CREDIT SUISSE

Saudi Banks

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SECTOR REVIEW

The way forward

- **Why Saudi banks?** Saudi Arabia has one of the least levered economies and banking sectors globally. Its loan-to-GDP ratio of 42%, loan-to-deposit ratio of 92%, low external debt of $26.5bn (78% of FX reserves and 6.1% of foreign assets), twin surpluses and stable monetary policy indicate a low risk of currency devaluation (particularly versus other emerging markets).
- **Focus on margin preservation and asset quality:** We expect the focus for Saudi banks to shift from balance-sheet growth to margin preservation and asset quality. We therefore factor in slower growth (loans and deposits to grow at CAGRs of 9.2% and 10.2%, respectively, in 2008–12E), an increased cost of funding and tightening margins (NIMs to drop by c.35 bps in 2009E to 3.34% and stay marginally flat in 2010E) and deteriorating asset quality (NPL to go up from 1.7% currently to 3.4% in 2012E). We also discuss provisioning in the sector and estimate SAR 22bn is needed in the Q4 2008E to 2012E period versus only SAR 8.46bn in 2004–9M 2008.
- **What is the market missing?** Even after assuming our new conservative outlook for the sector, which leads to a 29% cut in our cumulative earnings estimates for the next four years, we still see significant value. This is despite using a 7% equity risk premium, 150 bps higher than the historical average in emerging markets. The Saudi banking sector trades at a 2009E P/BV of 2.0x against the sector average ROE of 20.6%.
- **Our top picks are Al Rajhi (Outperform) and SABB (upgrading to Outperform):** Al Rajhi has the highest 2009E NIM of 6% in our coverage, benefiting from the lowest funding costs (0.8% in 2008E), as c.90% of its deposits are demand deposits. It is the least exposed to MTM impairment (only 5% of its equity is in securities), and it is among the highest capitalised banks globally with a tier 1 ratio of 13.2%. SABB grew its balance sheet significantly this year (35% asset growth for 9M 2008) and is now able to benefit from repricing its corporate book (we believe it will be easier to reprice corporate loans versus retail).
- **Upgrading Saudi Hollandi to Outperform:** We are also upgrading Saudi Hollandi from Underperform on the back of its restructuring efforts.

Figure 1: **Summary perspective**

Bank	Mkt Cap (US$bn)	New rating	Old rating	New TP (SAR)	Old TP (SAR)	Current price (SAR)	Potential upside (%)
Al Rajhi Bank	23.70	OP	OP	72.66	112.87	59.25	23%
Saudi British Bank	8.32	OP	N	68.21	102.74	52.00	31%
Saudi Hollandi Bank	2.93	OP	UP	50.73	49.71	41.50	22%
Samba Financial Group	12.06	N	N	59.41	82.19	50.25	18%
Riyad Bank	8.62	N	N	26.61	38.94	21.55	23%
Arab National Bank	5.65	N	N	38.91	65.11	32.60	19%
Banque Saudi Fransi	7.43	UP	UP	51.49	84.22	49.50	4%

Prices are as of 01/12/08 Source: © 2008 Reuters Limited, Credit Suisse estimates

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Executive summary

Saudi banking coverage update

We upgrade Saudi British Bank to Outperform from Neutral, as SABB grew its balance sheet significantly this year (35% asset growth for 9M 2008) and is now able to benefit from repricing its corporate book (we believe it will be easier to reprice corporate loans versus retail). Furthermore, in the current risk-averse environment, SABB currently has the lowest NPL level (0.3% of gross loans in 2007) in our sector coverage.

We upgrade Saudi Hollandi bank to Outperform from Underperform, as the bank has improved its cost/income ratio significantly from 58.1% in Q407 to 39.8% in 9M08, indicating that its restructuring process appears to be on the right track. However, there still looks to be scope for improvement as the average for its peers in Q208 was c.33%.

We also reiterate our Outperform rating on Al Rajhi Bank. Al Rajhi is the world's largest Islamic bank, and we see it as a dual play on the retail market and Islamic banking sector, which is growing faster than conventional banking in the region. Al Rajhi is also the largest lender and the largest listed retail bank in Saudi Arabia. It has the highest net interest margin (6.6% in 2008E) and the lowest cost of funds (0.8% in 2008E), since c.90% of its deposit base is demand deposits.

We continue to view the Saudi banking sector as attractive, given its: a) current loan-to-GDP ratio of 42.1% (GCC average 62%); b) loan-to-deposit ratio of 92%; c) fiscal surplus of 41.4% in 2008E (GCC average of 30.7%), thus supporting the dollar peg in a robust manner; and d) deposit-funded balance-sheet growth (FY 2007–10E deposit CAGR of 14% vs asset CAGR of 13.9%).

Our top picks are Al Rajhi Bank on account of its retail penetration and it being an Islamic banking play and SABB for its loan book and the ability to reprice the same.

Using a conservative approach for our estimates, we have cut our 2009 sector EPS by 24.1% and cut our cumulative earnings estimates for the next four years by 29%.

We identify three emerging trends that will define the investment landscape within the Saudi banking sector:

(1) **A fight for margins:** The focus of the Saudi banking sector is shifting from balance-sheet growth towards the preservation of margins. Liquidity has been tightening in the country (M2 growth fell from 7.8% q-o-q in Q4 2007 to 0.9% in Q2 2008 and 4.6% in Q3 2008, respectively) and the cost of funding has been rising (three-month SAIBOR rose from 2.2% in May to 4.7% in October before easing slightly to the current 3.4% level). Loan growth has remained strong so far this year, driven by strong growth in corporate lending (up 46% y-o-y in Q3), while consumer lending has declined (2.5% y-o-y in Q2, based on latest available data). We estimate a slowdown in balance-sheet growth for the sector (FY 2008E–11E CAGR of 8.9%) and a fall in NIMs for 2009E (from 3.70% in 2008E to 3.34% in 2009E). We estimate a NIM contraction of 30 bps for corporate lending (2008E absolute level) and 100 bps for retail lending (from the 2008E absolute level).

(2) **Asset quality: Flight from risk:** We believe the asset quality of the Saudi banking system is likely to deteriorate due to declining stock market wealth and the effect of stalled projects caused by rising oil prices. Moreover, we believe that banks will have to undertake heavy provisioning in coming years to make up for rising NPLs. This has also led to a distortion of historical earnings. We believe that as the banks make up for this in coming years, the reported earnings will be distorted with a bias on the lower side (see page 8).

(3) **MTM exposure: A real risk:** Declining stock prices across the world have also had an effect on Saudi stocks, with the Tadawul index falling c.40% since the end of Q3 2008. As such, we feel that banks that are exposed to securities investments run the risk of heavy writedowns at the end of Q4 2008 (see page 10 for details).

Please note: We have used the term 'loans' throughout the banking section of this report for comparative reasons only—however, in Islamic banking the correct term is 'investments', as loans are not allowed.

Figure 2: Saudi banks: Summary ratings

Bank	Ticker	Mkt Cap (US$ bn)	New rating	Old rating	New target price (SAR)	Old target price (SAR)	Current price (SAR)	Potential upside (%)
Al Rajhi Bank	1120.SE	23.7	Outperform	Outperform	72.66	112.87	59.25	22.64%
Saudi British Bank	1060.SE	8.3	Outperform	Neutral	68.21	102.74	52.00	31.18%
Saudi Hollandi Bank	1040.SE	2.9	Outperform	Underperform	50.73	49.71	41.50	22.25%
Samba Financial Group	1090.SE	12.1	Neutral	Neutral	59.41	82.19	50.25	18.23%
Riyad Bank	1010.SE	8.6	Neutral	Neutral	26.61	38.94	21.55	23.49%
Arab National Bank	1080.SE	5.7	Neutral	Neutral	38.91	65.11	32.60	19.35%
Banque Saudi Fransi	1050.SE	7.4	Underperform	Underperform	51.49	84.22	49.50	4.03%

Prices are as of 1 December 2008

Source: © 2008 Reuters Limited, Credit Suisse estimates

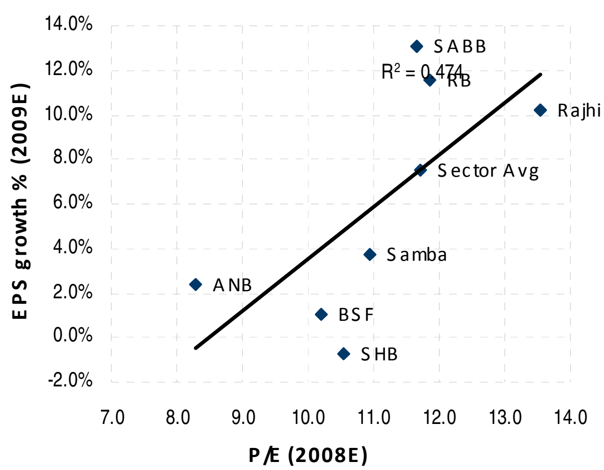
Valuation summary: Saudi banks

Figure 3: **Saudi banks: Valuation summary**

	Current Price SAR	Rating	Mkt Cap SARm	P/E 2007	P/E 2008E	P/E 2009E	EPS growth (y-o-y) 2008E	EPS growth (y-o-y) 2009E	P/B 2007	P/B 2008E	P/B 2009E	ROE (%) 2007	ROE (%) 2008E	ROE (%) 2009E
Al Rajhi Bank	59.25	Outperform	88,875	13.8	13.5	12.3	1.8%	10.2%	3.8	3.3	2.9	29.5%	26.0%	25.1%
Saudi British Bank	52.00	Outperform	31,200	12.0	11.7	10.3	2.6%	13.1%	3.0	2.7	2.4	26.3%	24.3%	24.7%
Saudi Hollandi Bank	41.50	Outperform	10,981	25.0	10.5	10.6	137.7%	-0.7%	2.4	2.0	1.8	10.0%	20.6%	17.7%
Samba Financial Group	50.25	Neutral	45,225	9.4	10.9	10.5	-14.4%	3.7%	2.5	2.1	1.8	29.0%	20.8%	18.5%
Riyad Bank	21.55	Neutral	32,325	8.6	11.9	10.6	-27.5%	11.5%	2.0	1.2	1.1	23.9%	13.3%	10.7%
Arab National Bank	32.60	Neutral	21,190	8.6	8.3	8.1	3.8%	2.4%	2.0	1.6	1.4	26.6%	21.6%	18.2%
Banque Saudi Fransi	49.50	Underperform	27,844	10.3	10.2	10.1	0.8%	1.0%	2.5	2.1	1.9	26.3%	22.5%	19.7%

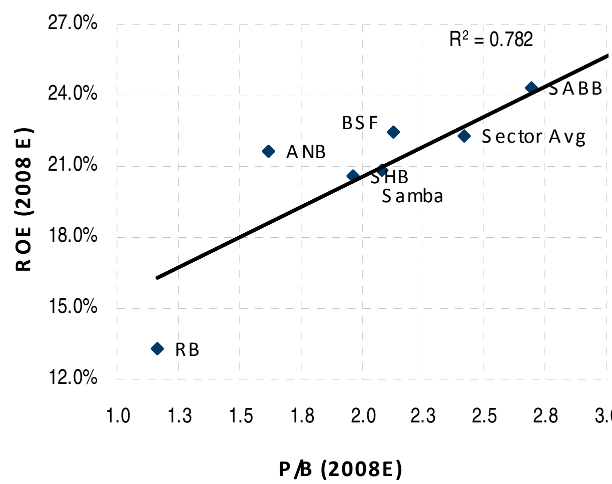
Source: © 2008 Reuters Limited, Company data, Credit Suisse estimates

Figure 4: **Saudi banks: P/E vs. EPS growth**



Source: © 2008 Reuters Limited, Credit Suisse estimates

Figure 5: **Saudi banks: P/B vs. ROE**



Source: © 2008 Reuters Limited, Credit Suisse estimates

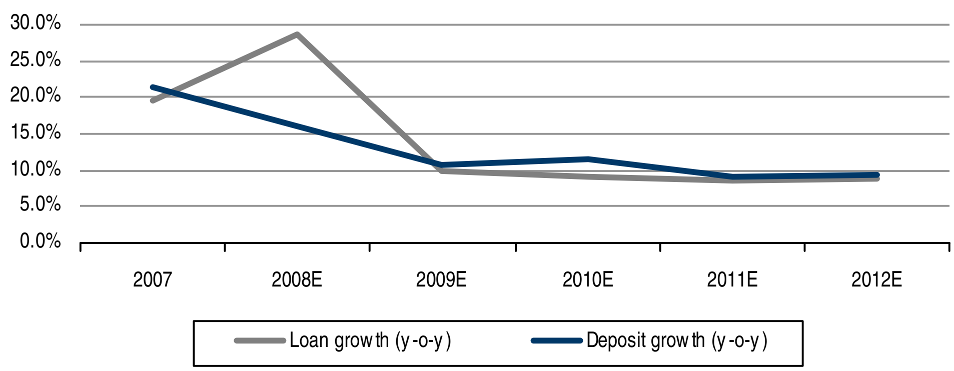
We favour EPS growth as a key criterion reflecting a company's competitive position and thus favour SABB, Riyad Bank (RB) and Al Rajhi on this measure.

Margin contraction

P&L vs. balance-sheet story

The focus of the Saudi banking sector is shifting from balance-sheet growth towards the preservation of margins and asset quality. Towards the end of Q2 this year, banks began finding it difficult to raise deposits and as a result of this, the loan-to-deposit ratio has undergone a severe tightening from 82.9% at the end of 2007 to 92% at the end of Q3. In Q3, deposits and loans grew by 19.1% and 30.2% y-o-y, respectively. Loan growth was helped so far this year due to strong growth in corporate lending (up 46% y-o-y in Q3), while consumer lending declined (2.5% y-o-y in Q2, based on the latest available data). Moving forward, we estimate loans and deposits to grow at CAGRs of 9.2% and 10.2%, respectively, for the period 2008E–12E.

Figure 6: **Saudi Arabia—Loan and deposit growth (FY 2007–12E)**

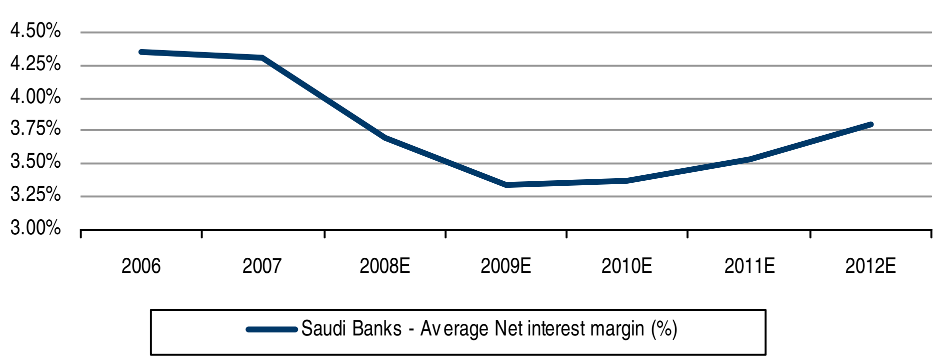


Source: Central Bank data, Credit Suisse estimates

Pressure on NIMs likely to intensify

The cost of funding rose sharply at the end of Q2 as the banks found it difficult to raise deposits. The cost of three-month deposits rose from 1.8% in May to 3.5% this September, and the three-month SAIBOR rose from 2.2% in May to 4.7% in October before easing off slightly to the current 3.4% level. We believe that the ongoing deleveraging in the global financial sector could continue for another two years and place pressure on margins. As such, we estimate NIMs to drop by c.35 bps in 2009E to 3.34% and stay marginally flat in 2010E and begin to move upwards from 2011 onwards (3.54% in FY 2011E and 3.81% in FY 2012E).

Figure 7: **Saudi Arabia—Net interest margins (FY 2006–12E)**



Source: Company data, Credit Suisse estimates

Retail lending margins to shrink more than corporate lending

We believe that, on average, corporate lending margins will shrink by 50 bps while that of retail lending will shrink by 100 bps in 2009E. This is due to the fact that banks find it much easier and quicker to reprice the corporate loan base when compared to retail loans.

Al Rajhi's margins likely to stay the highest

We think that Al Rajhi will be the least affected from the shifts in the margin cycle, albeit not in absolute terms of bps drop. This is despite the fact that it has the highest exposure to retail lending. The bank's high concentration of demand deposits—c.90% in FY 2008E should provide a cushion against a steep and continuous decline in margins.

Saudi British Bank: Surfing the strategic wave

Saudi British Bank's focus in 2008E was to expand its balance sheet, and we expect the same to transition to a preservation of margins for 2009E (facing a 30 bps decline in margins in FY 2009E).

Figure 8: **Saudi Banks: Net interest margins (FY 2007–12E)**

	Demand deposit ratio	Concentration of retail loans	Net interest margins					
Bank	(FY 2007)	(FY 2007)	2007	2008E	2009E	2010E	2011E	2012E
Al Rajhi Bank	90.5%	50.6%	7.9%	6.6%	6.0%	6.0%	6.4%	7.0%
Samba	36.1%	18.3%	4.0%	3.1%	2.8%	2.8%	3.0%	3.2%
Saudi British Bank	37.8%	20.3%	4.2%	3.3%	3.0%	3.1%	3.1%	3.4%
Riyad Bank	35.0%	22.6%	3.5%	3.3%	3.0%	3.0%	3.2%	3.4%
Arab National Bank	36.1%	29.6%	3.7%	3.5%	3.0%	3.0%	3.0%	3.1%
Banque Saudi Fransi	30.4%	7.3%	2.9%	2.6%	2.3%	2.3%	2.4%	2.6%
Saudi Hollandi Bank	29.9%	12.7%	2.7%	2.7%	2.4%	2.5%	2.6%	2.7%

Source: Company data, Credit Suisse estimates

Could we be wrong on margins?

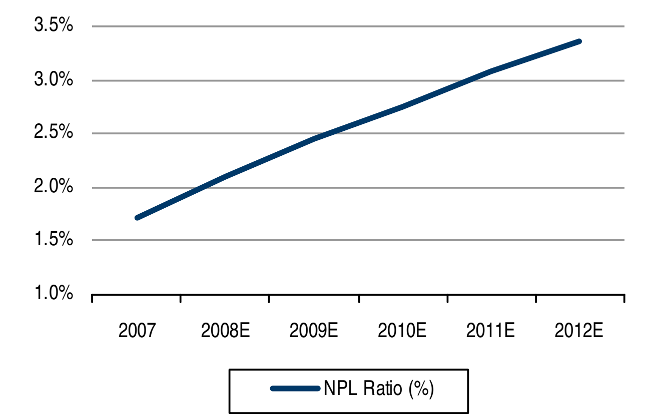
Yes, in the unlikely event that the global financial deleveraging process is completed in the next two or three quarters, there could be an upside risk to our estimates. Moreover, expansion in lending and a possible increase in margins could be led by an increase in fiscal spending, should the Saudi government execute on its $200bn five-year development plans—regardless of oil prices.

Credit provisioning

Asset quality likely to deteriorate

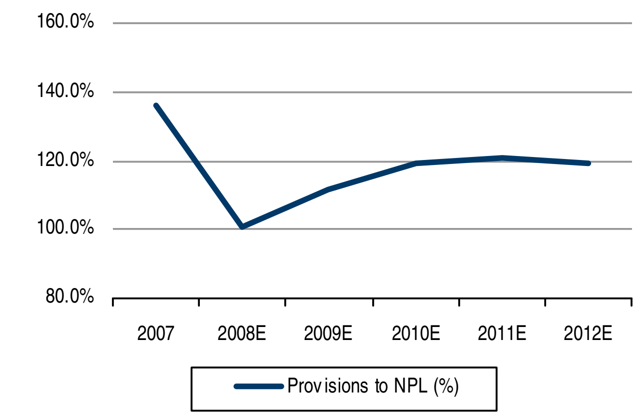
Saudi Arabia's NPL ratio has improved significantly from 2.2% in FY 2004 to 1.7% in FY 2007. However, we estimate that it would gradually rise to 3.4% by FY 2012E. This is on the back of a decline in values across asset classes. We expect slower-than-anticipated growth (compared to historical levels) with stalled infrastructure projects following the recent steep decline in oil prices.

Figure 9: Saudi Arabia—NPL ratio (%)



Source: *Company data, Credit Suisse estimates*

Figure 10: Saudi Arabia—Provisions to NPL (%)

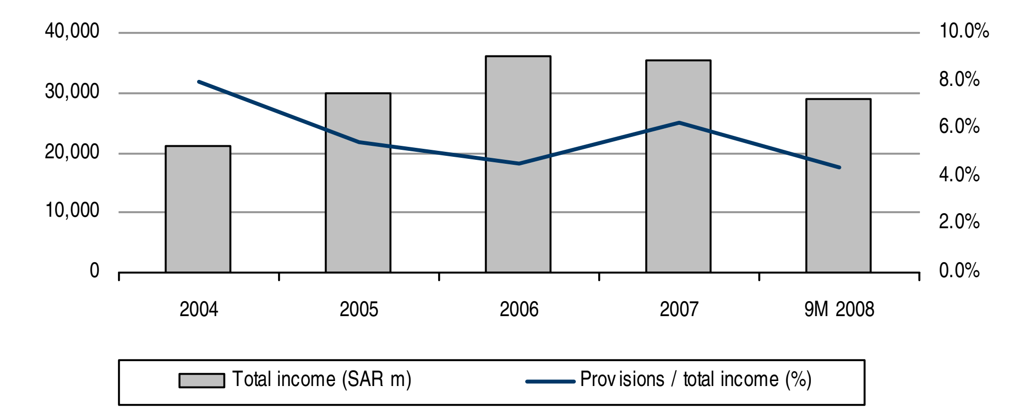


Source: *Company data, Credit Suisse estimates*

Banks using their discretion to time provisions

Most banks have been provisioning for credit losses on the basis of financial performance during the period in question. Due to this, we believe that the reported earnings get distorted. Even during the current year (to 9M 2008), a period when credit provisioning was widely expected to have increased sharply, the provisioning has been limited to SAR 1.27bn as against SAR 1.34bn provided during the same period last year. In our view, this has led to a situation wherein the banks are not robustly positioned to face the upcoming potential rise of NPLs. The cumulative provisions during FY 2004–9M 2008 stood at SAR 8.46bn for the banks under our coverage, at 5.6% of cumulative total income. However, we estimate that the cumulative provisions required for Q4 2008E–FY 2012E will be SAR 22.04bn (at 10.2% of cumulative total income) for the banks to maintain a provision to NPL ratio of c.120% (which stood at 136% in FY 2007).

