

Banque Saudi Fransi (BSFR)

Moderate growth in non-funded income and lower impairment drove profitability

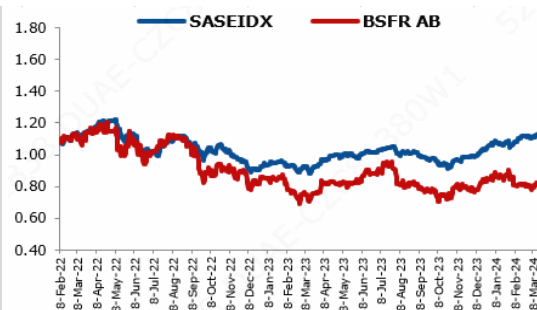
Current Price
SAR 36.25

Target Price
SAR 46.00

Upside/Downside (%)
+27%

Rating
BUY

- Net advances grew 12.5% YOY to SAR 185 Bn in 1Q24, whereas deposits rose 4.4% YOY to SAR 175 Bn in 1Q24.
- Cost-to-income ratio grew 244 bps YOY to 33.2% in 1Q24.
- BSFR's impairment charges declined 32.0% YOY to SAR 276 Mn in 1Q24.
- The Bank's funded income rose 27.5% YOY to SAR 3,822 Mn in 1Q24.
- BSFR investment portfolio grew 18.1% YOY to SAR 53 Mn in 1Q24.
- The Bank's capitalization stood healthy with a Tier 1 capital ratio of 18.92% and a total CAR of 19.54% in 4Q23.



Stock Information

Market Cap (SAR, mn)	43,694.20
Paid Up Capital (mn)	12,053.57
52 Week High	45.70
52 Week Low	33.15
3M Avg. daily value (SAR)	43,201,930

1Q24 Result Review (SAR, mn)

Total Assets	268,376
Investments	52,923
Total Equity	41,928
Total Deposits	174,828
Net Profit	1,150

Financial Ratios

Dividend Yield (12m)	5.10
Dividend Pay-out (%)	55.37
Price-Earnings Ratio(x)	10.29
Price-to-Book Ratio (x)	1.20
Book Value (SAR)	30.17
Return on Equity (%)	12.09

Stock Performance

5 Days	0.55%
1 Months	-4.86%
3 Months	-10.60%
6 Months	-2.82%
1 Year	-6.33%
Month to Date (MTD%)	-1.09%
Quarter to Date (QTD%)	-4.86%
Year to Date (YTD%)	-9.38%

1Q24 Net Profit in line with our estimate

Banque Saudi Fransi's (BSFR/the Bank) net profit increased 6.8% YOY to SAR 1,150 Mn in 1Q24, marginally higher than our estimate of SAR 1,132 Mn. The increase in the net profit is mainly attributable to growth in non-funded income and lower impairments partially offset by higher operating expenses.

P&L Highlights

Funded income grew 27.5% YOY to SAR 3,822 Mn in 1Q24 driven by a growth in net advances and other interest-earning assets. In comparison, funded expenses rose significantly from SAR 1,073 Mn in 1Q23 to SAR 1,903 Mn in 1Q24, primarily due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income fell 0.3% YOY to SAR 1,919 Mn in 1Q24. The total non-funded income rose 4.5% YOY to SAR 412 Mn in 1Q24 due to higher trading and net fee & commission income partially offset by a decline in exchange and net special commission income. Thus, the Bank's operating income grew 0.6% YOY from SAR 2,318 Mn in 1Q23 to SAR 2,331 Mn in 1Q24. As a result, the Bank's cost-to-income ratio grew 244 bps YOY to 33.2% in 1Q24 owing to higher salaries and employee-related expenses. In addition, impairment charges declined 32.0% YOY to SAR 276 Mn in 1Q24. Tax expenses rose from SAR 124 Mn in 1Q23 to SAR 132 Mn in 1Q24 in line with growth in profitability.

Balance Sheet Highlights

BSFR's total assets grew 11.7% YOY to SAR 268 Bn in 1Q24 mainly due to net advances and investment portfolio growth. Net advances grew 12.5% YOY to SAR 185 Bn in 1Q24. The Bank's investment portfolio grew 18.1% YOY to SAR 53 Mn in 1Q24. Customer deposits grew 4.4% YOY to SAR 175 Bn in 1Q24. Moreover, BSFR's total equity rose 5.0% to SAR 42 Bn in 1Q24.

Target Price and Rating

We revise our rating from ACCUMULATE to BUY on BSFR with an unchanged target price of SAR 46.00. The Company share price declined 8.9% since our last rating, leading us to revise our rating. BSFR recorded a growth in profitability owing to a rise in net advances and lower impairments. The Bank continued strong momentum in loan book by recording solid growth of 12.8% YOY in 4Q23 and further witnessed a 12.5% YOY increase to SAR 185 Bn in 1Q24. The Bank further anticipates its loan book to record low double-digit growth primarily driven by robust demand from the corporate lending supported by the development projects under Vision 2030. The liquidity moderated in 1Q24 as the headline loan-to-deposit ratio increased from 104.2% in 4Q23 to 106.1% in 1Q24 owing to slow deposit growth. In addition, the Bank's investment portfolio grew 18.1% YOY in 1Q24. In addition, BSFR raised its investment in long-term fixed-rate government securities in 4Q24 owing to attractive yield. BSFR's NPL ratio improved 149 bps YOY to 1.06% in 4Q23 compared to 1.97% in 3Q23. In addition, the NPL coverage ratio stood at 137.7% in 4Q23 from 139.5% in 3Q23. The higher provision buffer will protect from any increase in loan losses owing to changes in the macro-economic environment. Moreover, BSFR's capitalization stood healthy with Tier 1 capital ratio of 18.92% and total CAR of 19.54% in 4Q23. Thus, based on our analysis, we assign a BUY rating on the stock.

