Saudi Banks

Research Analysts
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DOWNGRADE RATING

Downgrade ratings on full valuations

- **Event:** We downgrade our ratings of five Saudi banks solely on the back of strong share price performance and full valuations.
- **Share price performance**: The sector has re-rated by 33% in the last three months with most of the names now trading through our TPs.
- **Demanding Valuations:** Saudi banks are now trading at 2.4x book value, while yielding 19.3% ROE. While we remain comfortable on the fundamentals of the sector (in terms of lowly geared and resilient economy supported by increasing fiscal budget, highly capitalized banking sector with superior asset quality vis-à-vis its regional peers), we think current valuation is full, and could only be justified with higher than our estimated balance sheet growth (three year CAGR of c9% in our estimates). We therefore await signals of faster growth in order to turn bullish again.
- **New Ratings: We cut Al Rajhi Bank, Saudi British Bank and Saudi Hollandi Bank to Neutral (from Outperform), and Arab National Bank to Underperform (from Neutral) and maintain Neutral rating for Riyad Bank and Underperform rating for Banque Saudi Fransi. We keep our TPs and EPS estimates unchanged.**

Figure 1: **New Ratings and valuation multiples of Saudi banks (priced as of**

	Current Price	TP	Upside potential	New Rating	Old Rating	PB 09E	ROE 09E	PE 09E
Rajhi	71.5	72.7	1.60%	Neutral	Outperform	3.49	25.10%	14.82
SABB	56.25	54.6	-3.00%	Neutral	Outperform	3.27	24.70%	13.94
SHB	44.1	40.6	-8.00%	Neutral	Outperform	2.39	17.50%	14.09
Samba	59.5	59.4	-0.10%	Neutral	Neutral	2.18	19.40%	12.49
Riyad	25.3	26.6	5.20%	Neutral	Neutral	1.31	11.10%	12.49
BSF	47.5	40.1	-15.70%	Underperform	Underperform	2.31	19.10%	12.44
ARNB	51	38.9	-23.70%	Underperform	Neutral	2.11	18.40%	12.67
Average						**2.44**	**19.30%**	**13.28**

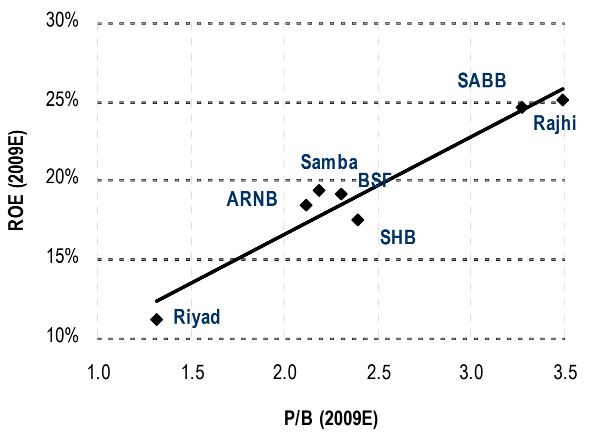
Source: Company data, Credit Suisse estimates

Figure 2: Saudi Banks: Valuation & Rating changes

	Current Price	TP	Upside potential	New Rating	Old Rating	P/B 2008	P/B 2009E	P/B 2010E	ROE 2009E	ROE 2010E	P/E 2008	P/E 2009E	P/E 2010E	EPS growth 2009E	EPS growth 2010E
Rajhi	71.50	72.66	1.6%	Neutral	Outperform	3.97	3.49	3.05	25.1%	25.6%	16.44	14.82	12.73	10.9%	16.4%
SABB	56.25	54.57	-3.0%	Neutral	Outperform	3.63	3.27	2.91	24.7%	25.8%	14.45	13.94	11.94	3.7%	16.8%
SHB	44.10	40.59	-8.0%	Neutral	Outperform	2.55	2.39	2.19	17.5%	17.0%	11.92	14.09	13.42	-15.4%	5.0%
Samba	59.50	59.41	-0.1%	Neutral	Neutral	2.67	2.18	1.88	19.4%	21.1%	12.02	12.49	9.62	-3.7%	29.9%
Riyad	25.30	26.61	5.2%	Neutral	Neutral	1.28	1.31	1.26	11.1%	11.7%	12.46	12.49	11.03	-0.2%	13.3%
BSF	47.50	40.05	-15.7%	Underperform	Underperform	2.45	2.31	2.01	19.1%	20.3%	12.24	12.44	10.60	-1.6%	17.4%
ARNB	51.00	38.91	-23.7%	Underperform	Neutral	2.62	2.11	1.80	18.4%	16.2%	13.33	12.67	12.01	5.2%	5.5%
Average						**2.74**	**2.44**	**2.15**	**19.3%**	**19.7%**	**13.27**	**13.28**	**11.62**	**-0.2%**	**14.9%**

