June 29, 2025

Saudi Banks: Macro and Regulatory Factors Shaping Outlook

Sector View: Positive

Index Performance

Source: Bloomberg

Stock Performance

Bank	12M %	24M %	Market Cap. (mln)
SNB	-1%	-3%	214,200
ALINMA	-15%	0%	66,625
ALBI	-6%	-1%	38,400
BSF	3%	-13%	43,750
RJHI	16%	29%	376,400
SAB	-14%	-14%	67,603
BJAZ	-3%	10%	16,528
ANB	8%	8%	42,840
SAIB	11%	5%	17,900

Source: Bloomberg

Addressing Structural Imbalances in the Real Estate Market

To address the growing imbalance between supply and demand in the Saudi real estate market-driven by years of strong demand and surging prices -the government has rolled out a set of structural reforms. These include: 1) Lifting of development restrictions on vast areas north of Riyadh, covering more than 81.48 km^2, 2) Offerings 10,000 to 40,000 residential plots priced at no more than SAR 1,500/ sqm for citizens over the next 5 years with pre-set conditions, 3) Revisions to the White Land Tax program, increasing the annual tax cap to 10% of the appraised land value and extending the tax to cover undeveloped plots of 5,000 sqm or more within city boundaries.

The objective is to discourage unproductive land hoarding and stimulate active development. These reforms are already producing tangible outcomes. Land prices have started to moderate, and further adjustments are anticipated as regulatory clarity increases and building codes are issued for newly accessible areas, especially in the north of Riyadh. The release of residential plots of SR1,500/ sqm—with locations yet to be announced—are expected to be strategically situated in emerging urban zones. This initiative aims to expand the city's development footprint and support a more inclusive distribution of housing opportunities. This forward-looking zoning approach increases housing availability while preserving value in core urban districts, contributing to a more balanced and sustainable urban expansion.

The White Land Tax (up to 10%) could influence supply dynamics more meaningfully over time—particularly where the tax burden outweighs speculative gains. In such cases, landowners may be incentivized to bring idle land into development. These measures are already contributing to healthier price dynamics by curbing speculative activity and enhancing overall market stability. As implementation progresses, the reforms are expected to foster more predictable and transparent pricing trends, reinforcing investor confidence and long-term sustainability. With land prices showing early signs of adjustment and affordability improving, residential mortgage demand is anticipated to remain resilient—driven by increased access to land and a series of government-led initiatives. Programs such as Sakani and the broader national housing strategy, which aims to raise the homeownership rate to 70% by 2030, continue to drive demand alongside population growth and internal migration.

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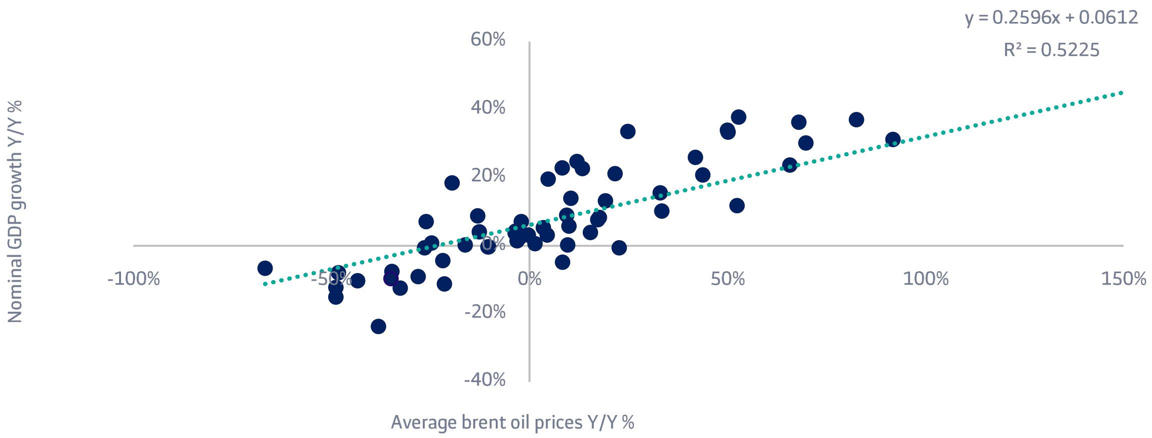
By the end of 2024, the number of new residential mortgage contracts issued to individuals provided by banks reached 122,302 contracts (+19% Y/Y), the total value of mortgages issued increased by +17% to SAR 91 bln last year Y/Y. According to Knight Frank analysis, the total residential stock across the five major cities (Riyadh, Jeddah, Dammam, Mecca, and Madinah) stood at 3.5 million units in 2024, and is expected to reach 3.9 million units by 2028, around 400,000 units projected to be added to the market. These reforms mark a pivotal shift in policy direction, targeting long-standing inefficiencies in land allocation and unlocking new pathways for residential development. While their transformative effects will unfold progressively, they are already setting a solid foundation for a dynamic, affordable, and resilient real estate sector.

