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Presentation

Mazen Al-Sudairi:

Thank you all, welcoming you for attending Al Rajhi Earnings call for 2020. I would like to actually hand the microphone to Rayan Alshuaibi, Head of investor relations.

Rayan Alshuaibi:

Good day everyone, this is Ryan Alshuaibi. I would like to thank you for joining the call. Today with us our CEO, Waleed Al-Mogbel, CFO, Abdulrahman Al-Fadda, and GM Retail Majed Al-Rajhi. The CEO will kick off the presentation with an update on the strategy and the results highlights, followed by the CFO to walk us through the details of the financial performance, and then we'll open the floor for your questions. I would like to remind you that you can submit your questions during the call, through the webcast. However, we will give a priority to those who dial in in the call. Thank you again. Waleed, over to you.

Waleed Al-Mogbel:

Thank you, Rayan and welcome everyone. and thank you for attending our earnings call for 2020 results. As Rayan mentioned, I would like to give you a very high-level for our 2020 performance, then I will give you a briefing about our strategy for the next three years, which has been approved by the board in December. Then, Abdulrahman will give you more details about the performance for the last year. After that, as usual, we will take the Q&A.

Before I start on the performance for 2020, I would like just to recap with you what's happening to the Saudi market in 2020. As you might now, three main factors impacted the performance for the banking industry. Number one is COVID-19, then SAIBOR rate drop, and finally oil prices drop. All these happened in one month.

After that, the Saudi government started in the middle of March gradually the lockdown, until 1st June. As a result, the bank has taken all the necessary measures and worked at almost 50% of the capacity of the head office and the branches. We have tested our digital infrastructure, it is really resilient and improving.

in 2020, we have seen almost 18% of our retail sales through our application, end to end. Then, in July, the government increased the VAT rate from 5% to 15%. Then, we have seen an increase and then back to normal in terms of the customer spending.

However, our great result in 2020, of almost SAR 10.6 billion net profit after zakat, despite all the previous factors that I have mentioned impacting the banking industry in general, is giving a clear evidence that the bank is in good shape. We have a strong balance sheet that is really well-provisioned. We have seen a strong growth in assets and liabilities. We have significantly improved our NPL and coverage ratio, and also we have seen an improvement in our cost to income ratio.

All these results came with a strong customer and employee engagement. Our NPS has increased and reached almost 66%, and our employee engagement index has also reached 70%, compared to 66% in 2019. We have also, launched almost 25 products last year, and our active customer penetration in our digital application reached almost 83%.

To give you quite a high-level on the balance sheet, the growth in our total net financing is more than 26%, and that's mainly driven by mortgages, almost 90% increase, and our liability also increased by more than 23%.

In terms of the asset quality, you might know that Al Rajhi usually follows a very conservative approach when it comes to the provision. Our net provision has increased almost 22%, which gives us a coverage ratio of the NPL at more than 305% which increased from the percentage that we started the year off in the first quarter last year.

Our NPL has been also reduced to 76 bps compared to almost 90 bps in 2019, and the cost of risk is in the range of 75 bps supported by a good recovery in collection happening last year.

For our operating results, as I mentioned we have seen a net income increase of 4.3%, and that's mainly driven by a net yield income of 3%, and also a non-yield income growth at 25%, mainly driven by brokerage and digital & payments segments.

Now, I will take you, to our strategy for the next three years, which has been presented to the Board and approved by them last December. When we built our strategy, we cannot ignore five main factors that are really happening in the market in the last two years.

Number one is the competition. When I talk about the competition, it's either normal consolidation happening in the region, or a newcomers coming to the market, either from digital banking or from non-banking industry, focusing on payments, for example.

Number two is the regulatory environment. Recently, SAMA issued the Open Banking Policy, which is one of SAMA's initiatives to open up the market more and more for FinTech and the competition to be increased.

Number three is SAIBOR. As you know, we are in a low-rate environment. Why we consider SAIBOR for Al Rajhi? most of our liability is current accounts, and when we have a low-rate environment, Al Rajhi is being much more impacted than other banks, considering, as I mentioned, more than 90% is current accounts of our liability.

Number four is the impact of COVID-19. I think we all know that when we talk about the impact of COVID-19, a positive impact, we all know that the digital KPIs have been accelerated last year. I'll give you an example, In the Saudi market, the transaction at point of sale has been increased in the market, almost 76%, and the digital transaction for Al Rajhi has also increased almost 55%.

