المجموعة المالية - هيرميس
EFG HERMES

SAUDI HOLLANDI BANK (SHB)

Earnings Fall on Higher Provisions

19 JULY 2009

SAUDI ARABIA | BANKING

Short-Term Rec.: Neutral	Current Price*: SAR 37.60
Long-Term Rec. : Accumulate	LT Fair Value : SAR 44.60

- **2Q2009 Earnings Nose-Dive:** Saudi Hollandi Bank's (SHB) 2Q2009 earnings declined by 72.2% Y-o-Y and 68.1% Q-o-Q to SAR91 million (EPS: SAR0.27). While the bank has announced only headline numbers at this stage, we believe that the decline in earnings has been driven by higher credit provisions, which are estimated to have increased by 12.5x Q-o-Q.

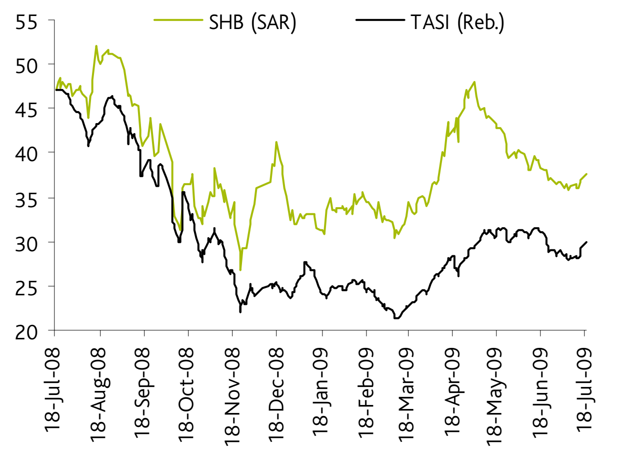
- **Credit Provisions Estimated to Have Risen 12.5x Q-o-Q:** We estimate that SHB's credit provisions have jumped by almost 12.5x Q-o-Q to SAR252 million in 2Q2009, significantly higher than our estimates of SAR50 million. In its statement issued along with the results, SHB stated that it has maintained a conservative stance on provisions, and we believe that the higher provisions are largely on account of general portfolio provisions.

- **Steady Revenues:** Total revenues remained stable at SAR553 million, 0.8% higher Y-o-Y but 1.7% lower Q-o-Q. We suspect that net special commission spreads have declined on a Q-o-Q basis in 2Q2009 as suggested by 9.3% decline in net special commission income to SAR382 million. Non special commission income however grew by 20.8% Q-o-Q to SAR171 million, and is likely to have been driven by higher broking commission and trade related fees.

- **Loan Book Stagnant, Deposits Rise Sharply:** SHB's net loans remained broadly unchanged on a Q-o-Q basis at SAR39.6 billion, as the bank continues to protect its capital adequacy and remains averse to adding on further credit risk to the balance sheet in the current environment. Deposit growth however was strong for a second consecutive quarter, rising by 7.4% Q-o-Q to SAR 51.6 billion. The strong deposit growth comes on top of an equal strong performance in 1Q2009, where deposits grew by 11.8% Q-o-Q. We are of the view that the incremental deposit flow is likely to have accrued through demand deposits, as a high balance sheet liquidity and a stagnant loan book suggests that the bank did not require to raise deposits aggressively.

- **A Bad Quarter:** We are of the view that SHB has maintained a conservative approach and has aggressively provisioned in the current quarter as loans season in a slowing economic environment. We maintain our ST Neutral/LT Accumulate rating on SHB as we are of the view that the current hike in provisions represents a one-off increase, and earnings volatility should be lower over the remainder of the year. We will be revising our earning estimates for 2009 once detailed accounts become available.

FLASH NOTE



	2009e	*2010e*	*2011e*
EPS	*3.70*	*4.23*	*5.09*
P/E (x)*	*10.17*	*8.88*	*7.39*
DPS	*0.70*	*0.80*	*1.30*
*Div Yield**	*1.9%*	*2.1%*	*3.5%*
BVPS	*19.53*	*22.92*	*26.73*
P/BV (x)*	*1.93*	*1.64*	*1.41*

Figures in SAR unless otherwise stated

Stock Data	
Last Ex-Div Date	*SAR0.75 on 25 Mar 08*
Mkt. Val./ Shares (mn)	*SAR12,436/ 330.8*
Av. Mthly Liqdity (mn)	*SAR51.3*
52-Week High / Low	*SAR52.00 / 26.72*
Bloomberg / Reuters	*AAAL AB / 1040.SE*
Est. Free Float	*29.70%*

Price as of 18 July 2009

Murad Ansari
+9661 279 8649
mansari@efg-hermes.com

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I. RESULT HIGHLIGHTS

Figure 1: Saudi Hollandi Bank - 2Q2009 Preliminary Results
SAR million unless otherwise stated

	2Q2008a	1Q2009a	2Q2009a/e	Y-o-Y	Q-o-Q	2Q2009e	Variance
Income Statement							
Net Special Commission Income	360	421	382	6.1%	-9.3%	379	0.8%
Non Special Commission Income*	188	141	171	-9.4%	20.8%	131	30.2%
Total Income	548	562	553	0.8%	-1.7%	510	8.3%
Operating Expenses*	218	208	210	-3.7%	0.8%	199	5.5%
Pre-Provision Profits	330	354	343	3.8%	-3.2%	311	10.2%
Credit & Investment Provisions*	4	69	252	6489.1%	262.7%	50	403.8%
Net Profit	326	284	91	-72.2%	-68.1%	261	-65.3%
EPS (SAR)	0.99	0.86	0.27			0.79	
Balance Sheet							
Net Loans	33,914	39,307	39,633	16.9%	0.8%	39,700	0.2%
Net Investments	13,475	15,767	16,079	19.3%	2.0%	16,398	2.0%
Total Assets	58,498	72,534	69,022	18.0%	-4.8%	73,259	6.1%
Customer Deposits	41,897	48,072	51,643	23.3%	7.4%	49,033	-5.1%

*2Q2009 are estimates derived from announced headline numbers
Source: Company Announcement, EFG-Hermes estimates

EGYPT SALES TEAM
Local call center 16900
Int'l call center +20 2 33 33 94 00
cc-hsb@efg-hermes.com

Head of Western Institutional Sales
Mohamed Ebeid
+20 2 33 32 1054
mebeid@efg-hermes.com

Local Institutional Sales
Amr El Khamissy
+20 2 33 32 1045
amrk@efg-hermes.com

GCC Business Development
Ahmed Salem
+20 2 33 32 1078
asalem@efg-hermes.com

UAE SALES TEAM
call center
+971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM
call center
+800 123 4566
ksa-callcenter@efg-hermes.com

Deputy Head of Gulf Sales
Ahmed Sharawy
+9661 279 8677
asharawy@efg-hermes.com

RESEARCH MANAGEMENT
Cairo General + 20 2 33 38 8864
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research
Eiji Aono
+971 4 363 4006
eaono@efg-hermes.com

Head of Egypt Research
Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

Head of Publ. and Distribution
Rasha Samir
+20 2 33 32 1142
rsamir@efg-hermes.com

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CONTACTS AND STATEMENTS

Background research prepared by EFG-Hermes KSA. Report prepared by EFG-Hermes Holding SAE (main office), 58 Tahrir Street, Dokki, Egypt 12311, Tel +20 2 33 32 1140 | Fax +20 2 33 36 1536 which has an issued capital of EGP 1,939,320,000.

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