

GCC Banking Sector Report - Q1-2020

June - 2020

Loan growth continues in Q1-2020 but NIM contracts on rate cuts...

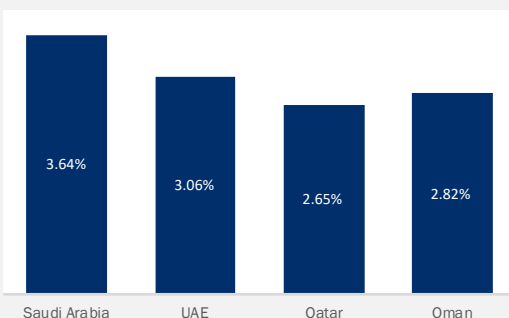
GCC banking sector reported healthy loan growth during Q1-2020 as the economic impact of Covid-19 was felt close to the end of the quarter. The pandemic has led to delayed financial reporting for banks in Kuwait and Bahrain and as a result this report excludes data for banks in these two countries and includes analysis of banks in Saudi Arabia, UAE, Qatar and Oman. Banks in these four GCC countries showed strengthening balance sheets during Q1-2020 with continued assets growth during the quarter. Aggregate total assets in the four countries increased by 2.7% q-o-q to USD 1.97 Trillion during Q1-2020 as compared to USD 1.92 Trillion at the end of Q4-19. As compared to previous year, total assets increased by 12%. Listed banks in Saudi Arabia reported the biggest sequential increase in assets at 3.5% followed by UAE at 2.9% while Qatari banks grew assets by 1.8%.

Asset growth during the quarter was once again supported mainly by Islamic banks that grew assets at one of the fastest q-o-q growth rates of 4.6% as compared to 2.3% for conventional banks. In terms of y-o-y growth, however, conventional banks showed a higher growth of 12.3% vs. 11.0% for Islamic banks. Meanwhile, q-o-q growth in earning assets was the lowest in three-quarter at 2.4% reported at USD 1.64 Trillion in Q1-2020 as compared to USD 1.60 Trillion during Q4-19.

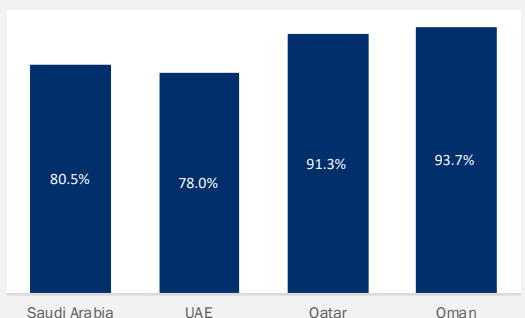
Banks showed continued growth in lending with both gross loans and net loans increasing by 2.8% to reach USD 1.28 Trillion and 1.22 Trillion in Q1-2020, respectively. Saudi Arabian banks reported the biggest q-o-q increase in net loans at 4.6% followed by Qatar at 3.4% while UAE banks showed a growth of 0.8%. Customer deposits also increased by 3.1% q-o-q to reach USD 1.5 Trillion in Q1-2020. Saudi Arabia once again reported the biggest q-o-q growth in customer deposits at 3.5% followed by UAE at 3.2% and Qatar at 2.7%. A faster growth in customer deposits during the quarter vs. net loans resulted in a slight contraction in the loan-to-deposit ratio that reached an aggregate of 82.7% for banks in the four countries during Q1-2020 as compared to 82.9% during Q4-19.

We believe that GCC banks are in a relatively better position to withstand the near-term impact of Covid-19 with adequate capital and liquidity buffers. Banks are expected also play a key role in the revival of the economy from the current crisis and would stand to benefit from an increase in participation from private sector in the overall economic activity.

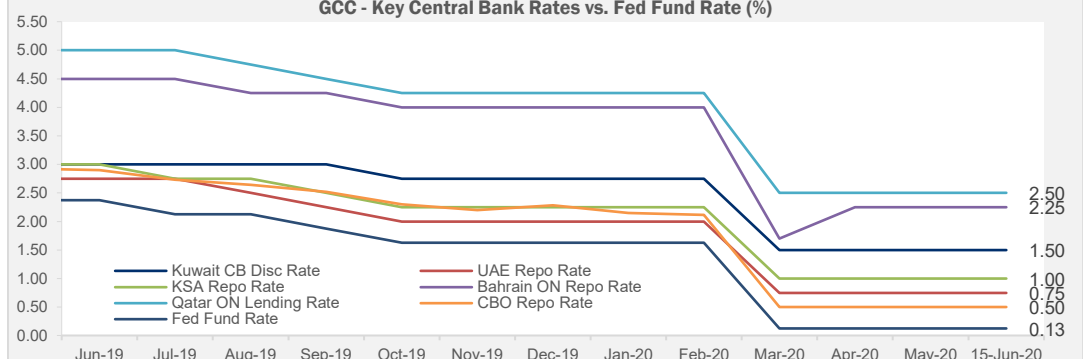
GCC Banking Sector | Net Interest Margin (%)



GCC Banking Sector | Loan-to-deposit Ratio(%)



GCC - Key Central Bank Rates vs. Fed Fund Rate (%)



Source : Reuters, Bloomberg, Company Financials, Kamco Invest Research

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Highlights - GCC Banking Sector

This report analyzes financials reported by 37 listed banks in four GCC economies i.e. Saudi Arabia, UAE, Qatar and Oman for Q1-2020. Banks in Kuwait and Bahrain have deferred financial reporting for Q1-2020 due to the Covid-19 crisis. The individual banking data has been aggregated to the country level. Some of the key observations from the most recent financial for the GCC Banking Sector includes the following:

Total bank revenue sees one of the first q-o-q declines during Q1-2020

Total bank revenue for listed banks in the four economies reached USD 18.2 Bn during Q1-2020 as compared to USD 18.3 Bn during Q4-19, a q-o-q decline 0.5%. This was one of the first declines seen over the last few years that came mainly on the back of USD 80 Mn or 2.3% drop in revenues reported by Qatari banks followed by declines in revenues reported by Saudi Arabian and Omani banks. These declines were partially offset by a marginal growth of 0.8% reported by banks in UAE. The decline in revenues came mainly on the back of falling interest income during the quarter whereas growth in non-interest income partially offset this decline.

Aggregate non-interest income increased by 6.3% during the quarter to reach USD 5.6 Bn during Q1-2020 as compared to USD 5.3 Bn during Q4-19. Saudi Arabian banks reported the biggest increase in non-interest income during the quarter increasing by 24.3% to reach USD 1.8 Bn followed by 3.7% growth for UAE-listed banks. On the other hand, a decline of 11.3% in non-interest income of Qatari banks and 11.0% fall in Omani banks partially offset the overall growth.

