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Saudi Banks | Europe

Life after Zakat

Valuations vs fundamentals suggest no entry point, as lower rates and loan growth hurt the earnings and dividend growth story. Two years after our bullish initiation, we downgrade Al Rajhi to Equal-weight and NCB to Underweight.

Bullish fundamental thesis largely played out. In our Jan 2017 initiation [Saudi Banks - Position Now for 2018 upside](#) we were bullish Saudi banks given (i) increasing US rates and some of the highest EPS and revenue growth; (ii) historically low multiples relative to peers and the market, and (iii) a meaningful increase in dividend payout. All three factors have largely played out by now.

Although we are nearing MSCI inclusion and Zakat has played out... Admittedly, the next six months could still provide significant outperformance, with our strategists pointing to Riyadh Bank and NCB as the stocks with the highest days to cover and therefore more geared to a flow-led re-rating. We now also incorporate the announced Zakat settlements and forecast Zakat as 10% of net income less income on government bonds: relative to what we were forecasting earlier, Al Rajhi should see Zakat charges rising ~200%, SABB ~210%; Riyadh Bank, NCB, and Samba should start paying ~60%, ~45%, and ~40% less respectively.

...stocks ignored more dovish rates expectations and potential impact of lower oil prices ... Since August, Saudi banks are up 6% while expectations for US Fed hikes in 2019 have fallen from 40bps of hikes to 16bps of easing (important for NIMs) and oil prices have fallen ~25% (potentially important for loan growth). And now the forward curve prices in another ~30bps of easing in 2020.

...which leads to 8-14% 2019-20 lower pre-Zakat EPS... Lower rates (US curve) and loan growth (3.4-5.0% in 2019-20 vs. 5.7-6.0% earlier) drive the downgrade. We no longer expect NIMs to rise beyond 2019 (+22bps YoY). Sector EPS should thus grow 7% YoY in 2019 and 1% in 2020 - a far cry vs. our previous 15% pa expectation. We are 6/14% below consensus on 2019-20 EPS.

...and implies full valuations, with risk rewards increasingly unappealing over a 12m horizon. On consensus estimates Saudi banks trade at a 55% P/E and 96% P/B premium to GEM Banks vs. 34% and 59% historical averages. While some level of premium is justified by higher ROAs, better asset quality and capital ratios, we forecast lower 2018-20 EPS growth (4% vs. 10%) and comparable ROA expansion (4bps vs. 5bps), reducing the appeal of the Saudi banks sector.

Overweight Samba and SABB; downgrade Al Rajhi to Equal-weight; NCB joins Riyadh Bank as Underweight. Samba and SABB are reasonably valued and with attractive dividend yields (>6%), retaining a preference for SABB given the Alawwal merger potential. Following the Zakat resolution, we don't see Al Rajhi's ~20% 2019-20 ROE profile as deserving a higher multiple than its 2.8x 2019e P/B. NCB and Riyadh Bank, despite their [potential merger](#) which we view as a strategic positive, have overly demanding valuations which deserve an Underweight rating.

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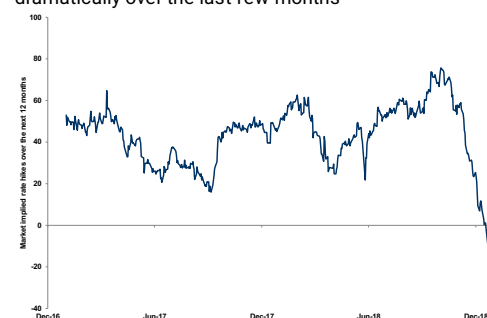
In-Line

Exhibit 1: On a 12 month horizon we now turn more cautious

Stock	Old rating	New rating	Old PT	New PT	Upside/downside
Samba	OW	OW	37.0	32.5	3%
SABB	OW	OW	35.0	33.0	0%
Al Rajhi	OW	EW	91.5	81.0	-7%
NCB	EW	UW	43.0	41.0	-14%
Riyad Bank	UW	UW	16.0	15.0	-23%

Source: Morgan Stanley Research estimates

Exhibit 2: Expectations for Fed hikes have dropped dramatically over the last few months



Source: Bloomberg, Morgan Stanley Research

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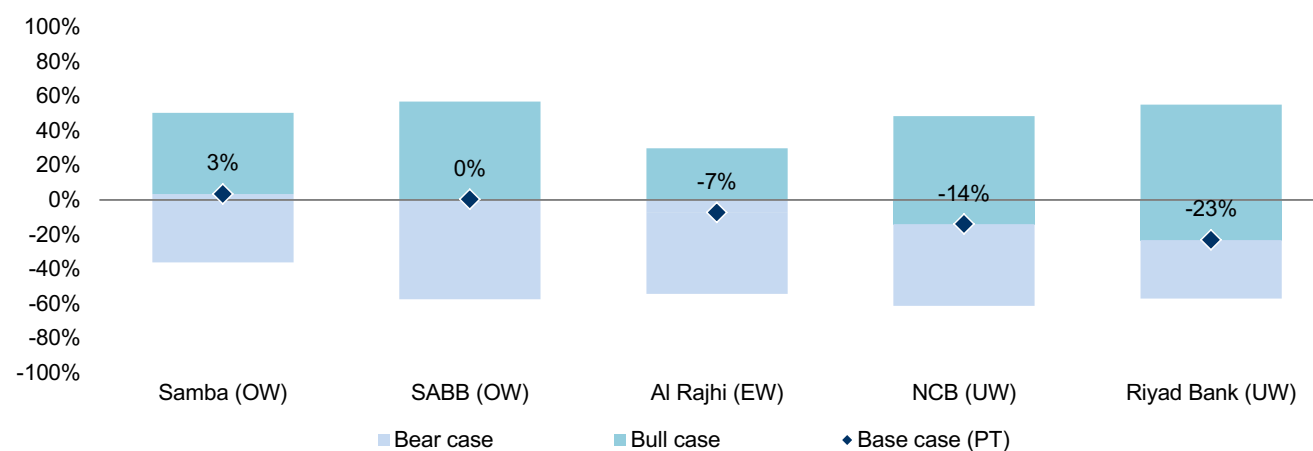
Investment case

Exhibit 3: Investment cases

	Company	Rating	Market Cap (\$bn)	Share Price (LC)	MS PT (LC)	Upside to PT	EPS ('19e) vs Cons.	Valuation (2019e)					2018-20 EPS CAGR	Investment positives	Investment negatives
								P/E	P/BV	RoAE	DY	Tier 1			
Saudi	Samba	OW	\$16.8	SAR 31.5	SAR 32.5	3%	-6%	11.7x	1.4x	12.5%	6.0%	21.2%	3%	Low cost of risk and conservative asset quality, strongest capital and attractive dividends, leading cost position	Earnings stream highly reliant on rates, lowest loan growth, strategic uncertainty in face of sector consolidation, low loan book coverage
	SABB	OW	\$13.2	SAR 32.9	SAR 33.0	0%	-12%	11.8x	1.5x	12.6%	6.1%	18.8%	0%	Alawwal merger, strong capital and attractive dividends, leading cost position, highest 2019 NIM expansion, highest loan book coverage	Noticeable loan book concentration, low loan growth, little EPS growth in 2019
	Al Rajhi	EW	\$37.9	SAR 87.5	SAR 81.0	-7%	-6%	14.0x	2.8x	20.5%	5.4%	18.9%	5%	Dominant retail position, strong capital and attractive dividends, strong retail asset quality, highest 2019 NIM expansion, highest profitability	Limited expertise in corporate lending, limited room to further improve competitive positioning
	NCB	UW	\$38.2	SAR 47.7	SAR 41.0	-14%	-12%	14.4x	2.3x	16.5%	4.6%	17.7%	6%	Strongest corporate franchise and strong retail franchise, potential merger with Riyadh Bank, highest loan growth, highest EPS growth post 2019	Turkish exposure brings cost of risk volatility, lowest capital position, sizeable government ownership
	Riyad Bank	UW	\$15.6	SAR 19.5	SAR 15.0	-23%	-3%	12.5x	1.5x	12.1%	4.1%	16.7%	6%	New management is reviving the franchise, potential merger with NCB, highest EPS growth in 2019	Low level of provisioning, volatile cost of risk, low capital ratios, limited appetite to increase dividends, lowest profitability

Source: Morgan Stanley Research estimates

Exhibit 4: Samba and SABB remain our relative Overweights.



Source: Morgan Stanley Research estimates

Exhibit 5: We no longer see NIM expansion beyond 2019...

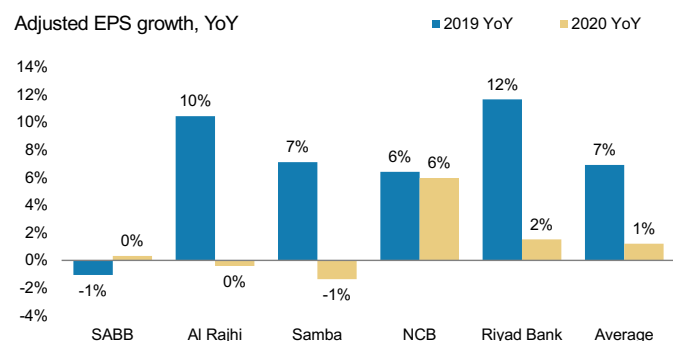
	NIM 2018e	NIM 2019e	NIM 2020e	2019e vs. 2018e	2020e vs. 2019e
Al Rajhi	3.86%	4.15%	4.09%	29	-6
Samba	2.79%	2.98%	2.86%	19	-12
NCB	3.19%	3.37%	3.31%	18	-6
SABB	3.05%	3.29%	3.19%	24	-9
Riyad	3.02%	3.23%	3.15%	21	-8
Average	3.18%	3.40%	3.32%	22	-8

Source: Morgan Stanley Research estimates

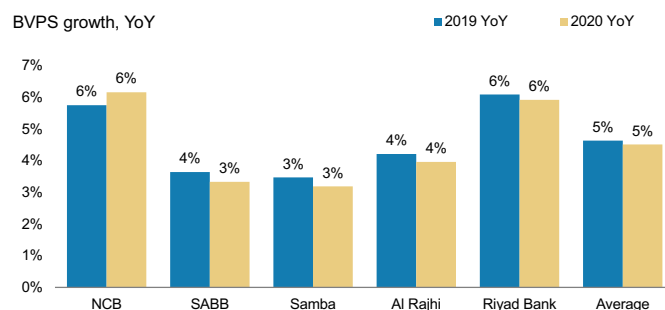
Exhibit 6: ...which should lead to a slowdown in NII growth by 2020...

	NII 2018e	NII 2019e	NII 2020e	2019e vs. 2018e	2020e vs. 2019e
Al Rajhi	13,240	14,793	15,103	12%	2%
Samba	6,211	6,805	6,739	10%	-1%
NCB	14,437	15,819	16,164	10%	2%
SABB	5,571	5,918	5,950	6%	1%
Riyad Bank	6,639	7,471	7,664	13%	3%
Average				10%	1%

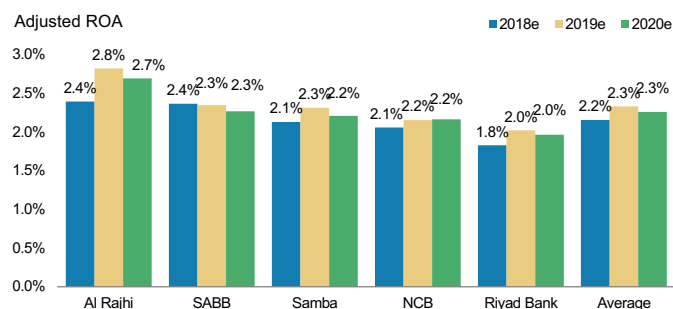
Source: Morgan Stanley Research estimates

Exhibit 7: ...and a slowdown in EPS growth


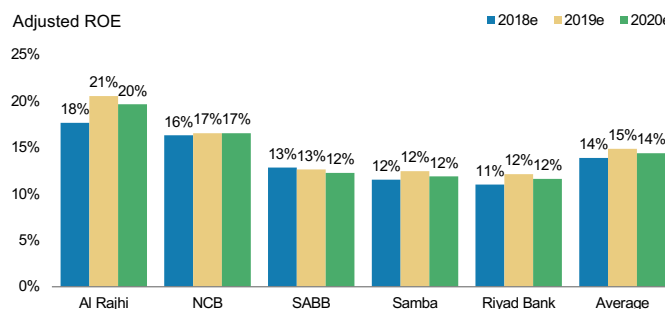
Source: Morgan Stanley Research estimates

Exhibit 8: We see average BVPS growth of 5% pa in 2019-20e.


Source: Morgan Stanley Research estimates

Exhibit 9: We forecast ROAs to peak at 2.3% in 2019e


Source: Morgan Stanley Research estimates

Exhibit 10: We see ROEs rising to 15% by 2019e


Source: Morgan Stanley Research estimates

Exhibit 11: Al Rajhi - sensitivity of adjusted net profit to loan growth and rate hikes

Al Rajhi		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.87		9,941	10,120	10,297
-1	2.87		9,941	10,120	10,297
0	3.01		10,239	10,426	10,610
1	3.14		10,537	10,732	10,924
2	3.14		10,537	10,732	10,924

Al Rajhi		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		9,456	10,112	10,780
-1	2.76		9,667	10,331	11,007
0	3.01		10,247	10,940	11,646
1	3.26		10,828	11,550	12,285
2	3.39		11,039	11,769	12,512

Al Rajhi vs. base case		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.87		-2.2%	-0.5%	1.3%
-1	2.87		-2.2%	-0.5%	1.3%
0	3.01		0.7%	2.6%	4.4%
1	3.14		3.6%	5.6%	7.5%
2	3.14		3.6%	5.6%	7.5%

Al Rajhi vs. base case		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-6.6%	-0.1%	6.5%
-1	2.76		-4.5%	2.0%	8.7%
0	3.01		1.2%	8.1%	15.0%
1	3.26		6.9%	14.1%	21.3%
2	3.39		9.0%	16.2%	23.6%

NB: We assume deposit growth in line with loan growth. In 2 cuts scenario: June 2019 and June 2020. In 1 cut scenario: June 2019. In 1 hike scenario: June 2019. In 2 hike scenario: June 2019, June 2020. Source: Morgan Stanley Research estimates

Exhibit 12: NCB - sensitivity of adjusted net profit to loan growth and rate hikes

NCB		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.87		9,669	9,826	9,981
-1	2.87		9,669	9,826	9,981
0	3.01		9,813	9,973	10,131
1	3.14		9,957	10,120	10,282
2	3.14		9,957	10,120	10,282

NCB		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		9,726	10,237	10,761
-1	2.76		9,896	10,417	10,950
0	3.01		10,190	10,728	11,279
1	3.26		10,483	11,039	11,609
2	3.39		10,654	11,219	11,798

NCB vs. base case		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		0.0%	1.6%	3.2%
-1	2.76		0.0%	1.6%	3.2%
0	3.01		1.5%	3.1%	4.8%
1	3.26		3.0%	4.7%	6.3%
2	3.39		3.0%	4.7%	6.3%

NCB vs. base case		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		0.0%	5.3%	10.6%
-1	2.76		1.8%	7.1%	12.6%
0	3.01		4.8%	10.3%	16.0%
1	3.26		7.8%	13.5%	19.4%
2	3.39		9.5%	15.4%	21.3%

NB: We assume deposit growth in line with loan growth. In 2 cuts scenario: June 2019 and June 2020. In 1 cut scenario: June 2019. In 1 hike scenario: June 2019. In 2 hike scenario: June 2019, June 2020. Source: Morgan Stanley Research estimates

Exhibit 13: Samba - sensitivity of adjusted net profit to loan growth and rate hikes

Samba		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.87		5,313	5,365	5,416
-1	2.87		5,313	5,365	5,416
0	3.01		5,501	5,554	5,608
1	3.14		5,688	5,744	5,799
2	3.14		5,688	5,744	5,799

Samba		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		5,133	5,388	5,647
-1	2.76		5,278	5,535	5,795
0	3.01		5,597	5,864	6,134
1	3.26		5,916	6,194	6,474
2	3.39		6,061	6,340	6,622

Samba vs. base case		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-1.1%	-0.1%	0.8%
-1	2.76		-1.1%	-0.1%	0.8%
0	3.01		2.4%	3.4%	4.4%
1	3.26		5.9%	6.9%	7.9%
2	3.39		5.9%	6.9%	7.9%

Samba vs. base case		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-3.2%	1.7%	6.5%
-1	2.76		-0.4%	4.4%	9.3%
0	3.01		5.6%	10.6%	15.7%
1	3.26		11.6%	16.9%	22.1%
2	3.39		14.4%	19.6%	24.9%

NB: We assume deposit growth in line with loan growth. In 2 cuts scenario: June 2019 and June 2020. In 1 cut scenario: June 2019. In 1 hike scenario: June 2019. In 2 hike scenario: June 2019, June 2020 Source: Morgan Stanley Research estimates

Exhibit 14: SABB - sensitivity of adjusted net profit to loan growth and rate hikes

SABB		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.87		4,159	4,103	4,215
-1	2.87		4,159	4,103	4,215
0	3.01		4,309	4,249	4,367
1	3.14		4,458	4,396	4,519
2	3.14		4,458	4,396	4,519

SABB		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		4,193	3,950	4,438
-1	2.76		4,295	4,050	4,544
0	3.01		4,543	4,285	4,804
1	3.26		4,790	4,520	5,064
2	3.39		4,892	4,620	5,169

SABB vs. base case		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-0.6%	-1.9%	0.8%
-1	2.76		-0.6%	-1.9%	0.8%
0	3.01		3.0%	1.6%	4.4%
1	3.26		6.6%	5.1%	8.0%
2	3.39		6.6%	5.1%	8.0%

SABB vs. base case		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-0.1%	-5.9%	5.8%
-1	2.76		2.3%	-3.5%	8.3%
0	3.01		8.2%	2.1%	14.5%
1	3.26		14.1%	7.7%	20.7%
2	3.39		16.6%	10.1%	23.2%

NB: We assume deposit growth in line with loan growth. In 2 cuts scenario: June 2019 and June 2020. In 1 cut scenario: June 2019. In 1 hike scenario: June 2019. In 2 hike scenario: June 2019, June 2020 Source: Morgan Stanley Research estimates

Exhibit 15: Riyadh Bank - sensitivity of adjusted net profit to loan growth and rate hikes

Riyad Bank		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.87		4,553	4,620	4,686
-1	2.87		4,553	4,620	4,686
0	3.01		4,741	4,812	4,882
1	3.14		4,929	5,004	5,078
2	3.14		4,929	5,004	5,078

Riyad Bank		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		4,402	4,684	4,970
-1	2.76		4,518	4,803	5,092
0	3.01		4,813	5,112	5,416
1	3.26		5,108	5,422	5,739
2	3.39		5,225	5,541	5,861

Riyad vs. base case		2019	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-2.7%	-1.3%	0.1%
-1	2.76		-2.7%	-1.3%	0.1%
0	3.01		1.3%	2.8%	4.3%
1	3.26		5.3%	6.9%	8.5%
2	3.39		5.3%	6.9%	8.5%

Riyad vs. base case		2020	Loan growth and deposit growth		
Fed hikes after Dec18	Resulting SIBOR		0.0%	5.0%	10.0%
-2	2.62		-7.4%	-1.4%	4.6%
-1	2.76		-4.9%	1.1%	7.1%
0	3.01		1.3%	7.6%	14.0%
1	3.26		7.5%	14.1%	20.8%
2	3.39		9.9%	16.6%	23.3%

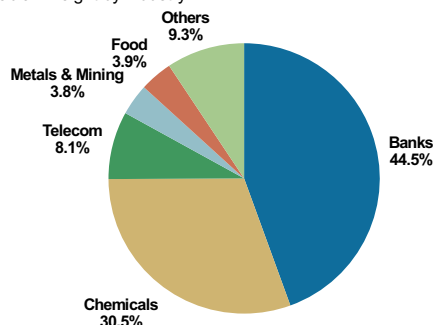
NB: We assume deposit growth in line with loan growth. In 2 cuts scenario: June 2019 and June 2020. In 1 cut scenario: June 2019. In 1 hike scenario: June 2019. In 2 hike scenario: June 2019, June 2020. Source: Morgan Stanley Research estimates

Saudi Banks - An EEMEA Strategy View

This section is an excerpt from our 11 December 2018 report, [EEMEA 2019 Key Debates](#), Marina Zavolock, Regiane Yamanari

Exhibit 16: Breakdown of provisional MSCI Saudi Arabia Index by sector – Banks and Chemicals make up 75% of the Index

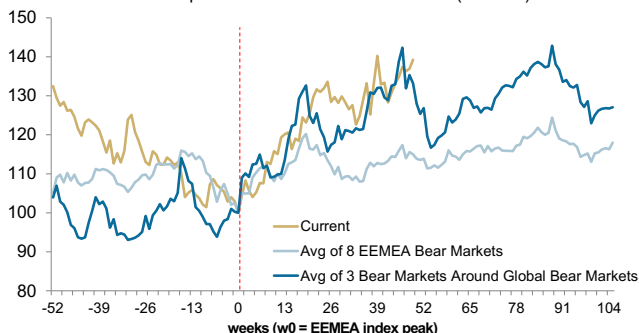
MSCI Saudi Arabia*: weight by industry



*MSCI provisional index; Source: MSCI, Morgan Stanley Research

Exhibit 17: Our bear market case study shows that Saudi Arabia tends to outperform EEMEA and EM significantly in both EEMEA and global bear markets

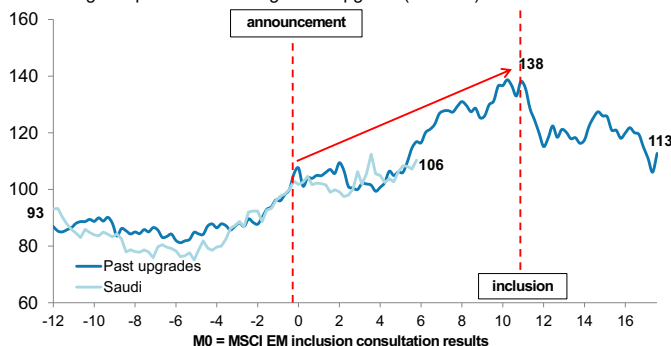
Saudi Tadawul vs EM: performance around bear markets (rebased)



Source: Bloomberg and Morgan Stanley Research

Exhibit 18: Saudi Arabia equities are following the typical pattern of outperformance of prior countries pre-MSCI EM inclusion...

Index* avg. rel. perf. vs EM during MSCI upgrade (M0=100)



Past upgrades: Qatar, UAE and Pakistan; Source: Bloomberg, MSCI and Morgan Stanley Research

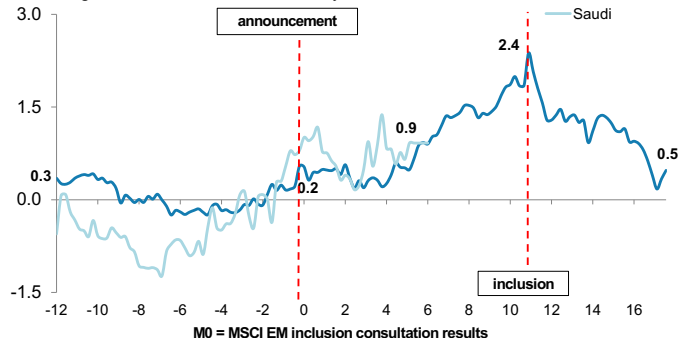
We retain our off-benchmark Overweight on Saudi Arabian equities.

We especially like that GEM fund positioning is low at just 11bp as of the end of September relative to an expected benchmark weight of 2.6% by August 2019. In addition, in our [initiation note](#), we found that Saudi Arabia has tended to outperform both EM and EEMEA during historical bear markets. This thesis is playing out and we expect Saudi Arabian equities to continue to outperform from here if markets correct further.

