الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

# June 2024

# Saudi Banking Sector Quarterly Report I Q1-24

## Robust Balance Sheet Expansion Helps Deliver Another Record Quarterly Earnings


**Fahad Qureshi, CFA**
+ 966 11 2256315
f.irfan@aljaziracapital.com.sa

**The Saudi banking sector posted record earnings of SAR 18.6bn in Q1-24, up 8.2% Y/Y (+7.4% Q/Q). Q1-24 earnings for the sector were 2.9% above consensus estimate; six out of ten listed banks posted above consensus earnings. Pre-provision profit for the sector was up 3.5% Y/Y in Q1-24. Earnings growth was mainly driven by the improvement in Net Interest Income (up 5.3% Y/Y in Q1-24), which was supported by the 11.0% Y/Y and 9.5% Y/Y increase in loans and investments, respectively. Net-Interest-Margins for the sector were down 15bps Y/Y to 3.15% in Q1-24. After three consecutive slow quarters, mortgage lending picked up momentum. Monthly run rate for mortgages stood at SAR 7.4bn in Q1-24, up 13.7%, compared to SAR 6.5bn in 2023. Share of demand deposits grew after declining for 8 successive quarters. Regulatory LDR saw an attrition of 220bps Y/Y (-224bps Q/Q), as it receded to 78.5%, due to change in SAMA rules related to sukuk & other debts. Gross NPL ratio of the sector improved by 32bps Y/Y (9bps Q/Q) to 1.42% in Q1-24, while coverage stood at a healthy 130.9%. CoR declined by 12.9bps Y/Y (+3.6bps Q/Q) to 39bps in Q1-24, while the cost to income ratio increased by 128bps Y/Y (-138bps Q/Q) to 31.6% in Q1-24.**

**Another record quarter for banking profits:** The banking sector posted record earnings of SAR 18,646mn in Q1-24, up 8.2% Y/Y (+7.4% Q/Q). Six out of ten listed banks posted above consensus earnings; leading the group were **ANB** and **SAB**, which beat estimates by 14.7% and 11.8%. Conversely, **SAIB** and **Alinma** had highest earnings misses of -2.42% and -1.93%, respectively. Bank wise, **BJAZ** posted the highest net income growth of 47.2% Y/Y in Q1-24, driven primarily by 11.0/19.0% Y/Y increase in NSCI/non-funded income, 7.7% Y/Y decline in debt provisions and lower effective Zakat rate of 13.5% vs 18.4% in Q1-23. **ALINMA** was the second best with Q1-24 net income growth of 35.6% Y/Y. On the other end, **SNB** saw the lowest increase in earnings of 0.4% Y/Y, due to 23bps Y/Y decline in NIMs, 19.2% Y/Y increase in OPEX and 32.8% increase in debt provisions. **RIBL** had the second lowest earnings growth of 2.6% Y/Y in Q1-24.

**Mortgage issuances picked up momentum; loan growth still in double digits:** Bank credit to private sector grew by 10.1% Y/Y (+3.0% Q/Q). After three consecutive slow quarters, mortgage lending picked up momentum. Monthly run rate for mortgages stood at SAR 7.4bn in Q1-24, up 13.7%, compared to SAR 6.5bn in 2023. Bank wise, **SAB** and **ALINMA** led the sector posting loan growths of 19.7% Y/Y and 17.7% Y/Y, respectively in Q1-24. On the other hand, **ALRAJHI** and **ANB** posted the lowest loan growth of 5.4% Y/Y and 8.0% Y/Y, respectively.

**Demand deposits share grew after declining for 8 successive quarters:** Total deposit for the sector grew by 9.0% Y/Y (up 5.9% Q/Q) to SAR 2,621bn. Demand deposit share in total deposits increased by 114bps Q/Q (down 222bps Y/Y) to 54.2%, the increase is mainly driven by move of government deposits from time & savings to demand. Share of Time & savings deposits declined by 245bps Q/Q to 32.5%, while weight of Other Quasi-money deposits grew by 130bps to 13.3% in Q1-24.

**Normalization of credit growth & changes in LDR guidelines, reduced liquidity pressure in the system:** Regulatory LDR saw an attrition of 220bps Y/Y, as it receded to 78.5%. Note that regulated LDR had peaked at 82.9% in Feb-23. The reduction in regulated LDR is owed to change in SAMA rules related to sukuk and other debts. Beginning from June 2023 the LDR guidelines were updated by SAMA permitting banks to apply weights on long-term debt (Sukuks/ Bonds, Syndicated debts, Subordinated debts, Other Debts), in addition to deposits.

