

RIYAD BANK (1010.SE)

- Riyadh Bank (Riyad) announced a net profit of SAR 441 million in 1Q2009, 36% lower than 1Q2008, and 17% lower than 4Q2008. Riyadh announced that this drop in net profit was due to provisions taken in 1Q2009 relating to the bank's investment portfolio. However, Riyadh did not announce the figure for total provisions taken in 1Q2009. We had forecasted income before provisions (IBP) to grow by 7% in 1Q2009 to reach SAR 792 million.
- On a pre-provision basis, Riyadh appears to have performed well with operating income growing by 20% compared with 1Q2008 to reach SAR 1.459 billion. Net interest income was also robust, growing by 13% compared with 1Q2008 (higher than our 7% growth forecast) and 15% compared with 4Q2008.
- Riyadh outperformed its Saudi peers in terms of balance sheet growth. Total assets still managed to grow by 5% in 1Q2009 while investments dropped by 8%. Loans grew by 4% in 1Q2009 (compared with our 8% growth forecast for the whole year) while deposits soared by 13%, exceeding our 10% growth forecast for full 2009. This is the second quarter in a row that deposits expand significantly, after surging by 20% in 4Q2008. This brought down Riyadh's loans-to-deposits ratio to 84% from a high of 103% reached in September 2008.
- In our latest update on Riyadh, we had stated that Riyadh's reclassification of all its held-for-trading investments to the available-for-sale (AFS) category could reduce the pressure on the bottom line from any further drops in the fair value of those securities. However, we had also mentioned that any significant and sustained drop in the fair value of the AFS investments will eventually need to be recognized as an impairment loss, thereby affecting Riyadh's profitability. As of December 2008, Riyadh had SAR 2.17 billion invested in mutual funds and SAR 586 million invested in equities, both part of the AFS portfolio while the bank's fair value reserve stood at negative SAR 940 million.
- With the limited data we have for now, we believe Riyadh's results appear to be good on a pre-provision basis and in terms of balance sheet growth. However, the investment portfolio continues to drastically affect Riyadh's bottom line. The continued riskiness from the investment portfolio can be better assessed after the release of full financial statements despite the lower level of disclosure that quarterly statements have as compared with yearly financial statements.
- Since our latest update on Riyadh (19th February, 2009), the stock price has risen by 16% from SAR 20.10 to SAR 23.30 (as of 22nd April). Our fair value of SAR 26.20 is now 12% over the latest closing price. Hence, we change our recommendation on Riyadh from the previous "Buy" to "Accumulate". However, we re-iterate that the investment portfolio will continue to carry its own risks and might exert pressure on Riyadh's profitability, especially in the short term.

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