Our case study of prior MSCI EM inclusions (exhibits below) indicates that outperformance vs the MSCI EM index tends to continue until the point of inclusion and relative valuations can significantly overshoot historical averages. The best performance tends to come 6-8 months before inclusion. Saudi inclusion into MSCI EM will happen in two phases: June and August 2019. Saudi equities will see a steady stream of passive (and potential active) inflows from March to December 2019 on the back of both MSCI and FTSE inclusion in 2 and 5 tranches, respectively. We also like Saudi because it has a low twin deficit compared to other major Emerging Market countries. Further, the USD-peg is helpful in a volatile EM FX environment.

Exhibit 19: ...and relative valuations tend to overshoot historical averages into MSCI EM inclusion as well

Index avg. rel. fwd P/E vs EM: S.D. vs 9-yr mean



Past upgrades: Qatar, UAE and Pakistan; Source: Bloomberg, MSCI and Morgan Stanley Research

Exhibit 20: We estimate that average GEM fund Saudi Arabia equities positioning remains significantly below the expected MSCI EM benchmark weight

Country	Avg GEM Fund Weight	MSCI EM weight	Avg GEM Fund Weight vs Benchmark	% of GEM Funds UW	% of GEM Funds Zero Weight
Russia	4.38%	3.70%	67	33%	4%
Hungary	0.47%	0.29%	18	50%	43%
Saudi Arabia*	0.11%	0% [2.6%]	11 [-249]	100%	83%
Egypt	0.20%	0.13%	7	70%	61%
Turkey	0.62%	0.60%	2	63%	37%
UAE	0.68%	0.66%	1	65%	46%
Czech Republic	0.16%	0.19%	-3	78%	72%
Greece	0.19%	0.29%	-9	78%	70%
Poland	0.44%	1.22%	-78	78%	48%
Qatar	0.09%	0.93%	-84	93%	80%
South Africa	4.58%	6.08%	-150	80%	4%
EEMEA	11.92%	14.09%	-217	67%	-

*estimated weight of Saudi Arabia in MSCI EM when effective inclusion happens in mid-2019; Source: Factset, Morgan Stanley Research. Note: Data and benchmark weights as of September 30, 2018

We take a closer look at potential inflows by stock and overall into Saudi Arabian equities on the back of MSCI EM inclusion. We expect overall inflows into Saudi Arabian equities by passive funds of c. \$7.9bn and active inflows of up to c. \$20.2bn assuming investors move to Equal-weight. That said, most MSCI EM benchmarked investors we have spoken to have indicated that they do not intend to move to an Equal-weight position, hence we would assume flows somewhere between c. \$7.9bn and c. \$28.1bn, probably closer to the lower end of this range. SABIC, Al Rajhi, NCB, STC, and SAMBA are expected to see the biggest inflows in absolute US\$ terms.

Exhibit 21: Estimated flows assuming MSCI EM benchmarked funds move to EW. We expect flows to be closer to the 'passive' levels than the total (including active)

#	Ticker	Estimated impact (# days of ADTV)			Estimated inflows (USDm)		
		Passive	Active	Total	Passive	Active	Total
1	STC	61	156	217	538	1,371	1,909
2	RIBL	54	136	190	324	827	1,151
3	NCB	47	119	166	854	2,178	3,031
4	ALMARAI	43	109	152	191	486	677
5	MAADEN	41	104	145	297	758	1,055
6	BSFR	40	103	143	190	485	675
7	SACCO	39	100	139	59	151	210
8	ALBI	38	98	136	113	289	403
9	SABB	36	93	129	119	304	423
10	SAMBA	31	78	109	475	1,212	1,687
11	SECO	30	76	106	197	502	699
12	SAFCO	28	72	101	243	621	864
13	YANSAB	27	68	95	245	624	868
14	JARIR	21	54	75	140	357	497
15	APPC	21	54	75	76	194	269
16	CATERING	20	52	73	54	138	193
17	SAVOLA	19	49	68	118	301	419
18	SIIG	16	41	58	92	234	326
19	RJHI	16	41	57	1,101	2,808	3,909
20	TAWUNIYA	12	31	43	50	127	177
21	EMAAR	12	31	43	56	142	197
22	SABIC	12	30	42	1,493	3,808	5,300
23	PETROR	11	27	38	75	191	266
24	EEC	10	26	37	104	266	370
25	BUPA	9	22	31	32	81	112
26	NIC	8	21	29	90	229	319
27	BJAZ	8	20	28	91	231	322
28	KAYAN	4	9	13	174	445	619
29	ALINMA	2	6	9	254	647	900
30	ALARKAN	2	5	7	76	194	269
Total		14	36	50	7,919	20,199	28,118

Source: Bloomberg, MSCI and Morgan Stanley Research

Days to cover is even more notable – very high for certain less liquid stocks. The exhibit above shows the days it will take to cover to Equal-weight for passive and active funds by stock. Again, we would expect the total number to be somewhere between the maximum should GEM funds move to Equal-weight on Saudi Arabia and the minimum where only passive funds move to Equal-weight. STC, RIBL, NCB, ALMARAI and MAADEN should see the highest days to cover, over 40 days if taking passive funds alone, and between 145-217 days assuming both passive and active move to Equal-weight relative to the MSCI Emerging Market benchmark. We would assume the total days to cover will be somewhere between just passive and both passive and active, and likely closer to the bottom end of this range.

The New Zakat order

On December 20, banks announced their Zakat settlements up until 2017. The banks that were most severely impacted were Al Rajhi (214bps of capital, 10% of equity) and Al Jazira (107bps of capital, 5% of equity). While some banks even benefitted: NCB will see a 3bps increase in capital, and Arab National Bank a 68bps increase.

Exhibit 22: Al Rajhi had the biggest liability out of all Saudi banks

Settlement up to FY17	Announced payment	Announced reduction in equity	3Q18 Tier 1 capital	Equity reduction as % of Tier 1 capital	3Q18 RWAs	Reduction in capital (bps)
Al Rajhi	-5.41	-5.41	52.0	10%	252.6	214
Samba	-2.32	-1.82	45.1	4%	203.9	89
SABB	-1.63	-1.13	34.1	3%	171.4	66
Riyad Bank	-2.97	-0.79	36.8	2%	223.2	35
NCB	-0.18	0.11	57.0	0%	361.1	-3
Alinma	No Amount Due	Positive yet immaterial change	20.8	NA	107.4	NA
Al Jazira	-0.55	-0.55	12.2	5%	51.7	107
Saudi Investment Bank	-0.78	-0.78	14.9	5%	84.6	92
Banque Saudi Fransi	-1.51	-1.51	33.2	5%	183.7	82
Albilad	-0.39	-0.39	8.0	5%	58.9	67
Alawwal	-0.37	-0.10	14.1	1%	76.4	13
ANB	-0.65	1.11	25.2	-4%	164.7	-68
Total	-16.76	-11.25	353.34	3%	1,939.6	58

NB: In grey banks covered by Morgan Stanley. Source: Tadawul, Company data, Morgan Stanley Research

Updating our Zakat formulas. Our understanding from conversations with managements is that the formula used to calculate the retroactive liability was 10%* (net income less income from Saudi government bonds) less the amounts actually paid by the banks, which is why we utilize that formula going forward. Consequently we adjust our Zakat calculations for all banks, as shown in [Exhibit 23](#). Noticeably, the Zakat charges will be much higher at Al Rajhi, SABB; lower at the other banks under our coverage.

Exhibit 23: Zakat charges over time - using the new formula, we see higher than historical payments at Al Rajhi and SABB.

	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2012-17 average	2018-19 average
Al Rajhi													
Zakat charge	694	750	35	260	258	143	78	347	976	1,064	1,054		
BOP Equity	28,741	30,318	33,489	36,469	38,498	41,896	46,639	51,947	55,751	48,459	50,500		
Reported net income	6,771	7,378	7,885	7,438	6,836	7,130	8,126	9,121	10,180	11,231	11,179		
Zakat charge as % of BOP equity	2.4%	2.5%	0.1%	0.7%	0.7%	0.3%	0.2%	0.7%	1.8%	2.2%	2.1%	0.4%	2.0%
Zakat charge as % of reported net income	10.2%	10.2%	0.4%	3.5%	3.8%	2.0%	1.0%	3.8%	9.6%	9.5%	9.4%	2.4%	9.5%
NCB													
Zakat charge	161	453	479	890	1,047	1,265	1,282	1,483	897	896	908		
BOP Equity	29,271	31,272	34,165	37,704	40,934	45,214	48,462	53,038	56,041	58,334	61,427		
Reported net income	4,724	6,012	6,453	7,852	8,655	9,089	9,317	9,802	10,610	10,965	11,024		
Zakat charge as % of BOP equity	0.5%	1.4%	1.4%	2.4%	2.6%	2.8%	2.6%	2.8%	1.6%	1.5%	1.5%	2.4%	1.5%
Zakat charge as % of reported net income	3.4%	7.5%	7.4%	11.3%	12.1%	13.9%	13.8%	15.1%	8.5%	8.2%	8.2%	12.3%	8.3%
Samba													
Zakat charge	122	122	348	472	622	534	534	625	396	396	383		
BOP Equity	22,310	25,430	28,130	31,637	34,803	38,784	40,251	42,443	44,583	42,414	43,886		
Reported net income	4,435	4,303	4,330	4,510	5,005	5,212	5,003	5,021	5,451	5,810	5,724		
Zakat charge as % of BOP equity	0.5%	0.5%	1.2%	1.5%	1.8%	1.4%	1.3%	1.5%	0.9%	0.9%	0.9%	1.4%	0.9%
Zakat charge as % of reported net income	2.8%	2.8%	8.0%	10.5%	12.4%	10.2%	10.7%	12.5%	7.3%	6.8%	6.7%	10.7%	6.9%
SABB													
Zakat charge	30	42	47	56	63	65	60	63	258	243	242		
BOP Equity (60%)	7,827	9,103	10,300	12,039	13,700	15,643	16,905	18,767	20,007	19,489	20,199		
Reported net income (60%)	1,130	1,733	1,944	2,264	2,560	2,598	2,337	2,373	2,926	2,886	2,895		
Zakat charge as % of BOP equity	0.4%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.3%	1.3%	1.2%	1.2%	0.4%	1.2%
Zakat charge as % of reported net income	2.7%	2.4%	2.4%	2.5%	2.4%	2.5%	2.6%	2.7%	8.8%	8.4%	8.4%	2.5%	8.5%
Riyad Bank													
Zakat charge	71	150	150	200	200	250	800	500	354	372	373		
BOP Equity	28,235	29,233	30,158	31,964	33,870	35,537	36,545	36,973	38,623	37,451	39,732		
Reported net income	2,825	3,150	3,466	3,947	4,352	4,049	3,342	3,946	4,545	5,053	5,125		
Zakat charge as % of BOP equity	0.3%	0.5%	0.5%	0.6%	0.6%	0.7%	2.2%	1.4%	0.9%	1.0%	0.9%	1.0%	0.9%
Zakat charge as % of reported net income	2.5%	4.8%	4.3%	5.1%	4.6%	6.2%	23.9%	12.7%	7.8%	7.4%	7.3%	9.5%	7.5%

Source: Morgan Stanley Research estimates

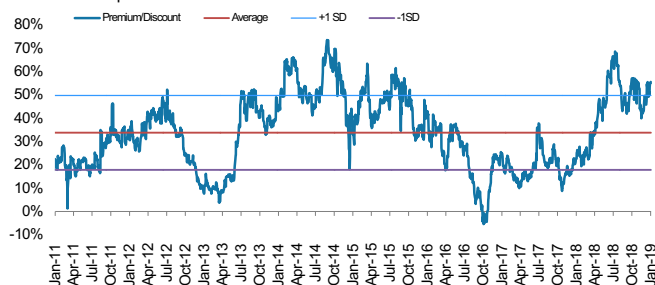
Saudi Banks vs. GEM Banks

While we continue to see a deserved valuation premium for Saudi banks relative to GEM banks, given the higher ROA, capitalization, and better asset quality - on our new estimates we are less comfortable with the extreme levels of these premia considering the lower EPS growth and the comparable ROA expansion.

Saudi banks trade at high premia vs. GEM Banks...

Exhibit 24: Saudi Banks are trading at a 55% P/E premium to GEM Banks vs. 34% historical average

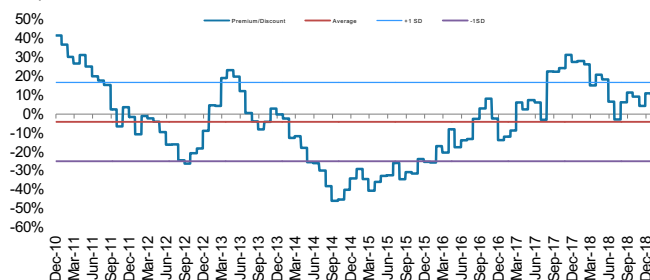
12m Fwd P/E prem/disc of Saudi Banks vs. GEM Banks



Source: Datastream, MSCI

Exhibit 25: Saudi Banks offer a dividend yield that is 6% higher than GEM banks vs -4% historically

DY premium/discount of Saudi Banks vs. GEM Banks



Source: Datastream, MSCI

Exhibit 26: Saudi Banks trade at an 97% P/B premium to GEM Banks vs. 60% historical average...

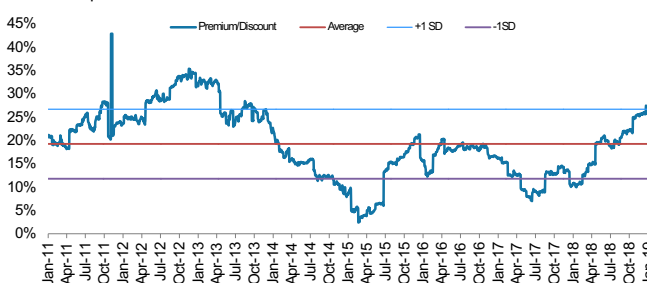
12m Fwd P/B prem/disc of Saudi Banks vs. GEM Banks



Source: Datastream, MSCI

Exhibit 27: ...with ROEs 28% higher vs GEM vs 19% historical average

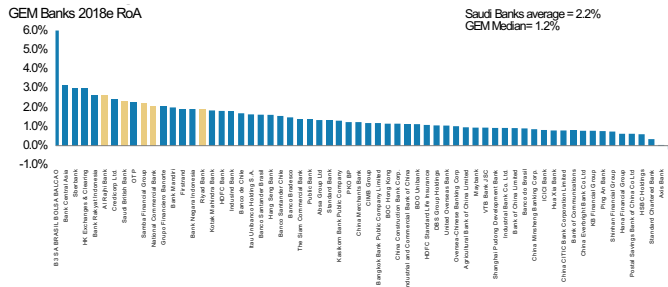
Fwd ROE prem/disc of Saudi Banks vs. GEM Banks



Source: Datastream, MSCI

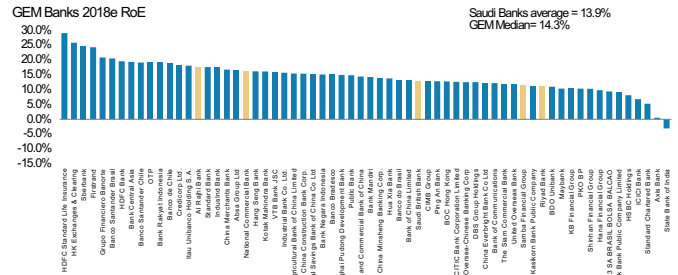
...and while a premium is justified by better fundamentals...

Exhibit 28: Saudi banks have above average ROA (2.2% vs. 1.2%)



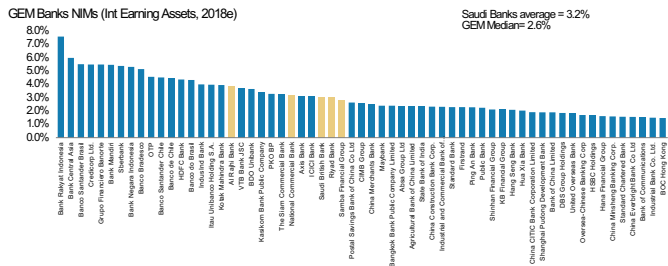
Source: Morgan Stanley Research estimates

Exhibit 29: Saudi banks have lower than average ROE (13.9% vs. 14.3%).



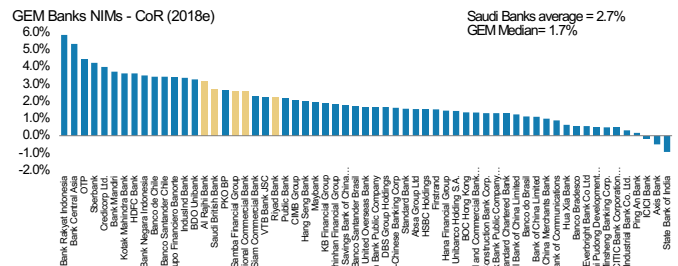
Source: Morgan Stanley Research estimates

Exhibit 30: Saudi banks have above average NIM (3.2% vs. 2.6%)...



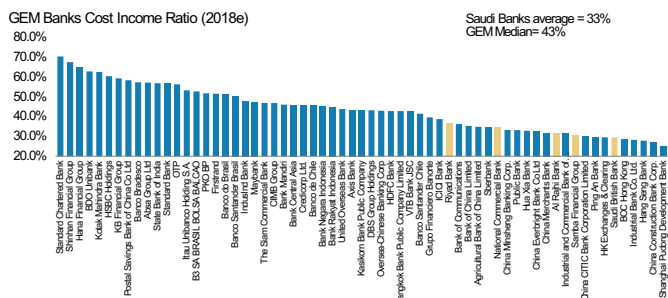
Source: Morgan Stanley Research estimates

Exhibit 31: ...even when adjusting for risk costs (2.7% vs. 1.7%)



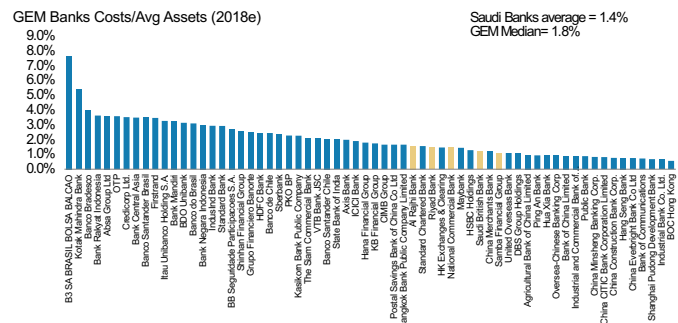
Source: Morgan Stanley Research estimates

Exhibit 32: Saudi banks have lower costs, both as a % of income (33% vs. 43%)...



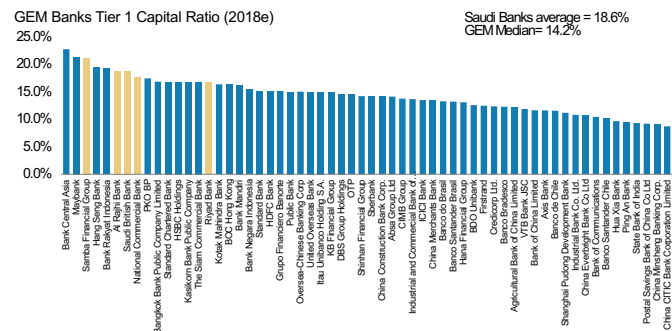
Source: Morgan Stanley Research estimates

Exhibit 33: ...and a % of assets (1.4% vs. 1.8%)



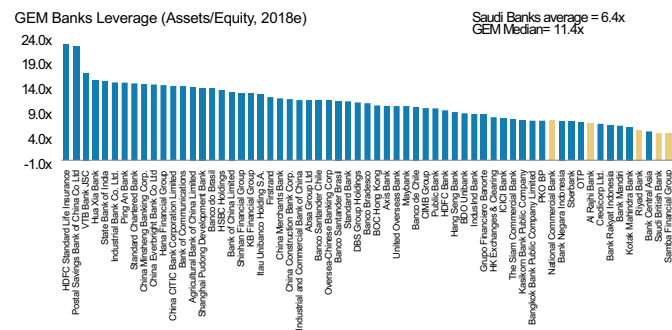
Source: Morgan Stanley Research estimates

Exhibit 34: Saudi banks are better capitalised than the average GEM bank (18.6% vs. 14.2%)...



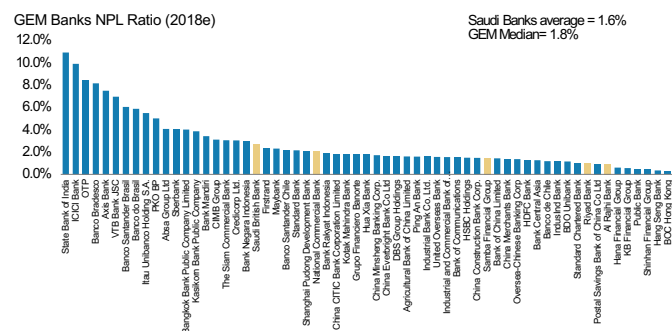
Source: Morgan Stanley Research estimates

Exhibit 35: ...and have very low leverage (6.4x vs. 11.4x)



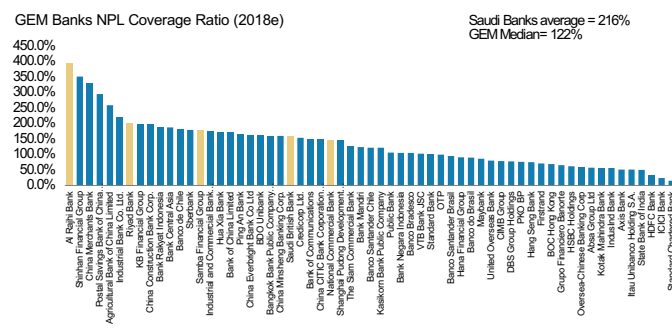
Source: Morgan Stanley Research estimates

Exhibit 36: Saudi banks have low NPL ratios (1.6% vs. 1.8%)...



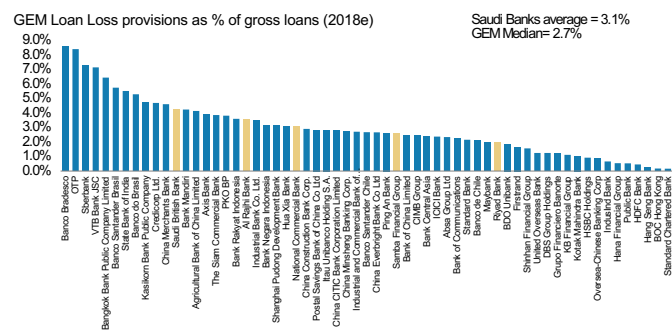
Source: Morgan Stanley Research estimates

Exhibit 37: ...with high NPL coverage (216% vs. 122%)...