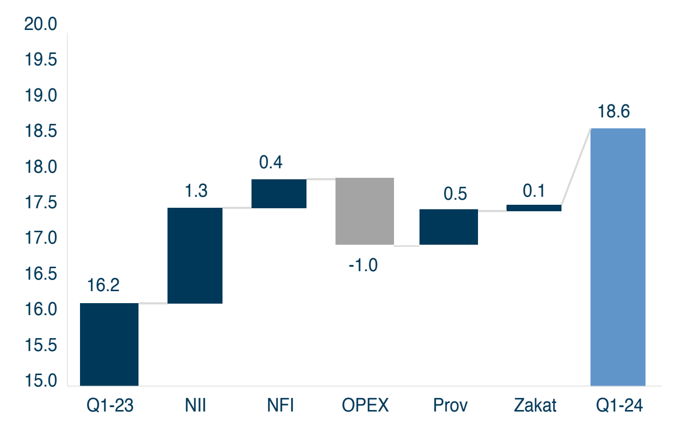
**Credit asset quality improved, while operating efficiency declined slightly:** Gross NPL ratio of the sector improved by 32bps Y/Y (9bps Q/Q) to 1.42% in Q1-24, while coverage stood at a healthy 130.9% (up 331bps Q/Q). **CoR declined by 12.9bps Y/Y (+3.6bps Q/Q)** to 39bps in Q1-24. The sector experienced a 128bps Y/Y increase in the cost to income ratio to 31.6% in Q1-24, as operating income increased by 5.5% Y/Y, while operating expenses increased by 9.9% Y/Y.

**Market expects two 25bps cuts in 2024, against previous expectation of three cuts in 2024:** US Core PCE inflation came in at 2.8% in April-24, moreover, US Core retail sales dropped by 0.3% in April-24, showing that domestic demand is cooling. Fed fund futures show a 47% chance that Fed will begin cutting interest rates in Sept-2024. Moreover, according to CME FedWatch tool there is a 45.5% chance of at least two 25bps cuts in 2024; previously expectations were for three 25bps rate cuts in 2024.

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

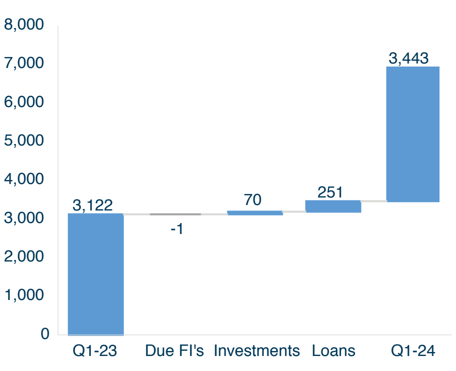
**Banking sector posts historic high net income in Q1-24, supported by double-digit growth in loans & lower provision expenses:** The Saudi banking sector posted record quarterly earnings of SAR 18.6bn in Q1-24, up 8.2% Y/Y (+7.4% Q/Q). Six out of ten listed banks posted above consensus earnings; leading the group were **ANB** and **SAB**, which beat estimates by 14.7% and 11.8%. Conversely, **SAIB** and **Alinma** had biggest earnings misses of -2.42% and -1.93%, respectively. Pre-provision profit for the sector was up 3.5% Y/Y in Q1-24. Earnings growth was mainly driven by the improvement in Net Interest Income (up 5.3% Y/Y in Q1-24 to SAR 26.7bn), which was supported by the 11.0% Y/Y and 9.5% Y/Y increase in loans and investments, respectively (total earning assets were up 10.3% Y/Y in Q1-24). Note that, NIMs for the sector were down 15bps Y/Y to 3.15% in Q1-24. Growth in Non-funded income remained subdued at 6.2% Y/Y in Q1-24. Operating expenses grew by 9.9% Y/Y, while the cost-to-income ratio increased of 128bps Y/Y to 31.6%. Debt provisions declined by 17.0% Y/Y to SAR 2.48bn in Q1-24, which translates to cost-of-risk (CoR) of 39bps, as compared to 52bps in the same period last year. Overall, sector RoE improved by 12bps Y/Y to 14.7% in Q1-24, the improvement is mainly owed to increasing leverage (assets/equity stood at 7.41x in Q1-24 vs 7.26x in Q1-23) as RoAs remained largely unchanged at 2.0% Y/Y.

