

Rating **Neutral**  
12- Month Target Price **SAR 14.00**

**ALAWWAL BANK**  
4Q2016 First Look

**Expected Total Return**

Price as on Jan-26, 2017	SAR 11.57
Upside to Target Price	21.0%
Expected Dividend Yield	4.3%
Expected Total Return	25.3%

**Market Data**

52 Week H/L	SAR 14.20 /8.25
Market Capitalization	SAR 13,225 mln
Shares Outstanding	1,143 mln
Free Float	27.6%
12-Month ADTV	657,464

**1-Year Price Performance**



Source: Bloomberg



4Q2016E (SAR mln)	Actual	RC Forecast
Net Comm Income	638	627
Total Op Income	910	890
Net Income	(249)	348
Loans & Advances	72,749	79,272
Deposits	85,359	89,276

**Elevated Provisions Cause Net Loss in 4Q**

Alawwal Bank (previously Saudi Hollandi Bank) reported a net loss for the fourth quarter following on from an almost -50% Q/Q drop in bottomline last quarter. Net loss of SAR (249) million took the market by surprise; we were expecting a net income of SAR 348 million while street estimates were SAR 369 million. It appears that the bank has taken an approximate SAR 800 million in provisions in 4Q versus total impairments of SAR 340 million in 3Q. While deposits ticked up on a Q/Q basis, net loans have dropped by SAR 4.5 billion. After an initial negative reaction at the Tadawul, stock price has recovered. While valuations are attractive at 0.90x 2017E P/B, we maintain our Neutral rating although our target price rises to SAR 14.00 from SAR 12.00.

**Deposits grow SAR 1.2 bln Q/Q**

Net special commission income (NSCI) at SAR 638 million, +8% Y/Y but down -4% Q/Q and better than expectations is positive for the bank. While commission income grew by +2% Q/Q, commission expenses increased at a faster rate (+12%) due to higher rates banks have had to offer to depositors particularly in 3Q and part of 4Q. Time deposit rates have come down since; we may see the impact in 1Q2017. Total deposits at SAR 85 billion have risen by SAR 1.2 billion Q/Q as market liquidity improved and have come back to 2Q levels but lower than SAR 89 billion at the beginning of the year.

**LDR shrinks to 82%**

Net loans have dropped by SAR 4.5 billion, -6% Q/Q, to SAR 73 billion due to better liquidity in the market (limited new credit demand) coupled with tighter credit scrutiny for new requests, consistent across the sector. LDR has contracted significantly to 81.5% from 87.7% at 3Q-end, which gives the bank room to maneuver going into 2017.

**Clean-up of the books?**

Non-core income is up +10% Q/Q, bucking the sector trend where peers have found fee-based income hard to come by. Rise in operating expenses to SAR 1.2 billion on the back of SAR 800 million in provisions took the bottom line into the red with a loss of SAR (249) million. The last time it reported a loss was in 4Q2009, at which time they had also taken a massive provisioning of SAR 733 million. Total impairments booked in 2H2016 reached approximately SAR 1.1 billion.

**No dividends for 2016**

4Q has been an eventful quarter for the bank. After changing its corporate identity and name to Alawwal Bank, a new CEO took charge in November. We believe the bank may take some time to reestablish its presence in the market. After a cut in DPS to SAR 0.25/share in 2015 (100% bonus shares was given), the board has decided not to announce any dividend for 2016, which is likely to be perceived negatively by investors. Although valuations are attractive (0.9x 2017E P/B), we remain Neutral with a revised SAR 14.00 target.

**Key Financial Figures**

FY Dec31 (SAR mln)	2015A	2016A	2017E
Net Comm Inc	2,298	2,507	2,563
Prov for cred loss	418	1,100*	600
Net Income	2,022	1,065	2,117
EPS (SAR)	1.77	0.93	1.85
DPS (SAR)	0.13	-	0.50

\*Estimate

**Key Financial Ratios**

FY Dec31	2015A	2016E	2017E
NIM	2.2%	2.3%	2.3%
ROAE	17.8%	9.0%	16.3%
ROAA	2.0%	1.0%	1.9%
CAR	15.6%	18.0%	18.4%
P/B	1.1x	1.0x	0.9x

## 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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