

Initiation Coverage

February 28, 2018

Recommendation	Underweight
Current Price (SAR)	21.7
Target Price (SAR)	19.2
Upside/Downside (%)	(11.2%)

As of February 21, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	13.0
52 Wk High (SAR)	23.3
52 Wk Low (SAR)	17.2
Total Outstanding shares (in mn)	600.0
Free Float (%)	52.6%

ALBI Vs TASI (Rebased)

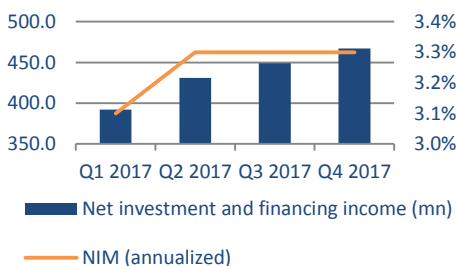


Price Performance (%)	Absolute	Relative
1m	(3.8%)	(3.1%)
6m	12.9%	9.8%
12m	14.4%	8.4%

Major Shareholders (%)

Mohamed Ibrahim Al-Sebaee	19.09
Abdullah Al Subaiei Invsmt.	11.14
Al Rajhi Khalid	10.54

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 22nd February 2018

Al Bilad Bank (Albilad) reported an increase of 23.5% YoY in net financing and investment income in FY 2017, driven by a 24.4% rise in financing income. Albilad's total operating income came in at SAR 3.0bn (up 14.4% YoY), led by growth in fees and commission income, and dividend income. Net profit reported for the period advanced 16.6% YoY to SAR 0.9bn (2016: SAR 0.8bn). Albilad's performance can be ascribed to lower funding cost and higher returns on loans and advances; the bank re-priced its floating interest rate loans at higher rates in FY 2017.

Although Albilad posted strong performance during FY 2017, we believe that it will be unable to continue the momentum. The factors such as VAT implementation and increase in interest rates in FY 2018 will weigh on the credit growth. Additionally, we expect that the cost on customer deposits will increase in the face of competition from government issued sukuk bonds. Albilad's stock price gained 17.2% within three months in a recent run-up thereby leaving little headroom for further upside movement. We have given "underweight" rating to the stock considering bank's risky asset concentration, additional zakat liability and net income volatility due to IFRS implementation.

Loan and deposit growth to moderate amid economic headwinds:

In FY 2017, the Saudi banking sector suffered from weak credit demand amid reduced government spending and slow economic growth. Additionally, deposit growth was muted due to the government's austerity measures amidst oil price volatility, which thereby amplified liquidity concerns in the sector. Although Albilad's total loans and customer deposits expanded 20.1% YoY and 18.8% YoY, respectively, in FY 2017, we expect moderate growth in FY2018 as volatile oil prices and political headwinds continue to weigh on the Saudi economy. The increase in interest rates and VAT implementation is also projected to impact credit growth. Furthermore, the Saudi government is expected to issue additional sukuk bonds in 2018 to finance the fiscal deficit, potentially impacting growth in customer deposits.

Relatively smaller player in Saudi banking sector:

Albilad is a relatively smaller player in the Saudi banking sector, with asset and customer deposit market share of 3.0% and 2.6% (as of Q3 2017), respectively. The bank has lesser financial inter-connectivity, compared with certain larger peers such as Al Rajhi. This may impact its ability to cater to growing demand for financial products. Although the bank has introduced some innovative financing solutions, such as offering early repayment solutions, we believe it would take a while for the bank to establish itself as a more trusted brand.

Net income volatility to increase amid IFRS 9 implementation:

Risky sectors such as commercial, industrial, and real estate constitute 45.6% of the bank's total loan-book. Thus, with the implementation of the IFRS 9 standard, which mandates banks to adopt a more proactive approach to provisioning based on future expected loss, we can expect considerable net income volatility in future, given the bank's exposure to risky sectors.

