

Bank Albilad

Albilad's earnings rebounded strongly from Q1 2020

Bank Albilad's net income grew by 45.5% Y-o-Y and 3.9% Q-o-Q supported by lower cost of funds and lower provisions compared to Q1 2020. We expect higher cost of funds and lower Net Interest Margin (NIM) over the coming quarters, while the financing portfolio is expected to continue to grow by double digits. We raise our target price for Bank Albilad as we raise our loans growth estimate but remain neutral on the stock due to its pricey valuation. We maintain our **Neutral recommendation for Albilad with an adjusted target price of SAR33.4/share.**

Albilad's net income from financing and investment increased by 11.7% and 1.4% Q-o-Q during Q1 2021 thanks to the continued drop in cost of funds as the return on deposits and financial liabilities fell by 61.8% YoY thanks to lower profit paid on sukuk and deposits due to lower SAIBOR. Non-interest income also reported 12.3% Y-o-Y growth due to higher fees & commissions and gains on investments. Total operating income increased by 12.8% YoY and fell by 1.0% Q-o-Q. Non-financing expenses increased by 5.0% Y-o-Y. Cost to Income Ratio fell to 46.3% during Q1 2021 vs 49.8% in Q1 2020 and 47.5% in Q4 2020 thanks to higher income. Operating income surged by 20.6% Y-o-Y supported by higher financing income and fees & commissions income. On quarterly basis, operating income grew by 1.2% Q-o-Q. Loan loss provisions fell by 18.3% Y-o-Y and 5.6% Q-o-Q thanks to the improving economic environment. Annualized cost of risk fell to 0.9% vs 1.0% during Q1 2021. Supported by lower provisions and cost of funds, net income surged by 45.5% Y-o-Y and 3.9% Q-o-Q.

Albilad's financing book grew by 20.7% Y-o-Y and 7.7% Q-o-Q to SAR75.5bn. Growth was likely supported by the continued accelerated growth in the mortgage business, which contributes around 55% of Albilad's retail portfolio and 25% of the total financing portfolio. Similarly, customers' deposits grew by 12.6% Y-o-Y and 7.6% Q-o-Q. Loan to Deposit ratio (excluding SAMA's deposits and sukuk liabilities) remained flat at 98% as of Q1 2021.

During March 2021, SAMA announced further extensions in the Deferred Payment Program for an additional 3 months until June 2021 as a support for the SMEs. Continued deferral is likely to pressure Albilad's Net Interest Margin as the bank records modification losses (a loss recorded given the modification in the terms of the financing arrangement).

During April 2021, Bank Albilad announced the issuance of SAR denominated sukuk with a total value of SAR3bn. The sukuk have a 10-year maturity with a return of 3-month SAIBOR + 165bps. The issuance will grow the company's capital base and support its future growth plans on the long term, thus enabling higher lending ability. However, in the shorter term, we expect this to reflect in higher cost of funds over the coming period, which will pressure NIM. Coupled with possible further extensions for SMEs deferral program, we expect that net financing income might come under pressure over the coming quarters.

We raise our target price for Bank Albilad to SAR33.4/share due to higher-than-expected loan growth, while recent announcements of sukuk issuance and agreement with REDF agreement support continued strong financing growth. Bank Albilad is currently trading at 18.9x TTM earnings and 2.6x its book value vs its 3-year average of 15.3x and 2.0x, respectively. While the bank's fundamentals remain strong, we believe that current valuation is pricey. Accordingly, we maintain our Neutral recommendation for Albilad.

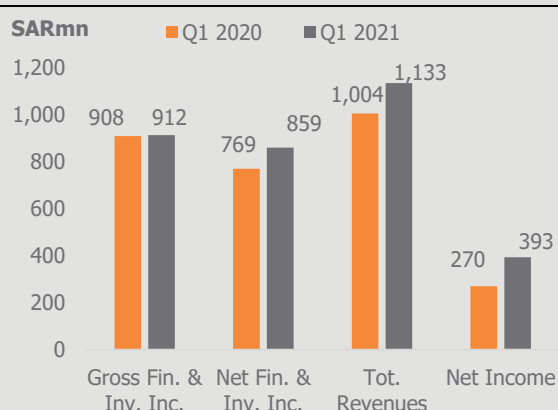
26 April 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (25-04-2021)	SAR37.1
Target Price (52 weeks)	SAR33.4
Upside/ (Downside)	-9.9%
Shariah Compliance	Pass

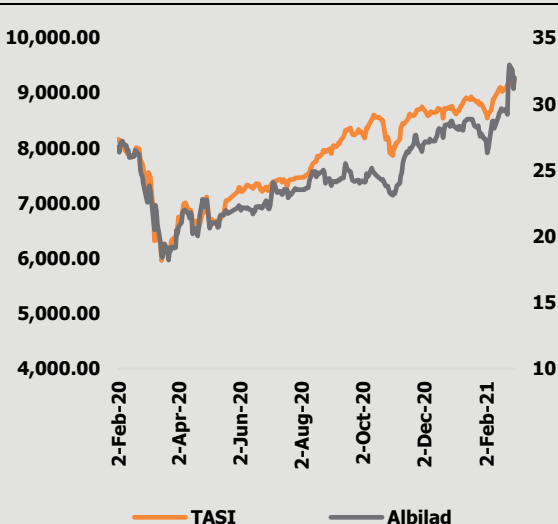
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Gross Fin. & Inv.	1.3%	-1.3%	-0.6%
Net Fin. Margin	94.2%	94.1%	84.7%
Net Inc. Margin	43.1%	42.0%	29.7%

Key Financial Results (Q1 2021)



Share Price Performance



Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

Itqan Capital

Al Zahraa District, Al Zahraa Commercial Center,
PO Box 8021, Jeddah 21482,
Kingdom of Saudi Arabia
Tel: 966 12 263 8787
Fax: 966 12 263 8789
info@itqancapital.com
www.itqancapital.com

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