HSBC
Global Research

Financial Institutions/Equity
November 2009

MENA Financial Focus

Outlook improving, upside potential in Saudi Arabia and Abu Dhabi

This is the first edition of a new quarterly product, which unifies our views on 22 bank and financial stocks in six countries across the region

Recent weakness in bank share prices in the MENA region has reinforced the investment case for our high conviction ideas. National Bank of Abu Dhabi (NBAD UH, OW(V), TP AED19.80), and Samba (SAMBA AB, OW(V), TP SAR68.00), both 'CEEMEA Super 10' stocks, are our two strong conviction calls

We also see good value in First Gulf Bank (FGB UH, OW(V), TP AED24.80), Riyad Bank (RIBL AB, OW(V), TP SAR39.00) and Bank Muscat (BKMB OM, OW(V), TP OMR1.20); we upgrade Credit Agricole Egypt to OW(V) from N(V)

By the MENA Financial Institutions Team

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Summary

Recent weakness in bank share prices in the MENA region has reinforced the investment case for our high conviction ideas. At current levels, we believe the Abu Dhabi banks are cheap with NBAD and FGB offering the best risk-adjusted returns; within Saudi Arabia we think Samba is best placed to capitalise on rising loan demand in 2010.

Banking environment stabilises and weakness in equity markets provides attractive entry points

This is the first edition of *MENA Financial Focus*, a quarterly product that unifies our views on 22 bank and financial stocks in six countries across the region.

The combination of a concerted policy response across the Gulf to the financial crisis, including the lowering of official interest rates, the supply of liquidity and primary and secondary capital to banks' balance sheets, and the selected support to vulnerable exposures on banks' balance sheets has improved confidence across the MENA region. Although loan portfolios exhibit stress and negative credit quality surprises remain possible, short-to-medium term visibility on the extent of loan write-downs has improved somewhat. Helped by a recovery in equity markets and stabilising property markets, we think the recovery rates from impaired loans may well be materially higher than had been anticipated earlier in 2009. Although the Saad/Al Gosaibi default cloud still hovers over the Gulf and is likely to be a factor for some time to come, in our view, the progressive provisioning by banks with significant exposures should gradually reduce aggregate downside risk. Higher net interest margins and bigger average balance sheets are offsetting the expected decline in non-interest income and banks are paying more attention to cost levels. Internal restructuring may well be a feature of banks' results in the short term.

In the short to medium term we believe that financial institutions within the Gulf will operate in a lower-return environment as the effect of stressed customer positions and lower transactional activity weighs on profit generation. We do not expect premiums to book value to return to the highs of 2007 and 2008 in the short term, but the stock price declines of between 20% and 40% since the June 2008 highs generally more than compensate for the change in earnings outlook.

We envisage an improving outlook for **Saudi** banks in 2010. Certain industrial indicators, eg domestic steel output and a sequential increase in capital expenditure in the domestic petrochemical industry, imply potentially rising demand for working capital financing. The strong deposit growth we expect should accommodate balance sheet expansion over the next 12 months.

We believe the risk profile of the **Abu Dhabi** banks has improved slightly since Q4 2008. Robust support from the UAE Federal and Abu Dhabi authorities for the liability side of the banks' balance sheets over the last nine months has left the Abu Dhabi banks with significant capital levels and improved liquidity to take advantage of demand for credit within the UAE.

Egyptian sector lending demand remains subdued with growth in single digits, although we expect lending volumes to pick up during the remainder of H2 2009, due in part to growth in retail lending activities. The majority of the banks under our coverage also enjoy good liquidity and healthy asset quality indicators but superior price performance through 2009 has taken the edge off upside price potential.

In **Qatar** the government cash and bond swap for local equity and property exposure ranks among the most proactive steps taken by any Gulf country to protect its banking system. Although strong government investor-friendly action could cap impairments in the short term, we think earnings growth is likely to be pinned back by credit costs and tepid non-interest revenues. We think stock price performance for Qatar banks from the end of Q1 2009, when we thought they were oversold, mostly captures the somewhat brighter short-term earnings outlook.

Oman's banks enjoy less penetration than other GCC banks, but we think consumer loans should be well-supported by attractive demographics and corporate loan books should benefit from financing for government-backed industrial projects. More retail banking accounts should increase the proportion of low-cost consumer deposits in bank balance sheets, enhancing banks' margins and providing liquidity for growth.

Uncertainty over Saad/Al Gosaibi debt exposures and the health of Kuwait's investment companies still hangs over the **Kuwait** banking sector. Lending growth remains largely absent and although margins are holding up, the negative surprise risk for Kuwait credit quality remains elevated, from both inside and outside the country. In spite of material price underperformance we believe that Kuwait banks are currently fully priced.

In this document we have adjusted our 2009 and 2010 estimates for National Bank of Abu Dhabi, First Gulf Bank, Bank Muscat and National Bank of Oman. We have raised target prices for National Bank of Kuwait (NBK KK, Underweight (V)) to KWD1.09 from KWD1.01, for EFG Hermes (HRHO EY, Neutral (V)) to EGP34 from EGP27, for First Gulf Bank (FGB AD, Overweight (V)) to AED24.80 from AED22.50 and for Dubai Financial Market (DFM UH, Neutral (V)) to AED2.3 from AED1.9 previously. For Commercial Bank of Qatar (CBQK QD, Neutral (V)) we have cut our target price to QAR78 from QAR81. (The reasons for our target price changes are explained in the company sections.) In addition, we have upgraded Credit Agricole Egypt (CIEB EY) to Overweight (V) from Neutral (V) due to its recent stock price underperformance. Our target price remains EGP15.

We believe these five Saudi and Abu Dhabi banks from our MENA financials universe offer the best value for investors at current levels: National Bank of Abu Dhabi (NBAD UH, Overweight (V), TP AED19.80, a 'CEEMEA Super 10' stock) and **First Gulf Bank** (FGB UH, Overweight (V), TP AED24.80) are our two high-conviction picks; both have exhibited stand-out operating performances (relative to other Gulf banks' performance) so far in 2009. We also see good value in selected Saudi names: **Samba** (SAMBA AB, Overweight (V), TP SAR68.00 a 'CEEMEA Super 10' stock) and **Riyad Bank** (RIBL AB, Overweight (V), TP SAR39.00) should benefit from rising loan demand in 2010. **Bank Muscat** (BKMB OM, Overweight (V), TP OMR1.20) is a good quality government-backed stock that is largely ignored by investors and, we believe, currently underpriced.

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In support of our bottom-up equity views, we continue to be positive on the Gulf from a top-down perspective. Our Emerging Markets strategist, John Lomax, has identified Saudi Arabia and the UAE as the two countries that stand out as offering good value within the emerging market universe (*GEMs Q4 2009 Equity Strategy "See the stars",* 14 October 2009). Improved sentiment over real estate and monetary and fiscal stimulus within the region are seen as key local catalysts for outperformance of these markets.

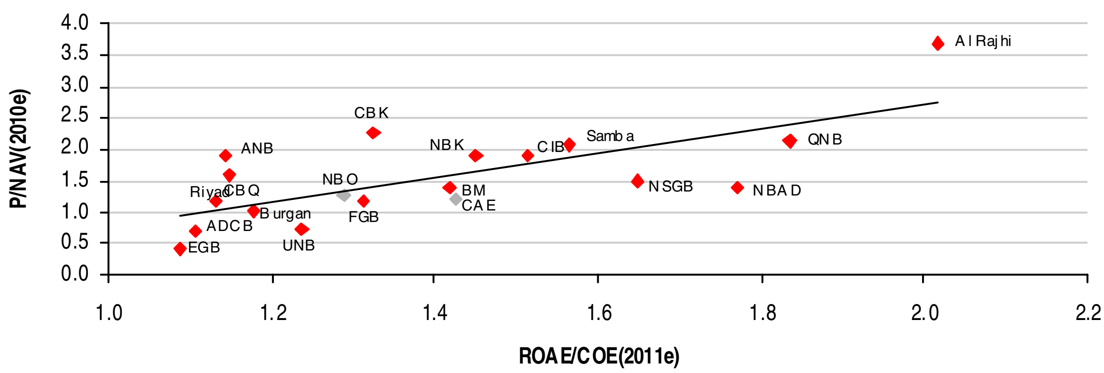
MENA financials high-conviction calls

Bank	Bloomberg	Rating	Current price	Target price	Avg vol traded 6-month (USDm)	Potential total return	PB		PE		ROE	
							2009e	2010e	2009e	2010e	2010e	2011e
Samba	SAMBA AB	Overweight (V)	SAR54.5	68.0	5.24	25%	2.3	2.1	10.5	10.3	21.0%	17.2%
Riyad Bank	RIBL AB	Overweight (V)	SAR28.2	39.0	5.72	38%	1.6	1.6	15.2	13.9	11.6%	12.6%
National Bank of Abu Dhabi	NBAD UH	Overweight (V)	AED13.2	19.8	1.09	50%	1.7	1.4	8.7	7.2	21.1%	20.3%
First Gulf Bank	FGB UH	Overweight (V)	AED18.2	24.8	2.36	36%	1.3	1.1	8.3	7.3	18.2%	17.8%
Bank Muscat	BKMB OM	Overweight (V)	OMR0.9	1.2	2.98	35%	1.3	1.2	9.9	8.7	14.6%	16.7%

Source: HSBC estimates, Bloomberg

Valuation: P/NAV vs. ROE/COE

P/NAV vs. ROE/COE



Source: HSBC estimates

MENA valuation (priced at 7 November 2009

	Bloomberg	Rep currency	Mkt cap (USDbn)	Price	Rating	PE 2008a	PE 2009e	PE 2010e	EPS growth 2008-11e	PB 2008a	PB 2009e	PB 2010e	ROE 2008a	ROE 2009e	ROE 2010e	REP 2008a	REP 2009e	REP 2010e
Saudi banks																		
Arab National Bank	ARNB AB	SAR	8.0	46.00	Neutral (V)	13.6	13.2	14.8	-1.8%	2.5	2.1	1.9	19.5%	17.4%	13.6%	1.4	1.4	1.5
Samba	SAMBA AB	SAR	13.1	54.50	Overweight (V)	11.4	10.5	10.3	-0.2%	2.6	2.3	2.1	23.8%	23.0%	21.0%	1.2	1.1	1.1
Riyad Bank	RIBL AB	SAR	11.3	28.20	Overweight (V)	14.3	15.2	13.9	5.5%	1.5	1.6	1.6	13.9%	11.1%	11.6%	1.2	1.6	1.5
Al Rajhi	RJHI AB	SAR	29.9	74.75	Neutral (V)	18.8	17.4	16.1	6.2%	4.7	4.2	3.7	25.8%	25.4%	24.3%	2.0	1.8	1.7
Weighted average						**15.8**	**15.0**	**14.3**	**3.7%**	**3.4**	**3.0**	**2.7**	**22.4%**	**21.3%**	**19.9%**	**1.7**	**1.6**	**1.5**
Abu Dhabi banks																		
National Bank of Abu Dhabi	NBAD UH	AED	7.8	13.20	Overweight (V)	9.1	8.7	7.2	13.3%	2.0	1.7	1.4	23.6%	21.4%	21.6%	1.0	0.9	0.8
Abu Dhabi Comm Bank	ADCB UH	AED	2.8	2.13	Overweight (V)	8.3	17.4	11.2	23.3%	0.7	0.7	0.7	9.1%	4.2%	6.3%	1.1	2.3	1.4
First Gulf Bank	FGB UH	AED	6.8	18.20	Overweight (V)	9.1	8.3	7.3	5.4%	1.5	1.3	1.1	22.5%	18.5%	18.2%	0.8	1.0	0.9
Union National Bank	UNB UH	AED	2.0	3.50	Overweight (V)	5.1	6.2	5.5	2.0%	0.9	0.8	0.7	19.5%	14.1%	14.2%	0.6	0.7	0.6
Weighted average						**8.6**	**9.9**	**8.0**	**10.8%**	**1.5**	**1.3**	**1.2**	**20.7%**	**16.5%**	**16.7%**	**0.9**	**1.0**	**0.8**
Qatar banks																		
Qatar National Bank	QNBK QD	QAR	12.9	155.80	Neutral (V)	12.6	11.6	10.8	10.7%	2.8	2.4	2.1	23.9%	22.3%	20.8%	1.4	1.3	1.2
Commercial Bank of Qatar	CBQK QD	QAR	3.9	66.00	Neutral (V)	7.5	8.9	8.4	-1.1%	1.4	1.2	1.2	21.0%	14.6%	14.4%	0.9	1.1	1.1
Weighted average						**11.4**	**11.0**	**10.3**	**7.9%**	**2.5**	**2.1**	**1.9**	**23.3%**	**20.5%**	**19.3%**	**1.3**	**1.2**	**1.2**
Kuwait banks																		
National Bank of Kuwait	NBK KK	KWD	12.5	1.20	Underweight (V)	13.8	12.3	9.7	16.0%	2.6	2.2	1.9	15.6%	16.5%	18.3%	1.9	1.5	1.2
Commercial Bank of Kuwait	CBK KK	KWD	4.4	1.00	Underweight	12.4	20.6	14.7	0.2%	2.6	2.5	2.3	19.7%	12.3%	16.1%	1.7	2.7	1.8
Burgan Bank	BURG KK	KWD	1.4	0.38	Neutral (V)	10.3	16.4	8.0	18.5%	1.2	1.1	1.0	11.4%	7.1%	13.1%	1.4	2.0	1.0
Weighted average						**13.2**	**14.6**	**10.8**	**12.3%**	**2.5**	**2.2**	**1.9**	**16.3%**	**14.7%**	**17.4%**	**1.9**	**1.8**	**1.3**
Egypt banks																		
National Societe Generale Bank	NSGB EC	EGP	1.6	27.33	Neutral (V)	8.6	9.4	7.2	20.5%	2.0	1.7	1.5	25.7%	19.7%	22.7%	1.0	1.1	0.9
Commercial International Bank	COMI EY	EGP	2.9	55.14	Neutral (V)	12.0	10.6	8.5	23.9%	2.8	2.3	1.9	26.1%	23.6%	24.3%	1.4	1.2	1.0
Egyptian Gulf Bank	EGBE EY	USD	0.29	1.43	Underweight (V)	20.0	18.7	16.1	18.9%	1.7	1.7	1.2	9.0%	13.8%	17.0%	2.7	1.8	1.0
Credit Agricole Egypt Bank	CIEB EY	EGP	0.5	10.56	Overweight (V)	7.1	8.2	6.6	6.6%	1.5	1.5	1.4	21.6%	18.0%	21.2%	0.9	1.1	0.8
Weighted average						**10.0**	**9.6**	**7.5**	**20.8%**	**2.3**	**1.9**	**1.6**	**24.6%**	**21.3%**	**23.1%**	**1.2**	**1.2**	**0.9**
Omani banks																		
Bank Muscat	BKMB OM	OMR	2.49	0.89	Overweight (V)	10.2	9.9	8.7	15.0%	1.3	1.3	1.2	14.0%	13.7%	14.6%	1.1	1.1	1.0
National Bank of Oman	NBOB OM	OMR	0.92	0.33	Neutral (V)	7.8	13.1	9.6	0.0%	1.4	1.4	1.3	19.0%	10.8%	13.6%	0.9	1.5	1.1
Weighted average						**9.6**	**10.8**	**8.9**	**10.9%**	**1.4**	**1.3**	**1.2**	**15.3%**	**12.9%**	**14.3%**	**1.1**	**1.2**	**1.0**
Speciality Finance																		
Shuaa Capital	SHUAA UH	AED	0.5	1.83	Neutral (V)	NA	NA	NA	NA	1.8	1.1	1.1	-75.6%	-33.0%	-1.4%	-0.4	-0.5	-11.8
Dubai Financial Market	DFM UH	AED	4.8	2.22	Neutral (V)	29.1	56.8	34.1	4.3%	2.2	2.2	2.2	7.4%	4.1%	6.8%	3.0	5.1	3.1
EFG Hermes	HRHO EY	EGP	2.1	30.90	Neutral (V)	12.7	18.1	15.1	NA	1.5	1.4	1.3	10.8%	7.9%	8.8%	2.1	2.6	2.2
Weighted average						**24.1**	**44.9**	**28.1**	**4.3%**	**2.0**	**1.9**	**1.9**	**8.4%**	**5.3%**	**7.4%**	**2.7**	**4.3**	**2.8**
Weighted average: Overall						**13.9**	**14.9**	**12.7**	**7.4%**	**2.7**	**2.4**	**2.2**	**20.6%**	**18.5%**	**18.4%**	**1.5**	**1.5**	**1.3**

Source: HSBC estimates, Thomson Reuters

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Outlook improving: upside potential in Abu Dhabi and Saudi

- Government action to support the inter-bank market, lower interest rates and deploy capital has been helpful
- Q3 2009 results so far reflect a lower-return environment driven by increased liquidity
- Credit quality slides as expected, led primarily by credit card and personal loan distress; large corporate default remains isolated

From liquidity to credit quality

Gulf banks are far advanced in releasing their Q3 2009 financial results. Saudi Arabia, Oman and Qatar have completed their required reporting; UAE and Kuwait are mid-way through their season. After the crisis-induced liquidity squeeze of late 2008 and early 2009, government action to support the inter-bank market, lower interest rates and deploy capital where necessary has helped the sector. Attention has inevitably shifted to the state and direction of credit quality (with much focus on regional banks' exposure to Saad/Al Gosaibi and likely recovery) and the degree to which the banks' business models have been dislocated by the slowdown in growth.

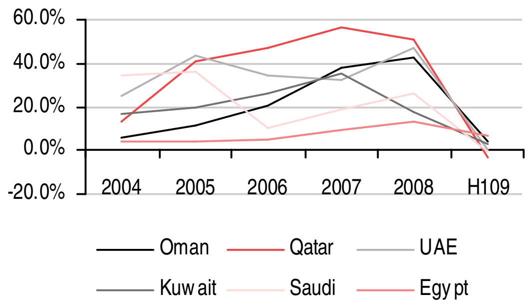
The banks' Q3 results so far confirm our belief that credit quality continues to deteriorate, led primarily by credit card and personal loan distress, with large corporate default remaining a somewhat isolated occurrence. Although a wholesale collapse in lending portfolio quality appears to have been averted, the Saudi corporate default is a reminder to the market that big unexpected credit events are an ever-present threat. Here, negotiations are ongoing with affected banks but the eventual outcome is still uncertain, and there is likely to be a prolonged period before all claims are settled. We had expected much higher provisioning charges in Q3, partly to progress provisioning for these exposures, and some banks did report sharply higher loss ratios (notably SABB and Alrajhi in Saudi, and First Gulf Bank and Abu Dhabi Commercial Bank in Abu Dhabi) but others disclosed muted growth in loss charges. We are aware, though, that while we believe retail credit losses may be peaking, the outlook for corporate exposures remains fragile, and the risk remains that higher loss charges could emerge in Q4 2009 and in 2010.

Loan growth generally remained muted in Q3 2009. For the most part, deposit growth outpaced loan growth, improving liquidity ratios and revealing bank managements' willingness to keep their gunpowder dry for what we expect to be a better environment for loan growth in 2010. In a declining rate environment, banks generally gave up net interest margin of around 10-15bps after successfully managing to keep margins buoyant by repricing risk in H1 2009. We think margins will probably stabilise in Q4 2009 through to H1 2010 with the possibility of higher rates in H2 2010 an upside risk for banks' margins that we do not currently model.

Weak loan growth has had a predictable impact on fees and commission (f&c) levels relative to Q3 2008 (in some cases 20-30% lower with FGB the stand-out performer, keeping f&c levels comparable with last year). Investment write-downs, a feature of the Q4 2008 and Q1 2009 numbers, have reduced considerably, helped by much more optimistic financial markets and property prices that appear to have stabilised. Cost reduction has not been a major feature of banks' results, but in most cases costs were stable or showed a modest reduction. We believe the low cost-to-income ratios already present in most banks limits managements' ability to cut costs aggressively, but we believe there has been an element of increasing risk management expenses and reducing new business costs to take account of the shifting priorities dictated by a changed business environment.

Overall we think the results so far reflect a lower-return environment driven by increased liquidity, a still-cautious attitude to new business and the need to manage existing credit exposure and the threat of higher default charges still to come in the next few quarters. Gulf banks by-and-large have so far navigated their way through a sharply changed economic landscape but risks remain elevated; the winners are likely to be those that can escape significant credit losses while adjusting operating models successfully from high-growth platforms into those more suited to a more subdued growth outlook.

Aggregate country loan growth



Source: Central Bank websites

Better visibility in Saudi

The first indications of potential Saad and Al Gosaibi debt restructuring – talks on a bilateral settlement with Saad and renegotiations with Al Gosaibi – suggest that Saudi banks should have better visibility on loan loss provisioning levels going forward. We have reduced our 2009 loan loss provision expense forecast for the Saudi banks under our coverage by 24% on average as banks booked lower bad asset charges in the first nine months of 2009, than we originally expected. We believe the reason for lower loan loss provision charges lies in healthy collateral coverage (Saudi banks create provisions for loan losses net of collateral) and/or gradual depletion of loan loss reserves created previously. Please note that Saudi banks do not report NPLs on a quarterly basis. We expect NPL coverage to decline on average in 2009 to 81% from 193% in 2008. Increasing the ratio of non-performing loans in gross loans to 2.6% in 2009 from 1.3% in 2008 for the Saudi banks under our coverage is the main reason for depleting coverage of NPLs.

We envisage an improving outlook for 2010. Our research indicates that corporate loan growth tends to lag by two or three quarters certain industrial indicators such as domestic steel output, which was up 37% q-o-q in Q2 2009 (flat y-o-y). A sequential increase in capex in the domestic petrochemical industry, up 32% q-o-q in Q2 2009, implies potentially rising demand for working capital financing. Strong deposit growth in H1 2009, up 16% y-o-y, supports growth. We see the best value in Riyad Bank and Samba, both rated Overweight (V) and offering potential total returns of 38% and 25%, respectively. Riyad Bank currently trades at 1.6x book value for 2010e with an expected ROE for 2012 of 18.9%. Samba currently trades at 2.0x book value for 2010e, which compares favourably to our expected 2010 ROE of 21%.

Abu Dhabi Banks remain underpriced

We believe the risk profile of the Abu Dhabi banks has improved over the past year. Robust support from the Federal and Abu Dhabi authorities for the liability side of the banks' balance sheets over the last nine months has left the Abu Dhabi banks with significant capital levels and improved liquidity. Recovering equity prices and property values that appear to have found a floor, at least in the short term, are combining to reduce the pessimism prevalent in the UAE over the last year. We expect banks' earnings will likely feel the effect of high defaults, particularly in the personal loan and credit card portfolios, in 2009. We think 2010 will see higher corporate weakness; in ADCB particularly the provisioning for Saad/Al Gosaibi exposure is likely to pin back earnings. However, lower non-interest income, particularly for the stronger banks, is likely to be offset by higher net interest margins and the high asset bases accumulated during the high growth years of 2006 and 2007. Having recovered from deeply discounted levels, we believe the share prices of the Abu Dhabi banks remain attractive relative to the medium-term equity returns of which we believe these banks are capable. In particular, we think National Bank of Abu Dhabi at 1.7x 2009e P/NAV and First Gulf Bank at 1.3x 2009e NAV offer good upside potential.

Egypt: good price performance limits upside

To date, the Egyptian economy has coped fairly well with the global crisis, with economic activity surprising on the upside (real GDP growth was 4.9% y-o-y in Q3 2009). However, sector-lending growth remains subdued, growing at 7% y-o-y despite the recent 325bps rate cuts by the Central Bank. We expect lending volumes to pick up during H2 2009, due in part to growth in retail lending activities in line with buoyant consumer spending. We believe the downward pressure on interest margins is likely to be alleviated during H2 2009 with the Egyptian banks aiming to improve their asset mix by targeting higher-yielding retail lending. The majority of the banks under our coverage also enjoy good liquidity and we believe they do not need to compete aggressively for deposits. The banks under our coverage reported healthy asset quality indicators and moderate provisioning (zero to low provisioning levels in addition to provision write-backs) in H1 2009 but we expect credit costs for banks under our coverage to increase during H2 2009 compared to H1 2009. We expect some of the negative trends observed in H1 this year, eg higher tax charges, will linger on through H2 and weigh on overall 2009 results. The Egyptian banks currently trade at an average 2009e P/BV of 2.2x versus the CEEMEA banks' 1.9x and we believe the market has largely discounted their balance sheet strength and controlled levels of NPLs.

Qatar: waiting for the macro kick

The local equity and property exposure swaps for government bonds and cash have been on investor-friendly terms, together with the deployment of Tier 1 capital into banks balance sheets, rank among the most proactive steps taken by any Gulf country to protect its banking system.

Lending started to exhibit signs of growth in Q2 after a stagnant first quarter, analysis of which was complicated by the asset sales and the government issuance, which affected public sector credit extension. Liquidity is more evident now as private sector deposits overcome a fall in public sector deposits (which must have been affected by asset-side support to the banks). As with other countries in the Gulf, net interest margins remain robust, protected mainly by wider asset spreads, and the cost of credit risk is rising, although some margin gains were given back in Q3 2009. Strong government investor-friendly action will likely cap impairments in the short term, although earnings growth is likely to be subdued by the rising credit costs and tepid non-interest revenues. Stock price performance for Qatar banks from the end of Q1 2009, when we thought they were oversold, has been impressive. In our view, CBQ (2009e P/NAV of 1.2x) and QNB (2009e P/NAV of 2.4x) mostly capture the somewhat brighter short-term earnings outlook.

(Continued) uncertainty in Kuwait

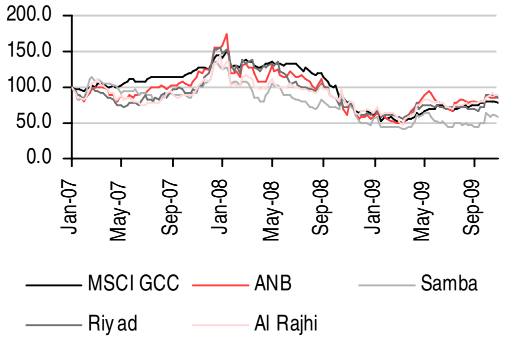
Uncertainty over Saad/Al Gosaibi debt exposures and the health of Kuwait's investment companies still hangs over the Kuwait banking sector. Lending growth remains largely absent as the banks, seemingly unimpressed by the government's proposed bail-out package, are choosing to rein in further credit extension. The potential restrictions proposed in the package such as limitations on executive pay have not been helpful in encouraging banks support. Although margins are holding up, we believe the negative surprise risk for Kuwait credit quality remains elevated, from both inside and outside the country. Although some are becoming more positive over the country's medium-to-long term prospects, partly due to stabilisation in Iraq that may present investment opportunities for Kuwait banks, the near-term issues are likely to dominate sentiment for some time. We believe Kuwait banks are fully priced at current levels with NBK and CBK trading at above 2x 2009e NAV in an uncertain environment, and we remain Underweight on both these stocks. Burgan Bank (Neutral (V)) is cheaper at 1.8x P/NAV but it faces capital and credit provisioning issues which, until resolved, are likely to prevent significant price appreciation.

Oman: medium to long-term outlook remains buoyant

Balance sheet expansion through 2009 has been weak in Oman, as in other parts of the GCC. However, we think credit extension is likely to pick up in H1 2010 as banks reduce risk aversion. Construction projects tendered out this year – the country ranks amongst the highest in terms of growth in value of contracts tendered out during 2009 within the GCC – could result in increased demand for project financing during 2010 and 2011. Bank balance sheets and income statements are amongst the most defensive within the GCC region. Oman has also had the least level of government intervention in its banking sector. Demographically the country is well placed with around 50% of the population aged under 20. The consumer loan book is likely to find support from an increasingly employed population going forward. Even though the short-term outlook has been clouded by the banks' exposure to the Saad and Al Gosaibi Groups, we believe the long-term story is intact. Our preferred stock here is Bank Muscat (Overweight (V)), which is currently trading at a 2009e P/NAV of 1.3x against sustainable equity returns of c18%. The bank is a dominant franchise within Oman and looks well positioned to exploit key financing and big ticket opportunities in the future. We remain Neutral (V) on National Bank of Oman, which we think is likely to be affected by material dependence on loan loss recoveries in the recent past. The stock appears fairly valued at 2009e P/NAV of 1.4x with expected sustainable equity returns of 16%.

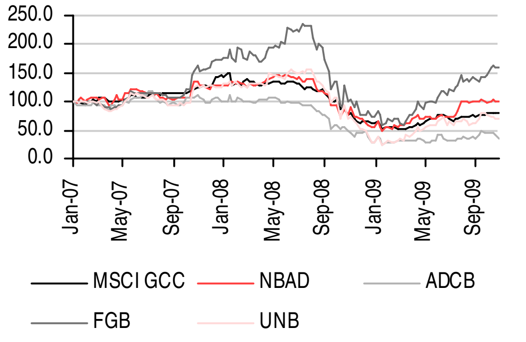
Price performance charts

Saudi Arabia



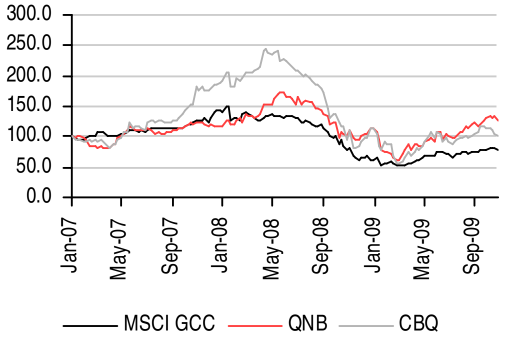
Source: Thomson Reuters

Abu Dhabi



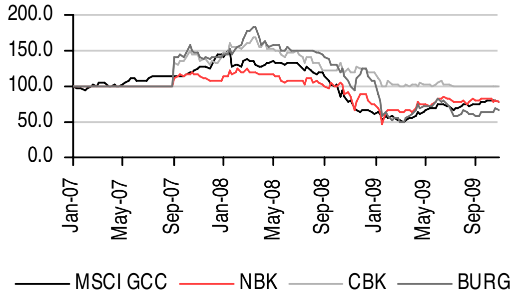
Source: Thomson Reuters

Qatar



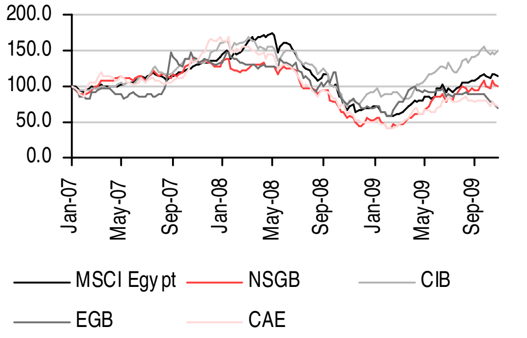
Source: Thomson Reuters

Kuwait



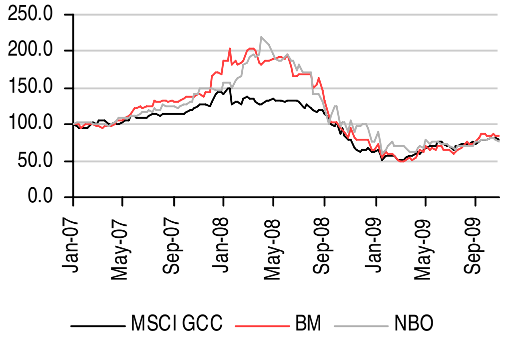
Source: Thomson Reuters

Egypt



Source: Thomson Reuters

Oman



Source: Thomson Reuters

HSBC

Strong conviction calls

Valuation (priced on 7 November 2009)

Bank	Bloomberg code	Rating	Current price	Target price	Avg vol traded 6-month (USDm)	Potential tot return	PB 2009e	PB 2010e	PE 2009e	PE 2010e	ROE 2010e	ROE 2011e
Samba	SAMBA AB	Overweight (V)	SAR54.5	68.0	5.24	25%	2.3	2.1	10.5	10.3	21.0%	17.2%
Riyad Bank	RIBL AB	Overweight (V)	SAR28.2	39.0	5.72	38%	1.6	1.6	15.2	13.9	11.6%	12.6%
National Bank of Abu Dhabi	NBAD UH	Overweight (V)	AED13.2	19.8	1.09	50%	1.7	1.4	8.7	7.2	21.1%	20.3%
First Gulf Bank	FGB UH	Overweight (V)	AED18.2	24.8	2.36	36%	1.3	1.1	8.3	7.3	18.2%	17.8%
Bank Muscat	BKMB OM	Overweight (V)	OMR0.9	1.2	2.98	35%	1.3	1.2	9.9	8.7	14.6%	16.7%

Source: HSBC estimates, Bloomberg

Our strong conviction calls are concentrated mainly in Saudi Arabia (Samba and Riyad Bank) and Abu Dhabi (National Bank of Abu Dhabi and First Gulf Bank). Additionally, we like the under-appreciated Bank Muscat in Oman.

