

GCC Banking Sector Report - Q2-2020

August - 2020

GCC banking sector net profits reach 8.5-year low in Q2-2020...

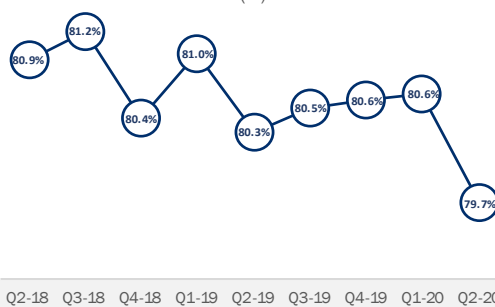
The impact of the Covid-19 pandemic was felt across the GCC and across large-cap sectors that resulted in a historic decline in net profits. The GCC banking sector was no exception as the sector reported lowest net profits since Q1-2012 at USD 4.3 Bn (excluding Bahraini banks due to lack of quarterly data). This was a q-o-q decline of 42.6% and a y-o-y decline of 53.2%. The decline came mainly on the back of a quarterly loss of USD 1.83 Bn reported by Saudi Arabia's SABB during Q2-2020 on the back of goodwill impairment charge it took during the quarter. Excluding SABB's losses, profit for the GCC Banking sector reached a six-quarter low of USD 6.1 Bn. Profits during the quarter was affected by falling topline for the sector in addition to higher loan loss provisions as banks took covid-19 related provisions.

In terms of balance sheet, GCC banks continued to show resilient asset growth during 1H-2020 with a growth of 4.3% reaching USD 2.5 Trillion as compared to USD 2.4 Trillion at the end of last year. In terms of y-o-y growth, total assets increased by 10.8% during Q2-2020. Listed banks in Saudi Arabia once again reported the biggest increase in assets during 1H-2020 with a growth of 7.7% followed by UAE at 5.0%. The only exception were Omani banks as they reported an aggregate contraction in balance sheet size by 0.3% in 1H-2020 to reach USD 77 Bn.

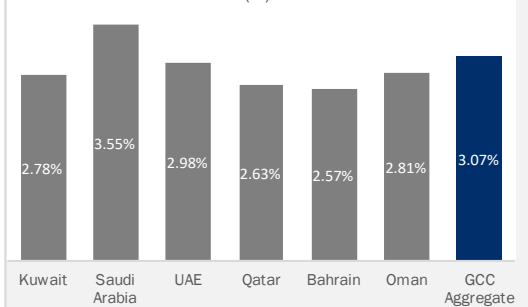
Asset growth during the quarter was once again supported mainly by Islamic banks that grew assets at 7.2% during 1H-2020 as compared to 3.4% for conventional banks. In terms of y-o-y growth, Islamic banks once again showed higher asset growth of 12.8% as compared to 10.1% growth for conventional banks. Meanwhile, 1H-2020 growth in earning assets were in line with total asset growth of 4.3% to reached USD 2.1 Trillion at the end of 1H-2020 as compared to USD 1.97 Trillion at the end of 2019.

Banks showed continued growth in lending with both gross loans and net loans showing growth since the start of the year. Gross loans (excluding Kuwaiti banks) increased by 3.5% during 1H-2020 to reach USD 1.38 Trillion. Net loans (including Kuwaiti banks) also increased by 3.5% to reach USD 1.49 Trillion as of 30-June-2020. Saudi Arabian banks reported the biggest 1H-2020 increase in net loans at 7.2% followed by Kuwaiti banks at 3.8% growth. Banks in Qatar and UAE also showed growth of 2.2% and 1.6%, respectively. Customer deposits also reported growth of 4.6% during 1H-2020 to reach USD 1.87 Trillion, resulting in an aggregate loan-to-deposit ratio of 79.7% for the GCC banking sector.

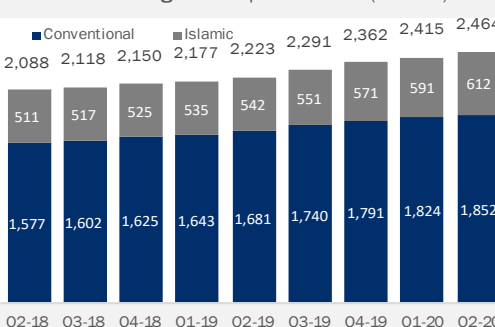
GCC Banking Sector | Loan-to-Deposit Ratio (%)



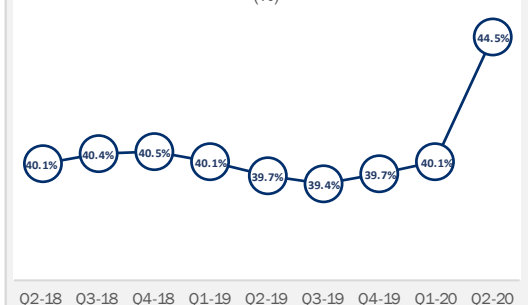
GCC Banking Sector | Net Interest Margin (%)



GCC Banking Sector | Total Assets (USD Bn)



GCC Banking Sector | Cost-to-Income Ratio (%)



Source : Reuters, Company Financials, KAMCO Research

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Highlights - GCC Banking Sector

This report analyzes financials reported by 60 listed banks in the GCC for the quarter ended Q2-2020. Bahraini banks did not report Q1-2020 data, however, there was minimal change in Q2-2020 data for key metrics as compared to year end 2019 numbers. In order to show trend in growth, we have averaged certain key metrics for Bahraini banks to arrive at Q1-2020 numbers. In this report, the individual bank's data have been aggregated to the country level. Some of the key observations from the most recent financial quarter for the GCC Banking Sector includes the following:

Net income contracts due to lower topline and higher provisions...

Aggregate net income for GCC listed banks reached USD 4.3 Billion (excluding Bahraini banks), the lowest since Q1-2012. As highlighted earlier, the decline was led mainly by SABB's goodwill impairment charge that resulted in the bank's quarterly loss of USD 1.83 Bn in Q2-2020. Saudi Arabia and Kuwaiti banks reported the biggest q-o-q percentage decline in net income during Q2-2020. Net income for Saudi Arabian Banks reached USD 0.5 Bn, one of the lowest on record due to the losses reported by SABB. Excluding SABB's net loss, the aggregate q-o-q net profits decline for Saudi Arabian banks was 14.1%. Within Saudi Arabia, NCB reported a q-o-q profit decline of 26.1% that reached USD 556.6 Mn, the lowest since Q3-2016.

Meanwhile, net profits for Kuwaiti banks plunged during Q2-2020 by 81.2% to reach USD 110.8 Mn as compared to USD 590.5 Mn during Q1-2020. The decline was even higher in terms of y-o-y performance at 86.4%. In Kuwait, 3 out of 10 listed banks reported losses during the quarter during Q2-2020 as compared to profits during Q1-2020, whereas the remaining 7 banks reported steep q-o-q decline in profits. NBK reported the biggest absolute sequential decline in net profits in Kuwait with a q-o-q fall of USD 139.2 Mn or 56.2% to reach USD 108.7 Mn. The decline in KFH's net profit was next at USD 100.2 Mn or 70.9% to reach USD 41.1 Mn during Q2-2020.

Qatari banks also reported a q-o-q slide in profits, but it was relatively smaller at 13.4%. On the other hand, UAE and Omani banks reported a sequential growth in profits during Q2-2020. Aggregate profits for Omani banks increased by 3.3% q-o-q to reach USD 170.0 Mn mainly led by higher profits reported by Bank Muscat (+9.2%), Bank Sohar (13.3%) and profits reported by HSBC Bank Oman during Q2-2020, as compared to losses during Q1-2020. In the UAE, aggregate net income increased marginally to USD 2.01 Bn during Q2-2020. However, this increase was mainly on the back of a six-fold increase in net income for ADCB that reached USD 334.5 Mn during Q2-2020 as compared to USD 56.5 Mn during Q1-2020. The increase was mainly due to lower impairment charges of USD 181.8 Mn during Q2-2020 as compared to USD 512.0 Mn during Q1-2020. FAB, Ajman Bank and Abu Dhabi Islamic Bank also reported higher q-o-q net profits, whereas the rest of the 11 banks reported q-o-q profit decline during Q2-2020.

Quarterly LLP reach one of the highest levels; exceed quarterly profits for the first time...

Loan loss provisions (LLP) continued to rise during Q2-2020 to reach a new recent record of USD 4.6 Bn for the GCC banking sector (excluding Bahraini banks), an increase of 10.3% as compared to the previous quarter. The sector has taken total provisions of USD 9.1 Bn in the first two quarters of 2020 as compared to USD 12.6 Bn provisions during full year 2019. Kuwaiti banks booked the biggest percentage increase in provisions during the quarter aggregating at USD 1.0 Bn, an increase of 78.3% as compared to Q1-2020. Saudi and Qatari banks closely followed with growth of 37.6% and 37.5%, respectively, with provisions totaling USD 1.7 Bn for the two countries. UAE banks continued to report the highest absolute provisions in Q2-2020 at USD 1.7 Bn despite recording a q-o-q decline of 22.8%.

Total bank revenue continued to decline in Q2-2020...

