

Saudi National Bank (SNB)

Strong Loan growth and healthy credit quality boosted profit

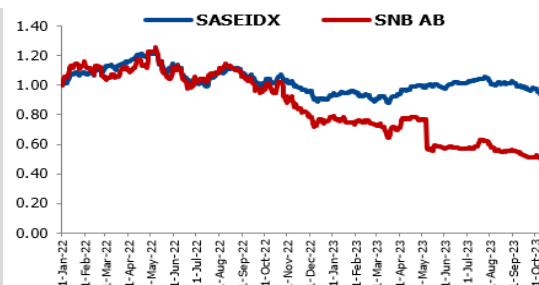
Current Price
SAR 34.30

Target Price
SAR 47.00

Upside/Downside (%)
+37%

Rating
BUY

- SNB lowered its NSCI margin guidance from 3.2%-3.3% to 3.0%-3.2% in 2023
- Net advances rose from SAR 578 Bn in 2Q23 to SAR 596 Bn in 3Q23, mainly driven by growth in wholesale and retail financing
- SNB lowered its cost of risk guidance from 0.3%-0.5% to 0.1%-0.3% owing to strong credit quality
- The Bank revised its 2023 cost-to-income ratio guidance upward from below 27% to below 28.5%
- The Bank recorded a reversal in impairments of SAR 77 Mn in 3Q23 as compared to an impairment charge of SAR 541 Mn in 3Q22



3Q23 Net Profit in line with our estimate

Saudi National Bank's ("SNB", "The Bank") recorded a 6.0% YOY growth in net profit to SAR 5,010 Mn in 3Q23, in line with our estimate of SAR 4,977 Mn. The growth in the net profit is mainly attributable to a rise in net funded and non-funded income and a reversal in impairments partially offset by an increase in operating expenses.

P&L Highlights

SNB's funded income rose 46.7% YOY to SAR 13,137 Mn in 3Q23 mainly driven by healthy growth in advances and expansion in asset yield. Advances rose 11.1% YOY to SAR 596 Bn in 3Q23 owing to expansion in wholesale and retail financing. On the other hand, funded expenses grew significantly from SAR 2,378 Mn in 3Q22 to SAR 6,317 Mn in 3Q23 owing to higher benchmark rates. Thus, net funded income rose 3.7% YOY to SAR 6,820 Mn in 3Q23. The Bank's fee and commission income grew 19.3% YOY to SAR 1,017 Mn in 3Q23 mainly driven by an increase in fees generated from international services. Exchange income rose 4.3% YOY to SAR 509 Mn in 3Q23. While income from FVIS investments fell 10.1% YOY to SAR 568 Mn in 3Q23. Whereas gains on non-trading investments rose 11.7% YOY to SAR 179 Mn in 3Q23. Other expenses grew 35.8% YOY to SAR 355 Mn in 3Q23. Thus, SNB's total non-funded income grew 2.5% YOY to SAR 1,917 Mn in 3Q23. As a result, total operating income grew 3.4% YOY to SAR 8,737 Mn in 3Q23. Furthermore, salaries and employee-related expenses increased 11.1% YOY to SAR 1,228 Mn in 3Q23 while rent and premises related expenses grew 6.1% YOY to SAR 147 Mn in 3Q23. Other G&A expenses rose 30.1% YOY to SAR 815 Mn in 3Q23. Resultantly, total operating expenses rose 13.6% YOY to SAR 2,762 Mn in 3Q23. Thus, cost-to-income grew 284 bps YOY to 31.6% in 3Q23. Other non-operating expenses grew significantly from SAR 70 Mn in 3Q22 to SAR 379 Mn in 3Q23. Furthermore, the Bank recorded an impairment reversal of SAR 77 Mn in 3Q23, as compared

Stock Information

Market Cap (SAR, mm)	205,800.00
Paid Up Capital (mm)	60,000.00
52 Week High	41.12
52 Week Low	29.67
3M Avg. daily value (SAR)	205,869,000

3Q23 Result Review (SAR, mm)

Total Assets	1,027,133
Total Liabilities	858,162
Total Equity	168,971
Total Deposits	624,769
Net Profit	5,010

Financial Ratios

Dividend Yield (12m)	3.78
Dividend Pay-out (%)	14.92
Price-Earnings Ratio(x)	10.71
Price-to-Book Ratio (x)	1.33
Book Value (SAR)	25.76
Return-on Equity (%)	12.70

Stock Performance

5 Days	-4.59%
1 Months	9.58%
3 Months	-3.24%
6 Months	-3.65%
1 Year	-14.42%
Month to Date (MTD%)	2.24%
Quarter to Date (QTD%)	4.57%
Year to Date (YTD%)	-8.99%

to an impairment charge of SAR 541 Mn in 3Q22. In addition, zakat expenses rose 10.9% YOY to SAR 716 Mn in 3Q23. Share of loss attributable to non-controlling interest holders stood at SAR 53 Mn in 3Q23 as compared to a share of profit of SAR 36 Mn in 3Q22.

