



Results Review

SAMBA - 1Q 2010

Results reflect shift toward non-interest income as bank re-shuffles asset base

SAMBA

Rating: Market Perform

- **SAMBA reported 1Q 2010 net profit of SR 1.2bn** (+41% qoq, -5% yoy) in-line with our estimate. YOY revenues have been impacted by the downward trajectory in net-interest income (-10.5% yoy) and non-interest income (-1.4% yoy). However, non-interest income is showing signs of stability, recovering to SR 669 mm in Q1 (close to the quarterly highs seen in Q109). Non-interest income was particularly impressive on a qoq basis (+73.8%), but we await detailed financials to see if this was due to on-offs or due to higher trading volumes in Saudi coupled with gains in the investment book and foreign exchange trading income. Share trading and fund management alone made up 38% of the fee income in 2009 (vs. 18% at SABB and Riyad)
- **Asset base reshuffle** - The balance sheet is showing sharp signs of change, with the bank loading up on the investment book in lieu of lending. While the investment book grew by SR 16bn in Q1 alone to SR 71bn (now 38% of the asset base), the asset base remained flat. We believe most of the growth came in place of maturing low yielding reverse repos with SAMA. At the end of 2009, SAMBA was carrying SR 36bn in cash and balances with the central bank, including a sizeable SR 28.4bn in money market placements from reverse repos with SAMA.
- **As loan growth remains elusive** - Loan growth remains staid while deposits drop – Loan growth in Q1 was an anemic +1%, in-line with sector averages. However, the issue at Samba is deeper with loans shrinking by 14.3% in 2009 alone (highest in our coverage universe and compared to flat growth for the sector). Deposits too faced a sharp drop in Q1 (-6.9% qoq, equaling negative SR 10bn) pushing up the L/D ratio to 62% from 57% at the end of 2009.
- **Asset quality concerns abate, but not provisioning** - We believe provisioning charge for Q1 was higher than our estimates at SR 144mm (in-line with last year's average quarterly charge) even though the worst in asset quality seems behind them. NPL's of 3.3% at the end of 2009 with a decent coverage ratio of 116% and a relatively small 1% in delinquent loans >90 days
- **Samba is looking more like an investment holding firm rather than a commercial bank** with minimal qoq growth in loans (+1% qoq), a sizeable drop in deposits (SR 10bn, -7% qoq) and a sharp growth in the investment book (SR 16bn, +29% qoq). Non-interest income now represents 36% of the revenue base, vs. 25% for the sector. While we believe the change in composition of earning assets at the bank will impact margins and the bottom line in 2010, it also shows the bank as lowering its risk profile in uncertain times in the Saudi market. The stock currently trades at 2010e PE and P/B of 12.0x and 2.2x We maintain our 'Market Perform' rating.

Deepak Tolani, CFA

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, United Arab Emirates

T +971 4 360 1111

F +971 4 360 1122

www.almalcapital.com

Samba Financial						
(SAR Millions)	1Q09	4Q09	1Q10E	1Q10A	qoq	yoy
Net Interest Income	1,309	1,162	1,275	1,172	0.9%	-10.5%
Non-Interest Income	679	385	506	669	73.8%	-1.4%
Total Income	1,988	1,547	1,780	1,841	19.0%	-7.4%
Non-Interest Expense	(515)	(474)	(485)	(486)	2.6%	-5.5%
Provision for Loan Losses (PLI)	(203)	(228)	(96)	(144)	-36.8%	-29.1%
Net Income for Shareholders	1,272	856	1,199	1,211	41.5%	-4.8%
Investments	53,063	54,967	60,000	71,000	29.2%	33.8%
Net Loans and Advances	90,106	84,147	84,878	85,000	1.0%	-5.7%
Total Assets	168,339	185,510	187,000	186,000	0.3%	10.5%
Customer Deposits	124,222	147,129	149,483	137,000	-6.9%	10.3%
Loans/Deposits	73%	57%	57%	62%	8.5%	-14.5%
Efficiency Ratio	-26%	-31%	-27%	-26%	-13.8%	2.0%

❖ Grey areas are estimates as detailed financials not available yet



Al Mal Securities Group

Institutional Sales & Trading

Jalal Faruki	+971 4 360 11 03
Zahed Chowdhury, CFA	+971 4 360 11 09
Khamis Shinnawi	+971 4 360 11 10
Ashraf Abushakra	+971 4 369 66 01
Kamal Samarrai	+971 4 360 11 05
Carlo Dalafu	+971 4 360 11 04
<u>All Desks Number</u>	+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
Ghada Abdulkader	+971 4 360 11 47

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