Last one, we cannot talk about the strategy for the next three years and not look at the Vision 2030, which has a lot of opportunity and growth in the Kingdom. So we have also looked at what is the potential of revenue growth and initiatives we can do and adapt for Vision 2030, knowing, for example, growing the mortgage sector, as you can see our performance in the last two years it was really driven by mortgages.

If you go to the next slide, based on what we have just mentioned now, we have seen two big factors that have to be considered when we design our strategy. And these two main factors are, we've built our actions either as an opportunity or to defend our position.

Number one is that digital disruption, which I mentioned is coming from either banks entering the market or FinTech payment solutions or a micro-finance and non-salary transfer. I'm sure you know most of our personal finances rely on salary transfer from the government, so the action we have taken here is what we call "Protect Our Core". We are a retail bank, so we have to look at expanding in a new retail segment and develop our digital and payments solution, and we will rely more now on our new financing company, which has been launched in the second half of last year.

The second factor is KSA economic change. I'm sure you have heard in the last government budget that PIF will participate more and more in the CAPEX investment in Saudi economy, in terms of either mega-projects, or issuing Sukuk or accelerating the privatisation for the government entities.

That requires us to " participate, in a new growth avenues ", for these initiatives, for Vision 2030, by building our corporate segment, and grow our corporate book. We believe we have the balance sheet to expand our corporate and grow in this segment. Also, we believe that there is an opportunity to participate more in our treasury portfolio.

I will now move to the next slide. Therefore, our road map to become the Bank of The Future has four key objectives that identify our planned priority for 2021 until 2023.

Number one, we will build on the core. We will expand and reach across all the segments for our core business. Number two is we will outperform the market, in terms of customer experience and profitable market share. Number three, we will transform our technology. We will invest more and more in our IT and digital infrastructure. Number four, we will fulfil more customer needs by providing innovative banking solutions and offerings.

I will provide you with further updates on our strategy and deliverables on a regular basis, when we have our earnings call each quarter.

Now, I will hand over to Abdulrahman, our CFO, to give you an update on our financial performance for 2020.

Abdulrahman Al-Fadda:

Thank you, Waleed. Many thanks to everyone for joining our full year earnings call. I wish you all the best in 2021. As usual, I will go over the financial performance slides very quickly, so at least we'll have further time for the Q&A sessions.

So if we start at the macro level, we've seen the IMF has revised down the Saudi GDP forecast for 2021, to be 2.6%, although that our internal expectation that it will be north of 3%. In addition, IMF has upgraded the 2022 GDP forecast to be 4%. That's taking into consideration the average oil price, which is part of the EIA latest forecast, around 55.70. I see today oil prices are trending at around $60 per barrel.

In terms of the overall foreign reserve for SAMA, it stands at around 1.7 trillion Saudi riyals, and again this is without the PIF assets, and think you've seen the press conference, from the Crown Prince couple of weeks ago, that they have close to around 1.5 trillion Saudi riyals in 2020.

We've seen also the Minister of Finance, when they announced their budget forecast for 2021, expenses have been hovering at almost 1 trillion riyals, close to 78 billion lower than the same period in 2020, which will bring the total budget deficit to be around 140 billion riyals, down from the forecasted 300 billion in 2020. Inflation has picked up in 2020, due to the hike in the VAT on 1st July, and we're expecting that to be normalised back in 2021.

Moving on, in terms of the banking sector, we have seen the loan portfolio has grown close to around 212 billion Saudi riyals, around 14.2% year-on-year growth. Deposits in the banking system have grown 147 billion Saudi riyals, which closed to around 8.2% compared to the same period last year, which will bring the official LDR to be 75%.

On the mortgage side, which has been the bright spot of opportunity for the banking system over the last couple of years, we've seen, in the month of December, record origination by banks, which came at around 15.4 Billion Saudi riyals. Q4 origination came at around 43 billion riyals by banks, which was 61% year-on-year growth, 27% growth on a sequential basis, which will drive the full year 2020 mortgage origination to be around 136 billion Saudi riyals, around 84% growth, year on year.

In terms of the consumer spending, we've seen the overall consumer spending, which is measured by combined point-of-sale transactions as well as ATM withdrawal, went lower by 4.1%. However, we've seen a positive migration to more of a cashless payment method. ATM withdrawal went down by 16%, while the point of sale, actual spend, came higher by 24%.