Net interest income (NII) declined for the first time in eight quarters by 3.3% q-o-q to reach USD 12.6 Bn during Q1-2020 that came as a result of decline in three out of four GCC countries. Saudi Arabian banks reported a decline of 7.4% in net interest income followed by 1.3% and 0.9% declines reported by Omani and UAE-listed banks. On the other hand, Qatari banks reported a growth of 1.0%, partially offsetting the overall decline. The decline in net interest income came as GCC banks lowered interest rates during March-2020 by almost 125 bps in most cases following US Fed's rate action that pushed the key rate to near zero percent in order to deal with the slowdown led by Covid-19 pandemic.

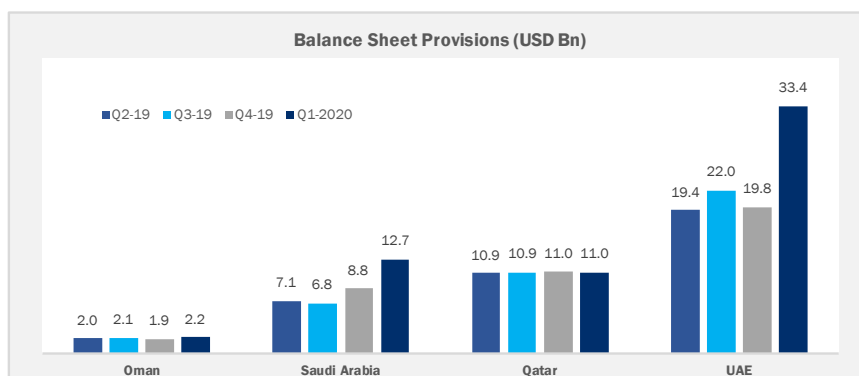
A decline in NII resulted in a marginal decline in net interest margin (NIM) that reached an aggregate of 3.16% for the four countries during Q1-2020 as compared to 3.18% during the previous quarter. NIM was once again highest in the case of Saudi Arabian banks at 3.64% during Q1-2020, a slight decline from 3.70% in Q4-19 followed by 3.2% in the case of Omani banks and 3.06% for UAE-listed banks. The decline in Saudi Arabia's NIM was primarily due to the fall in NII that was partially offset by slightly better loan-to-deposit ratio of 80.5% during Q1-2020 as compared to 79.6% at the end of Q4-19.

Net income reached one of the lowest quarterly levels during Q1-2020

Aggregate net income for listed banks in the four countries reached one of the lowest recorded quarterly levels during Q1-2020 after declining by 1.2% to reach USD 6.9 Bn. The decline was primarily on the back of fall in net incomes for Omani and UAE-based banks that recorded q-o-q declines of 26.8% and 19.0%, respectively. These declines were partially offset by growth in net income by 14.4% and 8.7% for Qatari banks and Saudi Arabian banks, respectively, due to decline in quarterly impairments during Q1-20, whereas UAE and Omani banks reported higher impairments. Overall impairment charge during the quarter stood at USD 3.5 Bn, an increase of 7.9% as compared to previous quarters USD 3.2 Bn. The impairment charge in Q1-2020 was one of the highest aggregate for the four countries led by an almost 50% increase in impairments for UAE-listed banks that reached USD 2.1 Bn during the quarter. Within UAE, six out of twelve banks reported higher impairment charge during Q1-2020 with ADCB reporting the biggest jump in impairment charge that reached USD 505 Mn vs. USD 182 Mn during Q4-19. ENBD's impairment charge was also up by USD 155 Mn to reach USD 692 Bn in Q1-2020.

Banks brace for a steeper impact of Covid-19 in the near term

Financial regulators across the GCC announced a number of policy measures during Q2-2020 to deal with the Covid-19 crisis that was marred by lockdowns across the GCC. A significant element of these efforts involved the banking sector in



Source : Reuters, Kamco Invest Research

the region that had to postpone installments, waive numerous charges, and support the vital SME sector. Business activity in the region came to a halt due to the lockdowns that affected project activity and loan offtake and repayments by businesses. To offset the impact, governments announced numerous monetary and cash-flow measures. Central banks in the region rolled out a number of policy measures starting with rate cuts to encourage borrowing, efforts that focused on continued lending by banks to support businesses and eased the burden of loan payments. Regulatory capital requirement for banks were also relaxed to enable higher lending.

Nevertheless, despite the aforementioned measures, the banking sector is expected to see severe impact in the near-term as businesses would require time to recover. Lockdown opening up plans are being drafted and implemented in a phased manner in the GCC but a full recovery and a complete end to the lockdowns cannot be predicted as the risk of a second wave could jeopardize the efforts over the last three months. This was seen in the US recently where the cases have once again started rising and in Beijing that issued a severe risk of a second wave this week.

The GCC banking sector has significant exposure to some of the most vulnerable sectors like oil and gas, construction and real estate which could affect the health of the banking sector in the near-term. Banks globally have set aside additional provisions for the Covid-19 impact; however, in the GCC, UAE and Qatari banks reported an increase in balance sheet provisions during Q1-2020, whereas Saudi Arabian banks reported only a marginal growth. We believe that the proportion of bad loans in the GCC loan book is expected to increase in case of a delayed opening of the economy. That said, adequate liquidity and strong balance sheet should cushion the sector from an economic slowdown in addition to active support from the regulators.

