Saudi Banking Sector – 4Q2016

In 4Q2016, the balance sheet of Saudi Arabia’s banking sector stood at SAR 2,256bn, a 2.2% YoY increase (up 0.3% QoQ). Total loans were 72.4% of total assets, whereas deposits accounted for 71.7% of total liabilities. The banking sector’s balance sheet expanded at a 10-year CAGR of 10.1%.

The Saudi banking sector has 12 listed banks and other non-listed banks. In terms of the balance sheet size, National Commercial Bank (NCB) (assets of more than SAR 441.4bn) is the biggest bank in the Kingdom, accounting for 19.9% of the total market, followed by Al Rajhi Bank (an asset base of SAR 339.7bn and 15.3% of the market share). Samba and Riyadh Bank account for more than 9.5% each of total banking assets.

Of the 12 banks, Al Rajhi Bank, Alinma Bank, Bank Albilad, and Bank AlJazira are Shariah-compliant banks, accounting for 25.5% of total banking assets. Al Rajhi Bank is the largest Shariah-compliant bank in the Kingdom, accounting for almost 60.2% of the total market share among Shariah banks.

The Saudi banking sector has 12 listed banks and other non-listed banks. In terms of the balance sheet size, National Commercial Bank (NCB) (assets of more than SAR 441.4bn) is the biggest bank in the Kingdom, accounting for 19.9% of the total market, followed by Al Rajhi Bank (an asset base of SAR 339.7bn and 15.3% of the market share). Samba and Riyadh Bank account for more than 9.5% each of total banking assets.

Of the 12 banks, Al Rajhi Bank, Alinma Bank, Bank Albilad, and Bank AlJazira are Shariah-compliant banks, accounting for 25.5% of total banking assets. Al Rajhi Bank is the largest Shariah-compliant bank in the Kingdom, accounting for almost 60.2% of the total market share among Shariah banks.

**Total Banking Asset Market Share-4Q-2016**

**Sharia Compliant Banks Assets Market Share-4Q-2016**

**Source:** SAMA

**Source:** Bloomberg
Deposits

Saudi banking deposits and money supply rose steadily at a 10-year CAGR of 10.6% and 10.5%, respectively. Total deposits rose 0.8% YoY to SAR 1.62tn in 4Q2016 from SAR 1.60tn in 4Q2015, supported by government efforts to infuse liquidity.

Demand deposits declined 0.2% YoY to SAR 974.1bn in 4Q2016 compared to SAR 976.2bn in 4Q2015.

Of the total deposits, demand deposits account for 60.6%, whereas time and savings deposits account for only 30.4%.

The breakdown of deposits shows that almost 78.9% of the total deposits are held by individuals and 19.3% by government entities.

Businesses and individuals hold 93.7% of the demand deposits, while the government holds the remaining 6.3%.

With regard to time and savings deposits, businesses and individuals hold nearly 55.1%, while government entities hold 44.9%.

Stakeholders Breakdown

- Business and Individuals: 94%
- Government Entities: 6%

Stakeholders Breakdown

- Business and Individuals: 45%
- Government Entities: 55%

- Business and Individuals: 19.3%
- Government Entities: 78.9%

Source: SAMA
Deposits – Breakdown by Bank

National Commercial Bank (deposit base of SAR 316bn) is the largest bank in Saudi Arabia, followed by Al Rajhi Bank (deposit base of SAR 273bn).

Alinma Bank recorded the highest growth (22.7% YoY) in deposits and improved market share from 3.9% to 4.8% in 4Q2016. Banque Saudi Fransi stood second, increasing the deposit base by 11.7% YoY and market share to 9.5% in 4Q2016 from 8.5% in 4Q2015.

Saudi Investment Bank registered the biggest decline of 6.9% YoY in its deposit base, as deposits fell from SAR 71bn to SAR 66bn and market share from 4.2% to 3.9% in 4Q2016. It was followed by Riyad Bank, as deposits fell 6.7% YoY to SAR 157bn, reducing its market share to 9.4% in 4Q2016 from 10.1% in the same period of the previous year.

Al Rajhi Bank, the largest Shariah-compliant bank, recorded a 5.7% YoY rise in deposit base and an improvement in market share from 15.5% to 16.3% in 4Q2016. Alawwal Bank’s deposits fell 4.2% YoY in 4Q2016, which reduced its market share from 5.4% to 5.1%.

Loans

The total loan book of Saudi Arabia’s banking sector advanced 2.9% YoY to SAR 1.40tn toward the end of 4Q2016, registering a 10-year CAGR of 10.9% in 2016.

About 50.2% of the loans extended have a maturity of less than a year. However, loans with a maturity of one to three years posted a strong rise of 9.7% YoY, increasing their share from 17.7% in 4Q2015 to 18.9% in 4Q2016.

The high concentration of short-term loans in a rising interest rate environment makes it easier for the bank to re-price new loans.
Loans Breakdown

The commerce sector is the largest borrower among all sectors, accounting for 21.4% of total loans, followed by the manufacturing sector (12.6% of total loans). The construction sector, which ranks third, witnessed a decline in borrowing from 8.0% in 3Q2016 to 7.5% in 4Q2016.

Retail Loans

The sector’s retail loans (excluding real estate financing, finance leasing, and financing against shares (margin lending)) advanced 4.5% YoY (down 0.6% QoQ) to SAR 341bn in 4Q2016.

Loans for vehicles are the biggest constituent of retail loans, accounting for almost 9.6% in 4Q2016. Loans for home renovation financing accounted for 8.5% of total retail loans.

Of total retail loans, those acquired through credit cards accounted for 3.21% in 4Q2016, a jump from 3.12% in 4Q2015.

