

Special Report

# Saudi Banking Sector: Unlocking Vision 2030 Opportunities

---



# Contents

---

<b>Executive Summary</b> Key Highlights	02
<b>KSA Macroeconomic Outlook</b> KSA GDP Growth Forecast, Non-oil Sector Activities, Inflation Forecast	03
<b>Banking Sector at the Core to Support Non-Oil GDP Growth</b> Loan Book Growth, Loan Mix, Deposit Growth, Deposit Mix, Liquidity Scenario, Key Ratios	04
<b>Current Interest Rates Scenario</b> Interest Rate Trend and Expectation	07
<b>Current Position of Saudi Arabia Banks</b> Loans and Deposits	08
<b>Saudi Banking Sector – Top Stock Pick</b> Key Balance Sheet Items Comparison	09
<b>KPIs Comparison of the Top Three Banks</b> Asset Yield, Cost of Funds, Spreads, NIMs	10
<b>Valuations</b> Valuation Metrics	11

# Executive Summary



## KSA Economic Outlook

- KSA's economic outlook remains robust, with the non-oil sector expected to drive growth in line with the Vision 2030 initiatives.



## Banking Sector at Core

- KSA's banking sector remains at the core to achieve the Vision 2030 objectives.
- Banks would finance all the giga and mega projects launched in KSA.



## Banking Sector Remains Healthy

- The Saudi banking sector maintains its robust health, supported by a promising pipeline for future loan growth, ample liquidity, sound asset quality, and strong capitalization.



## Interest Rate Outlook

- The US Fed has adopted a dovish stance, signaling potential cuts of 75 bps in 2024e and an additional 100 bps in 2025.



## Key Banks Performance

- The top three banks in KSA are poised to reap significant benefits, leveraging their dominant market share in loans and deposits to seize future opportunities.



## Our Takeaway

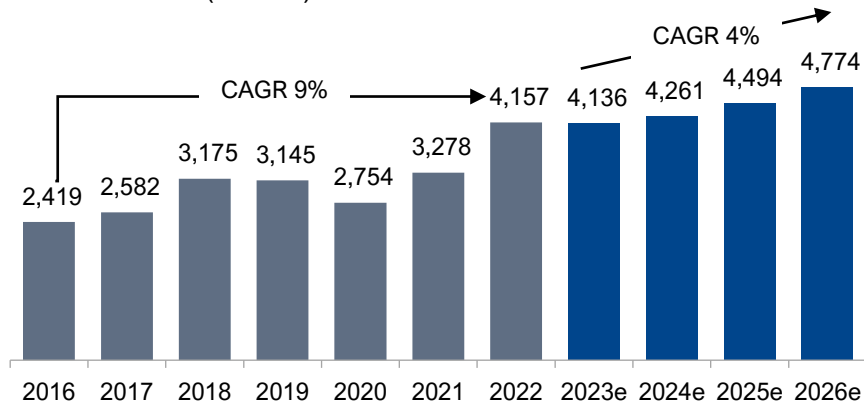
- Among the top three banks, we believe SNB is likely to benefit over the other banks due to its leading market position in loans and deposits, balanced loan mix, and robust domestic franchise.

# KSA Macroeconomic Outlook

KSA economy is growing at a healthy rate, poised for further expansion led by non-oil sectors

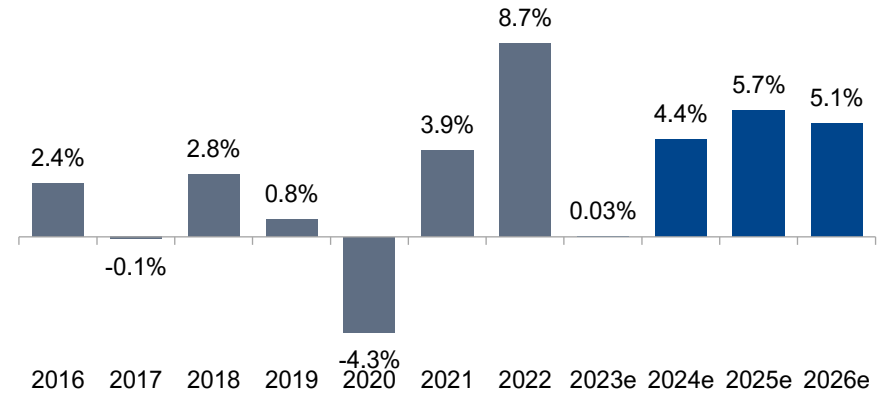
**GDP expanded at 9% CAGR during 2016-22 and estimated to increase at 4% CAGR over 2022-26e...**

KSA Nominal GDP (SAR bn)



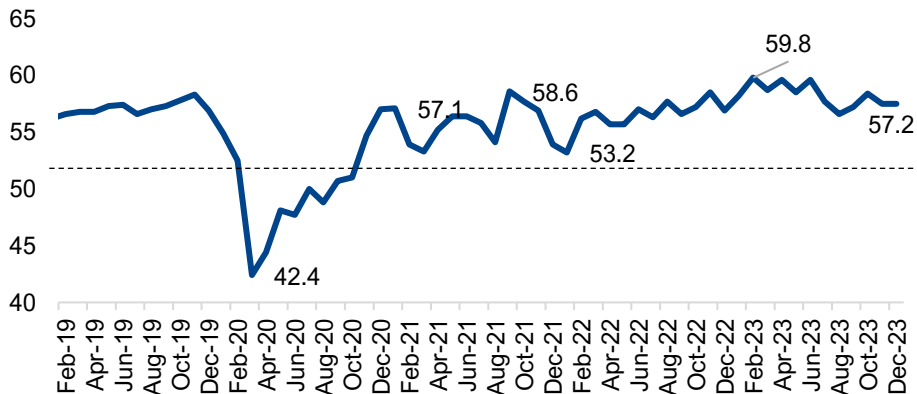
**...with next leg of growth anticipated to be driven by non-oil sectors**