Figure 11: Saudi Arabia—Total income and provisions of covered banks



Source: Company data, Credit Suisse research

Arab National Bank and Riyad Bank likely to see steepest rise in NPLs

We expect Arab National Bank, Riyad Bank and Banque Saudi Fransi to be the most affected, with their NPL ratios rising by 200 bps for ANB and by 140 bps (for both RB and BSF) during FY 2008–12E. Saudi British Bank and Saudi Hollandi Bank are likely to be the most protected due to their low retail exposure, on our estimates.

Figure 12: Saudi Banks: NPL ratios

Bank	Retail loan concentration	NPL ratio (%)					
	(FY 2007)	2007	2008E	2009E	2010E	2011E	2012E
Al Rajhi Bank	50.6%	2.9%	3.0%	3.3%	3.5%	3.8%	4.0%
Arab National Bank	29.6%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
Riyad Bank	22.6%	1.6%	2.1%	2.6%	3.0%	3.5%	3.5%
Saudi British Bank	20.3%	0.3%	0.8%	1.3%	1.5%	1.7%	2.0%
Samba	18.3%	2.2%	3.0%	3.3%	3.5%	3.8%	4.0%
Saudi Hollandi Bank	12.7%	3.8%	3.8%	3.8%	4.0%	4.2%	4.4%
Banque Saudi Fransi	7.3%	0.7%	1.1%	1.4%	1.8%	2.1%	2.5%

Source: Company data, Credit Suisse estimates

Exposure to risky assets

Balance sheets exposed to risky securities

Saudi banks are exposed to the current downturn in the equity markets due to the presence of securities investments in their balance sheets. As loan growth slowed, the banks began putting their excess funds in investments. At the end of Q3 2008, the aggregate mark-to-market (MTM) investments to equity stood at 73.8% for the banks under our coverage. We define MTM investments as AFS, FVIS and held-for-trading investments.

Exact nature of securities not disclosed

One feature of the MTM investments is that the true nature of the underlying asset is not disclosed by the banks. Hence, it is difficult to assess the risk profile of the assets.

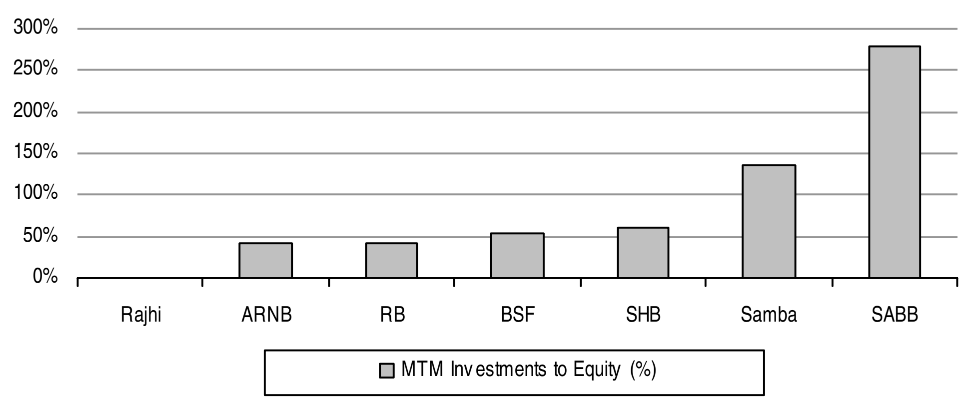
Q4 2008 could be weaker than expected

In the event that a large portion of the banks' MTM securities are stock market investments, then these banks run the risk of heavy writedowns for Q4. The Tadawul All-Share Index has dropped sharply since the end of Q3, falling by c.40%. A c.40% writedown for a bank with significant equity MTM investments would have the potential to threaten its solvency.

SABB and Samba appear most exposed, while Al Rajhi looks least exposed

Al Rajhi Bank is the least exposed to the current downturn of the financial markets, as it does not have any MTM securities on its balance sheet. Being an Islamic bank, the bank cannot invest in securities and its excess cash is parked with the central bank as a Mutajara investment. Arab National Bank and Riyad Bank also have low exposures—less than 50% of their respective equity values, while Saudi British Bank and Samba are heavily exposed, with respective exposure levels of 280% and 135.3%.

Figure 13: **Saudi Arabia—MTM exposures (Q3 2008)**

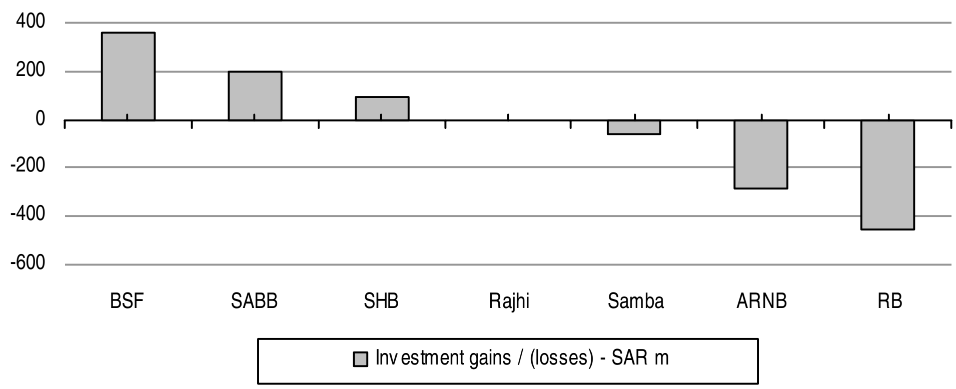


Source: Company data, Credit Suisse research

Some banks have started booking losses

Riyad Bank and Arab National Bank have already reported trading/investing losses of SAR 458.7m and SAR 287.8m, respectively, for 9M 2008. On the flip side, Banque Saudi Fransi and Saudi British Bank have booked gains of SAR 359.4m and SAR 196.1m, respectively, over the same period.

Figure 14: **Saudi Arabia—Investments gains (losses)—9M 2008**

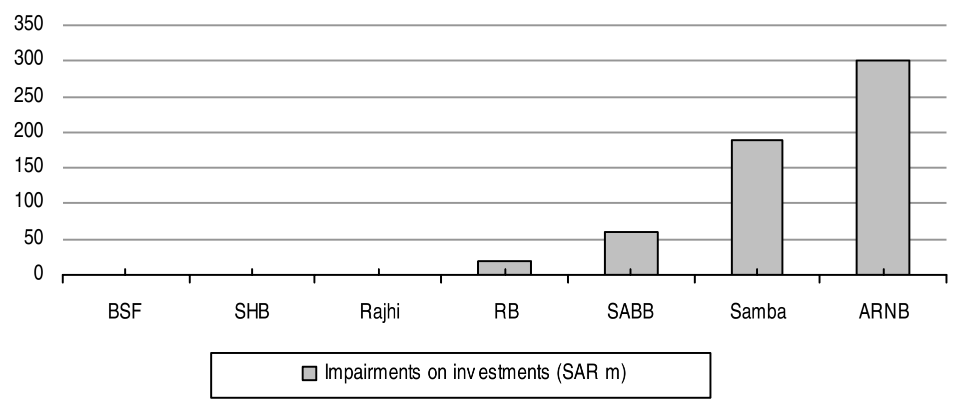


Source: Company data, Credit Suisse research

ARNB and Samba have already provided sizeable impairments

The three banks that have already reported trading losses for 9M 2008 have also begun providing for impairments. The Saudi British Bank has joined the list due to its high level of MTM investments, which stands at SAR 30.7bn. Arab National Bank and Samba have provided for impairments of SAR 300.4m and SAR 188.8m, respectively.

Figure 15: **Saudi Arabia—Impairments of financial assets (9M 2008)**



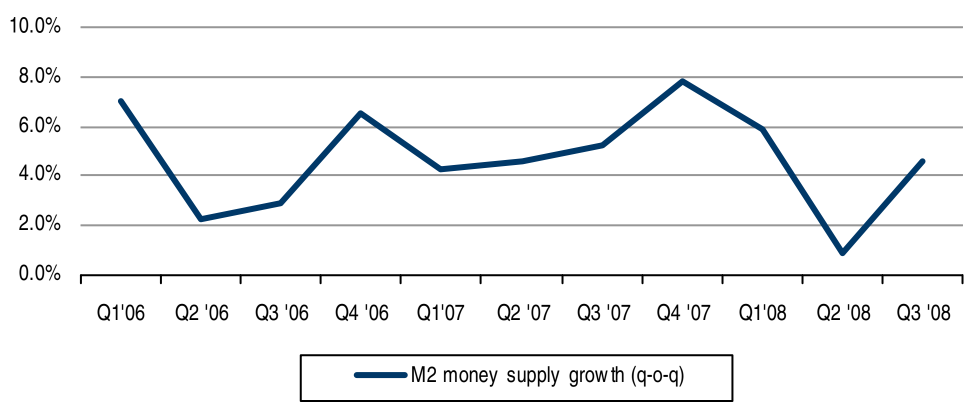
Source: Company data, Credit Suisse research

Recent trends in the Saudi economy

Money supply growth slows while inflation continues its upswing

Saudi Arabia's M2 money supply, which had been growing at a strong pace over the last few years, decelerated from 7.8% q-o-q in Q4 2007 to 0.9% q-o-q in Q2 2008. This was a result of a series of monetary tightening measures by SAMA, which raised the banks' reserve requirement on four occasions since November 2007 from 7% to 13%. In Q3, however, the situation changed significantly due to global tightening, and SAMA began freeing up reserves by reducing the ratio to 10% and then again to 7% on 23 November 2008.

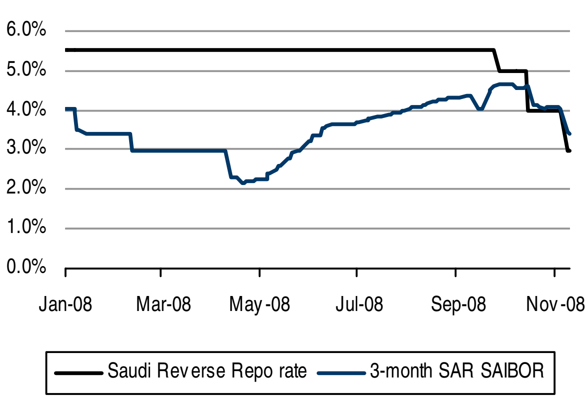
Figure 16: **Saudi Arabia—M2 money supply (% q-o-q)**



Source: Central Bank data, Credit Suisse research

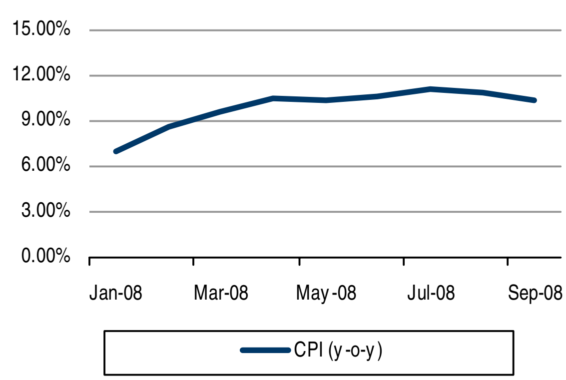
Saudi Arabia's headline CPI y-o-y growth reached a 30-year high this year, peaking at 11.08% in July, before slowing marginally to 10.35%. Inflation has risen primarily due to the soaring costs of rent and food. Despite the rise, SAMA has had to match most interest rate cuts undertaken by the US Federal Reserve to maintain the fixed exchange rates between the two currencies. On 23 November 2008, SAMA announced a cut in the reverse-repo rate by 100 bps to 3%, following the steep fall in the Tadawul index of over 9%.

Figure 17: **Saudi Arabia—Policy rate and inter-bank rate**



Source: *The BLOOMBERG PROFESSIONAL™ service, Credit Suisse Research*

Figure 18: **Saudi Arabia—CPI (% y-o-y)**



Source: *Central Bank data, Credit Suisse Research*

Recent news

Company / Industry News

- **12 Nov 2008**: SHB announced that its shareholders have approved the company's plans to raise SAR 1.5bn through the issue of Sukuks.
- **11 Nov 2008**: Samba announced that it has received a licence to establish banking operations in India.
- **16 Sept 2008**: Samba Financial Group, Riyad Bank and Banque Saudi Fransi form a consortium to arrange a financing of SAR 3bn for Kingdom Holding Company.
- **26 Aug 2008**: BSF announced that the syndication of its US$300m term loan is progressing smoothly.
- **14 Aug 2008**: Al Rajhi announced that it will begin distributing Malaysia's first feeder fund, the AmMutual's Namaa Asia-Pacific Equity Growth, to invest primarily in Asia-Pacific equities.
- **7 Aug 2008**: Arabian Bemco Contracting Ltd, a specialised contractor for the building of power stations, public utilities and industrial facilities, signed an agreement to raise SR 8.28bn (US$2.2bn) for the construction and installation of a 2000MW Power plant in Riyadh. NCB, BSF, Samba, ARNB, RB and SHB will jointly finance the project.
- **6 Aug 2008**: SHB completed US$195m Islamic financing for Arabian Amines Co project, run by a consortium comprising Huntsman Corp and Al-Zamil Group. The deal involved Murabaha and Ijara tranches.

SAMA / Regulatory news

- **23 Nov 2008**: SAMA reduced the reserve requirement from 10% to 7% and cut the repo rate from 4% to 3%.
- **18 Nov 2008**: SAMA released the draft state of the reinsurance regulation.
- **30 Oct 2008**: Data from SAMA's monthly bulletin indicates that in Q3 2008, loans and deposits grew by 5.7% q-o-q and 2.7% q-o-q, respectively. On a y-o-y basis, the growth figures were 30.2% and 19.2%, respectively.
- **12 Oct 2008**: SAMA reduced the reserve requirement on demand deposits from 13% to 10%. It also reduced the repo rate from 5.5% to 5%.

Al Rajhi Bank 1120.SE

OUTPERFORM* [V]

Price (01 Dec 08)	**59.25 (SAR)**
Target price (12 months)	**(from 112.87) 72.66 (SAR)**
Analyst's Coverage Universe	**Emerging Markets**
Weighting (vs. broad market)	—

***Stock ratings are relative to the relevant country index**

Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	**7,556.4**	**6,896.0**	**8,007.4**	**9,860.8**
Net income (SAR m)	**7,301.9**	**6,449.7**	**6,567.5**	**7,236.8**
CS adj. equity (SAR)	**20,179.5**	**23,606.1**	**26,979.5**	**30,731.7**
EPS stated (SAR)	**4.87**	**4.30**	**4.38**	**4.82**
CS adj. EPS (SAR)	**4.87**	**4.30**	**4.38**	**4.82**
CS adj. BVPS (SAR)	**13.45**	**15.74**	**17.99**	**20.49**
CS adj. ROE (%)	**43.4**	**29.5**	**26.0**	**25.1**
P/E (adj., x)	**12.17**	**13.78**	**13.53**	**12.28**
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	**4.40**	**3.76**	**3.29**	**2.89**

Dividend 2008E (SAR)	**2.19**	Free float (%)	**55.0**
Dividend yield (%)	**3.7**	Number of shares (m)	**1,500.00**
Net int margin (12/08E, %)	**6.6**	Curr cost of eqty (12/08E, %)	**10.5**
Cost/income (12/08E, %)	**27.4**	Tier 1 ratio (12/08E, %)	**19.3**

Valuation

Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	**193.00**	**130.25**	**59.25**	**59.25**
Market cap. (SAR m)	**289,500.0**	**195,375.0**	**88,875.0**	**88,875.0**

Key ratios

P/E stated, at closing price (x)	**39.65**	**30.29**	**13.53**	**12.28**
P/E at closing price (adj.)	**39.65**	**30.29**	**13.53**	**12.28**
P/BVPS (stated, x)	**14.35**	**8.28**	**3.29**	**2.89**
YE Price/BVPS (adj., x)	**14.35**	**8.28**	**3.29**	**2.89**

Strategic analysis

Existing strengths: Largest Islamic bank in Saudi Arabia with the highest NIM at 6%, least exposed to MTM securities.

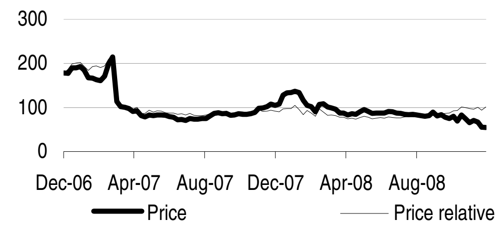
Existing weaknesses:Lack of geographical diversification

Existing opportunities: Mortgage financing

Existing threats: Switch of conventional banks to Islamic banks

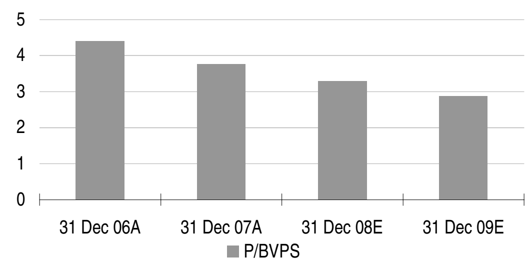
Company description

The largest islamic bank in Saudi Arabia.

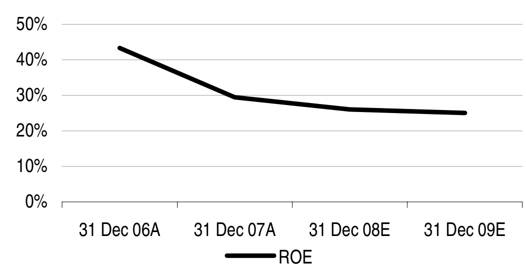


Performance over	1mth	3mths	12mths
Absolute (%)	**-9.2**	**-32.7**	**-43.6**
Relative (%)	**4.9**	**22.9**	**11.4**

P/BVPS



ROE



Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Al Rajhi Bank

Reiterating our Outperform on margin resilience

Event: We maintain an Outperform rating on Al Rajhi Bank but revise the target price downward from SAR 112.87 to 72.66. The revision is mainly on account of contracting margins (from 7.9% in FY 2007 to 6.6% in FY 2008E), slowing balance-sheet growth (from CAGR of 20.5% for FY2005–08E to CAGR of 10.8% for FY 2008E–11E) and an increased requirement for credit provisioning on the back of rising NPLs (from 2.9% in FY 2007 to 4% in FY 2012E). The current TP implies 22.6% upside potential from the current stock price. We have downgraded our EPS estimate for 2008E by 9% from SAR 4.81 to SAR 4.38 to account for the declining net interest margins. The NIM for 9M 2008 was 6.9%, lower than our initial estimate of 7.4%. We downgrade our NIM estimates to 6.6% and 6.0% for FY 2008E and FY 2009E, respectively. Al Rajhi is currently the highest capitalised bank, with a total capital adequacy ratio of 18.6% in Q3 2008. It also has no exposure to risky securities.

View: We see Al Rajhi enjoying a competitive advantage on account of its positioning. 1) Demand deposits constitute 90% of total deposits, and this should provide a competitive cushion in the present scenario of a sector-wide decline in net interest margins (by 61 bps in FY 2008E and 36 bps in FY 2009E). We expect the bank to register a net interest margin of 6.0% in 2009E against an industry average of 3.3%. 2) Having the largest retail footprint enables lower costs, with dispersed and interior region real estate, and greater penetration should drive volume growth. 3) We expect Islamic banking to grow at more than 20% y-o-y in asset volumes in 2008E–10E and see Al Rajhi as well positioned to benefit from this growth.

Summary changes

We estimate net income to grow at a CAGR of 18.8% from FY 2008E to 2012E. This is on the back of our estimate of margin expansion from 2011 onwards. Even in FY 2009E and 2010E, margins should remain at or above 6% due to the bank's high concentration of low cost deposits. We estimate that net interest income should grow by a CAGR of 15.4% over the same period.

