# First Look Note | 2Q26

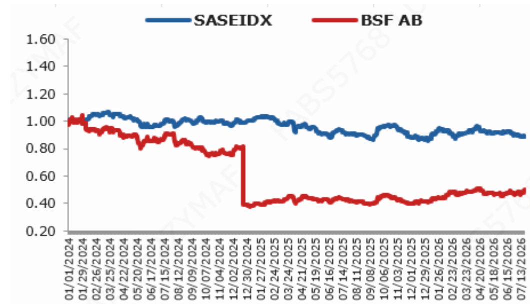
Saudi Equity Research Sector: Banking Market: Tadawul

## Banque Saudi Fransi (BSF)

Growth in non-funded income supported profitability

| Current Price | Target Price | Upside/Downside (%) | Rating |
|---|---|---|---|
| SAR 20.38 | SAR 22.50 | +10.4% | ACCUMULATE |

- Advances rose 4.4% YTD basis to SAR 224.2 Bn in 2Q26 and remain on track to meet the Bank's guidance of high single-digit growth guidance for 2026.
- Customer deposits grew 12.0% YOY and 2.5% QOQ to SAR 204.6 Bn.
- BSF non-funded income grew from SAR 482 Mn in 2Q25 to SAR 506 Mn in 2Q26.
- BSF has outlined its Strategy 2030, targeting a ROE of above 15%, supported by sustainable growth, enhanced cross-selling, and accelerated digital transformation initiatives.
- BSF has decided to distribute a cash dividend of SAR 1.42 Bn, equivalent to SAR 0.57 per share for 1H26.




### 2Q26 Net Profit higher than our estimate

Banque Saudi Fransi's (BSF/the Bank) reported a 6.0% YOY rise in net profit to SAR 1,487 Mn in 2Q26, higher than our estimate of SAR 1,368 Mn. The increase in net profit was driven by higher net funded income and non-funded income, partially offset by higher operating expenses, impairment charges and zakat charges.

### P&L Highlights

BSF's funded income increased 5.9% YOY to SAR 4,577 Mn in 2Q26, supported by higher returns from financing and investments, along with growth in net advances. Funded expenses rose 5.0% YOY to SAR 2,234 Mn in 2Q26. Consequently, net funded income increased 6.7% YOY to SAR 2,343 Mn in 2Q26. The Bank's non-funded income grew 5.0% YOY to SAR 506 Mn in 2Q26. Overall, total operating income grew 6.4% YOY to SAR 2,849 Mn in 2Q26, driven by higher net funded income, trading income, dividend income and gains on non-trading investments, partially offset by lower net fee and commission income, other operating income and exchange income. Operating expenses increased 6.0% YOY to SAR 925 Mn in 2Q26, mainly due to higher salaries and employee-related expenses, other operating, G&A expenses, and D&A expenses. As a result, the cost-to-income ratio declined by 13 bps YOY to 32.5% in 2Q26. Pre-provision profit rose 6.6% YOY to SAR 1,924 Mn in 2Q26. Impairment charges increased 13.3% YOY to SAR 267 Mn in 2Q26, mainly due to a higher impairment charge for other financial assets, partially offset by a lower impairment charge for expected credit losses on loans and advances. BSF's zakat expenses increased 1.8% YOY to SAR 169 Mn in 2Q26.

| Stock Information | |
|---|---|
| Market Cap (SAR, Mn) | 51,129.73 |
| Paid Up Capital (Mn) | 2,475.58 |
| 52 Week High | 20.98 |
| 52 Week Low | 15.49 |
| 3M Avg. daily value (SAR) | 1,835,669 |

| 2Q26 Result Review (SAR, Mn) | |
|---|---|
| Total Assets | 327,983 |
| Investments | 74,208 |
| Total Equity | 51,394 |
| Total Deposits | 204,588 |
| Net Profit | 1,487 |

| Financial Ratios | |
|---|---|
| Dividend Yield (12m) | 5.70 |
| Dividend Pay-out (%) | 49.48 |
| Price-Earnings Ratio(x) | 7.78 |
| Price-to-Book Ratio (x) | 0.97 |
| Book Value (SAR) | 17.26 |
| Return on Equity (%) | 13.08 |

| Stock Performance | |
|---|---|
| 5 Days | 4.73% |
| 1 Months | 3.19% |
| 3 Months | -2.07% |
| 6 Months | 13.35% |
| 1 Year | 18.08% |
| Month to Date (MTD%) | 5.05% |
| Quarter to Date (QTD%) | 5.05% |
| Year to Date (YTD%) | 21.17% |