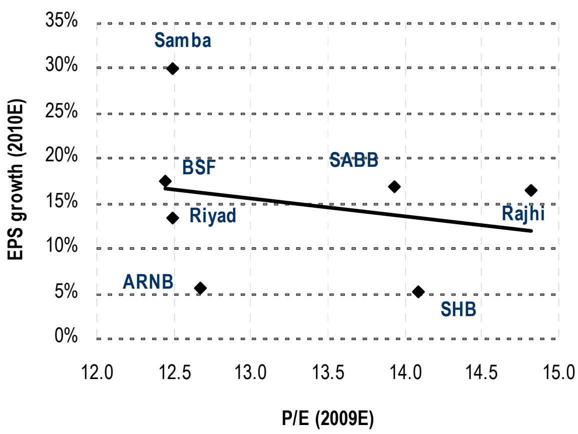
Source: Company data, © 2008 Reuters Limited, Credit Suisse estimates

Figure 3: Saudi Banks: ROE (2009E) vs P/B (2009E)



Source: © 2008 Reuters Limited, Credit Suisse estimates

Figure 4: Saudi Banks: EPS Growth (2010E) vs P/E(2009E)



Source: © 2008 Reuters Limited, Credit Suisse estimates

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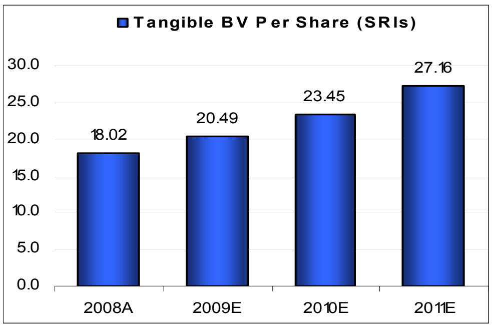
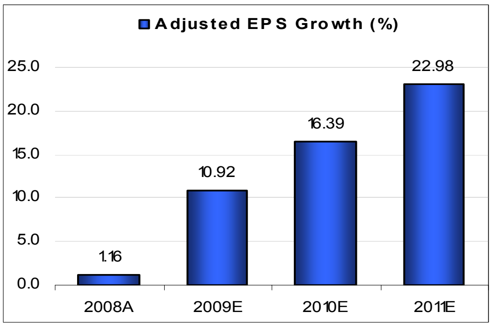
Al Rajhi Bank 1120.SE

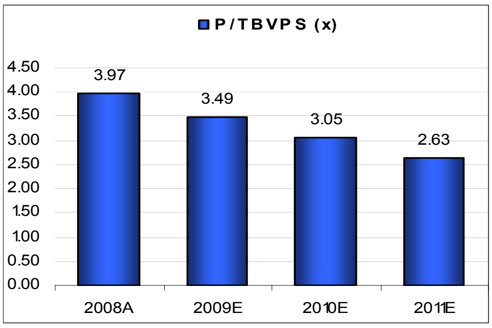
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	(from OUTPERFORM) NEUTRAL
Price (SRls) (13 May 09)	71.5
Price High - Low	93 - 42
Target Price (SRls)	72.66
Upside/Downside TP (%)	1.6
Number of Shares (m)	1,500
Total Market Cap (SRls m)	107,250



Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	10,575	11,227	12,700	14,999
Adjusted Net Income (SRls m)	6,525	7,237	8,423	10,359
Stated Net Income (SRls m)	6,525	7,237	8,423	10,359
Reported Book Value (SRls m)	27,032	30,732	35,181	40,747
Tangible Book value (SRls m)	27,032	30,732	35,181	40,747
Stated EPS (SAR)	4.35	4.82	5.62	6.91
Adjusted EPS (SAR)	4.35	4.82	5.62	6.91
Tangible BV Per Share (SRls)	18.02	20.49	23.45	27.16



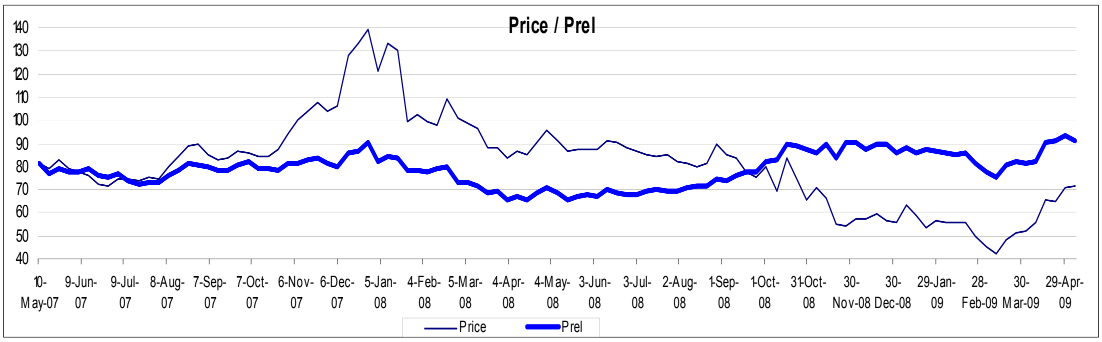
Key Ratios				
P/E (adj., x)	16.44	14.82	12.73	10.35
P/TBVPS (x)	3.97	3.49	3.05	2.63
P/BVPS (adj., x)	3.97	3.49	3.05	2.63
Dividend Yield (%)	2.97	3.37	3.93	4.83
Tangible ROE (%)	25.77	25.06	25.56	27.29
Dividend Per Share (SRls)	2.12	2.41	2.81	3.45
Cost/Income (%)	26.25	27.42	26.43	24.53
Core Tier 1 Ratio (%)	14.52	19.25	19.76	20.68
Tier 1 Ratio (%)	14.52	19.25	19.76	20.68



Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	11.7	28.3	-17.3
Relative (%)	-1.9	2.9	33.3

Company Description

Al-Rajhi Bank is the world's largest pure Islamic bank with the largest branch network in Saudi Arabia



Source: Company data Credit Suisse estimates, IBES consensus

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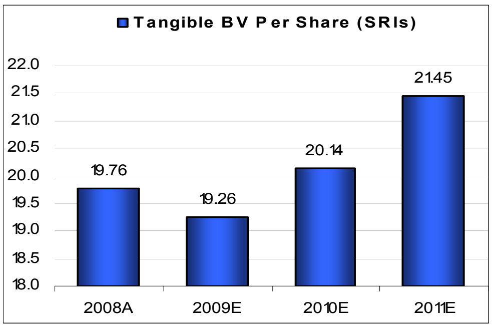
Riyad Bank 1010.SE

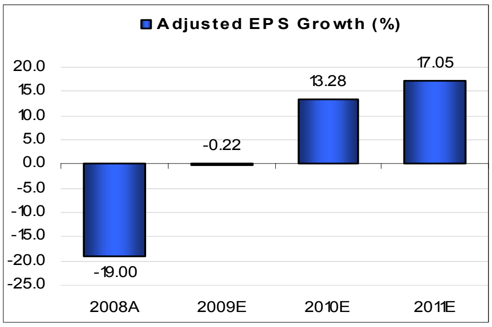
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	NEUTRAL
Price (SRls) (13 May 09)	25.3
Price High - Low	47 - 19
Target Price (SRls)	26.61
Upside/Downside TP (%)	5.2
Number of Shares (m)	1,500
Total Market Cap (SRls m)	37,950

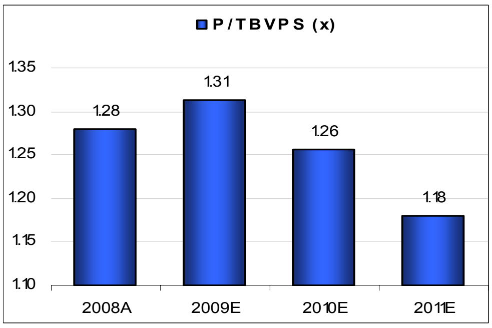
Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	5,248	6,202	6,736	7,572
Adjusted Net Income (SRls m)	2,639	3,039	3,442	4,029
Stated Net Income (SRls m)	2,813	3,039	3,442	4,029
Reported Book Value (SRls m)	25,690	28,897	30,212	32,176
Tangible Book value (SRls m)	25,690	28,897	30,212	32,176
Stated EPS (SAR)	2.03	2.03	2.29	2.69
Adjusted EPS (SAR)	2.03	2.03	2.29	2.69
Tangible BV Per Share (SRls)	19.76	19.26	20.14	21.45

Key Ratios				
P/E (adj., x)	12.46	12.49	11.03	9.42
P/TBVPS (x)	1.28	1.31	1.26	1.18
P/BVPS (adj., x)	1.28	1.31	1.26	1.18
Dividend Yield (%)	6.39	5.60	5.44	6.37
Tangible ROE (%)	14.47	11.13	11.65	12.92
Dividend Per Share (SRls)	1.62	1.42	1.38	1.61
Cost/Income (%)	43.07	35.46	35.38	34.70
Core Tier 1 Ratio (%)	13.90	25.91	25.22	24.94
Tier 1 Ratio (%)	13.90	25.91	25.22	24.94

Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	-2.7	26.2	-45.6
Relative (%)	-14.5	1.2	-12.2

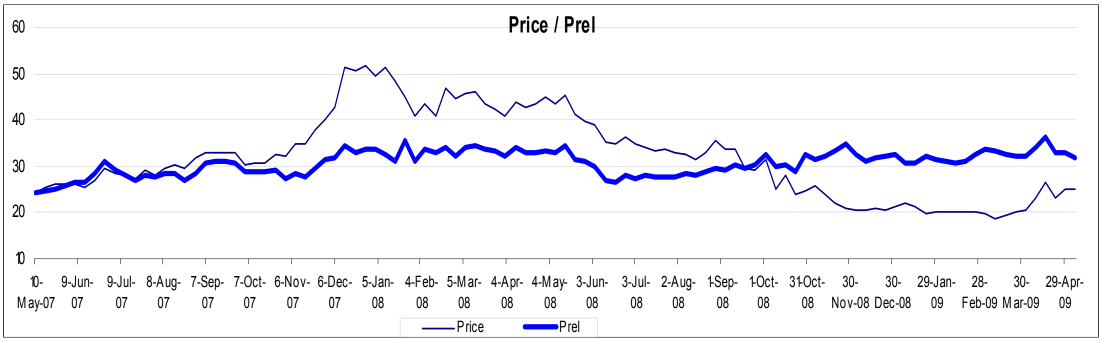






Company Description

Riyad bank is a predominantly retail bank with a large government ownership stake (51.3%). It has the third largest branch network.



