

GCC Banking Sector Report - Q3-2020

November-2020

GCC banking sector NIM declines on low interest rates...

Aggregate net interest margins (NIM) for the GCC banking sector continued to slide during Q3-2020 reaching one of the lowest recorded quarterly levels at 2.98%. The decline was led by low interest rates in the region and globally coupled with a consistent growth in net loans for the GCC banking sector. NIM declined in all the GCC markets during the quarter, barring Bahrain, where data is inconsistent as Q1-2020 financials have not been released by Bahraini banks. The blended cost of fund for the region stood at 1.9% at the end of Q3-2020 vs. 2.5% in Q3-19, highlighting the rate cuts implemented during 1H-2020.

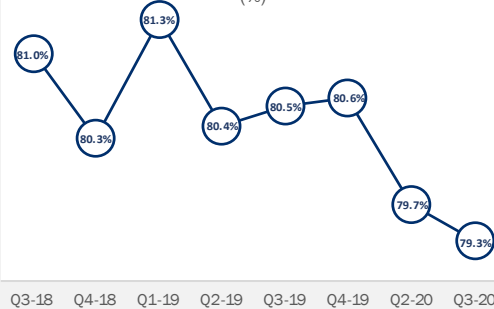
Net profit for the sector bottomed in Q2-2020 and witnessed a strong revival in Q3-2020 growing by 56.5% q-o-q to USD 7.5 Bn, although it continues to remain well below pre-covid levels. The growth was mainly led by a fall in provisions during the quarter as well as savings on cost of fund. An increase in non-interest income also contributed to the growth in quarterly profits.

In terms of balance sheet, GCC banks continued to show resilient asset growth during Q3-2020 with a sequential growth of 2.2% to reach a new record high of USD 2.53 Trillion as compared to USD 2.47 Trillion at the end Q2-2020. In terms of y-o-y growth, total assets increased by 9.9% during Q3-2020. Listed banks in UAE reported the biggest q-o-q increase in assets during Q3-2020 with a growth of 3.2% followed by banks in Saudi Arabia and Kuwait at 2.0% and 1.9%, respectively. Asset growth was positive across the board both in terms of q-o-q and y-o-y changes.

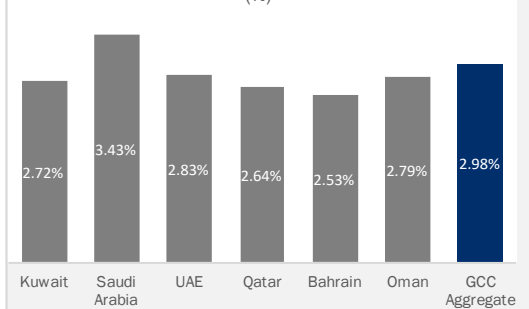
Asset growth during the quarter was once again supported mainly by Islamic banks that grew assets at 2.6% q-o-q during Q3-2020 as compared to 2.1% for conventional banks. In terms of y-o-y growth, Islamic banks once again showed higher asset growth of 13.8% as compared to 8.7% growth for conventional banks. Meanwhile, Q3-2020 growth in earning assets were slightly below the growth in total assets at 1.4% to reach USD 2.09 Trillion at the end of Q3-2020 as compared to USD 2.06 Trillion at the end of Q2-2020.

Banks reported continued growth in lending with both gross loans and net loans showing sequential growth during Q3-2020. Gross loans (excluding Kuwaiti banks) increased by 1.7% q-o-q during Q3-2020 to reach USD 1.41 Trillion. Net loans (including Kuwaiti banks) also increased by 1.7% q-o-q to reach USD 1.52 Trillion as of 30-Sep-2020.

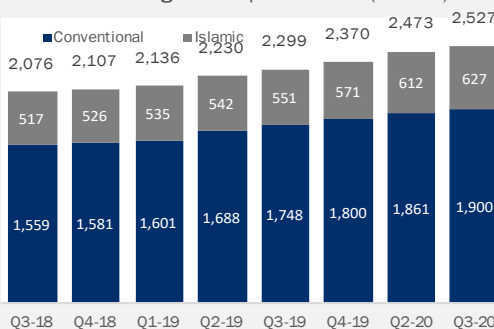
GCC Banking Sector | Loan-to-Deposit Ratio (%)



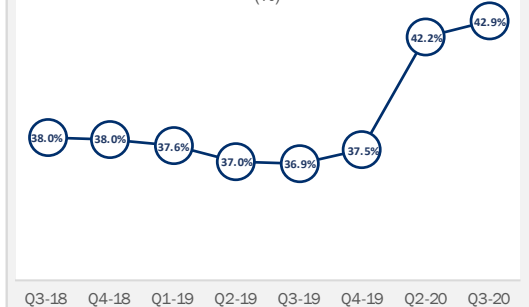
GCC Banking Sector | Net Interest Margin (%)



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 61 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 this report, data for individual banks have been aggregated at the country level. Some of the key observations from the most recent financial quarter for the GCC Banking Sector includes the following:

Provisions decline in Q3-2020 but remain elevated...

Loan loss provisions (LLP) declined during Q3-2020 from the record high levels of Q2-2020 to reach USD 4.4 Bn as compared to USD 5.0 Bn during Q2-2020. However, despite the decline, the overall level of provisions booked during Q3-2020 was higher as compared to historical levels and the second highest in our data for the last 17 quarters. The sector has taken total provisions of USD 13.7 Bn during 9M-2020, more than double than the USD 8.3 Bn provisions recorded during 9M-2019. Aggregate quarterly provisions declined for all the GCC countries barring Qatar that reported a q-o-q increase of 7.7% during Q3-2020. Within Qatar, five out of eight banks reported a sequential increase in LLP during Q3-2020. The USD 61.7 Mn increase in provisions for Commercial Bank of Qatar was the biggest for Qatari banks, which more than offset a USD 43.0 Mn decline in provisions for QNB during Q3-2020.

Saudi Arabian banks booked the biggest q-o-q decline in provisions during Q3-2020 with a fall of USD 226.4 Mn or 21.3%. In terms of y-o-y trends, the aggregate increase in provisions stood at 50% that was led by double digit growth in provisions recorded by banks in all the GCC countries.

Topline recovers from Covid-19 impact in Q3-2020...

Total bank revenue for listed banks in the GCC (excluding Bahraini Banks) reached USD 19.6 Bn during Q3-2020 as compared to USD 18.8 Bn during Q2-2020, a q-o-q increase of 4.1%. However, in terms of y-o-y performance, total bank revenue declined by 5.8%. In terms of country comparison, banks in all the GCC countries (excluding Bahrain) reported a q-o-q increase in revenues during Q3-2020 except for UAE-based banks that reported a decline of 1.1%. Kuwaiti banks reported the biggest increase in quarterly revenues with a growth of 11.6% to reach total quarterly revenues of USD 2.3 Bn followed by Saudi Arabian and Qatari banks with revenue growth of 6.4% and 5.8%, respectively.

The increase in aggregate revenues for the GCC banking sector came mainly on the back of higher non-interest income during Q3-2020, whereas growth in interest income was marginal during the quarter. Aggregate non-interest income (excluding Bahrain) increased by 14.6% q-o-q during Q3-2020 to reach USD 5.7 Bn as compared to USD 5.0 Bn during Q2-2020. The increase was led by double digit growth reported by banks in Kuwait, Saudi Arabia and UAE that was partially offset by 5.3% decline in non-interest income for Omani banks. Banks in Qatar reported a quarterly growth of 5.0% in non-interest income.

On the other hand, the q-o-q growth in net interest income (NII) was relatively marginal at 0.4% after the increase in interest income in Kuwait, Saudi Arabia Qatar and Oman was partially offset by a decline of 6.7% reported by UAE-based banks. Qatari banks reported the biggest percentage increase in net interest income at 6.1% followed by Kuwaiti and Omani banks with q-o-q growth rates of 4.6% and 3.9%, respectively. Saudi Arabian banks reported a net interest income growth of 2.0% with eight out of eleven banks showing growth during the quarter.

Profitability facing pressure on three fronts...

Net profit for the GCC banking sector recovered during Q3-2020 but remained well below historical levels. Banks in Saudi Arabia and Kuwait witnessed the biggest quarterly growth in net profits followed by Omani and Qatari banks. The q-o-q growth in profits came as a result of decline in provisions during the quarter coupled with higher non-interest income.

We see three key factors that is affecting the profitability of the banking sector in the GCC. Firstly, the sector entered the pandemic with elevated levels of lending capacity with one of the lowest loan-to-deposit ratios in the world. Moreover, project market activity were subdued due to the fall in oil prices that led to governments prioritizing only critical projects. Secondly, the expected increase in participation from private sectors, which would have supported bank lending, hit a road block due to the pandemic. The lockdowns that followed further affected interest earnings as well as resulted in higher provisions. And lastly, the rate cuts implemented across the globe to provide an economic stimulus, affected interest earnings for the banking sector.