Correlation Between Brent Crude and Saudi GDP: Historical Trend and Future Outlook

Our analysis of Saudi macro data between 2010 and 2024 confirms a strong positive correlation between Brent oil prices and nominal GDP growth (R^2 = 52%) as highlighted in Exhibit 1, with GDP growth rates typically accelerating during periods of high oil prices. Historical trends indicate that when Brent prices fell below $60/bbl—such as in 2009, 2015-2017, and 2020—nominal GDP contracted significantly, on average into low double-digit declines. Conversely, during periods of sustained oil prices above $80/bbl (2010–2013), GDP growth consistently remained on average in the double-digit range, reflecting the stimulus effect of robust oil revenues on public and private sector activity.

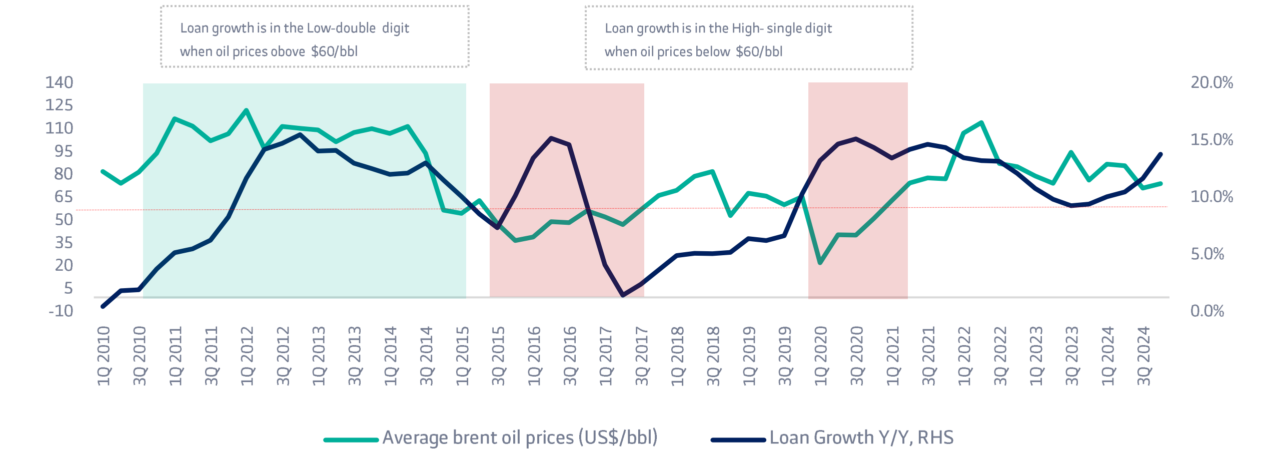
Exhibit 1: Strong Positive Correlation Between Brent Oil Prices and Nominal GDP Growth (2010-2024)



