

Rating **Neutral**  
 12- Month Target Price **SAR 14.00**

## ALAWWAL BANK

3Q2018 First Look

### Expected Total Return

Price as on Nov-08, 2018	SAR 14.80
Upside to Target Price	(5.4%)
Expected Dividend Yield	0.0%
Expected Total Return	(5.4%)

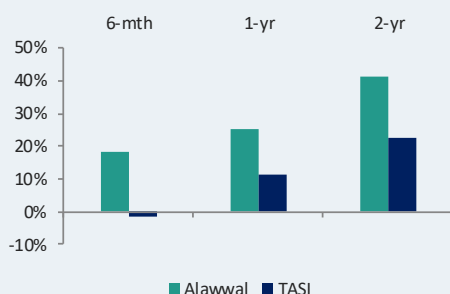
### Market Data

52 Week H/L	SAR 15.46/11.32
Market Capitalization	SAR 16,917 mln
Shares Outstanding	1,143 mln
Free Float	27.6%
12-Month ADTV	558,977
Bloomberg Code	Alawwal AB

### 1-Year Price Performance



Source: Bloomberg



3Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	692	663
Total Op Income	886	862
Net Income	281	240
Loans & Advances	58,996	55,865
Deposits	65,314	60,886

## Balance Sheet's Continued Contraction

Alawwal Bank posted a net profit of SAR 281 million, down -23% Y/Y but up +11% Q/Q, in-line with market expectations of SAR 284 million but higher than our forecast of SAR 240 million. The deviation versus our estimate stems primarily from higher than expected NSCI and lower than expected provisions. The annual drop in bottom-line is the result of lower NSCI and non-core income, in addition to higher opex; whereas the quarterly growth comes on the back of better NSCI and lower opex. As the bank prepares for its merger with SABB, it is only natural to witness some contraction in balance sheet, which is evident by the sequential drop in loans, deposits and investments that fell by SAR 132 million, SAR 866 million and SAR 182 million respectively in 3Q18. Trading at a 2018E P/B of 1.2x, we maintain our SAR 14.00 target price and Neutral rating.

### LDR rises to 87%

Loans were more or less flat Q/Q, falling by a mere SAR 132 million to remain at SAR 59 billion. This is part of a downward trend adopted since 2Q16. Deposits sustained their sequential decline as well, decreasing by SAR 866 million to SAR 65 billion. Due to the larger decrease in deposits, LDR went up to 87% at 3Q-end from 86% in 2Q18. Alawwal's loans and deposits went against the general sector trend, which have grown by SAR 16.2 billion and SAR 22.2 billion respectively. Investments fell marginally by SAR 182 million to SAR 16 billion. The bank's balance sheets overall reduction comes in light of its imminent merger with SABB.

### NSCI up +4% Q/Q

On an annual basis, NSCI of SAR 692 million went down -3% as special commission income declined on the back of the substantial Y/Y drop in loans. On a quarterly basis, however, NSCI improved +4% due to the +5% increase in special commission income and despite the +10% increase in special commission expense. Since loans and deposits fell Q/Q, we attribute the quarterly growth in NSCI components to the rising interest rates.

### Non-core income falls

Non-core income decreased by -15% Y/Y and -7% Q/Q to SAR 194 million, in-line with our estimates of SAR 198 million, due to a reduction in fee-based income, exchange income, trading income and unrealized gain on FVTPL financial instruments. As a result, total operating income declined -6% Y/Y but increased modestly by +1% Q/Q to SAR 886 million, close to our expectations. Provisions for credit losses came in at SAR 280 million (+9% Y/Y but down -13% Q/Q). Operating expenses once again followed the movement in provisions as they went up +5% Y/Y but down -3% Q/Q to SAR 607 million.

### Net income beats estimates

Net income of SAR 281 million (-23% Y/Y but up +11% Q/Q) beat our expectations of SAR 240 million, as we were expecting slightly lower NSCI and higher provisions. The stock trades at a 2018E P/B of 1.2x; we maintain our SAR 14.00 target and Neutral recommendation.

### Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	2,766	2,714	2,582
Prov for cred loss	1,120	1,175	1,012
Net Income	1,336	1,024	1,021
EPS (SAR)	1.17	0.90	0.89
DPS (SAR)	0.25	-	-

### Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.6%	3.0%	3.2%
ROAE	10.2%	7.3%	6.8%
ROAA	1.3%	1.1%	1.2%
CAR	20.3%	21.0%	22.5%
P/B	1.2x	1.2x	1.1x

## 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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