Additional zakat levy to dent bottom line:

Saudi's zakat authority (GAZT) mandated Al Bilad Bank to pay an additional zakat levy of SAR 615mn for 2006–14. The amount was calculated as per GAZT's new accounting standards. Albilad had initially paid an additional zakat of SAR 58mn for 2006. As of now, the bank has not allocated any provisions to meet the requirement and is yet to announce its stance on whether to abide by the authority or contest the decision. However, in the event of payment of an additional levy, the bank's bottom line and net profit margin will be negatively impacted.

Valuation: We valued Albilad using the weighted average approach (Residual Income and P/B) to arrive at a fair value of SAR 19.2 per share. We considered the cost of equity at 10.9%, with a terminal growth rate of 2.0%.

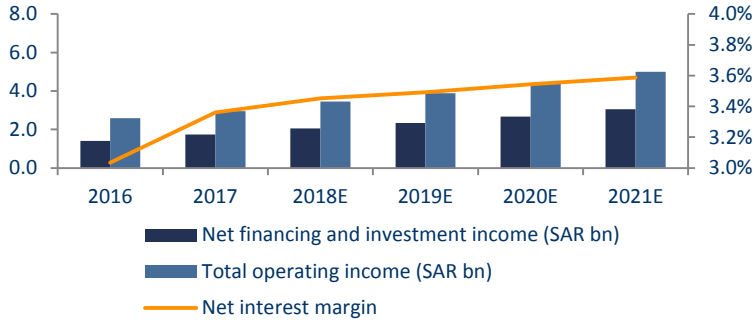
	2017	2018E	2019E	2020E
Net financing and investment income (SAR bn)	1.7	2.1	2.3	2.7
Operating income (SAR bn)	3.0	3.5	3.9	4.4
EPS (SAR)	1.6	1.9	2.1	2.4
Net Interest Margin (%)	3.4%	3.5%	3.5%	3.5%
Cost to income (%)	55.6%	55.4%	55.3%	55.3%
RoE (%)	12.8%	13.9%	14.0%	14.2%
P/B (x)	1.6	1.5	1.3	1.2
NPL (%)	1.2%	1.2%	1.2%	1.2%
Provision coverage (%)	234.7%	234.9%	234.9%	234.8%

Source: Company Financials, FALCOM Research

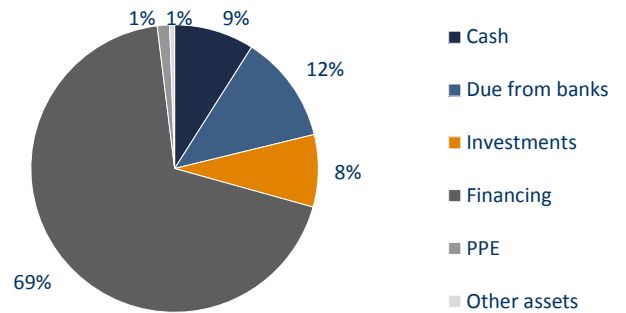


Key Charts

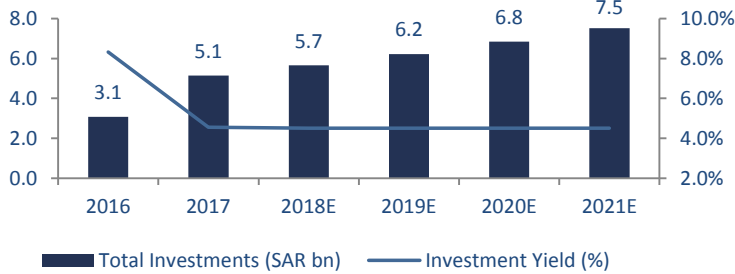
Net Financing and Investment Income (SAR bn) and NIM



