Result Update Report

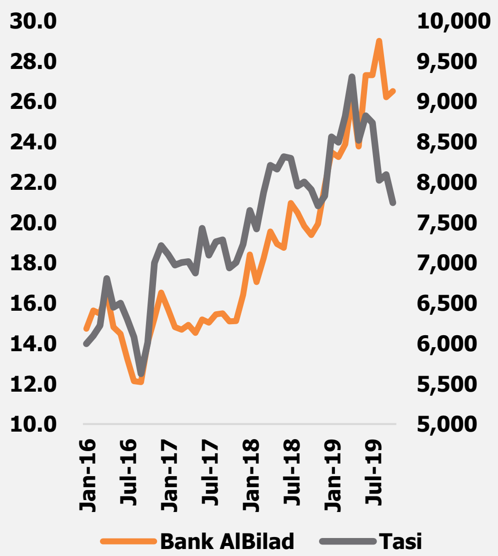
Bank AlBilad

During Q3 2019, the lending rate exceeded our expectations despite the descent in interest rates. Added to that, the substantial loans and deposits growth, have led AlBilad to strong performance and higher operating income results. However, we believe funding costs will continue to rise as the bank tries to attract more deposits.

13 November 2019

Recommendation	Neutral
Current Price (12-11-2019)	SAR26.7
Target Price (52 Weeks)	SAR24.2
Upside/ (Downside)	(9.3%)
Shariah Compliance	Pass

Reuters Code	1140.SE
Bloomberg Code	ALBI:AB
52 Weeks High	SAR30.3
52 Weeks Low	SAR18.8
Market Cap	SAR19.7bn
P/E	16.5
EPS	SAR1.6
Last Dividends	SAR0.4
AVG Value Traded	SAR0.5bn



Key Points

Reliable performance and higher net income enhanced AlBilad's ROE[1] to reach 14.6%. AlBilad is currently trading at a P/E of 16.5x, as compared to estimated forward P/E of 14.8x. Based on revised valuation inputs, we adjusted our target price for AlBilad to SAR24.2 and our recommendation to be Neutral.

- AlBilad posted earnings of SAR327mn with an increase of 37.8% Y-o-Y, mainly driven by improvement in Income from Investing & Financing Assets by 23.6% Y-o-Y to reach SAR873mn in Q3 2019 compared to SAR706mn in Q3 2018, due to a 13.5% Y-o-Y growth in Total Financing.
- As a result of the expansion in mortgage finance (through offering various financing programs to its customers, whether for buying or building properties), the bank ranked the top in the Kingdom in terms of provided mortgages in Q3 2019. We expect that AlBilad expansion in mortgage finance programs will support the bank performance positively. Furthermore, funding cost for AlBilad will continue rising as the bank tries to try to attract more deposits to finance the bank's expansion of mortgage finances.
- U.S Federal Reserve decided in October 2019 to decrease interest rates by 25 basis points for the third time in a row. Accordingly, SAMA decided to cut the repo & reverse repo rate by 25 basis points for the third consecutive time this year to reach 225 and 175 basis points, respectively. As a result, we expect that during 2020, the decrease in the interest rate will affect AlBilad's top line improvement.

Key Growth Catalysts

- The Bank's Growth Strategy.
- Increase Investments in Government Bonds.
- Maintaining Non-Performing Loans Rate.

Key Risk Factors

- A Decrease in Interest Rates.
- Obligation to Record Zakat Quarterly in the Income Statement.

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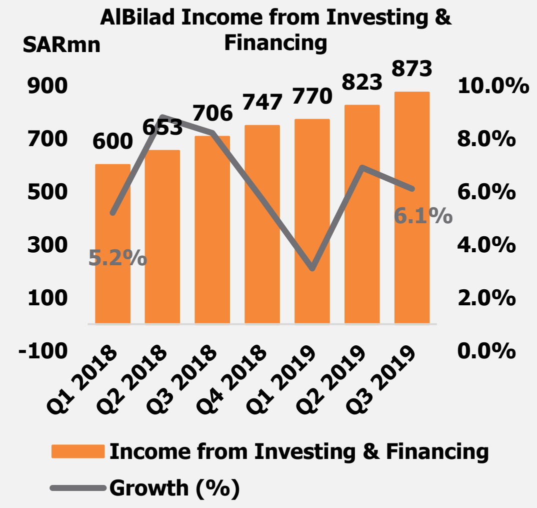
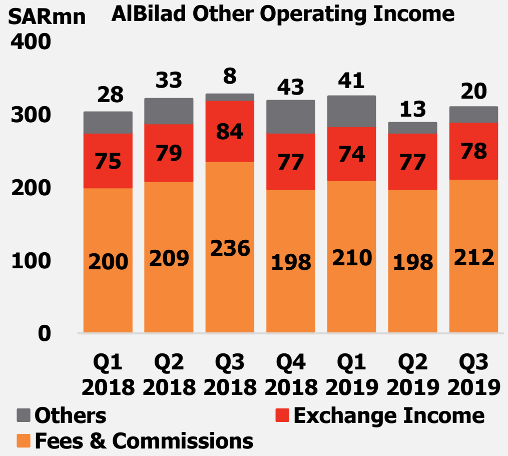
[1] 2019 estimated earnings were utilized to calculate P/E and ROE ratios.

