

## Banque Saudi Fransi (BSFR)

Loan growth and expansion in non-funded income supported profit

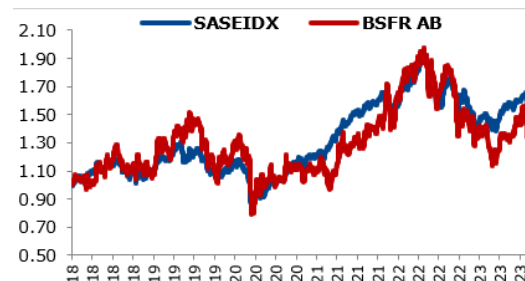
**Current Price**  
SAR 38.1

**Target Price**  
SAR 44.00

**Upside/Downside (%)**  
+16

**Rating**  
BUY

- BSFR revised NIM guidance upward from 3.30-3.50% to 3.45-3.55% in 2023 owing to hawkish US monetary policy. It also revised its cost of risk from 70-80 bps to 85-95 bps in 2023 amid a rising interest rate environment.
- Loan growth exceeded deposit as a result loan-to-deposit ratio rose from 98.4% in 1Q23 to 105.3% in 2Q23. The regulatory loan-to-deposit ratio also rose from 80.9% in 1Q23 to 82.0% in 2Q23, approaching the regulatory limit of 90%.
- Growth in commercial loans supported loan growth in 2Q23, while retail loans recorded marginal growth.
- BSFR's capitalization continues to exhibit robust strength with a CAR of 20.34% and Tier 1 ratio at 16.99% during 2Q23
- BSFR NIM remained flat at 3.43% in 2Q23.



### Stock Information

Market Cap (SAR, mm)	45,140.63
Paid Up Capital (mm)	12,053.57
52 Week High	53.30
52 Week Low	32.45
3M Avg. daily value (SAR)	23,759,520

### 2Q23 Result Review (SAR, mm)

Total Assets	245,718
Total Liabilities	206,022
Total Equity	39,696
Total Deposits	161,165
Net Profit	1,073

### Financial Ratios

Dividend Yield (12m)	4.94
Dividend Pay-out (%)	55.41
Price-Earnings Ratio(x)	11.57
Price-to-Book Ratio (x)	1.29
Book Value (SAR)	28.94
Return-on Equity (%)	11.90

### Stock Performance

5 Days	-2.22%
1 Months	-16.59%
3 Months	-1.96%
6 Months	3.03%
1 Year	-29.07%
Month to Date (MTD%)	-12.09%
Quarter to Date (QTD%)	-10.19%
Year to Date (YTD%)	-7.76%

### 2Q23 Net Profit lower than our estimate

Banque Saudi Fransi's (BSFR/the Bank) net profit rose 28.3% YOY to SAR 1,073 Mn in 2Q23, lower than our estimate of SAR 1,169 Mn. The rise in net profit is mainly attributable to 25.5% YOY strong growth in total operating income owing to an increase in net special commission income and trading income partially offset by an increase in G&A expenses and provisions.

### P&L Highlights

Funded income rose substantially 75.8% YOY to SAR 3,226 Mn in 2Q23 driven by growth in asset yield and interest-earning assets. While funded expense rose significantly from SAR 318 Mn in 2Q22 to SAR 1,250 Mn in 2Q23 primarily due to higher benchmark rates. Thus, net funded income rose 30.3% YOY to SAR 1,976 Mn in 2Q23. Fee and commission income grew marginally 0.8% YOY to SAR 211 Mn in 2Q23 while net exchange income rose 1.6% YOY to SAR 100 Mn. However, trading income surged 16.8% YOY to SAR 48 Mn in 2Q23. Thus, the Bank's total non-funded income rose 5.1% YOY to SAR 372 Mn in 2Q23. As a result, total operating income inclined 25.5% YOY to SAR 2,347 Mn in 2Q23. Further, salaries and employee-related expenses increased 13.1% YOY to SAR 409 Mn in 2Q23 while other G&A expenses grew 15.3% YOY to SAR 242 Mn in 2Q23. However, rent and premises expenses declined 4.6% YOY to SAR 18 Mn in 2Q23 and D&A costs fell 5.4% YOY to SAR 55 Mn in 2Q23. Resultantly, operating expenses grew 11.7% YOY to SAR 724 Mn in 2Q23. Thus, the cost-to-income ratio improved 383 bps YOY to 30.8% in 2Q23. Furthermore, impairment charges increased 46.6% to SAR 431 Mn in 2Q23. Likewise, tax expenses rose 31.6% YOY to SAR 120 Mn in 2Q23 in line with the growth in profitability.

## Balance Sheet Highlights

BSFR's total assets rose 6.2% YOY and 2.3% QOQ to SAR 245.7 Bn in 2Q23 primarily due to net advances and investments growth. Net advances recorded a growth of 6.3% YOY to SAR 169.7 Bn in 2Q23. Similarly, the Bank's investments rose 13.0% YOY to SAR 49.2 Bn in 2Q23. Furthermore, customer deposits recorded a marginal growth of 2.1% YOY to SAR 161.2 Bn in 2Q23. Loan-to-deposit ratio grew by 421 bps YOY and 687 QOQ to 105.3% in 2Q23. The regulatory loan-to-deposit ratio rose from 80.9% in 1Q23 to 82.0% in 2Q23. BSFR's total Equity rose 5.2% YOY and declined 0.6% QOQ to 39.7 Bn in 2Q23.

