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Saudi Banking Sector Quarterly Report I Q3-24

Banking profits make new highs (+13.5% Y/Y), driven by improvement in yield income and non-commission income

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The banking sector posted record quarterly earnings of SAR 20.5bn in Q3-24, up 13.5% Y/Y (+5.1% Q/Q). Eight out of ten listed banks posted above consensus earnings; leading the group were RIBL and SAIB, which beat estimates by 25.2% and 12.2%. Pre-provision profit for the sector was up 14.6% Y/Y in Q3-24. Earnings growth was mainly driven by the improvement in Net Interest Income (up 7.5% Y/Y in Q3-24 to SAR 28.3bn), which was supported by the 12.4% Y/Y and 13.5% Y/Y increase in loans and investments, respectively (total earning assets were up 13.4% Y/Y in Q3-24). Non-commission income grew by 24.4% Y/Y to SAR 8.6bn in Q3-24. Note that, NIMs for the sector were down 14bps Y/Y to 3.12% in Q3-24. Bank credit to private sector grew by 12.4% Y/Y (+3.7% Q/Q). Mortgage lending continued to grow for the second consecutive quarter. Monthly run rate for mortgages stood at SAR 6.8bn in Q3-24, up 11.3%, compared to SAR 6.1bn in Q3-23. Pickup in credit growth lifted normal LDR, while changes in LDR guidelines softened regulatory LDR on Y/Y basis to 79.7%. Gross NPL ratio of the sector improved by 31bps Y/Y (4bps Q/Q) to 1.32% in Q3-24, while coverage stood at a healthy 135.1% (up 745bps and 242bps Y/Y and Q/Q). CoR declined by 3.8bps Y/Y (+2.7bps Q/Q) to 34bps in Q3-24.

Another record quarter for banking profits as earnings grow by 13.5% Y/Y in Q3-24: The banking sector posted record quarterly earnings of SAR 20.5bn in Q3-24, up 13.5% Y/Y (+5.1% Q/Q). Eight out of ten listed banks posted above consensus earnings; leading the group were **RIBL** and **SAIB**, which beat estimates by 25.2% and 12.2%. Conversely, **SAB** and **BSF** had biggest earnings misses of -4.7% and -1.6%, respectively. Bank wise, **RIBL** posted the highest net income growth of 27.0% Y/Y in Q3-24, driven primarily by 7.1/38.6% Y/Y increase in NSCI/non-funded income, nominal 0.7% increase in operating expenses, and 7.5% Y/Y decline in debt provisions. **ALRAJHI** stood out as the second best with Q3-24 net income growth of 22.8% Y/Y, which is attributable to 18.5% Y/Y expansion in NSCI, 38.7% Y/Y growth in non-funded income, despite 81.4% increase in provision expenses. On the other end, **BSF** saw a decline in earnings of 7.8% Y/Y, due to 4% decline in NSCI, 69bps Y/Y decline in NIMs, 15.8% Y/Y increase in OPEX.

Mortgage issuances picked up momentum (up 11.3% Y/Y in Q3-24); loan growth still in double digits: Bank credit to private sector grew by 12.4% Y/Y (+3.7% Q/Q). Mortgage lending continued to grow for the second consecutive quarter. Monthly run rate for mortgages stood at SAR 6.8bn in Q3-24, up 11.3%, compared to SAR 6.1bn in Q3-23. Bank wise, **SAB** and **SAIB** led the sector posting loan growths of 19.4% Y/Y and 18.4% Y/Y, respectively in Q3-24. On the other hand, **ALBILAD** and **ALRAJHI** posted the lowest loan growth of 5.0% Y/Y and 9.9% Y/Y, respectively.

Deposit mix of the sector remained largely unchanged: Total deposits for the sector grew by 10.5% Y/Y (up 1.4% on a sequential basis) to SAR 2,718bn. Demand deposit share in total deposits decreased by 18bps Q/Q (down 112bps Y/Y) to 53.1%. Share of Time and savings deposits increased by 97bps Q/Q to 34.8%, while weight of Other Quasi-money deposits decreased by 79bps to 12.1% in Q3-24.