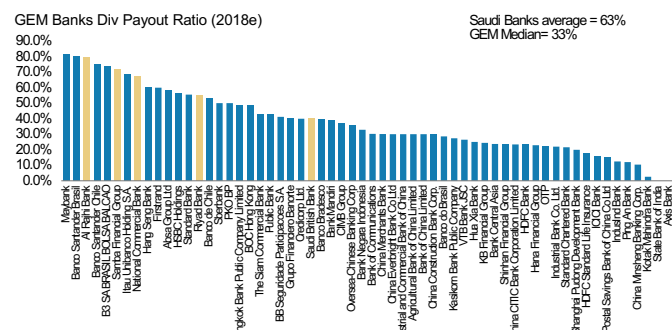
Source: Morgan Stanley Research estimates

Exhibit 38: ...and high provisioning as a % of the gross loan book (3.1% vs. 2.7%)



Source: Morgan Stanley Research estimates

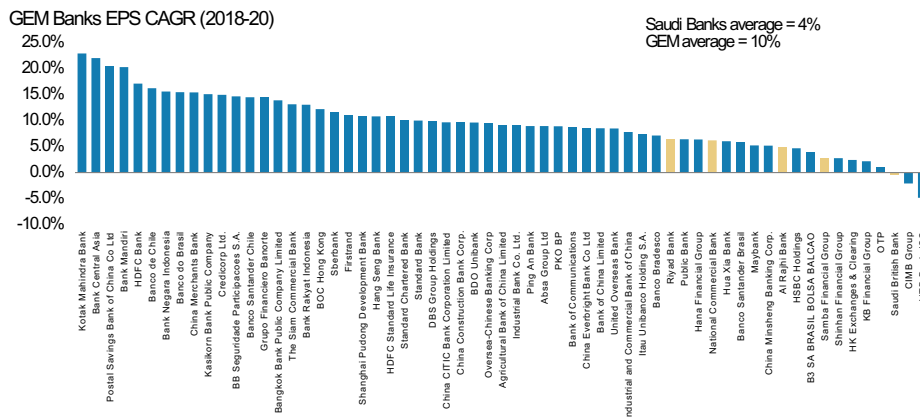
Exhibit 39: Saudi banks have above average dividend payout (63% vs. 33%)



Source: Morgan Stanley Research estimates

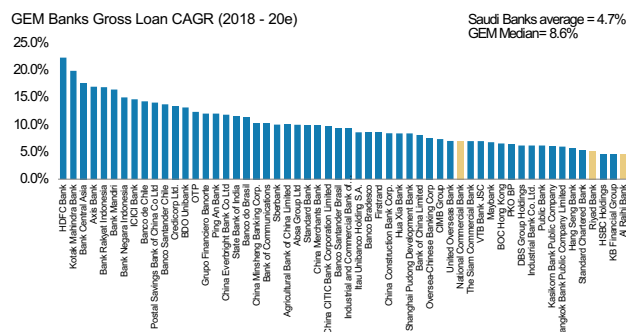
...it is no longer justified by significantly better prospects

Exhibit 40: Saudi Banks' EPS growth will lag GEM peers in 2018-20 on our estimates (4% vs. 10%)...



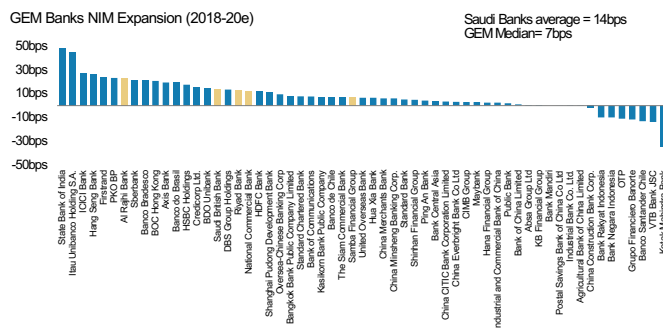
Source: Morgan Stanley Research estimates

Exhibit 41: ...partially driven by lower than average loan growth (4.7% vs. 8.6%)...



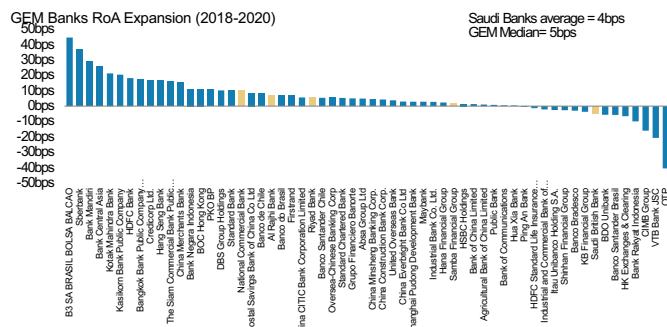
Source: Morgan Stanley Research estimates

Exhibit 42: ...and in spite of Saudi banks offering the highest NIM expansion (14bps vs. 7bps)



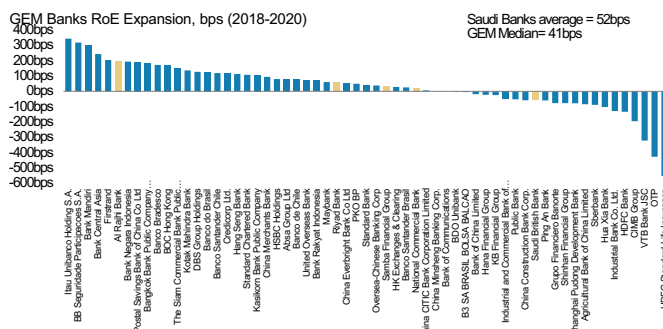
Source: Morgan Stanley Research estimates

Exhibit 43: ROA expansion should lag GEM peers (4bps vs. 5bps)...



Source: Morgan Stanley Research estimates

Exhibit 44: ...and above average ROE expansion (52bps vs. 41bps), is largely due to the Zakat settlement, which lowered Saudi banks' equity



Source: Morgan Stanley Research estimates

Changes in Sector Forecasts

Key changes:

- We modestly lower our loan growth assumptions for 2019 and 2020 given our economist's modest forecasts for GDP growth (2.1% in 2019, 2.3% in 2020) and continued sluggish economic activity. We now expect net loan growth of 3.4% in 2019 (vs. 5.7% earlier) and 5.0% in 2020 (vs. 6.0% earlier).
- We lower our rates assumptions - with average 3M SIBOR falling 27bps in 2019 to 2.93% (vs. 3.20% before) and 65bps in 2020 to 2.71% (vs. 3.36% earlier). This is to reflect the latest US forward curve, which now assumes 16bps of easing in 2019 before another 29bps of easing in 2020.
- We no longer take a scenario weighted price target as clarity on the Zakat liabilities is now higher. Before we assumed 10% probability of a status quo, 45% probability of the most punitive outcome, and a 45% probability of the least punitive outcome. Now instead we incorporate the announced Zakat liabilities and assume that the formula going forward will be $10\% \times (\text{net income less income from government bonds})$.
- For the entire sector we also remove 2H18 dividends from our total return price target, which now includes only 2019 and 2020 dividends.
- We reduce the discount period from 18 months to 12 months, therefore moving our price targets from 1H18 to YE19 as we discount 2020 earnings back by 12 months.

Exhibit 45: We lower our loan growth and rates assumptions

	2018			2019			2020		
Deposits	Old	New	Change	Old	New	Change	Old	New	Change
Demand	1,223,959	1,216,245	-1%	1,260,684	1,228,454	-3%	1,303,880	1,264,353	-3%
Time	430,927	430,562	0%	467,555	456,983	-2%	507,298	479,832	-5%
<i>Total</i>	1,654,886	1,646,807	0%	1,728,239	1,685,436	-2%	1,811,178	1,744,185	-4%
YoY change in demand deposits	4.5%	15.1%	1057bps	3.0%	1.0%	-200bps	3.4%	2.9%	-50bps
YoY change in time deposits	-3.8%	24.8%	2856bps	8.5%	6.1%	-236bps	8.5%	5.0%	-350bps
YoY change in total deposits	2.2%	17.5%	1525bps	4.4%	2.3%	-209bps	4.8%	3.5%	-131bps
Share of time deposits	26%	26%	11bps	27%	27%	6bps	28%	28%	-50bps
Loans	Old	New	Change	Old	New	Change	Old	New	Change
Retail	468,282	481,841	3%	491,697	501,406	2%	521,198	526,476	1%
Corporate	983,620	948,391	-4%	1,042,638	977,159	-6%	1,105,196	1,026,017	-7%
<i>Total</i>	1,451,903	1,430,233	-1%	1,534,334	1,478,565	-4%	1,626,394	1,552,493	-5%
YoY change in retail loans	3.6%	35.2%	3154bps	5.0%	4.1%	-94bps	6.0%	5.0%	-100bps
YoY change in corporate loans	5.2%	24.1%	1889bps	6.0%	3.0%	-297bps	6.0%	5.0%	-100bps
YoY change in total loans	4.7%	27.6%	2293bps	5.7%	3.4%	-230bps	6.0%	5.0%	-100bps
Liquidity	Old	New	Change	Old	New	Change	Old	New	Change
Loan-to-deposit ratio	87.7%	86.8%	-89bps	88.8%	87.7%	-105bps	89.8%	89.0%	-79bps
Asset quality	Old	New	Change	Old	New	Change	Old	New	Change
NPLs (as % of total loans)	2.00%	2.00%	0bps	2.30%	2.40%	10bps	2.50%	2.50%	0bps
Rates assumptions	Old	New	Change	Old	New	Change	Old	New	Change
3M US LIBOR	2.30%	2.30%	0bps	3.00%	2.73%	-27bps	3.16%	2.51%	-65bps
3M SIBOR	2.43%	2.42%	-1bps	3.20%	2.93%	-27bps	3.36%	2.71%	-65bps
<i>Spread</i>	0.13%	0.12%	-1bps	0.20%	0.20%	0bps	0.20%	0.20%	0bps

Source: Morgan Stanley Research estimates

Stock by stock changes

Al Rajhi

We downgrade Al Rajhi from Overweight to Equal-weight, with our PT falling 11% from SAR 91.50 to SAR 81.00 . Our cumulative 2018-20e adjusted EPS declines 12%. The key drivers of these changes are:

- **Higher Zakat charge in the base case.** We now implement the 10%*(net income - income from government bonds) formula to calculate Zakat, which means 185-214% higher charge.
- **Lower loan growth in 2019-20**, in line with our new sector forecasts. We now expect 2019-20 loan growth of 3.3-5.3% vs. 5.9-6.7% earlier.
- **Lower NIMs in 2019-20** as a result of lower rates and lower loan growth.
- **Lower DPS in 2019-20** by 10-13%, in line with lower 2019-20 profits to leave payout largely unchanged.

Exhibit 46: Al Rajhi forecasts - key changes

	2018			2019			2020		
Balance sheet	Old	New	Change	Old	New	Change	Old	New	Change
Investments	57,219	49,855	-13%	60,080	54,912	-9%	63,084	54,912	-13%
Loans (net)	233,489	236,081	1%	247,355	243,985	-1%	263,896	256,970	-3%
Deposits	286,919	290,614	1%	304,988	299,091	-2%	324,507	310,097	-4%
<i>of which time deposits</i>	15,777	14,828	-6%	18,932	17,852	-6%	22,718	23,207	2%
<i>Share of time deposits</i>	5%	5%	-40bps	6%	6%	-24bps	7%	7%	48bps
Shareholder's Equity	54,471	48,459	-11%	57,695	50,500	-12%	61,169	52,500	-14%
Income statement	Old	New	Change	Old	New	Change	Old	New	Change
Total Interest income	13,650	13,763	1%	15,982	15,511	-3%	17,412	15,913	-9%
Total interest expense	-506	-523	3%	-750	-718	-4%	-902	-810	-10%
NII	13,144	13,240	1%	15,232	14,793	-3%	16,511	15,103	-9%
Non-interest income	4,175	4,111	-2%	4,370	4,261	-2%	4,576	4,430	-3%
Total revenues	17,319	17,351	0%	19,603	19,055	-3%	21,086	19,532	-7%
Operating expenses	-5,503	-5,513	0%	-5,781	-5,831	1%	-6,037	-6,138	2%
Pre-provision operating profit	11,816	11,838	0%	13,822	13,224	-4%	15,049	13,395	-11%
Impairment charges	-1,744	-1,658	-5%	-2,133	-1,994	-7%	-2,277	-2,216	-3%
Other	0	0	NM	0	0	NM	0	0	NM
Reported pre-Zakat net income	10,072	10,180	1%	11,688	11,231	-4%	12,772	11,179	-12%
Zakat charge	-342	-976	185%	-339	-1,064	214%	-361	-1,054	192%
Other non-income statement charges	0	0	NM	0	0	NM	0	0	NM
Adjusted Modelware Net income	9,730	9,205	-5%	11,349	10,166	-10%	12,411	10,125	-18%
Net DPS	4.50	4.50	0%	5.25	4.75	-10%	5.75	5.00	-13%
Capital Adequacy	Old	New	Change	Old	New	Change	Old	New	Change
CET1 capital (fully loaded)	54,471	48,459	-11%	57,695	50,500	-12%	61,169	52,500	-14%
RWA	257,321	256,915	0%	274,504	267,842	-2%	294,909	282,445	-4%
CET1 Ratio (fully loaded)	21.2%	18.9%	-231bps	21.0%	18.9%	-216bps	20.7%	18.6%	-215bps
Performance ratios (%)	Old	New	Change	Old	New	Change	Old	New	Change
ROAE on Reported EPS	18.3%	19.5%	126bps	20.8%	22.7%	186bps	21.5%	21.7%	22bps
ROAE on Adjusted Modelware EPS	17.7%	17.7%	1bps	20.2%	20.5%	31bps	20.9%	19.7%	-122bps
NIM	3.84%	3.86%	2bps	4.21%	4.15%	-7bps	4.29%	4.09%	-20bps
Cost/Income	31.8%	31.8%	0bps	29.5%	30.6%	111bps	28.6%	31.4%	279bps
Cost of risk	0.72%	0.69%	-4bps	0.85%	0.80%	-5bps	0.85%	0.85%	0bps
NPL/Gross loans	0.87%	0.89%	2bps	1.02%	1.02%	0bps	1.16%	1.06%	-10bps
NPL coverage ratio	458%	397%	-61%	433%	387%	-47%	410%	367%	-44%
Regulatory loan-to-deposit ratio	84.8%	84.2%	-54bps	84.8%	84.9%	8bps	85.4%	86.2%	84bps
Net Loan growth YoY	0.0%	1.1%	111bps	5.9%	3.3%	-259bps	6.7%	5.3%	-136bps

Source: Morgan Stanley Research estimates

NCB

We downgrade NCB from Equal-weight to Underweight, with our PT falling 2% from SAR 43.0 to SAR 41.0. Our cumulative 2018-20e adjusted EPS falls 2%. The key drivers of these changes are:

- **Lower Zakat charge in the base case.** We now implement the 10%*(net income - income from government bonds) formula to calculate Zakat, which means ~45% lower charge.
- **Lower NIMs in 2019-20** as a result of lower rates.
- **Higher cost of risk in 2018-19**, after higher than expected cost of risk in both Saudi Arabia and in Turkey in 3Q18.
- In our merger note [NCB, Riyadh Bank: Announcement of merger talks](#) we set out a range of scenarios assuming different swap ratios and cost synergies levels. Based on this analysis we see a potential pre-Zakat cost synergy level of SAR 1.2-1.4bn. Given the proposed merger is still at a very early stage and no terms have been disclosed, in our Bull case for NCB and Riyadh we assume the same synergies targets as SABB/Alawwal (the only available precedent transaction) and the swap ratio at the time of announcement (which was that at which SABB/Alawwal eventually closed their deal). Thus, we add to our bull case two items, assuming the share swap ratio of 0.38 implied at the date of announcement (giving NCB 72% ownership in the combined entity): cost synergies amounting to 15% of the combined 2017 cost base (SAR 4.2/shr) and funding cost synergies assuming Riyadh Bank's funding costs would fall to NCB's level (SAR 1.2/shr).

Exhibit 47: In our bull case we now include SAR 4.2/shr worth of cost synergies from a potential merger with Riyadh Bank...

Riyad Bank's 2017 cost base	2,975
NCB's 2017 cost base	6,453
15% cost synergy of combined entity*	1,414
After Zakat (10%)	1,273
Share of NCB in merged entity at 0.38 NCB/Riyad share	72.0%
NCB 2020 P/E multiple	13.5
per NCB share	4.2

*In line with guidance from comparable transaction between SABB and Alawwal. Source: Morgan Stanley Research estimates

Exhibit 48: ...and another SAR 1.2/shr worth of funding cost synergies

Riyad Bank interest expense 2018e	1,699
Average 2018 liabilities	182,910
<i>Riyad Bank cost of funds</i>	<i>0.93%</i>
NCB Saudi interest expense 2018e	2,645
Average liabilities 2018e	371,247
<i>NCB Saudi cost of funds</i>	<i>0.71%</i>
Synergy of Riyadh Bank funding costs converging to NCB's	396
After Zakat (10%)	356
Share of NCB in merged entity	72.0%
NCB 2020 P/E multiple	13.5
per NCB share	1.2

Source: Morgan Stanley Research estimates

Exhibit 49: NCB forecasts - key changes

	2018			2019			2020		
Balance sheet	Old	New	Change	Old	New	Change	Old	New	Change
Investments	114,978	121,164	5%	117,277	115,178	-2%	120,796	117,482	-3%
Loans (net)	271,379	271,150	0%	287,995	287,804	0%	307,932	308,683	0%
Deposits	320,654	330,158	3%	340,209	336,380	-1%	362,554	358,527	-1%
of which time deposits	59,264	57,391	-3%	63,423	60,681	-4%	68,969	66,279	-4%
Share of time deposits	18%	17%	-110bps	19%	18%	-60bps	19%	18%	-54bps
Shareholder's Equity	58,635	58,334	-1%	62,717	61,689	-2%	67,350	65,488	-3%
Income statement	Old	New	Change	Old	New	Change	Old	New	Change
Total Interest income	18,503	18,487	0%	21,654	20,490	-5%	23,353	20,843	-11%
Total interest expense	-3,931	-4,051	3%	-5,098	-4,672	-8%	-5,487	-4,679	-15%
NII	14,572	14,437	-1%	16,555	15,819	-4%	17,865	16,164	-10%
Non-interest income	4,792	4,684	-2%	5,015	4,828	-4%	5,295	5,061	-4%
Total revenues	19,364	19,121	-1%	21,570	20,647	-4%	23,161	21,225	-8%
Operating expenses	-6,796	-6,583	-3%	-7,116	-6,827	-4%	-7,443	-7,053	-5%
Pre-provision operating profit	12,568	12,538	0%	14,454	13,820	-4%	15,717	14,172	-10%
Impairment charges	-1,120	-1,613	44%	-2,012	-2,245	12%	-2,007	-2,016	0%
Other	-289	-315	9%	-287	-320	11%	-276	-245	-11%
Reported pre-Zakat net income	11,159	10,610	-5%	12,154	11,255	-7%	13,434	11,911	-11%
Zakat charge	-1,565	-897	-43%	-1,690	-922	-45%	-1,815	-992	-45%
Other non-income statement charges	-377	-381	1%	-404	-402	-1%	-409	-394	-4%
Adjusted Modelware Net income	9,217	9,332	1%	10,060	9,932	-1%	11,210	10,525	-6%
Net DPS	1.90	2.10	11%	2.10	2.20	5%	2.30	2.30	0%
Capital Adequacy	Old	New	Change	Old	New	Change	Old	New	Change
CET1 capital (fully loaded)	58,559	58,444	0%	62,640	61,799	-1%	67,273	65,597	-2%
RWA	367,944	366,034	-1%	391,525	389,617	0%	419,866	417,238	-1%
CET1 Ratio (fully loaded)	15.9%	16.0%	5bps	16.0%	15.9%	-14bps	16.0%	15.7%	-30bps
Performance ratios (%)	Old	New	Change	Old	New	Change	Old	New	Change
ROAE on Reported EPS	19.5%	18.6%	-91bps	20.0%	18.8%	-128bps	20.7%	18.7%	-193bps
ROAE on Adjusted Modelware EPS	16.1%	16.3%	24bps	16.6%	16.5%	-3bps	17.2%	16.6%	-69bps
NIM	3.25%	3.19%	-6bps	3.56%	3.37%	-19bps	3.65%	3.31%	-34bps
Cost/Income	35.1%	34.4%	-67bps	33.0%	33.1%	7bps	32.1%	33.2%	109bps
Cost of risk	0.42%	0.60%	18bps	0.70%	0.78%	8bps	0.65%	0.65%	0bps
NPL/Gross loans	1.73%	2.08%	36bps	1.99%	2.47%	49bps	2.13%	2.55%	42bps
NPL coverage ratio	163%	147%	-1561bps	159%	142%	-1773bps	160%	142%	-1806bps
Regulatory loan-to-deposit ratio	83.0%	82.1%	-92bps	83.6%	86.0%	240bps	84.3%	86.8%	249bps
Net Loan growth YoY	8.9%	8.8%	-9bps	6.1%	6.1%	2bps	6.9%	7.3%	33bps

Source: Morgan Stanley Research estimates

Riyad Bank

We maintain Riyad Bank at Underweight, with our PT falling 6% from SAR 16.0 to SAR 15.0 Our 2018-20e cumulative adjusted EPS rises 3%. The key drivers of these changes are:

- **Lower Zakat charge in the base case.** We now implement the 10%*(net income - income from government bonds) formula to calculate Zakat, which means ~60% lower charge.
- **Lower loan growth in 2019-20**, in line with our new sector forecasts. We now expect 2019-20 loan growth of 4.9-5.0% vs. 5.3-5.6% earlier.
- **Lower NIMs in 2019-20** as a result of lower rates and lower loan growth.
- In our merger note [NCB, Riyad Bank: Announcement of merger talks](#) we set out a range of scenarios assuming different swap ratios and cost synergies levels. Based on this analysis we see a potential pre-Zakat cost synergy level of SAR 1.2-1.4bn. Given the proposed merger is still at a very early stage and no terms have been disclosed, in our Bull case for NCB and Riyad we assume the same synergies targets as SABB/Alawwal (the only available precedent transaction) and the swap ratio at the time of announcement (which was that at which SABB/Alawwal eventually closed their deal). Thus, we add to our bull case two items, assuming the share swap ratio of 0.38 implied at the date of announcement (giving Riyad Bank 28% ownership in the combined entity): cost synergies amounting to 15% of the combined 2017 cost base (SAR 1.5/shr) and funding cost synergies assuming Riyad Bank's funding costs would fall to NCB's level (SAR 0.4/shr).

Exhibit 50: We include in our bull case SAR 1.5/shr in cost synergies from a merger with NCB...