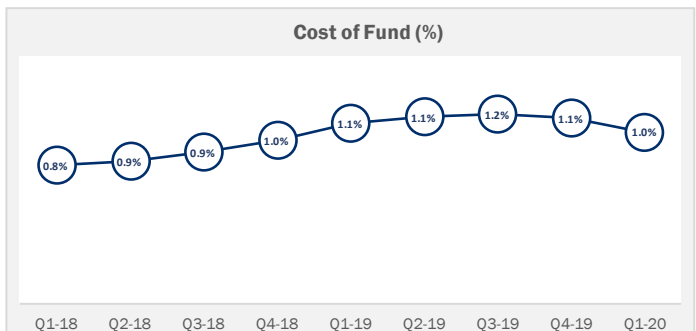
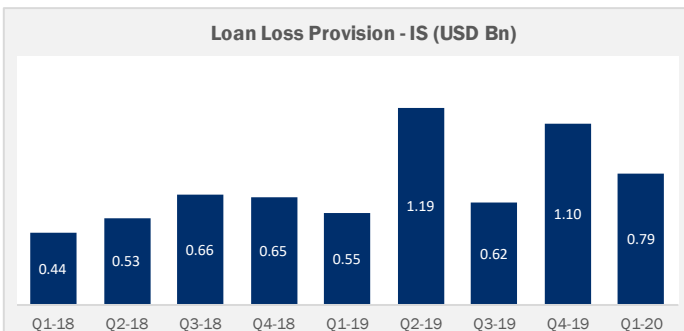
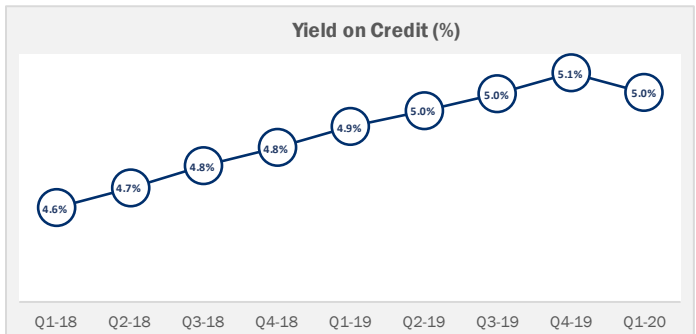
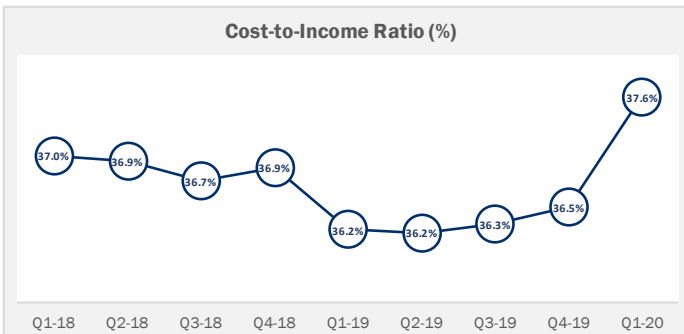
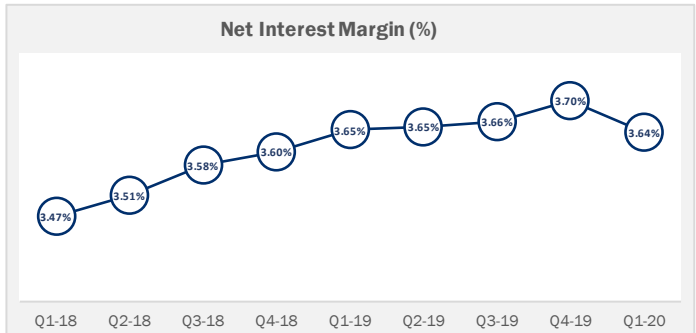
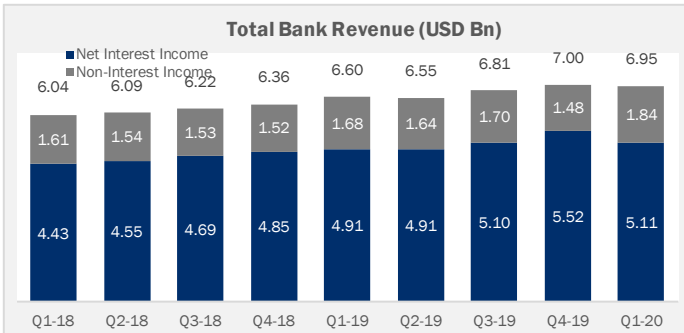
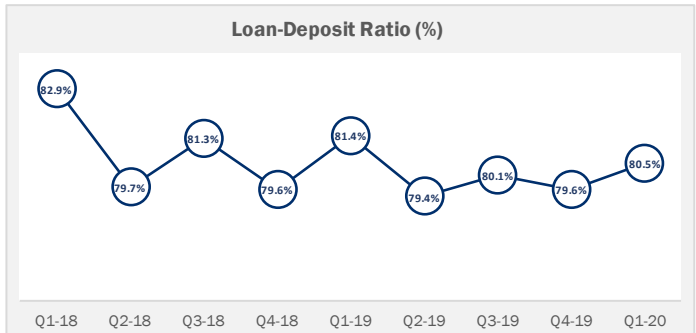
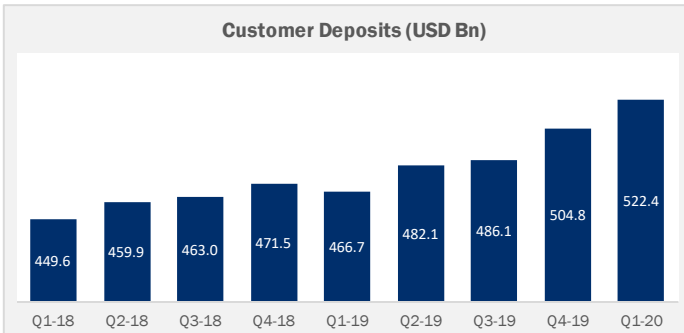
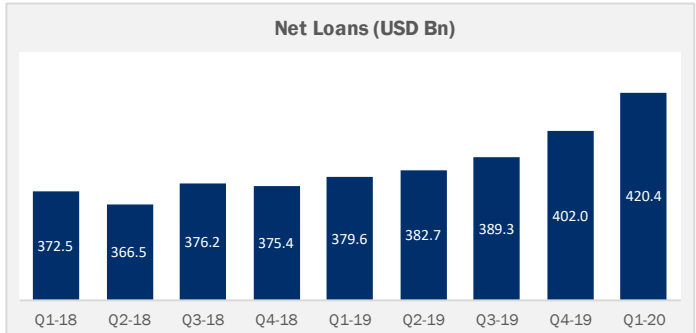
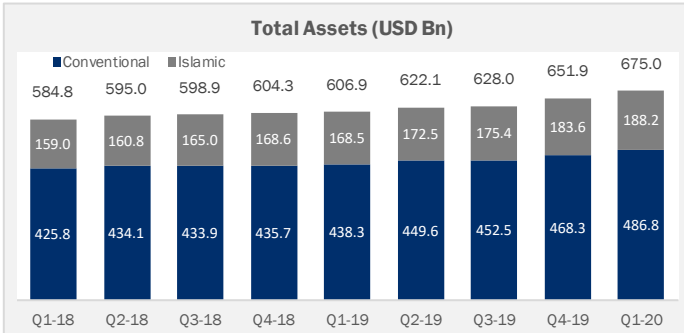
Islamic vs. conventional banks - which banks can weather the Covid-19 impact

GCC Islamic banks continue to outweigh their conventional counterparts in a number of metrics. Islamic banks in Saudi Arabia, Qatar and continue to boast higher utilization of assets, with a loan-to-deposit ratio greater than conventional banks. In Saudi Arabia, the ratio stood at a 88.3% during Q1-2020 for the Islamic banks as compared to 77.5% for conventional banks in the Kingdom. Qatari Islamic banks boasted an even higher ratio of 96.8% during Q1-2020 as compared to 90.0% in the case of conventional banks. A higher loan-to-deposit ratio was also reflected in the profitability of Islamic banks in the region. NIMs for Saudi Arabian Islamic banks stood at 4.2% during TTM-Q1-2020 as compared to 3.4% for conventional banks. In Qatar, the difference was marginal with Islamic bank NIM at 2.7% vs. 2.6% for conventional banks during the quarter.