Figure 19: Al Rajhi: Summary changes to our estimates

In SAR m, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	8,092	8,878	9,894	11,665	14,206	52,737
OLD	9,456	11,994	15,505	19,285	23,578	79,819
Change (%)	-14.4%	-26.0%	-36.2%	-39.5%	-39.7%	-33.9%
Net interest margin						
NEW	6.6%	6.0%	6.0%	6.4%	7.0%	
OLD	7.6%	7.2%	7.3%	7.3%	7.3%	
Change (bps)	(100)	(118)	(123)	(90)	(29)	
Net income						
NEW	6,568	7,237	8,423	10,359	13,086	45,672
OLD	7,212	9,560	12,811	16,265	20,215	66,063
Change (%)	-8.9%	-24.3%	-34.3%	-36.3%	-35.3%	-30.9%

Source: Credit Suisse estimates

Valuation

Al Rajhi trades at a P/B multiple (2008E) of 3.3x, while the sector average is 2.4x. The ROE (2008E) at 26.0% is higher than the sector average of 22.3%, and we think Al Rajhi deserves a higher premium on account of its pure play in Islamic bank positioning and given that it has the highest net interest margin (NIM) due to its low cost of funding (NIM of 7.4% in 2007) and the highest degree of penetration in Saudi Arabia.

Our TP is based on a dividend discount model with the cost of equity at 10.5%. The dividends are forecast in three distinct periods, with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period, and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.86% annually between 2013E and 2017E, thereafter declining at 1.40% until 2027E and by 0.32% thereafter until 2037E.
- The dividend payout targets a retention rate of 50% beyond 2012E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% beyond 2037E and discounted at the cost of equity.
- The equity to assets ratio reduces from 16.2% in 2008E to 18.9% in 2012E.

Figure 20: **Al Rajhi: Cost of equity**

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 21: **Al Rajhi: Summary valuation**
in millions SAR, unless otherwise stated

DECF Valuation	
Period	0.25
PV	3,203
PV 5 years	17,785.3
PV Fading	74,893
Terminal Value	302,720
PV Terminal Value	16,319
Equity Value	108,997
Number of shares (m)	1,500.0
Value per share (SAR)	72.66
12-month TP (SAR)	72.66
Current Price (SAR)	59.25

Source: Credit Suisse estimates

Sensitivity to risk premium

We have applied a base-case equity risk premium of 7% for Al Rajhi. If the risk premium were to increase by 100 bps, our target price would be reduced by 8.9% to SAR 66.19 per share. In the worst-case scenario of a 10% risk premium, the target price would by SAR 55.60 per share.

Figure 22: Al Rajhi: Sensitivity analysis—Risk-free rate and risk premium
Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	**3.0%**	**3.5%**	**4.0%**	**4.5%**
Risk premium	**5.0%**	100.15	94.34	89.16	84.48	80.20
	6.0%	89.16	84.48	80.20	76.28	72.66
	7.0%	80.20	76.28	**72.66**	69.31	66.19
	8.0%	72.66	69.31	66.19	63.28	60.55
	9.0%	66.19	63.28	60.55	58.00	55.60
	10.0%	60.55	58.00	55.60	53.34	51.22

Source: Credit Suisse estimates

Sensitivity to net interest margins and loan growth

We have applied a base-case scenario of a NIM of 6% in FY 2009E. In the table below, we provide the TP sensitivities to changes in loan growth and NIM in FY 2009E.

Figure 23: Al Rajhi: Sensitivity analysis—Risk-free rate and risk premium
Target Price sensitivity in SAR, unless otherwise stated

		Net interest margin (FY 2009E)				
		5.5%	**5.8%**	**6.0%**	**6.3%**	**6.5%**
Loan growth (FY 2009E)	**14.5%**	70.47	72.09	73.71	75.33	76.95
	12.5%	69.98	71.57	73.17	74.76	76.36
	10.5%	69.49	71.05	**72.66**	74.19	75.76
	8.5%	68.99	70.54	72.08	73.62	75.17
	6.5%	68.50	70.02	71.54	73.05	74.57

Source: Credit Suisse estimates

Figure 24: Al Rajhi: Income statement
in millions SAR, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Income from investments	5,950.9	7,658.3	8,583.1	8,954.7	9,755.3	10,757.0
Expenses on investments	273.6	832.2	861.3	862.4	877.0	862.6
Income from investment (net)	5,677.3	6,826.1	7,721.8	8,092.2	8,878.3	9,894.4
Income from investment properties	17.7	16.6	-	-	-	-
Mudaraba fees	135.3	97.9	71.2	29.6	39.5	46.7
Fees from banking services (net)	1,312.3	1,563.3	980.6	1,426.1	1,746.5	2,130.3
Exchange income (net)	360.9	390.3	470.9	588.6	470.9	518.0
Other operating income	248.0	615.7	76.5	76.5	91.8	110.2
Total operating income	**7,751.4**	**9,509.9**	**9,321.1**	**10,213.1**	**11,227.0**	**12,699.6**
% Growth	*49.5%*	22.7%	-2.0%	9.6%	9.9%	13.1%
Salaries and employee related expenses	791.0	1,119.1	1,451.2	1,637.3	1,772.2	1,912.2
Rent and premises related expenses	115.6	95.3	117.9	126.9	138.6	150.6
Provision for investments and other	536.0	252.6	443.2	850.7	911.7	920.4
Depreciation and amortisation	155.9	183.8	288.2	388.67	489.7	525.9
Other general and administrative expenses	517.8	555.3	567.8	638.3	673.6	762.0
Board of directors' remuneration	1.8	1.9	3.1	3.7	4.5	5.4
Total operating expenses	**2,118.1**	**2,208.0**	**2,871.4**	**3,645.5**	**3,990.3**	**4,276.4**
Cost to income ratio (%)	*20.4%*	20.6%	26.1%	27.4%	27.4%	26.4%
Net income	**5,633.3**	**7,301.9**	**6,449.7**	**6,567.5**	**7,236.8**	**8,423.2**

Source: Company data, Credit Suisse estimates

Figure 25: Al Rajhi: Balance sheet
in millions SAR, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash, precious metals and balances with SAMA	8,682.8	9,243.9	13,141.2	15,771.9	17,845.5	20,110.0
Due from banks	2,430.9	1,452.0	790.6	1,081.5	1,204.5	1,340.0
Investments (net)	80,134.7	89,563.2	104,875.4	139,701.3	153,709.7	171,426.3
Customer debit current accounts (net)	226.9	719.4	909.9	1,227.3	1,366.9	1,520.7
Investment properties	194.2	-	-	-	-	-
Property and equipment (net)	1,364.2	2,021.7	2,591.1	3,886.7	4,275.3	4,489.1
Other assets (net)	2,004.2	2,208.6	2,578.2	4,730.9	4,785.2	5,039.3
Total assets	**95,038.0**	**105,208.7**	**124,886.5**	**166,399.6**	**183,187.1**	**203,925.5**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks	3,434.5	3,473.2	2,593.1	5,122.1	5,374.6	5,573.6
Syndicated Murabaha financing from Banks	-	1,875.0	1,875.0	1,875.0	-	-
Customer deposits	70,112.2	73,398.0	89,725.2	122,727.5	136,692.2	152,070.1
Other customer accounts (including margins on letters of credit, third party funds, certified checks and transfers)	2,288.4	2,484.4	3,031.0	4,172.7	4,647.5	5,170.4
Other liabilities	5,733.5	3,798.6	4,056.1	5,522.7	5,741.1	5,930.7
Total liabilities	81,568.7	85,029.3	101,280.4	139,420.1	152,455.4	168,744.9
Shareholders' equity						
Share capital	4,500.0	6,750.0	13,500.0	15,000.0	15,000.0	15,000.0
Statutory reserve	3,658.3	5,483.8	7,096.2	8,738.1	10,547.3	12,653.1
General reserve	1,400.0	1,400.0	197.7	197.7	197.7	197.7
Retained earnings	3,319.3	5,547.7	1,588.3	1,730.2	3,539.4	5,645.2
Proposed dividend	591.7	998.0	1,223.9	1,313.5	1,447.4	1,684.6
Total shareholders' equity	13,469.3	20,179.5	23,606.1	26,979.5	30,731.7	35,180.6
Total liabilities and shareholders' equity	**95,038.0**	**105,208.7**	**124,886.5**	**166,399.6**	**183,187.1**	**203,925.5**

Source: Company data, Credit Suisse estimates

Figure 26: Al Rajhi: DDM fading
in millions SAR, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net income	5,633	7,302	6,450	6,568	7,237	8,423
Dividends	1,942	998	3,249	3,284	3,618	4,212
Retention	3,692	6,304	3,201	3,284	3,618	4,212
Retention Rate (%)	65.5%	86.3%	49.6%	50.0%	50.0%	50.0%
Tier 1	13,469	20,179	23,606	26,979	30,732	35,181
RWAs	80,986	90,071	105,152	140,080	154,131	171,895
RAR	16.6%	22.4%	22.4%	19.3%	19.9%	20.5%
Growth Net income		29.6%	-11.7%	1.8%	10.2%	16.4%
Growth Tier 1		49.8%	17.0%	14.3%	13.9%	14.5%
Growth RWAs		11.2%	16.7%	33.2%	10.0%	11.5%
ROE (adjusted for valuation)		54.2%	32.0%	27.8%	26.8%	27.4%

Source: Company data, Credit Suisse estimates

Figure 27: Al Rajhi: Key accounting ratios

%

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	8.0	8.8	8.7	7.3	6.6	6.6
Cost of interest-bearing liabilities	0.4	1.1	1.0	0.8	0.6	0.6
Net interest spread	7.6	7.7	7.7	6.5	6.0	6.0
NIM (provision adjusted)	6.9	7.6	7.4	5.9	5.4	5.5
Operating income/Total assets	9.0	9.5	8.1	7.0	6.4	6.6
ROE	47.6	43.4	29.5	26.0	25.1	25.6
ROA	6.5	7.3	5.6	4.5	4.1	4.4
Valuation						
P/E	15.8	12.2	13.8	13.5	12.3	10.6
P/B	6.6	4.4	3.8	3.3	2.9	2.5
Efficiency						
Costs/Income	20.4	20.5	26.0	27.3	27.4	26.4
Cost/Income (ex-depreciation)	18.4	18.6	22.9	23.5	23.0	22.2
Costs/Total assets	1.8	2.0	2.1	1.9	1.8	1.7
Staff costs/Total income	10.2	11.8	15.6	16.0	15.8	15.1
Depreciation/Fixed assets	13.5	10.9	12.5	12.0	12.0	12.0
Asset quality						
Loss loans/Gross customer loans	2.0	2.2	2.9	3.0	3.3	3.5
Provisions/Loss loans	198.0	176.0	165.9	103.5	108.5	108.5
Provisions/Gross customer loans	4.0	3.9	4.8	3.1	3.5	3.8
Provisions expense/Gross customer loans	0.6	0.3	0.4	0.6	0.6	0.5
Provision expense/Operating profit	8.7	3.3	6.4	11.5	11.2	9.8
Capital adequacy						
Tier 1 ratio	16.6	22.4	22.4	19.3	19.9	20.5
Equity/Assets	14.2	19.2	18.9	16.2	16.8	17.3
Payout ratio	34.5	13.7	50.4	50.0	50.0	50.0
Income and cost growth						
Net interest income	37.3	20.2	13.1	4.8	9.7	11.4
Non-interest income	97.4	29.4	(40.4)	32.6	10.7	19.4
Operating costs	13.8	23.6	24.1	15.1	10.1	9.0
Net profit	91.9	29.6	(11.7)	1.8	10.2	16.4
Income breakdown						
Fee income/Total income	18.7	17.5	11.3	14.3	15.9	17.1
Trading income/Total income	0.0	0.0	0.0	0.0	0.0	0.0
Non-interest income/Total income	26.8	28.2	17.2	20.8	20.9	22.1
Interest income/Total income	73.2	71.8	82.8	79.2	79.1	77.9
Brokerage income/Total income	17.0	15.9	5.4	6.1	6.7	7.1
Balance sheet growth						
Loan	71.1	11.8	17.1	33.2	10.0	11.5
Deposit	15.1	4.7	22.2	36.8	11.4	11.3
Asset	22.1	10.7	18.7	33.2	10.1	11.3
Equity	32.2	49.8	17.0	14.3	13.9	14.5
Balance sheet structure						
Customer loans/Total assets	84.3	85.1	84.0	84.0	83.9	84.1
Interest-earning securities/ Total assets	0.0	0.0	0.0	0.0	0.0	0.0
Earning assets/Total assets	86.9	86.5	84.6	84.6	84.6	84.7
Deposits/Total assets	73.8	69.8	71.8	73.8	74.6	74.6
Loans/Deposits	114.3	122.0	116.9	113.8	112.4	112.7

Source: Company data, Credit Suisse estimates

Figure 28: **Al Rajhi: ROE decomposition (%)**

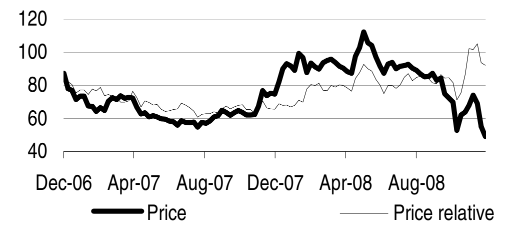
	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	6.6	6.8	6.7	5.6	5.1	5.1
Non-interest income/Total assets	2.4	2.7	1.4	1.5	1.3	1.4
Costs/Total assets	-1.8	(2.0)	(2.1)	(1.9)	(1.8)	(1.7)
Other income(expense)/Total assets	-0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Provisions expense/Total assets	-0.6	(0.3)	(0.4)	(0.6)	(0.5)	(0.5)
Taxes/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
ROA	6.5	7.3	5.6	4.5	4.1	4.4
Equity multiplier	7.3	6.0	5.3	5.8	6.1	5.9
ROE	47.6	43.4	29.5	26.0	25.1	25.6
NIM before provisions	7.7	7.9	7.9	6.6	6.0	6.0

Source: Company data, Credit Suisse estimates

The Saudi British Bank 1060.SE OUTPERFORM* [V]

Price (01 Dec 08)	52.00 (SAR)
Target price (12 months)	(from 102.74) 68.21 (SAR)
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	—

***Stock ratings are relative to the relevant country index**

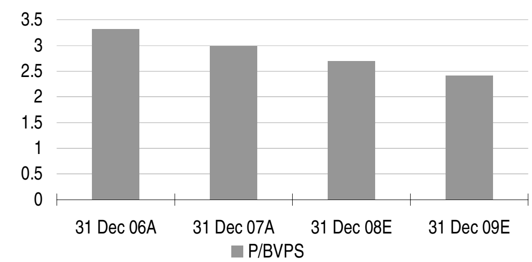


Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	3,212.6	2,945.3	3,277.6	4,362.0
Net income (SAR m)	3,040.3	2,606.9	2,675.9	3,026.8
CS adj. equity (SAR)	9,404.6	10,424.9	11,574.1	12,909.9
EPS stated (SAR)	5.07	4.34	4.46	5.04
CS adj. EPS (SAR)	5.07	4.34	4.46	5.04
CS adj. BVPS (SAR)	15.67	17.37	19.29	21.52
CS adj. ROE (%)	36.0	26.3	24.3	24.7
P/E (adj., x)	10.26	11.97	11.66	10.31
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	3.32	2.99	2.70	2.42

Performance over	1mth	3mths	12mths
Absolute (%)	-23.5	-39.5	-30.4
Relative (%)	-11.7	10.3	37.4

Dividend 2008E (SAR)	2.68	Free float (%)	60.0
Dividend yield (%)	5.1	Number of shares (m)	600.00
Net int margin (12/08E, %)	3.3	Curr cost of eqty (12/08E, %)	10.5
Cost/income (12/08E, %)	32.0	Tier 1 ratio (12/08E, %)	12.3

P/BVPS



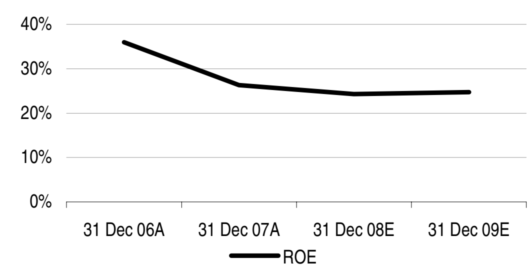
Valuation

Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	73.59	89.38	52.00	52.00
Market cap. (SAR m)	44,156.3	53,625.0	31,200.0	31,200.0

Key ratios

P/E stated, at closing price (x)	14.52	20.57	11.66	10.31
P/E at closing price (adj.)	14.52	20.57	11.66	10.31
P/BVPS (stated, x)	4.70	5.14	2.70	2.42
YE Price/BVPS (adj., x)	4.70	5.14	2.70	2.42

ROE



Strategic analysis

Existing strengths: Strong corporate franchise and HSBC platform support
Existing weaknesses: Inability to attract deposits as competitively as retail banks
Existing opportunities: Mortgage financing, corporate investment banking
Existing threats: Increasing NPLs.

Company description

A commercial bank in Saudi Arabia.

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Saudi British Bank (SABB)

Cutting estimates but upgrade to Outperform on relative strength

Event: We upgrade our rating on Saudi British Bank from Neutral to Outperform, while decreasing our target price from SAR 102.74 to SAR 68.21 per share. This would imply 31.2% upside potential from the current stock price, which has seen a considerable fall of 26.5% since the start of November 2008. We downgrade our EPS estimates for FY 2008E and FY 2009E from SAR 5.01 and SAR 6.68, respectively, to SAR 4.46 and SAR 5.04 per share.

View: The cut in estimates is mainly on account of declining margins (by a cumulative 97 bps in FY 2007–09E) across the sector, coupled with a weakened outlook for bank lending in FY 2009, which we estimate at 10% for the sector, vs. growth of 28.7% in FY 2008E. A key positive for SABB is that its high exposure to corporate banking (c.50% in FY 2007), should limit margin contraction to 30 bps in FY 2009E. In FY 2008, the bank had been following a strategy of growing its balance sheet while sacrificing its margins. In 9M 2008, its loan book grew by 54.2% y-o-y vs. our initial estimate of 37%. Fee income has also been a bright spot, having grown at 59.4% y-o-y against our initial estimates of 11.2%.

Risk: The bank has the highest exposure to risky assets in our coverage, with the ratio of MTM securities to equity reported at 280% at the end of Q3 2008. So far this year (9M 2008), the bank has provided for SAR 61m in investment impairments, which is a mere 0.2% of its MTM investments. The Saudi Tadawul All-Share Index has declined by more than 40% since Q3, and this could result in significant writedowns for the bank in Q4. However, we believe that most of its investments lie with treasury bills, and the threat of loss in market value appears low, in our view.

Summary changes

We estimate net income to grow at a CAGR of 17.0% from FY 2008E to 2012E. This is on the back of our estimate of margin expansion from mid-2011. Due to its low concentration of retail loans (c.20% in FY 2007), we believe margins are unlikely to fall below 3% in the foreseeable period. We estimate that net interest income would grow by a CAGR of 13.9% over the same period.

Figure 29: SABB: Summary changes to our estimates

In SAR m, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	3,182	3,652	4,147	4,595	5,356	20,931
OLD	3,541	4,775	6,029	7,370	8,897	30,613
Change (%)	-10.1%	-23.5%	-31.2%	-37.7%	-39.8%	-31.6%
Net interest margin						
NEW	3.3%	3.0%	3.1%	3.1%	3.4%	
OLD	3.7%	3.7%	3.7%	3.6%	3.6%	
Change (bps)	(40)	(68)	(61)	(53)	(25)	
Net income						
NEW	2,612	2,957	3,458	4,172	4,888	18,087
OLD	3,005	4,007	5,013	6,008	7,206	25,240
Change (%)	-13.1%	-26.2%	-31.0%	-30.6%	-32.2%	-28.3%

Source: Credit Suisse estimates

Valuation

Compared to the average of our coverage universe, which trades at a forward P/E (2008E) of 11.72x, SABB trades at 11.66x, with 13.1% EPS growth in FY 2009E against the sector average of 7.5%. The bank trades at a P/BV for 2008E of 2.7 (an 11.3 % premium to the sector average of 2.4x) and delivers an ROE of 24.3% (2008E) against the sector average of 22.3%. We believe that the stock's earnings differential warrants an Outperform rating.

Our TP is based on a dividend discount model with the cost of equity at 10.5%. The dividends are forecast in three distinct periods with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period, and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.97% annually between 2013E and 2017E, thereafter declining by 1.28% until 2027E and by 0.30% thereafter until 2037E.
- The dividend payout targets a retention rate of 45% beyond 2012E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% beyond 2037E discounted at the cost of equity.
- The equity to assets ratio transitions from 8.9% in 2008E to 10.1% in 2012E.

Figure 30: SABB: Cost of equity

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 31: SABB: Summary valuation
in millions SAR, unless otherwise stated

DECF Valuation	
Period	0.25
PV	1,566
PV 5 years	8,664.7
PV Fading	26,953
Terminal Value	98,524
PV Terminal Value	5,311
Equity Value	40,929
Number of shares (m)	600
Value per share (SAR)	68.21
12-month TP (SAR)	68.21
Current Price (SAR)	52.00

Source: Credit Suisse estimates

Sensitivity to risk premium

We have applied a base-case equity risk premium of 7% for SABB. If the risk premium were to increase by 100 bps, our target price would be reduced by 8.4% to SAR 62.48.

Figure 32: SABB: Sensitivity analysis—Risk-free rate and risk premium
Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	3.0%	3.5%	4.0%	4.5%
Risk premium	5.0%	92.39	87.30	82.75	78.63	74.87
	6.0%	82.75	78.63	74.87	71.41	68.21
	7.0%	74.87	71.41	**68.21**	65.25	62.48
	8.0%	68.21	65.25	62.48	59.90	57.48
	9.0%	62.48	59.90	57.48	55.21	53.08
	10.0%	57.48	55.21	53.08	51.07	49.18

Source: Credit Suisse estimates

Sensitivity to impairments in Q4 2008E

SABB has provided for just SAR 60m in impairments for 9M 2008 against an MTM investments balance of SAR 30.6bn. Our base-case assumption is for a FY 2008E impairment of 0.2% of MTM securities. This is due to our assumption that most of these investments lie in treasury securities and are relatively immune to stock-market volatility. However, below we provide target-price sensitivities for higher levels of impairments. In our worst case scenario of a writedown of 30%, our target price could be reduced to SAR 44 per share.

