

GCC Banking Sector Report - Q2-19

September - 2019

GCC banking sector Q2-19 topline marginally up on higher interest income...

The GCC banking sector recorded one of the biggest growth in total assets during Q2-19 that reached USD 2.23 Trillion. Sequential growth in assets during Q2-19 stood at 2.0% while the y-o-y growth was 6.4%, one of the highest over the pasts few quarters. The growth came primarily on the back of conventional banks that grew assets at 2.3% q-o-q while Islamic banks increased their balance sheet by 1.3%. The growth in earning assets was slightly lower at 1.3% to reach USD 1.86 Trillion indicating a relatively higher growth in non-earning assets. The q-o-q growth in net loans stood at 0.9% in Q2-19 and reached USD 1.36 Trillion after increasing at the more than double the pace during the previous quarter.

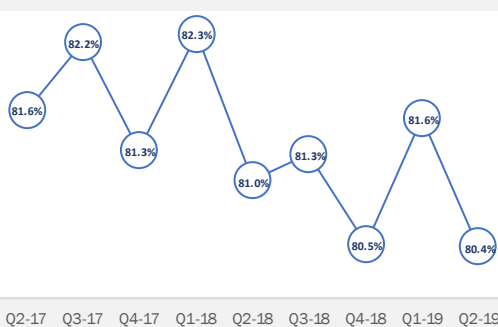
On the other hand, the growth in customer deposits was recorded at 2.3% q-o-q, the highest growth over the past eight quarters. As a result, the loan-to-deposit ratio reached 80.4%, one of the lowest over the last nine quarters and continued to remain well below international standards. The lower ratio shows underutilization of funds but at the same time indicates the extra capacity of GCC banks to fund future projects in the region and support the growth in private sector, especially the non-oil sector.

In terms of profitability, net interest income saw a marginal growth of 0.6% q-o-q to reach USD 14.3 Bn during Q2-19 after witnessing marginal decline during Q1-19. On the other hand, non-interest income remained flat at USD 6.0 Bn q-o-q resulting in a total bank revenue of USD 20.3 Bn during Q2-19, a q-o-q growth of 0.5%. The relatively higher growth in earning assets as compared to net interest income resulted in a marginal decline in NIM from 3.16% in Q1-19 to 3.13% in Q2-19.

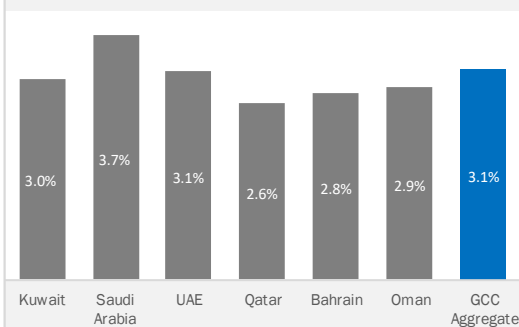
In terms of operating expenses, cost optimization efforts by regional banks resulted in improved cost-to-income ratio that reached 37.1%, one of the lowest levels recorded for GCC banks. Nevertheless, an increase in provisions during the quarter resulted in a 5.1% q-o-q decline in net income, while y-o-y growth stood at a marginal 1.2% during Q2-19. The increase in provisions was primarily as a result of higher impairment charge reported by Saudi Arabian banks.

Saudi Arabia reported the highest NIM in the GCC at 3.7% as the Kingdom has shown consistent improvement in this key banking profitability ratio over the last ten quarters. The Kingdom has tightly aligned its key rate policy in line with US rates in order to maintain currency pegs. As a result of this, the increase in rates the US since last year were passed on by the Saudi central bank resulting in higher NIM.

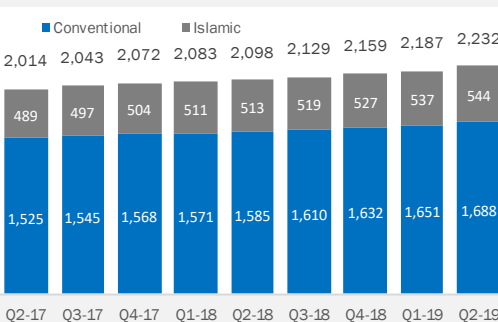
GCC Banking Sector | Loan-to-Deposit Ratio (%)



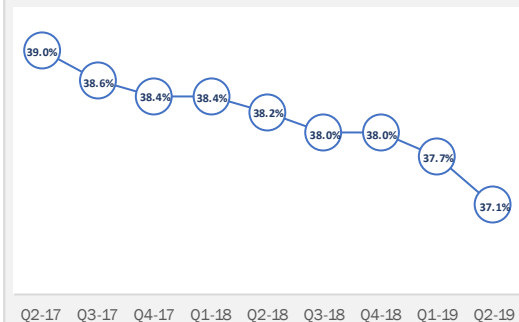
GCC Banking Sector | Net Interest Margin (%)



GCC Banking Sector | Total Assets (USD Bn)



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



Source : Reuters, Company Financials, KAMCO Research

Faisal Hasan, CFA

Head - Investment Research

+(965) 2233 6907

faisal.hasan@kamconline.com

Junaid Ansari

Vice President

+(965) 2233 6912

junaid.ansari@kamconline.com

Highlights - GCC Banking Sector

This report analyzes financials reported by 62 listed banks in the GCC for Q2-19. 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:

Total Assets - UAE continues to lead by further increasing its share in the GCC

Total assets growth remained positive across the GCC resulting in one of the biggest quarterly growth during Q2-19. On the individual country front, UAE continues to boast the biggest share of total listed bank assets in the GCC recorded at USD 710 Bn or 31.8% of the total GCC banking assets. UAE banks also recorded the biggest q-o-q asset growth of 2.9% in the GCC. The asset growth in UAE was also aided by the merger of privately held Al Hilal Bank with ADCB and UNB bringing in its assets in the listed banks space. Saudi Arabia followed after UAE with total assets of USD 622 Bn or 27.2% of the GCC at the end of Q2-19 after recording a q-o-q growth of 2.5%. Among the listed banks in the Kingdom, only Banque Saudi Fransi reported a decline in assets during the quarter by 1.8%, whereas the remaining ten banks reported growth.

