

## Banque Saudi Fransi (BSFR)

Strong advances growth offsets the decline of the non-core income

**Current Price**  
SAR 38.00

**Target Price**  
SAR 46.00

**Upside/Downside (%)**  
+21%

**Rating**  
BUY

- Net advances grew 12.8% to SAR 179 Bn in 4Q23, whereas deposits rose 9.3% to SAR 172 Bn in 4Q23.
- NIMs declined 26 bps YOY and 41 bps QOQ to 3.1% in 4Q23, while the cost-to-income ratio grew 640 bps YOY to 38.6% in 4Q23.
- BSFR's headline loan-to-deposit ratio declined to 104.2% in 4Q23 as compared to 105.0% in 3Q23.
- Provision against bad loans fell 2.7% YOY and grew 19.9% QOQ to SAR 413 Mn in 4Q23.
- Capitalization stood healthy with Tier 1 capital ratio of 18.9% and total CAR of 19.5% in 4Q23.
- The Bank's board of directors proposed a final dividend of SAR 1.94 per share generating a dividend yield of 5.0% in 2023.



### 4Q23 Net Profit lower than our estimate

Banque Saudi Fransi's (BSFR/the Bank) net profit declined 8.3% YOY to SAR 827 Mn in 4Q23, lower than our estimate of SAR 1,249 Mn. The decline in net profit is mainly attributable to a growth in funded expense along with a decline in non-funded income and higher operating expenses partially offset by an growth in funded income, fees and commission income and lower impairments.

### P&L Highlights

Funded income grew 28.9% YOY to SAR 3,506 Mn in 4Q23 driven by growth in net advances and other interest-earning assets. In comparison, funded expenses rose significantly from SAR 871 Mn in 4Q22 to SAR 1,639 Mn in 4Q23, primarily due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income rose marginally 1.0% YOY to SAR 1,868 Mn in 4Q23. NIMs declined 26 bps YOY and 41 bps QOQ to 3.1% in 4Q23 primarily due to a change in the deposit composition towards interest-bearing deposits (IBDs). The Bank's fees and commission income grew strongly 35.1% YOY to SAR 237 Mn in 4Q23. Exchange income declined 16.3% YOY to SAR 118 Mn in 4Q23. The Bank recorded a trading loss of SAR 38 Mn in 4Q23 compared to profit of SAR 74 Mn in 4Q22 due to the decline in activity in the treasury advisory business and one-off adjustment. Dividend income grew from SAR 3 Mn in 4Q22 to SAR 5 Mn in 4Q23. Other operating income recorded a profit of SAR 1 Mn in 4Q23 compared to a loss of SAR 53 Mn in 4Q22. Resultantly, total non-funded income declined 5.3% YOY to SAR 323 Mn in 4Q23. Thus, the Bank's operating expenses remained stable at SAR 2,191 Mn in 4Q23 compared to 4Q22. Furthermore, salaries and employee-related expenses grew 10.6% YOY to SAR 457 Mn in 4Q23. Whereas, rent and premises-related expenses declined 27.3% YOY to SAR 17 Mn in 4Q23. Depreciation and amortization expenses grew 58.3% YOY to SAR 80 Mn in 4Q23.

### Stock Information

Market Cap (SAR, mm)	45,803.57
Paid Up Capital (mm)	12,053.57
52 Week High	45.70
52 Week Low	32.45
3M Avg. daily value (SAR)	35,690,600

### 4Q23 Result Review (SAR, mm)

Total Assets	253,383
Total Liabilities	212,262
Total Equity	41,121
Total Deposits	172,209
Net Profit	827

### Financial Ratios

Dividend Yield (12m)	4.87
Dividend Pay-out (%)	55.37
Price-Earnings Ratio(x)	10.97
Price-to-Book Ratio (x)	1.26
Book Value (SAR)	30.17
Return-on Equity (%)	12.09

