In 2Q2018, the Saudi banking sector’s balance sheet grew 0.8% YoY and 2.2% QoQ to SAR 2,312bn. Total loans accounted for 75.9% of total assets, whereas deposits formed 69.8% of total liabilities. The banking sector’s balance sheet advanced at a 10-year CAGR of 6.6%.

The Saudi banking sector has 12 listed and other non-listed banks. In terms of the balance sheet size, National Commercial Bank (NCB) (with assets of more than SAR 454.4bn) is the largest bank in the Kingdom, accounting for 20.4% of the total market, followed by Al Rajhi Bank (asset base of SAR 348.4bn and 15.6% market share). Samba (asset base of SAR 231.7bn) and Riyadh Bank (total assets worth SAR 215.5bn) account for 10.4% and 9.7% of total banking assets, respectively.

Of the 12 banks, Al Rajhi Bank, Alinma Bank, Bank Albilad, and Bank AlJazira are Shariah-compliant and account for 27.0% of total banking assets. Al Rajhi Bank is the largest Shariah-compliant bank in the Kingdom, accounting for 57.8% of the total market share in 2Q2018 (down from 58.5% in 1Q2018).

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Deposits

Saudi banking deposits and money supply rose steadily at a 10-year CAGR of 6.6% each. Total deposits edged down 1.2% YoY to SAR 1.614tn in 2Q2018 from SAR 1.635tn in 2Q2017.

Demand deposits advanced 3.8% YoY to SAR 1,019.4bn in 2Q2018 from SAR 982.4bn in 2Q2017.

Of the total deposits, demand deposits accounted for 63.2% (unchanged from 1Q2018), whereas time and savings deposits made up only 26.0%.

The breakdown of deposits shows that Business and Individuals held 79.0% of total deposits, while Government entities accounted for 19.4%.

Businesses and Individuals hold 90.4% of the demand deposits, while Government entities hold the remaining 9.6% (up from 9.3% in 1Q2018).

With regard to time and savings deposits, Businesses and Individuals held nearly 58.8%, while Government entities accounted for 41.2% (down from 42.0% in 1Q2018).

Demand Deposits Break Down

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Individuals</td>
<td>90.4%</td>
</tr>
<tr>
<td>Government Entities</td>
<td>9.6%</td>
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</tbody>
</table>

Time & Savings Deposit Break Down

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Individuals</td>
<td>58.8%</td>
</tr>
<tr>
<td>Government Entities</td>
<td>41.2%</td>
</tr>
</tbody>
</table>

Deposits Break Down

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>63.2%</td>
</tr>
<tr>
<td>Time &amp; Savings</td>
<td>26.0%</td>
</tr>
<tr>
<td>Quasi-Monetary</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

Deposits by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Individuals</td>
<td>79.0%</td>
</tr>
<tr>
<td>Government Entities</td>
<td>19.4%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: SAMA
Deposits – Breakdown by Bank

National Commercial Bank (deposit base of SAR 318bn) is the largest bank in Saudi Arabia, followed by Al Rajhi Bank (deposit base of SAR 280bn).

Bank Albilad recorded highest growth (16.0% YoY) in deposits and improved its market share to 3.2% in 2Q2018 from 2.7% in 2Q2017. The Saudi Investment Bank stood second, increasing the deposit base 7.1% YoY and market share to 4.3% in 2Q2018 from 3.9% in 2Q2017.

Alawwal Bank registered the biggest decline of 19.1% YoY in its deposit base to SAR 66bn in 2Q2018 from SAR 82bn in 2Q2017. Market share fell to 4.0% in 2Q2018 from 4.8% in 2Q2017. It was followed by Banque Saudi Fransi, which saw its deposits fall 10.5% YoY to SAR 147bn, causing its market share to fall to 8.9% in 2Q2018 from 9.7% in the previous corresponding period.

Al Rajhi Bank, the largest Shariah-compliant bank, recorded a 1.8% YoY fall in the deposit base, while its market share remained unchanged at 16.9% in 2Q2018. Meanwhile, NCB’s market share increased to 19.2% in 2Q2018 from 18.6% in 2Q2017, as its deposits witnessed a marginal increase of 0.9% YoY.

Loans

The total loan book of Saudi Arabia’s banking sector increased 0.2% YoY to SAR 1.41tn in 2Q2018, registering a 10-year CAGR of 7.2%.

About 51.4% (up from 50.0% QoQ) of the loans extended have a maturity of less than a year. Loans with a maturity of one to three years rose by 7.0% YoY, due to which its share expanded to 19.1% in 2Q2018 from 17.9% in 2Q2017.

High concentration of short-term loans in a rising interest rate environment makes it easy for banks to re-price new loans.
Loan Breakdown

The commerce sector is the largest borrower among all sectors, accounting for 20.1% of total loans, followed by the manufacturing sector (12.0% of total loans). The construction sector, which ranks third, witnessed a rise in borrowing, due to which its share increased to 7.3% in 2Q2018 from 7.2% in 2Q2017.

