

GCC Banking Sector Report - Q4-19

March - 2020

GCC banking sector profits decline on Q4-19 provisions...

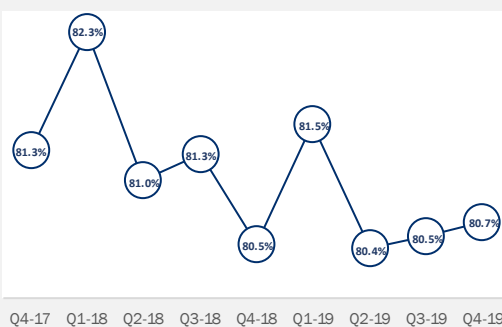
GCC banks continued to strengthen their aggregate balance sheets during Q4-19 as listed banks in all the six GCC countries reported higher total assets during the quarter. Aggregate total assets increased by 3.1% q-o-q to USD 2.4 Trillion as compared to USD 2.29 Trillion at the end of Q3-19. As compared to previous year, total assets increased by 10% with UAE-listed banks growing their assets base at the fastest pace of 13.5% y-o-y followed by Qatari banks that reported a y-o-y growth of 9.3%. Each of the six GCC countries showed a y-o-y and q-o-q increase in net loans and customer deposits during the quarter, barring Omani banks that reported a slight drop of 0.1% as compared to Q3-19. As a result, the aggregate loan-to-deposit ratio improved by 20 bps to reach 80.7% during Q4-19 as compared to 80.5% in Q3-19 and in Q4-18.

Asset growth during the quarter came mainly on the back of Islamic banks that grew assets at a relatively faster pace of 3.5% as compared to a q-o-q growth of 2.9% for the conventional banks. In terms of y-o-y growth, however, conventional banks showed a higher growth of 10.3% vs. 8.6% for Islamic banks. UAE further strengthened its lead in the GCC in terms of size of listed bank balance sheet after reporting a 2.3% increase in assets that reached USD 763 Bn. Meanwhile, the increase in assets of Saudi-listed banks was the highest during the quarter at 3.8% reaching USD 652 Bn, the second biggest book in the GCC. Qatari banks, at the third position, also recorded healthy growth in assets that reached USD 446 Bn after increasing by 3.5% q-o-q in Q4-19.

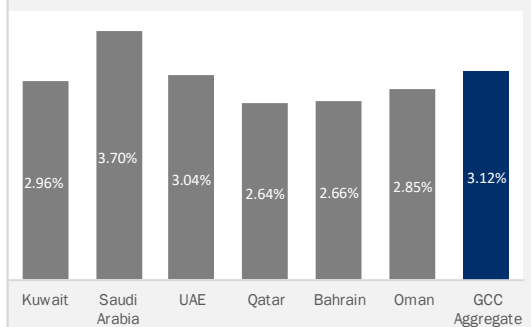
The growth in earning assets was slightly smaller at 2.9% q-o-q that reached USD 1.97 Trillion in Q4-19 as compared to USD 1.92 Trillion during Q3-19. Net loans growth stood at 3.1% q-o-q, a decline of 30 bps from the previous quarter's growth, to reach USD 1.44 Trillion as compared to USD 1.40 Trillion at the end of Q3-19 (USD 1.31 Trillion at the end of last year). On the other hand, the quarterly growth in customer deposits was recorded at 3.0%, slightly slower than last quarter's growth rate.

With global economy now dealing with the Covid-19 crisis and a double blow for the GCC economies in the form of decades low oil price has made it even more challenging for the region. This is expected to affect loan quality and profitability of the banking sector in the region. However, the ample liquidity and strong balance sheet of GCC banks should safeguard the sector from the economic slowdown.

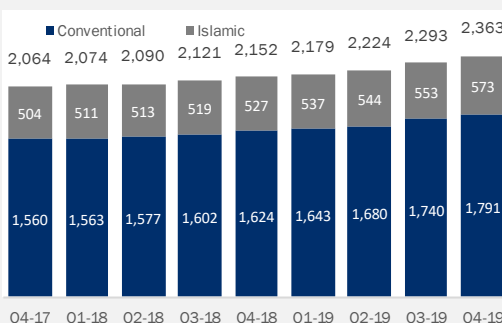
GCC Banking Sector | Loan-to-Deposit Ratio (%)



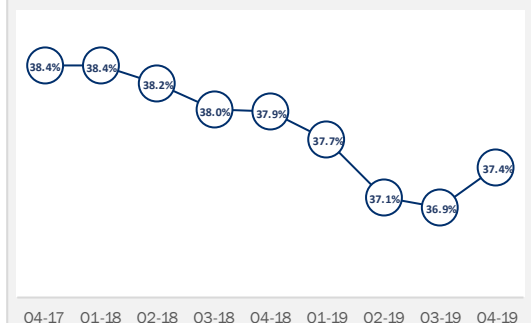
GCC Banking Sector | Net Interest Margin (%)



GCC Banking Sector | Total Assets (USD Bn)



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



Source : Reuters, Company Financials, Kamco Invest Research

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Highlights - GCC Banking Sector

This report analyzes financials reported by 61 listed banks in the GCC for Q4-19. The individual banking data has been aggregated to the country level as there are minimal differences in the countries' regulatory and supervisory environment. We believe that the charts and tables adequately capture the nature and structure of the individual countries' financial systems, their supervision and their monetary operations. Some of the key observations from the most recent financial for the GCC Banking Sector includes the following:

Provisions lower profits despite stable NIMs

Net interest margins (NIM) remained largely flat across the GCC countries during Q4-19 resulting in flat NIM at the GCC level at 3.1%. Saudi Arabia recorded the highest NIMs in the GCC at 3.7% led by a relatively higher loan-to-deposit ratio as well as a vibrant lending activity due to the active project market in the Kingdom. Meanwhile, non-interest income declined in four out of the six GCC markets. Saudi Arabia and UAE reported double digit q-o-q declines of 12.9% and 11.9%, respectively, in Q4-19, whereas Bahrain and Omani banks reported growth of 27.2% and 10.4%, respectively.

In terms of quarterly provisions, 41 out of the 61 listed GCC banks booked higher loan loss provisions (LLP) during Q4-19 that resulted in a steep decline in net profits as compared to Q3-19 and Q4-18. Total provisions booked during the quarter stood at USD 4.1 Bn, one of the highest ever recorded in a single quarter. Banking profits were also affected by higher cost-to-income ratio that increased by 50 bps to reach 37.4%, the highest level over the last three quarters. As a result, profits during the quarter dropped to the lowest level in eleven quarters to USD 7.9 Bn. For the full year 2019, loan loss provisions stood at USD 12.6 Bn, one of the highest over the years. This resulted in a smaller growth in net profits during the year that grew by 3.5% to reach USD 37.1 Bn in 2019 vs. USD 35.9 Bn during 2018.

Saudi Arabian banks recorded the biggest q-o-q increase in LLP during Q4-19 by 78.2% followed by Qatari banks with an increase of 69.3%. Bahraini and Kuwaiti banks reported the smallest increase of 7.5% and 13.6%, respectively. In Saudi Arabia, provisions booked more than doubled for a majority of the banks during Q4-19, but the aggregate provisions of USD 1.1 Bn was still less than the aggregate for Q2-19 that stood at USD 1.2 Bn (that was mainly led by provisions booked by SABB and Saudi Investment Bank during the quarter). NCB was the only bank that reported a decline in provisions in Q4-19. In Qatar, higher aggregate Q4-19 provisions came on the back of doubling of LLP reported by QNB, whereas smaller Qatari banks reported even higher growth in provisions.

