

Rating **Neutral**
 12- Month Target Price **SAR 48.00**

NATIONAL COMMERCIAL BANK (NCB)

3Q2018 First Look

Expected Total Return

Price as on Oct-25, 2018	SAR 44.90
Upside to Target Price	6.9%
Expected Dividend Yield	3.8%
Expected Total Return	10.7%

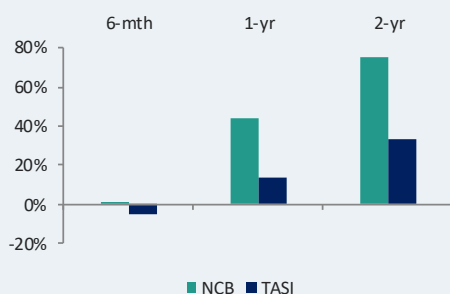
Market Data

52 Week H/L	SAR 49.95/31.20
Market Capitalization	SAR 134,700 mln
Shares Outstanding	3,000 mln
Free Float	35.7%
12-Month ADTV	1,188,987
Bloomberg Code	NCB AB

1-Year Price Performance



Source: Bloomberg



3Q2018 (SAR mln)	Actual	RC Forecast
Net Sp. Comm. Inc.	3,637	3,684
Total Op Income	4,732	4,762
Net Income	2,454	2,503
Net Advances	268,245	271,649
Deposits	325,461	317,722

Provisions Surge Q/Q

NCB reported its 3Q2018 results with a net income of SAR 2.45 billion (+15% Y/Y, -5% Q/Q) in-line with our forecast of SAR 2.50 billion and market consensus of SAR 2.41 billion. Total income improved on the back of higher NSCI and non-core income on an annual and quarterly basis. However, operating expenses declined Y/Y but grew Q/Q, mainly affected by the movement in provisions, which led to the -5% Q/Q drop in bottomline. The bank added SAR 2.2 billion in loans, while deposits witnessed a more aggressive rise of SAR 7.8 billion during the quarter, causing LDR to decline to 80%. Trading at a 2018E P/B of 1.9x, we maintain our Neutral recommendation and target price of SAR 48.00.

LDR retreats to 80% as deposits grow

NCB continued to grow its balance sheet, though not at the same magnitude as last quarter, especially in net loans terms. Net advances rose by SAR 2.2 billion over last quarter, in which it had added SAR 13.3 billion, to reach SAR 268 billion at 3Q-end. Deposits grew at a similar pace as 2Q18, adding SAR 7.8 billion to reach SAR 325 billion. Since the growth in deposits outpaced that of advances, LDR edged down from 82% last quarter to 80%. Investments also increased by SAR 1.5 billion to SAR 117 billion, in-line with our SAR 118 billion forecast.

Record topline

Given the increase in deposits base amid rising interest rates, special commission expense surged by +28% Y/Y to surpass SAR 1 billion for the first time since 4Q16. However, this was more than offset by a +10% Y/Y increase in special commission income to SAR 4.7 billion, the highest ever in NCB's history. As a result, NSCI reached SAR 3.6 billion, up +5% Y/Y and +2% Q/Q and almost matching our SAR 3.7 billion estimate. Non-core income went up +5% Y/Y to SAR 1.1 billion, due to higher fee-based income, exchange income and lower other operating expenses. Consequently, total income came in at SAR 4.7 billion, +5% Y/Y and +2% Q/Q, close to our SAR 4.8 billion estimate.

Provisions up +79% Q/Q

Operating expenses were recorded at SAR 2.2 billion, down -3% Y/Y but up +9% Q/Q. The annual decline was on the back of a -14% drop in provisions that reached SAR 610 million and despite the increase in staff expenses and other general and administrative expenses. On the other hand, provisions were substantially higher than 2Q18 level of SAR 341 million, rising by +79%, which led to the quarterly increase in opex.

Net income meets expectations

Net income of SAR 2.45 billion (up +15% Y/Y but down -5% Q/Q) was in-line with our expectations and street estimate of SAR 2.50 billion and SAR 2.41 billion respectively. The Y/Y rise can be attributed to the rise in total income and drop in provisions, whereas the quarterly decline was on the back of significantly higher provisions, in spite of the higher total income. The stock trades at a 2018E P/B of 1.9x; we maintain our Neutral recommendation and target price of SAR 48.00.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
NSCI	13,661	14,171	14,739
Prov for cred loss	1,864	1,316	1,493
Net Income	9,965	10,896	11,466
EPS (SAR)	3.32	3.63	3.82
DPS (SAR)	1.70	1.70	1.85

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	3.2%	3.3%	3.3%
ROAE	16.4%	16.2%	15.5%
ROAA	2.2%	2.4%	2.5%
CAR	20%	19%	20%
P/B	2.1x	1.9x	1.8x

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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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