We believe that the Covid-19 pandemic will affect both conventional and Islamic banks in terms of overall lending activity in the region. That said, the health of the individual banks would determine the level of impact. A majority of the GCC banks are well capitalized and have strong balance sheets, insulating the sector from the additional stress from the pandemic. Also, sector-specific exposures would determine the level of stimulus limits set by banks. For instance, the Real Estate sector is particularly vulnerable during the current stress, so bad loans emanating post the pandemic would be higher for this sector as compared to rest of the economic sectors. Similarly, commercial airlines would see a spike in loan restructuring and deferrals, in line with other key risk sectors affected by the pandemic.

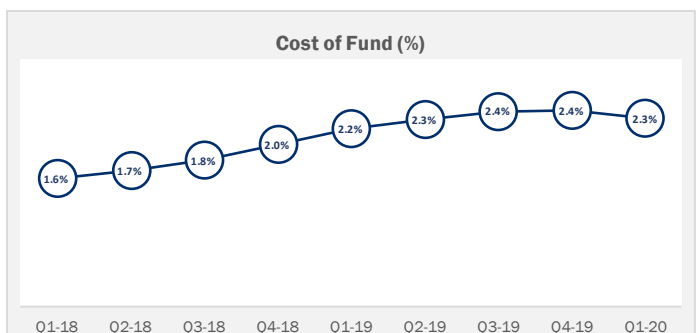
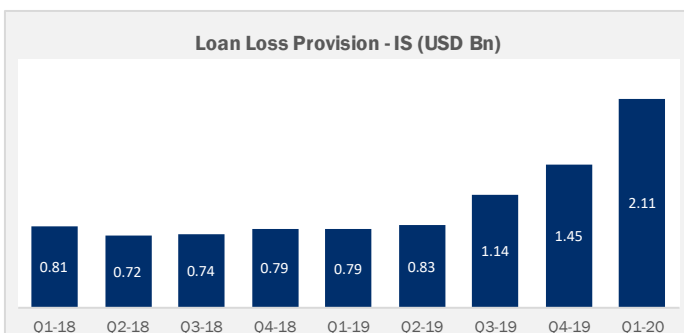
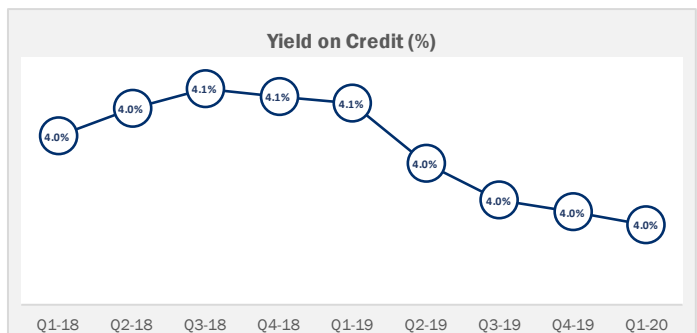
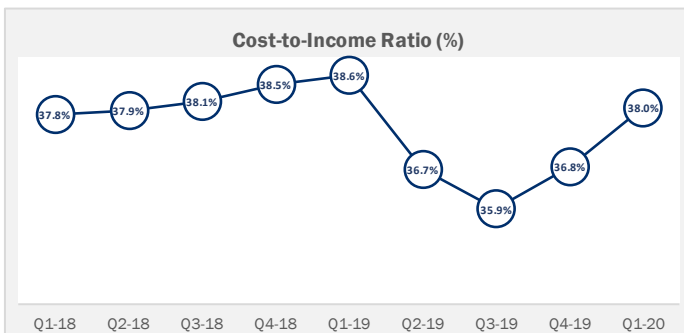
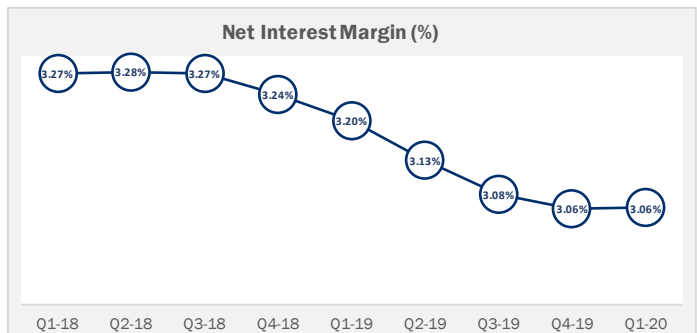
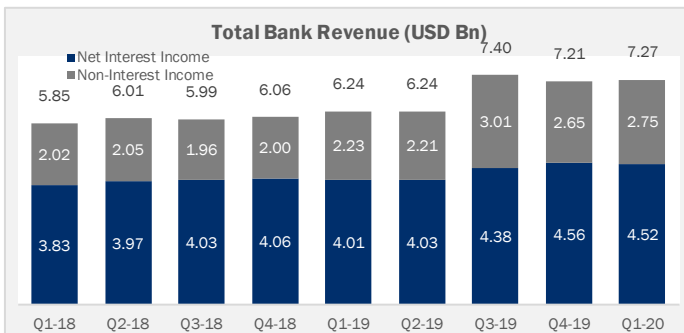
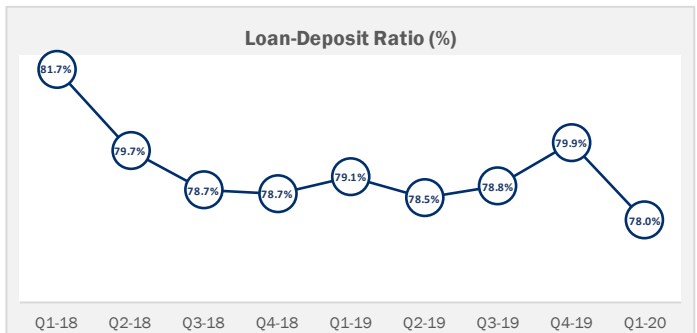
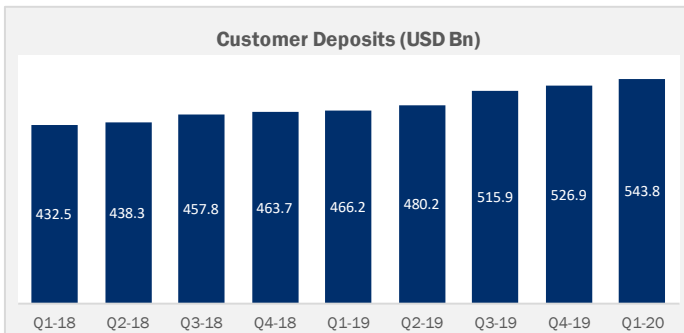
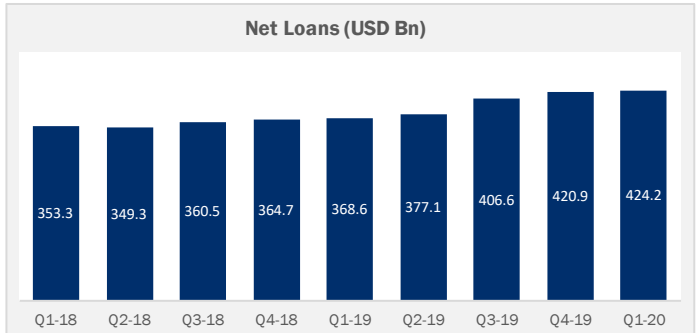
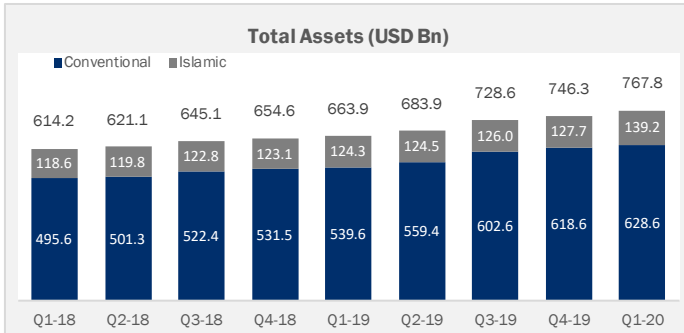
The growth in Islamic bank earning assets and deposits has been around 8.0% during 2019 vs. 2018 whereas conventional banks have grown at a faster rate of more than 10% in these metrics. As a result, the Covid-19 led decline in economic activity in the near term will affect conventional banks more than the Islamic banks in terms of growth rates. Also, based on the higher loan-to-deposit ratios, the impact on profitability of Islamic banks is expected to less than that of conventional banks. This is particularly true in the case of Saudi Arabia and Qatari Islamic banks that have a much higher utilization of deposits as against UAE based lenders that have a higher ratio for conventional banks. Moreover, at the aggregate regional level, the loan-to-deposit ratio of GCC-based banks are much conservative as compared to global averages. This gives them additional capacity to lend at times of crisis as well as additional buffers to withstand stress in the sector.

