

Banque Saudi Fransi (BSF)

Growth in non-funded income and lower impairments supported profit

Current Price
SAR 34.45

Target Price
SAR 46.00

Upside/Downside (%)
+34%

Rating
BUY

- Net advances grew 16.2% YOY and 6.3% QOQ to SAR 197 Bn in 2Q24 mainly due to a growth in commercial and retail advances.
- Deposits rose 21.8% YOY and 12.3% QOQ to SAR 196 Bn in 2Q24 owing to strong expansion in time deposits.
- Cost-to-income ratio grew 372 bps YOY and 139 QOQ to 34.5% in 2Q24.
- NIMs fell 51 bps YOY and 16 bps QOQ to 2.9% in 2Q24 owing to strong growth in deposits.
- Investments also rose 12.9% YOY and 4.9% QOQ to SAR 56 Bn in 2Q24.
- The Bank's capitalization stood healthy with a Tier 1 capital ratio of 17.4% and a total CAR of 18.1% in 2Q24.



Stock Information

| | |
|---------------------------|------------|
| Market Cap (SAR, mn) | 41,524.55 |
| Paid Up Capital (mn) | 12,053.57 |
| 52 Week High | 42.95 |
| 52 Week Low | 32.50 |
| 3M Avg. daily value (SAR) | 35,168,070 |

2Q24 Result Review (SAR, mn)

| | |
|-------------------|---------|
| Total Assets | 288,826 |
| Total Liabilities | 247,017 |
| Total Equity | 41,809 |
| Total Deposits | 196,248 |
| Net Profit | 1,129 |

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | 5.81 |
| Dividend Pay-out (%) | 55.37 |
| Price-Earnings Ratio(x) | 9.53 |
| Price-to-Book Ratio (x) | 1.12 |
| Book Value (SAR) | 30.75 |
| Return on Equity (%) | 12.17 |

Stock Performance

| | |
|------------------------|---------|
| 5 Days | 2.23% |
| 1 Months | -5.62% |
| 3 Months | -6.64% |
| 6 Months | -10.75% |
| 1 Year | -8.01% |
| Month to Date (MTD%) | -6.89% |
| Quarter to Date (QTD%) | -2.68% |
| Year to Date (YTD%) | -13.88% |

2Q24 Net Profit in line with our estimate

Banque Saudi Fransi's (BSF/the Bank) net profit increased 5.2% YOY to SAR 1,129 Mn in 2Q24, in line with our estimate of SAR 1,134 Mn. The increase in the net profit is mainly attributable to growth in non-funded income and lower impairments partially offset by a decline in net funded income and higher operating expenses.

P&L Highlights

Funded income grew 29.3% YOY to SAR 4,170 Mn in 2Q24 driven by an expansion in yield and strong loan growth, while funded expenses rose significantly from SAR 1,251 Mn in 2Q23 to SAR 2,230 Mn in 2Q24 primarily due to an increase in the cost of funds and growth in interest-bearing liabilities. Thus, net funded income fell 1.8% YOY to SAR 1,940 Mn in 2Q24. NIMs declined 51 bps YOY and 16 bps QOQ to 2.9% in 2Q24. Total non-funded income rose 8.2% YOY to SAR 402 Mn in 2Q24 due to higher net fee & commission income partially offset by a decline in exchange and trading income. Thus, the Bank's operating income fell marginally by 0.2% YOY to SAR 2,342 Mn in 2Q24. Operating expenses rose 11.8% YOY to SAR 809 Mn in 2Q24. As a result, the Bank's cost-to-income ratio grew 372 bps YOY and 139 QOQ to 34.5% in 2Q24 owing to higher salaries & employee-related expense, other G&A expenses and D&A expenses partially offset by a decline in rent. In addition, impairment charges declined 36.4% YOY to SAR 274 Mn in 2Q24 owing to a 32.0% YOY decline in impairment on loans and advances coupled with a provision reversal on investments, financial assets, & others. Tax expenses rose 8.7% YOY to SAR 130 Mn in 2Q24 from SAR 132 Mn in 1Q24 owing to a rise in profitability.