## Balance Sheet Highlights

BSF's total assets expanded by 8.6% YOY and 1.0% QOQ to SAR 328.0 Bn in 2Q26, supported by growth in lending and higher investments. Net advances increased by 6.8% YOY and 1.0% QOQ to SAR 224.2 Bn in 2Q26. Customer deposits grew 12.0% YOY and 2.5% QOQ to SAR 204.6 Bn in 2Q26. As a result, the Bank's loan-to-deposit ratio declined by 528 bps YOY and 159 bps QOQ to 109.6% in 2Q26. Additionally, BSF's total equity edged down 0.7% YOY and 0.2% QOQ to SAR 51.4 Bn in 2Q26.

## Target Price and Rating

We revise our rating from BUY to ACCUMULATE on BSF with an unchanged target price of SAR 22.50. Banque Saudi Fransi (BSF) reported a steady performance in 2Q26, with net profit increasing 6.0% YOY to SAR 1.49 Bn, supported by growth in core operating income. Net funded income remained resilient, rising 6.7% YOY, driven by improved returns from financing and investment activities, reflecting continued balance sheet expansion. Non-funded income also rose 5.0% YOY to SAR 506 Mn, supporting income diversification. Balance sheet momentum was steady, with total assets expanding 8.6% YOY but only 1.0% QOQ to SAR 328.0 Bn, pointing to a moderation in sequential growth after a stronger start to the year. Net advances rose 6.8% YOY and a modest 1.0% QOQ to SAR 224.2 Bn, while customer deposits outpaced lending on both bases, up 12.0% YOY and 2.5% QOQ to SAR 204.6 Bn. This deposit-led funding shift drove the loan-to-deposit ratio down 528 bps YOY and 159 bps QOQ to 109.6%, easing the Bank's historically elevated funding profile and building liquidity headroom, though the ratio remains above 100%. Total equity, however, edged down 0.7% YOY and 0.2% QOQ to SAR 51.4 Bn, a mild erosion likely reflecting dividend distribution and mark-to-market movements outpacing retained earnings during the period. Total operating income grew 6.4% YOY to SAR 2.85 Bn, driven by higher net funded income, trading income, dividend income and gains on non-trading investments. The Bank's capital position remains robust, underpinned by consistent profitability and disciplined balance sheet growth. The Bank targets an ROE above 15% under its Strategy 2030. Looking ahead, BSF targets an 8%–10% market share of sector net income and over 75% straight-through processing by 2030, supported by initiatives to expand fee income, strengthen cross-selling, grow low-cost deposits, and accelerate digital transformation. Furthermore, for 2026, the Bank expects to deliver high single-digit loan growth while maintaining the cost of risk within 45–55 bps, achieving a cost-to-income ratio below 33%, generating an ROE of 12%–13%, and maintaining a CET1 ratio above 15%. The Bank has decided to distribute a cash dividend of SAR 1.42 Bn for 1H26, equivalent to SAR 0.57 per share, reinforcing its commitment to a progressive dividend policy. Thus, based on the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

**BSF - Relative valuation**

| (at CMP) | 2021 | 2022 | 2023 | 2024 | 2025 | 2026F |
|---|---|---|---|---|---|---|
| PE | 15.85 | 15.33 | 12.80 | 11.96 | 10.41 | 9.91 |
| PB | 1.53 | 1.57 | 1.46 | 1.38 | 1.24 | 1.17 |
| BVPS | 15.874 | 15.534 | 16.612 | 16.888 | 20.325 | 21.381 |
| EPS | 1.296 | 1.340 | 1.604 | 1.718 | 1.974 | 2.072 |
| DPS | 0.719 | 0.792 | 0.935 | 1.013 | 1.068 | 1.153 |
| Dividend yield | 3.5% | 3.9% | 4.6% | 5.0% | 5.2% | 5.7% |