## Target Price and Rating

We revise our rating from HOLD to BUY on BSFR with a revised target price of SAR 44.00. BSFR recorded healthy growth in net advances rose 6.3% YOY and 3.0% QOQ to SAR 169.7 Bn in 2Q23 driven by a growth in commercial and consumer loans. The deposits rose 2.3% on a YTD basis to SAR 161.2 Bn due to growth in interest-bearing deposits driven by growth in the corporate sector. The Bank further expects its loan to grow by high single digits supported by growth in lending to the corporate and consumer sectors. BSFR revised its NIM guidance upward as it expects margins to benefit from the hawkish Fed. It expects BSFR to generate NIMs of 3.45-3.55% in 2023. The Bank's CASA deposits as a percentage of total deposits improved from 57.0% in 1Q23 to 59.4% in 2Q23 further lending support to margins. Moreover, the Bank's asset quality showed modest improvement with an NPL ratio of 2.4% in 2Q23 compared to 2.6% in 1Q23. The coverage ratio improved to 132.1% in 2Q23 as compared to 121.8% in 1Q23. BSFR stage 2 loans as a percentage of gross loans also declined from 7.6% in 1Q23 to 7.5% in 2Q23. BSFR also maintained a healthy capitalization with a Tier 1 capital ratio of 19.0% and a CAR of 20.0% in 2Q23. The stock is trading at an attractive 2023 dividend yield of 5.5% compared to the sector average of 3.7%. The Bank declared an interim dividend of SAR 0.95 per share for 1H23. Thus, based on our analysis, we assign a BUY rating on the stock.

### BSFR - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	32.01	14.40	30.20	13.87	13.42	9.60
PB	1.51	1.42	1.34	1.34	1.38	1.28
Dividend yield	4.4%	5.1%	1.0%	3.9%	4.3%	5.4%

FABS Estimates & Co Data

#### BSFR – P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	1,835	2,997	3,226	3,125	3.2%	75.8%	7.7%	8,307	12,722	53.1%
Funded expense	318	1,073	1,251	1,180	6.0%	292.7%	16.6%	1,881	4,896	160.4%
<b>Net funded income</b>	<b>1,517</b>	<b>1,924</b>	<b>1,976</b>	<b>1,945</b>	<b>1.6%</b>	<b>30.3%</b>	<b>2.7%</b>	<b>6,427</b>	<b>7,826</b>	<b>21.8%</b>
Fees and commissions	209	235	211	245	-13.8%	0.8%	-10.3%	897	1,031	15.0%
Exchange income, net	99	124	100	117	-14.6%	1.6%	-18.9%	475	498	5.0%
Trading income, net	41	31	48	46	4.3%	16.8%	56.4%	202	210	4.0%
<b>Non-funded income</b>	<b>354</b>	<b>394</b>	<b>372</b>	<b>411</b>	<b>-9.6%</b>	<b>5.1%</b>	<b>-5.7%</b>	<b>1,591</b>	<b>1,748</b>	<b>9.9%</b>
<b>Operating income</b>	<b>1,870</b>	<b>2,318</b>	<b>2,347</b>	<b>2,356</b>	<b>-0.4%</b>	<b>25.5%</b>	<b>1.3%</b>	<b>8,017</b>	<b>9,574</b>	<b>19.4%</b>
Salaries & employee exp.	362	422	409	426	-4.0%	13.1%	-3.0%	1,495	1,719	15.0%
Rent and premises exp.	18	15	18	19	-6.9%	-4.6%	16.4%	73	81	10.7%
D&A expenses	58	59	55	67	-18.5%	-5.4%	-6.9%	221	268	20.9%
Other G&A expenses	210	217	242	223	8.8%	15.3%	11.9%	864	881	2.0%
<b>Operating expenses</b>	<b>648</b>	<b>712</b>	<b>724</b>	<b>735</b>	<b>-1.5%</b>	<b>11.7%</b>	<b>1.6%</b>	<b>2,654</b>	<b>2,949</b>	<b>11.1%</b>
<b>Pre-provision profit</b>	<b>1,222</b>	<b>1,606</b>	<b>1,624</b>	<b>1,622</b>	<b>0.1%</b>	<b>32.9%</b>	<b>1.1%</b>	<b>5,364</b>	<b>6,624</b>	<b>23.5%</b>
Impairment	294	406	431	322	33.6%	46.5%	6.1%	1,360	1,289	-5.2%
<b>PBT</b>	<b>928</b>	<b>1,200</b>	<b>1,193</b>	<b>1,299</b>	<b>-8.2%</b>	<b>28.6%</b>	<b>-0.6%</b>	<b>4,004</b>	<b>5,335</b>	<b>33.2%</b>
Tax	91	124	120	130	-7.9%	31.3%	-3.1%	429	550	28.2%
<b>Net Profit attributable</b>	<b>837</b>	<b>1,076</b>	<b>1,073</b>	<b>1,169</b>	<b>-8.2%</b>	<b>28.3%</b>	<b>-0.3%</b>	<b>3,575</b>	<b>4,786</b>	<b>33.9%</b>

