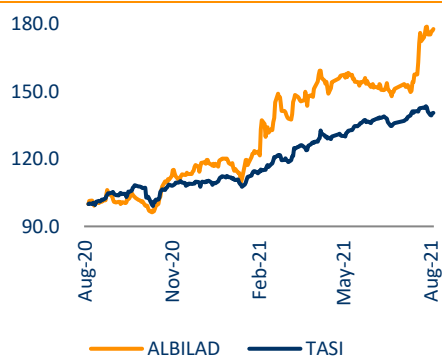


2Q21 Results Update
August 26, 2021

Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	42.6
Target Price (SAR)	35.2
Upside/Downside (%)	(17.3%)
<i>As of August 26, 2021</i>	

Key Data (Source: Bloomberg)

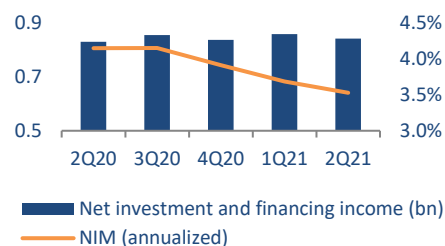
Market Cap (SAR bn)	31.9
52-Wk High (SAR)	43.2
52-Wk Low (SAR)	22.9
Total Outstanding Shares (in mn)	750.0
Free Float (%)	53.2%

ALBILAD vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	16.0%	13.5%
6m	29.6%	7.2%
12m	77.9%	37.4%

Major Shareholders (%)

Mohamed Ibrahim Al Subaei & Sons Co.	19.34%
Abdullah Ibrahim Al Subaei Investment Co.	11.14%
Khaled Abdulrahman Saleh Al Rajhi	9.11%
Abdulrahman Abdulaziz Saleh Al Rajhi	6.66%

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


Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 26, 2021

Lending growth supported increase in profits in 2Q21; NIM compressed further

AlBilad Bank (Albilad)'s net financing and investment income inched up 2.6% YoY to SAR 842.5mn in 2Q21, aided by a 21.4% YoY reduction in cost of funds to SAR 68.2mn. Operating income surged 13.2% YoY to SAR 1.1bn in 2Q21 on high fee from banking services. Total operating expense went up 7.3% YoY to SAR 530.8mn, leading to a 257.0 bps YoY improvement in the cost-to-income ratio to 46.9%. The bank's net income soared 30.8% YoY to SAR 416.1mn in the quarter on low impairment charges. Albilad's loan book swelled 21.9% YoY to SAR 79.1bn, while customer deposits rose 25.8% YoY to SAR 81.6bn. Consequently, the loan-to-deposit ratio (LDR) fell to 96.9% in 2Q21 from 100.1% in 2Q20.

Albilad's loan book recorded steady growth in 2Q21, driven by robust growth in its Retail (+24.5% YoY to SAR 39.5bn) and Commercial (+19.8% YoY to SAR 41.3bn) portfolios. The bank's asset quality slightly improved during the quarter, with its NPL ratio narrowing marginally to 1.2% in 2Q21, while the coverage ratio increased to 258.9% in 2Q21 from 240.3% in 2Q20. The bank's capital position remained steady, with risk-weighted assets accounting for 79.4% of the total assets in 2Q21 as against 80.9% in 2Q20, while the capital adequacy ratio rose 154 bps YoY to 19.3% in 2Q21. Bank Albilad announced its intention to redeem the outstanding SAR-denominated regulatory Tier 2 capital sukuk, due in 2026, in full at face value on August 30. The value of the outstanding sukuk currently stands at SAR 1.1 billion. The bank's NIM continued to contract during the quarter amid the low interest rate environment. Moreover, resurgence in COVID-19 cases due to the Delta variant may create headwinds for the economy and adversely affect the Saudi banking sector. Therefore, considering these factors, high leverage, and NIM compression, we revise our rating to "Underweight" on the stock.

- Albilad's net financing and investment income increased 2.6% YoY to SAR 842.5mn in 2Q21 owing to a 0.3% YoY rise in gross financing and investment income to SAR 910.7mn as well as a 21.4% YoY drop in cost of funds to SAR 68.2mn.
- Total operating income rose 13.2% YoY to SAR 1.1bn in 2Q21, led by a 59.7% YoY surge in fee from banking services to SAR 196.7mn during the quarter.
- Total operating expense scaled up 7.3% YoY to SAR 530.8mn in 2Q21 due to high G&A, salary, and depreciation expenses. As a result, the bank's cost-to-income ratio improved to 46.9% from 49.5% in 2Q20.
- Lower impairment charge offset the increase in zakat expense and resulted in a 30.8% YoY surge in the bank's net income to SAR 416.1mn in 2Q21.
- Total assets grew 21.2% YoY to SAR 107.6bn, supported by growth in financing assets (21.9% YoY to SAR 79.1bn) and investment assets (30.9% YoY to SAR 16.8bn). Customer deposits surged 25.8% YoY to SAR 81.6bn, which led to a drop in LDR to 96.9% in 2Q21 as against 100.1% in 2Q20.
- Bank Albilad announced its intention to redeem the outstanding SAR-denominated regulatory Tier 2 capital sukuk, due in 2026, in full at face value on August 30, valued at SAR 1.1bn.

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

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Net Financing and Investment Income (SAR bn)	0.8	0.8	2.6%	3.5	3.3	6.9%
Operating Income (SAR bn)	1.1	1.0	13.2%	4.7	4.3	10.1%
EPS (SAR)	0.55	0.42	30.8%	2.32	1.80	28.9%
Net Interest Margin (%)	3.5%	4.1%	(0.6%)	3.7%	4.1%	(0.4%)
Cost to Income (%)	46.9%	49.5%	(2.6%)	45.6%	48.5%	(2.8%)
RoE (%)	15.0%	13.1%	1.8%	15.0%	13.4%	1.6%
Total Assets (SAR bn)	107.7	88.8	21.2%	112.3	95.8	17.3%
Loans and Advances (SAR bn)	79.1	64.9	21.9%	83.0	70.1	18.3%

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: +966 11 2032546

Email: addingvalue@falcom.com.sa

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.