Key Banking Sector Metrics : Saudi Arabia



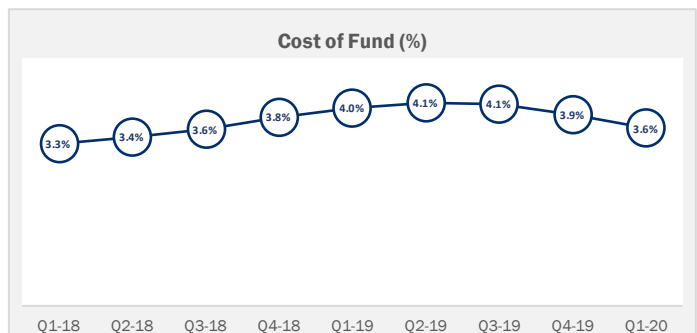
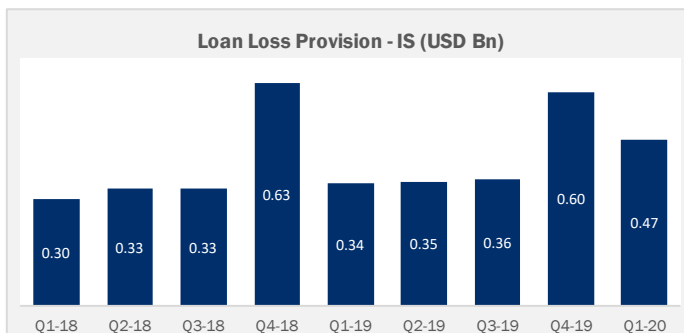
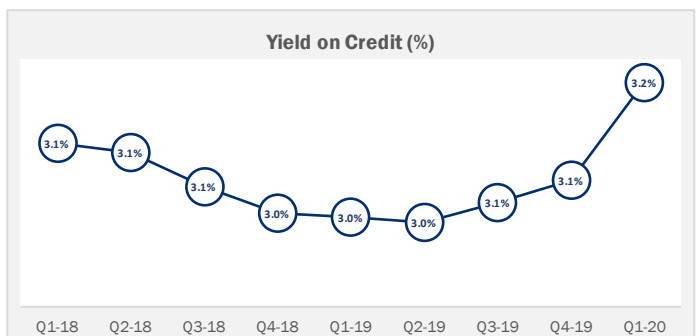
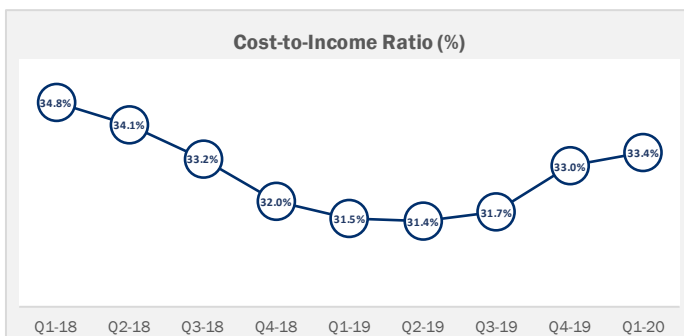
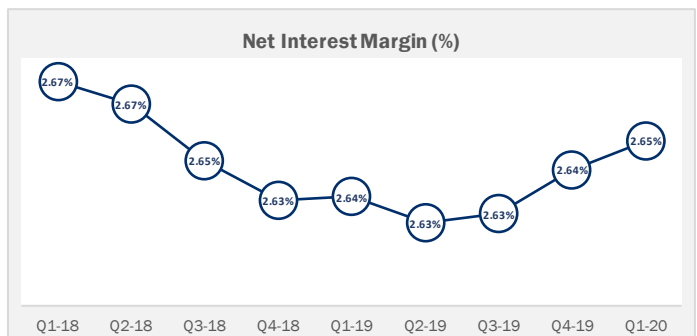
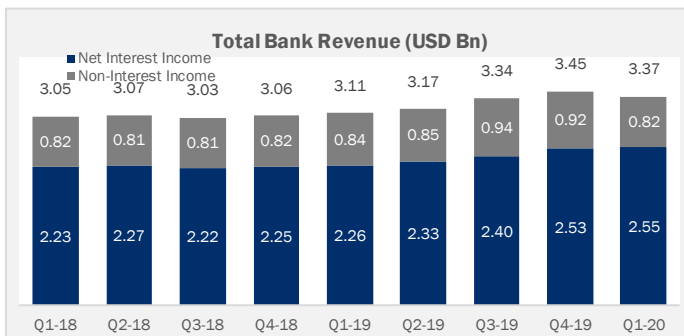
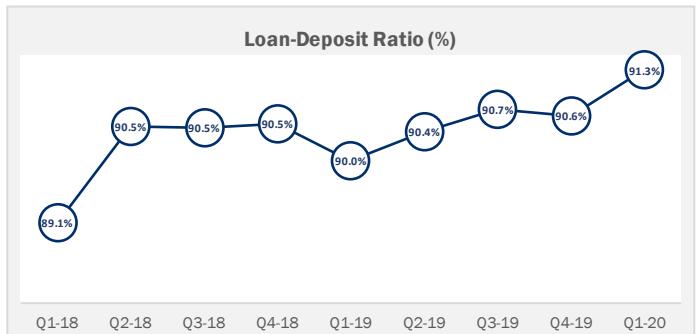
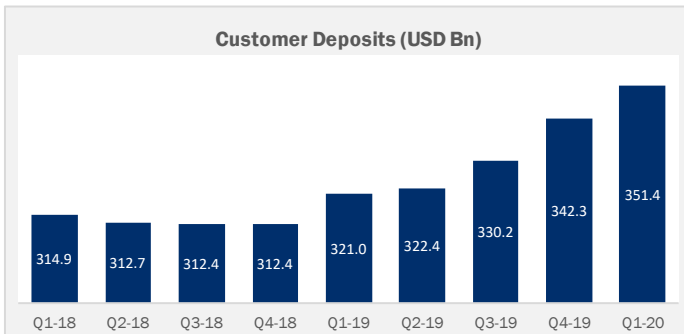
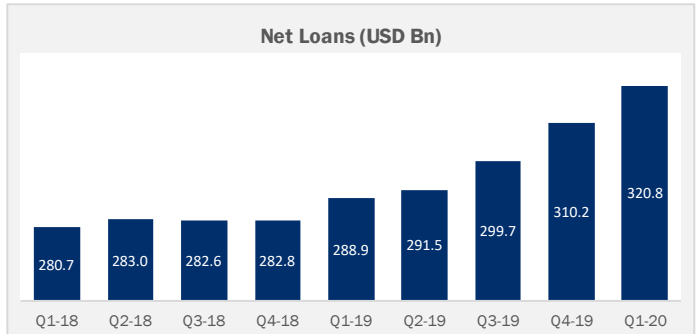
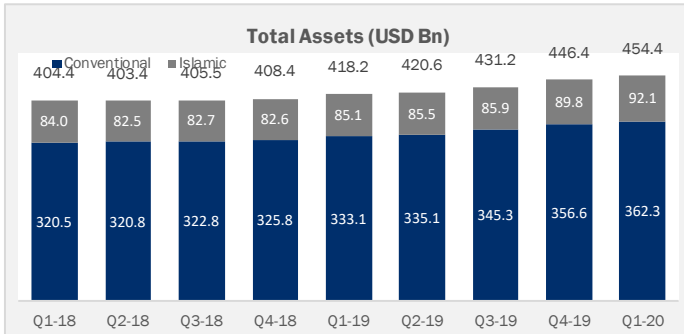
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : UAE



