

October 3, 2017

SAUDI ARABIAN BANKS

3Q2017 Preview

3Q2017 Expectations

Forecasts for banking names under our coverage for 3Q2017 are detailed in Table 1 below. We expect a continued expansion in spreads in 3Q, following on from the previous two quarters. NIMs have grown this year as interest rates have been on an uptrend while non-interest bearing deposits (NIBs) have also been augmented. Net special commission income (NSCI) is likely to rise by an average of +6% Y/Y for the eight names under our coverage. We have expanded sector coverage to include Bank Albilad. While SAIBOR has been largely flat in the quarter, some banks have managed to increase yields on advances as re-pricing takes effect. At the same time, cost of funds has been mostly stable, while some banks have even reported a slight decline given rising NIBs. Combined, they have delivered better margins for the sector. While Y/Y growth looks impressive sector-wide, Q/Q numbers would be more muted.

Fee-based, exchange and other non-interest income would continue to be softer in 3Q. Trade based income and even exchange income have largely been subdued this year as the economy has slowed. Banks have managed to keep salary, admin and other operating expenses largely in check to soften the effect of other changes. Provisions for credit losses and impairment charge on investments have been elevated this year so far versus historical average. For the second half, we expect a similar trend assuming we do not have one or more of the bigger credits get into trouble.

In NSCI terms, Alinma may post the biggest increase with a +29% Y/Y growth followed by Bank Albilad at +21%. Provisions would again determine the direction of bottomline given most other financial heads are stable. Alrajhi is expected to provide around SAR 430 million in 3Q while Samba is likely at SAR 65 million, although a negative surprise cannot be ruled out. Alawwal and BSF would probably be in the vicinity of SAR 285 million and SAR 58 million respectively.

We forecast a +5% Y/Y deposit growth for the names under our coverage led by Alinma and BSF at +15% Y/Y and +12% Y/Y respectively. Alinma has consistently remained deposit hungry versus its peers as it does not mind paying for the deposits as long as it earns a spread on them. On the other hand, Samba may witness a minor -1% Y/Y decrease in deposits to SAR 172 billion while SABB is likely to post a flat growth at SAR 143 billion.

Net advances are likely to be at 0% growth Y/Y for our stocks as credit demand has not been strong, which can be related to subdued economic growth. Further, sufficient liquidity in the system has also not helped this metric. Alinma again figures at the top with a +16% Y/Y growth followed by Albilad at +14% and Alrajhi at +4% while ANB may maintain its net advances Y/Y. All the others are likely to record a Y/Y decline in net loans.

Table 1: 3Q2017 Estimates (SAR mln)

Company	Net Comm Income			Net Income			Net Advances			Deposits		
	3Q2016	3Q2017E	Y/Y Chg	3Q2016	3Q2017E	Y/Y Chg	3Q2016	3Q2017E	Y/Y Chg	3Q2016	3Q2017E	Y/Y Chg
ALAWWAL	664	707	6%	263	309	17%	77,265	72,325	-6%	84,204	82,520	-2%
BSF	1,136	1,194	5%	1,010	1,006	0%	133,937	130,509	-3%	147,277	164,951	12%
SABB	1,222	1,282	5%	995	1,071	8%	125,875	119,628	-5%	144,084	143,453	0%
ANB	1,067	1,208	13%	725	798	10%	115,628	115,369	0%	128,236	131,442	3%
SAMBA	1,466	1,380	-6%	1,341	1,253	-7%	129,803	121,361	-7%	173,964	172,224	-1%
ALRAJHI	2,913	2,987	3%	2,009	2,177	8%	225,863	234,218	4%	272,600	288,956	6%
ALBILAD	370	448	21%	228	275	21%	36,247	41,472	14%	41,244	46,111	12%
ALINMA	665	860	29%	312	456	46%	69,274	80,213	16%	77,319	88,916	15%
Group Total	9,504	10,066	6%	6,883	7,345	7%	913,892	915,095	0%	1,068,928	1,118,573	5%

Source: Riyad Capital, Company Reports

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A surprising aspect for some banks with 2Q results has been the higher dividend announcements. A continuing of this trend in the second half places some of them at very attractive levels in terms of dividend yields as depicted in Table 2 below. Samba in particular, can potentially offer a yield of 6.3% at current price, assuming a SAR 1.50 DPS this year. Both BSF and ANB are trading at 1.0x P/B and P/E's of 7.7x and 8.4x 2017E earnings respectively, prompting us to recommend a Buy on them. The other stocks are rated Neutral.

