



## Earnings Update

## Riyad Bank

Rating: Market Perform

## Riyad Bank 2Q09 Results

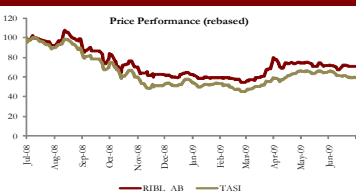
- Riyad Bank reported preliminary 2Q09 net profit of SAR 918mm (+1.3% yoy, +108% qoq) vs. our bottom line estimate of SAR 611mm.** The bank handily beat consensus estimates, primarily due to a lack of provisions on loan losses and minimal (if any) impairment charges taken by the bank. The provisions and impairments were on average SAR 428.5 mm in each of the previous two quarters in anticipation of weakened loan performance as well as due to recognized losses on the investment portfolio. Management may have accelerated provisions into the first quarter, thus leaving 2Q09 earnings relatively clean.
- On a revenue front, the results were in line with our expectations (SAR 1,524 mm vs. SAR 1,513 mm expected) helped both by a **stabilizing contribution from interest income and also on the non-funded business which is enjoying some recovery in the investment portfolio.** We estimate non-interest related expenses at SAR 606mm (+23.2%yoy, +10.1% qoq), but this may include some small provisions or investment impairments. On this basis, the efficiency ratio has weakened, rising to 39.8% from 37.7% in the previous quarter.
- Balance sheet growth continued** - Loans in the quarter grew by SAR 4.4bn to reach SAR 104.5bn, a gain of 4.4% qoq and a growth rate of 8.4% in H109. Considering the sector wide loan growth has been -1.3% in the first five months of the year, Riyad bank has been aggressively expanding its loan book and the pace of qoq loan growth has increased from Q1 (+3.9%). The loans/deposit ratio is getting stressed and ended the quarter at 86% primarily due to the slower growth in deposits of 2.4%.
- Barring the availability of detailed financials, our preliminary analysis is that **the bank has outperformed our estimates primarily due to lack of provisions and impairment charges.** The absolute size of the investment portfolio has stabilized and the bank has continued to use the growth in customer/government deposits to lever up the balance sheet and grow the loan book. We are of the belief that the economic environment in the MENA region is still weak and concentrated exposures could still exist on the banks balance sheets. **In this environment, we would have felt a lot more comfortable if the bank had continued to build up provisions** – albeit at a slower pace to counter for any pressures coming in the second half of the year. We continue to maintain our ‘Market Perform’ rating on the stock.

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## Equity Data

Current Price (SAR)	24.00
Target Price (SAR)	27.50
Upside/downside	15%
Long-Term Rating	Market Perform
12 Mo. Performance	-26%
52-Week Range (SAR)	18.0-36.7
Market Cap. (SAR bn.)	36.0
RIC	1010.SE
Bloomberg	RIBL.AB



SAR Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	985	1,112	1,148	16.5%	3.2%
Non-Interest Income	461	347	376	-18.4%	8.3%
Total Income	1,446	1,459	1,524	5.4%	4.4%
Non-Interest Expense	(492)	(551)	(606) *	23.1%	10.1%
Provision for Loan Losses (PLL)	(47)	(185)	-		
Impairment Charges	-	(283)	-		
Net Income for Shareholders	906	441	918	1.3%	108.1%
Adjusted EPS	0.60	0.29	0.61	1.3%	108.1%
Investments	38,314	37,238	37,089	-3.2%	-0.4%
Net Loans and Advances	82,299	100,172	104,582	27.1%	4.4%
Total Assets	144,134	167,217	172,767	19.9%	3.3%
Customer Deposits	88,471	119,203	122,070	38.0%	2.4%
Loans/Deposits	93%	84%	86%		
Efficiency Ratio	-34.1%	-37.7%	-39.8%		

\* Al Mal estimate



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