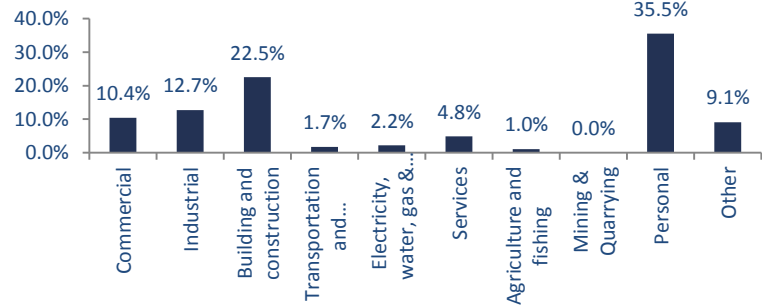
Asset break-up (2017)



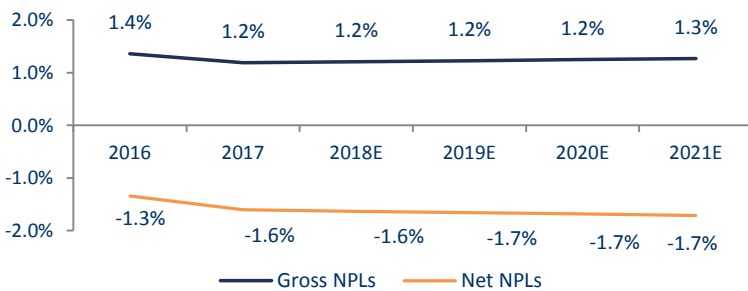
Investment Yield



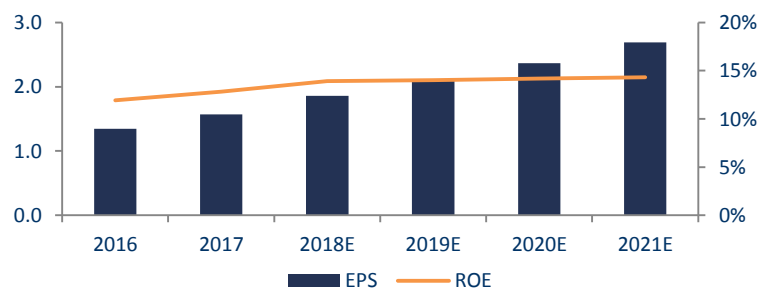
Asset concentration by sectors (2017)



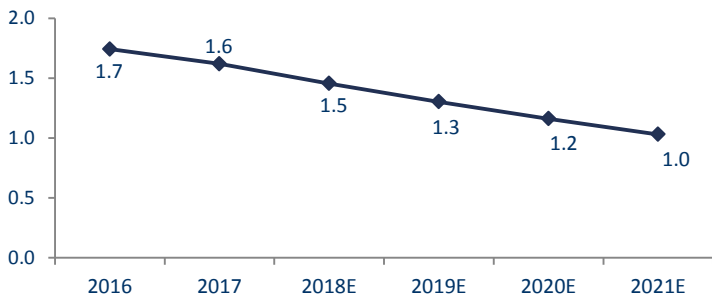
Gross and Net NPLs



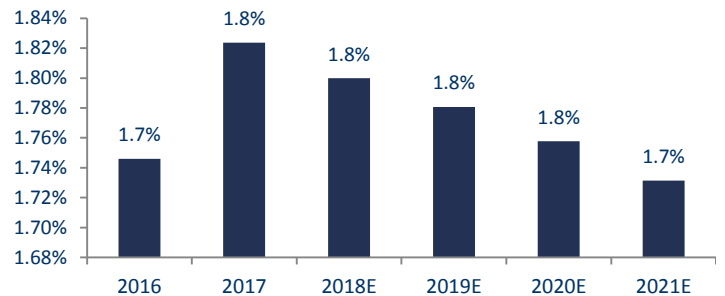
EPS and ROE



P/B



Dividend Yield



Source: FALCOM Research Estimates



Initiation Coverage

February 28, 2018

Summary Financials

P&L (SAR mn)	2017	2018E	2019E	2020E
Net financing and investment income	1,739	2,063	2,346	2,679
Fee income	834	983	1,103	1,239
Total operating income	2,960	3,456	3,890	4,402
Total operating expenses	(1,645)	(1,913)	(2,152)	(2,433)
Pre-provision profit	1,315	1,543	1,738	1,970
Impairment charge for financing, net	(378)	(428)	(484)	(549)
Net Income	942	1,115	1,254	1,421
EPS	1.6	1.9	2.1	2.4
DPS	0.4	0.4	0.4	0.4

