SAB 3Q24 Results

Thursday, 7th November 2024

PUBLIC

Sirish Patel: Thank you. Hello and welcome to our results call for the third quarter of 2024. As mentioned by the phone operator, we have our CEO and Managing Director, Tony Cripps, and our CFO, Lama Ghazzaoui, with us on the call today. Tony will provide an update on the latest quarter performance. And as always, Lama will focus in on some of the key stories and themes before proceeding to guidance and Q&A. I'll now hand you over to Tony to start the presentation.

Tony Cripps: Thanks very much, Sirish, and thank you all for joining the call. The Saudi economy continues to perform extremely well and therefore demand for credit remains very strong. The Kingdom continues on its journey of fulfilling the vision. Recent FIIs as an example was incredibly well attended and many agreements, MOUs were put in place, so the interest internationally continues to grow. The Ministry of Finance released its budget statement for 2025 earlier this quarter, and the IMF has also recently released its more recent expectations for Saudi growth. In the latter, the IMF is expecting growth in the Kingdom to be 1.5%, growing to 4.6% in 2025. And of course, now the economy, as you would all know, is split between the oil and gas sector. And much more now is contributed from the non-oil sector, around half of GDP. So despite some of the volatility seen across the globe and increasing geopolitical risks, the outlook here in the Kingdom remains really positive. The contribution, as I said, of the non-oil sector, is now 50% or even more.

Moving to the West. Voting concluded in the US presidential election. The market's reaction was positive. Republicans back in power, so it's going to be interesting to see what impact. But I think the general consensus is that if anything, it's a positive for the region, and so there's no impact on our forecasts for the backdrop next year.

Back at home, demand for credit remains high, both at a retail level and a corporate level. And we expect this to remain at decent levels, with interest rates slowly coming down over the medium term. A proof point of this is the total volume of projects, also increasing from about 800 billion to over 1.3 trillion.

And there's a shift of priorities within the projects themselves because additional demand has come in. So resources are being freed up to move to the priority projects. And we're seeing strong demand around those. The strategy is, is working very well. The banking sector saw 12% year on year loan growth, and the SAMA Data for September points to strengthening corporate demand. With approximately 15% year on year. Corporate loan growth and retail growth remains strong at a sector level. Profits for the banking sector also grew 12% year on year, and this reflects high single digit revenue growth for the sector and partly driven by higher rates that we've seen this year, but also supported by lower cost of risk across the sector. So the banking sector has performed well this year, and we expect this to continue to remain resilient as we go into 2025 and the next part of the cycle.

For SAB, I'll let Lama go through the details of the financials, but I wanted to make a few points. We continued to capture loan growth from our corporate pipeline, and we delivered a further 5% loan growth in the third quarter in this portfolio. Corporate originations have remained at healthy levels this quarter and have been boosted across a number of sectors with no particular concentrations. Sectors include construction, energy, general commerce and real estate. We also grew our retail book by 4% during the quarter and as per the strategy, this is largely focused on the mortgage portfolio, which grew 5% during the quarter, with the portfolio hitting a total size now of SAR 34 billion.

Our market share of originations continues to be very healthy and over two times our market share of stock. From an off-balance sheet perspective, we maintain our leadership position with 5% quarter on quarter growth in our trade assets, leading our market share to 24%. Revenues continued to expand sequentially, with volume growth more than offsetting some pressure on the cost of funds, and we're doing really well in non-funds income. Underlying asset quality remains benign. We had a number of specific charges in the third quarter, but this isn't a trend. And we also had fewer recoveries in the third quarter. So we expect on a year-on-year basis that will end at the lower end of our guidance that we have previously stated.

On the subject of the Saudi Binladin group, which I'm sure there might be further questions on, the settlement in October is really good news for the banking system and for the construction sector, and of course, for the ultimate ambitions of the Kingdom. With continued cost control and all of the above. Our ROTE was 15.8%. And lastly, as you all know, we have a healthy balance sheet, healthy levels of capital, liquidity and funding. Our balance sheet has been positioned for falling rate environment, and we have explained our sensitivities being reduced to between one and three basis points. We see decent volume outlook to offset this and lower, more normalized rates will be a good thing overall for the macro. So we're positive on next year. But I'll hand over now to Lama to go over a few points on the financials before we move to Q&A. Thank you.

