

## Recommendation

Neutral

## Fair Value (SAR)

13.75

Price as of January 15, 2017

13.31

Expected Return

%3.3

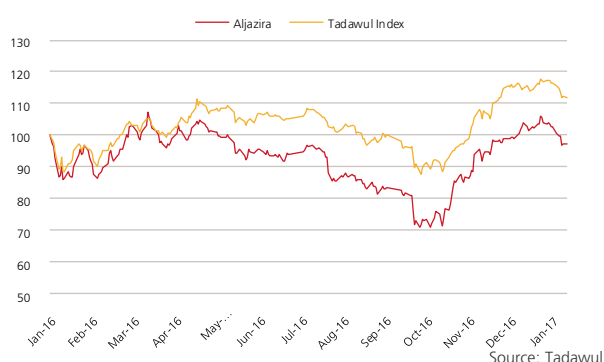
## Company Data

Tadawul Symbol	1020.SE
52 Week High (SAR)	14.85
52 Week Low (SAR)	9.45
YTD Change	%5.92-
3-Month Average Volume (Thousand Shares)	3,162
Market Cap. (SAR Million)	5,340
Market Cap. (USD Million)	1,424
Outstanding Shares (Million Shares)	400

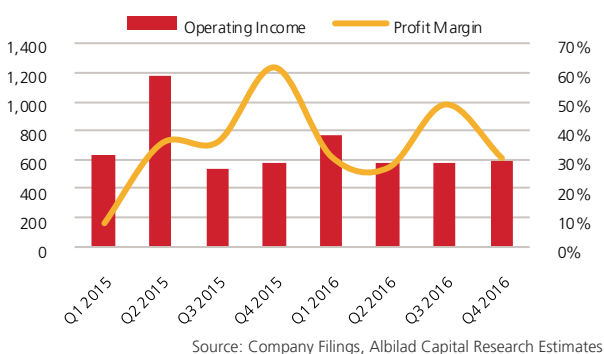
## Major Shareholders ( > 5% )

Consolidated Brothers Company	%6.59
National Bank of Pakistan	%5.83
Saleh Abdullah Mohammed Kamel	%5.00

52-week Stock Price Movement



Quarterly Operating Income (SAR mn) and Profit Margin



Turki Fadaak  
Research & Advisory Manager  
tfadaak@albilad-capital.com

Mohammed Alghalbi  
Financial Analyst  
Malghalbi@albilad-capital.com

Bank Aljazira reported its interim financial results of Q4 2016, wherein net profits declined 4.4% YoY and 5.6% QoQ to SAR 152 million, in-line with our estimate of SAR 157 million. The bank posted the full-year net profit of SAR 872 million for 2016, declining 32.3% from 2015.

The decline in profits for Q4 were largely driven by an increase in operating expenses by 3% as a result of an increase in the credit loss provisions, in addition to a decrease in net trading income and other operating income. While, The decline in profits for the full-year were mainly driven by a decrease in total operating income by 14% due to a sale of a land owned by the bank in the previous year, which resulted in gain amounted to SAR 573 million versus a gain of SAR 209 million booked on sale of land in 2016, in addition to a decrease in net special commission income, net trading income and other operating income as well as an increase in the net impairment charge for credit losses.

Net special commission income of the fourth-quarter came in at SAR 405 million, up 3.9% from the same quarter of the previous year, while on an annual level culminated at SAR 1,566, down 2.2% from 2015. Total operating income increased 1.6% QoQ, recording SAR 590 million in Q4, however, on an annual level tumbled by 13.8% compared to 2015.

During the FY2016, loans declined slightly by 0.2%, reaching SAR 42.1 billion versus SAR 42.2 billion in 2015. Investments jumped up 44.5% recording SAR 16.3 billion compared with SAR 11.3 billion in 2015. Total assets also climbed 4.8%, reaching SAR 66.3 billion. Customer deposits inched up 3.7% to reach SAR 51.6 billion versus SAR 49.8 billion in 2015. As a result, loans-to-deposits ratio decreased to 82% in 2016 from 85% in 2015, due to drop in loans growth and increase in deposits.

By neutralizing extraordinary gains from the sale of two lands in this and last years, the bank's normalized net profit dropped by only 7% during the FY16 compared to 2015. It appears that the bank attracts an expensive deposits as result of the decline in deposit growth, which led to a decrease in net special commission income.

By reviewing the future performance of Bank Aljazira, thus, our fair value is SAR 13.75 per share and assigning a "Neutral" recommendation\*.

FY - Ending December	2015A	2016A	2017F	2018F
Total Assets (SAR million)	63,264	66,319	68,082	69,737
Total Deposit (SAR million)	54,569	51,602	52,118	52,639
Net Loans (SAR million)	41,863	42,099	42,730	43,371
Investment (SAR million)	11,202	16,293	16,456	16,620
Net Interest Margin	2.80%	2.67%	2.69%	2.69%
Net Loans/Deposits	84.3%	81.6%	82.0%	82.4%
Coverage Ratio	173%	177%	167%	161%
NPL / Total Loans	0.8%	0.8%	0.8%	0.8%
PE	4.06	6.10	7.50	7.27
P / BV	0.70	0.66	0.60	0.56
Net Special Commission Growth	10.8%	-2.2%	3.2%	1.4%

Source: Company Filings, Albilad Capital Research Estimates

## Summary of 12M Results

Income Statement (SAR mn)	M9 2015	M9 2016	%
Special commission income	2,135	2,656	%24
Special commission expense	534	1090	%104.2
Net special commission income	1,601	1,566	(%2.2)
Operating income	2,922	2,519	(%13.8)
NAI	1,287	872	(%32.3)