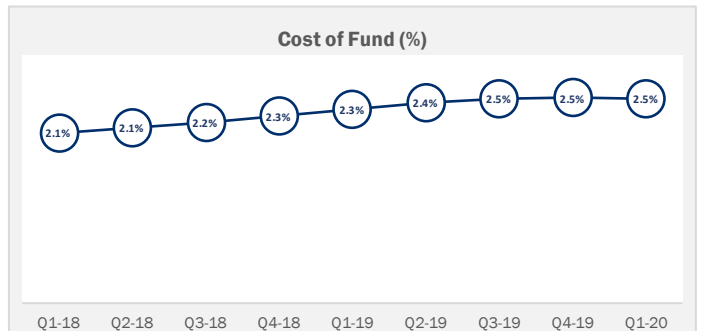
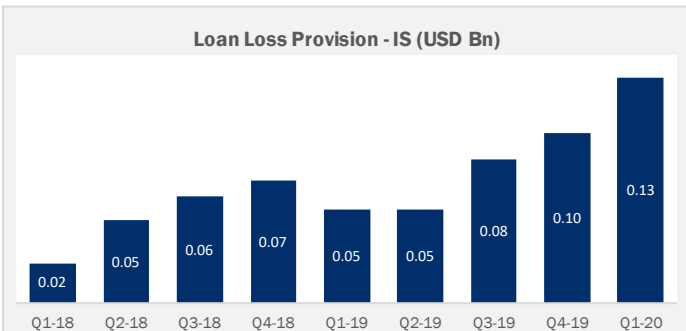
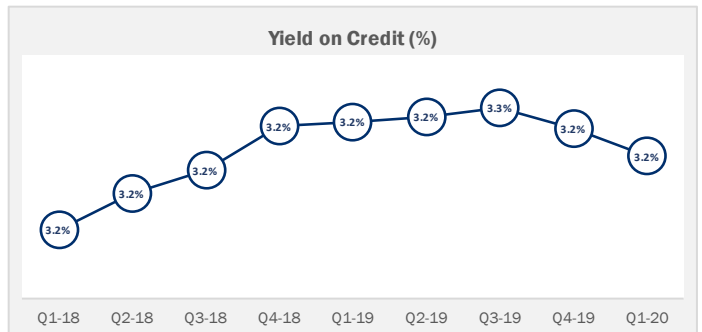
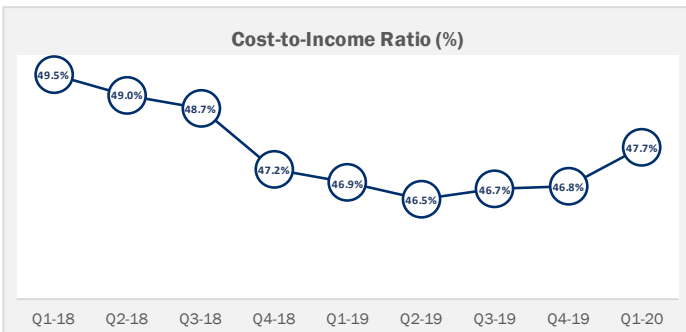
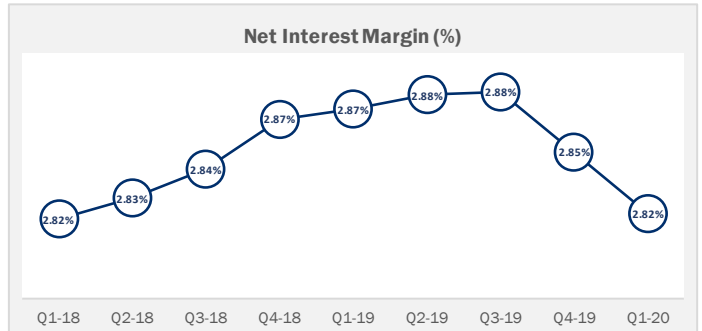
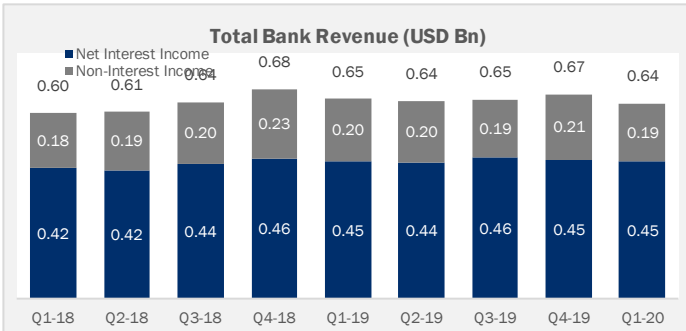
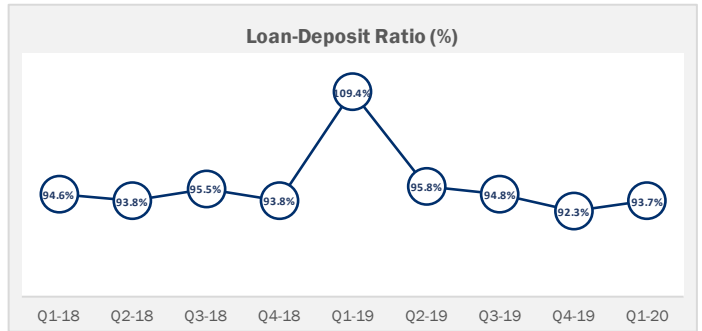
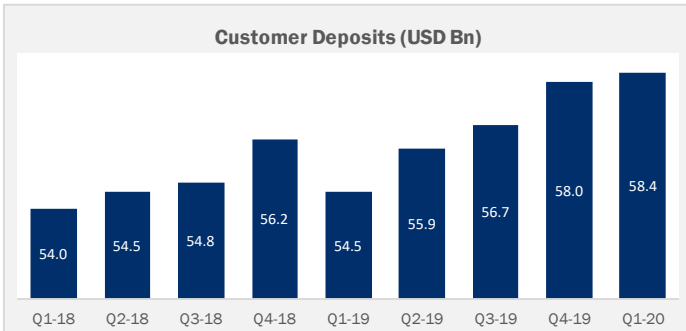
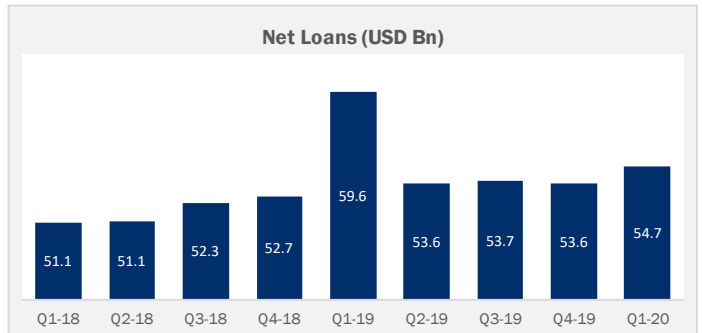
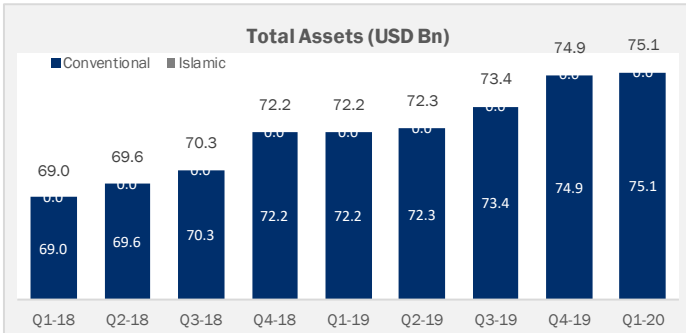
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Qatar



Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Oman



Source : Reuters, Company Financials, Kamco Invest Research

GCC Banking Sector : Market Data

Name	Country	M-CAP (USD Bn)	Price (LCL)	P/E (x)	P/BV (x)	DivYield (%)	YTD-19 Returns	3-Yr Avg Tot Return	5-Yr Avg Tot Return	10-Yr Avg Tot Return
AHLI UNITED BANK B.S.C	Bahrain	5.7	0.592	8.2	1.3	7.7	-33.8%	8.9%	10.7%	10.9%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.8	0.628	12.7	2.0	3.6	1.0%	11.4%	9.1%	12.4%
ARAB BANKING CORP	Bahrain	0.9	0.297	4.2	0.2	N/A	-36.8%	5.1%	-10.9%	-2.2%
BBK BSC	Bahrain	1.8	0.505	8.8	1.3	11.3	-2.2%	19.0%	11.8%	11.0%
AL-SALAM BANK	Bahrain	0.4	0.065	7.2	0.5	5.9	-28.7%	-5.3%	-8.2%	2.7%
ALBARAKA BANKING GROUP	Bahrain	0.3	0.260	4.3	0.3	7.7	-10.0%	-7.1%	-12.2%	-8.5%
BAHRAIN ISLAMIC BANK	Bahrain	0.3	0.110	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ITHMAAR HOLDING BSC	Bahrain	0.4	0.047	N/A	N/A	N/A	N/A	N/A	N/A	N/A
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.032	N/A	0.3	N/A	-43.4%	-33.0%	-15.4%	-11.4%
NATIONAL BANK OF KUWAIT	Kuwait	17.7	803	14.1	1.6	4.2	-17.7%	15.9%	8.6%	6.4%
KUWAIT FINANCE HOUSE	Kuwait	14.9	603	18.2	2.2	3.0	-15.7%	21.9%	11.6%	7.9%
BOUBYAN BANK K.S.C	Kuwait	4.9	496	24.7	2.6	1.7	-17.3%	16.2%	10.9%	5.2%
COMMERCIAL BANK OF KUWAIT	Kuwait	2.9	465	N/A	1.2	N/A	-12.1%	24.2%	4.2%	2.4%
GULF BANK	Kuwait	2.0	213	9.6	0.9	5.2	-25.9%	0.3%	-1.8%	-2.5%
BURGAN BANK	Kuwait	1.7	195	8.1	0.7	6.2	-31.9%	-9.3%	-8.8%	2.6%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	1.6	255	9.6	1.1	5.6	-17.7%	-7.7%	-6.1%	3.5%
AL AHLI BANK OF KUWAIT	Kuwait	0.9	178	13.4	0.5	3.9	-27.6%	-16.2%	-10.9%	-6.1%
WARBA BANK KSCP	Kuwait	1.0	205	27.8	1.5	N/A	-21.7%	-1.8%	0.8%	N/A
KUWAIT INTERNATIONAL BANK	Kuwait	0.6	177	12.6	0.6	3.8	-29.6%	-4.6%	-0.4%	1.9%
BANKMUSCAT SAOG	Oman	2.9	0.340	6.4	0.6	9.8	-9.8%	8.7%	2.8%	3.7%
BANK DHOFAR SAOG	Oman	0.8	0.105	18.7	0.6	2.9	-11.9%	-15.1%	-7.4%	-6.1%
NATIONAL BANK OF OMAN SAOG	Oman	0.7	0.161	7.1	0.6	10.4	-3.6%	0.2%	-3.0%	2.7%
HSBC BANK OMAN	Oman	0.5	0.093	10.6	0.6	9.4	-16.8%	-3.9%	-1.6%	-5.9%
SOHAR INTERNATIONAL BANK	Oman	0.5	0.082	6.2	0.6	3.6	-20.5%	-9.7%	-7.6%	-2.0%
AHLI BANK	Oman	0.5	0.120	11.0	0.8	7.9	4.0%	-0.7%	-2.2%	3.2%
BANK NIZWA	Oman	0.4	0.097	14.0	1.0	N/A	2.1%	0.7%	5.8%	N/A
AL IZZ ISLAMIC BANK	Oman	0.2	0.061	N/A	0.9	N/A	-3.2%	-10.4%	-5.3%	N/A
QATAR NATIONAL BANK	Qatar	44.4	17.60	12.9	2.4	3.4	-11.9%	13.4%	8.1%	13.9%
QATAR ISLAMIC BANK	Qatar	10.4	16.12	13.4	2.3	3.3	8.6%	24.5%	13.0%	13.1%
MASRAF AL RAYAN	Qatar	8.0	3.89	13.4	2.3	5.8	4.2%	4.9%	2.1%	15.6%