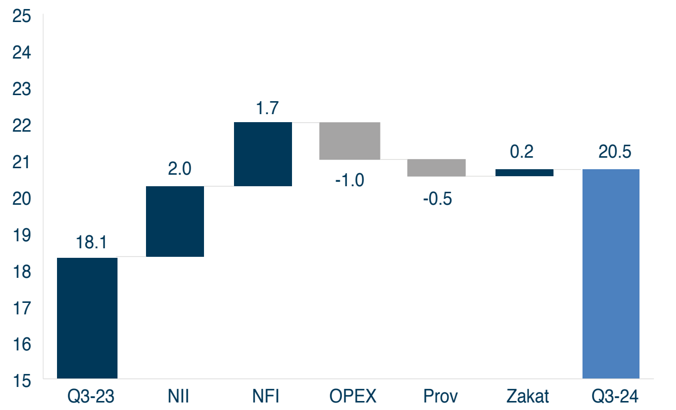
Pickup in credit growth lifted normal LDR, while changes in LDR guidelines softened regulatory LDR to 79.7%: Normal Loan-to-deposit (LDR) ratio increased by 131bps Q/Q (up 124bps Y/Y) to reach 102.1% in Q3-24; as credit growth picked up. Regulatory LDR saw an attrition of 5bps Y/Y (+37bps Q/Q), as it receded to 79.7%. 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, Subordinated, Other Debts), in addition to deposits.

Sector's credit asset quality continues to improve; while operating efficiency remained stable: Gross NPL ratio of the sector improved by 31bps Y/Y (4bps Q/Q) to 1.32% in Q3-24, while coverage stood at a healthy 135.1% (up 745bps Y/Y and 242bps Q/Q). CoR declined by 3.8bps Y/Y (+2.7bps Q/Q) to 34bps in Q3-24. Amongst listed banks, **ALINMA** leads on asset quality front, with NPL ratio of 0.8% (down 94bps Y/Y), while **SAB** despite undergoing the sizable NPL improvement (down 82bps Y/Y) still had the industry's highest NPL ratio of 2.9% in Q3-24.

There is 57% chance of a 25bps cut in December: Feds decision on interest rate is scheduled to be announced on 18th December, currently an interest rate cut is slightly more likely than not, according to the CME Fed watch. We see Fed reducing rates by another 25bps in December. Recently Fed chair stated that interest rates are likely to decline over time, however, the path is uncertain and depends on incoming data.

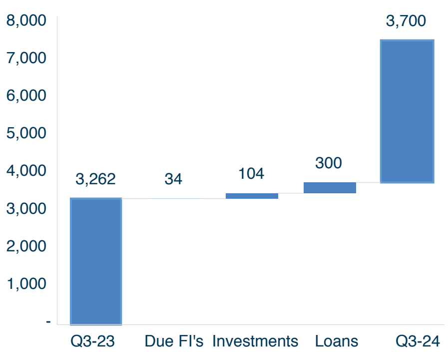
Banking sector posts historic high net income in Q3-24, supported by growth in commission income & non-funded income: The Saudi banking sector posted record quarterly earnings of SAR 20.5bn in Q3-24, up 13.5% Y/Y (+5.1% Q/Q). Eight out of ten listed banks posted above consensus earnings; leading the group were **RIBL** and **SAIB**, which beat estimates by 25.2% and 12.2%. Conversely, **SAB** and **BSF** had biggest earnings misses of -4.7% and -1.6%, respectively. Pre-provision profit for the sector was up 14.6% Y/Y in Q3-24. Earnings growth was mainly driven by the improvement in Net Interest Income (up 7.5% Y/Y in Q3-24 to SAR 28.3bn), which was supported by the 12.4% Y/Y and 13.5% Y/Y increase in loans and investments, respectively (total earning assets were up 13.4% Y/Y in Q3-24). Note that, NIMs for the sector were down 14bps Y/Y to 3.12% in Q3-24. Growth in Non-funded income was robust at 24.4% Y/Y in Q3-24. Operating expenses grew by 9.3% Y/Y, while the cost-to-income ratio decreased by 48bps Y/Y to 31.0%. Debt provisions increased by 25.5% Y/Y to SAR 2.3bn in Q3-24, which translates to cost-of-risk (CoR) of 34bps, as compared to 30bps in the same period last year. Overall, sector RoE improved by 68bps Y/Y to 15.6% in Q3-24, the improvement is mainly owed to increasing leverage (assets/equity stood at 7.7x in Q3-24 vs 7.5x in Q3-23) as RoAs remained largely unchanged at 2.0% Y/Y.

