

## SECTOR UPDATE

Q4 2023

## 2024f, an inflection point

We maintain a positive outlook on the Saudi banking sector. We believe interest rates will remain the main discussion point in 2024f, as the year represents a key inflection point in the current interest rate cycle. Loan growth and available funding room are also major factors to impact the sector, we believe. We prefer banks that have balanced portfolio between retail and corporate as the retail segment would reduce NIMs sensitivity to interest rate cuts while the corporate book will benefit from the infrastructure related credit growth. We upgrade Bilad to Overweight, while maintain our Overweight rating on RIBL and BSFR. We have also downgraded Alinma to Neutral.

- Rate cuts, the key catalyst for 2024f**

With the Fed turning towards a softer monetary stance, there is an increased focus to identify banks that benefit from rate declines. Conventionally, this should favour retail focused banks over corporate banks, given lower sensitivity of retail loans to rate change. However, we believe this is only one side of the story. The strong loan growth of the last few years reduced funding room, which we believe will reduce the pricing power of banks to lower cost of funds. Hence, we expect cost of funds to remain generally upward sticky. Overall, we expect the sector's NIMs (based on our coverage) to marginally decline from 3.3% in 2023f to 3.2% in 2024f. Rajhi is expected to record an expansion in margins (due to retail tilt), while we expect Bilad margins to remain stable.

- Loan growth to accelerate in 2024f, corporate to drive growth**

We expect loan growth to remain robust in 2024f as we believe moderation in interest rates to positively impact credit demand. We expect the sector to deliver a c14% yoy loan growth in 2024f vs c11% in 2023f, driven by increased infrastructure spending. Accordingly, we expect corporate segment to drive the loan growth as work on the Mega projects and other Vision 2030 programs pick-up. For retail, we expect demand to remain moderate, impacted by higher interest rates and normalization of mortgages.

- Excellent asset quality to keep downward risks contained**

Overall asset quality remained robust in the Saudi banking sector with NPL ratio standing at 1.5% in Q3 23, although the coverage ratio declined to 139% vs 149% in Q4 22. Going forward, we expect the natural aging of loans to marginally increase NPL while the overall CoR is expected to remain low. Based on our coverage, we expect the sector CoR to stand at c0.6% over the next few years vs an average of 0.8% in 2018-22. We believe moderation of CoR and C-I ratio will reduce the impact of NIMs compression on the sector earnings.

- Remain positive on the sector; prefer Bilad, RIBL and BSFR**

We upgrade Bilad to OW with a revised PT of SAR49.6 and we maintain our OW rating on BSFR and RIBL. Bilad and RIBL balanced loan portfolio is a key positive, while resilient BSFR NIMs due to increased hedge position is a key advantage. We downgrade Alinma to Neutral and maintain a Neutral rating on Rajhi and BJAZ. The sector is trading at 2024f P/B of 1.7x, in-line with last 10 years average of 1.6x.

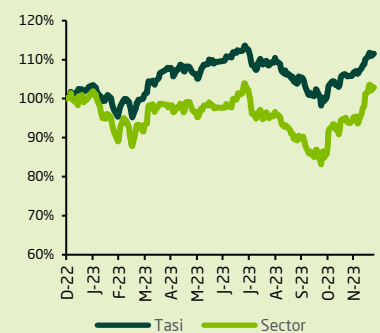
## Valuation Summary

	Rating	PT (SAR)	CMP (SAR)	Up/Downside (%)	MCap (\$ mn)	P/E (x) 2024f	P/B (x) 2024f	Div Yield (%) 2024f	ROE (%) 2024f
Bilad	Overweight	49.6	42.5	16.7%	11,227	16.9	2.5	1.8	15.5
Riyad	Overweight	33.7	28.6	17.8%	23,040	10.7	1.5	4.5	14.2
BSFR	Overweight	51.3	39.9	28.7%	12,809	11.1	1.3	4.9	11.7
Rajhi	Neutral	81.9	83.6	(2.0)%	89,280	18.7	3.4	2.9	17.7
Alinma	Neutral	42.1	37.8	11.4%	20,160	13.2	2.0	3.3	15.4
BJAZ	Neutral	19.7	18.8	4.8%	4,129	15.3	1.2	3.5	8.2

Source: SNB Capital Research estimates. All prices as of 20 December 2023

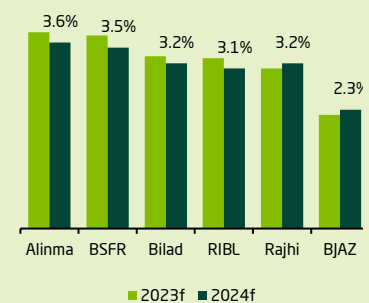
Please refer to the last page for an important disclaimer

## RELATIVE PERFORMANCE (YTD)



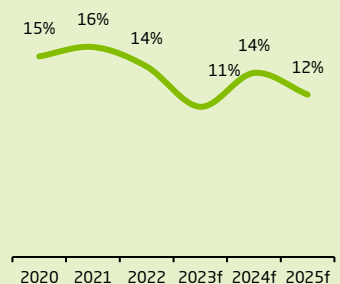
Source: Saudi Exchange, SNB Capital Research

## NIMS OUTLOOK



Source: Company reports, SNB Capital Research

## SECTOR LOAN GROWTH



Source: SAMA, SNB Capital Research

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NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
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PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR:	Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when SNB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
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