

July 31, 2017

Rating	Neutral
12-Month Target Price	SAR 14.00

ALAWWAL BANK

2Q2017 First Look

Expected Total Return

Price as on Jul-30, 2017	SAR 12.10
Upside to Target Price	15.7%
Expected Dividend Yield	4.1%
Expected Total Return	19.8%

Market Data

52 Week H/L	SAR 14.20 /8.25
Market Capitalization	SAR 13,831 mln
Shares Outstanding	1,143 mln
Free Float	27.5%
12-Month ADTV	775,430
Bloomberg Code	Alawwal AB

1-Year Price Performance



Source: Bloomberg

No Letup in Provisions

Alawwal Bank reported under par profits for the second quarter falling short of both ours and market's expectations. Net income at SAR 322 million was down -40% Y/Y but fell marginally by -1% Q/Q as provisioning was elevated once more at SAR 285 million versus our expectations of some relief on that front. Net special commission income was up +9% Q/Q. Net advances were almost flat, rising by just SAR 258 million over 1Q but deposit growth was stellar with a rise of SAR 1.5 billion. Non-core income has contracted this quarter. The stock has bounced back at the Tadawul in 2Q but this result would not help. Trading at a 2017E P/B of 1.0x, we recommend a Neutral as there are more attractive options in the sector.

Deposits grow by SAR 1.5 billion Q/Q

Net special commission income (NSCI) is up +9% Q/Q to SAR 701 million on the back of a substantial dip in special commission expenses by -22% Q/Q to SAR 273 million while special commission income is down just -2%. Thus, the bank has managed to decrease cost of deposits and widen spreads, likely as higher cost deposits matured. Despite falling cost of funds, Alawwal has managed to increase the quantum of deposits by SAR 1.5 billion to SAR 82 billion, reversing a SAR 5 billion decline in the preceding quarter.

LDR declines to 82.6%

Net loans have marginally increased by SAR 258 million Q/Q to SAR 70.7 billion as credit demand for the sector has been soft. In view of elevated provisions for the past four quarters, the bank may also be strengthening credit scrutiny. Combined with rising deposits, LDR has contracted to 82.6% from 83.7% at 1Q-end and is down from 87.6% in 1Q2016.

Non-core income down -17% Q/Q

Non-core income continues its sequential decline, which commenced in 2Q2016 and is now down to SAR 226 million this quarter versus SAR 274 million in the preceding quarter on lower fee-based and trading income. Operating expense continue to rise for the bank, primarily led by increased provisioning for the fourth straight quarter. We had estimated provisions of SAR 205 million, lower than SAR 291 million in 1Q as we expected them to level off. However, they actually came in at SAR 285 million. Coupled with lower than expected non-core income, this was the main cause of the net income deviation versus our estimates.

Negative earnings surprise

Net income surprised the market on the downside coming in at SAR 322 million as compared to street estimates of SAR 383 million, down -40% Y/Y and -1% Q/Q. Recent financials have been lackluster while dividends for 2017 are uncertain. Nevertheless, the stock has performed well in 2Q. We believe, 2017E P/B of 1.0x is not enticing given better value and growth options in the sector. We recommend a Neutral with a SAR 14.00 target price.

Key Financial Figures

2Q2017E (SAR mln)	Actual	RC Forecast	
Net Comm Income	701	673	
Total Op Income	927	969	
Net Income	322	445	
Loans & Advances	70,391	70,990	
Deposits	81,770	80,365	

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
Net Comm Inc	2,507	2,624	2,761
Prov for cred loss	1,167	1,014	675
Net Income	1,065	1,365	1,728
EPS (SAR)	0.93	1.19	1.51
DPS (SAR)	-	0.50	0.50

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information 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 contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital'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 or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, 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, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax 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 projections contained in it are protected by the copyright rules and regulations.



إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299

riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234
الإدراة العامة: 6775 شارع التخصصي - العليا، الرياض 3712 - 12331