

Forecast Update

Saudi British Bank

Rating: Market Perform

TP – SAR 50

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Saudi British Bank (SABB)

*Swift asset quality deterioration weighs on future lending –
Lowering forecasts, dropping TP and rating to SAR 50 and Market perform*

- SABB reported Q1 2010 net profit of SR 621m (-18% yoy), significantly higher than Q4 2009 which was marred by extremely high provisioning. **However, the bank is still suffering from a sharp rise in NPL's (from 0.25% at the end of 2008 to 4.5% at the end of 2009) and a low coverage ratio of 50% - both in need of repair.** In addition, loan volume growth has been flat to negative for the last 5 quarters.
- Negative trend on loan growth continued in Q1 with loans falling -0.9% after a 4.8% drop in 2009. The investment book also shrunk by 13.4% yoy to 22.4bn (19.5% of assets). **We reduce 2010 estimated loans and deposit growth to 6.2% and 9.0%, respectively.** We also lower our revenue estimates by 6% in 2010 to account for lower volume growth and potential margin compression.
- **Net Interest Income dropped by 12.6% yoy in Q1, primarily due to a 9.1% drop in asset base and also margin pressure as the yield on earning assets continued to drop to 3.45% from 4.1% in 2009.** Annualized NIM in Q1 was 2.95% vs. 3.1% in 2009. Non-interest income at 435mm in Q1 vs. quarterly average of SAR 431mm in 09 is stabilizing on recovery in the trading book and marginal improvement in the guarantee business
- While SABB cleaned up a lot of its book recognizing NPL's in 2009, it still had a sizeable SAR 3.2bn (4.1% of gross loans) in the past due but not impaired loans less than 90 days bucket. Most of these loans (SAR 2bn) were for commercial loans. A small migration of these into the NPL bucket along with SABB's low coverage ratio and CAR of 13.3% could require further write-downs at the minimum and require a capital injection at the extreme. **Bank NPLs of 4.5% (Dec 09) are the highest among Saudi peers and coverage ratio is the lowest at 50%. SABB will need to continue to build loan loss reserves and the bottom line could continue to be impacted.** We estimate additional loan loss provisions of SAR 1.3bn in 2010, compared to SAR 1.5bn in 2009.
- Stock trades on 2010E P/B of 2.0x and P/E of 14.6x (sector avg. of 1.9x and 13.3x, respectively). Stock is up 9% ytd, but we believe continued need to build up provisions in light of potential increase in NPL's together with a tight margin and restricted loan growth environment could act as an upside barrier to the stock price. Annualized ROE in Q1 was 14.4% vs. 16.5% in 2009. We revise our balance sheet and income forecasts for 2010-14 and **drop both our rating and TP to 'Market Perform' and SAR 50 (+5.4% upside).**

SABB (SAR Millions)	2010e			2011e		
	Old	New	Change	Old	New	Change
Net Special commission Income	3,567	3,315	-7%	3,776	3,653	-3%
Non-Interest Income	1,913	1,826	-5%	2,066	1,972	-5%
Total Income	5,480	5,141	-6%	5,842	5,625	-4%
Non-Interest Expense	(1,718)	(1,696)	-1%	(1,830)	(1,758)	-4%
Provisions for loan losses	(905)	(1,285)	42%	(679)	(1,099)	62%
Net Income for Shareholders	2,907	2,212	-24%	3,390	2,829	-17%
Investments	24,699	24,532	-1%	25,934	25,759	-1%
Net Loans and Advances	85,795	81,133	-5%	92,589	88,836	-4%
Total Assets	131,665	134,346	2%	141,791	145,838	3%
Customer Deposits	101,059	97,214	-4%	109,144	104,991	-4%
Loans/Deposits	85%	83%	-1%	85%	85%	0%
Efficiency Ratio	31.4%	33.0%	1.64%	31.3%	31.3%	-0.08%
NIM	3.1%	3.0%	-0.04%	3.0%	3.1%	0.08%
NPL	2.8%	4.8%	2%	2.3%	4.4%	2%
Coverage Ratio	66.4%	62.1%	-4%	84.5%	77.9%	-7%

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