

Big beat versus consensus, but our prognosis remains weak. Maintain SELL.

2Q16 profit beats consensus by 11%

Bank Aljazira (BJAZ) posted 2Q16 net profit of SAR 178 mln, which was above our estimates (+7.2%) and also beat consensus by 10.6%. NSCI underperformed our forecasts, where net yield (proxy for NIM) fell 6 bps Q/Q despite reasonable loan growth of 2.1% Q/Q and higher LDR, up 163 bps Q/Q. Deposits declined sharply by 9.3% Y/Y and increased slightly 0.1% Q/Q. Non-interest income declined by 75% which was as a result of one time gain from the sale of land (SAR573mln) in 2Q15. Excluding the gain from the sale of land non-interest income declined by 6.3% Y/Y. BJAZ also recorded land sale in 1Q16 worth SAR 209mln and excluding this sale non-interest income was flat Q/Q. Total expenses declined by 10.3% Y/Y mainly due to decrease in the impairment charge for credit losses and other general and administrative expenses. The bank remains very much dependent on share broking business and given the current unfavorable trading environment, we expect core earnings to remain weak.

Anemic deposit growth will hurt for the rest of the year

BJAZ deposits were flat on Q/Q but have declined sharply by 9.3% Y/Y. BJAZ also recorded loan growth of 2.1% Q/Q and 4.3% Y/Y. Simple LDR at 87.2% is below the sector's LDR of 90%. Unlike other banks that have reported, BJAZ has been growing its investment portfolio over last 12 months.

Maintain SELL rating with TP of SAR13

We will tweak our model upon full disclosure of financial statements by the company. The stock has declined 19% YTD 2016, and given the company's exposure to broking/share trading activities and relative weakness in liability raising, we believe BJAZ will continue to trade at a discount to the sector. BJAZ is one of only 2 banks which have seen net yield fall Q/Q. At 0.6x 2016E PBV, BJAZ is the cheapest bank in the sector, however we believe that the discount is warranted and maintain our SELL rating.

Bank Aljazira PB relative to Bank index PB



Source: Bloomberg, SFC

SAR mln	2Q16	1Q16	2Q15	Y/Y %	2Q SFC	Dev %	2Q Cons.	Dev %
Net Commission Income	385	370	403	-4.5	375	2.7	-na-	
Other Operating Income	195	403	781	-75.0	194	0.5		
Total Income	580	773	1,184	-51.0	569	1.9	541	7.2
Operating Expenses	402	392	448	-10.3	403	-0.2	380	5.8
Net Income	178	381	736	-75.8	166	7.2	161	10.6
Total Assets	68,352	65,704	67,630	1.1				
Investments	16,434	13,642	11,530	42.5				
Net Loans	44,212	43,322	42,401	4.3				
Deposits	50,730	50,655	55,962	-9.3				
Simple LDR	87.15	85.52	75.77	1,138				

Source: Company Accounts, SFC, Bloomberg

Rating Summary

Recommendation	SELL
12-Month Target price (SAR)	13
Upside/(Downside)	0.8%

Stock Details

Current Price*	SAR	13.1
Market Capitalization	SAR Mn	5,420
Shares Outstanding	Mn	400
52-Week High	SAR	28.8
52-Week Low	SAR	11.5
Price Change (YTD)	%	-19.5%
EPS 2016E	SAR	2.1
Ticker (Reuters/Bloomberg)	1020.SE	BJAZ AB

Source: Tadawul, Bloomberg *as of 21 July 2016

Estimates

SAR	2016E	2017E
EPS	2.1	1.4
DPS	0.2	0.2
Net Interest Margin (%)	2.8	3.0

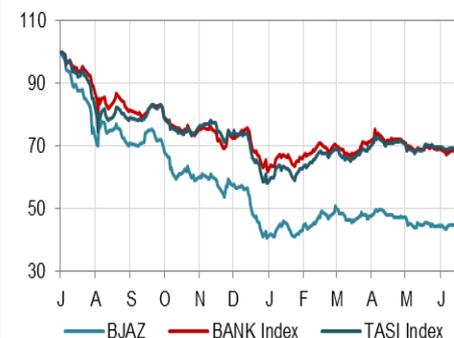
Source: SFC, Company reports

Price Multiples

	2016E	2017E
P / E	6.1x	9.1x
P / B	0.6x	0.6x
Dividend Yield	1.6%	1.6%

Source: SFC, Company reports

1-Year Share Performance



Source: Bloomberg

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Research and Advisory Department

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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