Riyad Bank's 2017 cost base	2,975
NCB's 2017 cost base	6,453
15% cost synergy of combined entity*	1,414
After Zakat (10%)	1,273
Share of Riyad Bank in merged entity at 0.38 NCB/Riyad share	28.0%
Riyad Bank 2020 P/E multiple	12.3
per Riyad Bank share	1.5

*In line with guidance from comparable transaction between SABB and Alawwal. Source: Morgan Stanley Research estimates

Exhibit 51: ...and SAR 0.4/shr representing the funding cost synergies

Riyad Bank interest expense 2018e	1,699
Average 2018 liabilities	182,910
Riyad Bank cost of funds	0.93%
NCB Saudi interest expense 2018e	2,645
Average liabilities 2018e	371,247
NCB Saudi cost of funds	0.71%
Synergy of Riyad Bank funding costs converging to NCB's	396
After Zakat (10%)	356
Share of NCB in merged entity	28.0%
Riyad Bank 2020 P/E multiple	12.3
per Riyad Bank share	0.4

Source: Morgan Stanley Research estimates

Exhibit 52: Riyadh Bank forecasts - Key changes

	2018			2019			2020		
Balance sheet	Old	New	Change	Old	New	Change	Old	New	Change
Investments	48,703	50,112	3%	51,138	55,249	8%	54,717	58,011	6%
Loans (net)	149,215	146,616	-2%	157,100	153,877	-2%	165,835	161,391	-3%
Deposits	157,622	161,061	2%	166,586	168,788	1%	176,849	178,163	1%
<i>of which time deposits</i>	56,463	60,213	7%	62,391	65,176	4%	68,630	69,739	2%
<i>Share of time deposits</i>	36%	37%	156bps	37%	39%	116bps	39%	39%	34bps
Shareholder's Equity	37,749	37,451	-1%	40,126	39,732	-1%	42,558	42,084	-1%
Income statement	Old	New	Change	Old	New	Change	Old	New	Change
Total Interest income	8,237	8,338	1%	10,211	9,638	-6%	11,118	9,774	-12%
Total interest expense	-1,599	-1,699	6%	-2,345	-2,167	-8%	-2,719	-2,111	-22%
NII	6,638	6,639	0%	7,866	7,471	-5%	8,398	7,664	-9%
Non-interest income	2,292	2,307	1%	2,387	2,392	0%	2,487	2,495	0%
Total revenues	8,930	8,947	0%	10,253	9,863	-4%	10,885	10,159	-7%
Operating expenses	-3,249	-3,264	0%	-3,382	-3,397	0%	-3,527	-3,542	0%
Pre-provision operating profit	5,681	5,683	0%	6,871	6,466	-6%	7,358	6,616	-10%
Impairment charges	-1,191	-1,195	0%	-1,417	-1,457	3%	-1,584	-1,535	-3%
Other	73	58	-21%	54	44	-19%	54	44	-19%
Reported pre-Zakat net income	4,564	4,545	0%	5,508	5,053	-8%	5,828	5,125	-12%
Zakat charge	-880	-354	-60%	-880	-372	-58%	-937	-373	-60%
Other non-income statement charges	0	0	NM	0	0	NM	0	0	NM
Adjusted Modelware Net income	3,684	4,192	14%	4,627	4,681	1%	4,892	4,753	-3%
Net DPS	0.77	0.77	0%	0.77	0.80	4%	0.80	0.85	6%
Capital Adequacy	Old	New	Change	Old	New	Change	Old	New	Change
CET1 capital (fully loaded)	37,749	37,451	-1%	40,126	39,732	-1%	42,558	42,084	-1%
RWA	221,647	225,162	2%	235,087	237,919	1%	250,013	250,147	0%
CET1 Ratio (fully loaded)	17.0%	16.6%	-40bps	17.1%	16.7%	-37bps	17.0%	16.8%	-20bps
Performance ratios (%)	Old	New	Change	Old	New	Change	Old	New	Change
ROAE on Reported EPS	12.0%	11.9%	0bps	14.1%	13.1%	-105bps	14.1%	12.5%	-157bps
ROAE on Adjusted Modelware EPS	9.6%	11.0%	137bps	11.9%	12.1%	25bps	11.8%	11.6%	-21bps
NIM	3.04%	3.02%	-3bps	3.47%	3.23%	-24bps	3.51%	3.15%	-37bps
Cost/Income	36.4%	36.5%	10bps	33.0%	34.4%	145bps	32.4%	34.9%	246bps
Cost of risk	0.81%	0.82%	1bps	0.90%	0.95%	5bps	0.95%	0.95%	0bps
NPL/Gross loans	1.13%	0.97%	-16bps	1.30%	1.18%	-12bps	1.48%	1.24%	-25bps
NPL coverage ratio	226%	201%	-2467bps	226%	201%	-2429bps	226%	201%	-2416bps
Regulatory loan-to-deposit ratio	92.4%	88.4%	-403bps	92.7%	89.1%	-357bps	92.8%	88.9%	-393bps
Net Loan growth YoY	7.5%	5.6%	-187bps	5.3%	5.0%	-33bps	5.6%	4.9%	-68bps

Source: Morgan Stanley Research estimates

SABB

We rate SABB Overweight, with our PT falling 6% from SAR 35 to SAR 33. Our cumulative 2018-20e adjusted EPS falls 14%. The key drivers of this change are:

- **We include cost synergies from the Alawwal merger in our base case while previously it was in our bull case.** While our base case earnings estimates don't yet include Alawwal, we estimate the value of the cost synergies for SABB shareholders at SAR 3.6/shr, adding to them to the base case price target. We assume 20% of the combined cost entity, above the 10-15% SABB/Alawwal conservatively guided for. For now, we maintain revenue synergies from funding cost optimization in the bull case (SAR 2.1/shr). See calculations in the exhibit below.
- **Higher Zakat charge in the base case.** We now implement the 10%*(net income - income from government bonds) formula to calculate Zakat, which means 177-245% higher charge.
- **Lower loan growth in 2019-20**, in line with our new sector forecasts. We now expect 2019-20 loan growth of 2.9-4.8% vs. 5.3-5.8% earlier.
- **Lower NIMs in 2019-20** in light of lower rates and loan growth.
- **Lower fee income** by 3-5% to reflect a weaker than expected 3Q18 and lack of visible catalysts for a turnaround in recent trends.

Exhibit 53: In our base case we now include SAR 3.6/shr benefit from cost synergies with Alawwal Bank

Alawwal's 2017 cost base	1,266
SABB's 2017 cost base	2,191
20% cost synergy of combined entity*	691
After Zakat (10%)	622
Share of SABB in merged entity	73.0%
SABB 2020 P/E multiple	11.8
per SABB Share	3.6

*Guidance is 10-15% Source: Morgan Stanley Research estimates

Exhibit 54: In our bull case we include SAR 2.0/shr benefit from Alawwal's funding costs converging to SABB's

Alawwal interest expense 9M18 annualized	969
Average 9M18 liabilities	78,311
Alawwal cost of funds	1.24%
SABB interest expense 2018e	1,074
Average liabilities 2018e	148,845
SABB cost of funds	0.72%
Synergy of Alawwal funding costs converging to SABB's	404
After Zakat (10%)	364
Share of SABB in merged entity	73.0%
SABB 2020 P/E multiple	11.8
per SABB share	2.1

Source: Morgan Stanley Research estimates

Exhibit 55: SABB forecasts - key changes

	2018			2019			2020		
Balance sheet	Old	New	Change	Old	New	Change	Old	New	Change
Investments	34,244	35,996	5%	34,928	37,817	8%	35,976	38,195	6%
Loans (net)	114,512	111,691	-2%	120,581	114,894	-5%	127,551	120,421	-6%
Deposits	132,931	130,201	-2%	138,135	133,856	-3%	145,530	138,837	-5%
of which time deposits	48,634	45,750	-6%	51,309	48,558	-5%	55,670	50,985	-8%
Share of time deposits	37%	35%	-145bps	37%	36%	-87bps	38%	37%	-153bps
Shareholder's Equity	33,840	32,481	-4%	35,894	33,664	-6%	38,103	34,786	-9%
Income statement	Old	New	Change	Old	New	Change	Old	New	Change
Total Interest income	6,729	6,645	-1%	8,260	7,282	-12%	9,024	7,253	-20%
Total interest expense	-1,026	-1,074	5%	-1,779	-1,364	-23%	-2,112	-1,303	-38%
NII	5,703	5,571	-2%	6,482	5,918	-9%	6,913	5,950	-14%
Non-interest income	1,936	1,869	-3%	2,020	1,930	-4%	2,109	2,013	-5%
Total revenues	7,639	7,439	-3%	8,502	7,848	-8%	9,022	7,963	-12%
Operating expenses	-2,211	-2,195	-1%	-2,276	-2,249	-1%	-2,340	-2,314	-1%
Pre-provision operating profit	5,428	5,244	-3%	6,226	5,599	-10%	6,682	5,649	-15%
Impairment charges	-502	-408	-19%	-862	-828	-4%	-913	-864	-5%
Other	50	40	-21%	50	40	-21%	50	40	-21%
Reported pre-Zakat net income	4,975	4,876	-2%	5,414	4,811	-11%	5,819	4,825	-17%
Zakat charge	-75	-258	245%	-81	-243	199%	-87	-242	177%
Other non-income statement charges	-394	-390	-1%	-433	-385	-11%	-466	-386	-17%
Adjusted Modelware Net income	4,506	4,228	-6%	4,900	4,183	-15%	5,266	4,197	-20%
Net DPS	2.00	1.96	-2%	2.20	2.00	-9%	2.40	2.10	-13%
Capital Adequacy	Old	New	Change	Old	New	Change	Old	New	Change
CET1 capital (fully loaded)	33,840	32,481	-4%	35,894	33,664	-6%	38,103	34,786	-9%
RWA	175,206	172,783	-1%	185,961	179,001	-4%	197,741	187,914	-5%
CET1 Ratio (fully loaded)	19.3%	18.8%	-52bps	19.3%	18.8%	-50bps	19.3%	18.5%	-76bps
Performance ratios (%)	Old	New	Change	Old	New	Change	Old	New	Change
ROAE on Reported EPS	14.8%	14.8%	0bps	15.5%	14.5%	-98bps	15.7%	14.1%	-163bps
ROAE on Adjusted Modelware EPS	13.4%	12.8%	-57bps	14.1%	12.6%	-140bps	14.2%	12.3%	-197bps
NIM	3.05%	3.05%	0bps	3.41%	3.29%	-12bps	3.47%	3.19%	-28bps
Cost/Income	28.9%	29.5%	56bps	26.8%	28.7%	189bps	25.9%	29.1%	313bps
Cost of risk	0.42%	0.34%	-7bps	0.70%	0.70%	0bps	0.70%	0.70%	0bps
NPL/Gross loans	2.38%	2.67%	28bps	2.71%	3.17%	46bps	2.92%	3.29%	37bps
NPL coverage ratio	181%	159%	-2266bps	176%	144%	-3206bps	170%	144%	-2602bps
Regulatory loan-to-deposit ratio	87.0%	86.4%	-53bps	88.7%	86.9%	-178bps	89.4%	88.1%	-130bps
Net Loan growth YoY	-2.1%	-4.5%	-241bps	5.3%	2.9%	-243bps	5.8%	4.8%	-97bps

Source: Morgan Stanley Research estimates

Samba

We remain Overweight on Samba despite our PT falling 12% from SAR 37 to SAR 32.5.

Our cumulative 2018-20e adjusted EPS falls 9%. The key drivers of this change are:

- **Lower Zakat charge in the base case.** We now implement the 10%*(net income - income from government bonds) formula to calculate Zakat, which means ~40% lower charge.
- **Lower loan growth in 2019-20**, in line with our new sector forecasts. We now expect 2019-20 loan growth of 1.4-3.3% vs. 3.7-3.8% earlier.
- **Lower NIMs in 2019-20** in light of lower rates and loan growth.
- **Lower fee income** by 9-11% to reflect a weaker than expected 3Q18 and lack of visible catalysts for a turnaround in recent trends.

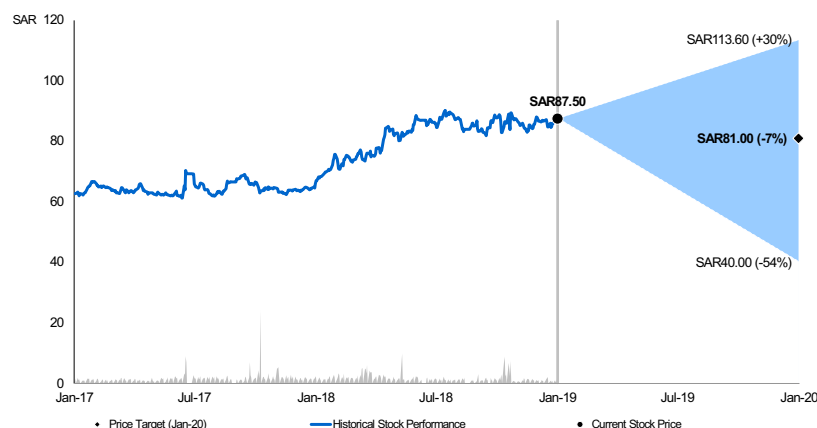
Exhibit 56: Samba forecasts - key changes

	2018			2019			2020		
Balance sheet	Old	New	Change	Old	New	Change	Old	New	Change
Investments	66,319	68,105	3%	68,309	72,955	7%	71,041	75,873	7%
Loans (net)	118,115	114,662	-3%	122,520	116,226	-5%	127,201	120,077	-6%
Deposits	167,651	170,682	2%	172,963	175,648	2%	179,221	180,667	1%
of which time deposits	61,776	68,374	11%	67,026	72,570	8%	72,724	75,291	4%
Share of time deposits	37%	40%	321bps	39%	41%	256bps	41%	42%	110bps
Shareholder's Equity	44,461	42,414	-5%	46,258	43,886	-5%	48,208	45,286	-6%
Income statement	Old	New	Change	Old	New	Change	Old	New	Change
Total Interest income	7,681	7,619	-1%	9,541	8,721	-9%	10,390	8,555	-18%
Total interest expense	-1,318	-1,407	7%	-2,196	-1,916	-13%	-2,586	-1,816	-30%
NII	6,364	6,211	-2%	7,345	6,805	-7%	7,804	6,739	-14%
Non-interest income	2,105	1,995	-5%	2,207	2,007	-9%	2,318	2,067	-11%
Total revenues	8,468	8,206	-3%	9,552	8,812	-8%	10,122	8,806	-13%
Operating expenses	-2,563	-2,508	-2%	-2,634	-2,581	-2%	-2,708	-2,650	-2%
Pre-provision operating profit	5,905	5,698	-4%	6,918	6,232	-10%	7,414	6,155	-17%
Impairment charges	-186	-238	27%	-370	-415	12%	-385	-425	10%
Other	-8	-10	NM	-8	-6	NM	-8	-6	NM
Reported pre-Zakat net income	5,711	5,451	-5%	6,540	5,810	-11%	7,022	5,724	-18%
Zakat charge	-635	-396	-38%	-643	-396	-38%	-672	-383	-43%
Other non-income statement charges	0	-41	NM	0	-41	NM	0	-41	NM
Adjusted Modelware Net income	5,076	5,013	-1%	5,897	5,373	-9%	6,350	5,300	-17%
Net DPS	1.80	1.80	0%	2.10	1.90	-10%	2.30	2.00	-13%
Capital Adequacy	Old	New	Change	Old	New	Change	Old	New	Change
CET1 capital (fully loaded)	44,483	42,493	-4%	46,280	43,966	-5%	48,230	45,366	-6%
RWA	203,212	203,929	0%	211,371	207,507	-2%	220,329	214,179	-3%
CET1 Ratio (fully loaded)	21.9%	20.8%	-105bps	21.9%	21.2%	-71bps	21.9%	21.2%	-71bps
Performance ratios (%)	Old	New	Change	Old	New	Change	Old	New	Change
ROAE on Reported EPS	12.8%	12.5%	-30bps	14.4%	13.5%	-95bps	14.9%	12.8%	-203bps
ROAE on Adjusted Modelware EPS	11.4%	11.5%	13bps	13.0%	12.5%	-55bps	13.4%	11.9%	-156bps
NIM	2.85%	2.79%	-6bps	3.19%	2.98%	-21bps	3.27%	2.86%	-42bps
Cost/Income	30.3%	30.6%	30bps	27.6%	29.3%	171bps	26.8%	30.1%	335bps
Cost of risk	0.15%	0.20%	5bps	0.30%	0.35%	5bps	0.30%	0.35%	5bps
NPL/Gross loans	1.30%	1.44%	13bps	1.46%	1.57%	12bps	1.59%	1.61%	2bps
NPL coverage ratio	185%	178%	-712bps	173%	176%	246bps	169%	174%	439bps
Regulatory loan-to-deposit ratio	72.2%	68.9%	-326bps	72.7%	68.1%	-462bps	72.9%	68.4%	-457bps
Net Loan growth YoY	0.4%	-2.6%	-293bps	3.7%	1.4%	-236bps	3.8%	3.3%	-51bps

Source: Morgan Stanley Research estimates

Al Rajhi – Risk Reward

Quality franchise that is fairly priced



Source: Thomson Reuters (historical share price data), Morgan Stanley Research estimates

Price Target SAR 81.0

P/B target multiple calculated using Gordon Growth formula with 11% COE and 5% LT growth. CET1 above 18% deemed as surplus capital. Inclusive of 2019-20 dividends. Zakat calculated as 10%*(net income-income from government bonds).

Bull SAR 113.6 (Was 108.5)

3.7x P/B. Asset yields are 50bps higher. Cost of equity is 100bps lower. Fee income is 10% higher.

Base SAR 81.0 (Was 91.5)

2.6x P/B. 3M SIBOR of 2.9% in 2019 and 2.7% in 2020. Loan growth of ~4% pa in 2019-20. 2019-20 Cost of risk of 80-85bps. Cumulative 2019-20 DPS of SAR 9.75.

Bear SAR 40.0 (Was 71.70)

1.3x P/B. Time deposits reach 20% of total. Cost of risk reaches 2009-10 levels (~150bps). Asset yields are 50bps lower.

Exhibit 57: Higher asset yields are key to our bull case

Bear case	40.00
Time deposits reach 20% of total	12.70
Cost of risk at 2009-2010 levels	13.50
Asset yields are 50bps lower	14.80
Base case	81.00
Asset yields are 50bps higher	14.80
Cost of equity is 100bps lower	14.80
Fees are 10% higher	3.00
Bull case	113.60

Source: Morgan Stanley Research estimates

Why downgrade to Equal-weight?

■ **Dominant retail position...** Al Rajhi has a 35% retail lending market share in Saudi and is best positioned to capture the opportunities related to residential mortgages and eventually private sector employment.

■ **...with strong capital and attractive dividend returns...** YE18e Tier 1 of 18.9% and strong profitability (ROA of 3.1% in 2019e) will allow Al Rajhi to maintain a strong capital position while paying out 75-80% of adjusted earnings in dividends.

■ **...and highest NIM expansion in 2019...** The low share of time deposits (6%) means high rates sensitivity - even on our more dovish expectations, we see Al Rajhi's NIM expansion outpacing peers in 2019 at 29bps.

■ **...finally in the price.** The investment positives are largely in the price at 2.8x 2019e P/E for 20.5% ROE and a 5.4% 2019e DY. We also struggle to see where the incremental positive surprise can come from given Al Rajhi is already dominant in retail and cannot further improve its funding mix.

Potential Catalysts

■ MSCI inclusion, Fed hikes, 2H18 dividend announcement.

Risks to Achieving Price Target

■ Upside risks: more hawkish rate trajectory, higher loan growth

■ Downside risks: inability to maintain strong funding position as savings products cannibalize demand deposits.

Exhibit 58: Al Rajhi – Financial summary 2016-21e

Income statement (SARm)	2016	2017	2018e	2019e	2020e	2021e
Gross interest income	11,751	12,581	13,763	15,511	15,913	16,386
Interest expense	-586	-552	-523	-718	-810	-930
Net interest income	11,165	12,029	13,240	14,793	15,103	15,455
Recurring non-interest income	3,875	3,539	3,923	4,074	4,242	4,419
Trading revenue/other income	243	336	187	187	187	187
Total Operating income	15,284	15,905	17,351	19,055	19,532	20,061
Total operating expenses	-4,949	-5,237	-5,513	-5,831	-6,138	-6,462
Profit before provisions	10,334	10,668	11,838	13,224	13,395	13,599
Impairment charge for financing, net	-2,142	-1,548	-1,658	-1,994	-2,216	-2,336
Other	-66	0	0	0	0	0
Reported pre-Zakat net income	8,126	9,121	10,180	11,231	11,179	11,263
Zakat charge	-78	-347	-976	-1,064	-1,054	-1,062
Income tax charge	0	0	0	0	0	0
AT1 interest expense	0	0	0	0	0	0
Net income adj. for reported Zakat and expenses	8,048	8,773	9,205	10,166	10,125	10,201
Number of shares	1,625	1,625	1,625	1,625	1,625	1,625
Reported EPS	5.00	5.61	6.26	6.91	6.88	6.93
Adjusted (Modelware) EPS	4.95	5.40	5.66	6.26	6.23	6.28
Balance Sheet (SARm)	2016	2017	2018e	2019e	2020e	2021e
Investments, net	34,033	36,401	49,855	54,912	54,912	52,715
Loans and advances, net	224,994	233,536	236,081	243,985	256,970	271,807
Total Assets	339,712	343,117	357,326	367,412	382,933	398,452
Due to banks	8,917	5,523	6,544	6,544	6,544	6,544
Customers' deposits	272,593	273,056	290,614	299,091	310,097	322,824
Total Liabilities	287,765	287,366	308,867	316,912	330,433	343,877
Total Shareholders Equity	51,947	55,751	48,459	50,500	52,500	54,576
RWA	248,975	251,115	256,915	267,842	282,445	297,816
Growth rates (%)	2016	2017	2018e	2019e	2020e	2021e
Net interest income	7.7	10.1	11.7	2.1	2.3	
Recurring non-interest income	-8.7	10.9	3.8	4.1	4.2	
Total Operating income	4.1	9.1	9.8	2.5	2.7	
Total operating expenses	5.8	5.3	5.8	5.3	5.3	
Profit before provisions	3.2	11.0	11.7	1.3	1.5	
Impairment charge for financing, net	-27.8	7.1	20.3	11.1	5.4	
Net income	12.2	11.6	10.3	-0.5	0.8	
Loans and advances, net	3.8	1.1	3.3	5.3	5.8	
Total Assets	1.0	4.1	2.8	4.2	4.1	
Customers' deposits	0.2	6.4	2.9	3.7	4.1	
Total Liabilities	-0.1	7.5	2.6	4.3	4.1	
RWA	0.9	2.3	4.3	5.5	5.4	

Source: Company data, Morgan Stanley Research estimates (e)

Valuation	2016	2017	2018e	2019e	2020e	2021e
3M SIBOR (%)	2.07	1.81	2.42	2.93	2.71	2.56
Share price	56.4	64.4	87.5	87.5	87.5	87.5
Reported P/E (x)	11.3	11.5	14.0	12.7	12.7	12.6
Adjusted P/E (x)	11.4	11.9	15.4	14.0	14.0	13.9
Reported P/B (x)	1.8	1.9	2.9	2.8	2.7	2.6
Net DPS (SAR)	2.25	4.00	4.50	4.75	5.00	5.00
Dividend Yield (%)	4.0	6.2	5.1	5.4	5.7	5.7
Payout on Reported EPS (%)	45	71	72	69	73	72
Payout on Adjusted EPS (%)	45	74	79	76	80	80
Performance Analysis (%)	2016	2017	2018e	2019e	2020e	2021e
ROAE on Reported EPS	16.5	16.9	19.5	22.7	21.7	21.0
ROAE on Adjusted EPS	16.3	16.3	17.7	20.5	19.7	19.1
ROAA on Reported EPS	2.5	2.8	2.6	3.1	3.0	2.9
ROAA on Adjusted EPS	2.5	2.6	2.4	2.8	2.7	2.6
NIM	3.47	3.60	3.86	4.15	4.09	4.03
PPOP	3.15	3.12	3.38	3.65	3.57	3.48
Post-provision margin	2.80	3.13	3.38	3.59	3.49	3.42
Cost/Income	32.4	32.9	31.8	30.6	31.4	32.2
Cost/Average Assets	1.51	1.53	1.57	1.61	1.64	1.65
Asset Quality (%)	2016	2017	2018e	2019e	2020e	2021e
Cost of risk	0.96	0.66	0.69	0.80	0.85	0.85
NPL/Gross loans	1.24	0.74	0.89	1.02	1.06	1.07
NPL/Equity	5.52	3.18	4.52	5.12	5.42	5.56
Loan loss reserves/Gross loans	2.86	2.32	3.55	3.93	3.91	3.73
Coverage ratio	231	314	397	387	367	347
Capital Adequacy (%)	2016	2017	2018e	2019e	2020e	2021e
CET1 Ratio (fully loaded)	20.9	22.2	18.9	18.9	18.6	18.3
Tier 1 (fully loaded)	20.9	22.2	18.9	18.9	18.6	18.3
RWA density	73.3	73.2	71.9	72.9	73.8	74.7
Liquidity/Leverage	2016	2017	2018e	2019e	2020e	2021e
Regulatory LDR (%)	85.0	87.6	84.2	84.9	86.2	87.5
Net loans/assets (%)	66.2	68.1	66.1	66.4	67.1	68.2
Deposits/assets (%)	80.2	79.6	81.3	81.4	81.0	81.0
Deposits/liabilities (%)	94.7	95.0	94.1	94.4	93.8	93.9
Demand deposits/liabilities (%)	85.4	87.6	87.6	87.1	85.2	83.5
Equity/assets (%)	15.3	16.2	13.6	13.7	13.7	13.7
Leverage (x)	6.5	6.2	7.4	7.3	7.3	7.3

NCB – Risk Reward

Difficult to square valuation with returns profile



Source: Thomson Reuters (historical share price data), Morgan Stanley Research estimates

Price Target SAR 41.00

P/B multiple calculated using Gordon Growth formula with 11% COE and 5% LT growth. CET1 >18% deemed as surplus. Inclusive of 2019-20 DPS. Zakat calculated as 10%*(net income-income from govt bonds).

