

SAUDI BANKING SECTOR



SECTOR UPDATE

Strong outlook at attractive valuations

The outlook for the Saudi banking sector remains strong. We continue to prefer the larger banks which are better able to tap the retail lending opportunity and trade at attractive valuations. Although NIM's will continue to contract, we expect the bottom line to be driven by loan volumes and higher YoY activity in the Tadawul. We upgrade ANB to 'Overweight' and downgrade AIBilad to 'Underweight'. All other ratings remain unchanged.

- Net profits estimates 2.8% lower for 2012E due to higher provisions**
 We reduce our net income forecast for banks under coverage by 2.8% to SR27.97bn in 2012E (+10.9% YoY) as 1Q12 net profits came 6.7% below our forecasts. This is mainly due to provisions which came in higher than expected, particularly from Al Rajhi. We, therefore, revise our forecast for provisioning in 2012 9.0% higher to SR4.55bn. Pre-provision profits are revised downwards by only 1.2% from our earlier estimate.
- Margin contraction reflects abundant liquidity and high competition**
 Based on our revised forecasts for banks under our coverage, we expect margin contraction of 5 bps higher than our previous estimate to 2.71% for 2012E. NIM's declined 15bps YoY in 1Q12 owing to abundant liquidity in the Saudi economy and aggressive lending practices from smaller banks.
- Profit growth in 2012E due to loan growth and TASI volumes**
 We believe our estimates for net income growth for 2012E will grow 10.9% YoY driven primarily by high TASI volumes activity and strong growth in loan volumes, particularly in the retail segment. Therefore, we estimate an 11.8% YoY growth in non-interest income and NSCI growth of 6.8% led by a loan growth of 12.4% YoY in 2012E.
- Upgrade ANB to 'Overweight', downgrade AIBilad to 'Underweight'**
 Due to a share price gain of 18% since our last update, we upgrade ANB to 'Overweight'; we believe the current valuation is attractive with an upside potential of 23%. We downgrade AIBilad to 'Underweight'; the stock trades at a premium P/E of 14.2x compared to sector average of 11.8x. We continue to prefer the larger banks AIRajhi, RIBL and Samba owing to their ability to capture the retail segment and their attractive valuations.

Exhibit 1: Valuation summary

	Rating	TP	Mcap	Stock perfr YTD	P/E (x) 2012E	P/BV (x) 2012E	P/Adj BV 2012E	DY (%) 2012E	ROE (%) TTM
RIBL	Overweight	32.8	34,050	(2.6)	11.1	1.2	1.2	6.2	10.6
SHB	Overweight	32.2	10,478	6.2	10.2	1.3	1.3	3.2	15.0
BSF	Overweight	39.6	30,556	0.3	9.4	1.4	1.3	2.2	15.5
SABB	Overweight	40.2	33,800	10.8	11.0	1.8	1.8	2.8	17.9
ANB	Overweight	32.5	22,695	(2.9)	11.0	1.3	1.3	5.6	13.5
SAMBA	Overweight	60.2	40,230	(4.1)	8.9	1.3	1.3	4.0	16.0
Al Rajhi	Overweight	89.2	106,500	2.2	13.9	3.4	3.2	5.7	23.4
BJAZ	Neutral	20.7	6,735	32.4	16.2	1.3	1.3	2.6	6.2
SAIB	Neutral	18.3	8,855	(0.3)	12.1	1.0	0.9	3.7	8.5
AIBilad	Underweight	21.6	8,040	35.0	14.2	2.0	1.8	-	10.1

Source: NCBC Research estimates

Mahmood Akbar

+966 2 690 7943
m.akbar@ncbc.com

JUNE 2012

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

- OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents expected returns between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.