



Earnings Update

Samba Financial

ST Rating: Outperform

LT Rating: Market Perform

Samba 2Q09 Results

- Samba Financial reported preliminary 2Q09 net profit of SAR 1,243mm (+1.6% yoy, -2.3% qoq) in line with our expectation of SAR 1,196mm. The core operations of the bank continue to perform well with net interest income flat on a qoq basis but a healthy +8.9% yoy. This is despite the fact that the loan book shrunk qoq, and is probably reflective of a combination of continued re-pricing of loans and also higher yields from foreign investments. We did overestimate on the non-interest income side of the equation as non-interest income shrunk to SAR 515 mm (lower by 24% qoq and yoy).
- We estimate non-interest related expenses at SAR 513mm (flat qoq), and this left us with an estimated provisions for loan losses of SAR 64mm, much lower than the SAR 203mm taken in Q109. **This is the second major Saudi bank to imply much lower provisions, and we believe the trend may continue as other banks report Q2 earnings.** However, as we cautioned in our previous note, the macro environment is still weak in the region, and the Saudi banking sector could be specially pressurized by concentrated exposures to family conglomerates. This may imply further stresses in the second half of the year.
- **Balance sheet right-sizing** - Loans in the quarter shrunk by SAR 1.7bn to reach an estimated SAR 88.4bn, a drop of 1.9% qoq. Considering the sector wide loans have shrunk by 1.3% in the first five months of the year, it is evident that Samba has been very conservative on this front even though customer deposits rose by SAR 14.4 bn, a gain of 11.7% qoq to reach SAR 138.7bn in Q2. Although some of the deposit growth has been invested in expanding the investment portfolio, the bulk of the deposits seem to have been parked in interbank or Central bank deposits. The loans/deposit ratio has eased to 64% from 73% in Q1.
- From the contraction in the loan book, it is evident that the bank continues to be conservative in its risk management practices. **The SAR 14.5bn growth in deposits is encouraging** and the bank is chasing some yields via its investment portfolios. We are concerned about the drop-off in provisions (estimated), in light of the predominantly corporate profile of the loan book and the recent news reports pointing to further stress on this sector. The stock has sold off and is down 19.4% ytd, with most of the correction coming in July (-18.2%). Considering the recent correction, the stock currently trades at a P/B of 1.9x vs. a peer average of 2.3x, we are **upgrading our ST rating to 'Outperform' while maintaining our LT rating at 'Market Perform'**.

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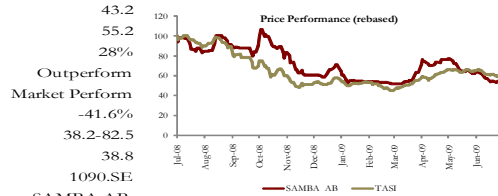
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Equity Data

Current Price (SAR)	43.2
Target Price (SAR)	55.2
Upside/downside	28%
Short-Term Rating	Outperform
Long-Term Rating	Market Perform
12 Mo. Performance	-41.6%
52-Week Range (SAR)	38.2-82.5
Market Cap. (SAR bn.)	38.8
RIC	1090.SE
Bloomberg	SAMBA AB



SAR Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	1,199	1,309	1,305	8.9%	-0.3%
Non-Interest Income	679	679	515	-24.2%	-24.1%
Total Income	1,878	1,988	1,820	-3.1%	-8.4%
Non-Interest Expense	(492)	(513)	(513) *	4.3%	0.0%
Provision for Loan Losses (PLL)	(38)	(203)	(63.9) *	68.8%	-68.5%
Net Income for Shareholders	1,224	1,272	1,243	1.6%	-2.3%
Adjusted EPS	1.36	1.41	1.38	1.6%	-2.3%
Investments	66,364	53,063	57,350	-13.6%	8.1%
Net Loans and Advances	96,363	90,106	88,400	-8.3%	-1.9%
Total Assets	183,641	168,339	177,100	-3.6%	5.2%
Customer Deposits	121,717	124,222	138,700	14.0%	11.7%
Loans/Deposits	79%	73%	64%		
Efficiency Ratio	-26.2%	-25.8%	-28.2%		

* Al Mal estimate

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