Saudi Arabia: Samba and Riyad Bank

In Saudi, we think **Samba** is best positioned to monetise from the potentially rising demand for loans in 2010. The bank commands a CAR of 16.5% and a loan-to-deposit ratio of 60% (as at Q3 2009). We forecast Samba's customer loans to increase 19% y-o-y in 2010, after an expected 10% y-o-y contraction in 2009. The stock currently trades at 2.1x 2010e NAV, which compares favourably to its one-year forward ROE of 20.3%.

Riyad Bank is well positioned to tap potentially rising demand for corporate funding in 2010. We expect its loan market share to rise to 14.3% in 2009e from 12.9% in 2008. We believe the high proportion of floating rate corporate loans, 53% of total assets should help Riyad Bank's earnings in a rising interest rate scenario. This is not discounted in our valuation. We have an Overweight (V) rating and a target price of SAR39. We expect ROE to improve gradually to 19% in 2012 from 11% in 2009.

Abu Dhabi: National Bank of Abu Dhabi and First Gulf Bank

Both **NBAD** and **FGB** have had strong operating performances, have escaped significant Saad/Al Gosaibi exposure and have 2010e equity returns of 24% and 18%, respectively, which capture their high capital bases, improved liquidity and balance sheet expansion potential to pick up correctly priced lending growth within the UAE. NBAD currently trades at 1.4x 2010e NAV and 7.2x 2010e net earnings and FGB at 1.1x 2010e NAV and 7.3x 2010e net earnings. We believe these stocks are the two quality names in Abu Dhabi and would provide good exposure to the Abu Dhabi development story at an attractive price.

Oman: Bank Muscat

We think **Bank Muscat** should benefit from a continued demand in consumer transactional and lending products as well as continued investment in country infrastructure. Its strong association with the Oman government gives it a competitive advantage when acting as intermediary in the public/private sector financial exchange. We have raised our estimates for Bank Muscat and now expect a mid-teen equity return in 2010, rising to 18% by 2012. At 1.2x 2010e NAV and 8.7x 2010e net earnings, we believe this well-managed conservative bank deserves a higher rating.

Summary valuations

Comparison of valuation parameters of banks in emerging markets

Geography	PE (x)			EPS growth	P NAV (x)			COE (%)	ROE (%)			REP (x)		
	2008a	2009e	2010e	2008-11e	2008a	2009e	2010e		2008a	2009e	2010e	2008a	2009e	2010e
Saudi Arabia	15.8	15.0	14.3	4%	3.4	3.0	2.7	11%	22%	21%	20%	1.7	1.6	1.5
Abu Dhabi	8.6	9.9	8.0	11%	1.5	1.3	1.2	12%	21%	16%	17%	0.9	1.0	0.8
Kuwait	13.2	14.6	10.8	12%	2.5	2.2	1.9	12%	16%	15%	17%	1.9	1.8	1.3
Qatar	11.4	11.0	10.3	8%	2.5	2.1	1.9	12%	23%	20%	19%	1.3	1.2	1.2
Egypt	10.0	9.6	7.5	21%	2.3	1.9	1.6	13%	25%	21%	23%	1.2	1.2	0.9
Oman	9.6	10.8	8.9	11%	1.4	1.3	1.2	12%	15%	13%	14%	1.1	1.2	1.0
Russia	18.7	NA	NA	32%	0.4	0.5	0.5	17%	10%	-12%	3%	0.6	NA	2.6
Turkey	13.8	8.8	8.6	25%	2.1	1.7	1.5	19%	17%	21%	18%	2.2	1.5	1.5
Poland	12.4	19.1	16.3	0%	2.4	2.2	2.0	12%	21%	12%	13%	1.4	2.2	1.9
CE Europe ex Poland	7.5	11.7	9.5	-6%	2.0	1.8	1.6	13%	31%	17%	18%	0.8	1.4	1.1
Brazil	13.9	16.7	10.9	14%	3.6	3.1	2.6	13%	23%	19%	21%	2.1	2.2	1.6
Latam ex Brazil	13.0	15.0	11.6	14%	3.1	2.7	2.3	12%	23%	19%	21%	1.7	1.8	1.4
China	17.8	15.1	12.5	21%	3.3	2.9	2.5	11%	19%	20%	21%	1.9	1.6	1.3
India	23.9	21.6	16.2	24%	3.5	3.1	2.6	14%	18%	16%	18%	2.6	2.6	1.9
Taiwan	185.5	44.7	24.2	62%	2.4	1.9	1.8	9%	2%	6%	8%	9.0	2.6	2.0
South Africa	9.1	12.0	10.5	0%	1.9	1.8	1.7	18%	22%	15%	16%	1.5	2.2	1.9

Note: valuation data is on a weighted average basis
Source: HSBC estimates, Thomson Reuters

Financials and ratios

Balance sheet ratios

Balance sheet

	Loan growth (%)				Deposit growth (%)				Loans/Deposits (%)			Loans/(Deposits + Capital) (%)		
	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2009e	2010e	2011e
Abu Dhabi														
NBAD	16.4	10.9	10.2	12.5	11.6	11.0	11.0	11.2	112.7	112.6	111.8	98.5	97.1	95.2
ADCB	8.0	7.0	10.3	8.4	1.3	10.0	11.0	7.3	137.5	133.8	133.0	115.7	113.3	112.3
FGB	16.3	10.0	9.7	11.9	18.9	10.0	8.0	12.2	104.9	104.9	106.6	86.3	85.5	85.7
UNB	3.1	8.8	10.1	7.3	10.5	12.0	10.0	10.8	95.1	92.4	92.4	82.1	79.7	79.6
Weighted average	**11.7**	**9.7**	**10.0**	**10.5**	**8.3**	**10.6**	**9.8**	**9.6**	**113.8**	**112.8**	**113.0**	**96.1**	**94.7**	**94.0**
Kuwait	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NBK	11.3	9.6	9.5	10.2	11.5	9.3	9.4	10.1	125.3	125.5	125.8	96.6	96.3	96.2
CBK	7.4	7.2	9.5	8.1	10.0	7.9	9.6	9.1	89.7	89.2	89.2	76.4	75.6	75.5
BURG	15.4	8.6	9.0	11.0	10.0	10.0	10.0	10.0	92.6	91.5	90.7	82.0	81.0	80.3
Weighted average	**10.7**	**8.9**	**9.5**	**9.7**	**11.0**	**9.0**	**9.5**	**9.8**	**114.2**	**114.2**	**114.3**	**90.6**	**90.1**	**90.0**
Qatar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
QNB	0.0	14.6	17.1	10.3	11.0	13.9	16.3	13.7	86.5	87.0	87.6	73.9	74.6	75.4
CBQ	-4.6	10.2	10.5	5.1	-3.4	11.7	11.7	6.4	103.9	102.6	101.5	75.0	75.2	75.5
Weighted average	**-1.1**	**13.6**	**15.5**	**9.1**	**7.6**	**13.3**	**15.2**	**12.0**	**90.6**	**90.7**	**90.8**	**74.2**	**74.7**	**75.4**
Egypt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NSGB	7.2	12.0	12.9	10.7	8.6	9.3	9.0	9.0	66.9	68.6	71.0	59.1	60.1	61.6
CIB	9.5	13.0	14.5	12.3	7.2	8.5	9.0	8.2	55.1	57.4	60.3	48.6	49.9	51.9
EGB	4.9	12.3	15.2	10.7	7.0	8.0	8.5	7.8	61.5	63.9	67.9	53.0	55.4	59.1
CAE	14.3	14.0	12.8	13.7	6.0	7.0	8.5	7.2	40.1	42.7	44.4	36.3	38.6	40.1
Weighted average	**9.1**	**12.8**	**13.9**	**11.9**	**7.5**	**8.5**	**8.9**	**8.3**	**57.4**	**59.5**	**62.3**	**50.7**	**52.1**	**53.9**
Saudi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ANB	-6.6	10.7	12.3	5.1	-12.0	7.0	12.0	1.8	85.5	88.4	88.6	73.0	74.9	75.2
Samba	-10.5	19.1	15.6	7.2	6.0	7.0	9.0	7.3	61.8	68.8	72.9	53.7	59.5	63.1
Riyad	13.0	12.1	13.2	12.7	16.0	15.0	15.0	15.3	89.4	87.1	85.8	73.8	73.1	73.1
Al Rajhi	5.4	7.6	12.4	8.4	8.0	8.0	8.0	8.0	90.5	90.1	93.8	74.5	73.7	76.2
Weighted average	**1.9**	**11.2**	**13.2**	**8.5**	**6.5**	**8.9**	**10.0**	**8.4**	**83.6**	**84.9**	**87.3**	**69.8**	**70.7**	**72.8**
Oman	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank Muscat	1.9	10.9	11.9	8.2	0.8	9.2	11.8	7.2	118.8	120.6	120.8	96.8	98.0	98.2
NBO	-1.0	11.2	11.5	7.1	-6.0	11.1	11.2	5.1	110.0	110.1	110.4	91.4	91.6	91.9
Weighted average	**1.1**	**11.0**	**11.8**	**7.9**	**-1.1**	**9.7**	**11.6**	**6.6**	**116.4**	**117.8**	**117.9**	**95.4**	**96.2**	**96.5**
Overall average	**4.6**	**11.0**	**12.5**	**9.2**	**7.4**	**9.8**	**10.6**	**9.2**	**93.4**	**94.1**	**95.4**	**77.4**	**77.7**	**78.8**

Source: HSBC estimates

Income statement ratios

Income statement

	NIMs (%)				Cost/income (%)			Fee income growth (%)				EPS growth (%)				ROA (%)			ROE (%)		
	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2009e	2010e	2011e
Abu Dhabi																					
NBAD	2.7	2.6	2.6	1.4	29.5	28.9	29.1	-7.2	10.0	8.2	3.4	4.5	20.9	15.0	13.3	1.9	2.1	2.2	21.4	21.6	20.7
ADCB	2.4	2.2	2.2	1.3	34.2	35.8	35.8	0.8	6.8	8.9	5.4	-52.3	55.6	152.3	23.3	0.4	0.6	1.5	4.2	6.3	14.5
FGB	3.7	3.4	3.4	1.1	20.9	21.9	22.2	12.1	5.0	1.8	6.2	9.4	13.3	13.5	12.0	2.8	2.8	2.9	18.5	18.2	17.8
UNB	2.3	2.3	2.3	-4.3	32.4	31.1	30.9	-13.9	10.1	18.7	4.0	-17.5	12.9	14.0	2.0	1.6	1.6	1.7	14.1	14.2	14.5
Weighted average	**2.3**	**2.2**	**2.2**	**0.4**	**22.3**	**22.5**	**22.8**	**-0.8**	**5.4**	**5.6**	**3.2**	**-23.2**	**28.4**	**31.9**	**7.1**	**2.0**	**2.8**	**3.4**	**13.0**	**14.4**	**15.5**
Kuwait																					
NBK	3.4	3.4	3.4	0.3	33.4	30.3	30.4	0.0	11.5	9.3	6.8	12.5	27.2	11.0	16.7	2.3	2.7	2.7	16.5	18.3	18.3
CBK	2.7	2.7	2.7	-2.6	23.7	23.1	23.4	5.0	7.5	7.5	6.7	-39.8	40.0	19.3	0.2	1.4	1.8	1.9	12.3	16.1	17.4
BURG	2.7	2.6	2.6	6.5	28.1	29.1	29.0	40.0	10.0	10.0	19.2	-37.2	103.9	30.0	18.5	0.6	1.0	1.2	7.1	13.1	15.4
Weighted average	**3.2**	**3.2**	**3.2**	**0.1**	**30.6**	**28.5**	**28.6**	**4.1**	**10.4**	**8.9**	**7.7**	**-3.8**	**35.9**	**14.4**	**12.8**	**1.9**	**2.4**	**2.4**	**14.8**	**17.4**	**17.9**
Qatar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
QNB	2.6	2.6	2.6	3.5	19.7	20.0	19.5	-6.1	11.7	16.2	6.8	8.9	7.4	15.8	10.7	2.6	2.5	2.5	22.3	20.8	21.5
CBQ	3.2	3.2	3.2	4.6	28.3	31.1	30.7	-22.6	8.8	10.3	-2.4	-15.4	5.5	8.4	-1.1	2.7	3.0	3.0	14.6	14.4	14.8
Weighted average	**2.7**	**2.7**	**2.7**	**3.7**	**21.8**	**22.6**	**22.2**	**-10.0**	**11.0**	**14.9**	**4.7**	**3.2**	**7.0**	**14.1**	**7.9**	**2.6**	**2.6**	**2.6**	**20.5**	**19.3**	**19.9**
Egypt																					
NSGB	4.0	4.3	4.4	7.2	33.9	31.1	29.6	9.0	23.0	22.0	17.8	-9.5	30.9	37.7	17.7	2.0	2.5	3.1	19.5	22.0	25.7
CIB	3.9	4.2	4.3	1.4	39.2	37.4	36.1	9.8	20.7	18.2	16.2	13.1	24.2	16.1	17.7	2.5	2.8	3.0	23.6	24.3	23.6
EGB	3.7	4.0	4.1	3.0	51.8	48.0	45.4	8.0	22.0	18.0	15.8	16.8	29.1	11.5	18.9	1.9	2.3	2.3	13.8	17.0	18.2
CAE	3.4	3.6	3.7	5.8	53.2	50.8	48.6	2.5	15.1	17.1	11.3	-13.4	23.0	13.6	6.5	1.6	1.9	2.0	18.0	21.2	22.1
Weighted average	**2.8**	**3.0**	**3.0**	**2.6**	**28.4**	**26.8**	**25.7**	**6.2**	**14.9**	**13.7**	**11.5**	**-5.8**	**24.3**	**22.4**	**12.2**	**3.5**	**4.0**	**4.5**	**17.5**	**18.9**	**19.9**
Saudi																					
ANB	3.1	3.1	3.0	-1.9	35.9	37.9	36.5	-28.7	10.7	6.7	-5.6	2.7	-10.6	3.2	-1.8	1.9	1.8	1.7	17.4	13.6	12.6
Samba*	3.0	2.9	2.7	-6.0	27.1	26.5	28.7	-22.5	10.9	7.2	-2.7	7.9	1.9	-9.6	-0.2	2.6	2.5	2.1	23.0	21.0	17.2
Riyad	2.7	2.6	2.6	-3.9	38.3	37.5	35.3	8.1	12.6	7.6	9.4	-5.9	9.8	13.6	5.5	1.7	1.7	1.7	11.1	11.6	12.6
Al Rajhi	6.1	5.8	5.4	-4.7	24.8	25.3	25.7	13.2	11.6	9.6	11.5	8.2	7.9	2.5	6.2	3.9	4.0	3.8	25.4	24.3	22.2
Weighted average	**4.5**	**4.3**	**4.1**	**-4.5**	**29.1**	**29.4**	**29.4**	**-0.6**	**11.5**	**8.3**	**5.9**	**4.9**	**4.6**	**2.0**	**3.7**	**3.0**	**3.0**	**2.8**	**21.3**	**19.9**	**18.2**
Oman																					
Bank Muscat	3.0	3.2	3.2	-3.3	30.5	36.0	35.3	-8.0	11.2	11.8	4.6	3.1	13.4	27.0	14.1	1.6	1.8	2.1	13.7	14.6	16.7
NBO	3.2	3.3	3.3	3.5	41.9	41.7	40.5	-30.0	11.1	11.2	-4.7	-40.2	35.5	24.6	0.3	1.4	1.9	2.1	10.8	13.6	15.4
Weighted average	**3.1**	**3.2**	**3.2**	**-1.4**	**33.6**	**37.5**	**36.7**	**-14.0**	**11.2**	**11.6**	**2.1**	**-8.6**	**19.4**	**26.4**	**10.4**	**1.6**	**1.8**	**2.1**	**12.9**	**14.3**	**16.4**
Overall average	**3.7**	**3.6**	**3.5**	**-1.5**	**28.8**	**28.8**	**28.8**	**-1.2**	**11.0**	**9.7**	**6.1**	**-2.7**	**15.1**	**12.6**	**6.8**	**2.6**	**2.8**	**2.9**	**18.3**	**18.3**	**17.9**

Note: *For Samba we forecast EPS CAGR 2008-13e of 14%, and assume some normalisation in earnings and ROE (see table above) in 2011 by assuming zero profits from the trading business" -
Source: HSBC estimates

Asset quality ratios

Asset quality

	NPLs growth (%)				NPL/Gross loans (%)			Coverage ratio (%)		
	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2009e	2010e	2011e
Abu Dhabi										
NBAD	113.1	14.3	-5.7	31.9	1.7	1.8	1.5	79.3	77.8	78.0
ADCB	343.3	29.1	-10.0	72.7	4.6	5.5	4.5	70.0	75.0	85.0
FGB	46.3	12.1	39.7	31.9	1.8	1.8	2.3	77.3	76.2	72.6
UNB	41.8	27.2	10.0	25.7	1.5	1.8	1.8	78.3	78.3	75.5
Weighted average	**106.1**	**25.6**	**11.3**	**37.1**	**2.1**	**2.4**	**2.3**	**77.1**	**76.9**	**76.8**
Kuwait										
NBK	10.0	10.0	10.0	10.0	1.9	1.9	1.9	192.0	180.0	170.0
CBK	30.0	25.0	10.0	21.4	6.3	7.3	7.3	127.0	116.7	116.7
BURG	125.0	25.0	15.0	47.9	3.5	4.0	4.2	180.0	180.0	180.0
Weighted average	**23.2**	**14.7**	**10.4**	**15.5**	**3.1**	**3.4**	**3.4**	**175.3**	**164.6**	**157.7**
Qatar										
QNB	35.0	60.0	35.0	42.9	1.0	1.4	1.6	100.0	90.0	90.0
CBQ	60.0	30.0	20.0	35.6	2.4	2.8	3.0	90.0	90.0	90.0
Weighted average	**40.9**	**53.0**	**31.5**	**41.2**	**1.3**	**1.7**	**1.9**	**97.7**	**90.0**	**90.0**
Egypt										
NSGB	5.0	8.0	12.0	8.3	6.9	6.7	6.6	107.0	102.2	98.5
CIB	9.0	17.5	19.5	15.2	3.0	3.1	3.3	183.0	160.5	140.2
EGB	2.0	5.6	8.5	5.3	16.6	15.8	15.1	109.8	107.6	104.2
CAE	2.0	7.0	9.5	6.1	3.9	3.6	3.5	114.0	112.1	111.0
Weighted average	**6.7**	**12.9**	**15.6**	**11.7**	**5.0**	**4.9**	**5.0**	**148.9**	**135.0**	**122.6**
Saudi										
ANB	315.9	-4.3	-5.8	55.3	1.8	1.5	1.3	76.6	86.8	80.6
Samba	116.0	13.6	-45.6	10.1	4.7	4.5	2.1	83.3	79.9	142.3
Riyad	62.1	-1.3	-12.8	11.8	1.9	1.7	1.3	70.3	74.6	92.2
Al Rajhi	42.2	-7.3	-8.6	6.4	2.6	2.4	2.0	92.0	101.8	125.2
Weighted average	**96.4**	**-1.4**	**-16.8**	**14.4**	**2.8**	**2.6**	**1.8**	**84.3**	**90.3**	**117.1**
Oman										
Bakn Muscat	125.0	15.0	10.0	41.7	5.1	5.3	5.2	98.0	100.0	100.0
NBO	15.0	10.0	10.0	11.6	5.0	5.0	4.9	105.0	105.0	100.0
Weighted average	**95.2**	**13.6**	**10.0**	**33.6**	**5.1**	**5.2**	**5.1**	**99.9**	**101.4**	**100.0**
Overall average	**75.9**	**13.5**	**0.1**	**22.1**	**2.7**	**2.7**	**2.3**	**101.4**	**101.2**	**112.9**

Source: HSBC estimates

Capital ratios

Capital ratios

	CAR (%)				Tier 1 Ratio (%)				Capital/Total assets (%)			
	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2008-2011e CAGR	2009e	2010e	2011e	2008-2011e CAGR
Abu Dhabi												
NBAD	20.2	20.8	21.3	15.8	14.7	15.8	16.8	12.4	8.9	10.2	11.2	8.9
ADCB	18.5	17.7	17.5	14.7	11.8	11.5	11.9	2.2	10.1	10.1	10.8	0.1
FGB	20.8	21.0	21.0	14.3	17.3	17.8	18.1	8.7	14.8	15.7	16.8	2.7
UNB	19.9	19.5	19.1	19.0	15.2	15.2	15.1	10.2	11.3	11.7	12.3	1.3
Weighted average	**20.5**	**20.5**	**20.5**	**15.6**	**15.5**	**16.0**	**16.4**	**9.6**	**11.8**	**12.6**	**13.5**	**5.1**
Kuwait												
NBK	15.4	16.0	16.6	2.7	14.7	15.3	15.8	2.5	14.6	14.9	15.1	4.7
CBK	15.5	15.7	15.8	0.7	13.8	14.1	14.2	0.9	10.9	11.2	11.3	-0.8
BURG	12.7	12.7	13.0	-2.0	8.4	8.7	9.1	0.5	7.9	8.0	8.0	0.3
Weighted average	**15.2**	**15.7**	**16.1**	**1.9**	**14.0**	**14.5**	**14.9**	**1.9**	**13.2**	**13.5**	**13.6**	**3.1**
Qatar												
QNB	15.7	15.6	15.1	2.7	15.0	14.7	14.2	1.1	12.0	11.9	11.6	2.0
CBQ	17.7	16.8	16.0	5.6	13.3	12.4	11.5	5.6	21.1	20.4	19.6	6.4
Weighted average	**16.2**	**15.9**	**15.3**	**3.4**	**15.5**	**15.1**	**14.5**	**2.2**	**14.1**	**13.9**	**13.5**	**3.1**
Egypt												
NSGB	15.7	16.4	17.3	7.9	13.5	14.5	15.7	11.5	10.8	11.5	12.5	7.6
CIB	17.1	18.3	18.8	6.8	16.1	16.8	16.8	4.7	10.8	12.1	13.1	9.0
EGB	18.4	17.2	15.5	-5.4	16.3	15.3	13.9	-4.9	13.4	13.1	12.6	-2.4
CAE	17.5	16.5	16.0	-5.4	16.3	15.5	15.1	-5.0	8.9	9.0	9.1	-0.9
Weighted average	**16.8**	**17.5**	**17.9**	**5.2**	**15.3**	**15.9**	**16.2**	**5.2**	**10.7**	**11.7**	**12.5**	**6.9**
Saudi												
ANB	15.3	15.8	15.9	3.9	13.2	13.8	14.1	5.7	12.4	13.4	13.5	10.7
Samba	16.9	16.6	16.2	4.9	15.8	15.6	15.4	5.5	11.7	12.2	12.4	5.0
Riyad	17.6	16.8	15.7	-0.9	15.4	14.7	13.9	0.0	15.0	14.1	13.1	-5.1
Al Rajhi	23.4	23.4	23.6	3.3	17.3	17.9	18.4	8.0	16.1	16.8	17.3	6.3
Weighted average	**20.0**	**19.8**	**19.6**	**2.9**	**16.1**	**16.3**	**16.4**	**5.7**	**14.5**	**14.9**	**15.0**	**4.5**
Oman												
Bank Muscat	14.8	14.4	13.9	2.4	11.1	11.3	11.6	2.5	12.2	12.3	12.3	1.4
NBO	15.4	15.2	15.2	0.5	13.5	13.4	13.4	0.9	14.0	13.9	13.9	4.0
Weighted average	**14.9**	**14.6**	**14.3**	**1.9**	**11.8**	**11.9**	**12.1**	**2.0**	**12.7**	**12.7**	**12.8**	**2.1**
Overall average	**18.6**	**18.6**	**18.5**	**4.9**	**15.5**	**15.7**	**15.8**	**5.2**	**13.6**	**14.0**	**14.2**	**4.2**

Source: HSBC estimates

Valuation ratios

Valuation ratios

	P/E (x)			P/BV (x)			Dividend yield (%)			ROE/COE (x)		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Abu Dhabi												
NBAD	8.7	7.2	6.3	1.7	1.4	1.2	2.3	4.2	6.4	1.8	1.8	1.8
ADCB	17.4	11.2	4.4	0.7	0.7	0.6	1.7	3.1	9.0	0.3	0.5	1.1
FGB	8.3	7.3	6.5	1.3	1.1	1.1	2.6	3.0	4.6	1.4	1.4	1.3
UNB	6.2	5.5	4.8	0.8	0.7	0.7	3.2	5.4	8.3	1.2	1.2	1.2
Weighted average	**9.9**	**8.0**	**6.4**	**1.4**	**1.2**	**1.0**	**2.3**	**3.6**	**6.0**	**1.4**	**1.4**	**1.5**
Kuwait												
NBK	12.3	9.7	8.7	1.9	1.7	1.5	4.1	5.2	5.7	1.4	1.6	1.6
CBK	20.6	14.7	12.3	2.5	2.3	2.0	2.4	3.4	4.1	0.9	1.2	1.3
BURG	16.4	8.0	6.2	1.1	1.0	0.9	3.0	6.2	8.1	0.5	1.0	1.2
Weighted average	**14.6**	**10.8**	**9.4**	**2.0**	**1.8**	**1.6**	**3.6**	**4.8**	**5.5**	**1.2**	**1.4**	**1.5**
Qatar												
QNB	11.6	10.8	9.3	2.4	2.1	1.9	4.3	4.6	5.4	1.9	1.8	1.8
CBQ	8.9	8.4	7.8	1.2	1.2	1.1	7.5	8.3	9.0	1.1	1.1	1.1
Weighted average	**11.0**	**10.2**	**9.0**	**2.1**	**1.9**	**1.7**	**5.1**	**5.5**	**6.2**	**1.7**	**1.6**	**1.7**
Egypt												
NSGB	9.4	7.2	5.2	1.7	1.5	1.2	4.0	6.2	9.5	1.0	1.1	0.9
CIB	10.6	8.5	7.3	2.3	1.9	1.6	2.6	4.1	6.5	1.4	1.2	1.0
EGB	16.0	12.4	11.1	0.4	0.4	0.4	32.6	37.6	37.0	2.7	1.8	1.0
CAE	8.2	6.6	5.8	1.5	1.4	1.2	9.2	10.6	11.1	0.9	1.1	0.8
Weighted average	**10.3**	**8.1**	**6.8**	**1.9**	**1.6**	**1.4**	**5.4**	**7.2**	**9.6**	**1.3**	**1.2**	**0.9**
Saudi												
ANB	13.2	14.8	14.4	2.1	1.9	1.7	1.1	1.0	1.0	1.6	1.2	1.1
Samba	10.5	10.3	11.4	2.3	2.1	1.9	4.7	4.8	4.4	2.1	1.9	1.6
Riyad	15.2	13.9	12.2	1.6	1.6	1.5	3.9	4.3	5.7	1.0	1.1	1.1
Al Rajhi	17.4	16.1	15.7	4.2	3.7	3.3	2.9	3.2	3.2	2.3	2.2	2.0
Weighted average	**15.0**	**14.3**	**14.0**	**3.0**	**2.7**	**2.5**	**3.3**	**3.5**	**3.7**	**1.9**	**1.8**	**1.7**
Oman												
Bank Muscat	9.9	8.7	6.9	1.3	1.2	1.1	3.1	5.9	7.3	1.2	1.2	1.4
NBO	13.1	9.6	7.7	1.4	1.3	1.1	3.1	4.1	5.2	0.9	1.2	1.3
Weighted average	**10.8**	**9.0**	**7.1**	**1.3**	**1.2**	**1.1**	**3.1**	**5.4**	**6.8**	**1.1**	**1.2**	**1.4**
Specialty Finance												
DFM	56.8	34.1	23.6	2.3	2.3	2.3	1.7	2.8	4.0	0.4	0.7	1.0
Shuaa	NA	NA	91.5	1.1	1.1	1.1	0.0	0.0	0.0	-2.2	-0.1	0.1
EFG	18.1	15.1	12.3	1.4	1.3	1.2	1.6	1.6	1.6	0.6	0.7	0.8
Weighted average	**41.5**	**19.9**	**25.1**	**2.0**	**1.9**	**1.9**	**1.5**	**2.3**	**3.1**	**0.3**	**0.6**	**0.9**
Overall average	**14.9**	**12.3**	**11.8**	**2.4**	**2.1**	**1.9**	**3.4**	**4.1**	**4.9**	**1.6**	**1.6**	**1.5**

Source: HSBC estimates, Thomson Reuters

HSBC

Economics outlook

- Despite the enormous wealth at its disposal, the Gulf proved more vulnerable to global recession than many other emerging markets
- A disappointing policy response, the excesses of the previous boom and an ongoing credit squeeze have meant that recovery has also taken longer than elsewhere
- Regional economic data are still very weak but we believe the conditions for a regional recovery are finally in place

The enormous wealth at the Gulf's disposal should have offered it considerable protection from global recession and capital market dislocation. In contrast to the traumatic experience of the late 1990s, there has been no pressure on currency pegs this time around. Debt levels have remained low and public spending growth has remained positive.

However, while the Gulf has not experienced its own "Asia Crisis" or suffered the sharp economic losses that have afflicted the oil-driven economies of the former Soviet Union, operational performance over the past 12 months has been disappointing. **We expect average growth will be close to zero in 2009, down six percentage points on 2008.** Per capita GDP will likely drop by, on average, almost 17%, according to HSBC Economics, and we expect the Gulf's youth-heavy demographics to have led to a rise in unemployment. Sharply increased bank provisioning also gives clear evidence of macro-economic distress. When compared to the emerging economies of Asia, the Gulf has proved not only more vulnerable to the global downturn but it has also been far slower to recover.

So far, we have not seen a single data point to suggest that the downswing in activity has run its course. Instead, falling inflation readings point to continued weakness in domestic demand. Declining loan growth numbers across the region not only attest to weak credit growth but also the still fragile sentiment among both lenders and potential private sector borrowers.

Despite the poor data, however, our view is that conditions are now in place for recovery and that positive growth is set to resume region-wide. Four key factors lie behind this view.

The first is that the region has begun to digest the after-effects of the 2003-08 boom that preceded the 2008-09 recession. It was clear that the boom would have to give way to a period of painful correction. In much of the region, however, it is now over a year since the bubble burst and six months or more since asset prices ceased their decline. Although the private sector is undoubtedly wary, there has been an opportunity to adjust to lower prices, reduced margins and more modest growth.

Our second cause for optimism is that we see a shift underway in the regional policy stance. Despite the enormous wealth at their disposal, MENA governments seemed reluctant to adopt aggressively counter-cyclical fiscal policies in the last months of this year and into 2009. We think this policy stance has already gone into reverse. Sitting above USD60/b since Q2 2009, oil prices are now well ahead of the minimum required to maintain order in the region and seem to be on a rising trend. This now comfortable outlook for oil revenues is likely to encourage significant spending growth over 2010, in our view.

The third factor that we believe is laying the grounds for a turnaround in activity is renewed access to international funding. Data are scant but our own numbers suggest that the second and third quarters of this year have seen the Gulf raise more on the international bond markets than at any point previously. Access to other funding sources – the FDI, syndicated loans and project finances – is likely to take longer to resume but the shift on the bond market suggests change is underway.

The final part of the equation for us is access to funding from local sources. Although data suggest that credit growth remains very weak, we are seeing evidence of bank balance sheets adjusting, laying the ground for a resumption of lending. The most striking example is probably Saudi Arabia, where the loan to deposit ratio has dropped from 90% at the start of the year to 80% now. Elsewhere, capital levels have increased strongly and foreign funding has begun to resume. We look for private sector lending growing at an annual rate of 10% or more during the course of 2010.