Real Estate Loans

Starting 2010, real estate loans registered a six-year CAGR of 22.9% and stood at SAR 206.9bn in 2016. In 2016, the retail and corporate sectors accounted for 53.5% and 46.5% of total real estate loans, respectively.

Corporate-sector real estate loans rose 14.3% YoY to SAR 96.3bn in 4Q2016, whereas retail loan advanced 8.2% YoY to SAR 110.6bn. However, corporate-sector loans witnessed a sharp decline in growth from 54.1% to 14.3% in 2016.

Bank-wise Market Share in Loans

The sector’s biggest lender, National Commercial bank (NCB), witnessed a decline in market share to 18.2% in 4Q2016 from 18.5% in 4Q2015. Al Rajhi Bank, with the second largest market share, witnessed an increase to 16.2% in 4Q2016 from 15.4% in 4Q2015. Alinma Bank was the biggest gainer in terms of market share in the loan market, while Samba Financial Services was the biggest loser.

Samba Financial Group’s market share accounted for 8.9% in 4Q2016, a drop from 9.4% in 4Q2015.

The market share of Shariah-compliant banks rose to 26.9% in 4Q2016 from 25.1% in 4Q2015. This was primarily led by Alinma Bank, the market share of which increased from 4.1% in 4Q2015 to 5.0% in 4Q2016. Al Rajhi’s market share increased from 15.4% in 4Q2015 to 16.2% in 4Q2016. In addition, Bank Albilad witnessed a marginal increase in market share from 2.5% in 4Q2015 to 2.6% in 4Q2016. However, AlJazira Bank’s market share declined from 3.1% in 4Q2015 to 3.0% in 4Q2016.
Among the 12 banks in the sector, seven registered a YoY increase in gross loans.

Alinma Bank registered the strongest growth of 23.4% YoY in its loan book in 4Q2016, which helped it increase its market share. Al Rajhi, with a 7.2% YoY growth in gross loans, was the second best performer. Samba Bank, which declined 3.7% YoY in 4Q2016, was the worst performer, followed by Alawwal Bank (down 3.7% YoY). AlJazira witnessed the slowest growth in loans (0.2% YoY).

Shariah-compliant banks showed a cumulative growth rate of 8.9% YoY in gross loans in 4Q2016.

**Non-Performing Loans**

The sector’s non-performing loan ratio in 4Q2016 stood at 1.24% compared to 1.13% in 4Q2015. The NPL coverage ratio improved to 175% in 4Q2016 from 169% in 4Q2015.

Alinma Bank and Riyad Bank, with NPL ratios of 0.77% and 0.80%, respectively, are the best in the industry. The NPL coverage of Alinma Bank and Riyad Bank stood at 68% and 223%, respectively, in 4Q2016.

Alawwal Bank had the highest NPL ratio of 2.21% and its NPL coverage ratio stood at 130% in 4Q2016. Riyad Bank registered the greatest improvement in NPL coverage from 140% in 4Q2015 to 223% in 4Q2016, while Saudi Investment Bank posted the biggest drop in NPL coverage ratio from 187% in 4Q2015 to 93% in 4Q2016.

**Advances to Deposit Ratio**

The industry ADR ratio improved marginally to 85.1% in 4Q2016 from 84.1% in 4Q2015. This was partly led by a 0.6% YoY and 1.8% YoY increase in deposits and loans, respectively.

Saudi Investment Bank posted the highest ADR of 93.3%, followed by Riyad Bank at 92.9% in 4Q2016. Samba recorded the lowest ADR of 73.9% in 4Q2016 compared to 76.8% in 4Q2015.

Notably, the Saudi Arabian Monetary Agency (SAMA) increased the regulatory ADR limit to 90% from 85%.
NIMs Remains Under Pressure

Of the 12 banks, only one posted an increase in its net interest margin (NIM).

Saudi Investment Bank recorded the greatest drop in NIM from 0.61% in 4Q2015 to 0.23% in 4Q2016, followed by Bank Albilad (0.72% to 0.39%). Al Rajhi Bank was the only bank to register an increase in NIM. It registered a rise of 0.12% in 4Q2016 to 0.57% from 0.45% in 4Q2015. Overall, the sector’s return on savings and time deposits increased 103% YoY in 4Q2016 compared to 146% YoY in 3Q2016.

NCB reported the highest cost of SAR 1,423mn in 4Q2016 on savings deposits compared to SAR 956mn in 4Q2015, an increase of 48.9% YoY. The highest jump in return on deposit was posted by Bank Albilad at 244% YoY.

AlJazira recorded the highest return on time and savings deposits at 2.60%, followed by NCB at 1.84%.

Saudi Fransi Bank’s return on time and saving deposits of 1.21% was the lowest in the market, closely followed by Al Bilad 1.28%.

Operating Income Breakdown

The sector posted an operating income of SAR 83.1bn in 2016 compared to SAR 80.0bn in 2015, depicting a 3.8% YoY jump.

Retail accounted for 42.9% of the total operating income in 2016 compared to a share of 41.3% in 2015. Retail income increased 7.9% YoY.

The corporate sector’s contribution fell 0.8% from 32.6% in 2015 to 31.8% in 2016. Earnings from the corporate sector stood at SAR 26.4bn.

Treasury income rose 1.2% YoY, whereas investment income declined 11.7% YoY. Other income increased 11.7% YoY.

NCB, with an operating income of SAR 18.6bn, contributed 22.4% to total sector earnings in 2016, followed by Al Rajhi’s contribution of 18.4% (earnings of SAR 15.3bn).
Aljazira Capital, the investment arm of Bank Aljazira, is a Sharia 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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other asset. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Aljazira Capital from sources believed to be reliable, but Aljazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Aljazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Aljazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Aljazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Aljazira Capital. Funds managed by Aljazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Aljazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Aljazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Aljazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Aljazira Capital. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.