

3Q20 Results Update

December 30, 2020

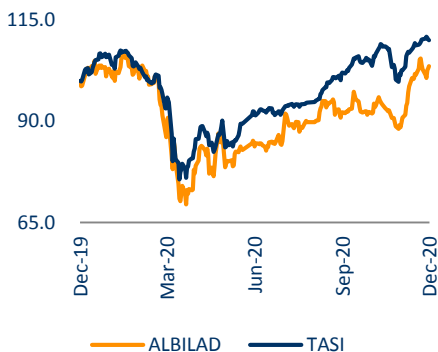
| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 27.2 |
| Target Price (SAR) | 25.5 |
| Upside/Downside (%) | (6.1%) |

As of December 03, 2020

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 20.4 |
| 52-Wk High (SAR) | 28.4 |
| 52-Wk Low (SAR) | 18.2 |
| Total Outstanding Shares (in mn) | 750.0 |
| Free Float (%) | 53.7% |

ALBILAD vs. TASI (Rebased)

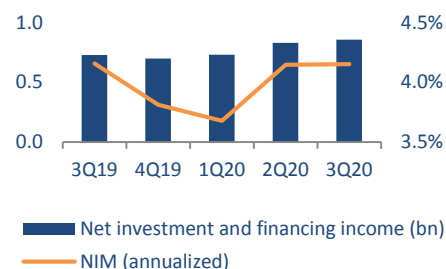


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 17.0% | 8.6% |
| 6m | 23.6% | 3.5% |
| 12m | 3.6% | (6.4%) |

Major Shareholders (%)

| | |
|---|--------|
| Mohamed Ibrahim Al Subaei & Sons Co. | 19.34% |
| Abdullah Ibrahim Al Subaei Investment Co. | 11.14% |
| Khaled Abdulrahman Saleh Al Rajhi | 9.10% |

Net Investment and Financing Income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 03, 2020

Higher topline, operating income boost bottom line in 3Q20

AlBilad Bank (Albilad)'s net financing and investment income zoomed 17.4% YoY to SAR 0.9bn in 3Q20 supported by higher gross financing and investment income and reduced cost of funds. Total operating income increased 8.8% YoY to SAR 1.1bn, whereas total operating expenses were up 1.1% YoY to SAR 0.5bn; this led to an improvement in the cost-to-income ratio to 47.3% in 3Q20. A higher top line offset the rise in net impairment charges and zakat expense and resulted in 17.1% YoY increase in net income to SAR 382.6mn. The bank's loan book grew 20.0% YoY to SAR 67.8bn, while customer deposits were up 7.5% YoY to SAR 68.9bn. Subsequently, the loan-to-deposit ratio increased to 98.4% in 3Q20 from 88.1% in 3Q19.

Albilad reported a strong performance in 3Q20, considering the economic challenges posed by the COVID-19 pandemic. The bank's loan book rose sharply supported by the robust performance of its retail portfolio. The bank's net interest margin remained steady in 3Q20 despite the interest rates being low during the period compared with 3Q19. The bank also managed to restrict its NPL ratio to 1.2% in 3Q20 as against 1.4% in 3Q19. However, the rising possibility of a second wave of the virus and the resultant additional lockdowns may create headwinds for the Saudi banking sector. This may lead the bank to record higher provisions for impairment and hurt its bottom line. Furthermore, a sustained low-interest-rate environment could also impact the bank's profitability. Therefore, considering these factors, we maintain our "Neutral" rating on the stock.

- Albilad's net financing and investment income increased 17.4% YoY to SAR 0.9bn, owing to the 2.6% YoY rise in gross financing and investment income to SAR 0.9bn and 65.1% YoY drop in cost of funds (return on customers, banks, and financial institutions' time investments) to SAR 55.7mn.
- Operating income inched up 8.8% YoY to SAR 1.1bn in 3Q20 supported by higher net financing and investment income, other operating income, and exchange income.
- Total operating expense scaled up 1.1% YoY to SAR 0.5bn in 3Q20 due to higher general and administrative expenses, salary costs, and depreciation expense. Subsequently, the bank's cost-to-income ratio improved to 47.3% from 50.9% in 3Q19.
- Higher impairment and zakat expenses were offset by the increase in the top line, as the bank's net income increased 17.1% YoY to SAR 382.6mn in 3Q20.
- The bank's total assets grew 13.7% YoY to SAR 92.3bn. Net financing increased 20.0% YoY and 4.4% QoQ to SAR 67.8bn, whereas customer deposits grew 7.5% YoY to SAR 68.9bn. This resulted in an improvement in the loan-to-deposit ratio to 98.4% against 88.1% in 3Q19.
- Return on equity (ROE) for the quarter increased to 15.2% in 3Q20 from 14.6% in 3Q19; return on assets (ROA) remained stable at 1.7% in 3Q20 compared with 3Q19.
- Albilad's capital adequacy ratio (CAR) remained steady at 17.8% in 3Q20. Additionally, the bank's Tier I capital ratio expanded to 13.9%, whereas its Tier II ratio contracted to 3.8%.
- The bank's NPL ratio stood at 1.2% in 3Q20 compared with 1.4% in 3Q19.

Valuation: We revise our target price to a fair value of SAR 25.5 per share and retain our "Neutral" rating on the stock.

| | 3Q20 | 3Q19 | % YoY | FY20E | FY19 | % YoY |
|--|-------|-------|--------|-------|-------|--------|
| Net financing and investment income (SAR bn) | 0.9 | 0.7 | 17.4% | 3.2 | 2.7 | 18.4% |
| Operating income (SAR bn) | 1.1 | 1.0 | 8.8% | 4.2 | 3.9 | 7.7% |
| EPS (SAR) | 0.51 | 0.44 | 17.1% | 1.79 | 1.66 | 8.2% |
| Net Interest Margin (%) | 4.2% | 4.2% | (0.0%) | 4.0% | 3.9% | 0.1% |
| Cost to income (%) | 47.3% | 50.9% | (3.6%) | 47.6% | 51.3% | (3.7%) |
| RoE (%) | 15.2% | 14.6% | 0.6% | 13.1% | 14.4% | (1.3%) |
| Total Assets (SAR bn) | 92.3 | 81.2 | 13.7% | 96.7 | 86.0 | 12.4% |
| Loans and Advances (SAR bn) | 67.8 | 56.4 | 20.0% | 70.9 | 59.3 | 19.6% |

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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