Fig 1: Net income growth drivers (SAR bn)



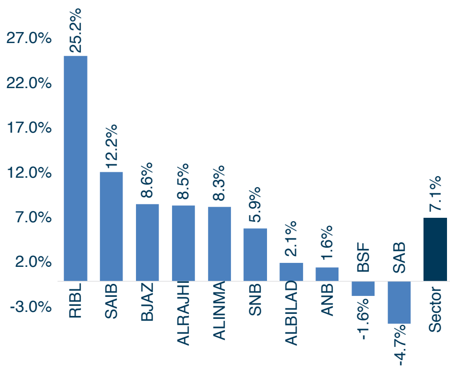
Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Fig 2: Earning assets grew by 13.4% Y/Y (SAR mn)



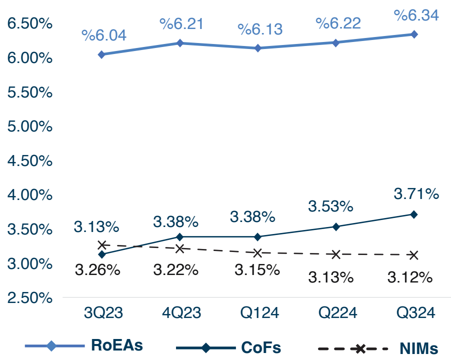
Source: Company financials, Aljazira Capital Research

Fig 3: Q3-24 earnings actual vs estimates



Source: Company financials, Aljazira Capital Research

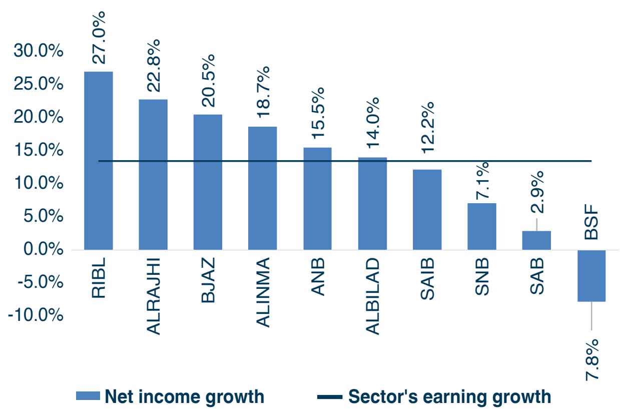
Fig 4: NIMs have contracted by 14bps Y/Y



