

SABB



EVENT FLASH

Lower than estimated provision drive better profits

SABB reported strong 4Q13 results with a 20% YoY increase in net income to SR976mn. The lower than expected provisioning (75% variance) based on the preliminary numbers contributed to the 10.9% better than expected bottom line based on our estimate and 3.9% higher than consensus. Despite the slowdown in lending and lower fee and other income growth YoY, top-line remained strong on widening of net interest margins.

- NCBC view:** In line with the banks that have announced results (Ex-BSF), SABB reported better than expected results mostly due to lower provisions. Net income came in at SR976mn, up 19.7% YoY and was 10.9% higher than our estimate and 3.9% better than consensus. On the operating line, it was slightly below our estimate and this is mostly due to the weak fee and other income growth. NSCI growth was strong at 15.1% driven by a loan growth of 10.4% and NIMs improvement of 10bps YoY, based on our calculations.
- Slowdown in lending noted during 4Q13:** SABB's net loans grew 10.4% YoY, 3.4% below our estimates and declined 1.6% QoQ. However, the bank increased its investments 20.6% QoQ and 35.6% YoY. The increase in (fixed income) investments would have also contributed to the widening in NIMs.
- Tier II long-term capital to support growth in medium term – in our view:** With the issue of SR1.5bn in Tier II debt in 4Q13, we believe SABB is poised for a growth in loan book. We forecast a 10.1% YoY increase in loan portfolio and remain positive on SABB's capacity for further balance sheet expansion.
- Despite lower provisions, ST outlook on asset quality challenging:** Despite lower provisions at SR38mn, based on the preliminary numbers vs our estimate of SR155mn, we believe the outlook on asset quality is challenging. This is particularly the case for the contracting sector which we expect will suffer short-term pressures due to the slowdown from the labour shortages. Overall we expect a 17.8% increase in provisions for 2014E.
- SABB's strong results support our Overweight rating. We are positive on SABB's strategy to grow the loan book on the back of the recent Tier II debt issue. Short-term issues with respect to asset quality may impact sentiment, but we expect SABB to report a good 10.2% growth in net profits for 2014E.

4Q13 RESULTS SUMMARY

SR mn	4Q13A	4Q12A	% Y O Y	4Q13E	% VAR
Net Sp Comm Income	945	821	15.1	929	1.8
Fee and other Income	457	407	12.2	504	(9.3)
Total Operating Income	1,402	1,228	14.1	1,432	(2.1)
Net Income	976	815	19.7	880	10.9
Loans	106	96	10.4	110	(3.4)
Deposits	139	120	15.4	131	5.9
Investments	37	28	35.6	30	25.5
Assets	177	157	13.2	168	5.7
EPS	0.98	0.82	19.7	0.88	10.9

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

OVERWEIGHT

Target price (SR) 49.2

Current price (SR) 44.0

STOCK DETAILS

M52-week range H/L (SR)	45.4/31.0
Market cap (\$mn)	11,733
Shares outstanding (mn)	1000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.8	10.3	40.6
Rel. to market	(0.1)	1.1	19.0

Avg daily turnover (mn)	SR	US\$
3M	6.1	1.6
12M	6.2	1.7

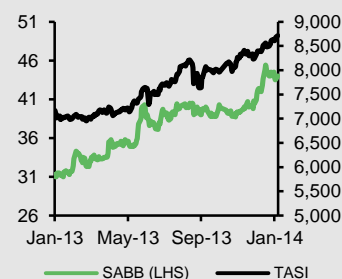
Reuters code	1060.SE
Bloomberg code	SABB AB
	www.sabb.com

VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	13.8	12.1	11.2
P/BV (x)	2.3	2.0	1.8
P/ABV (x)	2.2	1.9	1.7
Div Yield (%)	2.1	2.1	2.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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EVENT FLASH

Reached the bottom; good entry point now

Despite the weak results from BSFR, on the back of a 7.7x spike in provisioning, we believe investors should take opportunity to increase their exposure on the stock price weakness. We believe 2014E will be a turnaround year mostly from the base effect from the conservative provisioning in 2013E. In addition, given the lowest net interest margins, which were down 9bps YoY in 4Q13, we believe the downside risk is the lowest compared to its peers.

- We are positive for 2014E despite weak 4Q13 results:** Despite the weak 4Q13 net income which was down 66% YoY, we remain positive on BSF. We believe that the provisioning, which increased 7.7x YoY is a one-off and was not related to a specific exposure. The selling pressure on the stock offers a good entry point as we as we think profits in 2014E will be up notably given the aggressive and highly conservative provisioning in 2013.
- Provisioning was a “clean up” exercise rather on a specific exposures:** We believe that the spike in provisioning was mostly a general clean up exercise of the loan book rather than on a large specific exposure. This is in line with the strategy of the relatively new management to have a “clean start” for 2014E. We note that a large corporate default of the magnitude that would result in a 600mn provisioning for one bank alone would have impacted BSF's peers as well, which is not the case for the banks that reported so far. This supports our view that there are no significant corporate defaults, although we are cautious on the construction sector for 2014E.
- Net interest margins bottoming out in our view:** Following the estimated 9bps YoY decline in net interest margins in 4Q13, we believe further downside risk is highly unlikely. In addition, given that BSFR's loan book is around 90% corporate, the re-pricing of the loans will happen in a shorter period of time compared to banks which focus on retail lending. This is likely to further support the upside risk in 2014E earnings
- Despite the selling pressure and weak 4Q13 results we think 2014E will be a turnaround year for BSF from the base effect alone. The selling pressure on the stock today will provide an excellent entry point for investors with a three to six month time horizon. The stock price is the most attractively valued and is trading close to its book value at a P/B of 1.2x for 2014E. We are Overweight on the bank's stock with a PT of SR39.8.

4Q13 Results Summary

SR mn	4Q13A	4Q12A	% Y O Y	4Q13E	% VAR [^]
Net sp comm income	864	834	3.6	880	(1.8)
Fee and other income	417	452	(7.8)	387	7.8
Total operating income	1,281	1,286	(0.4)	1,267	1.1
Net income	274	808	(66.1)	780	(64.9)
Loans (bn)	111	103	8.3	114	(2.7)
Deposits (bn)	132	116	13.9	128	2.6
Investments (bn)	34	27	24.7	33	3.9
Assets (bn)	170	158	7.8	172	(0.9)
EPS (SR)	0.30	0.89	(66.1)	0.86	(64.9)

Source: Company, NCBC Research [^] % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price (SR) 39.8

Current price (SR) 34.5

STOCK DETAILS

M52-week range H/L (SR)	35.8/29.2
Market cap (\$mn)	8,317
Shares outstanding (mn)	904.0
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	2.1	0.6	12.0
Rel. to market	(1.8)	(8.6)	(9.6)

Avg daily turnover (mn)	SR	US\$
3M	8.9	2.4
12M	9.6	2.6

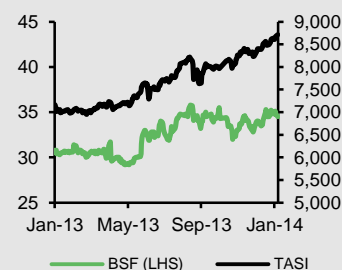
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Bloomberg code	BSFR AB
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VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	10.6	10.9	10.0
P/BV (x)	1.4	1.3	1.2
P/ABV (x)	1.4	1.3	1.2
Div Yield (%)	2.3	2.2	2.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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