

Rating
12- Month Target Price
Buy
SAR 27.00
ARAB NATIONAL BANK (ANB)
3Q2017 First Look
Expected Total Return

Price as on Oct-26, 2017	SAR 22.81
Upside to Target Price	18.4%
Expected Dividend Yield	4.8%
Expected Total Return	23.2%

Market Data

52 Week H/L	SAR 25.50 /16.00
Market Capitalization	SAR 22,810 mln
Shares Outstanding	1,000 mln
Free Float	48.3%
12-Month ADTV	309,685
Bloomberg Code	ARNB AB

1-Year Price Performance

Source: Bloomberg


3Q2017 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,184	1,208
Total Op Income	1,677	1,613
Net Income	776	798
Loans & Advances	115,932	115,369
Deposits	128,547	131,442

Provisions Jump

Arab National Bank (ANB) missed market expectations reporting a net income of SAR 776 million, up +7% Y/Y but -9% lower Q/Q. We had forecast SAR 798 million while market consensus was higher at SAR 800 million. At first look, the primary reason for this deviation stems from significantly higher operating expenses, which have risen +15% Y/Y and +14% Q/Q, on the back of a spike in provisions. Net special commission income has declined by -3% Q/Q but non-core income has compensated, rising by +17% Q/Q. Although deposits have depleted by SAR 2.2 billion over 2Q, both net advances and investments have grown by SAR 1.0 billion and SAR 879 million respectively. LDR is now teasing 89%. Our target price of SAR 27.00 and Buy recommendation is intact.

NSCI -3% lower Q/Q

Special commission expense i.e. cost of deposits has declined to SAR 305 million, down -3% Q/Q. However, a similar fall in special commission income has led to a -3% drop in NSCI to SAR 1.2 Billion (up +11% Y/Y), close to our forecast. A rise in net advances combined with flat SAIBOR this quarter has not delivered better special commission income. It appears that spreads have now stabilized for ANB. We had predicted that the major fall in cost of deposits was already behind us.

LDR reaching for the limit

Deposits continue to trend lower and have dropped by SAR 2.2 billion in 3Q to SAR 129 billion, following a SAR 1.1 billion decline in 2Q. This sequential trend of depleting deposits since 4Q2016 needs to be checked. On the other hand, net advances have grown by SAR 1.0 billion to SAR 116 billion by 3Q-end while investments have also risen by 4% to SAR 26 billion as banks have chosen to put more money in government paper, sector-wide. We estimate a rise in LDR to almost 89%, close to the 90% limit, making further loan growth difficult.

Operating expenses rise on provisioning

Non-core income has risen by a healthy +17% Q/Q to SAR 493 million as income from non-trading investments grew although fee-based income and dividend income were lower. Operating expenses have been the biggest surprise for ANB, rising by +15% Y/Y and +14% Q/Q to SAR 908 million. We believe provisioning has spiked to a ball park of SAR 330 million versus SAR 267 million last quarter while salaries and other admin expenses have also grown.

EPS below consensus

Net income of SAR 776 million missed both our forecast and market expectations, rising by +7% Y/Y but -9% lower Q/Q. Trading at a 2017E P/B of 0.9x, the stock has been on our Buy list with a target price of SAR 27.00. We await full financials to see the breakup of operating expenses and some management feedback on whether this jump in provisions was a one-off.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	4,145	4,610	4,653
Prov for cred loss	726	942	601
Net Income	2,862	3,174	3,660
EPS (SAR)	2.86	3.17	3.66
DPS (SAR)	0.90	1.10	1.20

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.5%	2.7%	2.8%
ROAE	12.0%	12.1%	13.2%
ROAA	1.7%	1.8%	2.1%
CAR	16.5%	15.3%	16.3%
P/B	1.0x	0.9x	0.8x

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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