

SAUDI BANKS Q1-13 WRAP UP: A STRONG START TO 2013

Strong non-interest income more than offset pressure on spreads. At the same time, provisions eased and balance sheet growth momentum continued.

- Aggregate Q1-13 earnings 6% above our estimate, up 13% Q-o-Q and down 2% Y-o-Y:** Aggregate recurring earnings of the banks under our coverage grew almost 13% Q-o-Q on strong loan growth, rising non-interest income and normalizing provisions. Q1-12 brokerage income was exceptionally high due to abnormal trading activities on the Tadawul. Despite this, aggregate profits for banks under our coverage were relative in line with Q1-12. Versus our estimates, 5 banks delivered positive earnings surprises: Riyadh, SABB and ANB (lower impairments and higher non-interest income), Samba (higher margins and non-interest income) and Jazira (higher non-interest income); Al Bilad (higher impairments and lower margins), BSF (lower margins) fell short.
- Non-interest income surprised:** Almost all banks reported strong non-interest income growth in Q1-13. Non-interest income growth of 25% Q-o-Q and 7% Y-o-Y has been supported by improving lending activity and investment gains. This spike in non-interest income explains most of the beats banks recorded this quarter, indicating that banks were able to offset lower brokerage income and lower trading volumes in Q1-13.
- Margins compressed for our covered universe by an estimated 3.2 bps Q-o-Q:** NIM continues to contract, in line with our view, for all but 2 of the banks under our coverage during this quarter. Major drags came from Rajhi due to downward pressure on asset yields, while Samba and SABB recorded a NIM expansion. Note that loan growth is outpacing asset growth, indicating asset mix composition is changing which should support asset yields in the coming quarters.
- Benign asset quality trend:** We estimate a falling annualized cost of risk of 65 bps in Q1-13 vs. 72 bps in Q4-12, and our estimate of 76 bps. Most banks delivered lower provisions than our estimates with the exception of Samba, which beat our consensus on earnings but recorded the largest increase in provisioning. We remain positive about the asset quality of the Saudi banks and we believe that aggregate NPL coverage is likely to have increased this quarter.
- Positive balance sheet trends:** Q1-13 results showed further strength in lending, which grew 3.7% Q-o-Q and 15% Y-o-Y, while deposit growth was 2.6% Q-o-Q, both in line with our estimates. The strong government and consumer spending, rising housing demand and improving corporate capex will continue to drive system volume growth in 2013. Laggards were ANB and Samba, while SABB, Rajhi, SHB and Al Jazira exceeded loan growth expectations.
- Annual profits decreased 2% Y-o-Y yet the banks have de-rated by 10% Y-o-Y.** At a median PB13E of 1.31x, PE13E of 9.6x, we remain **optimistic** on the Saudi banks. We view both the improving asset quality and strong lending momentum positively, while we are slightly concerned about NIMs contraction. While we await for the full financials, we stay most positive on **Rajhi and Samba**.

Covered Saudi Banks Q1-13 Aggregate Results

	Q1-12 A	Q4-12A	Q1-13 A	Q1-13 E	Q-o-Q	Y-o-Y	Vs ASIB Est
Income Statement							
Net Interest Income	7,875	8,218	8,283	8,509	1%	5%	-3%
Non-Interest Income	4,452	3,815	4,775	4,336	25%	7%	10%
Total Banking Income	12,327	12,033	13,058	12,845	9%	6%	2%
Operating Expenses	4,180	4,281	4,367	4,366	2%	4%	0%
Pre-Provisions Profits	8,147	7,754	8,691	8,478	12%	7%	3%
Provisions	1,112	1,437	1,364	1,612	-5%	23%	-15%
Others	45	22	35	35	61%	-22%	0%
Net Profit	7,452	6,465	7,327	6,908	13%	-2%	6%
Balance Sheet							
Loans	730,482	810,025	840,334	840,850	3.7%	15.0%	0%
Investments	234,905	233,079	255,448	247,324	9.6%	8.7%	3%
Total Assets	1,205,564	1,311,108	1,334,339	1,355,446	1.8%	10.7%	-2%
Total Deposits	907,044	1,010,403	1,036,365	1,040,799	2.6%	14.3%	0%

Saudi Banks Q1-13 Results Summary: Q-o-Q Growth Comparisons

Saudi Banks Q1-13 Results Summary: Q-o-Q Growth Comparisons							
	Net Interest Income	Non Interest Income	Net Interest Spreads	Provisioning Costs	Earnings	Loans	Deposits
Alinma	2.2%	40.0%	Lower	Higher	-15%	6%	7%
Albilad	-1.5%	6.9%	Lower	Higher	-9%	2%	9%
Rajhi	-0.5%	4.5%	Lower	Lower	7%	5%	5%
SHB	2.0%	13.2%	Lower	Lower	10%	8%	5%
SABB	7.8%	35.7%	Higher	Higher	16%	5%	1%
BSF	-4.2%	-10.2%	Lower	Higher	-15%	3%	3%
ANB	-3.0%	54.4%	Flat	Lower	60%	0%	1%
Samba	9.0%	75.0%	Higher	Higher	33%	2%	2%
Riyad	-1.0%	26.8%	Lower	Lower	17%	3%	-2%
Jazira	-8.3%	72.7%	Lower	Higher	47%	8%	2%
Aggregate (Q-o-Q)	1%	25%	Lower	Lower	13%	4%	3%
Aggregate (Y-o-Y)	5%	7%			-2%	15%	14%

