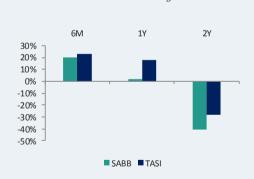


Rating Neutral 12- Month Target Price SAR 27.00

<u> </u>	
Price as on April-20, 2017	SAR 21.7
Upside to Target Price	24.39
Expected Dividend Yield	3.79
Expected Total Return	28.09

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 120 110 100 90 80 70 A M J J A S O N D J F M — SABB 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

SAUDI BRITISH BANK 102017 First Look

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

EV Doo21 (CAR mile)	2016A	20175	2018E
FY Dec31 (SAR mln)	Z016A	2017E	20195
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
Net Income EPS (SAR)	3,895 2.60	4,062 2.71	4,149 2.77

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

Muhammad Faisal Potrik



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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