

2Q 2018 Results Update
Aug 06, 2018

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	25.8
Target Price (SAR)	22.8
Upside/Downside (%)	(11.3%)

As of Aug 05, 2018
Key Data (Source: Bloomberg)

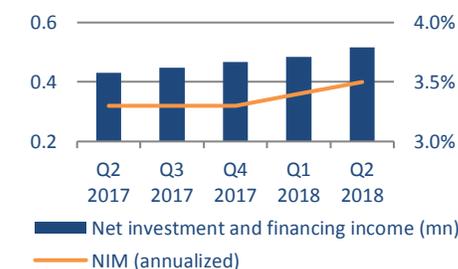
Market Cap (SAR bn)	15.5
52 Wk High (SAR)	26.8
52 Wk Low (SAR)	18.1
Total Outstanding shares (in mn)	600.0
Free Float (%)	52.6%

ALBILAD vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	9.6%	9.8%
6m	12.4%	4.6%
12m	37.7%	21.1%

Major Shareholders (%)

Mohamed 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 05th Aug 2018

Healthy balance sheet expansion amid strong opex control

Al Bilad Bank (ALBILAD) registered a net income of SAR 276mn in Q2'18 (up 15.6% YoY), in line with consensus estimates. Net income from investments and financing activities grew 19.9% YoY to SAR 517mn, while income from other operations stood at SAR 326mn (up 12.2% YoY). The growth in net income is attributable to the increase in the net income from investment and financing activities, dividend income, exchange income, fee and commissions, other operating income and gains from investments. Total operating expenses rose 6.0% YoY to SAR 432mn, while impairment charges for credit and financial assets increased 76.4% YoY to SAR 135mn. The bank's rental and depreciation expenses, however, declined during the period. The bank continued to expand its balance sheet and posted a 16.4% YoY increase in loan assets to SAR 47.3bn, whereas, deposits grew 16.0% YoY to SAR 52.2bn. Similarly, investments grew 20.4% YoY to SAR 5.4bn during the quarter. The loan-to-deposit ratio for the quarter stood at 90.7% compared to 90.4% in Q2'17.

In line with US Federal Reserve rate hike in June, Saudi Arabian Monetary Authority (SAMA) raised its repo rates for the second time this year by 25bps to 2.50%. Further rate hike (expected 2-3 times in 2018) may impact credit demand in the country. Thus, we retain our 'Underweight' rating on the stock; however we revise our price target up to SAR 22.8 per share, given the strong performance in 1H'18.

- Income from investments and financing activities stood at SAR 517mn, while income from other operations stood at SAR 326mn, growing 19.9% YoY and 12.2% YoY respectively. Growth in other income was spurred by higher dividend income (SAR 11mn, +793% YoY), exchange income (SAR 79mn, +11.0% YoY), fee from banking services (SAR 209mn, +3.8% YoY), and gains on non-trading investments (SAR 5mn, +286% YoY).
- There was a marked improvement in opex control, with cost-to-income ratio declining 5.2% YoY and 4.4% QoQ to 51.2%. While total operating expenses rose 6.0% YoY to SAR 432mn owing to an increase in salaries (SAR 254mn, +4.1% YoY) and other general expenses (SAR 95mn, +26.7% YoY); rental and depreciation expenses declined 4.8% and 11.1% YoY respectively during the period.
- Pre-provision profits, therefore grew 30.8% YoY and 17.1% QoQ to SAR 411mn. Impairment charges for the quarter were substantially higher at SAR 135mn, an increase of 76.4% YoY and 42.2% QoQ.
- The loan-to-deposit ratio for the quarter stood at 90.7% compared to 90.4% in Q2'17.
- Capital adequacy ratio (CAR) for 2Q'18 stood at 18.1% vs. 19.3% in 2Q'17, while Tier-1 ratio stood at 13.5% vs. 14.2% in 2Q'17.
- Going forward, we expect the banking sector to stabilise led by recovering oil prices and record government expenditure to drive developments in the kingdom. However, the recent rate hike could affect borrowings by consumers especially in a short-term inflationary environment.

Valuation: Given the recent stock price run-up and improved performance of the bank, we revise our target price to SAR 22.8 per share. We retain our 'Underweight' rating on the stock, given the recent SAMA rate hikes (and further hike expectations), and declining capital adequacy ratios of the bank.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	0.5	0.4	19.9%	2.1	1.7	19.4%
Operating income (SAR bn)	0.8	0.7	16.8%	3.5	3.0	17.2%
EPS (SAR)	0.5	0.4	15.6%	1.9	1.6	19.5%
Net Interest Margin (%)	3.5%	3.3%	0.2%	3.5%	3.4%	0.1%
Cost to income (%)	51.2%	56.4%	-5.2%	55.2%	55.6%	-0.4%
RoE (%)	14.3%	13.1%	1.2%	14.1%	12.8%	1.3%
Total Assets (SAR bn)	68.4	59.7	14.5%	70.4	63.2	11.3%
Loans and Advances portfolio (SAR bn)	47.3	40.7	16.4%	49.1	43.4	13.0%

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.