

Rating **Neutral**
12- Month Target Price **SAR 36.00**

ARAB NATIONAL BANK (ANB)
4Q2018 First Look

Expected Total Return

Price as on Feb-18, 2019	SAR 35.65
Upside to Target Price	1.0%
Expected Dividend Yield	4.5%
Expected Total Return	5.5%

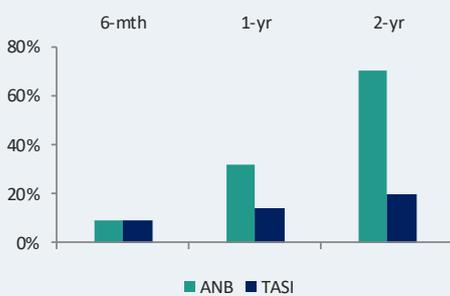
Market Data

52 Week H/L	SAR 39.20/24.10
Market Capitalization	SAR 35,650 mln
Shares Outstanding	1,000 mln
Free Float	48.3%
12-Month ADTV	316,022
Bloomberg Code	ARNB AB

1-Year Price Performance



Source: Bloomberg



4Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,363	1,346
Total Op Income	1,672	1,696
Net Income	684	814
Loans & Advances	121,038	121,388
Deposits	140,909	131,286

Deposits Jump

Arab National Bank (ANB) missed expectations reporting a net income of SAR 684 million, up +8% Y/Y but down -23% Q/Q. We were expecting a bottom-line of SAR 814 million, while market consensus was lower at SAR 777 million. The Y/Y improvement in profitability was due to better total operating income on the back of higher NSCI, despite the drop in non-core income and increase in operating expenses. The Q/Q decline, however, resulted partly from weaker total operating income (-1%), due to lower non-core income, but largely on the +26% jump in opex to around SAR 1 billion, caused by higher provisions. ANB managed to grow its deposit base substantially during the quarter by SAR 10.1 billion, while net loan rose modestly by SAR 549 million, leading to a sharp decline in LDR to 85%. Trading close to our target price of SAR 36.00 and at a 2019E P/B of 1.2x, we maintain our Neutral recommendation.

LDR drops considerably

Loans were more or less flat this quarter, increasing by SAR 549 million only to reach SAR 121 billion, following the addition of SAR 7.4 billion in the past two quarters, matching our estimate. After noting the importance of increasing ANB's deposits in our 3Q18 results report, the bank did not disappoint and boosted its deposits impressively by +8% Q/Q (SAR 10.1 billion) to SAR 141 billion, which contributed significantly to the notable improvement in LDR that witnessed a steep decline to 85% from 91% in 3Q18. Investments also rose but marginally by SAR 371 million Q/Q to SAR 28 billion.

NSCI hits a new record

ANB outdid its record performance last quarter in terms of NSCI and reached a new historic high of SAR 1.36 billion (+14% Y/Y, +3% Q/Q), almost matching our SAR 1.35 billion estimate. This came on the back of better special commission income of SAR 1.9 billion (+24% Y/Y, +6% Q/Q) due to the recovery in loans since 2Q18 and elevated interest rates, and despite the surge in funding cost by +65% Y/Y and +13% Q/Q, as the bank holds a large portion of time deposits.

Opex rises on provisioning

Non-core income was down -20% Y/Y and -14% Q/Q to SAR 309 million, much below our SAR 350 million estimate, due to lower gains on non-trading investments and other operating income. As a result, total operating income came in at SAR 1.67 billion, in-line with our SAR 1.70 billion forecast, up +5% Y/Y but down -1% Q/Q. Operating expenses reached a historic high of around SAR 1 billion this quarter, with an increase of +5% Y/Y and +26% Q/Q and higher than our SAR 888 million estimate. At first look, the spike appears to be the result of a surge in provisions; we believe they are in the range of SAR 430-530 million, compared to our SAR 326 million estimate, making it the main cause of deviation.

Bottom-line trails estimates

Net income of SAR 684 million missed consensus of SAR 777 million and our forecast of SAR 814 million, largely on the back of higher provisioning, rising by +8% Y/Y but -23% lower Q/Q. For the year, ANB registered a record profit of SAR 3.3 billion (+9% Y/Y) on better NSCI and lower provisions. Trading at a 2019E P/B of 1.2x, the stock trades close to our target price of SAR 36.00. We maintain our Neutral stance.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	4,665	5,151*	5,596
Prov for cred loss	1,149	1,015	1,106
Net Income	3,034	3,310*	3,740
EPS (SAR)	3.03	3.31*	3.74
DPS (SAR)	1.20	1.50*	1.60

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.8%	3.0%	3.1%
ROAE	12.4%	12.8%	13.6%
ROAA	1.8%	1.9%	2.1%
CAR	17.6%	15.5%	16.1%
P/B	1.4x	1.3x	1.2x

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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