Source: Company data Credit Suisse estimates, IBES consensus

CREDIT SUISSE

15 May 2009

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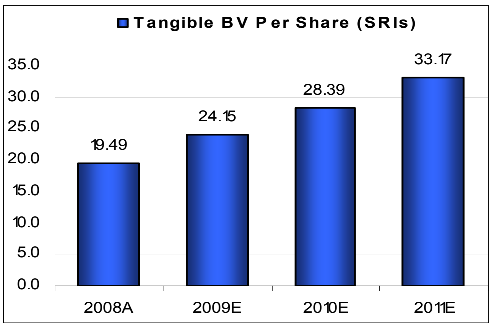
Arab National Bank 1080.SE

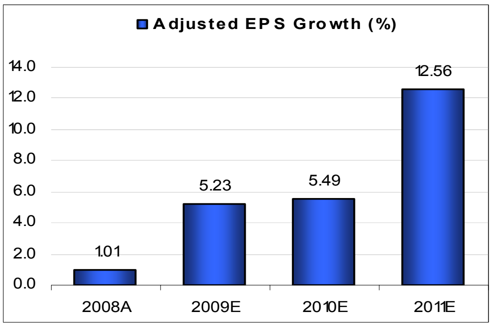
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	(from NEUTRAL) UNDERPERFORM
Price (SRls) (13 May 09)	51.0
Price High - Low	69 - 26
Target Price (SRls)	38.90
Upside/Downside TP (%)	-23.7
Number of Shares (m)	650
Total Market Cap (SRls m)	33,150

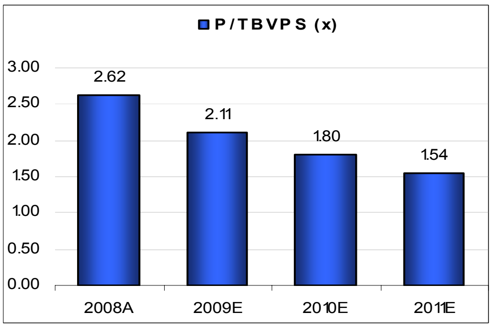
Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	4,135	4,732	5,438	6,152
Adjusted Net Income (SRls m)	2,486	2,616	2,760	3,106
Stated Net Income (SRls m)	2,486	2,616	2,760	3,106
Reported Book Value (SRls m)	12,671	15,695	18,455	21,561
Tangible Book value (SRls m)	12,671	15,695	18,455	21,561
Stated EPS (SAR)	3.82	4.02	4.25	4.78
Adjusted EPS (SAR)	3.82	4.02	4.25	4.78
Tangible BV Per Share (SRls)	19.49	24.15	28.39	33.17

Key Ratios				
P/E (adj., x)	13.33	12.67	12.01	10.67
P/TBVPS (x)	2.62	2.11	1.80	1.54
P/BVPS (adj., x)	2.62	2.11	1.80	1.54
Dividend Yield (%)	1.96	0.00	0.00	0.00
Tangible ROE (%)	21.44	18.44	16.16	15.52
Dividend Per Share (SRls)	1.00	0.00	0.00	0.00
Cost/Income (%)	38.25	37.10	36.26	36.90
Core Tier 1 Ratio (%)	11.93	17.31	18.63	20.04
Tier 1 Ratio (%)	11.93	17.31	18.63	20.04

Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	22.9	74.7	-25.8
Relative (%)	7.9	40.1	19.6

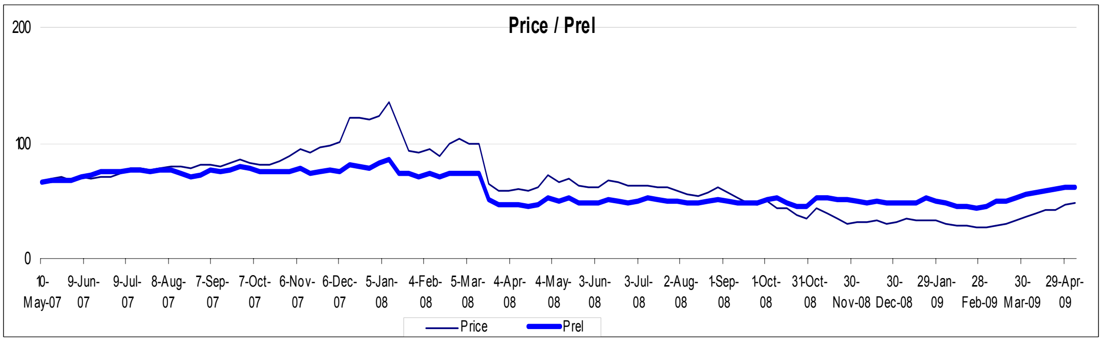






Company Description

ANB is owned 40% by Arab bank (based in Jordan). ANB commenced business in 1980 by taking over the operations of Arab National Bank Ltd. in Saudi Arabia. The bank has a strong retail and corporate franchise and is venturing into mortgages.