### Fig 1: Net income growth drivers (SAR bn)



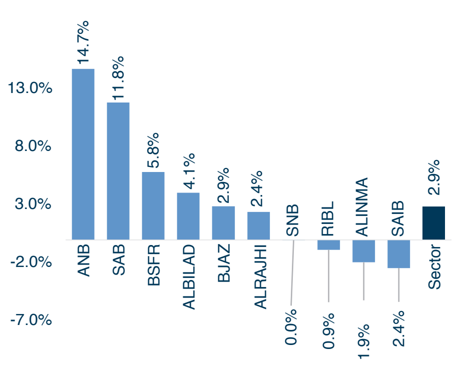

Source: SAMA Monthly Bulletin, Company financials, Aljazira research

### Fig 2: Earning assets grew by 10.3% Y/Y (SAR bn)



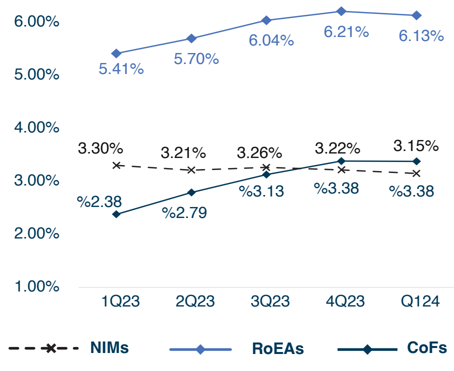

Source: Company financials, Aljazira researchresearch

### Fig 3: Q1-24 income actual vs estimates




Source: Company financials, Aljazira research

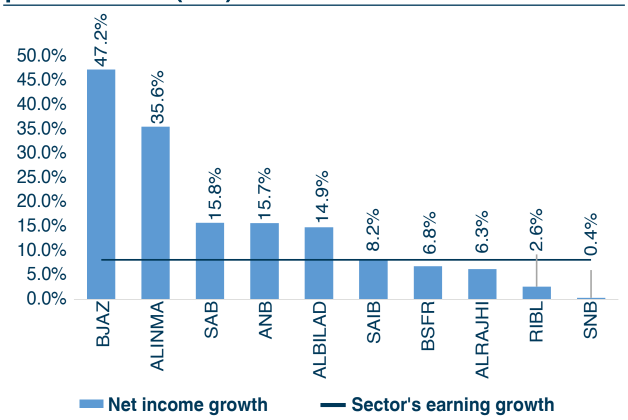
### Fig 4: NIMs have contracted by 15bps Y/Y




Source: Company financials, Aljazira research

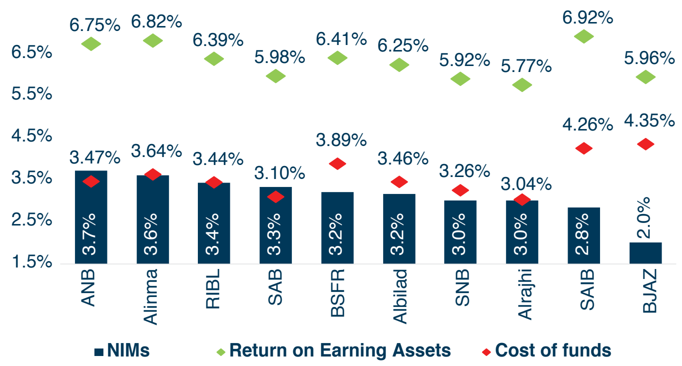
Bank wise, **BJAZ** posted the highest net income growth of 47.2% Y/Y in Q1-24, driven primarily by 11.0/19.0% Y/Y increase in NSCI/ non-funded income, 7.7% Y/Y decline in debt provisions and lower effective Zakat rate of 13.5% vs 18.4% in Q1-23. **ALINMA** stood out as the second best with Q1-24 with net income growth of 35.6% Y/Y, which is attributable to 16.0% Y/Y expansion in NSCI, 27.9% Y/Y growth in fee income, and 21.0% decline in provision expenses. On the other end, **SNB** saw the smallest increase in earnings of 0.4% Y/Y, due to 23bps Y/Y decline in NIMs, 19.2% Y/Y increase in OPEX and 32.8% increase in debt provisions. On Pre-provision basis (Net profit adjusted for provisions) **BJAZ** posted growth of 34.8% Y/Y). **RIBL** and **BSFR** stood out as major laggards on Pre-provision net income basis, with profits down 5.1% Y/Y and 3.8% Y/Y, respectively, the aforementioned decline is owed to 36ps and 43bps contraction in NIMs, respectively.

