% | 1.4% | 1.6% | 1.8% | 1.8% | 1.8% |
| Stage 1 coverage | 0.5% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% |
| Stage 2 coverage | 15.3% | 13.0% | 13.0% | 13.6% | 14.2% | 14.8% | 15.3% |
| Stage 3 coverage | 69.1% | 69.3% | 78.7% | 78.7% | 78.7% | 78.7% | 78.7% |
| Provisions to gross loans | 2.2% | 2.0% | 2.0% | 2.2% | 2.4% | 2.5% | 2.6% |
| **Funding** | | | | | | | |
| Deposits to total funding | 67.3% | 63.2% | 63.7% | 65.4% | 67.2% | 69.1% | 70.6% |
| Market funds to total funding | 14.1% | 18.2% | 18.7% | 17.2% | 15.8% | 14.3% | 12.8% |
| **Liquidity** | | | | | | | |
| Loans to deposits | 84.5% | 96.0% | 95.2% | 92.7% | 90.2% | 88.1% | 86.0% |
| Investments and cash to total assets | 32.2% | 31.7% | 31.1% | 31.5% | 31.9% | 32.1% | 32.5% |

## Key contacts

**Research Team**

| | | |
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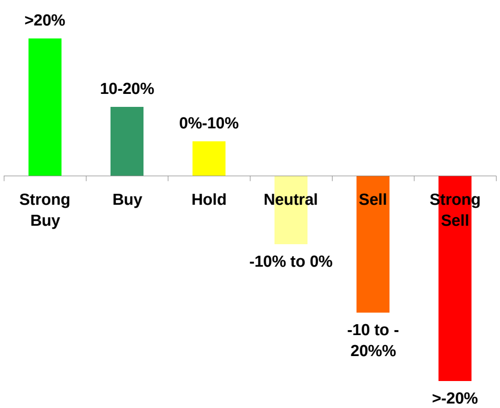
### Rating Criteria and Definitions

**Rating**




**Rating Definitions**

| | |
|---|---|
| **Strong Buy** | This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20% |
| **Buy** | This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20% |
| **Hold** | This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10% |
| **Neutral** | This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10% |
| **Sell** | This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20% |
| **Strong Sell** | This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20% |
| **Not rated** | This recommendation used for stocks which does not form part of Coverage Universe |

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