Source: Company financials, Aljazira Capital Research

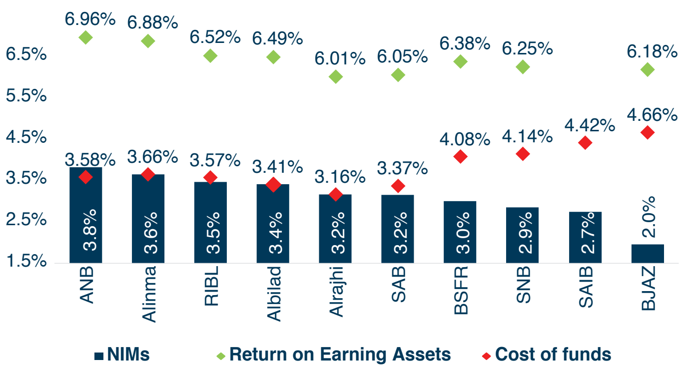
Bank wise, **RIBL** posted the highest net income growth of 27.0% Y/Y in Q3-24, driven primarily by 7.1/38.6% Y/Y increase in NSCI/non-funded income, nominal 0.7% increase in operating expenses, and 7.5% Y/Y decline in debt provisions. **ALRAJHI** stood out as the second best with Q3-24 net income growth of 22.8% Y/Y, which is attributable to 18.5% Y/Y expansion in NSCI, 38.7% Y/Y growth in non-funded income, despite 81.4% increase in provision expenses. On the other end, **BSF** saw a decline in earnings of 7.8% Y/Y, due to 4% decline in NSCI, 69bps Y/Y decline in NIMs, 15.8% Y/Y increase in OPEX. On Pre-provision basis (Net profit adjusted for provisions) **BJAZ** posted growth of 29.4% Y/Y). **BSF** and **SAIB** stood out as major laggards on Pre-provision net income basis, with profits down 12.3% Y/Y and up 6.3% Y/Y, respectively.

Banks wise Q3-24 earning performance (Y/Y)



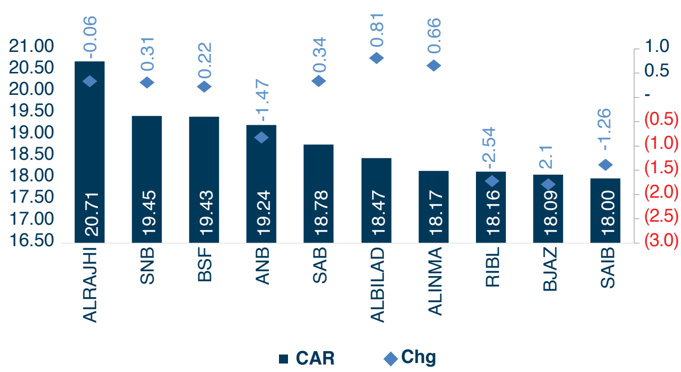
Source: Company financials, Aljazira Capital Research

Fig 6: NIMs, RoEAs, CoFs



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

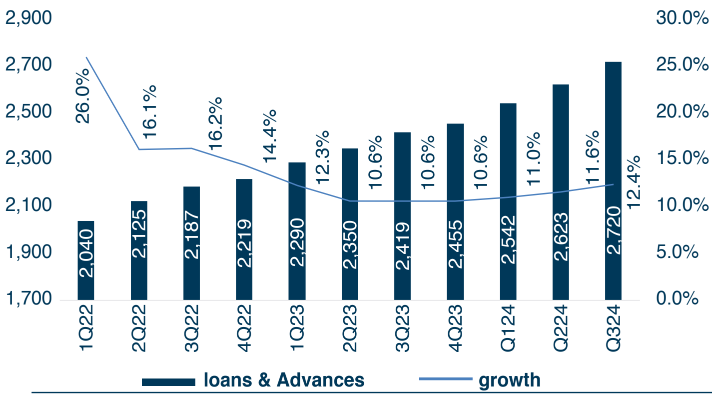
Fig 7: Capital adequacy ratio %



Source: SAMA Monthly Bulletin, Company financials, Aljazira Capital Research

Sector capital adequacy, sizably above regulatory requirement: CAR/Tier-1 for the sector declined by 64/61bps Y/Y in Q2-24 to 19.4/17.9%. Bank wise, **ALRAJHI** leads the sector with total CAR of 20.7%, down 6bps Y/Y. While **SAIB** has the lowest CAR of 18.0% (down 126bps). **Albilad** saw strongest increase in CAR of 81bps, while **RIBL** saw the largest attrition in CAR of 254bps.

