BANK ALBILAD

3Q2008 - Earnings Growth Momentum Slowing

05 NOVEMBER 2008

SAUDI | BANKING

ST Rec. : Neutral	Current Price*: SAR 29.60
LT Rec. : Neutral	LT Fair Value : SAR 34.60

• **Earnings Growth Slows Down:** Bank Albilad's earnings growth momentum slowed down considerably, with the bank's 3Q2008 earnings rising by 14.1% Y-o-Y to SAR45 million (EPS: SAR0.15). This is in sharp contrast to the over 50% average earnings growth recorded by the bank in 1H2008. It is also the first Q-o-Q decline posted by the bank in the last two years (excluding 4Q2007 when the bank posted a net loss due to one-off high depreciation and amortization charge). Almost all revenue items posted a Q-o-Q decline, driven primarily by a contraction in balance sheet size.

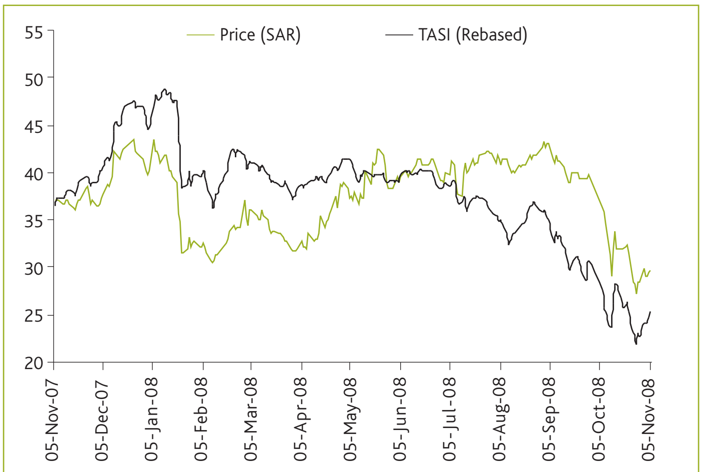
• **Balance Sheet Size Shrinks:** In contrast to the rest of the banking sector, Albilad's balance sheet size has shrunk over the last two quarters. Total assets declined by 2.8% Y-o-Y and, more significantly, by 10.2% since 1Q2008. Net loans fell by 10.4% Y-o-Y, but rose 2.3% Q-o-Q from its low in 2Q2008. Customer deposits dropped 5.9% Y-o-Y and 1.9% Q-o-Q. While the contraction in balance sheet size is partially explained by the bank's strategy to not chase deposits, we believe the competition for loans has also increased with some of the other smaller banks looking to grow their balance sheets and loan books aggressively.

• **Revenues Grow Y-o-Y but Decline Q-o-Q:** Almost all major revenue drivers fell on a Q-o-Q basis, with total banking income declining by 5.9% Q-o-Q. Net investment income fell by 7.7% Y-o-Y and 8.4% Q-o-Q, primarily driven by a squeeze in net interest spreads and a contracting balance sheet. Net interest spreads slipped 21 bps to 4.1%, almost all of which was due to a decline in asset yield as deposit costs remained flat. Non-investment income grew by 61.9% Y-o-Y, but dipped 1.5% Q-o-Q.

• **Cost Ratios Remain High:** Albilad's cost-to-income ratio deteriorated to 78.0% in 3Q2008, from 73.2% in 2Q2008. This increase is largely explained by a decline in revenue as operating costs remained largely flat on a Q-o-Q basis, rising only by 0.2%. We expect Albilad's cost-to-income ratio to remain high in the near to medium term, which is typical with new banks as revenue base builds gradually. Credit provisions, on the other hand, continue to remain low this year, after being abnormally high last year.

• **Downward Revision in Earnings:** While Albilad's full year earnings are likely to be marginally lower than our forecasts, we see high downside risks to our earning forecasts for 2009 and onwards because of contracting spreads and a continuously shrinking balance sheet. We will be revisiting our earning estimates and LT Fair Value for Bank Albilad and our discount rate in light of the increasing risk aversion.

FLASH NOTE



	2008e	2009e	2010e
EPS	0.65	1.06	1.42
P/E* (x)	45.21	27.91	20.77
DPS	0.00	0.00	0.00
Div. Yield*	0.0%	0.0%	0.0%
BVPS	11.00	12.06	13.48
P/BV* (x)	2.68	2.45	2.19

Figures in SAR unless otherwise stated

Stock Data

Last Ex-Div Date	*N/A*
Mkt. Val. (mn)	*SAR8,880*
Shares (mn)	*300.0*
Av. Mthly Liqd. (mn)	*SAR1,033*
52-Week High / Low	*SAR43.5 /27.2*
Bloomberg / Reuters	*ALBI AB / 1140.SE*
Est. Free Float	*50%*

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**prices as of 05 November 2008*

Table 1: Income Statement

(SAR mn)	3Q2007	2Q2008	3Q2008	Y-o-Y	Q-o-Q
Income from Investments	203	164	152	-25.2%	-7.6%
Cost of funds	57	17	17	-70.5%	-1.4%
Net Investment Income	**146**	**147**	**135**	**-7.7%**	**-8.4%**
Other Operating Income					
Fees from banking services	46	67	63	36.8%	-5.3%
Exchange Income	5	17	20	295.2%	13.0%
Total Other Operating Income	**51**	**84**	**83**	**61.9%**	**-1.5%**
Total Income	**197**	**231**	**218**	**10.4%**	**-5.9%**
Operating Expenses					
Salaries Expense	75	95	79	5.1%	-16.7%
Rent & Premises	20	22	24	20.3%	9.2%
Other General & Admin Expenses	38	53	67	74.8%	26.9%
Total Operating Expenses	**133**	**170**	**170**	**27.4%**	**0.2%**
Pre Provision Profits	**64**	**62**	**48**	**-25.1%**	**-22.6%**
Provisions	25	5	3	-86.7%	-33.1%
Net Profit	**39**	**57**	**45**	**14.1%**	**-21.7%**
EPS (SAR)	0.13	0.19	0.15		
Key Ratios					
Net Interest Spreads	3.7%	4.3%	4.1%		
Other Operating Inc./Total Income	25.9%	36.3%	38.0%		
Cost-to-Income	67.5%	73.2%	78.0%		

Source: Bank AlBilad, EFG-Hermes

Table 2: Balance Sheet

(SAR mn)	3Q2007	2Q2008	3Q2008	Y-o-Y	Q-o-Q
Assets					
Cash & balances with SAMA	1,004	2,149	2,149	114.0%	0.0%
Due from Banks	36	23	23	-36.9%	0.0%
Investments	13,960	12,232	12,232	-12.4%	0.0%
Fixed Assets	571	570	570	-0.2%	0.0%
Other Assets	206	358	358	74.2%	0.0%
Total Assets	**15,778**	**15,332**	**15,332**	**-2.8%**	**0.0%**
Liabilities					
Customer Deposits	11,871	11,390	11,390	-4.1%	0.0%
Other liabilities	782	735	735	-6.0%	0.0%
Total Liablities	**12,654**	**12,125**	**12,125**	**-4.2%**	**0.0%**
Equity					
Share Capital	3,000	3,000	3,000	0.0%	0.0%
Reserves	124	206	241	94.4%	16.8%
Total Equity	**3,124**	**3,206**	**3,241**	**3.7%**	**1.1%**
Total Equity & Liabilities	**15,778**	**15,332**	**15,366**	**-2.6%**	**0.2%**

Source: Bank AlBilad, EFG-Hermes

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