### Fig 5: Banks wise Q1-24 earning performance (Y/Y)



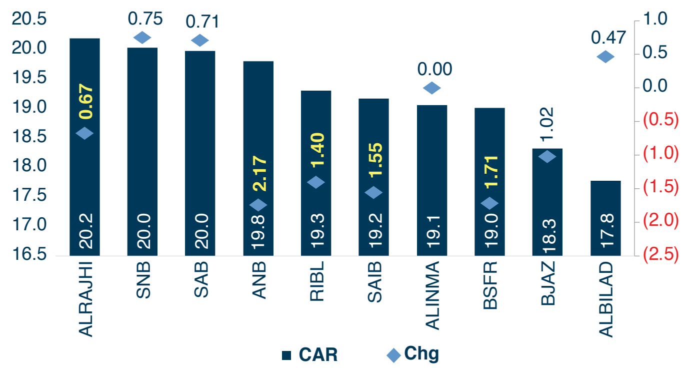

Source: SAMA Monthly Bulletin, Company financials, Aljazira research

## Fig 6: NIMs, RoEAs, CoFs




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

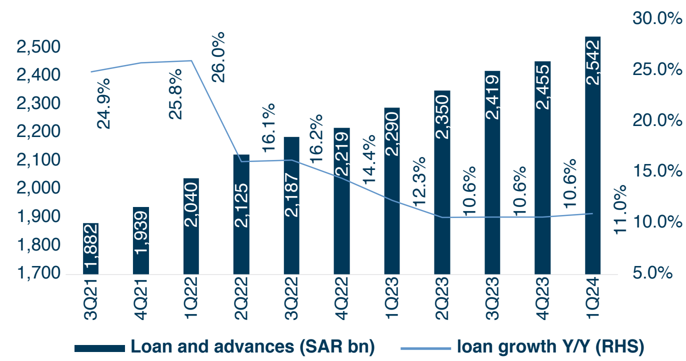
## Fig 7: Capital adequacy ratio %




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

**Sector capital adequacy, sizably above regulatory requirement:** CAR/Tier-1 for the sector improved by 20/21bps Y/Y in Q4-23 to 20.1/18.6%. Bank wise, ALRAJHI leads the sector with total CAR of 20.2%, down 67bps Y/Y. While ALBILAD has the lowest CAR of 17.8% (up 47bps). SNB saw strongest increase in CAR of 75bps, while ANB saw the largest attrition in CAR of 217bps.

## Fig 8: Loan and advances

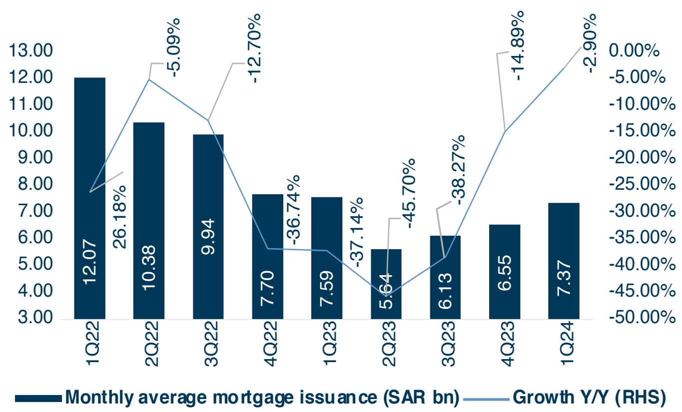



Source: SAMA Monthly Bulletin, Company financials, Aljazira research

**Loan growth still in double digits, mortgage issuances picked up momentum:** Bank credit to private sector grew by 10.1% Y/Y (+3.0% Q/Q). After three consecutive slow quarters, mortgage lending picked up momentum, due to change in regulations. Monthly run rate for mortgages stood at SAR 7.4bn in Q1-24, up 13.7%, compared to SAR 6.5bn in 2023.

Growth in rate sensitive, non-mortgage consumer loans stood at 1.4% Y/Y (+200bps Q/Q in Q1-24). However, demand for corporate and MSME (+19.3% Y/Y in Q2-23) credit remained intact. Bank wise, **SAB** and **ALINMA** led the sector posting loan growths of 19.7% Y/Y and 17.7% Y/Y, respectively in Q1-24. On the other hand, **ALRAJHI** and **ANB** posted the smallest loan growth of 5.4% Y/Y and 8.0% Y/Y, respectively.

