

RIYAD BANK



EVENT FLASH

Profit led by good asset quality and better NIMs

RIBL's 4Q13 net income grew 27.1% YoY to SR1,030mn. Sustained NIMs and expanded loans have enabled strong top-line growth, while improved asset quality enabled profit expansion. Fee income, however, was flat YoY and we attribute this to lower brokerage income and restrictions on retail fee income.

- NCBC View on Results:** Riyad Bank reported a strong set of results with net income 10.2% better than our estimate and 8.2% higher than consensus. The strong net income was mostly on the back of lower than expected provisions. Based on the preliminary numbers, we estimate provisions of SR185mn for 4Q13 which is 28% below our estimate.
- YoY decline in provisions a key driver of results:** We estimate a 40.9% YoY decline in provisions which reflects the good asset quality of RIBL. We believe the decline in provisions is justifiable as the bank reported gross NPL of 1.1% in 3Q13, below industry average of 1.4%. NPL coverage ratio was also high at 147% for 3Q13. However, reported slowdowns in the construction sector may lead to higher NPL's from contractors. Hence we forecast a conservative growth of 24% for 2014E to reflect the risk on asset quality.
- Stability in NIMS a major positive:** The loan growth for 2013 was 3x higher than recorded in 2012 (11.6% vs. 4.0%). This did not come at the cost of NIMs which we estimate to have been flat YoY, in-line with the management guidance. In addition, the stability in the NIMs further supports our call.
- Read across for the sector:** Fee and other operating income of retail dominated banks such as Al Rajhi is expected to remain muted on a YoY basis. Although RIBL reported better than expected fee and other income, it was almost flat YoY at SR568mn vs. SR570mn last year. We expect NIMs of Saudi banks to remain flat or decline slightly due to higher competition.
- Currently overweight on the stock:** The result supports our positive view on the stock; we expect the bank to continue to report strong loan growth going into 2014E that will not come at the cost of NIMs. Given that they have recently raised debt of SR4bn, we do not expect volatile cost of funds going forward and this should support RIBL's NIMs.

4Q13 Results Summary

SR mn	4Q13A	4Q12A	% Y O Y	4Q13E	% VAR [^]
Net sp comm income	1,227	1,101	11.5	1,255	(2.2)
Fee and other Income	568	570	(0.3)	555	2.3
Total operating income	1,795	1,670	7.5	1,811	(0.9)
Net income	1,030	810	27.1	935	10.2
Loans (bn)	131	117	11.7	132	(0.8)
Deposits (bn)	153	146	4.8	156	(2.1)
Investments (bn)	44	36	20.1	39	11.2
Assets (bn)	205	190	7.9	208	(1.3)
EPS (SR)	0.69	0.54	27.1	0.62	10.2

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

OVERWEIGHT

Target price (SR)	38.6
Current price (SR)	30.4

STOCK DETAILS

M52-week range H/L (SR)	30.4/22.7
Market cap (\$mn)	12,160
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.7	12.6	31.6
Rel. to market	2.7	3.9	8.9

Avg daily turnover (mn)	SR	US\$
3M	17.5	4.7
12M	11.8	3.2

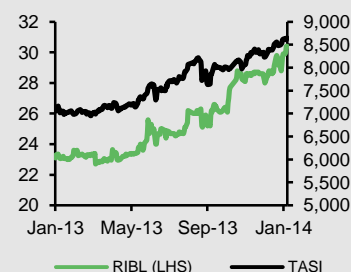
Reuters code	1010.SE
Bloomberg code	RIBL AB
	www.riyadbank.com

VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	13.8	12.3	11.3
P/BV (x)	1.5	1.4	1.3
P/ABV (x)	1.5	1.4	1.3
Div Yield (%)	4.3	4.3	5.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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ARAB NATIONAL BANK



EVENT FLASH

Provision growth continues; muted balance sheet growth

ANB reported a good 26.3% YoY growth but was 12.6% below our estimate due to higher than expected provisioning. The bank reported 3x higher than expected provisioning based on our preliminary calculations and is up 33.9% YoY. This comes despite a 208.5% NPL coverage ratio, the highest in the sector. We believe this could mean that the bank is facing asset quality deterioration particularly as balance sheet growth was broadly flat.

- **NCBC view on the result:** Arab National bank reported a good 4Q13 net income growth of 26.3% YoY led by a 33.8% growth in fee and other income. However, the reported net income was 12.6% below our estimate mostly due to the higher than expected provisions. This is the second consecutive quarter ANB reports higher than expected provisions. The result was also 8.6% below consensus.
- **Good NSCI growth despite flat assets:** ANB reported muted balance sheet growth at 0.9% YoY. Deposit growth fell 1.1% YoY which supported the 13bps expansion in net interest margins and contributed to the good 10.9% YoY growth in NSCI. The good growth in NSCI came in despite a limited 2.5% YoY increase in lending.
- **Declining deposits could restrict further growth:** Although the returns on assets are higher, we believe the flat balance sheet growth coupled with declining deposit base could mean that the bank is looking to scale down its business. While SABB, Riyad and SHB have raised debt issues to support the loan growth, ANB is reducing its funding base. As a result we expect the loan growth for the bank to be restricted going forward; hence there is now higher downside risk on our 8.3% YoY expected loan growth for 2014E.
- Although the profit results were strong, we believe the composition and limited growth in the balance sheet is a negative for the bank in the short term. In addition, the increase in provisioning despite the higher provision coverage, which led to the negative variance with our estimate on the bottom line, may indicate further pressure on asset quality. Hence we are Neutral on the stock with a PT of SR34.3.