Source: GASTAT, Bloomberg, Riyad Capital

This sensitivity underscores the dependence of Saudi economic activity on oil revenues, especially in years where non-oil diversification is still maturing. However, recent forecasts indicate that the impact of oil price fluctuations on nominal GDP is becoming more moderate. Riyad Capital projects nominal GDP growth of 5.8% in 2025, even as Brent oil prices are expected to average $68.0 in 2025. This divergence from the historical pattern is largely attributed to the increasing contribution of non-oil sectors and the ongoing momentum of economic diversification under Vision 2030, which has helped cushion the macroeconomic impact of lower oil revenues. As highlighted in Exhibit 2, loan growth in Saudi Arabia has historically ranged in the low double digits when Brent exceeded $60/bbl. However, periods of lower oil prices (below $60) have coincided with a deceleration in loan growth to the high single digits, as seen in 2015–2016 and 2020. Based on our base case assumption of Brent oil prices averaging around $68/bbl we continue to expect resilient loan origination, supported by manageable oil-linked fiscal dynamics and ongoing credit demand. While loan growth reached a robust 13% in 2024, our outlook for 2025 remains constructive, underpinned by a projected 12% Y/Y loan growth across the banking sector.

Exhibit 2: Loan Growth Trends in Response to Brent Crude Fluctuations



Source: SAMA, Bloomberg, Riyad Capital

Forward P/B Multiples Suggest Market Has Priced in Oil-Driven Downside

The forward P/B multiples for some Saudi banks, indicates that valuations are generally at or below levels seen during previous periods of oil price downturns (2009, 2015–2016, and 2020). For example, SNB is currently trading at a 35% discount compared to its average multiple during those stress periods, BSF at a 15% discount. Saudi Banks overall are 7% below the historical average. This broad-based compression in valuation multiples suggests that the market has already priced in the impact of declining oil prices, with much of the downside risk now reflected in current trading levels. Investors appear to be positioning conservatively, discounting potential headwinds to earnings and growth. As such, unless oil prices fall significantly below current expectations or new macroeconomic shocks emerge, the risk of further multiple contraction appears limited. This valuation context could offer a degree of support for the sector, particularly for long-term investors looking for stability in well-capitalized, income-generating banks.

Monetary Policy Uncertainty and the Outlook for Saudi Banks Profitability

The Federal Reserve's Federal maintained the federal funds rate in the range of 4.25% to 4.50% during its June 2025 meeting, marking the fourth consecutive pause in interest rate adjustments. The decision reflects the Fed's data-dependent and risk-aware approach in light of persistent inflationary pressures, elevated geopolitical risks, and the uncertain impact of new trade policies.

This policy pause follows a cumulative 100 basis points in rate cuts delivered over three meetings in late 2024. Despite holding rates steady, the FOMC's updated projections reflects a cautious stance, with the majority of the members still expecting two 25 bps cuts before year-end, contingent on further evidence of easing inflation and labor market softening. However, the Fed revised real GDP growth for 2025 downward to 1.4% (from 1.7%), acknowledging the economic drag from trade frictions and a more cautious investment sentiment. At the same time, inflation projections were adjusted upward: Core PCE inflation (the Fed's preferred gauge) was raised to 3.1% in 2025, up from 2.8%. Projections for 2026 (2.4%, up from 2.2%) and 2027 (2.1%, up from 2.0%) were also revised slightly higher. Consequently, The Saudi Central Bank (SAMA) also maintained interest rates unchanged for 2Q 2025. The Repurchase Agreement (Repo) rate stands at 5.00% while the Reverse Repurchase Agreement (Reverse Repo) rate is at 4.50%. This monetary policy decision will have significant impact on the Saudi Banking sector, particularly the profitability and the cost of funds which translate to Net Interest Margins (NIMs), given the close alignment between Saudi Arabia's monetary policy and that of the Federal Reserve. The recent 100 basis point interest rate cuts have had varying effects on banks. Banks with a high proportion of variable-rate loans experienced immediate NIM compression, as these loans reprice quickly to reflect lower rates. In contrast, banks with portfolios weighted toward fixed-rate loans have seen a temporary cushion, though over time, new loans issued at lower rates will also lead to reduced yields.