NIM continues to slide to reach one of the lowest on record...

The marginal growth in net interest income failed to have a positive impact on aggregate net interest margins (NIM) during Q3-2020 as it declined to one of the lowest levels over the last few quarters. Aggregate NIM for the GCC banking sector contracted to 2.98% in Q3-2020 as compared to 3.07% in Q2-2020 mainly led by a relatively higher growth in earning assets during the quarter. NIM has seen marginal but consistent declines over the last eight quarters and went below the 3.0% mark for the first time in Q3-2020. NIM contracted across the board in the GCC, except in Qatar that saw a marginal increase of 10 bps. NIM was once again highest in the case of Saudi Arabian banks at 3.43% during Q3-2020, a decline from 3.54% in Q2-2020. UAE banks were next with a NIM of 2.83% followed by 2.79% in the case of Omani banks. Bahraini and Qatari banks reported the lowest NIMs during the quarter at 2.53% and 2.64%, respectively.

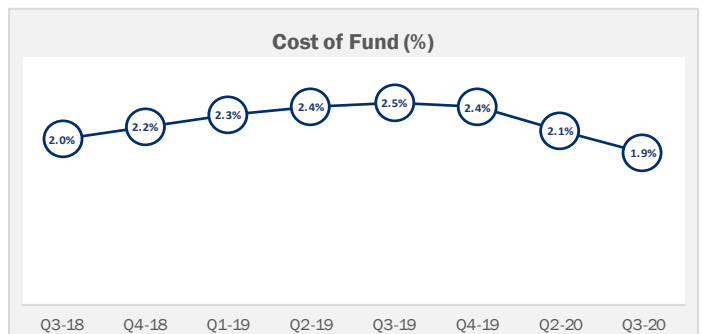
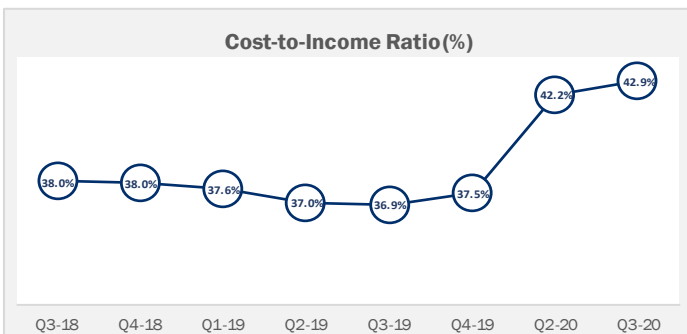
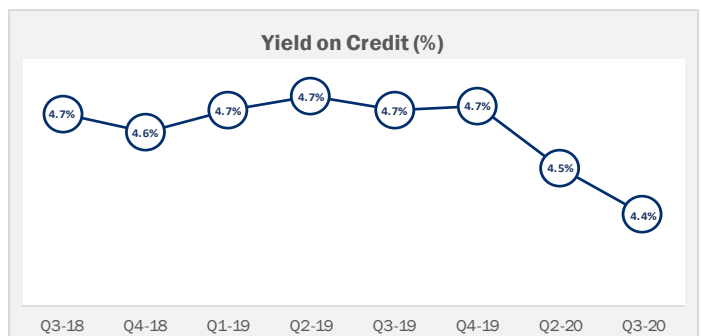
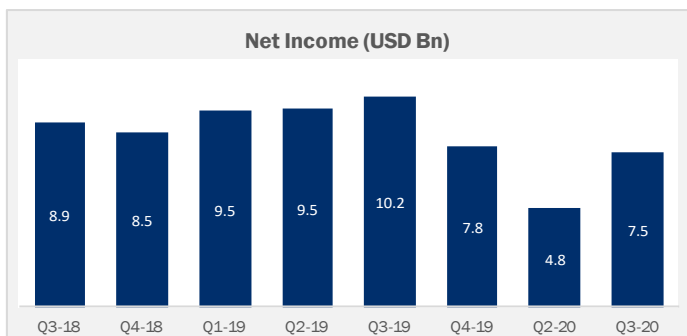
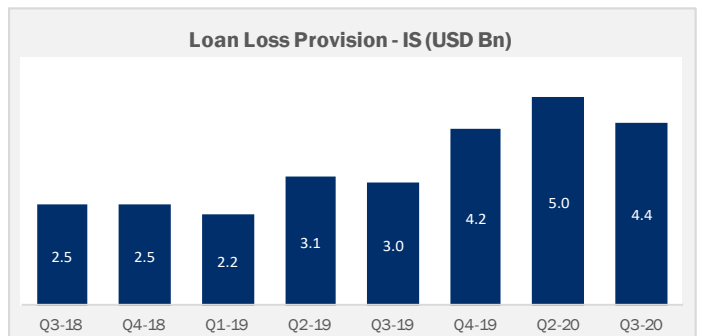
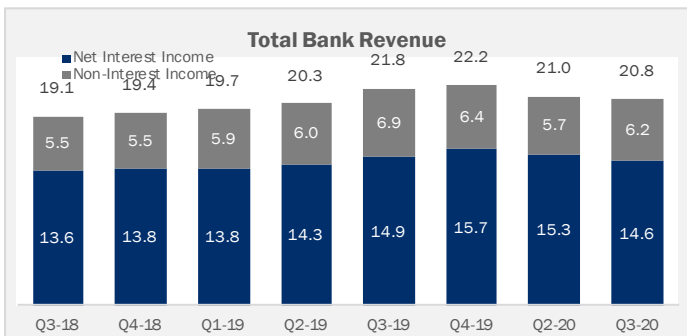
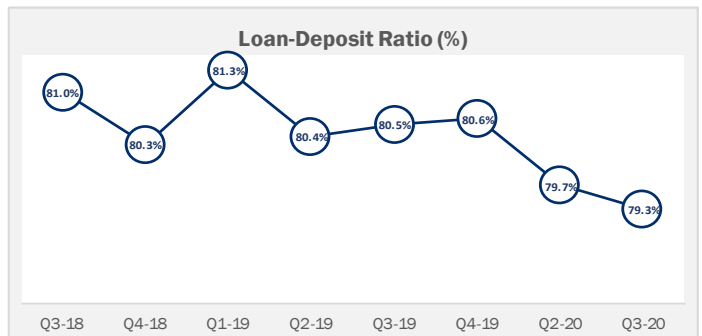
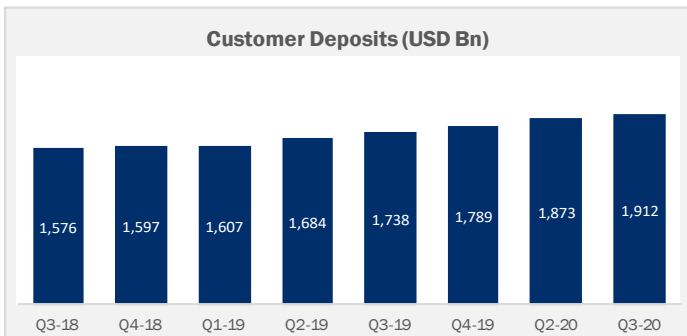
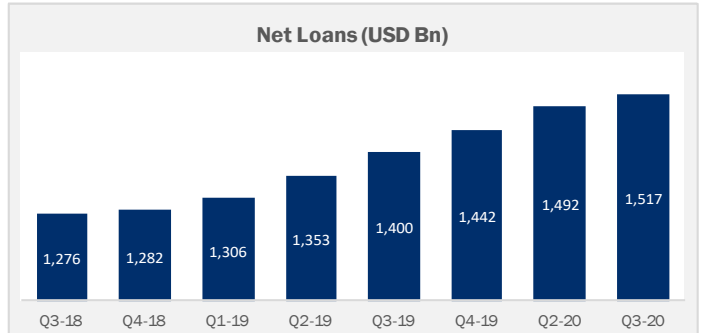
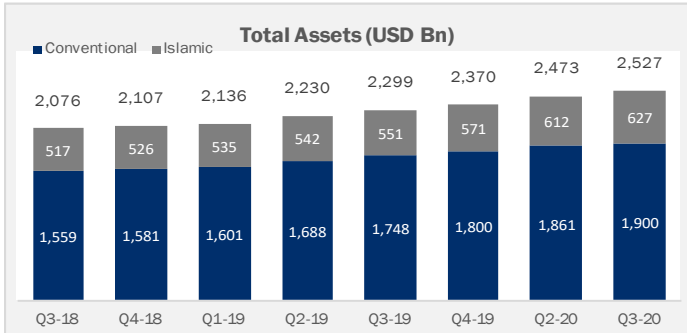
Loan-to-deposit below 80% for the second consecutive quarter...