Loan-to-Deposit Ratio - lending remains underutilized

The pace of growth in net loans declined to 0.9% in Q2-19. Banks in Oman, which reported the biggest sequential lending growth in Q1-19, posted the biggest drop in Q2-19 by 10.2% q-o-q. Four out of eight listed banks in Oman reported decline in lending with Bank Sohar (Sohar International) and Bank Nizwa reporting the biggest q-o-q drop. Net loans growth was the strongest in Bahrain at 2.5% followed by UAE and Kuwait at 2.1% and 1.9%, respectively. In terms of individual banks, 20 out of the 62 listed banks in the GCC reported a decline in net loans during the quarter. In UAE, National Bank of Fujairah reported the biggest growth in loans at 6.6% while bigger banks FAB and ADCB reported growth rates of 4% (adjusted) and 2.7%, respectively, ENBD's net loans were flat at USD 91.2 Bn. Meanwhile, in Kuwait, only KFH reported a decline in net loans by 1%, whereas smaller banks outperformed with Warba Bank growing its loan portfolio by 10% and KIB adding 6.5% during the quarter. NBK's loan growth was marginal at 1.4%.

GCC listed bank's customer deposits growth remained positive across the board. As a result, the growth was the fastest in the last ten quarters at 2.3%, as compared to a growth of 0.6% in the previous quarter, to reach USD 1.68 Trillion. Saudi Arabian banks reported the biggest increase in deposits at 3.3% followed by UAE and Kuwait at 2.8% and 2.2%, respectively, while Qatari banks posted the slowest growth of 0.4%. All banks in Saudi Arabia, barring Banque Saudi Fransi, reported sequential growth in customer deposits during the quarter. Alinma Bank reported the biggest growth in customer deposits at 8.9% followed by Bank Aljazira at 5.7%. NCB customer deposit growth was at a decent 4.3% q-o-q. In UAE, FAB reported the biggest growth in customer deposits adding 6.4% during the quarter to reach USD 105.4 Bn.

The net effect of a faster growth in customer deposits relative to net loans for the GCC banks resulted in a decline in the loan-to-deposit ratio. Bahrain reported the lowest loan-to-deposit ratio during the quarter that went below the 70% mark to reach 69% followed by Kuwait at 73.1%. On the other hand, Omani banks reported the highest ratio of 97.4% followed by Qatari banks at 90.4% during Q2-19.

Total Bank Revenue - net interest income was the key growth driver

Revenue for listed GCC banks reached USD 20.3 Bn in Q2-19 primarily on the back of higher net interest income while non-interest income remained almost flat at USD 6.0 Bn. Net interest income growth was strongest in Qatar which recorded a q-o-q growth of 2.8% whereas most other countries recorded marginal growth. The aggregate for the Omani banks saw a decline of 1.0% during the quarter. In Qatar, four out of the eight banks recorded a decline in net interest income during the quarter, however, QNB's 4.3% q-o-q growth further supported by 9.7% and 5.9% growth reported by CBQ and KHC, respectively, more than offset the decline in aggregate net interest income during the quarter. Saudi Arabian banks reported flat net interest income as compared to the previous quarter after a decline in net interest income for SAMBA, SABB and Saudi Investment Bank were completely offset by higher net interest income reported by other banks in the Kingdom. The performance of banks in UAE were also mixed as growth in net interest income reported by FAB (+6%), Emirates Islamic Bank (+5.3%) and Commercial Bank of Dubai (+2.9%) was partially offset by declines reported primarily by ADCB (adjusted) and NBQ.

Highlights - GCC Banking Sector

Net Interest Margin - higher earning assets marginally impact GCC NIM

After remaining stable for three consecutive quarters at 3.2%, NIM for the GCC listed banks declined marginally during Q2-19 and averaged at 3.1%. The decline came primarily on the back of higher earning assets that more than offset higher interest income led by higher average interest rates in the GCC. Saudi Arabia has consistently grown its NIMs over the past several quarters on the back of rising interest rates. The Kingdom reported the highest NIM in the region at 3.7% followed by UAE and Kuwait at 3.1% and 3.0%, respectively. Qatar reported the smallest NIM during the quarter that stood at 2.6%. Out of the six regions, only Saudi Arabian and Omani banks reported q-o-q growth in NIM during Q2-19.

