

Bank Albilad: Higher than expected net income, supported by lower than expected provisioning and healthy topline growth on back of rising interest rates, as deposit growth remains muted

Amount in SAR mn; unless specified	Forecasts 3Q-16	Actual 3Q-16	Deviation (%)
Income from Inv & Fin	461.8	467.0	1.1%
Net profit	185.1	227.8	23.1%
EPS (SAR)	0.37	0.46	

3Q-2016 result beats our expectation on back of lower than expected provisioning :

Bank Albilad for 3Q-2016 posted earnings of SAR 227.8mn, against our expectation of SAR 185.1mn, depicting a deviation of 23.1% above our forecast. The higher than expected earning can be attributed to i) lower than expected provisions on investment and loans, ii) slightly higher (1.1%) than expected income from investing and financing activity.

Operating income stood at SAR 646.9mn depicting a jump of 1.6% QoQ and 14.2%YoY. Operating income showed a deviation of 1.1% from our estimates primarily due the deviation in income from investing and financing income.

Operating expenses at SAR 419mn were 7.9% below our expectation, showing a growth of 15.5%YoY and a QoQ decline of 7.5%. The deviation in our view was due to the lower than expected provisions.

For 9M-2016, the company posted earnings of SAR 586.2mn, against net income of SAR 584mn for 9M-2015, depicting a nominal increase of 0.38%YoY. However, total operational income for 9M-2016 stood at SAR 1.9bn against SAR 1.7bn in 9M-2015, depicting a jump of 11.9%YoY. Despite of the strong growth in operational income the fall in net income is due to the 18%YoY higher operational expenses, on the back of higher provision on Investments and loans.

Deposit growth muted, ADR touching regulatory requirement of 90%: Albilad's deposit base in 3Q-2016 stood at SAR 41.2bn, depicting a jump of 1.3%YoY and a QoQ fall of 2.1%. The slowdown in the deposit growth is indicative slowdown in the economic growth, on the back of the weak oil prices, which has pushed the government to draw down on its deposits. On the other hand loans for the bank stood at SAR 36.2bn, depicting a jump of 12.3%YoY (a 1.8%QoQ decline), pushing the ADR(Advance to Deposit ratio) to 88% as compared to 79.3% in Q3-2015 and 87.7% in 2Q-2016. The low deposit growth and high ADR will hinder the banks credit growth as liquidity becomes tighter which can potentially escalate the cost of fund.

Rising SAIBOR rates supporting financing activity: On the back of rising interest rate (6M SAIBOR stood at 2.6%), Albilad has shown an improvement in its NIMs(Net interest Margins). The bank in 3Q-2016 realized an effective profit rate of 1.29% as compared 0.97% in 3Q-2015 and 1.17% in 2Q-2016. On the back of higher lending rate Net income from investing activity showed an improvement by 24%YoY. However the rising SAIBOR is indicative of the drying liquidity situation of the banking system, which has been impacted by the drawdown in deposits by the government. The high interest rate will continue to support the banking sector in term of profitability, however loan growth is expected to slow down given the slowdown in the economy and the comparatively high funding cost.

We maintain 'Neutral' on the stock with a revised target price of SAR 16.6 per share: Bank Albilad showed an improvement in its result, after disappointing for 2 consecutive quarters on the back of provisions on investments. However, we believe the current tightening liquidity of the banking system will continue to put pressure on deposit growth. Along with that, the slowdown in the economy leaves the bank susceptible to higher credit losses, especially from the building and construction sector (In 2015, net financing to building and construction sector accounted for 19.2% of the total net financing). The bank's remittance income also faces downward pressure as expat population has seen an exodus especially after the Saudi Oger and Saudi bin Ladin issues. The bank is currently trading at Trailing(12M) PE of 12.4x and 2Q-2016 PB of 1.39X against our forward PE of 11.48x and PB of 1.16x. We maintain our "Neutral" recommendation on the stock with a revised price target of SAR 16.6 per share.

Recommendation	Neutral
Current Price* (SAR)	15.83
Target Price (SAR)*	16.6
Upside / (Downside)	5.1%

*prices as of 18th of October 2016

Price Performance



Source: Bloomberg

Key Financials

SARmn (unless specified)	FY15	FY16E	FY17E
Net Rev frm inv & fin	1,162	1,421	1,524
Growth %	14.1%	22.2%	7.3%
Net income	788	826	978
Growth %	-8.75%	4.74%	18.48%
EPS (diluted)	1.31	1.38	1.63

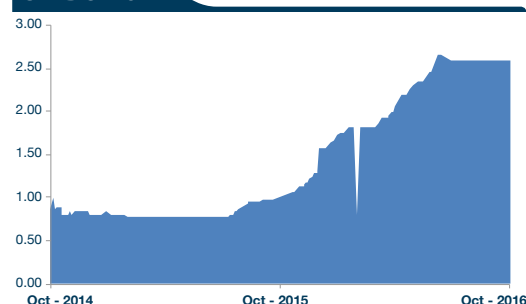
Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16E	FY17E
Net Margins	63.64%	47.27%	49.17%
PE (x)	10.04	11.48	9.12
PB (x)	1.23	1.16	1.06
ROA	2%	1%	2%
ROE	12.2%	10.1%	11.6%
Gross Loans growth	20.35%	18.42%	11.40%
ADR	81%	88%	89%

Source: Company reports, Aljazira Capital

SAIBOR 6M



Source: Bloomberg

Key Market Data

Market Cap (mn)	9,498.00
YTD %	-23.8%
Shares Outstanding (mn)	600.00
52 weeks high	22.00
52 weeks low	14.40

Source: Bloomberg, Aljazira Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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