

Rating **Neutral**
 12- Month Target Price **SAR 19.00**

BANK ALBILAD

3Q2017 First Look

Expected Total Return

Price as on Oct-22, 2017	SAR 19.12
Upside to Target Price	(0.6%)
Expected Dividend Yield	3.1%
Expected Total Return	2.5%

Market Data

52 Week H/L	SAR 21.45 /16.20
Market Capitalization	SAR 11,472 mln
Shares Outstanding	600 mln
Free Float	52.6%
12-Month ADTV	523,812
Bloomberg Code	ALBI AB

1-Year Price Performance



Source: Bloomberg



Non-core Income Surprises

Albilad announced its 3Q17 results with bottom line meeting consensus but lagging our expectations. Net income of SAR 248 million increased +9% Y/Y and +4% Q/Q. This was a result of Y/Y improvement in both core (+24%) and non-core (+13%) income despite the jump in operating expenses (+25% Y/Y). Albilad was able to continue growing its deposits base, adding SAR 1.4 billion Q/Q, while continuing to take advantage of higher CAR and increase net financing by SAR 1.2 billion. The significant jump of SAR 1.4 billion in investment is worth noting. This reflects how Islamic sovereign instruments provide an attractive alternative amid the lackluster growth in demand for credit across the sector. We maintain our target price at SAR 19.00 and continue with the Neutral recommendation.

Deposits grow but at higher cost

Net financing and investment income went up +24% Y/Y to SAR 449 million, almost matching our SAR 448 million forecast. We believe that spreads have slightly widened as growth in financing and investing income has outpaced funding costs. The increase in funding cost comes at a time when the bank continues to increase its deposits, adding SAR 1.4 billion this quarter.

Record jump for investments Q/Q

Similar to deposits, the bank grew its net financing during the quarter by SAR 1.2 billion to SAR 41.8 billion, albeit at a slower pace given a SAR 4.5 billion increase in 1H. We believe the availability of sovereign Islamic instruments provided an alternative venue for Albilad to generate return. This is evident by the jump in net investments by SAR 1.4 billion Q/Q. The bank has been increasing its Sukuk investments base since 3Q16, growing it from around SAR 600 million to SAR 1.5 billion last quarter. Consequently, LDR retracted to 86% from 87% last quarter.

Other income swells +13% Y/Y

Non-core income surprised, increasing by +13% Y/Y to SAR 314 million, beating our forecasts of SAR 276 million as improvement in fee based and exchange income helped. On the other hand, operating expenses witnessed significant uptick contrary to expectations with a +25% Y/Y growth. We believe that the deviation was due to higher provisioning that exceeded 2Q levels.

Profit increases but eyes on provisioning

Net income reached SAR 248 million, increasing by +9% Y/Y and +4% Q/Q, in-line with consensus but below our expectations of SAR 275 million. Albilad continues to grow its assets utilizing its higher CAR and the availability of Islamic sovereign investment options. However, credit quality is still a concern given the continued increase in provisioning. Trading at 1.5x 2017E book value, we continue to remain Neutral on the stock.

3Q2017E (SAR mln)	Actual	RC Forecast
Net Fin. Income	449	448
Total Op Income	763	725
Net Income	248	275
Net Financing	41,815	41,472
Deposits	46,402	46,111

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Fin. Inc	1,410	1,650	1,842
Prov for cred loss	1,006	1,136	1,355
Net Income	808	988	1,138
EPS (SAR)	1.35	1.65	1.90
DPS (SAR)	0.50	0.60	0.70

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.8%	3.0%	3.0%
ROAE	11.9%	13.1%	14.2%
ROAA	1.5%	1.7%	1.8%
CAR	20.5%	18.8%	18.3%
P/B	1.6x	1.5x	1.3x

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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