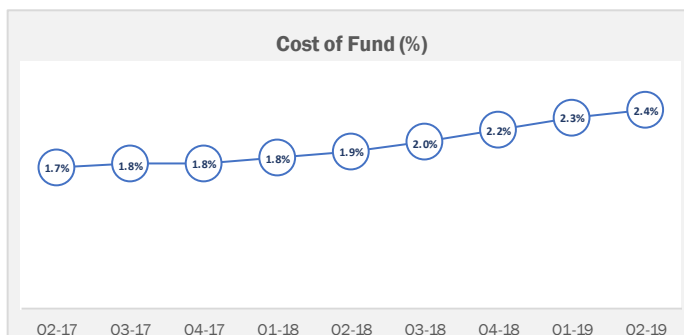
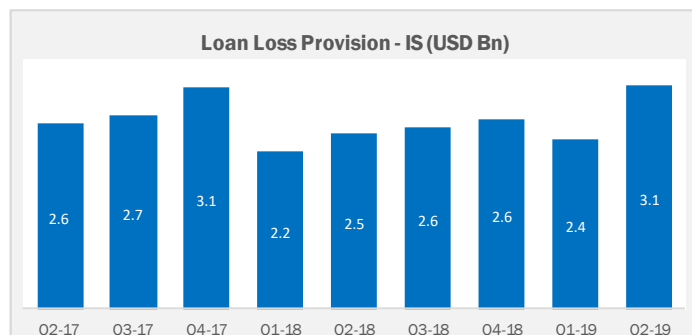
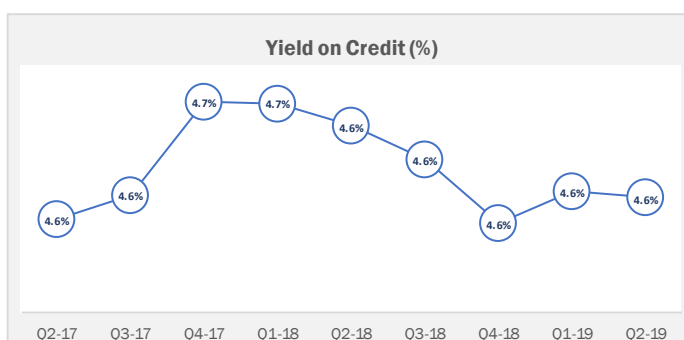
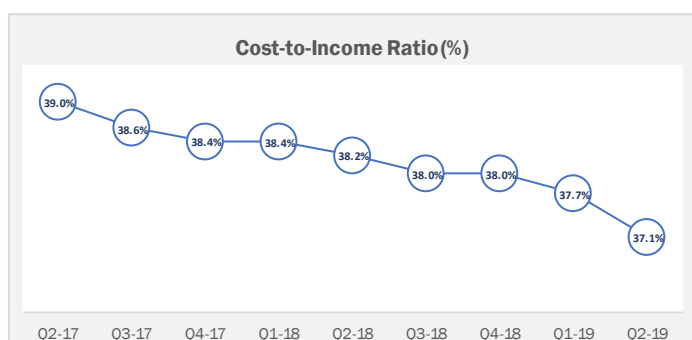
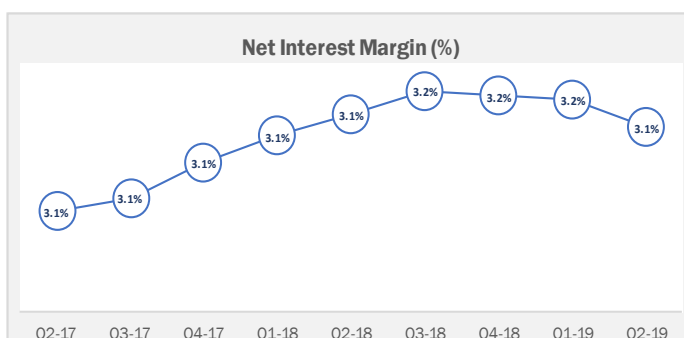
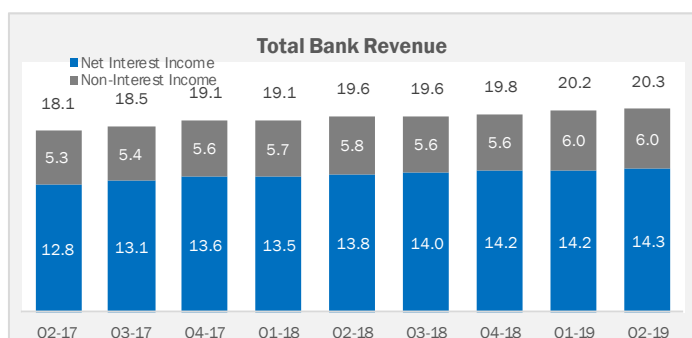
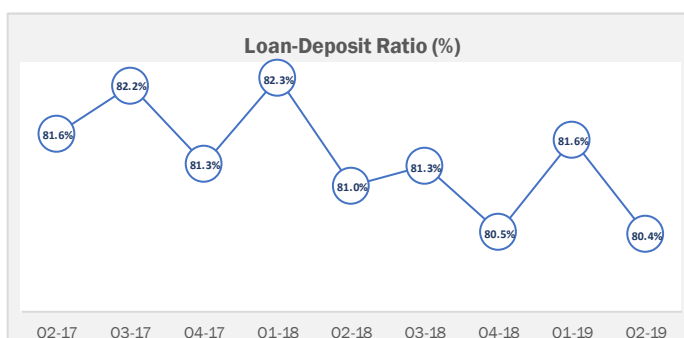
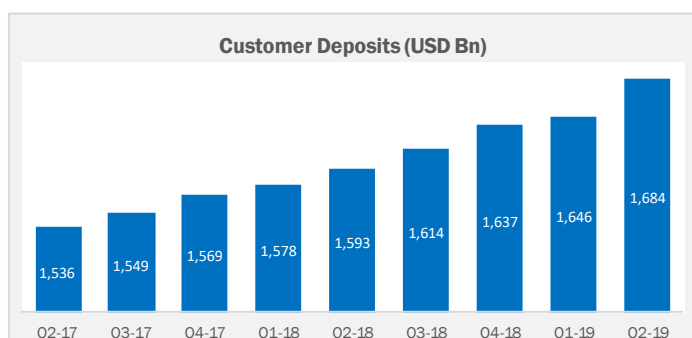
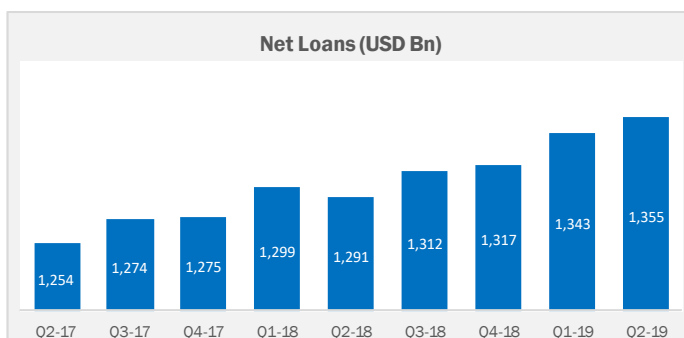
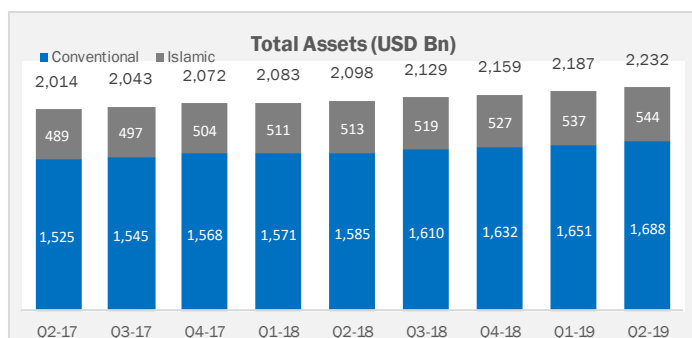
Cost-to-Income Ratio - cost optimization efforts lead to higher ratio

Continued cost efficiency improvement measures implemented by GCC banks has resulted in a visible improvement in the sector's cost-to-income ratio. The ratio has consistently declined over the past several quarters for the aggregate GCC banking sector and stood at 37.1% during Q2-19 for the GCC. Qatar has consistently reported the most cost efficient model with a cost-to-income ratio of 31.4% during Q2-19 vs. 31.5% in Q1-19 and 34.1% in Q2-18. The impact of scale was clearly visible with smaller banks in Bahrain and Oman reporting a significantly higher cost-to-income ratio of 48.2% and 47.4%, respectively.