KSA Real GDP Growth



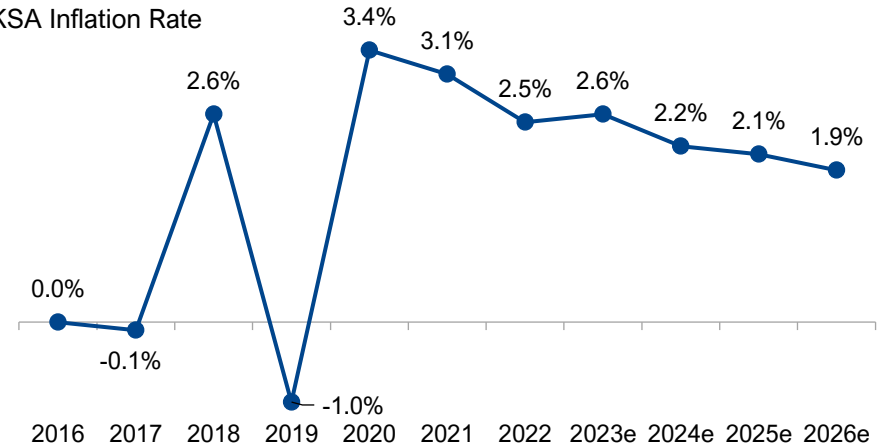
**KSA's Non-oil private sector PMI constantly above 50, depicting continuous expansion in non-oil sector**

KSA Non-oil Private Sector PMI



**Low inflation in KSA, a testament to the country's effective economic management, indicating room for more flexibility in policy decisions**

KSA Inflation Rate



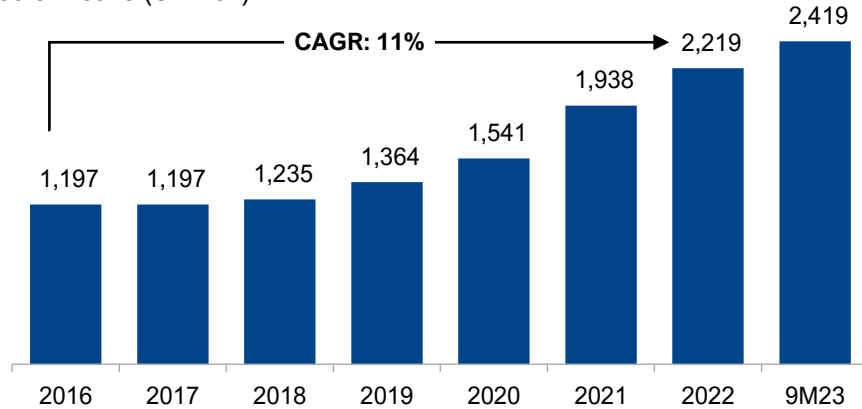
Source: Argaam, KSA Ministry of Finance

# Banking Sector at the Core to Support Non-Oil GDP Growth (1/3)

Future loan growth likely to be driven by corporate lending

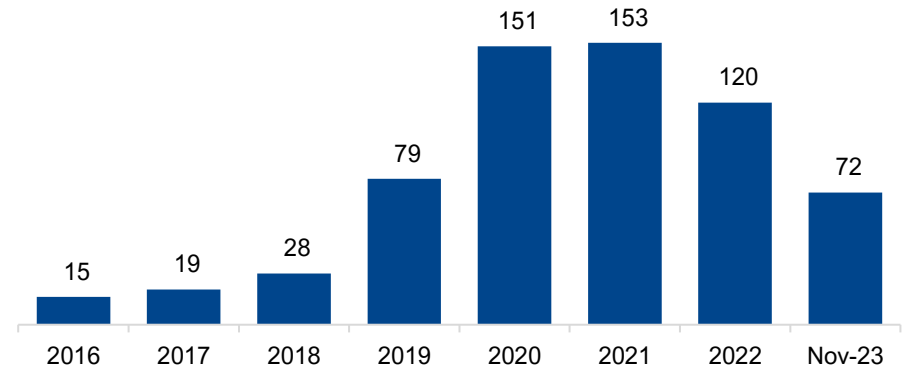
Bank loans increased at 11% CAGR during 2016-22, driven primarily by mortgages in recent years...

Sector Loans (SAR bn)



...however, mortgages have slowed down in recent months after peaking in 2020-21

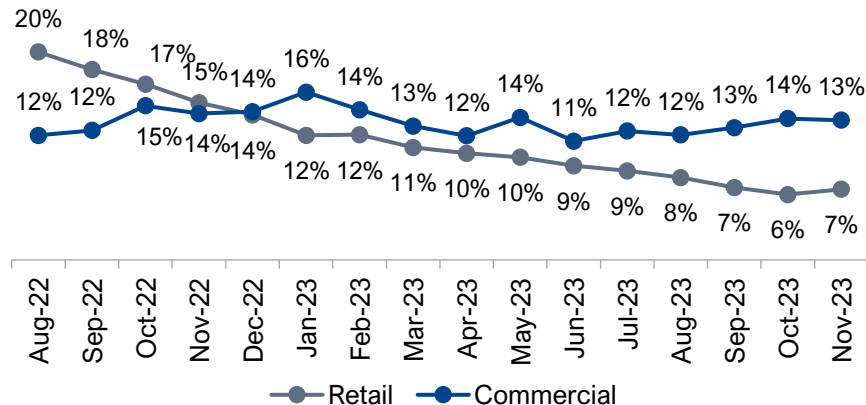
Residential New Mortgages (SAR bn)



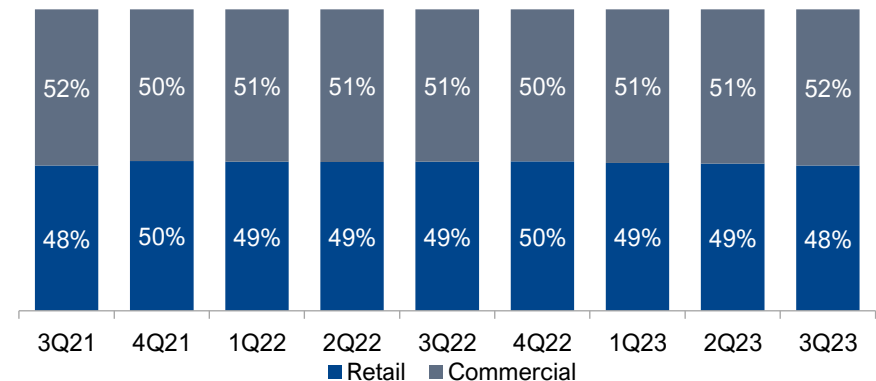
Future loan growth projected to be driven by corporate lending, particularly to non-oil sector, in line with Vision 2030 goals...