FABS estimate & Co Data

#### BSFR - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	81.1%	83.0%	84.2%	306	116	80.2%	82.7%	252
NIM	2.80%	3.44%	3.43%	62	-1	3.0%	3.45%	43
NIS	2.61%	2.81%	2.70%	9	-12	2.7%	2.8%	5
Fees & comms/OI	11.19%	10.15%	8.99%	-220	-116	11.2%	9.9%	-124
Trading/OI	2.2%	1.3%	2.1%	-15	73	2.5%	2.2%	-30
Cost to income	34.7%	30.7%	30.8%	-383	11	33.1%	31.2%	-194
Impairment/PPP	24.1%	25.3%	26.5%	246	125	25.4%	23.7%	-164
NP/OI	44.7%	46.4%	45.7%	98	-71	44.6%	47.1%	251
ROE	10.9%	11.4%	11.7%	79	35	10.8%	13.2%	237
ROA	1.6%	1.6%	1.7%	6	5	1.6%	1.9%	26

FABS estimate & Co Data

#### BSFR – Key B/S items

SAR mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
<b>Net advances</b>	159,625	158,481	159,012	164,779	169,695	6.3%
QOQ ch	4.5%	-0.7%	0.3%	3.6%	3.0%	
<b>Total assets</b>	231,267	231,659	232,078	240,236	245,718	6.2%
QOQ ch	4.1%	0.2%	0.2%	3.5%	2.3%	
<b>Customer deposits</b>	157,919	157,821	157,592	167,414	161,165	2.1%
QOQ ch	4.7%	-0.1%	-0.1%	6.2%	-3.7%	
<b>Total Equity</b>	37,742	37,805	38,745	39,936	39,696	5.2%
QOQ ch	-4.3%	0.2%	2.5%	3.1%	-0.6%	

FABS estimate & Co Data

## Valuation:

We use 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	44.11	70.0%	30.88
Relative Valuation (RV)	43.72	30.0%	13.12
<b>Weighted Average Valuation (SAR)</b>			<b>44.00</b>
Current market price (SAR)			38.10
Upside/Downside (%)			+16%

### 1) DCF Method:

We have discounted the economic profit/excess equity using the cost of Equity of 8.0%. Cost of Equity is calculated by using 10-year government bond yield of 4.71%, beta of 0.94 and equity risk premium of 3.49%. 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)	5,333
Terminal value (SAR, Mn)	13,218
Book value of Equity (as of June, 2023)	34,696
<b>FV to Common shareholders (SAR, Mn)</b>	<b>53,157</b>
No. of share (Mn)	1,250
Current Market Price (SAR)	38.10
<b>Fair Value per share (SAR)</b>	<b>44.11</b>

### DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,234	4,569	4,835	4,676	4,929
(-) Equity Charge	-2,808	-2,993	-3,215	-3,414	-3,826
<b>Excess Equity</b>	<b>951</b>	<b>1,576</b>	<b>1,620</b>	<b>1,262</b>	<b>1,104</b>
Discounting Factor	0.95	0.88	0.81	0.75	0.70
<b>Present Value of Excess Equity</b>	<b>903</b>	<b>1,387</b>	<b>1,320</b>	<b>952</b>	<b>771</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used Saudi peers to value BSFR and it is valued using the PB multiple. We have applied a discount to peer valuation since BSFR trades at a discount to the peer average multiple due to lower return on assets. We don't think this premium valuation is expected to narrow in the near-term. It is valued at PB multiple of 1.5x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Alinma Bank	19,446	2.5	2.3	16.4	14.8	3.4	3.8
Al Rajhi Bank	75,542	3.0	2.7	16.5	14.7	2.5	3.4
Arab National Bank	11,303	1.3	1.2	11.1	10.9	4.8	5.1
Banque Saudi Fransi	14,126	1.5	1.4	12.3	11.4	4.5	4.6
Riyad Bank	11,303	1.9	1.8	12.8	12.1	4.0	4.2
Bank Albilad	11,563	2.8	2.5	18.3	15.9	1.4	1.8
<b>Average</b>		<b>2.2x</b>	<b>2.0x</b>	<b>14.6x</b>	<b>13.3x</b>	<b>3.4%</b>	<b>3.8%</b>
<b>Median</b>		<b>2.2x</b>	<b>2.0x</b>	<b>14.6x</b>	<b>13.4x</b>	<b>3.7%</b>	<b>4.0%</b>
<b>Max</b>		<b>2.8x</b>	<b>2.4x</b>	<b>16.5x</b>	<b>14.8x</b>	<b>4.3%</b>	<b>4.5%</b>
<b>Min</b>		<b>1.6x</b>	<b>1.5x</b>	<b>12.4x</b>	<b>11.6x</b>	<b>2.7%</b>	<b>3.5%</b>

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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