Moving on, this is the slide, just to retreat the government initiatives back in 2020, in terms of the stimulus package. I will not go over again the full details. It's close to 350 billion riyals, 13% of GDP. However, I would like to highlight that recently SAMA has extended further the SME payment deferrals from mid-December to 31st March 2021.

Moving on into the financial results, we'll start with the balance sheet. In Q4, compared to Q3, we've seen the growth on the total assets by 9%, mainly driven by the growth in the financing close to 9%, investment around 6%, and an increase in the short-term placement with SAMA by 26%. That will provide a total asset growth for full 2020 to be around 22% growth on the asset side.

On the liability, Q4, we've seen a sequential growth in our total liabilities by close to 11%. If you look at the bottom-right chart, the total financing book has grown 66 billion Saudi riyals year to date, 26.4% growth on the asset side, mainly driven by the retail growth. Retail portfolio represents 79% of the overall financing portfolio.

On the total customer deposits, 70 billion riyals year-to-date growth, mainly coming from the current accounts, which the total overall customer deposits growing by 22.5% year to date.

Zooming into the asset drivers further, as I mentioned, 66 billion riyals growth on the financing, close to 13.4 billion on the investment side, and 8 billion is on the cash and balances with SAMA, which, as I mentioned, we have a growth, year to date, around 22%.

Zooming in further on the financing, if you can see the bottom-right bar chart, out of the 66 billion growth in the total financing portfolio, 64 billion is coming from retail financing, mainly coming from mortgages.

Mortgages, we have grown our book close to 49.5 billion year on year, around 90% growth, 16 billion riyals on a sequential basis, around 18% growth. Mortgages outstanding is 104.5 billion Saudi riyals as of the end of the year, which represents 41% of the retail portfolio, close to 32% of the overall financing portfolio.

On the left-hand side, you can see the driver of the 70 billion riyals growth on the customer deposits, around 43.3 billion Saudi riyals coming from the current accounts, which has recorded close to 15% year-on-year growth.

Moving on to the net income side, overall full year 2020, our NII has gone higher by 3%, mainly due to the growth in the financing portfolio. The non-yield income has grown 25% year on year, mainly driven, as Waleed mentioned, by payments & digital, and also thanks to our sister company, Al Rajhi Capital, where they have good growth in fee income in 2020, which will bring our total operating income to be 6.3% higher compared to the full year in 2019.

Operating expense, we have close to a 5.6% increase. Our total pre-provision profit has recorded close to 6.7% higher than 2019. Provision, as Waleed mentioned, we have taken an adequate provision in 2020, given the current environment. Our provision was raised by 22%, so that will lead to our overall net income for the full year to be 4.3% growth compared to 2019.

On a quarterly basis, we've seen Q4, compared to the same quarter last year, a net income growth of close to 34.7%, and around 17.4% on a sequential basis. On the left-hand side of the chart, you can see the drivers of our net income growth. Close to 500 million is coming from the yield income, 752 million due to the improvement in our overall fee income, a 356 higher operating expense compared to 2019, and almost 400 million riyals higher provision compared to the same period last year.

Zooming in to the operating income drivers, as I mentioned the fee income growth that we have seen in 2020, mainly driven by payments and digital fees, which we mentioned earlier, about the point-of-sale transactions which have paid very positively for us in 2020, and which was in line with our strategy.

In addition, the fee income from Al Rajhi Capital has recorded good growth in 2020, We've seen the average daily volume in 2020 went higher by 16.5% compared to 2019. And also, our sister company managed to grow market share. In 2020, their market share was close to around 19.1%.

And our NIM for the full year is around 4.71% in 2020, versus 5.22% in 2019, a contraction of close to 51 basis points. The main drivers are the following, close to 16 basis points due to the modification loss that we have taken, and also to the fee waiver impact in 2020. You know that SAIBOR contracted in 2020 versus 2019, by close to 144 basis points, which led to an impact on our NIM by 47 basis points, and finally, around 12 basis points improvement due to the management action and the change in mix.

On the expense side, our cost income ratio has contracted by close to 24 basis points lower in 2020. That's driven by close to 70 basis point positive jaws between operating income and operating expenses in 2020. Our operating expenses overall have increased by 5.6%. The main driver is the staff costs, as well as the spend on IT and digital, to further improve our resilience and to position ourselves very well heading to the Bank of the Future, where we've mentioned we will transform our technology basis.

On the asset quality, our cost of risk, 75 basis points, our net provision is close to 2.2 billion, 22% higher than the same period last year. Our NPL stands at 76 basis points, retail at around 30 basis points, and also we've seen improvement on the corporate side, around 2.5%. In addition, our NPL coverage is more than 305%.