...Resultantly, sector loan mix expected to slowly shift toward corporate loans

Retail vs. Commercial Loan growth (y/y)



Sector Loan Mix

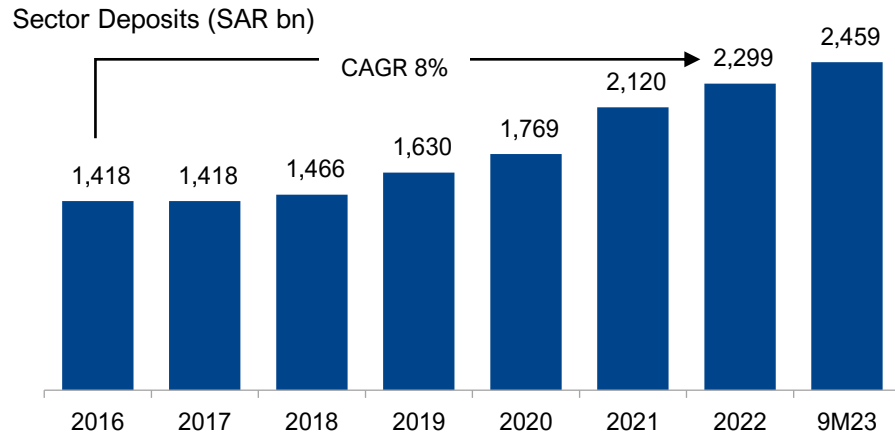


Source: SAMA

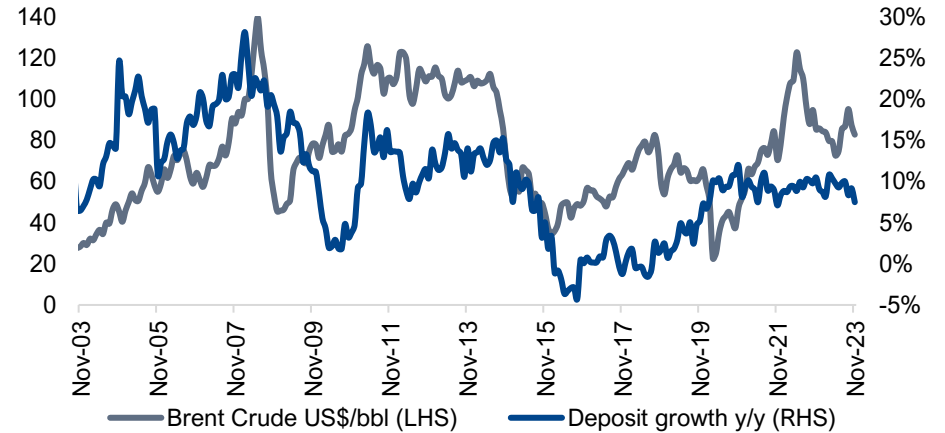
# Banking Sector at the Core to Support Non-Oil GDP Growth (2/3)

Liquidity in the sector remains robust supported by increasing government deposits mix

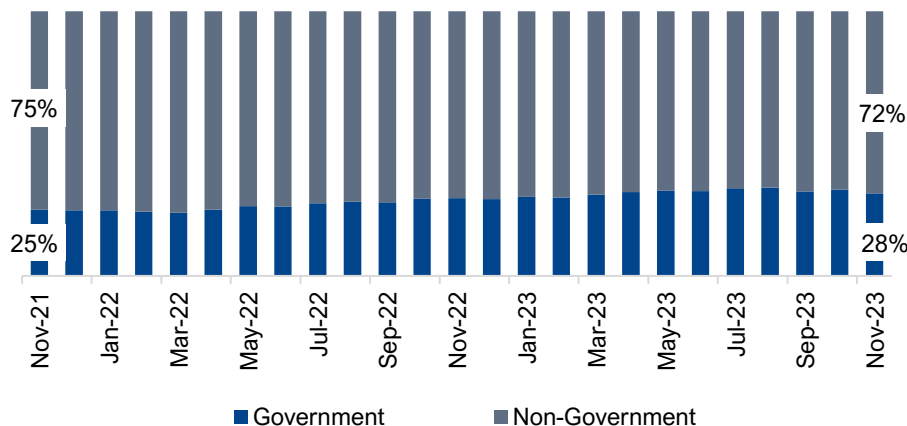
Deposit growth recorded at 8% CAGR between 2016-2022...



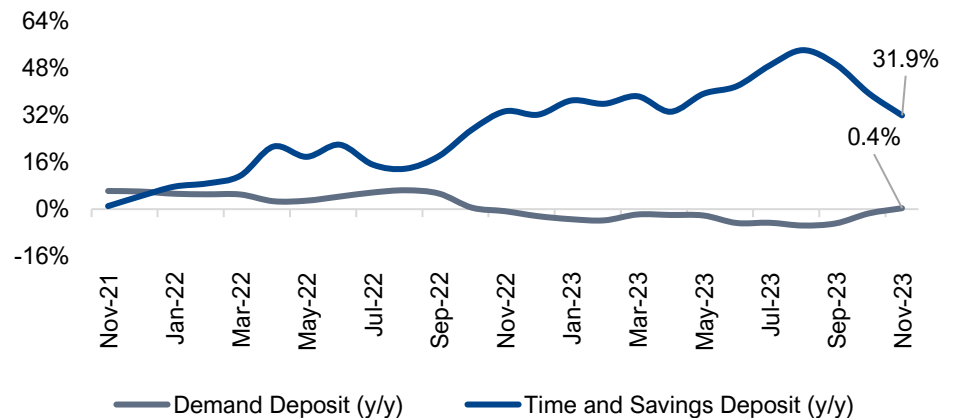
... with growth lagging behind loans and oil prices, prompting banks to rely on wholesale funding to manage liquidity



Saudi government demonstrates proactive liquidity management, highlighted by improvement in government deposit mix in recent months



Time deposits outpace demand deposits on elevated interest rate environment, putting pressure on funding cost



