

October 15, 2020

## SAUDI ARABIAN BANKS

NCB-SAMBA Merger

### ■ Binding Merger Agreement Reached

After more than three months of entering into a framework agreement, National Commercial Bank (NCB) and Samba Financial Group (SAMBA) announced on October 11, 2020 that they signed a legally binding merger agreement, to create Saudi Arabia's mega-bank with SAR 837 bln in total assets. In addition, the bank would have the largest net income of SAR 7 bln in the Middle East, as of 1H 2020 results.

Both banks will remain independent until the merger is legally completed and would continue to follow their independent strategies.

According to the agreement, the exchange ratio would be 0.739 and NCB will issue new shares to SAMBA shareholders when the merger is completed. This transaction values SAMBA shares at SAR 28.45 per share based on SAR 38.50 per NCB share as of the last trading day before merger announcement i.e. October 8, 2020 and values SAMBA's issued ordinary share capital at around SAR 55.7 bln or approximately USD 15 bln.

SAMBA's share price valued at SAR 28.45 is a premium of 3.5% to the market price of SAR 27.50 on October 8<sup>th</sup>. As detailed earlier, SAMBA would cease to exist and NCB would be the surviving entity with the merger expected to be completed in 1H 2021.

### Key Points:

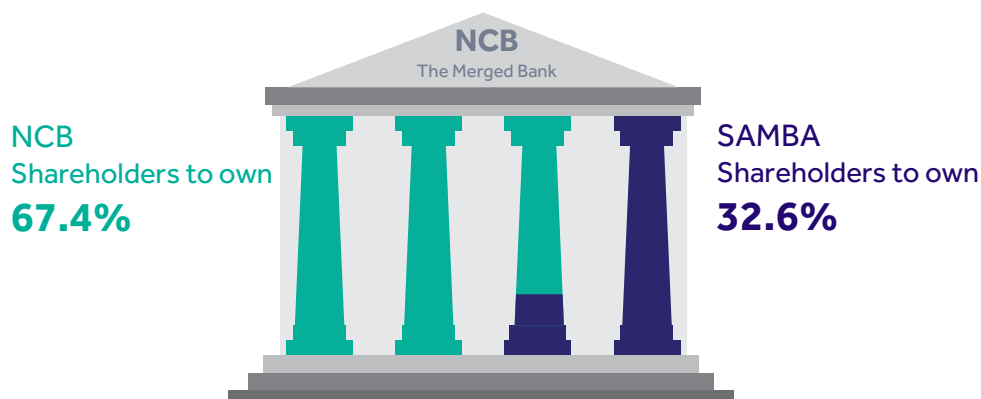
Following are the highlights of the merger:

- The new leadership of the merged bank would be as follows:
  - 1- Eng. Ammar Al-Khudairy, Chairman of the Board of Directors.
  - 2- Mr. Saeed Al-Ghamdi, Managing Director and Group Chief Executive Officer.
- The Headquarters of the Merged Bank will be located in Riyadh.
- Both NCB Capital and Samba Capital & Investment Management Company will be owned by the merged bank, to form the largest asset manager, brokerage and investment bank in the Kingdom.
- The merger is expected to have a cost synergy by saving almost SAR 800 mln annually fully phased, which represent 9% of the combined cost base.
- A one-time cash integration cost of approximately SAR 1.1 bln.

## Merger highlights on a domestic standing

The merger of two of Saudi Arabia's leading banks will create the largest bank in the country with a market share of 20-32% in key metrics.

### Exhibit 1: Merger highlights on a domestic standing



**501** Branches

**4,136** ATM  
Machines

**126,831** Point of Sales  
Devices

### Balance Sheet Items



Capital  
**SAR 44.780 bln**  
Up by +49.3%



Performing Loans  
**SAR 468 bln**  
(29% of the market share).



Total Assets  
**SAR 837 bln**  
(32% of the market share).



Customer Deposits  
**SAR 568 bln**  
(30% of the market share).

Loan to deposit  
ratio (LDR)  
**82%**

### Income Statement Items



Half Year Operating Income  
**SAR 15 bln**  
(30% of the market share).



Half Year Net Income  
**SAR 7 bln**  
(38% of the market share).

## Contribution to Vision 2030

The merger would create a new National Champion and a regional powerhouse with a large capital base and liquidity to pursue growth.