Total bank revenue for listed banks in the GCC (excluding Bahraini Banks) reached USD 18.7 Bn during Q2-2020 as compared to USD 20.7 Bn during Q1-2020, a q-o-q decline 9.5%. This was one of the steepest declines seen over the last few years that came on the back of a broad-based decline in sector profits. UAE banks reported the biggest q-o-q drop in banking revenues during Q2-2020 at 15.0% followed by Kuwaiti banks at 12.2% while Qatari and Saudi Banks reported a drop of 5.7% and 4.8%, respectively. The decline in revenues came as a result of a decline in both interest income as well as non-interest income.

Aggregate non-interest income declined by 22.2% q-o-q during Q2-2020 to reach USD 4.9 Bn as compared to USD 6.3 Bn during Q1-2020. The decline was led by double digit fall reported by all the five GCC countries led by a fall in capital markets activity during the quarter although equity indices showed positive performance. Kuwaiti banks reported the biggest decline in non-interest income during the quarter falling by 31.5% to reach USD 0.5 Bn followed by 28.3% decline for UAE-listed banks. Saudi Arabian and Qatari banks reported declines of 14.9% and 10.9%, respectively.

On the other hand, the decline in net interest income (NII) was relatively marginal in the mid to low-single-digit range led by full impact of the decline in benchmark interest rates carried out during late Q1-2020 by almost 150 bps in some cases. This was evident from a fall in aggregate cost of fund for the GCC banks recorded at 2.1% during Q2-2020 as compared to 2.4% at the

end of last year. The rate cuts followed US Fed's rate action to lower the key Fed rate to near zero percent to deal with the slowdown led by Covid-19 pandemic. The decline in NII was seen across the GCC resulting an aggregate q-o-q drop of 4.1% to reach USD 13.8 Bn. UAE banks reported the biggest q-o-q decline of 7.0% followed by Kuwaiti banks and Qatari banks with declines of 4.2% and 4.1%. Saudi Arabian and Omani banks reported a marginal drop of 1.9% and 0.3%, respectively.

NIM contracts to one of the lowest on record...

A decline in NII coupled with an increase in earnings assets during Q2-2020 resulted in one of the lowest aggregate net interest margins (NIM) for the GCC banking sector. The aggregate sector NIM reached 3.07% during Q2-2020 as compared to 3.13% at the end of last year. NIM contracted across the board and was once again highest in the case of Saudi Arabian banks at 3.55% during Q2-2020, a slight decline from 3.66% in Q1-2020. UAE banks were next with a NIM of 2.98% followed by 2.81% in the case of Omani banks. Qatari banks reported one of the lowest NIMs during the quarter at 2.63%, almost flat as compared to the previous quarter.

Loan-to-deposit ratio goes below 80%...

Aggregate net loan growth during Q2-2020 stood at 0.8% q-o-q for the GCC banking sector to reach USD 1.5 Trillion. The growth since the start of the year was 3.5% in line with the growth in gross loans. Saudi Arabian banks reported the biggest q-o-q growth in net loans during Q2-2020 at 2.3% followed by Kuwaiti and UAE banks at 2.1% and 0.7%, respectively. On the other hand, Qatari and Omani banks reported sequential declines in net loans by 1.1% and 0.7%, respectively.

The trend in customer deposits was also largely positive across the GCC during Q2-2020. The aggregate for the sector increased by 2.1% q-o-q to reach USD 1.87 Trillion. Saudi Arabia once again reported the strongest growth in customer deposits at 5.0% to reach USD 549 Bn. UAE and Kuwait were next with growth rates of 1.9% and 1.4%, respectively. On the other hand, Qatari and Omani banks reported declines in customer deposit by 0.9% and 0.5%, respectively.

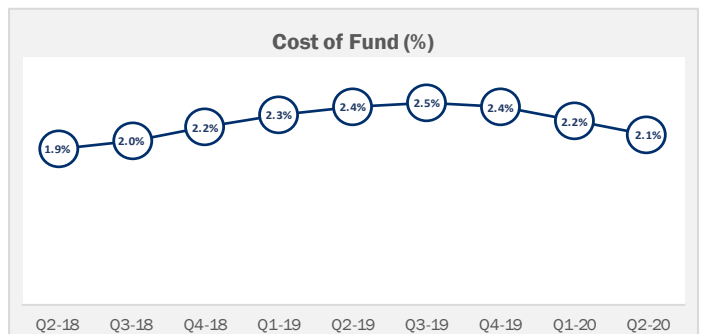
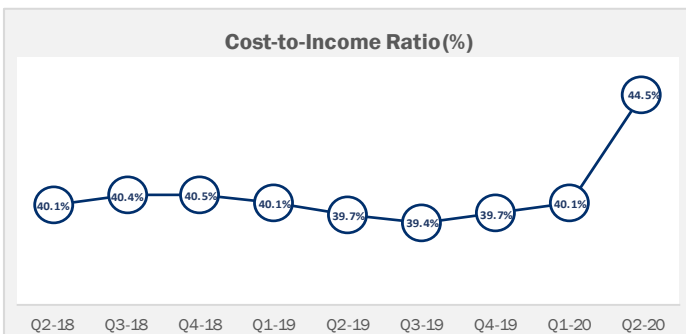
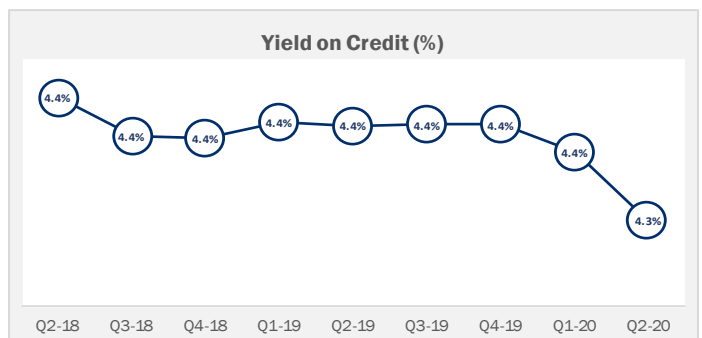
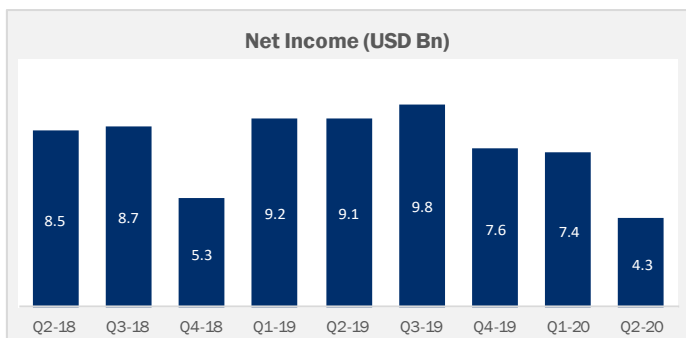
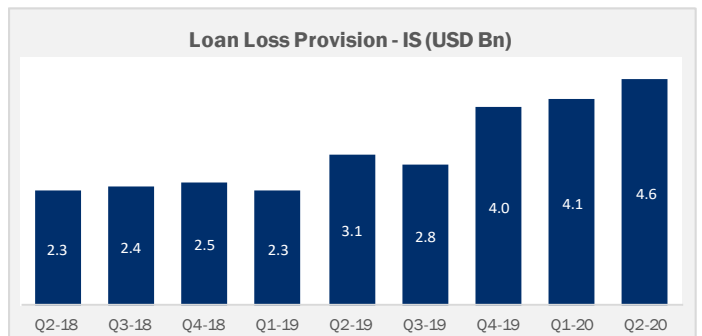
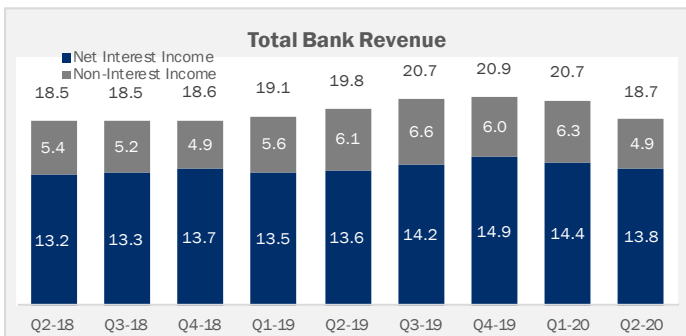
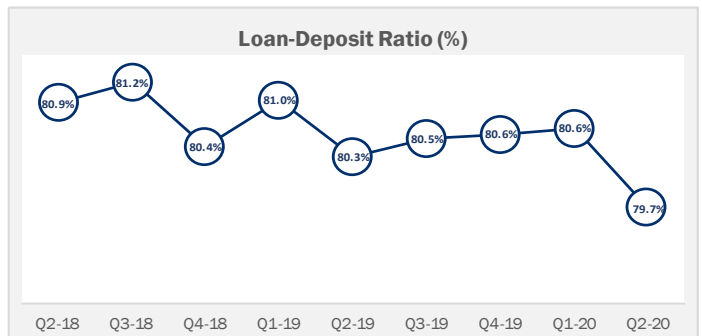
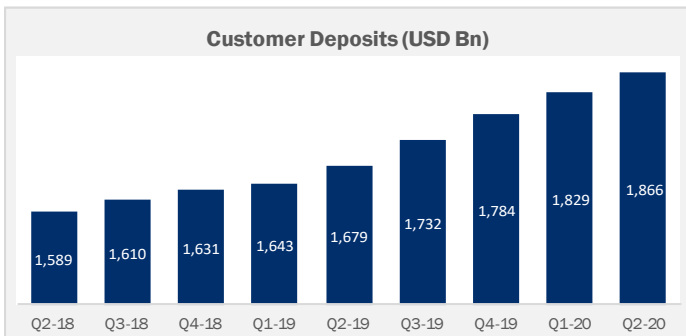
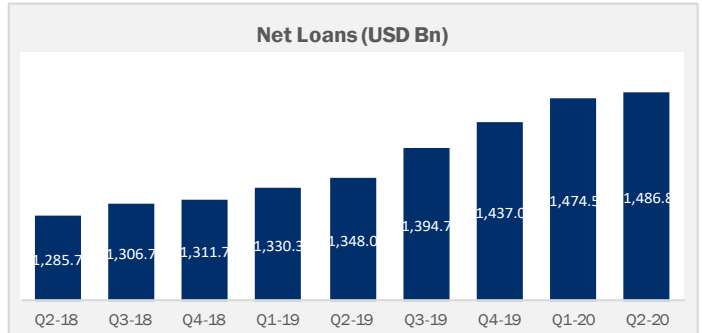
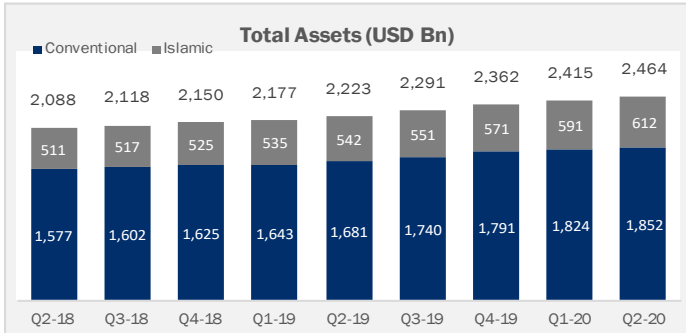
The aggregate loan-to-deposit ratio for the GCC banking sector reached one of the lowest levels on record during Q2-2020. The key banking indicator that highlights utilization rates of customer deposits and credit uptake in the economy reached below the 80% mark at 79.7% during Q2-2020, one of the lowest in the world. The ratio improved only in the case of Kuwait, whereas Saudi Arabia and UAE reported the biggest declines of around 210 bps and 90 bps to report 78.4% and 77.2%, respectively. The decline in Saudi Arabia came as a result of stronger growth in customer deposits as compared to net loans. Bahraini banks reported the lowest loan-to-deposit ratio of 66.9% during Q2-2020. Omani banks followed by Qatari banks reported the highest ratios in the GCC at 94.5% and 91.1%, respectively.