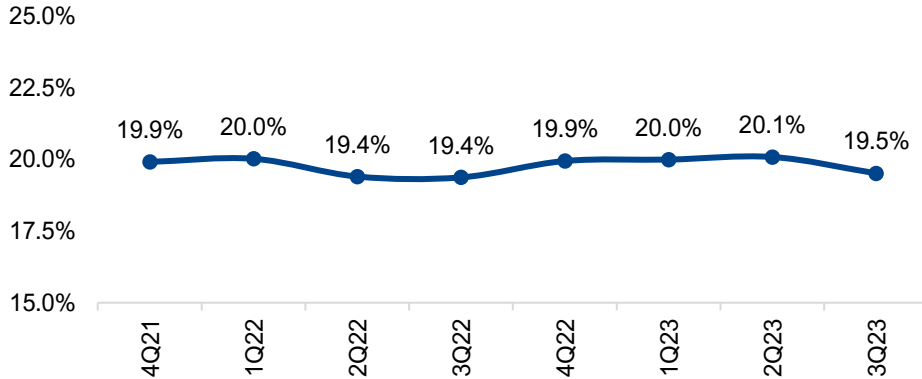
Source: SAMA, Bloomberg

# Banking Sector at the Core to Support Non-Oil GDP Growth (3/3)

KSA banking system remains solid, showcasing healthy KPIs

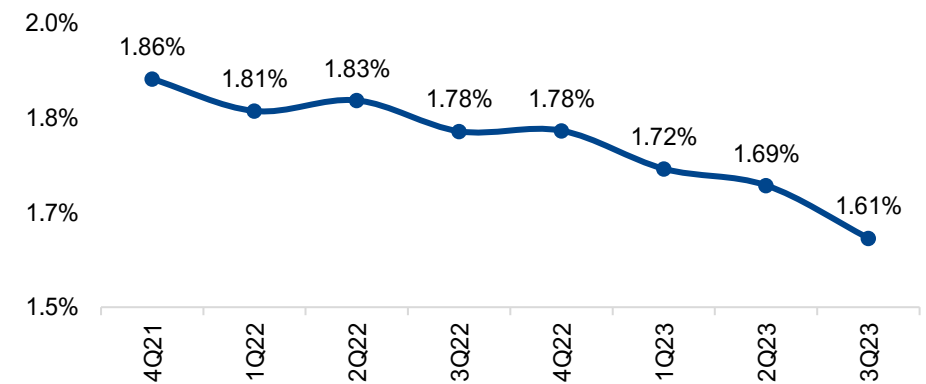
**Sector Tier 1 Capital-to-RWA remains healthy and well above requirement**

Tier1 Capital-to-RWA (%)



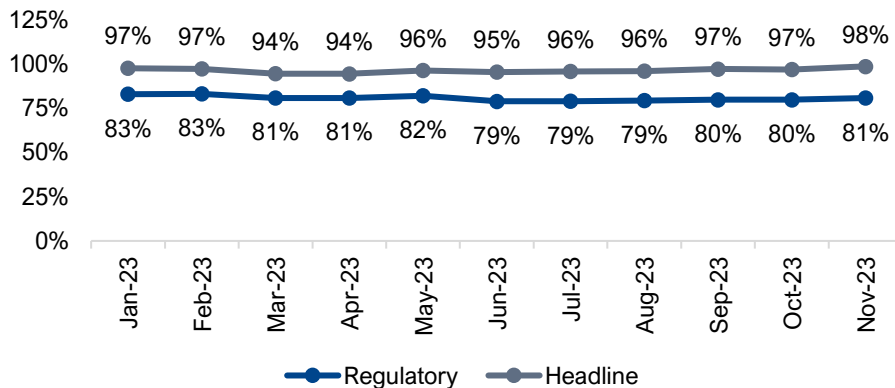
**Asset quality remains robust with NPL ratio on downtrend**

Non-Performing Loans (NPL) as % Of Total Loans



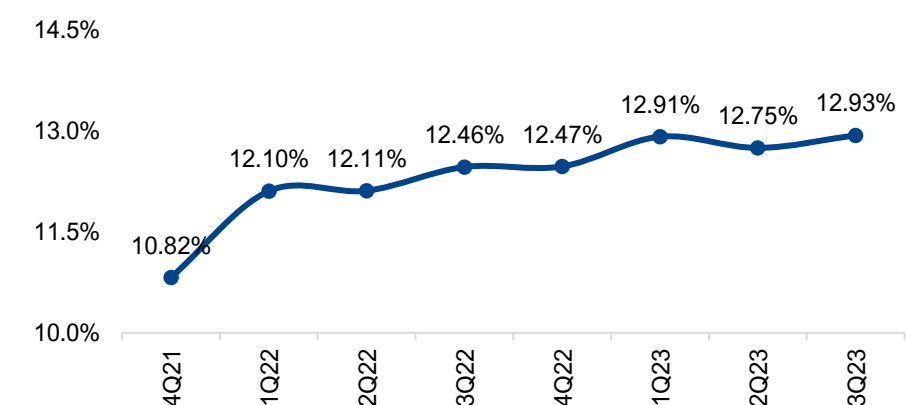
**Headline LDR remains higher as banks prudently manage higher rate environment; nonetheless, regulatory LDR remains at comfortable level**

Loan-to-Deposit Ratio



**Profitability of banks remains healthy, with ROE depicting upward trend**

Return on Equity (%)



