

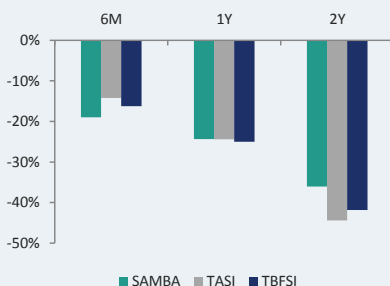
**Rating**  
**12- Month Target Price**
**Buy**  
**SAR 25.00**
**SAMBA FINANCIAL GROUP**
**3Q2016 First Look**
**Expected Total Return**

Price as on Oct-20, 2016	SAR 17.32
Upside to Target Price	44.3%
Expected Dividend Yield	5.2%
Expected Total Return	49.5%

**Market Data**

52 Week H/L	SAR 23.85/15.90
Market Capitalization	SAR 34,640 mln
Shares Outstanding	2,000 mln
Free Float	50.27%
12-Month ADTV	672,738

**1-Year Price Performance**

*Source: Bloomberg*


3Q2016E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,466	1,335
Total Op Income	2,019	2,037
Net Income	1,341	1,310
Loans & Advances	129,803	131,474
Deposits	173,964	169,539

**Deposit Growth Returns**

Samba marginally beat our expectations as it posted a 3Q net income of SAR 1.34 billion versus our forecast of SAR 1.31 billion. While EPS was down -2% Y/Y, it moved up by +2% Q/Q. Bloomberg consensus was similar to our expectations. While Samba has booked higher provisions for credit losses Y/Y, as per the announcement, we believe it is close to our estimate of SAR 152 million. Non-operating income has been on a decline since 1Q, as with most peers, led by lower fee-based income. Although deposits have risen Q/Q by SAR 1.8 billion, net advances have trended lower by SAR 1 billion, lowering the LDR ratio. Trading at 0.8x 2016E book value with a dividend yield north of 5%, we recommend a Buy. Our target price remains intact at SAR 25.00.

**NSCI grows +24% Y/Y**

Net special commission income (NSCI) has been growing substantially in 2016 on the back of rising interest rates. SAIBOR has climbed from 1.5% at the start of the year to 2.4% currently. Special commission income is up a whopping +37% Y/Y to SAR 1.8 billion while NSCI has inclined by +24% to SAR 1.5 billion. Tight market liquidity has continued to be a concern for the sector with some peers posting declining deposits this quarter. On the contrary, Samba managed to boost its deposits by SAR 1.8 billion Q/Q to SAR 174 billion, reversing a SAR 6 billion decline in 2Q.

**LDR falls to 75%**

Given a rise in deposits and a LDR ratio amongst the lowest in the sector, the SAR 1 billion Q/Q drop in net loans to SAR 130 billion is puzzling. LDR for 3Q is now at 75% after briefly rising from 74% to 76% in 2Q, nowhere close to the 90% SAMA limit. This appears to be in line with the conservative approach to lending undertaken by the bank. However, it does imply relinquishing some profitability potential at a time of rising interest rates.

**No extraordinary provisions in 3Q**

Non-operating income is down -31% Y/Y to SAR 553 million and continues the sequential decline in 2016 as fee based and non-trading income comes under pressure. Operating expenses have grown +9% Y/Y to SAR 678 million on higher provisions for credit losses as well as rising admin expenses. As opex is near our estimates, we expect provisions to also be in the vicinity of our SAR 152 million forecast, which is not extraordinary. Thus, as with other banks, we advise investors to watch out for a jump in provisioning in 4Q.

**Valuations are enticing**

EPS is down -2% Y/Y to SAR 0.67 and just above our SAR 0.65 forecast. A conservative approach may help Samba weather difficult times. Trading at 2016E P/B valuations of 0.8x, we find the stock quite attractive. A full year DPS of SAR 0.90 implies a dividend yield above 5%, we recommend a Buy.

**Key Financial Figures**

FY Dec31 (SAR mln)	2015A	2016E	2017E
Net Comm Inc	4,663	5,478	5,505
Prov for cred loss	142	405	339
Net Income	5,214	5,149	5,866
EPS (SAR)	2.61	2.57	2.93
DPS (SAR)	0.90	0.90	1.10

**Key Financial Ratios**

FY Dec31	2015A	2016E	2017E
NIM	2.1%	2.2%	2.3%
ROAE	13.2%	12.3%	12.9%
ROAA	2.3%	2.2%	2.4%
CAR	20.1%	18.2%	18.6%
P/B	0.9x	0.8x	0.7x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

*\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

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