Loan Loss Provision - a steep increase led by higher provisions in Saudi Arabia

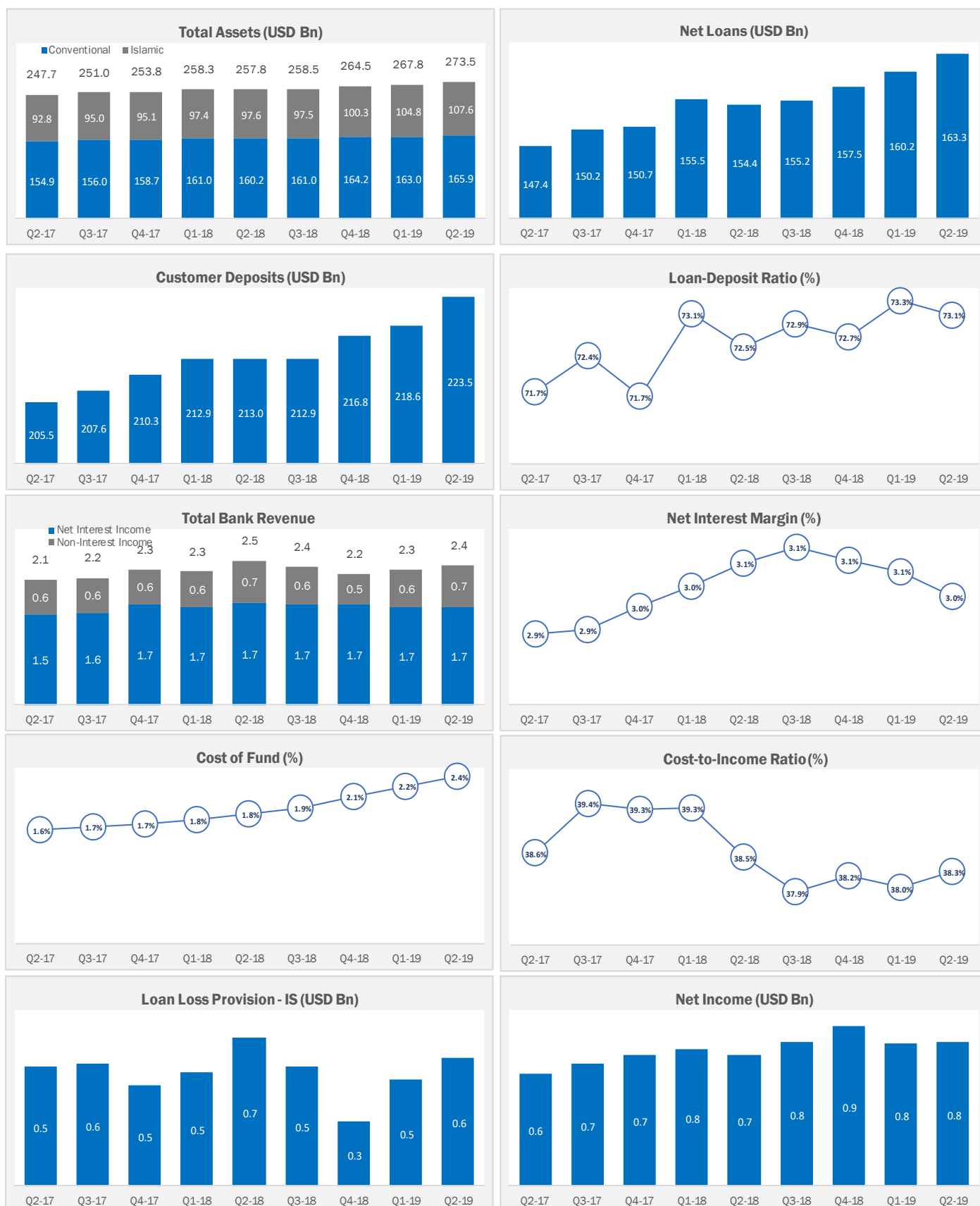
Quarterly loan loss provision (LLP) witnessed a steep surge in the aggregate GCC banking sector reaching USD 3.1 Bn during Q2-19 as compared to USD 2.4 Bn during Q1-19. LLP increased across the board for all the GCC markets with Saudi Arabia witnessing the biggest increase in the GCC of 115% q-o-q to reach USD 1.2 Bn during Q2-19. In Saudi Arabia, almost all the banks witnessed double digit growth in LLP barring Bank Aljazira that reported a q-o-q decline. Kuwaiti banks reported the second biggest increase in quarterly LLP during Q2-19 that surged 21.2%.

Key Banking Sector Metrics : GCC



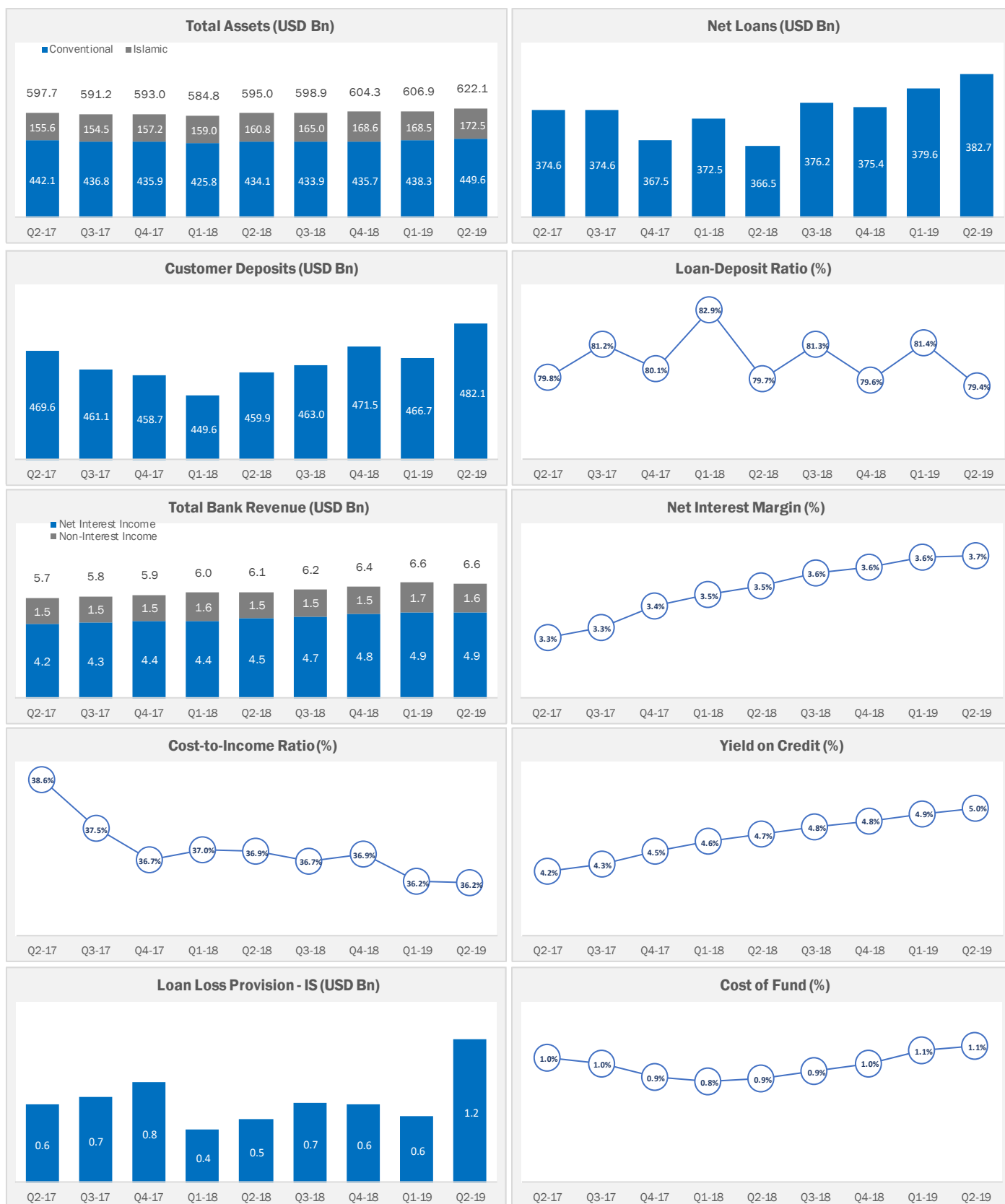
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Kuwait