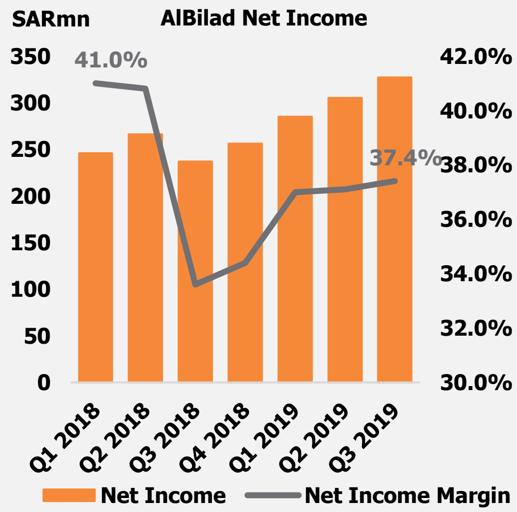
Company Analysis

Financial Results

- AlBilad continued its notable improvement in Income from Investing & Financing Assets with an increase of 23.6% Y-o-Y to reach SAR873mn in Q3 2019 compared to SAR706mn in Q3 2018. In addition, during 9m of 2019, AlBilad increased its Income from Investing & Financing Assets by 25.9% YTD to reach SAR2,466mn compared to SAR1,958mn in 9m 2018.
- AlBilad Return on Deposits & Financial Liabilities increased during Q3 2019, but at a decreasing rate. It only grew by 3.4% Y-oY, which led the Net Income from Investment & Financing Margin to reach 81.7% in Q3 2019 compared to 78.2% in Q3 2018, with an increase of 3.6% Y-o-Y.
- AlBilad's Other Operating Income was negatively affected by the decrease in both Fees & Commissions and Exchange Income by 10.2% and 7.3% Y-o-Y. Bank's Other Operating Income decreased by 5.5% Y-o-Y to reach SAR310mn in Q3 2019 compared to SAR328mn in Q3 2018.
- AlBilad Other Operating Expense increased by 17.1% Y-o-Y to reach SAR521mn in Q3 2019 compared to SAR445mn in Q3 2018. This increase was mainly driven by the rise in Depreciation by 128.2% Y-o-Y to reach SAR63mn in Q3 2019 compared to SAR28mn in Q3 2018. Moreover, the increase in Salaries & Employees benefits and Administrative costs by 12.8% and 4.8% Y-o-Y, respectively.
- AlBilad successfully decreased its Loan Loss Provisions by 7.1% Y-o-Y to reach SAR138mn in Q3 2019 compared to SAR148mn in Q3 2018. On the contrary, during the 9m 2019, AlBilad Loan Loss Provisions increased by 5.7% YTD to reach SAR400mn compared to SAR379mn in 9m 2018.
- Due to the increase in Income from Investing & Financing Assets, AlBilad's Net Income increased by 37.8% Y-o-Y to reach SAR327mn in Q3 2019 compared to SAR237mn in Q3 2018. While on 9m basis, it successfully reached SAR917mn compared to SAR749mn in Q3 2018.
- AlBilad's Total Finance increased by 13.5% Y-o-Y. Besides, AlBilad has successfully maintained its Non-Performing Finance for four consecutive quarters to represent only 1.4% out of the bank's Total Finances. Furthermore, AlBilad was able to decrease its Finance to deposits ratio to reach 88.1%, after exceeding the maximum level in previous quarters. The improvement that happened in Finance to Deposits ratio was a result of the increase in total deposits by 17.4% Y-o-Y.
- In continuing of AlBilad Investment strategy, AlBilad Investments increased by 62.5% Y-o-Y to reach SAR9,991mn in Q3 2019 compared to SAR6,147mn in Q3 2018. The increase that happened thanks to rising in Sukuk investments by 88.2% Y-o-Y.







Company Projection

Local Peers	Country	Code	Market Price (SR)	Market Cap (SRBN)	P/E	Income from Investing & Financing (SRMN)	Net Income (SRMN)
Bank Al Bilad	**KSA**	**1140**	**26.7**	**20.0**	**16.5**	**3,225**	**1,208**
Al Rajhi Bank	KSA	1120	62.9	157.3	14.6	16,216	10,779
Samba Financial Group	KSA	1090	30.0	59.9	12.9	8,322	4,633
Riyad Bank	KSA	1010	21.7	65.1	11.2	9,985	5,830
Alinma Bank	KSA	1150	22.0	33.0	12.3	5,456	2,687
Banque Saudi Fransi	KSA	1050	36.0	43.4	12.9	7,330	3,356
The Saudi British Bank (SABB)	KSA	1060	34.9	71.6	22.9	8,005	3,124
National Commercial Bank (NCB)	KSA	1180	45.3	135.8	12.6	19,512	10,736
Bank Al Jazira	KSA	1020	13.4	11.0	10.5	3,305	1,047