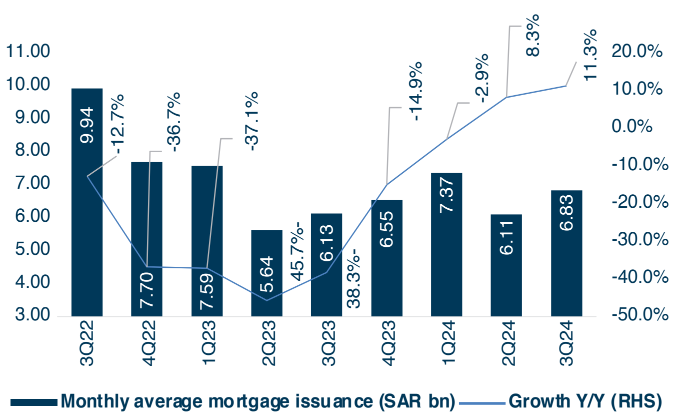
Fig 8: Loan and advances



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

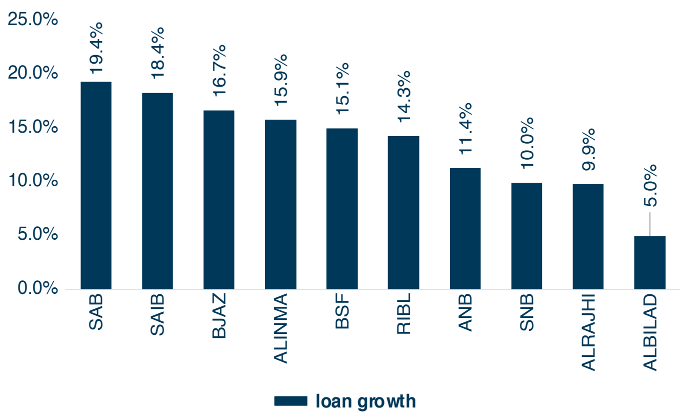
Loan growth still in double digits, mortgage issuances picked up momentum: Bank credit to private sector grew by 12.4% Y/Y (+3.7% Q/Q). Mortgage lending continued to grow for the second consecutive quarter. Monthly run rate for mortgages stood at SAR 6.8bn in Q3-24, up 11.3%, compared to SAR 6.1bn in Q3-23. Bank wise, **SAB** and **SAIB** led the sector posting loan growths of 19.4% Y/Y and 18.4% Y/Y, respectively in Q3-24. On the other hand, **ALBILAD** and **ALRAJHI** posted the lowest loan growth of 5.0% Y/Y and 9.9% Y/Y, respectively.

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



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Fig 10: Banks wise Q3-24 loan growth (Y/Y)



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Deposit mix of the sector remained largely unchanged: Total deposit for the sector grew by 10.5% Y/Y (up 1.4% on a sequential basis) to SAR 2,718bn. Demand deposit share in total deposits decreased by 18bps Q/Q (down 112bps Y/Y) to 53.1%. Share of Time and savings deposits increased by 97bps Q/Q to 34.8%, while weight of Other Quasi-money deposits decreased by 79bps to 12.1% in Q3-24.

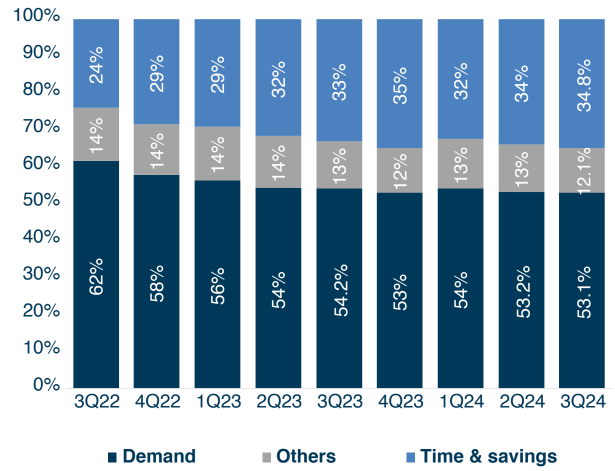
Banks wise **ANB** logged in the highest growth in deposits of 17.3% Y/Y in Q3-24, followed by **BSF** which saw deposits grow by 16.2% Y/Y. On the other end, **SNB** and **ALRAJHI** saw deposits grow by just 1.5% Y/Y and 10.1% Y/Y in Q3-24.