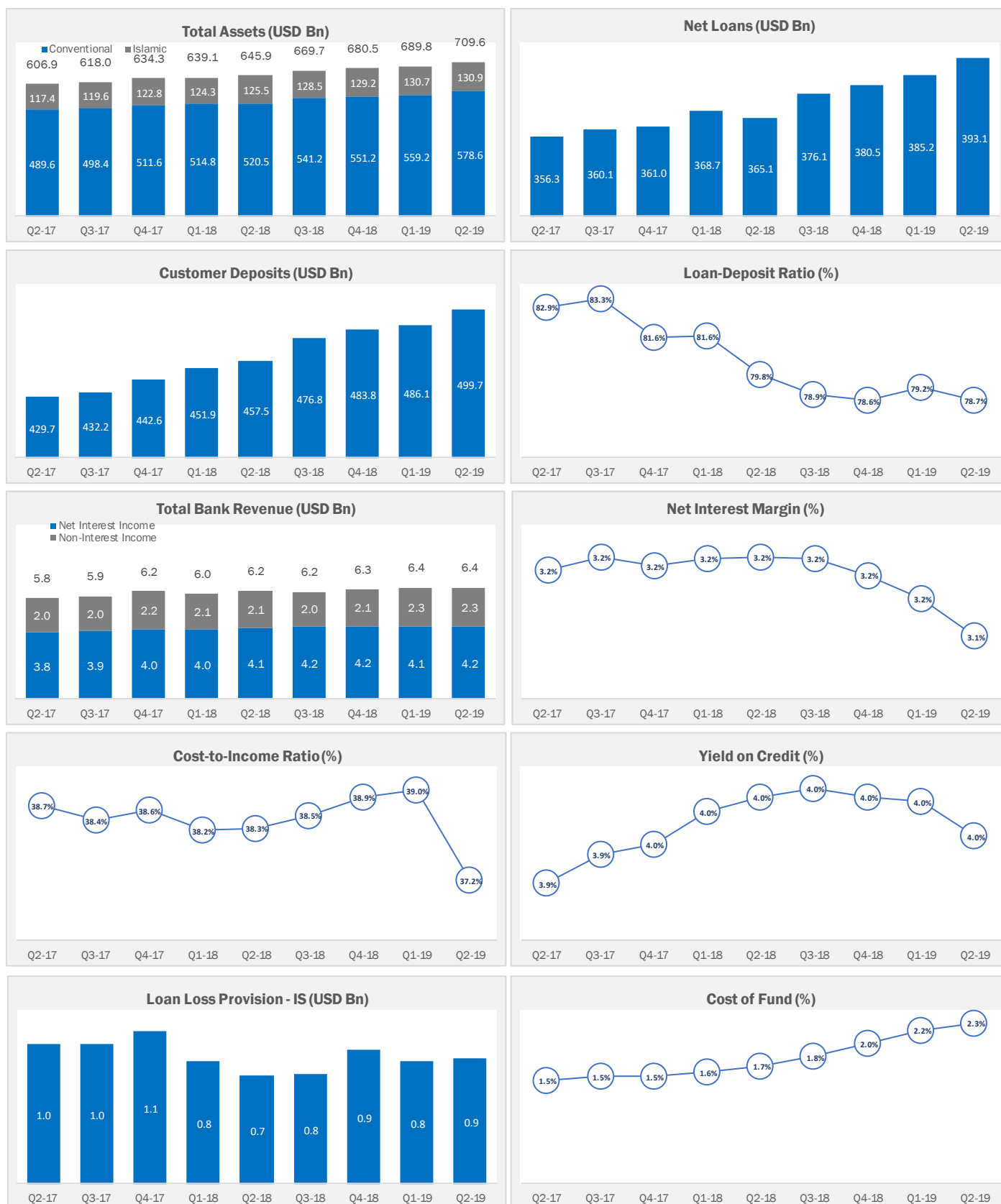
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Saudi Arabia