COMMERCIAL BANK PQSC	Qatar	4.3	3.88	9.0	0.9	5.2	-13.2%	12.8%	-1.1%	3.1%
QATAR INTERNATIONAL ISLAMIC	Qatar	3.4	8.21	14.1	2.2	5.2	-10.4%	21.0%	6.9%	13.2%
AL AHLI BANK	Qatar	2.1	3.17	11.4	1.3	4.5	-0.8%	7.2%	1.6%	10.2%
DOHA BANK QSC	Qatar	1.8	2.12	11.9	0.8	N/A	-16.3%	-7.4%	-10.7%	0.6%
AL KHALIJ COMMERCIAL BANK	Qatar	1.3	1.33	8.0	0.9	5.6	7.4%	7.1%	-4.8%	2.8%
AL RAJHI BANK	Saudi Arabia	39.2	58.80	14.8	3.0	5.1	-7.6%	19.4%	10.3%	6.4%
NATIONAL COMMERCIAL BANK	Saudi Arabia	30.3	37.85	10.3	2.0	6.3	-20.5%	13.3%	1.2%	N/A
RIYAD BANK	Saudi Arabia	14.0	17.50	9.4	1.4	6.3	-24.4%	25.6%	6.0%	7.8%
SAMBA FINANCIAL GROUP	Saudi Arabia	12.5	23.42	10.9	1.0	6.0	-25.3%	6.5%	1.8%	3.7%
SAUDI BRITISH BANK	Saudi Arabia	12.8	23.40	13.5	0.9	5.1	-30.6%	4.6%	-3.0%	4.2%
BANQUE SAUDI FRANSI	Saudi Arabia	9.7	30.15	12.5	1.1	6.6	-17.7%	8.6%	0.0%	4.7%
ALINMA BANK	Saudi Arabia	8.0	15.00	13.1	1.3	N/A	-21.1%	14.9%	-0.5%	8.1%
ARAB NATIONAL BANK	Saudi Arabia	8.3	20.86	10.8	1.1	4.8	-21.8%	21.7%	2.8%	5.0%
BANK ALBILAD	Saudi Arabia	4.4	21.96	13.3	1.7	4.6	-16.5%	17.8%	-0.4%	11.8%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	2.6	12.92	N/A	0.8	N/A	-28.4%	2.4%	-6.9%	3.8%
BANK AL-JAZIRA	Saudi Arabia	2.5	11.40	10.0	0.8	5.3	-22.2%	7.3%	-9.1%	4.1%
FIRST ABU DHABI BANK PJSC	UAE	34.0	11.42	11.0	1.5	6.5	-20.5%	7.7%	6.5%	13.3%
EMIRATES NBD PJSC	UAE	15.2	8.81	3.9	0.8	4.5	-28.6%	8.9%	4.1%	18.1%
EMIRATES ISLAMIC BANK	UAE	11.6	7.83	52.6	5.1	N/A	-21.6%	10.5%	N/A	N/A
ABU DHABI COMMERCIAL BANK	UAE	9.6	5.08	9.6	0.8	7.5	-31.3%	-4.9%	-1.4%	15.9%
DUBAI ISLAMIC BANK	UAE	7.6	3.85	5.9	1.0	9.1	-23.7%	-1.6%	0.5%	14.6%
ABU DHABI ISLAMIC BANK	UAE	3.7	3.72	6.9	1.0	7.4	-25.3%	11.0%	2.2%	12.7%
MASHREQBANK	UAE	3.2	66.90	6.3	0.6	6.0	0.5%	0.8%	-6.1%	2.2%
COMMERCIAL BANK OF DUBAI	UAE	2.8	3.70	7.5	1.1	5.6	-2.9%	0.2%	-6.6%	11.6%
NATIONAL BANK OF FUJAIRAH	UAE	2.6	4.98	22.5	2.0	2.0	6.0%	26.5%	9.8%	N/A
INVEST BANK	UAE	0.5	0.53	N/A	1.3	N/A	-41.8%	-39.5%	-26.7%	-5.7%
NATIONAL BANK OF RAS AL-KHAI	UAE	1.6	3.41	5.9	0.8	8.8	-22.5%	-2.5%	-8.3%	8.8%
NATIONAL BANK OF UMM AL QAIW	UAE	1.0	2.00	10.0	0.8	5.5	11.2%	-6.1%	-3.8%	4.4%
SHARJAH ISLAMIC BANK	UAE	0.9	1.09	6.1	0.6	4.4	-3.2%	1.0%	-0.8%	8.4%
UNITED ARAB BANK PJSC	UAE	0.5	0.89	N/A	0.9	N/A	-10.5%	-11.0%	-28.6%	N/A
BANK OF SHARJAH	UAE	0.4	0.62	5.7	0.3	N/A	-25.5%	-19.9%	-17.0%	-6.6%
AJMAN BANK PJSC	UAE	0.3	0.60	15.9	0.5	N/A	-35.7%	-17.8%	-16.7%	0.1%
COMMERCIAL BANK INTERNATIONA	UAE	0.4	0.75	10.1	0.6	N/A	-21.9%	-15.6%	-14.6%	-4.4%

Source : Bloomberg

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