



Results Review

Riyad Bank

Rating: Outperform

Riyad Bank - 1Q 2010

Results below expectations as loan growth flat and provisions rise by 75% qoq

- **Riyad Bank reported 1Q 2010 net profit of SR 648m** (-25% qoq, +55% yoy), 10% below our estimate of SR 763m. Adjusting for an exceptional gain on sale of real estate (+178m) seen in Q4, the NI would be -7% qoq. The yoy growth of 55% is most likely due to minimal impairment charges related to the investment portfolio (SR 283mm in impairment charges in Q109)
- **Balance sheet growth has stalled to sector levels with both loans and investments virtually flat qoq.** However, the asset base shrunk by 1.2% pointing to a drop in cash and holdings with the Central bank which may have been used to retire some liabilities. This could have an impact of stabilizing margins which shrunk to 3% in 2009 from 3.3% in 2008. Deposit growth was healthy at 2.3% qoq (vs. sector average of -2%), relieving L/D ratio to 83%.
- Revenues on an adjusted basis grew 13% qoq supported by stabilizing net interest income and robust non-interest income. In the absence of additional loan based fee income, **we expect a return of exchange income and gain on investments for the strength in non-interest income.** However, we wait for detailed financials to see if there are additional exceptional gains in Q1 2010.
- We believe provisioning levels for Q1 were close to our estimates of 241mm, given the high level of defaulted i.e. > 90 days past due but not impaired loans reported in 2009 financial details (SR 1.9bn vs. SR 1.25bn). **NPL's at the end of 2009 were 1.16% with coverage ratio of 141% (both best in our Saudi coverage universe)**
- Our 'outperform' rating on the stock was due to Riyad Bank's low NPL's and enhanced liquidity position (strong equity base and deposit growth vs. the sector) which it successfully used to lend into the market (loans and deposits grew by 10.5% and 19.2% in 2009, respectively). **While high provisioning levels in 2010 are expected, we hope the tapering off of loan growth in Q1 is not an indication of the bank closing down lending** and parking funds in low yielding investments like many of its peers (looks unlikely from Q1 results). The stock currently trades at 2010 PE 14.4x and P/B 1.7x. We maintain our 'Outperform' rating with a TP of SR 32.7 pending discussions on future strategy with management.

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Riyad Bank						
(SAR Millions)	1Q09	4Q09	1Q10E	1Q10A	qoq	yoy
Net Interest Income	1,112	1,061	1,169	1,012	-4.6%	-9.0%
Non-Interest Income	347	515	413	457	-11.3%	31.6%
Total Income	1,459	1,576	1,581	1,469	-6.8%	0.7%
Non-Interest Expense	(551)	(529)	(577)	(548)	3.7%	-0.4%
PLL & impairment Charges	(468)	(135)	(241)	(237)	75.3%	-49.4%
Net Income for Shareholders	441	912	763	684	-25.0%	55.1%
Investments	37,238	32,308	32,500	32,226	-0.3%	-13.5%
Net Loans and Advances	100,172	106,515	109,512	106,277	-0.2%	6.1%
Total Assets	167,217	176,399	180,000	174,288	-1.2%	4.2%
Customer Deposits	119,203	125,278	129,287	128,105	2.3%	7.5%
Loans/Deposits	84%	85%	85%	83%	-2.4%	-1.3%
Efficiency Ratio	-37.7%	-33.6%	-36%	-37%	11.2%	-1.1%

❖ Grey areas are estimates as detailed financials not available yet

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