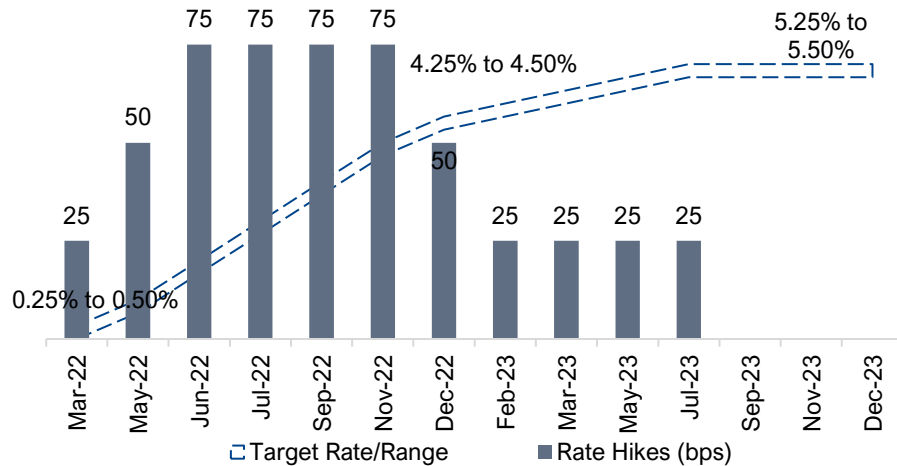
Source: SAMA



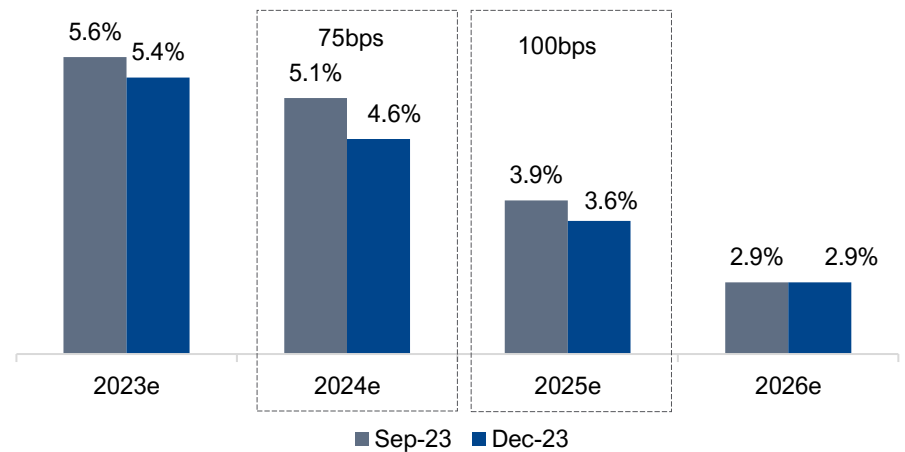
# Current Interest Rates Scenario

SAMA is expected to adjust rates in 2024, drawing cues from the Federal Reserve

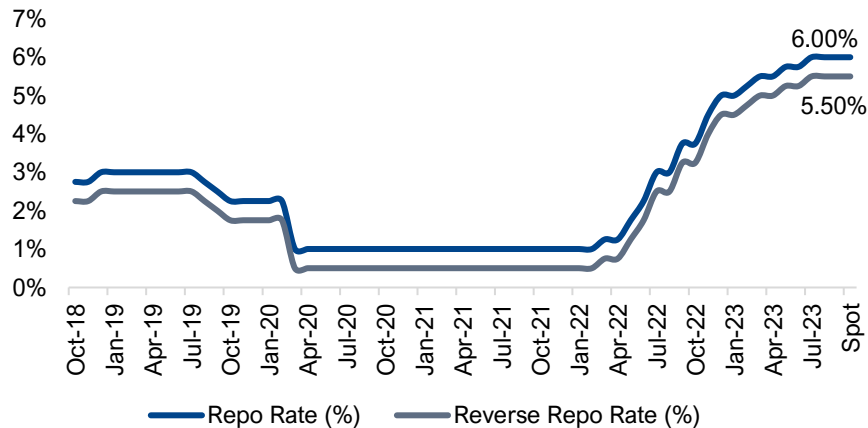
After aggressive tightening cycle of interest rate hikes, starting from March 2022 (11 hikes or more than 5%)...



...US Fed pivots its stance to dovish from hawkish; latest DOT plot suggests 75 bps rate cuts in 2024e and 100 bps in 2025e

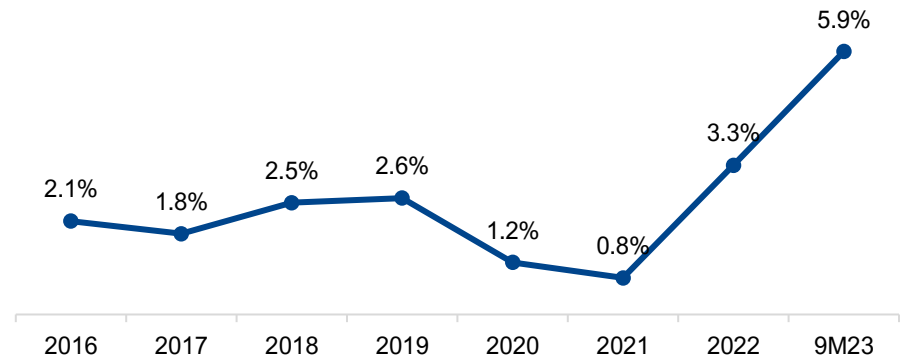


In line with Fed, SAMA also likely to cut its policy rates in 2024e...



However, any delay in rate cut by Fed might result in prolonged period of higher SAIBOR, affecting banks heavily exposed to retail/mortgage loans

3M SAIBOR (Average)



Source: SAMA, Bloomberg

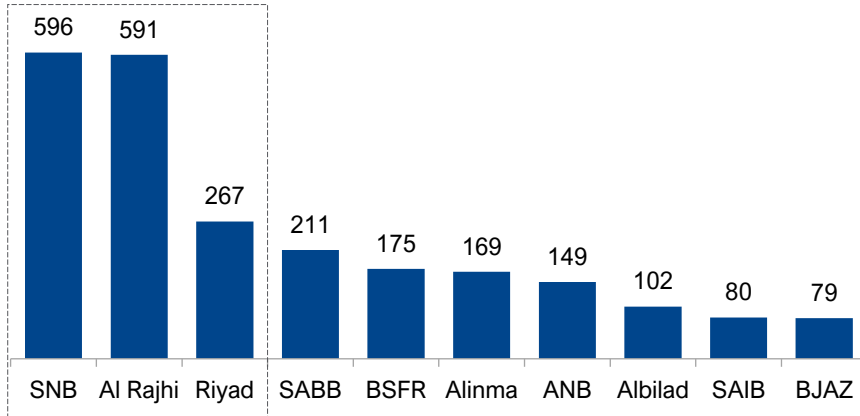


# Current Position of Saudi Arabia Banks

Top three banks retain significant market share, positioning them as key beneficiaries

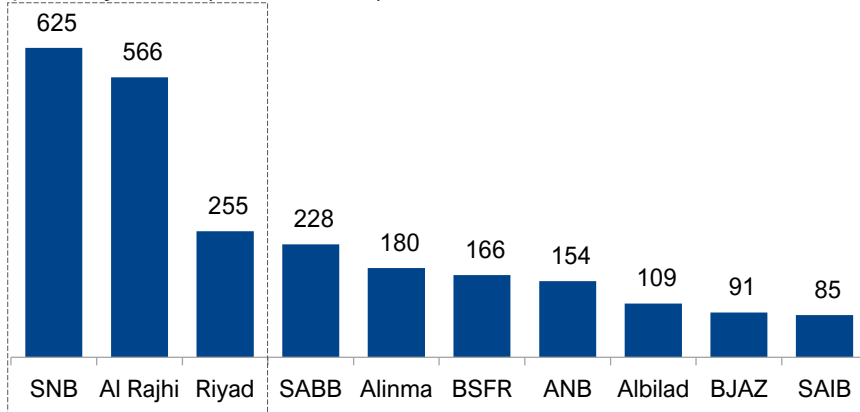
**SNB, Al Rajhi (ARB), and Riyadh (RIBL) are the biggest banks in KSA, accounting for ~60% of total loans**

Loans by banks (SAR bn 9M23)



