

Rating
12- Month Target Price

Buy
SAR 22.00

ARAB NATIONAL BANK (ANB)

3Q2016 First Look

Expected Total Return

Price as on Oct-12, 2016	SAR 15.36
Upside to Target Price	43.2%
Expected Dividend Yield	6.5%
Expected Total Return	49.7%

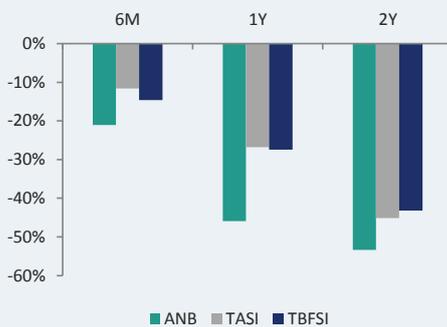
Market Data

52 Week H/L	SAR 28.60/14.70
Market Capitalization	SAR 15,360 mln
Shares Outstanding	1,000 mln
Free Float	48.4%
12-Month ADTV	247,344

1-Year Price Performance



Source: Bloomberg



3Q2016E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,067	1,081
Total Op Income	1,510	1,527
Net Income	722	791
Loans & Advances	115,625	119,056
Deposits	128,236	131,097

Provisions Rise

Arab National Bank (ANB) reported 3Q net income at SAR 722 million, down -6% Y/Y and -12% Q/Q, missing our SAR 774 million forecast. We believe the decline was primarily led by a hike in provisions for credit losses, which we believe accrued north of SAR 200 million for the quarter. Both net special commission income at SAR 1.07 billion (our estimate SAR 1.08 billion) and total operating income of SAR 1.51 billion (our estimate SAR 1.53 billion) came in line. Net loan and deposits contracted Q/Q, the former at a greater pace than the later, leading to a decline in LDR to 89% as compared to 90% in the preceding quarter. Although the stock is trading at extremely low multiples (0.6x P/B), it does not find favor with investors.

Total income in line with estimates

Net special commission income has grown +7% Y/Y to SAR 1.07 billion, close to our SAR 1.06 billion forecast. This comes mainly on the back of higher interest rates as net loans are up just +2% Y/Y and actually down on a Q/Q basis. While net advances dropped -2% Q/Q, deposits have declined marginally by -1% Q/Q and -3% Y/Y. A sequential fall in deposits from SAR 135.7 billion at December-end to SAR 128.2 billion at September-end raises eyebrows but reflects the tight liquidity in the market where some banks are facing more difficulty than others.

LDR contracts by 100bps Q/Q

The net effect of falling loans and deposits has been a 100bps decline in the LDR from 90% to 89%. As per our reading, the bank will make efforts to bring this ratio down further going forward. Investments also continue to tread down and are now at SAR 22.6 billion as compared to SAR 33.2 billion at the beginning of the year.

Rise in provisions is understandable

Non-operating income at SAR 443 million is near to our SAR 446 million forecast, where we had already incorporated dwindling fee-based income. Operating expenses have been the cause of deviation. The SAR 50 million difference in opex is on account of a greater than expected provisions for credit losses, which were likely reported north of SAR 200 million as ANB has stated that salary expenses were down. This might be an early indicator of a further hike in provisions to come over the next few quarters, not just for ANB but also for other banks.

Is it in the price or not?

Net income at SAR 722 million (-6% Y/Y, -12% Q/Q) missed our SAR 774 million forecast as explained above. Trading at 0.6x P/B, the question which investors need to ask themselves is whether an expected increase in provisions and NPLs is already incorporated into price or not. Our full year 2016 forecast accounts for SAR 845 million in provisions versus SAR 322 million accrued until 1H2016. We recommend a Buy with a SAR 22.00 target price and believe this de-rating has been overdone.

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016E	2017E
Net Comm Inc	3,845	3,962	4,088
Prov for cred loss	657	845	748
Net Income	2,956	2,812	3,023
EPS (SAR)	2.96	2.81	3.02
DPS (SAR)	1.00	1.00	1.10

Key Financial Ratios

FY Dec31	2015A	2016E	2017E
NIM	2.4%	2.4%	2.5%
ROAE	13.7%	11.7%	11.8%
ROAA	1.8%	1.7%	1.7%
CAR	15.5%	14.8%	14.9%
P/E (SAR)	5.2x	5.5x	5.1x

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*

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