Aggregate net loan growth during Q3-2020 stood at 1.7% q-o-q for the GCC banking sector to reach USD 1.52 Trillion led by a broad-based growth seen in all the markets in the GCC. The growth since the start of the year was 5.1%, almost in line with the growth in gross loans. Saudi Arabian banks reported the biggest q-o-q growth in net loans for the second consecutive quarter with growth of 2.9% followed by Qatari and Kuwaiti banks with growth rates of 2.1% and 1.6%, respectively.

The trend in customer deposits was also largely positive across the GCC during Q3-2020. The aggregate for the sector increased by 2.1% q-o-q to reach USD 1.91 Trillion. Banks in UAE once again reported the biggest q-o-q growth in customer deposits at 3.7% to reach USD 595 Bn. Kuwait and Oman were next with growth rates of 2.2% and 1.4%, respectively, while Qatar and Saudi Arabian banks reported growth of rates of 1.2%.

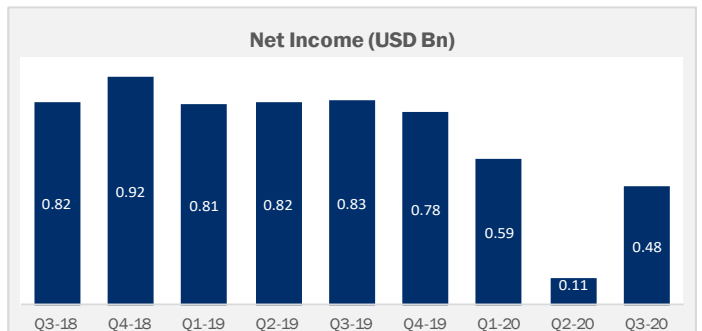
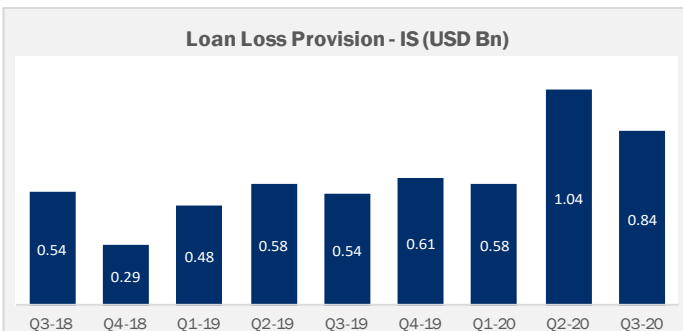
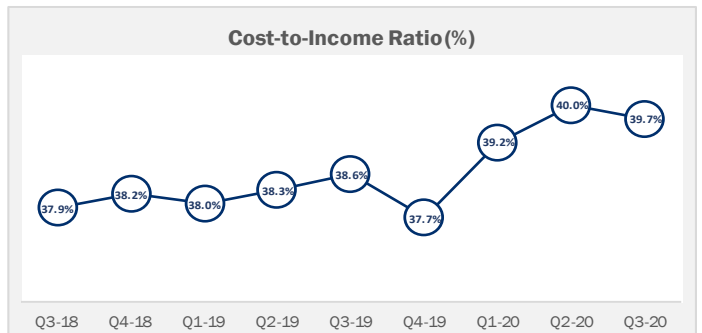
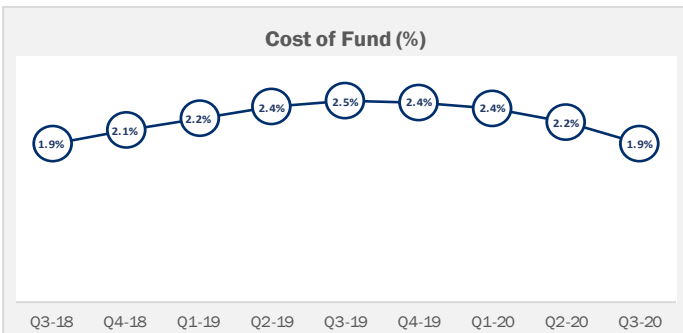
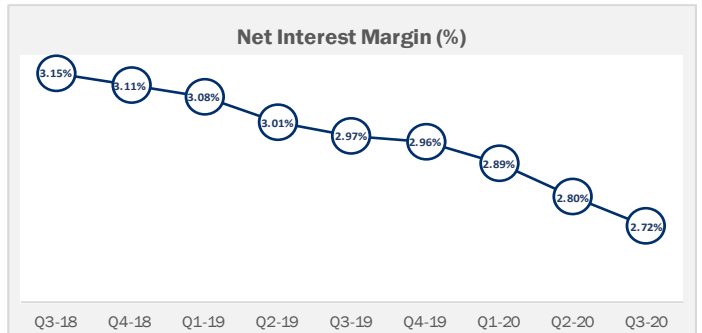
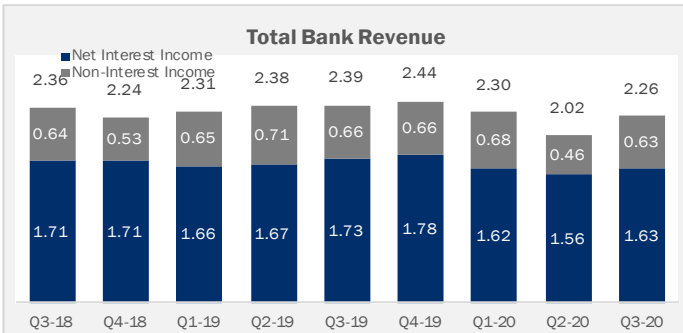
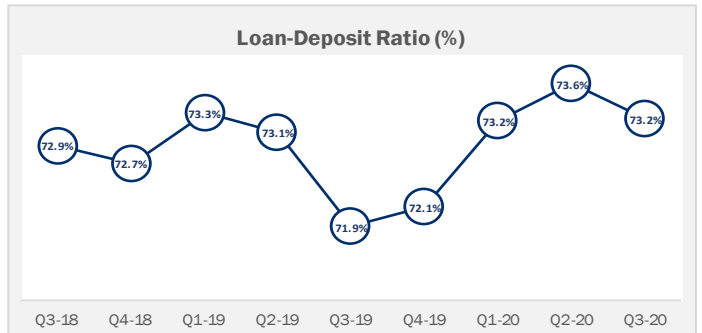
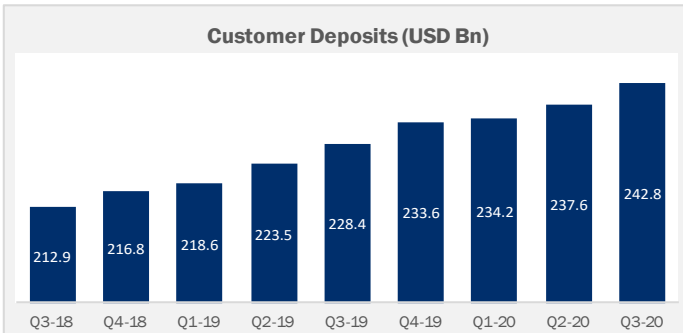
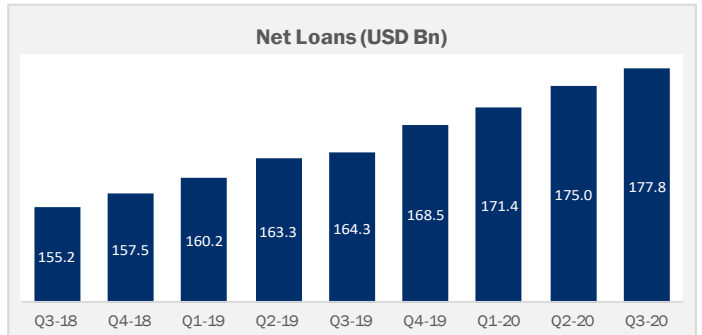
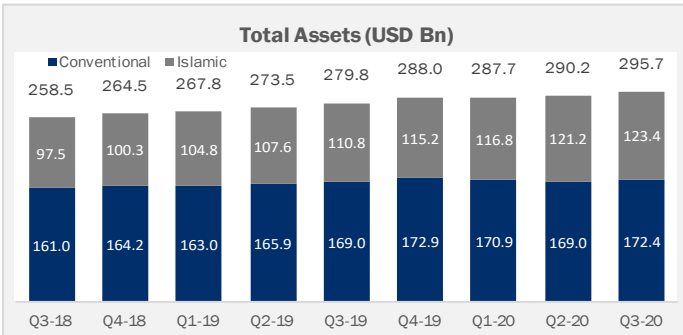
The aggregate loan-to-deposit ratio for the GCC banking sector reached one of the lowest levels on record during Q3-2020. The key banking indicator that highlights utilization rates of customer deposits and credit uptake in the economy reached further below the 80.0% mark at 79.3% during Q3-2020, one of the lowest in the world. The ratio improved only in the case of Saudi Arabia, Qatar and Bahrain, whereas UAE, Oman and Kuwaiti banks reported declines. UAE banks reported the biggest decline in loan-to-deposit ratio of around 240 bps to reach 74.8%, the third lowest in the GCC after Bahrain and Kuwait, and one of the lowest levels ever recorded for UAE-based banks. The decline indicates lack of new loans disbursed in line with the growth in deposits and is expected to reflect in future profitability. Saudi Arabian banks reported the biggest recovery in loan-to-deposit ratio with a growth of 130 bps to reach 79.7%. Bahraini banks once again reported the lowest loan-to-deposit ratio of 67.0% during Q3-2020. Despite reporting a decline, Omani banks continued to report the highest ratios in the GCC at 93.1% followed by Qatari banks at 91.9%.