### Stock Performance

5 Days	-0.52%
1 Months	-5.00%
3 Months	1.60%
6 Months	-0.91%
1 Year	16.21%
Month to Date (MTD%)	-5.00%
Quarter to Date (QTD%)	-5.00%
Year to Date (YTD%)	-5.00%

Other general and administrative expenses grew 23.7% YOY to SAR 292 Mn in 4Q23. As a result, the Bank's cost-to-income ratio grew 640 bps YOY to 38.6% in 4Q23. In addition, impairment charges declined 2.7% YOY to SAR 413 Mn in 4Q23. Tax expenses declined from SAR 141 Mn in 4Q22 to SAR 104 Mn in 4Q23.

### Balance Sheet Highlights

BSFR's total assets grew 9.2% to SAR 253 Bn in 2023 mainly due to the growth in net advances and investment portfolio. Net advances grew 12.8% to SAR 179 Bn in 2023 due to increase in lending to commercial and consumer segment. The Bank's investment portfolio grew 8.9% to SAR 48 Mn in 2023. Customer deposits grew 9.3% to SAR 172 Bn in 2023. The headline loan-to-deposit ratio declined from 105.0% in 3Q23 to 104.2% in 4Q23. Moreover, BSFR's total equity rose 6.1% to SAR 41 Bn in 4Q23.

### Target Price and Rating

We revise our rating from ACCUMULATE to BUY on BSFR with an unchanged target price of SAR 46.00. BSFR's share price declined 5.2% since our last rating. Net advances grew 12.8% to SAR 179 Mn in 2023 due to increased commercial and consumer lending. Commercial lending grew 13.5% to SAR 147 Bn in 2023 driven by increase in lending to across the sectors. While retail lending grew 9.8% to SAR 32 Bn in 2023 mainly due to the growth in mortgages, personal, and auto loans. 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. Deposits rose 9.3% to SAR 172 Bn in 2023 owing to increase in time and savings deposit partially offset by a decline in demand deposits. NIMs declined 26 bps YOY and 41 bps QOQ to 3.1% in 4Q23. The Bank further expects NIMs to remain broadly stable at 3.1-3.3% in 2024. BSFR expects to mitigate the effect of NIMs in a declining interest rate scenario using a combination of on-and off-balance sheet instruments including cash flow hedges. The Bank anticipates a 3 bps impact on NIMs equivalent to SAR 67 Mn on net interest income for a 100 bps change in interest rates. In addition, the Bank investment portfolio grew 8.9% in 4Q23 primarily as the Bank rose its largest part of investments is in the long-term fixed rate government securities. The Bank's cost-to-income ratio grew from 30.0% in 3Q23 to 38.6% in 4Q23 owing to the increase in operating expenses. However, the Bank expects the cost-to-income ratio to be below 32% in 2024. Cost of risk improved from 0.98% in 9M23 to 0.96% in 2023 indicating Bank's ability to manage risk effectively. Furthermore, the BSFR's asset quality improved as the NPL ratio declined from 2.0% in 3Q23 to 1.1% in 4Q23, whereas the Bank's provision coverage strengthened to 138% in 4Q23 providing strong cushion against bad loans going forward. BSFR's capitalization stood healthy with Tier 1 capital ratio of 18.9% and total CAR of 19.5% in 4Q23. The Bank's board of directors also proposed a final dividend of SAR 1.95 per share generating a dividend yield of 5.1% in 2023. 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	14.8	31.1	14.3	13.8	11.6	10.3
PB	1.5	1.4	1.4	1.4	1.3	1.3
Dividend yield	5.1%	1.0%	3.9%	4.3%	5.1%	5.4%

