

Rating **Neutral**
12- Month Target Price **SAR 29.00**

SAUDI BRITISH BANK
2Q2017 First Look

Expected Total Return

Price as on Jul-26, 2017	SAR 26.70
Upside to Target Price	8.6%
Expected Dividend Yield	4.7%
Expected Total Return	13.3%

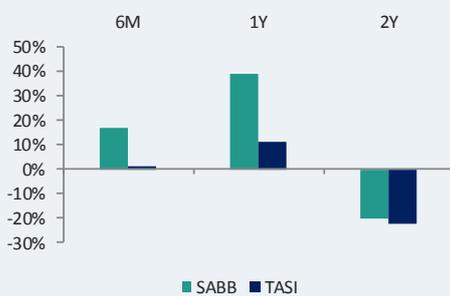
Market Data

52 Week H/L	SAR 28.40 /16.40
Market Capitalization	SAR 40,050 mln
Shares Outstanding	1,500 mln
Free Float	32.4%
12-Month ADTV	387,283
Bloomberg Code	SABB AB

1-Year Price Performance



Source: Bloomberg



2Q2017E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,284	1,298
Total Op Income	1,801	1,876
Net Income	1,129	1,041
Loans & Advances	117,883	120,593
Deposits	138,314	144,084

Loosing Deposits

Saudi British Bank (SABB) reported a +9% Q/Q growth in net income to SAR 1.13 billion, beating our SAR 1.04 billion estimate with the deviation resulting from lower than forecast operating expenses due to diminished provisions. Market consensus was also lower at SAR 1.05 billion. Earnings beat can boost stock price in the short-term but we do not believe a sustainable rally is justified from here as balance sheet has deflated Q/Q. While net advances have come down by SAR 1.6 billion, deposits have weakened much more by SAR 3.3 billion, which do not bode well over the medium term and points to SABB losing market share to peers. Net special commission income was up +9% Y/Y and +3% Q/Q as spreads improved, in line with sector trend. Non-core income has fallen but operating expenses have deflated substantially by -41% Y/Y and -35% Q/Q, helping the bank to augment bottom line. We push up target price to SAR 29.00 from SAR 27.00 but maintain a Neutral rating.

Lower cost of funds widen spreads

Net special commission income (NSCI) was reported at SAR 1.28 billion, close to our SAR 1.30 billion estimate, up +9% Y/Y and +3% Q/Q on the back of a -19% decline in special commission expenses while special commission income was almost flat. Special commission expense has been steadily coming down for the last four quarters implying that the bank has been able to restrict cost of funding.

Deposit depletion needs to reverse

Balance sheet deflation Q/Q does not give confidence. Deposits have depleted by SAR 3.3 billion Q/Q to SAR 138 billion after posting a SAR 1 billion growth in 1Q2017. It is pertinent to note that SABB sequentially lost deposits in 2016 before this comeback in the first quarter. Hopefully, this will reverse in 2H2017. Net loans have decreased by SAR 1.6 billion Q/Q to SAR 118 billion and much lower than the peak of SAR 131 billion in 2Q2016. Consequently, we estimate that LDR has increased from 81.7% in 1Q to 82.4%. The bank has room to grow its credit portfolio if it wishes and can profit given rising rates.

Provisions fall Q/Q

Non-core income has come off -10% Q/Q to SAR 517 million and missed our SAR 566 million forecast as we expect fee-based, exchange and trading income to have been lower. However, operating expenses have registered a much steeper drop, -35% Q/Q to SAR 672 million masking lower non-core income contribution. We believe provisions have accrued below SAR 150 million for the quarter versus SAR 226 million in 1Q leading to the deviation. This reverses a rising trend since 3Q2016.

Target price raised to SAR 29

Net income at SAR 1.13 billion (-2% Y/Y, +9% Q/Q) trumped our SAR 1.04 billion forecast on lower provisioning charge. We raise our target for SABB by 7% to SAR 29.00. Trading at 1.2x 2017E P/B, we maintain a Neutral stance.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	4,757	5,047	5,201
Prov for cred loss	944	526	542
Net Income	3,895	4,414	4,797
EPS (SAR)	2.60	2.94	3.20
DPS (SAR)	0.75	1.25	1.35

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.6%	2.7%	2.7%
ROAE	13.4%	13.8%	13.5%
ROAA	2.1%	2.3%	2.4%
CAR	19.6%	22.8%	23.9%
P/B	1.3x	1.2x	1.1x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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