Source: Company data Credit Suisse estimates, IBES consensus

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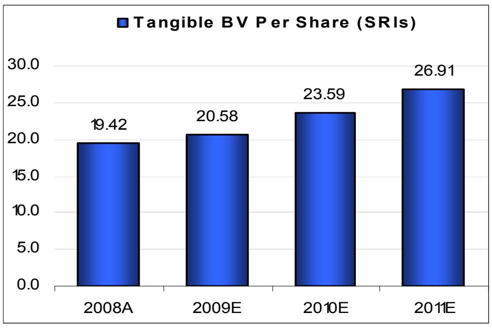
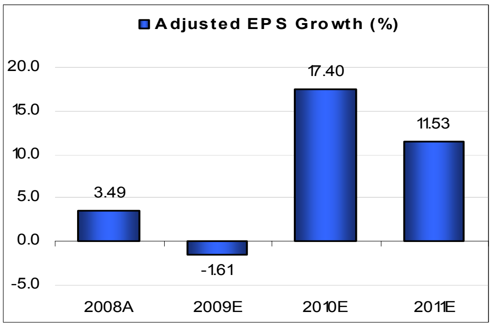
Banque Saudi Fransi 1050.SE

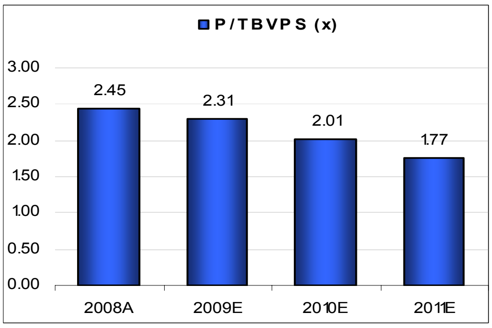
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	UNDERPERFORM
Price (SRls) (13 May 09)	47.5
Price High - Low	76 - 33
Target Price (SRls)	40.05
Upside/Downside TP (%)	-15.7
Number of Shares (m)	723
Total Market Cap (SRls m)	34,353



Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	4,392	4,503	5,039	5,787
Adjusted Net Income (SRls m)	2,806	2,761	3,241	3,614
Stated Net Income (SRls m)	2,791	2,761	3,241	3,614
Reported Book Value (SRls m)	14,047	14,884	17,057	19,459
Tangible Book value (SRls m)	14,047	14,884	17,057	19,459
Stated EPS (SAR)	4.99	3.82	4.48	5.00
Adjusted EPS (SAR)	3.88	3.82	4.48	5.00
Tangible BV Per Share (SRls)	19.42	20.58	23.59	26.91



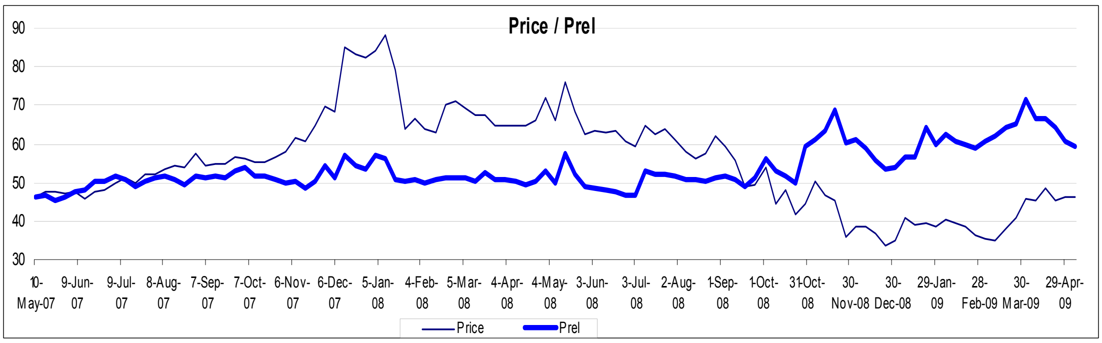
Key Ratios				
P/E (adj., x)	12.24	12.44	10.60	9.50
P/TBVPS (x)	2.45	2.31	2.01	1.77
P/BVPS (adj., x)	2.45	2.31	2.01	1.77
Dividend Yield (%)	2.26	2.81	3.30	3.68
Tangible ROE (%)	22.19	19.08	20.29	19.80
Dividend Per Share (SRls)	1.07	1.34	1.57	1.75
Cost/Income (%)	24.95	25.35	25.63	26.19
Core Tier 1 Ratio (%)	15.92	15.70	16.37	17.13
Tier 1 Ratio (%)	15.92	15.70	16.37	17.13



Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	0.6	20.9	-35.7
Relative (%)	-11.6	-3.0	3.7

Company Description

BSF is one of the leading corporate banks of Saudi Arabia. It is affiliated with Calyon, a fully fledged member of the Credit Agricole Group, which holds an equity interest of 31% in the bank.