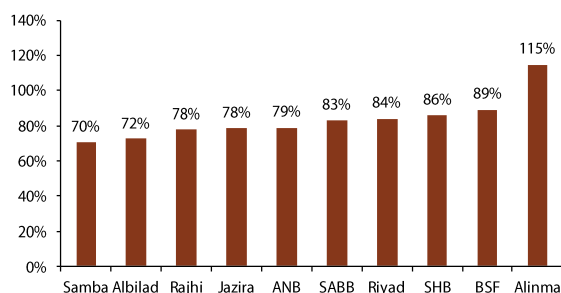
Valuation Table

	PB13 E (x)	PE13 E (x)	ROE13 E (%)	Dividend Yield 13 E (%)
Rajhi	2.70	11.4	23.6	5.7
Riyad	1.08	9.4	11.6	6.2
Samba	1.28	8.6	14.5	4.4
BSF	1.18	8.3	14.1	3.8
SABB	1.75	9.8	17.1	2.9
ANB	1.33	9.3	14.1	4.1
SHB	1.42	8.9	15.6	3.1
Alinma	1.19	19.1	5.7	NA
Jazira	1.60	13.13	10.3	1.80
Albilad	2.03	11.7	15.5	1.1

Market Share of New Loans

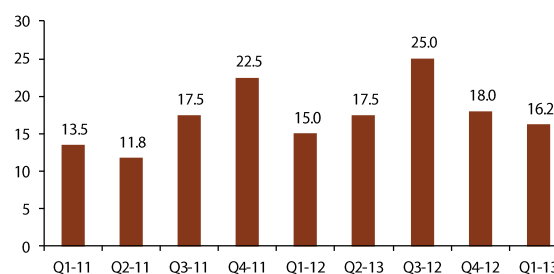
	Market share Q4-12	Q1-13 M S of new loans
Rajhi	18%	21%
NCB	17%	20%
Riyad	12%	9%
Samba	11%	6%
BSF	11%	8%
SABB	10%	13%
ANB	9%	-1%
SHB	5%	9%
Alinma	4%	6%
Jazira	3%	7%
Albilad	2%	1%

Loans to Deposits Ratio as of Q1-13



Source: Company announcements, ASIB estimates

Quarterly Cost of Risk (bps)



Source: Company announcements, ASIB estimates

DISCLAIMER

"All rights reserved. This research document (the "Document") is prepared by Audi Saradar Investment Bank SAL ("ASIB"), being an entity of Audi Saradar Group, for the use of the clients of ASIB and/or the clients of any entity within the Audi Saradar Group.

This Document is disclosed to you on a confidential basis. Receipt and/or review of this Document constitute your agreement not to copy, modify, redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this Document prior to public disclosure of the same by ASIB or the Audi Saradar Group or without the express prior written consent of ASIB.

This Document is not intended for dissemination, distribution to, or use by, any person or entity in any country or jurisdiction which would subject ASIB or any entity within the Audi Saradar Group, to any registration or licensing requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this Document is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching any applicable legal or regulatory requirements. In any case, this Document shall not be distributed in the Republic of Egypt.

Your attention is drawn to the fact that you should not access this Document if the regulations of your country of citizenship and/or residency or any applicable regulations prohibit it. In any case, persons who are subject to any restrictions in any country, such as US persons are not permitted to access information contained herein.

Neither the information, nor any opinion expressed herein constitutes an offer or an invitation or a recommendation to make an offer, to buy or sell any security or other investment product related to such security or investment. This Document provides general information only, is not intended to provide personal investment advice or recommendation and does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. You should seek financial, legal or tax advice regarding the appropriateness and suitability in investing in any security, other investment or investment strategy discussed or forecasted in this Document.

You should carefully read the definitions of the Rating Guide provided in this Document. In addition you should read this Document in its entirety and not conclude its contents from the ratings solely.

The information herein was obtained from various public sources believed in good faith to be reliable. Neither ASIB nor any entity within the Audi Saradar Group represents that the information contained in this Document is complete, accurate or free from any error and makes no representations or warranties whatsoever as to the data, information and opinions provided herein.

This Document and any information, opinion and prospect contained herein reflect a judgment at its original date of publication by ASIB and are subject to change without notice. ASIB and/or any entity within the Audi Saradar Group may have issued, and may in the future issue, other research documents that are inconsistent with, and reach different conclusions from, the information, opinions and prospects presented in this Document.

This Document reflects the different assumptions, views and analytical methods of the analysts who prepared them; ASIB, and the Audi Saradar Group are under no obligation to ensure that such other research documents are brought to the attention of any recipient of this Document.

ASIB, any entity within the Audi Saradar Group, one or more of their affiliates and/or their officers (including but not limited to their strategists, analysts and sales staff) may have a financial interest in securities of the issuer(s) or related investments, may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this Document and may take a view that is inconsistent with that taken herein.

The price, value of and income from any of the securities or financial instruments mentioned in this Document can fall as well as rise. The value of securities and financial instruments is subject to market conditions, volatility, exchange rate fluctuation and credit quality of any issuer that may have a positive or adverse effect on the price or income of such securities or financial instruments. Any forecasts on the economy, stock market, bond market or the economic trends of the markets are not necessarily a guide to future returns. You should understand that statements regarding future prospects may not be realized. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future returns. As a result of the preceding, you may lose, as the case may be, the amount originally invested.

None of ASIB, any entity within the Audi Saradar Group, any of their affiliates and/or their officers (including but not limited to their strategists, analysts and sales staff) shall be held liable for any loss or damage that may arise, directly or indirectly, from any use of the information contained in this Document nor for any decision or investment made on the basis of information contained herein."