Key Banking Sector Metrics : GCC



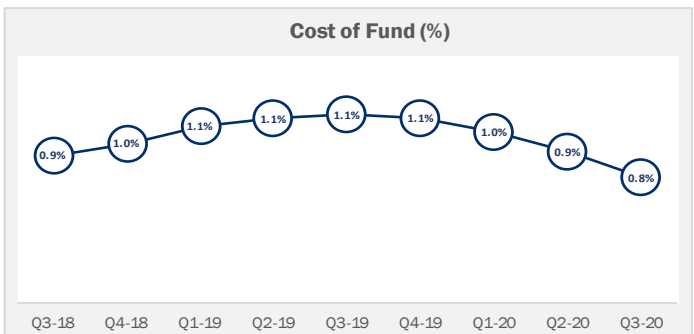
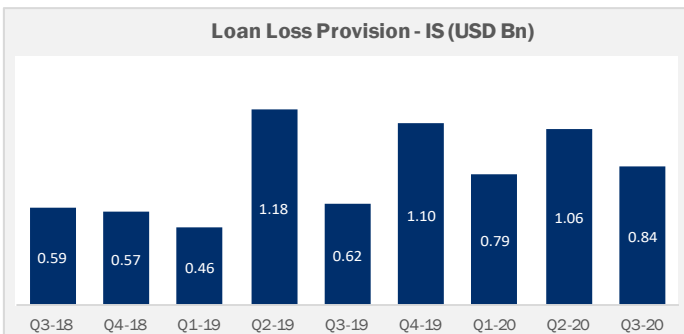
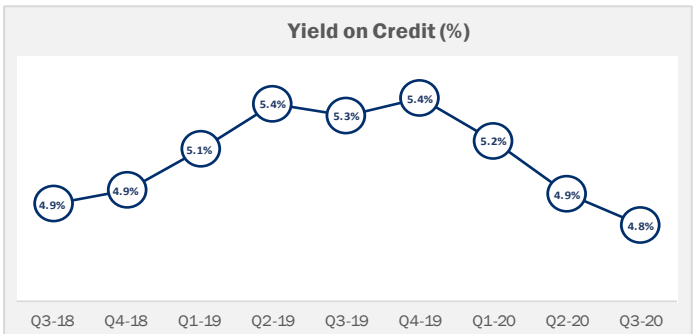
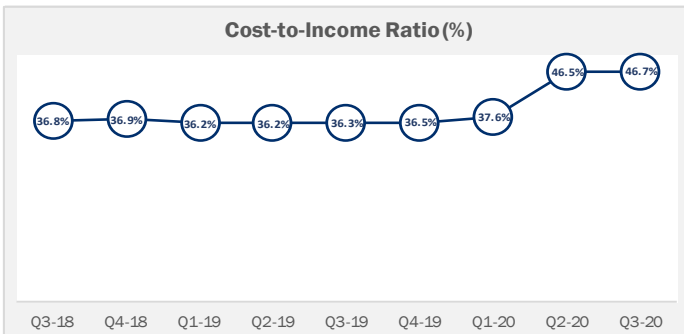
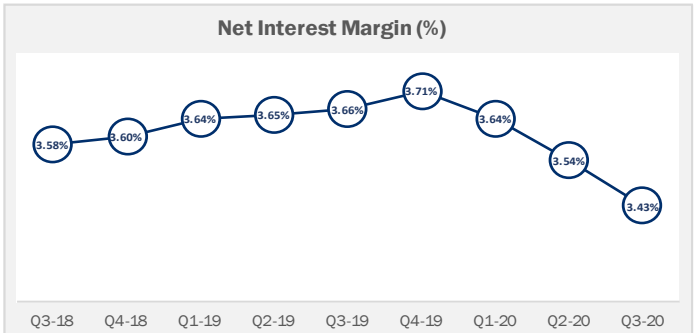
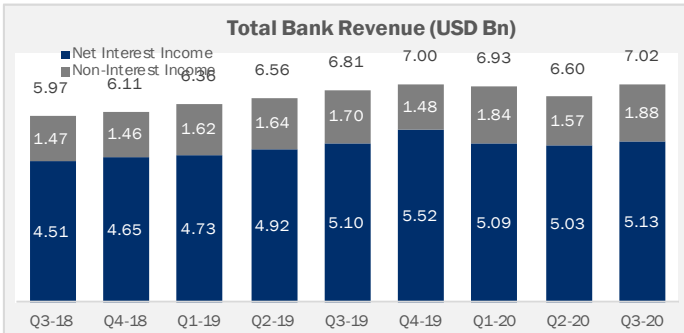
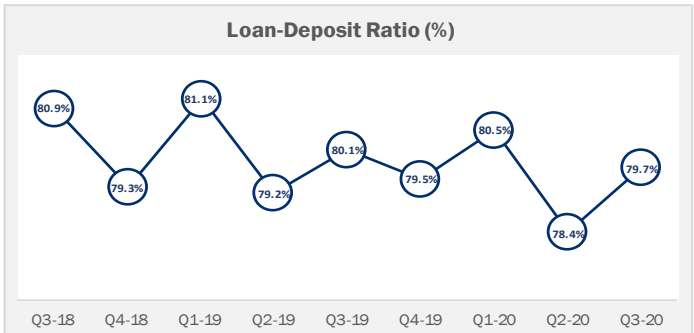
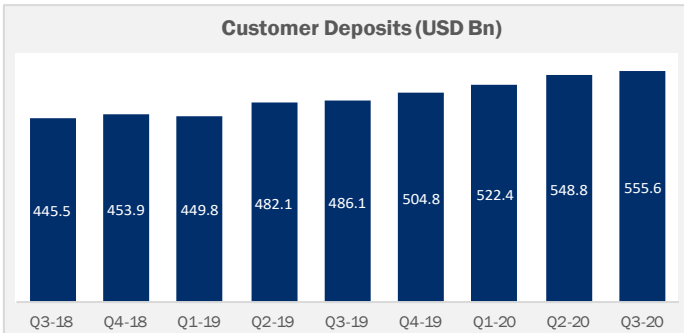
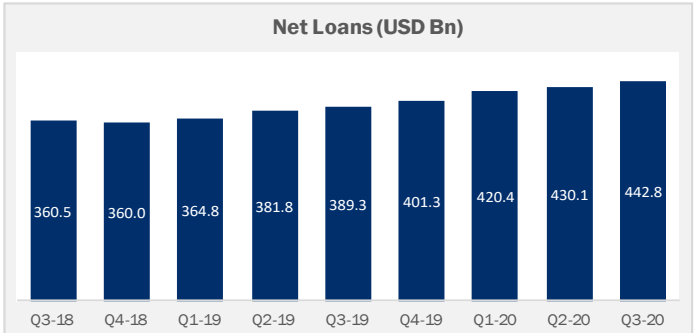
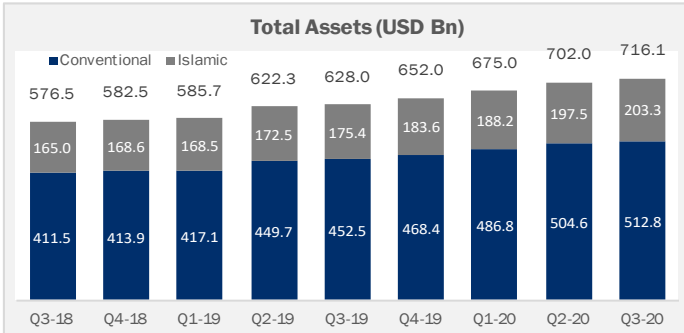
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Kuwait



