

1Q20 Results Update
June 09, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	22.1
Target Price (SAR)	22.3
Upside/Downside (%)	0.9%

As of June 8th, 2020
Key Data (Source: Bloomberg)

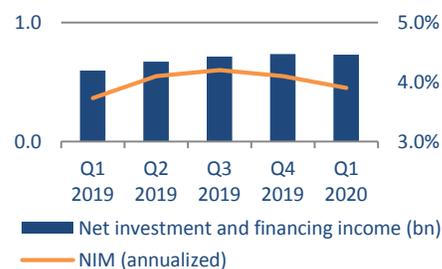
Market Cap (SAR bn)	16.6
52 Wk High (SAR)	30.3
52 Wk Low (SAR)	18.2
Total outstanding shares (in mn)	750.0
Free Float (%)	47.3%

ALBILAD vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	5.2%	(4.9%)
6m	(16.8%)	(6.9%)
12m	(7.0%)	7.3%

Major Shareholders (%)

Mohamed Ibrahim Al-Subaei & Sons Co.	19.34%
Abdullah Ibrahim Al Subaei Investment Co.	11.14%
Khaled Abdulrahman Saleh Al Rajhi	9.21%

Net investment and financing income (SAR bn) and NIM (annualized)


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 8th June 2020

AlBilad's net income shrinks on higher impairment charges

AlBilad Bank (AlBilad)'s net income shrank 5.3% YoY to SAR 270mn in 1Q20 as higher operating expenses and increased net impairment charges for financing offset the rise in the total operating income. Total operating income for the quarter rose 9.0% YoY to SAR 1.0bn due to higher net investment and financing income, along with increased exchange and dividend income. Operating expenses were up 4.2% YoY to SAR 500mn, whereas net impairment charges increased 63% YoY to SAR 203.4mn in 1Q20. The bank's loan book grew 21.7% YoY to SAR 62.6bn, while customer deposits rose 18.7% YoY to SAR 68.4bn; consequently, loan to deposit ratio increased to 91.5% from 89.3% in 1Q19.

The bank's performance in 2019 was impressive as rate cuts boosted credit growth in the country, boding well for AlBilad—its loan book grew 17.3% YoY to SAR 59.4bn. The trend continued in the first quarter of the year, with loan books and customer deposits continuing to expand. However, the sharp rise in the bank's impairment charges recognized under net financing income is a concern especially amid COVID-19 outbreak. Even though the government continues to inject liquidity into the system to boost the banking sector and the key financial soundness indicators for the bank's capital remain strong, Fitch predicts that if the current economic disruption continues, it could lead to a severe deterioration in asset quality which may adversely impact the asset quality and the bank's margin. S&P rating too believes that Saudi banks have enough capital to absorb the economic stress even though net margins may be impacted. Therefore, in view of the macroeconomic uncertainty, we would like to wait and watch how the economic activity picks up in the region and globally; accordingly, we maintain a Neutral rating on the stock.

- Net financing and investment income expanded 22.4% YoY to SAR 730.5mn due to growth in gross financing and investment income and lower return on customers', banks' and financial institutions' time investments.
- The bank's operating income expanded 9.0% YoY to SAR 1bn for the quarter, aided by the factors mentioned above and higher exchange and dividend income that offset the minor drop in fee from banking services and loss on non-trading activities.
- Total operating expense grew 4.2% YoY to SAR 500mn in 1Q20 due to a rise in employee salaries, depreciation, and other administrative expense.
- Pre-provision profits increased 14.2% YoY to SAR 504mn in 1Q20. Impairment charges for the quarter were up 63.0% YoY to SAR 203.4mn. Total assets increased 21.4% YoY to SAR 88.5bn.
- Net financing increased 21.7% YoY and 5.4% QoQ to SAR 62.6bn, whereas customer deposits grew 18.7% YoY to SAR 68.4bn.
- Return on equity (ROE) for the quarter decreased to 11.5% in 1Q20 from 14.6% in 1Q19 and 14.4% in 4Q19; return on assets (ROA) stood at 1.3% in 1Q20 as against 1.5% a year earlier.
- In May 2020, Albilad's shareholders approved the buyback of 5 million Treasury shares, to be allocated under the Employee Stock Incentive Plan.

Valuation: We revise our target price to a fair value of SAR 22.3 per share and retain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Net Financing and Invest Income (SAR bn)	0.7	0.6	22.4%	2.7	2.7	(2.2%)
Operating Inc (SAR bn)	1.0	0.9	9.0%	4.0	3.9	0.3%
EPS (SAR) – Adjusted for Bonus Share	0.36	0.38	(5.3%)	1.4	1.7	(14.5%)
Net Int.Margin (%)	3.9%	3.7%	0.3%	3.3%	3.9%	(0.6%)
Cost to Income (%)	49.8%	52.1%	(2.3%)	51.4%	51.3%	0.1%
RoE (%)	11.5%	14.6%	(3.1%)	10.7%	14.4%	(3.7%)
Total Assets (SAR bn)	88.5	72.9	21.4%	98.9	86.1	14.9%
Loans and Advances Portfolio (SAR bn)	62.6	51.4	21.7%	69.0	59.4	16.3%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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