Total Assets - Saudi Arabian banks increase their share in Q4-19

Total asset growth remained positive across the GCC banking sector in Q4-19 resulting in one of the highest quarterly growth. GCC-listed banks saw their assets increase by 3.1% during the quarter to reach USD 2.4 Trillion. This growth was primarily on the back of Saudi Arabian banks that reported a 3.8% growth in assets followed by 3.5% q-o-q growth recorded by banks in Qatar and Bahrain.

On the individual country front, UAE continues to boast the biggest share of total listed banking assets in the GCC recorded at USD 763 Bn or 32.3% of the total GCC banking assets. Saudi Arabia followed after UAE with total assets of USD 652 Bn or 27.6% of the GCC at the end of Q4-19. The top ten banks in the region accounted for 56.0% of the total GCC listed banks' assets during Q4-19 as compared to 55.8% during Q3-19.

Loan-to-Deposit Ratio remains subdued at 80.7% that limits profitability growth

The growth in net loans continued for the fifth consecutive month improving by 3.1% in Q4-19 to reach USD 1.44 Trillion. The growth was broad-based as merely 15 banks out of 61 GCC banks reported a q-o-q decline. Listed banks in Qatar reported the biggest q-o-q increase in net loans of 3.5% with 6 out of the 8 listed banks recording a growth. The region's biggest bank, QNB, reported a 4% increase in net loans during the quarter whereas smaller bank QIIB reported the biggest q-o-q growth of 10% in Qatar. Saudi and UAE banks followed with q-o-q net loan increase of 3.3% during Q4-19. Customer deposits growth was also positive across the board for the GCC banks. The increase in customer deposits was one of the highest over the last few quarters at 3.0% to reach USD 1.78 Trillion, slightly below last quarters growth rate of 3.3%. Saudi Arabian banks posted the biggest q-o-q growth in customer deposits during Q4-19 at 3.9% followed by Qatar at 3.6% and Bahrain at 3.4%.

The net effect was a marginally better loan-to-deposit ratio at 80.7% in Q4-19 as compared to 80.5% during the previous quarter. The ratio remains the highest in the case of Oman at 94.0% followed by Qatar at 90.6%, whereas Kuwaiti banks reported the lowest ratio of 72.1%. The ratio for UAE banks also remained low as compared to global averages at 79.6%.

Total Bank Revenues - healthy growth in all GCC countries barring UAE

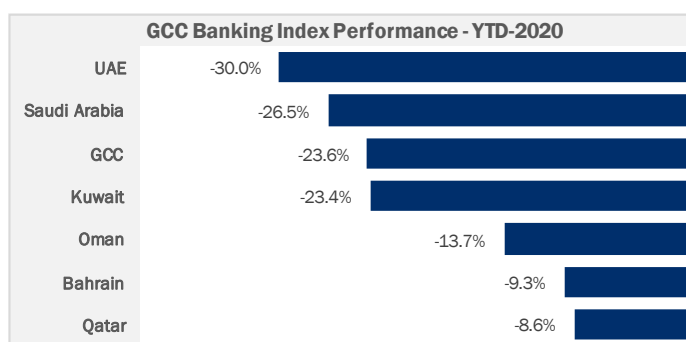
Total bank revenues for GCC-listed banks reached USD 22.1 Bn during Q4-19 as compared to USD 21.8 Bn during Q3-19, a q-o-q growth of 1.4%. Aggregate revenues for each of the GCC countries, barring UAE-listed banks, increased during the quarter with Bahraini banks reporting the biggest growth of 12.5%. Qatari banks were next with a growth of 3.4% followed by Saudi Arabian banks at 2.8%. The q-o-q decline in UAE banks came after more than half of the listed banks reported a q-o-q drop in revenues during the quarter. The 12.5% decline in revenues reported by ENBD, as the previous quarter included fair value gains from disposal of an associate, primarily resulted in decline in aggregate revenues for the UAE.

The growth in GCC bank's net interest income (NII) was the highest in the last ten quarters during Q4-19 at 5.3% to reach USD 15.7 Bn vs. USD 14.9 Bn during Q3-19. The increase was mainly led by 8.1% growth in NII for Saudi Arabian banks followed by 5.3% growth for Qatari and Bahraini banks. Omani banks recorded a q-o-q decline in NII that receded by 1.2%. In Saudi Arabia, NCB reported a significant surge in NII by 33% led by higher interest income and a decline in interest expense during the quarter. SABB also reported a healthy growth of 15.6% in its net interest income during the quarter. Saudi Arabian banks have seen consistent increase in lending over the last few quarters led by an increase in project activity.

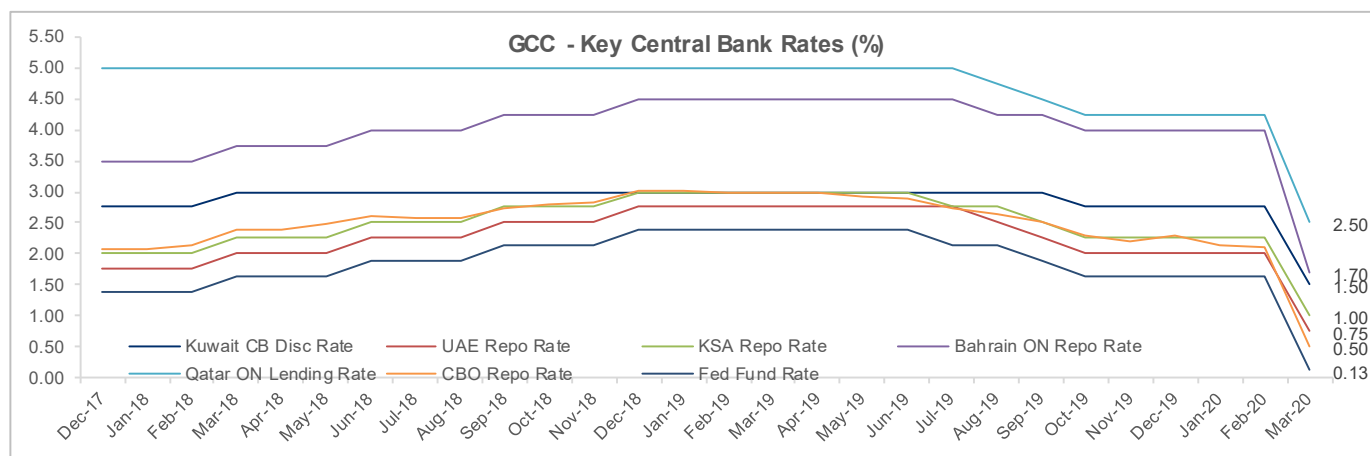
Near-term outlook

The banking sector witnessed two significant events during Q1-2020 that could lower asset quality in the near term and put pressure on margins. Firstly, the Covid-19 pandemic that has lowered credit offtake across the board as entire countries go into lockdown. Regulators are also instructing banks to implement measures like rescheduling loans, deferrals of loan installments for as long as next six months and not to charge profits on credit card payment delays during this period. These measures could affect profitability and the quality of loan portfolio in the near term. Some of these concerns are well reflected in the performance of banking stocks across the GCC exchanges.

Secondly, the lowering of interest rates by as much as 150 bps during Q1-2020 is expected to affect banking NIMs in the near-term. Non-interest income is also likely to be affected due to the decline in overall business activity in the region. Moreover, specific pockets of businesses like the real estate sector in UAE is experiencing lower pricing and increased supplies. This puts pressure on the asset quality of loans given to real estate borrowers.



