المجموعة المالية - هيرميس
EFG HERMES

THE SAUDI INVESTMENT BANK (SAIB)

3Q2009 Results - Earnings Benefit From Improving Stock Markets

25 OCTOBER 2009

SAUDI ARABIA | BANKING

Short-Term Rec.: Neutral	Current Price*: SAR 20.55
Long-Term Rec. : Neutral	LT Fair Value : SAR 21.50

• **Earnings Recover on Higher Investment Income, Lower Provisions:** Lower provisions and an increase in investment income led to an almost tripling, on a Y-o-Y basis, of The Saudi Investment Bank's (SAIB) 3Q2009 earnings to SAR203 million (EPS: SAR0.45). Although earnings were in line with our estimate of SAR203 million, we were surprised by the higher investment income realised by the bank in 3Q2009.

• **Downgrading Rating to ST/LT Neutral:** With the stock price having increased by 9% since the end of September 2009, our LTFV of SAR21.50 for SAIB represents a 4.6% upside potential to the current price. Further, with the company's recent results in line with our expectations, we maintain our earnings estimates for SAIB. However, we lower our rating to ST/LT Neutral from ST/LT Accumulate based on the limited upside potential provided by our LTFV.

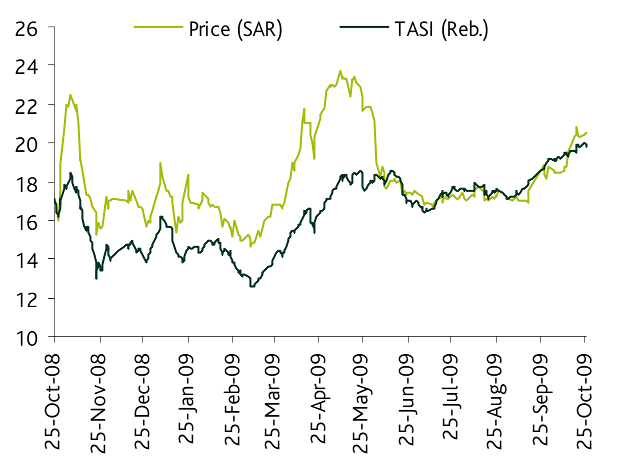
• **Capital Gains Drive Non-Special Commission Income Higher:** SAIB realised capital gains of SAR59 million in 3Q2009, primarily on its equity investments. At the end of 2008, SAIB had gross equity market investments of SAR866 million and gross mutual fund investments of SAR369 million, which, in our opinion, were the source of capital gains. This led to a 32.5% Q-o-Q increase in non-special commission income to SAR131 million in 3Q2009. As expected, fee and commission income declined by 10.2% Q-o-Q to SAR59 million, primarily on lower brokerage commissions.

• **Decline in Provisions Supports Earnings:** Total provisions declined by 7.4x Y-o-Y to SAR60 million due to the absence of any provisions on the investment book in 3Q2009 vs. investment provisions of SAR225 million in 3Q2008. Credit provisions were largely stable on a Q-o-Q basis at SAR60 million, but were up almost 12x on a Y-o-Y basis.

• **Spreads Fail to Sustain:** After recovering strongly in 2Q2009, net special commission spreads are estimated to have declined by 19 bps Q-o-Q to 1.93%. The improvement in spreads in 2Q2009 was supported by a sharp decline in funding costs. While funding costs continued to decline in 3Q2009, falling by 40 bps Q-o-Q, asset yield compression was higher at 59 bps. We suspect that the decline in asset yields was driven by the rollover of the bank's portfolio of government securities at a lower rate.

• **Loans Flat, Deposits Improve:** SAIB's loan book growth decelerated sharply in 2009. After growing by 27.7% in 2008, net loans remained largely unchanged during 9M2009, up 3.3% YTD. On a Q-o-Q basis, net loans were 1.2% higher at SAR30.5 billion. Customer deposits though 5.6% higher Q-o-Q, declined by 5.6% YTD at SAR38.4 billion, suggesting that SAIB is focusing on managing its spreads by shedding time deposits, and improving the ratio of retail deposits.