Near term, not much has changed in our economic forecasts. Although oil prices have performed better over recent months than we had anticipated, HSBC Economics have cut growth estimates for several economies for 2009 as data have suggested that the slowdown in the early part of this year has been more severe than we had anticipated.

We expect headline economic growth rates to approach 4.5% in 2010 across much of the Gulf – a rate of expansion that is only a little short of the 2003-08 level. The figure overstates the likely acceleration in activity as it is inflated by an anticipated pick-up in oil output. A better measure of the health of Gulf economies is non-oil sector growth and expansion in domestic demand. Here, too, we expect to see acceleration in economic activity, led by a pick-up in investment spending. The rate will be sub-trend but set against the downturn of the past 12 months, we think there should be a clear sense of recovery boosted by a steady rise in employment levels, gains in corporate revenues and a slow recovery in margins.

We anticipate that Saudi Arabia, Abu Dhabi and Qatar are likely to lead the way. Although these three economies have shown vulnerability to the downturn of the past year, the excesses have generally been contained. All three governments appear committed to boosting spending and have the wealth to set increases in expenditure in train. We are more cautious on the outlook for the Gulf's two smallest economies, Oman and Bahrain, and for very different reasons we are less optimistic on the outlook for Kuwait. Its policy response to the global recession and the dislocation within its own financial sector has proved to be very slow due mainly to ongoing disputes between the executive and legislature. We fear this could not only discourage growth in public spending but will also deter lending growth and inflows of foreign capital.

Having argued repeatedly that many of the bearish accounts of the outlook for Dubai were heavily overdone, we are not surprised that it has weathered the global recession without default. However, the economy has been hit far harder than any other in the region and we expect the pace of growth to remain below trend.

This economics contribution is provided by Simon Williams, HSBC's Chief Economist, Gulf Markets

Egyptian economic activity surprising on the upside. Although details are not yet available, the Egyptian economy expanded by a very respectable 4.9% y-o-y in Q3 2009 or the first quarter of Egypt's 2009/2010 fiscal year, according to a very recent announcement by the country's Economic Development Minister Osman Mohamed Osman. This comes after 4.5% real annual economic growth in Q2 2009, much better than our 3.5% estimate. It suggests that private demand remains robust in Egypt due to only a limited rise in unemployment and a lower interest rate environment, while the public sector continues to support domestic demand with stimulus efforts. Although food inflation remains rampant, given Egypt's uncompetitive domestic food market, the enviable growth dynamics are also part of the reason why urban consumer inflation still remains a headache. Headline CPI soared to 13.3% y-o-y in October after falling almost every month since its interim peak of 23.7% in August 2008. However, the Central Bank of Egypt has been following a core inflation index that excludes fresh fruits & vegetables and regulated prices, which moderated to 6.5% in October, hence it has cut its policy O/N deposit rate by a cumulative 325bps to 8.25% so far this year. We believe the CBE has now finished its monetary easing, as suggested by the improving growth dynamics, and believe inflation may become an over-riding concern going into 2010. In fact, at its 5 November MPC meeting, the CBE decided to keep the rate corridor on hold for the first time this year after six successive rate cuts.

This economics contribution is provided by Dr. Murat Ulgen, Chief Economist, HSBC Egypt

HSBC

Al Rajhi Bank

- Mature retail market share creates challenge to loan growth. Corporate lending is the focus
- Potential interest rate increase is the main catalyst to earnings. However, we do not discount it in 2010e
- We have a N(V) rating and target price of SAR78. Stock trading at 3.7x 2010e NAV, the very top end of the GCC peer group

Aybek Islamov, CFA*
Analyst
HSBC Saudi Arabia
+966 1299 2101
aybek.islamov@hsbcib.com

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Company description

Al Rajhi was established in 1987 as a joint-stock company. It has built a very strong brand by being the first bank to provide only Sharia-compliant banking services. We estimate Al Rajhi's retail lending market share at c34% in 2008. The bank also has the largest branch network in the country, consisting of c412 branches. Its core retail loan product is instalment sale loans, which accounted for almost 94% of total retail loans as of 2008.

Al Rajhi Bank key parameters

Bloomberg code	RJHI AB
Target price (SAR)	78.00
Current price (SAR)	74.75
Potential total return	4%
Market cap (USDbn)	29.9
Rating	Neutral (V)
Average value traded (USD 000s)*	35,192
2009e P/NAV	4.2
2009e PE	17.4
2011e ROAE	22.2%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- High retail loan concentration, which tends to be at a fixed rate, provides a hedge to earnings in a low interest rate environment. We estimate that Al Rajhi Bank's asset spread has widened since the beginning of the year by 215bp y-t-d.
- In the event of rising interest rates, we estimate that Al Rajhi's earnings will be liability-driven as this is the company with the largest endowment effect. Al Rajhi's share of demand deposits and equity funding in total assets should reach 80% by year-end 2009, we estimate.
- Al Rajhi Bank's conservative provisioning policy over the past two years implies lower upward adjustment risk in the bad asset charges in 2009 and 2010. We forecast a cost of risk of 114bp in 2009 and 82bp in 2010, compared to the 2008 cost of risk of 100bp.

Bear points

- Loan growth remains the core challenge to Al Rajhi as the bank has largely exploited the profitable retail lending market, achieving a market share of 34% in 2008.
- The company's intrinsic strengths are fully priced into the current share price, in our view. Al Rajhi currently trades at 3.7x its book value in 2010e, for an expected one-year forward ROE of 24%. This makes it the most expensive bank among its GCC peers.

- Al Rajhi, while significantly overcapitalised, has more than utilised its deposit base, we estimate. With a loans to deposit ratio of 117% (Q3 2009 estimate), we believe the bank will be focusing on redeploying the funds into corporate lending from the retail segment, as its retail market share appears mature.

Financials

We expect Al Rajhi Bank to grow its earnings by a CAGR of c8% during 2008-10. Following the Q3 2009 results, we increased our 2009 net interest income estimate by 5% (see *Saudi Banks,* 5 November 2009). This was to discount the stronger resilience of Al Rajhi's retail loan portfolio to lower interest rates in 2009. We did this by raising our retail spreads estimate to 856bp from 811bp previously.

We also increased our cost of risk to 114bp from 89bp in 2009 as Al Rajhi created loan loss provisions more aggressively during 2009 than we initially expected. The increase in our estimate of bad asset charges mitigates the better-than-expected performance in net interest income, leaving our 2009 earnings roughly unchanged.

Valuation

Our target price of SAR78 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.5% (the sum of the average five-year Saudi sovereign CDS spread (215bp) and five-year USD swap rate (235bp)) and equity risk premium of 6.5%, with a beta of 1.0. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for Al Rajhi gives a potential total return of c4% on the current share price of SAR74.7 and therefore we maintain our Neutral (V) rating.

Risks

Risk to our view on both the upside and downside centre on loan loss provisioning expenses, net interest margin development and the lending volume outlook.

HSBC

Financials & valuation: Alrajhi Banking & Investment

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (SARm)				
Net interest income	8,497	9,493	9,525	9,618
Net fees/commissions	1,241	1,405	1,569	1,719
Trading profits	0	0	0	0
Other income	837	754	767	800
Total income	10,575	11,653	11,861	12,137
Operating expense	-2,776	-2,887	-2,995	-3,118
Bad debt charge	-1,039	-1,708	-1,248	-1,215
Other	-235	0	0	0
HSBC PBT	6,525	7,058	7,618	7,805
Exceptionals	0	0	0	0
PBT	6,525	7,058	7,618	7,805
Taxation	-558	-604	-652	-668
Minorities + preferences	0	0	0	0
Attributable profit	5,966	6,454	6,966	7,137
HSBC attributable profit	5,966	6,454	6,966	7,137
Balance sheet summary (SARm)				
Ordinary equity	23,849	27,011	30,425	33,922
HSBC ordinary equity	23,849	27,011	30,425	33,922
Customer loans	108,112	113,975	122,601	137,833
Debt securities holdings	35,891	33,674	25,495	25,497
Customer deposits	116,611	125,940	136,015	146,896
Interest earning assets	134,944	155,497	162,916	176,524
Total assets	164,930	167,277	180,765	195,517
Capital (%)				
RWA (SARm)	140,138	155,771	170,311	184,326
Core tier 1	14.6	17.3	17.9	18.4
Total tier 1	14.6	17.3	17.9	18.4
Total capital	21.4	23.4	23.4	23.6

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	13.5	10.2	1.8	2.3
Operating expense	14.3	4.0	3.8	4.1
Pre-provision profit	13.1	12.4	1.1	1.7
EPS	1.1	8.2	7.9	2.5
HSBC EPS	1.1	8.2	7.9	2.5
DPS	50.0	-26.9	7.9	2.5
NAV (including goodwill)	6.6	13.3	12.6	11.5
Ratios (%)				
Cost/income ratio	26.3	24.8	25.3	25.7
Bad debt charge	1.1	1.5	1.1	0.9
Customer loans/deposits	92.7	90.5	90.1	93.8
NPL/loan	1.9	2.6	2.4	2.0
NPL/RWA	2.0	2.5	2.1	1.8
Provision to risk assets/RWA	-2.5	-2.3	-2.2	-2.2
Net write-off/RWA	-1.0	-1.2	-0.7	-0.4
Coverage	125.8	92.0	101.8	125.2
ROE (including goodwill)	25.8	25.4	24.3	22.2
Per share data (SAR)				
EPS reported (fully diluted)	3.98	4.30	4.64	4.76
HSBC EPS (fully diluted)	3.98	4.30	4.64	4.76
DPS	3.00	2.19	2.37	2.43
NAV	15.90	18.01	20.28	22.61
NAV (including goodwill)	15.90	18.01	20.28	22.61

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	7.1	6.4	5.8	5.4
Trading profits	0.0	0.0	0.0	0.0
Other income	0.7	0.5	0.5	0.5
Operating expense	-2.3	-2.0	-1.8	-1.8
Pre-provision profit	6.5	5.9	5.4	5.1
Bad debt charge	-0.9	-1.2	-0.8	-0.7
HSBC attributable profit	5.0	4.4	4.3	4.0
Leverage (x)	5.2	5.8	5.7	5.5
Return on average tier 1	29.1	23.9	22.9	21.0

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	18.8	17.4	16.1	15.7
Pre-provision multiple	14.4	12.8	12.6	12.4
P/NAV	4.7	4.2	3.7	3.3
Equity cash flow yield (%)	2.8	4.8	5.3	5.5
Dividend yield (%)	4.0	2.9	3.2	3.2

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (SAR)	74.75	Target price (SAR)	78.00	Potent'l tot rtn (%)	4.3

Reuters (Equity)	1120.SE	Bloomberg (Equity)	RJHI AB
Market cap (USDm)	29,899	Market cap (SARm)	112,125
Country	Saudi Arabia	Sector	Commercial Banks
Analyst	Aybek Islamov	Contact	] 44 20 7992 3624

Notes: price at close of 07 Nov 2009

HSBC

Samba Bank

- High capital (CAR 15%) and liquidity position the bank for potentially rising corporate demand for bank funding in 2010
- Gradually rising customer loans are the next catalyst for further positive share price performance
- We have an OW(V) rating and a TP of SAR68. The stock is trading at 2.1x 2010e NAV on a one-year forward expected ROE of 21%; a CEEMEA Super 10 stock

Company description

Samba was established in 1980 as a joint-stock company with the takeover of Citibank branches in Jeddah and Riyadh. This was under a Saudi programme that forced all foreign banks to share ownership, with local Saudi nationals acquiring 60% ownership. In 1999, Samba merged with United Saudi Bank (USB) through a share exchange. Citibank later sold its full 20% ownership stake in Samba in 2003 to the General Organization of Social Insurance (GOSI). In March 2007, Samba acquired 68% of Crescent Commercial Bank Limited (CCBL) in Pakistan.

Samba Financial Group key parameters

Bloomberg code	SAMBA AB
Target price (SAR)	68.00
Current price (SAR)	54.50
Potential total return	25%
Market cap (USDbn)	13.1
Rating	Overweight (V)
Average value traded (USD 000s)*	4,988
2009e P/NAV	2.3
2009e PE	10.5
2011e ROAE	17.2%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- We believe the collateral coverage of Saad and Al Gosaibi liabilities to Samba is likely to be above average compared to other Saudi banks due to the related party status of these two entities. This may lead to less earnings pressure than other domestic peers. Any positive newsflow on the Saad debt settlement agreement with the Saudi banks should be a positive catalyst for Samba's share price, in our view.
- With a loans-to-deposit ratio of 60% vs a Saudi sector average of 82% and capital adequacy ratio of 16.5% in Q3 2009, Samba is positioned strongly to benefit from the expected rise in corporate credit demand.

Financials

We expect Samba's earnings to grow by 6% CAGR 2008-2010 and see a cyclical upturn in fee income in 2010 as one of the key earnings drivers. We expect fee income to increase 11% y-o-y in 2010, after declining by c22% in 2009e.

Aybek Islamov, CFA*
Analyst
HSBC Saudi Arabia
+966 1299 2101
aybek.islamov@hsbcib.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

We recently (5 November) increased our 2009 earnings estimates by 6%, mainly on the back of lower realised loan loss provisioning charges.

We also revised down our cost of risk forecast in 2009 to 49bp from 84bp as Samba has delivered lower loan loss provisioning charges so far in 2009. We believe the lower realised cost of risk during the January-September 2009 could be due to a better level of collateral and/or gradual release of earnings from previously created loan loss reserves. Although Saudi Banks do not report their NPL figures or the degree of collateral coverage on a quarterly basis, we expect the coverage of NPLs at Samba to drop to 83% in 2009 from 167% in 2008. An increase in the NPL ratio to 4.4% in 2009 from 1.8% in 2008, as well as lower-than-expected cost of risk (described above) would be the main reasons for lower NPL coverage in the coming two years, in our view.

Valuation

Our target price of SAR68 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.5% (the sum of the average five-year Saudi sovereign CDS spread (215bp) and five-year USD swap rate (235bp)) and equity risk premium of 6.5%, with a beta of 1.0. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for Samba gives a potential total return of 25% on the current share price of SAR54.5 and therefore we maintain our Overweight (V) rating.

Catalysts

Disclosure of a Saad debt settlement agreement with Saudi banks and increasing transparency on the Al Gosaibi loan recovery process

Risks

Risks to our positive view mainly lie in potential counterparty risks on client derivatives (FX, commission rate swaps), stronger-than-expected net interest margin compression and a lower oil price.

HSBC

Financials & valuation: Samba Financial Group

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (SARm)				
Net interest income	5,061	5,141	5,185	5,246
Net fees/commissions	1,624	1,259	1,397	1,497
Trading profits	-623	300	300	0
Other income	950	567	565	383
Total income	7,012	7,267	7,447	7,126
Operating expense	-2,100	-1,972	-1,971	-2,043
Bad debt charge	-267	-476	-499	-585
Other	-191	-30	0	0
HSBC PBT	4,454	4,789	4,976	4,497
Exceptionals	0	0	0	0
PBT	4,454	4,789	4,976	4,497
Taxation	-150	-153	-159	-144
Minorities + preferences	11	19	-72	-65
Attributable profit	4,315	4,654	4,745	4,288
HSBC attributable profit	4,315	4,654	4,745	4,288
Balance sheet summary (SARm)				
Ordinary equity	19,114	21,441	23,813	25,958
HSBC ordinary equity	19,114	21,441	23,813	25,958
Customer loans	98,147	87,880	104,671	121,027
Debt securities holdings	54,213	51,329	51,329	51,329
Customer deposits	134,228	142,282	152,242	165,944
Interest earning assets	153,813	169,142	179,421	192,082
Total assets	178,891	183,981	195,237	210,114
Capital (%)				
RWA (SARm)	153,059	137,311	154,502	171,268
Core tier 1	13.1	15.8	15.6	15.4
Total tier 1	13.1	15.8	15.6	15.4
Total capital	14.1	16.9	16.6	16.2

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	-2.6	3.6	2.5	-4.3
Operating expense	6.8	-6.1	0.0	3.7
Pre-provision profit	-6.1	7.8	3.4	-7.2
EPS	-7.7	7.9	1.9	-9.6
HSBC EPS	-7.7	7.9	1.9	-9.6
DPS	-38.9	56.7	1.9	-9.6
NAV (including goodwill)	11.2	12.2	11.1	9.0
Ratios (%)				
Cost/income ratio	30.0	27.1	26.5	28.7
Bad debt charge	0.3	0.5	0.5	0.5
Customer loans/deposits	73.1	61.8	68.8	72.9
NPL/loan	1.9	4.7	4.5	2.1
NPL/RWA	1.2	2.9	2.9	1.4
Provision to risk assets/RWA	-2.0	-2.4	-2.3	-2.0
Net write-off/RWA	0.0	-0.2	-0.1	-0.4
Coverage	-167.0	-83.3	-79.9	-142.3
ROE (including goodwill)	23.8	23.0	21.0	17.2
Per share data (SAR)				
EPS reported (fully diluted)	4.79	5.17	5.27	4.76
HSBC EPS (fully diluted)	4.79	5.17	5.27	4.76
DPS	1.65	2.59	2.64	2.38
NAV	21.24	23.82	26.46	28.84
NAV (including goodwill)	21.24	23.82	26.46	28.84

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.7	3.5	3.6	3.2
Trading profits	-0.5	0.2	0.2	0.0
Other income	0.7	0.4	0.4	0.2
Operating expense	-1.6	-1.4	-1.4	-1.3
Pre-provision profit	3.6	3.6	3.8	3.1
Bad debt charge	-0.2	-0.3	-0.3	-0.4
HSBC attributable profit	3.2	3.2	3.3	2.6
Leverage (x)	7.5	7.2	6.4	6.5
Return on average tier 1	21.5	21.5	19.7	16.3

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	11.4	10.5	10.3	11.4
Pre-provision multiple	10.0	9.3	9.0	9.7
P/NAV	2.6	2.3	2.1	1.9
Equity cash flow yield (%)	3.8	11.7	7.2	6.3
Dividend yield (%)	3.0	4.7	4.8	4.4

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (SAR)	54.50	Target price (SAR)	68.00	Potent'l tot rtn (%)	24.8

Reuters (Equity)	1090.SE	Bloomberg (Equity)	SAMBA AB
Market cap (USDm)	13,080	Market cap (SARm)	49,050
Country	Saudi Arabia	Sector	Commercial Banks
Analyst	Aybek Islamov	Contact	44 20 7992 3624

Notes: price at close of 07 Nov 2009

Riyad Bank

- Riyad Bank is well positioned to tap potentially rising demand for market share gains in corporate funding in 2010
- The high proportion of floating rate corporate loans, should help Riyad Bank's earnings in a rising interest rate scenario
- We have an OW(V) rating and a TP of SAR39. We expect margin stability to help ROE improve to 19% in 2012 from 11% in 2009

Company description

Riyad Bank was established in 1957. It has the third-largest branch network in Saudi Arabia and is currently owned mainly by Saudi shareholders. We estimate it has market shares of around 14.1% in loans and 13.3% in deposits. The company successfully raised around USD3.5bn of new capital in Q2 2008, improving its tier 1 ratio to 19.8% at end-Q2 2008 from 11.7% in Q1 2008.

Samba Financial Group key parameters

Bloomberg code	RIBL AB
Target price (SAR)	39.00
Current price (SAR)	28.20
Potential total return	38%
Market cap (USDbn)	11.3
Rating	Overweight (V)
Average value traded (USD 000s)*	4,786
2009e P/NAV	1.6
2009e PE	15.2
2011e ROAE	12.6%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Resilient fee income performance of 2009 should continue into 2010 as loan growth outlook improves. We estimate Riyad Bank will grow its fees 8% y-o-y in 2009 followed by another 13% y-o-y increase in 2010.
- In the event of rising interest rates, the positive earnings delta should come through the higher ratio of corporate loans-to-assets of 53% vs. a peer average of 41%. We estimate the majority of corporate loans tend to be at floating rates.
- We expect net interest income to stabilise from Q4 onwards as the company's interest-earning assets largely absorbed by a decline in interest rates since 2008. We expect net interest income to grow 5% y-o-y in 2010e. We see upside risk to our net interest income growth estimate next year.

Financials

We expect Riyad Bank to grow earnings by a CAGR of c9% during 2008-10.

We recently (5 November) raised our 2009 earnings forecast by 10%, largely driven by our revision to bad asset charges. We now forecast a cost of risk of 53bp. We estimate that the lower-than-expected bad asset charges were driven by better collateral coverage of problematic loans and/or release of earnings from existing loan loss provisions at Riyad Bank. Although the bank does not report its NPL figures on a quarterly basis, we

Aybek Islamov, CFA*
Analyst
HSBC Saudi Arabia
+966 1299 2101
aybek.islamov@hsbcib.com

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expect NPL coverage to decline to 70% in 2009 from 132% in 2008. We assume the NPL ratio will reach 1.9% in 2009 from 1.3% a year ago.

Valuation

Our target price of SAR39 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.5% (the sum of the average five-year Saudi sovereign CDS spread (215bp) and five-year USD swap rate (235bp)) and equity risk premium of 6.5%, with a beta of 1.0. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for Riyad gives a potential total return of 38% on the current share price of SAR28.2 and therefore we maintain our Overweight (V) rating.

Catalysts

Indications of improving loan growth in Saudi Arabia, which is reported by SAMA on a monthly basis. A potential increase in interest rates next year.

Risks

The main risks to our Overweight (V) rating are negative surprises from trading results, further impairments of investments or higher-than-expected loan loss provisioning expenses.

HSBC

Financials & valuation: Riyad Bank

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (SARm)				
Net interest income	3,947	4,384	4,602	5,148
Net fees/commissions	1,187	1,284	1,446	1,555
Trading profits	-283	-5	0	0
Other income	397	235	292	304
Total income	5,248	5,898	6,340	7,008
Operating expense	-2,086	-2,259	-2,378	-2,474
Bad debt charge	-349	-554	-829	-975
Other	-174	-233	0	0
HSBC PBT	2,639	2,852	3,133	3,559
Exceptionals	0	0	0	0
PBT	2,639	2,852	3,133	3,559
Taxation	-81	-74	-82	-93
Minorities + preferences	0	0	0	0
Attributable profit	2,558	2,778	3,051	3,466
HSBC attributable profit	2,558	2,778	3,051	3,466
Balance sheet summary (SARm)				
Ordinary equity	24,559	25,670	26,891	27,931
HSBC ordinary equity	24,559	25,670	26,891	27,931
Customer loans	96,430	108,947	122,105	138,211
Debt securities holdings	40,329	33,750	33,750	33,750
Customer deposits	105,056	121,864	140,144	161,166
Interest earning assets	132,873	159,648	174,879	195,513
Total assets	159,653	170,744	190,331	212,437
Capital (%)				
RWA (SARm)	165,830	166,905	182,435	201,153
Core tier 1	13.9	15.4	14.7	13.9
Total tier 1	13.9	15.4	14.7	13.9
Total capital	16.1	17.6	16.8	15.7

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	1.6	12.4	7.5	10.5
Operating expense	15.2	8.3	5.3	4.0
Pre-provision profit	-5.8	15.1	8.9	14.4
EPS	-19.6	-5.9	9.8	13.6
HSBC EPS	-19.6	-5.9	9.8	13.6
DPS	-3.1	-31.2	9.8	32.5
NAV (including goodwill)	87.2	-9.4	4.8	3.9
Ratios (%)				
Cost/income ratio	39.8	38.3	37.5	35.3
Bad debt charge	0.4	0.5	0.7	0.7
Customer loans/deposits	91.8	89.4	87.1	85.8
NPL/loan	1.3	1.9	1.7	1.3
NPL/RWA	0.8	1.2	1.1	0.9
Provision to risk assets/RWA	-1.0	-0.9	-0.8	-0.8
Net write-off/RWA	-0.2	-0.5	-0.4	-0.4
Coverage	-131.9	-70.3	-74.6	-92.2
ROE (including goodwill)	13.9	11.1	11.6	12.6
Per share data (SAR)				
EPS reported (fully diluted)	1.97	1.85	2.03	2.31
HSBC EPS (fully diluted)	1.97	1.85	2.03	2.31
DPS	1.62	1.11	1.22	1.62
NAV	18.89	17.11	17.93	18.62
NAV (including goodwill)	18.89	17.11	17.93	18.62

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.1	2.6	2.6	2.7
Trading profits	-0.2	0.0	0.0	0.0
Other income	0.3	0.1	0.2	0.2
Operating expense	-1.6	-1.4	-1.4	-1.3
Pre-provision profit	2.5	2.2	2.3	2.4
Bad debt charge	-0.3	-0.3	-0.5	-0.5
HSBC attributable profit	2.0	1.7	1.7	1.8
Leverage (x)	7.0	6.6	6.6	7.0
Return on average tier 1	11.1	10.8	11.3	12.4

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	14.3	15.2	13.9	12.2
Pre-provision multiple	11.6	11.6	10.7	9.3
P/NAV	1.5	1.6	1.6	1.5
Equity cash flow yield (%)	-6.4	6.4	4.6	5.1
Dividend yield (%)	5.7	3.9	4.3	5.7

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (SAR)	28.20	Target price (SAR)	39.00	Potent'l tot rtn (%)	38.3

Reuters (Equity)	1010.SE	Bloomberg (Equity)	RIBL AB
Market cap (USDm)	11,280	Market cap (SARm)	42,300
Country	Saudi Arabia	Sector	Commercial Banks
Analyst	Aybek Islamov	Contact	44 20 7992 3624

Notes: price at close of 07 Nov 2009

HSBC

Arab National Bank

- Our main concern is a further adjustment in cost of risk in 2010. We forecast cost of risk of 61bp in 2010e, up from 48bp in 2009e
- Fairly solid capital adequacy ratio (15%) and loan-to-deposit ratio (85%) in H1 2009 position the bank well for growth next year
- We have a Neutral (V) rating and a target price of SAR52. The stock is trading at 1.9x 2010e NAV, in line with 2010e ROE of 15%

Aybek Islamov, CFA*
Analyst
HSBC Saudi Arabia
+966 1299 2101
aybek.islamov@hsbcib.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Company description

ANB was established in 1979. Arab Bank (Jordan) is the majority shareholder, with a 40% stake in the bank. It was the first bank to offer internet banking services in Saudi Arabia in 2000. The bank provides a full range of retail and corporate banking services. On our estimates, it has a 9.6% market share in loans and a 9.3% market share in deposits. ANB teamed up with Dar Al Arkan, the real estate developer, to set up the Saudi Home Loan Company, in order to gain a foothold in the housing finance market.

Arab National Bank key parameters

Bloomberg code	ARNB AB
Target price (SAR)	52.00
Current price (SAR)	46.00
Potential total return	13%
Market cap (USDbn)	8.0
Rating	Neutral (V)
Average value traded (USD 000s)*	1,678
2009e P/NAV	2.1
2009e PE	13.2
2011e ROAE	12.6%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Good loan portfolio diversification. Exposure to consumer loans should support earnings in this low interest rate environment as retail loans tend to be fixed rates.
- Recovery in fee income growth to 11% y-o-y in 2010. Improving loan growth at ANB, up 11% y-o-y in 2010, driven by a pick-up in corporate activity, is likely to drive better fee income growth next year. We estimate that ANB's fee income could drop by 29% y-o-y in 2009, which would be the worst performance among the Saudi banks under our coverage.

Bear points

- We see the highest risk in a strong upward adjustment to loan loss provision expenses at ANB. ANB's NPL ratio of 0.4% in 2008 implies significant risks to NPL coverage (349% in 2008). In the absence of additional loan loss provisions, a 100bp increase in the NPL ratio at ANB would lead to a drop in NPL coverage to 80%, resulting in earnings pressure.
- Lower cost flexibility. We view staff costs as a less flexible cost element in Saudi Arabia. We note that staff expenses constitute 59% of total costs in ANB. We expect the cost-income ratio to be 38% in 2010, which is the same level as in 2008.

Financials

We expect ANB's earnings to decline on average by 4% per annum between 2008 and 2010. The negative growth is driven by increasing loan loss provisioning charges over the same time period.

We recently (5 November) raised our 2009 earnings estimate by 8% to SAR2,259m (adjusted for zakat payment) from SAR2,086m previously. A positive revision to the cost of risk in 2009 was the main reason for this change. Although bad asset charges have increased y-o-y so far in 2009, the increase was not as strong as we had expected previously. We expect a gradual unwinding in loan loss provisioning charges in 2010 as non-performing loans mature. We now forecast the cost of risk at 48bp in 2009 and 61bp in 2010, which compares to a cost of risk of only 9bp in 2008. We believe the NPL coverage may drop to c80% in 2009 from 349% in 2008, as the NPL ratio reaches 1.7% in 2009 from 0.4% in 2008.

Valuation

Our target price of SAR52 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.5% (the sum of the average five-year Saudi sovereign CDS spread (215bp) and five-year USD swap rate (235bp)) and equity risk premium of 6.5%, with a beta of 1.0. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our SAR52 target price for ANB gives a potential total return of 13% on the current share price of SAR46 and therefore we maintain our Neutral (V) rating.

Catalysts

It could see a cyclical increase in fee income growth in 2010, after a disappointing performance expected in 2009, supported by improving loan growth at the bank.

Risks

The main upside risk to our Neutral (V) rating lies in potentially lower NPL formation, resulting in lower-than-expected cost of risk.

A contraction of more than 20bp year-on-year NIM in 2009 is the main company-specific downside risk to our view.

HSBC

Financials & valuation: Arab National Bank

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (SARm)				
Net interest income	3,354	3,470	3,401	3,622
Net fees/commissions	839	598	662	706
Trading profits	-53	25	0	0
Other income	-4	409	321	331
Total income	4,135	4,502	4,384	4,659
Operating expense	-1,582	-1,614	-1,663	-1,701
Bad debt charge	-60	-350	-452	-617
Other	-7	0	0	0
HSBC PBT	2,486	2,538	2,268	2,341
Exceptionals	0	0	0	0
PBT	2,486	2,538	2,268	2,341
Taxation	-286	-279	-250	-257
Minorities + preferences	0	0	0	0
Attributable profit	2,200	2,259	2,019	2,083
HSBC attributable profit	2,200	2,259	2,019	2,083
Balance sheet summary (SARm)				
Ordinary equity	12,021	13,942	15,658	17,428
HSBC ordinary equity	12,021	13,942	15,658	17,428
Customer loans	74,662	69,749	77,178	86,682
Debt securities holdings	28,228	24,003	24,003	24,003
Customer deposits	92,743	81,614	87,327	97,807
Interest earning assets	103,965	112,687	110,513	119,098
Total assets	121,307	112,135	117,231	129,568
Capital (%)				
RWA (SARm)	99,691	105,326	113,251	123,738
Core tier 1	11.9	13.2	13.8	14.1
Total tier 1	11.9	13.2	13.8	14.1
Total capital	14.1	15.3	15.8	15.9

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	4.5	8.9	-2.6	6.3
Operating expense	10.8	2.1	3.0	2.3
Pre-provision profit	1.0	13.1	-5.8	8.7
EPS	0.0	2.7	-10.6	3.2
HSBC EPS	0.0	2.7	-10.6	3.2
DPS		-47.9	-10.6	3.2
NAV (including goodwill)	14.2	16.0	12.3	11.3
Ratios (%)				
Cost/income ratio	38.3	35.9	37.9	36.5
Bad debt charge	0.1	0.5	0.6	0.8
Customer loans/deposits	80.5	85.5	88.4	88.6
NPL/loan	0.4	1.8	1.5	1.3
NPL/RWA	0.3	1.2	1.0	0.9
Provision to risk assets/RWA	-1.0	-0.9	-0.9	-0.7
Net write-off/RWA	-0.1	-0.4	-0.3	-0.6
Coverage	-349.0	-76.6	-86.8	-80.6
ROE (including goodwill)	19.5	17.4	13.6	12.6
Per share data (SAR)				
EPS reported (fully diluted)	3.38	3.48	3.11	3.21
HSBC EPS (fully diluted)	3.38	3.48	3.11	3.21
DPS	1.00	0.52	0.47	0.48
NAV	18.49	21.45	24.09	26.81
NAV (including goodwill)	18.49	21.45	24.09	26.81

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.9	3.4	3.1	3.1
Trading profits	-0.1	0.0	0.0	0.0
Other income	0.0	0.4	0.3	0.3
Operating expense	-1.8	-1.6	-1.5	-1.4
Pre-provision profit	3.0	2.8	2.5	2.5
Bad debt charge	-0.1	-0.3	-0.4	-0.5
HSBC attributable profit	2.6	2.2	1.8	1.8
Leverage (x)	7.6	7.9	7.4	7.2
Return on average tier 1	18.5	16.2	12.9	12.0

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	13.6	13.2	14.8	14.4
Pre-provision multiple	11.7	10.4	11.0	10.1
P/NAV	2.5	2.1	1.9	1.7
Equity cash flow yield (%)	1.0	6.2	4.9	4.5
Dividend yield (%)	2.2	1.1	1.0	1.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (SAR)	46.00	Target price (SAR)	52.00	Potent'l tot rtn (%)	13.0

Reuters (Equity)	1080.SE	Bloomberg (Equity)	ARNB AB
Market cap (USDm)	7,973	Market cap (SARm)	29,900
Country	Saudi Arabia	Sector	Commercial Banks
Analyst	Aybek Islamov	Contact	44 20 7992 3624

Notes: price at close of 07 Nov 2009

HSBC

National Bank of Abu Dhabi

- Strong top-line performance driven mainly by balance sheet growth, partially offset by increase in non-interest expenses
- 10% share buyback announcement is positive but uncertainty remains on the timeframe and utilisation of the 10% headroom
- We have an Overweight (V) rating and target price of AED19.80; a CEEMEA Super 10 stock

Company description

National Bank of Abu Dhabi is the second largest bank in UAE with market shares of 12% in loans and 11% in deposits. Abu Dhabi Investment Authority holds a 70% stake in the bank. NBAD enjoys strong funding support from the government with government deposits constituting 63% of its deposits and government and public sector loans amounting to 35% of the total loan book.