We believe that the merger is an important step in the Kingdom's Financial Sector Development Program; as one of its commitments is to "increase the share of SME financing at banks from the 2% level currently to 5% by 2020. Similarly, the share of mortgages in bank financing will increase to 16% by 2020 from its 2016 level 7%", through its retail banking franchises which will represent 26% of the market in retail loans and 29% of the market in retail liabilities.

As detailed in the previous report, the merger will create a larger entity capable of financing mega deals and keep pace with the next stage of Vision 2030 and its ambitious goals, through its position as the largest institutional lender controlling 27% of corporate performing loans in the Saudi market.

Both banks are active in treasury activities and investment services, and will continue to become a leader in treasury and capital markets, handling assets of SAR 316 bln in treasury (36% in market share).

## Common Shareholders

There are three main common shareholders between NCB and SAMBA, their ownership after the merger will be as follows:

**Table 1: Main Common Shareholders of the Merger Bank**

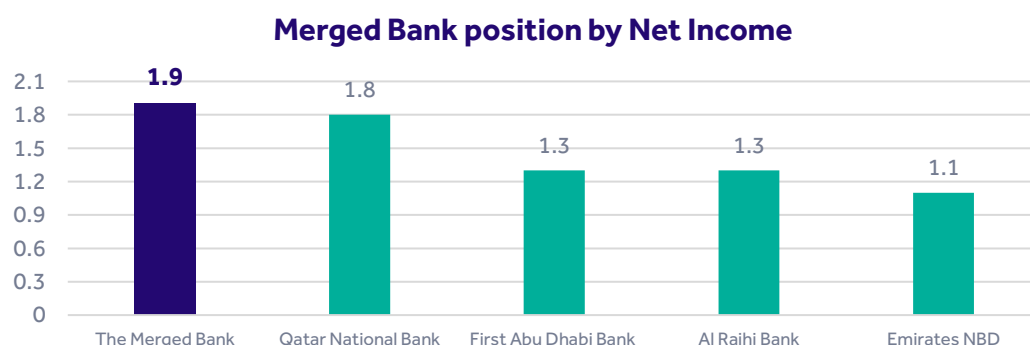
Shareholders Name	Ownership%
Public Investment Fund (PIF)	37.2%
Public Pension Agency (PPA)	7.4%
General Organization for Social Insurance (GOSI)	5.8%

Source: Riyad Capital, TADAWUL

## Merger highlights on a regional standing

The merged bank will become the largest bank by net income in the Middle East, and the second place by Market capitalization as of 8 October 2020 closing prices, and the third largest bank by total assets, as shown below:

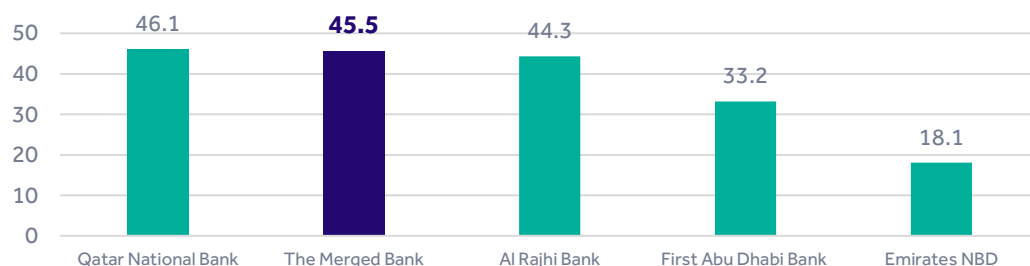
**Exhibit 2: Merged Bank position on a regional standing (USD bln)**



Source: Investor Presentation, Companies 1H2020 results

### Exhibit 3: Merged Bank position on a regional standing (USD bln)

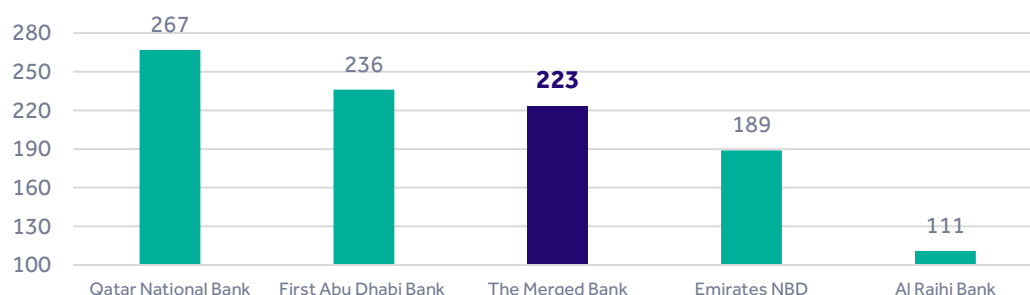
#### Merged Bank position by Market Capitalization



