

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

ALAWWAL BANK

4Q2017 First Look

Provisions Fall in 2017

Alawwal Bank posted a net profit of SAR 327 million, reversing a loss of SAR (249) million in 4Q2016, in line with our SAR 340 million forecast but beating market expectations. Incline in profitability resulted from higher NSCI and lower operating expenses, which fell by -48% Y/Y. During the quarter, the bank lost SAR 3 billion in deposits and SAR 5 billion in loans, while investments were more or less flat. Trading at a 2018E P/B of 0.9x, we maintain our SAR 14.00 target price and Neutral rating.

LDR drops to 77%

Deposits fell for the second quarter in a row by almost SAR 3 billion Q/Q to reach SAR 78 billion while net loans also fell by SAR 5 billion to SAR 64 billion, following the general trend in the sector. As a result, LDR dropped to 77% from 81% at 3Q-end. Growth pace for investments slowed this quarter, increasing by just SAR 299 million to SAR 17 billion. Over the year, investments dropped by almost SAR 5 billion in spite of government Sukuk issuance during the period.

NSCI up +11% Y/Y

Net special commission income (NSCI) is down -1% Q/Q but up +11% Y/Y to SAR 706 million, in line with our SAR 701 million forecast. The Y/Y growth came on the back of a -48% drop in special commission expense, partially offset by a -14% decrease in special commission income, leading to widening spreads. Decline in both deposits and advances have likely contributed to this. Non-core income declined by -4% Q/Q and -19% Y/Y due to a decrease in gains on non-trading investments, fee and commission income, trading income and exchange income. As a result, total income decreased to SAR 925 million, down -2% Q/Q but up +2% Y/Y and close to our expectations of SAR 936 million.

Provisions decline Y/Y

Operating expenses were +4% higher Q/Q but -48% lower Y/Y to SAR 598 million. The Q/Q increase was due to a seasonal increase in provisions as well as an increase in depreciation, amortization and salaries. On the other hand, the sharp decline in 4Q over last year was primarily a result of a decrease in provisions, which we estimate accrued close to our SAR 265 million forecast versus SAR 745 million last year.

Net income in-line with forecast

Net income came in at SAR 327 million for 4Q17, reversing last year's loss of SAR (249) million but down -10% Q/Q. This was in-line with our SAR 340 million estimate but above market consensus of SAR 287 million. The stock offers a 12% upside to our SAR 14.00 target. Trading at a 2018E P/B of 0.9x, we recommend a Neutral stance.

Expected Total Return

Price as on Feb-25, 2018	SAR 12.49
Upside to Target Price	12.1%
Expected Dividend Yield	2.0%
Expected Total Return	14.1%

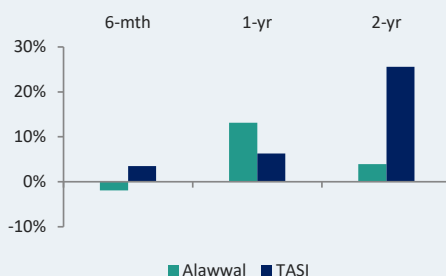
Market Data

52 Week H/L	SAR 13.24/10.25
Market Capitalization	SAR 14,277 mln
Shares Outstanding	1,143 mln
Free Float	27.5%
12-Month ADTV	402,689
Bloomberg Code	Alawwal AB

1-Year Price Performance



Source: Bloomberg



4Q2017 (SAR mln)	Actual	RC Forecast
Net Comm Income	706	701
Total Op Income	925	936
Net Income	327	340
Loans & Advances	63,640	69,423
Deposits	78,275	81,506

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	2,507	2,765*	2,810
Prov for cred loss	1,167	1,014	800
Net Income	1,065	1,336*	1,546
EPS (SAR)	0.93	1.17*	1.35
DPS (SAR)	-	0.25	0.50

*preliminary announced data

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.2%	2.9%	2.4%
ROAE	9.1%	10.6%	11.4%
ROAA	1.1%	1.3%	1.4%
CAR	17.8%	17.7%	18.0%
P/B	1.1x	1.0x	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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