**Top three banks account for ~58% of total bank deposits**

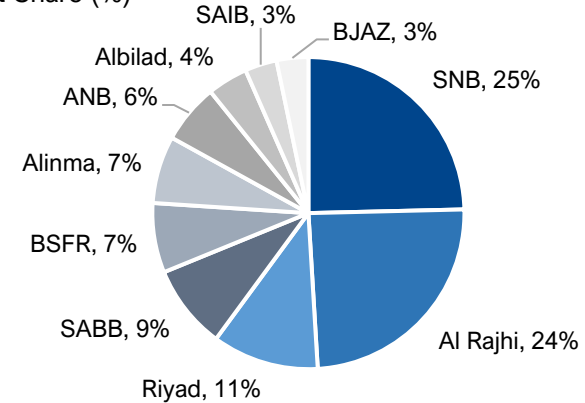
Deposits by Banks (SAR bn 9M23)



Source: Company data

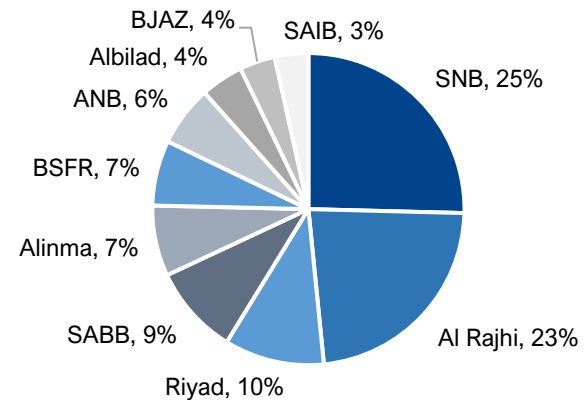
**SNB leads with highest loan market share (25%), followed by ARB (24%), and RIBL (11%)**

Loans Market Share (%)



**SNB has highest market share (25%), followed by ARB and RIBL**

Deposits Market Share (%)

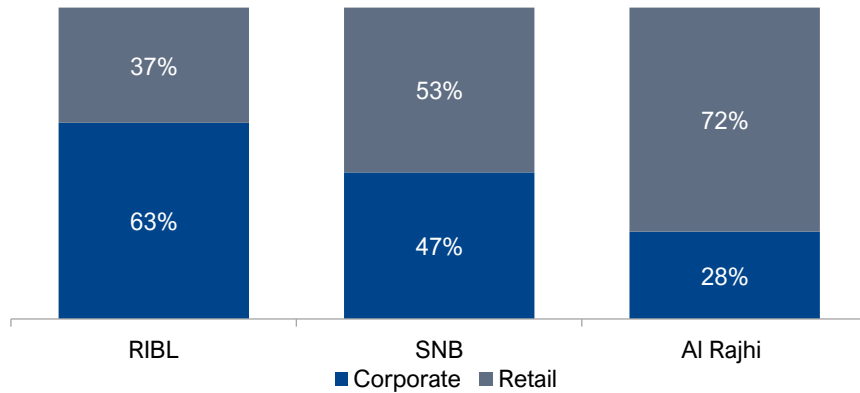


# Saudi Banking Sector – Top Stock Pick

We believe SNB is likely to benefit over Al Rajhi Bank and Riyad Bank

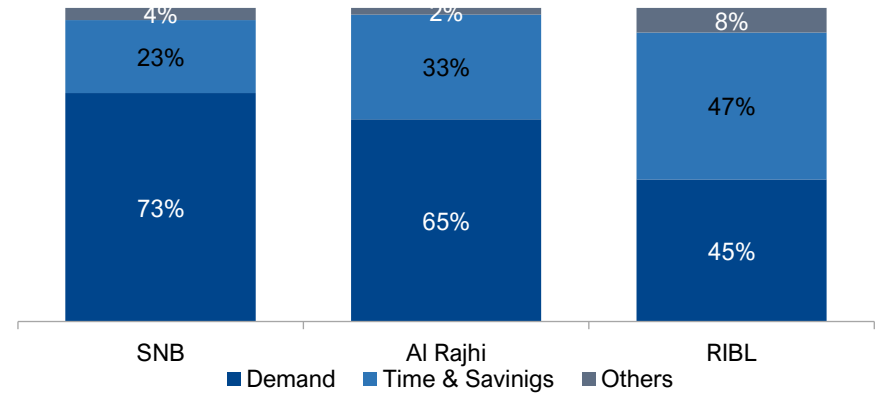
**We favor SNB due to leading market position in loans and deposits, balanced loan mix, and robust domestic franchise**

Loan Mix (as of 9M23)



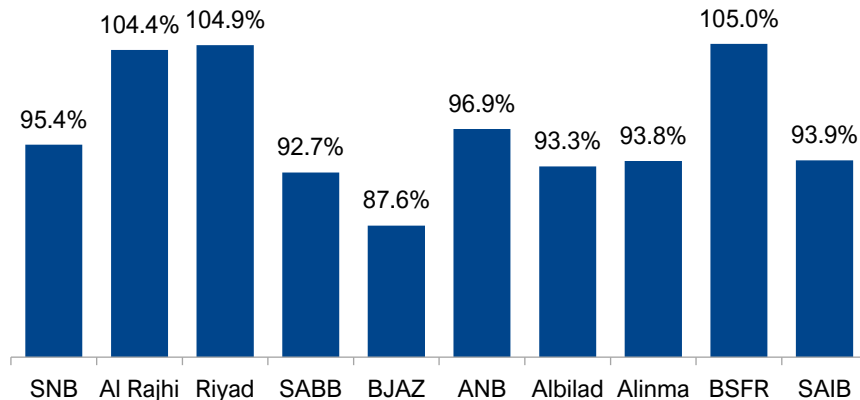
**SNB's low time deposit mix (highest CASA) expected to support NIMs**

Deposit Mix (as of 9M23)



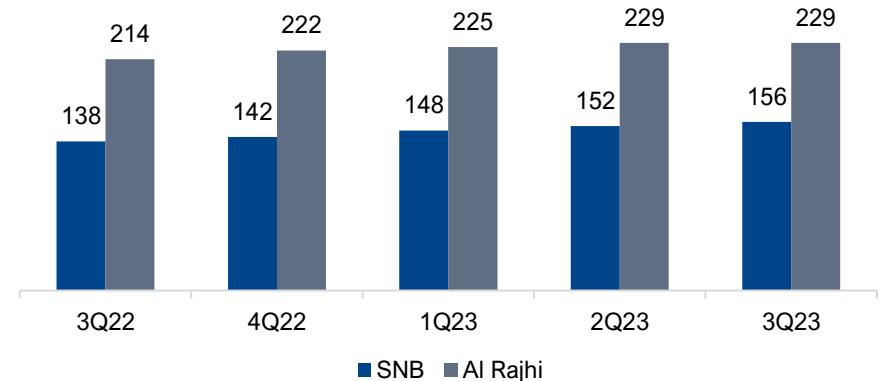
**Conservative LDR ratio would support better pricing and further bolster NIMs**