Moving on into the stage coverage, stage one represents close to 96% of the overall financing portfolio. Also, if you look at the stage coverage as well, if you compare it against Q3, we have seen almost, on stage one, 96 in Q3 versus 95 basis points, stage two from 25% to 26.4%, and finally stage three from 84.9% to 82.8%. And I think the current position we have, it's positioned us very well entering into 2021, given the core portfolio is low risk and we have best-in-class NPL and stage coverage.

Loan to deposit ratio, healthy, 79%, LCR, 155%, LSFR 123%. All those ratios ahead of regulatory requirements. In terms of RWA, we have seen it increase by close to 18.6% and the total increase in RWA mainly driven by credit RWA increase of 19.7%.

Our shareholder equity stands at 58.1 billion Saudi riyals as of the end of 2020. We've seen the total capital has increased by 14%. Capital ratio, our tier one, 18%, and our total capital at 19.1%, and if you further zoom into our tier one capital, we started the year at 18.8% and you can see that we have managed to deliver close to 35 basis points of internal capital generation.

On the earnings per share, on a quarterly basis, keep improving sequentially. Q4 is around 1.25, which will bring the full year earnings per share to be 4.24 versus 4.06 in 2019. Also, we have seen a good improvement at the ROE and ROA level in 2020.

If you recall, Waleed mentioned about the challenges that we have faced in 2020, and this is the slide that we have shared with all of you guys in Q1, to address the challenging environment. In terms of the delivery side, our financing portfolio growth was 26%, mainly driven by 34% growth in the retail book. On the asset quality, cost of risk, 75 basis points, healthy NPL and NPL coverage. And on the liquidity side, we're maintaining a very adequate liquidity as we speak. And finally, the profitability, we've delivered 4.3% net income growth.

Finally, the slide that everybody wanted to have further insight, and I think if you look at 2020 delivery, we've delivered in all the six of the guidance that we provided, all of them were in line with the guidance that we provided earlier in the year, with the exception of the financing portfolio guidance, given that we have a strong growth in Q4.

In terms of 2021 guidance, we are forecasting mid-teens growth in 2021. The assumption is we'll continue to grow our mortgage book, and also take into consideration the avenue of growth opportunity Waleed mentioned at the beginning.

In terms of the NIM, we are expected around 30 to 20 bps contraction in 2021, mainly driven by the rate environment and also the ample liquidity that we have in the system. Cost to income ratio, we are forecasting below 31% for 2021. Cost of risk, 60 to 70 basis points. And if you recall, that is within our historical average pre-COVID-19. Finally, our tier one, between 17% to 18%, and ROE between 20% to 21%. So this is our guidance for 2021. Operator, back to you.

Operator:

Thank you. If you would like to ask a question, please press star one on your telephone keypad, or if you are listening to the call via your web browser, please click on the flag button to ask a question. The first question today comes from Naresh Bilandani from J.P. Morgan. Please, go ahead.

Naresh Bilandani:

Thank you. Hi, it's Naresh Bilandani from J.P. Morgan. Congrats on the great set of results. Just two questions from my side, please. First, I'm looking at the cost-income ratio guidance that you have provided of less than 31%, and that looks quite punchy. Waleed mentioned, earlier in the presentation, that tech transformation is your future priority, so in this regard I'm just keen to understand if the low cost-income ratio is likely to be a feature of this year, 2021, only, or do you think this ratio is likely to be sustained over the medium term? That's the first question.

My second one is on the growth in the financing book. You had mentioned in the third quarter call that you expected mortgage growth to be about 30% CAGR into the medium term. I'm just keen to understand if that expectation still stays, or has it changed in any form? And I would also appreciate it if you could make us aware of any regulatory change that has occurred recently, with regards to this product, or if this is still business as usual. Thank you.

Abdulrahman Al-Fadda:

Thank you, Naresh, for the question. On the cost-income ratio guidance, although we mentioned that we will continue to invest in improving our IT and digital infrastructure; however, we're going to invest and spend smartly. I think this is one of the key features for our strategy, which we've highlighted as outperforming the market. So we have taken also, in the second half in 2020, more than 50-plus initiatives to be able to optimise our costs, and we believe that the cost to income guidance that we have provided, and based on what we have seen so far, and in line with our strategy to outperform the market, we're projecting this to be a sustainable cost to income in the medium term.

