# Al Bilad Bank

Banks| ALBILAD | 1140

INTELLIGENT INVESTMENT IDEAS

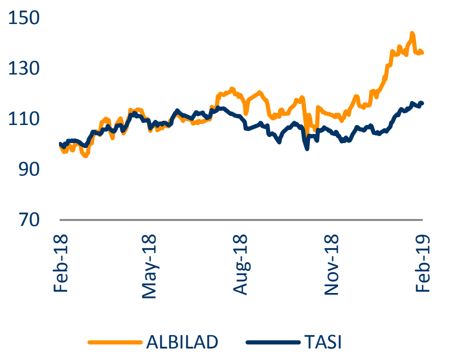
**FY18 Results Update** **February 11, 2019**

| Recommendation | Neutral |
|---|---|
| Previous Recommendation | Underweight |
| Current Price (SAR) | 29.2 |
| Target Price (SAR) | 27.6 |
| Upside/Downside (%) | (5.4%) |

*As of Feb 10, 2019*

| Key Data (Source: Bloomberg) | |
|---|---|
| Market Cap (SAR bn) | 17.4 |
| 52 Wk High (SAR) | 31.3 |
| 52 Wk Low (SAR) | 20.4 |
| Total outstanding shares (in mn) | 600.0 |
| Free Float (%) | 52.4% |

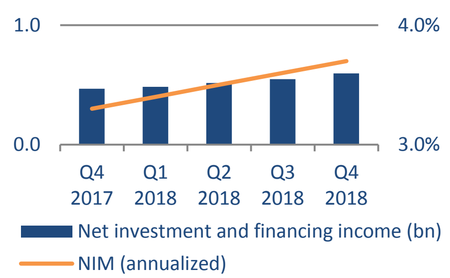
**ALBILAD vs. TASI (Rebased)**




| Price Performance (%) | Absolute | Relative |
|---|---|---|
| 1m | 1.7% | (5.3%) |
| 6m | 14.0% | 9.5% |
| 12m | 36.2% | 20.0% |

| Major Shareholders (%) | |
|---|---|
| Mohamed Ibrahim Al-Subaei & Sons Co. | 19.24% |
| Abdullah Ibrahim Al Subaei Investment Co. | 11.14% |
| Khaled Abdulrahman Saleh Al Rajhi | 10.54% |

**Net investment and financing income (SAR bn) and NIM (annualized)**




*Source: Bloomberg, Company Financials, FALCOM Research; Data as of 10th Feb 2019*

**AlBilad's bottom-line crosses benchmark SAR1bn in 2018**

Al Bilad Bank's (ALBILAD) net income grew 17.9% Y/Y to SAR 1.1bn during FY18 due to a rise in the revenue from investment and financing activities (SAR 2.1bn, +23.4% YoY), along with gains in investments, dividend income and higher fee and commissions. The gains were partially offset by the decline in other income and higher operating expenses (SAR 406.5mn, +18.6% Y/Y). The bank recorded 16.4% Y/Y growth in net loans to SAR 50.6bn, which was outpaced by growth in deposits at 19.7% Y/Y to SAR 57.1bn. Consequently, the loan-to-deposit ratio (LDR) for FY18 fell to 88.5% compared to 90.9% in FY17.

Declining oil prices since the last quarter 2018 may exert some pressure on the banking sector, however, KSA government's focus on expanding spending on the non-oil sectors (under Vision 2030) will support the credit demand. In December 2018, the Saudi Arabian Monetary Authority (SAMA) raised its repo rates by 25bps to 3.0% following the fourth quarter-point rate hike by the US Federal Reserve during the year. Recent rate hikes may encourage deposit growth, but could adversely impact consumer borrowings, especially in a short-term inflationary environment. Moreover, the decline in the capital adequacy ratio and the rising cost of funds (FY18: 1.0% vs. FY17:0.8%) may somewhat derail the bank's growth plans.

- Net financing and investment income grew 23.4% YoY to SAR 2.1bn, mainly due to growth in the loan portfolio and higher yields, following the rise in SAIBOR rates. Income from other operations stood at SAR 1.3bn, growing 4.1% Y/Y, driven by higher fee from banking services and gains on non-trading investments. Net exchange income expanded 1.9% Y/Y to SAR 315.7mn, while dividend income more than doubled to SAR 22.6mn. This was partially offset by a 25.9% Y/Y decline in the other operating income to SAR 45.5mn.
- Operating expenses rose 10.4% Y/Y to SAR 1.8bn due to an increase in salaries (SAR 1.1bn, +10.4% YoY), other general expenses (SAR 406.5mn, +18.6% YoY), and depreciation expense (SAR 108mn, +12.0% YoY). Meanwhile, rental expense (SAR 248mn, -1.5% Y/Y) declined marginally for FY18 as it rose 14.5% Q/Q in 4Q18 after falling for two consecutive quarters. Thus, the cost-to-income ratio declined to 53.1% in FY18 from 55.6% in FY17.
- Pre-provision profits grew 21.8% YoY to SAR 1.6bn. Impairment charges for the year for credit and other financial assets were substantially higher (+29.5% Y/Y) to SAR 490.5mn.
- Assets grew 16.5% to SAR 73.6bn. Investments advanced 25.8% YoY to SAR 6.5bn during FY18. ROE improved to 14.4% in FY18 vs. 12.8% in FY17 while ROA remained flat at 1.6%.
- Provision coverage ratio continued to rise in line with the past two years to 235.5% in FY18. CAR for FY18 stood at 17.3% vs. 18.5% in FY17, while Tier-1 ratio stood at 12.9% vs. 13.7% in FY17.
- In December 2018, the Board of Directors recommended increasing capital by 25% to SAR 7.5bn from the existing SAR 6bn, through the issuance of bonus shares.

**Valuation:** We revise our rating on the stock to 'Neutral' from 'Underweight', with an upgraded target price of SAR 27.6 per share, driven by better than expected 4Q18 performance and recommendation for bonus shares issuance.

| | 4Q'18 | 4Q'17 | % YoY | FY19E | FY18 | % YoY |
|---|---|---|---|---|---|---|
| Net financing and investment income (SAR bn) | 0.6 | 0.5 | 27.7% | 2.5 | 2.1 | 15.6% |
| Operating income (SAR bn) | 0.9 | 0.8 | 15.0% | 3.9 | 3.4 | 13.4% |
| EPS (SAR) | 0.5 | 0.4 | 29.1% | 2.1 | 1.9 | 12.2% |
| Net Interest Margin (%) | 3.7% | 3.3% | 0.4% | 3.5% | 3.5% | 0.0% |
| Cost to income (%) | 55.3% | 53.9% | 1.4% | 52.8% | 53.1% | -0.3% |
| RoE (%) | 14.7% | 11.9% | 2.8% | 14.7% | 14.4% | 0.3% |
| Total Assets (SAR bn) | 73.6 | 63.2 | 16.5% | 87.4 | 73.6 | 18.7% |
| Loans and Advances portfolio (SAR bn) | 50.6 | 43.4 | 16.4% | 60.2 | 50.6 | 19.0% |

Source: Company Financials, FALCOM Research

## FALCOM Rating Methodology

FALCOM Financial Services 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.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

## FALCOM Financial Services

**Contact us on the below phone numbers:**
**Customer Services: 8004298888**
**Brokerage Services: 920004711**

**Fax or Email us at the below number:**
**Fax: +966 11 2032546**
**Email: addingvalue@falcom.com.sa**

**Mail us at the following address:**
**P.O. Box 884**
**Riyadh 11421**
**Kingdom of Saudi Arabia**



FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.