

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

ALAWWAL BANK
4Q2018 First Look

Expected Total Return

Price as on Feb-13, 2019	SAR 16.40
Upside to Target Price	(14.6%)
Expected Dividend Yield	0.0%
Expected Total Return	(14.6%)

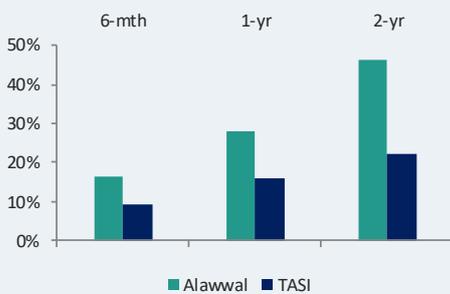
Market Data

52 Week H/L	SAR 16.90/12.00
Market Capitalization	SAR 18,746 mln
Shares Outstanding	1,143 mln
Free Float	27.4%
12-Month ADTV	579,568
Bloomberg Code	Alawwal AB

1-Year Price Performance



Source: Bloomberg



4Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	724	687
Total Op Income	941	873
Net Income	309	250
Loans & Advances	57,767	57,004
Deposits	64,573	64,185

Assets Dwindle in 2018

Alawwal Bank posted 4Q18 earnings above expectations. Net profit of SAR 309 million (down -5% Y/Y but up +10% Q/Q) beat our estimate and market expectations of SAR 250 million and SAR 271 million, respectively. The cause of the deviation was higher than expected total operating income of SAR 941 million, on the back of better NSCI (+3% Y/Y, +5% Q/Q) and non-core income (-1% Y/Y, +11% Q/Q), while operating expenses came in-line. Opex at SAR 630 million (up +5% Y/Y and +4% Q/Q) more than offset the annual rise in total operating income, leading to a Y/Y decline in net income. As the merger with SABB draws near, we can expect to witness some pressure on the bank's balance sheet, which is plainly seen by the continued sequential decrease in loans, deposits and investments that dropped by SAR 1.2 billion, SAR 741 million and SAR 322 million respectively in 4Q18. Trading at a 2019E P/B of 1.4x, we maintain our Neutral rating and SAR 14.00 target price for now.

Balance sheet shrinks

Loans have been sequentially declining since 2Q16. At quarter-end, they have dropped further by SAR 1.2 billion to SAR 57.8 billion, while deposits maintained their downtrend as well, decreasing by SAR 741 million to SAR 64.6 billion, in-line with our expectations. Alawwal reduced its deposits massively by SAR 13.7 billion during 2018, with 1Q18 having the steepest fall of almost SAR 8 billion. LDR edged lower to 86% from 87% in 3Q18. Investments also declined for the fourth consecutive quarter by SAR 322 million to SAR 16.1 billion. Contraction in Alawwal's balance sheet is understandable given its imminent merger; total assets fell by almost SAR 18 billion during 2018 to SAR 82 billion.

NSCI salvaged by higher SAIBOR

NSCI components have both risen on an annual and quarterly basis despite the decline in loans and deposits, due to higher yields. Special commission income reached SAR 997 million (+4% Y/Y, +5% Q/Q), while special commission expense amounted to SAR 273 million (+9% Y/Y, +5% Q/Q). Nevertheless, NSCI improved by +3% Y/Y and +5% Q/Q to SAR 724 million, higher than our SAR 687 million forecast, helped by the larger quantum increase in special commission income, on the back of higher interest rates.

Opex increase

Non-core income was better than our estimated SAR 186 million, coming in at SAR 216 million, down -1% Y/Y but up +11% Q/Q. Consequently, total operating income increased +2% Y/Y and +6% Q/Q to SAR 941 million. Operating expenses went up +5% Y/Y and +4% Q/Q to around SAR 630 million, in-line with our SAR 620 million forecast. Opex increased on the back of higher rent expense and G&A expenses, while salaries and employee-related expenses dropped. We believe provisions came close to our SAR 294 million forecast and within the SAR 260-320 million range.

Net income beats estimates

As the rise in opex offset the increase in total operating income, net income went down -5% Y/Y to SAR 309 million, however, it inclined +10% Q/Q. Alawwal managed to beat our SAR 250 million estimate and market consensus of SAR 271 million on better than expected NSCI and non-core income. The stock trades at a 2019E P/B of 1.4x; we maintain our SAR 14.00 target and Neutral recommendation for now.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	2,766	2,755*	2,685
Prov for cred loss	1,120	1,151	1,093
Net Income	1,336	1,130*	1,041
EPS (SAR)	1.17	0.99*	0.91
DPS (SAR)	0.25	-	-

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.6%	3.0%	3.5%
ROAE	10.2%	8.2%	7.5%
ROAA	1.3%	1.2%	1.5%
CAR	20.3%	20.6%	27.8%
P/B	1.4x	1.4x	1.4x

*preliminary announced data

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

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in anyway responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.



إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299

riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234
 الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712