BANK ALBILAD

3Q2009 Results - Earnings Plunge

20 OCTOBER 2009

SAUDI ARABIA | BANKING

Short-Term Rec.: Reduce	Current Price*: SAR 20.60
Long-Term Rec. : Reduce	LT Fair Value : SAR 17.50

• **3Q2009 Earnings Nosedive:** Bank Albilad's 3Q2009 earnings plunged 95.7% Y-o-Y and 92.8% Q-o-Q to SAR1.9 million (EPS: SAR0.01). Earnings were significantly below our estimate of SAR25 million, which in our view is likely to have been driven by higher provisioning charges in 3Q2009.

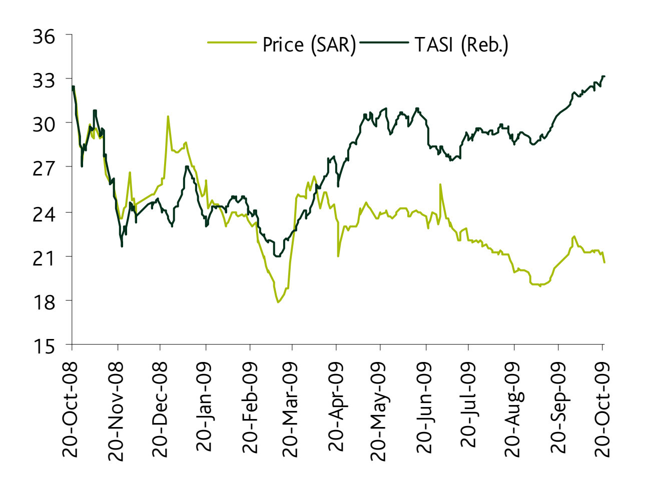
• **Credit Provisions Drive Earnings Decline:** Although detailed financials have not been released, we estimate that 3Q2009 earnings have been hit by a significant jump in credit provisions. Assuming stable credit costs Q-o-Q, we estimate that credit provisions increased by almost 68.8% Q-o-Q to SAR40 million, double our forecasted SAR20 million. We have previously highlighted our concerns about the impact of the slow economic environment on Albilad's asset quality, which is undergoing seasoning for the first time since the bank began commercial operations in 2006. At the end of 2008 Albilad's NPL coverage was at 90.9%, which is low compared to peers, and the provisioning increase might be due to management's plan to improve NPL coverage. We await the release of detailed financials to determine the source of these provisions, i.e, corporate or consumer loan book.

• **Revenues Fall Q-o-Q on Lower Other Operating Income:** Total banking income declined by 3.5% Q-o-Q to SAR231 million, which is in line with our estimate of SAR225 million. The weakness in revenues was primarily driven by lower other operating revenue, which fell by 14.7% Q-o-Q to SAR86 million, probably on account of lower fee and commission income. As expected, net investment income improved slightly, rising 4.6% Q-o-Q to SAR145 million, driven we believe by an improvement in net investment spreads as the bank continues to focus on reducing its funding costs.

• **Balance Sheet Growth Momentum Slows:** After continuing to grow aggressively in 1H2009, balance sheet growth decelerated sharply in 3Q2009. Net loans grew by only 2.8% Q-o-Q to SAR10.6 billion, which is significantly lower than the average growth of 10% Q-o-Q in the first two quarters of the year. The bank has also used the slowing loan growth environment to shed customer deposits, which declined by 4.5% Q-o-Q to SAR12.1 billion. We think it likely that the bank has shed its high cost term deposits, which has reflected positively in the bank's net investment spreads.

• **Maintaining Rating:** We maintain our ST/LT Reduce rating on Albilad, as valuations look expensive in our opinion. The increase in provisions, while anticipated in a slowing economic environment, is higher than expected. We will review our earning estimates for Albilad once detailed accounts are released.

FLASH NOTE



	2009e	2010e	2011e
EPS	0.28	0.52	0.92
P/E* (x)	73.5	39.3	22.3
DPS	N/A	N/A	0.20
Div Yield*	N/A	N/A	1.0%
BVPS	10.89	11.41	12.18
P/BV* (x)	1.9	1.8	1.7

Figures in SAR unless otherwise stated

Stock Data

Last Dividend Date	N/A
Mkt. Val. / Shares (mn)	SAR6,180 / 300
Av. Mthly Liqd. (mn)	SAR266.2
52-Week High / Low	SAR32.40 / 17.85
Bloomberg / Reuters	ALBI AB / 1140.SE
Est. Free Float	56.40%

Prices as of 20 October 2009

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Figure 1: Bank Albilad - 3Q2009 Preliminary Results
In SAR million, unless otherwise stated

	3Q2008a	2Q2009a	3Q2009a/e	Y-o-Y	Q-o-Q	3Q2009e	Variance
Income Statement							
Net Investment Income	135	138	145	7.2%	4.6%	142	2.0%
Other Operating Income*	83	101	86	3.5%	-14.7%	83	3.3%
Total Income	218	239	231	5.8%	-3.5%	225	2.4%
Operating Expenses*	170	189	189	11.2%	-0.1%	180	5.0%
Pre-Provision Profits	48	50	42	-13.5%	-16.7%	45	-7.8%
Credit & Investment Provisions*	3	23	40	1089.5%	68.8%	20	98.0%
Net Profit	45	26	2	-95.7%	-92.8%	25	-92.4%
EPS (SAR)	0.15	0.09	0.01				
Balance Sheet							
Net Investments	1,323	1,474	1,489	12.5%	1.0%	1,518	-2.9%
Net Loans	7,445	10,282	10,565	41.9%	2.8%	10,693	-3.8%
Total Assets	15,341	16,410	17,018	10.9%	3.7%	17,132	-4.2%
Customer Deposits	11,176	12,713	12,136	8.6%	-4.5%	12,903	-1.5%

*3Q2009 numbers are estimated using headline numbers announced by the bank
Source: Bank Announcement, EFG-Hermes estimates

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