

May 21, 2018

Rating **Neutral**
12- Month Target Price **SAR 27.00**

ARAB NATIONAL BANK (ANB)

1Q2018 First Look

Expected Total Return

Price as on May-20, 2018	SAR 32.00
Upside to Target Price	(15.6%)
Expected Dividend Yield	4.2%
Expected Total Return	(11.4%)

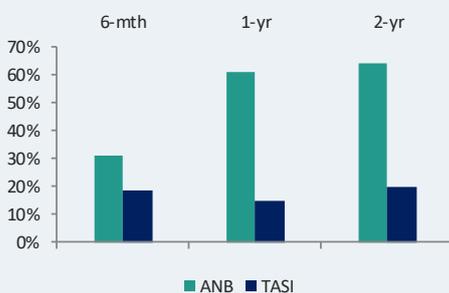
Market Data

52 Week H/L	SAR 33.65/19.30
Market Capitalization	SAR 32,000 mln
Shares Outstanding	1,000 mln
Free Float	48.3%
12-Month ADTV	242,839
Bloomberg Code	ARNB AB

1-Year Price Performance



Source: Bloomberg



1Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,194	1,193
Total Op Income	1,533	1,583
Net Income	816	710
Loans & Advances	113,062	115,250
Deposits	130,027	138,428

Deposits Fall Again

Arab National Bank (ANB) missed expectations reporting a net income of SAR 816 million, up +6% Y/Y and +29% Q/Q. Our forecast called for a bottomline of SAR 710 million while market consensus was higher at SAR 760 million. Profitability resulted from better NSCI Y/Y, a result of lower special commission expense, and in spite of the drop in non-core income. Operating expenses decreased marginally Y/Y primarily due to lower rent and premises related expenses, while provisions were more or less flat. Loans and deposits moved in-line with the sector trend, where they have both dropped, leading to an incline in LDR to 86%. Investments, on the other hand, declined by SAR 919 million; contrary to the sector trend. Trading at a 2018E P/B of 1.2x, we maintain our Neutral recommendation and target price at SAR 27.00.

LDR improves to 86%

Net loans declined by SAR 1.5 billion Q/Q to reach SAR 113 billion, due to the subdued overall lending activity that affected most banks. Deposits resumed their downward trend seen in the first three quarters last year, falling by SAR 6.0 billion Q/Q to SAR 130 billion and partially reversing its recovery of SAR 7.5 billion witnessed in 4Q17. LDR increased from 83% last quarter to 86% in 1Q18 on the back of the greater fall in deposits. Investments have declined slightly by SAR 919 million in 1Q18 to reach SAR 31 billion, despite the increase in banking sector holdings of government bonds during the quarter.

NSCI improves on lower special commission expense

Special commission income rose modestly by +2% Y/Y to SAR 1.5 billion, while special commission expense declined significantly by -23% Y/Y to SAR 337 million. Thus, net special commission income (NSCI) increased by +12% Y/Y to reach SAR 1.2 billion, matching our forecast. Non-core income witnessed a considerable decline of -18% Y/Y to SAR 339 million, substantially lower than our forecast of SAR 390 million. This was the result of a decrease in fee-based income (amid the decline in loans), net exchange income along with most other items, in addition to the increase in net unrealized losses from FVTPL financial instruments. Consequently, total income came in at SAR 1.5 billion, up +4% Y/Y, and close to our SAR 1.6 billion forecast.

Provisions flat Y/Y

Operating expenses declined by a minor -1.4% Y/Y to SAR 708 million, mainly due to a decrease in rent and premises related expenses since the bank now has 8 branches less than 1Q17, in addition to a reversal of impairment charges for other financial assets, and despite the increase in general and administrative expenses. Impairment charges for credit losses were more or less flat Y/Y, amounting to SAR 175 million compared to SAR 177 million in 1Q17, whereas our forecast pointed to SAR 294 million.

Bottom-line beats consensus

Net income of SAR 816 million (up +6% Y/Y, +29% Q/Q) missed both our forecast and market expectations of SAR 710 million and 760 million respectively. The stock trades at a 2018E P/B of 1.2x. We maintain our target price of SAR 27.00 and Neutral stance.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	4,665	4,778	4,843
Prov for cred loss	1,149	890	859
Net Income	3,034	3,412	3,518
EPS (SAR)	3.03	3.41	3.52
DPS (SAR)	1.20	1.35	1.40

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.8%	2.8%	2.8%
ROAE	12.4%	13.1%	12.6%
ROAA	1.8%	2.0%	2.0%
CAR	17.6%	15.9%	16.6%
P/B	1.3x	1.2x	1.1x

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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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