Source: Company data Credit Suisse estimates, IBES consensus

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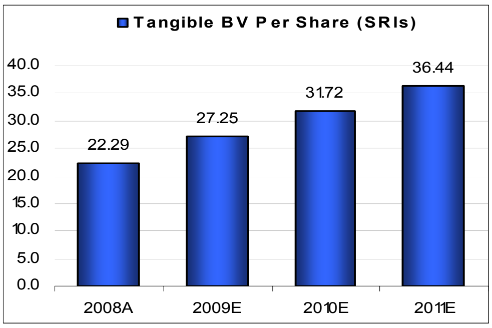
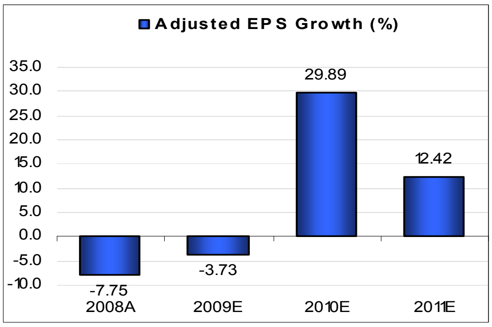
Samba Financial Group 1090.SE

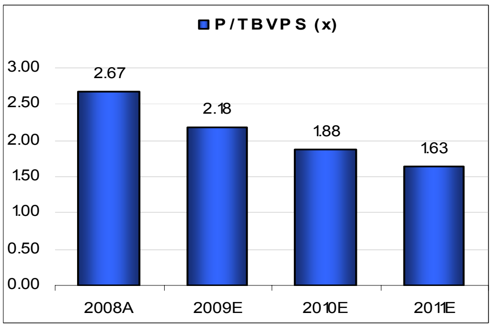
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	NEUTRAL
Price (SRls) (13 May 09)	59.5
Price High - Low	97 - 39
Target Price (SRls)	59.41
Upside/Downside TP (%)	-0.1
Number of Shares (m)	900
Total Market Cap (SRls m)	53,550



Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	7,012	7,694	8,583	9,631
Adjusted Net Income (SRls m)	4,454	4,288	5,569	6,261
Stated Net Income (SRls m)	4,432	4,288	5,569	6,261
Reported Book Value (SRls m)	19,846	24,398	28,419	32,670
Tangible Book value (SRls m)	19,846	24,398	28,419	32,670
Stated EPS (SAR)	4.95	4.76	6.19	6.96
Adjusted EPS (SAR)	4.95	4.76	6.19	6.96
Tangible BV Per Share (SRls)	22.29	27.25	31.72	36.44



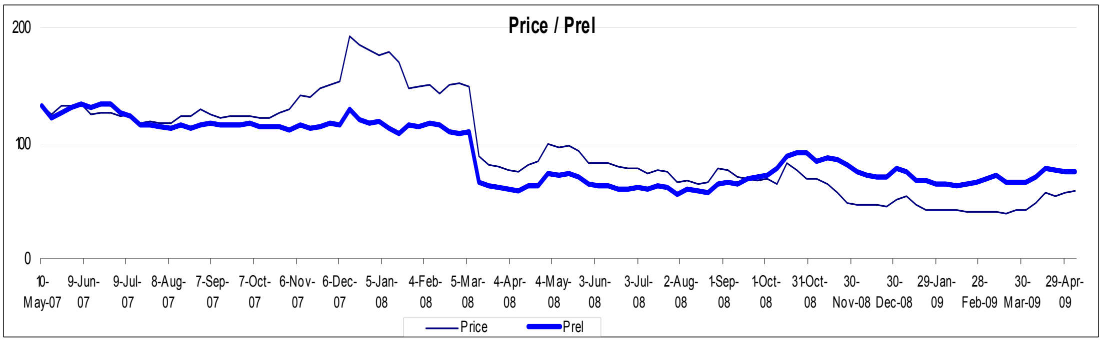
Key Ratios				
P/E (adj., x)	12.02	12.49	9.62	8.55
P/TBVPS (x)	2.67	2.18	1.88	1.63
P/BVPS (adj., x)	2.67	2.18	1.88	1.63
Dividend Yield (%)	3.00	2.89	3.75	4.22
Tangible ROE (%)	23.42	19.4	21.1	20.41
Dividend Per Share (SRls)	1.79	1.72	2.23	2.51
Cost/Income (%)	30.11	27.82	26.48	26.36
Core Tier 1 Ratio (%)	13.09	17.45	19.27	20.39
Tier 1 Ratio (%)	13.09	17.45	19.27	20.39



Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	7.7	43.4	-38.5
Relative (%)	-5.4	15.0	-0.8

Company Description

We view Samba as one of the largest corporate banks with attractive corporate positioning. The bank provides both conventional and Shariah-compliant banking products.



Source: Company data Credit Suisse estimates, IBES consensus

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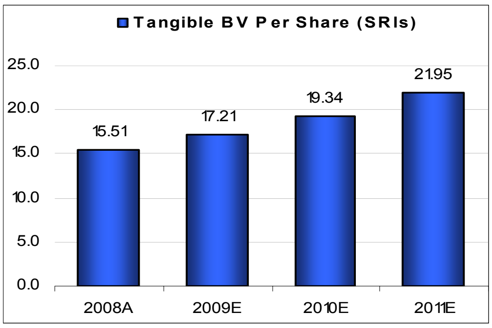
The Saudi British Bank 1060.SE