Figure 33: SABB: Sensitivity analysis—Impairments (as % of MTM investments)
Target Price sensitivity in SAR, unless otherwise stated

	Impairments to MTM investments ratio (FY 2008E)									
% of Impairments to MTM investments	0.2%	1.0%	2.0%	5.0%	10.0%	12.5%	15.0%	20.0%	25.0%	30.0%
TP (SAR)	**68.21**	**67.71**	**67.06**	**65.11**	**61.61**	**59.41**	**57.21**	**52.80**	**48.40**	**44.00**

Source: Credit Suisse estimates

Figure 34: SABB: Income statement

in millions SAR, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Special Commission Income	3,170.5	4,436.7	5,220.0	5,733.1	6,688.1	7,521.7
Special Commission Expense	1,196.9	1,852.9	2,161.3	2,551.3	3,035.8	3,375.2
Net Special Commission Income	1,973.6	2,583.8	3,058.7	3,181.8	3,652.3	4,146.5
Fees from banking services (net)	1,531.5	1,650.5	861.9	1,222.4	1,550.8	1,855.7
Exchange income (net)	178.3	160.5	107.2	128.7	148.0	170.2
Income from FVIS Financial Instruments (net)	59.1	133.3	63.8	(104.5)	35.3	39.5
Trading income (net)	35.0	16.7	190.0	303.9	334.3	367.8
Dividend income	5.6	5.0	4.4	4.9	5.4	5.9
Gains on non trading investments (net)	36.3	64.7	83.3	-	-	-
Other operating income	1.0	2.1	4.6	5.1	5.6	6.1
Total operating income	**3,820.4**	**4,616.7**	**4,374.0**	**4,742.3**	**5,731.7**	**6,591.8**
% Growth	48.9%	20.8%	-5.3%	8.4%	20.9%	15.0%
Salaries and employee related expenses	716.0	778.9	760.0	864.7	1,051.0	1,255.4
Rent and premises related expenses	50.5	58.9	64.2	75.9	81.1	88.0
Depreciation	121.8	97.6	102.9	100.6	106.0	108.6
Other general and administrative expenses	319.3	466.7	500.0	477.3	639.2	746.4
Provision for credit losses (net)	107.8	224.6	396.3	541.6	897.7	935.9
Impairment of other financial assets				70.1	-	-
Other operating expenses	0.6	2.0	1.5	-	-	-
Total operating expenses	**1,316.1**	**1,628.6**	**1,825.0**	**2,130.2**	**2,775.0**	**3,134.2**
Cost to Income Ratio %	*31.6%*	*30.4%*	*32.7%*	32.0%	32.8%	33.3%
Net income from operating activities	2,504.3	2,988.1	2,549.0	2,612.1	2,956.7	3,457.6
Share in earnings of associates (net)	-	52.2	57.9	63.7	70.1	77.1
Net income for the period	**2,504.3**	**3,040.3**	**2,606.9**	**2,675.9**	**3,026.8**	**3,534.7**

Source: Company data, Credit Suisse estimates

Figure 35: SABB: Balance sheet
in millions SAR, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash and balances with SAMA	3,029.3	7,795.0	16,643.7	12,830.0	14,132.9	15,884.8
Due from banks and other financial institutions	4,234.3	3,137.5	1,723.6	2,295.4	2,479.5	2,633.0
Investments (net)	16,372.6	21,702.4	14,858.7	26,361.7	29,284.6	33,029.2
Investment in associates	-	72.2	110.4	174.2	244.3	321.4
Loans and advances (net)	40,846.6	42,450.2	62,000.9	86,117.2	96,858.2	106,224.3
Property and equipment (net)	527.7	541.2	551.8	565.6	579.8	594.3
Other assets	917.4	1,490.7	2,323.7	1,280.4	1,651.4	2,047.3
Total Assets	**65,927.9**	**77,189.4**	**98,212.9**	**129,624.5**	**145,230.6**	**160,734.3**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks and other financial institutions	4,049.6	2,171.8	8,045.0	8,986.1	10,261.1	11,540.9
Customer deposits	48,534.1	59,257.6	71,847.9	99,846.1	112,759.6	125,445.0
Debt securities in issue	2,246.9	3,853.2	4,038.4	4,038.4	4,038.4	4,038.4
Borrowings	187.5	187.5	187.5	187.5	187.5	187.5
Other liabilities	3,416.6	2,314.6	3,669.2	4,992.3	5,074.2	5,017.8
Total Liabilities	58,434.8	67,784.8	87,788.0	**118,050.4**	**132,320.8**	**146,229.6**
Shareholders' equity						
Share capital	2,500.0	3,750.0	3,750.0	6,000.0	6,000.0	6,000.0
Statutory reserve	2,500.0	3,750.0	3,750.0	4,419.0	5,175.7	6,000.0
Other reserves	302.8	70.4	(16.2)	-	-	-
Retained earnings	1,903.3	943.6	2,050.5	201.9	655.9	1,245.5
Proposed dividends	287.0	890.6	890.6	953.3	1,078.3	1,259.2
Total shareholders' equity	7,493.2	9,404.6	10,424.9	11,574.1	12,909.9	14,504.7
Total liabilities and shareholders' equity	**65,927.9**	**77,189.4**	**98,212.9**	**129,624.5**	**145,230.6**	**160,734.3**

Source: Company data, Credit Suisse estimates

Figure 36: SABB: DDM fading
in millions SAR, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net income	2,504	3,040	2,607	2,676	3,027	3,535
Dividends	287	1,500	1,500	1,606	1,816	2,121
Retention	2,217	1,540	1,107	1,070	1,211	1,414
Retention Rate (%)	88.5%	50.7%	42.5%	40.0%	40.0%	40.0%
Tier 1	7,493	9,405	10,425	11,574	12,910	14,505
RWAs	47,624	52,020	67,111	93,906	105,486	115,899
RAR	15.7%	18.1%	15.5%	12.3%	12.2%	12.5%
Growth Net income		21.4%	-14.3%	2.6%	13.1%	16.8%
Growth Tier 1		25.5%	10.8%	11.0%	11.5%	12.4%
Growth RWAs		9.2%	29.0%	39.9%	12.3%	9.9%
ROE (adjusted for valuation)		40.6%	27.7%	25.7%	26.2%	27.4%

Source: Company data, Credit Suisse estimates

Figure 37: SABB: Key accounting ratios (%)

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	5.5	6.9	7.2	5.9	5.5	5.6
Cost of interest-bearing liabilities	2.3	3.1	2.9	2.6	2.5	2.5
Net interest spread	3.2	3.8	4.3	3.3	3.0	3.0
NIM (provision adjusted)	3.2	3.7	3.7	2.7	2.3	2.4
Operating income/Total assets	6.2	6.5	5.0	4.2	4.2	4.3
ROE	37.3	36.0	26.3	24.3	24.7	25.8
ROA	4.0	4.2	3.0	2.3	2.2	2.3
Valuation						
P/E	12.5	10.3	12.0	11.7	10.3	8.8
P/B	4.2	3.3	3.0	2.7	2.4	2.2
Efficiency						
Costs/Income	31.6	30.4	32.7	32.0	32.8	33.3
Cost/Income (ex-depreciation)	28.4	28.3	30.3	29.9	30.9	31.7
Costs/Total assets	2.0	2.0	1.6	1.3	1.4	1.4
Staff costs/Total income	18.7	16.9	17.4	18.2	18.3	19.0
Depreciation/Fixed assets	22.3	18.3	18.8	18.0	18.5	18.5
Asset quality						
Loss loans/Gross customer loans	0.5	0.4	0.3	0.8	1.3	1.5
Provisions/Loss loans	118.1	224.5	213.4	175.1	181.5	220.0
Provisions/Gross customer loans	0.6	0.9	0.7	1.4	2.4	3.2
Provisions expense/Gross customer loans	0.3	0.5	0.6	0.6	0.9	0.9
Provision expense/Operating profit	4.1	7.0	13.5	16.8	23.3	21.3
Capital adequacy						
Tier 1 ratio	15.7	18.1	15.5	12.3	12.2	12.5
Equity/Assets	11.4	12.2	10.6	8.9	8.9	9.0
Payout ratio	11.5	49.3	57.5	60.0	60.0	60.0
Income and cost growth						
Net interest income	17.5	30.9	18.4	4.0	14.8	13.5
Non-interest income	108.6	10.1	(35.3)	18.6	33.3	17.6
Operating costs	43.2	16.2	1.8	6.3	23.6	17.1
Net profit	52.2	21.4	(14.3)	2.6	13.1	16.8
Income breakdown						
Fee income/Total income	40.1	35.8	19.7	25.8	27.1	28.2
Trading income/Total income	0.9	0.4	4.3	6.4	5.8	5.6
Non-interest income/Total income	48.3	44.0	30.1	32.9	36.3	37.1
Interest income/Total income	51.7	56.0	69.9	67.1	63.7	62.9
Brokerage income/Total income	30.9	26.5	7.8	8.2	8.2	8.5
Balance sheet growth						
Loan	29.2	3.9	46.1	38.9	12.5	9.7
Deposit	8.7	22.1	21.2	39.0	12.9	11.3
Asset	13.8	17.1	27.2	32.0	12.0	10.7
Equity	26.6	25.5	10.8	11.0	11.5	12.4
Balance sheet structure						
Customer loans/Total assets	62.0	55.0	63.1	66.4	66.7	66.1
Interest-earning securities/ Total assets	24.8	28.1	15.1	20.3	20.2	20.5
Earning assets/Total assets	93.2	87.2	80.0	88.5	88.6	88.3
Deposits/Total assets	73.6	76.8	73.2	77.0	77.6	78.0
Loans/Deposits	84.2	71.6	86.3	86.3	85.9	84.7

Source: Company data, Credit Suisse estimates

Figure 38: SABB: ROE decomposition
%

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	3.2	3.6	3.5	2.8	2.7	2.7
Non-interest income/Total assets	3.0	2.8	1.5	1.4	1.5	1.6
Costs/Total assets	(2.0)	(2.0)	(1.6)	(1.3)	(1.4)	(1.4)
Other income(expense)/Total assets	0.0	0.1	0.1	(0.0)	0.1	0.1
Provisions expense/Total assets	(0.2)	(0.3)	(0.5)	(0.5)	(0.7)	(0.6)
Taxes/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
ROA	4.0	4.2	3.0	2.3	2.2	2.3
Equity multiplier	9.2	8.5	8.8	10.4	11.2	11.2
ROE	37.3	36.0	26.3	24.3	24.7	25.8
NIM before provisions	3.4	4.0	4.2	3.3	3.0	3.1

Source: Company data, Credit Suisse estimates

Saudi Hollandi Bank 1040.SE

OUTPERFORM* [V]

Price (01 Dec 08)	41.50 (SAR)
Target price (12 months)	(from 49.71) 50.73 (SAR)
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	—

** Stock ratings are relative to the relevant country index*

Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	1,301.4	934.2	1,222.8	1,443.1
Net income (SAR m)	952.8	438.6	1,042.6	1,035.3
CS adj. equity (SAR)	4,257.7	4,546.8	5,589.4	6,103.4
EPS stated (SAR)	3.60	1.66	3.94	3.91
CS adj. EPS (SAR)	3.60	1.66	3.94	3.91
CS adj. BVPS (SAR)	16.09	17.18	21.12	23.07
CS adj. ROE (%)	24.0	10.0	20.6	17.7
P/E (adj., x)	11.52	25.04	10.53	10.61
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	2.58	2.42	1.96	1.80

Dividend 2008E (SAR)	1.97	Free float (%)	31.5
Dividend yield (%)	4.7	Number of shares (m)	264.60
Net int margin (12/08E, %)	2.7	Curr cost of eqty (12/08E, %)	10.7
Cost/income (12/08E, %)	39.2	Tier 1 ratio (12/08E, %)	13.0

Valuation

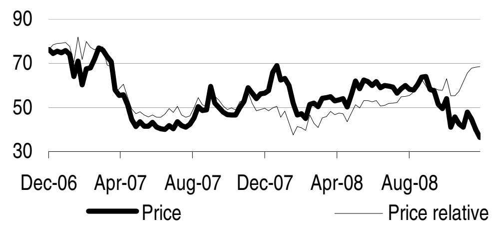
Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	75.75	62.50	41.50	41.50
Market cap. (SAR m)	20,043.5	16,537.5	10,980.9	10,980.9
Key ratios				
P/E stated, at closing price (x)	21.04	37.71	10.53	10.61
P/E at closing price (adj.)	21.04	37.71	10.53	10.61
P/BVPS (stated, x)	4.71	3.64	1.96	1.80
YE Price/BVPS (adj., x)	4.71	3.64	1.96	1.80

Strategic analysis

Existing strengths: A focus on its strength in corporate banking.
Existing weaknesses: Lack of clarity in owner's future plans.
Existing opportunities: Restructuring-led cost savings.
Existing threats: NPLs, new banking licences in Saudi Arabia.

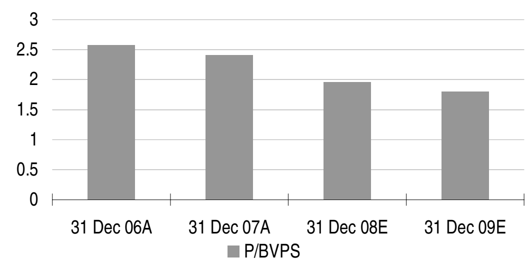
Company description

A Saudi commercial bank.

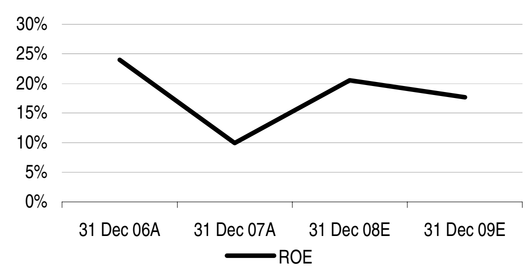


Performance over	1mth	3mths	12mths
Absolute (%)	1.2	-34.6	-26.5
Relative (%)	16.9	19.3	45.0

P/BVPS



ROE



Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Saudi Hollandi Bank

Upgrade to Outperform on solid turnaround

Event: We upgrade our rating on Saudi Hollandi Bank from Underperform to Outperform and revise our 12-month target price from SAR 49.71 to of SAR 50.73 per share, implying upside potential of 22.2% to the current price. We have revised our EPS estimates for FY 2008E and FY 2009E by 58.1% and 19.1% to SAR 3.94 per share and SAR 3.91 per share, respectively. The bank has performed strongly in the year so far, with loans growing at 41.7% y-o-y for 9M08. Net income also recorded healthy growth of 67.3% against our initial estimate of c.50%. In our estimates, the bank has reported high income growth by postponing credit loss provisions. After having provided for SAR 349m and SAR 496m in FY 2006 and 2007, the bank has only provided SAR 38.9m in 9M08. We expect SAR 424.6m in provisions for 2009 based on normalised provisions of 17.9% of total income.

View: 1) Saudi Hollandi Bank improved its cost/income ratio significantly from 58.1% in Q407 to 39.8% in 9M08, indicating that its restructuring process appears to be on the right track. We had earlier indicated that if the bank's cost structure was brought in line with its peers, its valuation would likely be enhanced by more than 60%. However, there still looks to be scope for improvement as the average for its peers in Q208 was c.33%. 2) The bank's corporate banking business has been showing good progress, which can be inferred from the robust 10%+ q-o-q growth rates recorded for loans in each of the last three quarters. 3) The bank has the lowest capital adequacy ratio (9.8% in Q308) among its peer group and has said it plans to raise SAR 1.5bn in Sukuk funding, which we think will continue to put pressure on margins.

Summary changes

We estimate net interest income and net income to grow by CAGRs of 13.7% and 13.6%, respectively, from FY 2008E–12E. This is due to NIMs remaining under pressure until FY 2010, beyond which there should be an expansion. On 11 November, the bank's shareholders approved plans to raise SAR 1.5bn in the form of Sukuks, which we think will continue to put pressure on interest margins. However, due the bank's low exposure to retail lending (c.12.5% in FY 2007), we estimate the decline in NIMs to be limited to 30bps in FY 2009. We would like to highlight here that the decision taken by the bank regarding provisioning in Q408 could significantly alter the FY 2008 annual numbers.

Figure 39: **SHB: Summary changes to our estimates**

In SAR millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	1,429	1,579	1,790	2,072	2,380	9,250
OLD	1,176	1,383	1,534	1,712	1,876	7,681
Change (%)	21.5%	14.2%	16.7%	21.0%	26.9%	20.4%
Net interest margin						
NEW	2.7%	2.4%	2.5%	2.6%	2.7%	
OLD	2.5%	2.7%	2.7%	2.8%	2.8%	
Change (bps)	19	(21)	(20)	(17)	(7)	
Net income						
NEW	1,043	1,035	1,087	1,303	1,746	6,215
OLD	659	869	968	1,081	1,219	4,797
Change (%)	58.1%	19.1%	12.3%	20.6%	43.2%	29.6%

Source: Credit Suisse estimates

Valuation

SHB's 2008E ROE at 20.6% is lower than the sector average of 22.3%. The stock trades at a 2.0x 2008E P/BV multiple, which is below the sector average of 2.4x. On a P/E basis, the stock trades at 10.5x (for 2008E) versus the sector average of 11.7x, while EPS growth for FY 2009E is -0.7% versus the sector average of 7.5%.

Our TP is based on a dividend discount model with a cost of equity of 10.5%. The dividends are forecast in three distinct periods, with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.52% annually between 2013E and 2017E, thereafter declining by 0.84% annually until 2027E and by 0.19% thereafter until 2037E.
- The dividend payout targets a retention rate of 60% in 2012E and stabilises at 50% from 2018E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% annually beyond 2037E discounted at the cost of equity.
- The equity/assets ratio transitions from 9.0% in 2007 to 8.5% in 2012E.

Figure 40: SHB: Cost of equity

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 41: SHB: Summary valuation
In SAR millions, unless otherwise stated

Period	0.25
PV	508
PV 5 years	2,441.9
PV Fading	8,847
Terminal Value	39,599
PV Terminal Value	2,135
Equity Value	13,424
Number of shares (m)	264.6
Value per share (SAR)	50.73
12-month TP (SAR)	50.73
Current Price (SAR)	41.50

Source: Company data, Credit Suisse estimates

Sensitivity to risk premium
We have applied a base case equity risk premium of 7% for SHB. If the risk premium were to increase by 100bps, our target price would be reduced by 8.7% to SAR 46.33.

Figure 42: SHB: Sensitivity analysis—Risk-free rate and risk premium
Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	**3.0%**	**3.5%**	**4.0%**	**4.5%**
Risk premium	**5.0%**	69.48	65.51	61.96	58.77	55.86
	6.0%	61.96	58.77	55.86	53.19	50.73
	7.0%	55.86	53.19	**50.73**	48.45	46.33
	8.0%	50.73	48.45	46.33	44.35	42.50
	9.0%	46.33	44.35	42.50	40.76	39.13
	10.0%	42.50	40.76	39.13	37.59	36.14

Source: Credit Suisse estimates

Sensitivity to credit provisions—cumulative FY 2008E–12E
Our base case estimate is for a cumulative provisioning of SAR 2.35bn for the above-mentioned period to maintain an NPL provisioning of c.120%. In Figure 43, we provide the impact of target prices to every SAR 250m level change to our estimates.