## Fig 9: Mortgage issuances have picked up (SAR bn)




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

## Fig 10: Banks wise Q1-24 loan growth (%, Y/Y)


Source: SAMA Monthly Bulletin, Company financials, Aljazira research

**Share of demand deposits grew after 8 quarters of decline:** Total deposit for the sector grew by 9.0% Y/Y (up 5.9% on a sequential basis) to SAR 2,621bn. Demand deposit share in total deposits increased by 114bps Q/Q (down 222bps Y/Y) to 54.2%, the increase is mainly driven by move of government deposits from time & savings to demand. Share of Time and savings deposits declined by 245bps Q/Q to 32.5%, while weight of Other Quasi-money deposits increased by 130bps to 13.3% in Q1-24.

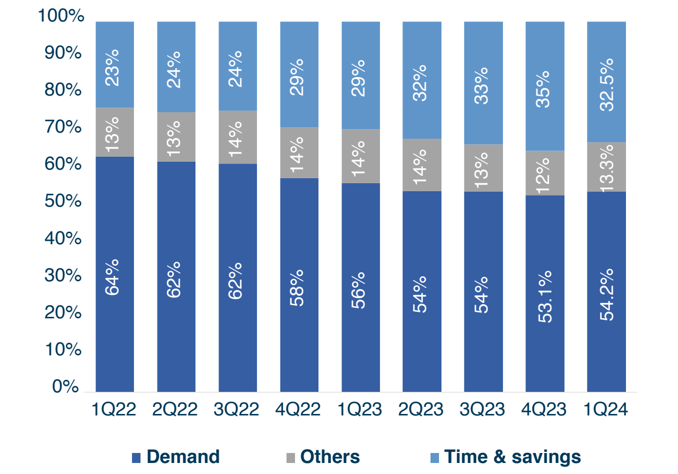
Banks wise **ALINMA** logged in the highest growth in deposits of 18.2% Y/Y in Q1-24, followed by **ANB** which saw deposits grow by 12.4% Y/Y. On the other end, **BSFR** and **RIBL** saw deposits grow by just 4.4% Y/Y and 5.3% Y/Y in Q1-24.

In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q1-24, with the highest demand deposit weight of 72.8% and 64.5%, respectively. **SAIB** and **ALBILAD** have lowest demand deposit ratios of 31.9% and 37.1% with in the sector.

In terms of change in deposit mix, **ALRAJHI** saw the largest movement as its share of demand deposits increased by 368bps Q/Q in Q1-24 to 65.1%, followed by **ALINMA** which saw share of non-remunerative deposits expand by 255bps Q/Q to 44.6%. **SAB** and **SAIB** on the other hand saw share of non-remunerative demand deposits drop by 297bps Q/Q and 147bps Q/Q to 54.7% and 31.9% in Q1-24, respectively.

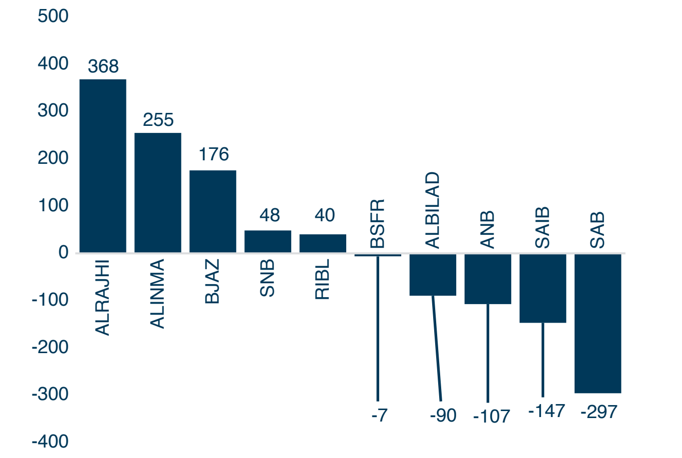
**Normalization of credit growth and changes in LDR guidelines, reduced liquidity pressure in the system:** Normal Loan-to-deposit (LDR) ratio declined by 172bps Q/Q (up 204bps Y/Y) to reach 100.1% in Q1-24; as compared to a decline of 167bps Q/Q in Q1-23, as credit growth slowed down. Regulatory LDR saw an attrition of 220bps Y/Y (-224bps Q/Q), as it receded to 78.5%. Note that regulated LDR had peaked at 82.9% in Feb-23. The reduction in regulated LDR is owed to change in SAMA rules related to sukuk and other debts. Beginning from June 2023 the LDR guidelines were updated by SAMA permitting banks to apply weights on long-term debt (Sukuks/ Bonds, Syndicated debts, Subordinated debts, Other Debts), in addition to deposits.

