

Saudi National Bank

Higher Impairments and Operating expenses reduced profitability

4Q21 Net profit lower than our estimate

Saudi National Bank (SNB) reported a slight decrease by 0.1% YOY to SAR3,357 Mn in 4Q21 from SAR3,360 Mn in 4Q20, missing our estimate of SAR3,895 Mn by 13.8%. This was mainly due to an increase in the Impairment charges and higher operating expenses, which offset by increase in both funded income and non-funded income.

P&L highlights

The Net Funded Income increased by 29.6% YOY to SAR6,077 Mn in 4Q21, up from SAR4,687 Mn in 4Q20. It was mainly driven by 30.7% YOY increase in Funded Income to SAR6,694 Mn in 4Q21, up from SAR5,121 Mn in 4Q20. The Funded Expenses increased by 42.4% YOY to SAR618 Mn in 4Q21, up from SAR434 Mn in 4Q20. However, the increase in Funded Income outweighed the increase in Funded Expense. The Fees and commissions increased robustly by 95.9% YOY to SAR800 Mn in 4Q21, up from SAR408 Mn in 4Q20. The Other Funded Income decreased by 21.6% YOY to SAR512 Mn in 4Q21, down from SAR654 Mn in 4Q20. As a result, the Non-Funded Income surged by 23.6% YOY to SAR1,312 Mn in 4Q21, up from SAR1,062 Mn in 4Q20. Thus, the Operating Income increased by 28.5% YOY to SAR7,389 Mn in 4Q21, up from SAR5,749 Mn in 4Q20. Similarly, the Operating Expenses increased by 71.9% YOY to SAR2,812 Mn in 4Q21, up from SAR1,636 Mn in 4Q20. Therefore, the Cost to income ratio increased by 960 bps to 38.1% in 4Q21, as compared to 28.4% in 4Q20. Moreover, the Impairments increased by 47.9% YOY to SAR515 Mn in 4Q21, up from SAR348 Mn in 4Q20. While the Other operating expenses strongly increased to SAR166 Mn in 4Q21, up from SAR0.4 Mn in 4Q20. As a result, the Profit Before Tax increased by 3.5% YOY to SAR3,897 Mn in 4Q21, up from SAR3,765 Mn in 4Q20. The Tax Expenses increased by 26.9% YOY to SAR500 Mn in 4Q21, up from SAR395 Mn in 4Q20. The Profit from Non-Controlling Interest significantly increased to SAR39 Mn in 4Q21, up from SAR11 Mn in 4Q20.

Balance sheet highlights

The Net Advances increased by 43% YOY to SAR495.9 Bn in 4Q21, up from SAR346.7 Bn in 4Q20. The Total Assets increased by 52.5% YOY SAR914.2 Bn in 4Q21, up from SAR599.4 Bn in 4Q20. The Customer Deposits increased by 41% YOY to SAR586.9 Bn in 4Q21, up from SAR416.4 Bn in 4Q20. The Total Equity increased significantly to SAR162.2 Bn in 4Q21, up from SAR79.4 Bn in 4Q20.

Target price and rating

We maintain a HOLD rating on SNB, with a target price of SAR74.20. Saudi National Bank (SNB) is the largest financial institution in Saudi Arabia and one of the largest powerhouses in the region. The Bank plays a critical role in supporting economic transformation in Saudi Arabia, through transforming the local banking sector and catalyzing the delivery of Saudi Arabia's Vision 2030. SNB aims to be premier financial and banking service provider locally and regionally through the fulfilment of strategic

Rating : HOLD

First Look Note – 4Q21

Sector: Banking

Recommendation

Current Price (24-Feb)	68.70
Target Price	74.20
Upside/Downside (%)	+8.0%

Stock Information

Market Cap (SAR/mm)	307,638.60
Paid Up Capital (mm)	44,780.00
52 Week High	75.30
52 Week Low	45.80
3M Avg. daily value (SAR)	178,426,000



Financial Ratios

Dividend Yield (12month)	2.11
Dividend Pay out	33.08
Price-Earning Ratio	23.78
Price-to-Book Ratio	2.03
Book Value	33.82
Return-on Equity	11.12
Earning Per Share	2.89
Beta	1.16

Stock Performance

5 Days	-5.89%
1 Months	-3.92%
3 Months	6.84%
6 Months	16.44%
1 Year	46.17%
Month to Date (MTD%)	-6.91%
Quarter to Date (QTD%)	6.68%
Year to Date (YTD%)	6.68%

aspirations. During the full year 2021, the Bank has reported 10.7% YOY increase in the Net profit to SAR 12.7 Bn, as compared to SAR 11.4 Bn in the same period last year. This increase was mainly due to an increase in both Net Funded and Non-Funded Income. The Net Funded has increased by 32.6% YOY reaching SAR 22.1 Bn at the end of 2021, up from SAR 16.7 Bn in 2020, mainly driven by 29.5% YOY growth in the Funded Income standing at SAR 25.2 Bn, compared to SAR 19.4 Bn in 2020, this was partially offset by 11.1% YOY increase in the Funded expenses to SAR 3.1 Bn, down from SAR 2.8 Bn in the year ended 2020. Moreover, the Fees and commission grew by 34.5% YOY reaching SAR 3 Bn in 2021. Whereas the Other non-funded income also increased by 31.4% YOY to SAR 3.3 Bn, up from SAR 2.5 Bn in 2020. Resultantly, the Total Non-Funded Income increased by 32.9% YOY to SAR 6.3 Bn in the year ended 2021. Therefore, the Net Operating Income increased by 32.6% YOY to reach SAR 28.5 Bn, compared to SAR 21.5 Bn in the same period last year. Similarly, the Bank's Operating expenses have strongly increased by 51.8% YOY to SAR 9.9 Bn, up from SAR 6.5 Bn in 2020. Thus, the Cost to Income ratio stood at 34.7% from 30.3% in 2020. Meanwhile, the Impairment Charges have significantly increased reaching SAR 3.92 Bn at the end of 2021, as compared to SAR 1.95 Bn in the end of 2020. Furthermore, the Other Operating expenses have robustly increased to SAR 234 Mn in 2021, up from SAR 77 Mn in 2020.