Balance Sheet Highlights

BSF's total assets grew 17.5% YOY and 7.6% QOQ to SAR 288.8 Bn in 2Q24 mainly due to the growth in net advances and investment portfolio. Net advances grew 16.2% YOY and 6.3% QOQ to SAR 197.2 Bn in 2Q24 attributable to growth in advances to the corporate and retail sector. The Bank's investment portfolio grew 12.9% YOY and 4.9% QOQ to SAR 56 Bn in 2Q24. Customer deposits grew 21.8% YOY and 12.3% QOQ to SAR 196.2 Bn in 2Q24. Moreover, BSF's total equity rose 5.3% YOY and fell 0.3% QOQ to SAR 41.8 Bn in 2Q24.

Target Price and Rating

We maintain our BUY rating on BSF with an unchanged target price of SAR 46.00. BSF recorded a growth in profitability owing to a rise in non-funded and lower impairment charges. The Bank continued to record strong momentum in loan book which grew 9.9% on a YTD basis to SAR 197.2 Bn in 2Q24. It expects advances to grow by a low double-digit in FY2024, however we believe loan growth will be revised upward owing to a strong in advances until 1H24. The growth in advances is driven by a strong growth in credit to the retail and corporate sectors, while BSF recorded a decline in NIMs which fell by a significant 16 bps QOQ to 2.9% in 2Q24 owing to a strong growth in interest-bearing liabilities. Deposits growth exceeded loan growth which rose 12.3% QOQ to SAR 196.2 Bn in 2Q24 with a loan-to-deposit ratio of 106.1% in 1Q24 to 100.5% in 2Q24. The growth in deposits is mainly driven by a growth in term deposits which will be more permanent in nature. It also parked excess cash in the investment securities which rose 4.9% QOQ to SAR 55.5 bn in 2Q24. The strong deposit will also help in fulfilling the strong demand for credit. Asset quality remained healthy with a flat NPLs ratio of 1.0% in 2Q24. In addition, the NPL coverage ratio stood at 155.8% in 2Q24 compared to 155.3% in 1Q24. A higher coverage ratio will provide sufficient cushion to absorb losses in case of a loan default. Moreover, BSF's capitalization stood healthy with a Tier 1 capital ratio of 17.4% and a total CAR of 18.1% in 2Q24. BSF announced the intention to raise additional funds through the Tier 1 Sukuk issuance program of SAR 8.0 Bn. Furthermore, the Bank announced an interim cash dividend of SAR 1 per share for 1H24 and is expected to generate a healthy cash dividend of 5.8% in FY2024. It is trading at an inexpensive PB multiple of 1.1x compared to the peer average of 1.4x in FY2024. Thus, based on our analysis, we assign a BUY rating on the stock.

BSF - Relative valuation

| (at CMP) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F |
|----------------|-------|-------|-------|-------|-------|-------|
| PE | 13.29 | 27.86 | 12.80 | 12.38 | 10.38 | 9.21 |
| PB | 1.31 | 1.24 | 1.24 | 1.27 | 1.19 | 1.13 |
| Dividend yield | 5.7% | 1.2% | 4.3% | 4.8% | 5.6% | 5.8% |