Sector revival depends on policy action and covid-19 measures...

Almost all the six economies in the GCC have restarted post the Covid-19 lockdowns. The process of opening was gradual and it took almost two months for the lockdowns to be completely lifted across the region. We believe that the lifting of lockdowns and the restart of economic activity would support a banking sector revival in the region. However, sector profits are expected to remain subdued during Q3-2020 reflecting partial economic activity and show full recovery only by the end of the year. In addition, the huge SME sector base is expected to see continued policy support from the government in the form of relaxed requirements from the banks with the support of the regulators, as the sector holds the key to employment generation in the region. Moreover, we expect provisions to have peaked during Q2-2020 and are expected to decline gradually to previous averages by the end of the year. Although lockdowns are being reimplemented in several cities globally, we believe that a resumption in the GCC would be gradual given the current slowdown in new cases. In addition, as we move towards the end of the year, the chances of a successful vaccine development would improve the prospects of fighting the pandemic. Key sectors like real estate is expected to see the effects of the lockdowns wane by the end of Q3-2020 and other vulnerable sectors like oil and gas and construction are expected to follow that would support lending activity.

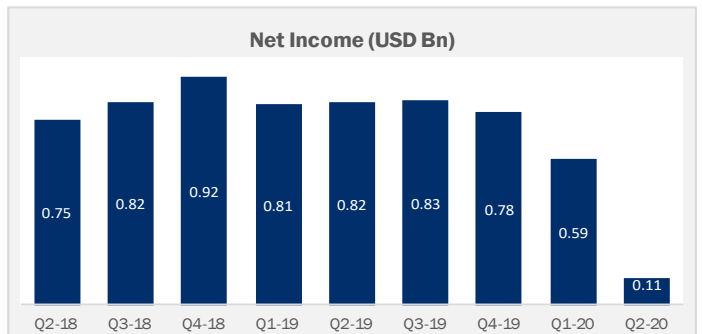
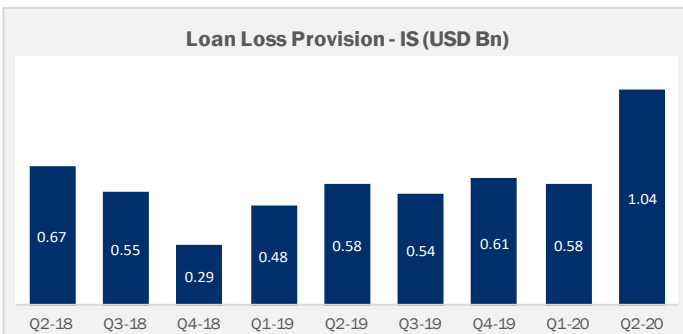
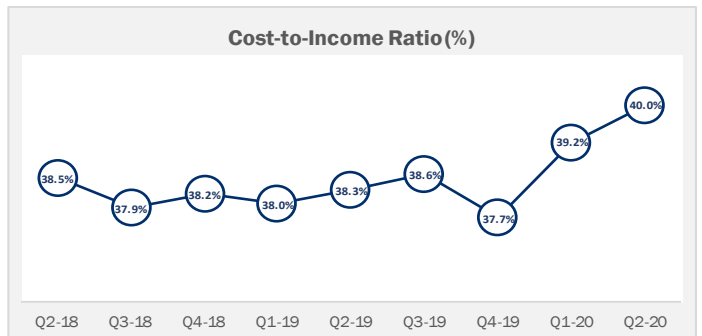
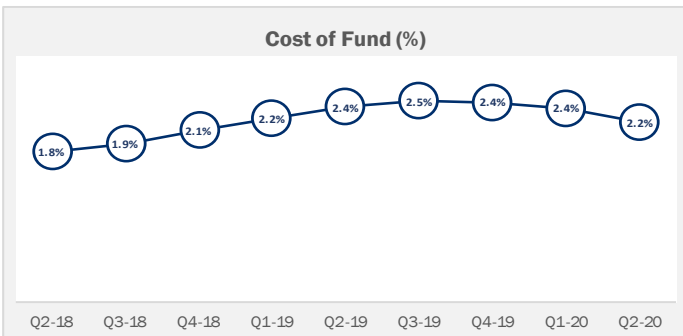
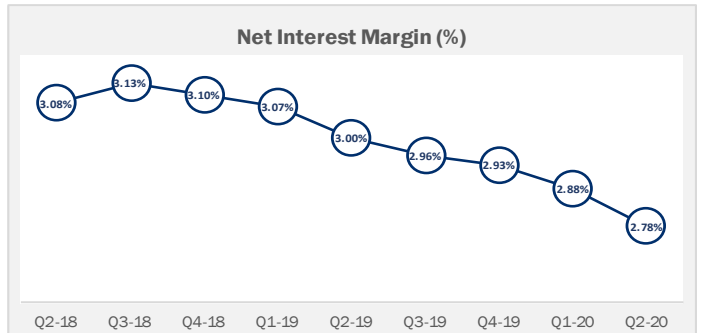
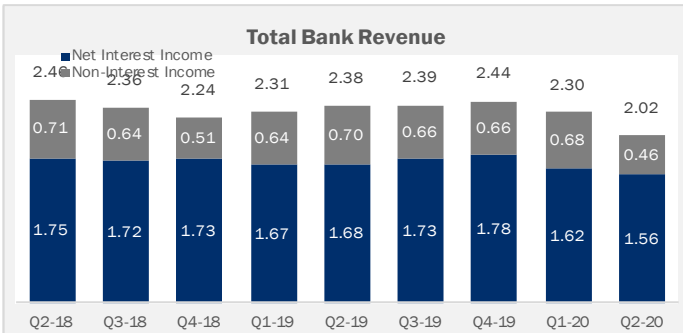
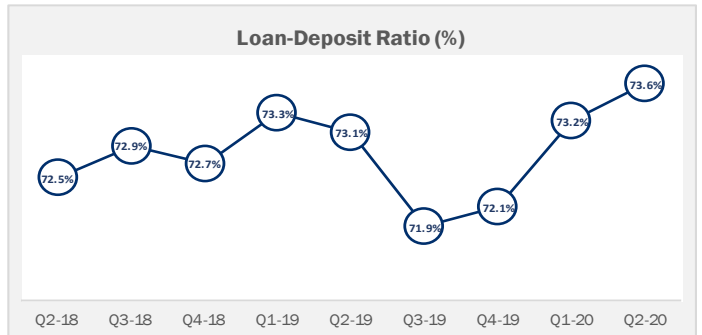
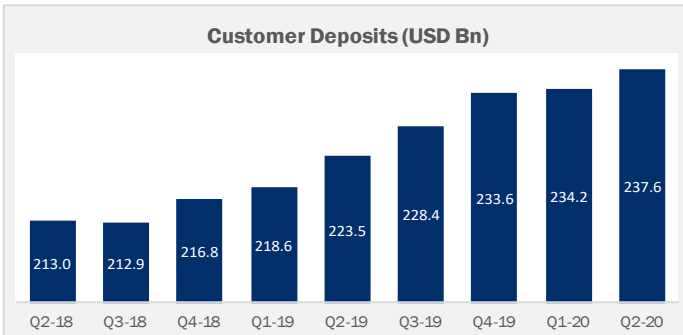
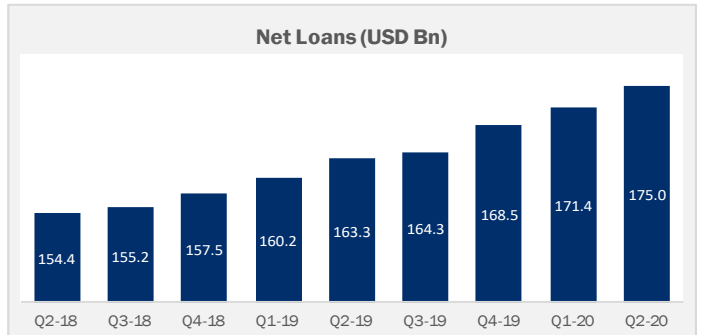
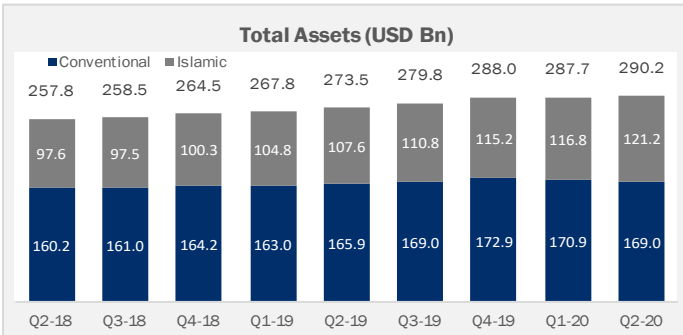
Further stress to the banking sector is expected to be more than offset by continued strong lending capacity in terms of adequate liquidity and one of the lowest loan-to-deposit ratios. The low loan-to-deposit ratio is expected to be gradually addressed as lending picks up in the region led by higher participation from the private sector and a government backed emergence from the pandemic.