National Bank of Abu Dhabi key parameters

Bloomberg code	NBAD UH
Target price (AED)	19.80
Current price (AED)	13.20
Potential total return	50%
Market cap (USDbn)	7.8
Rating	Overweight (V)
Average value traded (USD 000s)*	1,218
2009e P/NAV	1.7
2009e PE	8.7
2011e ROAE	20.7%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Strong government relationship offers medium-term growth potential
- Further easing of EIBOR following the Central Bank's efforts expected to increase appetite for lending
- Minimal exposure to troubled Saudi groups

Bear points

- Further deterioration in the loan book and a rise in non-performing loans to impact profitability
- Currently the most expensive of the Abu Dhabi banks

Financials

Margins held up through the first nine months of 2009e as banks exerted a measure of pricing power. We expect NPLs to double to AED2.2bn in 2009 (same as our previous estimate) but higher total income (15% up y-o-y) is likely to overcome higher credit loss charges and the costs of continued investment in staff and systems infrastructure. We now expect net income of cAED3.3bn, 10% up on 2008, with a 15% increase in net profit in 2010e.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Valuation

Our target price of AED19.8 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our AED19.80 target price for NBAD gives a potential total return of 50% on the current share price of AED13.2 and therefore we maintain our Overweight (V) rating.

Catalysts

Balance sheet growth is likely to provide leverage for equity return uplift and 2009 results showing double-digit balance sheet growth and stabilising credit quality is likely to encourage investors.

Risks

The main risk to our positive view for NBAD lies principally in faster and deeper than expected deterioration in loan portfolios. Large corporate exposures linked to real estate construction and retail lending portfolios with limited collateral supporting the exposures are the most meaningful risks, in our view.

HSBC

Financials & valuation: National Bank of Abu Dhabi

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (AEDm)				
Net interest income	3,608	4,479	4,773	5,256
Net fees/commissions	1,131	1,116	1,220	1,306
Trading profits	-199	233	168	178
Other income	762	575	603	634
Total income	5,301	6,403	6,765	7,374
Operating expense	-1,493	-1,847	-2,002	-2,186
Bad debt charge	-717	-1,025	-710	-473
Other	0	0	0	0
HSBC PBT	3,091	3,532	4,052	4,715
Exceptionals	0	0	0	0
PBT	3,091	3,532	4,052	4,715
Taxation	-72	-88	-101	-118
Minorities + preferences	0	0	0	0
Attributable profit	3,019	3,444	3,951	4,597
HSBC attributable profit	3,019	3,444	3,951	4,597
Balance sheet summary (AEDm)				
Ordinary equity	14,357	16,837	20,577	24,749
HSBC ordinary equity	14,357	16,837	20,577	24,749
Customer loans	111,764	130,918	145,180	159,908
Debt securities holdings	15,986	16,105	16,975	17,895
Customer deposits	103,481	112,369	124,729	138,449
Interest earning assets	144,507	165,901	185,732	202,146
Total assets	164,654	184,461	197,673	216,659
Capital (%)				
RWA (AEDm)	126,940	146,767	162,574	178,832
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	11.8	14.7	15.8	16.7
Total capital	13.7	20.2	20.7	21.2

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	44.6	20.8	5.6	9.0
Operating expense	41.6	23.7	8.4	9.2
Pre-provision profit	45.8	19.7	4.5	8.9
EPS	-8.1	8.4	14.3	14.7
HSBC EPS	-3.0	2.8	14.3	14.7
DPS	30.0	3.6	71.4	53.0
NAV (including goodwill)	23.7	16.2	21.7	18.6
Ratios (%)				
Cost/income ratio	28.2	28.8	29.6	29.6
Bad debt charge	0.7	0.8	0.5	0.3
Customer loans/deposits	108.0	116.5	116.4	115.5
NPL/loan	0.9	1.6	1.7	1.5
NPL/RWA	0.8	1.5	1.5	1.4
Provision to risk assets/RWA	1.2	1.3	1.4	1.2
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	144.6	90.0	90.0	90.0
ROE (including goodwill)	23.6	22.1	21.1	20.3
Per share data (AED)				
EPS reported (fully diluted)	1.45	1.57	1.79	2.06
HSBC EPS (fully diluted)	1.45	1.57	1.79	2.06
DPS	0.30	0.31	0.54	0.82
NAV	6.60	7.67	9.34	11.08
NAV (including goodwill)	6.60	7.67	9.34	11.08

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.4	3.3	3.1	3.1
Trading profits	-0.2	0.2	0.1	0.1
Other income	0.7	0.4	0.4	0.4
Operating expense	-1.4	-1.3	-1.3	-1.3
Pre-provision profit	3.6	3.3	3.1	3.0
Bad debt charge	-0.7	-0.7	-0.5	-0.3
HSBC attributable profit	2.9	2.5	2.6	2.7
Leverage (x)	8.3	8.8	8.3	7.5
Return on average tier 1	20.1	15.9	15.4	15.4

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	9.1	8.7	7.2	6.3
Pre-provision multiple	6.9	6.7	6.1	5.7
P/NAV	2.0	1.7	1.4	1.2
Equity cash flow yield (%)	0.2	6.9	10.2	12.4
Dividend yield (%)	2.3	2.3	4.2	6.4

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AED)	13.20	Target price (AED)	19.80	Potent'l tot rtn (%)	50.0

Reuters (Equity)	NBAD.AD	Bloomberg (Equity)	NBAD UH
Market cap (USDm)	7,814	Market cap (AEDm)	28,700
Free float (%)			
Country	United Arab Emirates	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 10 Nov 2009

HSBC

First Gulf Bank

- Revising 2009e net earnings by +13% on the back of Q309 results
- More clarity now on loan loss provisioning for Saad/Al Gosaibi exposures
- Increasing TP to AED24.80 from AED22.50 and maintaining OW(V) rating

Company description

First Gulf Bank is a leading private sector bank in Abu Dhabi with 61% of its shares owned by Abu Dhabi ruling family members. It has the largest capital base of the banks within Abu Dhabi, and saw high growth in loans and deposits during 2004-08 of 87% and 65% respectively, with a market share of c8% in loans.

First Gulf Bank key parameters

Bloomberg code	FGB UH
Target price (AED)	24.80
Current price (AED)	18.20
Potential total return	36.3%
Market cap (USDbn)	6.8
Rating	Overweight (V)
Average value traded (USD 000s)*	2,378
2009e P/NAV	1.3
2009e PE	8.3
2011e ROAE	17.8%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Strong balance sheet growth in 2008 providing impressive net interest income platform
- Strong capital adequacy ratio at 18% with further capital in the form of Tier 2 notes still to be added.
- Resilient operating performance in first nine months of 2009 increases confidence in the bank

Bear points

- Further deterioration in loan book and rise in non-performing loans to impact profitability
- Financials still impacted by lumpy real estate investment accounting, increasing volatility

Financials

We had expected to see a sharp increase in Q3 2009 provisioning at FGB, partly due to the rapid growth in 2008, but also because the bank was expected to start its provisioning "programme" for its USD104m exposure to the Saudi Saad/Al Gosaibi groups. The bank intends to have put aside AED348m (USD68m) by the end of 2010 for this exposure, in line with the UAE Central Bank directive. The bank's NPL ratio was disclosed as 1.4% at the end of September (this is on a 180-day recognition basis; the bank plans to convert to a more generally accepted 90-day recognition basis overtime). We estimate that the NPL ratio on a 90 days and over basis to be just over 3%, with a further amount already restructured. We expect FGB's total 2011 NPL ratio and amounts written off over 2009-2011 to amount to 5.7% of 2008 balances.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Balance sheet growth is impressive at FGB. During Q3 2009 loans grew AED4bn (4%) q-o-q, but the deposit growth of almost AED6bn was particularly eye-catching. This impressive growth drove the loan-to-deposit ratio close to parity – the last time the bank was in this liquidity space was in Q4 2007.

Valuation

Our new AED24.80 target price is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for FGB gives a potential total return of 36% on the current share price of AED18.2 and therefore we maintain our Overweight (V) rating.

Catalysts

Continued robust operating performance and signs that NPL formation is peaking in Q4 2009 should provide confidence to investors that growth is sustainable.

Risks

Large corporate exposures linked to real estate, construction and retail lending portfolios with limited collateral supporting the exposures provide the most meaningful risks

HSBC

Financials & valuation: First Gulf Bank

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (AEDm)				
Net interest income	2,581	3,839	4,040	4,414
Net fees/commissions	1,114	1,248	1,310	1,333
Trading profits	-253	46	49	155
Other income	1,257	645	538	565
Total income	4,698	5,778	5,938	6,468
Operating expense	-1,135	-1,207	-1,302	-1,436
Bad debt charge	-566	-1,163	-824	-747
Other	0	-118	-85	-54
HSBC PBT	2,997	3,290	3,726	4,230
Exceptionals	0	0	0	0
PBT	2,997	3,290	3,726	4,230
Taxation	0	0	0	0
Minorities + preferences	8	-3	-4	-4
Attributable profit	3,005	3,287	3,723	4,226
HSBC attributable profit	3,005	3,287	3,723	4,226
Balance sheet summary (AEDm)				
Ordinary equity	16,620	18,950	22,016	25,497
HSBC ordinary equity	16,620	18,950	22,016	25,497
Customer loans	79,363	92,283	101,506	111,323
Debt securities holdings	7,958	11,493	12,533	13,671
Customer deposits	73,963	87,943	96,738	104,477
Interest earning assets	79,652	105,174	120,602	131,750
Total assets	107,522	128,143	140,445	152,152
Capital (%)				
RWA (AEDm)	110,350	128,282	141,110	155,221
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	14.1	17.3	17.8	18.1
Total capital	14.1	20.8	21.0	21.0

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	66.3	23.0	2.8	8.9
Operating expense	85.8	6.4	7.9	10.3
Pre-provision profit	60.9	28.3	1.4	8.5
EPS	37.2	9.4	13.3	13.5
HSBC EPS	49.7	9.4	13.3	4.1
DPS	73.6	37.7	13.3	56.1
NAV (including goodwill)	64.2	14.0	16.2	6.2
Ratios (%)				
Cost/income ratio	24.2	20.9	21.9	22.2
Bad debt charge	0.9	1.4	0.9	0.7
Customer loans/deposits	107.3	104.9	104.9	106.6
NPL/loan	1.4	1.8	1.8	2.3
NPL/RWA	1.0	1.3	1.3	1.7
Provision to risk assets/RWA	1.0	1.0	1.0	1.2
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	99.1	77.3	76.2	72.6
ROE (including goodwill)	22.5	18.5	18.2	17.8
Per share data (AED)				
EPS reported (fully diluted)	2.00	2.19	2.48	2.82
HSBC EPS (fully diluted)	2.00	2.19	2.48	2.82
DPS	0.35	0.48	0.54	0.85
NAV	12.09	13.78	16.01	17.00
NAV (including goodwill)	12.09	13.78	16.01	17.00

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.0	3.2	3.0	3.0
Trading profits	-0.3	0.0	0.0	0.1
Other income	1.4	0.5	0.4	0.4
Operating expense	-1.3	-1.0	-1.0	-1.0
Pre-provision profit	4.1	3.8	3.4	3.4
Bad debt charge	-0.6	-1.0	-0.6	-0.5
HSBC attributable profit	3.4	2.8	2.8	2.9
Leverage (x)	6.5	6.7	6.6	6.2
Return on average tier 1	19.3	14.8	14.8	15.0

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	9.1	8.3	7.3	6.5
Pre-provision multiple	7.0	5.5	5.4	5.4
P/NAV	1.5	1.3	1.1	1.1
Equity cash flow yield (%)	-0.9	8.1	11.3	12.9
Dividend yield (%)	1.9	2.6	3.0	4.6

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AED)	18.20	Target price (AED)	24.80	Potent'l tot rtn (%)	36.3

Reuters (Equity)	FGB.AD	Bloomberg (Equity)	FGB UH
Market cap (USDm)	6,813	Market cap (AEDm)	25,025
Country	United Arab Emirates	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

Abu Dhabi Commercial Bank

- Strong top-line performance on the back of increased net interest margins
- Margins likely to come under pressure in 2010 on the back of wholesale re-financing
- We have an Overweight (V) rating and target price of AED3.40

Company description

Abu Dhabi Commercial Bank is third largest bank in UAE with market shares of 12% in loans and 9% in deposits. The Government of Abu Dhabi holds an 85% stake in ADCB. The bank's strategy is to expand its footprint in markets similar to UAE by leveraging its core assets. It acquired a 25% stale in RHB Capital in 2008 and is concentrating on developing its Islamic Finance operations.

Abu Dhabi Commercial Bank key parameters

Bloomberg code	ADCB UH
Target price (AED)	3.40
Current price (AED)	2.13
Potential total return	60%
Market cap (USDbn)	2.8
Rating	Overweight (V)
Average Value Traded (USD 000s)*	2,130
2009e P/NAV	0.7
2009e PE	17.4
2011e ROAE	14.5%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Investment in RHB Capital supports non-interest income
- Strong capital adequacy ratio of 17% and tier 1 ratio of 11.7% post conversion of deposits offer balance sheet growth.
- Remains at a deep discount to NAV (c35%) providing around a AED5.5bn buffer for investors against unexpected write-downs

Bear points

- Large Saad/Al Gosaibi exposure has rattled the market
- Lack of disclosure over NPL movement on a quarterly basis increases uncertainty over quality of loan book
- Refinancing profile still large and will test the Global Medium Term Note programme issuance.

Financials

We expect the bank to post strong net interest income in 2009 of AED3.2bn (up c28%) but see a fall in net earnings of c50% (y-o-y) on the back of a decline in fee & commission income, other non-interest income and an increase in loan loss provisions. We expect non-performing loans of AED5.6bn, quadruple the 2008 numbers.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Valuation

Our target price of AED3.4 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (12.5%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.3. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for ADCB gives a potential total return of c60% on the current share price of AED2.1 and therefore we maintain our Overweight (V) rating.

Catalysts

Higher loan provisioning in Q3 2009 should be followed by similar levels in Q4, but we think dramatically higher levels are unlikely beyond that. Investor perception that impairments have peaked could provide a further relief rally for stock prices.

Risks

Large corporate exposures linked to real estate, construction and retail lending portfolios with limited collateral supporting the exposures provide the most meaningful risks. The bank also has wholesale liability re-financing risk in 2009 and 2010 at potentially materially higher cost.

Financials & valuation: Abu Dhabi Commercial Bank

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (AEDm)				
Net interest income	2,481	3,226	3,185	3,410
Net fees/commissions	982	990	1,057	1,150
Trading profits	79	67	66	67
Other income	849	486	537	559
Total income	4,390	4,769	4,845	5,186
Operating expense	-1,525	-1,631	-1,734	-1,856
Bad debt charge	-758	-1,943	-1,816	-452
Other	-740	-495	-206	-130
HSBC PBT	1,367	700	1,089	2,748
Exceptionals	0	0	0	0
PBT	1,367	700	1,089	2,748
Taxation	-9	-2	-3	-8
Minorities + preferences	-122	-28	-43	-110
Attributable profit	1,237	670	1,043	2,630
HSBC attributable profit	1,237	670	1,043	2,630
Balance sheet summary (AEDm)				
Ordinary equity	15,915	16,115	16,968	19,247
HSBC ordinary equity	15,915	16,115	16,968	19,247
Customer loans	108,813	117,530	125,746	138,753
Debt securities holdings	2,780	2,748	2,801	2,902
Customer deposits	84,361	85,453	93,999	104,338
Interest earning assets	117,065	137,292	144,768	154,982
Total assets	147,728	159,942	167,378	178,313
Capital (%)				
RWA (AEDm)	124,728	136,373	147,283	162,011
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	11.1	11.8	11.5	11.9
Total capital	11.6	18.5	17.7	17.5

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	15.5	8.6	1.6	7.0
Operating expense	51.2	7.0	6.3	7.0
Pre-provision profit	2.6	9.5	-0.8	7.0
EPS	-48.2	-52.3	55.6	152.3
HSBC EPS	-48.3	-45.8	55.6	152.3
DPS	-65.0	-58.2	81.5	188.3
NAV (including goodwill)	22.8	1.3	5.3	13.4
Ratios (%)				
Cost/income ratio	34.7	34.2	35.8	35.8
Bad debt charge	0.8	1.7	1.5	0.3
Customer loans/deposits	129.0	137.5	133.8	133.0
NPL/loan	1.1	4.6	5.5	4.5
NPL/RWA	1.0	4.1	4.9	4.0
Provision to risk assets/RWA	1.8	2.9	3.7	3.4
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	179.2	70.0	75.0	85.0
ROE (including goodwill)	9.1	4.2	6.3	14.5
Per share data (AED)				
EPS reported (fully diluted)	0.26	0.12	0.19	0.48
HSBC EPS (fully diluted)	0.26	0.12	0.19	0.48
DPS	0.09	0.04	0.07	0.19
NAV	2.91	2.95	3.11	3.52
NAV (including goodwill)	2.91	2.95	3.11	3.52

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	2.3	2.5	2.2	2.2
Trading profits	0.1	0.1	0.0	0.0
Other income	0.8	0.4	0.4	0.4
Operating expense	-1.4	-1.2	-1.2	-1.2
Pre-provision profit	2.6	2.4	2.2	2.2
Bad debt charge	-0.7	-1.5	-1.3	-0.3
HSBC attributable profit	1.1	0.5	0.7	1.7
Leverage (x)	8.0	8.2	8.6	8.5
Return on average tier 1	8.9	4.2	6.1	13.7

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	8.3	17.4	11.2	4.4
Pre-provision multiple	3.6	3.3	3.3	3.1
P/NAV	0.7	0.7	0.7	0.6
Equity cash flow yield (%)	-9.1	-1.4	2.7	15.6
Dividend yield (%)	4.1	1.7	3.1	9.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AED)	2.13	Target price (AED)	3.40	Potent'l tot rtn (%)	59.6

Reuters (Equity)	ADCB.AD	Bloomberg (Equity)	ADCB UH
Market cap (USDm)	2,789	Market cap (AEDm)	10,245
Country	United Arab Emirates	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

Union National Bank

- High capital adequacy ratio of c20% in 2009e with tier 1 ratio at c15.2% provide strong room for balance sheet growth
- Credit losses likely to spill into 2010; UNB no longer has the cushion of high provisioning
- We have an Overweight (V) rating and target price of AED5.60

Company description

Union National Bank has market shares of c5.5% in loans and deposits in the UAE banking sector. Abu Dhabi Investment Council and Investment Corporation of Dubai hold 50% and 10% stakes in the bank, respectively.

Union National Bank key parameters

Bloomberg code	UNB UH
Target price (AED)	5.60
Current price (AED)	3.50
Potential total return	60%
Market cap (USDbn)	2.0
Rating	Overweight (V)
Average value traded (USD 000s)*	634
2009e P/NAV	0.8
2009e PE	6.2
2011e ROAE	14.5%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Strong capital adequacy ratio of c20% and relaxation in CAR norms provide further room for loan growth
- Conservative historical lending approach and enhanced liquidity position reinforce the bank's cautious strategy

Bear points

- Decline in NPL coverage ratio increases risk of increase in credit costs.
- A desire to build deposits appears to be hurting the net interest margin, but management appears willing to accept this cost in the pursuit of liquidity.

Financials

We expect the bank's 2009e net interest income to be AED1.5bn, virtually flat vs 2008. We project operating income to fall by c10% on the back of a fall in fee & commission income and other non-interest income, while an increase in loan loss provisions and operating expenses could cause net earnings to register a fall of 21% to AED1.1bn.

Valuation

Our target price of AED5.60 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

To calculate the cost of equity (12.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.4. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our AED5.60 target price for UNB gives a potential total return of 60% on the current share price of AED3.5 and therefore we maintain our Overweight (V) rating.

Catalysts

Stalled loan growth, management's focus on deposit gathering and concerns over credit quality are likely to be alleviated only in Q1 2010, in our view, when the 2009 results should suggest an absence of significant losses migrating from the balance sheet to the income statement and that the loan outlook is improving.

Risks

We believe large corporate exposures linked to real estate, construction and retail lending portfolios with limited collateral supporting the exposures are the most meaningful risks.

HSBC

Financials & valuation: Union National Bank

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (AEDm)				
Net interest income	1,498	1,478	1,643	1,731
Net fees/commissions	528	454	500	594
Trading profits	-181	44	44	47
Other income	449	71	121	127
Total income	2,294	2,048	2,308	2,499
Operating expense	-640	-664	-717	-772
Bad debt charge	-144	-185	-250	-198
Other	-60	-22	-13	-13
HSBC PBT	1,450	1,177	1,329	1,515
Exceptionals	0	0	0	0
PBT	1,450	1,177	1,329	1,515
Taxation	-9	-12	-13	-15
Minorities + preferences	-36	-6	-7	-7
Attributable profit	1,405	1,159	1,309	1,492
HSBC attributable profit	1,405	1,159	1,309	1,492
Balance sheet summary (AEDm)				
Ordinary equity	7,696	8,688	9,765	10,865
HSBC ordinary equity	7,696	8,688	9,765	10,865
Customer loans	50,429	51,983	56,550	62,235
Debt securities holdings	1,972	2,520	2,615	2,796
Customer deposits	49,473	54,647	61,205	67,325
Interest earning assets	57,010	64,976	71,426	75,280
Total assets	65,225	76,737	83,698	88,624
Capital (%)				
RWA (AEDm)	66,854	68,860	75,057	82,563
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	11.3	15.2	15.2	15.1
Total capital	11.3	19.9	19.5	19.1

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	35.4	-10.7	12.7	8.3
Operating expense	28.6	3.7	7.9	7.7
Pre-provision profit	38.2	-16.3	15.0	8.5
EPS	20.2	-17.5	12.9	14.0
HSBC EPS	20.2	-17.5	12.9	14.0
DPS	-50.0	12.4	69.4	52.0
NAV (including goodwill)	14.8	12.9	12.4	11.3
Ratios (%)				
Cost/income ratio	27.9	32.4	31.1	30.9
Bad debt charge	0.3	0.4	0.5	0.3
Customer loans/deposits	101.9	95.1	92.4	92.4
NPL/loan	1.1	1.5	1.8	1.8
NPL/RWA	0.8	1.1	1.3	1.3
Provision to risk assets/RWA	1.0	0.9	1.0	1.0
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	114.9	78.3	78.3	75.5
ROE (including goodwill)	19.5	14.1	14.2	14.5
Per share data (AED)				
EPS reported (fully diluted)	0.68	0.56	0.63	0.72
HSBC EPS (fully diluted)	0.68	0.56	0.63	0.72
DPS	0.10	0.11	0.19	0.29
NAV	3.73	4.21	4.73	5.27
NAV (including goodwill)	3.73	4.21	4.73	5.27

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	2.7	2.2	2.3	2.2
Trading profits	-0.3	0.1	0.1	0.1
Other income	0.8	0.1	0.2	0.2
Operating expense	-1.2	-1.0	-1.0	-1.0
Pre-provision profit	3.0	2.0	2.2	2.2
Bad debt charge	-0.3	-0.3	-0.3	-0.3
HSBC attributable profit	2.5	1.7	1.8	1.9
Leverage (x)	7.7	8.3	7.8	7.6
Return on average tier 1	18.6	11.1	11.5	11.9

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	5.1	6.2	5.5	4.8
Pre-provision multiple	4.4	5.2	4.5	4.2
P/NAV	0.9	0.8	0.7	0.7
Equity cash flow yield (%)	-2.4	14.1	12.1	13.4
Dividend yield (%)	2.9	3.2	5.4	8.3

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AED)	3.50	Target price (AED)	5.60	Potent'l tot rtn (%)	60.0

Reuters (Equity)	UNB.AD	Bloomberg (Equity)	UNB UH
Market cap (USDm)	1,965	Market cap (AEDm)	7,219
Country	United Arab Emirates	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

Qatar National Bank

- Q3 2009 operating income in line with our estimates; we expect higher credit growth in 2010 and 2011
- We expect a steady increase in NPLs, peaking in 2011
- We have a Neutral (V) rating and target price of QAR180

Company description

Qatar National Bank is the largest bank in Qatar with market shares of 35% in loans and 46% in deposits. The Qatar government holds a 50% stake in QNB. It also enjoys strong support from government on both sides of the balance sheet with government loans constituting 43% of the total and 50% of the deposits attributed to public sector.

Qatar National Bank key parameters

Bloomberg code	QNBK QD
Target price (QAR)	180.00
Current price (QAR)	155.80
Potential total return	16%
Market cap (USDbn)	12.9
Rating	Neutral (V)
Average value traded (USD 000s)*	3,926
2009e P/NAV	2.4
2009e PE	11.6
2011e ROAE	21.5%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- High proportion of government loans gives QNB's loan book defensive qualities
- Offloading of real estate and investment portfolios to the government has reduced the risk of further impairments.
- Steady flow of income from the associates provide support to income statement

Bear points

- International operations (held through associate companies) are still not material enough and the bank still depends pre-dominantly on Qatar-based business
- Deterioration in retail loan book could hurt profitability and balance sheet expansion in the future

Financials

Strong balance sheet growth was a feature of QNB's Q3 2009 numbers with loans and deposits rising by c13% and c5% q-o-q, respectively. With loans to stable resources at c82% (against statutory ceiling of 90%), we think QNB is well positioned to sustain credit growth going forward. We expect an improvement in budget deployment in the country during the rest of 2009 and 2010 to accelerate this process and boost government-related credit extension.

Valuation

Our target price of QAR180 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

(maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our QAR180 target price for QNB gives a potential total return of c16% on the current share price of QAR155.8 and therefore we maintain our Neutral (V) rating.

Catalysts

Higher-than-expected net interest margins and stronger-than-expected credit volume growth, particularly from the government business during H2 2009 and H1 2010 could act as a catalyst to QNB.

Risks

Higher-than-estimated credit quality deterioration poses the key downside risk to our target price and estimates, in our view.

HSBC

Financials & valuation: Qatar National Bank

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (QARm)				
Net interest income	2,856	3,740	4,117	4,732
Net fees/commissions	976	916	1,024	1,190
Trading profits	569	142	249	269
Other income	576	522	458	520
Total income	4,977	5,321	5,848	6,711
Operating expense	-1,126	-1,051	-1,170	-1,311
Bad debt charge	-248	-413	-489	-561
Other	70	206	174	215
HSBC PBT	3,672	4,062	4,363	5,053
Exceptionals	0	0	0	0
PBT	3,672	4,062	4,363	5,053
Taxation	-20	-20	-22	-25
Minorities + preferences	0	0	0	0
Attributable profit	3,653	4,042	4,341	5,028
HSBC attributable profit	3,653	4,042	4,341	5,028
Balance sheet summary (QARm)				
Ordinary equity	16,643	19,687	22,001	24,859
HSBC ordinary equity	16,643	19,687	22,001	24,859
Customer loans	100,053	100,052	114,642	134,226
Debt securities holdings	6,324	19,967	21,964	23,062
Customer deposits	104,253	115,720	131,771	153,252
Interest earning assets	121,721	143,852	158,347	182,011
Total assets	151,974	163,898	185,350	213,742
Capital (%)				
RWA (QARm)	96,056	101,684	116,804	137,014
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	13.7	15.0	14.7	14.2
Total capital	13.9	15.7	15.6	15.1

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	48.7	6.9	9.9	14.8
Operating expense	25.2	-6.7	11.3	12.1
Pre-provision profit	57.4	10.9	9.6	15.4
EPS	27.3	8.9	7.4	15.8
HSBC EPS	27.3	8.9	7.4	15.8
DPS	80.0	12.2	7.0	15.8
NAV (including goodwill)	9.2	18.3	11.8	13.0
Ratios (%)				
Cost/income ratio	22.6	19.7	20.0	19.5
Bad debt charge	0.3	0.4	0.5	0.5
Customer loans/deposits	96.0	86.5	87.0	87.6
NPL/loan	0.7	1.0	1.4	1.6
NPL/RWA	0.8	1.0	1.4	1.6
Provision to risk assets/RWA	0.7	1.0	1.2	1.4
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	85.4	100.0	90.0	90.0
ROE (including goodwill)	23.9	22.3	20.8	21.5
Per share data (QAR)				
EPS reported (fully diluted)	12.32	13.42	14.42	16.70
HSBC EPS (fully diluted)	12.32	13.42	14.42	16.70
DPS	6.00	6.73	7.21	8.35
NAV	55.27	65.38	73.06	82.55
NAV (including goodwill)	55.27	65.38	73.06	82.55

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.4	3.8	3.8	3.7
Trading profits	0.7	0.1	0.2	0.2
Other income	0.7	0.5	0.4	0.4
Operating expense	-1.3	-1.1	-1.1	-1.0
Pre-provision profit	4.6	4.3	4.3	4.3
Bad debt charge	-0.3	-0.4	-0.4	-0.4
HSBC attributable profit	4.4	4.1	4.0	4.0
Leverage (x)	5.5	5.4	5.2	5.4
Return on average tier 1	27.7	26.6	25.3	25.9

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	12.6	11.6	10.8	9.3
Pre-provision multiple	12.0	11.0	10.0	8.7
P/NAV	2.8	2.4	2.1	1.9
Equity cash flow yield (%)	4.2	7.8	7.0	7.7
Dividend yield (%)	3.9	4.3	4.6	5.4

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (QAR)	155.80	Target price (QAR)	180.00	Potent'l tot rtn (%)	15.5

Reuters (Equity)	QNBK.QA	Bloomberg (Equity)	QNBK QD
Market cap (USDm)	12,886	Market cap (QARm)	46,915
Country	Qatar	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

Commercial Bank of Qatar

- Second largest bank in Qatar with a market share of 14% in total loans
- We expect a decline in 2009 fee and commission income by c23% y-o-y
- We maintain a Neutral (V) rating but reduce our target price to QAR78 from QAR81

Company description

Commercial Bank of Qatar is the second largest bank in Qatar with market shares of 14% in both loans and deposits. The public holding in the bank is very high at 80%. QIA acquired a 5% stake in CBQ in Q1 2009. The bank expanded its footprint in the MENA region by acquiring stakes in National Bank of Oman and United Arab Bank in UAE.