**Fig 11: Share of demand deposits is up 114bps Y/Y**



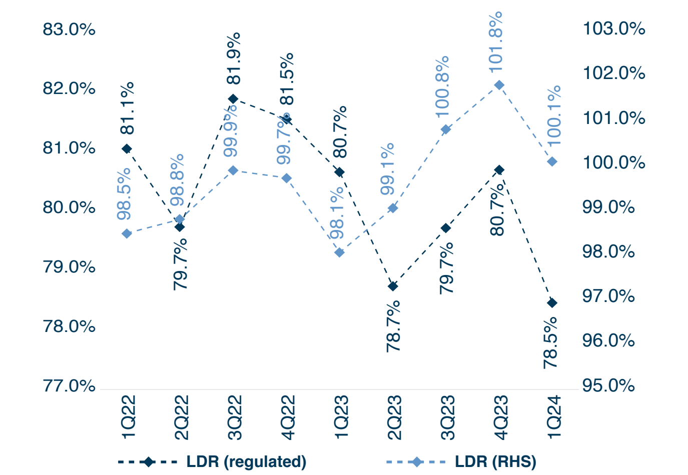

Source: SAMA Monthly Bulletin, Company financials, Aljazira research

**Fig 12: Chg in demand deposits Q/Q (bps)**




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

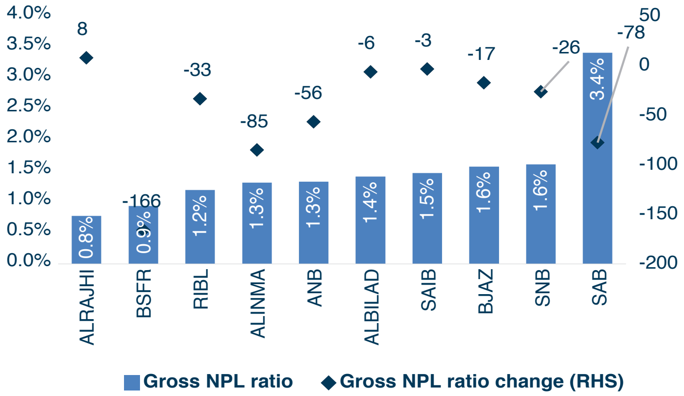
**Fig 13: LDR is down from recent highs**




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

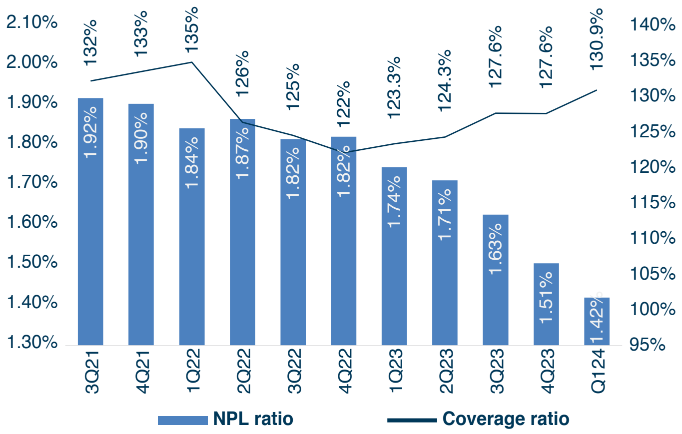
**Sector's credit asset quality continues to improve; while operating efficiency remained stable:** Gross NPL ratio of the sector improved by 32bps Y/Y (9bps Q/Q) to 1.42% in Q1-24, while coverage stood at a healthy 130.9% (up 757bps and 331bps Y/Y and Q/Q). CoR declined by 12.9bps Y/Y (+3.6bps Q/Q) to 39bps in Q1-24. Amongst listed banks, **ALRAJHI** retained its top position on asset quality front, with NPL ratio of 0.8% (up 8bps Y/Y), while **SAB** despite undergoing the sizable NPL improvement (down 78bps Y/Y) still had the industry's highest NPL ratio of 3.4% in Q1-24.