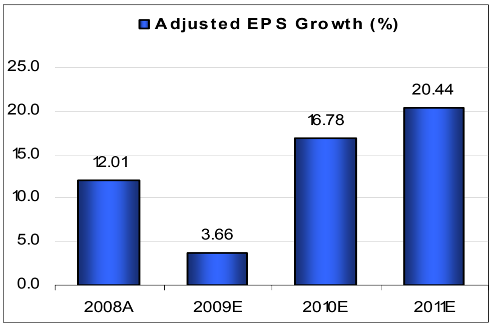
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	(from OUTPERFORM) NEUTRAL
Price (SRls) (13 May 09)	56.3
Price High - Low	105 - 40
Target Price (SRls)	(from 54.57) 54.57
Upside/Downside TP (%)	-3.0
Number of Shares (m)	750
Total Market Cap (SRls m)	42,188

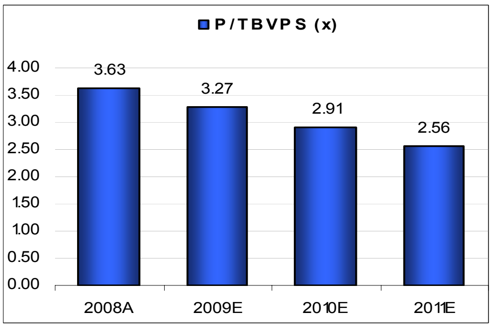
Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	4,912	5,732	6,592	7,405
Adjusted Net Income (SRls m)	2,920	3,027	3,535	4,257
Stated Net Income (SRls m)	2,920	3,027	3,535	4,257
Reported Book Value (SRls m)	11,634	12,910	14,505	16,465
Tangible Book value (SRls m)	11,634	12,910	14,505	16,465
Stated EPS (SAR)	3.89	4.04	4.71	5.68
Adjusted EPS (SAR)	3.89	4.04	4.71	5.68
Tangible BV Per Share (SRls)	15.51	17.21	19.34	21.95

Key Ratios				
P/E (adj., x)	14.45	13.94	11.94	9.91
P/TBVPS (x)	3.63	3.27	2.91	2.56
P/BVPS (adj., x)	3.63	3.27	2.91	2.56
Dividend Yield (%)	1.56	4.30	5.03	6.05
Tangible ROE (%)	26.47	24.66	25.79	27.49
Dividend Per Share (SRls)	0.88	2.42	2.83	3.41
Cost/Income (%)	33.42	32.75	33.35	34.22
Core Tier 1 Ratio (%)	8.29	11.07	11.32	12.00
Tier 1 Ratio (%)	8.29	11.07	11.32	12.00

Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	-5.5	-7.8	-46.2
Relative (%)	-17.0	-26.0	-13.2

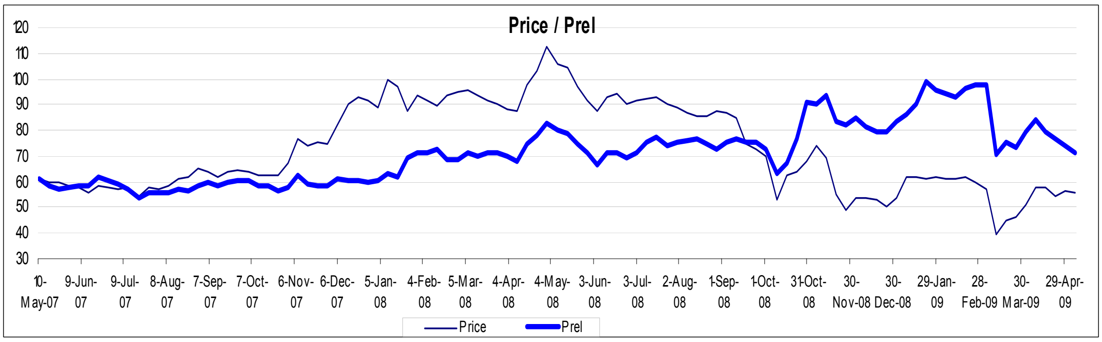






Company Description

SABB is one of the large Saudi commercial banks. It benefits from the systems and expertise of the HSBC Group, which holds a 40% stake in the bank. HSBC Group assists the bank with both technological expertise and management.



Source: Company data Credit Suisse estimates, IBES consensus

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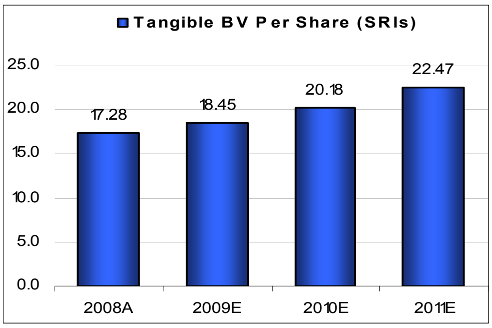
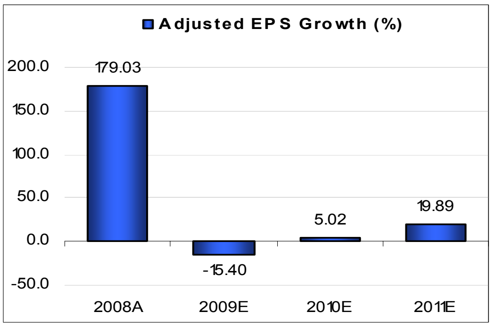
Saudi Hollandi Bank 1040.SE