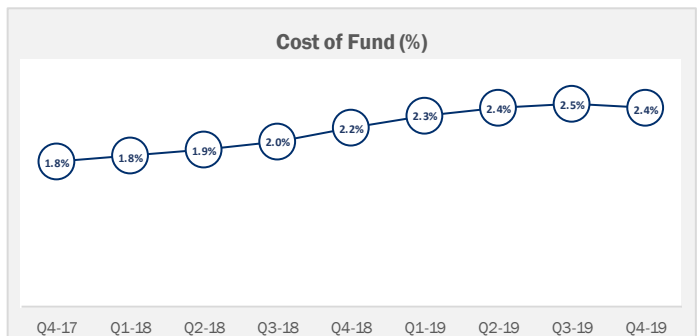
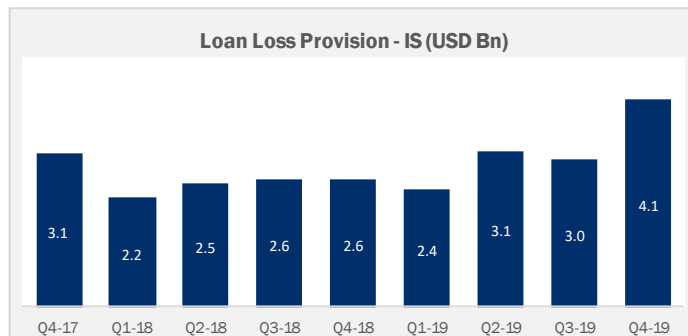
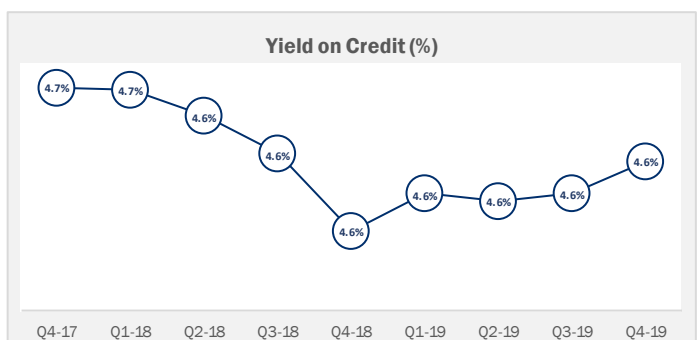
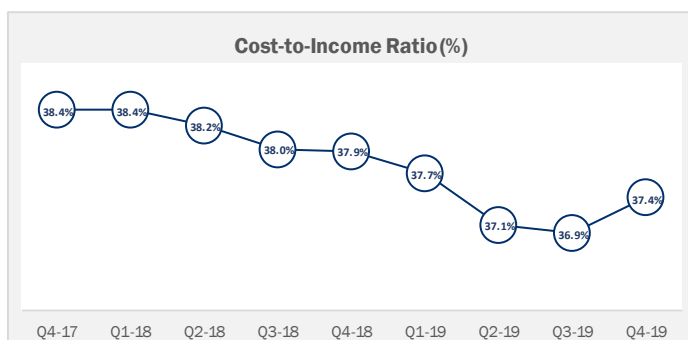
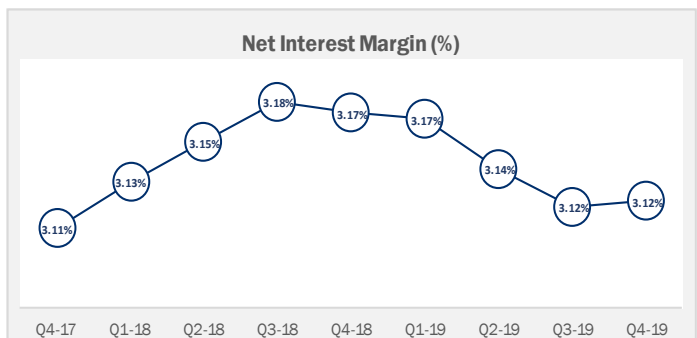
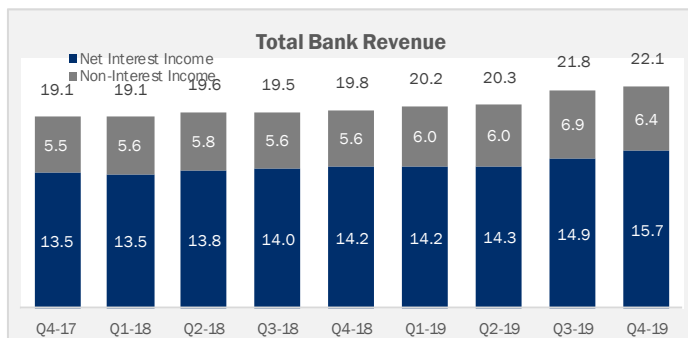
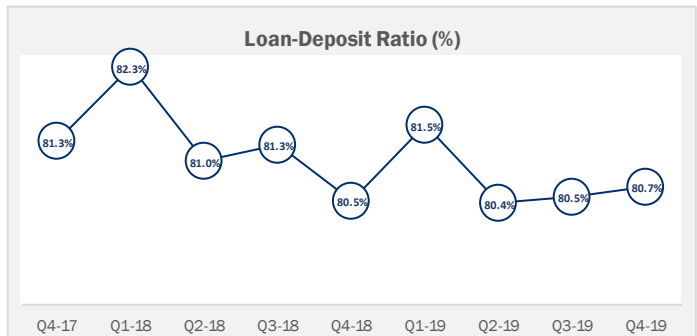
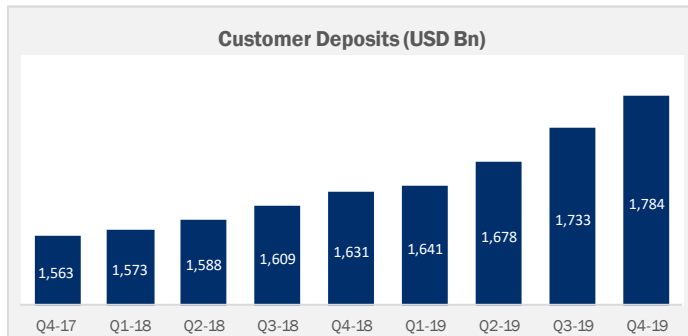
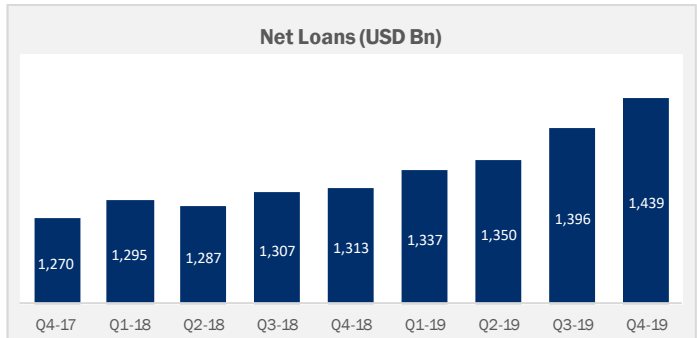
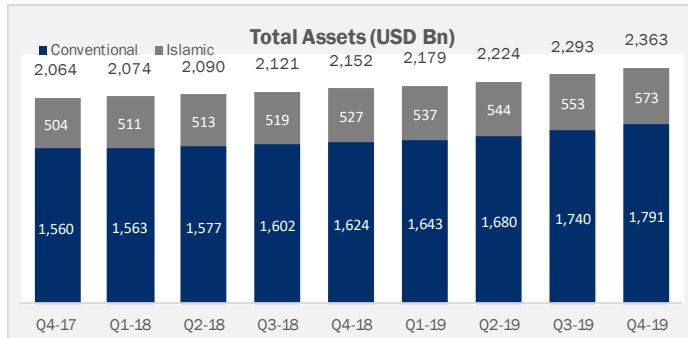
Source : Thomson Reuter Indices, Kamco Invest Research