In terms of deposit quality, **SNB** and **ALRAJHI** maintained their lead in Q3-24, with the highest demand deposit weight of 70.6% and 69.8%, respectively. **SAIB** and **BJAZ** have lowest demand deposit ratios of 30.1% and 31.9% with in the sector.

In terms of change in deposit mix, **ALRAJHI** saw the largest movement as its share of demand deposits increased by 529bps Y/Y in Q3-24 to 69.8%, followed by **ANB** which saw share of non-remunerative deposits expand by 174bps Y/Y to 50.6%. **BSF** and **SAB** on the other hand saw share of non-remunerative demand deposits drop by 973bps Y/Y and 927bps Y/Y to 43.2% and 50.2% in Q3-24, respectively.

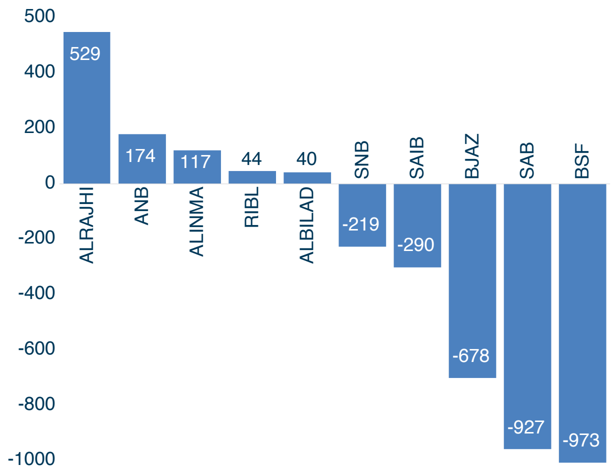
Pickup in credit growth lifted normal LDR, while changes in LDR guidelines softened regulatory LDR on Y/Y basis: Normal Loan-to-deposit (LDR) ratio increased by 131bps Q/Q (up 124bps Y/Y) to reach 102.1% in Q3-24; as credit growth picked up. Regulatory LDR saw an attrition of 5bps Y/Y (+37bps Q/Q), as it receded to 79.7%. 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 down 112bps Y/Y



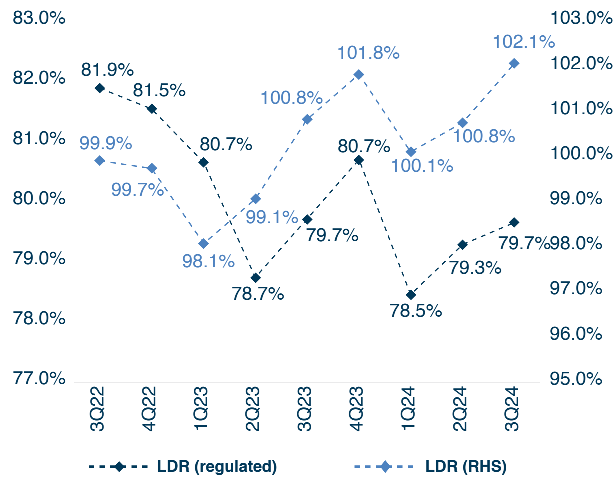
Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Fig 12: Chg in demand deposits Q/Q (ppts)