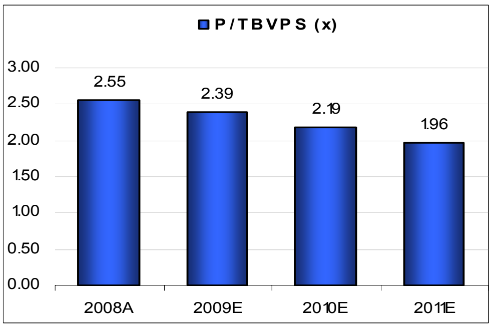
Coverage Universe	Emerging Markets
Universe Weight	-
Rating	(from OUTPERFORM) NEUTRAL
Price (SRls) (13 May 09)	44.1
Price High - Low	51 - 29
Target Price (SRls)	(from 40.59) 40.58
Upside/Downside TP (%)	-8.0
Number of Shares (m)	331
Total Market Cap (SRls m)	14,586



Key Financials	**12/08A**	**12/09E**	**12/10E**	**12/11E**
Operating Profit (SRls m)	2,111	2,367	2,684	3,055
Adjusted Net Income (SRls m)	1,224	1,035	1,087	1,303
Stated Net Income (SRls m)	1,224	1,035	1,087	1,303
Reported Book Value (SRls m)	5,715	6,103	6,673	7,433
Tangible Book value (SRls m)	5,715	6,103	6,673	7,433
Stated EPS (SAR)	3.70	3.13	3.29	3.94
Adjusted EPS (SAR)	3.70	3.13	3.29	3.94
Tangible BV Per Share (SRls)	17.28	18.45	20.18	22.47



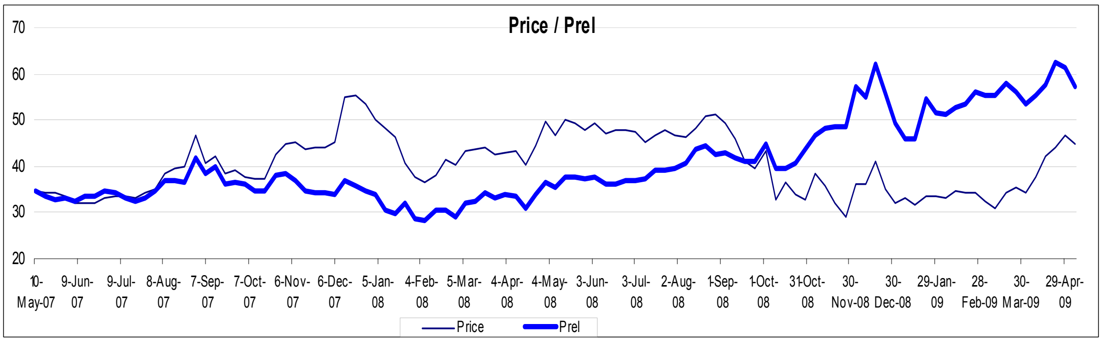
Key Ratios				
P/E (adj., x)	11.92	14.09	13.42	11.19
P/TBVPS (x)	2.55	2.39	2.19	1.96
P/BVPS (adj., x)	2.55	2.39	2.19	1.96
Dividend Yield (%)	1.60	3.55	3.73	4.47
Tangible ROE (%)	23.85	17.52	17.02	18.48
Dividend Per Share (SRls)	0.71	1.57	1.64	1.97
Cost/Income (%)	40.83	38.32	37.75	37.12
Core Tier 1 Ratio (%)	9.95	12.95	12.43	12.84
Tier 1 Ratio (%)	9.95	12.95	12.43	12.84



Performance over	**1mth**	**3mths**	**12mths**
Absolute (%)	5.5	27.9	-11.1
Relative (%)	-7.3	2.6	43.4

Company Description

Saudi Hollandi Bank (SHB), the oldest bank in Saudi Arabia provides a comprehensive range of banking services, including conventional and Shariah-compliant services.



Source: Company data Credit Suisse estimates, IBES consensus

Companies Mentioned *(Price as of 13 May 09)*
Al Rajhi Bank (1120.SE, SRls71.50, NEUTRAL [V], TP SRls72.66)
Arab National Bank (1080.SE, SRls51.00, UNDERPERFORM [V], TP SRls38.91)
Banque Saudi Fransi (1050.SE, SRls47.50, UNDERPERFORM [V], TP SRls40.05)
Riyad Bank (1010.SE, SRls25.30, NEUTRAL, TP SRls26.61)
Samba Financial Group (1090.SE, SRls59.50, NEUTRAL [V], TP SRls59.41)
Saudi Hollandi Bank (1040.SE, SRls44.10, NEUTRAL [V], TP SRls40.59)
The Saudi British Bank (1060.SE, SRls56.25, NEUTRAL [V], TP SRls54.57)

Disclosure Appendix

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Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.
**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
Outperform/Buy*	36%	(57% banking clients)
Neutral/Hold*	44%	(58% banking clients)
Underperform/Sell*	18%	(48% banking clients)
Restricted	2%	

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