Key Banking Sector Metrics : GCC



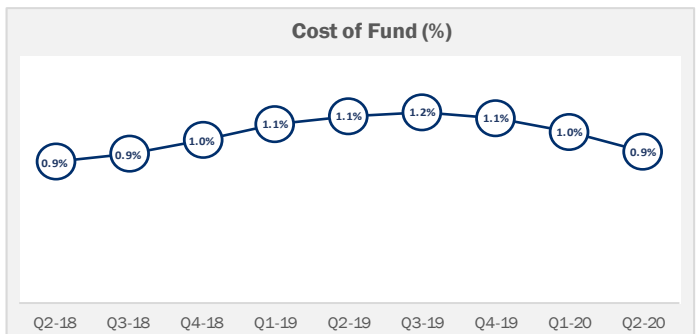
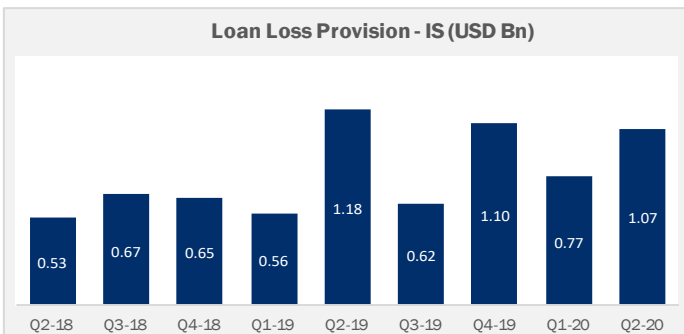
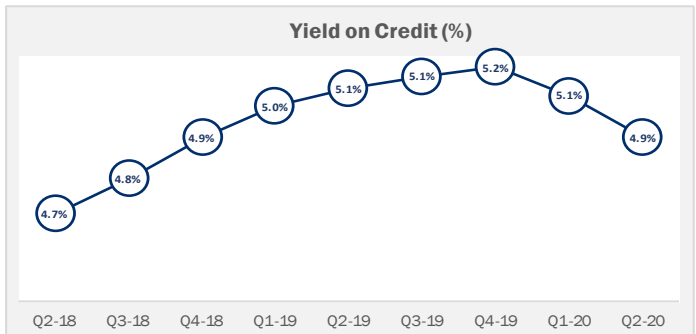
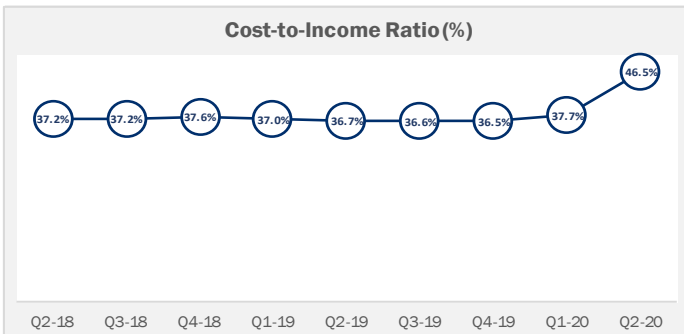
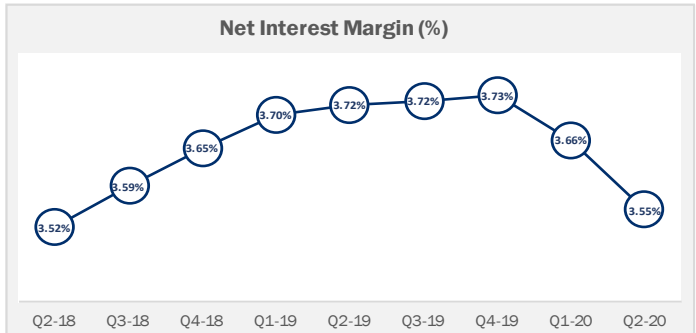
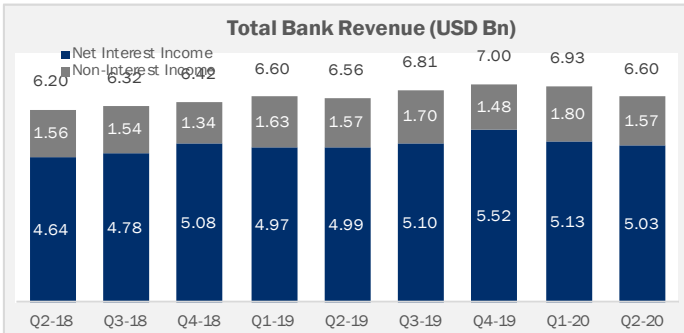
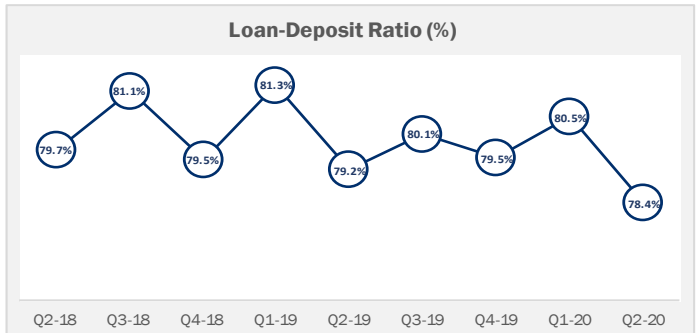
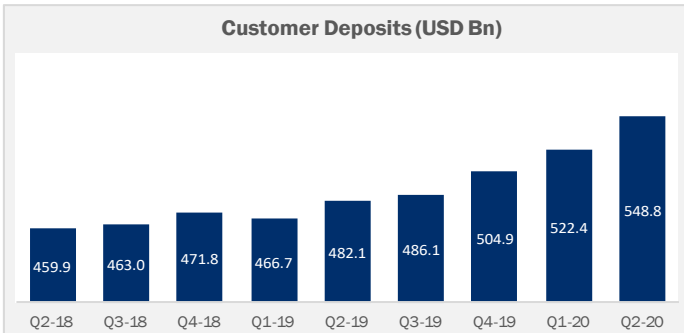
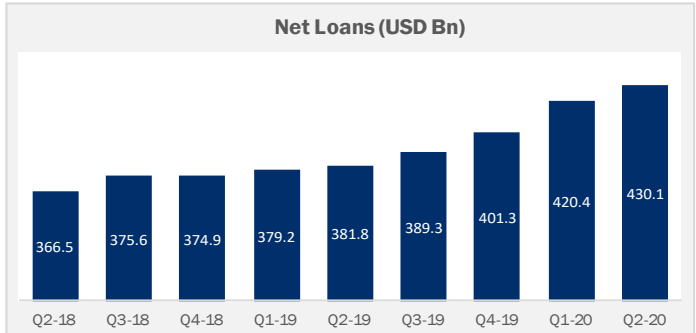
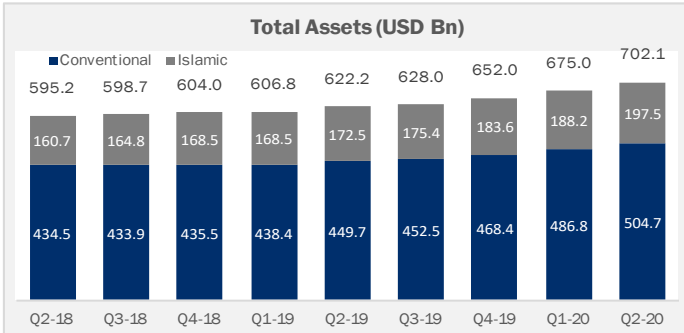
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Kuwait