Quarterly Income Statement	Q3 2018	Q2 2019	Q3 2019	Q-o-Q	Y-o-Y
Income from Investing & Financing	706	823	873	6.1%	23.6%
Net financing and investment income	**552**	**671**	**714**	**6.4%**	**29.3%**
Total Revenues	**328**	**288**	**310**	**7.5%**	**-5.5%**
Operating income	880	959	1,024	6.7%	16.3%
Net Income	**237**	**305**	**327**	**7.1%**	**37.8%**
Interim Balance Sheet					
Total Investments	6,147	9,211	9,991	8.5%	62.5%
Financing	49,738	53,653	56,446	5.2%	13.5%
Total Assets	70,707	76,989	81,207	5.5%	14.8%
Customers Deposits	54,574	59,315	64,058	8.0%	17.4%

Pro Forma Income Statement	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Income from Investing & Financing	2,705	3,322	3,810	4,392	5,011	5,710	6,545
Net financing and investment income	2,145	2,666	3,058	3,530	4,032	4,604	5,294
Non-financing related income	**1,271**	**1,273**	**1,293**	**1,310**	**1,330**	**1,354**	**1,383**
Total Revenues	3,416	3,940	4,351	4,840	5,362	5,957	6,677
Operating income	1,601	1,891	2,127	2,452	2,790	3,176	3,662
Net Income	**1,006**	**1,216**	**1,343**	**1,542**	**1,745**	**1,980**	**2,289**

Pro Forma Balance Sheet	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Total Investments	6,466	9,828	10,811	12,108	13,803	16,012	18,894
Financing	50,593	58,029	65,969	74,325	82,980	92,658	103,480
Total assets	**73,636**	**84,596**	**95,351**	**106,796**	**118,811**	**132,260**	**147,368**
Customers Deposits	57,176	67,590	77,052	87,069	97,518	109,220	122,326
Total Liabilities	65,803	75,838	85,550	95,827	106,548	118,542	131,961
Total equity	**7,833**	**8,759**	**9,801**	**10,969**	**12,263**	**13,718**	**15,407**
Total liabilities and equity	73,636	84,597	95,351	106,796	118,811	132,260	147,368

Financial Ratios	2018 A	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Net Profit Margin	37.2%	36.6%	35.2%	35.1%	34.8%	34.7%	35.0%
Net Spread	3.3%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%
Total Finances / Total Deposits	91.5%	89.0%	89.0%	89.0%	89.0%	89.0%	89.0%
Investments / Total Deposits	11.3%	14.5%	14.0%	13.9%	14.2%	14.7%	15.4%
Net Interest Margin	3.4%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%
Return on Average Equity	14.4%	16.3%	16.1%	16.5%	16.7%	16.9%	17.5%
CASA Ratio	98.1%	98.1%	98.1%	98.1%	98.1%	98.1%	98.1%

Valuation Rational

Residual Income Valuation

	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Net Income	1,216	1,343	1,542	1,745	1,980	2,289
Excess Return for Excess Capital	9	5	4	6	6	4
Adjusted Net Income	1,207	1,337	1,538	1,739	1,974	2,284
Equity Charge	797	898	1,007	1,121	1,255	1,407
Economic Value Added (EVA)	410	439	531	617	720	878
Discount Factor	0.98	0.89	0.81	0.74	0.68	0.62

NPV of EVA	100
EVA Forecast period	2,406
Perpetual Growth Rate	3.0%
Terminal Value	13,548
Terminal Value Discounted	8,344
Required Equity	7,329
Surplus Capital	204
Dividends	300
Total Fair Value	18,583
Number of shares	750
Target price per share (52 Weeks)	24.8
Current share price (12/11/2019)	26.7
Upside/(downside)	(7.0%)

We have valued AlBilad using Residual Income and multiples approaches, considering a cost of equity is equal to 10.0% (based on a risk-free rate of 4.4%, market risk premium 6.0%, Beta of 0.94.

Based on the Residual Income valuation, the fair price of AlBilad share price is SAR24.8, which is lower than the traded value by 7.0%.

Comparable Valuation – Local Peers

Name	Country	P/E
Bank Al Bilad	KSA	16.5
Al Rajhi Bank	KSA	14.6
Samba Financial Group	KSA	12.9
Riyad Bank	KSA	11.2
Alinma Bank	KSA	12.3
Banque Saudi Fransi	KSA	12.9
The Saudi British Bank (SABB)	KSA	22.9
National Commercial Bank (NCB)	KSA	12.6
Bank Al Jazira	KSA	10.5
Median		**12.9**
Value Per Share		**23.3**

Weighted Valuation

Based on a weighted valuation approach, where the residual income is weighed 60%, and multiple valuation is weighed 40%, we value AlBilad share price at SAR24.2.

Valuation Approach	Weight	Value
Residual Income	60%	24.8
P/E	40%	23.3
Valuation	**100%**	**24.2**

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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