

ABQK Alert – 2Q2022 In-Line with Estimates; Lower Provisions & Impairments Drove Earnings

- **ABQK's 2Q2022 earnings come in-line with our estimates.** Ahli Bank's (ABQK) net profit increased by 14.3% YoY (-27.2% QoQ) to QR139.3mn, in-line with our estimate of QR142.5mn (variation of -2.3%). The sequential drop in the bottom-line is consistent with ABQK's historical trends as the bank books higher provisions in 2Q vs. 1Q.
- **The increase in earnings was due to a sharp drop in provisions as revenue was subdued.** Total revenue declined by 9.1% YoY (+2.2% QoQ) to QR333.5mn due to NIM compression and investment losses. If we exclude investment losses, core banking revenue would still be down 3.3% YoY.
- **Operating efficiency remained at healthy levels.** The bank's C/I ratio improved to 24.6% in 2Q2022 vs. 25.5% in 2Q2021 (26.1% in 1Q2022). Opex declined by 12.5% and 3.7% YoY and sequentially, respectively.
- **Asset quality improved possibly due to reclassification of Stage 3 loans to Stage 2.** NPLs dropped by 29.8% to QR911.7mn vs. QR1.3bn in FY2021. At the same time, the NPL ratio declined from 3.74% in FY2021 to 2.55% in 2Q2022. Coverage of Stage 3 loans improved to 81% vs. 61% in 1Q2022.
- **1H2022 CoR improved.** 1H2022 (annualized) CoR dropped to 89bps vs. 111bps in 1H2021.
- **Net loans increased QoQ, while deposits receded.** Net loans gained sequentially and YTD by 2.3% to QR34.3bn. Deposits declined sequentially by 3.4% (4.2% YTD) to QR26.7bn.
- **Capitalization remains strong.** ABQK ended 2Q2022 with a CET1 & Tier-1 of 16.1%/19.0%, respectively.
- **Recommendation & valuation:** ABQK trades at a P/E and P/TB of 13.9x and 1.5x based on our 2022 estimates, respectively. We maintain our Market Perform rating and PT at QR3.196/share.

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Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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