

## Recommendation

Neutral

## Fair Value (SAR)

13.75

Price as of February 13, 2018

13.08

Expected Return

%5.12

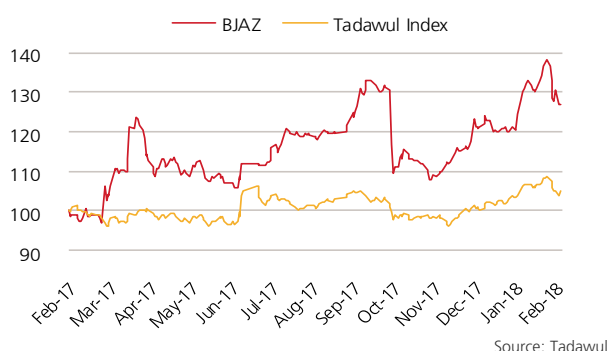
## Company Data

Tadawul Symbol	1020.SE
52 Week High (SAR)	14.70
52 Week Low (SAR)	10.00
YTD Change	%3.15
3-Month Average Volume (Thousand Shares)	1,904
Market Cap. (SAR Million)	5,232
Market Cap. (USD Million)	1,395
Outstanding Shares (Million Shares)	400

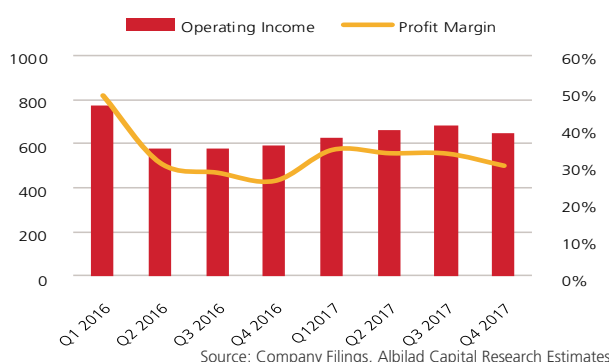
## Major Shareholders ( > 5% )

Consolidated Brothers Company	%6.59
National Bank of Pakistan	%5.83
Saleh Abdullah Mohammed Kamel	%5.00

## 52-week Stock Price Movement



## Quarterly Operating Income (SAR mn) and Profit Margin



For more information, please contact::

Turki Fadaak  
Research & Advisory Manager  
TFadaak@albilad-capital.com

Bank Aljazira reported its interim financial results of Q4 2017, wherein net profits increase 27.63% YoY and decline by 14.91% QoQ to SAR 194 million, below average analysts' estimate by 20% . The bank posted the full-year net profit of SAR 858 million for 2017, declining 1.61% from 2016 (SAR 872 Million).

The increase in profits for Q4 were largely driven by an increase in operating income by 12% as a result of an increase in net special commission income and net exchange income against a slight decrease in net banking fee and net trading income. While, The decline in profits for the full-year by 2% mainly due to the fact that last year income was higher as a result of sale of land owned by the Bank which resulted in a gain of SR 209 million. Moreover operating expenses have also increased by 8%( increase 6% QoQ and 3% comparing to the previous ) mainly due to increase in the net impairment charge for credit losses, other general and administrative expenses, depreciation and amortization expenses and rent and premises related expenses.

Meanwhile, there was an increase in total operating by 4% mainly due to increase in net special commission income, net exchange income, net banking fees and net trading income. Net special commission income of the fourth-quarter came in at SAR 460 million, up 13.6% from the same quarter of the previous year (SAR 405 million), while on an annual level culminated at SAR 1,818 , up 16.1% from SAR1,566 million in 2016. Total operating income increased 11.92% QoQ, recording SAR 648 million in Q4, however, on an annual level increase by 4.33% compared to 2016 from SAR 2,473 million to 2,580 million .

During the FY2016, loans portfolio declined by 5.48%, reaching SAR 39.8 billion versus SAR 42.1 billion in 2016. Investments jumped up 25% recording SAR 20.63 billion compared with SAR 16.3 billion in 2016. Total assets also climbed 3%, reaching SAR 68.3 billion. Customer deposits inched down by 2.6% to reach SAR 50.27 billion versus SAR 51.6 billion in 2016. Since customer deposits decrease and loans portfolio decrease even larger cause the loans-to-deposits ratio decreased to 79.13% in 2017 from 81.5% in 2016.

By neutralizing extraordinary gains from the sale of the land last years, the bank's normalized net profit increase by 29.4 %during the FY17 compared to 2016. It appears that the bank attracts less expensive deposits that lead in an increase in net special commission income despite the decline in customer deposits, in addition to increase in SAIBOR rate.

By reviewing the future performance of Bank Aljazira, thus, our fair value is SAR 13.75 per share and assigning a "Neutral" recommendation.