FABS Estimates & Co Data

BSF – P&L

| SAR mn | 2Q23 | 1Q24 | 2Q24 | 2Q24F | Var. | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Funded Income | 3,226 | 3,822 | 4,170 | 3,942 | 5.8% | 29.3% | 9.1% | 13,218 | 16,287 | 23.2% |
| Funded Expense | 1,251 | 1,903 | 2,230 | 1,958 | 13.9% | 78.3% | 17.2% | 5,383 | 8,297 | 54.1% |
| Net Funded Income | 1,976 | 1,919 | 1,940 | 1,984 | -2.2% | -1.8% | 1.1% | 7,835 | 7,989 | 2.0% |
| Fee and commission income | 211 | 247 | 264 | 240 | 10.2% | 25.3% | 6.9% | 915 | 960 | 5.0% |
| Exchange income, net | 100 | 100 | 93 | 100 | -6.7% | -7.0% | -6.7% | 455 | 432 | -5.0% |
| Trading income, net | 48 | 60 | 28 | 48 | -40.5% | -41.2% | -52.4% | 114 | 171 | 50.0% |
| Dividend income | 4 | 4 | 4 | 5 | -19.3% | 14.1% | 11.1% | 15 | 20 | NA |
| Gains/ Losses on non-trading investments, net | 4 | 2 | 12 | 3 | 313.1% | NM | NA | -16 | 15 | NA |
| Other operating income | 5 | 0 | 0 | 0 | -75.9% | NM | -75.6% | 6 | 16 | 170.0% |
| Non-funded income | 372 | 413 | 402 | 396 | 1.7% | 8.2% | -2.5% | 1,489 | 1,615 | 8.5% |
| Operating income | 2,347 | 2,331 | 2,342 | 2,380 | -1.6% | -0.2% | 0.5% | 9,324 | 9,604 | 3.0% |
| Salaries and employee-related exps | 409 | 467 | 460 | 477 | -3.4% | 12.5% | -1.5% | 1,742 | 1,811 | 4.0% |
| Rent expenses | 18 | 16 | 15 | 16 | -3.7% | -13.6% | -2.8% | 67 | 62 | -8.0% |
| D&A | 55 | 67 | 67 | 81 | -16.8% | 23.1% | 0.6% | 251 | 288 | 14.8% |
| Other G&A expenses | 242 | 223 | 266 | 232 | 14.8% | 10.0% | 19.4% | 962 | 904 | -6.0% |
| Operating Expenses | 724 | 773 | 809 | 805 | 0.5% | 11.8% | 4.7% | 3,022 | 3,065 | 1.4% |
| Pre-provision profit | 1,624 | 1,558 | 1,533 | 1,574 | -2.6% | -5.6% | -1.6% | 6,302 | 6,539 | 3.8% |
| Impairment | 431 | 276 | 274 | 310 | -11.8% | -36.4% | -0.7% | 1,594 | 1,272 | -20.2% |
| PBT | 1,193 | 1,282 | 1,259 | 1,264 | -0.4% | 5.6% | -1.8% | 4,708 | 5,267 | 11.9% |
| Tax | 120 | 132 | 130 | 130 | -0.1% | 8.7% | -1.8% | 485 | 542 | 11.8% |
| Net Profit | 1,073 | 1,150 | 1,129 | 1,134 | -0.4% | 5.2% | -1.8% | 4,223 | 4,724 | 11.9% |

FABS estimate & Co Data
BSF - Margins

| | 2Q23 | 1Q24 | 2Q24 | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net FI/OI | 84.2% | 82.3% | 82.8% | -134 | 52 | 84.0% | 83.2% | -85 |
| NIM | 3.4% | 3.1% | 2.9% | -51 | -16 | 3.4% | 3.0% | -35 |
| NIS | 2.7% | 2.1% | 1.8% | -91 | -28 | 2.7% | 2.1% | -62 |
| Fees & comms/OI | 9.0% | 10.6% | 11.3% | 229 | 68 | 9.8% | 10.0% | 19 |
| Trading/OI | 2.1% | 2.6% | 1.2% | -85 | -134 | 1.2% | 1.8% | 56 |
| Cost to income | 30.8% | 33.2% | 34.5% | 372 | 139 | 32.4% | 31.9% | -49 |
| Impairment/PPP | 26.5% | 17.7% | 17.9% | -866 | 16 | 25.3% | 19.5% | -585 |
| NP/OI | 45.7% | 49.3% | 48.2% | 248 | -112 | 45.3% | 49.2% | 390 |
| Cost of risk | 1.0% | 0.60% | 0.6% | -43 | -3 | 0.9% | 0.7% | -27 |
| Loan-to-deposit | 105.3% | 106.1% | 100.5% | -483 | -559 | 104.2% | 101.8% | -235 |
| NPL calculated | 2.4% | 1.0% | 1.0% | -147 | 1 | 1.1% | 0.9% | -18 |
| Coverage excluding collateral | 133.3% | 155.3% | 155.8% | 2254 | 54 | 134.2% | 150.0% | 1576 |
| Tier 1 | 19.0% | 18.4% | 17.4% | -163 | -100 | 18.9% | 18.0% | -89 |
| Capital adequacy | 20.0% | 19.0% | 18.1% | -191 | -94 | 19.5% | 18.7% | -82 |
| ROE | 11.7% | 12.2% | 12.0% | 29 | -16 | 11.8% | 12.9% | 104 |
| ROA | 1.7% | 1.6% | 1.6% | -9 | -8 | 1.7% | 1.7% | -1 |