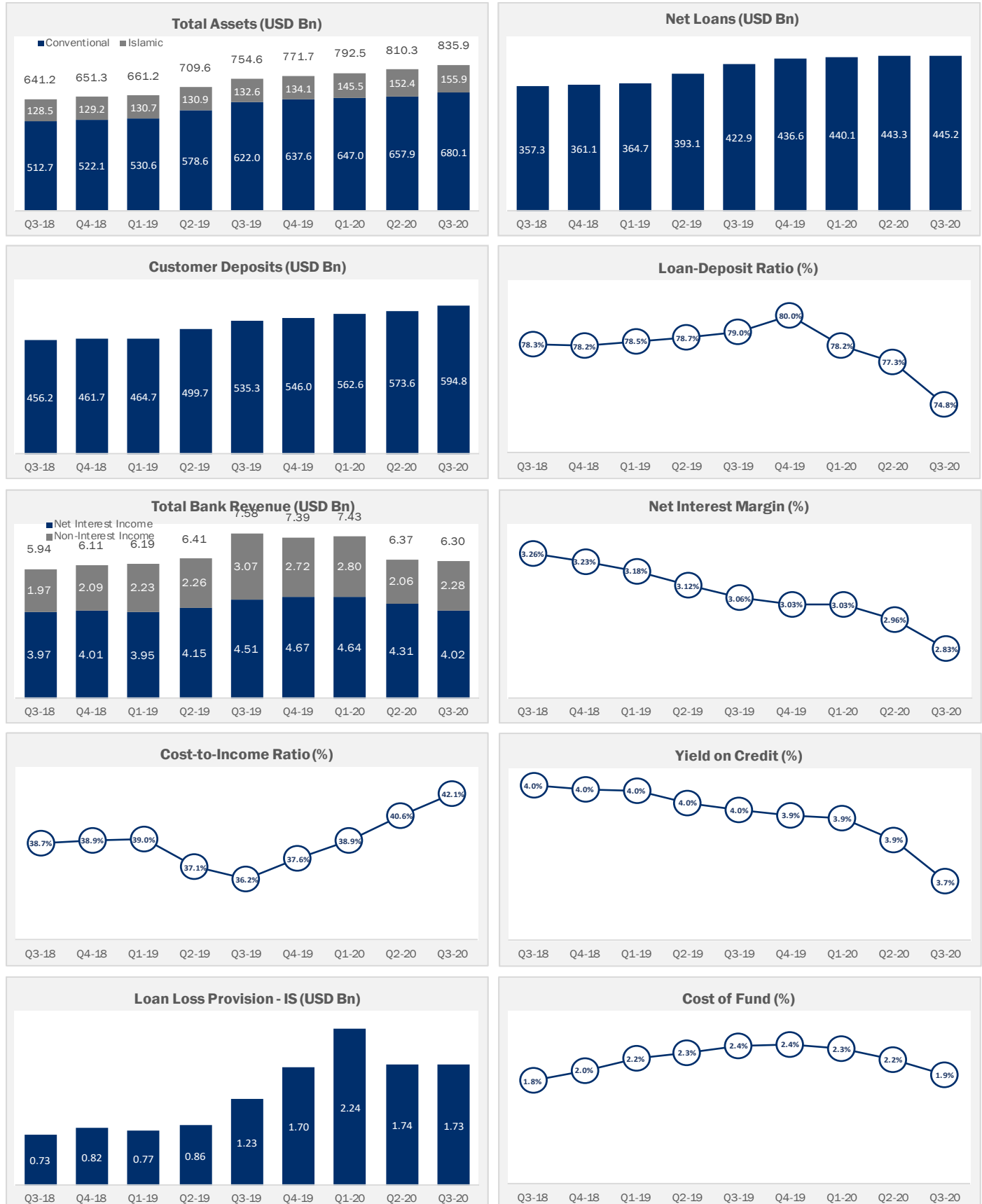
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Key Banking Sector Metrics : Saudi Arabia



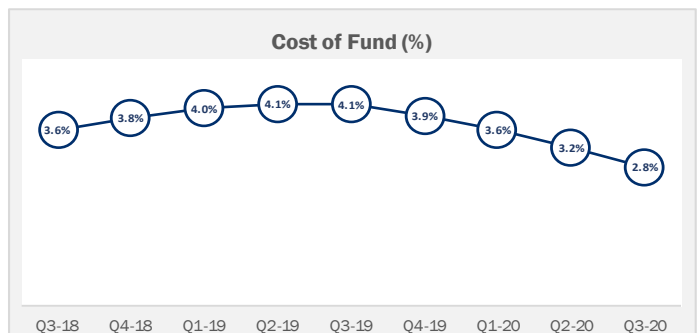
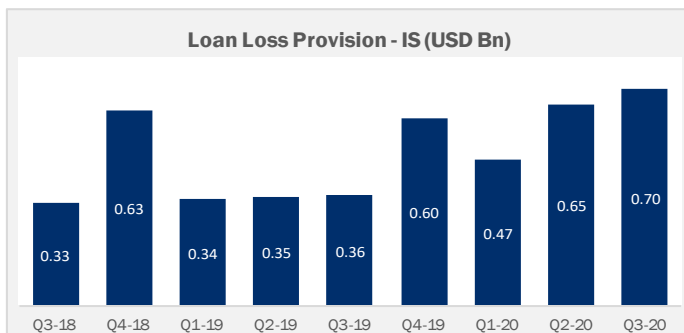
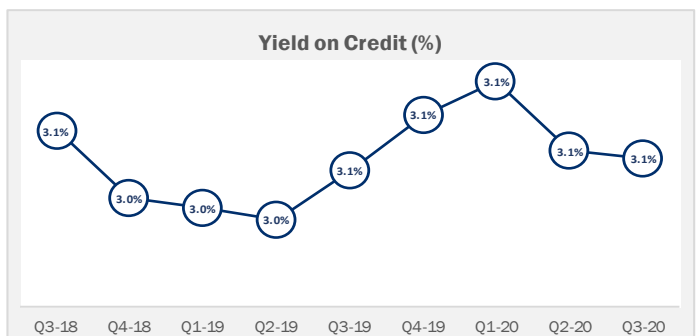
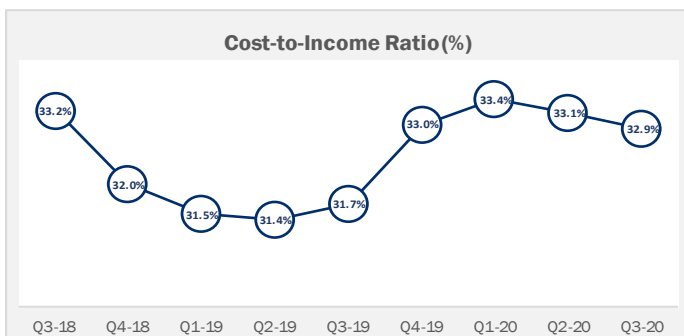
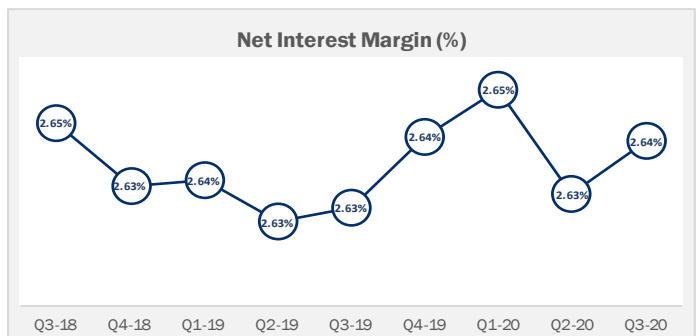
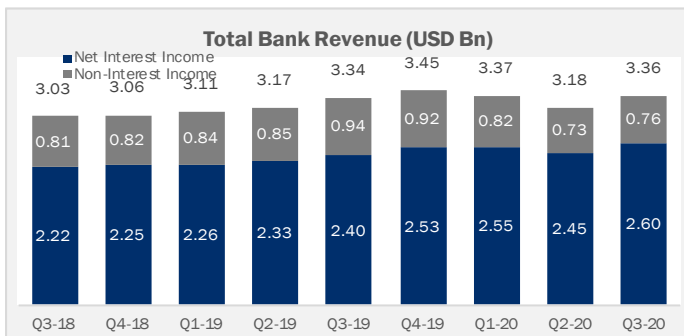
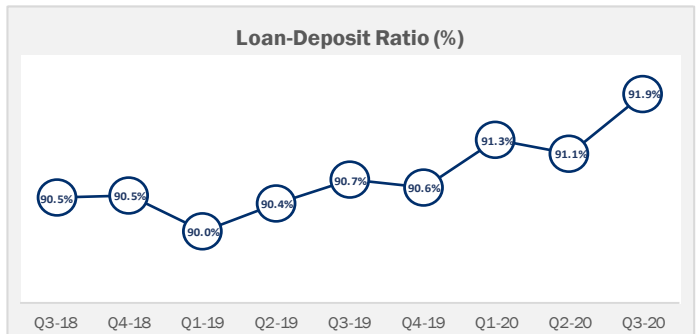
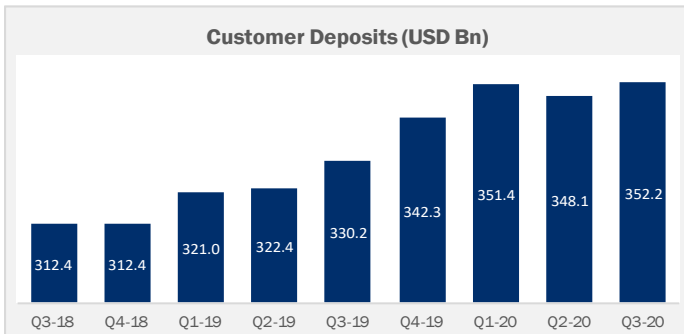
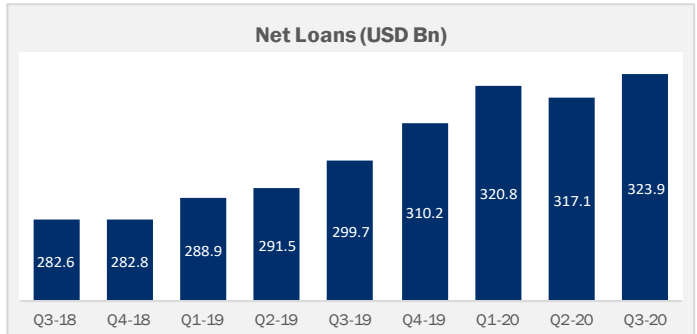
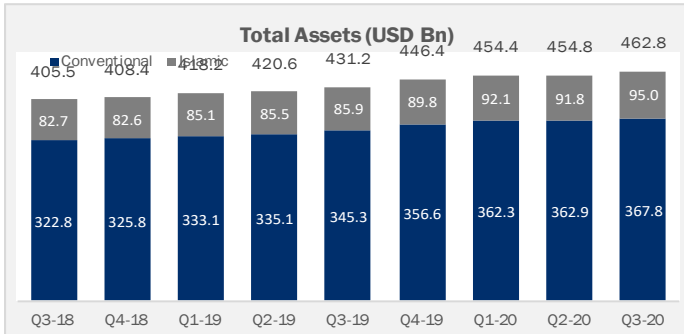
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : UAE



