



Results Review

SABB

ST Rating: Market Perform

LT Rating: Outperform

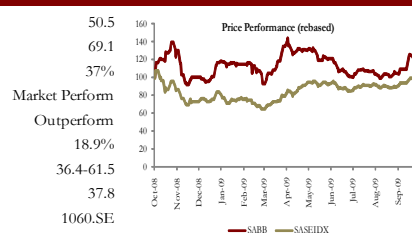
Saudi British (SABB) - 3Q09 Results

Higher provisioning and lower margins continue to be a drag

- SABB reported 3Q09 net profit of SAR 570mm (-19.8% yoy, -15.7% qoq) primarily due to continued build up of loan loss provisions. **While 9-month 2009 revenues were SAR 3.9b vs. SAR 3.7bn in 2008 (+7.4%), this did not translate to the bottom line, which dropped by 11.4% in 2009, due to high provisioning levels.** In addition, **net interest margins have dropped to 3.12% in '09** compared to 3.30% in 2008. Similar to Q2, SABB credited higher foreign exchange and trade-related income compensating for lower brokerage and mutual fund fee income resulting in the growth of the unfunded business in 2009 (+5.8%) compared to 2008.
- In the first three quarters of 2009, SABB has taken SAR 782mm in loan loss provisions vs. SAR 277mm in 2008, an increase of 182%.** SABB has only 24.5% of its loan book exposure to real estate and retail sectors, with the lion's share being made up of corporate exposure. NPL and coverage ratio at the end of 2008 were 0.24% and 325.0%, both the best in class. While we take comfort from the low NPL's and prudent reserves buildup, we hope for more clarity and information about specific exposures to the Saad and Gosaibi groups.
- Continued deleveraging of the balance sheet** – The loan book was flat qoq, but -1.8% ytd along with deposits which are down by SAR 7.7bn (-5.9% ytd). Consequently, the loans/deposit ratio has jumped to 88% from 82% and 86% in Q1 and Q2. The investment portfolio continues to be flattish and represents 19% of the asset base. With the investment portfolio contributing an average of 37.7% of pre-provisioning net income over the last 3 years, we would expect some trickle down affect of improving regional markets in the near future.
- The lower margins and sluggish loan growth along with aggressive build up in provisions will impact the bottom line going into the 4th quarter.** Our FY09 estimate for net income is SAR 3.3bn, a number unlikely to be hit considering net income through Q3 was SAR 2.0bn and we will revisit our estimates once full financials are made available. Due to the lack of clarity on corporate lending, SABB's stock has underperformed rising by 17.5% ytd compared to +32.6% for the index and +38.9% for the sector average. SABB currently trades at a 09E P/B of 2.1x and we maintain our ST 'Market Perform' and LT 'Outperform' rating on the stock with a TP of 69.1, an upside of 37%.

Equity Data

Current Price (SAR)	50.5
Target Price (SAR)	69.1
Upside/downside	37%
Short-Term Rating	Market Perform
Long-Term Rating	Outperform
12 Mo. Performance	18.9%
52-Week Range (SAR)	36.4-61.5
Market Cap. (SAR bn.)	37.8
RIC	1060.SE
Bloomberg	SABB AB



SAR Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Net Interest Income	755	894	854	13.0%	-4.5%
Non-Interest Income	422	489	450	6.6%	-7.9%
Total Income	1,178	1,383	1,304	10.7%	-5.7%
Non-Interest Expense	(396)	(399)	(401)	1.2%	0.5%
Provisions for loan losses	(92)	(314)	(351)	282.6%	11.7%
Net Income for Shareholders	711	676	570	-19.8%	-15.7%
Investments	35,994	24,425	24,100	-33.0%	-1.3%
Net Loans and Advances	83,578	78,718	78,800	-5.7%	0.1%
Total Assets	132,620	121,957	123,900	-6.6%	1.6%
Customer Deposits	95,735	91,536	89,200	-6.8%	-2.6%
Loans/Deposits	87%	86%	88%		
Efficiency Ratio	-33.7%	-28.9%	-30.8%		

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