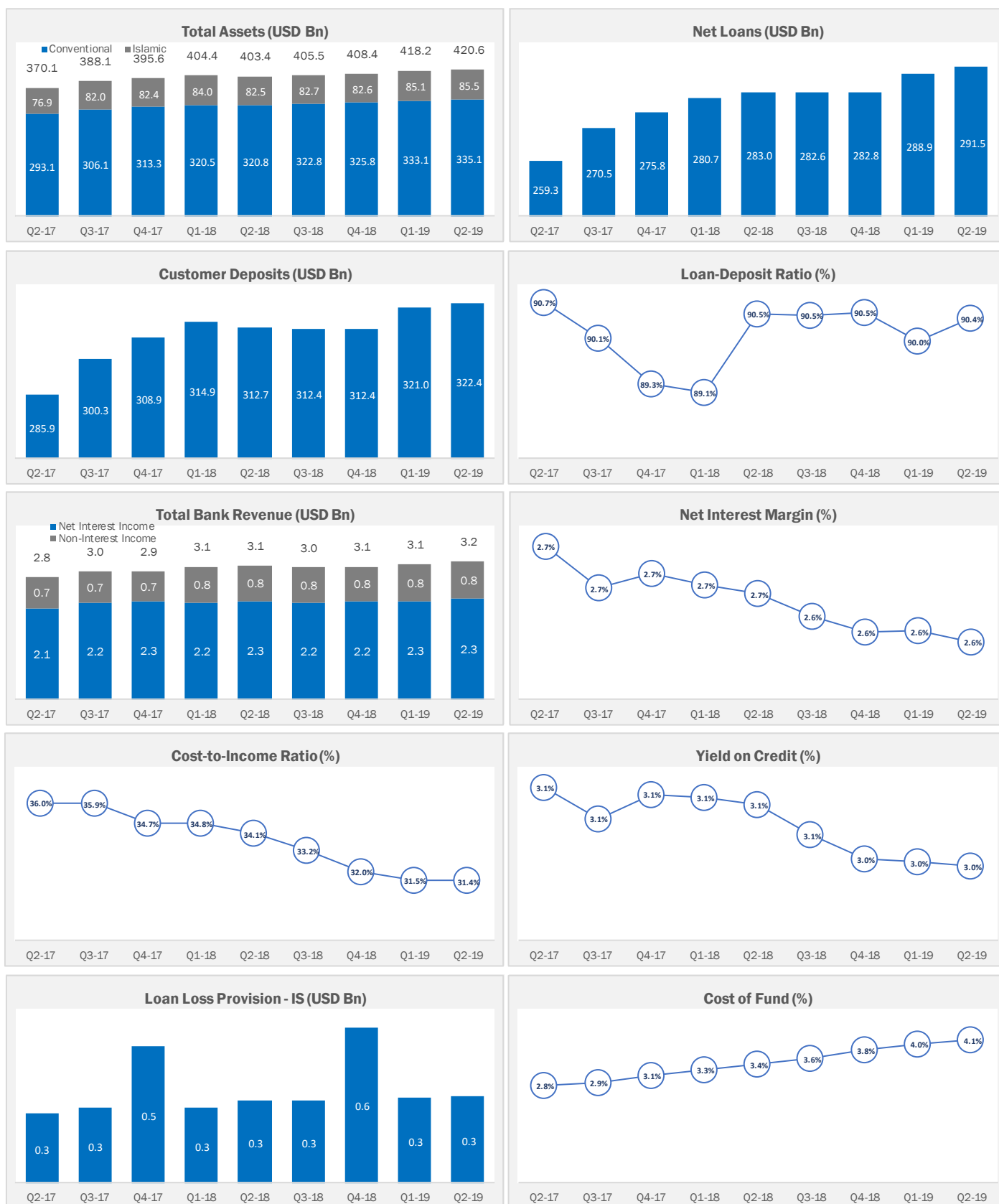
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : UAE



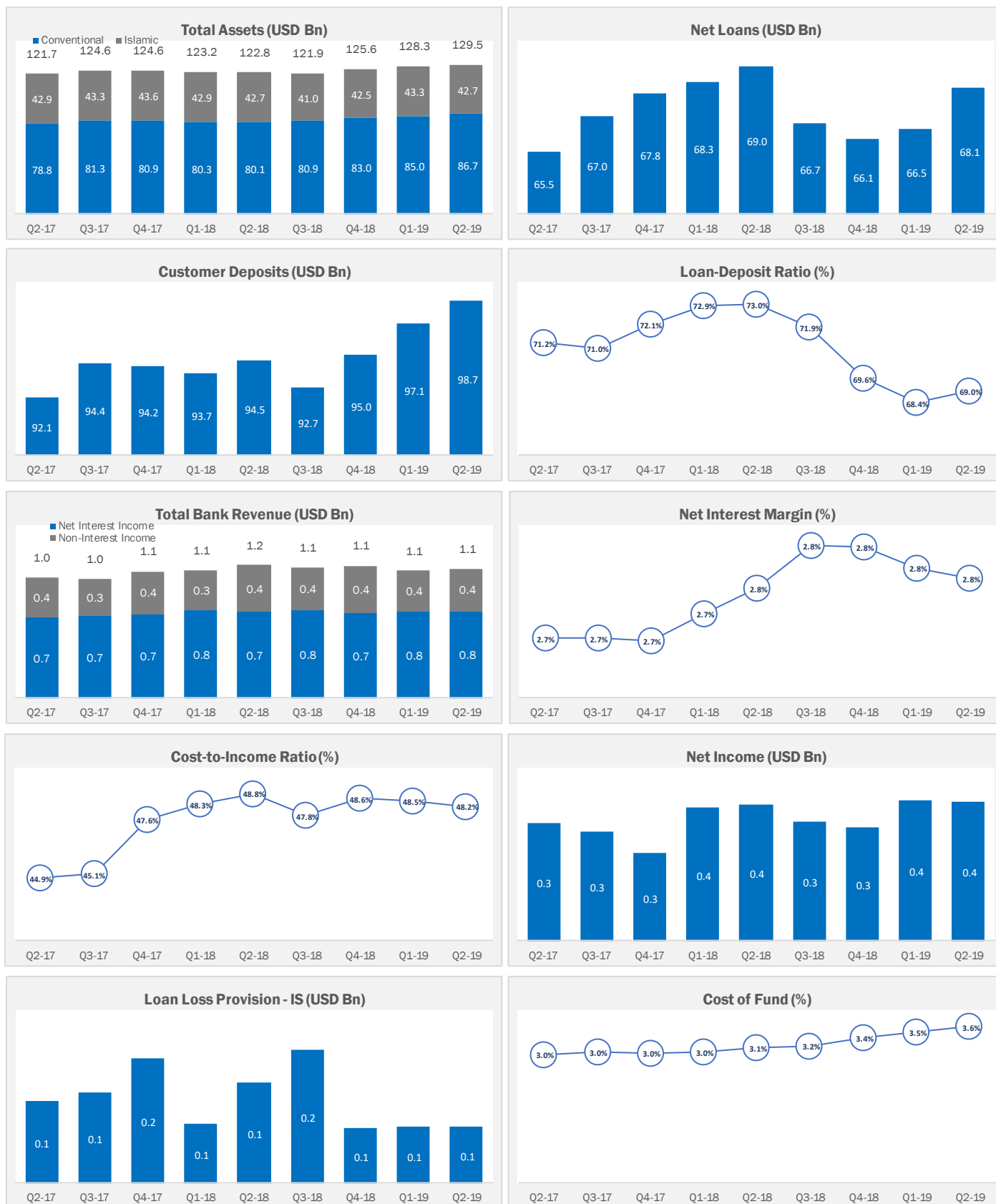
Source : Reuters, Company Financials, KAMCO Research