4Q13 Results Summary

SR mn	4Q13A	4Q12A	% Y O Y	4Q13E	% VAR
Net sp comm income	886	799	10.9	851	4.1
Fee and other income	427	319	33.8	342	24.9
Total operating income	1,313	1,118	17.4	1,193	10.0
Net income	537	425	26.3	614	(12.6)
Loans (bn)	88	86	2.5	87	1.4
Deposits (bn)	106	108	(1.1)	108	(1.1)
Investments (bn)	28	24	16.1	27	5.6
Assets (bn)	138	137	0.9	139	(0.5)
EPS (SR)	0.63	0.50	26.3	0.72	(12.6)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price (SR) 34.3

Current price (SR) 31.80

STOCK DETAILS

M52-week range H/L (SR)	33.4/26.71
Market cap (\$mn)	7,2081
Shares outstanding (mn)	8501
Listed on exchanges	TADAWULI

Price perform (%)	1M	3M	12M
Absolute	5.6	2.3	19.1
Rel. to market	1.7	(6.4)	(3.6)

Avg daily turnover (mn)	SR	US\$
3M	7.1	1.9
12M	6.8	1.8

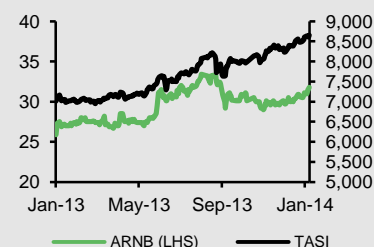
Reuters code	1080.SE
Bloomberg code	ARBN AB
www.anb.com.sa	

VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	12.7	11.6	11.0
P/BV (x)	1.6	1.5	1.4
P/ABV (x)	1.5	1.4	1.3
Div Yield (%)	3.1	3.0	3.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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SAUDI HOLLANDI BANK



EVENT FLASH

Good results support our recent upgrade

SHB's reported a good set of results with net income growth of 10.8% YoY to SR347mn. The result was broadly in line with our estimate but 8.5% below consensus. The quality of earnings from SHB, however, was strong given the estimated increase in NIMs of 10bps YoY as well as the strong 19.1% YoY growth in fee and other income. The result supports our recent upgrade on the stock and we expect the bank to further grow its loan book at relatively favourable margins.

- **Strong results driven by widening margins:** SHB reported a good set of results on YoY basis, in line with our estimate but 8.5% below consensus. Despite stronger than expected fee and other income growth, the net income came in line given the higher than expected provisioning. We also note that NSCI came in line with our estimate although loan growth was 2.2% lower than our forecast. This suggests that NIMs improved YoY; based on the preliminary numbers, we estimated a NIMs increase of 10bps YoY.
- This strong 4Q13 results supports our Overweight call on the stock; a combination of strong loan growth that is not at the cost of net yields and increase in fee-based income has led to the good net income growth.
- We expect further loan growth in 1Q14 as SHB has recently raised SAR2.5bn in Tier II sukus which will be used to finance their loan book growth as well as support their capital adequacy ratio. Overall we expect a 13% increase in net income for 2014E to SR1.62bn driven by a good 15.2% growth in loans
- **SHB results superior to SAIB: Compared to its peer SAIB, the quality of SHB's earnings is superior. While lending growth for SAIB was twice that of SHB, SAIB's NSCI grew only 3.4% YoY while for SHB it increased 23.7%.** The return on the balance sheet expansion of SHB is, therefore, significantly higher which makes us very positive on the stock.
- We are currently Overweight on the stock with a PT of SR44.5. We expect the bank to continue with double digit loan growth in 2014E driven by the boosted capital base.

4Q13 Results Summary

SR mn	4Q13A	4Q12A	% Y O Y	4Q13E	% VAR
Net sp comm income	427	345	23.7	426	0.2
Fee and other income	244	205	19.1	218	11.7
Total operating income	671	550	22.0	644	4.1
Net income	347	313	10.8	349	(0.4)
Loans (bn)	54	45	18.5	55	(2.2)
Deposits (bn)	62	54	14.8	62	(0.2)
Investments (bn)	17	11	48.1	15	14.0
Assets (bn)	80	69	17.5	78	2.8
EPS (SR)	0.88	0.79	10.8	0.88	(0.4)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

OVERWEIGHT

Target price (SR) 44.5

Current price (SR) 42.9

STOCK DETAILS

M52-week range H/L (SR)	43.3/27.4
Market cap (\$mn)	4,541
Shares outstanding (mn)	397
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	13.5	8.6	56.6
Rel. to market	9.5	(0.1)	33.9

Avg daily turnover (mn)	SR	US\$
3M	7.1	1.9
12M	5.0	1.3

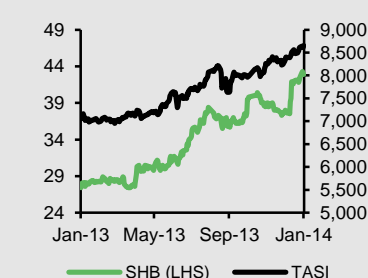
Reuters code	1040.SE
Bloomberg code	AAAL AB
	www.shb.com.sa

VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	14.2	11.9	10.5
P/BV (x)	2.2	1.9	1.7
P/ABV (x)	2.1	1.8	1.6
Div Yield (%)	2.1	2.2	3.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NC: Not covered. NCBC does not cover this company

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