

First Cut – Saudi National Bank

Total income grows YoY on higher fee and other income: Total income of Saudi National Bank (SNB) for 4Q23 increased by 6.2% YoY to SAR8.6bn, though it fell by 1.3% QoQ. The YoY improvement in total income was at the back of an improvement in fee and other income (30% YoY), even as net commission income (NCI) grew marginally by 1.6% YoY. NCM (net commission margins) fell from 3.4% in 4Q22 to 3.2% in 4Q23, flat at 3Q23 levels. Loans and advance grew 10.3% YoY in 2023, though the growth on a QoQ basis at 1.0% was moderate. Going forward, we expect loans and advance to grow at high single digit rates for the next year, while we expect NCM on an annual basis to improve YoY in 2024e, aided by a more favourable interest rate scenario.

High opex and provisions limits profit growth: Operating expenses at SAR2.5bn for 4Q23 increased by 7.7% YoY, though the same lower by 7.8% QoQ. The cost to income ratio increased marginally to 29.9% for 2023, compared to 29.6% in the previous year, and we expect this to improve going forward, in line with the improvement in total income. Provisions on the other hand increased by 159.6% YoY for 4Q23, though for the full year it fell by 45.2% YoY, and the cost of risk at 0.1% for 2023 was lower than 0.2% in the previous year.

Net income flat sequentially: Net income of SNB increased by 3.0% YoY, though it fell marginally by 0.4% QoQ, to SAR4.9bn; the YoY performance was aided by an improvement in total income, which was moderated to a certain extent by higher opex and provisions. The full year net income on the other hand increased by 7.4% YoY to SAR20.1bn and we expect the growth to continue in 2024e, aided by steady improvement in assets and an improvement in the offtake of deposits.

Lower offtake of deposits causes L/D to increase in 4Q23: Deposits fell by 5.6% QoQ, as loans to deposits ratio increased to 101.9% as of 2023, compared to 95.4% as of Sep-23 and 96.0% in 2022. We expect the situation to improve in 2024e, as we forecast liquidity pressure in the market to ease, in line with an improvement in the interest rate scenario.

Financial performance to remain strong: The 4Q23 performance has been moderate, with the overall profitability being limited by higher operating expenses and provisions. However, on a full year basis, both the opex and provisions have remained under control and has been in line with our expectations. Going forward, we expect the financial performance will continue to be strong in 2024e, aided by a steady improvement in loan book and an improvement in NCM. Given this, we remain positive on the growth outlook of SNB and maintain our target price at SAR48/share, with a BUY rating.

in SAR mn	4Q23	3Q23	QoQ	4Q22	YoY	2022	2023	YoY	2024E
Total income	8,625	8,737	-1.3%	8,119	6.2%	33,005	34,589	4.8%	39,781
NCI*	6,887	6,820	1.0%	6,777	1.6%	26,287	27,009	2.7%	31,557
NCM**	3.2%	3.2%		3.4%		3.3%	3.1%		3.3%
Operating expenses	(2,545)	(2,762)	-7.8%	(2,364)	7.7%	(9,785)	(10,357)	5.8%	(11,377)
cost to income ratio	29.5%	31.6%		29.1%		29.6%	29.9%		28.6%
Operating profit	6,080	5,975	1.8%	5,755	5.6%	23,220	24,232	4.4%	28,404
Provisions	(431)	77	NA	(166)	159.6%	(1,685)	(923)	-45.2%	(2,564)
COR	0.2%	0.0%		0.1%		0.2%	0.1%		0.3%
Profit post provisions	5,649	6,052	-6.7%	5,589	1.1%	21,535	23,309	8.2%	25,840
Other expenses	(138)	(379)	-63.6%	(183)	-24.6%	(258)	(536)	107.8%	(543)
Profit before Zakat	5,511	5,673	-2.9%	5,406	1.9%	21,277	22,773	7.0%	25,297
Zakat	(576)	(716)	-19.6%	(614)	-6.2%	(2,548)	(2,664)	4.6%	(3,060)
effective tax rate	10.2%	11.8%		11.0%		11.8%	11.4%		11.8%
Profit after tax	4,935	4,957	-0.4%	4,792	3.0%	18,729	20,109	7.4%	22,237
Balance Sheet items									
Investments	269,129	266,772	0.9%	258,292	4.2%	258,292	269,129	4.2%	295,585
Loans and advances	601,454	595,721	1.0%	545,311	10.3%	545,311	601,454	10.3%	657,781
Deposits	590,051	624,769	-5.6%	568,283	3.8%	568,283	590,051	3.8%	665,466
L/D ratio	101.9%	95.4%		96.0%		96.0%	101.9%		98.8%

*Net Commission Income

** Calculated on total investment and loans

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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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