

Rating **Neutral**
 12- Month Target Price **SAR 27.00**

SAUDI BRITISH BANK

1Q2017 First Look

Expected Total Return

Price as on April-20, 2017	SAR 21.72
Upside to Target Price	24.3%
Expected Dividend Yield	3.7%
Expected Total Return	28.0%

Market Data

52 Week H/L	SAR 25.90 /16.40
Market Capitalization	SAR 32,580 mln
Shares Outstanding	1,500 mln
Free Float	32.5%
12-Month ADTV	354,202

1-Year Price Performance



Source: Bloomberg



1Q2017E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,251	1,224
Total Op Income	1,824	1,678
Net Income	1,036	1,009
Loans & Advances	119,490	121,701
Deposits	141,571	138,496

Net Profits Inline

Saudi British Bank (SABB) reported a -9% Y/Y decline in net income to SAR 1.04 billion, inline with our SAR 1.01 billion forecast but above market's SAR 988 million consensus. +71% Q/Q jump comes largely due to a weak 4Q2016 as the bank recorded elevated provisions. SABB is one of the few banks witnessing a decline in profitability in 1Q. While net special commission income has been in line with estimates, weaker non-core income and higher operating expenses (on the back of higher provisions) resulted in a lower bottom line. We estimate total impairments to be close to SAR 200 million; much lower than SAR 507 million in 4Q. We view the +1% Q/Q rise in deposits to be positive given a sequential decline recently, while an almost SAR 1.5 billion decline in net loans is justified due to sufficient liquidity in the market. We maintain our target price at SAR 27.00. Trading at 1.0x 2017E book value and 8.5x 2017E earnings, recommend a Neutral.

NSCI close to forecasts

Net special commission income (NSCI) stood at SAR 1.3 billion, close to our SAR 1.2 billion estimates, up +12% Y/Y and +1% Q/Q, supported by an increase of +11% Y/Y in special commission income. A -4% Q/Q decline in special commission income flows from lower interest rates Q/Q as liquidity was abundant in the system. Special commission expense also followed the same trajectory continuing its downtrend from the previous quarter (-24% Q/Q) but +8% higher than last year's level. SABB was able to stem the sequential depletion of deposits since 1Q2016, against our expectations, pushing the deposit base to SAR 142 billion (+1% Q/Q but -7% Y/Y). We view this as a positive indicator for 2017.

Weakness in loan demand

Improvement in market liquidity situation continued through this quarter, leading to a decline in credit demand. SABB's net loans have decreased by around SAR 1.5 billion Q/Q to SAR 120 billion but are well below SAR 130 billion last year. With deposits slightly increasing and loans witnessing a decline, LDR stood at 81% at 1Q-end versus 82% a quarter earlier, still giving it plenty of room to expand.

Operating expenses up Y/Y

Although non-core income declined -16% Y/Y, it has improved significantly Q/Q, up +34% to SAR 573 million. In addition to weaker non-core income Y/Y, operating expenses increased by +20% Y/Y adding to the pressure on the bottom line. On a Q/Q basis, operating expenses declined by -26% given significant provisions of SAR 507 million last quarter, we estimate close to SAR 200 million this quarter.

Net income meets expectations

Net income has declined by -9% Y/Y to SAR 1.04 billion, close to our estimates of SAR 1.01 billion and beating market expectations of SAR 988 million. We stick to our Neutral rating as we believe 2017 may also prove to be a difficult year for the bank. SAR 0.80 expected DPS for 2017 should provide a decent yield for existing investors.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	4,757	4,476	4,552
Prov for cred loss	944	526	542
Net Income	3,895	4,062	4,149
EPS (SAR)	2.60	2.71	2.77
DPS (SAR)	0.75	0.80	0.80

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.6%	2.4%	2.4%
ROAE	13.4%	12.7%	11.8%
ROAA	2.1%	2.1%	2.1%
CAR	19.6%	22.6%	23.7%
P/B	1.1x	1.0x	0.9x

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

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.