Figure 43: SHB: Sensitivity analysis—Cumulative credit loss provisions (FY 2008E–12E)
Target Price sensitivity in SAR

	Cumulative credit loss provisions (FY 2008E-2012E)						
Provisions (SAR mn)	1,599	1,849	2,099	2,349	2,599	2,849	3,099
TP (SAR)	55.52	53.92	52.33	**50.73**	49.14	47.56	45.97

Source: Credit Suisse estimates

Figure 44: SHB: Income statement
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Special commission income	1,843.4	2,667.9	2,905.7	2,786.1	3,247.1	3,622.9
Special commission expense	829.8	1,488.1	1,705.2	1,357.4	1,668.0	1,832.7
Net special commission income	1,013.5	1,179.8	1,200.4	1,428.6	1,579.0	1,790.3
Fees from banking services (net)	589.3	632.6	390.2	487.7	536.5	617.0
Exchange income (net)	64.0	50.0	84.9	93.4	102.7	113.0
Trading income (net)	47.8	82.9	65.8	131.5	138.1	151.9
Gains on non trading investments (net)	3.2	-	30.5	10.0	-	-
Other operating income	-	1.2	4.4	9.8	10.7	11.8
Total operating income	**1,717.9**	**1,946.5**	**1,776.2**	**2,161.0**	**2,367.1**	**2,683.9**
% Growth	*26.1%*	*13.3%*	*-8.7%*	21.7%	9.5%	13.4%
Salaries and employee related expenses	327.3	368.8	465.3	497.0	536.5	604.5
Rent and premises related expenses	44.3	50.1	58.2	69.7	72.6	76.5
Depreciation	53.5	57.9	60.9	58.8	61.2	63.6
Other general and administrative expenses	141.7	168.2	257.5	221.4	236.9	268.5
Provision for credit losses (net)	99.2	348.6	495.7	271.5	424.6	583.6
Other operating expenses	-	-	-	-	-	-
Total operating expenses	**666.0**	**993.7**	**1,337.6**	**1,118.5**	**1,331.8**	**1,596.7**
Cost to Income Ratio %	*33.0%*	*33.1%*	*47.4%*	39.2%	38.3%	37.7%
Net income for the period	**1,051.9**	**952.8**	**438.6**	**1,042.6**	**1,035.3**	**1,087.2**

Source: Company data, Credit Suisse estimates

Figure 45: SHB: Balance sheet
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash and balances with SAMA	1,204.6	2,672.7	3,509.0	4,680.6	4,388.8	4,716.1
Due from banks and other financial institutions	3,334.7	6,019.7	5,271.9	6,989.2	7,594.0	8,562.2
Investments (net)	10,483.7	10,463.4	12,954.3	14,464.2	15,845.9	17,250.2
Loans and advances (net)	23,776.5	26,479.8	27,554.6	40,188.0	44,217.9	50,439.5
Property and equipment (net)	313.3	309.0	320.4	333.2	346.5	360.4
Other assets	845.4	795.4	801.1	673.3	731.2	821.5
Total assets	**39,958.3**	**46,740.1**	**50,411.3**	**67,328.6**	**73,124.4**	**82,149.9**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks and other financial institutions	5,796.5	8,298.4	9,157.6	11,648.7	12,656.7	14,270.4
Customer deposits	28,565.0	32,413.7	34,605.0	46,594.8	50,626.8	57,081.7
Other liabilities	1,225.1	1,070.2	1,401.9	2,795.7	3,037.6	3,424.9
Subordinated debt	700.0	700.0	700.0	700.0	700.0	700.0
Total liabilities	**36,286.7**	**42,482.3**	**45,864.5**	**61,739.2**	**67,021.0**	**75,477.0**
Shareholders' equity						
Share capital	1,260.0	2,205.0	2,646.0	2,646.0	2,646.0	2,646.0
Statutory reserve	1,260.0	1,499.0	1,609.0	1,869.6	2,128.5	2,400.3
General reserve	1,015.0	571.0	130.0	130.0	130.0	130.0
Fair value / Cash flow hedges adjustment account	(75.5)	(42.6)	20.8	20.8	20.8	20.8
Retained earnings	7.6	25.3	141.0	401.7	660.5	932.3
Proposed dividends	204.5	-	-	521.3	517.6	543.6
Total shareholders' equity	3,671.6	4,257.743	4,546.8	5,589.4	6,103.4	6,672.9
Total liabilities and shareholders' equity	**39,958.3**	**46,740.1**	**50,411.3**	**67,328.6**	**73,124.4**	**82,149.9**

Source: Company data, Credit Suisse estimates

Figure 46: SHB: Key accounting ratios (%)

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	5.4	6.6	6.5	5.2	5.0	5.0
Cost of interest-bearing liabilities	2.6	3.9	4.0	2.6	2.7	2.7
Net interest spread	2.8	2.7	2.6	2.6	2.3	2.3
NIM (provision adjusted)	2.7	2.1	1.6	2.2	1.8	1.7
Operating income/Total assets	4.7	4.5	3.7	3.7	3.4	3.5
ROE	31.0	24.0	10.0	20.6	17.7	17.0
ROA	2.9	2.2	0.9	1.8	1.5	1.4
Valuation						
P/E	10.4	11.5	25.0	10.5	10.6	10.1
P/B	3.0	2.6	2.4	2.0	1.8	1.6
Efficiency						
Costs/Income	33.0	33.1	47.4	39.2	38.3	37.7
Cost/Income (ex-depreciation)	29.9	30.2	44.0	36.5	35.7	35.4
Costs/Total assets	1.5	1.5	1.7	1.4	1.3	1.3
Staff costs/Total income	19.1	18.9	26.2	23.0	22.7	22.5
Depreciation/Fixed assets	17.7	18.6	19.4	18.0	18.0	18.0
Asset quality						
Loss loans/Gross customer loans	1.2	2.5	3.8	3.8	3.8	4.0
Provisions/Loss loans	158.4	113.6	110.0	53.0	78.7	100.0
Provisions/Gross customer loans	2.0	2.9	4.1	2.0	3.0	4.0
Provisions expense/Gross customer loans	0.4	1.3	1.7	0.7	0.9	1.1
Provision expense/Operating profit	8.6	26.8	53.1	20.7	29.1	34.9
Capital adequacy						
Tier 1 ratio	14.4	14.9	15.5	13.0	13.0	12.4
Equity/Assets	9.2	9.1	9.0	8.3	8.3	8.1
Payout ratio	19.4	31.8	50.7	50.0	50.0	50.0
Income and cost growth						
Net interest income	11.3	16.4	1.8	19.0	10.5	13.4
Non-interest income	55.9	8.9	(24.9)	27.2	7.6	13.4
Operating costs	11.1	13.8	30.5	0.6	7.1	11.7
Net profit	41.6	(9.4)	(54.0)	137.7	(0.7)	5.0
Income breakdown						
Fee income/Total income	34.3	32.5	22.0	22.6	22.7	23.0
Trading income/Total income	2.8	4.3	3.7	6.1	5.8	5.7
Non-interest income/Total income	41.0	39.4	32.4	33.9	33.3	33.3
Interest income/Total income	59.0	60.6	67.6	66.1	66.7	66.7
Balance sheet growth						
Loan	42.9	11.4	4.1	45.8	10.0	14.1
Deposit	19.7	13.5	6.8	34.6	8.7	12.8
Asset	19.5	17.0	7.9	33.6	8.6	12.3
Equity	17.9	16.0	6.8	22.9	9.2	9.3
Balance sheet structure						
Customer loans/Total assets	59.5	56.7	54.7	59.7	60.5	61.4
Interest-earning securities/ Total assets	26.2	22.4	25.7	21.5	21.7	21.0
Earning assets/Total assets	94.1	91.9	90.8	91.6	92.5	92.8
Deposits/Total assets	71.5	69.3	68.6	69.2	69.2	69.5
Loans/Deposits	83.2	81.7	79.6	86.3	87.3	88.4

Source: Company data, Credit Suisse estimates

Figure 47: SHB: ROE decomposition (%)

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	2.8	2.7	2.5	2.4	2.2	2.3
Non-interest income/Total assets	1.9	1.8	1.2	1.2	1.1	1.2
Costs/Total assets	-1.5	(1.5)	(1.7)	(1.4)	(1.3)	(1.3)
Other income(expense)/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
Provisions expense/Total assets	-0.3	(0.8)	(1.0)	(0.5)	(0.6)	(0.8)
Taxes/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
ROA	2.9	2.2	0.9	1.8	1.5	1.4
Equity multiplier	10.8	10.9	11.0	11.6	12.0	12.2
ROE	31.0	24.0	10.0	20.6	17.7	17.0
NIM before provisions	3.0	2.9	2.7	2.7	2.4	2.5

Source: Company data, Credit Suisse estimates

Samba Financial Group

1090.SE

NEUTRAL* [V]

Price (01 Dec 08)	**50.25 (SAR)**
Target price (12 months)	**(from 82.19) 59.41 (SAR)**
Analyst's Coverage Universe	**Emerging Markets**
Weighting (vs. broad market)	—

**** Stock ratings are relative to the relevant country index***

Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	**5,474.0**	**5,230.2**	**4,741.4**	**5,916.9**
Net income (SAR m)	**5,210.4**	**4,828.3**	**4,134.4**	**4,287.9**
CS adj. equity (SAR)	**15,299.6**	**17,844.9**	**21,602.3**	**24,397.6**
EPS stated (SAR)	**5.79**	**5.36**	**4.59**	**4.76**
CS adj. EPS (SAR)	**5.79**	**5.36**	**4.59**	**4.76**
CS adj. BVPS (SAR)	**17.00**	**19.97**	**24.15**	**27.25**
CS adj. ROE (%)	**36.9**	**29.0**	**20.8**	**18.5**
P/E (adj., x)	**8.68**	**9.37**	**10.94**	**10.55**
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	**2.96**	**2.52**	**2.08**	**1.84**

Dividend 2008E (SAR)	**1.66**	Free float (%)	**48.6**
Dividend yield (%)	**3.3**	Number of shares (m)	**900.00**
Net int margin (12/08E, %)	**3.1**	Curr cost of eqty (12/08E, %)	**10.5**
Cost/income (12/08E, %)	**30.0**	Tier 1 ratio (12/08E, %)	**20.1**

Valuation

Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	**139.75**	**180.00**	**50.25**	**50.25**
Market cap. (SAR m)	**125,775.0**	**162,000.0**	**45,225.0**	**45,225.0**

Key ratios

P/E stated, at closing price (x)	**24.14**	**33.55**	**10.94**	**10.55**
P/E at closing price (adj.)	**24.14**	**33.55**	**10.94**	**10.55**
P/BVPS (stated, x)	**8.22**	**9.01**	**2.08**	**1.84**
YE Price/BVPS (adj., x)	**8.22**	**9.01**	**2.08**	**1.84**

Strategic analysis

Existing strengths: Strongest corporate and investment banking franchise in Saudi Arabia, in our view.

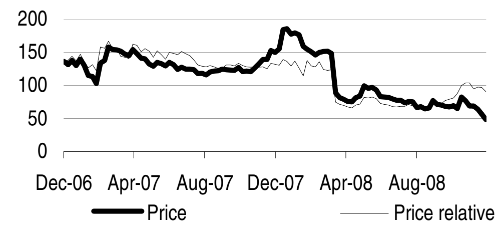
Existing weaknesses: Higher cost of funds than peers.

Existing opportunities: Most exposed to Saudi long-term corporate growth.

Existing threats: Exposure to MTM investments.

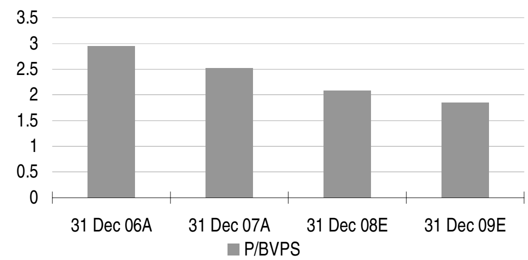
Company description

A Saudi commercial and investment bank.

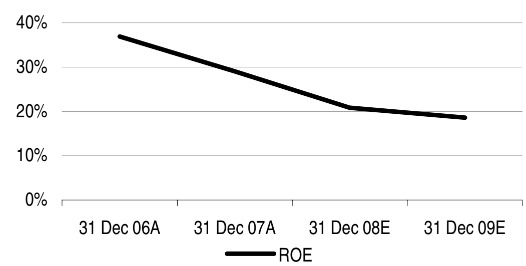


Performance over	1mth	3mths	12mths
Absolute (%)	**-27.2**	**-35.2**	**-66.5**
Relative (%)	**-15.9**	**18.3**	**-33.9**

P/BVPS



ROE



Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Samba Financial Group

Reiterate Neutral

Event: We maintain our Neutral rating on Samba Financial Group but lower our 12-month target price from SAR 82.19 per share to SAR 59.41 per share. This implies potential upside of 18.2% to the current price. We lower our EPS estimates for FY 2008 and FY 2009 from SAR 5.47 and SAR 6.63 per share, respectively, to SAR 4.59 and SAR 4.76 per share for three main reasons:

1) Samba has high exposure to risky securities, with its MTM investments/equity ratio reported at 135.3% in Q308. The bank has already provided for impairments of SAR 188.8m for 9M08, but we think that there is a high risk of further write-downs in Q408. Our base case estimate for a Q408 write-down is SAR 127.8m, at c.0.5% of MTM investments outstanding.

2) NIMs are likely to decline by c.90bps to 3.09% in FY 2008E and by a further c.25bps to 2.83% in FY 2009E.

3) Asset quality is likely to deteriorate (NPL ratio of 2.2% in FY 2007 and 4% in FY 2012E) and in our estimates the bank has been under-provisioning this year to limit the decline in reported profits. Hence, we believe that the bank will have to make heavy provisions (SAR 3.4bn from FY 2009E to FY 2012E) to maintain its provisioning at 120% of NPLs.

View: We view Samba as the largest corporate bank with attractive corporate positioning. 1) Having experienced strong growth of 22.1% in deposit assets in 2007, the second-highest level in the listed Saudi banking sector (>US$5bn), Samba has been growing its loan book faster than its deposit base this year, which has resulted in a tightening of loan/deposit ratio from 69.5% in Q407 to 77.1% in Q308. 2) Although margins are current contracting, we believe they could start rising from FY 2011 and the bank's margins could ultimately stabilise at 3.18% in FY 2012E. 3) Samba recently became the first Saudi bank to open for business in Dubai. However, we believe that before making strides into a competitive market like Dubai, the bank should first strengthen its grip on its own backyard and fight against its depleting domestic loan market share, which has fallen from 14.2% in Q108 to 13% in Q308.

Risks: As stated above, potential Q4 investment write-downs make the near-term profit outlook appear highly uncertain and we suggest investors avoid the bank's shares until more clarity is available.

Summary changes

We estimate net interest income and net income to grow by CAGRs of 10% and 15.3%, respectively, from FY 2008E–12E. This is due to lower margins for FY 2008E–10E and an expansion from FY 2011E. A key observation is the under-provisioning (or deferment) of credit losses (SAR 127m in 9M08, a y-o-y decline of c.50%) to partly offset impairments (SAR 189m). Due to this, we believe that current earnings are distorted with an upward bias while the forward earnings could be distorted with a downward bias.

Figure 48: **Samba: Summary changes to our estimates**

In SAR millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	4,857	5,090	5,384	6,134	7,126	28,591
OLD	5,110	6,420	7,884	9,573	11,403	40,390
Change (%)	-5.0%	-20.7%	-31.7%	-35.9%	-37.5%	-29.2%
Net interest margin						
NEW	3.1%	2.8%	2.8%	3.0%	3.2%	
OLD	3.4%	3.4%	3.4%	3.3%	3.2%	
Change (bps)	(29)	(61)	(56)	(36)	(7)	
Net income						
NEW	4,134	4,288	5,569	6,261	7,309	27,562
OLD	4,921	5,971	6,662	8,520	10,142	36,216
Change (%)	-16.0%	-28.2%	-16.4%	-26.5%	-27.9%	-23.9%

Source: Credit Suisse estimates

Valuation

Samba's 2008E ROE at 20.8% is lower than the sector average of 22.3%. The stock trades at a 2.1x 2008E P/BV multiple, which is lower than the sector average of 2.4x. On a P/E basis, the stock trades at 10.9x (for 2008E) which is below the sector average of 11.7x, while EPS growth for FY 2009E is 3.7% versus the sector average of 7.5%.

Our TP is based on a dividend discount model, with the cost of equity at 10.5%. The dividends are forecast in three distinct periods, with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.47% annually between 2013E and 2017E, thereafter declining by 0.77% annually until 2027E and by 0.18% thereafter until 2037E.
- The dividend payout targets a retention rate of 60% in 2012E and stabilises at 50% from 2018E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% annually beyond 2037E discounted at the cost of equity.
- The equity/assets ratio transitions from 11.6% in 2007 to 14.9% in 2012E.

Figure 49: **Samba: Cost of equity**

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 50: **Samba: Summary valuation**
In SAR millions, unless otherwise stated

Period	0.25
PV	1,456
PV 5 years	7,788.1
PV Fading	36,717
Terminal Value	166,298
PV Terminal Value	8,965
Equity Value	53,470
Number of shares (m)	900.0
Value per share (SAR)	59.41
12-month TP (SAR)	59.41
Current Price (SAR)	50.25

Source: Company data, Credit Suisse estimates

Sensitivity to risk premium

We have applied a base case equity risk premium of 7% for Samba. If the risk premium were to increase by 100bps, our target price would be reduced by 8.9% to SAR 54.09.

Figure 51: **Samba: Sensitivity analysis—Risk-free rate and risk premium**
Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	**3.0%**	**3.5%**	**4.0%**	**4.5%**
Risk premium	**5.0%**	82.12	77.29	73.00	69.13	65.61
	6.0%	73.00	69.13	65.61	62.38	59.41
	7.0%	65.61	62.38	**59.41**	56.66	54.09
	8.0%	59.41	56.66	54.09	51.71	49.47
	9.0%	54.09	51.71	49.47	47.38	45.41
	10.0%	49.47	47.38	45.41	43.56	41.81

Source: Credit Suisse estimates

Sensitivity to impairments in Q408E

Samba has provided for impairments of SAR 188.8m for 9M08, at 0.75% of MTM investments balance. Our base case assumption is for a cumulative FY 2008E–09E impairment of 2.7% of MTM securities. However, below we provide target price sensitivities for higher levels of impairments. In the worst case scenario of a write-down of 30%, the fair price could be reduced to SAR 50.99 per share.

Figure 52: **Samba: Sensitivity analysis—Cumulative Impairments (as % of MTM Investments)**
Target Price sensitivity in SAR, unless otherwise stated

	Cumulative Impairments to MTM investments ratio (FY 2008E-2009E)									
% of Impairments to MTM investments	2.7%	3.7%	5.0%	7.5%	10.0%	12.5%	15.0%	20.0%	25.0%	30.0%
TP (SAR)	**59.41**	**59.10**	**58.70**	**57.92**	**57.15**	**56.38**	**55.61**	**54.07**	**52.53**	**50.99**

Source: Credit Suisse estimates

Figure 53: **Samba: Income statement**
In SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Special commission income	5,321.8	6,991.0	8,386.3	8,687.4	9,546.3	9,863.0
Special commission expense	1,813.9	2,690.0	3,441.9	3,830.8	4,456.1	4,479.1
Net special commission income	3,507.9	4,301.0	4,944.4	4,856.6	5,090.2	5,383.9
Fees from banking services (net)	1,905.7	2,420.0	1,618.1	1,794.8	2,073.3	2,319.9
Exchange income (net)	216.2	275.6	431.4	409.8	450.8	495.9
Income from investments held at FVIS (net)	52.0	177.9	55.2	(502.3)	-	296.8
Trading income (net)	91.2	83.7	143.7	28.7	43.1	49.6
Gains on non trading investments (net)	44.1	2.9	(31.8)	170.0	-	-
Other operating income	10.4	11.7	35.0	35.7	36.4	37.1
Total operating income	**5,827.6**	**7,272.7**	**7,196.0**	**6,793.3**	**7,693.8**	**8,583.1**
% Growth	*45.8%*	*25%*	-1%	-6%	13%	12%
Salaries and employee related expenses	909.7	1,185.6	1,288.6	1,350.0	1,413.8	1,498.7
Rent and premises related expenses	124.8	139.5	181.4	189.1	199.0	215.7
Depreciation	94.6	110.8	122.7	137.3	145.5	154.2
Other general and administrative expenses	372.0	362.9	373.1	364.2	381.8	403.8
Provision for credit losses (net of recoveries)	298.1	263.7	422.6	301.7	910.1	741.2
Provision for impairment of investments	-	-	-	316.6	355.8	-
Other operating expenses	10.2	-	-	-	-	-
Total operating expenses	**1,809.3**	**2,062.4**	**2,388.4**	**2,658.9**	**3,405.9**	**3,013.7**
Cost to Income Ratio	*25.9%*	*24.7%*	27.3%	30.0%	27.8%	26.5%
Share of Minority Interest	-	-	(20.64)	-	-	-
Net income	**4,018.3**	**5,210.4**	**4,828.3**	**4,134.4**	**4,287.9**	**5,569.4**

Source: Company data, Credit Suisse estimates

Figure 54: Samba: Balance sheet
In SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash and balances with SAMA	4,139.1	10,256.5	11,097.6	14,740.8	10,411.4	10,932.2
Due from banks and other financial institutions	2,791.2	5,144.8	2,312.4	5,108.8	5,615.0	6,288.8
Investments (net)	36,356.8	37,682.5	53,573.9	73,050.1	69,260.9	79,142.3
Loans and advances (net)	62,385.6	67,027.6	80,553.3	99,513.3	107,807.4	112,961.9
Property and equipment (net)	673.9	713.4	833.0	883.0	935.9	992.1
Investments in Associate	-	-	10.5	10.5	10.5	10.5
Other assets	1,959.7	3,189.9	6,033.2	971.4	975.1	1,062.8
Total assets	**108,306.3**	**124,014.8**	**154,414.0**	**194,277.8**	**195,016.2**	**211,390.7**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks and other financial institutions	4,399.0	5,785.3	11,425.0	35,122.9	21,056.1	15,721.9
Customer deposits	85,240.2	94,855.9	115,811.3	127,719.8	140,374.2	157,219.1
Other liabilities	3,511.0	3,798.9	7,163.2	7,663.2	7,018.7	7,861.0
Term loan and debt securities	2,250.0	4,275.2	2,039.0	2,039.0	2,039.0	2,039.0
Total liabilities	95,400.2	108,715.2	136,438.4	172,544.9	170,488.0	182,840.9
Shareholders' equity						
Share capital	6,000.0	6,000.0	6,000.0	9,000.0	9,000.0	9,000.0
Statutory reserve	4,254.6	5,557.2	6,000.0	7,033.6	8,105.6	9,000.0
General reserve	130.0	130.0	130.0	130.0	130.0	130.0
Other reserves	(144.5)	(113.4)	(282.2)	-	-	-
Retained earnings	1,221.5	2,993.8	5,625.5	4,233.7	5,901.7	8,566.2
Proposed dividend	1,782.7	1,101.9	659	1,493	1,548	2,011
Employee stock option shares	(338.1)	(369.9)	(287.6)	(287.6)	(287.6)	(287.6)
Total equity attributable to equity holders of the bank	12,906.2	15,299.6	17,844.9	21,602.3	24,397.6	28,419.1
Minority interest	-	-	130.6	130.6	130.6	130.6
Total equity	12,906.2	15,299.6	17,975.6	21,732.9	24,528.3	28,549.8
Total liabilities and shareholders' equity	**108,306.3**	**124,014.8**	**154,414.0**	**194,277.8**	**195,016.2**	**211,390.7**