Lama Ghazzaoui: Thank you, Tony. I'll take you through the key financials as usual, and then we can move to the guidance and then Q&A. So headline numbers, we generated 5.9 billion riyals of net income for the year to date are up 16% year on year. This was driven by 10% higher revenue, partly offset by a 5% increase in operating expenses, which is in line with expected cost growth. Impairments were broadly unchanged year on year. On a quarterly basis, we generated 1.9 billion riyals of net income, which was up 3% on the third quarter of last year compared with the trailing quarter. Net income, which was down 7% quarter on quarter. This was largely driven by increased impairments in the quarter of 309 million riyals due to timing of recoveries, together with very few specific charges in our corporate portfolio.

Excluding impairments, pre-provision profits increased 2% quarter on quarter as revenues expanded, both funded and non-funded. Another quarter of solid financials has resulted in a ROTE of 15.8% on a post AT1 coupon basis for the nine months. Cost efficiency ratio further improved to 30.6%, reflecting the higher revenue together with strong cost control, common equity tier 1 ratio of 15.7% and the total capital ratio of 18.8% reflects our position as a well-capitalized bank.

On the balance sheet, our strong performance has continued, with a further 4% quarter on quarter growth, bringing year to date growth to 17% and year on year growth to 19%. We are still growing faster than the market, which grew at 12% year on year. Deposits have grown 8% year to date. During the quarter, total customer deposits fell marginally. However, spot demand deposits fell 7%, although some of this was temporary and has come back during October. Capturing non-interest bearing demand deposits remains a challenge, not just for us, and results in pressure on cost of funds.

On slide five, we show our quarterly revenue build up at a total level. We hit 3.5 billion riyals of revenue in the third quarter, and our corporate and retail businesses saw good growth in sequential revenues. Treasury revenues fell quarter on quarter, which reflects higher funding costs.

On slide six, we show the normal quarterly build up of net special commission income, average interest earning assets, NIMs, yields and cost of funds. Our quarterly NSCI expanded as growth in average interest earning assets more than offset the contraction in NIM. NIM saw an expansion in yields, mainly from the investment portfolio, but also the retail portfolio, with corporate yields remaining fairly steady despite the drop in SAIBOR in the last month of the quarter.

Cost of funds continued their rise, mainly as we grew our time deposits. Year to date, NIM was 2.87% and largely in line with expectations. As we mentioned last quarter, we expected our NIM to remain under pressure due to the cost of fund pressures. But for the quarterly fall to lessen, which is what we've seen this quarter. Non-fund income remained healthy during the quarter. We generated $382 million of fee income and $301 million of FX income, and we expect a little seasonal moderation in the fourth quarter for fees and FX incomes but are pleased with these levels and the growth we've seen over the year. Other income of $83 million for the third quarter was lower than the second quarter, reflecting lower disposals. As we know, this line can be volatile, driven by the timing of specific bond disposals.

On slide seven, we show our cost build. Strong cost discipline means costs have been fairly steady quarter on quarter, and our cost efficiency ratio has further improved to 30.6%.

On to slide eight. Impairments for the third quarter increased to 309 million. As we mentioned, our cost of risk can be fairly non-linear because of our skew towards the large corporates and significant institutional clients. During the quarter, we've seen lower recoveries, which is more a reflection of timing, but also have taken some charges on a small number of corporate customers.

Cost of risk for the quarter was 49 basis points. The year-to-date cost of risk was 28 basis points and our NPL ratio at a total level fell to 2.8%, and at 1.4% when excluding the POCI Portfolio, coverage remains high at 177%, and we expect our full year cost of risk to fall at the lower end of our guidance.

Onto the balance sheet and slide nine, the momentum continues with a further 4% quarterly loan growth, which translates to 17% year to date growth and 19% year on year growth on a year-on-year basis. We remain the fastest growing bank in the Kingdom.