Key Banking Sector Metrics : Qatar



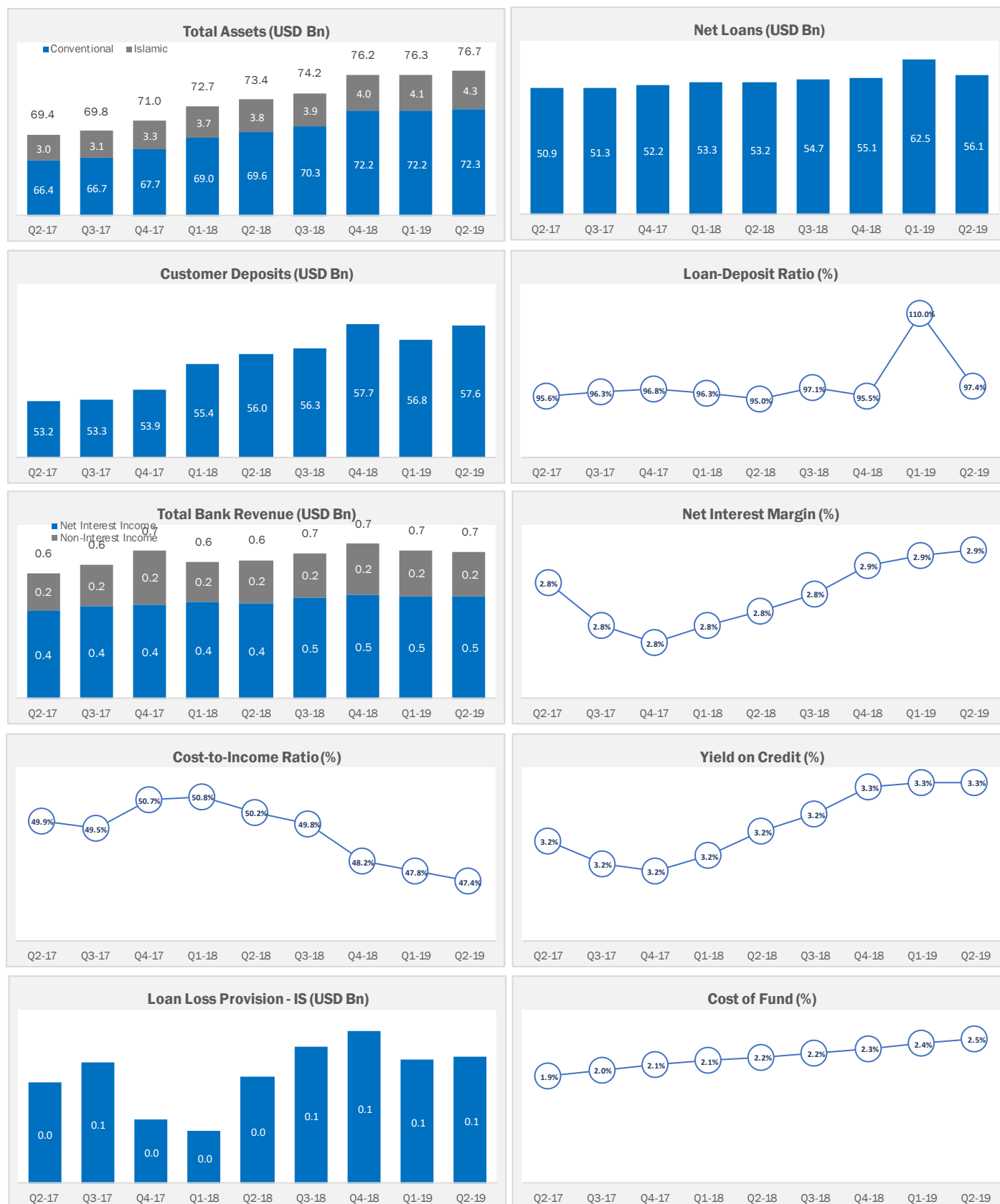
Source : Reuters, Company Financials, KAMCO Research

