

3Q21 Results Update
November 19, 2021

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	47.0
Target Price (SAR)	39.0
Upside/Downside (%)	(17.0%)

As of November 18, 2021
Key Data (Source: Bloomberg)

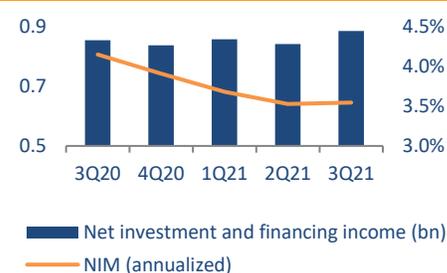
Market Cap (SAR bn)	35.3
52-Wk High (SAR)	47.2
52-Wk Low (SAR)	26.1
Total Outstanding Shares (in mn)	750.0
Free Float (%)	53.2%

ALBILAD vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	11.5%	11.9%
6m	25.3%	13.0%
12m	76.7%	40.9%

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 November 18, 2021

Lower provisions supported increase in profits in 3Q21

AlBilad Bank (Albilad)'s net financing and investment income rose by 3.7% YoY to SAR 886.8mn in 3Q21, driven by a 5.7% YoY rise in income from investing and financing assets. The rise in net financing and investment income was offset by higher returns on deposits and financial liabilities. Operating income increased by 5.6% YoY to SAR 1.2bn in 3Q21 on high fee from banking services. Total operating expense inched up by 0.8% YoY to SAR 530.6mn, leading to a 212 bps YoY improvement in the cost-to-income ratio to 45.2%. Impairment charges dropped by 11.1% YoY, which resulted in the bank's net income surging by 17.5% YoY to SAR 449.7mn in the quarter. Albilad's loan book swelled by 20.7% YoY to SAR 81.8bn, while customer deposits rose by 19.5% YoY to SAR 82.3bn. Consequently, its loan-to-deposit ratio (LDR) rose marginally to 99.3% in 3Q21 from 98.4% in 3Q20.

Albilad's loan book grew by 16.7% YTD in 3Q21, driven by robust growth in its Commercial portfolio, which grew by 20.3% YTD to SAR 43.1bn, and Retail portfolio, which was up 12.8% YTD to SAR 40.4bn. Non-performing financing rose by 24.6% YTD, implying the bank's asset quality marginally deteriorated during the quarter, with its NPL ratio inched up to 1.25% in 3Q21 and coverage ratio decreasing to 260.2% in 3Q21 from 279.7% in FY20. The bank's capital position remained steady, with risk-weighted assets accounting for 76.0% of the total assets in 3Q21, as against 72.4% in 3Q20. Its capital adequacy ratio rose by 97 bps YoY to 18.7% in 3Q21. The bank's NIM continued to contract during the quarter amid the low interest rate environment. Moreover, the continuing uncertainty due to the COVID-19 pandemic may create headwinds for the economy and adversely affect the Saudi banking sector. Therefore, considering the aforementioned factors, high leverage, and NIM compression, we maintain our "Underweight" rating on the stock.

- Albilad's net financing and investment income increased by 3.7% YoY to SAR 886.7mn in 3Q21, aided by a 5.7% YoY rise in gross financing and investment income to SAR 963.4mn, counterbalanced by a 37.5% YoY rise in cost of funds to SAR 76.6mn.
- Higher fees from banking services and dividend income and gains on non-trading investment in 3Q21 led to the bank reporting a total operating income of SAR 1.2bn, up 5.6% YoY.
- Total operating expense was marginally up by 0.8% YoY to SAR 530.6mn in 3Q21 due to high G&A, salary, and employee benefits expenses. The bank's cost-to-income ratio improved to 45.2% from 47.3% in 3Q20.
- Lower impairment charges offset the increase in Zakat expenses and resulted in a 17.5% YoY rise in the bank's net income to SAR 449.7mn in 3Q21.
- Total assets grew by 20.9% YoY to SAR 111.6bn, driven by higher financing assets (up 20.7% YoY to SAR 81.8bn) and investment assets (23.6% YoY to SAR 17.3bn). Customer deposits surged by 19.5% YoY to SAR 82.3bn, while LDR inched up to 99.3% in 3Q21, as against 98.4% in 3Q20.
- Albilad's Board of Directors recommended a 33.33% capital increase to SAR 10bn from SAR 7.5bn by distributing one-for-three bonus share.

Valuation: We revise the target price to a fair value of SAR 39.0 per share but maintain our "Underweight" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Net Financing and Investment Income (SAR bn)	0.9	0.9	3.7%	3.5	3.3	5.7%
Operating Income (SAR bn)	1.2	1.1	5.6%	4.6	4.3	8.7%
EPS (SAR)	0.60	0.51	17.5%	2.32	1.80	29.0%
Net Interest Margin (%)	3.5%	4.2%	(0.6%)	3.6%	4.1%	(0.4%)
Cost to Income (%)	45.2%	47.3%	(2.1%)	44.9%	48.5%	(3.6%)
RoE (%)	15.5%	15.2%	0.3%	15.0%	13.4%	1.6%
Total Assets (SAR bn)	111.6	92.3	20.9%	112.8	95.8	17.8%
Loans and Advances (SAR bn)	81.8	67.8	20.7%	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 Research.

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