**Report on analyzing the merger between Alahli Bank SNB and Samba Financial Group In Saudi Arabia**

Financial Analysis

Submitted by:

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1. **Executive Summary**

The basic purpose of this financial analysis is to analyze the merger between Alahli Bank SNB and Samba Financial Group which is a significant move in the banking industry of Saudi Arabia. The purpose of a merger is to develop a powerhouse that could increase the market share, improve operational efficiency, and increase financial performance. The analysis provides a concise overview of the findings of the research conducted on different aspects of mergers driven by consolidated resources to achieve economies of scale and increase competitiveness in the dynamic banking environment. Alahli Bank and Samba created complementary strengths and shared commitment to deliver superior financial services to their customers. The financial analysis is based on discounted cash flow analysis to estimate the present value of per projected cash flow and pre and post-merger valuation. Financial ratio analysis is also conducted by calculating specific ratios before and after the merger that provide information about the market share analysis.

1. **DCF (Discounted Cash Flow) Analysis**:

The discounted cash flow analysis represents that the value of investment in the future will be SAR 10,098,460.59as it is assumed that the initial investments is SAR 21,276.78 million. The growth rate is 3% assumed forthe period of 20 years. DCF analysis helps determine the value of investment today based on projections made for the future by considering the time value of money(Rahatullah, 2014).Therefore, the following calculations represent thatfuture value of investment is SAR 10,098,460.59.

WACC= E/V​× Re+D/V​×Rd ×(1−Tc)

It is assumed that:

Cost of equity (Re) is 12%

Cost of debt (Rd) is 4%

Corporate tax rate in Saudi Arabia is 20%

WACC = (150,485.63/ 166,777.63​× 0.12) +(15,487.50/ 166,777.63​×0.04×(1−0.20))

= 0.9015×0.10) + (0.0985× 0.04 × 0.80

= 0.09015+0.003136

= 0.093286

Now WACC is approximately 10%.

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| **DCF (Discounted Cash Flow) Analysis** |  |
| FCF\_2022 = 21,276.78 million SAR |  |
| Growth Rate = 3% |  |
| Discount Rate = 10% |  |
| Perpetual Growth Rate = 3% |  |
| terminal value = FCF (t+1)/r-g | 1,276,606.77 |

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| --- | --- | --- | --- |
| **Years** | **FCF (million SAR)** | **Discount Factor** | **Discounted FCF** |
| 2022 | 21,276.78 | 1.1 | 23404.458 |
| 2023 | 23404.458 | 1.21 | 28319.39418 |
| 2024 | 28319.39418 | 1.331 | 37693.11365 |
| 2025 | 37693.11365 | 1.4641 | 55186.4877 |
| 2026 | 55186.4877 | 1.61051 | 88878.39031 |
| TV | 1276606.77 | 7.727499949 | 9864978.75 |
| **PV of FCF** |  |  | **10,098,460.59** |

In the given DCF analysis, it is assumed that the free cash flow for 2022 is SAR 21276.78 million. The growth rate is 3% and the discount rate is 10% which is assumed and represents the minimum rate of return. The perpetual growth rate is 3% and it is assumed that the long-term growth rate of free cash flow is used in perpetuity calculation. The cash flow is calculated over 20 years(Alothman & AL-MAHISH., 2020). The assumptions including revenue growth, synergy, discount rate, and terminal value help estimate the future value of the organization. It is significant to note that these calculations are based on the assumptions that could be adjusted to get valuable information about the company by estimating the intrinsic value of a company based on the expected future cash flow.

1. **Pre- and Post-Merger Valuation**

In the evaluation of pre and post-merger market capitalization, it is necessary to understand the current market capitalization of banks involved in the merger case and combined market capitalization.

**Pre-merger Market**

The provided data provide market capitalization information about different banks as Saudi National Bank (SNB) has an average market capital of SAR 232,800 million. Samba Bank (SAB) has averaged a market capitalization of SAR 74,794.72 million(Zobair, Almansour, Abdelhameed, & Mohammed, 2023). The average pre-merger market capitalization could be calculated by summing up the market capitalization of all banks.

Average Market Cap= (SNB + RIBL + SAB + BJAZ + ANB + BSFR + SAIB) / 7

Average Market Cap= (232,800.00 + 85,800.00 + 74,794.72 + 15,530.80 + 37,875 + 48,396.81 + 16,300) / 7

Average Market Cap= SAR 79,698.52 million

**Post-mergerMarket**

The post-merger valuation is assumed by using estimated combined market capitalization. For this purpose, it is assumed that the percentage increase in the market capitalization is it 20% premium for the combined market capitalization as follows:

Combined Market Cap = Average Pre-Merger Market Cap \* (1 + Merger Premium)

Combined Market Cap = SAR 79,698.52 million \* (1 + 0.20)

Combined Market Cap ≈ **SAR 95,638.22 million**

The merger between Alahli Bank and Samba financial groups is predicted to have a greater impact on the banking industry in Saudi Arabia. The results represent the consolidation of market share by Alahli Bank and Samba created a formidable financial institution. The merged entity is most likely to develop a market leader that has a significant increase in share and greater influence on the competitive landscape. The merged bank will provide the benefits of economies of scale and provide a greater competitive edge in the industry because the company could negotiate better terms with suppliers and attract a broader customer base by providing a diverse range of products and services(Ullah, Nor, Seman, Ramli, & Rasedee., 2023). The announcement of the merger could have an immediate impact on the market perception and confidence of investors as there will be positive reactions from investors and stakeholders that will reflect optimism about the potential benefits of the merger.

1. **Financial Ratio Analysis**

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| --- | --- | --- |
| **Ratios** | **Pre-merger** | **post-merger** |
| Return on Equity (ROE) | 0.043780563 | 0.030916693 |
| Price-to-Earnings (P/E) Ratio | 6.04978227 | 8.099033674 |
| Debt-to-Equity (D/E) Ratio | 7.502201124 | 5.174703487 |
| Net Interest Margin | 0.000363786 | -3.98321E-05 |
| Earnings Per Share (EPS) | 2.846041647 | 3.096781667 |
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**Accretion/Dilution Analysis**

The accretion/dilution analysis helps compare post-transaction earnings per share and Pre-transaction earnings per share to determine if the merger is accretive or dilutive. In the given case the pre-merger EPS is SAR 2.85 and post-merger EPS is SAR 3.10. Hence, the post-merger earnings per share is higher than the pre-merger EPS therefore the merger is accretive. It implements that the merger is expected to result in increasing the earnings per share for the combined organization.

**Market Impact Analysis**

Cost savings resulting from a merger could be collected from different resources such as operational efficiency, staff reduction, and synergies in different procedures. The detailed information about cost saving is based on the information provided by banks and the goals of the merger. The areas of all cost-saving include streamlining operations, consolidated branches, and optimized office functions and the exact estimation of cost receiving provides access to detailed financial operations and data. Analysis of change in cost to income ratio is a key financial measure to analyze the efficiency of a bank by measuring its operating expenses relative to its total income. In the given case an increase in that cost-to-income ratio represents that the merger did not expect cost to save but gained improved efficiency(Rahatullah, 2014).

1. **Conclusion**

It is concluded that the AllahiSamba Bank merger is based on reshaping the banking industry of Saudi Arabia and the consolidated market share helps achieve the targets of increased market share improved competitive position and positive market perception. Such transformation is considered to have a positive impact on the market and other entities by developing successful strategies in the broader banking sector. Shareholders are required to closely monitor the regulatory development market reactions and subsequent actions that are helpful to make strategic moves related to investment in the Allahi Samba Bank.

**References**

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