المجموعة المالية - هيرميس
EFG HERMES

ARAB NATIONAL BANK

Earnings Recover on Improved Revenue, Stable Provisions

19 JULY 2009

SAUDI ARABIA | BANKING

Short-Term Rec.: Neutral	Current Price*: SAR 43.00
Long-Term Rec. : Buy	LT Fair Value : SAR 49.70

- **2Q2009 Earnings Ahead of Estimates:** Arab National Bank announced earnings of SAR746 million (EPS: SAR1.15), flat Y-o-Y but 7.4% higher Q-o-Q. Earnings were 24% ahead of our estimates of SAR601 million, with revenues coming in higher than our expectations, while provisions were lower than our estimates.

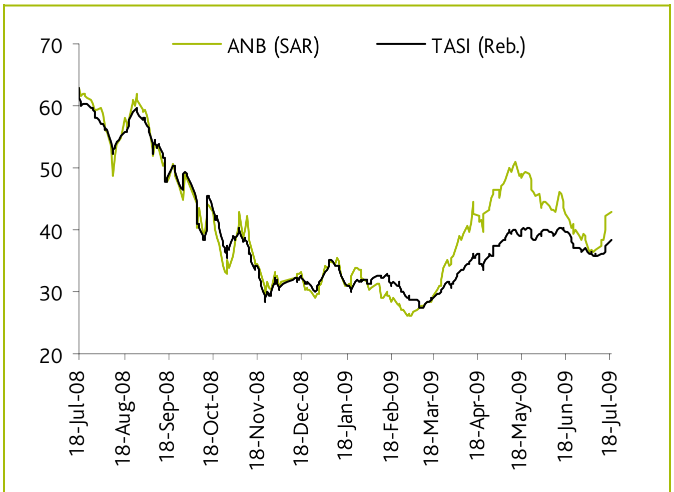
- **Spreads Estimated to be Marginally Lower Q-o-Q:** We estimate that net special commission income spreads have declined marginally on a Q-o-Q basis in 2Q2009. Net special commission income grew by 4.6% Y-o-Y, however declined 2.0% Q-o-Q to SAR894 million. Loan book contraction continued for the second consecutive quarter, while net investments grew by 3.9% to SAR26.6 billion, suggesting that ANB diverted incremental liquidity in to corporate or sovereign securities, which is likely to have suppressed asset yields.

- **Sharp Q–o-Q Recovery in Non Special Income:** Though net special commission income declined Q-o-Q, a 30.5% Q-o-Q jump in non special commission income propelled revenue growth by 4.9% Q-o-Q to SAR1,212 million, 13.2% ahead of our estimates of SAR1,071 million. While break up of non special commission income is not available, we believe that it is likely to have been driven by higher brokerage commissions and trade related fees.

- **Provisions Estimated to be Higher Y-o-Y, but Flat Q-o-Q:** We estimate that ANB recorded credit provisions of SAR56 million in 2Q2009, which although doubled Y-o-Y, remained broadly unchanged on a Q-o-Q basis. Provision were 25% lower than our estimates of SAR75 million. We believe that these are primarily on account of general portfolio provisions. At the end of 2008, ANB's NPL ratio stood at 0.39% (one of the lowest among Saudi banks) while loan loss coverage was at 349% (one of the highest among Saudi banks).

- **Earnings Surprise:** ANB delivered an overall strong set of results for 2Q2009, which was ahead of market expectations, although this was supported by provisions remaining stable on a Q-o-Q basis. Spreads have remained largely stable, while non-special commission income has surprised on the upside. We await the release of detailed accounts to get more visibility on the drivers of non special commission.

FLASH NOTE



Price as of 18 July 2009

	2009e	2010e	2011e
EPS	4.25	4.71	5.52
P/E* (x)	10.12	9.14	7.79
DPS	1.10	1.20	1.40
Div Yield*	2.6%	2.8%	3.3%
BVPS	21.68	25.21	29.35
P/BV* (x)	1.98	1.71	1.47

All figures in SAR unless otherwise stated

Stock Data	
Last Ex-Div Date	SAR1.0 on 23 Mar 09
Mkt. Val. / Shares (mn)	SAR27,950 / 650
Av. Mthly Liqdity (mn)	SAR214.0
52-Week High / Low	SAR62.75 /26.10
Bloomberg / Reuters	ARNB AB / 1080.SE
Est. Free Float	33.70%

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I. RESULT HIGHLIGHTS

Figure 1: Arab National Bank - 2Q2009 Preliminary Results
SAR million unless otherwise stated

	2Q2008a	1Q2009a	2Q2009a/e	Y-o-Y	Q-o-Q	2Q2009e	Variance
Income Statement							
Net Special Commission Income	855	912	894	4.6%	-2.0%	821	8.9%
Non Special Commission Income*	324	244	318	-1.9%	30.5%	250	27.2%
Total Income	1,179	1,156	1,212	2.8%	4.9%	1,071	13.2%
Operating Expenses*	404	406	410	1.5%	0.9%	395	3.8%
Pre-Provision Profits	775	750	802	3.4%	7.0%	676	18.6%
Credit & Investment Provisions*	23	55	56	142.2%	2.3%	75	-25.3%
Net Profit	752	695	746	-0.8%	7.4%	601	24.1%
EPS (SAR)	1.16	1.07	1.15			0.92	
Balance Sheet							
Net Loans	69,883	72,810	71,200	1.9%	-2.2%	71,354	-0.2%
Net Investments	22,292	26,555	27,600	23.8%	3.9%	26,820	2.9%
Total Assets	110,330	112,407	115,100	4.3%	2.4%	112,969	1.9%
Customer Deposits	84,915	84,519	85,200	0.3%	0.8%	86,209	-1.2%

* 2Q2009 are estimates derived from announced headline numbers
Source: Company Announcement, EFG-Hermes estimates

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Neutral	(10%) to 10%
Reduce	(10%) to (25%)
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