Source : Bloomberg, Kamco Invest Research

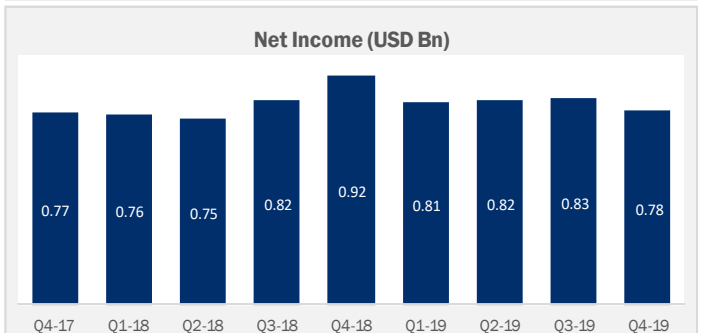
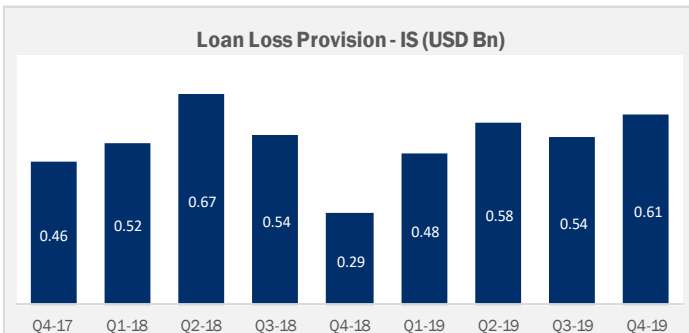
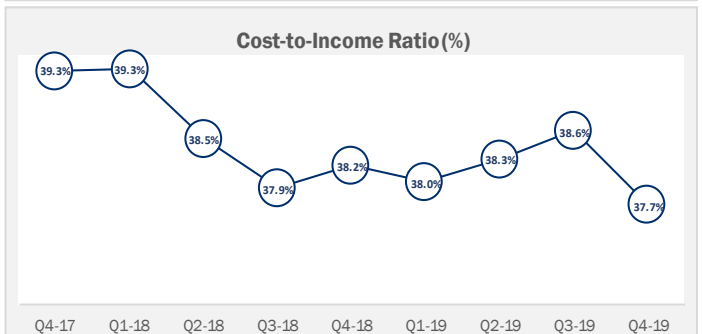
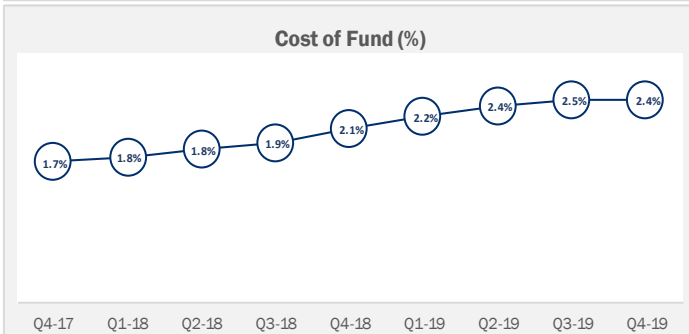
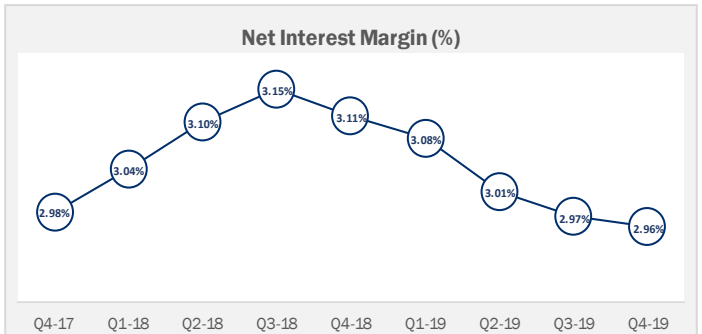
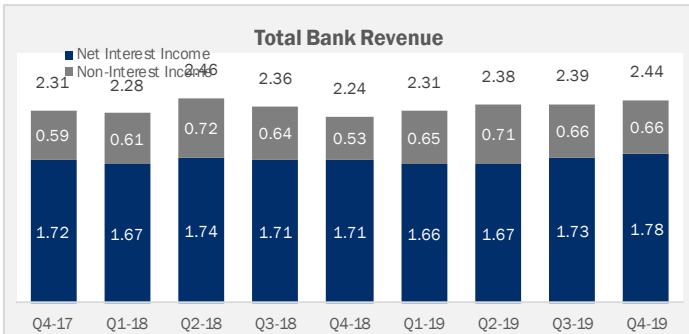
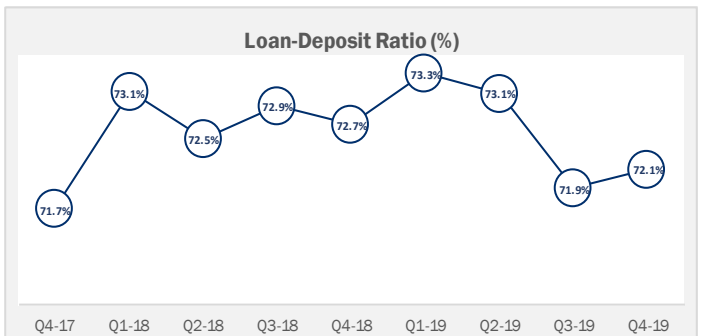
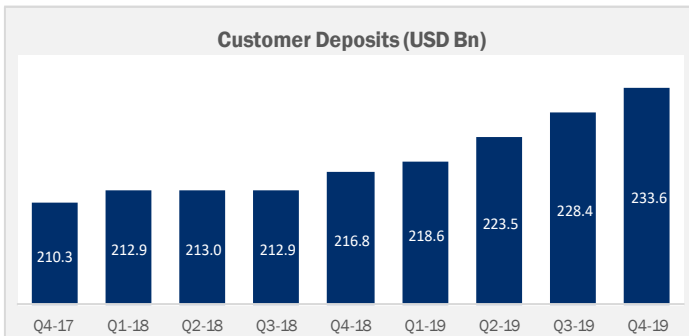
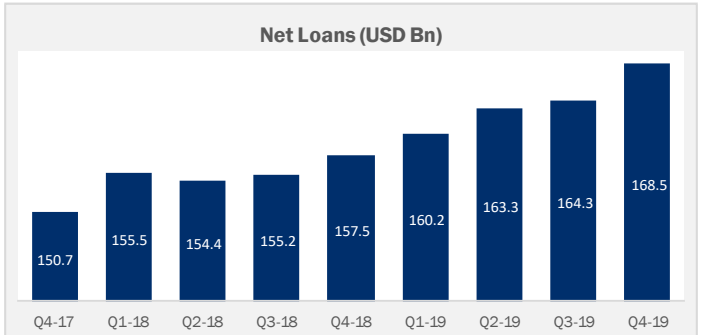
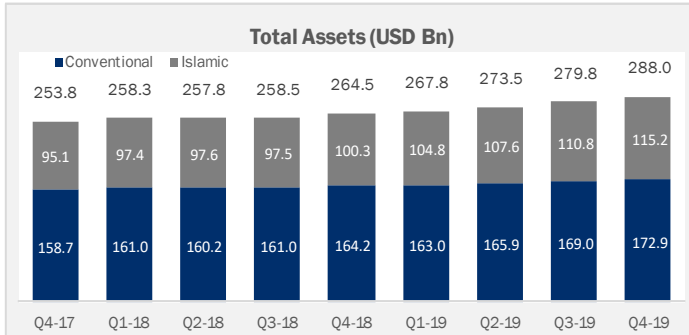
As seen during the previous rout in oil prices, banks in the region could see a decline in oil deposits. However, with loan-to-deposit ratio well below 100% for a majority of the banks in the GCC, we believe that banks have ample buffers and liquidity. In addition, governments across the region continue to be proactive in implementing economic reforms with an eye on diversification. This should support the project market as the government looks at various project models like the PPP model to support the market. This would support banking credit growth as a preferred form of funding projects as rates remain one of the lowest over the last few years.