FY - Ending December	2015A	2016A	2017F	2018F
Total Assets (SAR million)	63,264	66,319	68,287	71,805
Total Deposit (SAR million)	54,569	51,602	50,278	50,781
Net Loans (SAR million)	42,174	42,099	39,790	41,381
Investment (SAR million)	11,273	16,293	20,361	21,786
Net Interest Margin	2.79%	2.68%	3.04%	3.21%
Net Loans/Deposits	84.7%	81.6%	79.1%	81.5%
Coverage Ratio	173%	180%	209%	244%
NPL / Total Loans	0.8%	0.8%	0.8%	0.8%
PE	5.37	7.93	8.07	12.34
P / BV	0.93	0.85	0.78	0.80
Net Special Commission Growth	10.8%	-2.1%	16.0%	9.0%

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018F*
Special commission income	1,955	2,135	2,656	2,757	2,901
Special commission expense	510	535	1,089	939	921
<b>Net special commission income</b>	<b>1,445</b>	<b>1,601</b>	<b>1,566</b>	<b>1,818</b>	<b>1,980</b>
Fees and commission income, net	648	630	632	601	613
Foreign exchange income, net	57	90	103	150	165
Trading income, net	30	11	5	8	9
Other	46	590	212	3	3
<b>Operating income</b>	<b>2,226</b>	<b>2,922</b>	<b>2,519</b>	<b>2,580</b>	<b>2,770</b>
Salaries and employee-related expenses	722	909	894	857	921
Rent and premises-related expenses	113	136	137	140	147
Depreciation	79	79	81	87	87
Other general and administrative expenses	361	460	418	382	458
<b>Net Income before Impairment</b>	<b>952</b>	<b>1,337</b>	<b>989</b>	<b>1,114</b>	<b>1,157</b>
Impairment charge for credit losses, net	383	53	125	267	284
<b>Net Income before Unusual Items</b>	<b>569</b>	<b>1,284</b>	<b>864</b>	<b>847</b>	<b>873</b>
Gain on sale of land	0	0	0	0	0
<b>Net Income After Unusual Items</b>	<b>569</b>	<b>1,284</b>	<b>864</b>	<b>847</b>	<b>873</b>
Share of Gain (Loss) of an associate	4	3	8	11	11
<b>NAI</b>	<b>572</b>	<b>1,287</b>	<b>872</b>	<b>858</b>	<b>884</b>
Balance Sheet (SAR mn)	2014A	2015A	2016A	2017A	2018F*
Cash & balances with SAMA & other financial institutions	11,461	8,433	6,535	6,344	6,785
Investments	11,335	11,273	16,293	20,361	21,786
Loans and advances, net	41,245	42,174	42,099	39,790	41,381
Investment in an associate	126	128	130	134	137
Property and equipment, net	1,259	723	764	1,230	1,270
Other Assets	1,129	534	500	429	446
<b>Total Assets</b>	<b>66,554</b>	<b>63,264</b>	<b>66,319</b>	<b>68,287</b>	<b>71,805</b>
Due to banks & other financial institutions	3,736	4,057	3,545	6,173	4,362
Customer deposits	54,569	49,765	51,602	50,278	50,781
Other liabilities	1,090	1,021	1,062	1,001	1,081
Subordinated Sukuk	1,000	1,007	2,006	2,006	2,006
<b>Total Liabilities</b>	<b>60,396</b>	<b>55,851</b>	<b>58,216</b>	<b>59,459</b>	<b>58,231</b>
Total equity	6,158	7,413	8,103	8,829	13,574
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>66,554</b>	<b>63,264</b>	<b>66,319</b>	<b>68,287</b>	<b>71,805</b>

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by  $< 10\%$ .

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

## Albilad Capital

### Client Services

E-mail: [clientservices@albilad-capital.com](mailto:clientservices@albilad-capital.com)  
Tel: +966-11-203-9888  
Toll-free: 800-116-0001

### Research & Advisory

E-mail: [research@albilad-capital.com](mailto:research@albilad-capital.com)  
Tel: +966-11-290-6250  
Website: [www.albilad-capital.com/en/research](http://www.albilad-capital.com/en/research)

### Asset Management

E-mail: [abiccasset@albilad-capital.com](mailto:abiccasset@albilad-capital.com)  
Tel: +966-11-290-6280

### Brokerage

E-mail: [abiccctu@albilad-capital.com](mailto:abiccctu@albilad-capital.com)  
Tel: +966-11-290-6230

### Custody

E-mail: [custody@albilad-capital.com](mailto:custody@albilad-capital.com)  
Tel: +966-11-290-6259

### Investment Banking

E-mail: [investmentbanking@albilad-capital.com](mailto:investmentbanking@albilad-capital.com)  
Tel: +966-11-290-6256

## Disclaimer

Albilad Capital exerted utmost efforts to ensure that the information included in this report is accurate and correct. However, Albilad Capital Co., its managers, and staff bear no liability whether explicitly or implicitly for the content of the report and no legal responsibility, whether directly or indirectly, for any results based on it.

This report should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Albilad Capital.

We would also like to note that this information in no way constitutes a recommendation to buy or sell banknotes or make any investment decisions.

Any investment act taken by an investor based fully or partially on this report is the complete responsibility of the investor.

This report is not meant to be used or seen as advice or an option or any other measure to be taken in the future. We recommend consulting a qualified investment advisor before investing in these investment tools.

Albilad Capital preserves all rights associated with this report.