

2Q20 Results Update
September 27, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.2
Target Price (SAR)	23.0
Upside/Downside (%)	(5.0%)

As of September 7, 2020
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	18.2
52-Wk High (SAR)	28.4
52-Wk Low (SAR)	18.2
Total Outstanding Shares (in mn)	750.0
Free Float (%)	53.7%

ALBILAD vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	2.5%	(4.9%)
6m	3.4%	(4.4%)
12m	(8.2%)	(8.1%)

Major Shareholders (%)

Mohamed Ibrahim Al Subaei & Sons Co.	19.34%
Abdullah Ibrahim Al Subaei Investment Co.	11.14%
Khaled Abdulrahman Saleh Al Rajhi	9.14%

Net Investment and Financing Income (SAR bn) and NIM (annualized)


Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 7, 2020

Higher topline, decreased cost of funds boost bottom line

AlBilad Bank (AlBilad)'s net income improved 4.3% YoY to SAR 318.1mn in 2Q20, supported by higher gross financing and investment income, and reduced cost of funds. Total operating income increased 4.2% YoY to SAR 999.5mn as decrease in fees from banking services and losses in non-trading investments were offset by the increase in net exchange income. Operating expenses were up 2.6% YoY to SAR 494.8mn, whereas net impairment charges rose 9.2% YoY to SAR 150.5mn in 2Q20. The bank's loan book grew 21.1% YoY to SAR 64.9bn, while customer deposits scaled up 9.4% YoY to SAR 64.9bn, resulting in an increase in the loan-to-deposit ratio to 100.1% in 2Q20 from 90.4% in 2Q19.

Albilad's performance in 2Q20 was stable considering the economic headwinds created by the COVID-19 pandemic. Irrespective of the economic situation in 2Q20, the bank's financing assets rose sharply as the bank's market share in the SME and mortgage sector increased. This led the bank to report a more than 100.0% loan-to-deposit ratio during the quarter. The bank also managed to hold its net interest margin stable in 2Q20 despite the reduction in SAIBOR rates during the period. Although, cost of funds reduced in the quarter, low growth in customer deposits casts concerns going forward for the bank, as liquidity is expected to tighten in 2H20. Moreover, the bank is expected to maintain higher provisions for impairment in the second half of the year due to the pandemic. This, coupled with the anticipation of a sustained low-interest-rate environment in the near term, could hurt the bank's bottom line. Therefore, in line with the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Gross financing and investment income grew 8.5% YoY to SAR 917.0mn, whereas cost of funds, i.e., return on customers, banks, and financial institutions' time investments declined 43.0% YoY to SAR 86.8mn in 2Q20. As a result, the bank's net financing and investment income increased 19.8% YoY to SAR 830.2mn.
- Operating income (up 4.2% YoY to SAR 999.5mn) expanded at a slower pace than net financing and investment income owing to lower fees from banking services, dividend income, other operating income, and losses on non-trading activities.
- Total operating expense scaled up 2.6% YoY to SAR 494.8mn in 2Q20 as decline in general and administrative expenses was offset by rise in employee salaries and depreciation expense. Subsequently, the bank's cost-to-income ratio slipped to 49.5% from 50.3% in 2Q19.
- Higher impairment and zakat costs were offset by the higher topline as the bank's net income increased 4.3% YoY to SAR 318.1mn in 2Q20.
- The bank's total assets grew 15.4% YoY to SAR 88.8bn. Net financing increased 21.1% YoY and 3.7% QoQ to SAR 64.9bn, whereas customer deposits grew 9.4% YoY to SAR 64.9bn. This resulted in an improvement in the loan-to-deposit ratio to 100.1% against 90.4% in 2Q19.
- Return on equity (ROE) for the quarter decreased to 13.1% in 2Q20 from 14.3% in 2Q19; return on assets (ROA) fell to 1.4% in 2Q20 as against 1.6% in the previous year.
- Albilad's capital adequacy ratio (CAR) declined to 17.7% in 2Q20 compared to 18.5% in 2Q19. Additionally, its tier I and tier II capital ratios contracted to 13.8% and 3.9%, respectively.

Valuation: We revise our target price to a fair value of SAR 23.0 per share and retain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Net financing and investment income (SAR bn)	0.8	0.7	19.8%	3.0	2.7	8.8%
Operating income (SAR bn)	1.0	1.0	4.2%	4.2	3.9	6.2%
EPS (SAR)	0.42	0.41	4.3%	1.60	1.66	(3.5%)
Net Interest Margin (%)	4.1%	4.2%	(0.0%)	3.9%	3.9%	(0.0%)
Cost to income (%)	49.5%	50.3%	(0.8%)	51.5%	51.3%	0.3%
RoE (%)	13.1%	14.3%	(1.1%)	12.0%	14.4%	(2.4%)
Total Assets (SAR bn)	88.8	77.0	15.4%	94.5	86.0	9.9%
Loans and Advances (SAR bn)	64.9	53.6	21.1%	65.7	59.3	10.8%

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.

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.