Key Banking Sector Metrics : GCC



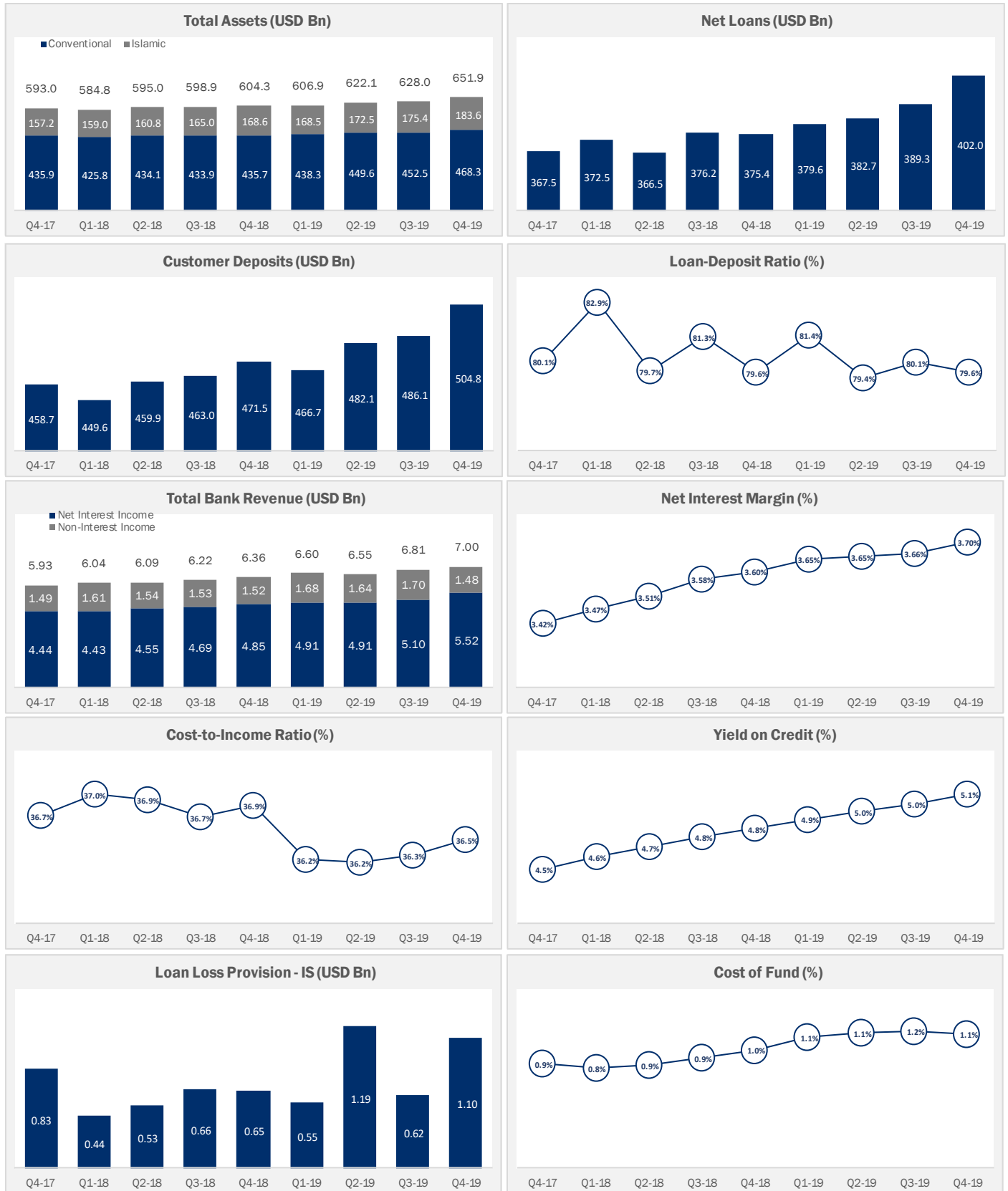
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Kuwait



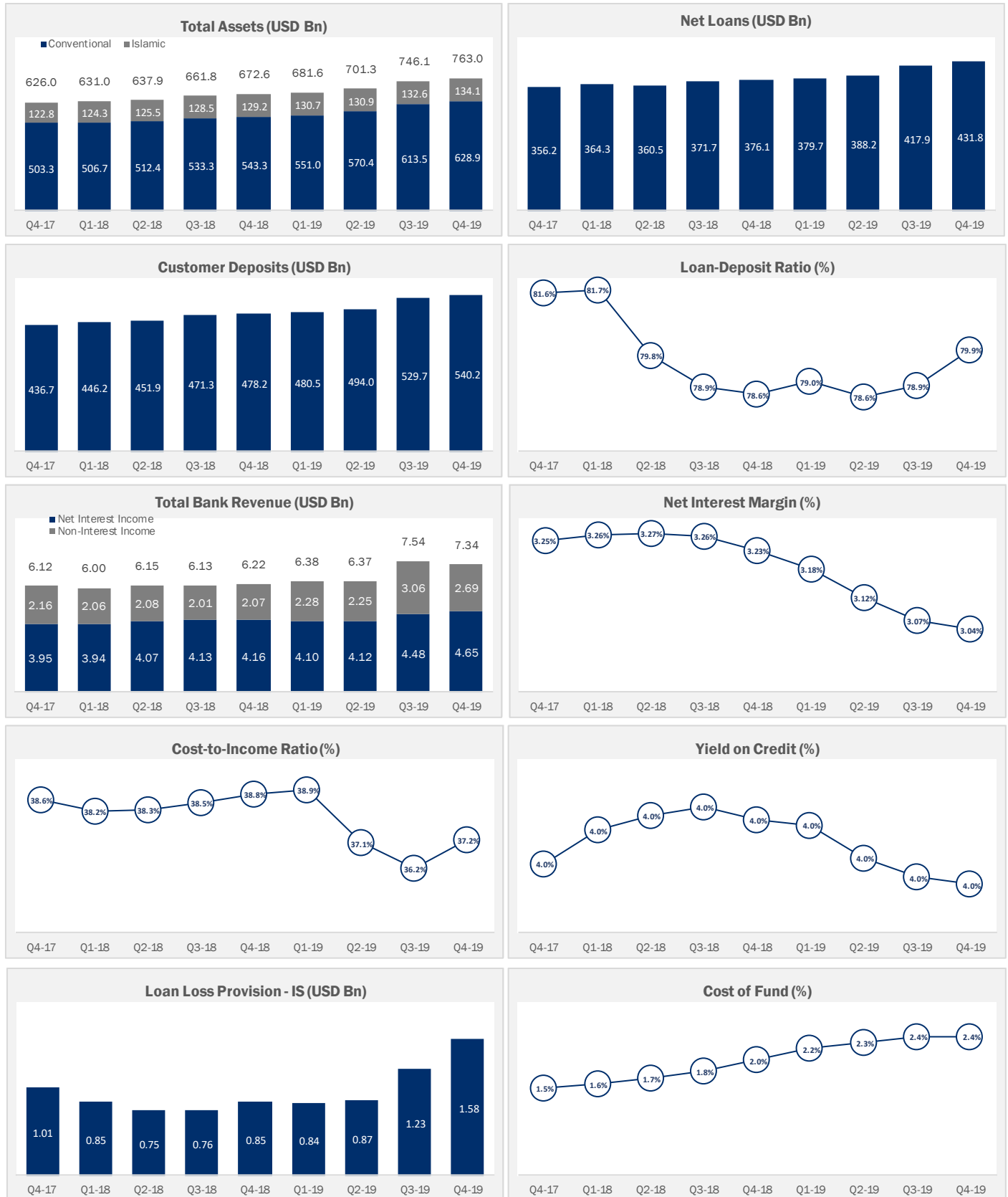
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Saudi Arabia



