

Rating **Neutral**
 12- Month Target Price **SAR 36.00**

SAUDI BRITISH BANK
 4Q2018 First Look

Expected Total Return

Price as on Feb-10, 2019	SAR 37.15
Upside to Target Price	(3.1%)
Expected Dividend Yield	5.4%
Expected Total Return	2.3%

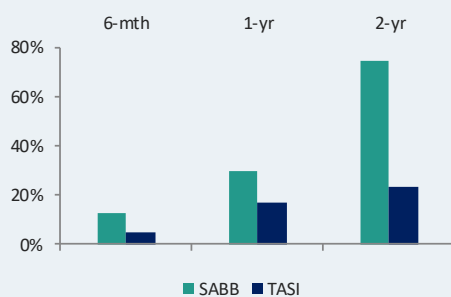
Market Data

52 Week H/L	SAR 38.40/27.60
Market Capitalization	SAR 55,725 mln
Shares Outstanding	1,500 mln
Free Float	32.0%
12-Month ADTV	284,188
Bloomberg Code	SABB AB

1-Year Price Performance



Source: Bloomberg



4Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,450	1,462
Total Op Income	1,844	1,888
Net Income	1,211	1,021
Loans & Advances	110,326	110,771
Deposits	130,507	127,057

Surprisingly Low Provisions Boost EPS

Saudi British Bank (SABB) reported 4Q net income of SAR 1.21 billion (+71% Y/Y, -3% Q/Q) versus our expectations of SAR 1.02 billion and a much lower market consensus of SAR 883 million as the street was expecting higher provisions, in-line with the last two years. The Y/Y spike in profitability was partly due to +6% higher total operating income but largely on the back of a steep fall in opex by -36%. The quarterly drop, however, was a result of the dual effect of lower total operating income (-2%), due to weak non-core income, and the +5% rise in opex. Advances declined by SAR 1.8 billion, while deposits rose by SAR 1.2 billion, following a decline in the previous three quarters, leading LDR to contract to 82%. We maintain our Neutral stance and SAR 36.00 target price for now, but will re-evaluate it in the upcoming months after the merger.

LDR down to 82%

We are pleased to note an increase in deposits by SAR 1.2 billion to SAR 131 billion after posting three consecutive quarters of declines. Loans, however, dropped for the fourth consecutive quarter by SAR 1.8 billion to SAR 110 billion, matching our estimate. It is worth mentioning that SABB's loans and deposits had been on a downtrend since 2016, but followed the general sector trend this quarter. Due to the decrease in loans and growth in deposits, LDR shrank from 84% last quarter to 82%. On the other hand, investments continued their rise, growing by SAR 612 million Q/Q to SAR 35 billion.

SAIBOR leads NSCI up +11% Y/Y

Special commission income has risen to SAR 1.76 billion (+15% Y/Y, +3% Q/Q) in spite of the fall in loans, signifying higher asset yields. This offset the increase in special commission expense of +37% Y/Y and +4% Q/Q to SAR 307 million. As a result, net special commission income (NSCI) came up +11% Y/Y and +3% Q/Q to SAR 1.45 billion, matching our forecast. It appears that NSCI components have been affected by high interest rates.

Provisions plummet opex Y/Y

Non-core income was lower than we expected, coming in at SAR 394 million (-9% Y/Y, -15% Q/Q). Management reported that fee-based income and trading income have been weaker during 2018 compared to the previous year. Consequently, total operating income reached SAR 1.84 billion, up +6% Y/Y but down -2% Q/Q, close to our forecast. We were surprised by operating expenses of around SAR 674 million this quarter, well below our estimate of SAR 881 million, dipping -36% Y/Y from 4Q17's SAR 1.06 billion, but rising +5% Q/Q. Provisions have been very volatile this year; we believe they were recorded around SAR 100 million in the quarter (vs SAR 442 million in 4Q17).

Bottom-line trumps market expectations

Due to lower than expected provisions, net income surged +71% Y/Y to SAR 1.21 billion, beating our SAR 1.02 billion estimate and market consensus of SAR 883 million. Trading at a 1.7x 2019E P/B and close to our SAR 36.00 target, we continue to recommend a Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	5,098	5,577*	5,939
Prov for cred loss	1,002	303	720
Net Income	3,955	4,929*	4,884
EPS (SAR)	2.64	3.29*	3.26
DPS (SAR)	1.24	1.96*	2.00

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.8%	3.2%	3.8%
ROAE	12.2%	15.0%	14.9%
ROAA	2.1%	2.7%	3.0%
CAR	21.0%	24.1%	27.8%
P/B	1.7x	1.7x	1.7x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review / Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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