FLASH NOTE



	2009e	2010e	2011e
EPS	1.79	2.10	2.49
P/E* (x)	11.50	9.78	8.26
DPS	0.40	0.40	0.50
Div Yield*	1.9%	1.9%	2.4%
BVPS	16.20	17.98	20.09
P/BV* (x)	1.27	1.14	1.02

Stock Data	
Last Ex-Div Date	SAR0.29 on 7 Mar. 2006
Mkt. Val. / Shares (mn)	SAR13,358 / 650
Av. Mthly Liqd.(mn)	SAR120.3
52-Week High / Low	SAR23.70 / 14.60
Bloomberg / Reuters	SIBC AB / 1030.SE
Est. Free Float	38.00%

Prices as of 25 October 2009

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Figure 1: The Saudi Investment Bank 3Q2009 Results - Income Statement
In SAR million, unless otherwise stated

	3Q2008a	2Q2009a	3Q2009a	Y-o-Y	Q-o-Q
Special Commission Income	627	479	411	-34.5%	-14.3%
Special Commission Expense	405	216	171	-57.8%	-21.0%
Net Special Commission Income	**222**	**263**	**240**	**8.2%**	**-8.7%**
Non-Special Commission Income					
Fees from Banking Services	86	65	59	-31.6%	-10.2%
Exchange Income	16	8	7	-57.9%	-11.5%
Gains / (Losses) on Non-trading Investments	(30)	25	59	N/M	136.0%
Dividend Income	11	1	6	-44.6%	1007%
Other Income	110	0	0	-100.0%	0.0%
Total Non-Special Commission Income	**194**	**99**	**131**	**-32.6%**	**32.5%**
Total Income	**415**	**361**	**370**	**-10.8%**	**2.5%**
Salaries & Related Expenses	70	78	79	12.1%	1.4%
Rent & Premises	13	15	13	-0.8%	-11.3%
Other Operating Expenses	32	44	36	12.2%	-17.5%
Total Operating Expenses	**116**	**136**	**128**	**10.6%**	**-6.0%**
Operating Profit	**300**	**225**	**242**	**-19.1%**	**7.7%**
Credit Provisions	5	55	60	1100%	9.1%
Investment Provisions	225	0	0	-100.0%	N/A
Net Income from Operations	**69**	**170**	**182**	**163.8%**	**7.2%**
Income from Associates	0	22	25	N/A	11.9%
Net Income before Minority Interests	**69**	**192**	**207**	**199.7%**	**7.8%**
Minority Interest	3	4	4	33.1%	-0.4%
Net Income	**66**	**188**	**203**	**208.2%**	**7.9%**
EPS (SAR)	0.15	0.42	0.45		

*

Source: Bank accounts

Figure 2: The Saudi Investment Bank 3Q2009 Results - Balance Sheet
In SAR million, unless otherwise stated

	3Q2008a	2Q2009a	3Q2009a	Y-o-Y	Q-o-Q
Assets					
Cash and Balances with SAMA	2,094	1,452	1,652	-21.1%	13.7%
Due from Banks & FIS	5,353	6,127	4,594	-14.2%	-25.0%
Investments	15,281	11,236	11,973	-21.6%	6.6%
Loans & Advances	29,874	30,153	30,526	2.2%	1.2%
Fixed Assets	494	660	680	37.6%	3.1%
Other Assets	1,404	1,103	1,149	-18.1%	4.2%
Total Assets	**54,500**	**50,731**	**50,573**	**-7.2%**	**-0.3%**
Liabilities					
Customer Deposits	43,045	36,364	38,415	-10.8%	5.6%
Due to Banks & FIS	3,481	5,783	2,991	-14.1%	-48.3%
Debt Securities Issued	1,053	934	932	-11.5%	-0.2%
Other Liabilities	0	500	500	N/A	0.0%
Total Liabilities	**47,579**	**43,581**	**42,839**	**-10.0%**	**-1.7%**
Shareholders' Equity					
Share Capital	4,500	4,500	4,500	0.0%	0.0%
Reserves	2,387	2,616	3,204	34.2%	22.5%
Total Equity	6,887	7,116	7,704	11.9%	8.3%
Minority Interest	34	33	31	-8.9%	-6.8%
Total Equity & Liabilities	**54,500**	**50,731**	**50,573**	**-7.2%**	**-0.3%**

Source: Bank accounts

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The Long-Term (LT) rating is based on the percentage upside or percentage downside of the stock price to the analyst's Long Term Fair Value (LTFV). Long Term is defined as any time period beyond 1 year. The LTFV is based on the analyst's current expectations of the equity fair value of the company on a per share basis which is normally based on rigorous and fundamental long-term analysis of the company's financial potential. Of course, any such analysis is based on the analyst's expectations for the future and are always considered estimates.

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