## Fig 14: Alrajhi leads on asset quality, SAB saw big improvement



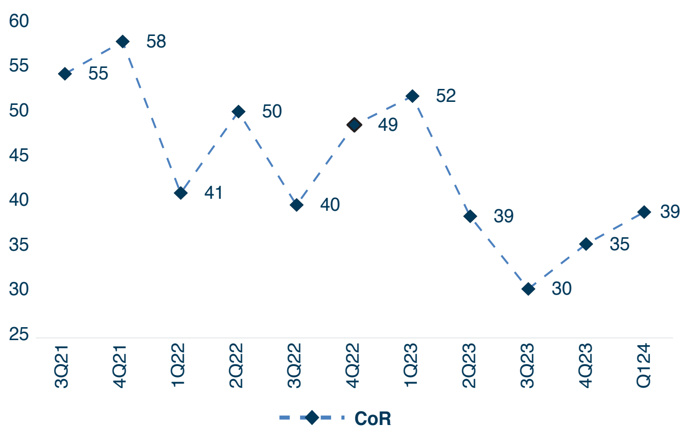

Source: SAMA Monthly Bulletin, Company financials, Aljazira research

## Fig 15: Asset quality improves further




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

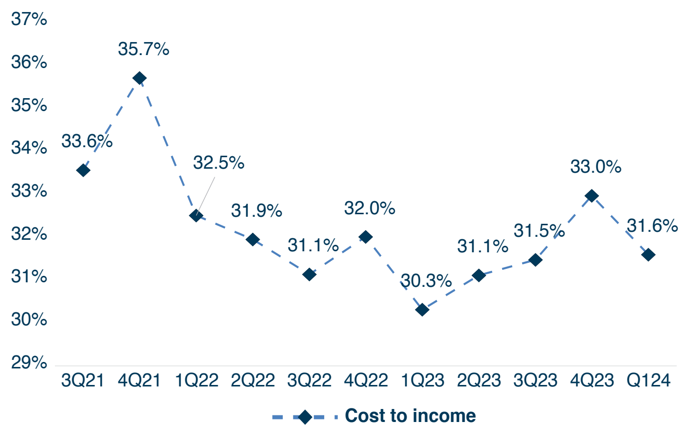
## Fig 16: Cost of risk dropped by 12.9bps Y/Y in Q1-24




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

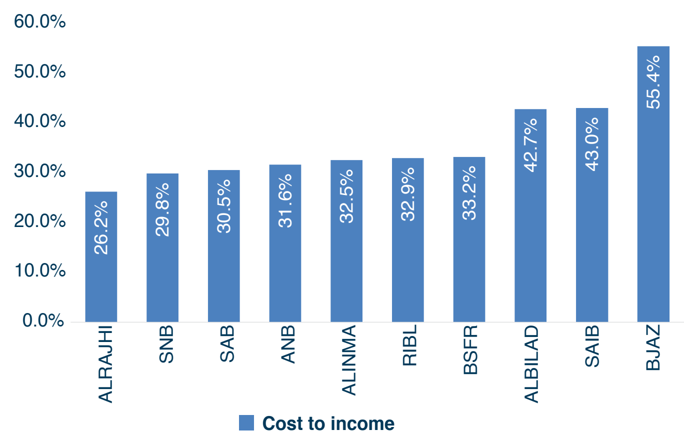
The sector experienced a 128bps Y/Y (-138bps Q/Q) increase in the cost to income ratio to 31.6% in Q1-24, as operating income increased by 5.5% Y/Y, while operating expenses increased by 9.9% Y/Y. Operating income growth was driven by 5.3% Y/Y increase in net interest income, and a 6.2% Y/Y increase in non-yield income.

## Fig 17: Cost to income



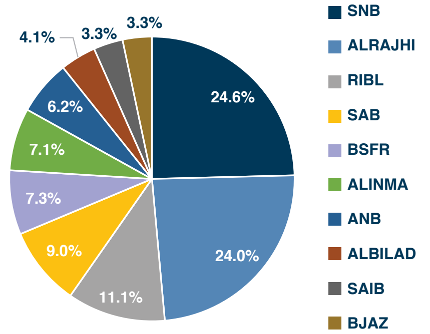

Source: SAMA Monthly Bulletin, Company financials, Aljazira research

## Fig 18: Bank wise Cost to income



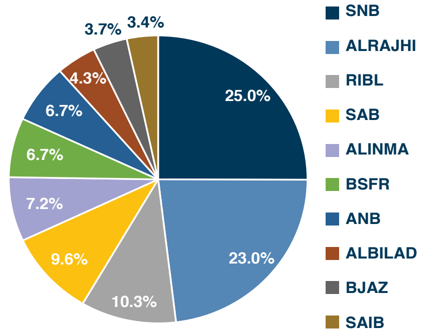

Source: SAMA Monthly Bulletin, Company financials, Aljazira research

### Fig 19: Loans market share




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

### Fig 20: Deposits market share




Source: SAMA Monthly Bulletin, Company financials, Aljazira research

**Loans market share: SNB** leads with Q1-24 loan market share of 24.6%, down 13bps Y/Y. **SAB** and **ALINMA** saw the biggest increases in Q1-24 credit market share of 65bps Y/Y and 42bps Y/Y, to 9.0% and 7.1%, respectively. While **ALRAJHI** and **SNB** experienced biggest declines in loan market share of 123bps Y/Y and 13bps Y/Y to 24.0% and 24.6%. The share of Islamic banks in total lending stood at 35.1% in Q1-24 down 92bps Y/Y, with **ALRAJHI** having the largest share of 24.0%.