BS (SAR mn)	2017	2018E	2019E	2020E
Cash	5,689	6,639	7,218	7,947
Due from banks	7,706	8,477	9,325	10,257
Investments	5,140	5,654	6,219	6,841
Financing, net	43,447	49,092	55,558	62,972
Total assets	63,208	71,215	79,819	89,682
Due to banks	1,749	1,924	2,116	2,328
Customer deposits	47,783	54,546	61,731	69,969
Total liabilities	55,619	62,770	70,382	79,087
Shareholder equity	7,589	8,445	9,438	10,594
Total liabilities and equity	63,208	71,215	79,819	89,682

Solvency	2017	2018E	2019E	2020E
Credit risk weighted assets	49,051	55,265	61,942	69,595
Operational risk weighted assets	4,899	5,520	6,187	6,951
Market risk weighted assets	1,513	1,704	1,910	2,146
Total risk weighted assets	55,463	62,489	70,039	78,693
Tier I capital	7,589	8,445	9,438	10,594
Tier II capital	2,693	3,034	3,401	3,821
Total tier I and tier II	10,282	11,479	12,839	14,416

Valuation	2017	2018E	2019E	2020E
PE	13.0	11.0	9.8	8.6
PB	1.6	1.5	1.3	1.2
Dividend Yield	1.8%	1.8%	1.8%	1.8%

Source: Bloomberg, Company Financials, FALCOM Research

Growth	2017	2018E	2019E	2020E
Operating income	14.4%	16.8%	12.6%	13.2%
Pre-provision profit	25.5%	17.3%	12.7%	13.3%
Net income	16.6%	18.3%	12.5%	13.3%
Loan growth	20.1%	13.0%	13.2%	13.3%
Deposit growth	18.8%	14.2%	13.2%	13.3%

Ratios (%)	2017	2018E	2019E	2020E
Yield on earning assets	4.1%	4.1%	4.2%	4.2%
Cost of funds	0.8%	0.8%	0.8%	0.7%
Spread (Yield-Costs)	3.3%	3.4%	3.4%	3.5%
Net Interest Margin	3.4%	3.5%	3.5%	3.5%
Cost/Income (%)	55.6%	55.4%	55.3%	55.3%
ROE	12.8%	13.9%	14.0%	14.2%
ROA	1.6%	1.7%	1.7%	1.7%
Loans/ Customer Deposits	90.9%	90.0%	90.0%	90.0%
Loans/Total Assets	68.7%	68.9%	69.6%	70.2%
Customer Deposits/Total Funding	85.9%	86.9%	87.7%	88.5%
RWA/Total Assets	87.7%	87.7%	87.7%	87.7%
Tier I ratio	13.7%	13.5%	13.5%	13.5%
Capital adequacy ratio	18.5%	18.4%	18.3%	18.3%
Gross NPLs	1.2%	1.2%	1.2%	1.2%
Net NPLs	-1.6%	-1.6%	-1.7%	-1.7%
Provision coverage	234.7%	234.9%	234.9%	234.8%

Peer Valuations	12M Fwd PB	12m Fwd PE
Al Rajhi Bank	12.26x	1.99x
Bank Al-Jazira	8.39x	NA
Alinma Bank	13.75x	1.46x
Sharjah Islamic Bank	8.93x	0.58x
Abu Dhabi Islamic Bank	11.39x	1.18x
Dubai Islamic Bank	7.90x	1.59x
Qatar Islamic Bank	11.19x	1.54x
Kuwait Finance House	14.39x	1.69x
Bank Al Bilad	11.02x	1.46x
Sector Median	10.76x	1.47x
TASI	13.57x	1.54x



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.