Exhibit3: The key Forcasted Metrics For Banks Under Coverage (2025E)

Bank	NIMs	Cost of Risk	Cost-to-Income Ratio	Loans Growth	Deposits Growth	Div. yld.	TP	Recommendation
SNB	2.91%	18 bps	30%	9%	8%	6.0%	44.0	Buy
Alinma	3.53%	51 bps	30%	16%	11%	4.1%	36.0	Buy
ALBilad	3.06%	29 bps	41%	11%	9%	2.1%	33.0	Buy
BSF	3.09%	51 bps	35%	14%	15%	6.2%	17.0	Neutral
Alrajhi	3.18%	34 bps	24%	11%	10%	3.3%	115.0	Buy
SAB	2.95%	22 bps	32%	18%	10%	6.2%	44.0	Buy
SAIB	2.63%	30 bps	40%	16%	12%	5.3%	18.0	Buy
BJAZ	2.00%	30 bps	53%	17%	14%	2.2%	13.0	Neutral
ANB	3.84%	46 bps	30%	10%	11%	6.0%	28.0	Buy

Source: Riyad Capital

Saudi National Bank (BUY) – TP: SAR 44.0

We forecast SNB to grow its loan portfolio at a CAGR of 8% (2024–27E), supported by strong CASA base while maintaining flattish NIMs profile. This is expected to drive a high single-digit net (NSCI) CAGR, translating into a high single-digit earnings CAGR over the same period. Cost of risk is anticipated to remain low in 2025, while the cost-to-income ratio is expected to stay near 30%, as the management expects the contribution from the Turkish operations to remain stable, with no material change to the group's overall performance outlook.

Alrajhi Bank (BUY) – TP: SAR 115.0

We project Al Rajhi to deliver loan growth of 11% CAGR (2024–27E), with net profit margins expanding gradually as monetary policy eases. The bank is well-positioned to benefit from favorable conditions in retail lending, and improvements in funding costs are expected to more than offset any decline in asset yields. This should result in a low double-digit CAGR in net financing and investment income, while maintaining a cost-to-income ratio around 24%, reflecting superior operational efficiency.

Alinma Bank (BUY) TP: SAR 36.0 – SAB (BUY) TP: SAR 44.0 – SAIB (BUY) TP: SAR 18.0

We expect SAIB and SAB to lead sector loan growth, each delivering a robust 15% CAGR over 2024–27e, underpinned by their strategic positioning in large-scale infrastructure financing. Alinma is also projected to expand at a solid 14% CAGR during the same period, supported by active participation in project finance and continued momentum across government-linked initiatives. We believe this strong volume growth should offset margin pressures. Among the three, Alinma carries the highest projected cost of risk at approximately 51 bps in 2025, reflecting a more aggressive lending profile. However, this is expected to be mitigated by its superior cost efficiency, with cost-to-income ratios forecasted to remain among the lowest in the sector—at around 30% in 2025—underscoring disciplined expense management and operational leverage.

BSF (Neutral) TP: SAR 17.0

We forecast BSF to deliver loan growth of 11% CAGR (2024–27E), though we anticipate moderate NIM contraction due to its structurally asset-sensitive balance sheet. With a significant portion of its loan book exposed to interest rate fluctuations, margin compression risks remain elevated. Nonetheless, the bank's current hedging strategy appears sufficient for short-term earnings protection, while management continues to focus on natural hedging by growing its mortgage portfolio and allocating to fixed-yield investments to support long-term stability.

Arab National Bank (BUY) – TP: SAR 28.0

We forecast loan growth at a 12% CAGR over (2024–27E), driving a low double-digit CAGR in NSCI. We expect NIMs to remain resilient, supported by one of the highest assets yield in the sector and a robust CASA base, which collectively underpin a structurally low cost of funding. These dynamics are expected to translate into a high single-digit earnings CAGR over the same period.

BJAZ (Neutral) TP: SAR 13.0 – Bank Albilad (BUY) TP: SAR 33.0

Forecasted to deliver loan growth of 15% and 12% CAGR over (2024–27E), respectively. The anticipated easing in funding costs is expected to support margin expansion over the medium to long term. Furthermore, a progressive rebalancing of the asset mix toward retail lending—particularly residential mortgages—is likely to enhance structural profitability, especially for BJAZ. These dynamics are projected to translate into a high single-digit earnings CAGR for Albilad and a mid-double-digit CAGR for BJAZ over the same period.

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