



Earnings Update

SABB

ST Rating: Market Perform

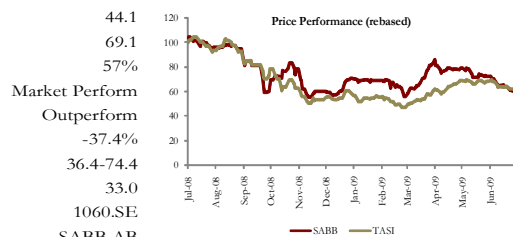
LT Rating: Outperform

Saudi British (SABB) - 2Q09 Results

- SABB reported 2Q09 net profit of SAR 676mm (-15.0% yoy, -11.0% qoq) vs. our expectation of SAR 650mm. **The bank saw healthy rise in interest income and especially in non-interest income (+20.6% qoq), to end with a 7.5% growth in total revenue qoq.** Coupled with Rajhi, this is the second major Saudi bank to have recognized healthy growth in non-interest income. SABB credited higher foreign exchange income and trade-related income streams which more than compensated for lower brokerage and asset management fees.
- SABB is also the first Saudi bank to break out provisions for loan losses from their non-interest expense number. Non-interest related expenses fell by SAR 18mm over the quarter, and together with healthy revenue growth has lowered the cost-efficiency ratio to 29%, its lowest level in the last 2 years. The bank did not recognize any impairment in financial assets, but continues to build up reserves for loan losses. **In Q209, SABB took approximately SAR 308mm in provisions (we expected SAR 171mm) vs. SAR 116mm in Q1, a rise of 165% over the quarter.** Considering the strong corporate profile of the bank in the Saudi market, exposures to troubled family conglomerates was probably the reasoning behind the high levels of reserves. NPL and coverage ratio at the end of 2008 at 0.24% and 325.0%, both the best in class.
- Deleveraging the balance sheet** – The loan book shrunk by SAR 0.6bn (-0.8% qoq), but the biggest shrinkage was in customer deposits which dropped by SAR 5.1bn (-5.3% qoq), raising the loans/deposit ratio just above the 85% statutory limit. At the end of 2008, SABB had the highest balance sheet leverage in our banks coverage universe in the GCC with Assets/Equity at 11.3x. This coupled with their lower than average capital adequacy ratio at the end of 2008 of 11.3%, caused us to caution against future growth prospects and a more conservative stance to balance sheet growth.
- While SABB faces some limits to growth in the balance sheet (both market related and self-inflicted), the bank has demonstrated a **tremendous ability to manage risk, maintain pricing power, and grow or stabilize its non-funded business lines.** The banks conservative risk management policies are displayed in low NPL's and the high provisioning levels. SABB currently trades at a 09E P/B of 1.8x, and we maintain our ST 'Market Perform' and LT 'Outperform' rating on the stock with a TP of 69.1 an upside of 57%.

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Current Price (SAR) 44.1
Target Price (SAR) 69.1
Upside/downside 57%
Short-Term Rating Market Perform
Long-Term Rating Outperform
12 Mo. Performance -37.4%
52-Week Range (SAR) 36.4-74.4
Market Cap. (SAR bn.) 33.0
RIC 1060.SE
Bloomberg SABB AB



SAR Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	818	881	894	9.2%	1.5%
Non-Interest Income	512	405	489	-4.5%	20.6%
Total Income	1,330	1,286	1,383	4.0%	7.5%
Non-Interest Expense	(433)	(417)	(399)	4.3%	0.0%
Provisions for loan losses	(110)	(116)	(308)	180.6%	165.1%
Impairment Charges	(44)	-	-	-	-
Net Income for Shareholders	795	760	676	-15.0%	-11.0%
Investments	30,124	25,879	24,425	-18.9%	-5.6%
Net Loans and Advances	77,541	79,310	78,700	1.5%	-0.8%
Total Assets	126,151	132,566	122,000	-3.3%	-8.0%
Customer Deposits	89,090	96,627	91,500	2.7%	-5.3%
Loans/Deposits	87%	82%	86%	-	-
Efficiency Ratio	-32.6%	-32.4%	-28.8%	-	-

* Al Mal estimate

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