

Rating **Neutral**
 12- Month Target Price **SAR 27.00**

SAUDI BRITISH BANK

4Q2016 First Look

Deposits Continue Bleeding

Saudi British Bank (SABB) posted a disappointing net income of SAR 607 million, down -35% Y/Y and -39% Q/Q. SABB was one of the few banks that have recorded extraordinary provisions in the fourth quarter. We estimate total impairments of close to SAR 530 million; this follows from higher levels of SAR 190 million in 3Q versus an average of SAR 124 million for the preceding two quarters. While net special commission income has been in line with estimates, non-core income has come in weaker. A further SAR 3.5 billion drop in deposits Q/Q and an almost SAR 5 billion decline in net loans is not encouraging. We raise our target price from SAR 24.00 to SAR 27.00. Trading at 1.0x 2017E book value, recommend a Neutral.

NSCI matches forecast

Net special commission income (NSCI) matched our SAR 1.2 billion forecast, up +15% Y/Y and +1% Q/Q. While special commission income was flat Q/Q, the highlight was a -3% Q/Q decline in special commissions expense indicating that the bank has avoided taking in high cost deposits. Most of the other banks have reported significantly greater special commission expense. We are concerned with a fresh SAR 3.5 billion (-2% Q/Q) depletion in deposits to SAR 140.6 billion, exacerbating a SAR 6.1 billion decline in 3Q. As stated earlier, it appears SABB declined to get into the deposit race.

Net loans down -4% Q/Q

On the back of sufficient liquidity in the system for most of 4Q, there has been a decline in fresh credit demand and payback of existing loans. SABB's net loans have decreased by almost SAR 5 billion in the fourth quarter to SAR 121 billion after having started the year at SAR 125 billion. The net effect of the above has been a minor decline in the LDR to 83.3% at 4Q-end versus 84.7% a quarter earlier, giving it plenty of room to expand in 1Q2017, if it wishes.

Provisions shoot up

While non-core income has been weak (-8% Q/Q), this is better than a much steeper decline at peers. However, it was indisputably the +49% Q/Q upsurge in operating expenses to SAR 1.1 billion which depressed bottom line. As against our expectations of SAR 230 million and 3Q provisions of SAR 190 million, we estimate SABB accrued some SAR 530 million in 4Q. This is the highest level since 4Q2009. Given the 2009-2010 history, we will not be surprised to see elevated provision numbers for 2017.

Net income down -35% Y/Y

Net income has plummeted by -35% Y/Y to SAR 607 million, missing market expectations of close to SAR 1 billion. While raising our target price from SAR 24.00 to SAR 27.00, we stick to our Neutral rating as we believe 2017 may also prove to be a difficult year for the bank. SAR 0.70 DPS for 2016 is SAR 0.05 below last year's but provides a decent yield for investors.

Expected Total Return

Price as on Jan-30, 2017	SAR 22.95
Upside to Target Price	17.6%
Expected Dividend Yield	3.5%
Expected Total Return	21.1%

Market Data

52 Week H/L	SAR 25.90 /16.40
Market Capitalization	SAR 34,425 mln
Shares Outstanding	1,500 mln
Free Float	32.4%
12-Month ADTV	353,592

1-Year Price Performance



Source: Bloomberg



4Q2016E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,236	1,235
Total Op Income	1,665	1,722
Net Income	607	985
Loans & Advances	120,965	127,898
Deposits	140,640	149,382

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016A	2017E
Net Comm Inc	4,254	4,757	4,871
Prov for cred loss	430	968*	689
Net Income	4,331	3,895	4,690
EPS (SAR)	2.89	2.60	3.13
DPS (SAR)	0.75	0.70	0.80

*Estimated

Key Financial Ratios

FY Dec31	2015A	2016E	2017E
NIM	2.3%	2.6%	2.5%
ROAE	16.0%	13.1%	14.2%
ROAA	2.3%	2.0%	2.4%
CAR	17.6%	20.8%	22.6%
P/B	1.2x	1.1x	1.0x

Stock Rating

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

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

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