FABS Estimates & Co Data

**BSFR – P&L**

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded Income	2,720	3,489	3,506	3,774	-7.1%	28.9%	0.5%	8,307	13,218	59.1%
Funded Expense	871	1,421	1,639	1,593	2.9%	88.2%	15.3%	1,881	5,383	186.2%
<b>Net Funded Income</b>	<b>1,850</b>	<b>2,068</b>	<b>1,868</b>	<b>2,181</b>	<b>-14.4%</b>	<b>1.0%</b>	<b>-9.7%</b>	<b>6,427</b>	<b>7,835</b>	<b>21.9%</b>
Fee and commission income	176	231	237	220	8.1%	35.1%	2.7%	897	915	2.0%
Exchange income, net	141	113	118	118	-0.4%	-16.3%	4.0%	475	455	-4.1%
Trading income, net	74	72	-38	42	NM	NM	NM	202	114	-43.5%
Dividend income	3	4	5	0	NM	55.4%	30.7%	13	15	13.6%
Other operating income	-53	0	1	5	NM	NM	NM	1	6	NM
<b>Non-funded income</b>	<b>341</b>	<b>400</b>	<b>323</b>	<b>385</b>	<b>-16.1%</b>	<b>-5.3%</b>	<b>-19.1%</b>	<b>1,591</b>	<b>1,489</b>	<b>-6.4%</b>
<b>Operating income</b>	<b>2,191</b>	<b>2,468</b>	<b>2,191</b>	<b>2,567</b>	<b>-14.6%</b>	<b>0.0%</b>	<b>-11.2%</b>	<b>8,017</b>	<b>9,324</b>	<b>16.3%</b>
Salaries & emp related exp	413	453	457	479	-4.7%	10.6%	0.8%	1,495	1,742	16.5%
Rent & premises rel. exp	23	18	17	23	-27.2%	-27.3%	-4.3%	73	67	-7.7%
Depreciation and amortz	50	58	80	59	36.6%	58.3%	38.9%	221	251	13.2%
Other G&A expenses	236	211	292	229	27.7%	23.7%	38.2%	864	962	11.3%
<b>Operating Expenses</b>	<b>723</b>	<b>740</b>	<b>846</b>	<b>790</b>	<b>7.1%</b>	<b>17.0%</b>	<b>14.3%</b>	<b>2,654</b>	<b>3,022</b>	<b>13.9%</b>
<b>Pre-provision profit</b>	<b>1,468</b>	<b>1,728</b>	<b>1,345</b>	<b>1,777</b>	<b>-24.3%</b>	<b>-8.4%</b>	<b>-22.1%</b>	<b>5,364</b>	<b>6,302</b>	<b>17.5%</b>
Impairment	425	345	413	393	5.3%	-2.7%	19.9%	1,360	1,594	17.3%
<b>PBT</b>	<b>1,043</b>	<b>1,383</b>	<b>932</b>	<b>1,384</b>	<b>-32.7%</b>	<b>-10.7%</b>	<b>-32.6%</b>	<b>4,004</b>	<b>4,708</b>	<b>17.6%</b>
Tax	141	137	104	135	-22.9%	-26.0%	-24.1%	429	485	13.1%
<b>Net Profit attributable</b>	<b>902</b>	<b>1,245</b>	<b>827</b>	<b>1,249</b>	<b>-33.7%</b>	<b>-8.3%</b>	<b>-33.6%</b>	<b>3,575</b>	<b>4,223</b>	<b>18.1%</b>

*FABS estimate & Co Data*
**BSFR - Margins**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	84.4%	83.8%	85.2%	82	144	80.2%	84.0%	387
NIM	3.38%	3.52%	3.12%	-26	-41	3.0%	3.39%	38
NIS	2.86%	2.69%	2.24%	-62	-46	2.7%	2.7%	-6
Fees & comms/OI	8.02%	9.36%	10.83%	281	147	11.2%	9.8%	-138
Trading/OI	3.4%	2.9%	-1.7%	-511	-466	2.5%	1.2%	-129
Cost to income	32.2%	30.0%	38.6%	640	861	33.1%	32.4%	-70
Impairment/PPP	28.9%	19.9%	30.7%	180	1078	25.4%	25.3%	-5
NP/OI	41.2%	50.5%	37.8%	-341	-1270	44.6%	45.3%	70
Cost of risk	1.2%	0.8%	0.9%	-26	12	0.9%	1.0%	11
Loan-to-deposit	100.9%	105.0%	104.2%	330	-80	100.9%	104.2%	330
NPL	2.5%	2.0%	1.1%	-148	-91	2.5%	1.1%	-148
NPL Coverage	119.9%	139.5%	137.7%	1780	-180	119.9%	137.7%	1780
CET 1	16.6%	16.5%	16.7%	11	23	16.6%	16.7%	11
Capital adequacy	19.9%	19.2%	19.5%	-38	33	19.9%	19.5%	-38
ROE	10.9%	12.5%	12.2%	128	-26	10.8%	12.5%	172
ROA	1.5%	1.7%	1.7%	14	-6	1.6%	1.7%	14