On the second question on the mortgage, honestly, no, we have not seen any changes from the regulator so far, whether be it is the REDF or Ministry of Housing, so it's a good business that we've been underwriting in Q4 accordingly.

Waleed Al-Mogbel:

One thing I would like to add to the second point is we have to know that this is one of the 2030 initiatives, and it has its own KPIs, with a certain percentage every year for ownership for the citizens. So still out of January now, the beginning of the year, we haven't seen any slow in terms of the mortgage numbers.

Abdulrahman Al-Fadda:

Nevertheless, Naresh, to specifically answer your question about the mortgage growth opportunity, I think we still have our internal forecast for the mortgage growth to be a minimum of 30% for the market on a CAGR basis for the next three years. So that's our forecast. If things change, that's a different discussion.

Naresh Bilandani

Thank you very much, Waleed and Abdulrahman. Thank you very much.

Operator:

Our next question comes from Waleed Mohsin of Goldman Sachs. Please, go ahead.

Waleed Mohsin:

Thank you very much for the presentation. I have a few questions. I'll start with your market share. This quarter was special for us in quite a number of ways. If I look at your new origination, typically in any quarter it's between 20% to 25% of loans, and it's 25% to 30% of new deposits. In this quarter, we saw your market share of new originations go up to 50% on the lending side, and roughly 60% on the deposit side.

I just want to get a sense of what did you do differently, or what changed in the competition side, for your market share to increase so materially in the fourth quarter. That's my first question.

The second question is on your maturity mismatch. I know you've answered this previously but given the substantial growth we've seen in mortgages this year, 80% at a sector level, and with mortgages now constituting 30% of your overall loan book, or 40% of your retail book, almost 30% of your loan book is now 20-year tenure, and it's funded mostly by deposits which are less than one year.

Do you look at the mismatch coverage in the context of the shareholder equity, and that gives you comfort that this mismatch doesn't exist, although it does on the lending and deposit side? So any comments on that would be very helpful. And also, the role of the Saudi Refinance Company, and if they're starting to look at it and would provide more funding to the banking system. So that's my second question.

And the third question I have is on dividends. Given that most of the growth this year has come from low RWA density loans, and, as a result, when we look at your RWA the growth was low, why no dividends, especially given that the capital across the banking system is quite solid?

And my final question, which is a fourth one, is on your digital strategy. Your digital strategy on the retail side has been very successful, and you keep getting market share on retail customers. Could you please talk about your digital strategy on the corporate and the treasury side, and how that will help you win market share going forward? Thank you.

Waleed Al-Mogbel:

Thank you, Waleed, for your four questions, if I'm counting right. I will ask Majed, head of retail, to answer your first question, then Abdulrahman will cover ALM and I will cover the last two questions.

Majed Al-Rajhi:

Hi, good afternoon, everyone. This is Majed Al-Rajhi, head of retail. In terms of the last quarter, quarter four, business has gone back to normal after COVID-19, so things start to move in terms of business, and we have built several initiatives within our business to recover whatever we have missed, in quarter two, especially. And we have moved and pushed aggressively, in terms of digital offering and to attract customer as well. That's why we have seen the uplift on the last quarter for our results.

Abdulrahman Al-Fadda:

Waleed, on the second question, on the asset liability duration mismatch, first of all, and I think this is something that is not unique for Al Rajhi, I think it's a comment for all the Saudi banks, nevertheless we're monitoring the exposure on a regular basis. From our perspective, we have an internal risk appetite as well as external risk appetite that we are monitoring regularly .

One of the risk appetites that we monitor on a regular basis, which is related to the asset liability mismatch duration, this is part of the Basel Pillar III disclosure. As per the Basel requirement, we are supposed to disclose our pillar III disclosure on a semi-annual basis.

And in line with the Basel BCBS 368, we are doing the different stress scenario on our assets and liabilities through multiple shocks into the balance sheet, through a maximum change on the equity. So we call it delta EVE. As per the Basel requirement, your maximum delta EVE as a percentage of tier one capital should not exceed 15%.

In June, we were close to 3.3%. In December, we were close to around 6%, and we will be able to disclose that in our Pillar III disclosure very soon. Nevertheless, through various discussions in the internal committees within the bank, whether it be in the ALCO, risk Committee, board risk management committees as well, we are assessing different scenarios.

And in case that it's required, we have multiple options, whether you mentioned about securitisation, there is also another option is tapping the debt capital market to be able to improve the capital adequacy and improve further the funding requirement for the organisation. Waleed?

