

May 17, 2021

1Q21 Results Update

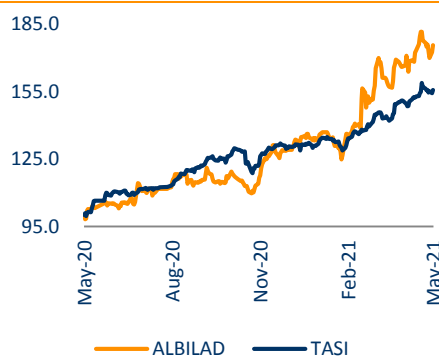
| Recommendation | Neutral |
|-------------------------|-------------|
| Previous Recommendation | Underweight |
| Current Price (SAR) | 37.0 |
| Target Price (SAR) | 35.2 |
| Upside/Downside (%) | (4.9%) |

As of May 10, 2021

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 27.8 |
| 52-Wk High (SAR) | 38.7 |
| 52-Wk Low (SAR) | 20.2 |
| Total Outstanding Shares (in mn) | 750.0 |
| Free Float (%) | 53.2% |

ALBILAD vs. TASI (Rebased)

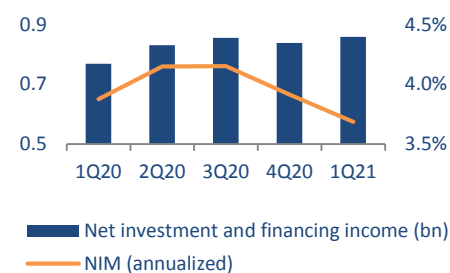


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 5.7% | 2.6% |
| 6m | 49.3% | 25.9% |
| 12m | 75.7% | 20.0% |

Major Shareholders (%)

| | |
|---|--------|
| Mohamed Ibrahim Al Subaei & Sons Co. | 19.34% |
| Abdullah Ibrahim Al Subaei Investment Co. | 11.14% |
| Khaled Abdulrahman Saleh Al Rajhi | 9.11% |

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of May 10, 2021

Loan portfolio witnesses robust growth in 1Q21, while liquidity tightens

AlBilad Bank (Albilad)'s net financing and investment income inched up 11.7% YoY to SAR 858.8mn in 1Q21, aided by the 61.8% YoY reduction in cost of funds to SAR 53.0mn. Operating income surged 12.8% YoY to SAR 1.1bn in 1Q21 on higher fee from banking services, while total operating expense went up 6.1% YoY to SAR 525.6mn; this led to a 294.0 bps YoY improvement in the cost-to-income ratio to 46.4%. The bank's net income soared 45.4% YoY to SAR 392.8mn in the quarter on lower impairment charge. Albilad's loan book swelled 20.9% YoY to SAR 75.5bn, while customer deposits rose 12.6% YoY to SAR 77.0bn. As a result, the loan-to-deposit ratio (LDR) increased to 98.1% in 1Q21 from 91.4% in 1Q20.

Albilad's loan book recorded steady growth in 1Q21, driven by robust growth in its Retail (+28.3% YoY to SAR 38.5bn) and Corporate (+15.1% YoY to SAR 38.7bn) portfolios. The bank's asset quality improved during the quarter, with its NPL ratio narrowing to 1.1% in 1Q21 from 1.3% in 1Q20, while the coverage ratio increased to 298.9% in 1Q21 from 242.2% in 1Q20. The bank's capital position remained steady, with risk-weighted assets accounting for 78.9% of total assets in 1Q21 as against 79.6% in 1Q20, while capital adequacy ratio dipped 55.7 bps YoY to 17.1% in 1Q21. The bank recently completed the issuance of a 10-year callable SAR-denominated Tier-2 sukuk worth SAR 3bn paying three-month SAIBOR + 165 bps. The issuance is anticipated to strengthen the company's capital and support its growth plans over the long term, but could translate into higher cost of funds and add further pressure on the bank's NIM in the near term. Furthermore, Albilad remains in a tight liquidity scenario in 1Q21, with LDR spiking to 98.1% in 1Q21 from 91.4% in 1Q20. Moreover, risks of new virus mutations spreading from other parts of the world and impacting business and consumer sentiment may adversely affect the Saudi banking sector. Therefore, considering these factors, we revise our rating to "Neutral" on the stock.

- Albilad's net financing and investment income increased 11.7% YoY to SAR 858.8mn in 1Q21 owing to the 0.4% YoY rise in gross financing and investment income to SAR 911.7mn as well as the 61.8% YoY drop in cost of funds to SAR 53.0mn.
- Total operating income rose 12.8% YoY to SAR 1.1bn in 1Q21, led by a 20.5% YoY surge in fee from banking services to SAR 198.7mn during the quarter.
- Total operating expense scaled up 6.1% YoY to SAR 525.6mn in 1Q21 due to higher G&A, salary and depreciation expenses. As a result, the bank's cost-to-income ratio rose to 46.4% from 49.3% in 1Q20.
- Lower impairment charge offset the increase in zakat expense, and resulted in a 45.4% YoY surge in the bank's net income to SAR 392.8mn in 1Q21.
- Total assets grew 16.0% YoY to SAR 102.5bn, supported by growth in financing assets (20.9% YoY to SAR 75.5bn) and investment assets (33.0% YoY to SAR 15.9bn). Customer deposits surged 12.6% YoY to SAR 77.0bn, which pushed the LDR to 98.1% in 1Q21 as against 91.4% in 1Q20.
- On April 11, Albilad's shareholders authorized the Board to distribute interim dividends for 2021 on a quarterly or semi-annual basis.
- On April 15, Albilad completed the issuance of a 10-year callable SAR-denominated Tier-2 sukuk worth SAR 3bn through private placement. The sukuk will pay three-month SAIBOR + 165 bps.

Valuation: We increase the target price to a fair value of SAR 35.2 per share and revise our rating to "Neutral" on the stock.

| | 1Q21 | 1Q20 | % YoY | FY21E | FY20 | % YoY |
|--|-------|-------|--------|-------|-------|--------|
| Net Financing and Investment Income (SAR bn) | 0.9 | 0.8 | 11.7% | 3.7 | 3.3 | 13.1% |
| Operating Income (SAR bn) | 1.1 | 1.0 | 12.8% | 4.8 | 4.3 | 13.2% |
| EPS (SAR) | 0.53 | 0.36 | 45.4% | 2.18 | 1.81 | 20.9% |
| Net Interest Margin (%) | 3.7% | 3.9% | (0.2%) | 3.9% | 4.1% | (0.2%) |
| Cost to Income (%) | 46.4% | 49.3% | (2.9%) | 48.4% | 48.5% | (0.1%) |
| RoE (%) | 14.5% | 11.3% | 3.2% | 14.1% | 13.4% | 0.7% |
| Total Assets (SAR bn) | 102.5 | 88.4 | 16.0% | 111.2 | 95.8 | 16.1% |
| Loans and Advances (SAR bn) | 75.5 | 62.5 | 20.9% | 82.0 | 70.1 | 16.9% |

Source: Company Financials, FALCOM Research

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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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