BSFR - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	14.10	29.56	13.57	13.14	11.01	9.91
PB	1.39	1.31	1.31	1.35	1.26	1.19
Dividend yield	5.3%	1.1%	4.1%	4.5%	5.3%	5.7%

FABS Estimates & Co Data

BSFR - P&L

SAR mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded Income	2,997	3,506	3,822	3,637	5.1%	27.5%	9.0%	13,218	14,341	8.5%
Funded Expense	1,073	1,639	1,903	1,731	9.9%	77.4%	16.1%	5,383	6,318	17.4%
Net Funded Income	1,924	1,868	1,919	1,906	0.7%	-0.3%	2.7%	7,835	8,023	2.4%
Non-funded income	394	323	412	401	2.6%	4.5%	27.5%	1,489	1,532	2.9%
Operating income	2,318	2,191	2,331	2,307	1.0%	0.6%	6.4%	9,324	9,555	2.5%
Operating Expenses	712	846	773	722	7.1%	8.5%	-8.6%	3,022	3,014	-0.3%
Pre-provision profit	1,606	1,345	1,558	1,585	-1.7%	-3.0%	15.8%	6,302	6,541	3.8%
Impairment	406	413	276	323	-14.5%	-32.0%	-33.2%	1,594	1,344	-15.7%
PBT	1,200	932	1,282	1,262	1.6%	6.8%	37.6%	4,708	5,197	10.4%
Tax	124	104	132	130	1.5%	6.8%	26.6%	485	535	10.3%
Net Profit attributable	1,076	827	1,150	1,132	1.6%	6.8%	39.0%	4,223	4,662	10.4%

FABS estimate & Co Data

BSFR - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	83.0%	85.2%	82.3%	-67	-292	84.0%	84.0%	-7
Cost to income	30.7%	38.6%	33.2%	244	-544	32.4%	32.4%	0
Impairment/PPP	25.3%	30.7%	17.7%	-756	-1301	25.3%	20.6%	-475
NP/OI	46.4%	37.8%	49.3%	290	1157	45.3%	48.8%	350
ROA	1.6%	1.7%	1.6%	5	-6	1.7%	1.8%	2

FABS estimate & Co Data

BSFR – Key B/S items

SAR mn	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	164,779	169,695	174,681	179,391	185,408	12.5%
QOQ ch	3.6%	3.0%	2.9%	2.7%	3.4%	
Total assets	240,236	245,718	249,862	253,383	268,376	11.7%
QOQ ch	3.5%	2.3%	1.7%	1.4%	5.9%	
Customer deposits	167,414	161,165	166,367	172,209	174,828	4.4%
QOQ ch	6.2%	-3.7%	3.2%	3.5%	1.5%	
Total equity	39,936	39,696	39,283	41,121	41,928	5.0%
QOQ ch	3.1%	-0.6%	-1.0%	4.7%	2.0%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	47.71	70.0%	33.39
Relative Valuation (RV)	42.02	30.0%	12.61
Weighted Average Valuation (SAR)			46.00
Current market price (SAR)			36.25
Upside/Downside (%)			+27%

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using 10-year government bond yield of 5.5%, beta of 0.88 and equity risk premium of 3.68%. 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)	5,448
Terminal value (SAR, Mn)	15,109
Book value of Equity (as of Dec, 2023)	36,928
FV to Common shareholders (SAR, Mn)	57,485
No. of share (Mn)	1,205
Current Market Price (SAR)	36.25
Fair Value per share (SAR)	46.00

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	4,437	4,781	5,051	5,371	5,684
(-) Equity Charge	-3,238	-3,448	-3,678	-3,932	-4,208
Excess Equity	1,198	1,333	1,373	1,439	1,476
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Present Value of Excess Equity	1,133	1,159	1,098	1,059	998

Source: FAB Securities

2) Relative Valuation:

We have used Saudi peers to value BSFR and it is valued using the PB multiple. It is valued at 2024 PB multiple of 1.5x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	22,360	10.3	9.6	1.5	1.4	5.2	5.4
Alinma Bank	21,670	14.8	13.6	2.5	2.2	2.9	3.1
Saudi National bank	59,340	11.0	10.1	1.4	1.2	4.7	5.1
Arab National Bank	11,660	9.6	9.7	1.1	1.1	5.2	5.4
Bank Albilad	11,570	16.0	14.3	2.5	2.2	1.6	1.8
Average		12.3x	11.5x	1.8x	1.6x	3.9%	4.2%
Median		11.0x	10.1x	1.5x	1.4x	4.7%	5.1%
Max		14.8x	13.6x	2.5x	2.2x	5.2%	5.4%
Min		10.3x	9.7x	1.4x	1.2x	2.9%	3.1%

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%

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