LDR (as of 9M23)



**Against higher interest rate scenario, SNB's low exposure to fixed-rate products, like mortgages, gives it competitive edge over ARB**

Mortgage Loan Book (SAR bn)

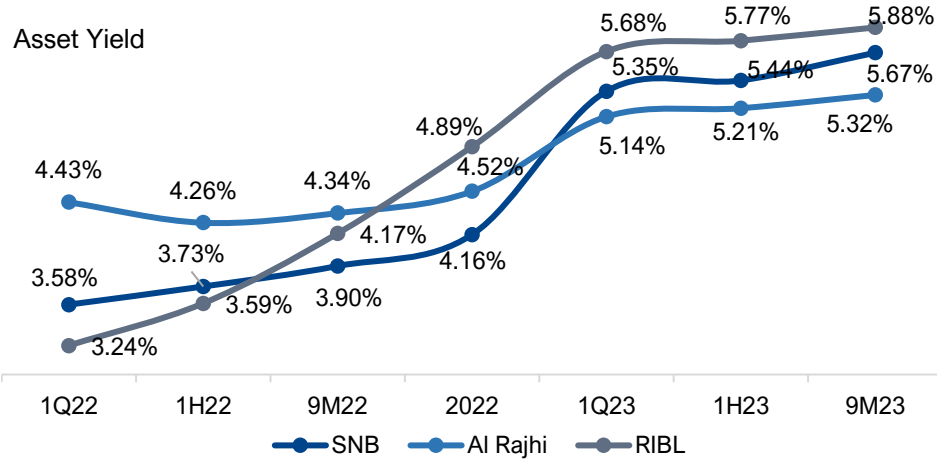


Source: Company data

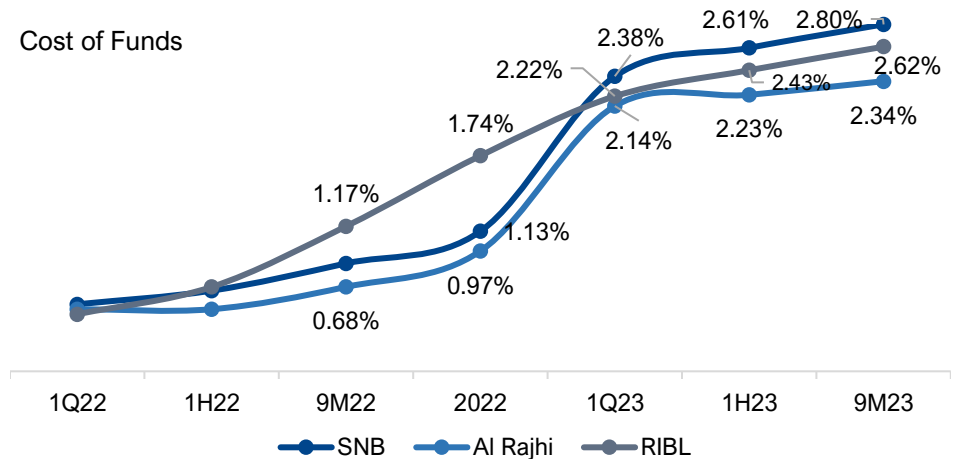
# KPIs Comparison of the Top Three Banks

SNB's low time deposit mix cushions impact from interest rate changes

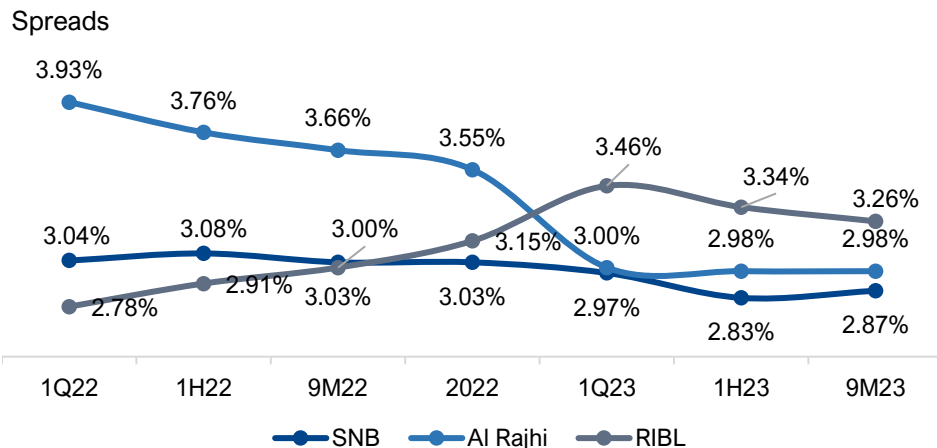
**SNB's asset yield started outpacing cost of funds in 3Q23 amid better repricing of loan book**



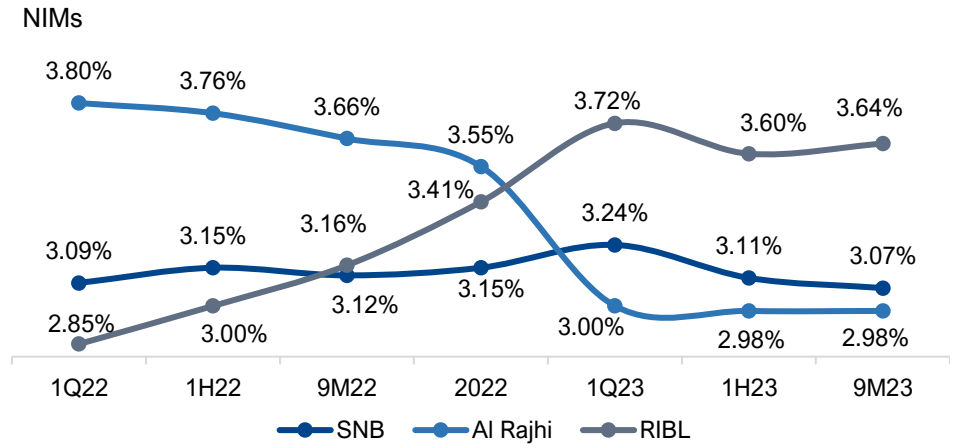
**Impact of interest rate hikes on SNB's cost of funding remains minimal due to low time deposit mix**