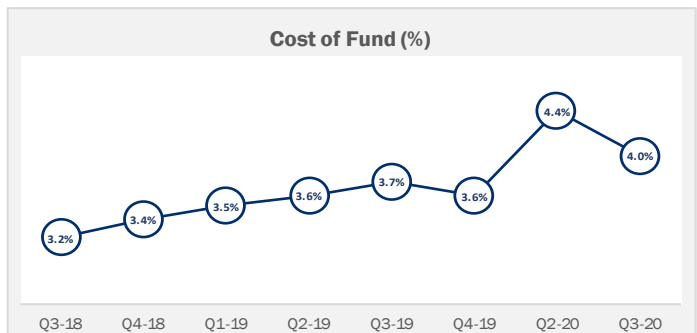
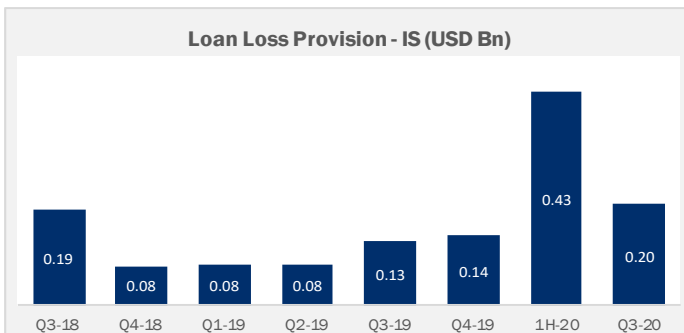
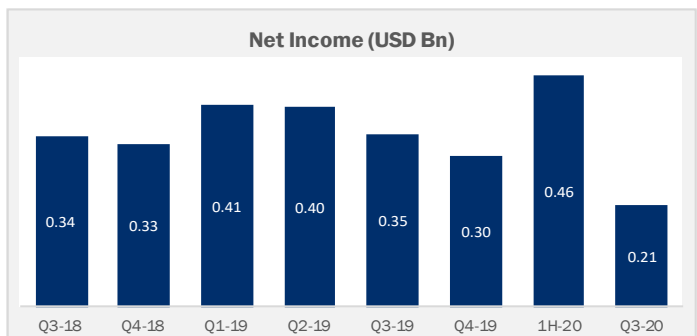
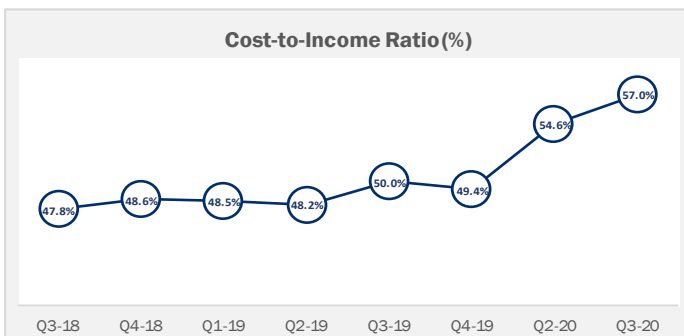
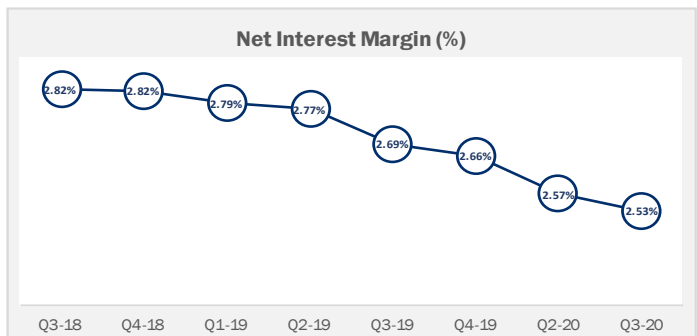
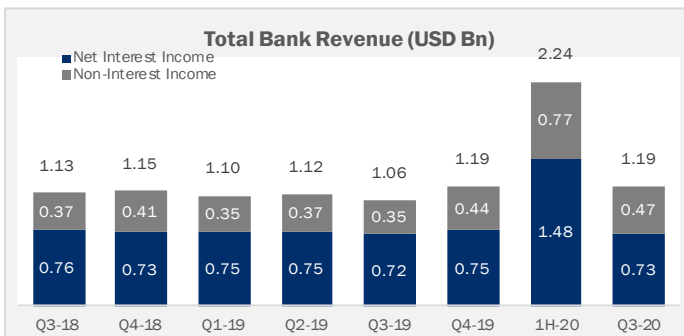
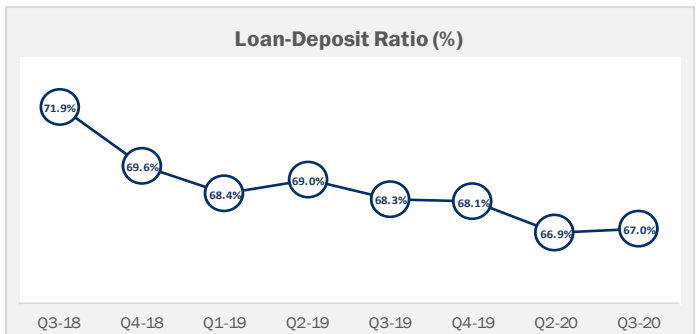
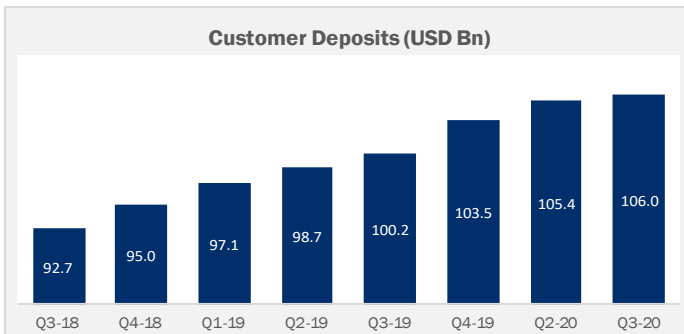
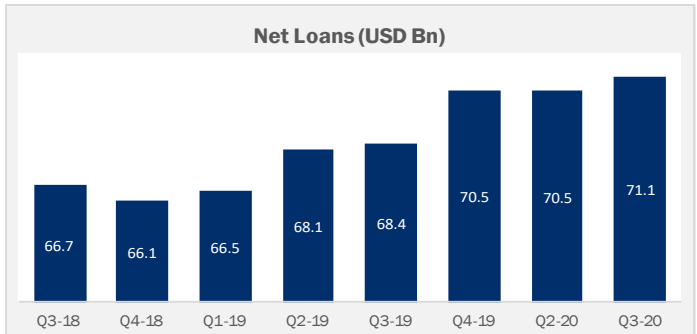
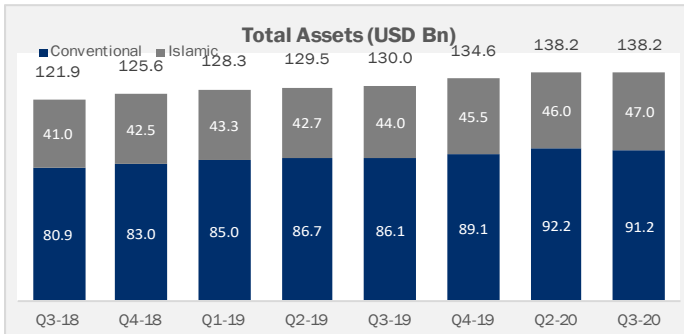
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Qatar



