

3Q 2018 Results Update

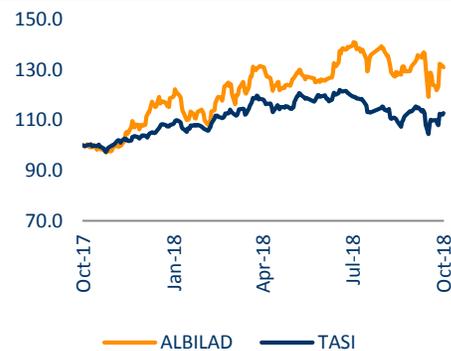
October 30, 2018

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	24.4
Target Price (SAR)	21.6
Upside/Downside (%)	(11.6%)
<i>As of Oct 29, 2018</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.5
52 Wk High (SAR)	26.8
52 Wk Low (SAR)	18.1
Total outstanding shares (in mn)	596
Free Float (%)	52.6%

ALBILAD vs. TASI (Rebased)

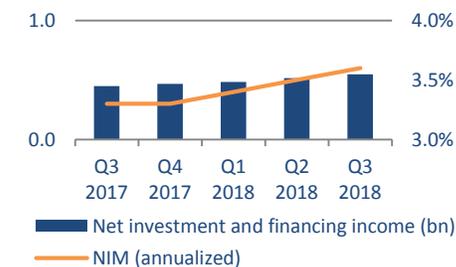


Price Performance (%)	Absolute	Relative
1m	(0.5%)	0.2%
6m	(0.1%)	4.5%
12m	31.1%	18.3%

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 bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29th Oct 2018

Higher interest rates and portfolio growth lead to 15.7% increase in net profits

Al Bilad Bank's (ALBILAD) net income grew 15.7% YoY to SAR 287mn during Q3'18. This growth was primarily attributable to the increase in the net income from investment and financing activities (SAR 547mn, +21.8% YoY), and higher fee and commissions (SAR 236mn, +10.4% YoY), along with higher dividend and exchange income, which was partially offset by lower other operating income and a SAR 3mn loss on non-trading investments. Total operating expenses grew 11.0% YoY to SAR 445mn, while impairment charges for credit and financial assets increased 27.7% YoY to SAR 148mn. The bank continued to expand its balance sheet and posted 18.9% YoY growth in loan assets to SAR 49.7bn, whereas, deposits grew 17.6% YoY to SAR 54.6bn. Investments grew 4.7% YoY to SAR 6.1bn during the quarter. Loan-to-deposit ratio for Q3'18 stood at 91.1% compared to 90.1% in Q3'17.

In line with US Federal Reserve rate hike in September 2018, Saudi Arabian Monetary Authority (SAMA) raised its repo rates for the third time this year by 25bps to 2.75%. These rate hikes may impact credit demand in the coming quarters. Additionally, declining capital adequacy ratio (CAR declined from 20.5% in 2016 to 18.1% in Q3'18) and rising cost of funds may affect the bank's growth in future. Thus, we retain our 'Underweight' rating on the stock.

- Net financing and investment income grew 21.8% YoY to SAR 547mn, mainly due to the growth in loan portfolio and higher yields following the rise in interest rates. Income from other operations stood at SAR 334mn, growing 6.2% YoY, mainly due to higher fee and commissions (SAR 236mn, +10.4% YoY). Net exchange income grew 9.8% YoY to SAR 84mn, while dividend income almost doubled to SAR 4mn. This was partially offset by 42.3% YoY decline other operating income to SAR 12mn, and a SAR 3mn loss on non-trading investments reported in Q3'18.
- Total operating expenses rose 11.0% YoY to SAR 445mn owing to an increase in salaries (SAR 257mn, +12.2% YoY) and other general expenses (SAR 104mn, +32.3% YoY). Conversely, rental expense (SAR 57mn, -7.8% YoY) and depreciation expenses (SAR 28mn, -12.8% YoY) declined for the second consecutive quarter, reflecting management's tight cost control initiatives. As a result, cost-to-income ratio declined 2.0% YoY and 0.6% QoQ to 50.6%.
- Pre-provision profits grew 20.2% YoY to SAR 435mn. Impairment charges for the quarter were substantially higher at SAR 148mn, an increase of 27.7% YoY.
- The loan-to-deposit ratio for the quarter stood at 91.1% compared to 90.1% in Q3'17.
- Capital adequacy ratio (CAR) for 3Q'18 stood at 18.1% vs. 19.1% in 3Q'17, while Tier-1 ratio stood at 13.6% vs. 14.1% in 3Q'17.
- We expect the banking sector to stabilise led by the recovery in oil prices and government expenditures to drive developments in the kingdom. However, recent rate hikes could affect borrowings by consumers especially in a short-term inflationary environment.

Valuation: The stock achieved our target price since our last report. We revise our target price to SAR 21.6 per share given the risk of declining capital adequacy ratio and increasing cost of funds continues. We retain our 'Underweight' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	0.5	0.4	21.8%	2.1	1.7	21.1%
Operating income (SAR bn)	0.9	0.8	15.4%	3.4	3.0	15.5%
EPS (SAR)	0.5	0.4	16.7%	1.8	1.6	16.5%
Net Interest Margin (%)	3.6%	3.3%	0.3%	3.5%	3.4%	0.1%
Cost to income (%)	50.6%	52.5%	-2.0%	55.3%	55.6%	-0.3%
RoE (%)	14.9%	13.3%	1.5%	13.7%	12.8%	0.9%
Total Assets (SAR bn)	70.7	62.5	13.1%	71.7	63.2	13.4%
Loans and Advances portfolio (SAR bn)	49.7	41.8	18.9%	50.3	43.4	15.8%

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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