

April 25, 2019

Rating	Neutral
12-Month Target Price	SAR 54.00

NATIONAL COMMERCIAL BANK (NCB)

1Q2019 First Look

Record Profits in 1Q

NCB reported its highest quarterly profit ever in 1Q2019 with a net income of SAR 3.16 billion (+6% Y/Y, +20% Q/Q), and beat our SAR 2.85 billion forecast as well as market consensus of SAR 2.75 billion. The bank's Y/Y profitability was a result of higher total operating income, which overshadowed the marginal increase in opex. On a quarterly basis, profits surged on the dual effect of better total operating income and lower operating expenses (specifically provisions). NSCI fell by -5% Q/Q, nevertheless, the improvement in non-core income compensated for it, whereas they both increased Y/Y. Net advances went up by SAR 3.3 billion during the quarter, while deposits dropped by SAR 9.0 billion, leading to an expansion in LDR to 84%. Trading at a 2019E P/B of 2.6x, we raise our target price to SAR 54.00, but maintain our Neutral recommendation.

Deposits decline

NCB added SAR 3.3 billion in net advances during the quarter, more than offsetting 4Q18's drop of 2.9 billion, to reach SAR 269 billion. Deposits, however, continued their fall from last quarter and plunged by SAR 9.0 billion to SAR 310 billion. It appears that NCB followed the general sector trend, as deposits fell by SAR 27.5 billion for the sector in the first two months of the quarter, as per SAMA's data. Due to the dual effect of the rise in loans and sharp drop in deposits, LDR edged up from 81% in 4Q18 to 84%. Investments increased for the fourth consecutive quarter, but with greater magnitude, by SAR 5.3 billion to SAR 123 billion, likely due to the increase in banks' holdings of government bonds during the first two months of the quarter.

NSCI decreases Q/Q

Special commission income reached SAR 4.86 billion (+15% Y/Y but -1% Q/Q), as it is still positively impacted by higher interest rates, close to our SAR 4.82 billion forecast. Special commission expense jumped by +61% Y/Y and +9% Q/Q, despite the drop in time deposits in the previous quarter. Consequently, NSCI went up +4% Y/Y but fell -5% Q/Q to SAR 3.56 billion, below our SAR 3.79 billion estimate. Non-core income grew by +2% Y/Y and +37% Q/Q to SAR 1.39 billion, due to higher investment related income and lower other operating expense. As a result, total operating income came in at SAR 4.95 billion, up +4% Y/Y and Q/Q, in-line with our SAR 4.90 billion forecast.

Provisions down -64% Q/Q

Opex edged up slightly by +1% Y/Y to SAR 1.76 billion, below our SAR 2.0 billion forecast, due to the increase in provisions for credit losses, depreciation and other G&A expenses. On a quarterly basis, however, they fell by -15% on the back of lower provisions for credit losses and impairment charge for goodwill. Provisions amounted to SAR 144 million, down -64% Q/Q but higher than last year's negative number.

Target raised to SAR 54.00

Net income of SAR 3.16 billion (up +6% Y/Y and +20% Q/Q) exceeded last year's 1Q record profit and beat our estimate and market expectation of SAR 2.85 billion and SAR 2.75 billion, respectively. The main cause of deviation was the lower than expected provisioning charge. The stock trades at a 2019E P/B of 2.6x. We adjusted our estimates going forward which resulted in raising our target price from SAR 48.00 to SAR 54.00, but maintain our Neutral recommendation on the stock.

Key Financial Figures

FY Dec31 (SAR mln)	2018A	2019E	2020E
Net Sp. Comm. Inc.	3,562	3,790	
Total Op Income	4,953	4,896	
Net Income	3,165	2,851	
Net Advances	268,657	276,261	
Deposits	309,661	321,361	

Key Financial Ratios

FY Dec31	2018A	2019E	2020E
NIM	3.4%	3.4%	3.4%
ROAE	17.0%	17.3%	16.7%
ROAA	2.4%	2.5%	2.5%
CAR	20.6%	18.2%	18.4%
P/B	2.8x	2.6x	2.4x

1Q2019 (SAR mln)

Actual

RC Forecast

Net Sp. Comm. Inc. 3,562 3,790

Total Op Income 4,953 4,896

Net Income 3,165 2,851

Net Advances 268,657 276,261

Deposits 309,661 321,361

Source: Bloomberg

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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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