*FABS estimate & Co Data*

#### BSFR – Key B/S items

SAR mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	159,012	164,779	169,695	174,681	179,391	12.8%
QOQ ch	0.3%	3.6%	3.0%	2.9%	2.7%	
Total assets	232,078	240,236	245,718	249,862	253,383	9.2%
QOQ ch	0.2%	3.5%	2.3%	1.7%	1.4%	
Customer deposits	157,592	167,414	161,165	166,367	172,209	9.3%
QOQ ch	-0.1%	6.2%	-3.7%	3.2%	3.5%	
Total equity	38,745	39,936	39,696	39,283	41,121	6.1%
QOQ ch	2.5%	3.1%	-0.6%	-1.0%	4.7%	

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	49.27	70.0%	34.49
Relative Valuation (RV)	38.38	30.0%	11.52
<b>Weighted Average Valuation (SAR)</b>			<b>46.00</b>
Current market price (SAR)			38.00
Upside/Downside (%)			+21%

### 1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.95 and equity risk premium of 3.8%. 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)	6,119
Terminal value (SAR, Mn)	<b>18,324</b>
Book value of Equity (as of Dec, 2023)	34,923
<b>FV to Common shareholders (SAR, Mn)</b>	<b>59,367</b>
No. of share (Mn)	1,205
Current Market Price (SAR)	38.00
<b>Fair Value per share (SAR)</b>	<b>49.27</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	4,485	4,750	5,022	5,347	5,664
(-) Equity Charge	-3,083	-3,280	-3,496	-3,736	-3,997
<b>Excess Equity</b>	<b>1,402</b>	<b>1,470</b>	<b>1,526</b>	<b>1,611</b>	<b>1,667</b>
Discounting Factor	0.94	0.86	0.80	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>1,312</b>	<b>1,270</b>	<b>1,217</b>	<b>1,187</b>	<b>1,134</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 peer average multiple due to lower return on assets. It is valued at 2024 PB multiple of 1.3x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	24,050	1.5	1.4	10.7	10.2	4.7	4.7
Alinma Bank	22,730	2.6	2.4	16.0	14.9	3.1	3.3
Al Rajhi Bank	93,910	3.5	3.2	19.8	17.4	2.9	3.4
Saudi National Bank	68,190	1.5	1.4	12.3	11.2	4.2	4.5
Arab National Bank	9,840	1.0	1.0	9.2	9.2	6.0	6.1
<b>Average</b>		<b>2.0x</b>	<b>1.9x</b>	<b>13.6x</b>	<b>12.6x</b>	<b>4.1%</b>	<b>4.4%</b>
<b>Median</b>		<b>1.5x</b>	<b>1.4x</b>	<b>12.3x</b>	<b>11.2x</b>	<b>4.2%</b>	<b>4.5%</b>
<b>Max</b>		<b>2.6x</b>	<b>2.4x</b>	<b>16.0x</b>	<b>14.9x</b>	<b>4.7%</b>	<b>4.7%</b>
<b>Min</b>		<b>1.5x</b>	<b>1.4x</b>	<b>10.7x</b>	<b>10.2x</b>	<b>3.1%</b>	<b>3.4%</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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