Source: Company data, Credit Suisse estimates

Figure 55: Samba: DDM fading
In SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net income	4,018	5,210	4,828	4,134	4,288	5,569
Dividends	1,783	2,171	1,743	1,493	1,548	2,011
Retention	2,236	3,039	3,085	2,642	2,740	3,559
Retention Rate (%)	55.6%	58.3%	63.9%	63.9%	63.9%	63.9%
Tier 1	12,906	15,300	17,976	21,733	24,528	28,550
RWAs	70,860	78,390	98,181	107,876	116,006	122,286
RAR	18.2%	19.5%	18.3%	20.1%	21.1%	23.3%
Growth Net income		29.7%	-7.3%	-14.4%	3.7%	29.9%
Growth Tier 1		18.5%	17.5%	20.9%	12.9%	16.4%
Growth RWAs		10.6%	25.2%	9.9%	7.5%	5.4%
ROE (adjusted for valuation)		40.4%	31.6%	23.0%	19.7%	22.7%

Source: Company data, Credit Suisse estimates

Figure 56: Samba: Key accounting ratios (%)

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	5.6	6.6	6.8	5.5	5.3	5.2
Cost of interest-bearing liabilities	2.1	2.7	2.9	2.6	2.7	2.6
Net interest spread	3.5	3.9	3.9	2.9	2.6	2.5
NIM (provision adjusted)	3.4	3.8	3.7	2.9	2.3	2.4
Operating income/Total assets	5.7	6.3	5.2	3.9	4.0	4.2
ROE	34.9	36.9	29.0	20.8	18.5	21.0
ROA	4.0	4.5	3.5	2.4	2.2	2.7
Valuation						
P/E	11.3	8.7	9.4	10.9	10.5	8.1
P/B	3.5	3.0	2.5	2.1	1.8	1.6
Efficiency						
Costs/Income	25.9	24.7	27.3	30.0	27.8	26.5
Cost/Income (ex-depreciation)	24.3	23.2	25.6	28.0	25.9	24.7
Costs/Total assets	1.5	1.5	1.4	1.2	1.1	1.1
Staff costs/Total income	15.6	16.3	17.9	19.9	18.4	17.5
Depreciation/Fixed assets	13.9	16.0	15.9	16.0	16.0	16.0
Asset quality						
Loss loans/Gross customer loans	3.4	2.2	2.2	3.0	3.3	3.5
Provisions/Loss loans	124.4	182.4	159.6	107.0	115.7	120.0
Provisions/Gross customer loans	4.2	4.0	3.6	3.2	3.8	4.2
Provisions expense/Gross customer loans	0.5	0.4	0.5	0.3	0.8	0.6
Provision expense/Operating profit	6.9	4.8	8.1	6.3	16.4	11.7
Capital adequacy						
Tier 1 ratio	18.2	19.5	18.3	20.1	21.1	23.3
Equity/Assets	11.9	12.3	11.6	11.2	12.6	13.5
Payout ratio	44.4	41.7	36.1	36.1	36.1	36.1
Income and cost growth						
Net interest income	18.9	22.6	15.0	(1.8)	4.8	5.8
Non-interest income	122.1	28.1	(24.2)	(14.0)	34.4	22.9
Operating costs	15.6	19.0	9.3	3.8	4.9	6.2
Net profit	60.4	29.7	(7.3)	(14.4)	3.7	29.9
Income breakdown						
Fee income/Total income	32.7	33.3	22.5	26.4	26.9	27.0
Trading income/Total income	1.6	1.2	2.0	0.4	0.6	0.6
Non-interest income/Total income	39.8	40.9	31.3	28.5	33.8	37.3
Interest income/Total income	60.2	59.1	68.7	71.5	66.2	62.7
Brokerage income/Total income	24.8	25.7	12.6	12.6	12.3	12.1
Balance sheet growth						
Loan	29.5	7.4	20.2	23.5	8.3	4.8
Deposit	27.1	11.3	22.1	10.3	9.9	12.0
Asset	14.4	14.5	24.5	25.8	0.4	8.4
Equity	27.4	18.5	17.5	20.9	12.9	16.4
Balance sheet structure						
Customer loans/Total assets	57.6	54.0	52.2	51.2	55.3	53.4
Interest-earning securities/ Total assets	33.6	30.4	34.7	37.6	35.5	37.4
Earning assets/Total assets	93.7	88.6	88.4	91.5	93.7	93.9
Deposits/Total assets	78.7	76.5	75.0	65.7	72.0	74.4
Loans/Deposits	73.2	70.7	69.6	77.9	76.8	71.9

Source: Company data, Credit Suisse estimates

Figure 57: Samba: ROE decomposition (%)

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	3.5	3.7	3.1	2.8	2.6	2.6
Non-interest income/Total assets	2.3	2.6	1.6	1.1	1.3	1.6
Costs/Total assets	(1.5)	(1.5)	(1.4)	(1.2)	(1.1)	(1.1)
Other income(expense)/Total assets	0.0	0.0	0.0	(0.2)	(0.2)	0.0
Provisions expense/Total assets	(0.3)	(0.2)	(0.3)	(0.2)	(0.5)	(0.4)
Taxes/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
ROA	4.0	4.5	3.5	2.4	2.2	2.7
Equity multiplier	8.8	8.2	8.4	8.8	8.4	7.7
ROE	34.9	36.9	29.0	20.8	18.5	21.0
NIM before provisions	3.7	4.1	4.0	3.1	2.8	2.8

Source: Company data, Credit Suisse estimates

Riyad Bank 1010.SE

NEUTRAL* [V]

Price (01 Dec 08)	21.55 (SAR)
Target price (12 months)	(from 38.94) 26.61 (SAR)
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	—

***Stock ratings are relative to the relevant country index**

Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	3,281.0	3,356.8	4,033.0	5,056.4
Net income (SAR m)	2,908.6	3,011.2	2,724.2	3,038.6
CS adj. equity (SAR)	11,992.0	13,186.8	27,765.6	28,897.3
EPS stated (SAR)	2.42	2.51	1.82	2.03
CS adj. EPS (SAR)	2.42	2.51	1.82	2.03
CS adj. BVPS (SAR)	9.98	10.98	18.51	19.26
CS adj. ROE (%)	25.3	23.9	13.3	10.7
P/E (adj., x)	8.90	8.60	11.87	10.64
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	2.16	1.96	1.16	1.12

Dividend 2008E (SAR)	1.27	Free float (%)	48.7
Dividend yield (%)	5.9	Number of shares (m)	1,500.00
Net int margin (12/08E, %)	3.3	Curr cost of eqty (12/08E, %)	10.5
Cost/income (12/08E, %)	38.6	Tier 1 ratio (12/08E, %)	26.7

Valuation

Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	33.55	49.42	21.55	21.55
Market cap. (SAR m)	40,312.6	59,375.2	32,325.0	32,325.0

Key ratios

	12/06A	12/07A	12/08E	12/09E
P/E stated, at closing price (x)	13.86	19.72	11.87	10.64
P/E at closing price (adj.)	13.86	19.72	11.87	10.64
P/BVPS (stated, x)	3.36	4.50	1.16	1.12
YE Price/BVPS (adj., x)	3.36	4.50	1.16	1.12

Strategic analysis

Existing strengths: Government ownership, second-largest Saudi retail footprint.

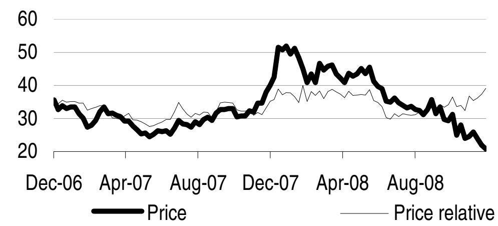
Existing weaknesses: Apparent lack of innovative products.

Existing opportunities: Mortgage financing.

Existing threats:Continual consumer behavioural shift into Islamic banking.

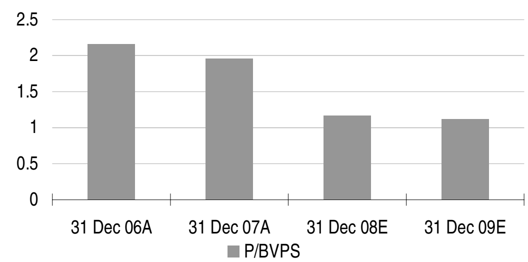
Company description

A large retail bank in Saudi Arabia.

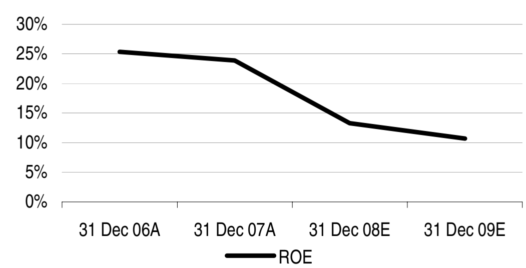


Performance over	1mth	3mths	12mths
Absolute (%)	-12.0	-38.0	-46.2
Relative (%)	1.6	13.2	6.2

P/BVPS



ROE



Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Riyad Bank

Maintain Neutral

Event: We maintain our Neutral rating on Riyad Bank but cut our target price from SAR 38.94 to SAR 26.61 per share, implying 23% upside potential to the current stock price. We lower our EPS estimates for FY 2008 and FY 2009 from SAR 2.34 and SAR 3.11 per share to SAR 1.82 and SAR 2.03 per share, respectively. This is to take into account the following: 1) the sector-wide declining NIMs (from 4.3% in FY 2007 to 3.3% in FY 2009E); 2) the bank's tightening loan/deposit ratio (from 73.2% in Q108 to 102.7% in Q308); and 3) decreasing balance sheet efficiency. In Q3, Riyad Bank probably curtailed deposit growth (-0.9% q-o-q), while raising loans (9.5% q-o-q) and this resulted in a severe tightening of the loan/deposit ratio from 79.9% in Q407 to 102.8% in Q308. The bank is probably pursuing a strategy of preserving margins by sacrificing (costlier) corporate deposit market share. We estimate that the bank's net loan growth would be limited to 8.2% as it would have to raise deposits significantly to grow any higher. We believe that this would ensure that NIMs do not drop more than 35bps in FY 2009E.

View: Riyad Bank is the largest listed Saudi bank among those with significant government ownership (51.3%) and has the third-largest branch network in the country. We see Riyad Bank as a play on the Saudi economy—with strong asset growth of 22.5% in FY 2008E, but we expect asset growth to slow down to a CAGR of 7.4% in the 2008E–11E period. 1) With a 98.3% CAGR in transport and communications and a 43.6% CAGR in construction over the past four years, we think Riyad Bank has demonstrated its ability to tap into the fastest-growing banking segments in the Saudi economy. 2) Its retail penetration—the third highest of its peers—is likely to assist in increasing fee-based income with product innovation and we expect penetration levels to expand further. 3) At its current scale, there looks to be scope for cost efficiency and margin improvement, with the cost/income ratio to decline from 38.6% in 2008E to 33.2% by 2012E.

Summary changes

We estimate net interest income and net income to grow by CAGRs of 10.4% and 18.0%, respectively, for the FY 2008E–12E period. The bank has the highest concentration of corporate loans (71.2% of loan book in FY 2007) due to which its NPL ratio has been contained at 1.6% (FY 2007). However, its 2007 provisioning ratio of 139.2% would mean that it will need to significantly increase provisions (SAR 3.2bn cumulative for FY 2009E–12E) in light of the rising NPLs (3.5% in FY 2012E). We believe the high corporate exposure will ensure that NIMs do not fall by more than 35bps in FY 2009E.

Figure 58: RB: Summary changes to our estimates

In SAR millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	3,891	4,111	4,421	5,059	5,791	23,273
OLD	4,160	5,215	6,326	7,805	9,630	33,135
Change (%)	-6.5%	-21.2%	-30.1%	-35.2%	-39.9%	-29.8%
Net interest margin						
NEW	3.3%	3.0%	3.0%	3.2%	3.4%	
OLD	3.4%	3.3%	3.2%	3.2%	3.2%	
Change (bps)	(7)	(26)	(20)	0	18	
Net income						
NEW	2,724	3,039	3,442	4,029	5,285	18,519
OLD	3,516	4,662	5,735	6,928	8,026	28,867
Change (%)	-22.5%	-34.8%	-40.0%	-41.8%	-34.1%	-35.8%

Source: Credit Suisse estimates

Valuation

On price/book value per share, Riyad Bank looks inexpensive trading at 1.2x (for 2008E), well below the sector average of 2.4x. However, its ROE for 2008E is 13.3%, c.40% lower than the sector average of 22.3%. These metrics indicate that the stock is fairly valued vis-à-vis its peers and hence supportive of our Neutral rating.

Our TP is based on a dividend discount model with the cost of equity at 10.5%. The dividends are forecast in three distinct periods with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.24% annually between 2013E and 2017E, declining by 0.39% until 2027E and by 0.09% thereafter until 2037E.
- The dividend payout targets a retention rate of 45% beyond 2012E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% beyond 2037E discounted at the cost of equity.
- The equity/assets ratio transitions from 10.9% in 2007 to 17.2% in 2012E.

Figure 59: Riyad: Cost of equity
in %, unless otherwise stated

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 60: Riyad Bank: Summary valuation
in SAR millions, unless otherwise stated

DECF Valuation	
Period	0.25
PV	1,860
PV 5 years	9,209.2
PV Fading	24,941
Terminal Value	106,989
PV Terminal Value	5,768
Equity Value	39,918
Number of shares	1,500
Value per share	26.61
TP (SAR)	26.61
Current Price (SAR)	21.55

Source: Credit Suisse estimates

Sensitivity to risk premium

We have applied a base case equity risk premium of 7% for RB. If the risk premium were to increase by 100bps, our target price would be reduced by 8% to SAR 24.48.

Figure 61: RB: Sensitivity analysis—Risk-free rate and risk premium
Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	3.0%	3.5%	4.0%	4.5%
Risk premium	5.0%	35.66	33.74	32.03	30.49	29.09
	6.0%	32.03	30.49	29.09	27.80	26.61
	7.0%	29.09	27.80	**26.61**	25.51	24.48
	8.0%	26.61	25.51	24.48	23.52	22.62
	9.0%	24.48	23.52	22.62	21.78	20.98
	10.0%	22.62	21.78	20.98	20.23	19.52

Source: Credit Suisse estimates

Sensitivity to margins

Our base case estimate is for a FY 2009E NIM of 3.01%. In Figure 62, we provide the target price sensitivities to our NIM assumptions. If we assume NIM to be higher by 30bps, the price would get an uplift by 8.3% to SAR 28.82, while a 30bps lower estimate would decrease the price by 8.1% to SAR 24.45 per share.

Figure 62: RB: Sensitivity analysis to margins (FY 2009E)
Target Price sensitivity in SAR

	Target price sensitivity to NIMs (FY 2009E)						
NIM% (FY 2009E)	2.71%	2.81%	2.91%	3.01%	3.11%	3.21%	3.31%
TP (SAR)	24.45	25.17	25.89	**26.61**	27.34	28.08	28.82

Source: Credit Suisse estimates

Figure 63: Riyad Bank: Income statement
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Special commission income	4,050.4	5,508.5	6,209.6	6,330.4	7,014.1	7,576.1
Special commission expense	1,378.5	2,582.5	2,943.2	2,439.2	2,903.3	3,154.7
Net special commission income	2,671.8	2,926.0	3,266.4	3,891.3	4,110.8	4,421.3
Fees from banking services (net)	1,097.8	1,317.4	1,010.5	1,269.2	1,528.2	1,705.7
Exchange income (net)	91.5	141.8	271.6	285.2	299.5	329.4
Trading income (net)	245.8	358.1	479.6	(550.0)	100.0	110.0
Gains on non trading investments (net)	51.0	19.0	101.6	100.0	100.0	100.0
Other operating income	37.3	123.8	38.3	57.5	63.2	69.6
Total operating income	**4,195.1**	**4,886.1**	**5,168.1**	**5,053.2**	**6,201.7**	**6,736.0**
Gain on sale of land	295.7	-	-	-	-	-
Total income	**4,490.8**	**4,886.1**	**5,168.1**	**5,053.2**	**6,201.7**	**6,736.0**
% Growth	*29.9%*	*8.8%*	*5.8%*	-2.2%	22.7%	8.6%
Salaries and employee related expenses	792.9	875.4	960.0	1030.6	1090.6	1144.6
Rent and premises related expenses	106.9	134.2	166.4	179.8	202.4	221.3
Depreciation and amortization	102.4	150.0	195.0	231.9	289.8	354.3
Other general and administrative expenses	412.8	431.2	489.7	505.9	616.6	663.2
Provision for credit losses (net of recoveries)	212.1	372.5	345.5	380.9	963.6	910.6
Other operating expenses	26.4	14.3	0.2	-	-	-
Total operating expenses	**1,653.5**	**1,977.6**	**2,156.9**	**2,329.0**	**3,163.0**	**3,293.9**
Cost to Income Ratio %	*32.1%*	*32.9%*	*35.0%*	38.6%	35.5%	35.4%
Net income for the period	**2,837.3**	**2,908.6**	**3,011.2**	**2,724.2**	**3,038.6**	**3,442.1**

Source: Company data, Credit Suisse estimates

Figure 64: Riyad Bank: Balance sheet
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash and balances with SAMA	2,949.1	5,174.0	16,579.0	11,427.6	13,638.3	13,783.4
Due from banks and other financial institutions	1,734.7	5,713.4	4,168	4,576	5,017	5,543
Investments (net)	27,239.9	27,501.7	27,742	36,796	35,835	39,090
Loans and advances (net)	45,606.0	52,183.1	67,340	91,858	99,385	106,524
Other real estate (net)	477.4	484.8	493.0	493.0	493.0	493.0
Property and equipment (net)	851.3	1,168.7	1,472.2	1,840.3	2,300.3	2,760.4
Other assets	1,220.2	1,790.1	3,556.1	1,629.5	2,025.8	2,475.4
Total assets	**80,078.7**	**94,015.8**	**121,350.8**	**148,620.8**	**158,693.9**	**170,669.4**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks and other financial institutions	12,963.4	8,167.0	17,798.3	22,881.4	22,574.9	22,173.6
Customer deposits	52,729.8	69,191.6	84,331.2	91,525.6	100,333.0	110,868.0
Other liabilities	3,425.1	2,794.4	4,162	4,576	5,017	5,543
Debt securities	-	1,870.9	1,872.0	1,872.0	1,872.0	1,872.0
Total liabilities	69,118.3	82,023.9	108,164.0	120,855.3	129,796.6	140,457.0
Shareholders' equity						
Share capital	5,000.0	6,250.0	6,250.0	15,000.0	15,000.0	15,000.0
Share premium				4,375.0	4,375.0	4,375.0
Statutory reserve	3,709.3	4,436.5	5,189.3	5,870.3	6,630.0	7,490.5
Other reserves	(52.2)	(60.2)	195.4	-	-	-
Retained earnings	1,434.3	293.7	477.1	613.3	765.2	1,281.6
Proposed dividend	869.0	1,072.0	1,075.0	1,906.9	2,127.0	2,065.3
Total equity	10,960.4	11,992.0	13,186.8	27,765.6	28,897.3	30,212.4
Total liabilities and shareholders' equity	**80,078.7**	**94,015.8**	**121,350.8**	**148,620.8**	**158,693.9**	**170,669.4**

Source: Company data, Credit Suisse estimates

Figure 65: Riyad Bank: DDM fading
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net income	2,837	2,909	3,011	2,724	3,039	3,442
Dividends	1,669	2,072	2,075	1,907	2,127	2,065
Retention	1,168	837	936	817	912	1,377
Retention Rate (%)	41.2%	28.8%	31.1%	30.0%	30.0%	40.0%
Tier 1	10,960	11,992	13,187	27,766	28,897	30,212
RWAs	54,416	62,832	76,850	104,116	111,518	119,784
RAR	20.1%	19.1%	17.2%	26.7%	25.9%	25.2%
Growth Net income		2.5%	3.5%	-9.5%	11.5%	13.3%
Growth Tier 1		9.4%	10.0%	110.6%	4.1%	4.6%
Growth RWAs		15.5%	22.3%	35.5%	7.1%	7.4%
ROE (adjusted for valuation)		26.5%	25.1%	20.7%	10.9%	11.9%