Balance Sheet Highlights

SNB's net advances grew 11.1% YOY and 3.1% QOQ to SAR 595.7 Bn in 3Q23 driven by healthy growth in retail and wholesale financing. Total assets grew 6.5% YOY and 3.1% QOQ to SAR 1,027.1 Bn in 3Q23. Customer deposits recorded a growth of 4.7% YOY and 3.7% QOQ to SAR 624.8 Bn in 3Q23. While the regulatory loan-to-deposit ratio declined from 96.0% in 2Q23 to 95.4% in 3Q23. In addition, SNB's total equity rose 3.5% YOY but declined 1.1% QOQ to SAR 169.0 Bn in 3Q23.

Target Price and Rating

We maintain our BUY rating on SNB with a target price of SAR 47.00. The Bank reported growth in profitability owing to a strong loan growth and impairments reversals in 3Q23 owing to wholesale recoveries. The Bank's 9M23 cost of risk decline to 0.12%, as compared to 0.39% in 9M22. Net advances grew 11.1% YOY and 3.1% QOQ to SAR 596 Bn in 3Q23 owing to healthy growth in retail and wholesale financing. SNB expects its advances to record double digit growth in 2023. SNB's NIMs declined 6 bps YOY to 2.9% in 3Q23. We expect the Bank's NIM to remain under pressure as the Retail Financing segment consists of 53.0% of the Bank's total loan book as of 3Q23. While corporate financing only accounts for 39.3% of total loan book as of 3Q23. As a result, in the rising interest rate scenario the Bank's NIMs are expected to remain under pressure. SNB also lowered its NIMs guidance to 3.0-3.2% for 2023. Customer deposits recorded a growth of 4.7% YOY and 3.7% QOQ in 3Q23 with a CASA ratio of 72.8% in 3Q23. SAMA's regulatory loan-to-deposit ratio slightly declined from 79.1% in 2Q23 to 78.2% in 3Q23. Furthermore, the Bank's asset quality remained stable with NPL ratio of 1.4% in 3Q23. However, provision coverage stood strong at 137.6% in 3Q23, which will provide a cushion against bad loans going forward. SNB's capitalization stood strong with a CET 1 ratio of 18.4% and CAR of 19.1% in 3Q23. Thus, looking at the above-mentioned factors, we maintain our "BUY" rating on the stock.

SNB Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	15.17	12.73	12.73	15.63	11.51	10.65
PB	2.57	2.42	2.03	1.33	1.29	1.28
Dividend Yield	4.5%	4.9%	2.6%	3.3%	3.6%	4.2%

FABS Estimates & Co Data

SNB Bank – P&L

SAR mm	3Q22	2Q23	3Q23	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	8,955	11,930	13,137	12,365	6.2%	46.7%	10.1%	34,392	48,382	40.7%
Funded expense	2,378	5,406	6,317	5,601	12.8%	165.7%	16.9%	8,106	20,956	158.5%
Net funded income	6,578	6,524	6,820	6,764	0.8%	3.7%	4.5%	26,286	27,426	4.3%
Fees and commissions	852	1,078	1,017	1,089	-6.6%	19.3%	-5.7%	3,704	4,260	15.0%
Exchange income, net	488	526	509	531	-4.2%	4.3%	-3.3%	1,580	2,133	35.0%
Income from FVIS invest	632	575	568	546	4.1%	-10.1%	-1.1%	1,694	2,202	30.0%
Gains/Loss on non-trading inv	160	106	179	116	53.4%	11.7%	68.7%	774	580	-25.0%
Other operating (exp) inc, net	-261	-312	-355	-315	12.7%	35.8%	13.8%	-1,035	-1,283	24.0%
Non-funded income	1,870	1,973	1,917	1,968	-2.6%	2.5%	-2.8%	6,717	7,892	17.5%
Operating income	8,448	8,497	8,737	8,731	0.1%	3.4%	2.8%	33,003	35,318	7.0%
Salaries and empl-related exp	1,105	1,157	1,228	1,018	20.6%	11.1%	6.2%	4,310	4,267	-1.0%
Rent and premises-related exp	139	134	147	139	6.2%	6.1%	10.4%	530	540	2.0%
Depreciation of Prop & Equip	355	335	367	379	-3.3%	3.1%	9.3%	1,435	1,439	0.3%
Amortization of intangible assets	205	205	205	213	-3.9%	0.0%	0.0%	845	845	0.0%
Other G&A exp	626	778	815	584	39.6%	30.1%	4.7%	2,664	2,397	-10.0%
Total operating Exp	2,431	2,609	2,762	2,333	18.4%	13.6%	5.8%	9,784	9,489	-3.0%
Other non-operating inc	-70	-17	-379	-21	NM	NM	NM	-258	-90	-65.0%
Pre-provision profit	5,947	5,871	5,596	6,378	-12.3%	-5.9%	-4.7%	22,962	25,739	12.1%
Impairment	541	76	-77	595	NM	NM	NM	1,685	1,753	4.0%
PBT	5,407	5,795	5,673	5,783	-1.9%	4.9%	-2.1%	21,277	23,987	12.7%
Zakat	646	678	716	694	3.2%	10.9%	5.6%	2,548	2,878	13.0%
Profit after tax	4,761	5,117	4,957	5,089	-2.6%	4.1%	-3.1%	18,729	21,108	12.7%
Non controlling interest	36	101	-53	112	NM	NM	NM	148	422	185.0%
Net profit	4,725	5,016	5,010	4,977	0.7%	6.0%	-0.1%	18,581	20,686	11.3%

