ABQK Alert – 3Q2022 In-Line with Estimates; Margin Expansion Drove Earnings

- **ABQK's 3Q2022 earnings come in-line with our estimates.** Ahli Bank's (ABQK) net profit increased by 9.3% YoY (+69.5% QoQ) to QR236.1mn, in-line with our our estimate of QR227.3mn (variation of +3.9%). The sequential surge in the bottom-line is consistent with ABQK's historical trends.

- **The YoY increase in earnings was due to a large expansion in NIM.** NIM expanded by 63bps (+78bps sequentially) to 3.18%. The repricing of loans dwarfed the repricing of liabilities. Hence, net interest income increased by 32.3% YoY and 26.3% QoQ. We will seek color from management as to what drove the significant uptick in loan repricing.

- **Operating efficiency remained at healthy levels.** The bank's C/I ratio improved to 20.2% in 3Q2022 vs. 24.1% in 3Q2021 (24.6% in 2Q2022). The YoY and sequential improvement in the C/I ratio was a result of strong growth in revenue (driven by NIM expansion).

- **Asset quality continued to improve and management further reclassified Stage 3 loans to Stage 2.** NPLs dropped by 30.5% to QR901.3mn vs. QR1.3bn in FY2021. At the same time, the NPL ratio declined from 3.74% in FY2021 to 2.52% in 3Q2022. Coverage of Stage 3 loans improved to 84% vs. 83% in 2Q2022 (61% in FY2021).

- **9M2022 CoR was on the high side.** 9M2022 (annualized) CoR increased to 99bps vs. 89bps in 9M2021.

- **Net loans slightly receded QoQ, while deposits gained.** Net loans gained sequentially declined by 0.8% (+1.5% YTD) to QR34.1bn. Deposits increased sequentially by 2.7% (-1.6% YTD) to QR27.5bn.

- **Capitalization remains strong.** ABQK ended 3Q2022 with a CET1 & Tier-1 of 16.2%/19.1%, respectively.

- **Recommendation & valuation:** ABQK trades at a P/E and P/TB of 13.8x and 1.5x based on our 2022 estimates, respectively. We maintain our Reduce rating and PT at QR3.196/share.

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Recommendations		Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price		*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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