*FABS Estimates & Co Data*

**BSF – P&L**

| SAR Mn | 2Q25 | 1Q26 | 2Q26 | 2Q26F | Var | YOY Ch | QOQ Ch | 2025 | 2026F | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Special commission income | 4,324 | 4,433 | 4,577 | 4,571 | 0.1% | 5.9% | 3.3% | 17,559 | 18,412 | 4.9% |
| Special commission expense | 2,128 | 2,216 | 2,234 | 2,319 | -3.7% | 5.0% | 0.8% | 8,867 | 9,252 | 4.3% |
| **Net special commission income** | **2,196** | **2,217** | **2,343** | **2,252** | **4.0%** | **6.7%** | **5.7%** | **8,692** | **9,160** | **5.4%** |
| **Non-funded income** | **482** | **491** | **506** | **448** | **12.8%** | **5.0%** | **3.0%** | **1,845** | **2,004** | **8.7%** |
| **Operating income** | **2,678** | **2,708** | **2,849** | **2,700** | **5.5%** | **6.4%** | **5.2%** | **10,537** | **11,164** | **6.0%** |
| Operating Expenses | **873** | **922** | **925** | **916** | **1.0%** | **6.0%** | **0.3%** | **3,559** | **3,710** | **4.2%** |
| **Pre-provision profit** | **1,805** | **1,786** | **1,924** | **1,784** | **7.8%** | **6.6%** | **7.7%** | **6,978** | **7,454** | **6.8%** |
| Impairment | 236 | 246 | 267 | 257 | 3.9% | 13.3% | 8.6% | 989 | 1,121 | 13.4% |
| **PBT** | **1,569** | **1,540** | **1,656** | **1,527** | **8.4%** | **5.5%** | **7.5%** | **5,989** | **6,333** | **5.7%** |
| Zakat | 166 | 159 | 169 | 159 | 6.4% | 1.8% | 6.4% | 636 | 659 | 3.6% |
| **Net profit attributable** | **1,403** | **1,381** | **1,487** | **1,368** | **8.7%** | **6.0%** | **7.7%** | **5,353** | **5,674** | **6.0%** |

*FABS estimate & Co Data*

**BSF - Margins**

| | 2Q25 | 1Q26 | 2Q26 | YOY Ch | QOQ Ch | 2025 | 2026F | Change |
|---|---|---|---|---|---|---|---|---|
| Net FI/OI | 82.0% | 81.9% | 82.2% | 24 | 38 | 82.5% | 82.0% | -45 |
| Cost to income | 32.6% | 34.1% | 32.5% | -13 | -159 | 33.8% | 33.2% | -55 |
| Impairment/PPP | 13.1% | 13.8% | 13.9% | 82 | 11 | 14.2% | 15.0% | 87 |
| NP/OI | 52.4% | 51.0% | 52.2% | -20 | 119 | 50.8% | 50.8% | 2 |
| Headline Loan-to-deposit | 114.9% | 111.2% | 109.6% | -528 | -159 | 110.1% | 106.1% | -402 |
| ROA | 1.7% | 1.7% | 1.7% | 5 | 2 | 1.8% | 1.8% | -2 |

*FABS estimate & Co Data*

**BSF – Key B/S items**

| SAR Mn | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2Q26 | YOY Ch |
|---|---|---|---|---|---|---|
| Net advances | 209,881 | 215,592 | 214,891 | 221,929 | 224,241 | 6.8% |
| *QOQ ch* | 0.4% | 2.7% | -0.3% | 3.3% | 1.0% | |
| Total assets | 301,939 | 314,946 | 309,006 | 324,810 | 327,983 | 8.6% |
| *QOQ ch* | -0.5% | 4.3% | -1.9% | 5.1% | 1.0% | |
| Customer deposits | 182,690 | 185,868 | 195,219 | 199,583 | 204,588 | 12.0% |
| *QOQ ch* | -4.2% | 1.7% | 5.0% | 2.2% | 2.5% | |
| Total equity | 51,763 | 52,075 | 50,659 | 51,517 | 51,394 | -0.7% |
| *QOQ ch* | 5.6% | 0.6% | -2.7% | 1.7% | -0.2% | |

*FABS estimate & Co Data*

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# Valuation:

We use the Residual Income and Relative Valuation (RV) method to value BSF. We have assigned 70% weight to Residual Income, and 30% to RV method.

| Valuation Method | Target | Weight | Weighted Value |
|---|---|---|---|
| Residual Income Method | 23.83 | 70% | 16.68 |
| Relative Valuation (RV) | 19.40 | 30% | 5.82 |
| **Weighted Average Valuation (SAR)** | | | **22.50** |
| Current market price (SAR) | | | 20.38 |
| Upside/Downside (%) | | | +10.4% |

## 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.2%. The cost of equity is calculated by using a 10-year government bond yield of 5.4%, a beta of 0.90 and an equity risk premium of 4.2%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

| | |
|---|---|
| Sum of PV (SAR, Mn) | 4,442 |
| Terminal value (SAR, Mn) | 12,622 |
| Book value of Equity (as of Mar, 2026) | 42,285 |
| **FV to Common shareholders (SAR, Mn)** | **59,349** |
| No. of share (Mn) | 2,491 |
| Current Market Price (SAR) | 20.38 |
| **Fair Value per share (SAR)** | **23.83** |

**Residual Income Method**

| (All Figures in SAR Mn) | FY 2026E | FY 2027E | FY 2028E | FY 2029E | FY 2030E |
|---|---|---|---|---|---|
| Net Profit | 5,181 | 5,341 | 5,332 | 5,551 | 5,933 |
| (-) Equity Charge | -3,811 | -4,021 | -4,228 | -4,418 | -4,611 |
| **Excess Equity** | **1,369** | **1,320** | **1,104** | **1,133** | **1,321** |
| Discounting Factor | 0.96 | 0.88 | 0.81 | 0.74 | 0.68 |
| **Present Value of Excess Equity** | **658** | **1,162** | **890** | **837** | **894** |

*Source: FAB Securities*

### 2) Relative Valuation:

We have used Saudi peers to value BSF and it is valued using the PB multiple. It is valued at a 2026 PB multiple of 1.1x in line with peers.

| Company | Market | P/B (x) | | P/E (x) | | Dividend Yield (%) | |
|---|---|---|---|---|---|---|---|
| | (USD Mn) | 2026F | 2027F | 2026F | 2027F | 2026F | 2027F |
| Riyad Bank | 21,294 | 1.1 | 1.0 | 8.0 | 7.5 | 5.5% | 6.0% |
| Alinma Bank | 19,184 | 1.8 | 1.7 | 11.6 | 10.8 | 3.5% | 3.6% |
| Saudi National bank | 58,968 | 1.1 | 1.1 | 9.1 | 8.5 | 5.9% | 6.5% |
| Arab National Bank | 10,915 | 0.9 | 0.9 | 8.4 | 8.1 | 6.0% | 6.1% |
| Bank Albilad | 9,580 | 1.5 | NA | 11.4 | 10.9 | 4.2% | 4.4% |
| **Average** | | **1.3x** | **1.2x** | **9.7x** | **9.2x** | **5.0%** | **5.3%** |
| **Median** | | **1.1x** | **1.1x** | **9.1x** | **8.5x** | **5.5%** | **6.0%** |
| **Max** | | **1.5x** | **1.2x** | **11.4x** | **10.8x** | **5.9%** | **6.1%** |
| **Min** | | **1.1x** | **1.0x** | **8.4x** | **8.1x** | **4.2%** | **4.4%** |

*Source: FAB Securities*

## Research Rating Methodology:

| Rating | Upside/Downside potential |
|---|---|
| BUY | Higher than +15% |
| ACCUMULATE | Between +10% to +15% |
| HOLD | Lower than +10% to -5% |
| REDUCE | Between -5% to -15% |
| SELL | Lower than -15% |

## FAB Securities Contacts:


**Research Analyst**

| | | |
|---|---|---|
| Ahmad Banihani | +971-2-6161629 | ahmad.banihani@Bankfab.com |
| Shahrukh Nawaz | +971-2-6161612 | Shahrukh.Nawaz@bankfab.com |

**Sales & Execution**

| | | |
|---|---|---|
| Abu Dhabi Head Office | | |
| Trading Desk | +971-2-6161700/1 | Online Trading Link |
| | +971-2-6161777 | |
| Institutional Desk | +971-4-4245765 | |


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