

SAMBA Financial Group (SAMBA)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	SAR18.60	Current Target Price	SAR27.00
Implied Upside	45.2%		

SAMBA Reports Earnings In-Line With Estimates

SAMBA Financial Group (SAMBA) had a 10% market share in both loans and deposits (4th largest among domestic banks) as of September 2015. What is of significance is SAMBA commands the 3rd and 4th largest market share in corporate lending (12%) and Shari'ah compliant loans (7%), respectively. Equipped with one of the lowest LDRs and short-term repriceable loans, SAMBA is in a position to benefit from tight liquidity conditions and/or a rising interest rate environment.

Highlights

- SAMBA's 4Q2015 bottom-line in-line with our estimates.** SAMBA reported preliminary results that included some key metrics; full financial statements are yet to be released. According to these preliminary figures, SAMBA reported a net profit of SAR1.232bn in 4Q2015, in-line with our estimate of SAR1.231bn, but ahead of BBG consensus by 2.2% (SAR1.206bn). Net income dropped by 10% QoQ but displayed flat performance YoY.
- Very weak non-interest income driven by drop in fees and investment income were the primary factors dragging down the bottom-line.** SAMBA posted non-interest income of SAR654mn, in-line with our estimate of SAR655mn. Non-interest income declined by 19% QoQ (+2% YoY). The QoQ decline was driven by weak fees & commissions and investment income.
- Net interest income was flat sequentially (+1% YoY).** SAMBA reported net interest income of SAR1.189bn in 4Q2015, in-line with our estimate of SAR1.231bn (-3% variation). NIMs remained under pressure, sequentially dropping to ~2.46% and retreating by ~13bps YoY.
- Cost-to-income ratio edged up QoQ but remained stable in FY2015.** SAMBA's OPEX declined by 1.5% QoQ (+4.3% YoY) to SAR577.9mn. Cost-to-income ticked up to 31.4% vs. 29.5% in 3Q2015 (30.5% in 4Q2014). However on a FY2015 basis, the efficiency ratio remained stable at 30.9% vs. 30.2% in FY2014.
- Provisions and CoR remained flat.** Based on preliminary figures combined with our estimate, SAMBA reported provisions circa SAR32mn. Provisions remained flattish QoQ and YoY. Moreover, on an annual basis, SAMBA's provisions remained flat at SAR141mn. Thus, CoR remained unchanged at 12bps.
- Net Loans gained QoQ and YoY.** Net loans grew by 2.1% QoQ (+4.6% YoY) to SAR129.8bn. On the other hand, Deposits decreased by 1.8% QoQ (+4.6% YoY) to SAR171.4bn. As such, the bank ended 2015 with an LDR of 76% unchanged from 2014.
- Asset quality remains healthy.** Based on SAMBA's preliminary figures (provisions), we believe that asset quality remained healthy.

Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** improvement in NIMs and spreads.

Recommendation, Valuation and Risks

- Recommendation and valuation:** *We maintain our Price Target of SAR27.00 and Outperform rating.* We will revise our 2016, 2017 and 2018 estimates, shortly.
- Risks:** 1) Declining oil prices remains the biggest risk for SAMBA and the Saudi banking sector and 2) Greater-than-expected asset quality deterioration.

Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
EPS (SAR)	2.50	2.61	2.38	2.33
Growth (%)	11.0	4.1	(8.5)	11.7
P/E (x)	7.4	7.1	7.8	7.0
P/B (x)	1.0	0.9	0.8	0.8
DPS (SAR)	0.81	0.90	0.90	0.95
Dividend Yield (%)	4.4	4.8	4.8	5.1

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (SAR)	18.60
Dividend Yield (%)	4.8
Bloomberg Ticker	SAMBA AB
ADR/GDR Ticker	N/A
Reuters Ticker	1090.SE
ISIN	SA0007879097
Sector*	Banks & Financial Services
52wk High/52wk Low (SAR)	31.00/17.55
3-m Average Volume ('000)	786.7
Mkt. Cap. (\$ bn/SAR bn)	9.9/37.2
Shares Outstanding (mn)	2,000.0
QFI Limit* (%)	20.0
Current QFI* (%)	0.07
1-Year Total Return (%)	(19.1)

Fiscal Year End December 31

Source: Bloomberg (as of January 24, 2016), *Tadawul (as of January 24, 2016); Note: QFI is Qualified Foreign Investors

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Recommendations

Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services SPC ("QNBFS") a wholly-owned subsidiary of QNB SAQ ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB SAQ is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNBFS.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.