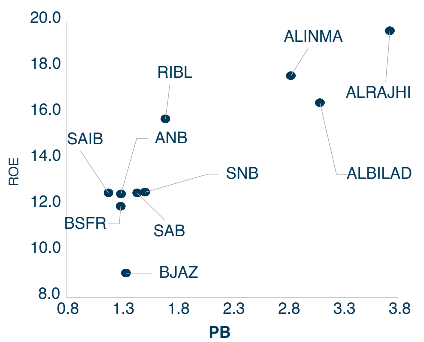
**Deposits market share:** SNB leads with deposit market share of 25.0% in Q1-24, down 36bps Y/Y. **ALINMA** and **SAB** saw the largest increases in Q1-24 deposit market share of 56bps Y/Y and 21bps Y/Y respectively, while **SNB** and **RIBL** saw largest declines in market share of 36bps Y/Y each. Share of Islamic banks in total deposits increased by 43bps Y/Y in Q1-24 to 34.6%, with **ALRAJHI** leading with a market share of 23.0%

### Table 1: Return heat map for the sector Q1-24

| | RoE | NIMs | RoEAs | Cost of funds | Cost to income | CA ratio | CoR (bps) |
|---|---|---|---|---|---|---|---|
| Albilad | 16.5% | 3.2% | 6.3% | 3.5% | 42.7% | 37.1% | 20 |
| Alinma | 17.6% | 3.6% | 6.8% | 3.6% | 32.5% | 44.6% | 59 |
| Alrajhi | 19.6% | 3.0% | 5.8% | 3.0% | 26.2% | 65.1% | 28 |
| ANB | 12.5% | 3.7% | 6.7% | 3.5% | 31.6% | 48.6% | 38 |
| BJAZ | 9.1% | 2.0% | 6.0% | 4.4% | 55.4% | 37.3% | 28 |
| BSFR | 12.0% | 3.2% | 6.4% | 3.9% | 33.2% | 44.3% | 82 |
| RIBL | 15.8% | 3.4% | 6.4% | 3.4% | 32.9% | 47.3% | 62 |
| SAB | 12.5% | 3.3% | 6.0% | 3.1% | 30.5% | 54.7% | 19 |
| SAIB | 12.5% | 2.8% | 6.9% | 4.3% | 43.0% | 31.9% | 44 |
| SNB | 12.6% | 3.0% | 5.9% | 3.3% | 29.8% | 76.3% | 18 |

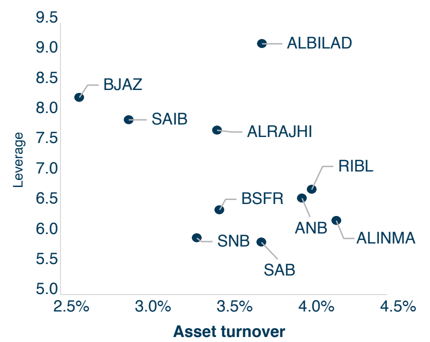
Source: SAMA, Company financials, Aljazira research

### Fig 21: ROE (%) vs PB



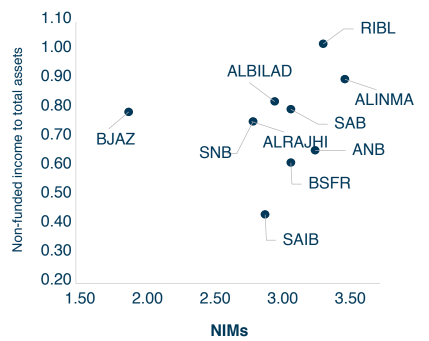

Source: SAMA, Company financials, Aljazira research

### Fig 22: Leverage vs asset turnover (%)




Source: SAMA, Company financials, Aljazira research

### Fig 23: NIMs and NFI/Total assets (%)




Source: SAMA, Company financials, Aljazira research

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

AGM - Head of Sell-Side Research
**Jassim Al-Jubran**
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

## Disclaimer