Source: Investor Presentation, Closing prices as of 8 October 2020

### Exhibit 4: Merged Bank position on a regional standing (USD bln)

#### Merged Bank position by Total Assets



Source: Investor Presentation, Companies 1H2020 results

## Our View

We view the merger to be beneficial to the banking sector and help in create value for the shareholders by achieving cost synergies through economies of scale and better efficiencies.

We currently have a target price of SAR 41.00 for NCB and a target price of SAR 25.00 for SAMBA. We would be closely following the developments in the merger process and would update with any fundamental changes affecting target price.

Further details are in the Appendix at the end of the report.

## Appendix

Table 1: Banking Sector Total Assets (SAR million)

Pre-Merger		Post-Merger	
Bank	Total Assets	Bank	Total Assets
NCB	557,310	<b>Merged Bank (NCB+SAMBA)</b>	<b>836,571</b>
Alrajhi	417,684	Alrajhi	417,684
RB	295,083	RB	295,083
SAMBA	279,261	SABB	266,991
SABB	266,991	BSFR	201,953
BSFR	201,953	ANB	187,297
ANB	187,297	Alinma	142,196
Alinma	142,196	SAIB	104,616
SAIB	104,616	Aljazira	91,869
Aljazira	91,869	Albilad	88,824
Albilad	88,824	<b>Total</b>	<b>2,633,085</b>
<b>Total</b>	<b>2,633,085</b>		

Source : Riyad Capital, Companies 2Q2020 results

Table 2: Banking Sector Capital (SAR million)

Pre-Merger		Post-Merger	
Bank	Capital	Bank	Capital
NCB	30,000	<b>Merged Bank (NCB+SAMBA)</b>	<b>44,780</b>
RB	30,000	RB	30,000
Alrajhi	25,000	Alrajhi	25,000
SABB	20,548	SABB	20,548
SAMBA	20,000	Alinma	20,000
Alinma	20,000	ANB	15,000
ANB	15,000	BSFR	12,054
BSFR	12,054	Aljazira	8,200
Aljazira	8,200	SAIB	7,500
SAIB	7,500	Albilad	7,500
Albilad	7,500	<b>Total</b>	<b>190,582</b>
<b>Total</b>	<b>195,802</b>		

Source : Riyad Capital, Companies 2Q2020 results

\* based on the Exchange Ratio Range (0.739)

Table 3: Banking Sector Total Loans (SAR million)

Pre-Merger		Post-Merger	
Bank	Total Loans	Bank	Total Loans
NCB	316,299	<b>Merged Bank (NCB+SAMBA)</b>	<b>464,387</b>
Alrajhi	274,928	Alrajhi	274,928
RB	187,651	RB	187,651
SABB	152,952	SABB	152,952
SAMBA	148,088	BSFR	135,749
BSFR	135,749	ANB	117,129
ANB	117,129	Alinma	103,178
Alinma	103,178	Albilad	64,923
Albilad	64,923	SAIB	58,603
SAIB	58,603	Aljazira	53,756
Aljazira	53,756	<b>Total</b>	<b>1,613,255</b>
<b>Total</b>	<b>1,613,255</b>		

Source : Riyad Capital, Companies 2Q2020 results

Table 4: Banking Sector Total Deposits (SAR million)

Pre-Merger		Post-Merger	
Bank	Total Deposits	Bank	Total Deposits
NCB	380,398	<b>Merged Bank (NCB+SAMBA)</b>	<b>567,658</b>
Alrajhi	334,665	Alrajhi	334,665
RB	199,987	RB	199,987
SABB	188,357	SABB	188,357
SAMBA	187,259	BSFR	138,046
BSFR	138,046	ANB	133,896
ANB	133,896	Alinma	107,417
Alinma	107,417	Albilad	64,876
Albilad	64,876	SAIB	64,243
SAIB	64,243	Aljazira	63,657
Aljazira	63,657	<b>Total</b>	<b>1,862,801</b>
<b>Total</b>	<b>1,862,801</b>		

Source : Riyad Capital, Companies 2Q2020 results

## ■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors  
For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

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