On a year-to-date basis, we have grown our corporate portfolio by 16% or 27 billion riyals, and we have grown our retail business by 18% or 10 billion riyals. Our total portfolio is now just under 260 billion riyals, and is well diversified by sector and can be seen in the pie chart on the right hand side.

On the next slide, we show the growth in our corporate business, and we try to give a little more color on this core business. We've grown the portfolio 16% year to date, as mentioned earlier. And the portfolio, as can be seen in the pie chart, is largely skewed towards domestic large corporates, institutional clients, multinationals. Also, this makes up more than 90% of the total loan portfolio.

Corporate originations remained solid despite a small drop in the originations in Q3. However, as we've previously explained, our book can be fairly lumpy on the right-hand side, we've shown the growth in our trade business in terms of guarantees, letters of credit and acceptances, which grew 5% during the quarter. From a market share perspective, we capture almost a quarter of the market and we are the number one trade bank in the kingdom. Our trade related revenues account for approximately 10% of the bank's revenue, and is a critical driver of the revenue line.

On slide 11, for wealth and personal banking perspective, our balances continue to grow ahead of the market. Mortgages are clearly the main driver, with originations increasing quarter on quarter and our market share of originations has grown to 12.5% during 2024. For our mortgage balances now are just under 34 billion riyals and have grown over 70% since the start of our strategy.

On to funding and liquidity, which remain robust. NIBs spot balances fell in the quarter, but this was in part temporary. And as we said, we have seen some of these balances come back during October. We have grown the interest bearing portion of deposits as the funding source for the accelerated growth in the loan portfolio, and therefore our ratio has fallen further. This, as we've always pointed out, remains a challenge for the entire sector given the high-rate environment.

Moving on to returns, we generated 15.8% ROTE for the nine months of the year, and this after the payment of AT1 coupon. This places us at the top end of the guidance, and we are very pleased with the buildup of returns so far. CET-1 of 15.7% has decreased during the quarter following the dividend payment, but also from higher risk weighted assets growth in the quarter, which relates to both on and off balance sheet exposures. Capital levels are very strong, with total tier 1 ratio of 16.9% and total capital ratio of 18.8%.

Onto guidance. We make several updates, but let me walk you through each metric to discuss the risks and the opportunities. Loan growth has been particularly strong. We hope to be at the top end of the guidance by the end of the year. We maintain our NIM guidance and expect to be at the bottom end of the range. We've seen this quarterly drop in NIM lessen during the quarter, as we were expecting, and expect a further drop in Q4 because of time deposit growth, of course. However, we expect to remain in the range, albeit at the bottom. We are expecting SAIBOR to drop further or at least reflect another one cut, but still feel this will have a limited impact on the 2024 outlook. Cost efficiency is currently ahead of the guidance and we expect it to be at the 31% mark, so we have improved cost efficiency to less than 31%. We expect to be at the lower end of the cost of risk guidance, and we maintain our ROTE guidance.

Few comments on 2025 as I'm sure this is of interest to everyone. We will definitely give the 2025 guidance in our next earnings call. But as Tony mentioned, our strategy is working and is on track and we expect to continue to grow ahead of the market in 2025. Our own growth may moderate, but we still expect to capture market share across both corporate and retail and also on the unfunded portfolio. We expect to grow revenues year on year, and despite continual cost investment, we expect to operate at positive jaws as we make further efficiency savings into 2025. Currently, with a strong portfolio in terms of credit quality, we also expect cost of risk to be at similar levels for 2025 with all of this. We therefore expect net income to grow year on year. I'll hand you back to the operator for Q&A and thank you for listening.

Q&A

Operator: Thank you. As a reminder to ask a question, please press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. Please stand by while we compile the Q&A roster. This will take a few moments. Thank you. We are now going to proceed with our first question. The questions come from the line of John Peace from UBS. Your line is open.

