

Rating **Neutral**
 12- Month Target Price **SAR 48.00**

NATIONAL COMMERCIAL BANK (NCB)

2Q2018 First Look

Expected Total Return

Price as on Jul-29, 2018	SAR 46.15
Upside to Target Price	4.0%
Expected Dividend Yield	3.7%
Expected Total Return	7.7%

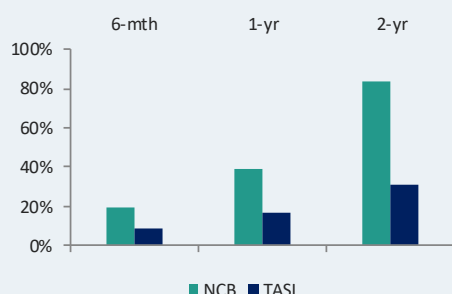
Market Data

52 Week H/L	SAR 49.95/30.45
Market Capitalization	SAR 138,450 mln
Shares Outstanding	3,000 mln
Free Float	35.6%
12-Month ADTV	895,360
Bloomberg Code	NCB AB

1-Year Price Performance



Source: Bloomberg



2Q2018 (SAR mln)	Actual	RC Forecast
Net Sp. Comm. Inc.	3,573	3,453
Total Op Income	4,661	4,534
Net Income	2,579	2,475
Net Advances	266,043	253,447
Deposits	317,653	310,914

Extraordinary Loan Growth

NCB reported its 2Q2018 results with a net income of SAR 2.58 billion (+7% Y/Y, -14% Q/Q) in-line with our forecast of SAR 2.48 billion and market consensus of SAR 2.52 billion. NSCI increased +5% Q/Q on higher special commission income, yet the rise in NSCI could not salvage profitability Q/Q as non-core income dropped -20% and opex rose +16% Q/Q. Provisions amounted to SAR 341 million, as opposed to last quarter's negative numbers of SAR (8) million. The bank managed to grow its loans and deposits aggressively during the quarter, adding SAR 13.3 billion and SAR 8.7 billion respectively, causing LDR to reach 81%. Trading at a 2018E P/B of 1.8x, we maintain our Neutral recommendation but raise our target price to SAR 48.00 from SAR 41.50.

Strong balance sheet growth

Net advances soared magnificently by SAR 13.3 billion over last quarter to reach SAR 266 billion, marking NCB's second largest quarterly incline since 4Q15 where it surged by SAR 15.7 billion. This rise is impressive given the relatively subdued activity in the sector. Deposits grew substantially as well by SAR 8.7 billion to SAR 318 billion as opposed to the SAR 59 million it added last quarter. It is worth noting that the overall sector witnessed similar trends during the quarter, adding SAR 20.7 billion in loans and SAR 13.5 billion in deposits; we can perceive accordingly that NCB was a major contributor to those rises. Since the growth in advances outpaced that of deposits, LDR edged up from 79% last quarter to 81%. Investments also increased by SAR 1.4 billion to SAR 115 billion, partially reversing the decline it experienced in the last two quarters.

NSCI up +5% Q/Q

NCB posted a NSCI of SAR 3.6 billion, +3% Y/Y and +5% Q/Q and in line with our SAR 3.5 billion forecast. This resulted from higher special commission income which came in at SAR 4.5 billion, +4% Q/Q, and despite the +2% Q/Q increase in special commission expense to SAR 946 million. The addition in loans and deposits, along with the high interest rates during the quarter, have influenced these numbers. Non-core income declined by -20% Q/Q to SAR 1.1 billion, due to lower fees-based income and investment related income. As a result, total income came in at SAR 4.7 billion, -2% Q/Q but up +4% Y/Y.

Operating expenses surge +16% Q/Q

Operating expenses broke above the SAR 2 billion level this quarter, growing by +16% Q/Q, mainly on the back of higher provisions and other general and administration expense. Provisions accrued to SAR 341 million in 2Q18, close to our SAR 350 million estimate. It came lower than last year's level of SAR 478 million, but significantly higher than 1Q18 level, where the bank booked negative provisions amounting to SAR (8) million due to a major one-off recovery of debts previously written-off.

Net income meets expectations

Net income came off from its record high in 1Q18 of almost SAR 3 billion to SAR 2.58 billion, down -14% Q/Q but up +7% Y/Y and in-line with our and street estimates of SAR 2.48 billion and SAR 2.52 billion respectively. The stock trades at a 2018E P/B of 1.8x; we maintain our Neutral recommendation but raise our target price to SAR 48.00 from SAR 41.50.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
NSCI	13,661	13,842	14,424
Prov for cred loss	1,864	2,096	2,106
Net Income	9,965	9,783	10,391
EPS (SAR)	3.32	3.26	3.46
DPS (SAR)	1.70	1.70	1.85

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	3.2%	3.2%	3.3%
ROAE	15.1%	13.0%	13.2%
ROAA	2.2%	2.2%	2.2%
CAR	20%	20%	21%
P/B	1.9x	1.8x	1.7x

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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