Waleed Al-Mogbel:

Yes. Waleed, in terms of the dividend, we just now completed our financial statement for 2020, and now we are able to propose and recommend to the Board the right dividend. We will have a board meeting at the end of this month, and then we will see what is the feedback. Once we have clearance, we will announce that, after taking the required approval.

For the last one, in terms of the corporate, basically what we see is Al Rajhi should position itself in terms of the corporate market, we are not taking the right market share for this huge, more than 1 trillion credit for corporates loans. What we have done is first we brought on a new team, almost 15 to 20, a new team from GM to the N-2 and N-3, RMs and team leaders, from corporate banks.

The second thing, also we visited our policy, credit norms and risk. The third one also we invest and build our corporate IT infrastructure in terms of CRM. These three things will help us to go to the right and quality corporate names. I can assure you we're not going for a market share, we're going to good quality names with the right, also, price.

Waleed Mohsin:

Got it. Thank you so much, very helpful.

Operator:

Our next question comes from Shabbir Malik from EFG Hermes. Please, go ahead.

Shabbir Malik:

Salam Alaikum, thank you very much for this presentation. I have a couple of questions. STC has introduced something for remittances in Saudi Arabia. You have been the largest player in the remittance business, is that something that could potentially be a competitor for you? Maybe not now but maybe down the road?

Secondly, you talked about your digital strategy, can you please highlight some of the recent major investments you've done on digital? What have you focused on, and how would that benefit you in the medium to long term? Thank you.

Waleed Al-Mogbel:

Let me start with what you mention of STC pay as a competitor. I can assure you, last year, we gained market share in terms of remittance. And that's because of the advanced digital infrastructure and solution in terms of remittance we provide to our customers.

Yes, it is a newcomer, they are coming to take some market share and take some of the business from banks in terms of remittance, but I think banks, and especially Al Rajhi, is now ahead of any digital solution coming for the remittance.

The second one, you talked about our strategy for digital. As I mentioned, we have built our digital strategy, if you remember, almost two years ago, when we started first focussing on our bank application, and how we make it digital-first for the customer to go through our application before he or she is thinking to visit the branch.

And we have a clear road map for that. Every month, there is a new either feature, service, or a product in our retail application, and we are benchmarking ourselves now with the international market in terms of the retail application.

Our strategy for digital doesn't stop at only the retail application. We are looking at 360 and ecosystem for all digital and payment solutions that the customer, either an individual, corporate, or SME, might need. Thank you.

Shabbir Malik:

Thank you. Can I ask one more question, please?

Waleed Al-Mogbel:

Yes, go ahead.

Shabbir Malik:

My calculations suggest that the Saudi homeownership rate is probably approached or reached about 70%. Do you see that the government will eventually raise that threshold to a higher level, or do you think that there's still a lot of room for the market to grow and it hasn't still reached the 70% homeownership level?

Abdulrahman Al-Fadda:

Shabbir, I think you're asking one of the toughest question, to calculate what is the current Saudi homeownership. And I think if you ask anybody, everybody will have their own way of calculating the current homeownership. For example, I know that some of you guys have published a few articles about homeownership, and I think it's difficult, and I think we're waiting for the result to come out from GSTAT and to be able to model it accordingly.

But nevertheless, what I would expect, my personal and humble views , is that although the government target of homeownership is 70% by 2030, I believe that they're going to be ahead of that, in terms of delivery before 2030. By when? I don't think I will be having the right answer, as we speak.

Shabbir Malik:

Thank you.

Operator:

Our next question comes from Hootan Yazhari from Bank of America. Please, go ahead.

Hootan Yazhari:

Hi there, gentlemen. Thank you so much for today's call. I wanted to discuss the outlook for the profit margin. You're guiding down from 30 to 20 basis points for next year. Can we talk about whether you're looking at any repricing downwards on the mortgage portfolio? Are you expecting to originate mortgages at lower prices, given it will be such a big driver of your growth next year? Or is this simply further repricing of your corporate book and some of the other segments in the retail side?

The next question I have is on the asset quality side. And again, you're looking at a reversion towards very low levels of cost of risk for 2021. Are you factoring in any recoveries in that, or is there scope to actually exceed that performance and actually come in below the 60 basis points, should you see some more favourable trends in recoveries? I'd love to get your thoughts on those two factors, thank you.