Bull SAR 70.80 (was 60.90)

3.4x P/B. Asset yields in Saudi are 50bps higher. Cost and funding synergies from potential Riyadh Bank merger at 0.38/shr swap ratio. Saudi cost of risk at 2013-14 levels (~45bps). Cost of equity is 150bps lower than our base case.

Base SAR 41.00 (was 43.00)

2.0x P/B. 3M SIBOR of 2.9% in 2019, 2.7% in 2020. Loan growth of ~7% pa in 2019-20. Cost of risk of 78-65bps. Cumulative 2019-20 DPS of SAR 4.50.

Bear SAR 18.50 (was 33.00)

0.9x P/B. Asset yields are 50bps lower, Saudi cost of risk at 2010 levels (150bps), Turkish cost of risk at 250bps, Saudi funding costs are 25bps higher.

Exhibit 59: The key risk to our investment case is worse than expected asset quality

Bear case	18.50
Turkey cost of risk stays at 250bps by 2020	0.80
Funding costs in Saudi Arabia are 25bps higher	0.90
Asset yields in Saudi Arabia are 50bps lower	9.00
Saudi Cost of risk at 2010 levels	11.80
Base case	41.00
Cost of equity is 150bps lower than our base case	12.80
Asset yields in Saudi Arabia are 50bps higher	9.00
Cost synergies from merger with Riyadh Bank	4.20
Saudi Cost of risk at 2013-14 levels	2.60
Funding cost synergies from merger with Riyadh Bank	1.20
Bull case	70.80

Why move to Underweight?

■ **Strongest corporate franchise and strong retail position...**NCB has the highest corporate market share (16%) and second highest in retail (20%), leaving it best exposed to benefit from all facets of Vision 2030. This is reflected in NCB having the highest loan growth prospects in 2019-20 on our estimates (7% pa).

■ **...which could be further improved by merging with Riyadh Bank.** NCB and Riyadh Bank have confirmed merger talks (see our reaction [here](#)). This improves the bull case for NCB stock, as the merger would further improve NCB competitive advantages - with corporate/retail market shares growing to 26/30%.

■ **Yet Turkey remains a drag on returns...**Despite accounting for only 8% of loans, we expect TFKB to account for ~20% of total loan impairments at NCB group. We continue to forecast TFKB returning less than its cost of capital.

■ **...and valuation is overly demanding.** Even despite the beneficial Zakat settlement (see [here](#)), NCB's ROE profile of 16.5-16.6% in 2019-20 looks fairly priced with share trading on 2.3x P/B for 2019e. Shares also lack dividend appeal, with DY of just 4.6-4.8% in 2019-20. NCB also has the lowest capital ratios among banks in our coverage.

Potential Catalysts

■ MSCI inclusion, Fed hikes, updates on potential merger with Riyadh Bank.

Risks to Achieving Price Target

■ **Upside risks:** merger with Riyadh Bank, more hawkish rate trajectory, better asset quality

Source: Morgan Stanley Research estimates

Exhibit 60: NCB: Financial summary 2016-21e

Income statement (SARm)						
Gross interest income	2016	2017	2018e	2019e	2020e	2021e
Interest expense	17,519	17,145	18,487	20,490	20,843	21,431
Net interest income	-3,969	-3,484	-4,051	-4,672	-4,679	-4,748
Recurring non-interest income	13,550	13,661	14,437	15,819	16,164	16,683
Trading revenue/other income	4,506	4,361	4,508	4,652	4,885	5,031
Total Operating income	592	323	176	176	176	176
Total operating expenses	18,647	18,345	19,121	20,647	21,225	21,891
Profit before provisions	-7,038	-6,453	-6,583	-6,827	-7,053	-7,288
Impairment charge for financing, net	11,609	11,892	12,538	13,820	14,172	14,602
Other	-1,931	-1,864	-1,613	-2,245	-2,016	-1,520
Reported pre-Zakat net income	-361	-227	-315	-320	-245	-243
Zakat charge	9,317	9,802	10,610	11,255	11,911	12,839
Income tax charge	-1,282	-1,483	-897	-922	-992	-1,085
AT1 interest expense	0	0	0	0	0	0
Net income adj. for reported Zakat and expenses	-288	-334	-381	-402	-394	-389
	7,747	7,985	9,332	9,932	10,525	11,366
Number of shares	2,995	2,992	2,989	2,989	2,989	2,989
Reported EPS	3.11	3.28	3.55	3.76	3.98	4.29
Adjusted (Modelware) EPS	2.59	2.67	3.12	3.32	3.52	3.80
Balance Sheet (SARm)						
Investments, net	2016	2017	2018e	2019e	2020e	2021e
Loans and advances, net	111,509	114,578	121,164	115,178	117,482	115,132
Total Assets	253,592	249,234	271,150	287,804	308,683	326,004
Due to banks	442,657	443,866	461,852	473,674	500,358	517,813
Customers' deposits	45,474	48,558	48,112	48,112	48,112	48,112
Total Liabilities	315,618	308,942	330,158	336,380	358,527	371,816
Total Shareholders equity	388,431	386,590	402,748	411,345	434,374	447,480
	53,038	56,041	58,334	61,689	65,488	69,978
RWA	352,547	361,107	366,034	389,617	417,238	439,909
Growth rates (%)						
Net interest income	2016	2017	2018e	2019e	2020e	2021e
Recurring non-interest income	0.8	5.7	9.6	2.2	3.2	3.2
Total Operating income	-3.2	3.4	3.2	5.0	3.0	3.1
Total operating expenses	-1.6	4.2	8.0	2.8	3.1	3.1
Profit before provisions	-8.3	2.0	3.7	3.3	3.3	3.3
Impairment charge for financing, net	2.4	5.4	10.2	2.5	3.0	3.0
Net income	-3.5	-13.5	39.2	-10.2	-24.6	-24.6
	5.2	8.2	6.1	5.8	7.8	7.8
Loans and advances, net	-1.7	8.8	6.1	7.3	5.6	5.6
Total Assets	0.3	4.1	2.6	5.6	3.5	3.5
Customers' deposits	-2.1	6.9	1.9	6.6	3.7	3.7
Total Liabilities	-0.5	4.2	2.1	5.6	3.0	3.0
RWA	2.4	1.4	6.4	7.1	5.4	5.4
Valuation						
3M SIBOR (%)	2016	2017	2018e	2019e	2020e	2021e
Share price	2.07	1.81	2.42	2.93	2.71	2.56
Reported P/E (x)	26.6	30.9	47.7	47.7	47.7	47.7
Adjusted P/E (x)	8.5	9.4	13.4	12.7	12.0	11.1
Reported P/B (x)	10.3	11.6	15.3	14.4	13.5	12.5
Net DPS (SAR)	1.5	1.6	2.4	2.3	2.2	2.0
Dividend Yield (%)	1.07	1.13	2.10	2.20	2.30	2.40
Payout on Reported EPS (%)	4.0	3.7	4.4	4.6	4.8	5.0
Payout on Adjusted EPS (%)	34	35	59	58	58	56
Performance Analysis (%)	41	42	67	66	65	63
ROAE on Reported EPS	2016	2017	2018e	2019e	2020e	2021e
ROAE on Adjusted EPS	18.4	18.0	18.6	18.8	18.7	19.0
ROAA on Reported EPS	15.3	14.6	16.3	16.5	16.6	16.8
ROAA on Adjusted EPS	2.2	2.3	2.3	2.4	2.5	2.6
NIM	1.8	1.8	2.1	2.2	2.2	2.3
PPOP	3.03	3.08	3.19	3.37	3.31	3.27
Post-provision margin	2.60	2.68	2.77	2.95	2.91	2.87
Cost/Income	2.66	2.73	2.91	2.97	2.97	3.04
Cost/Average Assets	37.7	35.2	34.4	33.1	33.2	33.3
Asset Quality (%)	1.58	1.46	1.45	1.46	1.45	1.43
Cost of risk	2016	2017	2018e	2019e	2020e	2021e
NPL/Gross loans	0.75	0.72	0.60	0.78	0.65	0.46
NPL/Equity	1.51	1.86	2.08	2.47	2.55	2.55
Loan loss reserves/Gross loans	7.40	8.51	9.99	11.96	12.47	12.31
Coverage ratio	2.28	2.66	3.07	3.51	3.63	3.63
Capital Adequacy (%)	151	143	147	142	142	142
CET1 ratio (fully loaded)	2016	2017	2018e	2019e	2020e	2021e
Tier 1 (fully loaded)	15.3	15.7	16.0	15.9	15.7	15.9
RWA density	16.9	17.7	17.9	17.7	17.4	17.5
Liquidity/Leverage	79.6	81.4	79.3	82.3	83.4	85.0
Regulatory LDR (%)	2016	2017	2018e	2019e	2020e	2021e
Net loans/assets (%)	78.3	78.5	82.1	86.0	86.8	88.4
Deposits/assets (%)	57.3	56.2	58.7	60.8	61.7	63.0
Deposits/liabilities (%)	71.3	69.6	71.5	71.0	71.7	71.8
Demand deposits/liabilities (%)	81.3	79.9	82.0	81.8	82.5	83.1
Equity/assets (%)	57.6	61.5	64.6	63.9	64.2	64.2
Leverage (x)	12.0	12.6	12.6	13.0	13.1	13.5
	8.3	7.9	7.9	7.7	7.6	7.4

Source: Company data, Morgan Stanley Research estimates (e)

Riyad Bank – Risk Reward

Excessive optimism priced in



Source: Thomson Reuters (historical share price data), Morgan Stanley Research estimates

Price Target SAR 15.0

P/B multiple calculated using Gordon Growth formula with 11% COE and 5% LT growth. CET1 >18% deemed as surplus. Inclusive of 2019-20 DPS. Zakat calculated as 10%*(net income-income from govt bonds).

Bull SAR 30.30 (Was 19.60)

2.3x P/B. Cost of equity 100bps lower. Asset yields are 50bps higher. Share of demand deposits rises to 65%. Cost of risk at 2013 levels (50bps), cost and funding synergies from potential merger with NCB at 0.38/shr swap ratio.

Base SAR 15.0 (Was 16.0)

1.1x P/B. 3M SIBOR of 2.9% in 2019 and 2.7% in 2020. Loan growth of ~5% pa in 2019-20. 2019-20. Cost of risk of 95bps. Cumulative 2019-20 DPS of SAR 1.65.

Bear SAR 8.40 (Was 9.80)

0.6x P/B. Asset yields -50bps, CoR at 2012 levels (100bps), 10% pa cost inflation.

Exhibit 61: Higher rates key to our bull case

Bear case	8.40
Cost of risk at 2012 levels	0.30
Cost inflation of 10% pa	1.60
Asset yields are 50bps lower	4.70
Base case	15.00
Asset yields are 50bps higher	4.70
Share of demand deposits rises to 65%	3.10
Cost of risk at 2013 levels	2.80
Cost of equity 100bps lower	2.80
Cost synergies from merger with NCB	1.50
Funding cost synergies from merger with NCB	0.40
Bull case	30.30

Source: Morgan Stanley Research estimates

Why Underweight?

■ **Franchise turnaround potential...**Riyad Bank has done a very good job of improving its funding costs (share of demand deposits rose from a low of 43% in late 2016 to 53-54% currently). Riyad Bank has also started investing in modernizing its sizeable retail network, which has helped it halt a multi-year decline in market shares.

■ **...which could further improve by the potential merger with NCB.** Together, the entity would have a 26% market share in corporate lending and 30% in retail.

■ **...yet asset quality remains a question mark, with relatively low capital ratios and the lowest levels of profitability.** Loan book coverage of 2.0% at YE18e is low relative to peers. Tier 1 ratio at YE18e of 16.6% is comfortable but below peers. PPOP margin of 2.8% in 2019e is the lowest in our coverage.

■ **Valuation unjustified.** Shares trade at 1.5x 2019e P/B for a 12.1% ROE which we forecast will decline to 11.2% by 2021. Shares trade at a premium to higher quality and more profitable franchises like Samba and SABB.

Potential Catalysts

■ MSCI inclusion, Fed hikes, updates on potential merger with NCB.

Risks to Achieving Price Target

■ **Upside risks:** More hawkish rates trajectory, further funding cost improvement, attractive terms in a potential merger with NCB.

Exhibit 62: Riyadh Bank – Financial Summary 2016-2021e

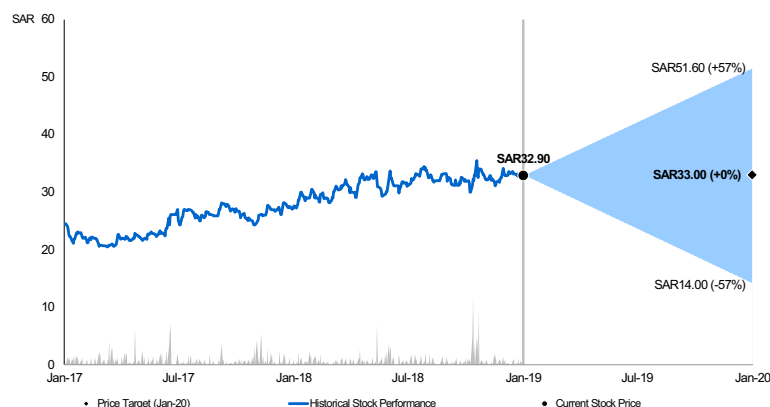
Income statement (SARm)	2016	2017	2018e	2019e	2020e	2021e
Gross interest income	7,313	7,425	8,338	9,638	9,774	10,012
Interest expense	-2,012	-1,490	-1,699	-2,167	-2,111	-2,111
Net interest income	5,301	5,935	6,639	7,471	7,664	7,901
Recurring non-interest income	1,904	1,801	1,974	2,059	2,162	2,227
Trading revenue/other income	498	390	333	333	333	333
Total Operating income	7,702	8,125	8,947	9,863	10,159	10,461
Total operating expenses	-3,009	-2,975	-3,264	-3,397	-3,542	-3,684
Profit before provisions	4,693	5,150	5,683	6,466	6,616	6,777
Impairment charge for financing, net	-1,286	-1,227	-1,195	-1,457	-1,535	-1,617
Other	-64	23	58	44	44	44
Reported pre-Zakat net income	3,342	3,946	4,545	5,053	5,125	5,203
Zakat charge	-800	-500	-354	-372	-373	-375
Income tax charge	0	0	0	0	0	0
AT1 interest expense	0	0	0	0	0	0
Net income adj. for Zakat and expenses	2,542	3,446	4,192	4,681	4,753	4,828
Number of shares	3,000	3,000	3,000	3,000	3,000	3,000
Reported EPS	1.11	1.32	1.52	1.68	1.71	1.73
Adjusted (Modelware) EPS	0.85	1.15	1.40	1.56	1.58	1.61
Balance Sheet (SARm)	2016	2017e	2018e	2019e	2020e	2021e
Investments, net	45,157	46,370	50,112	55,249	58,011	60,912
Loans and advances, net	142,909	138,838	146,616	153,877	161,391	170,580
Total Assets	217,619	216,282	225,612	238,136	248,559	260,819
Due to banks	8,837	7,056	7,199	7,199	7,199	7,199
Customers' deposits	156,683	154,366	161,061	168,788	178,163	189,483
Total Liabilities	180,646	177,659	188,161	198,404	206,475	216,457
Total Shareholders Equity	36,973	38,623	37,451	39,732	42,084	44,362
RWA	226,218	223,070	225,162	237,919	250,147	264,158
Growth rates (%)	2016	2017	2018e	2019e	2020e	2021e
Net interest income	12.0	11.9	12.5	2.6	3.1	
Recurring non-interest income	-5.4	9.7	4.3	5.0	3.0	
Total Operating income	5.5	10.1	10.2	3.0	3.0	
Total operating expenses	-1.1	9.7	4.1	4.3	4.0	
Profit before provisions	9.7	10.3	13.8	2.3	2.4	
Impairment charge for financing, net	-4.6	-2.6	21.9	5.4	5.4	
Net income	18.1	15.2	11.2	1.4	1.5	
Loans and advances, net	-2.8	5.6	5.0	4.9	5.7	
Total Assets	-0.6	4.3	5.6	4.4	4.9	
Customers' deposits	-1.5	4.3	4.8	5.6	6.4	
Total Liabilities	-1.7	5.9	5.4	4.1	4.8	
RWA	-1.4	0.9	5.7	5.1	5.6	

Source: Company data, Morgan Stanley Research estimates (e)

Valuation	2016	2017	2018e	2019e	2020e	2021e
3M SIBOR (%)	2.07	1.81	2.42	2.93	2.71	2.56
Share price	10.9	11.1	19.5	19.5	19.5	19.5
Reported P/E (x)	9.8	8.4	12.9	11.6	11.4	11.3
Adjusted P/E (x)	12.9	9.6	14.0	12.5	12.3	12.1
Reported P/B (x)	0.9	0.9	1.6	1.5	1.4	1.3
Net DPS (SAR)	0.65	0.73	0.77	0.80	0.85	0.90
Dividend Yield (%)	6.0	6.6	3.9	4.1	4.4	4.6
Payout on Reported EPS (%)	58	55	51	47	50	52
Payout on Adjusted EPS (%)	77	64	55	51	54	56
Performance Analysis (%)	2016	2017	2018e	2019e	2020e	2021e
ROAE on Reported EPS	9.1	10.4	11.9	13.1	12.5	12.0
ROAE on Adjusted EPS	6.9	9.1	11.0	12.1	11.6	11.2
ROAA on Reported EPS	1.5	1.9	2.0	2.2	2.1	2.0
ROAA on Adjusted EPS	1.2	1.6	1.8	2.0	2.0	1.9
NIM	2.42	2.75	3.02	3.23	3.15	3.10
PPOP	2.13	2.37	2.57	2.79	2.72	2.66
Post-provision margin	1.83	2.18	2.47	2.60	2.52	2.46
Cost/Income	39.1	36.6	36.5	34.4	34.9	35.2
Cost/Average Assets	1.36	1.37	1.48	1.47	1.46	1.45
Asset Quality (%)	2016	2017	2018e	2019e	2020e	2021e
Cost of risk	0.88	0.86	0.82	0.95	0.95	0.95
NPL/Gross loans	0.80	1.00	0.97	1.18	1.24	1.24
NPL/Equity	3.13	3.66	3.88	4.69	4.86	4.88
Loan loss reserves/Gross loans	1.77	1.48	1.96	2.38	2.49	2.49
Coverage ratio	223	148	201	201	201	201
Capital Adequacy (%)	2016	2017	2018e	2019e	2020e	2021e
CET1 Ratio (fully loaded)	16.3	17.3	16.6	16.7	16.8	16.8
Tier 1 Ratio (fully loaded)	16.3	17.3	16.6	16.7	16.8	16.8
RWA density	104.0	103.1	99.8	99.9	100.6	101.3
Liquidity/Leverage	2016	2017	2018e	2019e	2020e	2021e
Regulatory LDR (%)	88.3	86.8	88.4	89.1	88.9	88.6
Net loans/assets (%)	91.2	89.9	91.0	91.2	90.6	90.0
Deposits/assets (%)	72.0	71.4	71.4	70.9	71.7	72.6
Deposits/liabilities (%)	86.7	86.9	85.6	85.1	86.3	87.5
Demand deposits/liabilities (%)	43.1	45.6	45.8	44.8	45.2	45.3
Equity/assets (%)	17.0	17.9	16.6	16.7	16.9	17.0
Leverage (x)	5.9	5.6	6.0	6.0	5.9	5.9

SABB – Risk Reward

Relative value among Saudi banks



Source: Thomson Reuters (historical share price data), Morgan Stanley Research estimates

Price Target SAR 33.0

P/B target multiple calculated using Gordon Growth formula with 11% COE and 5% LT growth. CET1 above 18% deemed as surplus capital. Inclusive of 2019-20 dividends. Zakat calculated as 10%*(net income-income from government bonds).

Bull SAR 51.60 (Was 48.5)

2.3x P/B. Asset yields are 50bps higher. Cost of risk at 2014-15 levels (~37bps). Cost of equity 100bps lower. Alawwal funding costs reach SABB's level.

Base SAR 33.00 (Was 35.0)

1.5x P/B. 3M SIBOR of 2.9% in 2019 and 2.7% in 2020. Loan growth of ~4% pa in 2019-20. 2019-20 Cost of risk of 70bps. Cumulative 2019-20 DPS of SAR 4.10. Cost synergies from Alawwal merger.

Bear SAR 14.00 (Was 26.60)

0.6x P/B. Asset yields are 50bps lower, funding costs 25bps higher, cost of risk rises to 2009-10 levels (~175bps).

Exhibit 63: Higher rates are key to our bull case

Bear case	14.00
Funding costs 25bps higher	1.10
Asset yields are 50bps lower	8.00
Cost of risk at 2009-10 levels	9.90
Base case	33.00
Asset yields are 50bps higher	8.00
Cost of equity is 100bps lower	5.30
Cost of risk at 2014-15 levels	3.20
Alawwal funding costs reach SABB's level	2.10
Bull case	51.60

Source: Morgan Stanley Research estimates

Why Overweight?■ **Strong strategic position, aided by merger.**

By merging with Alawwal, SABB will become the second largest corporate bank in Saudi (~15% market share) and will be able to improve its appeal as a retail franchise. This puts SABB in a prime position to benefit from Vision 2030 initiatives.

■ **Proactive asset quality control reduces tail risks.** SABB has increased provisioning levels ahead of peers and its gross loan book coverage now stands at >5%, the highest among peers. However, we do realize that SABB's loan book concentration has been fairly noticeable in the past.

■ **Highest NIM expansion in 2019 in spite of more dovish rates expectations.** We forecast 28bps NIM expansion in 2019.

■ **Strong capital, attractive dividends and still sensible valuation.** Tier 1 of 18.8% at YE18e, combined with strong profitability (ROA of 2.3% in 2019e) means SABB will be able to pay ~70-75% of adjusted earnings in 2019-20 without compromising its capital position, while offering a 6.1-6.4% DY.

Potential Catalysts

■ MSCI inclusion, Fed hikes, updates on potential merger with Alawwal.