Commercial Bank Of Qatar key parameters

Bloomberg code	CBQK QD
Target price (QAR)	78.00
Current price (QAR)	66.00
Potential total return	18%
Market cap (USDbn)	3.9
Rating	Neutral (V)
Average value traded (USD 000s)*	8,651
2009e P/NAV	1.2
2009e PE	8.9
2011e ROAE	14.8%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Capital injections (cQAR800m in early 2009 and cQAR800m expected in December 2009) from QIA have improved the capital position, thereby providing room for growth
- Offloading of real estate and investment portfolios to government has reduced the risk of future impairments

Bear points

- Decline in recurring fees and commission income during Q2 2009 might hurt profitability in H2 2009, if the trend persists
- Higher-than-expected credit losses from corporate loan book to hurt profitability and hamper loan growth

Financials

We expect 2009 net interest income of QAR1,657m up c28% y-o-y. We project operating income to fall by c1% on the back of lower fee and commission income and other non-interest income (investment income, etc), while we expect higher loan loss provisions and operating expenses to lead net profit to fall c6% to QAR1,606m.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Valuation

We reduce our target price to QAR78 from QAR81. The bank's capital adequacy ratio (according to a recently filed prospectus to raise new debt) stands at 12.2% which should touch c13.5% once new equity (worth cQAR800m) is issued to the QIA in December 2009. Dilution from a fresh equity issue and/or margin reduction from a bond issue are the main reasons behind our target price decrease.

Our target price of QAR78 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for CBQ gives a potential total return of c18% on the current share price of QAR66 and therefore we maintain our Neutral (V) rating.

Risks

Upside risks exist in the form of higher than expected credit growth; particularly in the government and public sector businesses. A slowdown in NPL formation on the consumer loan book could be another catalyst for the stock. In addition to this a rebound in the fees and commissions can be a strong positive for the CBQ.

Higher than estimated credit quality deterioration and investment impairment pose key downside risks to our target price and estimates.

HSBC

Financials & valuation: Commercial Bank of Qatar

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (QARm)				
Net interest income	1,292	1,657	1,683	1,849
Net fees/commissions	943	730	794	876
Trading profits	276	35	97	104
Other income	257	399	177	187
Total income	2,769	2,821	2,751	3,016
Operating expense	-750	-798	-855	-927
Bad debt charge	-59	-439	-230	-203
Other	-257	22	109	37
HSBC PBT	1,702	1,606	1,775	1,923
Exceptionals	0	0	0	0
PBT	1,702	1,606	1,775	1,923
Taxation	0	0	0	0
Minorities + preferences	0	0	0	0
Attributable profit	1,702	1,606	1,775	1,923
HSBC attributable profit	1,702	1,606	1,775	1,923
Balance sheet summary (QARm)				
Ordinary equity	9,978	11,978	12,628	13,309
HSBC ordinary equity	9,978	11,978	12,628	13,309
Customer loans	33,898	32,324	35,631	39,356
Debt securities holdings	3,014	8,238	9,023	9,454
Customer deposits	32,186	31,102	34,727	38,787
Interest earning assets	46,914	52,598	53,415	58,709
Total assets	61,302	56,771	62,005	67,849
Capital (%)				
RWA (QARm)	63,582	60,631	66,834	73,820
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	13.1	17.2	16.3	15.4
Total capital	13.6	17.7	16.8	16.0

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	42.5	1.9	-2.5	9.6
Operating expense	38.8	6.4	7.1	8.4
Pre-provision profit	44.0	0.2	-6.3	10.2
EPS	14.8	-15.4	5.5	8.4
HSBC EPS	14.8	-15.4	5.5	8.4
DPS	127.5	-29.2	10.5	8.4
NAV (including goodwill)	41.6	9.1	5.4	5.4
Ratios (%)				
Cost/income ratio	27.1	28.3	31.1	30.7
Bad debt charge	0.2	1.3	0.7	0.5
Customer loans/deposits	105.3	103.9	102.6	101.5
NPL/loan	1.4	2.4	2.8	3.0
NPL/RWA	0.8	1.3	1.5	1.7
Provision to risk assets/RWA	0.5	1.2	1.4	1.5
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	58.3	90.0	90.0	90.0
ROE (including goodwill)	21.0	14.6	14.4	14.8
Per share data (QAR)				
EPS reported (fully diluted)	8.76	7.42	7.82	8.48
HSBC EPS (fully diluted)	8.76	7.42	7.82	8.48
DPS	7.00	4.96	5.48	5.93
NAV	48.39	52.81	55.67	58.68
NAV (including goodwill)	48.39	52.81	55.67	58.68

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	2.3	2.7	2.6	2.6
Trading profits	0.5	0.1	0.2	0.1
Other income	0.5	0.6	0.3	0.3
Operating expense	-1.4	-1.3	-1.3	-1.3
Pre-provision profit	3.7	3.3	3.0	3.0
Bad debt charge	-0.1	-0.7	-0.4	-0.3
HSBC attributable profit	3.1	2.6	2.8	2.7
Leverage (x)	6.8	5.7	5.2	5.4
Return on average tier 1	20.4	15.4	16.3	16.9

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	7.5	8.9	8.4	7.8
Pre-provision multiple	6.4	7.1	7.9	7.2
P/NAV	1.4	1.2	1.2	1.1
Equity cash flow yield (%)	3.8	12.7	9.4	10.0
Dividend yield (%)	10.6	7.5	8.3	9.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (QAR)	66.00	Target price (QAR)	78.0	Potent'l tot rtn (%)	18.1

Reuters (Equity)	COMB.QA	Bloomberg (Equity)	CBQK QD
Market cap (USDm)	3,925	Market cap (QARm)	14,290
Country	Qatar	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

National Bank of Kuwait

- Q3 2009 loan loss provisions lower than our expectations
- Increase in provisions has largely been non-specific in nature; bank seems to be boosting coverage
- Increase TP to KWD1.09 (from KWD1.01), maintain Underweight (V) rating

Company description

National Bank of Kuwait is the largest bank in Kuwait, controlling 30% of total banking assets. It commands a market share of c28% in total loans and 20% in deposits. The stockholding is entirely held by the public. Besides its dominant position within Kuwait, NBK has expanded into Egypt, where it has a fully owned banking subsidiary.

National Bank of Kuwait key parameters

Bloomberg code	NBK KK
Target price (KWD)	1.09
Current price (KWD)	1.20
Potential total return	-9%
Market cap (USDbn)	12.5
Rating	Underweight (V)
Average value traded (USD 000s)*	16,588
2009e P/NAV	1.9
2009e PE	12.3
2011e ROAE	18.3%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Credit quality at NBK has been amongst the strongest in Kuwait. The bank's exposure to Saad and Al Gosaibi is immaterial relative to its shareholders' equity
- The bank's dependence on investment gains has been the lowest amongst the Kuwaiti banks and therefore the quality of income is high

Bear points

- The woes of the investment companies and lack of disclosure in individual bank balance sheets are concerns
- Lack of development and infrastructure-related spending (due to the stand-off between the parliament and the government) has weakened the outlook for balance sheet expansion in Kuwait and NBK is no exception to this

Financials

The Q3 2009 net earnings beat our estimate, mainly on the back of lower-than-expected loan loss provisions. The bank seems to have been building general provisions to bolster its NPL coverage ratio. The 9m 2009 provision number splits into a general provision of KWD25m and a specific provision of KWD10m. This might suggest that actual NPLs have been growing at a rate lower than we initially expected. We revise our 2009 NPL estimate to KWD154m from KWD183m. Our loan loss provision estimate for 2009 now stands at KWD43m from KWD73m.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Valuation

We raise our target price to KWD1.09 from KWD1.01 on the back of our reduced cost of risk estimate going forward to 58bps from 103bps. We derive our target price from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our KWD1.09 target price for NBK gives a negative potential total return of 9% on the current share price of KWD1.2 and therefore we maintain our Underweight (V) rating.

Risks

A visible impact on credit extension and a decline in loan loss provisions coming through on the back of the stimulus plan are key upside risks for the stock price and our rating, in our view.

HSBC

Financials & valuation: National Bank of Kuwait

Underweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (KWDm)				
Net interest income	367	383	408	449
Net fees/commissions	101	101	113	124
Trading profits	-2	12	13	14
Other income	35	34	37	39
Total income	501	531	572	626
Operating expense	-159	-177	-174	-190
Bad debt charge	-59	-44	-13	-16
Other	-15	-13	-7	-1
HSBC PBT	269	297	378	419
Exceptionals	0	0	0	0
PBT	269	297	378	419
Taxation	-11	-15	-19	-21
Minorities + preferences	-2	-1	-2	-2
Attributable profit	255	280	357	396
HSBC attributable profit	255	280	357	396
Balance sheet summary (KWDm)				
Ordinary equity	1,569	1,837	2,054	2,271
HSBC ordinary equity	1,569	1,837	2,054	2,271
Customer loans	6,955	7,744	8,486	9,296
Debt securities holdings	939	1,032	1,136	1,249
Customer deposits	5,545	6,183	6,760	7,392
Interest earning assets	10,896	11,261	12,008	13,215
Total assets	11,973	12,557	13,776	15,092
Capital (%)				
RWA (KWDm)	8,087	9,017	9,859	10,781
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	14.7	14.7	15.3	15.8
Total capital	15.3	15.4	16.0	16.6

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	19.3	6.0	7.7	9.6
Operating expense	40.5	11.6	-2.1	9.6
Pre-provision profit	11.5	3.3	12.6	9.6
EPS	-16.0	12.5	27.2	11.0
HSBC EPS	-16.0	12.5	27.2	11.0
DPS	-34.2	19.8	27.2	11.0
NAV (including goodwill)	-4.4	17.5	11.8	10.6
Ratios (%)				
Cost/income ratio	31.7	33.4	30.3	30.4
Bad debt charge	0.9	0.6	0.2	0.2
Customer loans/deposits	125.4	125.3	125.5	125.8
NPL/loan	1.9	1.9	1.9	1.9
NPL/RWA	1.7	1.7	1.7	1.7
Provision to risk assets/RWA	3.2	3.3	3.1	2.9
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	182.6	192.0	180.0	170.0
ROE (including goodwill)	15.6	16.5	18.3	18.3
Per share data (KWD)				
EPS reported (fully diluted)	0.09	0.10	0.12	0.14
HSBC EPS (fully diluted)	0.09	0.10	0.12	0.14
DPS	0.04	0.05	0.06	0.07
NAV	0.54	0.64	0.72	0.79
NAV (including goodwill)	0.54	0.64	0.72	0.79

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	4.8	4.5	4.3	4.4
Trading profits	0.0	0.1	0.1	0.1
Other income	0.5	0.4	0.4	0.4
Operating expense	-2.1	-2.1	-1.8	-1.8
Pre-provision profit	4.5	4.1	4.2	4.2
Bad debt charge	-0.8	-0.5	-0.1	-0.2
HSBC attributable profit	3.4	3.3	3.8	3.8
Leverage (x)	4.7	5.0	4.9	4.8
Return on average tier 1	21.5	21.1	23.7	23.2

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	13.8	12.3	9.7	8.7
Pre-provision multiple	10.3	9.7	8.6	7.9
P/NAV	2.6	2.2	19	1.7
Equity cash flow yield (%)	5.3	6.0	8.3	9.3
Dividend yield (%)	3.4	4.1	5.2	5.7

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (KWD)	1.20	Target price (KWD)	1.09	Potent'l tot rtn (%)	-9.4

Reuters (Equity)	NBKK.KW	Bloomberg (Equity)	NBK KK
Market cap (USDm)	12,463	Market cap (KWDm)	3,568
Country	Kuwait	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

Commercial Bank of Kuwait

- Third largest bank in Kuwait with a market share of c10% in total loans and deposits
- Loan growth to remain subdued; we expect earnings to decline by c40% y-o-y in 2009
- We have an Underweight rating and target price of KWD0.61

Company description

Commercial Bank of Kuwait is the third largest bank in Kuwait with a market share of c10% in total loans and deposits. The bank is controlled by a section of the royal family in the country through an investment vehicle named "Al Sharq Holdings", which holds a 23% stake in the bank.

Commercial Bank of Kuwait key parameters

Bloomberg code	CBK KK
Target price (KWD)	0.61
Current price (KWD)	1.00
Potential total return	-39%
Market cap (USDbn)	4.4
Rating	Underweight
Average value traded (USD 000s)*	1,234
2009e P/NAV	2.5
2009e PE	20.6
2011e ROAE	17.4%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Strong capital adequacy at 15.5% enhances ability to absorb rising credit costs
- Clarity over the stimulus plan might result in lower credit cost charges and provide the impetus for balance sheet growth

Bear points

- Exposure to real estate & construction and investment companies poses downside risks on asset quality
- The bank has depended on investment income in the past and as this is a non-recurring line, it might not be easy to sustain going forward

Financials

Our 2009 net profit estimate is KWD62m, down from KWD101m in 2008, which is a c39% y-o-y decline. Our estimate for NPLs for 2009 is KWD179m (vs KWD138m in 2008). An exposure of USD120m to the Saad Group increases the downside risks on loan loss provisions.

Valuation

Our target price of KWD0.61 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

(maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (13.1%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.4. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for CBK gives a negative potential total return of 39% on the current share price of KWD1.0 and therefore we maintain our Underweight rating.

Catalysts

Visible impact on credit extension and a decline in loan loss provisions coming through on the back of the stimulus plan could be a key catalyst for Commercial Bank of Kuwait.

Risks

Upside risks to our target price include lower than estimated investment impairments and loan loss provisions and tightening of net interest margins lower than our estimates.

HSBC

Financials & valuation: Commercial Bank of Kuwait

Underweight

Financial statements				
Year to	**12/2008a**	**12/2009e**	**12/2010e**	**12/2011e**
P&L summary (KWDm)				
Net interest income	117	112	122	132
Net fees/commissions	34	35	38	41
Trading profits	35	3	8	8
Other income	13	10	11	12
Total income	198	160	178	193
Operating expense	-35	-38	-41	-45
Bad debt charge	-29	-32	-39	-32
Other	-29	-25	-7	-8
HSBC PBT	105	65	91	108
Exceptionals	0	0	0	0
PBT	105	65	91	108
Taxation	-5	-3	-4	-5
Minorities + preferences	0	0	0	0
Attributable profit	101	62	86	103
HSBC attributable profit	101	62	86	103
Balance sheet summary (KWDm)				
Ordinary equity	497	508	564	624
HSBC ordinary equity	497	508	564	624
Customer loans	2,430	2,610	2,799	3,066
Debt securities holdings	14	16	17	19
Customer deposits	2,645	2,909	3,138	3,439
Interest earning assets	3,987	4,144	4,505	4,896
Total assets	4,307	4,670	5,049	5,533
Capital (%)				
RWA (KWDm)	2,942	3,173	3,422	3,750
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	13.8	13.8	14.1	14.2
Total capital	15.5	15.5	15.7	15.8

Ratio, growth & per share analysis				
Year to	**12/2008a**	**12/2009e**	**12/2010e**	**12/2011e**
Year-on-year % change				
Total income	22.0	-19.2	11.2	8.4
Operating expense	13.7	8.3	8.2	10.0
Pre-provision profit	23.9	-25.1	12.2	7.9
EPS	-15.2	-39.8	40.0	19.3
HSBC EPS	-15.2	-39.8	40.0	19.3
DPS	-52.9	-39.3	40.0	19.3
NAV (including goodwill)	-6.0	2.2	10.9	10.6
Ratios (%)				
Cost/income ratio	17.7	23.7	23.1	23.4
Bad debt charge	1.2	1.3	1.5	1.1
Customer loans/deposits	91.9	89.7	89.2	89.2
NPL/loan	5.2	6.3	7.3	7.3
NPL/RWA	4.7	5.6	6.5	6.6
Provision to risk assets/RWA	6.8	7.2	7.6	7.6
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	145.2	127.0	116.7	116.7
ROE (including goodwill)	19.7	12.3	16.1	17.4
Per share data (KWD)				
EPS reported (fully diluted)	0.08	0.05	0.07	0.08
HSBC EPS (fully diluted)	0.08	0.05	0.07	0.08
DPS	0.04	0.02	0.03	0.04
NAV	0.39	0.40	0.44	0.49
NAV (including goodwill)	0.39	0.40	0.44	0.49

Core profitability (% RWAs) and leverage				
Year to	**12/2008a**	**12/2009e**	**12/2010e**	**12/2011e**
Net interest income	3.9	3.7	3.7	3.7
Trading profits	1.2	0.1	0.2	0.2
Other income	0.4	0.3	0.3	0.3
Operating expense	-1.2	-1.2	-1.2	-1.3
Pre-provision profit	5.5	4.0	4.2	4.1
Bad debt charge	-1.0	-1.0	-1.2	-0.9
HSBC attributable profit	3.4	2.0	2.6	2.9
Leverage (x)	5.8	6.1	6.2	6.0
Return on average tier 1	24.7	14.1	18.0	19.4

Valuation data				
Year to	**12/2008a**	**12/2009e**	**12/2010e**	**12/2011e**
PE*	12.4	20.6	14.7	12.3
Pre-provision multiple	7.7	10.4	9.3	8.6
P/NAV	2.6	2.5	2.3	2.0
Equity cash flow yield (%)	8.4	3.6	5.4	6.3
Dividend yield (%)	4.0	2.4	3.4	4.1

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (KWD)	1.00	Target price (KWD)	0.61	Potent'l tot rtn (%)	-39.0

Reuters (Equity)	CBKK.KW	Bloomberg (Equity)	CBK KK
Market cap (USDm)	4,443	Market cap (KWDm)	1,272
Country	Kuwait	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

HSBC

Burgan Bank

- More loan loss provisions likely to affect earnings in Q3 2009
- Thin capital adequacy and risk of dilution for the bank are our primary concerns
- We have a Neutral (V) rating and target price of KWD0.42

Company description

Burgan Bank is the fourth largest bank in Kuwait with market shares of 9% in both total loans and deposits. It is a subsidiary of conglomerate group KIPCO, which holds a 55% stake in the bank. It is expanding its operations in the MENA region by acquiring stakes in four regional banks from United Gulf Bank (a KIPCO group company) for KD194m, which is likely to be fully concluded by December 2009, thereby diversifying its operations.

Burgan Bank key parameters

Bloomberg code	BURG KK
Target price (KWD)	0.42
Current price (KWD)	0.38
Potential total return	11%
Market cap (USDbn)	1.4
Rating	Neutral (V)
Average value traded (USD 000s)*	2,299
2009e P/NAV	1.1
2009e PE	16.4
2011e ROAE	15.4%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Most regionally diversified bank in Kuwait with footprints in Algeria, Jordan, Iraq and Tunisia
- Strong support from KIPCO which is held in turn by the royal family

Bear points

- Increased complexity due to acquisitions might raise operational issues
- Untested asset quality in the new markets and capital pressure owing to new acquisitions could hurt balance sheet growth

Financials

Our 2009 net profit estimate is KWD23m, down from KWD38m in 2008. Our 2009 net earnings estimate is mainly affected by loan loss provisions, which we estimate at KWD66m in 2009, up from KWD36m in 2008.

Our main worry, though, is on the capital position at Burgan. Our 2009 CAR estimate is 12.7% (the mandatory requirement in Kuwait is 12%) and therefore we think dilution risk from any potential capital raising is reasonably high (note: such a move has not been confirmed by the company). Moreover, we expect the Tier 1 ratio to reduce to 8.4% in 2009 from 8.9% in 2008 (2007: 14.9%), strengthening the possibility that capital raised will be common equity. We think a material drop in the Tier 1 ratio in 2009 could result in discussions with the regulators and pave the for a fresh equity issue, which poses the highest downside risk to our estimates.

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Valuation

Our target price of KWD0.42 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (13.1%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.4. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our target price for Burgan Bank gives a potential total return of c11% on the current share price of KWD0.42 and therefore we maintain our Neutral (V) rating.

Catalysts

Visible impact on credit extension and a decline in loan loss provisions coming through on the back of the stimulus plan can be a key catalyst for Burgan Bank. In addition, any clarity on fresh capital raising could draw a line on downside risks on dilution to existing shareholders.

Risks

Although the acquisition of banks has diversified Burgan's balance sheet, on the downside we do not rule out the possibility of goodwill impairments coming through on some of these acquisitions.

HSBC

Financials & valuation: Burgan Bank

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (KWDm)				
Net interest income	68	101	108	118
Net fees/commissions	22	31	35	38
Trading profits	24	3	6	7
Other income	6	20	15	16
Total income	121	156	164	179
Operating expense	-32	-44	-48	-52
Bad debt charge	-36	-66	-42	-32
Other	-10	-3	-4	-4
HSBC PBT	42	42	70	91
Exceptionals	0	0	0	0
PBT	42	42	70	91
Taxation	-5	-7	-11	-14
Minorities + preferences	1	-12	-12	-15
Attributable profit	38	23	47	61
HSBC attributable profit	38	23	47	61
Balance sheet summary (KWDm)				
Ordinary equity	311	343	378	416
HSBC ordinary equity	311	343	378	416
Customer loans	2,133	2,461	2,674	2,915
Debt securities holdings	38	40	42	44
Customer deposits	2,416	2,658	2,923	3,216
Interest earning assets	3,156	3,803	4,144	4,556
Total assets	3,913	4,319	4,733	5,189
Capital (%)				
RWA (KWDm)	2,755	3,218	3,516	3,844
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	9.0	8.4	8.7	9.1
Total capital	13.8	12.7	12.7	13.0

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	14.6	28.4	5.3	9.3
Operating expense	15.0	36.0	9.0	9.0
Pre-provision profit	14.4	25.7	3.8	9.4
EPS	-50.5	-37.2	103.9	30.0
HSBC EPS	-50.6	-37.3	103.9	30.0
DPS	-100.0		103.9	30.0
NAV (including goodwill)	-9.5	10.9	10.4	10.0
Ratios (%)				
Cost/income ratio	26.6	28.1	29.1	29.0
Bad debt charge	2.0	2.9	1.7	1.2
Customer loans/deposits	88.3	92.6	91.5	90.7
NPL/loan	1.8	3.5	4.0	4.2
NPL/RWA	1.5	2.8	3.3	3.4
Provision to risk assets/RWA	3.6	5.1	5.9	6.2
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	245.0	180.0	180.0	180.0
ROE (including goodwill)	11.4	7.1	13.1	15.4
Per share data (KWD)				
EPS reported (fully diluted)	0.04	0.02	0.05	0.06
HSBC EPS (fully diluted)	0.04	0.02	0.05	0.06
DPS	0.00	0.01	0.02	0.03
NAV	0.31	0.34	0.37	0.41
NAV (including goodwill)	0.31	0.34	0.37	0.41

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	2.9	3.4	3.2	3.2
Trading profits	1.0	0.1	0.2	0.2
Other income	0.3	0.7	0.4	0.4
Operating expense	-1.4	-1.5	-1.4	-1.4
Pre-provision profit	3.9	3.7	3.4	3.5
Bad debt charge	-1.6	-2.2	-1.3	-0.9
HSBC attributable profit	1.6	0.8	1.4	1.7
Leverage (x)	7.0	9.1	9.3	9.3
Return on average tier 1	15.3	8.6	15.5	17.5

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	10.3	16.4	8.0	6.2
Pre-provision multiple	4.4	3.4	3.3	3.0
P/NAV	1.8	1.5	1.3	1.1
Equity cash flow yield (%)	-6.4	-2.4	6.7	9.8
Dividend yield (%)	0.0	3.0	6.2	8.1

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (KWD)	0.38	Target price (KWD)	0.42	Potent'l tot rtn (%)	10.5

Reuters (Equity)	BURG.KW	Bloomberg (Equity)	BURG KK
Market cap (USDm)	1,364	Market cap (KWDm)	390
Country	Kuwait	Sector	Commercial Banks
Analyst	David Kinsey	Contact	971 4 423 6928

Notes: price at close of 07 Nov 2009

CIB

- H2 2009 results should see stability in margins with shift in asset mix towards lending and fee income growth
- Asset quality and balance sheet liquidity to remain key drivers of earnings recovery in medium term
- We have a Neutral (V) rating and target price of EGP61

Company description

CIB is Egypt's largest private-sector bank, accounting for about 5% of assets and almost 6% each for loans and deposits in 2008. Its main shareholder is a consortium led by the US private equity group Ripplewood Holdings, with an 18.7% stake acquired from state-owned National Bank of Egypt in February 2006. In July 2009, a UK-based private equity firm, Actis, paid USD244m to Ripplewood consortium to acquire the latter's 9.3% stake in the bank.

CIB key parameters

Bloomberg code	COMI EY
Target price (EGP)	61.00
Current price (EGP)	55.14
Potential total return	10.6%
Market cap (USDbn)	2.9
Rating	Neutral (V)
Average value traded (USD 000s)*	7,341
2009e P/NAV	2.3
2009e PE	10.6
2011e ROAE	23.6%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- High balance-sheet liquidity and market leader in asset quality
- Strong diversified corporate franchise and strong profitability levels

Bear points

- Expensive valuation: trading currently at 2.3x 2009e P/NAV compared to sector average of 1.9x
- Small retail banking scale with current retail lending to total loan portfolio of 9% vs. average peer group ratio of 21%.

Financials

We expect H2 2009 to see stability in margins with the bank targeting lending activities to compensate for declining yields in treasuries and inter-bank assets. In addition, we expect fees & commissions growth to remain steady with improvements in trade finance activities and given the bank's focus on expansion in retail banking activities. However, we expect H2 2009 earnings to be slightly pressured with CIB booking higher provisioning (in line with rising loan book) as well as tax charges compared to H1 2009.

Valuation

Our target price of EGP61 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages:

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (12.7%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 9.0% and equity risk premium of 5.5%, with a beta of 0.67. Under our research model, for Egyptian stocks with a volatility indicator, the performance hurdle rates require a minimum 4.5% potential total return for a Neutral rating and a 24.5% potential total return for an Overweight rating. Our EGP61 target price for CIB gives a potential total return of 11% on the current share price of EGP55 and therefore we maintain our Neutral (V) rating.

Catalysts

Better-than-expected growth in core banking operations (particularly expansion in lending activities and improved margins) in the upcoming third-quarter results (due in the third week of November 2009) could be an upward catalyst for CIB's share price. Worsening asset quality within the bank's corporate loan book and further impairment charges against its subsidiary's goodwill remain the key downside risks to our valuation.

Risks

Downside risks to our valuation include (i) asset quality deterioration with worsening economic conditions; (ii) further goodwill impairment charges pertaining to CIB's recently consolidated subsidiary, CI CH; (iii) slower-than-expected fee income growth due to poor capital market/trade finance conditions; (iv) greater-than-expected pressure on local currency leading to declines in forex income; (v) NIM contraction on bigger-than- expected decline in local asset yields and slower expansion in its retail loan book.

Upside risks to our valuation include (i) lower-than-expected provisions or provision write-backs boosting earnings with the bank adopting stringent NPL-recognition norms against specific loan exposures in 2008 as well as maintaining a coverage ratio at comfortable levels (>100%); and (ii) higher-than-anticipated improvement in margins and fee income growth with expansion in retail activities.

HSBC

Financials & valuation: CIB

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (EGPm)				
Net interest income	1,799	2,018	2,364	2,623
Net fees/commissions	748	821	991	1,172
Trading profits	79	67	67	73
Other income	442	490	502	543
Total income	3,067	3,396	3,924	4,411
Operating expense	-1,196	-1,331	-1,467	-1,590
Bad debt charge	-346	-94	-97	-110
Other	67	-100	-92	-77
HSBC PBT	1,592	1,871	2,268	2,633
Exceptionals	-133	0	0	0
PBT	1,459	1,871	2,268	2,633
Taxation	-251	-356	-386	-448
Minorities + preferences	5	6	8	9
Attributable profit	1,213	1,522	1,891	2,195
HSBC attributable profit	1,346	1,522	1,891	2,195
Balance sheet summary (EGPm)				
Ordinary equity	5,825	7,056	8,520	10,053
HSBC ordinary equity	5,825	7,056	8,520	10,053
Customer loans	26,330	28,826	32,575	37,307
Debt securities holdings	15,161	19,880	19,090	19,495
Customer deposits	48,790	52,297	56,742	61,849
Interest earning assets	43,667	51,736	56,956	61,139
Total assets	57,462	65,488	70,141	76,609
Capital (%)				
RWA (EGPm)	37,716	41,291	46,660	53,439
Core tier 1	14.7	16.1	16.8	16.8
Total tier 1	14.7	16.1	16.8	16.8
Total capital	15.4	17.1	18.3	18.8

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	35.0	10.7	15.5	12.4
Operating expense	41.5	11.2	10.2	8.4
Pre-provision profit	31.1	10.4	19.0	14.8
EPS	6.5	25.5	24.2	16.1
HSBC EPS	36.0	13.1	24.2	16.1
DPS	0.0	45.7	55.2	59.2
NAV (including goodwill)	29.3	21.1	20.8	18.0
Ratios (%)				
Cost/income ratio	39.0	39.2	37.4	36.1
Bad debt charge	1.5	0.3	0.3	0.3
Customer loans/deposits	54.0	55.1	57.4	60.3
NPL/loan	3.0	3.0	3.1	3.3
NPL/RWA	2.2	2.2	2.3	2.4
Provision to risk assets/RWA	4.4	4.1	3.7	3.4
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	199.7	183.0	160.5	140.2
ROE (including goodwill)	26.1	23.6	24.3	23.6
Per share data (EGP)				
EPS reported (fully diluted)	4.15	5.20	6.46	7.50
HSBC EPS (fully diluted)	4.60	5.20	6.46	7.50
DPS	1.00	1.46	2.26	3.60
NAV	19.91	24.12	29.13	34.37
NAV (including goodwill)	19.91	24.12	29.13	34.37

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	5.3	5.1	5.4	5.2
Trading profits	0.2	0.2	0.2	0.1
Other income	1.3	1.2	1.1	1.1
Operating expense	-3.5	-3.4	-3.3	-3.2
Pre-provision profit	5.5	5.2	5.6	5.6
Bad debt charge	-1.0	-0.2	-0.2	-0.2
HSBC attributable profit	4.0	3.9	4.3	4.4
Leverage (x)	6.5	6.1	5.6	5.4
Return on average tier 1	24.3	23.0	24.1	24.4

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	12.0	10.6	8.5	7.3
Pre-provision multiple	8.6	7.8	6.6	5.7
P/NAV	2.8	2.3	1.9	1.6
Equity cash flow yield (%)	4.9	7.9	9.4	10.7
Dividend yield (%)	1.8	2.6	4.1	6.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (EGP)	55.14	Target price (EGP)	61.00	Potent'l tot rtn (%)	10.6

Reuters (Equity)	COMI.CA	Bloomberg (Equity)	COMI EY
Market cap (USDm)	2,950	Market cap (EGPm)	16,128
Free float (%)	76		
Country	Egypt	Sector	Commercial Banks
Analyst	Shirin Panicker	Contact	+202 2 5298439

Notes: price at close of 07 Nov 2009

NSGB

- Improving asset quality and tighter cost control policy should support future earnings
- We expect a 9.5% decline in 2009 earnings followed by a 31% increase in 2010
- We have a Neutral (V) rating and target price of EGP30

Company description

NSGB is the second-largest private-sector bank in Egypt, with an asset market share of 4.3% and deposits market share of 4.8% in 2008. It is 77% owned by the French bank Societe Generale and its remaining stake is free float.

NSGB key parameters

Bloomberg code	NSGB EC
Target price (EGP)	30.00
Current price (EGP)	27.33
Potential total return	10%
Market cap (USDbn)	1.7
Rating	Neutral (V)
Average value traded (USD 000s)*	529
2009e P/NAV	1.7
2009e PE	9.4
2011e ROAE	25.7%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Attractive valuation, currently trading at 1.7x 2009e NAV vs. CEEMEA banks' average of 1.9x
- Improving asset quality and strong capital adequacy (subordinate loan from parent bank).
- First-mover advantage in retail banking

Bear points

- Bank faces strong competition in the retail segment

Financials

We have reduced our 2009 net income forecast by 4% but raised our 2010 and 2011 estimates by 3% and 4%, respectively. Our net income 2008-2011 CAGR estimate is now 18% vs. 16% previously, driven by the reduction in our forecasts for non-interest expenses and loan loss provisioning. The bank had booked a small amount of loan loss provision reversals in Q2 2009 worth EGP16m. Management does not expect any further provisioning reversals this year and the bank is likely to book moderate provisioning in line with loan growth in the remaining quarters of 2009. We maintain our 2008-2011e CAGRs for loans and deposits at 11% and 10%, respectively.