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

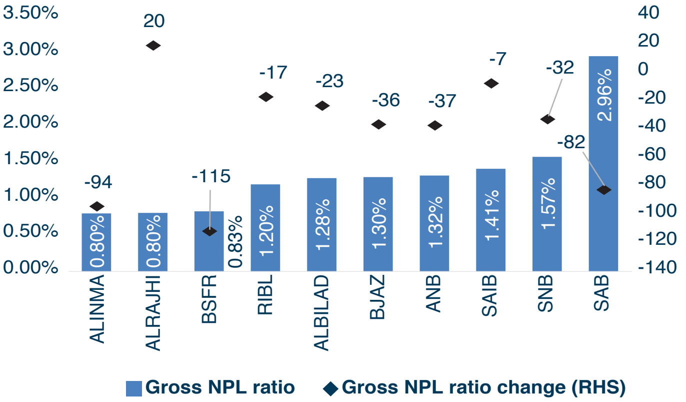
Fig 13: LDR is down from recent highs



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

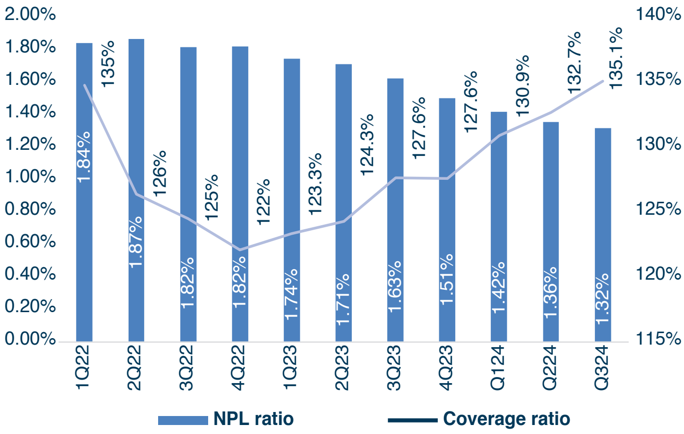
Sector's credit asset quality continues to improve; while operating efficiency remained stable: Gross NPL ratio of the sector improved by 31bps Y/Y (4bps Q/Q) to 1.32% in Q3-24, while coverage stood at a healthy 135.1% (up 745bps and 242bps Y/Y and Q/Q). CoR declined by 3.8bps Y/Y (+2.7bps Q/Q) to 34bps in Q3-24. Amongst listed banks, **ALINMA** leads on asset quality front, with NPL ratio of 0.8% (down 94bps Y/Y), while **SAB** despite undergoing the sizable NPL improvement (down 82bps Y/Y) still had the industry's highest NPL ratio of 2.9% in Q3-24.

Fig 14: Alinma & Alrajhi leads on asset quality, BSF saw big improvement



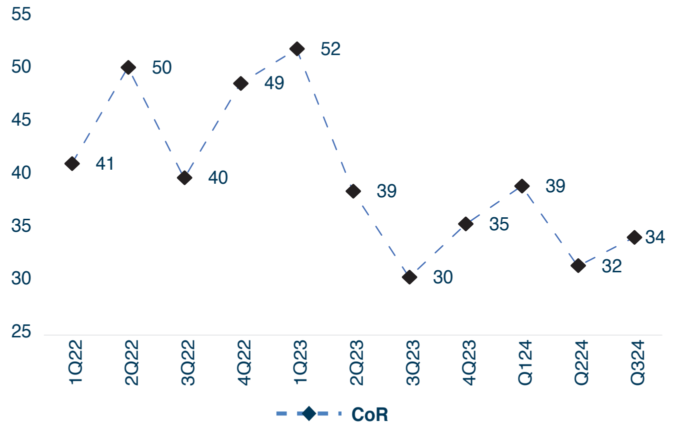
Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Fig 15: Asset quality improves further



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

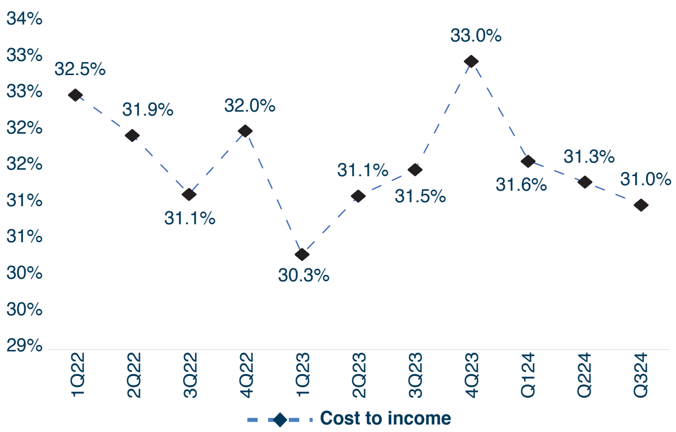
Fig 16: Cost of risk increased to 34bps in Q3-24 (bps)



Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

The sector experienced a 48bps Y/Y (-31bps Q/Q) decline in the cost to income ratio to 31.0% in Q3-24, as operating income increased by 11.0% Y/Y, while operating expenses increased by 9.3% Y/Y. Operating income growth was driven by 7.5% Y/Y increase in net interest income, and a 24.4% Y/Y increase in non-yield income

Fig 17: Cost to income

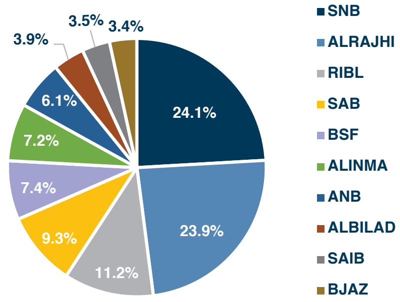


Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

Fig 18: Bank wise Cost to income

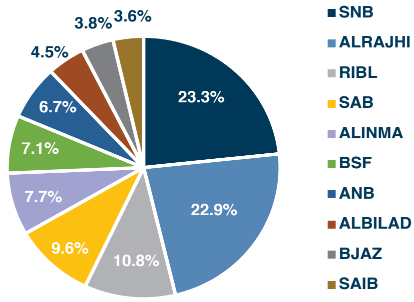
Source: SAMA Monthly Bulletin, Company financials, Aljazira Research

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 Q3-24 loan market share of 24.1%, down 53bps Y/Y. **ALRAJHI** and **RIBL** saw the biggest increases in Q3-24 credit market share of 15bps Q/Q and 13bps Q/Q, to 23.9% and 11.2%, respectively. While **SNB** and **BSF** experienced biggest declines in loan market share of 20bps Y/Y and 13bps Y/Y to 24.1% and 7.4%. The share of Islamic banks in total lending stood at 35.0% in Q3-24 down 62bps Y/Y, with **ALRAJHI** having the largest share of 23.9%.

Deposits market share: SNB leads with deposit market share of 23.3% in Q3-24, down 207bps Y/Y. **RIBL** and **ANB** saw the largest increases in Q3-24 deposit market share of 44bps Y/Y and 38bps Y/Y respectively, while **SNB** and **ALRAJHI** saw largest declines in market share of 207bps Y/Y and 10bps respectively. Share of Islamic banks in total deposits increased by 34bps Y/Y in Q3-24 to 35.1%, with **ALRAJHI** leading with a market share of 22.9%

Table 1: Return heat map for the sector Q3-24

	RoE	NIMs	RoEAs	Cost of funds	Cost to income	CA ratio	CoR (bps)
ANB	13.3	3.8%	7.0%	3.6%	33%	51%	39
Alinma	18.5	3.6%	6.9%	3.7%	31%	45%	44
RIBL	16.8	3.5%	6.5%	3.6%	31%	46%	38
Albilad	17.1	3.4%	6.5%	3.4%	43%	62%	20
Alrajhi	20.3	3.2%	6.0%	3.2%	26%	70%	43
SAB	13.5	3.2%	6.1%	3.4%	31%	50%	50
BSF	11.8	3.0%	6.4%	4.1%	35%	43%	51
SNB	12.8	2.9%	6.3%	4.1%	30%	71%	14
SAIB	13.0	2.7%	7.0%	4.4%	42%	30%	28
BJAZ	9.5	2.0%	6.2%	4.7%	56%	32%	39

Source: SAMA, Company financials, Aljazira Research

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RESEARCH DIVISION

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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.

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