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	8.3	0.950	12.3	2.1	4.8	61.2%	30.9%	17.2%	16.6%
NATIONAL BANK OF BAHRAIN BSC	Bahrain	2.9	0.700	12.9	2.2	3.2	30.9%	13.5%	8.5%	13.0%
ARAB BANKING CORP	Bahrain	1.4	0.462	7.2	0.4	6.5	19.0%	N/A	N/A	0.0%
BBK BSC	Bahrain	1.9	0.542	9.5	1.4	1.8	31.6%	26.8%	11.4%	12.1%
AL-SALAM BANK	Bahrain	0.5	0.089	9.1	0.6	3.8	-4.4%	5.3%	-11.3%	2.3%
ALBARAKA BANKING GROUP	Bahrain	0.4	0.293	4.5	0.3	10.2	7.1%	-0.5%	-12.7%	-5.9%
BAHRAIN ISLAMIC BANK	Bahrain	0.3	0.120	11.1	1.1	N/A	-7.7%	16.8%	-7.1%	-5.3%
ITHMAAR HOLDING BSC	Bahrain	0.2	0.066	N/A	2.0	N/A	-22.4%	-19.1%	-15.7%	-10.8%
KHALEEJI COMMERCIAL BANK	Bahrain	0.1	0.048	N/A	0.5	N/A	-42.9%	N/A	N/A	-9.9%
NATIONAL BANK OF KUWAIT	Kuwait	20.8	0.984	16.7	2.0	3.4	28.5%	28.7%	9.7%	8.4%
KUWAIT FINANCE HOUSE	Kuwait	16.9	0.742	22.1	2.7	2.5	37.3%	32.2%	11.1%	6.6%
BOUBYAN BANK K.S.C	Kuwait	5.5	0.576	27.8	3.0	1.2	16.1%	23.7%	10.3%	8.5%
COMMERCIAL BANK OF KUWAIT	Kuwait	3.2	0.500	14.7	1.3	3.6	13.5%	30.8%	3.7%	-0.6%
GULF BANK	Kuwait	2.9	0.300	16.8	1.4	3.3	22.9%	12.1%	0.7%	2.6%
BURGAN BANK	Kuwait	2.9	0.337	13.0	1.2	3.4	31.3%	8.3%	-2.2%	6.8%
AHLI UNITED BANK (ALMUTAHED)	Kuwait	2.0	0.333	12.4	1.4	4.3	22.9%	4.7%	-3.3%	6.5%
AL AHLI BANK OF KUWAIT	Kuwait	1.7	0.315	12.1	0.9	4.4	11.2%	3.8%	-2.5%	0.0%
WARBA BANK KSCP	Kuwait	1.2	0.250	38.7	1.8	N/A	19.0%	16.7%	0.0%	N/A
KUWAIT INTERNATIONAL BANK	Kuwait	0.9	0.275	14.6	1.0	3.8	12.1%	19.3%	1.5%	4.2%
BANKMUSCAT SAOG	Oman	3.6	0.442	7.5	0.8	7.5	22.6%	17.7%	0.0%	6.9%
BANK DHOFAR SAOG	Oman	1.1	0.141	13.0	0.8	6.6	-3.2%	-3.2%	-5.2%	-0.2%
NATIONAL BANK OF OMAN SAOG	Oman	0.7	0.176	3.7	0.7	9.1	5.5%	0.0%	-3.9%	4.7%
HSBC BANK OMAN	Oman	0.7	0.127	7.0	0.7	7.3	14.7%	15.2%	-1.2%	-3.5%
SOHAR INTERNATIONAL BANK	Oman	0.7	0.113	7.5	0.8	5.3	7.7%	-4.4%	-7.3%	0.4%
AHLI BANK	Oman	0.5	0.120	8.1	0.8	7.9	-7.0%	-5.6%	-5.5%	5.8%
BANK NIZWA	Oman	0.4	0.092	18.5	1.0	N/A	1.1%	6.6%	0.9%	N/A
AL IZZ ISLAMIC BANK	Oman	0.2	0.072	42.2	0.9	N/A	-20.0%	3.5%	-6.4%	N/A
QATAR NATIONAL BANK	Qatar	48.6	19.3	13.8	2.6	3.1	2.1%	14.7%	7.8%	17.1%
QATAR ISLAMIC BANK	Qatar	10.5	16.3	14.6	2.5	3.1	10.9%	21.8%	11.3%	11.5%
MASRAFA AL RAYAN	Qatar	7.2	3.5	12.4	2.1	5.6	-10.5%	5.1%	-4.4%	15.7%
COMMERCIAL BANK PQSC	Qatar	4.9	4.4	12.1	1.1	3.4	16.6%	10.5%	-2.9%	5.3%
QATAR INTERNATIONAL ISLAMIC	Qatar	3.5	8.5	15.2	2.3	4.7	37.2%	17.1%	5.1%	13.5%
AL AHLI BANK	Qatar	2.1	3.3	11.4	1.4	2.7	34.9%	1.8%	-0.4%	12.0%
DOHA BANK QSC	Qatar	2.3	2.7	12.8	0.9	3.6	29.7%	-1.3%	-8.0%	4.6%
AL KHALIJ COMMERCIAL BANK	Qatar	1.1	1.2	7.3	0.7	6.4	8.5%	-8.2%	-7.2%	2.7%
AL RAJHI BANK	Saudi Arabia	40.5	60.8	14.1	3.0	4.9	11.4%	23.2%	8.5%	8.2%
NATIONAL COMMERCIAL BANK	Saudi Arabia	38.1	47.7	13.5	2.4	4.6	3.5%	30.9%	N/A	N/A
RIYAD BANK	Saudi Arabia	19.8	24.8	13.1	1.9	4.2	29.5%	39.0%	7.4%	13.7%
SAMBA FINANCIAL GROUP	Saudi Arabia	15.4	28.9	11.6	1.3	5.0	-3.4%	20.6%	3.9%	7.6%
SAUDI BRITISH BANK	Saudi Arabia	18.1	33.0	14.1	1.2	3.6	5.3%	25.2%	-0.3%	6.7%
BANQUE SAUDI FRANSI	Saudi Arabia	10.7	33.4	12.5	1.2	6.0	11.1%	18.6%	0.9%	7.1%
ALINMA BANK	Saudi Arabia	8.8	22.1	12.2	1.6	4.5	0.0%	24.7%	0.9%	7.3%
ARAB NATIONAL BANK	Saudi Arabia	9.1	22.7	10.1	1.2	4.4	11.4%	30.8%	3.5%	5.8%
BANK ALBILAD	Saudi Arabia	5.3	26.4	16.4	2.2	1.5	22.5%	28.9%	-0.3%	13.5%
SAUDI INVESTMENT BANK/THE	Saudi Arabia	3.2	15.9	15.3	1.0	N/A	-7.1%	17.3%	-5.9%	6.8%
BANK AL-JAZIRA	Saudi Arabia	3.0	13.9	11.2	1.0	2.2	1.9%	24.1%	-10.8%	3.8%
FIRST ABU DHABI BANK PJSC	UAE	44.6	15.0	13.8	1.8	4.9	11.9%	23.5%	7.7%	14.3%
EMIRATES NBD PJSC	UAE	20.7	13.7	6.4	1.3	2.9	60.6%	23.8%	11.4%	17.7%
EMIRATES ISLAMIC BANK	UAE	14.8	10.0	48.7	6.8	N/A	0.1%	93.9%	N/A	N/A
ABU DHABI COMMERCIAL BANK	UAE	16.3	8.6	10.2	1.3	5.4	10.5%	16.4%	5.3%	21.3%
DUBAI ISLAMIC BANK	UAE	9.5	5.3	7.3	1.4	6.6	13.6%	11.4%	3.0%	17.1%
ABU DHABI ISLAMIC BANK	UAE	5.1	5.2	8.2	1.4	5.3	41.5%	22.1%	2.0%	17.4%
MASHREQBANK	UAE	3.5	73.0	6.1	0.6	5.5	-1.7%	5.5%	-5.8%	3.5%
COMMERCIAL BANK OF DUBAI	UAE	3.0	4.0	8.5	1.2	5.2	4.1%	-3.2%	-0.5%	11.2%
NATIONAL BANK OF FUJAIRAH	UAE	2.5	5.0	15.4	1.9	1.3	18.8%	13.1%	14.1%	0.1%
NATIONAL BANK OF RAS AL-KHAI	UAE	2.1	4.5	7.3	1.0	6.7	15.0%	1.8%	-8.2%	13.5%
NATIONAL BANK OF UMM AL QAIW	UAE	1.1	2.3	10.2	0.9	4.9	-20.8%	-12.9%	-3.1%	3.3%
SHARJAH ISLAMIC BANK	UAE	1.0	1.2	7.0	0.7	6.5	15.5%	0.1%	-2.8%	8.6%
UNITED ARAB BANK PJSC	UAE	0.6	1.0	57.3	0.8	N/A	-16.8%	-15.8%	-26.0%	-8.6%
BANK OF SHARJAH	UAE	0.5	0.9	22.5	0.5	N/A	-15.7%	-12.4%	-11.2%	-1.6%
AJMAN BANK PJSC	UAE	0.5	0.9	10.3	0.8	3.7	8.1%	-12.4%	-14.4%	2.0%
COMMERCIAL BANK INTERNATIONA	UAE	0.4	0.8	8.4	0.7	N/A	-4.6%	-25.3%	-14.4%	-4.5%

Source : Bloomberg

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KAMCO Investment Company

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 1852626 Fax: (+965) 22492395

Email : Kamcoird@kamconline.com

Website : <http://www.kamconline.com>