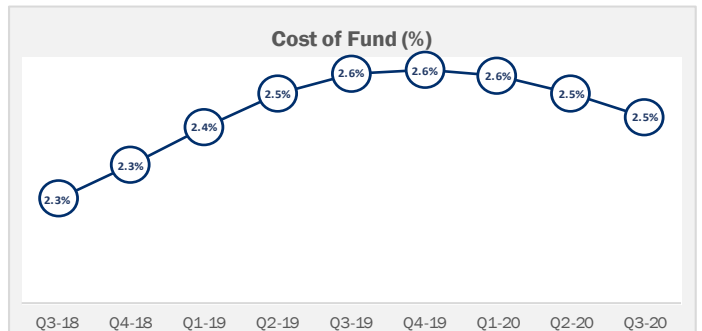
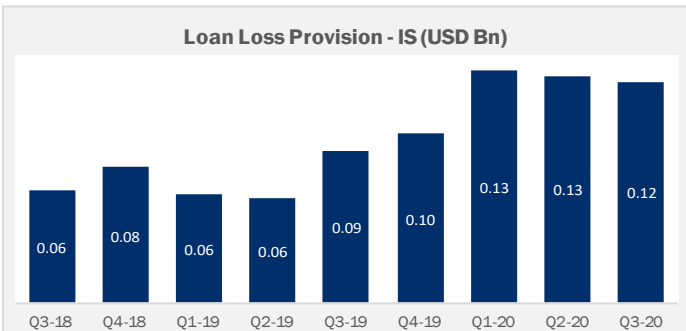
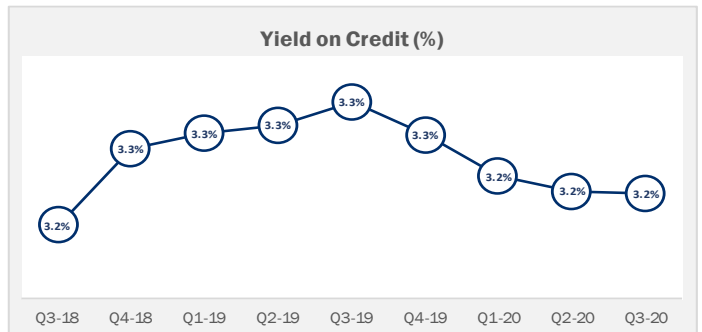
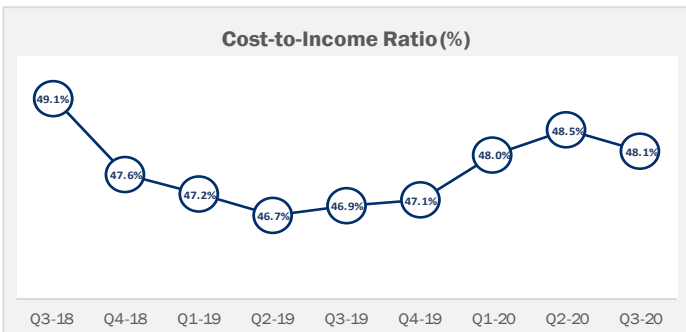
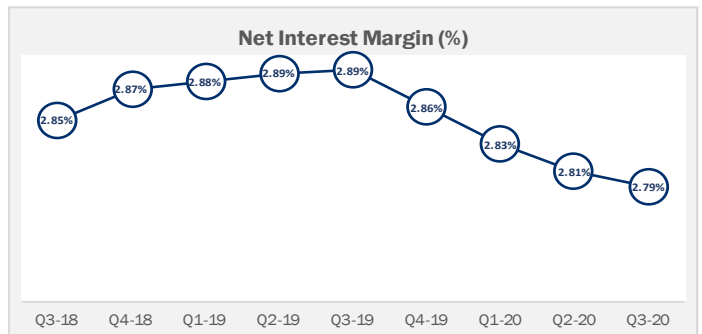
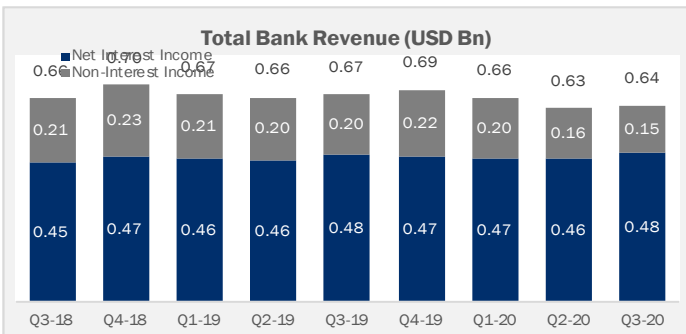
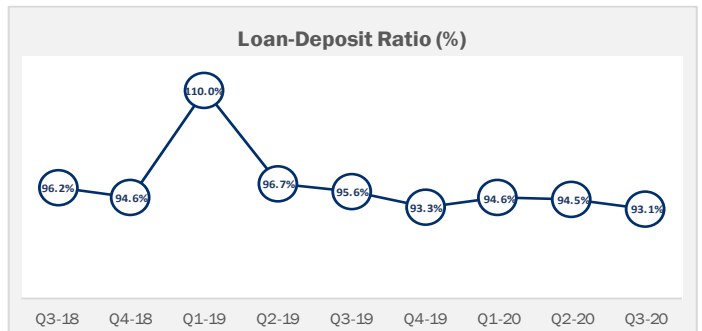
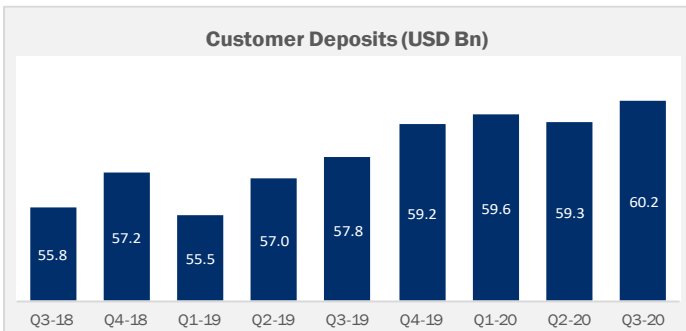
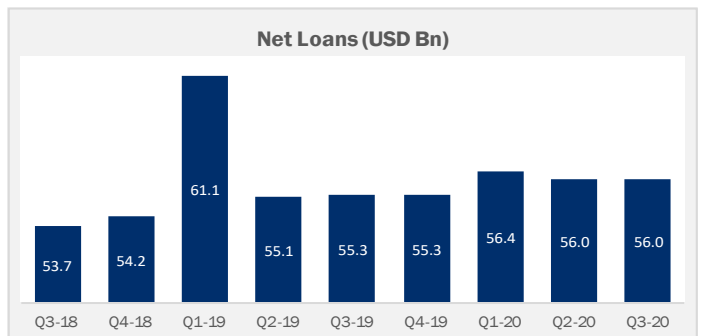
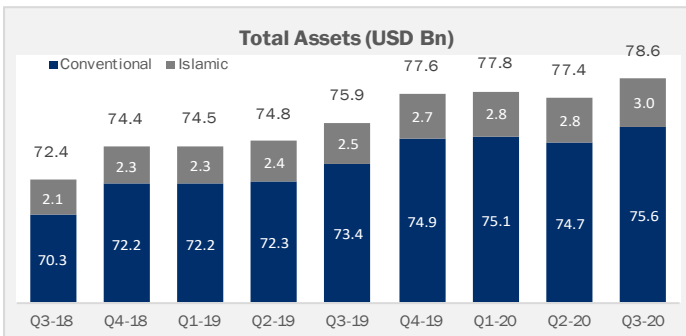
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Key Banking Sector Metrics : Bahrain



