

3Q19 Results Update
November 20, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	26.8
Target Price (SAR)	26.0
Upside/Downside (%)	(2.7%)

As of November 20th, 2019
Key Data (Source: Bloomberg)

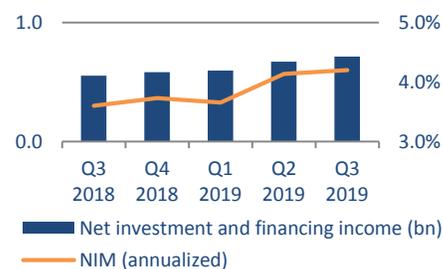
Market Cap (SAR bn)	20.2
52 Wk High (SAR)	30.3
52 Wk Low (SAR)	19.6
Total outstanding shares (in mn)	750.0
Free Float (%)	52.4%

ALBILAD vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	8.2%	4.8%
6m	7.1%	12.0%
12m	40.7%	33.4%

Major Shareholders (%)

Mohamed Ibrahim Al-Subaei & Sons Co.	19.34%
Abdullah Ibrahim Al Subaei Investment Co.	11.14%
Khaled Abdulrahman Saleh Al Rajhi	10.54%

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


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 20th November 2019

Growth in financing and investment income support Albilad's bottom line

AlBilad Bank (AlBilad)'s net income grew 37.8% YoY to SAR 326.6mn in 3Q19, primarily owing to an increase in net income from investment and financing activities, gains on net investments, dividend income, and other operating income. Fees from banking services and exchange income, however, declined on an annual basis. Pre-provision profit was up 15.5% YoY to SAR 502.4mn, as higher operating income offset a rise in operating expenses. Net loans increased 13.5% YoY to SAR 56.4bn and deposits rose 17.4% YoY to SAR 64.1bn. Consequently, the loan-to-deposit ratio (LDR) fell to 88.1% in 3Q19 compared with 91.1% in 3Q18.

The Saudi Arabian Monetary Authority (SAMA) slashed repo rates by 25 basis points (bps) to 250 bps for the second time during this year, in line with US Federal Reserve's rate cut announcement in September. The company witnessed a strong growth in loan books, a rise of 13.5% YoY to SAR 56.4bn, aided by the rate cut that boosted the overall credit demand in the country. Conversely, operating expenses continued to rise and remain a concern. In addition, the increase in funding costs is expected to negatively impact the company's net interest margin expansion. Given the countervailing factors, we maintain our rating as "Neutral."

- Net financing and investment income grew 29.3% YoY to SAR 713.7mn as a result of the expansion in the loan portfolio. Total operating income rose 16.3% YoY to SAR 1.0bn, as decrease in fees from banking services and exchange income overshadowed a higher dividend and other income.
- Operating expenses rose 17.1% YoY to SAR 521.2mn in 3Q19 due to an increase in depreciation, staff expenses, other general and administrative. Meanwhile, rental expenses declined 54.3% YoY in 3Q19 to SAR 26.2mn.
- Pre-provision profits increased 15.5% YoY to SAR 502.4mn in 3Q19. However, impairment charges for financing dropped 7.1% YoY to SAR 137.6mn.
- Assets grew 14.8% YoY to SAR 81.2bn. Investments rose 62.5% YoY to SAR 10.0bn in 3Q19. Return on equity (ROE) improved to 14.8% in 3Q19 compared with 12.3% in 3Q18; Return on assets (ROA) stood at 1.7% in 3Q19 compared with 1.4% a year ago.
- Makkah Construction and Development Company (MCDC) signed a credit facility worth SAR 450mn with AlBilad. Middle East Healthcare Company (Saudi German Hospitals) also signed Shariah-compliant facility agreements with the bank valued at SAR 200mn.

Valuation: We revise our target price to a fair value of SAR 26.0 per share and retain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Net Financing and Investment Income (SAR bn)	0.7	0.6	29.3%	2.6	2.1	22.5%
Operating Income (SAR bn)	1.0	0.9	16.3%	3.9	3.4	13.7%
EPS (SAR)- Adjusted for Bonus Share	0.4	0.3	37.8%	1.7	1.5	13.2%
Net Interest Margin (%)	4.2%	3.6%	0.6%	3.7%	3.5%	0.2%
Cost to Income (%)	50.9%	50.6%	0.4%	50.7%	53.1%	(2.4%)
RoE (%)	14.8%	12.3%	2.5%	15.0%	14.4%	0.6%
Total Assets (SAR bn)	81.2	70.7	14.8%	83.2	73.6	13.0%
Loans and Advances Portfolio (SAR bn)	56.4	49.7	13.5%	56.6	50.6	11.8%

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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