On the other hand, SNB's Balance Sheet was strong at the year ended 31 December 2021, with an increase by 52.5% YOY to SAR 914.15 Bn. Whereas the Net advances surged by 43% YOY to SAR 495.89 Bn at the end of 2021. Customer Deposits have also increased by 41% YOY standing at SAR 586.94 Bn in 2021. As a result, the ADR ratio stood at 84.5%, an increase by 123 bps from 83.3% in the year ended 2020. Additionally, the Bank's profitability ratios such as Return on Equity (ROE) and Return on Assets (ROA) ratios have declined both to 7.8% and 1.4%, respectively in 2021. While the Net interest margin (NIM) and Net interest spread (NIS) remained stable at 3.2% and 3.1%, respectively at the year ended 2021. Finally, the Board of Directors announced the distribution of SAR 0.90 per share amounting to SAR 4,030 Mn as proposed final dividend for the year 2021. Based on our analysis, we maintain a HOLD rating on the stock.

SNB - valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	34.56	23.64	19.78	19.78	24.35
P/BV (x)	3.89	3.77	3.54	3.15	2.15

FABS Estimates & Co data
SNB - P&L

SAR mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Funded income	5,121	6,887	6,694	7,362	-9.1%	30.7%	-2.8%	19,439	25,181	29.5%
Funded expense	-434	-805	-618	-615	0.5%	42.4%	-23.2%	-2,754	-3,060	11.1%
Net funded income	4,687	6,082	6,077	6,747	-9.9%	29.6%	-0.1%	16,685	22,120	32.6%
Fees and commissions	408	801	800	541	47.7%	95.9%	-0.2%	2,262	3,041	34.5%
Other non-funded income	654	917	512	616	-16.8%	-21.6%	-44.1%	2,512	3,301	31.4%
Non-funded income	1,062	1,718	1,312	1,157	13.4%	23.6%	-23.6%	4,773	6,342	32.9%
Operating income	5,749	7,800	7,389	7,904	-6.5%	28.5%	-5.3%	21,458	28,462	32.6%
Operating expenses	-1,636	-2,751	-2,812	-2,650	6.1%	71.9%	2.2%	-6,497	-9,864	51.8%
Pre-provision profit	4,114	5,049	4,577	5,254	-12.9%	11.3%	-9.3%	14,961	18,599	24.3%
Impairment	-348	-725	-515	-666	-22.7%	47.9%	-29.0%	-1,951	-3,927	NM
Other non-operating income/expense	-0.4	-14	-166	-0.1	NM	NM	NM	-77	-234	NM
PBT	3,765	4,310	3,897	4,588	-15.1%	3.5%	-9.6%	12,933	14,438	11.6%
Tax	-395	-487	-500	-680	-26.4%	26.9%	2.8%	-1,373	-1,653	20.4%
Profit after tax	3,371	3,823	3,396	3,908	-13.1%	0.8%	-11.2%	11,560	12,784	10.6%
Non-controlling int.	-11	-38	-39	-13	NM	NM	3.1%	-120	-116	-3.4%
Net profit attributable	3,360	3,785	3,357	3,895	-13.8%	-0.1%	-11.3%	11,440	12,668	10.7%

FABS estimate & Co Data

SNB - KPI

	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
SAR mm								
Net FI/OI	81.5%	78.0%	82.2%	71	426	77.8%	77.7%	-4
NIM	3.2%	3.0%	3.2%	-3	22	3.2%	3.2%	-3
NIS	3.1%	2.9%	3.1%	-2	22	3.1%	3.1%	-2
Fees & comms/OI	7.1%	10.3%	10.8%	372	55	10.54%	10.68%	14
Cost to income	28.4%	35.3%	38.1%	960	278	30.3%	34.7%	438
Impairment/PPP	8.5%	14.4%	11.2%	279	-311	13.0%	21.1%	807
NP/OI	58.4%	48.5%	45.4%	-1300	-309	53.3%	44.5%	-881
ROE	4.2%	2.4%	2.1%	-216	-30	14.4%	7.8%	-660
ROA	0.6%	0.4%	0.4%	-19	-5	1.9%	1.4%	-52

FABS estimate & Co Data

SNB - B/S Key Items

	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch
SAR mm						
Net advances	346,705	356,720	503,157	503,696	495,898	43.0%
QOQ change	2.9%	2.9%	41.1%	0.1%	-1.5%	
Total assets	599,443	599,570	896,421	902,720	914,150	52.5%
QOQ change	3.9%	0.0%	49.5%	0.7%	1.3%	
Customer deposits	416,419	419,430	588,135	589,190	586,944	41.0%
QOQ change	1.9%	0.7%	40.2%	0.2%	-0.4%	
Total equity	79,410	83,460	159,495	159,706	162,198	104.3%
QOQ change	4.6%	5.1%	91.1%	0.1%	1.6%	

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
+971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange, Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"