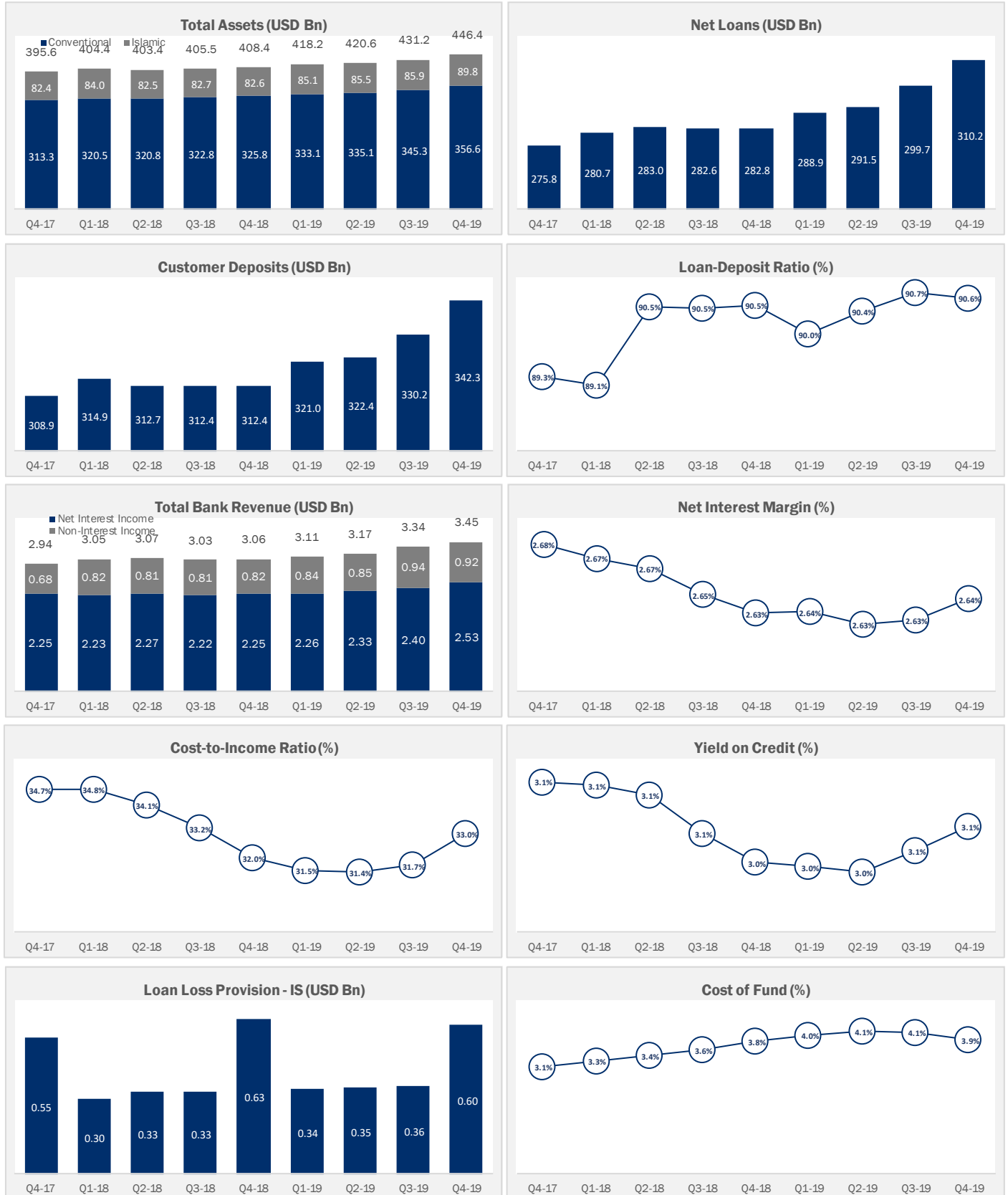
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : UAE



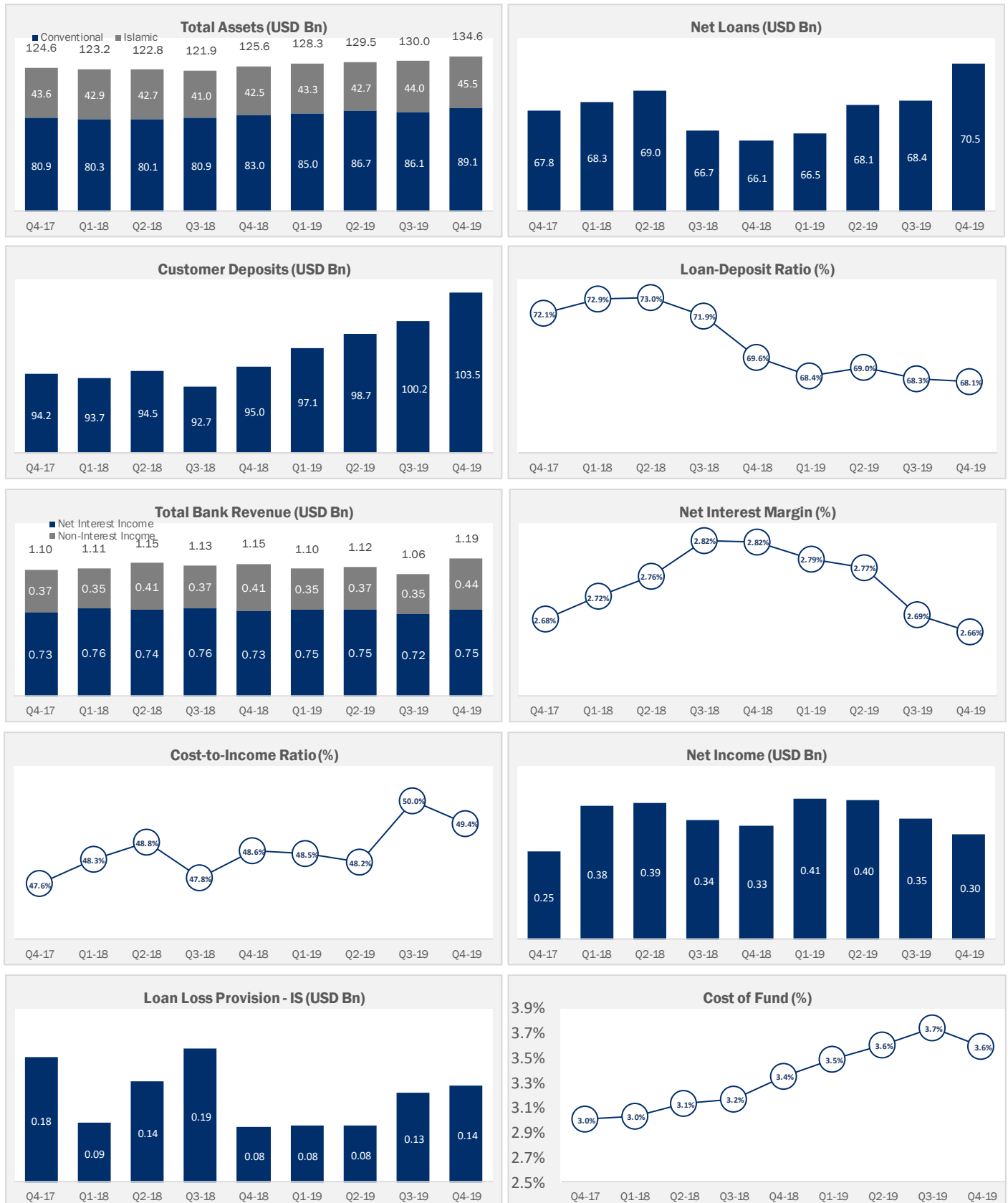
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Qatar



