

Rating **Buy**
12- Month Target Price **SAR 17.00**

SAUDI HOLLANDI BANK
2Q2016 First Look

Expected Total Return

Price as on August-04, 2016	SAR 10.78
Upside to Target Price	57.7%
Expected Dividend Yield	4.6%
Expected Total Return	62.3%

Market Data

52 Week H/L	SAR 22.70/10.75
Market Capitalization	SAR 12,322 mln
Shares Outstanding	572 mln
Free Float	27.60%
12-Month ADTV	272,468

1-Year Price Performance



Source: Bloomberg



2Q2016E (SAR mln)	Actual	RC Forecast
Net Comm Income	609	601
Total Op Income	948	928
Net Income	540	513
Loans & Advances	77,900	79,546
Deposits	86,414	86,404

EPS Matches Y/Y

Saudi Hollandi Bank (SHB) reported upbeat earnings for the second quarter with an EPS of SAR 0.47 versus our forecast of SAR 0.45. Street estimates called for even lower earnings of SAR 0.42. Net income was almost identical Y/Y but increased +6% Q/Q primarily due to a rise in net special commission income. Net loans decreased slightly by SAR 470 million over 1Q to SAR 77.9 billion but a rise in deposits Q/Q to SAR 86.4 billion is a healthy development. Non-operating income is lower Y/Y as fee income and trading income took a hit. SHB is trading at below book value (2016E P/B of 0.9x) and offers a dividend yield of 4.5%. We recommend a Buy at current levels with a target of SAR 17.00.

Advances grow +9% Y/Y

Net special commission income (NSCI) has risen +8% Y/Y and +2% Q/Q to SAR 609 million, better than our SAR 575 million estimates. Although net advances are higher Y/Y, they decreased by SAR 470 million over 1Q to SAR 77.9 billion. At the same time, deposits have risen by SAR 865 million Q/Q to SAR 86.4 billion, matching our estimate. We believe rising interest rates with SAIBOR closing 2Q at 2.22% has led to higher yields on earning assets coupled with minimal or no rise in cost of funding. Thus, NIMs have possibly expanded this quarter. At first look, it appears that LDR has declined from 87.6% in 1Q to 86.3% at 2Q-end giving the bank some room to expand the ratio further before it reaches the 90% SAMA limit.

Investment portfolio finally drops

Size of the bank's investment portfolio has been growing sequentially for the past few quarters. However, in line with industry trends, investments have fallen from SAR 22.4 billion at March-end to SAR 20.8 billion at June-end. Higher interest rates coupled with robust credit demand makes investments less attractive.

Loan provisions decline

Non-operating income has shrunk -6% Y/Y to SAR 339 million but is +6% higher on a Q/Q basis. While the gains on sales of non-trading investments have climbed, fee based income and trading income have been lower. Rise in operating expenses have been muted at +1% Q/Q to SAR 409 million, lower than our estimates. According to the Company, there has been an incline in admin and salary expenditure and an increase in impairment charge for available for sale investments. Result announcement also claims a decrease in impairment charge for credit losses, which we had estimated at SAR 105 million but likely came in below SAR 100 million (SAR 101 million last quarter).

2016E P/B of 0.9x

Net income at SAR 540 million, similar to last year is better than market and our expectations. However, the stock price continues to be depressed trading at 0.9x 2016E BV. We view a 4.5% dividend yield as attractive. Foreign affiliation and a focus on corporate clients are positives despite being a mid-sized bank. We recommend a Buy with a SAR 17.00 target price.

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016E	2017E
Net Comm Inc	2,298	2,464	2,597
Prov for cred loss	418	500	525
Net Income	2,022	2,063	2,141
EPS (SAR)	1.77	1.80	1.87
DPS (SAR)	0.13	0.50	0.50

Key Financial Ratios

FY Dec31	2015A	2016E	2017E
NIM	2.2%	2.3%	2.3%
ROAE	17.8%	16.8%	15.9%
ROAA	2.0%	2.0%	1.9%
CAR	15.6%	18.6%	18.8%
P/E	6.2x	6.1x	5.9x

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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