ABQK Alert – 1Q2021 Earnings In-Line; Elevated CoR Restricted Strong Bottom-Line Growth

- **ABQK's 1Q2021 earnings come in-line with our estimates.** Ahli Bank's (ABQK) net profit increased 3.4% YoY (+4.1% QoQ) to QR186.6mn, in-line with our our estimate of QR180.4mn (variation of +3.4%).

- **The modest growth in earnings was due to strong margin expansion and investment income as ABQK reported investment losses in 1Q2020; core non-funded income remained subdued.** Net interest income moved up by 9.9% YoY (-3.9% QoQ) to QR257.0mn. Moreover, net interest margin climbed up by 10bps YoY due to management in CoFs. The sequential increase in the bottom-line was driven by a combination of lower opex and a large drop in provisions & impairments (-49.8%), which was in-line with our view.

- **Large provisions & impairments offset strong net operating income.** ABQK booked provisions & impairments of QR52.7mn vs. QR15.4mn in 1Q2020 (QR105.1mn in 4Q2020). CoR (annualized) came in at 56bps vs. 70bps in FY2020.

- **Operating efficiency remained at healthy levels.** The bank's C/I ratio improved to 25.4% in 1Q2021 vs. 29.0% in 1Q2020 (23.0% in 4Q2020).

- **Asset quality came under some pressure but remains manageable.** NPLs increased by 4.4% to QR889.7mn, while the NPL ratio moved up from 2.48% in FY2020 to 2.54% in 1Q2021. Coverage of Stage 3 Loans remains acceptable at 85% for the time being.

- **Net loans improved, while deposits expanded.** Net loans moved up by 1.8% sequentially to QR34.1bn. Deposits followed suit, increasing sequentially by 6.1% to QR28.6bn.

- **Capitalization remains strong.** ABQK ended 1Q2021 with a CET1 & CAR of 16.4%/19.5%, respectively.

- **Recommendation & valuation:** ABQK trades at a P/E and P/TB of 11.6x and 1.3x based on our 2021 estimates, respectively. We maintain our Reduce rating and PT at QR2.857/sh..

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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