Source: Company data, Credit Suisse estimates

Figure 66: Riyad Bank: Key accounting ratios

%

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	5.6	6.9	6.7	5.4	5.1	5.2
Cost of interest-bearing liabilities	2.2	3.6	3.2	2.2	2.4	2.4
Net interest spread	3.5	3.3	3.5	3.2	2.7	2.8
NIM (provision adjusted)	5.2	3.2	3.2	3.0	2.3	2.4
Operating income/Total assets	5.4	5.6	4.8	3.7	4.0	4.1
ROE	27.3	25.3	23.9	13.3	10.7	11.6
ROA	3.7	3.3	2.8	2.0	2.0	2.1
Valuation						
P/E	9.1	8.9	8.6	11.9	10.6	9.4
P/B	2.4	2.2	2.0	1.2	1.1	1.1
Efficiency						
Costs/Income	34.4	32.9	35.0	38.6	35.5	35.4
Cost/Income (ex-depreciation)	31.9	29.8	31.3	34.0	30.8	30.1
Costs/Total assets	1.9	1.8	1.7	1.4	1.4	1.4
Staff costs/Total income	18.9	17.9	18.6	20.4	17.6	17.0
Depreciation/Fixed assets	12.8	14.9	14.8	14.0	14.0	14.0
Asset quality						
Loss loans/Gross customer loans	1.1	1.6	1.6	2.1	2.6	3.0
Provisions/Loss loans	269.5	176.8	139.2	102.0	120.6	130.6
Provisions/Gross customer loans	2.9	2.8	2.2	2.1	3.1	3.9
Provisions expense/Gross customer loans	0.5	0.7	0.5	0.4	0.9	0.8
Provision expense/Operating profit	7.7	11.4	10.3	12.3	24.1	20.9
Capital adequacy						
Tier 1 ratio	20.1	19.1	17.2	26.7	25.9	25.2
Equity/Assets	13.7	12.8	10.9	18.7	18.2	17.7
Payout ratio	58.8	71.2	68.9	70.0	70.0	60.0
Income and cost growth						
Net interest income	11.0	9.5	11.6	19.1	5.6	7.6
Non-interest income	45.0	28.7	(3.0)	(38.9)	80.0	10.7
Operating costs	13.8	11.4	12.8	7.5	12.9	8.4
Net profit	41.5	2.5	3.5	(9.5)	11.5	13.3
Income breakdown						
Fee income/Total income	26.2	27.0	19.6	25.1	24.6	25.3
Trading income/Total income	5.9	7.3	9.3	(10.9)	1.6	1.6
Non-interest income/Total income	36.3	40.1	36.8	23.0	33.7	34.4
Interest income/Total income	63.7	59.9	63.2	77.0	66.3	65.6
Brokerage income/Total income	18.6	18.8	7.8	7.6	6.8	6.9
Balance sheet growth						
Loan	34.4	14.4	29.0	36.4	8.2	7.2
Deposit	6.0	31.2	21.9	8.5	9.6	10.5
Asset	7.9	17.4	29.1	22.5	6.8	7.5
Equity	11.3	9.4	10.0	110.6	4.1	4.6
Balance sheet structure						
Customer loans/Total assets	57.0	55.5	55.5	61.8	62.6	62.4
Interest-earning securities/ Total assets	34.0	29.3	22.9	24.8	22.6	22.9
Earning assets/Total assets	93.1	90.8	81.8	89.6	88.4	88.6
Deposits/Total assets	65.8	73.6	69.5	61.6	63.2	65.0
Loans/Deposits	86.5	75.4	79.9	100.4	99.1	96.1

Source: Company data, Credit Suisse estimates

Figure 67: Riyad Bank: ROE decomposition

%

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	3.5	3.4	3.0	2.9	2.7	2.7
Non-interest income/Total assets	2.0	2.3	1.8	0.9	1.4	1.4
Costs/Total assets	(1.9)	(1.8)	(1.7)	(1.4)	(1.4)	(1.4)
Other income(expense)/Total assets	0.4	0.0	0.0	0.0	0.0	0.0
Provisions expense/Total assets	(0.3)	(0.4)	(0.3)	(0.3)	(0.6)	(0.6)
Taxes/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
ROA	3.7	3.3	2.8	2.0	2.0	2.1
Equity multiplier	7.4	7.6	8.6	6.6	5.4	5.6
ROE	27.3	25.3	23.9	13.3	10.7	11.6
NIM before provisions	3.7	3.7	3.5	3.3	3.01	3.03

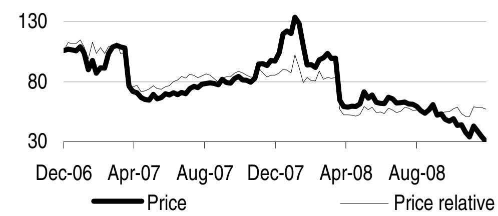
Source: Company data, Credit Suisse estimates

Arab National Bank 1080.SE

NEUTRAL* [V]

Price (01 Dec 08)	32.60 (SAR)
Target price (12 months)	(from 65.11) 38.91 (SAR)
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	—

***Stock ratings are relative to the relevant country index**

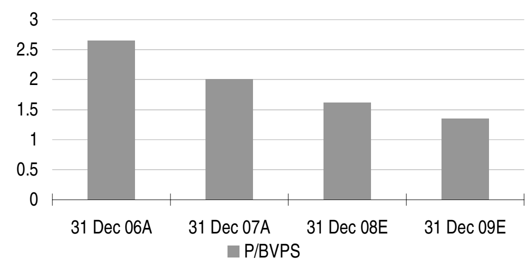


Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	2,587.7	2,528.3	2,715.0	3,225.3
Net income (SAR m)	2,504.7	2,461.2	2,554.6	2,616.0
CS adj. equity (SAR)	7,980.1	10,524.6	13,079.2	15,695.2
EPS stated (SAR)	3.85	3.79	3.93	4.02
CS adj. EPS (SAR)	3.85	3.79	3.93	4.02
CS adj. BVPS (SAR)	12.28	16.19	20.12	24.15
CS adj. ROE (%)	35.0	26.6	21.6	18.2
P/E (adj., x)	8.46	8.61	8.29	8.10
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	2.66	2.01	1.62	1.35

Dividend 2008E (SAR)	—	Free float (%)	33.3
Dividend yield (%)	—	Number of shares (m)	650.00
Net int margin (12/08E, %)	3.5	Curr cost of eqty (12/08E, %)	10.5
Cost/income (12/08E, %)	36.7	Tier 1 ratio (12/08E, %)	15.9

Performance over	1mth	3mths	12mths
Absolute (%)	-4.1	-45.4	-66.5
Relative (%)	10.7	-0.4	-33.8

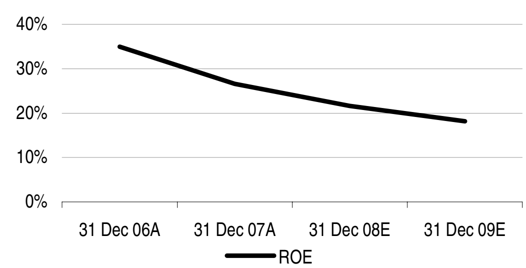
P/BVPS



Valuation

Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	109.25	121.00	32.60	32.60
Market cap. (SAR m)	71,012.5	78,650.0	21,190.0	21,190.0
Key ratios				
P/E stated, at closing price (x)	28.35	31.96	8.29	8.10
P/E at closing price (adj.)	28.35	31.96	8.29	8.10
P/BVPS (stated, x)	8.90	7.47	1.62	1.35
YE Price/BVPS (adj., x)	8.90	7.47	1.62	1.35

ROE



Strategic analysis

Existing strengths: Arab Bank's platform strength and management.
Existing weaknesses: Cost of funds is higher than peers.
Existing opportunities: Mortgage financing.
Existing threats: New banking licences in Saudi Arabia.

Company description

A pan-MENA commercial bank.

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Arab National Bank

Maintain Neutral

Event: We maintain a Neutral rating on Arab National Bank but revise our 12-month target price down from SAR 65.11 to SAR 38.91, implying 19.4% upside potential to the current price. We lower our EPS estimates for FY 2008 and FY 2009 from SAR 4.12 and SAR 4.77 per share to SAR 3.93 and SAR 4.02 per share, respectively. Due to the increasing cost of funding across the sector, we estimate that the NIM for the bank could drop from 3.72% in FY 2007 to 3.55% in FY 2008, with a further 60bps fall to 2.96% in FY 2009. The sharp drops are likely due to the bank's high exposure to retail lending (c.30% in FY 2007). ANB had an MTM to equity exposure of c.42% in Q308, but the bank has already booked aggregate losses of SAR 300m in FVIS and non-trading investments for 9M08.

View: Arab Bank, one of the largest banks in the Arab world, has a 40% stake in ANB providing strong regional support. 1) The bank is transforming its retail branches into universal branches and investing in infrastructure for scaling the delivery platform. 2) The bank's partnerships with leading real estate and insurance companies in the under-penetrated sectors of mortgages and insurance put it in a potentially strong position to exploit new sectors, in our view. 3) The capital investment could put pressure on cost efficiency in the near term before the benefits of sector growth could be realised. 4) The new mortgage law and developments in the insurance sector could put ANB in a strong position for market leadership in Saudi Arabia in these lines of business.

Summary changes

We estimate net interest income and net income to grow by CAGRs of 7.3% and 9.9%, respectively, from FY 2008E–12E. This is due to NIMs remaining under pressure (at c.2.96%) until FY 2010E, beyond which there likely will be an expansion to 3.08% by FY 2012. Since the bank has a high exposure to retail lending (c.30% in FY 2007), we estimate a 60bps decline in NIMs to 2.96% in FY 2009E.

Figure 68: **ANB: Summary changes to our estimates**

In SAR millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	3,293	3,172	3,520	3,942	4,361	18,287
OLD	3,225	3,953	4,912	6,069	7,551	25,711
Change (%)	2.1%	-19.8%	-28.3%	-35.1%	-42.2%	-28.9%
Net interest margin						
NEW	3.5%	3.0%	3.0%	3.0%	3.1%	
OLD	3.4%	3.3%	3.2%	3.2%	3.2%	
Change (bps)	16	(29)	(25)	(18)	(12)	
Net income						
NEW	2,555	2,616	2,760	3,106	3,730	14,767
OLD	2,677	3,101	3,711	4,471	5,474	19,434
Change (%)	-4.6%	-15.6%	-25.6%	-30.5%	-31.9%	-24.0%

Source: Credit Suisse estimates

Valuation

ANB's 2008E ROE at 21.6% is marginally lower than the sector average of 22.3%. The stock trades at a 1.6x 2008E P/BV multiple, which is below the sector average of 2.4x. On a P/E basis, the stock trades at 8.3x (2008E) versus the sector average of 11.7x, while EPS growth for FY 2009E is 2.4% versus the sector average of 7.5%.

Our TP is based on a dividend discount model with a cost of equity of 10.5%. The dividends are forecast in three distinct periods, with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.27% annually between 2013E and 2017E, thereafter declining by 0.44% annually until 2027E, and by 0.10% thereafter until 2037E.
- The dividend payout targets a retention rate of 90% in 2013E and stabilises at 40% from 2023E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% annually beyond 2037E discounted at the cost of equity.
- The equity/assets ratio transitions from 11.1% in 2007 to 14.9% in 2012E.

Figure 69: **ANB: Cost of equity**

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 70: **ANB: Summary valuation**

In SAR millions, unless otherwise stated

Period	0.25
PV	-
PV 5 years	0.0
PV Fading	19,219
Terminal Value	112,621
PV Terminal Value	6,071
Equity Value	25,290
Number of shares (m)	650.0
Value per share (SAR)	38.91
12-month TP (SAR)	38.91
Current Price (SAR)	32.60

Source: Company data, Credit Suisse estimates

Sensitivity to risk premium

We have applied a base case equity risk premium of 7% for ANB. If the risk premium were to increase by 100bps, our target price would be reduced by 11% to SAR 34.62.

Figure 71: ANB: Sensitivity analysis—Risk-free rate and risk premium
Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	**3.0%**	**3.5%**	**4.0%**	**4.5%**
Risk premium	**5.0%**	57.97	53.81	50.16	46.91	43.99
	6.0%	50.16	46.91	43.99	41.33	38.91
	7.0%	43.99	41.33	**38.91**	36.68	34.62
	8.0%	38.91	36.68	34.62	32.72	30.95
	9.0%	34.62	32.72	30.95	29.31	27.77
	10.0%	30.95	29.31	27.77	26.34	25.00

Source: Credit Suisse estimates

Sensitivity to margins

Our base case estimate is for a FY 2009E NIM of 2.96%. In Figure 72, we provide the target price sensitivities to our NIM assumptions. If we assume NIM to be higher by 30bps, the price would get an uplift by 13.6% to SAR 44.20, while a 30bps lower estimate would decrease the price by 13.0% to SAR 33.87 per share.

Figure 72: ANB: Sensitivity analysis to margins (FY 2009E)
Target Price sensitivity in SAR

	Target price sensitivity to NIMs (FY 2009E)						
NIM% (FY 2009E)	2.66%	2.76%	2.86%	2.96%	3.06%	3.16%	3.26%
TP (SAR)	33.87	35.53	37.21	**38.91**	40.66	42.42	44.20

Source: Credit Suisse estimates

Figure 73: ANB: Income statement
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Special commission income	3,445.2	4,659.3	5,416.8	5,312.0	5,997.7	6,628.3
Special commission expense	1,256.1	2,134.4	2,512.8	2,019.4	2,826.0	3,108.6
Net special commission income	2,189.1	2,525.0	2,903.9	3,292.7	3,171.8	3,519.7
Fees from banking services (net)	693.9	986.5	776.4	969.7	1,239.5	1,438.0
Exchange income (net)	114.0	135.0	200.9	231.0	265.6	305.5
Income from FVIS financial instruments (net)	0.3	29.7	46.0	(109.3)	(57.7)	65.6
Trading income (net)	17.6	2.6	8.9	8.9	10.7	16.1
Dividend income	2.4	-	5.5	5.5	5.5	5.5
Gains on non trading investments (net)	90.7	106.0	(17.6)	(300.0)	-	-
Other operating income	33.8	70.6	32.4	194.1	97.1	87.3
Total operating income	**3,141.7**	**3,855.4**	**3,956.3**	**4,292.6**	**4,732.4**	**5,437.6**
% Growth		*22.7%*	*2.6%*	8.5%	10.2%	14.9%
Salaries and employee related expenses	657.7	770.5	843.1	910.5	1,001.6	1,101.7
Rent and premises related expenses	62.1	80.5	104.7	125.6	150.8	173.4
Depreciation and amortisation	75.5	84.1	119.8	151.3	194.9	247.3
Other general and administrative expenses	251.3	332.0	360.3	389.2	408.6	449.5
Provision for credit losses (net)	248.4	83.0	67.1	161.5	360.5	706.1
Impairment of other financial assets	18.8	-	-	-	-	-
Other operating expenses	0.2	0.6	-	-	-	-
Total operating expenses	**1,314.1**	**1,350.6**	**1,495.1**	**1,738.0**	**2,116.4**	**2,678.0**
Net income	**1,827.6**	**2,504.7**	**2,461.2**	**2,554.6**	**2,616.0**	**2,759.6**

Source: Company data, Credit Suisse estimates

Figure 74: ANB: Balance sheet
In SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash and balances with SAMA	2,495.2	3,216.0	8,228.4	8,966.9	9,608.9	11,639.4
Due from banks and other financial institutions	3,933.7	4,633.3	1,294.0	4,126.3	4,429.6	4,953.1
Investments (net)	20,422.7	18,291.6	21,024.8	21,638.1	23,407.2	27,788.1
Investment in associates	-	-	200.0	200.0	200.0	200.0
Loans and advances (net)	38,778.6	49,747.2	61,121.9	76,548.7	84,224.5	91,990.8
Other real estate	158.9	155.1	155.9	155.9	155.9	155.9
Property and equipment (net)	418.1	586.3	773.7	1,005.8	1,287.4	1,622.1
Other assets	1,285.0	1,405.9	1,669.0	2,432.7	3,083.9	3,822.4
Total assets	**67,492.1**	**78,035.4**	**94,467.6**	**115,074.3**	**126,397.3**	**142,171.8**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks and other financial institutions	8,376.9	3,098.6	4,447.2	5,491.5	5,964.8	6,680.5
Customer deposits	48,832.5	61,773.5	73,692.1	91,525.6	99,412.5	111,342.0
Other liabilities	2,633.5	1,995.6	2,616.2	3,103.0	3,449.8	3,819.4
Term loan	1,312.5	1,312.5	1,312.5	-	-	-
Debt securities in issue	-	1,875.0	1,875.0	1,875.0	1,875.0	1,875.0
Total liabilities	61,155.4	70,055.2	83,943.0	101,995.1	110,702.1	123,716.9
Shareholders' equity						
Share capital	2,500.0	3,250.0	4,550.0	6,500.0	6,500.0	6,500.0
Statutory reserve	2,500.0	3,150.0	3,766.0	4,404.6	5,058.7	5,748.6
General reserve	780.0	1,300.0	1,950.0	1,950.0	1,950.0	1,950.0
Other reserves	217.7	19.8	171.6	171.6	171.6	171.6
Retained earnings	64.2	260.3	87.0	52.9	2,014.9	4,084.7
Proposed dividend	274.7	-	-	-	-	-
Total shareholders' equity	6,336.7	7,980.1	10,524.6	13,079.2	15,695.2	18,454.9
Total liabilities and shareholders' equity	**67,492.1**	**78,035.4**	**94,467.6**	**115,074.3**	**126,397.3**	**142,171.8**

Source: Company data, Credit Suisse estimates

Figure 75: ANB: Key accounting ratios

%

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	6.1	6.9	6.9	5.7	5.6	5.6
Cost of interest-bearing liabilities	2.2	3.4	3.4	2.2	2.7	2.7
Net interest spread	3.9	3.5	3.6	3.5	2.9	2.9
NIM (provision adjusted)	3.3	3.6	3.6	3.4	2.6	2.4
Operating income/Total assets	4.8	5.3	4.6	4.1	3.9	4.0
ROE	32.3	35.0	26.6	21.6	18.2	16.2
ROA	2.8	3.4	2.9	2.4	2.2	2.1
Valuation						
P/E	11.6	8.5	8.6	8.3	8.1	7.7
P/B	3.3	2.7	2.0	1.6	1.4	1.1
Efficiency						
Costs/Income	33.3	32.9	36.1	36.7	37.1	36.3
Cost/Income (ex-depreciation)	30.9	30.7	33.1	33.2	33.0	31.7
Costs/Total assets	1.6	1.7	1.7	1.5	1.5	1.5
Staff costs/Total income	20.9	20.0	21.3	21.2	21.2	20.3
Depreciation/Fixed assets	18.9	12.8	14.3	14.5	15.0	15.4
Asset quality						
Loss loans/Gross customer loans	2.1	0.7	0.5	1.0	1.5	2.0
Provisions/Loss loans	200.6	320.5	354.0	168.1	136.5	140.0
Provisions/Gross customer loans	4.2	2.3	1.8	1.7	2.1	2.8
Provisions expense/Gross customer loans	0.6	0.2	0.1	0.2	0.4	0.7
Provision expense/Operating profit	(11.9)	0.2	0.1	0.2	0.4	0.7
Capital adequacy						
Tier 1 ratio	14.7	14.7	16.0	15.9	17.4	18.6
Equity/Assets	9.4	10.2	11.1	11.4	12.4	13.0
Payout ratio	15.0	0.0	0.0	0.0	0.0	0.0
Income and cost growth						
Net interest income	16.1	15.3	15.0	13.4	(3.7)	11.0
Non-interest income	75.9	39.7	(20.9)	(5.0)	56.1	22.9
Operating costs	4.2	21.1	12.6	10.4	11.4	12.3
Net profit	56.6	37.0	(1.7)	3.8	2.4	5.5
Income breakdown						
Fee income/Total income	22.1	25.6	19.6	22.6	26.2	26.4
Trading income/Total income	0.6	0.1	0.2	0.2	0.2	0.3
Non-interest income/Total income	30.3	34.5	26.6	23.3	33.0	35.3
Interest income/Total income	69.7	65.5	73.4	76.7	67.0	64.7
Brokerage income/Total income	17.8	19.1	8.0	7.3	8.0	8.7
Balance sheet growth						
Loan	35.8	28.3	22.9	25.2	10.0	9.2
Deposit	5.4	26.5	19.3	24.2	8.6	12.0
Asset	6.6	15.6	21.1	21.8	9.8	12.5
Equity	27.5	25.9	31.9	24.3	20.0	17.6
Balance sheet structure						
Customer loans/Total assets	57.5	63.7	64.7	66.5	66.6	64.7
Interest-earning securities/ Total assets	30.3	23.4	22.3	18.8	18.5	19.5
Earning assets/Total assets	93.5	93.1	88.3	88.9	88.7	87.7
Deposits/Total assets	72.4	79.2	78.0	79.5	78.7	78.3
Loans/Deposits	79.4	80.5	82.9	83.6	84.7	82.6

Source: Company data, Credit Suisse estimates

Figure 76: ANB: ROE decomposition

%

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	3.3	3.5	3.4	3.1	2.6	2.6
Non-interest income/Total assets	1.5	1.8	1.2	1.0	1.3	1.4
Costs/Total assets	(1.6)	(1.7)	(1.7)	(1.5)	(1.5)	(1.5)
Other income(expense)/Total assets	(0.0)	0.0	0.0	0.0	0.0	0.0
Provisions expense/Total assets	(0.4)	(0.1)	(0.1)	(0.2)	(0.3)	(0.5)
Taxes/Total assets	0.0	0.0	0.0	0.0	0.0	0.0
ROA	2.8	3.4	2.9	2.4	2.2	2.1
Equity multiplier	11.6	10.2	9.3	8.9	8.4	7.9
ROE	32.3	35.0	26.6	21.6	18.2	16.2
NIM before provisions	3.7	3.7	3.7	3.5	3.0	3.0