John Peace (UBS): Hi. Thanks. And thanks for the presentation. I appreciate you're going to give us some updated guidance for 2025 with the full year results, but when you launched the new sort of plan at the end of 2023, you gave us a 6 to 10% revenue CAGR target over three years out to 2026. So I'm just wondering how you're thinking about that at the moment. On the medium term, it certainly looks like you're trending towards the higher end of that. And secondly, could I just ask about the RWA growth in the quarter? I think it was a little higher than expected. Last quarter, it was a little bit better than expected. And you talked about some RWA optimization initiatives that you could perhaps use. I just wondered what the scope was for you to continue to optimize RWAs and sort of protect that 50% dividend payout. Thanks.

Lama Ghazzaoui: Yes. Thank you for the question. So it is fair to keep the 6 to 10% for now. It's fair to keep the 6 to 10% CAGR target on revenue as we plan for 2025. We are committed to at least achieving this. Again, some uncertainties around the interest rate levels or non-interest bearing deposits. But we are still aspiring to be within the same range. On the RWA optimization, we've done a lot of initiatives internally to save and to optimize on capital allocation. But the growth that has happened throughout the year and largely in the off balance sheet in Q3 have consumed these savings and has actually increased RWA, albeit the density has also decreased.

But so, there is no additional risk that we are taking. But really, it is just it's factoring the growth in both on and off balance sheet. Optimization continues. We have not stopped, and we are trying to also complement the capital whenever it is needed. We have programs in place which we can launch and utilize whether it is on riyal or dollar side. So we have all tools in place to continue to complement the capital base. And hence on your question for dividends, dividend policy is not changing.

John Peace (UBS): Great. Thank you.

Operator: Thank you. We are now going to proceed with our next question. The questions come from the line of Sunil Jain from J.P. Morgan. Please ask a question.

Sunil Jain (J.P. Morgan): Hi, team. Can you hear me?

Lama Ghazzaoui: Yes we can.

Sunil Jain (J.P. Morgan): Hi. Thanks a lot for this presentation. Just a couple of questions. We saw a slight increase in provisioning charges this quarter. And you mentioned that we had a few specific charges on certain corporate accounts. Would it be possible for you to share the sector from where these specific charges are coming? And secondly, can you share what is your SAMA regulatory loans to deposits ratio as of third quarter?

Lama Ghazzaoui: So the regulatory ratio is high seventies. So this is the regulatory LDR. And on the provision charges on Q3, as we said, this is very specific. Little number of customers, legacy accounts that have been under discussion and restructuring for some time. We opted to be more prudent and conservative and cover for them during this quarter. And these are in couple of sectors, one of them is real estate.

Sunil Jain (J.P. Morgan): Thank you.

Sirish Patel: On the regulatory LDR point yet high seventies. And we've started disclosing that now in our slide pack. It's on slide 12.

Sunil Jain (J.P. Morgan): Okay, thank you. Thank you so much.

Operator: Thank you. Once again, if you have any questions or comment, please press star one and one on your telephone and wait for your name to be announced. We are now going to proceed with our next question. The question has come from Shabbir Malik from EFG Hermes. Please ask your question.

Shabbir Malik (EFG Hermes): Hi. Thank you very much. Can you hear me?

Lama Ghazzaoui: Yes, Shabbir. Go ahead.

Shabbir Malik (EFG Hermes): Yes. So a couple of questions, please, from my side. Is there any update on the adoption of global minimum tax for Saudi banks? Because some of the regional banks have discussed it. Is that something - is that a topic that is being discussed in Saudi? That's one of my first question. Secondly, can you give some sense of how much of your business comes from multinationals and because of the recent trend that we've seen of multinationals relocating to Saudi Arabia have you seen any benefit of that trend within your bank?

And maybe a third one in terms of the revenue outlook, thanks, first of all, for giving an early look into 2025. But when you talk about revenue growth, I think the NII line obviously will have to face potentially lower interest rate environment. So when you're thinking about revenue, is it more coming from the NII side of things or more from the non-funded income side of things? So if you can give some color on that, that would be pretty helpful. Thank you.

