

# Bank Aljazira

## Bank Aljazira's net income jumps on higher operating income

02 May 2021

**Lower cost of funds and higher non-financing income drove 77.1% Y-o-Y growth for Bank Al Jazira during Q1 2021, despite the slowdown in assets growth. We believe that the bank should benefit from continued drop in cost of funds and improved asset quality over the coming period yet slowing financing growth is a concern. We maintain our **Neutral** for Bank Aljazira with a 52-week target price of SAR21.0/share.**

Bank Aljazira's gross special commission income dropped by 8.5% Y-o-Y and 10.6% Q-o-Q. Income from financing was likely impacted by lower financing rates and slower financing growth. Commission expense fell by 64.2% Y-o-Y and 51.7% Q-o-Q, saving SAR167mn in commissions expense compared to Q1 2020, likely on the back of lower SAIBOR and a more favorable deposit mix. Net special commission income hiked by 18.1% Y-o-Y and 1.9% Q-o-Q thanks to a significant drop in cost of funds. Net financing margin improved to 87.3% vs 67.7% in Q1 2020.

Non-financing income grew by 34.8% Y-o-Y and 5.8% Q-o-Q thanks to higher fees from banking services. Total operating income increased by 23.0% Y-o-Y and 3.1% Q-o-Q. Income growth was partially offset by higher impairment charges, which hiked by 25.3% Y-o-Y to SAR153mn but fell by 86.1% Q-o-Q following a quarter of record high provisions during Q4 2020 as the bank reassessed its credit risk during Q4 2020 and increased the level of ECL allowance against its loans exposure. Net income grew by 77.1% thanks to the rise in financing as well as non-financing income.

Bank Aljazira's financing portfolio grew by 6.1% Y-o-Y and 2.2% Q-o-Q. We note that this represents the slowest growth rate since Q4 2018. The bank's financing growth has been slowing down over the past 2 quarters, despite its exposure to the high growth mortgage business (estimated at around 23% of the total financing portfolio). Bank Aljazira lost almost 2% in market share (in terms of total financing) in Q1 2021 vs Q1 2020, bringing its market share among Islamic banks to 9.1% vs 11.0% in Q1 2020. On the other hand, customers deposits reported a healthy growth of 12.8% Y-o-Y and 3.9% Q-o-Q. Loan to Deposit Ratio (LDR) dropped to 78% vs 83% in Q1 2020. Investments grew by only 1.4% Y-o-Y and fell by 2.8% Q-o-Q.

Lower LDR, lower SAIBOR, healthy deposits growth, and a more favorable deposit mix should reflect positively on Aljazira's cost of funds going forward, which is expected to support the bank's net financing income and profitability during 2021. Slower financing growth and continued market share losses might pressure lending rates, though. The bank is currently in a stronger position to withstand possible credit losses due to higher provisioning levels. The banks' Non-performing Loans (NPL) coverage increased to 177% in Q4 2020 vs 150% in 2019. Stage 2 loans coverage improved to 6.9% in Q4 2020 vs 2.5% in 2019. This suggests stronger buffers to deal with worsening asset quality and credit losses, which will in return reflect in the stability in Cost of Risk and profitability during 2021. The bank is currently trading at 1.3x Price/Book, (around 30% discount to its peers), which could be justified by its relatively low ROE and below average growth.

### Recommendation

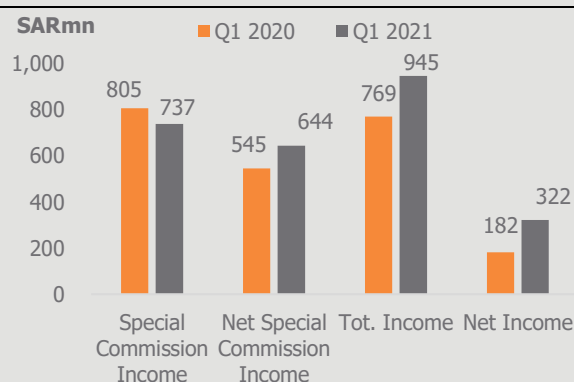
**Neutral**

Previous Recommendation	Neutral
Current Price (29-04-2021)	SAR19.12
Target Price	SAR21.0
Upside/ (Downside)	9.7%
Shariah Compliance	Pass

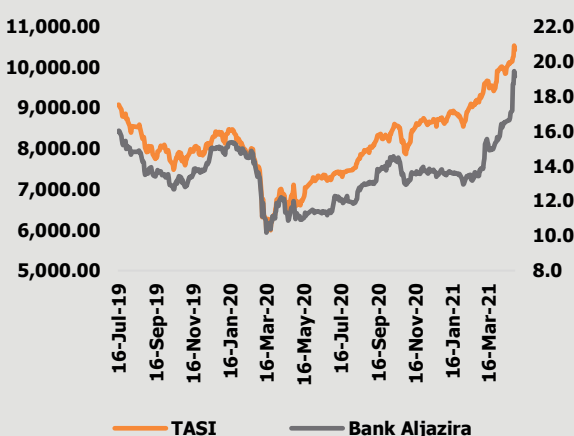
### Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Gross Fin. & Inv.	-10.6%	9.2%	-11.7%
Net Fin. Margin	87.3%	76.6%	67.7%
Net Inc. Margin	43.6%	-	22.5%

### Key Financial Results (Q1 2021)



### Share Price Performance



# Guide to Ratings and Disclaimer

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of it value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	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](mailto:info@itqancapital.com)  
[www.itqancapital.com](http://www.itqancapital.com)

## Disclaimer

This research document has been prepared by Itqan Capital Company ("Itqan Capital"), Saudi Arabia. It has been prepared for the general use of Itqan Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Itqan Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Itqan Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. Itqan Capital makes no representations or warranties (express or implied) regarding the data and information provided and Itqan Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Itqan Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Itqan Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Itqan Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. This research document and any recommendations contained are subject to change without prior notice. Itqan Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Itqan Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Itqan Capital is licensed by the Saudi Arabian Capital Market Authority, License No.07058-37 and CR No.4030167335