Abdulrahman Alfadda:

Hootan, in terms of the NIM guidance, here are basically our thoughts and our assumptions on the 30 to 20 basis point contractions. Average SAIBOR for 2020 was 1.19. We believe that the average SAIBOR in 2021, for the three months, is going to be around 70 basis points. So that's why I think there is a 49 basis point contraction in the average SAIBOR, that's number one.

Secondly, we believe that given the current ample liquidity in the system, as well as the competition, as well as the low-rate environment, there will be further competition in retail products which we've taken into consideration. Mind you, the mortgage pricing, as we speak, is referencing to the SRC prices, so I'm talking about the overall retail product. So this is the NIM drivers of the guidance that we've provided, 30 to 20 basis points contraction.

As far as the cost of risk, I think we have seen previously, pre-COVID-19, our cost of risk in 2019 in the mid-60 range, and also in 2018. However, our assumption, we have taken multiple scenarios in our forecast for 2021, taken into consideration the current existing environment.

And by the way, Hootan, we have not taken into consideration if there is a second round of COVID-19 cases here in Saudi. However, please note that the retail portfolio is 79% of the overall net financing, the majority is government employees and salary assigned, also healthy stage coverage, we're positioned very well to enter 2021, despite whatever challenges might come in 2021.

Hootan Yazhari:

Understood, thank you very much.

Operator:

Our next question comes from Adnan Farooq from Jadwa Investments. Please, go ahead.

Adnan Farooq:

Thank you for the call and presentation. I had a question about if there was any one-offs in the interest income line during the fourth quarter. Given the strong margin trend during the quarter, was there any one-off recoveries or anything of that sort in the top line during the fourth quarter?

Abdulrahman Al-Fadda:

You mean on the fee income, Adnan?

Adnan Farooq:

In the fee income as well as the interest income line?

Abdulrahman Al-Fadda:

The yield income is basically driven by the growth in the financing portfolio, however, Adnan, please take note that if you recall in 2020, back in March, there was fee waiver programme which has expired by the end of September. So in Q4, we have taken back all whatever the fees that we used to charge, whether be it on the processing fees for the loan or on the fee income into our payment and digital revenue streams.

Adnan Farooq:

Sure, thanks.

Operator:

Our next question comes from Saul Rans at Morgan Stanley. Please, go ahead.

Saul Rans:

Thank you, my questions were all answered already, thank you very much.

Operator:

Our next question comes from the line of Ali Hussain M Zahir from SICO. Please, go ahead.

Ali Hussain M Zahir:

Hi, it's Malik from SICO Bahrain. I noticed that your time deposits have significantly increased during the quarter. It is quite unusual increase, generally your demand deposits tend to fund your growth. In a certain sense, I can expect, given the growth in mortgages, maybe the demand deposits didn't keep pace. So my question is this year was an unusually good year for demand deposits because of lockdown, overall system-wide, there was close to about a 30 billion accumulation in demand deposits, and that, in part, has contributed to this mortgage growth.

Going forward, I know you mentioned that you were expecting competition in deposits, but in terms of to maintain the loan growth, is it fair to assume that, increasingly, you'll be forced to depend on time deposits? And also, going forward, as the market, as the economy opens up and once people start spending the demand deposits which have accumulated this year, which start off, that will also sort of impact your margin and force you to start funding the growth with time deposits? Is this a fair assumption?

Abdulrahman Al-Fadda:

Let me address the first part of the question, related to the increase in time deposits in Q4. We have seen a very cheap deposit that came to us, either close to SAIBOR or even below SAIBOR, so we have taken those deposits. Usually, these are just short term, they are expiring in a maximum of three months.

In terms of our capability and the outlook for the current account growth outlook for the bank, I think I will leave it to Majed, who will be in a better position to help you address your question.

Majed Al-Rajhi:

On demand deposits, it will be always a key focus for us as a bank to look at, and always drive our business. Given the fact that, as mentioned by Waleed, on our strategy is to expand the Affluent segment and drive the current accounts, we have started initiatives in terms of building segmentation within affluent banking and focus more on current accounts.

Given the period since lockdown, people deposit their accounts with us and maintain it, and we expect that will be remaining for the upcoming period, even though if flights international, will open up, we don't expect to see that many people who will travel. So we'll continue focusing on current accounts, that will be a key pillar for us.

Ali Hussain M Zahir:

Just to follow up, is it fair to assume that, going forward, given the pace of mortgage loan growth that you're indicating, a bigger proportion of this growth will be funded by time deposits as opposed to demand deposits?

