

AlBilad Bank posted net income of SAR 275.9mn; in-line with our estimate of SAR 270.1mn, showing a deviation of 2.1% on the back of higher than expected operating income, despite higher than expected OPEX. Loans and deposits growth came higher than expected, pushing ADR to 90.7% from 89.8% in Q1-18. We update our recommendation to **“Neutral”** due stock price increase with a TP of **SAR 26.4/share**.

- AlBilad Bank reported strong net profit of SAR 275.9mn depicting an increase of 16.1%Y/Y and 7.7%Q/Q, driven by 19.9%Y/Y growth in net financing and investment income and 13.4%Y/Y growth in other operating income; however, bottom line performance was partially impacted by an increase in the operating expenses. The deviation of Q2-18 earnings from our estimates is mainly attributed to higher than expected other operating income standing at SAR 325.5mn against our estimates of SAR 292.5mn.
- The bank net financing and investing income recorded a 19.9%Y/Y growth to SAR 517.5mn in Q2-18, and from SAR 485.3mn last quarter. This is marginally higher than our SAR 504mn forecast due to higher than expected gross financing and investment income. Deposits continue to remain strong rising by 16%Y/Y to SAR 52.2bn; above our estimates of SAR 51.7bn. Loans and advances portfolio jump 16.4%Y/Y to SAR 47.3bn, above our estimates of SAR 46.5bn depicting a quarterly lending rate of 1.37% against our expectation of 1.33%. Furthermore, loans grew faster compared to deposits, thereby increasing the loan to deposit ratio to 90.72% from 89.8% in Q1-18.
- Other operating income witnessed growth of 13.4%Y/Y and a 6.5%Q/Q to SAR 325.5mn. This resulted in a growth of 16.8%Y/Y and 6.5%Q/Q in total operating income to SAR 842.7mn, well above our expectations of SAR 797.3mn. We believe that the total operating income growth was mainly driven by improved NIM and fee & commission net income. However, the total operating expenses rose 16.1%Y/Y to SAR 567mn, above our estimates of SAR 527mn due to expected higher impairment charge. Impairment charges are expected to be noticeably higher than our estimates of SAR 83mn.

AJC view: We believe that AlBilad's strong performance and higher operating income was a result of solid loans and deposits growth along with higher lending rate environment. Furthermore, funding cost for Albilad has slightly improved in Q1-18 by the surge in demand deposits, which represents 60% of the total deposits compared to 57.4% in Q4-17. Strong TTM net income further enhanced its ROE profile to 13.0% in Q2-18 Vs. 12.5% in Q1-17; while the bank is currently trading at PE of 15.4x as compared to forward PE of 15.1x with an expected dividend yield of 2.7% (SAR 0.70 DPS) for FY18. We update our recommendation to **“Neutral”** due to stock price increase with a TP of **SAR 26.4/share**.

Results Summary

SARmn (unless specified)	Q2-2017	Q1-2018	Q2-2018	Change YoY	Change QoQ	Deviation from AJC Estimates
Net financing & investments income	431.5	485.3	517.5	19.9%	6.6%	2.6%
<i>Net financing margin</i>	<i>83.3%</i>	<i>81.3%</i>	<i>79.9%</i>	-	-	-
Total operating income	721.5	791	842.7	16.8%	6.5%	5.7%
Net Profit	237.6	256.1	275.9	16.1%	7.7%	2.1%
EPS	0.39	0.43	0.46	-	-	-

Source: Company reports, Aljazira Capital, *Not Meaningful

Neutral

Target Price (SAR)	26.40
Upside / (Downside)*	2.6.%

Source: Tadawul *prices as of 26th of July 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Net financing & investments income	1,408	1,739	2,152
Growth %	21.1%	23.5%	23.8%
Net Income	809	936	1,030
Growth %	2.6%	15.7%	10.0%
EPS	1.35	1.56	1.72

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
NIMs	2.4%	2.6%	3.03x
Operating Margin	45.68%	44.21%	40.25%
P/E	15.3x	13.1x	15.1x
P/B	1.7x	1.6x	1.9x
Dividend Yield	2.4%	3.5%	2.7%
ROA	1.5%	1.5%	1.4%
ROE	11.4%	12.3%	12.6%
Gross loans growth	5.9%	20.2%	18.5%

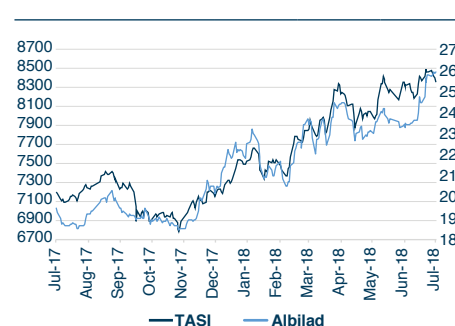
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	15.39
YTD %	26.7%
52 Week High/ Low	26.10/18.10
Shares Outstanding (mn)	600.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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