

## Below Expectations, but some impressive numbers

### 4Q15 profit below our expectations despite out-performance in NSCI

Bank AlBilad (ALBI) posted 4Q15 net profit of SAR 204 mln, which was below our and consensus estimates of SAR216 mln. At the net interest income level, the bank out-performed our expectations by 12.1%; however the expected rebound in other operating income did not come through. In 3Q15, the bank and sector suffered a significant down-tick in other operating income, which we partially attributed to coinciding with two festive holiday periods. According to the management commentary with the results announcement, there was a rise in income from investing and financing assets, fx income and a slight increase in the fee and commission income, however dividend income and gains (losses) on non-trading investments saw decline. Other operating income was SAR 278 mln, significantly below our estimate of SAR 307 mln. Expenses were slightly higher than our forecast because of increase in impairment charges and rise in employee expenses.

### NSCI performance strong, higher cost to income concern

Net interest income performance in 4Q and 2015 was strong, driven by credit growth and a strong surge in interest rates in 4Q15. The bank expanded its loan book by 20% Y/Y in 2015 and lending growth grew by 6% Q/Q in 4Q15, despite concerns of slowdown in the sector. On average, SAIBOR rates rose 20bps in 4Q15. The sharp uptick in SAIBOR in Dec 2015, and our projected interest rate increases for 2016 augur well for continued growth in NSCI. We believe that ALBI's relatively liquid balance sheet assisted its strong interest income growth as inter-bank lending picked up in the quarter. Deposits also saw growth of 15% Y/Y and 3% Q/Q, whilst simple LDR has reached 81%. Both deposit and lending growth for ALBI have out-performed other banks that have reported 4Q15 numbers thus far, which is impressive given the macroeconomic environment. Higher impairment charges and rise in employee expenses led to decline in net income. Given that cost-to-income for ALBI is already high and we believe it has increased further in this quarter.

### Rating Hold with SAR27/share target price

We will be updating our model and forecasts once fuller disclosure is available later this month. However, apart from the sharper than expected decline in net profits, the broad trends indicated by these results are in line with our major themes for the sector. We expect higher interest rates to power sector NIM higher; on the flip side we are expecting slower non-interest income growth, slower growth in deposits and advances, and a bottoming in cost of risk. In our view, the impact of higher interest rates will more than mitigate the negatives. We continue to believe that in the current macroeconomic environment, the banking sector will out-perform the broader index.

SAR mln	4Q15	3Q15	4Q14	Q/Q %	Y/Y %	4Q SFC	Dev %	4Q Cons.	Dev %
Net Commission Income	310	294	269	5.6	15.4	277	12.1	-na-	
Other Operating Income	278	273	266	1.9	4.4	307	-9.6		
Total Income	588	566	535	3.8	9.9	584	0.7	573	2.6
Operating Expenses	384	363	286	5.7	34.1	368			
Net Income	204	203	249	0.5	-17.9	216	-5.5	216	-5.5
Total Assets	51,220	49,496	45,230	3.5	13.2				
Investments	2,949	3,163	2,635	-6.8	11.9				
Net Loans	34,255	32,289	28,355	6.1	20.8				
Deposits	42,179	40,717	36,724	3.6	14.9				
Simple LDR	0.81	0.79	0.77						

Source: SFC, Company, Bloomberg

### Rating Summary

Recommendation	Hold
12-Month Target price (SAR)	27
Upside/(Downside)	40%

### Stock Details

Last Close Price	SAR	19.1
Market Capitalization	SAR mln	9,550
Shares Outstanding	mln	500
52-Week High	SAR	40.6
52-Week Low	SAR	19.1
Price Change (3M)	%	-23.3
6-Mth ADTV	mln	1.3
EPS 2016E	SAR	1.65
Reuters / Bloomberg	1140.SE	ALBI AB

Source: Tadawul, \*as of 14 Jan 2016

### Key Shareholders (%)

Mohamed Ibrahim Al Sebaee	18%
Abdullah Al-Subaiei Investment	11%
Khalid Al Rajhi	10%
Others	61%

Source: Tadawul

### Price Multiples

	2016E	2017E
P / E	11.6	9.1x
P / B	1.4x	1.3x
Dividend Yield (%)	3.5%	4.4%

Source: SFC

### 1-Year Share Performance



Source: Bloomberg

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## Research and Advisory Department

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### Rating Framework

#### BUY

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

#### HOLD

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

#### SELL

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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