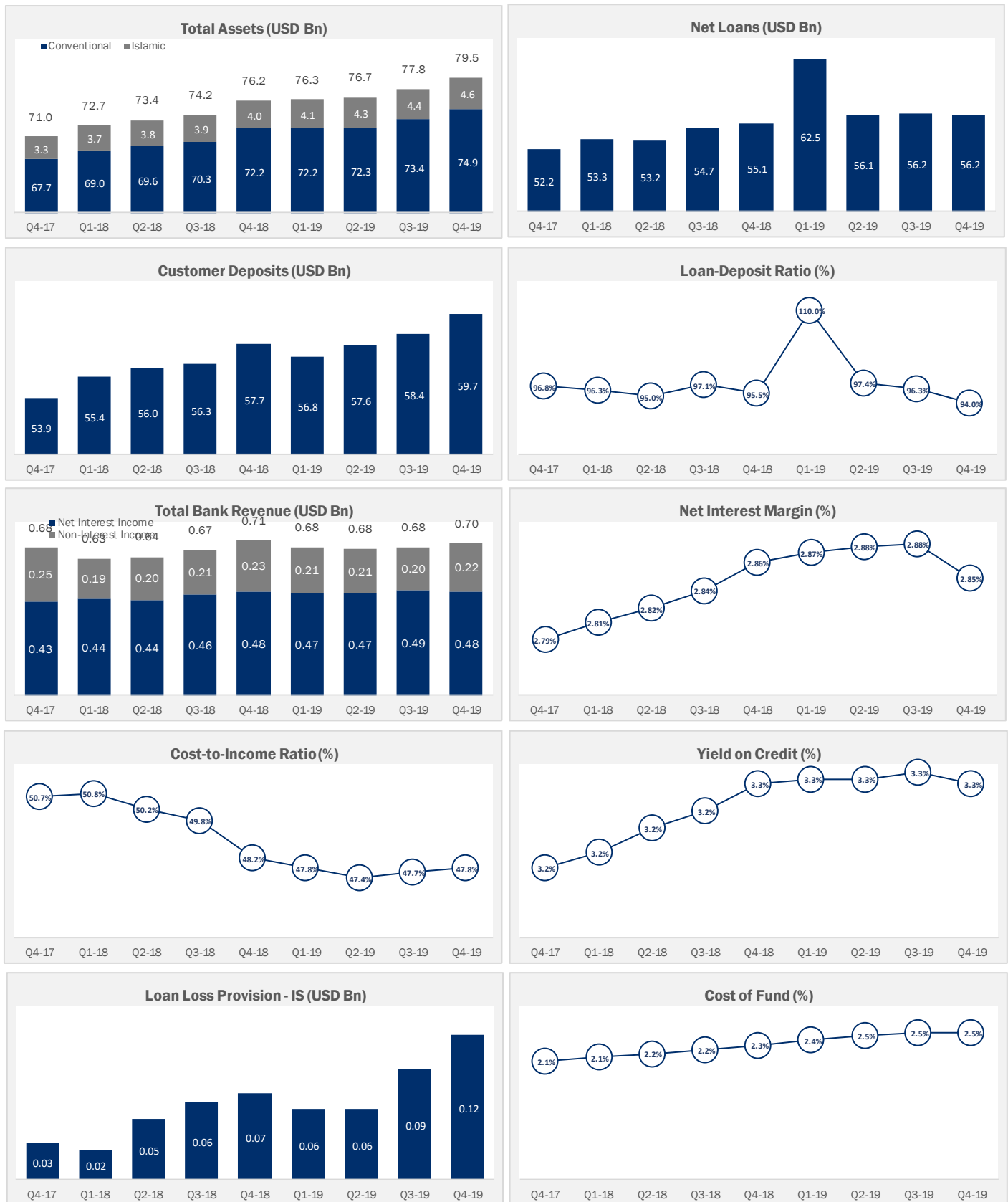
Source : Reuters, Company Financials, Kamco Invest Research