Tony Cripps: Hi. On the multinational side, we actually we don't break it down specifically in that way. But what I can say is we attract the multis to our brand and capabilities. So, we estimate that we probably bank more than 80% of all the multis that enter end up banking with SAB. And they do so because of our corporate institutional capability, but also because we're an internationally connected retail bank. We're full service in a way that no other bank can provide. So it's a really big positive for us as that flow increases and has been increasing in the last couple of years. So you're right, it's a good area of growth for us, but we don't exactly break it down into the total contribution. I'll pass to Lama for the next two questions.

Lama Ghazzaoui: Thank you. So there's not much of a discussion on the corporate tax, at least with the bank, so no update from our side. And on the revenue outlook, this is the plan to continue to generate revenue on NII, but also to make sure that our NFI is at optimum level than on funds income being it fees, being it trading income FX, all the lines. So we are ensuring that yes, as rates fall, and even though we are less sensitive than what we used to be, we are aiming for the volume to make up for some so the additional volume to make up some of this less revenue, but also for NFI to be growing at a faster pace. We are investing in the trade business. Our brokerage business has grown from the business that we took over from HSBC, Saudi Arabia. Our FX business we've invested in. So on all fronts, yes, we expect that revenue should be growing.

Shabbir Malik (EFG Hermes): Okay, great. Thanks for that. Maybe if I can ask one or two more questions, please. In terms of this resolution of Saudi Binladin, would it be possible for you to disclose if you have any exposure to the group? I don't know, maybe we've discussed this in the past, but if you can, please remind us again if you have any exposure to the group. And could this resolution mean that we could see some recoveries? So that's my first question. And the second one is around the cost to income ratio. So you've indicated that you're looking at potentially widening of jaws going forward. What is going to be the primary driver of that? Is this more revenue driven or is it going to be a combination of revenue growth and controlled costs? So if you can shed some light on that too, please.

Lama Ghazzaoui: Okay, so on the question on the Saudi Binladin Group. Yes, of course, we are one of the largest corporate bank, so by default we'll have exposures to Binladin. This is whatever you've heard in the public domain is very positive news for the company as well as for the banking sector. And of course, probably will definitely affect the vision projects. We've made, as you've heard, the exposures were settled, new lending was issued. Of course, we can't disclose the figures, but we can say that this exposure has been under stage two. So we should see stage two exposures improving.

And stage one, of course, increasing with the new exposure. And even though this will come at probably lower spread, but it is, of course, with better quality as it's now stage one and the government risk. The main thing for the company is that they are awarded projects which require future lending support. Construction is a key sector. And for SAB, we don't have material concentration, but it is a sector that we are supporting as well as we're supporting all the vision projects. So this is what we can say on SBG for now.

Okay. On cost income ratio, this will be, as you said, a combination. This is we always ensure that we're growing revenues, of course, at higher pace than growing costs. But it is also a factor of continuous efficiency gains through optimization programs, through operating model reviews, through the previous investments we've done in the last couple of years that have started embedding revenues within the businesses, but also ensuring that we are much more efficient in the back offices and the control and the support functions so we can support the efficiency level. So it is a combination of both.

Shabbir Malik (EFG Hermes): Thanks. And maybe a final one. In terms of the repricing between your assets and liabilities, is there a timing difference, so could we see potentially liabilities repricing faster initially because of lower rates versus the assets?

Lama Ghazzaoui: Logically, liabilities would probably price a bit faster than assets within a quarter or so. And the assets will reprice one to two quarters, depending on the size and the timing. But shorter term, you could see a bit of benefit on the cost of fund side. But then once the asset starts repricing, this will catch up. So it's just probably maximum a quarter of a difference in timing.

Shabbir Malik (EFG Hermes): Thank you so much. Thanks a lot.

Operator: Thank you. We have no further questions at this time. I would like to hand back to Tony Cripps for closing remarks. Thank you.

Tony Cripps: Just thanks, everybody, for joining the call. The third quarter was pleasing in terms of growth. The ECL increase spike was not a trend in any way, and we expect that the fourth quarter results will be continuing in positive trend. And our outlook for 2025 is positive, so once again, thank you and look forward to the next call.

Operator: This concludes today's conference call. Thank you all for participating. You may now disconnect your lines. Thank you.

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