

Rating **Neutral**
 12- Month Target Price **SAR 36.00**

ARAB NATIONAL BANK (ANB)

2Q2018 First Look

Expected Total Return

Price as on Jul-24, 2018	SAR 34.30
Upside to Target Price	5.0%
Expected Dividend Yield	3.9%
Expected Total Return	8.9%

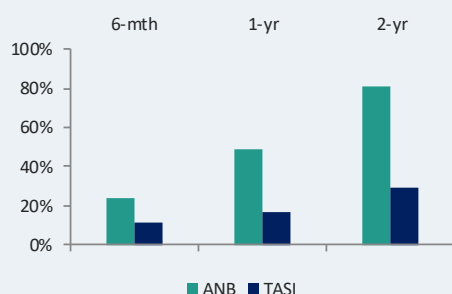
Market Data

52 Week H/L	SAR 35.90/22.10
Market Capitalization	SAR 34,300 mln
Shares Outstanding	1,000 mln
Free Float	48.3%
12-Month ADTV	210,037
Bloomberg Code	ARNB AB

1-Year Price Performance



Source: Bloomberg



2Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,272	1,229
Total Op Income	1,646	1,578
Net Income	919	856
Loans & Advances	117,486	112,667
Deposits	129,239	131,400

Loans Soar, LDR close to Limit

Arab National Bank (ANB) beat expectations reporting a net income of SAR 919 million, up +8% Y/Y and +13% Q/Q. Our forecast pointed to a bottom-line of SAR 856 million while market consensus was at SAR 871 million. Profitability growth came on the back of better NSCI, due to higher interest rates, in addition to higher non-core income Q/Q. Operating expenses decreased Y/Y primarily due to lower rent and provisions. ANB added SAR 4.4 billion in net loans, while deposits dropped by SAR 788 million, leading to an incline in LDR to 89%. Investments, on the other hand, fell considerably by SAR 4.5 billion. We raise our target price from SAR 27.00 to SAR 36.00. Trading at a 2018E P/B of 1.3x, we maintain our Neutral recommendation.

LDR reaches 89%

Net loans reversed their downward trend seen in the previous two quarters, and soared by SAR 4.4 billion Q/Q to SAR 117 billion. Deposits continued to drop, reaching SAR 129 billion, down SAR 788 million Q/Q. ANB followed sector trends, as witnessed in the latest SAMA data as of May-end, where total loans increased by SAR 23.5 billion and deposits fell by SAR 7.0 billion in the two month period April-May. Consequently, LDR rose from 86% to 89%. Investments however retreated significantly by SAR 4.5 billion, their biggest decline since the beginning of 2016, to reach SAR 27 billion.

NSCI improves

Net special commission income grew by +5% Y/Y and +6% Q/Q to SAR 1.3 billion, in-line with our SAR 1.2 billion forecast. This resulted from higher special commission income, which rose by +7% on an annual and quarterly basis to SAR 1.6 billion due to a rise in net loans as well as higher interest rates. Special commission expense also grew by +17% Y/Y and +10% Q/Q to SAR 371 million.

Non-core income down Y/Y

Non-core income was down -11% Y/Y but up +10% Q/Q to SAR 375 million. The decline was due to a decrease in fee-based income as well as net exchange income. However, the quarterly gain occurred on the back of higher net exchange income and other operating income, despite the decrease in fee-based income. The fact that banking fees and commission income declined on an annual and quarterly basis in spite of the increase in loans is noteworthy. Hence, total income came in at SAR 1.6 billion, up +1% Y/Y and +7% Q/Q, almost matching our forecast.

Target raised to SAR 36

Operating expenses were down -8% Y/Y but up +3% Q/Q to SAR 727 million. ANB lowered its expenses Y/Y as it closed 8 branches since 2Q17, in addition to a decrease in provisions. However, provisions increased on a quarterly basis. Overall, the bank made a SAR 919 million net profit (+8% Y/Y, +13% Q/Q), surpassing both our expectations and market estimates of SAR 856 million and SAR 871 million respectively. The stock trades at a 2018E P/B of 1.3x. We revise upwards our target price to SAR 36.00 from SAR 27.00 but maintain Neutral recommendation.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	4,665	4,778	4,843
Prov for cred loss	1,149	890	859
Net Income	3,034	3,412	3,518
EPS (SAR)	3.03	3.41	3.52
DPS (SAR)	1.20	1.35	1.40

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.8%	2.8%	2.8%
ROAE	12.4%	13.1%	12.6%
ROAA	1.8%	2.0%	2.0%
CAR	17.6%	15.9%	16.6%
P/B	1.4x	1.3x	1.2x

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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