Saudi Hollandi Bank (1040.SE)

Rating	**UNDERPERFORM [V]**
Price (15 Jul 08, SAR)	53.25
Target Price (SAR)	49.71[1]
Market cap. (SAR m)	14,089.95
Enterprise value (SAR m)	14,090.0

**Stock ratings are relative to the relevant country index.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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EARNINGS

Comments on 3Q, 2008 results

- **Event:** Saudi Hollandi Bank (SHB) reported a strong set of results with nine months net income of SAR 915 million, up 67.9% y-o-y, exceeding our estimates by 11.7%. Full financial statements are yet to be published, but SHB has clearly gained significant market share, with customer deposits and loans growing 40% and 45 % y-o-y, respectively.
- **View:** 1) Saudi Hollandi Bank continues to improve operational efficiency, with its cost to income ratio dropping significantly from 58.1% in Q4 2007 to 39.8% in Q2 2008, indicating that its restructuring process is on the right track (it's worth mentioning though that profitability in 2007 was mainly hit by high provisions). We had earlier indicated that if the bank's cost structure is brought in line with its peers, its valuation would be enhanced by more than 60%. Therefore, there is still scope for improvement as the average cost to income ratio for its peers in Q2 2008 was 29.6%. 2) The bank's corporate banking business has been showing steady progress, which can be inferred from the robust 10%+ q-o-q growth rates recorded for loans in each of the last 3 quarters. An example is the recent arrangement of a US$195 million Islamic financing for Arabian Amines Co.
- **Valuation:** Our TP is based on a dividend discount model with a cost of equity of 10.7%. The stock is trading at a P/B (2008E) of 2.47x versus the sector average of 2.92x, with a ROE (2009E) of 15.9% against a sector average of 25.8%.

	Result	CS est	% chg res/est	Last Yr	% chg yoy
Net Interest Income (SAR m)	1,033	878	17.7%	896	15.3%
Total Operating Income (SAR m)	1,593	1,295	23.0%	1,300	22.5%
Net Income (SAR m)	915	819	11.7%	545	67.9%
EPS (SAR)	3.46	3.10	11.7%	2.06	67.9%

Source: Company data, Credit Suisse estimates.

Companies Mentioned *(Price as of 06 Oct 08)*
Saudi Hollandi Bank (1040.SE, SRIsr48.60, UNDERPERFORM [V], TP SRIsr49.71)

Disclosure Appendix

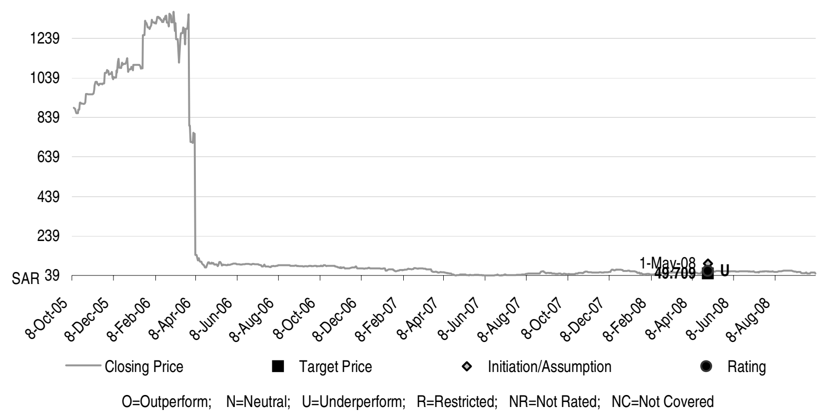
Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for 1040.SE

1040.SE Date	Closing Price (SAR)	Target Price (SAR)	Rating	Initiation/ Assumption
01-May-08	62	49.709	U	X



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Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

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	Global Ratings Distribution	
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Neutral/Hold*	43%	(56% banking clients)

Underperform/Sell*	13%	(51% banking clients)
Restricted	2%	

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See the Companies Mentioned section for full company names.
Price Target: (12 months) for (1040.SE)
Method: Derived from discounting free cash flows to equity at 10.7%
Risks: Geopolitical Risk, Credit Crunch, Subprime Contagion, Irrational expectations, Deterioration in macroeconomic environment

See the Companies Mentioned section for full company names.
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