

Banque Saudi Fransi (BSF)

Growth in non-funded income and lower impairments supported profit

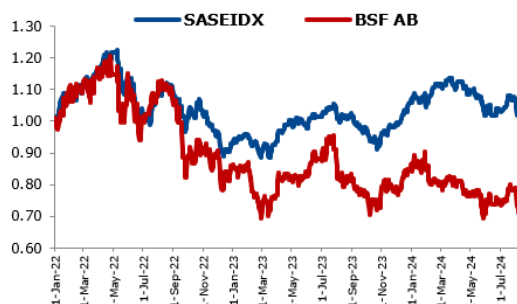
Current Price
SAR 34.45

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%
QOQ ch	3.0%	2.9%	2.7%	3.4%	6.3%	
Total assets	245,718	249,862	253,383	268,376	288,826	17.5%
QOQ ch	2.3%	1.7%	1.4%	5.9%	7.6%	
Customer deposits	161,165	166,367	172,209	174,828	196,248	21.8%
QOQ ch	-3.7%	3.2%	3.5%	1.5%	12.3%	
Total equity	39,696	39,283	41,121	41,928	41,809	5.3%
QOQ ch	-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

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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