Balance Sheet (SAR mn)	M9 2015	M9 2016	%
Investments	11,273	16,293	%44.5
Loans and advances, net	42,174	42,099	(%0.2)
Total Assets	63,264	66,319	%4.8
Customer deposits	49,765	51,602	%3.7
Total equity	7,413	8,104	%9

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016E*	2017F	2018F
Special commission income	1,955	2,135	2,656	2,729	2,767
Special commission expense	510	535	1,090	1,113	1,128
<b>Net special commission income</b>	<b>1,445</b>	<b>1,601</b>	<b>1,566</b>	<b>1,616</b>	<b>1,639</b>
Fees and commission income, net	648	630	642	662	695
Foreign exchange income, net	57	90	95	101	106
Trading income, net	30	11	3	4	4
Other	46	17	213	2	3
<b>Operating income</b>	<b>2,226</b>	<b>2,349</b>	<b>2,519</b>	<b>2,386</b>	<b>2,447</b>
Salaries and employee-related expenses	722	909	882	892	910
Rent and premises-related expenses	113	136	130	136	143
Depreciation	79	79	80	83	86
Other general and administrative expenses	361	460	429	438	446
<b>Net Income before Impairment</b>	<b>952</b>	<b>764</b>	<b>999</b>	<b>837</b>	<b>861</b>
Impairment charge for credit losses, net	383	53	127	127	129
<b>Net Income before Unusual Items</b>	<b>569</b>	<b>711</b>	<b>872</b>	<b>710</b>	<b>732</b>
Gain on sale of land	-	573	209	0	0
<b>Net Income After Unusual Items</b>	<b>569</b>	<b>1,284</b>	<b>872</b>	<b>710</b>	<b>732</b>
Share of Gain (Loss) of an associate	4	3	0	0	0
<b>NAI</b>	<b>572</b>	<b>1,287</b>	<b>872</b>	<b>710</b>	<b>732</b>
Balance Sheet (SAR mn)	2014A	2015A	2016E	2017F	2018F
Cash & balances with SAMA & other financial institutions	11,461	8,420	6,332	6,835	7,524
Investments	11,335	11,202	16,293	16,456	16,620
Loans and advances, net	41,245	41,863	42,099	42,730	43,371
Investment in an associate	126	128	131	134	136
Property and equipment, net	1,259	723	810	896	982
Other Assets	1,129	928	937	1,031	1,103
<b>Total Assets</b>	<b>66,554</b>	<b>63,264</b>	<b>66,601</b>	<b>68,082</b>	<b>69,737</b>
Due to banks & other financial institutions	3,736	4,055	3,767	3,909	4,211
Customer deposits	54,569	49,674	51,602	52,118	52,639
Other liabilities	1,090	1,123	1,128	1,241	1,340
Subordinated Sukuk	1,000	1,000	2,000	2,000	2,000
<b>Total Liabilities</b>	<b>60,396</b>	<b>55,851</b>	<b>58,497</b>	<b>59,268</b>	<b>60,191</b>
Total equity	6,158	7,413	8,104	8,814	9,546
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>66,554</b>	<b>63,264</b>	<b>66,601</b>	<b>68,082</b>	<b>69,737</b>

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

\*Estimated numbers except for Net special commission income , Operating Income and Net income.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

<b>Overweight:</b>	The Target share price exceeds the current share price by $\geq 10\%$ .
<b>Neutral:</b>	The Target share price is either more or less than the current share price by $< 10\%$ .
<b>Underweight:</b>	The Target share price is less than the current share price by $\geq 10\%$ .
<b>To be Revised:</b>	No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

## Albilad Capital

### Client Services

E-mail: [clientservices@albilad-capital.com](mailto:clientservices@albilad-capital.com)  
Tel: +966-11-203-9888  
Toll-free: 800-116-0001

### Research & Advisory

E-mail: [research@albilad-capital.com](mailto:research@albilad-capital.com)  
Tel: +966-11-290-6250  
Website: [www.albilad-capital.com/en/research](http://www.albilad-capital.com/en/research)

### Asset Management

E-mail: [abicaset@albilad-capital.com](mailto:abicaset@albilad-capital.com)  
Tel: +966-11-290-6280

### Brokerage

E-mail: [abicttu@albilad-capital.com](mailto:abicttu@albilad-capital.com)  
Tel: +966-11-290-6230

### Custody

E-mail: [custody@albilad-capital.com](mailto:custody@albilad-capital.com)  
Tel: +966-11-290-6259

### Investment Banking

E-mail: [investmentbanking@albilad-capital.com](mailto:investmentbanking@albilad-capital.com)  
Tel: +966-11-290-6256

## Disclaimer

Albilad Capital exerted utmost efforts to ensure that the information included in this report is accurate and correct. However, Albilad Capital Co., its managers, and staff bear no liability whether explicitly or implicitly for the content of the report and no legal responsibility, whether directly or indirectly, for any results based on it.

This report should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Albilad Capital.

We would also like to note that this information in no way constitutes a recommendation to buy or sell banknotes or make any investment decisions.

Any investment act taken by an investor based fully or partially on this report is the complete responsibility of the investor.

This report is not meant to be used or seen as advice or an option or any other measure to be taken in the future. We recommend consulting a qualified investment advisor before investing in these investment tools.

Albilad Capital preserves all rights associated with this report.