Risks to Achieving Price Target

■ Worse asset quality, further loan book shrinkage (-15% since peak at 2Q16)

Exhibit 64: SABB: financial summary 2016-21e

Income statement (SARm)	2016	2017	2018e	2019e	2020e	2021e
Gross interest income	6,075	6,051	6,645	7,282	7,253	7,389
Interest expense	-1,318	-953	-1,074	-1,364	-1,303	-1,279
Net interest income	4,757	5,098	5,571	5,918	5,950	6,110
Recurring non-interest income	1,819	1,687	1,620	1,662	1,745	1,797
Trading revenue/other income	333	342	249	268	268	268
Total Operating Income	6,909	7,127	7,439	7,848	7,963	8,176
Total Operating Expenses	-2,084	-2,191	-2,195	-2,249	-2,314	-2,385
Profit before provisions	4,825	4,936	5,244	5,599	5,649	5,791
Impairment charge for financing, net	-945	-1,002	-408	-828	-864	-911
Other	14	20	40	40	40	40
Reported pre-Zakat net income	3,895	3,955	4,876	4,811	4,825	4,920
Zakat charge	-60	-63	-258	-243	-242	-248
Income tax charge	-314	-317	-390	-385	-386	-394
AT1 interest expense	0	0	0	0	0	0
Net income adj. for reported Zakat and expenses	3,521	3,575	4,228	4,183	4,197	4,278
Number of shares	1,500	1,500	1,500	1,500	1,500	1,500
Reported EPS	2.60	2.64	3.25	3.21	3.22	3.28
Adjusted (Modelware) EPS	2.35	2.38	2.82	2.79	2.80	2.85
Balance Sheet	2016	2017	2018e	2019e	2020e	2021e
Investments, net	29,273	26,977	35,996	37,817	38,195	38,195
Loans and advances, net	120,965	117,006	111,691	114,894	120,421	127,403
Total Assets	186,056	187,615	176,150	181,281	187,905	195,632
Due to banks	3,419	3,691	1,198	1,198	1,198	1,198
Customers' deposits	140,640	140,240	130,201	133,856	138,837	145,036
Total Liabilities	154,777	154,145	143,546	147,494	152,996	159,594
Total Shareholders Equity	31,279	33,345	32,481	33,664	34,786	35,914
RWA	177,747	178,580	172,783	179,001	187,914	198,477
Growth rates (%)	2016	2017	2018e	2019e	2020e	2021e
Net interest income	7.2	9.3	6.2	0.5	2.7	
Recurring non-interest income	-7.3	-4.0	2.6	5.0	3.0	
Total Operating Income	3.2	4.4	5.5	1.5	2.7	
Total Operating Expenses	5.1	0.2	2.4	2.9	3.0	
Profit before provisions	2.3	6.2	6.8	0.9	2.5	
Impairment charge for financing, net	6.1	-59.3	103.1	4.3	5.4	
Net income	1.5	23.3	-1.3	0.3	2.0	
Loans and advances, net	-3.3	-4.5	2.9	4.8	5.8	
Total Assets	0.8	-6.1	2.9	3.7	4.1	
Customers' deposits	-0.3	-7.2	2.8	3.7	4.5	
Total Liabilities	-0.4	-6.9	2.8	3.7	4.3	
RWA	0.5	-3.2	3.6	5.0	5.6	

Source: Company data, Morgan Stanley Research estimates (e)

Valuation	2016	2017	2018e	2019e	2020e	2021e
3M SIBOR (%)	2.07	1.81	2.42	2.93	2.71	2.56
Share price	21.0	24.5	32.9	32.9	32.9	32.9
Reported P/E (x)	8.1	9.3	10.1	10.3	10.2	10.0
Adjusted P/E (x)	8.9	10.3	11.7	11.8	11.8	11.5
Reported P/B (x)	1.0	1.1	1.5	1.5	1.4	1.4
Net DPS (SAR)	0.70	1.42	1.96	2.00	2.10	2.10
Dividend Yield (%)	3.3	5.8	6.0	6.1	6.4	6.4
Payout on Reported EPS (%)	27	54	60	62	65	64
Payout on Adjusted EPS (%)	30	60	70	72	75	74
Performance Analysis (%)	2016	2017	2018e	2019e	2020e	2021e
ROAE on Reported EPS	13.1	12.2	14.8	14.5	14.1	13.9
ROAE on Adjusted EPS	11.8	11.1	12.8	12.6	12.3	12.1
ROAA on Reported EPS	2.2	2.2	2.7	2.7	2.6	2.6
ROAA on Adjusted EPS	2.0	2.0	2.4	2.3	2.3	2.2
NIM	2.56	2.73	3.05	3.29	3.19	3.15
PPOP	2.58	2.64	2.88	3.13	3.06	3.02
Post-provision margin	2.05	2.19	2.83	2.83	2.73	2.68
Cost/Income	30.2	30.7	29.5	28.7	29.1	29.2
Cost/Average Assets	1.11	1.17	1.21	1.26	1.25	1.24
Asset Quality (%)	2016	2017	2018e	2019e	2020e	2021e
Cost of risk	0.75	0.82	0.34	0.70	0.70	0.70
NPL/Gross loans	1.34	1.57	2.67	3.17	3.29	3.29
NPL/Equity	4.89	5.35	9.07	10.82	11.41	11.71
Loan loss reserves/Gross loans	2.50	3.10	4.55	5.13	5.32	5.32
Coverage ratio	175	188	159	144	144	144
Capital Adequacy (%)	2016	2017	2018e	2019e	2020e	2021e
CET1 Ratio (fully loaded)	17.6	18.7	18.8	18.8	18.5	18.1
Tier 1 Ratio (fully loaded)	17.6	18.7	18.8	18.8	18.5	18.1
RWA density	95.5	95.2	98.1	98.7	100.0	101.5
Liquidity/Leverage	2016	2017	2018e	2019e	2020e	2021e
Regulatory LDR (%)	84.3	83.2	86.4	86.9	88.1	89.3
Net loans/assets (%)	65.0	62.4	63.4	63.4	64.1	65.1
Deposits/assets (%)	75.6	74.7	73.9	73.8	73.9	74.1
Deposits/liabilities (%)	90.9	91.0	90.7	90.8	90.7	90.9
Demand deposits/liabilities (%)	53.2	57.4	58.1	57.1	56.7	56.0
Equity/assets (%)	16.8	17.8	18.4	18.6	18.5	18.4
Leverage (x)	5.9	5.6	5.4	5.4	5.4	5.4

Samba – Risk Reward

Valuation still sensible and for now trumping strategic question marks



Source: Thomson Reuters (historical share price data), Morgan Stanley Research estimates

Price Target SAR 32.50

P/B target multiple calculated using Gordon Growth formula with 11% COE and 5% LT growth. CET1 above 18% deemed as surplus capital. Inclusive of 2019-20 dividends. Zakat calculated as 10%*(net income-income from government bonds).

Bull SAR 47.30 (Was 47.90)

2.2x P/B. Cost of equity is 100bps lower, fees are 10% higher, asset yields are 50bps higher

Base SAR 32.50 (Was 37.0)

1.5x P/B. 3M SIBOR of 2.9% in 2019 and 2.7% in 2020. Loan growth of ~2% pa in 2019-20. 2019-20 Cost of risk of 35bps. Cumulative 2019-20 DPS of SAR 3.90.

Bear SAR 20.10 (Was 27.10)

0.9x P/B. Cost of risk at 2009-10 levels (~70bps). Asset yields are 50bps lower. Funding costs are 25bps higher.

Exhibit 65: Lower cost of risk is key to our bull case

Bear case	20.10
Funding costs are 25bps higher	1.40
Cost of risk back to 2009-10 levels	2.60
Asset yields are 50bps lower	8.40
Base case	32.50
Asset yields are 50bps lower	8.40
Cost of equity is 100bps lower	5.40
Fees are 10% higher	1.00
Bull case	47.30

Source: Morgan Stanley Research estimates

Why Overweight?

■ **Low cost of risk and conservative asset quality practices...**Samba has the lowest cost of risk among Saudi banks and historically has had very low provisioning costs, thanks to its very conservative lending practices. While higher than 2016-18, we expect cost of risk to remain subdued in 2019-20 at just 35bps.

■ **...with strong capital position and attractive dividend returns.** Tier 1 of ~21% at YE18e and strong capital generation (ROA of 2.5% in 2019e) should allow Samba to pay ~70% of earnings in 2019-20e without jeopardizing the bank's capital ratios.

■ **For now, valuation trumps questions about longer-term strategy.** Samba trades on 1.4x 2019e P/B for a 13.5% ROE, and offers a 6.0-6.3% 2019-20 dividend yield. This is attractive although we are increasingly concerned that consolidation among other Saudi corporate banks may make Samba's competitive positioning weaker over time.

Potential Catalysts

■ MSCI inclusion, Fed hikes, further newsflow on sector M&A/consolidation.

Risks to Achieving Price Target

■ **Downside risks:** continued negative loan growth, higher cost of risk

Exhibit 66: Samba: financial summary 2016-21e

Income statement (SARm)						
Gross interest income	6,692	6,928	7,619	8,721	8,555	8,567
Interest expense	-1,309	-1,196	-1,407	-1,916	-1,816	-1,759
Net interest income	5,382	5,732	6,211	6,805	6,739	6,808
Recurring non-interest income	2,149	1,721	1,523	1,552	1,612	1,674
Trading revenue/other income	229	438	472	455	455	455
Total Operating income	7,760	7,892	8,206	8,812	8,806	8,936
Total operating expenses	-2,555	-2,580	-2,508	-2,581	-2,650	-2,723
Profit before provisions	5,206	5,311	5,698	6,232	6,155	6,213
Impairment charge for financing, net	-200	-287	-238	-415	-425	-440
Other	-3	-3	-10	-6	-6	-6
Reported pre-Zakat net income	5,003	5,021	5,451	5,810	5,724	5,767
Zakat charge	-534	-625	-396	-396	-383	-385
Income tax charge	-36	-36	-39	-41	-41	-41
AT1 interest expense	0	0	0	0	0	0
Net income adj. for reported Zakat and expenses	4,433	4,360	5,016	5,373	5,300	5,340
Number of shares	2,000	2,000	2,000	2,000	2,000	2,000
Reported EPS	2.50	2.51	2.73	2.91	2.86	2.88
Adjusted (Modelware) EPS	2.22	2.18	2.51	2.69	2.65	2.67
Balance Sheet (SARm)						
Investments, net	51,393	63,912	68,105	72,955	75,873	78,908
Loans and advances, net	125,234	117,685	114,662	116,226	120,077	124,800
Total Assets	231,489	227,611	229,492	235,976	243,444	252,062
Due to banks	10,881	6,551	6,794	6,794	6,794	6,794
Customers' deposits	172,076	167,988	170,682	175,648	180,667	186,969
Total Liabilities	188,944	182,929	186,976	191,981	198,042	205,314
Total Shareholders Equity	42,443	44,583	42,414	43,886	45,286	46,627
RWA	196,082	216,414	203,929	207,507	214,179	222,049
Growth rates (%)						
Net interest income		6.5	8.4	9.6	-1.0	1.0
Recurring non-interest income		-19.9	-11.5	1.9	3.8	3.8
Total Operating income		1.7	4.0	7.4	-0.1	1.5
Total operating expenses		1.0	-2.8	2.9	2.7	2.7
Profit before provisions		2.0	7.3	9.4	-1.2	0.9
Impairment charge for financing, net		43.5	-17.3	74.5	2.5	3.6
Net income		0.4	8.6	6.6	-1.5	0.7
Loans and advances, net		-6.0	-2.6	1.4	3.3	3.9
Total Assets		-1.7	0.8	2.8	3.2	3.5
Customers' deposits		-2.4	1.6	2.9	2.9	3.5
Total Liabilities		-3.2	2.2	2.7	3.2	3.7
RWA		10.4	-5.8	1.8	3.2	3.7
Valuation						
3M SIBOR (%)	2.07	1.81	2.42	2.93	2.71	2.56
Share price	20.5	22.9	31.8	31.8	31.8	31.8
Reported P/E (x)	8.2	9.1	11.6	10.9	11.1	11.0
Adjusted P/E (x)	9.2	10.5	12.7	11.8	12.0	11.9
Reported P/B (x)	1.0	1.0	1.5	1.4	1.4	1.4
Net DPS (SAR)	0.95	1.50	1.80	1.90	2.00	2.00
Dividend Yield (%)	4.6	6.5	5.7	6.0	6.3	6.3
Payout on Reported EPS (%)	38	60	66	65	70	69
Payout on Adjusted EPS (%)	43	69	72	71	75	75
Performance Analysis (%)						
ROAE on Reported EPS	12.1	11.5	12.5	13.5	12.8	12.5
ROAE on Adjusted EPS	10.7	10.0	11.5	12.5	11.9	11.6
ROAA on Reported EPS	2.2	2.3	2.3	2.5	2.4	2.3
ROAA on Adjusted EPS	2.0	2.0	2.1	2.3	2.2	2.1
NIM	2.35	2.57	2.79	2.98	2.86	2.79
PPOP	2.23	2.31	2.49	2.68	2.57	2.51
Post-provision margin	2.27	2.45	2.68	2.80	2.68	2.61
Cost/Income	32.9	32.7	30.6	29.3	30.1	30.5
Cost/Average Assets	1.09	1.12	1.10	1.11	1.11	1.10
Asset Quality (%)						
Cost of risk	0.15	0.23	0.20	0.35	0.35	0.35
NPL/Gross loans	0.85	0.94	1.44	1.57	1.61	1.61
NPL/Equity	2.54	2.53	3.98	4.28	4.38	4.44
Loan loss reserves/Gross loans	1.47	1.65	2.55	2.76	2.79	2.80
Coverage ratio	174	175	178	176	174	174
Capital Adequacy (%)						
CET1 Ratio (fully loaded)	21.7	20.6	20.8	21.2	21.2	21.0
Tier 1 (fully loaded)	21.7	20.6	20.8	21.2	21.2	21.0
RWA density	84.7	95.1	88.9	87.9	88.0	88.1
Liquidity/Leverage						
Regulatory LDR (%)	73.9	71.2	68.9	68.1	68.4	68.7
Net loans/assets (%)	54.1	51.7	50.0	49.3	49.3	49.5
Deposits/assets (%)	74.3	73.8	74.4	74.4	74.2	74.2
Deposits/liabilities (%)	91.1	91.8	91.3	91.5	91.2	91.1
Demand deposits/liabilities (%)	54.9	54.4	51.7	50.7	50.3	49.6
Equity/assets (%)	18.3	19.6	18.5	18.6	18.6	18.5
Leverage (x)	5.5	5.1	5.4	5.4	5.4	5.4

Source: Company data, Morgan Stanley Research estimates (e)

Valuation charts

Relative to GEM Banks

Exhibit 67: Saudi Banks are trading at a 55% P/E premium to GEM Banks vs. 34% historical average

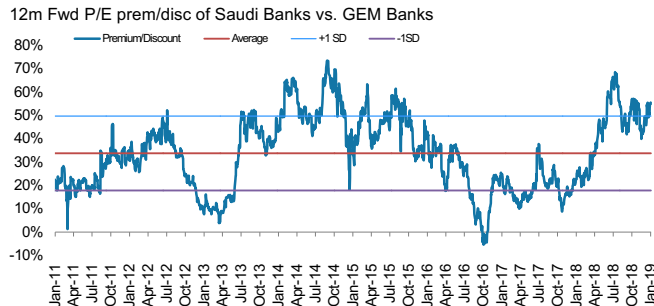


Exhibit 68: Saudi Banks offer a dividend yield that is 6% higher than GEM banks vs -4% historically

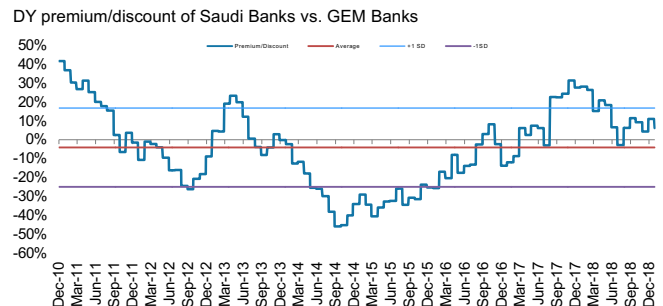


Exhibit 69: Saudi Banks trade at an 97% P/B premium to GEM Banks vs. 60% historical average

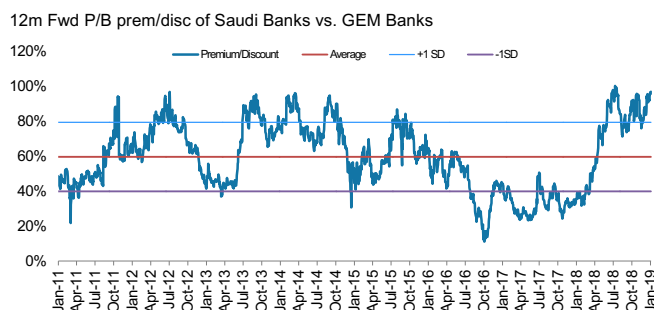
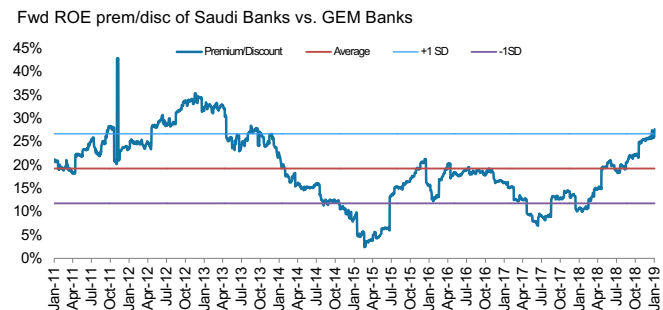


Exhibit 70: ...with ROEs 28% higher vs GEM vs 19% historical average



Relative to History - P/B

Exhibit 71: Al Rajhi's consensus P/B of 2.6x is slightly below the 2.7x historical average...

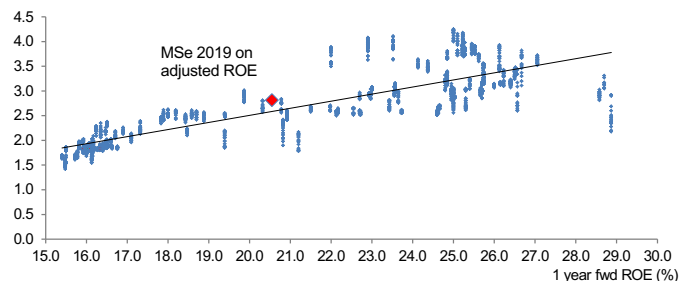
Al Rajhi - Consensus P/B



Source: Datastream

Exhibit 72: ...which looks fair given the adjusted ROE on offer

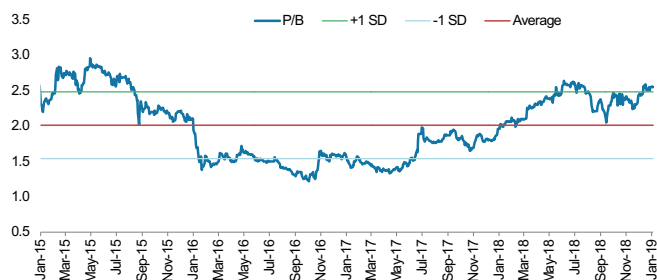
Al Rajhi Consensus P/B, 2009-now, daily*



Source: Datastream, Morgan Stanley Research estimates

Exhibit 73: NCB's consensus P/B of 2.6x is 1SD above the historical average 2.0x...

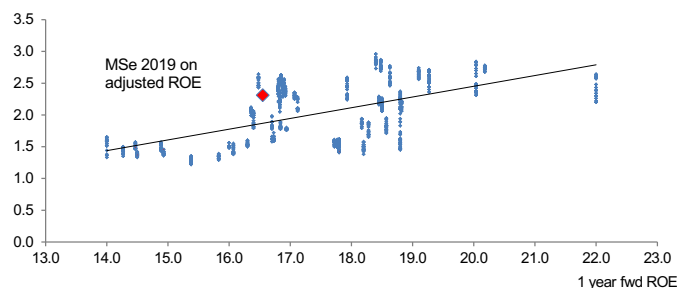
NCB - Consensus P/B



Source: Datastream

Exhibit 74: ...and it looks expensive relative to the adjusted ROE on offer

NCB Bank Consensus P/B, 2014-now, daily



Source: Datastream, Morgan Stanley Research estimates

Exhibit 75: Riyadh Bank's consensus P/B of 1.5x is >1SD above the 1.2x historical average

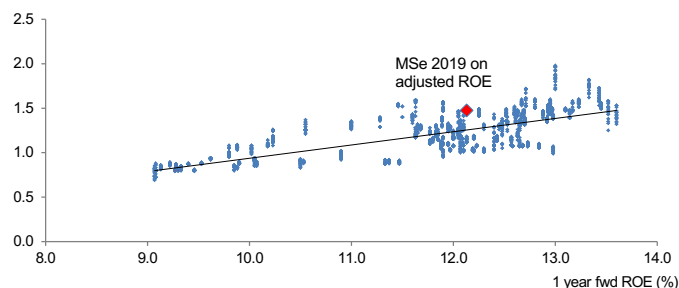
Riyadh Bank - Consensus P/B



Source: Datastream

Exhibit 76: ...and looks somewhat expensive relative to the adjusted ROE on offer

Riyadh Bank Consensus P/B, 2009-now, daily



Source: Datastream, Morgan Stanley Research estimates

Exhibit 77: SABB's consensus P/B of 1.5x P/B is still below its historical average of 1.7x

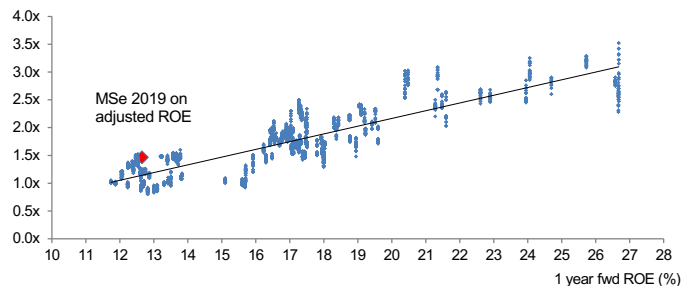
SABB - Consensus P/B



Source: Datastream

Exhibit 78: ...yet looks somewhat expensive compared to the adjusted ROE on offer

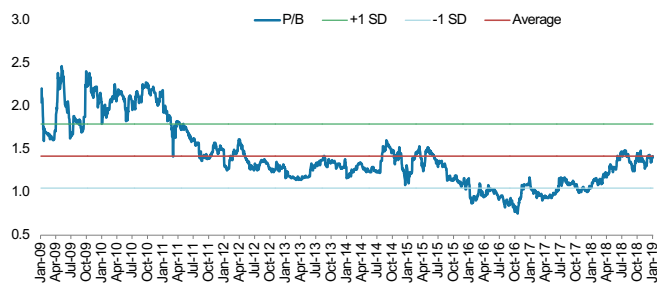
SABB Consensus P/B, 2009-now, daily



Source: Datastream, Morgan Stanley Research estimates

Exhibit 79: Samba's consensus P/B of 1.4x is in line with its historical average...