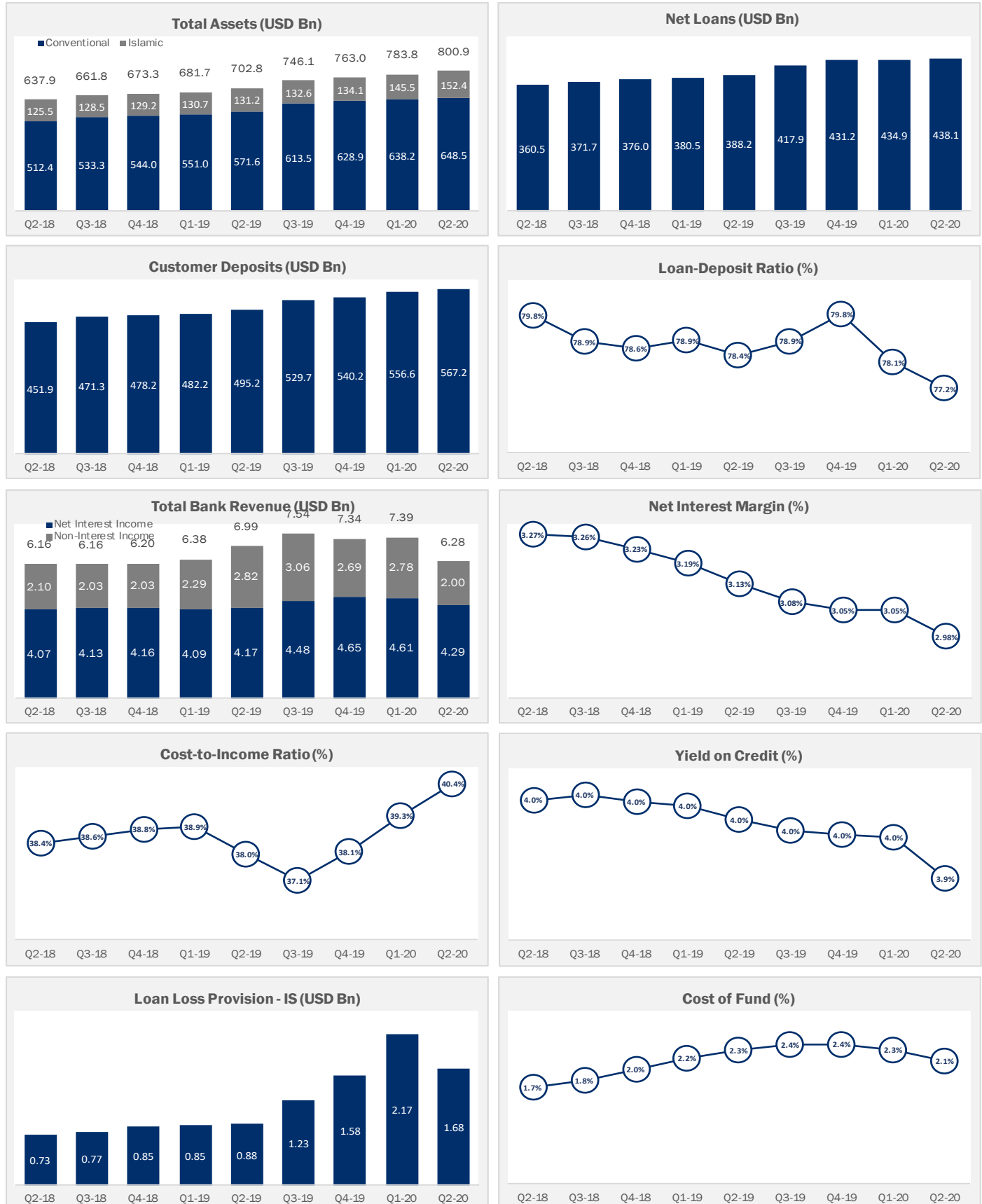
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Key Banking Sector Metrics : Saudi Arabia



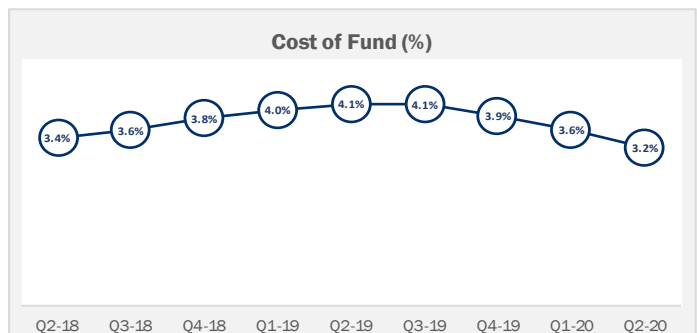
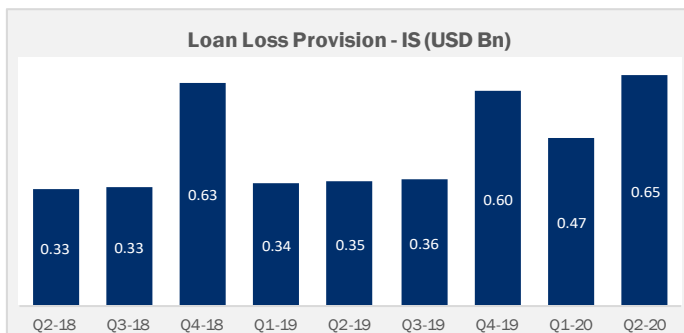
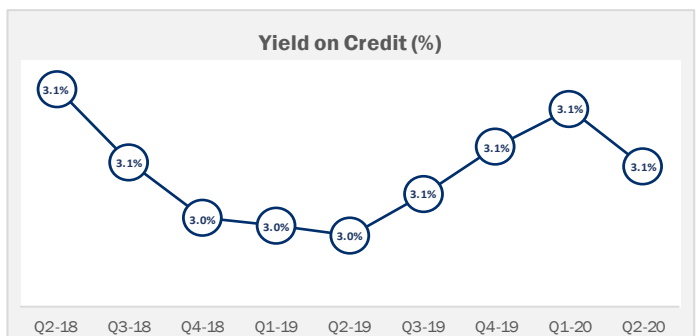
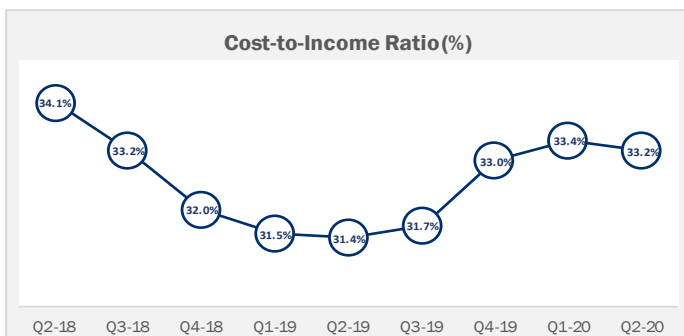
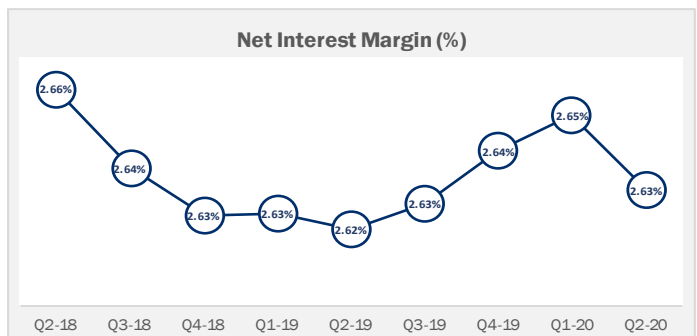
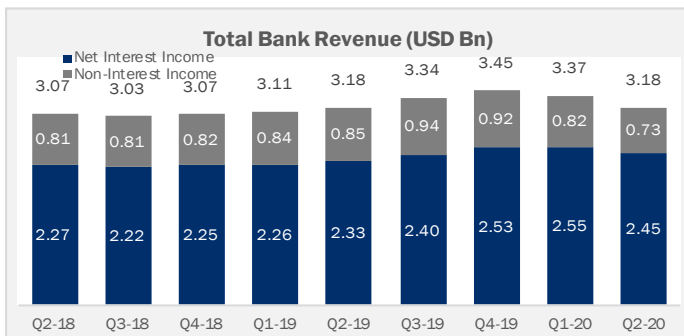
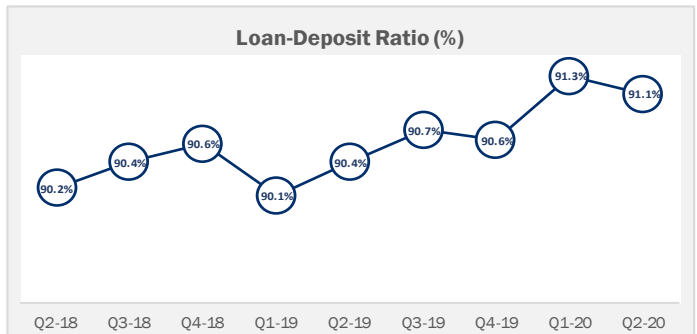
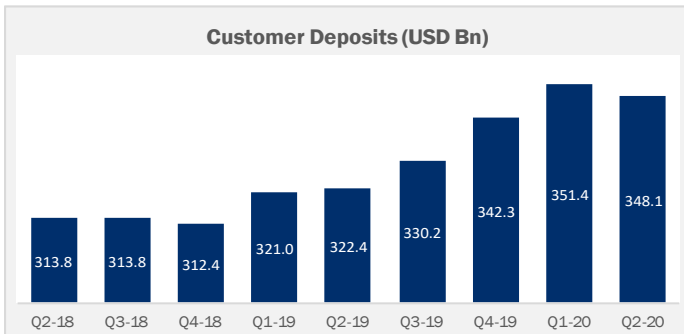
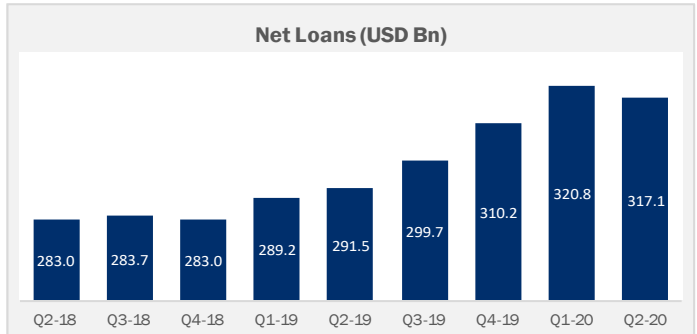
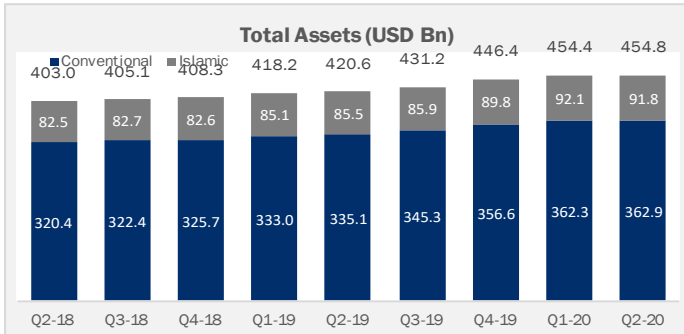
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Key Banking Sector Metrics : UAE