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	7.7	0.797	14.1	1.9	5.7	-10.9%	22.6%	18.1%	12.2%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.8	0.620	17.2	2.2	3.7	-0.3%	13.5%	11.1%	12.3%
ARAB BANKING CORP	Bahrain	0.9	0.300	45.4	0.3	NA	-36.2%	6.1%	-5.8%	-1.0%
BBK BSC	Bahrain	1.7	0.474	NA	1.4	NA	-8.2%	15.1%	11.2%	10.3%
AL-SALAM BANK	Bahrain	0.4	0.073	13.3	0.6	5.3	-20.0%	-1.6%	0.3%	4.1%
ALBARAKA BANKING GROUP	Bahrain	0.3	0.255	5.5	0.3	7.8	-11.7%	-2.3%	-8.0%	-7.8%
ITHMAAR HOLDING BSC	Bahrain	0.2	0.068	NA	19.6	NA	36.0%	-12.1%	-14.6%	-5.3%
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.048	NA	0.3	NA	-15.0%	-25.8%	-7.4%	-8.9%
NATIONAL BANK OF KUWAIT	Kuwait	18.4	828	23.3	1.8	4.0	-15.1%	14.5%	9.5%	5.0%
KUWAIT FINANCE HOUSE	Kuwait	17.1	689	33.2	2.8	2.6	-3.7%	22.6%	16.9%	6.6%
BOUBAYAN BANK K.S.C	Kuwait	6.2	624	54.0	3.7	1.4	4.0%	24.5%	15.6%	4.9%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.1	500	NM	1.3	NA	-5.5%	17.5%	10.0%	0.6%
GULF BANK	Kuwait	2.2	223	14.6	1.1	4.9	-22.4%	1.5%	-0.9%	-5.2%
BURGAN BANK	Kuwait	1.8	206	13.4	0.8	5.8	-28.0%	-5.7%	-6.2%	-2.3%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	1.8	285	18.9	1.3	5.0	-8.0%	3.5%	-2.9%	1.2%
AL AHLI BANK OF KUWAIT	Kuwait	1.1	203	NA	0.6	3.4	-17.4%	-9.2%	-8.0%	-7.4%
WARBA BANK KSCP	Kuwait	1.3	244	NA	2.1	NA	-6.8%	9.1%	6.1%	NA
KUWAIT INTERNATIONAL BANK	Kuwait	0.7	206	NA	0.9	3.2	-18.1%	4.2%	3.9%	-0.4%
BANKMUSCAT SAOG	Oman	3.2	0.376	7.9	0.7	8.9	-0.3%	11.7%	6.1%	2.7%
BANK DHOFAR SAOG	Oman	0.8	0.102	13.4	0.6	2.9	-14.4%	-11.5%	-4.6%	-6.6%
NATIONAL BANK OF OMAN SAOG	Oman	0.7	0.157	16.0	0.6	10.7	-6.0%	2.2%	-1.3%	2.4%
HSBC BANK OMAN	Oman	0.5	0.093	33.7	0.6	9.4	-16.8%	-2.7%	1.8%	-5.2%
SOHAR INTERNATIONAL BANK	Oman	0.6	0.099	8.7	0.7	2.9	-4.0%	-6.8%	-2.7%	-1.9%
AHLI BANK	Oman	0.6	0.130	7.7	0.8	7.3	12.6%	3.4%	0.9%	3.2%
BANK NIZWA	Oman	0.4	0.100	12.4	1.0	NA	5.3%	2.8%	5.4%	NA
QATAR NATIONAL BANK	Qatar	46.7	18.69	15.8	2.4	3.2	-6.4%	21.1%	11.3%	11.7%
QATAR ISLAMIC BANK	Qatar	10.9	17.05	14.2	2.3	3.1	14.8%	26.7%	12.4%	12.7%
MASRAF AL RAYAN	Qatar	8.7	4.28	14.7	2.3	5.3	14.7%	14.1%	7.3%	15.1%
COMMERCIAL BANK PQSC	Qatar	4.8	4.40	12.3	1.0	4.6	-1.6%	23.5%	3.0%	2.1%
QATAR INTERNATIONAL ISLAMIC	Qatar	3.5	8.60	14.8	2.1	4.9	-6.2%	29.8%	10.8%	12.7%
AL AHLI BANK	Qatar	2.1	3.20	12.3	1.3	4.5	0.1%	11.7%	1.0%	7.4%
DOHA BANK QSC	Qatar	2.0	2.42	15.3	0.8	NA	-4.3%	1.5%	-6.3%	0.2%
AL KHALIJ COMMERCIAL BANK	Qatar	1.7	1.76	10.0	1.0	4.3	42.2%	21.1%	3.5%	7.4%
AL RAJHI BANK	Saudi Arabia	49.1	73.70	19.2	3.4	4.1	15.8%	26.1%	22.3%	7.6%
NATIONAL COMMERCIAL BANK	Saudi Arabia	34.2	42.80	11.8	1.9	NA	-10.1%	12.3%	7.8%	NA
RIYAD BANK	Saudi Arabia	15.4	19.26	11.7	1.4	5.7	-16.8%	21.9%	14.6%	8.4%
SAMBA FINANCIAL GROUP	Saudi Arabia	16.3	30.50	14.1	1.3	4.6	-2.7%	15.5%	11.7%	3.9%
SAUDI BRITISH BANK	Saudi Arabia	14.0	25.55	NA	1.1	4.7	-24.2%	1.4%	2.2%	4.5%
BANQUE SAUDI FRANSI	Saudi Arabia	10.3	31.90	19.4	1.1	6.3	-12.9%	6.7%	7.5%	4.1%
ALINMA BANK	Saudi Arabia	8.5	15.98	15.2	1.3	NA	-16.0%	9.4%	11.7%	8.5%
ARAB NATIONAL BANK	Saudi Arabia	8.0	19.96	12.9	1.0	5.0	-25.2%	10.8%	8.1%	5.6%
BANK ALBILAD	Saudi Arabia	5.3	26.70	15.4	1.9	3.7	1.5%	23.9%	12.2%	13.3%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	3.2	16.22	21.2	0.9	NA	-10.1%	4.8%	3.4%	4.4%
BANK AL-JAZIRA	Saudi Arabia	3.0	13.52	14.4	0.9	2.2	-7.7%	11.1%	4.8%	6.0%
FIRST ABU DHABI BANK PJSC	UAE	38.0	12.78	14.0	1.5	5.8	-11.0%	14.2%	14.3%	11.9%
EMIRATES NBD PJSC	UAE	17.9	10.40	9.1	0.9	3.8	-15.7%	15.3%	9.9%	17.3%
EMIRATES ISLAMIC BANK	UAE	11.8	8.00	NA	5.4	NA	-19.9%	3.1%	42.3%	NA
ABU DHABI COMMERCIAL BANK	UAE	11.7	6.18	11.9	0.9	6.1	-16.4%	1.3%	5.7%	14.7%
DUBAI ISLAMIC BANK	UAE	8.5	4.30	8.2	1.1	8.1	-14.8%	0.3%	4.8%	15.0%
ABU DHABI ISLAMIC BANK	UAE	4.5	4.60	10.6	1.2	6.0	-7.6%	17.5%	11.6%	13.9%
MASHREQBANK	UAE	3.1	64.55	17.4	0.5	6.2	-3.1%	0.7%	-5.5%	NA
COMMERCIAL BANK OF DUBAI	UAE	2.9	3.80	9.3	1.0	5.4	-0.3%	3.1%	-5.6%	11.4%
NATIONAL BANK OF FUJAIRAH	UAE	2.6	4.98	179.8	1.9	2.0	6.0%	13.2%	18.0%	NA
INVEST BANK	UAE	0.4	0.45	NA	1.1	NA	-50.5%	-43.0%	-23.9%	-7.2%
NATIONAL BANK OF RAS AL-KHAI	UAE	1.6	3.60	8.7	0.8	8.3	-18.2%	-3.2%	-5.0%	8.0%
NATIONAL BANK OF UMM AL QAIW	UAE	1.0	2.00	14.2	0.8	5.5	11.2%	-8.2%	-4.4%	4.3%
SHARJAH ISLAMIC BANK	UAE	1.0	1.19	7.8	0.6	4.0	5.7%	3.2%	3.0%	9.1%
UNITED ARAB BANK PJSC	UAE	0.5	0.89	NA	1.1	NA	-10.5%	-19.1%	-27.7%	NA
BANK OF SHARJAH	UAE	0.4	0.65	NA	0.4	NA	-21.2%	-19.1%	-14.6%	-8.1%
AJMAN BANK PJSC	UAE	0.4	0.70	55.5	0.6	NA	-25.2%	-12.6%	-14.6%	0.6%
COMMERCIAL BANK INTERNATIONA	UAE	0.3	0.73	NA	0.6	NA	-24.0%	-6.0%	-12.2%	-3.0%

Source : Bloomberg, Reuters Eikon

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