



Results Review

ARNB

ST Rating: Market Perform

LT Rating: Market Perform

Arab National Bank (ARNB)

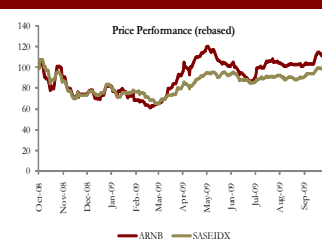
- ARNB reported 3Q09 net income of SAR 633mm (-15.1% yoy, +0.8% qoq) on the back of deleveraging on the balance sheet. While special commission income declined qoq, the six-quarter run rate of above SAR 800 mm per quarter was maintained. Annualized NIM for the quarter continues to be stable at 3.6% vs. 3.5% for 2008. **The 12% drop in quarterly revenues was primarily due to markedly lower non special commission caused we believe, by a significant decrease in new lending activity.**
- **The balance sheet shrinkage continues to accelerate with loans and deposits dropping by 8% and 13% ytd**, in contrast to sector-wide loans and deposits which grew by 3.5% and 7.5% over the same time period. The retail sector (approx. 22% of the loan book) continues to face tepid growth in light of recent market stresses and general risk aversion from the banks. Government loans (the one area of potential growth in the medium term) account for only 0.04% of the loan book as of 2008. The resultant loans/deposit ratio has increased to 85% from 84% at the end of Q209 while the bank continues its winding down of the investment portfolio which is now SAR 23.7bn (21.2% of the asset base vs. 25.6% at the end of 2008).
- **We believe ARNB continues to be light on the provisioning front, estimated to be SAR 44mm in Q3, following a total of SAR 130mm in the first half of 2009.** At the end of 2008, the bank had an extremely low level of NPL's at 0.39% of loans with a reserve coverage ratio of 349%. Although ARNB bank did not separate out operating expenses vs. provisions in the earnings announcement, we estimate op-ex was in line with Q2 and due to lower revenues resulted in a deteriorating efficiency ratio of 36.6% vs. 32.4% the previous quarter.
- **While ARNB has one of the lowest NPL's in the Saudi banking sector, the balance sheet deleveraging will continue to weigh on future revenues and the bottom line.** Whilst the quality of the loan book may explain some of the low provisioning, it is still below the market average for provisioning charges (estimated 0.34% ytd). ARNB currently trades at a 2009E P/B of 1.8x (in-line with Saudi peers). **The stock has moved up 23% since June 30th, and now trades with a upside of only 4.7% to our TP of SAR 50.3.** We change our LT rating down by one notch to make both the ST and LT ratings of 'Market Perform'.

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Equity Data

Current Price (SAR)	48.0
Target Price (SAR)	50.3
Upside/downside	5%
Short-Term Rating	Market Perform
Long-Term Rating	Market Perform
12 Mo. Performance	16.6%
52-Week Range (SAR)	25.7-51
Market Cap. (SAR bn.)	31.2
RIC	1080.SE
Bloomberg	ARNB AB



SAR Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Special commission income	825	894	838	1.5%	-6.3%
Non Special Commission Income	218	318	229	5.2%	-28.0%
Total Income	1,043	1,212	1,067	2.3%	-12.0%
Non Commission Expense	(406)	(392)	(390) *	-3.9%	-0.5%
Provisions	(9)	(74)	(44) *	388.9%	-40.5%
Net Income for Shareholders	628	746	633	0.8%	-15.1%
Investments	21,856	27,600	23,700	8.4%	-14.1%
Net Loans and Advances	74,549	71,200	68,800	-7.7%	-3.4%
Total Assets	115,683	115,100	111,900	-3.3%	-2.8%
Customer Deposits	88,555	85,200	80,500	-9.1%	-5.5%
Loans/Deposits	84%	84%	85%		
Efficiency Ratio	-38.9%	-32.4%	-36.6%		

* Al Mal estimate

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