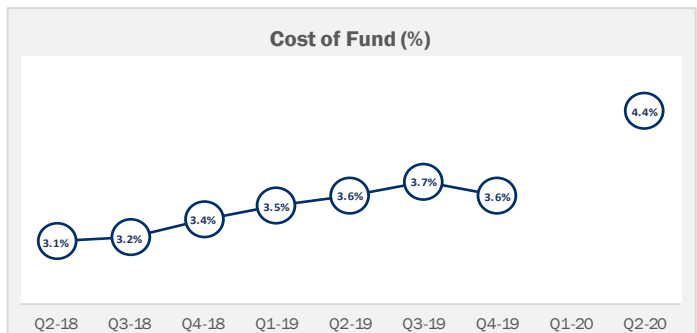
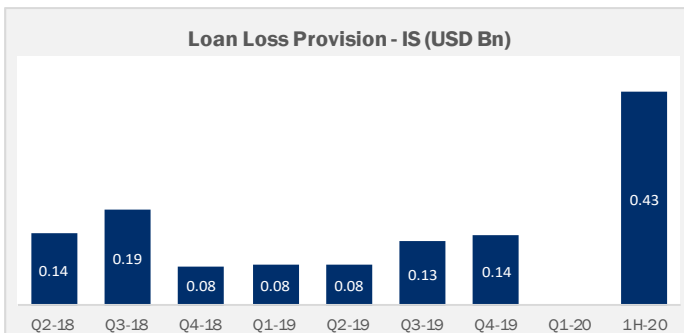
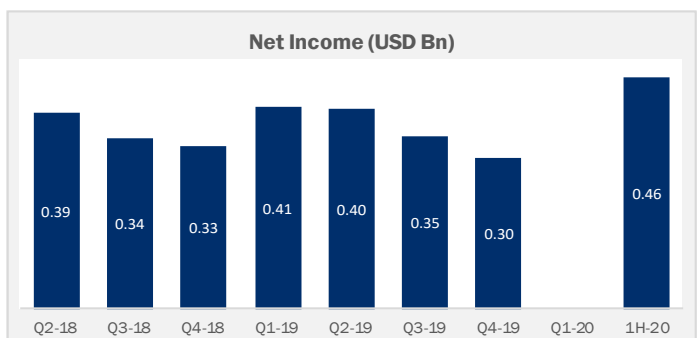
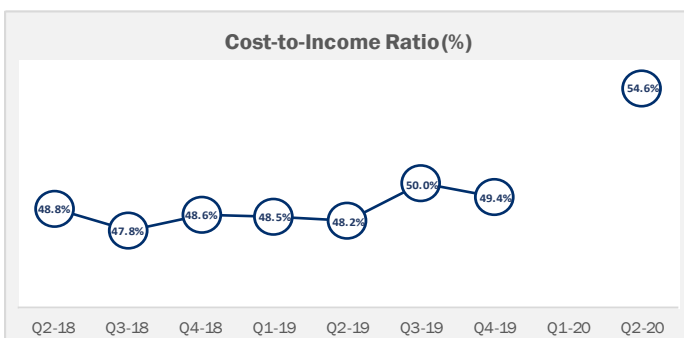
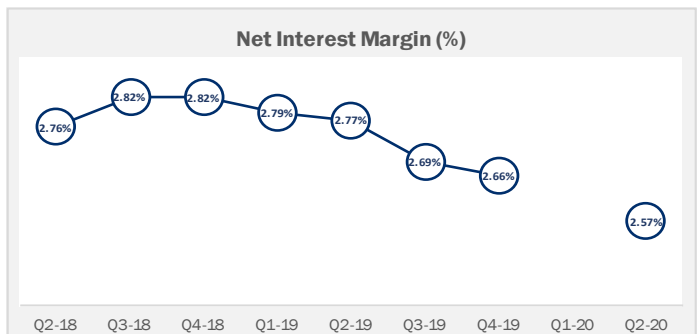
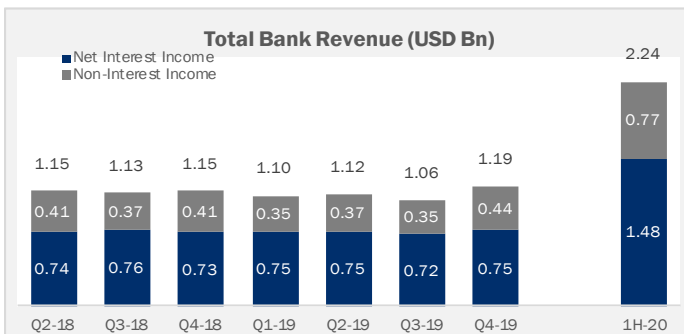
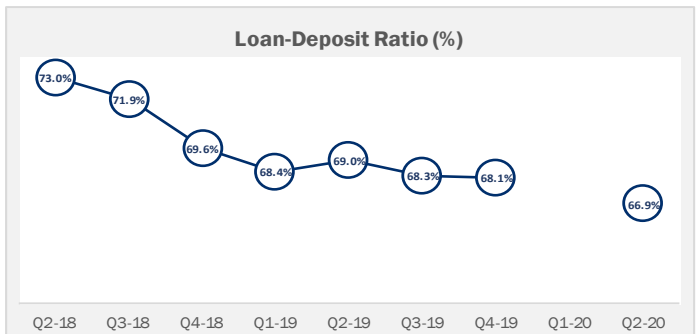
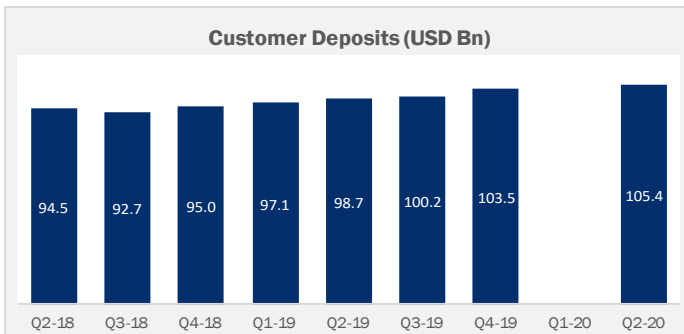
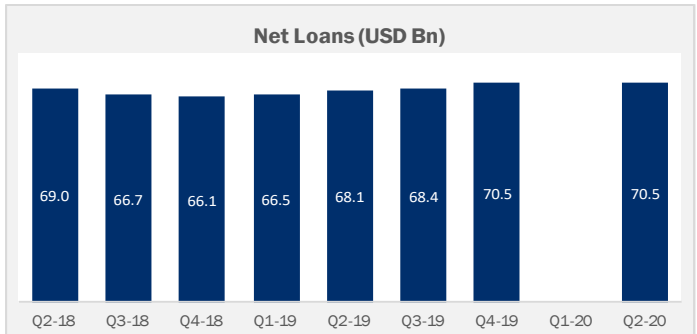
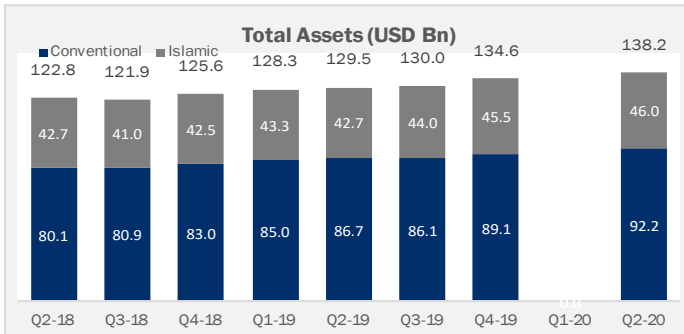
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Key Banking Sector Metrics : Qatar