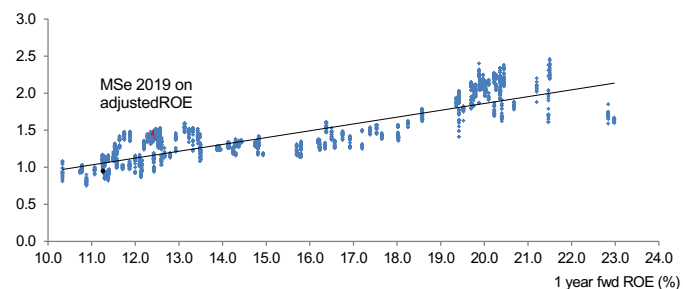
Samba - Consensus P/B



Source: Datastream

Exhibit 80: ...yet looks somewhat expensive compared to the reported ROE on offer

Samba Consensus P/B, 2009-now, daily



Source: Datastream, Morgan Stanley Research estimates

Relative to History - P/E

Exhibit 81: Consensus P/E is at 11.7x, slightly above the historical 11.2x average

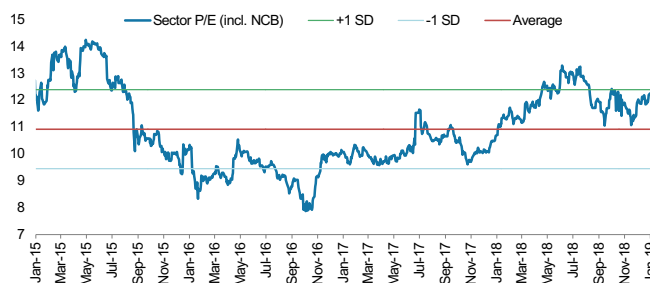
Bank sector Consensus P/E (ex-NCB)



Source: Datastream

Exhibit 82: If we include NCB, the sector's P/E is 12.2x, almost 1SD above the historical 10.9x average

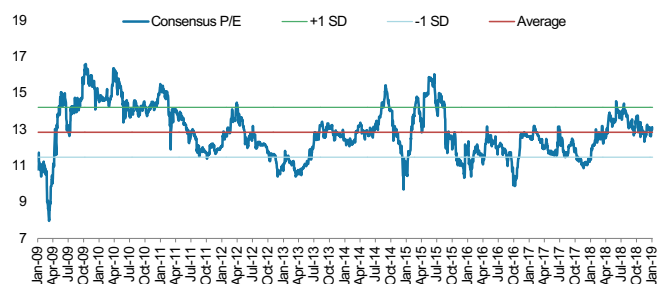
Bank sector Consensus P/E (incl-NCB)



Source: Datastream

Exhibit 83: Al Rajhi's Consensus P/E is 13.1x, slightly above the historical 12.9x average

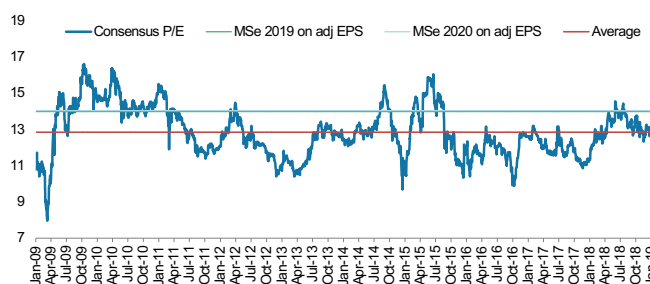
Al Rajhi - Consensus P/E



Source: Datastream

Exhibit 84: Our estimates for 2019/20 P/E are sharply above historical averages

Al Rajhi - Consensus P/E



Source: Datastream, Morgan Stanley Research estimates

Exhibit 85: NCB's Consensus P/E is 12.6x is sharply above the historical 11.0x average

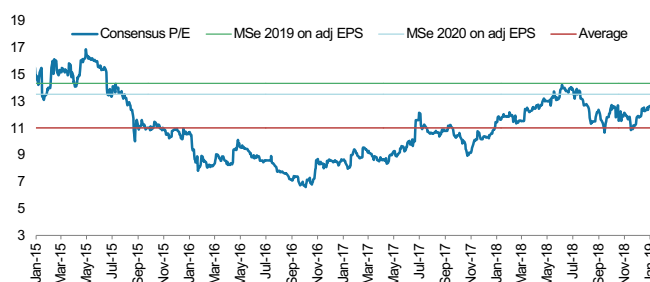
NCB - Consensus P/E



Source: Datastream

Exhibit 86: Our estimates for 2019/20 P/E are sharply above historical averages

NCB - Consensus P/E



Source: Datastream, Morgan Stanley Research estimates

Exhibit 87: Riyadh Bank's Consensus P/E is 12.1x is sharply above the historical 10.3x average



Exhibit 88: Our estimates for 2019/20 P/E are sharply above historical averages

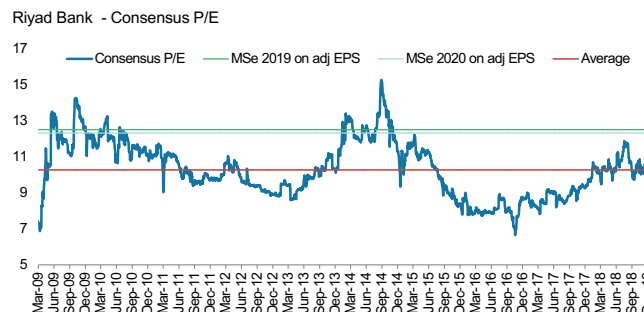


Exhibit 89: SABB's consensus P/E of 10.3x isn't far from the historical 10.1x average



Exhibit 90: Our estimates for 2019/20 P/E are above historical averages

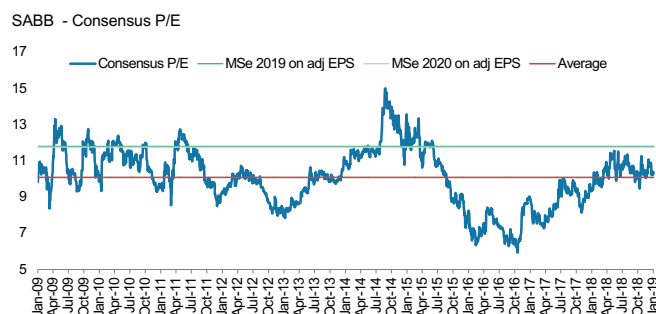


Exhibit 91: Samba's consensus P/E of 11.0x is sharply above its 9.3x historical average

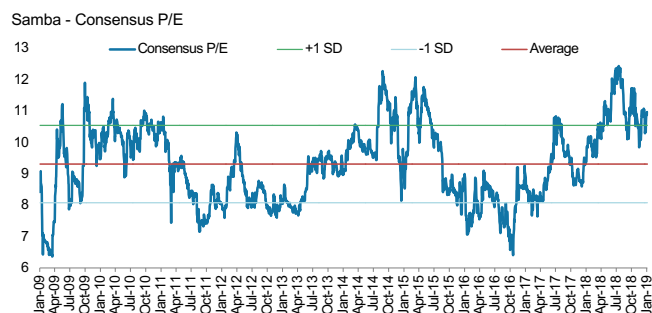
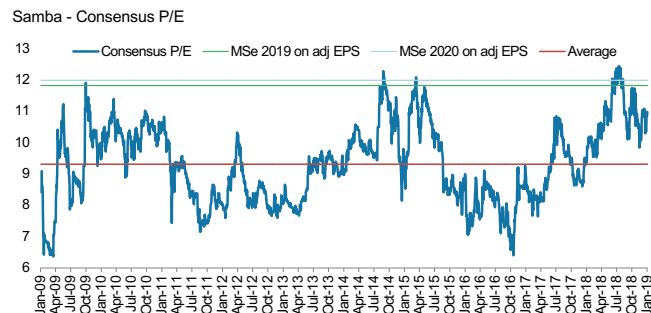


Exhibit 92: Our estimates for 2019/20 P/E are above historical averages



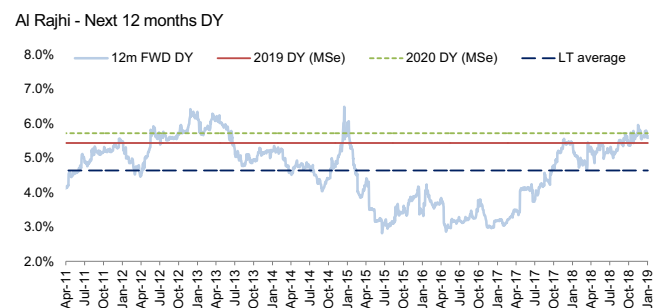
Dividend Yields

Exhibit 93: Saudi bank stocks are yielding more than they have done historically

	MSe 2019 DY	MSe 2020 DY	Historical DY
Al Rajhi	5.4%	5.7%	4.6%
NCB	4.6%	4.8%	3.8%
Riyad Bank	4.0%	4.3%	5.6%
SABB	6.1%	6.4%	3.4%
Samba	6.1%	6.4%	4.7%
Average	5.2%	5.5%	4.4%

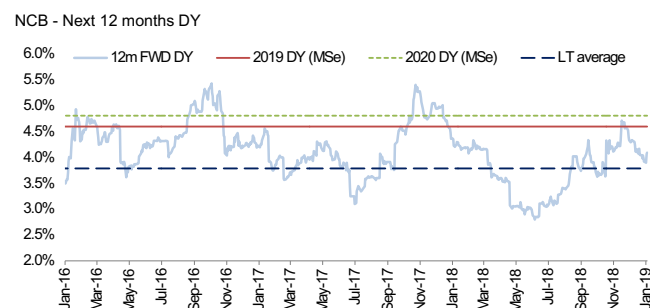
Source: Datastream, Morgan Stanley Research

Exhibit 94: We estimate Al Rajhi's 2019 dividend yield to be close to all time highs



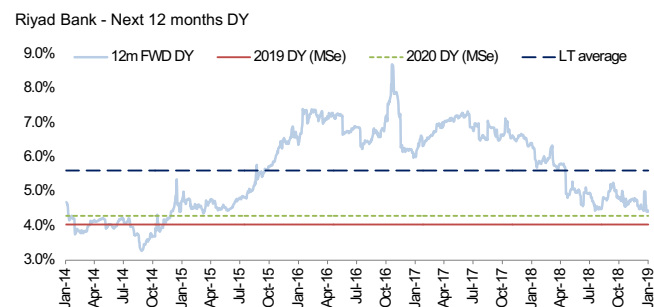
Source: Datastream, Morgan Stanley Research estimates

Exhibit 95: On our new higher dividend payouts, NCB is yielding more than historically



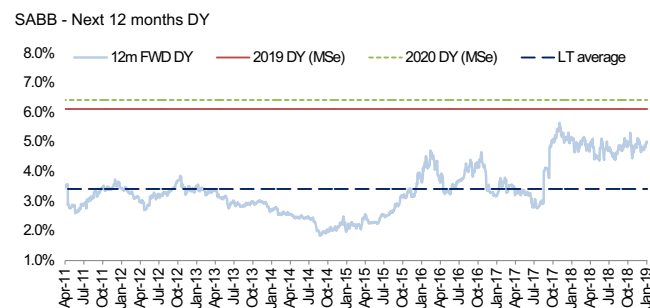
Source: Datastream, Morgan Stanley Research estimates

Exhibit 96: Riyadh Bank's dividend yield is low relative to history



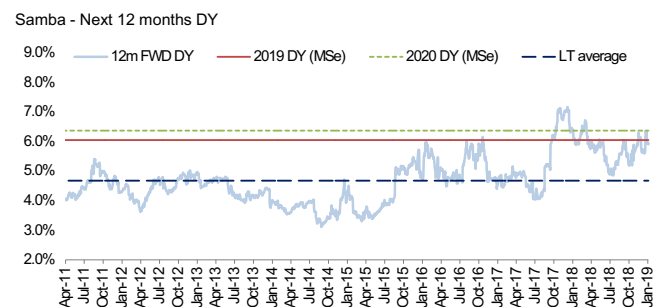
Source: Datastream, Morgan Stanley Research estimates

Exhibit 97: SABB's 2019 dividend yield is higher than the stock has ever yielded



Source: Datastream, Morgan Stanley Research estimates

Exhibit 98: Samba is yielding more than it has historically



Source: Datastream, Morgan Stanley Research estimates

Comps, consensus, key changes

Exhibit 99: We estimate the sector is trading at an average 1.9x P/B for 14.9% 2019 adjusted ROE

	Share price (SAR)	Market cap (\$bn)	NIM (%)			Net loan growth (%)			Cost-to-income (%)			PPOP (%)			Cost of risk (%)			NPL ratio			NPL coverage			Provisions as % of gross loans			Regulatory LDR (%)			CET1 (%), fully loaded		
			2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Al Rajhi	87.50	37,917	3.86	4.15	4.09	1.1	3.3	5.3	31.8	30.6	31.4	3.38	3.65	3.57	0.69	0.80	0.85	0.89	1.02	1.06	397	387	367	3.55	3.33	3.91	84.2	84.9	86.2	18.9	18.9	18.6
NCB	47.85	38,145	3.19	3.37	3.31	8.8	6.1	7.3	34.4	33.1	33.2	2.77	2.95	2.91	0.60	0.78	0.65	0.08	2.47	2.55	147	142	142	3.07	3.51	3.63	82.1	86.0	86.8	16.0	15.9	15.7
Riyad Bank	19.82	15,856	3.02	3.23	3.15	5.6	5.0	4.9	36.5	34.4	34.9	2.57	2.79	2.72	0.82	0.95	0.95	0.97	1.18	1.24	201	201	201	1.96	2.38	2.49	88.4	89.1	88.9	16.6	16.7	16.8
SABB	32.65	13,060	3.05	3.29	3.19	-4.5	2.9	4.8	29.5	28.7	29.1	2.88	3.13	3.06	0.34	0.70	0.70	0.70	2.67	3.17	329	159	144	4.55	5.13	5.32	86.4	86.9	88.1	18.8	18.8	18.5
Samba	31.40	16,747	2.79	2.98	2.86	-2.6	1.4	3.3	30.6	29.3	30.1	2.49	2.68	2.57	0.20	0.35	0.35	1.44	1.57	1.61	178	176	174	2.55	2.76	2.79	68.9	68.1	68.4	20.8	21.2	21.2
Simple Average			3.18	3.40	3.32	1.7	3.7	5.1	32.6	31.2	31.7	2.82	3.04	2.97	0.53	0.71	0.70	1.61	1.88	1.95	216	210	206	3.14	3.54	3.63	82.0	83.0	83.7	18.2	18.3	18.2

	Share price (SAR)	Market cap (\$bn)	Reported EPS			Adj. EPS			Adj. EPS Growth (%)			Adjusted P/E			Reported ROA			Adjusted ROA			PIB			Reported ROE			Adjusted ROE			DPS			Dividend Yield			Dividend payout (%) on Adj earnings		
			2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e			
Al Rajhi	87.50	37,917	6.26	6.91	6.88	5.66	6.26	6.23	10.4	-0.4	14.0	14.0	2.65	3.12	2.98	2.40	2.82	2.70	2.8	2.7	19.5	22.7	21.7	17.7	20.5	19.7	4.50	4.75	5.00	5.4	5.7	74	79	76				
NCB	47.85	38,145	3.55	3.76	3.98	3.12	3.32	3.52	6.4	6.0	14.4	13.6	2.34	2.44	2.45	2.06	2.16	2.17	2.3	2.2	18.6	18.8	18.7	16.3	16.5	16.6	2.10	2.20	2.30	4.6	4.8	42	67	66				
Riyad Bank	19.82	15,856	1.52	1.68	1.71	1.40	1.56	1.58	11.7	1.5	12.7	12.5	1.98	2.18	2.12	1.83	2.02	1.97	1.5	1.4	11.9	13.1	12.5	11.0	12.1	11.6	0.77	0.80	0.85	4.0	4.3	64	55	51				
SABB	32.65	13,060	3.25	3.21	3.22	2.82	2.79	2.80	-1.1	0.3	11.7	11.7	2.73	2.70	2.61	2.37	2.35	2.27	1.5	1.4	14.8	14.5	14.1	12.8	12.6	12.3	1.96	2.00	2.10	6.1	6.4	60	70	72				
Samba	31.40	16,747	2.73	2.91	2.86	2.51	2.69	2.65	7.1	-1.4	11.7	11.8	2.32	2.50	2.39	2.13	2.32	2.21	1.4	1.4	12.5	13.5	12.8	11.5	12.5	11.9	1.80	1.90	2.00	6.1	6.4	69	72	71				
Simple Average			2.91	3.18	3.12	2.51	2.69	2.65	6.9	1.2	12.9	12.7	2.40	2.59	2.51	2.16	2.33	2.26	1.9	1.8	15.5	16.5	16.0	13.9	14.9	14.4	1.80	1.90	2.00	5.2	5.5	62	69	67				

Source: Morgan Stanley Research estimates

Exhibit 100: Lower revenues impacts our estimates negatively

		2018	Revenue 2019	2020	Adjusted net income 2018	2019	2020	DPS 2018	2019	2020
Al Rajhi	Old	17,319 e	19,603 e	21,086 e	9,730 e	11,349 e	12,411 e	4.50 e	5.25 e	5.75 e
SAR m	New	17,351 e	19,055 e	19,532 e	9,205 e	10,166 e	10,125 e	4.50 e	4.75 e	5.00 e
	% change	0%	-3%	-7%	-5%	-10%	-18%	0%	-10%	-13%
NCB	Old	19,364 e	21,570 e	23,161 e	9,217 e	10,060 e	11,210 e	1.90 e	2.10 e	2.30 e
SAR m	New	19,121 e	20,647 e	21,225 e	9,332 e	9,932 e	10,525 e	2.10 e	2.20 e	2.30 e
	% change	-1%	-4%	-8%	1%	-1%	-6%	11%	5%	0%
Riyad Bank	Old	8,930 e	10,253 e	10,885 e	3,684 e	4,626 e	4,889 e	0.75 e	0.77 e	0.80 e
SAR m	New	8,947 e	9,863 e	10,159 e	4,192 e	4,681 e	4,753 e	0.77 e	0.80 e	0.85 e
	% change	0%	-4%	-7%	14%	1%	-3%	3%	4%	6%
SABB	Old	7,639 e	8,502 e	9,022 e	4,506 e	4,900 e	5,266 e	2.00 e	2.20 e	2.40 e
SAR m	New	7,439 e	7,848 e	7,963 e	4,228 e	4,183 e	4,197 e	1.96 e	2.00 e	2.10 e
	% change	-3%	-8%	-12%	-6%	-15%	-20%	-2%	-9%	-13%
Samba	Old	8,468 e	9,552 e	10,122 e	5,076 e	5,897 e	6,350 e	1.80 e	2.10 e	2.30 e
SAR m	New	8,206 e	8,812 e	8,806 e	5,016 e	5,373 e	5,300 e	1.80 e	1.90 e	2.00 e
	% change	-3%	-8%	-13%	-1%	-9%	-17%	0%	-10%	-13%

Source: Morgan Stanley Research estimates

Exhibit 101: We are on average 6-14% below consensus on 2019-20 net income

		2018	Revenues 2019	2020	Net income 2018	2019	2020	DPS 2018	2019	2020
Al Rajhi	Consensus	17,135	19,177	21,145	9,667	10,871	12,388	4.6	4.9	5.4
SAR m	MSe	17,351 e	19,055 e	19,532 e	9,205 e	10,166 e	10,125 e	4.50 e	4.75 e	5.00 e
	% prem/disc to cons.	1%	-1%	-8%	-5%	-6%	-18%	-1%	-3%	-7%
NCB	Consensus	19,253	21,163	23,010	9,988	11,028	12,141	1.6	1.8	2.2
SAR m	MSe	19,121 e	20,647 e	21,225 e	9,332 e	9,932 e	10,525 e	2.10 e	2.20 e	2.30 e
	% prem/disc to cons.	-1%	-2%	-8%	-7%	-10%	-13%	27%	20%	6%
Riyad Bank	Consensus	8,698	9,501	10,201	4,088	4,584	4,986	0.8	0.8	0.9
SAR m	MSe	8,947 e	9,863 e	10,159 e	4,192 e	4,681 e	4,753 e	0.77 e	0.80 e	0.85 e
	% prem/disc to cons.	3%	4%	0%	3%	2%	-5%	0%	-6%	-9%
SABB	Consensus	7,503	8,108	8,728	4,327	4,689	5,098	1.5	1.6	1.8
SAR m	MSe	7,439 e	7,848 e	7,963 e	4,228 e	4,183 e	4,197 e	1.96 e	2.00 e	2.10 e
	% prem/disc to cons.	-1%	-3%	-9%	-2%	-11%	-18%	28%	21%	15%
Samba	Consensus	8,361	-9,134	10,025	5,203	5,673	6,338	1.6	1.8	2.2
SAR m	MSe	8,206 e	8,812 e	8,806 e	5,016 e	5,373 e	5,300 e	1.80 e	1.90 e	2.00 e
	% prem/disc to cons.	-2%	NM	-12%	-4%	-5%	-16%	9%	5%	-9%

