CREDIT SUISSE

Arab National Bank (1080.SE)

Rating	**NEUTRAL [V]**
Price (03 Oct 08, SAR)	49.10
Target Price (SAR)	65.11[1]
Market cap. (SAR m)	31,915.00
Enterprise value (SAR m)	31,915.0

**Stock ratings are relative to the relevant country index.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

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EARNINGS

First take on 3Q, 2008 results

- **Event:** Arab National Bank (ANB) reported its results for the first nine months of 2008 with net income of SAR 2.05 billion, up 3.9% y-o-y. The total operating income grew by 7% y-o-y to SAR 3.27 billion, while total operating expenses grew by 11.4% to SAR 1.2 billion. Customer loans and deposit balances grew by 29% y-o-y and 34% y-o-y respectively. Q3 net income grew by 3.3% y-o-y to SAR628 million. Full financial statements have yet to be published.
- **View:** The nine month earnings missed our estimates by 4.5% probably due to a slow down in net interest margins, which would have been impacted by the recent rate cuts. We expect this trend to continue as in our estimates, the share of corporate lending will increase from c.45% of the bank's loan portfolio in 2007, to c.56% by 2010. Customer loans grew by more than 6% q-o-q, which is an encouraging sign.
- **Investment thesis:** Arab Bank, one of the largest banks in the Arab world, has a 40% stake in ANB providing strong regional support. 1) The bank is transforming its retail branches into universal branches and investing in infrastructure for scaling the delivery platform. 2) Partnerships with leading real estate and insurance companies to participate in the 'sunrise' and under-penetrated sectors of mortgages and insurance put it in a potentially strong position to exploit new sectors. 3) The capital investment would place pressure on the cost efficiency in the near term before the benefits of sector growth could be realised.
- **Valuation:** Our TP is based on a dividend discount model with a cost of equity of 10.7%. The terminal value beyond 2017E is determined as the present value of a 1.93x 2017E book value. We expect a fall in special commission income growth to 11.1% against sector average growth of 16.6% and believe our Neutral rating is justified on slowing growth expectations. The stock is trading at a P/B 08E of 2.42x versus the sector average of 3.24x. We keenly await the pace of developments in mortgages and insurance sector to examine the likely impact on ANB's prospects.

	Result	CS est	% chg res/est	Last Yr	% chg yoy
Total Operating Income (SAR b)	3.27	3.35	-2.0%	3.07	7%
Total Operating Costs (SAR b)	1.23	1.19	2.5%	1.10	11.4%
Net Income (SAR b)	2.05	2.15	-4.5%	1.98	3.9%
Reported EPS (SAR)	3.16	3.31	-4.5%	3.04	3.9%

Source: Company data, Credit Suisse estimates.

Companies Mentioned *(Price as of 03 Oct 08)*
Arab National Bank (1080.SE, SRlsr49.10, NEUTRAL [V], TP SRlsr65.11)

Disclosure Appendix

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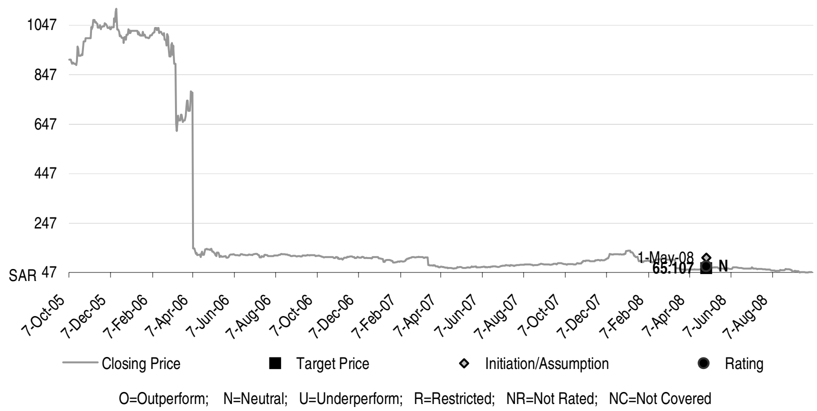
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for 1080.SE

1080.SE Date	Closing Price (SAR)	Target Price (SAR)	Rating	Initiation/ Assumption
01-May-08	71.75	65.107	N	X



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Restricted	2%	

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Price Target: (12 months) for (1080.SE)
Method: Derived from discounting free cash flows to equity at 10.7%
Risks: Geopolitical Risk, Credit Crunch, Subprime Contagion, Irrational expectations, Deterioration in macroeconomic environment

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