

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

## ALAWWAL BANK

### 3Q2017 First Look

### Green Shoots?

Alawwal Bank posted a +40% Y/Y and +13% Q/Q increase in net profits to SAR 363 million beating market expectations. We had forecast SAR 309 million while consensus was at SAR 291 million. The deviation versus our estimate stems primarily from lower than expected operating expenses, most likely on the back of a drop in provisioning this quarter. Our meeting with management also indicated signs of stability after four tough quarters. Net special commission income and non-core income are in line with estimates. Deposits were down marginally by -1%. Decline in net advances to the tune of SAR 2.0 billion Q/Q was countered by a rise in net investments by SAR 1.4 billion, abiding by sector trend where banks have preferred to put money in risk-free government paper. Although we see some positive signs, it is too early to change our view on the bank particularly due to the upcoming merger with SABB. We maintain SAR 14.00 target price and Neutral rating.

#### NSCI moves up +2% Q/Q

Net special commission income (NSCI) is up +2% Q/Q to SAR 713 million solely due to a -3% drop in special commission expense as the bank has managed to bring down cost of funds, which had peaked in 4Q2016. Any further decline from here appears unlikely. Special commission income was flat Q/Q mirroring SAIBOR movement. Deposits have declined slightly (SAR 670 million) to SAR 81.1 billion pointing towards a strategy of depleting expensive deposits.

#### Net advances decline, investments rise

After peaking at SAR 78.4 billion in 1Q2016, net loans have been sequentially declining. At quarter-end they have dropped further by SAR 2.0 billion Q/Q (-3%) to SAR 68.7 billion. While we understand that credit demand has been soft on the back of economic slowdown, there is a need to grow higher-yielding assets. LDR has contracted to 80.8% at 3Q-end from 83.2% at 2Q-end. At some point, the bank would need to re-enter the lending market. For now, Alawwal has chosen to grow investments by SAR 1.4 billion Q/Q as availability and attractiveness of government paper has improved of late. This is an emerging sector trend.

#### Lower provisioning Q/Q

Non-core income is flat Q/Q at SAR 227 million due to higher fee-based income compensating for a decline in non-trading income. Operating expense is down -11% Y/Y and -5% Q/Q to SAR 577 million and was the source of the deviation versus our estimates. While we had estimated provisions for credit losses at SAR 296 million, it is likely that the actual number is in the ball park of SAR 250 million. We do not expect any impairment charge for investments (SAR 234 mln last year).

#### Net income beats estimates

A positive earnings surprise from Alawwal is welcome news. Net income of SAR 363 million (+40% Y/Y, +13% Q/Q) was ahead of market consensus due to lower than expected provisions on loans. We see some early green shoot signs but would wait before changing our view. Maintain Neutral although 2017E. P/B of 0.9x is attractive.

#### Expected Total Return

Price as on Oct-31, 2017	SAR 11.44
Upside to Target Price	22.4%
Expected Dividend Yield	4.4%
Expected Total Return	26.7%

#### Market Data

52 Week H/L	SAR 14.20 / 9.45
Market Capitalization	SAR 13,077 mln
Shares Outstanding	1,143 mln
Free Float	27.5%
12-Month ADTV	624,155
Bloomberg Code	Alawwal AB

#### 1-Year Price Performance



Source: Bloomberg



3Q2017 (SAR mln)	Actual	RC Forecast
Net Comm Income	713	707
Total Op Income	940	940
Net Income	363	309
Loans & Advances	68,736	72,325
Deposits	81,101	82,520

#### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	2,507	2,770	2,761
Prov for cred loss	1,167	1,014	801
Net Income	1,065	1,344	1,546
EPS (SAR)	0.93	1.18	1.35
DPS (SAR)	-	0.50	0.50

#### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.2%	2.4%	2.4%
ROAE	9.1%	10.6%	11.5%
ROAA	1.1%	1.3%	1.4%
CAR	17.8%	17.7%	17.7%
P/B	1.1x	0.9x	0.9x

## 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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