Retail Loans

The sector’s retail loans [excluding real estate financing, finance leasing and financing against shares (margin lending)] stood at SAR 316.3bn in 1Q2018. However, it declined by 0.7% QoQ. Loans for home renovation financing are the biggest constituent of retail loans, accounting for almost 9.1% in 1Q2018. Loans for vehicles accounted for 5.2% of total retail loans.

Retail loans acquired through credit cards accounted for 4.0% in 1Q2018, a jump from 3.3% in 1Q2017.

Real Estate Loans

Real estate loans grew at a CAGR of 19.8% to SAR 217.3bn during 1Q2011-1Q2018. In 1Q2018, the retail and corporate sectors accounted for 57.8% and 42.2% of the total real estate loans, respectively. However, real estate loans in the corporate sector fell 1.5% YoY to SAR 91.7bn in 1Q2018 after witnessing 10.4% YoY growth in 1Q2017. Retail loans advanced 12.5% YoY to SAR 125.6bn in 1Q2018 after increasing 9.2% YoY in 1Q2017.

Market Share in Loans by Bank

NCB, the sector’s biggest lender, witnessed a rise in market share to 19.0% in 2Q2018 from 18.3% in 2Q2017. Al Rajhi Bank, with the second largest market share, declined marginally to 16.5% in 2Q2018 from 16.6% in 2Q2017. NCB was the biggest gainer in terms of market share in the loans market, whereas Alawwal Bank declined the most.

 Shariah-compliant banks’ market share rose to 28.5% in 2Q2018 from 27.8% in 2Q2017, despite Al Rajhi’s share falling marginally. Among other Shariah-compliant banks, Alinma’s market share increased to 5.9% in 2Q2018 from 5.4% in 2Q2017. In addition, Bank Albilad’s market share grew to 3.4% in 2Q2018 from 2.9% in 2Q2017. However, Bank AlJazira’s market share declined to 2.8% in 2Q2018 from 2.9% in 2Q2017.
Of the 12 banks in the sector, five registered YoY increases in gross loans.

Albilad Bank’s loan book registered the highest increase of 17.2% YoY in 2Q2018, further strengthening its market share. Alinma, with an 8.0% YoY jump in gross loans, was the second best performer.

Alawwal Bank declined the most, with gross loans contracting 14.3% YoY in 2Q2018, followed by Banque Saudi Fransi (down 4.5% YoY).

Shariah-compliant banks’ total gross loans grew 2.8% YoY in 2Q2018.

Non-Performing Loans

The sector’s non-performing loan ratio stood at 1.57% in 2Q2018 compared with 1.27% in 2Q2017. The NPL coverage ratio increased to 189% in 2Q2018 from 173% in 2Q2017.

Al Rajhi and Riyad Bank have better NPL ratios within the sector at 0.81% and 1.01%, respectively. The NPL coverage of Al Rajhi and Alinma stood at 421% and 275%, respectively, in 2Q2018.

Alawwal Bank had the highest NPL ratio of 3.90%, while its NPL coverage ratio stood at 153% in 2Q2018. Saudi Investment Bank’s NPL coverage improved the most to 208% in 2Q2018 from 99% in 2Q2017, while Banque Saudi Fransi posted the biggest drop from 157% in 2Q2017 to 122% in 2Q2018.

Advances-to-Deposit Ratio

The industry ADR ratio fell to 87.0% in 2Q2018 from 85.1% in 2Q2017; as total gross loans rose 0.2% YoY, while deposits declined 2.0% YoY.

Riyad Bank posted the highest ADR of 96.2%, followed by Alawwal Bank at 95.0% in 2Q2018. Samba recorded the lowest ADR of 70.9% in 2Q2018 compared with 71.5% in 2Q2017.

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

Of the 12 banks, five recorded a YoY drop in NIM in 2Q2018.

SAMBA registered the largest increase in NIM (up 0.19%) to 1.07% in 2Q2018 from 0.89% in 2Q2017. Overall, the sector’s return on savings and time deposits increased 9.4% YoY in 2Q2018 compared with a 7.9% YoY decline in 1Q2018.

NCB reported the highest cost of SAR 946mn on savings deposits in 2Q2018 compared with SAR 794mn in 2Q2017, a 19.1% YoY increase.

NCB recorded the highest return on time and savings deposits at 1.78%, followed by Saudi Investment Bank at 0.91%.

Samba’s return on time and saving deposits of 0.47% was the lowest in the sector, followed by Saudi British Bank (0.49%).

Operating Income Breakdown

The sector’s operating income jumped 6.1% YoY to SAR 22.6bn in 2Q2018 from SAR 21.3bn in 2Q2017.

Retail accounted for 41.7% of the total operating income in 2Q2018 compared with 43.6% in 2Q2017. Retail income increased 1.6% YoY.

The Corporate sector’s contribution declined to 30.1% in 2Q2018 from 31.9% in 2Q2017. Earnings from the Corporate sector stood at SAR 6.8bn (down 0.1% YoY).

Treasury income rose 23.9% YoY to SAR 5.2bn, whereas Investment income increased 35.8% YoY to SAR 892mn.

NCB, with an operating income of SAR 4.7bn, contributed 20.6% to total sector earnings in 2Q2018, followed by Al Rajhi’s contribution of 18.9% with earnings of SAR 4.3bn.
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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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