Valuation

Our target price of EGP30 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
David.r.kinsey@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (12.9%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 9.0% and equity risk premium of 5.5%, with a beta of 0.7. Under our research model, for Egyptian stocks with a volatility indicator, the performance hurdle rates require a minimum 4.5% potential total return for a Neutral rating and a 24.5% potential total return for an Overweight rating. Our EGP30 target price for NSGB gives a potential total return of 9.8% on the current share price of EGP27.3 and therefore we maintain our Neutral (V) rating.

Catalysts

Better-than-expected growth in core banking operations by the end of 2009e could act as an upward catalyst for NSGB’s share price. Worsening asset quality within the bank's corporate loan book remains a key downside risk to our valuation.

Risks

Downside risks to our valuation include: (i) low market liquidity leading to limited stock rerating in current market conditions (NSGB's free float is small at 22%); (ii) a more pronounced slowdown in corporate or retail loan demand leading to further declines in NIMs; (iii) a deterioration in asset quality on economic hard landing; (iv) slower-than-expected fee income growth on capital and trade market hard landing and (v) forex loss with further appreciation of the local currency since a portion of NSGB's equity is denominated in USD.

Upside risks to valuation include: (i) further provision write-backs or limited booking of loan provisions; (ii) better-than-expected stock market/trade finance activity boosting investment gains and fees and commissions in H2 2009; and (iii) larger-than-expected forex gains with the bank ideally positioned to benefit from any devaluation in the local currency.

HSBC

Financials & valuation: NSGB

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (EGPm)				
Net interest income	1,428	1,682	1,959	2,190
Net fees/commissions	545	594	731	892
Trading profits	55	32	39	44
Other income	175	139	151	160
Total income	2,203	2,448	2,879	3,285
Operating expense	-795	-830	-896	-973
Bad debt charge	283	-28	-61	-168
Other	-467	-414	-392	-25
HSBC PBT	1,225	1,175	1,529	2,118
Exceptionals	0	0	0	0
PBT	1,225	1,175	1,529	2,118
Taxation	-160	-212	-268	-381
Minorities + preferences	0	0	0	0
Attributable profit	1,065	964	1,261	1,737
HSBC attributable profit	1,065	964	1,261	1,737
Balance sheet summary (EGPm)				
Ordinary equity	4,616	5,277	6,172	7,342
HSBC ordinary equity	4,616	5,277	6,172	7,342
Customer loans	25,011	26,808	30,016	33,893
Debt securities holdings	6,150	8,815	9,848	10,752
Customer deposits	36,889	40,071	43,782	47,720
Interest earning assets	40,448	41,742	45,551	50,335
Total assets	46,046	49,080	53,677	58,813
Capital (%)				
RWA (EGPm)	31,300	33,549	37,564	42,415
Core tier 1	11.3	13.5	14.5	15.7
Total tier 1	11.3	13.5	14.5	15.7
Total capital	13.8	15.7	16.4	17.3

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	25.7	11.1	17.6	14.1
Operating expense	15.7	4.5	7.9	8.6
Pre-provision profit	32.1	14.8	22.6	16.6
EPS	60.2	-9.5	30.9	37.7
HSBC EPS	60.6	-9.5	30.9	37.7
DPS	300.0	9.9	55.0	53.0
NAV (including goodwill)	25.6	14.3	17.0	18.9
Ratios (%)				
Cost/income ratio	36.1	33.9	31.1	29.6
Bad debt charge	-1.3	0.1	0.2	0.5
Customer loans/deposits	67.8	66.9	68.6	71.0
NPL/loan	7.0	6.9	6.7	6.6
NPL/RWA	6.1	5.9	5.7	5.7
Provision to risk assets/RWA	6.7	6.4	5.9	5.6
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	110.5	107.0	102.2	98.5
ROE (including goodwill)	25.7	19.5	22.0	25.7
Per share data (EGP)				
EPS reported (fully diluted)	3.20	2.89	3.79	5.21
HSBC EPS (fully diluted)	3.20	2.89	3.79	5.21
DPS	1.00	1.10	1.70	2.61
NAV	13.85	15.84	18.52	22.03
NAV (including goodwill)	13.85	15.84	18.52	22.03

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	4.9	5.2	5.5	5.5
Trading profits	0.2	0.1	0.1	0.1
Other income	0.6	0.4	0.4	0.4
Operating expense	-2.7	-2.6	-2.5	-2.4
Pre-provision profit	4.8	5.0	5.6	5.8
Bad debt charge	1.0	-0.1	-0.2	-0.4
HSBC attributable profit	3.6	3.0	3.5	4.3
Leverage (x)	7.1	6.6	6.2	5.9
Return on average tier 1	30.1	21.4	23.2	26.1

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	8.6	9.4	7.2	5.2
Pre-provision multiple	6.5	5.6	4.6	3.9
P/NAV	2.0	1.7	1.5	1.2
Equity cash flow yield (%)	8.7	8.9	10.8	15.3
Dividend yield (%)	3.7	4.0	6.2	9.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (EGP)	27.33	Target price (EGP)	30.00	Potent'l tot rtn (%)	9.8%

Reuters (Equity)	NSGB.CA	Bloomberg (Equity)	NSGB EC
Market cap (USDm)	1,666	Market cap (EGPm)	9,107
Free float (%)	22		
Country	Egypt	Sector	Commercial Banks
Analyst	Shirin Panicker	Contact	+202 2 5298439

Notes: price at close of 07 Nov 2009

HSBC

Credit Agricole Egypt

- Shift in asset mix towards lending should boost margins and net banking income in medium term
- However, high provisions and costs could weigh on 2009 earnings
- We maintain our target price of EGP15 and raise our rating on the stock to OW(V) from N(V) given recent share price weakness

Company description

Credit Agricole Egypt is the 60%-owned subsidiary of France's Credit Agricole SA. It was created in 2006 with a local partner, the private equity group El Mansour and El Maghraby for Investment & Development Group (MMID), holding another 19%. The remaining 21% is free float.

Credit Agricole Egypt Bank key parameters

Bloomberg code	CIEB EY
Target price (EGP)	15.00
Current price (EGP)	10.56
Potential total return	42%
Market cap (USDbn)	0.6
Rating	Overweight (V)
Average value traded (USD 000s)*	184
2009e P/NAV	1.5
2009e PE	8.2
2011e ROAE	22.1%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Has the lowest loan to deposit ratio (40% as at June 2009 compared to the sector average of 53%) and sufficient capital (capital adequacy ratio at 16% vs. the central bank requirement of 10%), which is expected to support medium-term loan growth
- Improving asset quality: NPL/gross loan ratio improved from 8% in Q208 to 3.7% in Q3 2009 and is second lowest within the banks covered (average peer group ratio of 7%)

Bear points

- CAE may face credit-quality risks stemming from the weak operating environment, coupled with management's aggressive plans to double the balance sheet by 2012

Financials

We have lowered our 2009 net income forecast for CAE slightly to account for the decline in margins, the increase in loan provisioning (in line with its growing loan book) and higher tax charges with the bank continuing to invest in EGP treasury bills that are no longer tax-exempted. We have also slightly cut our expenses forecast by 7% in 2009 and increased fees and commissions by 8% for 2009. However, we maintain our 2008-2013e net income CAGR at 7%. In addition, we have raised our 2008-2011e net loans CAGR to 14% versus 12% previously as well as lowered our customer deposits 2008-2011e CAGR to 7% from 9%.

Valuation

Our target price of EGP15 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (12.7%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 9.0% and equity risk premium of 5.5%, with a beta of 0.6. Under our research model, for Egyptian stocks with a volatility indicator, the performance hurdle rates require a minimum 4.5% potential total return for a Neutral rating and a 24.5% potential total return for an Overweight rating. Our target price for CAE gives a potential total return of 42% on the current share price of EGP10.5 and therefore we raise our rating to Overweight (V) from Neutral (V).

Catalysts

Better-than-expected growth in core banking operations (including NIMs and fee income growth) or lower than expected provisioning in the upcoming third-quarter results could act as upward catalysts for CAE's share price.

Risks

Downside risks to valuation include: (i) lower than anticipated dividend distribution in 2009; (ii) lack of short-term catalysts to lead to outperformance of stock with the bank's small free float of 21%; (iii) greater-than-expected NIM contraction with management set on expanding its corporate lending market share; (iv) asset quality problems with worsening economic conditions; (v) slower-than-predicted fee income growth on weak capital and trade market performance; and (vi) greater-than-expected pressure on local currency leading to declines in forex income.

HSBC

Financials & valuation: Credit Agricole Egypt Bank

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (EGPm)				
Net interest income	601	653	729	811
Net fees/commissions	206	211	243	285
Trading profits	35	18	22	23
Other income	158	150	160	173
Total income	999	1,032	1,154	1,292
Operating expense	-575	-549	-586	-627
Bad debt charge	36	-12	-16	-29
Other	-18	-21	-8	-10
HSBC PBT	442	450	544	625
Exceptionals	1	0	0	0
PBT	444	450	544	625
Taxation	-13	-79	-87	-106
Minorities + preferences	0	0	0	0
Attributable profit	430	372	457	519
HSBC attributable profit	429	372	457	519
Balance sheet summary (EGPm)				
Ordinary equity	2,053	2,065	2,243	2,442
HSBC ordinary equity	2,053	2,065	2,243	2,442
Customer loans	6,977	7,975	9,088	10,248
Debt securities holdings	3,525	3,373	3,454	3,640
Customer deposits	18,766	19,892	21,285	23,094
Interest earning assets	19,038	19,207	19,988	21,742
Total assets	22,038	23,218	24,862	26,960
Capital (%)				
RWA (EGPm)	8,969	10,252	11,683	13,174
Core tier 1	17.6	16.3	15.5	15.1
Total tier 1	17.6	16.3	15.5	15.1
Total capital	19.0	17.5	16.5	16.0

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	10.6	3.3	11.8	11.9
Operating expense	15.4	-4.5	6.7	7.0
Pre-provision profit	4.7	13.8	17.7	17.0
EPS	-7.1	-13.6	23.0	13.6
HSBC EPS	-7.3	-13.4	23.0	13.6
DPS	25.4	-22.6	14.8	5.5
NAV (including goodwill)	7.5	0.6	8.6	8.9
Ratios (%)				
Cost/income ratio	57.6	53.2	50.8	48.6
Bad debt charge	-0.6	0.2	0.2	0.3
Customer loans/deposits	37.2	40.1	42.7	44.4
NPL/loan	4.3	3.9	3.6	3.5
NPL/RWA	3.5	3.1	2.9	2.9
Provision to risk assets/RWA	4.0	3.6	3.3	3.2
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	114.1	114.0	112.1	111.0
ROE (including goodwill)	21.6	18.0	21.2	22.1
Per share data (EGP)				
EPS reported (fully diluted)	1.50	1.29	1.59	1.81
HSBC EPS (fully diluted)	1.49	1.29	1.59	1.81
DPS	1.25	0.97	1.11	1.18
NAV	7.15	7.19	7.82	8.51
NAV (including goodwill)	7.15	7.19	7.82	8.51

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	7.6	6.8	6.6	6.5
Trading profits	0.4	0.2	0.2	0.2
Other income	2.0	1.6	1.5	1.4
Operating expense	-7.2	-5.7	-5.3	-5.0
Pre-provision profit	5.3	5.0	5.2	5.3
Bad debt charge	0.5	-0.1	-0.1	-0.2
HSBC attributable profit	5.4	3.9	4.2	4.2
Leverage (x)	4.0	4.7	5.1	5.3
Return on average tier 1	27.2	22.2	25.3	26.1

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	7.1	8.2	6.6	5.8
Pre-provision multiple	7.1	6.3	5.3	4.6
P/NAV	1.5	1.5	1.4	1.2
Equity cash flow yield (%)	9.5	9.3	11.8	13.7
Dividend yield (%)	11.9	9.2	10.6	11.1

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (EGP)	10.56	Target price (EGP)	15.00	Potent'l tot rtn (%)	42.0

Reuters (Equity)	CIEB.CA	Bloomberg (Equity)	CIEB EY
Market cap (USDm)	554	Market cap (EGPm)	3,031
Country	Egypt	Sector	Commercial Banks
Analyst	Shirin Panicker	Contact	+202 2 5298439

Notes: price at close of 07 Nov 2009

HSBC

Egyptian Gulf Bank

- Further restructuring efforts to enhance future operational performance
- But rising loan provisions and higher expenses weigh on earnings and could result in lower profitability medium term
- We have an Underweight (V) rating and target price of USD0.80

Company description

EGB is a relatively small bank with a network of 16 branches catering mostly to retail clients. Its main shareholders include a number of private Saudi and Kuwaiti investors with a total stake of almost 26%, state-owned Misr Insurance Company with a 19.4% stake and a 19.9% stake held by an Egyptian private business, Mohammed Mahmoud Group. A 10% stake is held by a local investment bank, Naeem Holdings, and the rest is free float.

Egyptian Gulf Bank key parameters

Bloomberg code	EGBE EY
Target price (EGP)	0.80
Current price (EGP)	1.43
Potential total return	-44%
Market cap (USDbn)	0.3
Rating	Underweight (V)
Average value traded (USD 000s)*	16
2009e P/NAV	1.7
2009e PE	18.7
2011e ROAE	18.2%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Growing loan book enabling bank to enhance its NIMs
- Raising capital opportunities (with the bank undertaking a rights issue last year)

Bear points

- Lack of information transparency on the bank's NPLs, which we estimate at 15% compared to peer group average of 7%
- Small scale of banking operations
- Expensive valuation, currently trading at 1.7x 2009e P/NAV vs. CEEMEA banks' average of 1.9x

Financials

We have cut our 2009 net income forecast by 11% and expect the bank to book higher loan provisioning during H2 2009 compared to H1 2009 along with an expansion in the loan book. We expect operating expenses to remain high with the bank planning to finalise its restructuring by the end of this year or possibly Q1 2010. Our net income 2008-2011e CAGR is c24%, down from a prior estimate of c35%. We also reduce our net loans CAGR for 2008-2011e to c7% from c13%, in line with recent trends, and maintain our deposit forecasts for the bank in the associated period at 10%.

Valuation

Our target price of USD0.80 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (14.5%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 9.0% and equity risk premium of 5.5%, with a beta of 1.0. Under our research model, for Egyptian stocks with a volatility indicator, the performance hurdle rates require a minimum 4.5% potential total return for a Neutral rating and a 24.5% potential total return for an Overweight rating. Our EGP0.80 target price for EGB gives a negative potential total return of 44% on the current share price of EGP1.43 and therefore we maintain our Underweight (V) rating.

Catalysts

An announcement concerning the bank's finalising of its NPL settlement and more disclosure on its NPLs by the end of 2009 could act as upward catalysts for a re-rating of the stock.

Risks

We consider the following major upside risks to our valuation: (i) faster-than-expected expansion of the bank's balance sheet translating into higher-than-expected net interest income (ii) higher NIM on better asset liability management; (iii) better-than-expected asset quality and faster settlements of bad debts leading to lower booking of provisions and booking of gains from sale of assets in settlement of debts as part of “other income” in the non-interest income and (iv) stronger-than-expected growth in trade business, lifting its fee income growth.

HSBC

Financials & valuation: Egyptian Gulf Bank

Underweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (EGPm)				
Net interest income	157	144	165	183
Net fees/commissions	50	54	66	77
Trading profits	-22	0	1	1
Other income	68	35	38	42
Total income	252	233	269	304
Operating expense	-115	-121	-129	-138
Bad debt charge	-20	-10	-14	-24
Other	-53	-4	2	0
HSBC PBT	63	99	127	142
Exceptionals	0	0	0	0
PBT	64	99	127	142
Taxation	0	-1	-1	-1
Minorities + preferences	0	0	0	0
Attributable profit	63	98	127	141
HSBC attributable profit	63	98	127	141
Balance sheet summary (EGPm)				
Ordinary equity	691	726	760	793
HSBC ordinary equity	691	726	760	793
Customer loans	2,672	2,804	3,149	3,628
Debt securities holdings	210	503	305	315
Customer deposits	4,263	4,561	4,926	5,345
Interest earning assets	4,150	3,839	4,109	4,443
Total assets	5,071	5,411	5,816	6,275
Capital (%)				
RWA (EGPm)	3,759	3,944	4,430	5,104
Core tier 1	16.2	16.3	15.3	13.9
Total tier 1	16.2	16.3	15.3	13.9
Total capital	18.4	18.4	17.2	15.5

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	13.0	-7.5	15.5	12.9
Operating expense	36.1	4.6	6.9	6.8
Pre-provision profit	-1.2	-17.7	24.6	18.5
EPS	6.6	16.0	29.1	11.5
HSBC EPS	6.1	16.8	29.1	11.5
DPS	6.8	12.3	15.5	-1.6
NAV (including goodwill)	-2.4	-21.0	4.6	4.4
Ratios (%)				
Cost/income ratio	45.8	51.8	48.0	45.4
Bad debt charge	0.9	0.4	0.5	0.7
Customer loans/deposits	62.7	61.5	63.9	67.9
NPL/loan	17.0	16.6	15.8	15.1
NPL/RWA	14.8	14.4	13.6	12.8
Provision to risk assets/RWA	16.1	15.8	14.6	13.3
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	108.8	109.8	107.6	104.2
ROE (including goodwill)	9.0	13.8	17.0	18.2
Per share data (EGP)				
EPS reported (fully diluted)	0.42	0.49	0.63	0.71
HSBC EPS (fully diluted)	0.42	0.49	0.63	0.71
DPS	0.41	0.47	0.54	0.53
NAV	4.60	3.63	3.80	3.97
NAV (including goodwill)	4.60	3.63	3.80	3.97

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	4.9	3.7	3.9	3.8
Trading profits	-0.7	0.0	0.0	0.0
Other income	2.1	0.9	0.9	0.9
Operating expense	-3.6	-3.1	-3.1	-2.9
Pre-provision profit	4.2	2.9	3.3	3.5
Bad debt charge	-0.6	-0.3	-0.3	-0.5
HSBC attributable profit	2.0	2.5	3.0	3.0
Leverage (x)	4.6	5.4	5.6	6.1
Return on average tier 1	10.3	15.2	18.7	19.8

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	20.0	18.7	16.1	12.5
Pre-provision multiple	1.6	2.5	2.0	1.7
P/NAV	1.7	1.7	2.2	2.1
Equity cash flow yield (%)	-4.6	29.7	32.4	32.8
Dividend yield (%)	4.9	5.2	5.9	6.8

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (USD)	1.43	Target price (USD)	0.80	Potent'l tot rtn (%)	-44.1

Reuters (Equity)	EGBE.CA	Bloomberg (Equity)	EGBE EY
Market cap (USDm)	286	Market cap (USDm)	286
Country	Egypt	Sector	Commercial Banks
Analyst	Shirin Panicker	Contact	+202 2 5298439

Notes: price at close of 07 Nov 2009

HSBC

Bank Muscat

- NPL stabilisation during Q3 2009 is encouraging
- Investor focus on provisions related to Saudi exposure in Q4 2009 and on Silk Bank impairment
- Overweight (V) rating and target price of OMR1.20

Company description

Bank Muscat dominates the Omani banking sector with a market share of over 40% in credit volumes and about 37% in deposits. The Omani Government is the main shareholder in the bank with a 25% stake holding. Dubai Financial Group is the second largest shareholder with a 15% stake.

Bank Muscat key parameters

Bloomberg code	BKMB OM
Target price (OMR)	1.20
Current price (OMR)	0.89
Potential total return	35%
Market cap (USDbn)	2.5
Rating	Overweight (V)
Average value traded (USD 000s)*	2,730
2009e P/NAV	1.3
2009e PE	9.9
2011e ROAE	16.7%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- The bank is the market leader in Oman and is therefore likely to take lead in financing for critical and big-ticket projects in the country
- Bank Muscat has a strong franchise and a well established branch network within Oman. The bank has more than 120 branches in the country and is therefore well positioned to exploit the demographic story emerging within Oman.
- Sovereign support (a c25% stake is held by the Omani Government) is another key positive

Bear points

- Investments in international operations are loss-making and a source of concern for investors.
- Possibility of further impairment in Silk Bank, which is loss-making, cannot be ruled out

Financials

During Q3 2009 non-performing loans (NPLs) increased marginally to OMR197m from OMR190m in Q2 2009, indicating stabilisation in credit quality. We think investor focus is likely to remain on loan loss provisions (particularly with regard to the Saudi exposure) during Q4 2009. We expect the bank to provide fully on this exposure (OMR49m) by the end of 2009. Our overall loan loss provision estimate for 2009 is OMR74m. We expect no material impairment on the Silk Bank investment during the rest of 2009. We do not expect the bank to book a positive associate income line until 2011. Our estimate of 2009 net earnings stands at OMR99m, up 5% y-o-y, and we forecast CAGR of c15% during 2008-11e. We have increased our net earnings estimate for 2009 due to lower than expected credit loss charges.

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
david.r.kinsey@hsbc.com

David Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
davidkinsey@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Valuation

Our target price of OMR1.20 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our OMR1.20 target price for Bank Muscat gives a potential total return of 35% on the current share price of OMR0.89 and therefore we maintain our Overweight (V) rating.

Catalysts

The market's focus seems to be on near-term numbers and therefore any indication of loan loss recoveries from Saudi-related exposures could be a key catalyst for the share price. Credit extension higher than estimated during Q4 2009 could be another catalyst.

Risks

Higher-than-estimated credit quality deterioration poses the key downside risk to our target price and estimates. Lower-than-expected loan growth and net interest margins are the other downside risks.

HSBC

Financials & valuation: Bank Muscat

Overweight (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (OMRm)				
Net interest income	162	170	187	205
Net fees/commissions	55	50	56	63
Trading profits	8	54	5	5
Other income	12	12	13	14
Total income	237	286	260	287
Operating expense	-84	-87	-94	-101
Bad debt charge	-12	-74	-35	-23
Other	-32	-9	-2	3
HSBC PBT	108	116	130	166
Exceptionals	0	0	0	0
PBT	108	116	130	166
Taxation	-15	-17	-18	-23
Minorities + preferences	0	0	0	0
Attributable profit	94	99	112	142
HSBC attributable profit	94	99	112	142
Balance sheet summary (OMRm)				
Ordinary equity	715	726	808	895
HSBC ordinary equity	715	726	808	895
Customer loans	3,728	3,799	4,213	4,716
Debt securities holdings	234	114	125	131
Customer deposits	3,173	3,198	3,492	3,906
Interest earning assets	4,657	5,590	5,929	6,520
Total assets	6,028	5,962	6,578	7,245
Capital (%)				
RWA (OMRm)	5,504	5,711	6,352	7,104
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	10.7	11.1	11.3	11.6
Total capital	13.0	14.8	14.4	13.9

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	36.9	20.8	-9.0	10.3
Operating expense	19.8	3.6	7.4	8.2
Pre-provision profit	48.7	30.3	-16.2	11.5
EPS	-3.6	3.1	13.4	27.0
HSBC EPS	-3.6	5.5	13.4	25.5
DPS	0.0	-44.9	89.0	25.5
NAV (including goodwill)	13.9	1.6	11.4	9.3
Ratios (%)				
Cost/income ratio	35.6	30.5	36.0	35.3
Bad debt charge	0.4	2.0	0.9	0.5
Customer loans/deposits	117.5	118.8	120.6	120.8
NPL/loan	2.3	5.1	5.3	5.2
NPL/RWA	1.6	3.6	3.7	3.6
Provision to risk assets/RWA	2.3	3.5	3.7	3.6
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	138.8	98.0	100.0	100.0
ROE (including goodwill)	14.0	13.7	14.6	16.7
Per share data (OMR)				
EPS reported (fully diluted)	0.09	0.09	0.10	0.13
HSBC EPS (fully diluted)	0.09	0.09	0.10	0.13
DPS	0.05	0.03	0.05	0.07
NAV	0.66	0.67	0.75	0.82
NAV (including goodwill)	0.66	0.67	0.75	0.82

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	3.4	3.0	3.1	3.1
Trading profits	0.2	1.0	0.1	0.1
Other income	0.3	0.2	0.2	0.2
Operating expense	-1.8	-1.6	-1.6	-1.5
Pre-provision profit	3.2	3.5	2.8	2.8
Bad debt charge	-0.3	-1.3	-0.6	-0.3
HSBC attributable profit	2.0	1.8	1.9	2.1
Leverage (x)	7.1	7.8	7.9	7.9
Return on average tier 1	15.8	15.5	15.6	17.3

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	10.2	9.9	8.7	6.9
Pre-provision multiple	6.3	4.8	5.7	5.2
P/NAV	1.3	1.3	1.2	1.1
Equity cash flow yield (%)	-1.0	8.8	7.0	9.4
Dividend yield (%)	5.6	3.1	5.9	7.3

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (OMR)	0.89	Target price (OMR)	1.20	Potent'l tot rtn (%)	34.8

Reuters (Equity)	BMAO.OM	Bloomberg (Equity)	BKMB OM
Market cap (USDm)	2,488	Market cap (OMRm)	958
Country	Oman	Sector	Commercial Banks
Analyst	Vikram Viswanathan	Contact	+971 4 423 6931

Notes: price at close of 07 Nov 2009

HSBC

National Bank of Oman

- Negative growth in deposits for the second consecutive quarter
- Loan loss recoveries weaker on y-o-y basis in Q309 as expected
- Reiterate Neutral (V) rating and target price of OMR0.34

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6931
vikramviswanathan@hsbc.com

David Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
davidkinsey@hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Company description

National Bank of Oman is the second largest bank in Oman, with a market share of about 15% in loans and deposits. Commercial Bank of Qatar, Qatar's second-biggest bank, is the main shareholder, with a c35% stake. The Suhail Bahwan Group is the second-largest, with a 15% share.

National Bank of Oman key parameters

Bloomberg code	NBOB OM
Target price (OMR)	0.34
Current price (OMR)	0.33
Potential total return	2.7%
Market cap (USDbn)	0.9
Rating	Neutral (V)
Average value traded (USD 000s)*	758
2009e P/NAV	1.4
2009e PE	13.1
2011e ROAE	15.2%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- The Central Bank of Qatar's (CBQ) strategic association lends support to NBO on balance sheet expansion and could also provide upside risks to our cost estimates during the medium term. An improvement in risk management practices is also likely as NBO increasingly adopts CBQ's benchmark standards. An ongoing management services agreement with CBQ should help here.
- NBO has the third largest branch network in Oman (c80 branches in total) and is therefore well placed to exploit the retail opportunities within the country

Bear points

- Historically, the bank has had the weakest credit quality in Oman with NPLs touching c35% levels during 2003-04. NPL ratio in 2008 dropped to about c4%.
- Excessive dependence on loan loss recoveries could dent earnings growth going forward.

Financials

Loan loss recoveries declined to OMR4.7m (9m 2009) from OMR12.9m (9m 2008), depressing profitability and underscoring bank's dependence on recoveries in the recent past, which boosted equity returns. With loan loss recoveries not sustainable at the same level as in the past, we do not expect net earnings to recover to 2008 levels until 2012. Customer deposits at the bank have been falling during 2009 as the bank has been repaying relatively costlier time deposits thereby boosting margins. It appears the deposit build-up to fund credit extension (which has now slowed down) is being unwound. Overall, we expect 2009 net earnings to drop by c40%. With medium-term sustainable equity returns estimated at c15%, we believe the share price is fairly valued at a 2009e P/NAV of 1.4x and a PE of 13.1x.

Changes in estimates

We revise down our net earnings estimate for 2009e by 5% and for 2010e by 4% mainly on the back of changes in our non-interest income estimates. This is on the back of lower than expected fee and commissions during Q309.

Valuation

Our target price of OMR0.34 is derived from a residual income valuation methodology, wherein the intrinsic value of a bank is the sum of its current NAV and the present value of future residual income, that is, returns achieved over the cost of equity. The model consists of three stages: the first includes residual income based on the explicit forecast period (5 years); the second (maturity stage – 10 years) assumes a constant growth rate in net profit and the final (declining stage – 15 years) assumes a convergence of returns towards the cost of equity.

To calculate the cost of equity (11.8%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 6.5%, with a beta of 1.2. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our OMR0.34 target price for NBO gives a potential total return of c3% on the current share price of OMR0.33 and therefore we maintain our Neutral (V) rating.

Catalysts

Loan loss recoveries more than we forecast during Q4 2009 can be a key catalyst for the stock price.

Risks

Higher-than-estimated credit quality deterioration poses the key downside risk to our target price and estimates. Lower-than-expected loan growth and net interest margins are the other downside risks to our target price.

HSBC

Financials & valuation: National Bank of Oman

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
P&L summary (OMRm)				
Net interest income	48	58	61	68
Net fees/commissions	25	17	19	21
Trading profits	10	3	4	5
Other income	6	5	6	6
Total income	88	83	90	99
Operating expense	-34	-35	-37	-40
Bad debt charge	1	-13	-8	-4
Other	-4	-4	-3	-3
HSBC PBT	52	31	42	52
Exceptionals	0	0	0	0
PBT	52	31	42	52
Taxation	-6	-4	-5	-6
Minorities + preferences	0	0	0	0
Attributable profit	45	27	37	46
HSBC attributable profit	45	27	37	46
Balance sheet summary (OMRm)				
Ordinary equity	245	257	282	314
HSBC ordinary equity	245	257	282	314
Customer loans	1,401	1,387	1,543	1,720
Debt securities holdings	14	34	38	40
Customer deposits	1,342	1,261	1,402	1,558
Interest earning assets	1,621	1,827	1,869	2,078
Total assets	1,984	1,833	2,032	2,255
Capital (%)				
RWA (OMRm)	1,863	1,862	2,069	2,300
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	13.0	13.5	13.4	13.4
Total capital	14.9	15.4	15.2	15.2

Ratio, growth & per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Year-on-year % change				
Total income	35.4	-5.7	7.9	10.9
Operating expense	18.2	3.0	7.2	7.8
Pre-provision profit	49.0	-11.1	8.3	13.1
EPS	1.7	-40.2	35.5	24.6
HSBC EPS	1.7	-40.2	35.5	24.6
DPS	17.5	-42.7	35.5	24.6
NAV (including goodwill)	5.4	4.5	10.1	11.0
Ratios (%)				
Cost/income ratio	38.4	41.9	41.7	40.5
Bad debt charge	-0.1	1.0	0.5	0.2
Customer loans/deposits	104.4	110.0	110.1	110.4
NPL/loan	4.4	5.0	5.0	4.9
NPL/RWA	3.4	4.0	3.9	3.9
Provision to risk assets/RWA	3.4	4.2	4.1	3.9
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	100.1	105.0	105.0	100.0
ROE (including goodwill)	19.0	10.8	13.6	15.4
Per share data (OMR)				
EPS reported (fully diluted)	0.04	0.03	0.03	0.04
HSBC EPS (fully diluted)	0.04	0.03	0.03	0.04
DPS	0.02	0.01	0.01	0.02
NAV	0.23	0.24	0.26	0.29
NAV (including goodwill)	0.23	0.24	0.26	0.29

Core profitability (% RWAs) and leverage

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Net interest income	2.9	3.1	3.1	3.1
Trading profits	0.6	0.2	0.2	0.2
Other income	0.4	0.3	0.3	0.3
Operating expense	-2.1	-1.9	-1.9	-1.8
Pre-provision profit	3.3	2.6	2.7	2.7
Bad debt charge	0.1	-0.7	-0.4	-0.2
HSBC attributable profit	2.8	1.5	1.9	2.1
Leverage (x)	6.8	7.4	7.3	7.3
Return on average tier 1	18.7	10.8	13.3	14.9

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
PE*	7.8	13.1	9.6	7.7
Pre-provision multiple	6.5	7.3	6.8	6.0
P/NAV	1.4	1.4	1.3	1.1
Equity cash flow yield (%)	3.8	7.7	6.3	8.4
Dividend yield (%)	5.3	3.1	4.1	5.2

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (OMR)	0.33	Target price (OMR)	0.34	Potent'l tot rtn (%)	2.7

Reuters (Equity)	NBO.OM	Bloomberg (Equity)	NBOB OM
Market cap (USDm)	921	Market cap (OMRm)	355
Country	Oman	Sector	Commercial Banks
Analyst	Vikram Viswanathan	Contact	+971 4 423 6931

Notes: price at close of 07 Nov 2009

HSBC

Dubai Financial Market

- Q3 2009 earnings disappoint with decline in fee income and slight increase in expenses
- We lower our 2009 EPS estimate by 14% and raise 2010 and 2011 by 3% and 7%, respectively
- Reiterate Neutral (V) rating and raise target price to AED2.3 from AED1.9

Company description

DFM was established in 2000 as a public institution to act as the secondary market for trading securities, bonds and units of investment funds. The government of Dubai was its sole shareholder. In February 2007, DFM was the first stock exchange in the Middle East to become a public joint stock company. It was listed on 7 March 2007 and offered 20% of the stake held by the government of Dubai to the public.