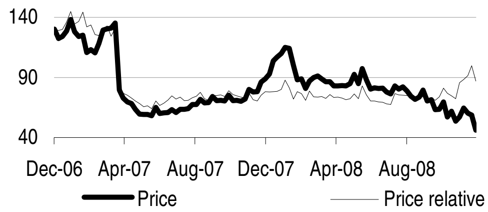
Source: Company data, Credit Suisse estimates

Banque Saudi Fransi 1050.SE

UNDERPERFORM* [V]

Price (01 Dec 08)	49.50 (SAR)
Target price (12 months)	(from 84.22) 51.49 (SAR)
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	—

***Stock ratings are relative to the relevant country index**

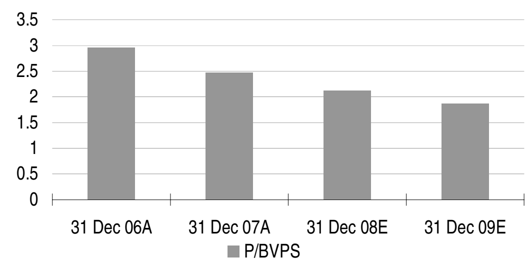


Year	12/06A	12/07A	12/08E	12/09E
Operating profit (SAR m)	3,097.4	2,753.1	2,986.9	3,616.7
Net income (SAR m)	3,006.9	2,711.1	2,732.8	2,760.6
CS adj. equity (SAR)	9,404.8	11,240.6	13,085.4	14,883.7
EPS stated (SAR)	5.35	4.82	4.86	4.91
CS adj. EPS (SAR)	5.35	4.82	4.86	4.91
CS adj. BVPS (SAR)	16.72	19.98	23.26	26.46
CS adj. ROE (%)	36.3	26.3	22.5	19.7
P/E (adj., x)	9.26	10.27	10.19	10.09
P/E rel (%)	—	—	—	—
P/BVPS (adj., x)	2.96	2.48	2.13	1.87

Dividend 2008E (SAR)	1.70	Free float (%)	25.3
Dividend yield (%)	3.4	Number of shares (m)	562.50
Net int margin (12/08E, %)	2.6	Curr cost of eqty (12/08E, %)	10.7
Cost/income (12/08E, %)	24.3	Tier 1 ratio (12/08E, %)	14.9

Performance over	1mth	3mths	12mths
Absolute (%)	-13.2	-36.3	-44.4
Relative (%)	0.3	16.2	9.8

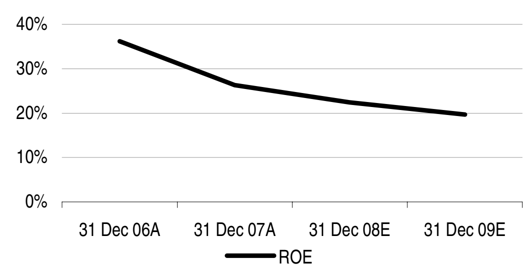
P/BVPS



Valuation

Year	12/06A	12/07A	12/08E	12/09E
Y/E closing price (SAR)	138.00	115.75	49.50	49.50
Market cap. (SAR m)	77,625.0	65,109.4	27,843.8	27,843.8
Key ratios				
P/E stated, at closing price (x)	25.82	24.02	10.19	10.09
P/E at closing price (adj.)	25.82	24.02	10.19	10.09
P/BVPS (stated, x)	8.25	5.79	2.13	1.87
YE Price/BVPS (adj., x)	8.25	5.79	2.13	1.87

ROE



Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates
The price relative chart measures performance against the Saudi Arabia Tadawul All-Share index index which closed at 4795.76 on 01/12/08
On 01/12/08 the spot exchange rate was SAR4.74/Eu 1. - Eu 0.79/US$1

Strategic analysis

Existing strengths: One of the strongest retail brokerage franchises in Saudi Arabia.

Existing weaknesses: Lower growth opportunities in corporate lending.

Existing opportunities: Corporate project financing.

Existing threats: Granting of new banking licences in Saudi Arabia.

Company description

A commercial bank in Saudi Arabia.

Banque Saudi Fransi

Maintain Underperform

Event: We maintain our Underperform rating on Banque Saudi Fransi (BSF) and reduce our target price from SAR 84.22 per share to SAR 51.49 per share. The revised target price implies upside potential of 4.0% to the current price. We have lowered our EPS estimates for FY 2008 and 2009 by 5.9% and 18% to SAR 4.86 per share and SAR 4.91 per share, respectively. The downgrade is due to the declining net interest margins across the sector (by a cumulative 97bps in FY 2007–09E) and slowing deposit (from 16.0% in FY 2008E to 10..6% in FY 2009E on a y-o-y basis) and loan growth(from 28.7% in FY 2007 to 10.0% in FY 2009E on a y-o-y basis). The bank has the least exposure to consumer banking among its peer group, at 7.3% for FY 2007, and a very low demand deposit ratio (c.30% in FY 2008E) which causes a squeeze on yields as well as costs. Moreover, BSF was the only Saudi bank in our coverage to report a decline in fee income this year, a negative y-o-y growth of 7.3% for 9M08. The only major benchmark in which the bank is a top performer is its cost efficiency, with a cost/income ratio of 24.3% for FY 2008E.

View: BSF is one of the leading corporate banks of Saudi Arabia, and we view the planned expansion into investment banking as positive as it should allow BSF to leverage its corporate relationships. However, we think that BSF is either 1) likely to find it difficult to retain its loan market share over the next two years mainly due to the tightening of its loan/deposit ratio (94.6% in FY 2008E) or 2) suffer margin pressures as the bank issues medium term notes to finance lending, thus increasing the cost of funds.

Summary changes

We estimate net interest income and net income to grow by CAGRs of 11.3% and 12%, respectively, from FY 2008E–12E. This is due to lower margins for FY 2008E–10E and an expansion from FY 2011E. The bank has a low NPL ratio (0.7% in FY 2007) and appears adequately provisioned, but its NPL ratios are likely to rise to 2.5% by FY 2012E. As such, we believe it will have to make credit provisioning of SAR 2.5bn during FY 2009E–12E to maintain a provisioning ratio of 120%.

Figure 77: **BSF: Summary changes to our estimates**

In SR millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	Cumulative 2008E–12E
Net interest income						
NEW	2,494	2,582	2,818	3,241	3,826	14,961
OLD	2,684	3,288	3,938	4,726	5,684	20,321
Change (%)	-7.1%	-21.5%	-28.4%	-31.4%	-32.7%	-26.4%
Net interest margin						
NEW	2.6%	2.3%	2.3%	2.4%	2.6%	
OLD	2.8%	2.8%	2.8%	2.8%	2.8%	
Change (bps)	(21)	(48)	(47)	(37)	(18)	
Net income						
NEW	2,733	2,761	3,241	3,614	4,298	16,646
OLD	2,906	3,367	3,969	4,648	5,507	20,396
Change (%)	-5.9%	-18.0%	-18.3%	-22.2%	-22.0%	-18.4%

Source: Credit Suisse estimates

Valuation

BSF's 2008E ROE at 22.5% is marginally higher than the sector average of 22.3%. The stock trades at a 2.1x 2008E P/BV multiple, which is below the sector average of 2.4x. On a P/E basis, the stock trades at 10.2x (2008E) versus the sector average of 11.7x, while EPS growth for FY 2009E is 1.0% versus the sector average of 7.5%.

Our TP is based on a dividend discount model with a cost of equity of 10.5%. The dividends are forecast in three distinct periods, with excess returns levelling off to cost of equity over a 30-year duration. The terminal value is derived as the present value of perpetuity of dividends growing at 3%. When the drivers for long-term sustainable growth are not present in the bank's execution strategy, we restrict our growth expectation to a short period and normalised ROA stability prevails thereafter.

Cost of equity

We forecast the bank's results in SAR terms and use a fixed exchange rate for SAR to US$ conversion.

The cost of equity is derived using a risk-free rate of 3.5%, a market performance benchmark beta of 1 and a 7% market risk premium, which we view as conservative. Hence, we calculate the cost of equity at 10.5%.

Key assumptions

- The long-term normalised ROE settles at 10.5%, equal to the cost of equity by 2037E.
- The excess return over cost of equity declines by 0.46% annually between 2013E and 2017E, thereafter declining by 0.75% annually until 2027E and by 0.17% thereafter until 2037E.
- The dividend payout targets a retention rate of 60% in 2012E and stabilises at 50% from 2018E.
- The terminal value is derived as the present value of perpetuity of dividends, growing at 3% annually beyond 2037E discounted at the cost of equity.
- The equity/assets ratio transitions from 11.3% in 2007 to 13.5% in 2012E.

Figure 78: **BSF: Cost of equity**

Risk-free rate	3.50%
Beta	1.00
Market Risk Premium	7.00%
Cost of equity	10.50%
Terminal growth rate	3.00%

Source: Credit Suisse estimates

Figure 79: **BSF: Summary valuation**

In SAR millions, unless otherwise stated

Period	0.25
PV	932.9
PV 5 years	4,590.3
PV Fading	18,667
Terminal Value	105,866
PV Terminal Value	5,707
Equity Value	28,965
Number of shares (m)	562.5
Value per share (SAR)	51.49
12-month TP (SAR)	51.49
Current Price (SAR)	49.50

Source: Company data, Credit Suisse estimates

Sensitivity to risk premium

We have applied a base case equity risk premium of 7% for BSF. If the risk premium were to increase by 100bps, our target price would be reduced by 8.7% to SAR 47.00 per share.

Figure 80: BSF: Sensitivity analysis—Risk-free rate and risk premium

Target Price sensitivity in SAR, unless otherwise stated

		Risk-free rate				
		2.5%	**3.0%**	**3.5%**	**4.0%**	**4.5%**
Risk premium	**5.0%**	62.94	59.69	56.72	54.00	51.49
	6.0%	59.69	56.72	54.00	51.49	49.17
	7.0%	56.72	54.00	**51.49**	49.17	47.00
	8.0%	51.49	49.17	47.00	44.98	43.08
	9.0%	47.00	44.98	43.08	41.30	39.63
	10.0%	43.08	41.30	39.63	38.05	36.57

Source: Credit Suisse estimates

Figure 81: BSF: Income statement

in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Special commission income	3,011.6	4,257.1	4,940.8	4,806.7	4,782.3	5,247.1
Special commission expense	1,305.9	2,240.3	2,644.7	2,312.4	2,200.5	2,429.4
Net special commission income	1,705.8	2,016.9	2,296.1	2,494.4	2,581.7	2,817.8
Fees from banking services (net)	1,110.4	1,572.0	897.2	902.9	987.8	1,143.4
Exchange income (net)	143.4	144.3	188.0	235.0	270.2	297.2
Trading income (net)	109.8	189.3	310.6	465.9	559.1	671.0
Dividend income	1.6	1.6	3.7	4.1	4.5	4.9
Gains on non trading investments (net)	12.9	9.4	-	-	-	-
Other operating income	9.8	5.3	5.5	99.7	99.7	104.7
Total operating income	**3,093.6**	**3,938.8**	**3,701.2**	**4,201.9**	**4,503.1**	**5,039.0**
% Growth	*36.8%*	*27.3%*	*-6.0%*	13.5%	7.2%	11.9%
Salaries and employee related expenses	394.9	462.9	543.3	603.0	679.6	787.9
Rent and premises related expenses	59.0	69.0	76.9	88.0	97.6	108.3
Depreciation and amortisation	60.9	68.1	78.0	79.7	83.3	87.0
Other general and administrative expenses	221.6	236.4	244.9	243.2	271.1	295.9
Provision for credit losses (net)	134.9	90.5	42.0	182.1	600.9	506.7
Impairment of investments	-	-	-	265.7	-	-
Other operating expenses	6.9	5.0	5.0	7.5	10.0	12.5
Total operating expenses	**878.0**	**931.9**	**990.0**	**1,469.1**	**1,742.5**	**1,798.2**
Cost to Income Ratio	*28.4%*	*23.7%*	*26.7%*	24.3%	25.4%	25.6%
Net income	**2,215.6**	**3,006.9**	**2,711.1**	**2,732.8**	**2,760.6**	**3,240.8**

Source: Company data, Credit Suisse estimates

Figure 82: BSF: Balance sheet
in SAR millions, unless otherwise stated

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
ASSETS						
Cash and balances with SAMA	2,317.3	3,398.8	10,152.2	1,129.8	3,210.4	5,642.5
Due from banks and other financial institutions	2,277.1	6,223.3	3,224.1	6,955.9	7,658.4	8,577.5
Investments (net)	18,127.8	16,013.0	22,500.7	17,752.0	19,581.7	21,947.0
Loans and advances (net)	42,978.7	51,130.2	59,850.0	82,289.8	88,856.9	97,597.7
Property and equipment (net)	475.9	552.4	577.3	603.3	630.4	658.8
Other assets	1,324.5	2,263.4	3,503.8	2,219.0	2,447.7	2,743.4
Total assets	**67,501.4**	**79,581.0**	**99,808.1**	**110,949.8**	**122,385.6**	**137,166.9**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Liabilities						
Due to banks and other financial institutions	4,946.4	3,456.3	8,122.7	5,217.0	5,743.8	6,433.1
Customer deposits	51,093.4	61,998.1	74,007.3	86,949.3	95,730.6	107,218.3
Other liabilities	1,839.2	2,284.3	4,000.0	3,260.6	3,589.9	4,020.7
Term loan	2,437.5	2,437.5	2,437.5	2,437.5	2,437.5	2,437.5
Total liabilities	60,316.5	70,176.2	88,567.5	97,864.4	107,501.8	120,109.5
Shareholders' equity						
Share capital	2,250.0	3,375.0	5,625.0	5,625.0	5,625.0	5,625.0
Statutory reserve	2,250.0	3,375.0	4,052.8	4,736.0	5,426.1	5,625.0
General reserve	2,500.0	2,500.0	1,200.0	1,200.0	1,200.0	1,200.0
Other reserves	(102.4)	(85.2)	(19.6)	(19.6)	(19.6)	(19.6)
Retained earnings	31.7	38.0	68.3	1,161.5	2,265.7	4,173.3
Proposed dividend	255.6	201.9	314.1	382.6	386.5	453.7
Total shareholders' equity	7,184.9	9,404.8	11,240.6	13,085.4	14,883.7	17,057.4
Total liabilities and shareholders' equity	**67,501.4**	**79,581.0**	**99,808.1**	**110,949.8**	**122,385.6**	**137,166.9**

Source: Company data, Credit Suisse estimates

Figure 83: **BSF: Key accounting ratios (%)**

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Profitability						
Yield on earning assets	5.04	6.23	6.22	5.0	4.3	4.3
Cost of interest-bearing liabilities	2.37	3.55	3.47	2.6	2.2	2.2
Net interest spread	2.68	2.68	2.75	2.4	2.1	2.1
NIM (provision adjusted)	2.63	2.82	2.84	2.4	1.8	1.9
Operating income/Total assets	4.87	5.36	4.13	4.0	3.9	3.9
ROE	33.43	36.25	26.26	24.7	19.7	20.3
ROA	3.48	4.09	3.02	2.8	2.4	2.5
Valuation						
P/E	12.6	9.3	10.3	10.2	10.1	8.6
P/B	3.9	3.0	2.5	2.1	1.9	1.6
Efficiency						
Costs/Income	24%	21%	26%	24.3	25.4	25.6
Cost/Income (ex-depreciation)	22.1	19.6	23.5	22.4	23.5	23.9
Costs/Total assets	1.2	1.1	1.1	1.0	1.0	1.0
Staff costs/Total assets	0.6	0.6	0.6	0.6	0.6	0.6
Depreciation/Fixed assets	13.1	13.3	13.8	13.5	13.5	13.5
Asset quality						
Loss loans/Gross customer loans	1.2	1.2	0.7	1.1	1.4	1.8
Provisions/Loss loans	181.8	148.3	189.6	113.3	125.4	120.0
Provisions/Gross customer loans	2.2	1.7	1.4	1.2	1.8	2.1
Provisions expense/Gross customer loans	0.3	0.2	0.1	0.2	0.7	0.5
Provision expense/Operating profit	5.7	2.9	1.5	5.7	17.9	13.5
Capital adequacy						
Tier 1 ratio	15.3	16.6	16.9	14.9	15.7	16.4
Equity/Assets	10.6	11.8	11.3	11.8	12.2	12.4
Payout ratio	28.9	25.0	38.8	31.9	35.0	35.0
Income and cost growth						
Net interest income	7.3	18.2	13.8	8.6	3.5	9.1
Non-interest income	106.9	38.5	(26.9)	21.5	12.5	15.6
Operating costs	13.1	13.2	12.7	7.7	11.8	13.1
Net profit	44.3	35.7	(9.8)	10.6	(7.9)	17.4
Income breakdown						
Fee income/Total income	35.9	39.9	24.2	21.5	21.9	22.7
Trading income/Total income	3.5	4.8	8.4	11.1	12.4	13.3
Non-interest income/Total income	44.9	48.8	38.0	40.6	42.7	44.1
Interest income/Total income	55.1	51.2	62.0	59.4	57.3	55.9
Brokerage income/Total income	30.9	38.1	15.9	13.3	13.1	13.4
Balance sheet growth						
Loan	24.7	19.0	17.1	37.5	8.0	9.8
Deposit	7.1	21.3	19.4	17.5	10.1	12.0
Asset	13.1	17.9	25.4	11.2	10.3	12.1
Equity	18.3	30.9	19.5	16.4	13.7	14.6
Balance sheet structure						
Customer loans/Total assets	63.7	64.2	60.0	74.2	72.6	71.2
Interest-earning securities/ Total assets	26.9	20.1	22.5	16.0	16.0	16.0
Earning assets/Total assets	93.9	92.2	85.7	96.4	94.9	93.4
Deposits/Total assets	75.7	77.9	74.1	78.4	78.2	78.2
Loans/Deposits	84.1	82.5	80.9	94.6	92.8	91.0

Source: Company data, Credit Suisse estimates

Figure 84: BSF: ROE decomposition (%)

	FY 2005A	FY 2006A	FY 2007A	FY 2008E	FY 2009E	FY 2010E
Net interest income/Total assets	2.7	2.7	2.6	2.4	2.2	2.2
Non-interest income/Total assets	2.2	2.6	1.6	1.6	1.6	1.7
Costs/Total assets	(1.2)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)
Other income(expense)/Total assets	-	-	-	-	-	-
Provisions expense/Total assets	(0.2)	(0.1)	(0.0)	(0.2)	(0.5)	(0.4)
Taxes/Total assets	-	-	-	-	-	-
ROA	3.5	4.1	3.0	2.8	2.4	2.5
Equity multiplier	9.6	8.9	8.7	8.7	8.3	8.1
ROE	33.4	36.3	26.3	24.7	19.7	20.3
NIM before provisions	2.9	2.9	2.9	2.6	2.3	2.3

Source: Company data, Credit Suisse estimates

Stress tests

Outcome for worst cases

We have performed stress tests to identify the impact of extreme downside scenarios on the stock prices. We present our assumptions and test results of the same below.

(1) **Scenario A**: EPS to decline by 20% in FY 2009 and grow at 5% annually thereafter.

(2) **Scenario B**: EPS to decline by 50% in FY 2009 and grow at 10% annually thereafter.

(3) **Scenario C**: Loans and deposits to decline by 20% in FY 2009 and grow at 5% annually thereafter. NIMs to decline by 100bps in 2009.

Figure 85: **Stress tests results: Saudi banks**

Bank	Current Mkt Cap (US$ m)	Current Price (SAR)	Target Price (SAR)	Rating	Potential Target Price (SAR)			Potential change % from current price		
					Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Al Rajhi	23,700	59.25	72.66	Outperform	56.41	49.37	44.25	7.4%	-6.0%	-15.7%
Samba Financial Group	12,060	50.25	59.41	Neutral	30.73	22.86	35.15	-39.7%	-55.2%	-31.1%
The Saudi British Bank	8,320	52.00	68.21	Outperform	33.16	24.48	41.74	-33.7%	-51.0%	-16.5%
Riyad Bank	8,620	21.55	26.61	Neutral	15.20	12.15	17.63	-30.3%	-44.3%	-19.1%
Banque Saudi Fransi	7,425	49.50	51.49	Underperform	28.98	21.13	34.46	-42.6%	-58.2%	-31.8%
Arab National Bank	5,651	32.60	38.91	Neutral	23.53	17.25	20.75	-25.1%	-45.1%	-33.9%
Saudi Hollandi Bank	2,928	41.50	50.73	Outperform	31.50	18.93	24.91	-13.7%	-48.1%	-31.8%

Source: Credit Suisse estimates

Companies Mentioned *(Price as of 01 Dec 08)*
Al Rajhi Bank (1120.SE, SRIsr59.25, OUTPERFORM [V], TP SRIsr72.66)
Arab National Bank (1080.SE, SRIsr32.60, NEUTRAL [V], TP SRIsr38.91)
Banque Saudi Fransi (1050.SE, SRIsr49.50, UNDERPERFORM [V], TP SRIsr51.49)
Riyad Bank (1010.SE, SRIsr21.55, NEUTRAL [V], TP SRIsr26.61)
Samba Financial Group (1090.SE, SRIsr50.25, NEUTRAL [V], TP SRIsr59.41)
Saudi Hollandi Bank (1040.SE, SRIsr41.50, OUTPERFORM [V], TP SRIsr50.73)
The Saudi British Bank (1060.SE, SRIsr52.00, OUTPERFORM [V], TP SRIsr68.21)

Disclosure Appendix

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