

1Q 2018 Results Update

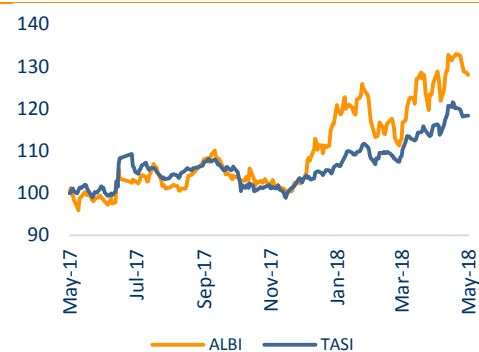
May 14, 2018

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	23.0
Target Price (SAR)	20.3
Upside/Downside (%)	(11.6%)

As of May 10, 2018

Key Data (Source: Bloomberg)

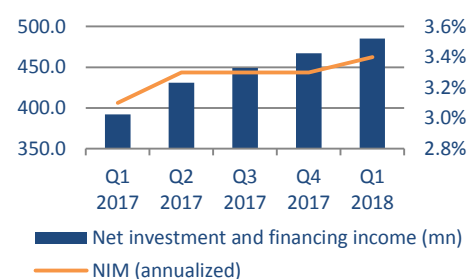
Market Cap (SAR bn)	13.8
52 Wk High (SAR)	25.0
52 Wk Low (SAR)	17.6
Total Outstanding shares (in mn)	600.0
Free Float (%)	52.6%

ALBILAD Vs TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	1.5%	(0.6%)
6m	25.2%	8.2%
12m	28.0%	9.6%

Major Shareholders (%)

Mohammad Ibrahim Al Subaei & Sons Co.	19.18
Abdullah Ibrahim Al Subaei Investment Co.	11.14
Khaled Abdulrahman Saleh Al Rajhi	10.54

Net investment and financing income (SAR mn) and NIM (annualized)

 Source: Bloomberg, Company Financials, FALCOM Research; Data as of 10th May 2018

1Q18 net income bolstered by higher financing and investment income

Al Bilad Bank's (Albilad) net profit moved up 11.6% YoY to SAR 256mn for Q1 2018, driven by a rise in operating income, net investment income and other income. Albilad's total operating income came in at SAR 790mn (up 14.5% YoY), led by growth in gains from non-trading investments and other operating income. Albilad's 1Q18 performance can be ascribed to higher gross financing income (up 23.9% YoY), despite the high funding costs, as the bank continues to report aggressive growth in customer deposits and financing along with elevated provisioning.

Despite strong 1Q18 performance, we believe headwinds emerge from increase in interest rates, increased competition from government issued sukuk bonds and net income volatility due to bank's risky asset concentration. Further, Saudi Arabian Monetary Authority (SAMA) pro-actively raised its repo rate for the first time since 2009 ahead of an expected tightening by Federal Reserve which will squeeze the liquidity from the market, and in turn impact the demand for funds.

- The bank recorded a 23.8% YoY growth in gross financing and investing income to SAR596mn in 1Q18 led by a strong growth in advances. Albilad's loans and advances grew 17.9% YoY to SAR45.6bn in 1Q18, higher than the consensus expectations.
- During the quarter, the total operating income rose 14.5% YoY to SAR791mn owing to increase in gains from non-trading investments (SAR4.1mn) and other operating income (SAR2.8mn). However, the total operating expenses (excluding impairment charge for financing) rose 6.3% YoY, primarily driven by higher staff expenses, rent and premises-related expenses.
- In 1Q18, the customer deposits rose 16.6% YoY to SAR50.8bn. The investments increased 37.4% YoY to SAR5, 146mn. Consequently, the total assets increased 14.8% YoY to SAR65.7bn in 1Q18.
- On 15th March 2018, SAMA raised its repo and reverse repo by 25bps each to 2.25% and 1.75% respectively, ahead of the increase by the Federal Reserve Bank. Although, the reverse repo has been changed in the past two years, in-line with Fed rate increase, repo rate was hiked for the first time since 2009 recession. A week before this, SAMA stopped offering repurchase agreement after Saudi money rates fell below US rates for the first time in the past nine years. Higher lending rates, will dissuade credit growth in the market, while increase in reverse repo will drain excess money from the banking system.
- A strong growth in the bottom line was driven by an increase in loans and deposits, and further supported by an expansion in net interest margin. Although, asset quality is likely to remain stable with more than adequate provisioning coverage ratio. However, we expect Albilad to witness moderate growth in advances in FY 2018, in the light of higher funding costs, constricted money supply and slow economic recovery from the reforms laid down.

Valuation: After incorporating 1Q18 performance, and given the current stock price run-up, we have revised our fair value slightly upwards to SAR20.3 per share, while we retain our 'Underweight' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	0.5	0.4	23.9	2.1	1.7	19.4
Operating income (SAR bn)	0.8	0.7	14.5	3.5	3.0	17.2
EPS (SAR)	0.43	0.38	11.7	1.88	1.57	19.5
Net Interest Margin (%)	3.4%	3.1%	0.3	3.5%	3.4%	0.1
Cost to income (%)	55.6%	59.9%	(4.3)	55.2%	55.6%	(0.4)
RoE (%)	13.5%	12.5%	1.0	14.1%	12.8%	1.3
Total Assets	65.8	57.3	14.8	70.4	63.2	11.3
Financing, net	45.6	38.7	17.9	49.1	43.4	13.0
Customer Deposits	50.8	43.5	16.6	54.5	47.8	14.2

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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