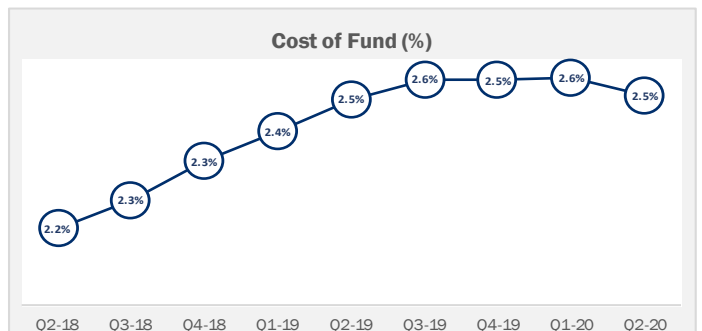
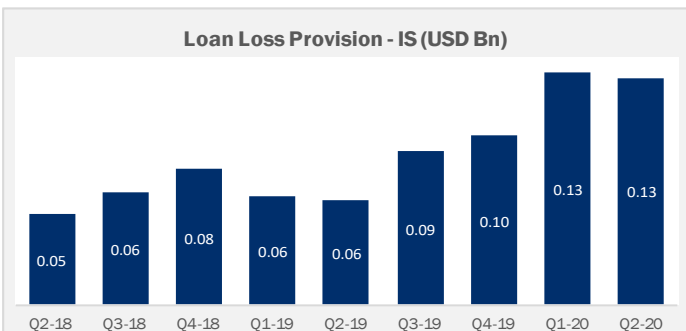
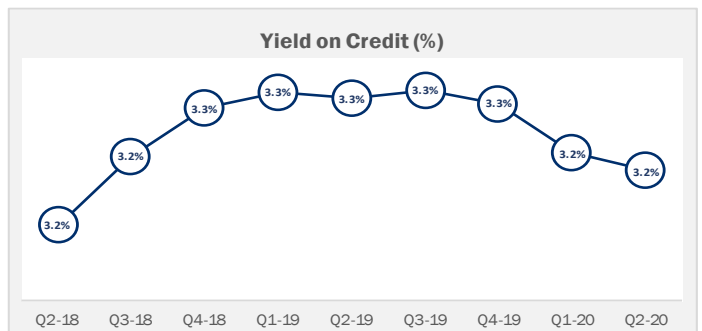
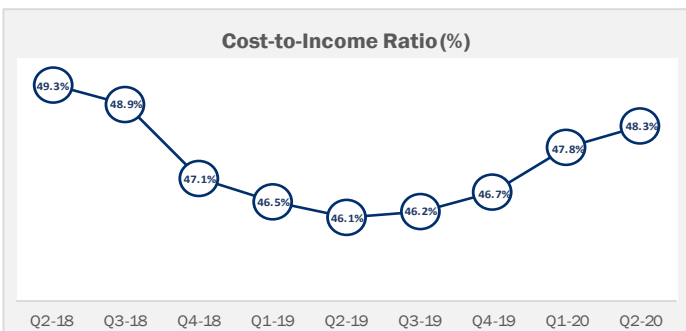
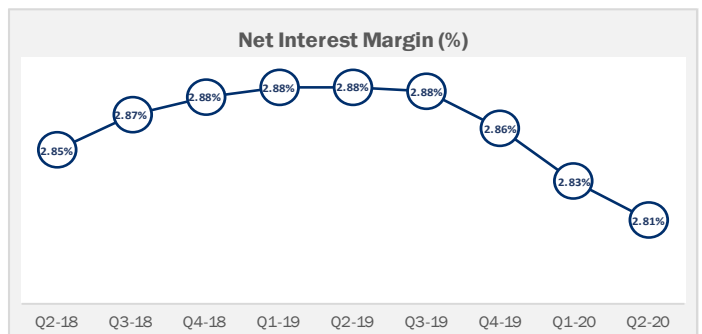
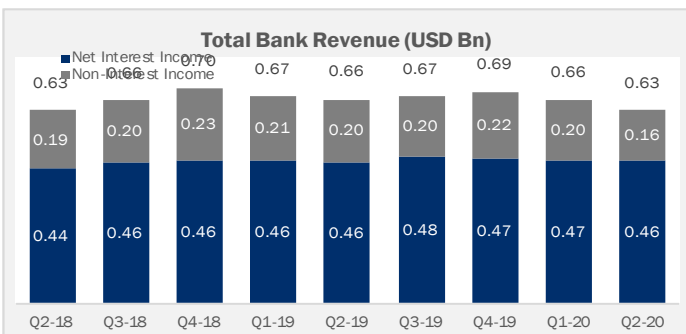
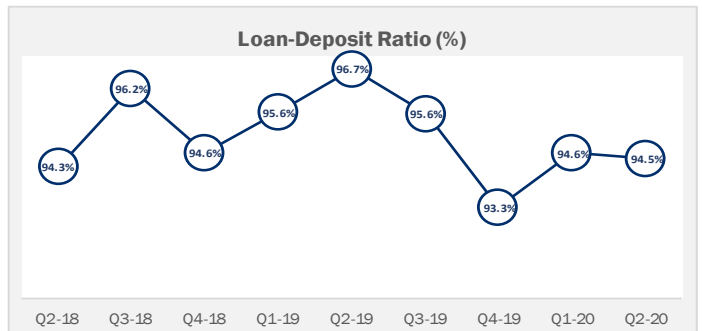
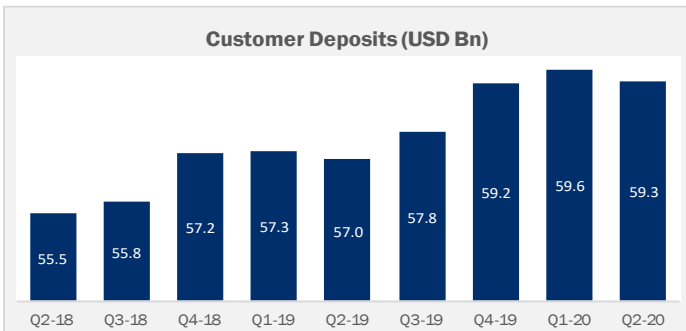
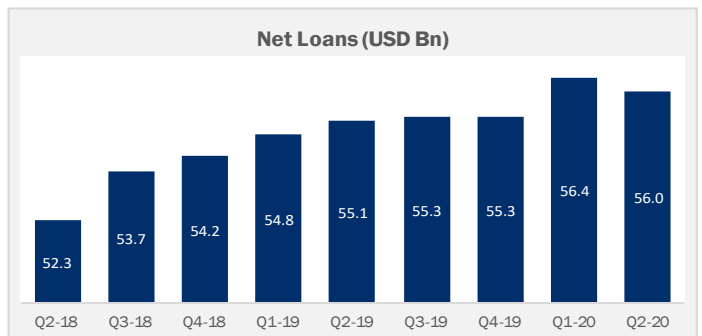
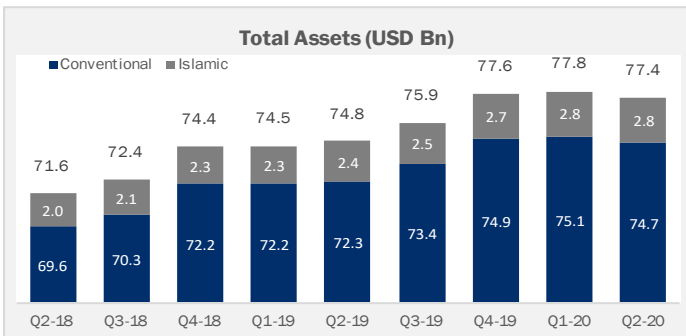
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Bahrain



Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Oman



Source : Reuters, Company Financials, KAMCO Research

GCC Banking Sector : Market Data

Name	Country	M-CAP (USD Bn)	Price (LCL)	P/E (x)	P/BV (x)	Div Ind Yield (%)	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	7.0	0.730	10.1	1.7	6.2	-18.4%	15.4%	15.9%	10.8%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.8	0.624	12.6	2.0	3.6	0.4%	12.6%	10.5%	12.9%
ARAB BANKING CORP	Bahrain	0.9	0.300	4.2	0.2	NA	-36.2%	6.7%	-9.3%	NA
BBK BSC	Bahrain	1.8	0.500	8.7	1.2	11.4	-3.2%	18.7%	12.1%	10.6%
AL-SALAM BANK	Bahrain	0.5	0.074	NA	0.6	5.2	-18.9%	-0.8%	-2.3%	3.9%
ALBARAKA BANKING GROUP	Bahrain	0.3	0.258	NA	NA	7.8	-10.7%	-5.8%	-10.8%	-8.3%
ITHMAAR HOLDING BSC	Bahrain	0.1	0.039	NA	NA	NA	-22.0%	NA	NA	-9.0%
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.037	NA	0.3	NA	-34.5%	-34.3%	-11.5%	-9.3%
NATIONAL BANK OF KUWAIT	Kuwait	19.3	867	21.2	1.9	3.8	-11.1%	15.1%	12.2%	6.1%
KUWAIT FINANCE HOUSE	Kuwait	15.7	630	24.4	2.6	2.9	-11.9%	15.6%	15.2%	6.7%
BOUBAYAN BANK K.S.C	Kuwait	5.7	570	38.1	3.5	1.5	-5.0%	17.4%	15.7%	5.9%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.1	500	NA	1.4	NA	-5.5%	17.7%	7.9%	0.5%
GULF BANK	Kuwait	2.0	214	11.7	1.0	5.1	-25.5%	0.2%	-1.3%	-4.7%
BURGAN BANK	Kuwait	1.7	199	13.1	0.7	6.0	-30.5%	-11.8%	-6.9%	0.4%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	1.7	261	13.3	1.2	5.5	-15.8%	-6.7%	-4.3%	1.9%
AL AHLI BANK OF KUWAIT	Kuwait	0.9	171	NA	0.5	4.1	-30.5%	-14.6%	-9.6%	-6.7%
WARBA BANK KSCP	Kuwait	1.0	200	NA	1.7	NA	-23.6%	-5.1%	1.8%	NA
KUWAIT INTERNATIONAL BANK	Kuwait	0.6	174	75.8	0.8	3.8	-30.8%	-4.2%	0.2%	0.4%
BANKMUSCAT SAOG	Oman	3.3	0.392	7.9	0.7	8.5	4.0%	14.4%	7.5%	3.0%
BANK DHOFAR SAOG	Oman	0.9	0.110	19.6	0.6	2.7	-7.7%	-10.9%	-3.6%	-5.6%
NATIONAL BANK OF OMAN SAOG	Oman	0.8	0.180	10.1	0.7	9.3	7.8%	4.9%	0.9%	3.9%
HSBC BANK OMAN	Oman	0.5	0.094	25.0	0.6	9.3	-15.9%	0.8%	1.1%	-5.7%
SOHAR INTERNATIONAL BANK	Oman	0.7	0.105	8.7	0.8	2.8	1.9%	-3.9%	-2.2%	-1.8%
AHLI BANK	Oman	0.6	0.137	10.2	0.9	7.0	18.7%	5.8%	1.7%	3.5%
BANK NIZWA	Oman	0.4	0.101	12.5	1.0	NA	6.3%	2.8%	9.2%	NA
QATAR NATIONAL BANK	Qatar	46.2	18.36	14.6	2.4	3.3	-8.1%	16.1%	9.6%	14.1%
QATAR ISLAMIC BANK	Qatar	10.4	16.19	13.5	2.3	3.2	9.1%	24.9%	11.9%	13.1%
MASRAF AL RAYAN	Qatar	8.6	4.19	14.3	2.4	5.4	12.2%	8.9%	4.5%	15.3%
COMMERCIAL BANK PQSC	Qatar	4.5	4.10	9.4	0.9	4.9	-8.2%	15.6%	-1.2%	3.6%
QATAR INTERNATIONAL ISLAMIC	Qatar	3.5	8.56	14.7	2.2	5.0	-6.7%	23.6%	9.0%	13.0%
AL AHLI BANK	Qatar	2.1	3.23	12.9	1.3	4.4	1.1%	12.9%	0.4%	9.9%
DOHA BANK QSC	Qatar	2.0	2.41	14.3	0.8	NA	-4.7%	-2.5%	-8.5%	1.7%
AL KHALIJ COMMERCIAL BANK	Qatar	1.6	1.63	9.8	1.0	4.6	31.6%	17.6%	1.1%	5.4%
AL RAJHI BANK	Saudi Arabia	43.9	65.80	16.8	3.2	4.6	3.4%	19.7%	18.2%	6.1%
NATIONAL COMMERCIAL BANK	Saudi Arabia	30.0	37.55	10.9	1.8	NA	-21.1%	6.0%	4.3%	NA
RIYAD BANK	Saudi Arabia	15.0	18.80	11.0	1.4	5.9	-18.8%	23.6%	10.5%	6.6%
SAMBA FINANCIAL GROUP	Saudi Arabia	14.7	27.65	12.8	1.2	5.1	-11.8%	9.3%	8.3%	3.4%
SAUDI BRITISH BANK	Saudi Arabia	15.1	27.50	NA	1.2	4.4	-18.4%	6.2%	2.4%	4.1%
BANQUE SAUDI FRANSI	Saudi Arabia	10.6	33.00	15.8	1.2	6.1	-9.9%	6.0%	5.0%	4.4%
ALINMA BANK	Saudi Arabia	8.3	15.50	14.2	1.3	NA	-18.5%	9.8%	5.0%	7.7%
ARAB NATIONAL BANK	Saudi Arabia	8.4	21.00	12.7	1.1	4.8	-21.3%	13.0%	5.6%	5.1%
BANK ALBILAD	Saudi Arabia	4.9	24.32	14.6	1.9	4.1	-7.6%	19.0%	7.8%	12.8%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	3.1	15.30	19.5	0.8	NA	-15.2%	1.9%	-0.1%	3.2%
BANK AL-JAZIRA	Saudi Arabia	2.8	12.96	12.6	0.9	4.6	-11.5%	7.6%	-0.7%	4.5%
FIRST ABU DHABI BANK PJSC	UAE	34.1	11.46	11.9	1.4	6.5	-20.2%	9.2%	7.4%	11.9%
EMIRATES NBD PJSC	UAE	19.3	11.20	6.4	1.0	3.6	-9.2%	16.1%	10.8%	19.6%
EMIRATES ISLAMIC BANK	UAE	11.6	7.83	104.7	5.1	NA	-21.6%	9.3%	NA	NA
ABU DHABI COMMERCIAL BANK	UAE	10.7	5.65	10.7	0.8	6.7	-23.6%	-2.6%	-1.0%	17.5%
DUBAI ISLAMIC BANK	UAE	8.2	4.15	7.2	1.1	8.5	-17.7%	-1.0%	1.4%	16.4%
ABU DHABI ISLAMIC BANK	UAE	4.0	4.04	8.8	1.1	6.8	-18.9%	12.9%	5.7%	14.0%
MASHREQBANK	UAE	3.2	66.90	8.6	0.6	6.0	0.5%	1.7%	-5.2%	NA
COMMERCIAL BANK OF DUBAI	UAE	2.7	3.60	8.2	1.0	5.8	-5.5%	1.2%	-6.7%	11.3%
NATIONAL BANK OF FUJAIRAH	UAE	2.6	4.98	52.8	1.9	2.0	6.0%	30.4%	11.4%	NA
INVEST BANK	UAE	0.4	0.43	NA	1.1	NA	-52.7%	-44.4%	-31.1%	-6.7%
NATIONAL BANK OF RAS AL-KHAI	UAE	1.6	3.58	7.1	0.8	8.4	-18.7%	-2.1%	-6.0%	8.9%
NATIONAL BANK OF UMM AL QAIW	UAE	1.0	2.00	11.7	0.8	5.5	11.2%	-8.3%	-3.8%	5.7%
SHARJAH ISLAMIC BANK	UAE	1.0	1.19	7.4	0.6	4.0	5.7%	2.9%	2.5%	10.4%
UNITED ARAB BANK PJSC	UAE	0.5	0.89	NA	1.0	NA	-10.5%	-10.0%	-28.3%	NA
BANK OF SHARJAH	UAE	0.3	0.53	NA	0.4	NA	-35.8%	-23.8%	-17.9%	-7.1%
AJMAN BANK PJSC	UAE	0.4	0.70	39.6	0.6	NA	-25.3%	-13.6%	-13.7%	0.6%
COMMERCIAL BANK INTERNATIONA	UAE	0.3	0.68	11.5	0.6	NA	-29.4%	-13.8%	-14.7%	NA

Source : Bloomberg

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