Dubai Financial Market key parameters

Bloomberg code	DFM UH
Target price (AED)	2.3
Current price (AED)	2.22
Potential total return	4%
Market cap (USDbn)	4.8
Rating	Neutral (V)
Average value traded (USD 000s)*	76
2009e P/NAV	2.3
2009e PE	56.8
2011e ROAE	9.7%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Cash-rich with zero leverage: DFM boasts a strong balance sheet with zero leverage, which cushions it against current economic and financial headwinds. The company is also rich in cash, which (including Islamic deposits) accounted for 18% of its total assets in June 2009.
- Additional listings and revival of IPO activities planned for 2010, in our view, is likely to boost DFM's revenues
- Potential merger/consolidation opportunities with Nasdaq Dubai could lead to expansion of the company's products and resources: In July 2009 DFM announced plans for consolidation between both markets (including back offices) but no specific timeline was given for the finalising of the merger.

Bear points

- Expensive valuations with the share price currently trading at 2009e PE of 56.8x vs. a sector average PE of 19x
- Lack of diversification in revenues: solely reliant on trading income
- Higher concentration risk with trading volumes on DFM concentrated among a few stocks

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vivek Veda*
Associate, Bangalore

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

HSBC

Financials

Q3 2009 results review: DFM reported Q3 2009 net income of AED71m, down 68% y-o-y and 40% q-o-q. This was below HSBC and Bloomberg consensus estimates by 28% and 16%, respectively. The main deviation stemmed from lower-than-expected other fee income (mainly brokerage, ownership transfer and mortgage fees), and a slight rise in SG&A expenses. Meanwhile, trading-based fee income stood at AED84m (-38% y-o-y and -34% q-o-q) and missed our estimates by 10% with softening in trading values during Q3 2009.

Changes in estimates: We reduce our 2009e EPS estimates by 14% and raise 2010e and 2011e estimates by 3% and 7% respectively, as shown in the following table.

Changes in DFM estimates

(AEDm)	2008a	2009e		2010e		2011e		CAGR 2008-11e	
YE Dec.	Actual	New	Old	New	Old	New	Old	New	Old
Total fee revenue	689	389	413	607	572	830	751	6%	3%
Net fee income	619	307	339	517	494	731	662	6%	2%
Margins (%)	*90*	*79*	*82*	*85*	*86*	*88*	*88*		
Other income	324	92	106	92	102	112	84	-30%	-36%
Other costs	88	89	89	92	92	95	95	3%	3%
Net income	**605**	**311**	**360**	**517**	**506**	**748**	**688**	**7%**	**4%**
EPS (AED)	0.08	0.04	0.05	0.07	0.06	0.09	0.09	7%	5%

Source: Company data, HSBC estimates

Valuation

We have raised our sum-of-parts based target price for DFM to AED2.30 from AED1.90. We value DFM using a sum-of-the-parts (SOTP) analysis based on fee business plus investments. We add cash, cash equivalent and investments at book value (estimated values for 2009).

To calculate the cost of equity (9.5%), we have used the CAPM model, wherein the cost of equity is equal to the risk-free rate of 4.0% and equity risk premium of 5.5%, with a beta of 1.0. Under our research model, for Middle East stocks with a volatility indicator, the performance hurdle rates require a minimum -0.5% potential total return for a Neutral rating and a 19.5% potential total return for an Overweight rating. Our AED2.30 target price for DFM gives a potential total return of 3.6% on the current share price of AED2.22 and therefore we maintain our Neutral (V) rating**.**

Catalysts

In our opinion, DFM should benefit from a market recovery. Key catalysts for the stock include expansion of its trading-based fee income with our expectations for possible index appreciation given improving macro-economic conditions, investor risk appetite and potential new listings.

Risks

Upside risks to our valuation include: (i) a faster-than-expected recovery in global and regional markets, leading to a greater-than-forecast rise in trading volumes and additional IPO/listing activities; and (ii) upward revaluation of the company's investment holdings.

Downside risks to our valuation include: (i) more-than-expected decline in trading volumes and in turn revenues; (ii) the lack of sector diversity in listed companies on DFM, which increases its concentration risk; and (iii) further impairment charges on the company's AFS investments (during Q3 2008, DFM used IAS39 to reclassify its investments from trading portfolio to AFS to minimise the income statement impact of mark-to-market losses).

HSBC

Financials & valuation: Dubai Financial Market

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Profit & loss summary (AEDm)				
Revenue	689	389	607	830
EBITDA	369	307	517	731
Depreciation & amortisation	-88	-89	-92	-95
Operating profit/EBIT	281	219	426	637
Net interest	0	0	0	0
PBT	605	311	517	748
HSBC PBT	605	311	517	748
Taxation	0	0	0	0
Net profit	605	311	517	748
HSBC net profit	605	311	517	748
Cash flow summary (AEDm)				
Cash flow from operations	127	291	544	734
Capex	-10	-20	-25	-25
Cash flow from investment	188	196	-92	-137
Dividends	-775	-635	-295	-492
Change in net debt	59	56	-249	-217
FCF equity	117	271	519	709
Balance sheet summary (AEDm)				
Intangible fixed assets	5,678	5,602	5,526	5,450
Tangible fixed assets	1,253	1,280	1,289	1,296
Current assets	1,706	1,415	1,756	2,116
Cash & others	96	39	288	505
Total assets	8,636	8,297	8,572	8,862
Operating liabilities	385	370	422	456
Gross debt	0	0	0	0
Net debt	-96	-39	-288	-505
Shareholders funds	7,617	7,632	7,658	7,695
Invested capital	8,155	7,888	7,862	7,901

Ratio, growth and per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Y-o-y % change				
Revenue	-16.7	-43.6	56.3	36.7
EBITDA	-50.7	-16.7	68.3	41.4
Operating profit	-57.5	-22.2	94.5	49.6
PBT	-57.9	-48.7	66.6	44.6
HSBC EPS	-57.9	-48.7	66.6	44.6
Ratios (%)				
Revenue/IC (x)	0.1	0.0	0.1	0.1
ROIC	4.1	3.7	6.4	9.0
ROE	7.4	4.1	6.8	9.7
ROA	6.4	3.7	6.1	8.6
EBITDA margin	53.5	79.1	85.2	88.1
Operating profit margin	40.8	56.3	70.1	76.7
Net debt/equity	-1.3	-0.5	-3.8	-6.6
Net debt/EBITDA (x)	-0.3	-0.1	-0.6	-0.7
Per share data (AED)				
EPS Rep (fully diluted)	0.08	0.04	0.07	0.09
HSBC EPS (fully diluted)	0.08	0.04	0.07	0.09
DPS	0.08	0.04	0.06	0.09
Book value	0.96	0.96	0.96	0.97

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
EV/sales	25.6	45.6	28.8	20.8
EV/EBITDA	47.9	57.7	33.8	23.6
EV/IC	2.2	2.2	2.2	2.2
PE*	29.1	56.8	34.1	23.6
P/Book value	2.3	2.3	2.3	2.3
FCF yield (%)	0.7	1.5	2.9	4.0
Dividend yield (%)	3.6	1.7	2.8	4.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AED)	2.22	Target price (AED)	2.30	Potent'l tot rtn (%)	3.6

Reuters (Equity)	DFM.DU	Bloomberg (Equity)	DFM UH
Market cap (USDm)	4,835	Market cap (AEDm)	17,760
Free float (%)	20	Enterprise value (AEDm)	17721
Country	United Arab Emirates	Sector	Diversified Financial Services
Analyst	Shirin Panicker	Contact	+202 2 5298439

Note: price at close of 07 Nov 2009

EFG Hermes

- H2 2009 revenues likely to be boosted by fee income from brokerage and investment banking divisions
- However, operating margins to remain stable due to rising costs
- Reiterate Neutral (V); raise target price to EGP34 from EGP27

Company description

EFG-Hermes was established in 1984 as a financial advisory firm. Through organic growth as well as a series of mergers, the company has grown to become the leading financial services firm in Egypt, a position and a business model it is aiming to achieve regionally. EFG-Hermes is a full-line investment services firm, providing brokerage, investment banking, asset management and private equity. In 2006, the company made its first step in the commercial banking sector by acquiring c23.0% of Bank Audi in Lebanon. Management has an ambitious expansion agenda, with a vision to be among the top 10 financial institutions in the Arab world.

EFG Hermes Holding key parameters

Bloomberg code	HRHO EY
Target price (EGP)	34
Current price (EGP)	30.90
Potential total return	10%
Market cap (USDbn)	2.2
Rating	Neutral (V)
Average value traded (USD 000s)*	29
2009e P/NAV	1.4
2009e PE	18.1
2011e ROAE	10.1%

* Last six months
Source: Bloomberg, HSBC estimates

EFG has operations in Egypt, UAE and Saudi Arabia. Last year it made two strategic acquisitions: (i) in April 2008 a majority stake in and management control of Vision Securities in Oman (worth USD15.3m); and (ii) in August 2008 a controlling management stake in Gulf Brokerage Company in Kuwait (worth USD125m).

Bull points

- Experienced management
- Liquid and unleveraged balance sheet: the current ratio and long-term loans/total equity stood at 3.1x and 1%, respectively, as at June 2009
- Strong cash position with cash, cash equivalents and other investments (namely T/Bills, bank deposits and investment in money market funds and fixed income products) worth EGP2.8bn as at June 2009: These are available to fund any organic or acquisition plans (at the beginning of 2009, management stated that the company's board of directors was studying some acquisition opportunities but nothing has been finalised so far)

Bear points

- EFG's investments (which we value at market price) contribute 57% of its valuation while the remaining 43% is derived from the company's fee business. So, any decrease in market prices of investments could affect the overall valuation of the company.

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
David.r.kinsey@hsbc.com

Vivek Veda*
Associate, Bangalore

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Financials

Q3 2009 results expectations We expect EFG to book Q3 2009 net income of EGP170m, up 10% y-o-y but down 3% q-o-q. The annual decline in total fee income is expected to be cushioned by a stable cost base and investment income from Bank Audi. We expect total fee revenues of EGP241m, down 43% y-o-y, but up 10% q-o-q with both investment banking and private equity contributing the majority of revenues during Q3 2009 (EFG is expected to report Q3 2009 numbers on 12 November 2009).

Valuation

We use the sum-of the-parts valuation (SOTP) to arrive at our target price for EFG, whereby we arrived at the value of the fee income by DCF method and then added the investments as at end of 2009e. We value the investments in listed securities (Bank Audi and SODIC) at market price and for other investments, we have taken the book value.

Target price and rating: We have reduced our WACC for DCF to 12.8% from 15% and our revised SOTP for EFG is EGP34 (from EGP27). We have raised our target mainly on account of improved revenue outlook and upward revaluation of its holdings, Bank Audi and SODIC (appreciated by an average of 17% since our last update in August 2009). With the potential return of 10% on the latest market price, we reiterate our Neutral (V) rating on EFG.

EFG is trading at a 2009e PE of 18.1x, which is at a relative discount compared to the average 2009e PE of its global peers of 23.7x.

Catalysts

The key stock catalysts include the announcement of the listing of participatory notes in Saudi Arabia leading to more institutional/foreign fund flows; better-than-expected investment banking revenues and/or growth in AUMs.

Risks

Among the upside risks to our valuation are (i) a faster-than-expected recovery in global markets boosting fee-based income and/or value of EFG's holdings; and (ii) any potential corporate action event (M&A, special dividends). The downside risks to our valuation are: (i) a higher-than-anticipated rise in operating expenses and margin compression with the renewal in the new management incentive scheme; (ii) weaker oil prices and a faster deterioration in the regional economic outlook, which could lead to a greater regional equities sell-off; and (iii) unexpected write-downs (impairments) on EFG's holdings due to continued regional equities sell-off.

Financials & valuation: EFG Hermes Holding

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Profit & loss summary (EGPm)				
Revenue	1,619	821	970	1,151
EBITDA	732	217	340	505
Depreciation & amortisation	-26	-30	-35	-39
Operating profit/EBIT	706	187	305	466
Net interest	123	98	103	108
PBT	1,094	770	918	1,127
HSBC PBT	1,094	770	918	1,127
Taxation	-101	-71	-85	-101
Net profit	933	657	783	964
HSBC net profit	933	657	783	964
Cash flow summary (EGPm)				
Cash flow from operations	1,575	273	348	512
Capex	-214	-103	-60	-50
Cash flow from investment	-2,159	-185	-126	-143
Dividends	-552	-192	-192	-192
Change in net debt	973	-85	-45	-203
FCF equity	1,613	78	155	369
Balance sheet summary (EGPm)				
Intangible fixed assets	699	699	699	699
Tangible fixed assets	640	762	847	929
Current assets	4,317	4,388	4,617	5,103
Cash & others	2,411	2,456	2,462	2,632
Total assets	10,580	11,153	11,839	12,880
Operating liabilities	2,093	2,020	2,066	2,259
Gross debt	129	89	49	16
Net debt	-2,282	-2,368	-2,413	-2,616
Shareholders funds	7,971	8,580	9,171	9,943
Invested capital	1,153	1,373	1,635	1,839

Ratio, growth and per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Y-o-y % change				
Revenue	-5.8	-49.3	18.2	18.7
EBITDA	-20.4	-70.3	56.2	48.7
Operating profit	-21.6	-73.5	63.1	52.7
PBT	-31.7	-29.6	19.2	22.8
HSBC EPS	-26.2	-29.6	19.2	23.1
Ratios (%)				
Revenue/IC (x)	1.4	0.6	0.6	0.7
ROIC	55.8	13.4	18.4	24.4
ROE	10.8	7.9	8.8	10.1
ROA	8.9	6.8	7.6	8.5
EBITDA margin	45.2	26.5	35.0	43.9
Operating profit margin	43.6	22.8	31.4	40.4
Net debt/equity	-27.9	-26.8	-25.5	-25.4
Net debt/EBITDA (x)	-3.1	-10.9	-7.1	-5.2
Per share data (EGP)				
EPS Rep (fully diluted)	2.43	1.71	2.04	2.51
HSBC EPS (fully diluted)	2.43	1.71	2.04	2.51
DPS	0.50	0.50	0.50	0.50
Book value	20.76	22.34	23.88	25.89

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
EV/sales	2.9	5.1	3.9	2.7
EV/EBITDA	6.3	19.1	11.0	6.1
EV/IC	4.0	3.0	2.3	1.7
PE*	12.7	18.1	15.1	12.3
P/Book value	1.5	1.4	1.3	1.2
FCF yield (%)	23.4	1.2	2.5	6.5
Dividend yield (%)	1.6	1.6	1.6	1.6

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (EGP)	30.90	Target price (EGP)	34.0	Potent'l tot rtn (%)	10.0

Reuters (Equity)	HRHO.CA	Bloomberg (Equity)	HRHO EY
Market cap (USDm)	2,163	Market cap (EGPm)	11,826
Free float (%)	61	Enterprise value (EGPm)	4155
Country	Egypt	Sector	Diversified Financial Services
Analyst	Shirin Panicker	Contact	+202 2 5298439

Note: price at close of 07 Nov 2009

HSBC

Shuaa Capital

- Q3 2009 results miss estimates primarily due to impairments
- Raise UAE brokerage and total AM revenue estimates after better market trading statistics
- Reiterate Neutral (V) and maintain target price of AED1.90

Company description

Shuaa Capital is one of the leading financial service institutions based in Dubai. Its main focus is on asset management, private equity, investment banking, principal investment and research. Incorporated in 1979, it is now one of the largest investment banking institutions in the UAE. The company's shares are listed in Dubai Financial Market and the Kuwait Stock Exchange.

Shuaa Capital key parameters

Bloomberg code	SHUAA UH
Target price (AED)	1.90
Current price (AED)	1.83
Potential total return	3.8%
Market cap (USDbn)	0.5
Rating	Neutral (V)
Average value traded (USD 000s)*	3
2009e P/NAV	1.1
2009e PE	NA
2011e ROAE	1.3%

* Last six months
Source: Bloomberg, HSBC estimates

Bull points

- Better visibility and operational prospects for Shuaa following the resolution of its dispute with Dubai Banking Group (DBG) on the AED1.5bn convertible debt: DBG had agreed to take a 48% stake (515m) in Shuaa in June 2009 at a new conversion price of AED2.9/share.
- Strong market presence in UAE brokerage segment

Bear points

- Slow in executing expansion plans
- Bulk of investments in unquoted securities and current earnings are under pressure from high impairment charges

Financials

Q3 2009 results review: Shuaa reported a net loss of AED269m in Q3 2009 compared to a profit of AED92m in Q2 2009. The loss is mainly attributed to the impairment charge of AED259 in Q3. Excluding the impairment charge, Shuaa would have reported a net loss of AED10m, lower than our Q3 2009 net income estimate of AED27m with the main deviation stemming from higher-than-expected market-based trading gains. Meanwhile, fee revenue reached AED30m, below the AED83m reported in Q3 2008 and AED38m in Q2 2009.

Changes in estimates: We have updated our total fee revenue and net income assumptions for 2009e-2013e. We estimate better trading volumes in Q4 2009 and increase our brokerage revenue estimates for 2009 to AED59m compared to our previous estimate of AED41mn. We increase our total fee income estimate for 2009 by 6% based on better brokerage revenue and a slight increase

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E
+202 2529 8439
shirinpanicker@hsbc.com

David R Kinsey*
Analyst
HSBC Bank Middle East Ltd
+971 4 423 6928
david.r.kinsey@hsbc.com

Vivek Veda*
Associate, Bangalore

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New estimates for Shuaa Capital

AEDm	2008	2009e		2010e		2011e		CAGR 08-11e	
	Actual	New	Old	New	Old	New	Old	New	Old
Brokerage	66	59	41	81	60	93	82	12%	8%
UAE mkt share	4.4%	4.4%	4.4%	5.0%	4.7%	5.0%	4.8%		
Saudi mkt share	0.0%	0.1%	0.4%	0.2%	0.6%	0.2%	0.7%		
Investment banking	19	17	17	19	18	20	19	1%	0%
Private equity	52	33	44	33	44	48	48	-3%	-3%
AUMs (USDm)	600	600	600	700	700	1,050	1,050	21%	21%
Asset management	75	18	16	20	19	22	20	-34%	-35%
AUMs (USDm)	489	440	418	506	481	580	552	6%	4%
Total fee income	**212**	**126**	**118**	**152**	**141**	**182**	**169**	**-5%**	**-7%**
Net fee income	**110**	**72**	**67**	**84**	**78**	**100**	**93**	**-3%**	**-5%**
Margins	*52%*	*57%*	*57%*	*55%*	*55%*	*55%*	*55%*		
Other income	-771	-89	80	187	160	197	173	na	na
Other cost	304	383	327	297	276	273	255	-4%	-6%
Taxes	0	0	0	0	0	0	0		
Minority interest	-17	-8	-9	-1	-2	0	1	na	na
Net profit	**-948**	**-392**	**-171**	**-26**	**-37**	**24**	**10**	**na**	**na**

Source: Company data, HSBC estimates

in assets management fees. However, we have lowered our estimate of revenue from the private equity division in line with the recent results. We also incorporated the impairment charge worth AED260m within the other income item in the 2009 income statement. We estimate a higher net loss for 2009 but expect better results starting in 2010.

Valuation

We value Shuaa based on sum-of-the-parts valuation, where we derive the value of fee income based on DCF methodology and then add the value of investments. We continue to conservatively assume a 30% reduction in the 2009e book value of the investments given that the bulk of these are in unquoted securities and very little information is available. Furthermore, management has indicated it will be selling some of the stakes in associates. It is worth noting that the value of these investments has dropped from AED906m in December 2008 to AED605m in September 2009.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10pp above and below the hurdle rate for UAE stocks of 9.5%, or -0.5% to +19.5% around the current share price. For our DCF we have used a WACC of 15% for Shuaa. We maintain our target price of AED1.9, which implies a potential total return of 4.9%. Thus we reiterate our Neutral (V) rating on the stock.

Catalysts

A larger-than-expected decline in the value of Shuaa's holdings or impairment charges could put downward pressure on the stock price, while a faster-than-expected revenue contribution from the company's newly established subsidiaries in Saudi Arabia, Egypt and Jordan could act as positive catalysts for the stock.

Risks

The key upside risks to our valuation include a faster-than-expected recovery in regional/global stock markets, an upside revaluation of Shuaa's holdings and provisioning reversals. In addition, the downside risks to our valuation include more-than-anticipated impairment charges and trading losses against the company's investments or further redemptions of AUMs in its asset management and private equity divisions due to poor stock market performance.

HSBC

Financials & valuation: Shuaa Capital

Neutral (V)

Financial statements

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Profit & loss summary (AEDm)				
Revenue	212	126	152	182
EBITDA	110	72	84	100
Depreciation & amortisation	-7	-9	-11	-13
Operating profit/EBIT	103	63	73	88
Net interest	68	62	95	98
PBT	-965	-400	-27	24
HSBC PBT	-965	-400	-27	24
Taxation	0	0	0	0
Net profit	-948	-392	-26	24
HSBC net profit	-948	-392	-26	24
Cash flow summary (AEDm)				
Cash flow from operations	323	857	25	46
Capex	-13	-15	-15	-15
Cash flow from investment	-215	1	-21	-23
Dividends	-245	0	0	0
Change in net debt	453	-739	68	31
FCF equity	1,235	988	133	138
Balance sheet summary (AEDm)				
Intangible fixed assets	95	143	143	143
Tangible fixed assets	34	40	44	47
Current assets	1,882	1,452	1,525	1,662
Cash & others	391	318	250	220
Total assets	4,377	3,312	3,416	3,591
Operating liabilities	2,405	875	1,006	1,157
Gross debt	1,380	569	569	569
Net debt	989	250	318	349
Shareholders funds	548	1,832	1,806	1,830
Invested capital	-785	442	456	475

Ratio, growth and per share analysis

Year to	12/2008a	12/2009e	12/2010e	12/2011e
Y-o-y % change				
Revenue	-52.3	-40.4	20.8	19.6
EBITDA	-58.7	-34.7	16.6	19.6
Operating profit	-60.6	-38.8	16.1	20.0
Ratios (%)				
Revenue/IC (x)	-0.3	-0.7	0.3	0.4
ROIC	-12.2	-36.7	16.3	18.8
ROE	-75.6	-33.0	-1.4	1.3
ROA	-17.6	-8.5	0.5	1.9
EBITDA margin	52.0	57.0	55.0	55.0
Operating profit margin	48.5	49.8	47.9	48.1
Net debt/equity	166.9	13.4	17.3	18.7
Net debt/EBITDA (x)	9.0	3.5	3.8	3.5
CF from operations/net debt	32.7	342.5	8.0	13.3
Per share data (AED)				
EPS Rep (fully diluted)	-1.72	-0.49	-0.02	0.02
HSBC EPS (fully diluted)	-1.72	-0.49	-0.02	0.02
DPS	0.00	0.00	0.00	0.00
Book value	1.00	1.72	1.69	1.72

Valuation data

Year to	12/2008a	12/2009e	12/2010e	12/2011e
EV/sales	2.7	4.1	3.7	3.1
EV/EBITDA	5.2	7.3	6.7	5.6
EV/IC	na	1.2	1.2	1.2
PE*	na	na	na	82.0
P/Book value	1.8	1.1	1.1	1.1
FCF yield (%)	-295.9	362.4	54.3	66.0
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (AED)	1.83	Target price (AED)	1.90	Potent'l tot rtn (%)	4.9

Reuters (Equity)	SHUA.DU	Bloomberg (Equity)	SHUAA UH
Market cap (USDm)	531	Market cap (AEDm)	1,949
Free float (%)	32	Enterprise value (AEDm)	523
Country	United Arab Emirates	Sector	Diversified Financial Services
Analyst	Shirin Panicker	Contact	+202 2 5298439

Note: price at close of 07 Nov 2009

HSBC

Economic outlook: stage set for Gulf recovery

- Despite the enormous wealth at its disposal, the Gulf proved more vulnerable to global recession than many other emerging markets
- A disappointing policy response, the excesses of the previous boom and an ongoing credit squeeze have meant that recovery has also taken longer than elsewhere
- Regional economic data are still very weak but we believe the conditions for a regional recovery are finally in place. We look for Saudi Arabia, Qatar and Abu Dhabi to lead the way

Simon Williams*
Chief Economist, Gulf Markets
HSBC Bank Middle East Limited
+971 4 423 6925
simon.williams@hsbc.com

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After the storm

The enormous wealth at the Gulf's disposal should have offered it considerable protection from global recession and capital market dislocation. In contrast to the traumatic experience of the late 1990s there has been no pressure on currency pegs this time around. Debt levels have remained low and public spending growth has remained positive.

However, although the Gulf has not experienced its own "Asia Crisis" or suffered the sharp economic losses that have afflicted the oil-driven economies of the Former Soviet Union, performance over the past 12 months has been disappointing. We expect average growth to be close to zero this year, down six percentage points on 2008. Per capita GDP will likely drop by, on average, almost 17% and we expect that the Gulf's youth-heavy demographics will have led to a rise in unemployment. Sharply increased bank provisioning also offers clear evidence of macro-economic distress. When compared to the emerging economies of Asia, the Gulf has proved not only more vulnerable to the global downturn, it has also proved far slower to recover.

So far, we have not seen a single data point to suggest that the downswing in activity has run its course. Instead, falling inflation readings point to continued weakness in domestic demand. Declining loan growth numbers across the region not only attest to weak credit growth but also still fragile sentiment among both lenders and potential private sector borrowers.

Despite the poor data, however, our view is that conditions are now in place for recovery and that positive growth is set to resume region-wide. Four key factors lie behind this view.

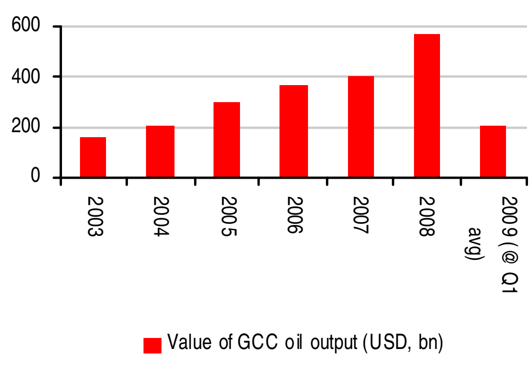
After the boom

The first is that the region has begun to digest the after-effects of the 2003-08 boom that preceded the 2008-09 recession. Fuelled by a revaluation of its oil assets and a newly ambitious financial sector, the 2003-08 economic boom generated an unprecedented acceleration in economic growth, public spending, capital formation and credit expansion.

It was clear that the boom would have to give way to a period of painful correction. The onset of such a severe global downturn, however, meant that the reversal came earlier, and caused far greater distress than might otherwise have been the case. For the past 12 months the region has been required to deal with the excesses that the downturn exposed, deepening the slowdown in economic activity and delaying recovery.

In much of the region, however, it is now over a year since the bubble burst and six months or more since asset prices ceased their decline. Although the private sector is undoubtedly wary, the time that has now past has given some the opportunity to adjust to lower prices, reduced margins and more modest growth.

Collapse in oil earnings put governments on the defensive



Source: HSBC, Bloomberg

From defence to offence

Our second cause for optimism is that we see a shift underway in the regional policy stance. Despite the enormous wealth at their disposal, governments seemed reluctant to adopt aggressively counter-cyclical fiscal policies in the last months of this year and into 2009. In part this marked a perhaps understandable response to a 70% drop in oil prices over a period of less than six months. That the oil price decline was accompanied by a sharp fall in the value of reserve assets built up by regional sovereign wealth funds during the boom years may also have encouraged caution.

As well as discouraging more rapid growth in outlays, the sudden reversal of fortunes appeared to prompt Gulf governments to rethink elements of the long-term development strategies drawn up during the boom years. Even where project commitments were undimmed, some programmes were subject to delay as project leads renegotiated and retendered to take advantage of falling prices.

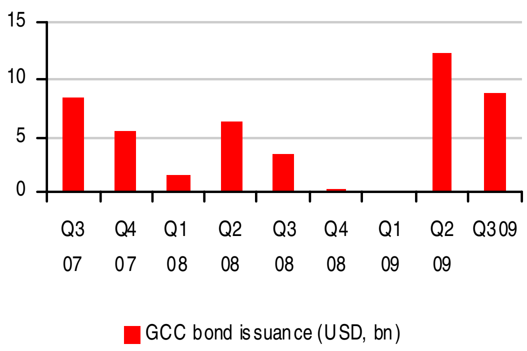
We think this policy stance has already gone into reverse. Sitting above USD60/b since Q2 2009, oil prices are now well ahead of the minimum required to maintain order in the region and seem to be on a rising trend. We now expect to see no significant fiscal shortfall anywhere in the region this year (having anticipated deficits of up to 9% of GDP at the start of the year) and expect to see surpluses across the board in 2010.

We believe this now comfortable outlook for oil revenues is likely to encourage significant spending growth over 2010, particularly as this year's downturn has proved so distressing. This pick-up in outlays should be coupled with the belated dispersal of funds on capital projects that were agreed over the first half of this year, providing an impetus for growth that has been lacking over much of this year.

Foreign funds start to flow

The third factor that we believe is laying the ground for a turnaround in activity is renewed access to international funding. Although high oil earnings played a role in financing the increase in capital spending that drove the Gulf boom over 2003-08, it was by no means the dominant source of funding. Rather, Gulf governments and

Capital inflows are returning to normal



Source: HSBC, Bloomberg

Government-owned corporate entities used their much increased wealth as collateral to access debt and equity funding from overseas. Like other emerging markets, the Gulf's access to those funds had become very strained over the last months of 2008 and well into 2009, directly undermining capital spending.

We now see evidence, however, that the foreign funds are flowing once again. Data are scant, but our own numbers suggest that the second and third quarters of this year have seen the Gulf raise more on the international bonds markets than at any point previously. Access to other funding sources – the FDI, syndicated loans and project finances – is likely to take longer to resume but the shift on the bond market suggests change is underway.

So far it has been only high-grade borrowers that have been able to raise funds but the CDS market shows that all regional names have benefited from the pick-up in global risk appetite, suggesting that their access to financing – or, at the very least, refinancing – is likely to improve.

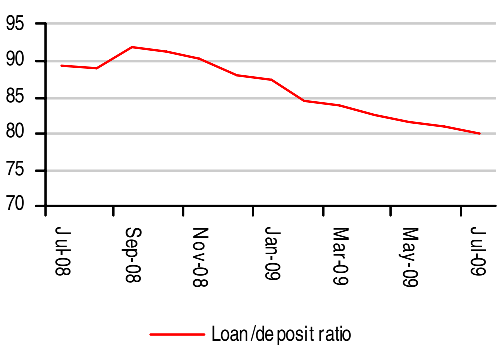
Ease the squeeze?

The final part of the equation for us is access to funding from local sources. Credit boomed in the Gulf over 2003-08 as historically conservative banking sectors recycled rising liquidity into new credit. In aggregate, lending to the private sector more than trebled over 2003-08.

The credit surge has not just slowed over the past 12 months, but in many cases has gone into reverse. In the two largest regional markets – Saudi Arabia and the UAE – credit growth over the first seven months of this year has been negative in real and nominal terms, compounding the liquidity squeeze and removing previously strong funding support for consumption and investment spending.

