Analyst Comment

NBK CAPITAL

October 13, 2010

THE SAUDI BRITISH BANK (1060.SE)

12-Month Fair Value: SAR 49.40
Last Close (12 October 2010): SAR 42.70
Recommendation: Accumulate - Risk Level: 2

- The Saudi British Bank (SABB) posted a net profit of SAR 419 million in 3Q2010, 27% below 3Q2009 and 6% below 2Q2010. The level of provisions taken in 3Q2010 was not disclosed. However, it looks like provisioning, as expected, remained high in 3Q2010, and was probably not very far from the average quarterly figure in 1H2010 and FY2009.

- Net interest income dropped to SAR 800 million in 3Q2010, 6% below 3Q2009 and 15% below 2Q2010 in which SABB had recorded the highest ever net interest income of SAR 943 million. Non-interest income was also weak, declining by 21% year-on-year (Y-o-Y) and by 14% quarter-on-quarter (Q-o-Q). Total operating income stood at SAR 1,158 million in 3Q2010, 11% below 3Q2009, 15% below 2Q2010, and 7% below our forecast for 3Q2010 on lower than expected non-interest income.

- SABB's total assets declined (-1.7%) for the third consecutive quarter in 3Q2010 and stood at SAR 118.3 billion. During the first nine months of 2010, total assets have declined by 6.7%. Net loans remained flat in 3Q2010 at SAR 74.7 billion, keeping the year-to-date loan growth at negative 2%. We forecast SABB's loans to decline by 2.8% in FY2010. Deposits, on the other hand, declined by 3.7% in 3Q2010 to SAR 90.7 billion compared with SAR 94.2 billion at the end of June 2010. Consequently, SABB's loans-to-deposits ratio (LDR) moved up to 82% as of September 2010, compared with the recent low of 79% as of June 2010.

- We believe this is a weak set of results for SABB, as both net interest income and non-interest income were subdued, resulting in an underperformance of operating income compared to our forecast for 3Q2010. The presumed high provisioning in 3Q2010, however, is broadly in-line with our expectation that provisioning will remain high for SABB in 2H2010. Our fair value estimate for SABB stands at SAR 49.40, which is 16% above the bank's latest closing price. Hence, our recommendation on the stock is "Accumulate".

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Related Research

- SABB Update - 05 October 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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