FABS estimate & Co Data
SNB Bank - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	77.9%	76.8%	78.1%	19	127	79.6%	77.7%	-199
NIM	3.0%	2.9%	2.9%	-6	5	3.1%	3.0%	-6
NIS	2.8%	2.5%	2.5%	-33	1	2.9%	2.6%	-32
Fees & comms/OI	10.1%	12.7%	11.6%	155	-105	11.2%	12.1%	84
Trading/OI	5.8%	6.2%	5.8%	5	-37	4.8%	6.0%	125
Cost to income	28.8%	30.7%	31.6%	284	90	29.6%	26.9%	-278
Impairment/PPP	9.1%	1.3%	-1.4%	-1,047	-267	7.3%	6.8%	-53
NP/OI	55.9%	59.0%	57.3%	141	-169	56.3%	58.6%	227
ROE	11.3%	12.8%	12.9%	151	10	12.6%	13.9%	127
ROA	1.7%	2.0%	2.5%	71	47	2.0%	2.0%	4

FABS estimate & Co Data

SNB Bank - Key B/S items

SAR mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	536,176	545,311	566,337	577,849	595,721	11.1%
<i>QOQ change</i>	0.0%	1.7%	3.9%	2.0%	3.1%	
Total assets	964,421	945,496	976,053	996,163	1,027,133	6.5%
<i>QOQ change</i>	0.6%	-2.0%	3.2%	2.1%	3.1%	
Customer deposits	596,886	568,283	610,791	602,209	624,769	4.7%
<i>QOQ change</i>	0.7%	-4.8%	7.5%	-1.4%	3.7%	
Total equity	163,183	166,778	171,010	170,878	168,971	3.5%
<i>QOQ change</i>	1.4%	2.2%	2.5%	-0.1%	-1.1%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value SNB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	48.96	70.0%	34.27
Relative Valuation (RV)	42.45	30.0%	12.73
Weighted Average Valuation (SAR)			47.00
Current market price (SAR)			34.30
Upside/Downside (%)			+34.09%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.5%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	29,860
Terminal value (SAR, Mn)	110,749
Book value of Equity (as of Sept, 2023)	153,133
FV to Common shareholders (SAR, Mn)	293,741
No. of share (Mn)	6,000
Current Market Price (SAR)	34.30
Fair Value per share (SAR)	48.96

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	19,745	22,135	23,935	26,478	29,036
(-) Equity Charge	-13,450	-14,506	-15,587	-16,782	-18,093
Excess Equity	1,049	7,629	8,348	9,696	10,943
Discounting Factor	0.99	0.90	0.83	0.76	0.70
Present Value of Excess Equity	1,034	6,897	6,922	7,374	7,633

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value SNB and it is valued using the PB multiple. We have applied a discount to the median valuation multiple since it generates lower return on equity as compared to the sector average. It is valued at a PB multiple of 1.7x as compared to the peer valuation of 1.9x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Alinma Bank	19,446	2.5	2.3	16.4	14.8	3.4	3.8
Al Rajhi Bank	75,542	3.0	2.7	16.5	14.7	2.5	3.4
Arab National Bank	11,083	1.2	1.2	10.9	10.7	4.9	5.2
Banque Saudi Fransi	14,126	1.5	1.4	12.3	11.4	4.5	4.6
Riyad Bank	11,303	1.9	1.8	12.8	12.1	4.0	4.2
Average		2.0x	1.9x	13.8x	12.7x	3.9%	4.2%
Median		1.9x	1.8x	12.8x	12.1x	4.0%	4.2%
Max		2.5x	2.3x	16.4x	14.7x	4.5%	4.6%
Min		1.5x	1.4x	12.3x	11.4x	3.4%	3.8%

Source: FAB Securities

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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