**SNB's high CASA ratio and balanced loan mix...**



**... result in relatively stable NIMs and spreads compared to ARB and RIBL**

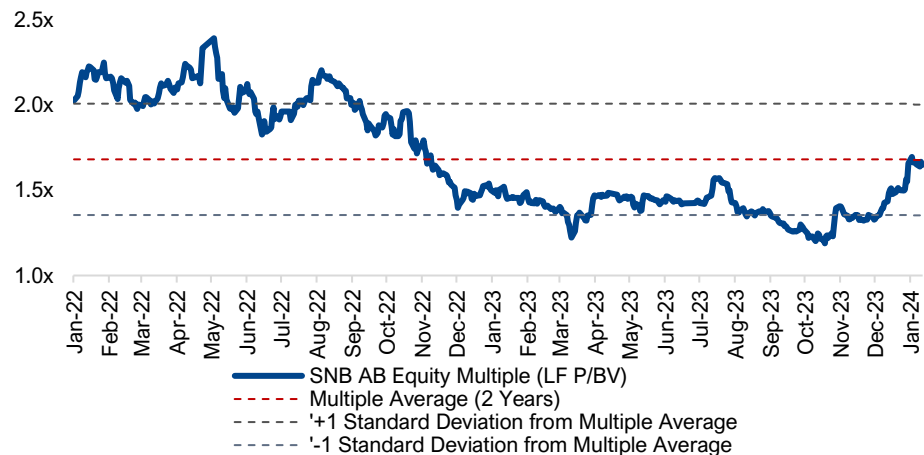


Source: Company data

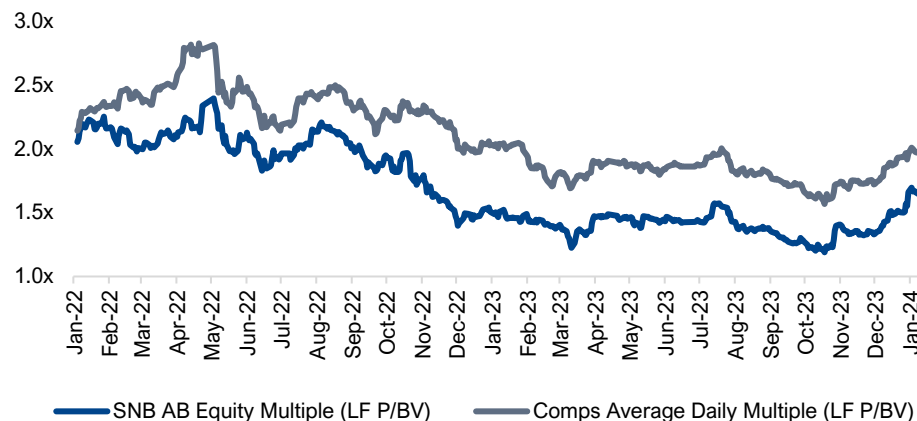
# Valuations

SNB's attractive valuation makes it a good value buy at current levels

## SNB trading close to its two-year average multiple



## SNB trading at 17% discount compared to peers, indicating healthy upside



## Most firms give Buy/OW rating for SNB, with average upside of 7%

Firm	Rating	TP (SAR)	Implied Return
Goldman Sachs	Buy	48	13%
Morgan Stanley	Equal weight	41	-4%
JP Morgan	Overweight	52	22%
Citi	Buy	42	-1%
EFG-Hermes Broker	Buy	48	13%
Jefferies	Buy	40	-7%
Arqaam Capital	Buy	44	3%
FAB Securities	Buy	47	11%
GIB Capital	Overweight	47	11%
Riyad Capital	Buy	45	6%
<b>Average</b>		<b>45</b>	<b>7%</b>
<b>Median</b>		<b>46</b>	<b>8%</b>

## SNB valuation multiple remains lower compared to Al Rajhi and Riyad

Banks	P/E*	P/B	Div. Yield*
Al Rajhi	19.7	4.1	2.7
Albilad	17.6	3.2	1.8
Alinma	15.8	3.0	3.1
Riyad	11.3	1.8	4.6
SNB	12.4	1.7	4.3
BSFR	10.5	1.4	5.3
SABB	10.6	1.4	5.2
BJAZ	15.8	3.0	3.1
SAIB	8.2	1.2	5.7
ANB	9.0	1.1	6.1
<b>Average</b>	<b>13.1x</b>	<b>2.2x</b>	<b>4.2x</b>
<b>Median</b>	<b>11.9x</b>	<b>1.8x</b>	<b>4.5x</b>

Source: Bloomberg, Data as on 16<sup>th</sup> January 2024, \*based on Bloomberg consensus (12m fwd)



**2500+**

Global clients

**500+**

Strong, professional team across  
multi-disciplinary domains

**120+**

Sectors and sub-sectors  
researched by our analysis

**80+**

Countries where we have  
delivered projects

## ABOUT ARANCA



### Growth Advisory

CXOs in Strategy, SBUs, Sales, Marketing, CI/MI, Innovation



### Valuation & Financial Advisory

CFOs in Start-ups, PE/VC Firms, Corporate M&A Teams, Mid-market Companies



### Technology | IP Research & Advisory

R&D, Tech Scouting, Open Innovation, IP Teams, Product Development



### Investment Research & Analytics

Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

# Connect with our Team



## Harsh Shah

Senior Analyst,  
Investment Research

+91 223937 9999  
harsh.shah@aranca.com



## Anurag Bhagchandani

Assistant Manager,  
Investment Research

+91 223937 9999  
anurag.bhagchandani@aranca.com



## Mahesh Mohankumar

Manager,  
Investment Research

+91 223937 9999  
mahesh.mohankumar@aranca.com

**For more details:** [www.aranca.com](http://www.aranca.com) | <https://www.linkedin.com/company/aranca> | <https://www.aranca.com/knowledge-library>

# Decide Fearlessly

---

From startups to the Fortune 500, private equity and global financial firms, Aranca is the trusted research and advisory partner for over 2500 companies



[www.aranca.com](http://www.aranca.com)



This material is exclusive property of Aranca. No part of this presentation may be used, shared, modified and/or disseminated without permission.  
All rights reserved.