



Results Review

Samba Financial

ST Rating: Outperform

LT Rating: Market Perform

Samba 3Q09 Results

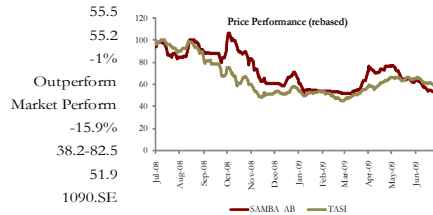
- Samba Financial reported preliminary 3Q09 net profit of SAR 1,211mm (+0.9% yoy, -2.6% qoq).** While interest income remained stable around the SAR 1.3bn mark (similar to last 5 quarters), quarterly non-interest income dropped by 10.5% to SAR 461mm, resulting in the quarterly drop in earnings. The bank continues to display the ability to expand margins, with annualized NIM for Q309 at 3.5% vs. 3.4% in '08 (the highest among conventional Saudi banks in our coverage universe)
- While SAMBA has not separated out provisions and non-interest expenses, we **estimate provisions for loan losses of SAR 61mm (down by 37% compared to Q2).** Assuming flat operating expenses, the cost-efficiency ratio is still the lowest in our Saudi coverage at 28% vs. a sector wide average of 33%. The macro environment has improved in the region due to some oil price stability but private sector growth is extremely muted in light of continued ambiguity over concentrated exposures to family conglomerates.
- Balance sheet deleveraging continues** - Loans continued their downward trend, dropping by another 1.9% after the drop of 2.4% in Q2. The loan book has now shrunk by SAR 12bn since the beginning of the year (a 12% drop) and at the same time deposits have grown by SAR 7.7bn (+6% gain). The divergent trajectories have resulted into a much improved (but underutilized) loans/deposit ratio of 61% vs. 73% at the end of 2008. Sector-wide loans and deposit growth has been 3.4% and 7.5% ytd. The investment portfolio continues to be wound down dropping by another 8.7% in the quarter and at 52.4bn is now 28.5% of total assets vs. a sector average of 23%. Our back of the envelope calculations highlight SAMBA's earnings as the most sensitive among Saudi banks to capital market improvements, as measured by investment income to pre-provisioning net income.
- While estimated provisions in Q3 seem to be low, SAMBA has displayed the ability to control costs, stabilize revenues, create a generous loan-deposit gap, and may enjoy a boost from investment portfolio performance relative to capital markets recovery. Stock trades on 2010E PE of 9.4x (vs 11x sector) and 1.8x 2010E PBV (vs 2.1x for sector). The stock has risen by 29% since we upgraded the ST rating to Outperform on July 14th vs. 19% for its Saudi peers. **We maintain our ST rating at 'Outperform' and LT rating at 'Market Perform'.**

Deepak Tolani
 T+971 4 360 11 52
 Deepak.tolani@almalcapital.com

Downtown Burj Dubai
 Emaar Square
 Building 4, Office 302
 Sheikh Zayed Road
 P. O. Box 119930, Dubai, UAE
 T +971 4 360 1111
 F +971 4 360 1122
 www.almalcapital.com

Equity Data

Current Price (SAR)	55.5
Target Price (SAR)	55.2
Upside/downside	-1%
Short-Term Rating	Outperform
Long-Term Rating	Market Perform
12 Mo. Performance	-15.9%
52-Week Range (SAR)	38.2-82.5
Market Cap. (SAR bn.)	51.9
RIC	1090.SE
Bloomberg	SAMBA AB



SAR Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Net Interest Income	1,261	1,304	1,294	2.0%	-0.8%
Non-Interest Income	476	515	461	-3.2%	-10.5%
Total Income	1,737	1,819	1,755	1.0%	-3.5%
Non-Interest Expense	(504)	(483)	(483) *	4.3%	0.0%
Provision for Loan Losses (PLL)	(33)	(97)	(61) *	68.8%	-68.5%
Net Income for Shareholders	1,200	1,243	1,211	0.9%	-2.6%
Adjusted EPS	1.33	1.38	1.35	0.9%	-2.5%
Investments	65,573	57,477	52,450	-20.0%	-8.7%
Net Loans and Advances	96,298	87,949	86,250	-10.4%	-1.9%
Total Assets	187,058	177,051	184,000	-1.6%	3.9%
Customer Deposits	124,947	138,173	142,000	13.6%	2.8%
Loans/Deposits	77%	64%	61%		
Efficiency Ratio	-29.0%	-26.6%	-27.5%		

* Al Mal estimate

**Al Mal Securities Group****Managing Director**

Robert McKinnon +971 4 360 11 17

Institutional Sales & Trading

Zahed Chowdhury, CFA +971 4 360 1172

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Jalal Faruki +971 4 360 11 03

Carlo Dalafu +971 4 360 11 04

All Desks Numbers +971 4 360 11 00**Al Mal Capital Research****Equity Research Analysts**

Irfan Ellam +971 4 360 11 53

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

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