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Samba Financial Group (1090.SE)

October 06, 2008

- Samba Financial Group (Samba) reported a net profit of SAR 1,203 million in 3Q2008, 8% below the same period last year, and 14% below our forecast of SAR 1,405 million. Net profit in 9M2008 reached SAR 3,628 million, 6% below the same period last year.
- Net Interest income dropped by around 2% in 3Q2008 (year-on-year) compared to our 9% growth forecast. We currently do not know the loans level at the end of September to assess whether the underperformance in terms of net interest income is driven by lower loan growth or lower margins and spreads than initially forecasted. However, the sharp increase in Saudi interbank rates that has been witnessed recently might be one reason for the underperformance in net interest income as rates on deposits re-price quicker than rates on loans.
- Deposits reached SAR 125 billion, growing by 2.7% in 3Q2008, in line with our 3% forecast.
- Samba has some exposure to instruments that were affected by the meltdown in the US mortgage market and the ensuing liquidity crisis. Provisions were taken in 4Q2007 and 1H2008. With the unavailability of financial statements for 3Q2008 yet, it is still not clear to us whether more provisions were taken during 3Q2008 and, hence, been another reason for the drop in the net profit of Samba during that quarter.
- Despite the underperformance and the drop in Samba's net profit in 3Q2008, we maintain for now our long-term fair value per share at SAR 91.70, awaiting the full financial statements to be able to make a better assessment whether a change in fair value is warranted or not. Samba was last seen trading at SAR 63.00. This represents a 46% upside potential, hence, we maintain our "Buy" recommendation.

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Related Research

- Samba Financial Group Initiation - 28 Aug. 2008