

SAUDI BANKS Q4-12 WRAP UP

Top line weakness disappoints on spread pressure and lower trading gains. On the positive, provisions ease and balance sheet growth momentum continues.

- **Aggregate Q4-12 earnings 5% below our estimate, down 1.4% Q-o-Q but up 12.8% Y-o-Y:** lower non-interest income across the sector coupled with margin pressure were mitigated by lower provisions. The biggest earnings misses were posted by Al Jazira, ANB and Samba, in contrast BSF delivered a positive surprise. Though revenue trends were slightly disappointing this quarter, we expect them to improve in Q1-13, supported by healthy loan growth and a partial recovery in NIMs.
- **Asset quality concerns ease following a troubling third quarter performance:** We estimate a falling annualized cost of risk of 72 bps in Q4-12 vs. 100 bps in Q3-12, with only 3 banks reporting a higher cost of risk Q-o-Q. Total provisions have dropped by 25% Q-o-Q and increased 5% on a yearly basis (note that loans are up by 17.3% Y-o-Y). Annual cost of risk in 2012 exceeded 2011 by 10 bps; however the NPL coverage for our universe rose from 131% to 138% Y-o-Y.
- **Margins compressed for our covered universe by an estimated 3.3 bps Q-o-Q:** major drags came from Samba, Rajhi and ANB on the back of falling loans to assets ratio as well as rising competition for deposits. Note that sector deposits growth exceeded loan growth this quarter, a key contributor to margin compression.
- **Positive balance sheet trends:** Balance sheet growth continues to steadily improve. Loan growth of 3% Q-o-Q was in line with our estimates, while the loans to deposits ratio has dropped to 80.8% leaving adequate room for growth before reaching SAMA's cap of 85%. Laggards were BSF and SABB, while Samba, Rajhi and Al Bilad exceeded loan growth expectations.
- All in all results did not highly impress this quarter, the Saudi banks continue to face **pressure on the top line**, however we believe **falling provisions this quarter should provide relief to investors**. We note that annual profits rose by 10.5% Y-o-Y yet the banks have de-rated by 6% since the end of 2011. At a median PB of 1.24x, PE13 of 8.3x, we remain **optimistic** on the Saudi banks. While we await for the full financials to update our fair values we stay most positive on **Al Rajhi and Banque Saudi Fransi**.

Covered Saudi Banks Q4-12 Aggregate Results

SAR Mn	Q4-11 A	Q3-12A	Q4-12 A	Q4-12 E	Q-o-Q	Y-o-Y	Vs ASIB Est
Income Statement							
Net Interest Income	7,823	8,384	8,256	8,432	-1.5%	7.8%	-2%
Non-Interest Income	3,792	4,175	3,844	4,210	-7.9%	11.0%	-9%
Total Banking Income	11,615	12,559	12,101	12,642	-3.6%	8.8%	-4%
Operating Expenses	4,043	4,089	4,222	4,195	3.2%	3.7%	1%
Pre-Provisions Profits	7,596	8,438	7,879	8,415	-6.6%	10.8%	-6%
Provisions	1,593	1,958	1,466	1,681	-25.1%	5.5%	-13%
Others	22	25	18	23	-26.6%	4.5%	-22%
Net Profit	5,991	6,504	6,411	6,757	-1.4%	12.8%	-5%
Balance Sheet							
Loans	692,210	786,743	810,511	812,299	3.0%	17.3%	0%
Investments	221,820	223,648	234,170	238,950	4.7%	7.7%	-2%
Total Assets	1,151,801	1,260,622	1,308,230	1,292,842	3.8%	12.2%	1%
Total Deposits	871,816	954,174	1,003,650	988,853	5.2%	13.4%	1%

Saudi Banks Q4-12 Results Summary: Q-o-Q Growth Comparisons

	Earnings	Non Interest Income	Net Interest Spreads	Provisioning Costs	Loans	Deposits
Alinma	7.0%	10.0%	Higher	Higher	6.3%	12.8%
Al Bilad	28.9%	-2.6%	Lower	Lower	6.1%	-9.0%
Rajhi	2.2%	-13.0%	Lower	Lower	3.9%	13.2%
SHB	3.8%	27.1%	Lower	Higher	3.8%	2.2%
SABB	24.4%	-15.9%	Higher	Lower	-1.7%	0.6%
BSF	22.2%	14.6%	Lower	Lower	0.8%	-0.7%
ANB	-25.7%	-6.7%	Lower	Lower	3.2%	9.5%
Samba	-25.1%	-25.8%	Lower	Higher	7.1%	4.0%
Riyad	-3.6%	-0.2%	Lower	Lower	1.9%	3.6%
Jazira	-24.7%	-14.8%	Lower	Higher	5.6%	3.2%
Aggregate (Q-o-Q)	-1.4%	-7.9%	Lower	Lower	3.0%	5.2%
Aggregate (Y-o-Y)	12.8%	11.0%	Lower	Lower	17.3%	13.4%

Source: Company announcements, ASIB estimates

Valuation Table

	PB13E (x)	PE13E (x)	ROE	Dividend Yield 12
Rajhi	2.80	11.90	23.5%	5.0%
Samba	1.23	8.15	15.5%	4.0%
SHB	1.25	8.00	13.6%	4.1%
SABB	1.37	8.10	17.1%	3.8%
BSF	1.07	8.30	15.8%	4.4%
ANB	1.19	7.93	14.3%	4.1%
Riyad	1.07	8.30	11.6%	5.9%
Jazira	1.45	11.60	10.1%	3.3%
Al Bilad	1.95	14.10	21.7%	3.6%
Alinma	1.22	22.30	3.9%	NA

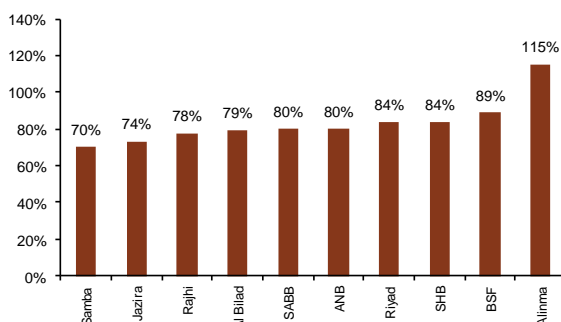
Source: Company announcements, ASIB estimates

Market Share of New Loans

	Market Share Q3-12	Q4-12 MS of new Loans
Rajhi	17%	27%
Samba	10%	29%
SHB	4%	7%
SABB	10%	-7%
BSF	10%	3%
ANB	9%	11%
Riyad	12%	9%
Jazira	3%	7%
Al Bilad	2%	4%
Alinma	4%	9%

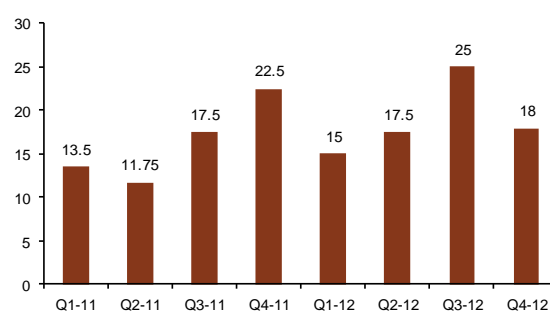
Source: Company announcements, ASIB estimates

Loans to Deposits Ratio as of Q4-12



Source: Company announcements, ASIB estimates

Quarterly Cost of Risk (bps)



Source: Company announcements, ASIB estimates

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