Abdulrahman Al-Fadda:

No, our first priority is to grow current accounts, and then other funding options.

Ali Hussain M Zahir:

Understood. My question was in terms of proportion. Is it fair to assume that, going forward, although you'll be taking all effort to increase current account deposits, given that mortgages are a big base and you're expecting to grow it quite significantly, is it fair to assume that increase in mortgage loans, the proportion of time deposit funding, the increase in mortgage loans would be higher next year, and going forward? Is that a fair assumption?

Abdulrahman Al-Fadda:

I think if you would like, Ali, we can have a one-to-one discussion to further discuss that in further detail, but for the time being I think what I can say to you, and the rest of the colleagues on the call, is that our top priority, while we're growing our assets, we'll grow, number one, our current accounts. But in terms of the percentage, we don't expect that to have major deviation from the existing mix. Thank you.

Operator:

Our next question comes from the line of Rahul Bajaj from Citi. Please, go ahead.

Rahul Bajaj:

Hi, gentlemen. Thanks for taking my question. A very solid set of results, indeed, congratulation on that. This is Rahul Bajaj from Citi. I have two quick questions, actually. First one is on deferred assets. To my understanding, the loans which were deferred continue to be under deferred until the end of the first quarter. I just wanted to understand how is Al Rajhi deferred portfolio like and what's your view on the behaviour of that portfolio, after March? So that's my first question.

And the second one is a quick one on the market dynamics, both the NCB consolidation, both on the retail and the corporate side. How do you expect the market dynamics, especially from the competitive point of view, could change, and how is Al Rajhi preparing for that? Thank you so much.

Abdulrahman Al-Fadda:

Thanks, Rahul. On the first question, related to the SME deferrals, I think we've deferred close to around 3.4 billion worth of SME assets till 31st March. In the management team, between ourselves, including our chief risk officer as well as the business team in the SME side, we've been in various discussions with our customers.

We're assisting their cash flow requirements, we're also assessing their credit-worthiness. If we believe that there is any significant increase in credit risk, we'll definitely take that into consideration. However, what we believe is that the majority of our customers are either going to pay or they want to restructure. A small part will probably be entering into, I would say, stress. Nevertheless, from our perspective we have been taking prudent risk management and we've taken to be specific SAR608mm, of COVID overlay related to any stress that we're anticipating. Waleed

Waleed Al-Mogbel:

Rahul, for the consolidation that's happening in the market, as I mentioned at the beginning of this presentation, consolidation is one of the factors that we have considered when we designed our strategy. We believe it is good for the market, healthy for the competition, to have a strong bank competing with us. Also, at the same time, most of the mergers or acquisitions takes between 12 to 18 months of disruption, which we believe is a good opportunity for us to improve and strengthen our position and market share either, as I mentioned, in the bank as the core, our subsidiaries, or our digital infrastructure.

Rahul Bajaj:

Thank you, gentlemen. Very useful.

Operator:

Our next question comes from Nauman Khan from NCB Capital. Please, go ahead.

Nauman Khan:

Thank you. Thank you for taking my question. A couple of questions. One is the SAMA deferred programme was in December. Did you get any free deposits delayed through the December deferral? That is one. The second thing is you're saying you have taken 608 million in payments related to COVID as a pre-emptive, if things improve, will this result in a reversal next year?

Abdulrahman Al-Fadda:

Thank you, Nauman. I was waiting for the first question from anybody. No, we have not taken any further deposits from SAMA, but nevertheless, if you recall we've disclosed that in our financial statement. We've taken close to 3.3 billion worth of deposits from SAMA. However, at the end of December, around 2.6 billion out of the 3.3 billion, the maturity has been extended by 21 months. So there are no additional deposits from SAMA, however, there has been a tenor extension. That will be coming out clearly into our financial statements, which we'll be planning to publish, inshallah, later this week.

As far as the second question, related to the 608MM COVID overlay, definitely if things have improved we'll definitely reverse it, and utilise it accordingly, as per our risk management and staging policy. Thank you.

Nauman Khan:

Thank you, that's all from my end. Thank you.

Operator:

I will now hand the floor back to Waleed to close the call.

Waleed Al-Mogbel:

Thank you, everyone, for attending our earnings call for 2020 performance. Again, we thank you for your trust in us and we are very proud, not only for our solid result, given the current environment, but also of our contribution to society and participation in various government initiatives. Thank you again, and looking forward to seeing you, inshallah, for the first quarter of this year's earnings call.