# 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.

Recommendation	Neutral		
Current Price (12-11-2019)	SAR26.7	Reuters Code	1140.SE

Target Price (52 Weeks)	SAR24.2
Upside/ (Downside)	(9.3%)
<b>Shariah Compliance</b>	Pass

#### **Key Points**

Reliable performance and higher net income enhanced AlBilad's ROE<sup>1</sup> 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 O3 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.

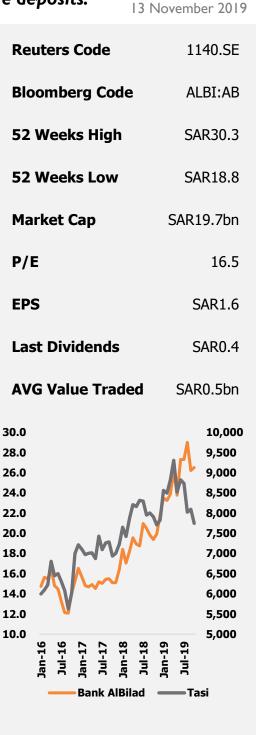
## **Key Growth Catalysts**

- The Bank's Growth Strategy.
- Increase Investments in Government Bonds.

#### **Key Risk Factors**

- A Decrease in Interest Rates.

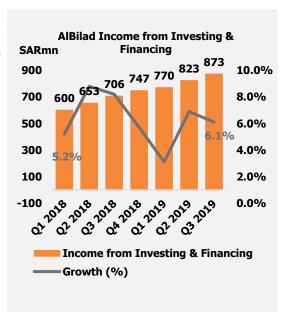
<sup>10.0</sup> • Maintaining Non-Performing Loans Rate. • Obligation to Record Zakat Quarterly in the Income Statement. <sup>1</sup> 2019 estimated earnings were utilized to calculate P/E and ROE ratios.

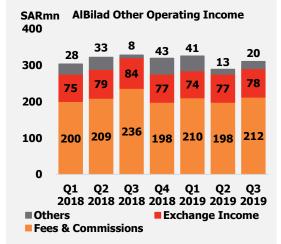


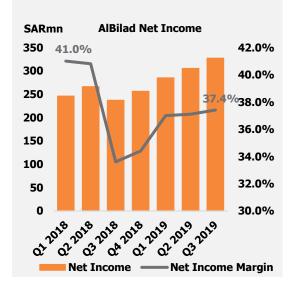
# **Company Analysis**

#### **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 Ca (SRBN)		Income Invest Finan (SRN	ing & icing	Net Income (SRMN)
Bank Al Bilad	KSA	1140	26.7	20.0	16.5	3,2	25	1,208
Al Rajhi Bank	KSA	1120	62.9	157.3	14.6	16,2	216	10,779
Samba Financial Group	KSA	1090	30.0	59.9	12.9	8,3	22	4,633
Riyad Bank	KSA	1010	21.7	65.1	11.2	9,9	85	5,830
Alinma Bank	KSA	1150	22.0	33.0	12.3	5,4	56	2,687
Banque Saudi Fransi	KSA	1050	36.0	43.4	12.9	7,3	30	3,356
The Saudi British Bank (SABB)	KSA	1060	34.9	71.6	22.9	8,0		3,124
National Commercial Bank (NCB)	KSA	1180	45.3	135.8	12.6	19,5		10,736
Bank Al Jazira	KSA	1020	13.4	11.0	10.5	3,3	05	1,047
<b>Quarterly Income Stat</b>	ement	Q3 2	018 O	2 2019	Q3 2019	Q-c	<b>\-</b> 0	Y-o-Y
Income from Investing & Financing	Cilicit	70		823	873	6.1		23.6%
Net financing and investment income		55		671	714	6.4		29.3%
Total Revenues		32		288	310	7.5		-5.5%
Operating income Net Income		88		959	1,024	6.7		16.3%
Interim Balance Sheet		23	/	305	327	7.1	.%0	37.8%
		6,14	17	9,211	9,991	8.5	:0/-	62.5%
Total Investments Financing		49,7		53,653	56,446	5.2		13.5%
Total Assets		70,7		76,989	81,207	5.5		14.8%
Customers Deposits		54,5		59,315	64,058	8.0	1%	17.4%
Pro Forma Income Sta	tement	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		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 Sh	eet	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
E								
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%

2023 F

1,980

6

1,974

1,255

720

0.68

2024 F

2,289

2,284

1,407

878

0.62

# **Valuation Rational**

#### **Residual Income Valuation**

	2019 E	2020 F	2021 F
Net Income	1,216	1,343	1,542
Excess Return for Excess Capital	9	5	4
Adjusted Net Income	1,207	1,337	1,538
Equity Charge	797	898	1,007
Economic Value Added (EVA)	410	439	531
Discount Factor	0.98	0.89	0.81
NPV of EVA	100		
EVA Forecast period	2,406		
Perpetual Growth Rate	3.0%		
Terminal Value	13,548	We have va	
Terminal Value Discounted	8,344	approaches	•
Required Equity	7,329	(based on	
Surplus Capital	204	6.0%, Beta	or 0.94.
Dividends	300	Based on t	the Decidus
Total Fair Value	18,583	AlBilad sha	
Number of shares	750	value by 7.	•
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.

2022 F

1,745

1,739

1,121

617

0.74

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 Sha	re	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**

BuyAn upside potential of more than 20% in 52-week periodOverweightAn upside Potential of more than 10% in 52-week periodNeutralWill stay in the range of it value (up/down 10%) in a 52-week periodUnderweightA downside potential of more than 10% in 52-week periodSellA downside potential of more than 20% in 52-week period

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