

July 13, 2010

## THE SAUDI BRITISH BANK (1060.SE)

**12-Month Fair Value: SAR 51.10**

**Last Close (12 July 2010): SAR 43.00**

**Recommendation: Accumulate - Risk Level: 2**

- The Saudi British Bank (SABB) reported a net profit of SAR 447 million in 2Q2010, 34% below 2Q2009 and 28% below 1Q2010. The level of provisions taken in 2Q2010 was not disclosed. However, it looks like provisioning was much higher in 2Q2010 compared with 1Q2010 and compared with the average quarterly figure in FY2009.
- Net interest income reached a record high of SAR 943 million in 2Q2010, 5.5% above 2Q2009 and 22% above 1Q2010, despite a decline in lending in the quarter. Non-interest income was weak, however, declining by 15% year-on-year (Y-o-Y) and by 4% quarter-on-quarter (Q-o-Q). Total operating income stood at SAR 1,360 million, 2% below 2Q2009, but 13% above 1Q2010, and 4% above our forecast for 2Q2010.
- SABB's total assets were flat in 2Q2010 and stood at SAR 120.3 billion, after having declined by 5% in 1Q2010. Net loans declined by 1% in 2Q2010 to SAR 74.8 billion at the end of June 2010, compared with SAR 75.7 billion at the end of March 2010. Deposits, on the other hand, increased by 5% in 2Q2010 to SAR 94.2 billion compared with SAR 90 billion at the end of March 2010. This took SABB's loans-to-deposits ratio (LDR) down to 79% as of June 2010, compared with 84% as of March 2010.
- The strong net interest income combined with the weak non-interest income resulted in a top-line that was slightly above our forecast for 2Q2010. The presumed high provisioning in 2Q2010, on the other hand, comes as a surprise, as we expect provisioning for SABB to decline slightly in FY2010 compared to FY2009. Our fair value estimate for SABB stands at SAR 51.10, which is 19% above the bank's latest closing price. Hence, our recommendation on the stock is "Accumulate".

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### Related Research

- SABB Analyst Comment - 14 April 2010
- SABB Update - 31 March 2010

**RISK AND RECOMMENDATION GUIDE**

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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