

ABQK Alert – 2Q2020 Earnings Fall Short of Estimates on Higher than Expected CoR

- **ABQK's 2Q2020 earnings falls short of estimates.** Ahli Bank's (ABQK) net profit declined 37.3% YoY (-36.8% QoQ) to QR114.1mn in 2Q2020, below our estimate of QR176.4mn (variation of -35.3%).
- **The drop in earnings was due to a surge in provisions & impairments.** ABQK booked provisions & impairments of QR93.9mn in 2Q2020 vs. QR5.0mn in 2Q2019 (QR15.4mn in 1Q2020). It should be noted that the bank booked precautionary provisions as a result of COVID-19.
- **Margins remained flat YoY but compressed QoQ.** ABQK's net interest margin remained flat YoY at 2.07%. On the other hand, margins compressed sequentially by 14bps.
- **Operating efficiency remained at healthy levels.** The bank's C/I ratio improved to 26.5% in 2Q2020 vs. 29.3% in 2Q2019 (29.0% in 1Q2020).
- **Net loans and deposits dropped sequentially.** Net loans receded by 1.0% QoQ (+1.1% YTD) to QR31.9bn, while deposits dropped sequentially by 10.2% (-2.3% YTD) to QR24.9bn. Hence, LDR increased to 128% vs. 116% in 1Q2020 (124% in FY2019).
- **Capitalization remains strong.** ABQK ended 2Q2020 with a CAR of 17.2%.
- **Recommendation & valuation:** ABQK trades at a P/E and P/TB of 11.8x and 1.3x based on our 2020 estimates, respectively. We maintain our Reduce rating. *We will be revising our estimates shortly.*

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM Greater than +20%

ACCUMULATE Between +10% to +20%

MARKET PERFORM Between -10% to +10%

REDUCE Between -10% to -20%

UNDERPERFORM Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1 Significantly lower than average

R-2 Lower than average

R-3 Medium / In-line with the average

R-4 Above average

R-5 Significantly above average

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