FABS estimate & Co Data

BSF – Key B/S items

| SAR mn | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | YOY Ch |
|-------------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Net advances | 169,695 | 174,681 | 179,391 | 185,408 | 197,160 | 16.2% |
| <i>QOQ ch</i> | 3.0% | 2.9% | 2.7% | 3.4% | 6.3% | |
| Total assets | 245,718 | 249,862 | 253,383 | 268,376 | 288,826 | 17.5% |
| <i>QOQ ch</i> | 2.3% | 1.7% | 1.4% | 5.9% | 7.6% | |
| Customer deposits | 161,165 | 166,367 | 172,209 | 174,828 | 196,248 | 21.8% |
| <i>QOQ ch</i> | -3.7% | 3.2% | 3.5% | 1.5% | 12.3% | |
| Total equity | 39,696 | 39,283 | 41,121 | 41,928 | 41,809 | 5.3% |
| <i>QOQ ch</i> | -0.6% | -1.0% | 4.7% | 2.0% | -0.3% | |

FABS estimate & Co Data

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 | 46.86 | 70.0% | 32.80 |
| Relative Valuation (RV) | 43.99 | 30.0% | 13.20 |
| Weighted Average Valuation (SAR) | | | 46.00 |
| Current market price (SAR) | | | 34.45 |
| Upside/Downside (%) | | | +34% |

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. The cost of equity is calculated by using a 10-year government bond yield of 4.9%, a beta of 0.88 and an equity risk premium of 3.9%. 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) | 5,155 |
| Terminal value (SAR, Mn) | 14,507 |
| Book value of Equity (as of Dec, 2023) | 36,809 |
| FV to Common shareholders (SAR, Mn) | 56,471 |
| No. of share (Mn) | 1,205 |
| Current Market Price (SAR) | 34.45 |
| Fair Value per share (SAR) | 46.86 |

DCF Method

| (All Figures in SAR Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Profit | 4,499 | 5,102 | 5,447 | 5,760 | 6,053 |
| (-) Equity Charge | -3,208 | -3,555 | -3,930 | -4,329 | -4,752 |
| Excess Equity | 1,291 | 1,546 | 1,518 | 1,431 | 1,302 |
| Discounting Factor | 0.95 | 0.88 | 0.81 | 0.75 | 0.69 |
| Present Value of Excess Equity | 612 | 1,353 | 1,226 | 1,067 | 896 |

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 2024 PB multiple of 1.4x in line with peers.

| Company | Market (USD Mn) | P/B (x) | | P/E (x) | | Dividend Yield (%) | |
|---------------------|--------------------|-------------|-------------|--------------|--------------|--------------------|-------------|
| | | 2024F | 2025F | 2024F | 2025F | 2024F | 2025F |
| Riyad Bank | 21,660 | 1.4 | 1.3 | 10.1 | 9.4 | 5.2 | 5.5 |
| Alinma Bank | 21,610 | 2.5 | 2.2 | 15.2 | 13.5 | 2.9 | 3.1 |
| Saudi National bank | 59,800 | 1.3 | 1.3 | 11.4 | 10.5 | 4.8 | 5.1 |
| Arab National Bank | 11,390 | 1.1 | 1.1 | 9.0 | 9.2 | 5.8 | 5.7 |
| Bank Albilad | 11,500 | 2.4 | 2.2 | 15.9 | 14.2 | 1.5 | 1.9 |
| Average | | 1.8x | 1.6x | 12.3x | 11.4x | 4.0% | 4.3% |
| Median | | 1.4x | 1.3x | 11.4x | 10.5x | 4.8% | 5.1% |
| Max | | 2.4x | 2.2x | 15.2x | 13.5x | 5.2% | 5.5% |
| Min | | 1.3x | 1.3x | 10.1x | 9.4x | 2.9% | 3.1% |

Source: FAB Securities