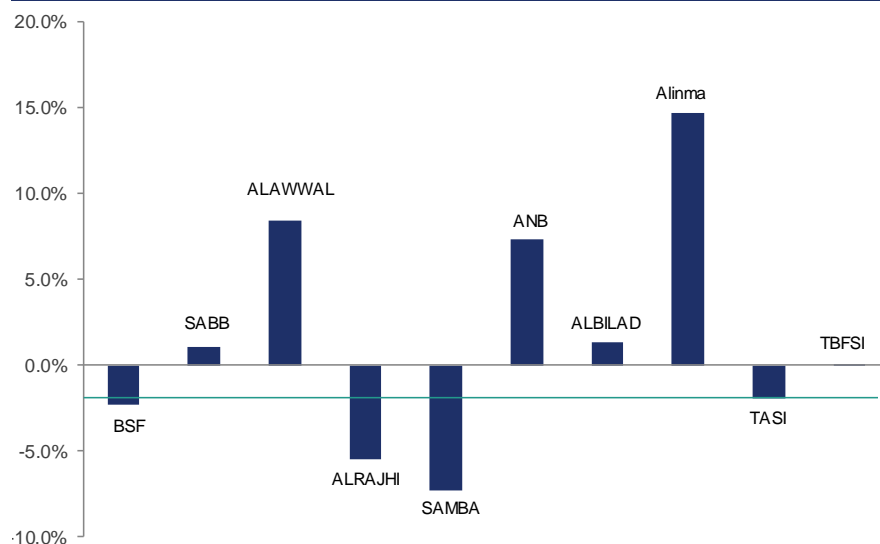
Table 2: Ratings and Valuations

Company	TASI Code	Current Price (SAR)	Market Cap (SAR mIn)	Target Price (SAR)	Rating	Dividend Yield	P / E		P/B	
							2016	2017E	2016	2017E
ALAWWAL	1040	12.28	14,037	14.00	Neutral	4.1%	13.2x	11.4x	1.1x	1.0x
BSF	1050	26.75	32,244	35.00	Buy	3.9%	9.2x	7.7x	1.1x	1.0x
SABB	1060	26.25	39,375	29.00	Neutral	3.0%	10.1x	9.7x	1.3x	1.2x
ANB	1080	23.76	23,760	27.00	Buy	4.6%	9.2x	8.4x	1.1x	1.0x
SAMBA	1090	23.74	47,480	29.00	Neutral	6.3%	9.5x	9.7x	1.1x	1.1x
ALRAJHI	1120	65.50	106,438	69.00	Neutral	3.8%	13.1x	12.5x	2.0x	2.0x
ALBILAD	1140	19.09	11,454	19.00	Neutral	3.1%	14.1x	11.6x	1.6x	1.5x
ALINMA	1150	17.18	25,770	14.00	Neutral	3.2%	17.2x	13.7x	1.3x	1.3x
Group Average							11.9x	10.6x	1.3x	1.2x

Source: Riyad Capital

Even though the banking index has outperformed the broader market this quarter, it remained flat Q/Q. Many stocks under coverage have outperformed both the market and peers while BSF, Alrajhi and SAMBA have underperformed Q/Q. BSF and Alrajhi had rallied strongly reaching relatively high levels but have relinquished most of those gains.

Exhibit 1: 3Q Banking Sector vs. TASI Performance



Source: Tadawul

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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