Source: Thomson Reuters consensus, Morgan Stanley Research estimates

Exhibit 102: EEMEA Banks Comparative Valuation

Morgan Stanley European Equity Research																														
EEMEA Banks: Daily Valuation Comparison Sheet																														
4-Jan-19	Stock rating	Price Target	Up / (Down)	Price (local)	M Cap (USD bn)	Volume (USDm)	Free float	P/E (x)			P/B PDP (x)			P/Tang BV (x)			COE (%)	ROTE (%)			Tier 1 Ratio (%)			Dividend yield (%)			Price performance (%)			
								2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	1M	3M	YTD	
Czech Republic																														
Komercni	NC			855.0	7.2	5.5	40%	11.4x	11.5x	11.2x	NA	NA	NA	1.7x	1.7x	1.6x		15.5%	14.7%	14.5%	NA	NA	NA	5.6%	5.7%	5.5%	-5.7%	-5.6%	0.5%	
Greece								14.1x	11.2x	15.1x	1.4x	1.5x	1.4x	0.2x	0.2x	0.2x	12.0%	1.5%	1.3%	1.4%	13.4%	13.7%	13.9%	0.0%	0.0%	0.0%				
Alpha	Equal-Weight			1.1	1.9	4.9	89%	30.6x	21.6x	22.7x	1.1x	1.4x	1.4x	0.2x	0.2x	0.2x	12.0%	0.0%	1.0%	0.9%	15.2%	15.3%	15.5%	0.0%	0.0%	0.0%	-18.6%	-14.1%	-0.8%	
Eurobank Ergasias	Equal-Weight			0.5	1.3	3.9	83%	4.6x	7.2x	9.1x	1.1x	1.2x	1.2x	0.2x	0.2x	0.2x	12.0%	4.5%	3.1%	2.4%	11.8%	12.9%	13.0%	0.0%	0.0%	0.0%	-9.6%	-12.5%	-4.5%	
Piraeus	Equal-Weight			0.8	0.4	1.4	74%	2.6x	3.9x	14.0x	0.4x	0.4x	0.5x	0.1x	0.1x	0.1x	12.0%	2.1%	1.7%	0.5%	10.6%	10.7%	10.5%	0.0%	0.0%	0.0%	-21.1%	-47.2%	-10.7%	
National Bank of Greece	Equal-Weight			1.1	1.1	3.1	60%	nm	nm	9.2x	2.4x	2.2x	2.0x	0.2x	0.2x	0.2x	12.0%	-0.8%	-0.3%	2.1%	13.0%	13.2%	13.4%	0.0%	0.0%	0.0%	-8.5%	-39.1%	-4.5%	
Poland				14.0x	12.6x	11.1x		4.1x	3.7x	3.3x	1.4x	1.7x	1.2x	1.2x	1.2x	1.2x		10.4%	10.6%	10.8%	14.1%	9.0%	8.7%	8.9%	3.6%	3.9%	4.3%			
Alor	Equal-Weight	63.0	18%	53.4	1.9	4.2	68%	9.5x	7.6x	6.8x	3.3x	2.9x	2.5x	1.1x	1.0x	0.9x	12.0%	12.0%	14.0%	13.9%	12.7%	12.9%	12.8%	0.0%	0.3%	3.7%	-5.7%	-14.9%	0.5%	
MBK	NC			420.0	4.7	2.1	31%	14.4x	13.8x	11.9x	NA	NA	NA	1.2x	1.1x	1.1x		8.7%	8.5%	9.2%	NA	NA	NA	1.8%	2.1%	2.8%	-1.5%	-3.6%	-1.0%	
SZ WEK	NC			359.0	9.7	5.2	34%	16.0x	13.7x	12.0x	NA	NA	NA	1.5x	1.4x	1.3x		10.3%	10.7%	11.6%	NA	NA	NA	2.0%	3.1%	3.8%	-1.6%	-0.8%	0.2%	
Handlowy	NC			69.2	2.4	0.7	25%	13.8x	13.8x	12.2x	NA	NA	NA	1.6x	1.6x	1.5x		11.7%	11.4%	12.7%	NA	NA	NA	6.2%	6.4%	6.7%	-2.7%	-7.2%	0.1%	
Pekao	Overweight	138.0	27%	108.9	7.6	19.3	61%	13.1x	11.7x	10.4x	8.4x	7.6x	6.7x	1.4x	1.3x	1.3x	9.5%	10.2%	11.5%	12.5%	16.2%	15.3%	14.9%	7.7%	6.0%	6.0%	-3.8%	2.7%	-0.1%	
PKO BP	Underweight	41.5	5%	39.6	13.1	23.3	69%	13.3x	12.1x	11.1x	7.7x	7.0x	6.3x	1.4x	1.3x	1.2x	9.5%	10.8%	11.0%	11.3%	17.8%	17.5%	17.8%	3.8%	4.1%	4.5%	-5.7%	-6.7%	0.3%	
Regional								8.3x	8.5x	8.2x	5.6x	5.1x	4.7x	1.3x	1.1x	1.0x	11.0%	16.7%	13.6%	12.8%	14.5%	14.7%	15.2%	4.3%	4.7%	5.4%				
Enie	Equal-Weight	41.0	38%	29.8	14.5	24.4	69%	9.0x	8.5x	8.1x	4.7x	4.3x	3.9x	1.1x	1.0x	1.0x	9.5%	12.4%	12.6%	12.3%	14.3%	14.4%	14.8%	4.5%	5.3%	5.5%	-15.9%	-19.4%	2.0%	
OTP	Overweight	13,800.0	20%	11,500.0	11.4	21.3	84%	9.6x	9.9x	9.4x	8.4x	7.8x	6.8x	1.8x	1.6x	1.4x	11.5%	20.8%	17.2%	15.7%	14.2%	14.5%	15.3%	2.2%	2.5%	2.9%	-2.6%	13.0%	1.9%	
Raffaelsen	Underweight	28.0	23%	22.8	8.6	12.8	41%	5.2x	6.8x	7.1x	3.3x	3.3x	3.1x	0.7x	0.7x	0.7x	12.0%	14.6%	10.5%	9.7%	15.1%	15.3%	15.8%	6.9%	6.6%	7.1%	-11.6%	-10.3%	2.8%	
Russia				4.7x	1.8x	4.4x		3.0x	2.8x	2.5x	1.2x	1.0x	0.9x	1.2x	1.0x	0.9x	10.5%	24.8%	24.4%	23.1%	12.5%	12.6%	14.1%	10.6%	10.8%	11.1%				
TCS	Overweight	22.8	46%	15.60	2.9	4.0	20%	6.5x	5.8x	4.6x	3.7x	3.1x	2.5x	4.9x	3.4x	2.5x	18.5%	70.1%	72.1%	61.6%	17.6%	17.7%	19.4%	6.4%	5.1%	6.3%	-11.1%	-8.1%	0.3%	
Sberbank	Equal-Weight	270.0	44%	186.99	58.6	179.2	50%	4.8x	4.3x	3.9x	3.1x	2.7x	2.5x	1.0x	0.9x	0.8x	18.5%	23.3%	23.0%	22.4%	12.1%	14.2%	14.9%	10.6%	11.7%	12.9%	-6.0%	-1.2%	0.4%	
VTB	Underweight	1.1	-2%	1.1	7.3	2.8	33%	3.2x	4.1x	4.1x	1.2x	1.3x	1.2x	0.7x	0.6x	0.6x	18.5%	15.8%	15.1%	13.7%	11.8%	11.8%	12.2%	0.6%	0.6%	5.3%	-7.0%	-12.0%	1.5%	
Saudi Arabia				14.4x	13.4x	13.1x		11.2x	10.1x	10.9x	2.3x	2.1x	2.1x	1.1x	1.1x	1.1x		15.9%	16.2%	15.8%	18.5%	18.5%	18.3%	4.9%	5.2%	5.4%				
Al Rajhi Bank	Equal-Weight	81.0	-7%	87.5	37.9	68.7	90%	18.4x	14.5x	14.0x	12.0x	10.8x	10.6x	2.9x	2.8x	2.7x	11.0%	17.7%	20.5%	19.7%	18.9%	18.9%	18.6%	5.1%	5.4%	5.7%	-0.5%	-0.3%	0.0%	
National Commercial Bank	Underweight	41.0	-14%	47.7	38.2	13.8	80%	18.3x	14.4x	13.5x	11.4x	10.4x	10.1x	2.4x	2.3x	2.2x	11.0%	16.3%	16.5%	16.6%	17.9%	17.7%	17.4%	4.4%	4.6%	4.8%	4.1%	3.9%	-0.3%	
Riyad Bank	Underweight	15.0	-23%	19.5	15.6	5.6	57%	14.0x	12.5x	12.3x	10.3x	9.1x	8.9x	1.6x	1.5x	1.4x	11.0%	11.0%	12.1%	11.6%	16.6%	16.7%	16.8%	3.9%	4.1%	4.4%	9.5%	16.0%	-1.4%	
Samba Financial Group	Underweight	32.5	3%	31.5	16.8	10.1	50%	12.5x	11.7x	11.9x	11.0x	10.1x	10.2x	1.5x	1.4x	1.4x	11.0%	11.5%	12.5%	11.9%	20.8%	21.2%	21.2%	5.7%	6.0%	6.4%	1.1%	0.0%	0.2%	
Saudi British Bank	Overweight	33.0	0%	32.9	13.2	2.4	28%	11.7x	11.5x	11.8x	9.4x	8.8x	8.7x	1.5x	1.5x	1.4x	11.0%	12.8%	12.5%	12.3%	15.8%	16.8%	16.5%	6.0%	5.1%	5.0%	-1.5%	3.1%	0.8%	
South Africa				13.5x	11.8x	10.3x		7.2x	6.5x	5.7x	2.3x	2.6x	2.4x	14.2%	21.4%	22.3%	22.3%	15.7%	16.0%	16.4%	4.7%	5.2%	5.9%							
Abesa Group	Equal-Weight	17,100	8%	15,872.0	9.4	32.6	85%	8.3x	7.7x	6.9x	4.2x	3.9x	3.5x	1.3x	1.3x	1.2x	14.1%	16.8%	16.9%	17.5%	14.2%	14.2%	14.1%	6.9%	7.5%	8.4%	-1.0%	8.5%	-1.9%	
Capitec	Overweight	117,000	5%	110,923.0	9.1	18.9	39%	28.8x	23.1x	18.6x	11.3x	10.4x	8.6x	7.0x	5.8x	4.8x	14.9%	26.1%	27.2%	28.3%	34.1%	35.1%	35.4%	1.8%	1.7%	2.1%	0.6%	10.9%	-0.8%	
Firstrand	Overweight	7,300	13%	6,461.0	25.6	52.3	57%	13.7x	12.1x	10.8x	8.2x	7.3x	6.5x	3.3x	3.0x	2.8x	13.9%	24.3%	26.1%	27.5%	12.1%	12.5%	12.7%	4.3%	4.8%	5.5%	-5.5%	3.1%	-1.4%	
Alexander Forbes	Equal-Weight	653	34%	488.0	0.5	0.6	59%	9.5x	8.8x	7.9x	6.6x	6.0x	5.4x	2.3x	2.3x	2.3x		21.5%	25.8%	28.7%	NA	NA	NA	5.8%	7.6%	8.4%	-7.8%	-8.1%	-5.1%	
Nedbank	Equal-Weight	26,300	-3%	27,080.0	9.3	24.5	80%	10.0x	9.2x	8.2x	5.8x	5.3x	4.8x	1.7x	1.6x	1.5x	13.9%	17.9%	18.2%	18.9%	13.6%	13.9%	14.0%	5.2%	5.7%	6.4%	-1.0%	5.9%	-1.4%	
Standard Bank	Equal-Weight	17,200	-4%	17,850.0	20.0	48.7	100%	10.5x	9.6x	8.8x	6.2x	5.6x	5.0x	1.9x	1.8x	1.6x	14.3%	19.2%	19.0%	19.9%	13.9%	13.9%	15.1%	5.4%	5.8%	6.5%	-1.3%	7.9%	-0.2%	
Turkey				3.7x	3.8x	3.0x	NA	NA	NA	NA	0.9x	0.9x	0.4x					13.9%	12.2%	14.6%	NA	NA	NA	4.2%	4.9%	6.6%				
Atisbank	NC			5.5	5.3	40.5	46%	4.4x	4.5x	3.4x	NA	NA	NA	0.6x	0.6x	0.5x		14.4%	12.5%	15.2%	NA	NA	NA	4.7%	5.1%	5.7%	-12.2%	9.6%	-6.2%	
Garanti	NC			7.5	5.8	137.6	50%	4.6x	4.8x	3.7x	NA	NA	NA	0.7x	0.6x	0.5x		15.8%	13.5%	15.7%	NA	NA	NA	5.0%	5.1%	6.4%	-6.2%	14.8%	-5.3%	
Halkbank	NC			6.6	1.5	53.4	49%	2.8x	2.6x	2.0x	NA	NA	NA	0.3x	0.3x	0.2x		11.0%	10.6%	12.2%	NA	NA	NA	4.1%	7.8%	7.2%	-8.2%	11.0%	-6.4%	
Isbank	NC			4.1	3.4	26.9	32%	3.2x	3.0x	2.5x	NA	NA	NA	0.4x	0.4x	0.3x		12.8%	12.5%	13.6%	NA	NA	NA	7.1%	7.8%	9.6%	-1.5%	4.1%	-9.5%	
Vakifbank	NC			3.6	1.7	18.5	42%	2.3x	2.8x	2.3x	NA	NA	NA	0.3x	0.3x	0.2x		14.7%	10.4%	11.1%	NA	NA	NA	1.5%	1.7%	1.9%	-7.0%	12.5%	-7.4%	
Yapi Kredi	NC			1.5	2.4	20.9	18%	1.9x	3.2x	2.6x	NA	NA	NA	0.3x	0.3x	0.3x		17.8%	9.6%	11.2%	NA	NA	NA	0.0%	0.0%	1.1%	-7.8%	-6.1%	-4.4%	
EEMEA average		8.7%						11.2x	10.3x	9.6x	6.6x	6.0x	5.6x	1.9x	1.7x	1.6x		17.3%	17.6%	17.5%	13.9%	14.3%	14.5%	5.3%	6.0%	6.5%				

Source: Thomson Reuters (NC), Morgan Stanley Research estimates (e)

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(as of December 31, 2018)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1143	36%	282	40%	25%	540	38%
Equal-weight/Hold	1428	45%	336	47%	24%	651	46%
Not-Rated/Hold	46	1%	6	1%	13%	6	0%
Underweight/Sell	566	18%	86	12%	15%	232	16%
TOTAL	3,183		710			1429	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

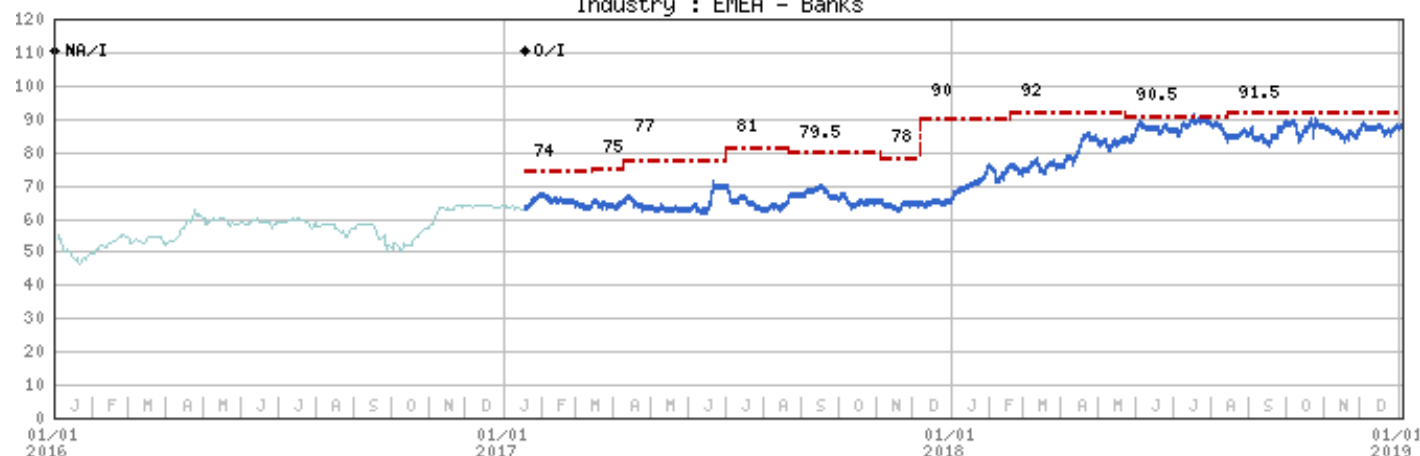
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

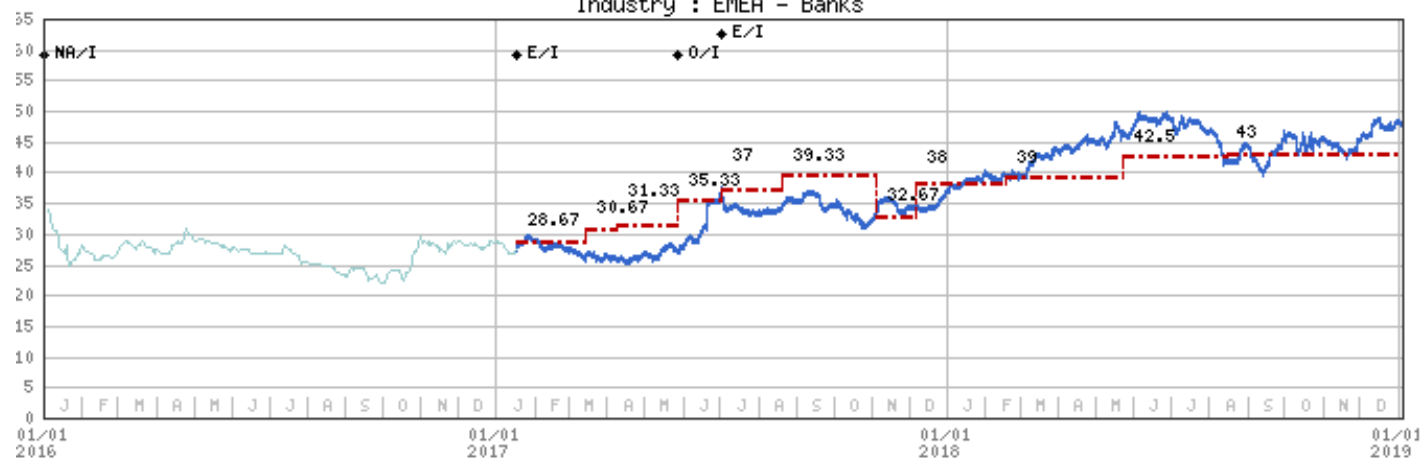
Al Rajhi Bank (1120.SE) - As of 1/3/19 in SAR
Industry : EMEA - Banks



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

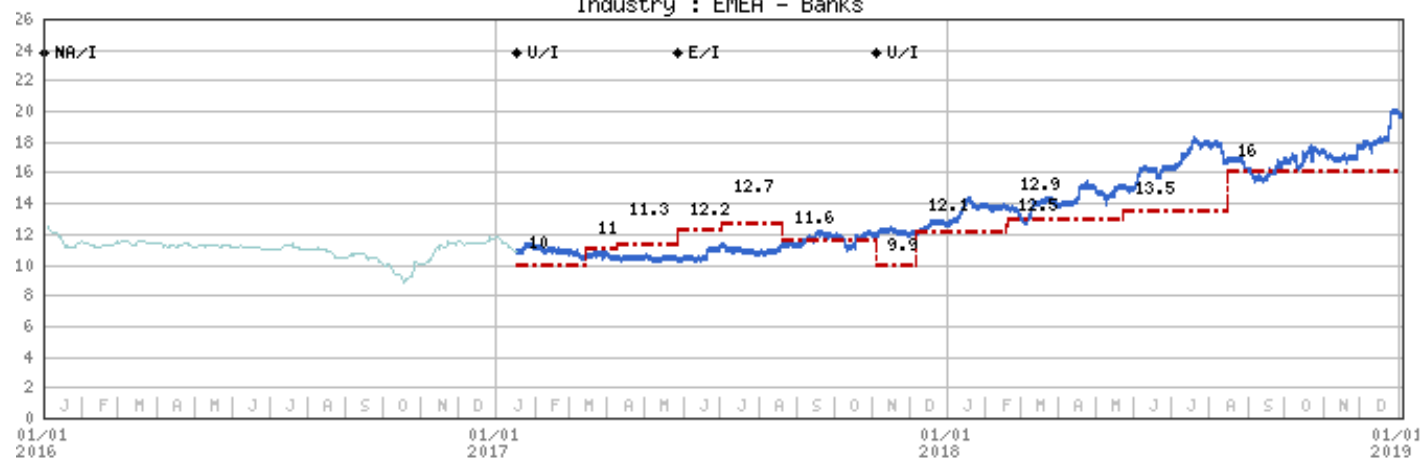
Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

National Commercial Bank (1180.SE) - As of 1/3/19 in SAR
Industry : EMEA - Banks

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

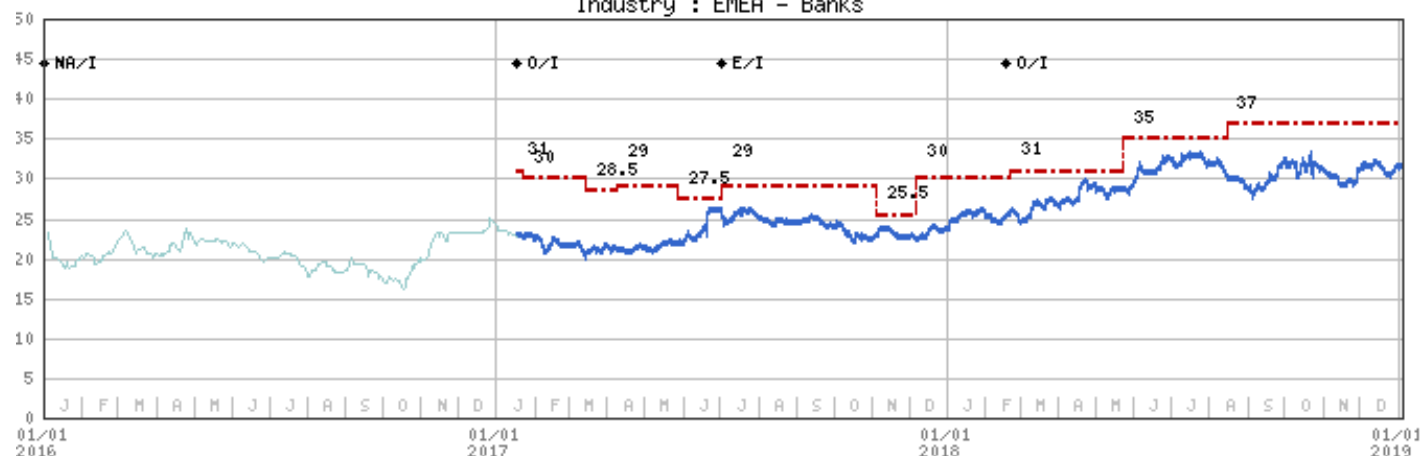
Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Riyad Bank (1010.SE) - As of 1/3/19 in SAR
Industry : EMEA - Banks

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Samba Financial Group (1090.SE) - As of 1/3/19 in SAR
Industry : EMEA - Banks

Stock Rating History: 1/1/16 : NA/I; 1/18/17 : O/I; 7/2/17 : E/I; 2/18/18 : O/I

Price Target History: 1/18/17 : 31; 1/22/17 : 30; 3/15/17 : 28.5; 4/9/17 : 29; 5/28/17 : 27.5; 7/2/17 : 29;
11/5/17 : 25.5; 12/7/17 : 30; 2/21/18 : 31; 5/23/18 : 35; 8/15/18 : 37

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target — No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

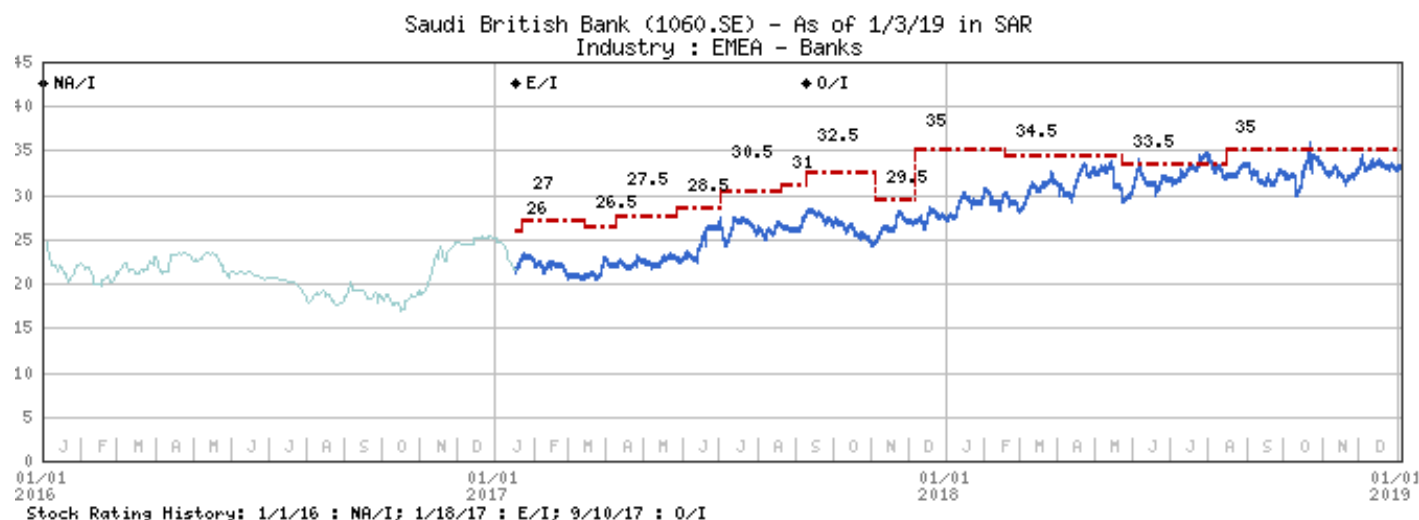
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

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INDUSTRY COVERAGE: EMEA - Banks

COMPANY (TICKER)	RATING (AS OF)	PRICE* (01/04/2019)
Danny Anson-Jones		
Alpha Bank SA (ACBr.AT)	E (06/29/2016)	€1.10
Eurobank Ergasias SA (EURBr.AT)	E (06/29/2016)	€0.51
National Bank of Greece (NBGr.AT)	E (06/29/2016)	€1.06
OTP (OTPB.BU)	O (04/06/2018)	HUF 11,720.00
Piraeus Bank SA (BOPr.AT)	E (06/29/2016)	€0.75
Elan Levy		
Absa Group Ltd (ABGJ.J)	E (05/07/2015)	ZAc 16,015
Alexander Forbes Group (AFHJ.J)	E (12/10/2015)	ZAc 490
Capitec Bank Holdings Ltd (CPIJ.J)	O (02/19/2018)	ZAc 111,272
Firststrand (FSRJ.J)	O (10/23/2017)	ZAc 6,525
Nedbank (NEDJ.J)	E (05/07/2015)	ZAc 27,459
Standard Bank (SBKJ.J)	E (07/06/2017)	ZAc 18,073
Neri Tollardo, CFA		
Aior Bank S.A. (ALRR.WA)	E (11/27/2018)	PLN 54.75
Al Rajhi Bank (1120.SE)	E (01/06/2019)	SAR 87.50
National Commercial Bank (1180.SE)	U (01/06/2019)	SAR 47.70
Pekao SA (PEO.WA)	O (09/10/2018)	PLN 111.20
PKO BP (PKO.WA)	U (03/23/2018)	PLN 40.45
Riyad Bank (1010.SE)	U (11/05/2017)	SAR 19.54
Samba Financial Group (1090.SE)	O (02/18/2018)	SAR 31.45
Saudi British Bank (1060.SE)	O (09/10/2017)	SAR 32.90
Sberbank (SBER.MM)	E (04/11/2018)	RUB 190.99
TCS Group Holding PLC (TCSq.L)	O (11/21/2018)	US\$16.42
VTB Bank JSC (VTBRq.L)	U (08/29/2018)	US\$1.17

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* Historical prices are not split adjusted.