Key Banking Sector Metrics : Bahrain



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)	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	6.6	0.680	9.4	1.5	6.7	-24.0%	12.9%	12.5%	17.3%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.8	0.620	12.5	2.0	3.7	-0.3%	10.7%	8.3%	13.8%
ARAB BANKING CORP	Bahrain	1.3	0.403	5.7	0.3	7.4	-14.3%	9.5%	-6.3%	N/A
BBK BSC	Bahrain	1.8	0.505	8.8	1.3	11.3	-2.2%	22.3%	12.2%	12.9%
AL-SALAM BANK	Bahrain	0.4	0.072	8.0	0.5	5.3	-21.1%	-4.6%	-2.6%	5.2%
ALBARAKA BANKING GROUP	Bahrain	0.3	0.272	4.5	0.3	7.4	-12.3%	-10.7%	-13.9%	-8.5%
BAHRAIN ISLAMIC BANK	Bahrain	0.3	0.110	18.6	1.0	N/A	-7.6%	N/A	N/A	-5.4%
ITHMAAR HOLDING BSC	Bahrain	0.1	0.047	N/A	N/A	N/A	N/A	N/A	N/A	-13.0%
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.030	N/A	0.3	N/A	-37.5%	N/A	N/A	-8.7%
NATIONAL BANK OF KUWAIT	Kuwait	15.5	719	12.6	1.4	4.6	-26.3%	12.4%	7.5%	8.6%
KUWAIT FINANCE HOUSE	Kuwait	13.7	626	17.2	2.1	3.2	-22.8%	14.8%	8.7%	8.4%
BOUBYAN BANK K.S.C	Kuwait	4.6	502	23.8	2.5	1.8	-21.7%	13.8%	10.5%	9.0%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.1	500	N/A	1.3	N/A	-5.5%	19.7%	6.3%	0.1%
GULF BANK	Kuwait	1.9	205	9.3	0.9	5.4	-28.9%	-2.2%	-2.9%	1.3%
BURGAN BANK	Kuwait	1.7	202	8.4	0.7	5.9	-33.6%	-9.1%	-9.6%	4.7%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	1.5	254	9.1	1.0	5.9	-25.7%	-9.8%	-7.8%	5.4%
AL AHLI BANK OF KUWAIT	Kuwait	0.9	183	13.8	0.5	3.8	-28.5%	-13.5%	-10.6%	-1.7%
WARBA BANK KSCP	Kuwait	0.9	191	24.7	1.3	N/A	-30.5%	-6.8%	-0.9%	N/A
KUWAIT INTERNATIONAL BANK	Kuwait	0.6	197	13.3	0.7	3.6	-28.1%	-2.3%	-0.3%	5.0%
BANKMUSCAT SAOG	Oman	2.8	0.330	5.8	0.6	10.1	-12.5%	8.4%	3.0%	4.8%
BANK DHOFAR SAOG	Oman	0.7	0.093	12.2	0.5	3.2	-22.0%	-16.9%	-10.4%	-4.6%
NATIONAL BANK OF OMAN SAOG	Oman	0.7	0.165	3.5	1.0	10.2	-10.3%	-3.1%	-1.6%	5.1%
HSBC BANK OMAN	Oman	0.5	0.105	7.1	0.6	8.3	-13.2%	-0.3%	-0.1%	-4.6%
SOHAR INTERNATIONAL BANK	Oman	0.5	0.082	7.9	0.6	3.6	-20.5%	-7.1%	-7.7%	-1.3%
AHLI BANK	Oman	0.6	0.138	12.3	0.8	7.6	6.2%	-2.9%	-1.1%	5.7%
BANK NIZWA	Oman	0.3	0.089	14.6	0.9	N/A	-6.3%	-1.8%	2.2%	N/A
AL IZZ ISLAMIC BANK	Oman	0.1	0.050	N/A	0.7	N/A	-20.6%	-11.8%	-9.6%	N/A
QATAR NATIONAL BANK	Qatar	43.9	17.55	12.9	2.2	3.4	-12.2%	10.2%	7.2%	16.2%
QATAR ISLAMIC BANK	Qatar	9.7	15.15	12.6	2.1	3.5	2.1%	18.4%	13.2%	12.7%
MASRAF AL RAYAN	Qatar	7.4	3.63	12.5	2.0	6.2	-2.6%	2.1%	0.0%	16.3%
COMMERCIAL BANK PQSC	Qatar	4.3	3.90	9.0	0.9	5.1	-12.6%	10.7%	-1.9%	5.0%
QATAR INTERNATIONAL ISLAMIC	Qatar	2.9	7.14	12.3	1.8	6.0	-22.1%	10.1%	4.4%	12.7%
AL AHLI BANK	Qatar	2.3	3.57	12.8	1.5	4.0	11.7%	12.1%	3.2%	11.0%
DOHA BANK QSC	Qatar	1.6	1.93	10.9	0.6	N/A	-23.6%	-10.6%	-11.5%	1.1%
AL KHALIJ COMMERCIAL BANK	Qatar	1.2	1.25	7.5	0.7	6.0	0.6%	0.9%	-3.8%	2.8%
AL RAJHI BANK	Saudi Arabia	35.9	54.00	12.9	2.6	5.6	-17.4%	13.6%	11.0%	7.1%
NATIONAL COMMERCIAL BANK	Saudi Arabia	27.6	34.65	9.4	1.7	6.9	-29.6%	14.0%	-0.4%	N/A
RIYAD BANK	Saudi Arabia	11.9	14.92	7.8	1.1	7.4	-35.5%	18.1%	3.1%	9.8%
SAMBA FINANCIAL GROUP	Saudi Arabia	10.7	20.10	9.6	0.9	7.0	-35.9%	4.2%	-0.4%	3.9%
SAUDI BRITISH BANK	Saudi Arabia	11.0	20.12	9.6	0.7	6.0	-42.0%	0.6%	-6.4%	4.1%
BANQUE SAUDI FRANSI	Saudi Arabia	8.3	25.90	9.3	0.9	7.7	-31.7%	4.5%	-1.7%	4.9%
ALINMA BANK	Saudi Arabia	8.0	20.06	11.5	1.3	N/A	-20.9%	14.3%	0.7%	8.0%
ARAB NATIONAL BANK	Saudi Arabia	7.2	18.16	9.0	1.0	5.5	-33.7%	15.1%	-0.7%	6.5%
BANK ALBILAD	Saudi Arabia	3.8	19.20	11.2	1.5	5.2	-28.6%	12.1%	-3.4%	12.3%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	2.5	12.30	43.2	0.7	N/A	-31.8%	0.5%	-8.2%	6.2%
BANK AL-JAZIRA	Saudi Arabia	2.4	11.10	8.9	0.8	5.4	-26.3%	1.8%	-9.6%	5.2%
FIRST ABU DHABI BANK PJSC	UAE	29.8	10.02	9.1	1.1	7.4	-30.2%	4.9%	2.4%	16.0%
EMIRATES NBD PJSC	UAE	12.6	7.30	3.0	0.6	5.5	-40.8%	1.5%	1.9%	24.0%
EMIRATES ISLAMIC BANK	UAE	12.2	8.24	42.1	5.4	N/A	-17.5%	-9.2%	N/A	N/A
ABU DHABI COMMERCIAL BANK	UAE	9.4	4.94	6.9	0.7	7.7	-33.2%	-4.6%	1.2%	21.1%
DUBAI ISLAMIC BANK	UAE	7.4	3.75	5.4	1.0	9.3	-25.7%	-1.6%	2.4%	19.3%
ABU DHABI ISLAMIC BANK	UAE	4.0	4.00	6.3	1.0	6.8	-25.8%	10.1%	3.4%	19.2%
MASHREQBANK	UAE	3.5	72.00	6.2	0.6	5.8	8.1%	1.6%	-3.4%	N/A
COMMERCIAL BANK OF DUBAI	UAE	2.6	3.43	6.9	0.9	6.0	-10.0%	-6.2%	-6.8%	10.5%
NATIONAL BANK OF FUJAIRAH	UAE	2.5	4.85	18.8	1.8	2.0	3.2%	33.4%	9.2%	N/A
INVEST BANK	UAE	0.5	0.53	N/A	1.1	N/A	-41.8%	-38.9%	-25.5%	-5.0%
NATIONAL BANK OF RAS AL-KHAI	UAE	1.8	4.00	6.1	0.9	7.5	-15.8%	0.5%	-6.7%	12.9%
NATIONAL BANK OF UMM AL QAIW	UAE	0.9	1.85	8.0	0.7	5.9	2.9%	-12.1%	-4.6%	1.4%
SHARJAH ISLAMIC BANK	UAE	0.8	1.00	5.7	0.5	4.8	-11.2%	-2.6%	-2.6%	9.3%
UNITED ARAB BANK PJSC	UAE	0.5	0.90	N/A	0.9	N/A	-10.3%	-15.0%	-29.3%	N/A
BANK OF SHARJAH	UAE	0.4	0.69	6.4	0.4	N/A	-16.4%	-19.6%	-16.1%	-4.5%
AJMAN BANK PJSC	UAE	0.3	0.53	14.1	0.4	6.6	-43.0%	-23.0%	-19.4%	2.1%
COMMERCIAL BANK INTERNATIONA	UAE	0.3	0.65	8.7	0.6	N/A	-32.7%	-27.8%	-16.4%	-1.2%

Source : Bloomberg

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