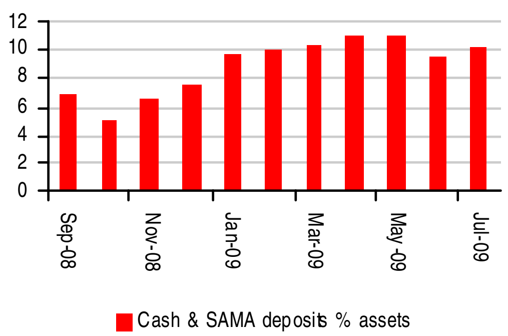
Although data suggest that credit growth remains very weak, we are seeing evidence of bank balance sheets adjusting, laying the ground for a resumption of lending. The most striking example is probably Saudi Arabia where the loan to deposit ratio has dropped from 90% to 80% since the start of the year.

Balance sheets in Saudi Arabia have already adjusted...



Source: SAMA

...and there is liquidity looking for a home



Source: SAMA

Elsewhere, capital levels have increased strongly and foreign funding has begun to resume. We expect lingering concerns over asset quality to weigh on lending growth over the coming 6-12 months. However, we look for claims on the private sector to grow at an annual rate of 10% or more during the course of 2010.

So how does it all play out?

Near term, not much has changed in our economic forecasts. Indeed, although oil prices have performed better over recent months than we had anticipated, we cut our growth estimates for several economies for 2009 as the data has suggested that the slowdown in the early part of this year was more severe than we had anticipated.

However, although we do not think that recovery has arrived, we do think it is coming. We see growth in public spending as the catalyst, as increases in spending delayed from the first part of 2009 are coupled with increasingly robust expenditure growth in 2010 budgets, bolstered by high oil prices. The impact of rising public spending will be boosted by growing foreign capital inflows as the region regains access to increasingly liquid global debt and equity markets to fund domestic development initiatives.

These two areas of spending growth should act as a catalyst for domestic demand both by boosting capital outlays and feeding through into greater financial sector liquidity. As confidence starts to turn, we expect this to encourage an uptick in commercial bank credit creation.

Even with an improvement in liquidity and an upturn in confidence, we expect the pace of credit growth to be relatively modest. However, anticipated annual loan growth of around 10% will give the private sector access to fresh funding for the first time in almost 18 months. Crucially, it will also re-establish a multiplier for fiscal spending growth.

We expect headline economic growth rates to approach 4.5% in 2010 across much of the Gulf – a rate of expansion that is only a little short of the 2003-08. The figure overstates the likely acceleration in activity as it is inflated by an anticipated pick-up in oil output. A better measure of the health of Gulf economies is non-oil sector growth and expansion in domestic demand. Here, too, we expect to see an acceleration in economic activity, led by a pick-up in investment spending. The rate will be sub-trend but set against the downturn of the past 12 months, there will be a clear sense of recovery boosted by a steady rise in employment levels, gains in corporate revenues and a slow recovery in margins.

All the same, but not as much

The structural similarities of the Gulf are such that we expect each of the regional economies to follow the same broad trends over the coming two years. However, we also see grounds to anticipate significant variation in both the pace of economic upturn, and the speed at which it arrives.

The differential performance will reflect exposure to the factors already identified – the damage caused by the implosion of the last boom; the ability and readiness of governments to increase spending, the capacity of commercial banking sectors to resume credit growth and the ability of local corporate and financials to tap global capital markets.

On that basis, we anticipate that Saudi Arabia, Abu Dhabi and Qatar are likely to lead the way. Although all three economies have shown vulnerability to the downturn of the past year, the excess have generally been contained. All three governments appear committed to boosting spending and have the wealth to set increases in expenditure in train. Extensive support for the banking sector still low CDS levels and, in the case of Abu Dhabi and Qatar, successful bond launches over the past few months suggests that funding from local and international sources will be available.

We are more cautious on the outlook for the Gulf's two smallest economies, Oman and Bahrain. Although both have successfully weathered the slowdown of the past year, public finances have seemed stretched which will likely continue to weigh on public spending growth. Although the Omani banking sector has proved impressively resilient, credit growth has slowed. In Bahrain the downturn in lending has been more marked and may take longer to reverse given that the government has been required to step into the market to meet its own funding needs.

For very different reasons, we are less optimistic on the outlook for Kuwait and Dubai. Despite the enormous wealth at its disposal, the policy response to the global recession and the dislocation within its own financial sector has proved to be very slow. More than a year after the collapse of Lehmans, a promised stimulus and financial support package has yet to be passed by parliament, caught up in ongoing disputes between the executive and legislature. We fear this will not only discourage growth in public spending but will also deter lending growth and inflows of foreign capital.

Having argued repeatedly that many of the bearish accounts of the outlook for Dubai were heavily overdone, we are unsurprised that it has weathered the global recession without default. However, the economy has been hit far harder than any other in the region by lost access to leverage which, given the emirate's heavy debt burden and still troubled property sector is likely to take longer to return than may be the case elsewhere. Although up from their lows, very weak property prices are also likely to weigh on domestic credit growth too. With its very limited hydrocarbon resources and small revenue base, the government of Dubai is also ill-placed to offer a substantial increase in public spending. Strong regional demand for the services it produces will offer some support but we expect the pace of growth to remain below trend.

Risks and currency outlook

Our most immediate concern is that recovery will be delayed. We are particularly anxious that the anticipated pick-up in lending to the private sector may not emerge, or that it may be insufficiently strong to act as an effective multiplier for the fiscal stimulus. Inevitably, there is a risk that more shocks will yet emerge from the excesses of the 2008-09 downturn and will prolong the recession and credit downturn.

The volatility of the past 12 months also means that we approach the outlook for energy prices with caution. That Brent can average close to USD60/b in 2009 when the global economy is in recession seems to give grounds for optimism that prices will strengthen in 2010 and 2011 as global growth returns. If this proves not to be the case, however or if the pace of global recovery disappoints then weak oil earnings will weigh on spending decisions and slow growth in liquidity. A downturn in global capital markets could also weigh on public sector confidence, as well as making it more difficult for the Gulf to access the international funding that we view as essential for the recovery to gain speed.

Although it is rather more difficult to imagine at present, we also see risks that growth could prove to be too rapid. The combination of delayed spending from 2009 and more confident increases in outlays in 2010 could deliver an enormous increase in expenditure that local economies would find difficult to absorb. Our concerns are amplified by the likely maintenance of the region's dollar-peg currency regime, which we expect will keep policy rates at close to zero for a further two years.

With time this could trigger a rapid acceleration in credit demand and a sharp rise in consumer and asset price inflation. The shortcomings of the dollar-peg regime that such a dynamic would clearly identify might also trigger heavy international flows into local currency assets in anticipation of revaluation gains, fuelling liquidity growth. A sharp fall in the value of the dollar over the coming year would also add to the region's inflationary difficulties given how heavily the region relies on imported goods.

Policymaker concerns over the challenges facing the dollar are increasing, and we view a shift in orientation away from the USD as both desirable and probable over the long term. For now, however, the likelihood of change is low with policymakers likely to focus instead on planned regional currency union as a necessary first step toward monetary regime reform (see *FX Roadmap* August 2009).

This economics contribution is provided by Simon Williams, HSBC's Chief Economist, Gulf Markets.

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Aggregate data

Oman

OMRm	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209
Loans	4,921	5,251	5,707	6,505	7,287	7,986	8,660	9,260	9,455	NA
Deposits	5,740	6,174	6,805	7,817	8,947	9,898	10,488	11,225	11,223	11,471
Assets	7,762	8,269	8,983	10,336	11,296	12,121	12,937	13,781	13,698	13,701
y-o-y growth										
Loans	4.6%	6.7%	8.7%	14.0%	12.0%	9.6%	8.4%	6.9%	2.1%	NA
Deposits	11.1%	7.6%	10.2%	14.9%	14.5%	10.6%	6.0%	7.0%	0.0%	2.2%
Assets	7.0%	6.5%	8.6%	15.1%	9.3%	7.3%	6.7%	6.5%	-0.6%	0.0%
Loans break-up										
Government	68	30	29	40	35	27	57	28	21	NA
Corporate	2,961	3,179	3,440	3,866	4,443	4,884	5,251	5,663	5,710	NA
Consumer	1,892	2,042	2,238	2,600	2,809	3,075	3,352	3,569	3,725	NA
y-o-y growth in loans (break-up)										
Government	-38.6%	-55.8%	-3.1%	36.6%	-10.9%	-23.6%	111.7%	-50.5%	-26.4%	NA
Corporate	7.0%	7.4%	8.2%	12.4%	14.9%	9.9%	7.5%	7.8%	0.8%	NA
Consumer	3.7%	7.9%	9.6%	16.2%	8.1%	9.5%	9.0%	6.5%	4.4%	NA
Loans break-up in %										
Government	1.4%	0.6%	0.5%	0.6%	0.5%	0.3%	0.7%	0.3%	0.2%	NA
Corporate	60.2%	60.5%	60.3%	59.4%	61.0%	61.2%	60.6%	61.2%	60.4%	NA
Consumer	38.5%	38.9%	39.2%	40.0%	38.5%	38.5%	38.7%	38.5%	39.4%	NA

Source: Central Bank of Oman

Qatar

QARm	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209
Loans	110,242	129,972	150,190	160,596	180,450	201,558	222,315	242,653	230,402	233,741
Deposits	119,795	130,151	148,635	167,206	189,727	215,520	212,777	212,479	205,010	221,931
Assets	190,594	216,194	252,083	294,336	339,624	371,477	374,298	401,915	401,915	416,315
y-o-y growth										
Loans	7.5%	17.9%	15.6%	6.9%	12.4%	11.7%	10.3%	9.1%	-5.0%	1.4%
Deposits	-0.6%	8.6%	14.2%	12.5%	13.5%	13.6%	-1.3%	-0.1%	-3.5%	8.3%
Assets	0.6%	13.4%	16.6%	16.8%	15.4%	9.4%	0.8%	7.4%	0.0%	3.6%
Loans break-up										
Government	19,690	26,218	37,234	35,902	37,706	42,313	47,069	60,589	37,023	46,981
Corporate	53,394	62,698	68,813	77,571	92,674	106,680	118,824	125,293	136,634	130,415
Consumer	37,158	41,056	44,143	47,123	50,071	52,565	56,422	56,771	56,746	56,345
y-o-y growth in loans (break-up)										
Government	-8.6%	33.2%	42.0%	-3.6%	5.0%	12.2%	11.2%	28.7%	-38.9%	26.9%
Corporate	16.5%	17.4%	9.8%	12.7%	19.5%	15.1%	11.4%	5.4%	9.1%	-4.6%
Consumer	5.6%	10.5%	7.5%	6.8%	6.3%	5.0%	7.3%	0.6%	0.0%	-0.7%
Loans break-up in %										
Government	17.9%	20.2%	24.8%	22.4%	20.9%	21.0%	21.2%	25.0%	16.1%	20.1%
Corporate	48.4%	48.2%	45.8%	48.3%	51.4%	52.9%	53.4%	51.6%	59.3%	55.8%
Consumer	33.7%	31.6%	29.4%	29.3%	27.7%	26.1%	25.4%	23.4%	24.6%	24.1%

Source: Qatar Central Bank

UAE

AEDm	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209
Loans	502,796	529,926	578,714	626,694	723,857	810,059	909,375	924,383	930,248	NA
Deposits	555,608	620,692	651,494	716,021	769,547	833,919	867,138	912,170	947,327	NA
Assets	925,979	1,002,574	1,064,894	1,202,285	1,337,666	1,423,200	1,446,299	1,447,894	1,458,758	NA
y-o-y growth										
Loans	6.0%	5.4%	9.2%	8.3%	15.5%	11.9%	12.3%	1.7%	0.6%	NA
Deposits	7.1%	11.7%	5.0%	9.9%	7.5%	8.4%	4.0%	5.2%	3.9%	NA
Assets	7.7%	8.3%	6.2%	12.9%	11.3%	6.4%	1.6%	0.1%	0.8%	NA
Loans break-up										
Government	46,732	54,971	55,861	58,402	69,174	69,961	62,387	72,260	75,047	NA
Corporate	423,113	438,157	481,845	526,369	606,269	686,069	782,054	785,084	786,275	NA
Consumer	32,951	36,798	41,008	41,923	48,414	54,029	64,934	67,039	68,926	NA
y-o-y growth in loans (break-up)										
Government	-2.4%	17.6%	1.6%	4.5%	18.4%	1.1%	-10.8%	15.8%	3.9%	NA
Corporate	7.1%	3.6%	10.0%	9.2%	15.2%	13.2%	14.0%	0.4%	0.2%	NA
Consumer	5.4%	11.7%	11.4%	2.2%	15.5%	11.6%	20.2%	3.2%	2.8%	NA
Loans break-up in %										
Government	9.3%	10.4%	9.7%	9.3%	9.6%	8.6%	6.9%	7.8%	8.1%	NA
Corporate	84.2%	82.7%	83.3%	84.0%	83.8%	84.7%	86.0%	84.9%	84.5%	NA
Consumer	6.6%	6.9%	7.1%	6.7%	6.7%	6.7%	7.1%	7.3%	7.4%	NA

Source: Central Bank of the UAE

HSBC

Kuwait										
KWDm	**Q107**	**Q207**	**Q307**	**Q407**	**Q108**	**Q208**	**Q308**	**Q408**	**Q109**	**Q209**
Loans	15,822	17,710	18,689	20,139	21,360	22,153	23,055	23,660	24,178	24,313
Deposits	18,043	18,594	19,406	20,305	21,651	21,965	22,905	24,778	27,291	27,646
Assets	29,101	31,774	33,261	35,555	37,235	38,102	39,163	39,246	39,583	39,050
y-o-y growth										
Loans	6.0%	11.9%	5.5%	7.8%	6.1%	3.7%	4.1%	2.6%	2.2%	0.6%
Deposits	8.1%	3.1%	4.4%	4.6%	6.6%	1.5%	4.3%	8.2%	10.1%	1.3%
Assets	7.8%	9.2%	4.7%	6.9%	4.7%	2.3%	2.8%	0.2%	0.9%	-1.3%
Loans break-up[										
Government	5	4	4	3	1	1	1	1	1	0
Corporate	6,207	6,476	6,544	7,093	7,212	7,213	7,773	7,866	7,960	8,131
Consumer	9,611	11,230	12,141	13,043	14,146	14,939	15,280	15,793	16,217	16,181
y-o-y growth in loans (break-up)										
Government	0.0%	-10.6%	0.0%	-33.3%	-50.0%	0.0%	0.0%	-14.3%	-25.0%	-66.7%
Corporate	-30.1%	4.3%	1.1%	8.4%	1.7%	0.0%	7.8%	1.2%	1.2%	2.2%
Consumer	58.8%	16.8%	8.1%	7.4%	8.5%	5.6%	2.3%	3.4%	2.7%	-0.2%
Loans break-up in %										
Government	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Corporate	39.2%	36.6%	35.0%	35.2%	33.8%	32.6%	33.7%	33.2%	32.9%	33.4%
Consumer	60.7%	63.4%	65.0%	64.8%	66.2%	67.4%	66.3%	66.7%	67.1%	66.6%

Source: Central Bank of Kuwait

HSBC

Saudi Arabia

SARm	Q406	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209
Loans	497,067	503,016	532,069	567,927	594,840	640,679	704,270	739,617	744,801	739,200	741,518
Deposits	591,259	612,771	642,294	675,030	717,564	761,642	783,099	804,127	846,119	882,741	916,445
Assets	861,088	897,197	936,091	997,613	1,075,221	1,173,387	1,222,902	1,269,890	1,302,268	1,323,925	1,337,681
y-o-y growth											
Loans		1.2%	5.8%	6.7%	4.7%	7.7%	9.9%	5.0%	0.7%	-0.8%	0.3%
Deposits		3.6%	4.8%	5.1%	6.3%	6.1%	2.8%	2.7%	5.2%	4.3%	3.8%
Assets		4.2%	4.3%	6.6%	7.8%	9.1%	4.2%	3.8%	2.5%	1.7%	1.0%
Loans break-up											
Government	34,965	34,863	36,073	39,387	37,434	34,032	35,677	32,322	32,065	31,247	NA
Corporate	274,043	282,996	306,679	337,985	365,921	418,863	481,208	520,232	529,298	524,729	NA
Consumer	188,060	185,157	189,317	190,555	191,484	187,784	187,385	187,063	183,438	183,224	NA
y-o-y growth in loans (break-up)											
Government		-0.3%	3.5%	9.2%	-5.0%	-9.1%	4.8%	-9.4%	-0.8%	-2.6%	NA
Corporate		3.3%	8.4%	10.2%	8.3%	14.5%	14.9%	8.1%	1.7%	-0.9%	NA
Consumer		-1.5%	2.2%	0.7%	0.5%	-1.9%	-0.2%	-0.2%	-1.9%	-0.1%	NA
Loans break-up in %											
Government	7%	7%	7%	7%	6%	5%	5%	4%	4%	4%	NA
Corporate	55%	56%	58%	60%	62%	65%	68%	70%	71%	71%	NA
Consumer	38%	37%	36%	34%	32%	29%	27%	25%	25%	25%	NA

Source: Saudi Arabian Monetary Agency (SAMA)

Egypt

EGPm	Q406	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408	Q109	Q209
Loans	324,041	329,301	343,935	342,528	353,746	364,015	429,188	394,494	401,425	422,706	429,188
Deposits	571,461	597,112	593,848	597,063	658,215	676,462	775,958	752,840	755,636	764,404	775,958
Assets	761,562	NA	NA	NA	937,923	NA	1,045,614	1,103,366	1,088,131	1,077,102	1,045,614
y-o-y growth											
Loans	NA	1.6%	4.4%	-0.4%	3.3%	2.9%	17.9%	-8.1%	1.8%	5.3%	1.5%
Deposits	NA	4.5%	-0.5%	0.5%	10.2%	2.8%	14.7%	-3.0%	0.4%	1.2%	1.5%
Assets	NA	NA	NA	NA	NA	NA	NA	5.5%	-1.4%	-1.0%	-2.9%
Loans break-up											
Government	20,997	22,367	23,768	25,330	26,683	NA	31,679	30,673	31,159	30,932	31,679
Corporate	249,870	252,448	263,235	259,176	267,125	NA	311,128	291,838	291,934	308,396	311,128
Consumer	53,174	54,486	56,932	58,022	59,938	NA	86,381	71,983	78,332	83,378	86,381
y-o-y growth in loans (break-up)											
Government	NA	6.5%	6.3%	6.6%	5.3%	NA	NA	-3.2%	1.6%	-0.7%	2.4%
Corporate	NA	1.0%	4.3%	-1.5%	3.1%	NA	NA	-6.2%	0.0%	5.6%	0.9%
Consumer	NA	2.5%	4.5%	1.9%	3.3%	NA	NA	-16.7%	8.8%	6.4%	3.6%
Loans break-up in %											
Government	6%	7%	7%	7%	8%	NA	7%	8%	8%	7%	7%
Corporate	77%	77%	77%	76%	76%	NA	72%	74%	73%	73%	72%
Consumer	16%	17%	17%	17%	17%	NA	20%	18%	20%	20%	20%

Source: Saudi Arabian Monetary Agency (SAMA)

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Consensus estimates

Net profit estimates

Bank	RIC	BB Code	Currency	Consensus estimates 2009e	2010e	2011e	HSBC estimates 2009e	2010e	2011e
Abu Dhabi banks									
National Bank of Abu Dhabi	NBAD.AD	NBAD UH	AED	3,037	3,295	4,073	3,318	4,029	4,700
Abu Dhabi Comm Bank	ADCB.AD	ADCB UH	AED	1,044	1,170	1,906	615	1,282	2,066
First Gulf Bank	FGB.AD	FGB UH	AED	2,865	3,143	3,815	3,287	3,723	4,226
Union National Bank	UNB.AD	UNB UH	AED	992	1,022	1,415	1,159	1,309	1,492
Kuwait banks									
National Bank of Kuwait	NBKK.KW	NBK KK	KWD	252	300	363	255	286	332
Commercial Bank of Kuwait	CBKK.KW	CBK KK	KWD	37	68	99	62	86	103
Burgan Bank	BURG.KW	BURG KK	KWD	23	44	70	23	47	61
Qatar banks									
Qatar National Bank	QNBK.QA	QNBK QD	QAR	4,045	4,577	5,248	4,042	4,341	5,028
Commercial Bank Of Qatar	COMB.QA	CBQK QD	QAR	1,659	1,844	2,216	1,606	1,775	1,923
Oman banks									
Bank Muscat	BMAO.OM	BKMB.OM	OMR	97	103	134	101	90	141
National Bank of Oman	NBO.OM	NBOB.OM	OMR	29	39	46	28	38	47
Saudi Arabia banks									
Arab National Bank	1080.SE	ARNB AB	SAR	2,581	2,765	3,041	2,086	2,171	2,270
Samba	1090.SE	SAMBA AB	SAR	4,458	4,831	5,720	4,396	4,562	4,112
Riyad Bank	1010.SE	RIBL AB	SAR	2,788	3,388	4,268	2,516	2,947	3,392
Al Rajhi	1120.SE	RJHI AB	SAR	6,603	7,379	9,261	6,434	6,825	7,221
Egyptian Banks									
National Societe Generale Bank	NSGB.CA	NSGB EY	EGP	1,013	1,162	1,617	964	1,261	1,737
Commercial International Bank	COMI.CA	COMI EY	EGP	1,649	1,897	2,324	1,522	1,891	2,195
Egyptian Gulf bank	EGBE.CA	EGBE EY	USD	46	72	141	98	127	141
Credit Agricole Egypt bank	CIEB.CA	CIEB EY	EGP	379	464	539	372	457	519
Financial stocks									
Shuaa Capital	SHUA.DU	SHUAA UH	AED	na	na	na	-392	-26	24
Dubai Financial Market	DFM.DU	DFM UH	AED	365	562	695	311	517	748
EFG Hermes	HRHO.CA	HRHO EY	EGP	746	820	875	657	783	964

Source: Bloomberg, HSBC estimates

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Latest research releases

List of recently published reports in the MENA banking sector

	Report title	Country	Analyst name		Date
			Analyst 1	Analyst 2	
1	Saudi Arabia Commercial Banks - September deposit growth far outpaced customer loans	Saudi Arabia	Aybek Islamov		2-Nov-09
2	Abu Dhabi Commercial Bank - Reiterate OW(V): earnings in line	Abu Dhabi	David Kinsey	Vikram Viswanathan	1-Nov-09
3	Union National Bank - Still cheap; remaining OW(V), increasing TP to AED5.6	Abu Dhabi	David Kinsey	Vikram Viswanathan	22-Oct-09
4	Commercial Bank of Qatar - N(V): In defensive mode	Qatar	David Kinsey	Vikram Viswanathan	20-Oct-09
5	Alrajhi Bank - N(V): Premium Q309 results match premium valuation	Saudi Arabia	Aybek Islamov		19-Oct-09
6	Bank Muscat - OW(V): net earnings in line	Oman	Vikram Viswanathan	David Kinsey	16-Oct-09
7	Samba Financial Group - OW(V): Defensive performance in Q3 2009	Saudi Arabia	Aybek Islamov		14-Oct-09
8	Riyad Bank - OW(V): Revenue trend touching its lows	Saudi Arabia	Aybek Islamov		14-Oct-09
9	Arab National Bank - N(V): Lower bad assets charges help Q3 2009 earnings; core income trend still weakening	Saudi Arabia	Aybek Islamov		13-Oct-09
10	Qatar National Bank - N(V): Fairly priced at current levels	Qatar	David Kinsey	Vikram Viswanathan	13-Oct-09
11	Abu Dhabi Banks - More evidence of stabilisation: higher earnings and target prices; upgrade ADCB from Neutral (V) to Overweight (V)	Abu Dhabi	David Kinsey	Vikram Viswanathan	27-Sep-09
12	Saudi Banks - Improving outlook not discounted in share prices	Saudi Arabia	Aybek Islamov		25-Sep-09
13	Burgan Bank - N(V): Q3 2009 results preview - weak credit quality and flagging concerns on capital adequacy	Kuwait	David Kinsey	Vikram Viswanathan	24-Sep-09
14	Omani Banks - Initiating coverage: Appealing demographics, undemanding valuations	Oman	Vikram Viswanathan	David Kinsey	8-Sep-09
15	Egyptian Bank - Steady balance sheet progress expected in H2 despite tough times	Egypt	Shirin Panicker	David Kinsey	3-Sep-09
16	EFG Hermes Holding - Neutral (V): Increase TP to EGP27 on improved agency business outlook, despite short-term margin pressures	Egypt	Shirin Panicker	David Kinsey	20-Aug-09
17	National Bank of Abu Dhabi - OW (V); Strong top line performance in Q209; raising target price to AED17.3 from AED13.5	Abu Dhabi	David Kinsey	Vikram Viswanathan	12-Aug-09
18	Shuaa Capital - Upgrade to Neutral (V): Shaken but not unnerved	Dubai	Shirin Panicker	David Kinsey	6-Aug-09
19	Abu Dhabi Commercial Bank - Neutral (V): Q209 results show top-line growth but net result compressed by provisions, cutting TP to AED2.1	Abu Dhabi	David Kinsey	Vikram Viswanathan	28-Jul-09
20	Union National Bank - OW (V): low provisioning flatters Q209 result, but stock still cheap; cutting target price to AED5.0	Abu Dhabi	David Kinsey	Vikram Viswanathan	26-Jul-09
21	First Gulf Bank - OW (V): Resilient operating performance; raising target price to AED20.30	Abu Dhabi	David Kinsey	Vikram Viswanathan	22-Jul-09
22	Dubai Financial Market - Maintain N (V): Surge in recent trading volumes already priced in	Dubai	Shirin Panicker	David Kinsey	22-Jul-09
23	Arab National Bank - Downgrade to N(V): A good friend of the trend	Saudi Arabia	Aybek Islamov		20-Jul-09
24	Commercial Bank of Qatar - Downgrade to N(V): Caught in crocodile jaws	Qatar	David Kinsey	Vikram Viswanathan	19-Jul-09
25	National Bank of Kuwait - Higher provisioning drags earnings down; reiterate UW(V)	Kuwait	David Kinsey	Vikram Viswanathan	16-Jul-09
26	Alrajhi Bank - N(V): Q2 2009 result again justifies the premium valuation	Saudi Arabia	Aybek Islamov		15-Jul-09
27	Samba Financial Group - OW(V): Q2 2009 results alleviate market concerns	Saudi Arabia	Aybek Islamov		14-Jul-09
28	Riyad Bank - OW(V): Strong start to Saudi banks' Q2 earnings season	Saudi Arabia	Aybek Islamov		13-Jul-09
29	CIB - Actis becomes CIB's largest single shareholder	Egypt	Shirin Panicker	David Kinsey	9-Jul-09
30	Saudi Banks - Share prices over-reacting to Saad and Al Gosaibi exposures	Saudi Arabia	Aybek Islamov		7-Jul-09
31	EFG Hermes Holding - Neutral (V): Beneficiary of a market rebound	Egypt	Shirin Panicker	David Kinsey	7-Jul-09
32	Qatar Banks - Further investor-friendly support from the government	Qatar	David Kinsey	Vikram Viswanathan	26-Jun-09
33	Credit Agricole Egypt Bank - Downgrade to Neutral (V), maintain EGP14 target	Egypt	Shirin Panicker	David Kinsey	25-Jun-09
34	Burgan Bank - Downgrade to Neutral (V): Spreading its wings into the MENA region	Kuwait	David Kinsey	Vikram Viswanathan	22-Jun-09
35	Abu Dhabi Banks - Ebbing risk: lifting earnings and target prices, upgrading FGB from Neutral (V) to Overweight (V)	Abu Dhabi	David Kinsey	Vikram Viswanathan	19-Jun-09
36	Dubai Financial Market - Upgrade to Neutral (V): trading volumes increase	Egypt	Shirin Panicker	David Kinsey	17-Jun-09
37	Credit Agricole Egypt Bank - Reiterate OW (V) – Clean & liquid slate	Egypt	Shirin Panicker	David Kinsey	2-Jun-09
38	NSGB - Downgrade to N (V): Strong Q1 2009 results but recent share price strength limits stock's potential total return	Egypt	Shirin Panicker	David Kinsey	28-May-09
39	Kuwait Banks - Stimulus plan: uncertain impact	Kuwait	David Kinsey	Vikram Viswanathan	25-May-09
40	Commercial Bank of Qatar - Q109 numbers: few surprises, retain OW (V), QAR83 TP	Qatar	David Kinsey	Vikram Viswanathan	21-Apr-09
41	Qatar National Bank - Q1 2009 results: net profit better than expected; reiterate Overweight (V) and target price of QAR126.40	Qatar	David Kinsey	Vikram Viswanathan	9-Apr-09

Source: HSBC

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Disclosure appendix

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Company	Ticker	Recent price	Price Date	Disclosure
ABU DHABI COMM BANK	ADCB.AD	2.13	10-Nov-2009	11
ARAB NATIONAL BANK	1080.SE	45.40	10-Nov-2009	2, 6, 7, 11
BANK MUSCAT	BMAO.OM	0.89	10-Nov-2009	2, 5, 6, 7
BURGAN BANK	BURG.KW	0.38	10-Nov-2009	2, 7
CIB	COMI.CA	56.39	10-Nov-2009	6
COMMERCIAL BANK OF KUWAIT	CBKK.KW	1.00	09-Nov-2009	2, 6, 7
COMMERCIAL BANK OF QATAR	COMB.QA	66.70	10-Nov-2009	6, 7, 11
DUBAI FINANCIAL MARKET	DFM.DU	2.28	10-Nov-2009	4
EFG HERMES HOLDING	HRHO.CA	31.62	10-Nov-2009	4
FIRST GULF BANK	FGB.AD	18.95	10-Nov-2009	4, 6, 7
NATIONAL BANK OF ABU DHABI	NBAD.AD	13.20	10-Nov-2009	6, 7
NATIONAL BANK OF KUWAIT	NBKK.KW	1.18	10-Nov-2009	2, 6, 7
NATIONAL BANK OF OMAN	NBO.OM	0.32	10-Nov-2009	6, 7
QATAR NATIONAL BANK	QNBK.QA	156.90	10-Nov-2009	2, 6, 7
RIYAD BANK	1010.SE	27.70	10-Nov-2009	1, 2, 5, 6, 7, 11
SAMBA FINANCIAL GROUP	1090.SE	52.50	10-Nov-2009	2, 6, 7, 11
SHUAA CAPITAL	SHUA.DU	1.86	10-Nov-2009	2, 6, 7
SOCIETE GENERALE	SOGN.PA	48.85	10-Nov-2009	1
UNION NATIONAL BANK	UNB.AD	3.47	10-Nov-2009	2, 6, 7, 11

Source: HSBC

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Issuer of report
HSBC Bank Middle East Ltd
PO Box 4604
Dubai UAE
Telephone: +97 14 5077333
Fax: +97 14 3535079
Website: www.research.hsbc.com

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David Kinsey*
Analyst
HSBC Bank Middle East Limited
+971 4423 6928
david.r.kinsey@hsbc.com

David Kinsey joined HSBC in 2008 and heads MENA Banks Research. Earlier, he ran the South Africa capital management function of a leading bank and covered the South African banks sector for a high-rated local broker.

Vikram Viswanathan*
Analyst
HSBC Bank Middle East Limited
+971 4423 6931
vikramviswanathan@hsbc.com

Vikram Viswanathan joined HSBC Global Banking and Markets in September 2005. He now works with the Banks team. Prior to joining HSBC, Vikram worked with Cambridge Solutions, a software company, and also with Management Consulting. Vikram holds a bachelor's degree in commerce and a post graduate diploma in management with specialisation in finance. Vikram is also qualified as a cost accountant.

Aybek Islamov*
Analyst
HSBC Bank plc
+44 20 7992 3624
aybek.islamov@hsbcib.com

Aybek has seven years of investment experience. Prior to joining HSBC, he worked as a buy-side financial analyst with a major international fund manager, before joining a sell-side emerging market banks equity research team at an international investment bank as an analyst. Aybek received his Masters degree in economic theory and statistics from Hitotsubashi University (Tokyo, Japan) in 2002. He is fluent in Russian, Japanese, English and Uzbek.

Shirin Panicker*
Analyst
HSBC Securities (Egypt) S.A.E.
+202 2529 8439
shirinpanicker@hsbc.com

Shirin Panicker works as a financial analyst, and is based out of HSBC, Cairo. Prior to joining HSBC, she worked with a Cairo-based Egyptian broker as a financial analyst from 2005.

Shri Dhar*
Associate
Bangalore

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