

## Banque Saudi Fransi (BSF)

Higher opex impacted profitability

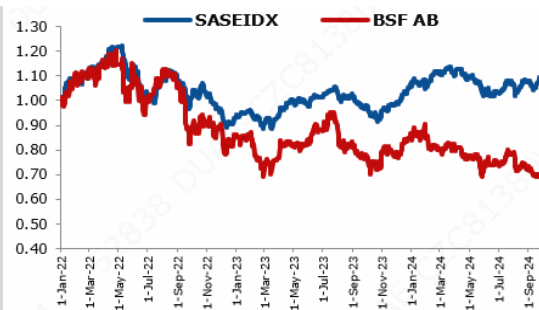
**Current Price**  
**SAR 31.40**

**Target Price**  
**SAR 45.00**

**Upside/Downside (%)**  
**+43%**

**Rating**  
**BUY**

- The Bank continued to record strong momentum in loan book which grew 15.1% YOY and 2.0% QOQ to SAR 201.0 Bn in 3Q24.
- The Bank's cost-to-income ratio grew 554 bps YOY and 98 QOQ to 35.5% in 3Q24.
- The Saudi Capital Market Authority approved BSF's request to increase capital from SAR 12.05 Bn to SAR 25 Bn. The Bank will distribute 1.07 bonus shares for every 1 share held. Besides, BSF will fund the bonus issue by transferring SAR 5 Bn from the statutory reserve and SAR 7.95 Bn from retained earnings to the Company's capital.



### Stock Information

Market Cap (SAR, mn)	37,848.22
Paid Up Capital (mn)	12,053.57
52 Week High	42.95
52 Week Low	30.20
3M Avg. daily value (SAR)	35,414,340

### 3Q24 Net Profit in line with our estimate

Banque Saudi Fransi's (BSF/the Bank) net profit declined 7.8% YOY to SAR 1,148 Mn in 3Q24, in line with our estimate of SAR 1,166 Mn. The fall in the net profit is mainly attributable to a marginal decline in net funded income and a rise in operating expenses partially offset by lower impairments and growth in non-funded income.

### P&L Highlights

Funded income grew 21.0% YOY to SAR 4,221 Mn in 3Q24 driven by strong loan growth and an increase in return from financing and investments. On the other hand, funded expenses rose significantly from SAR 1,421 Mn in 3Q23 to SAR 2,235 Mn in 3Q24 owing to high benchmark rates. Thus, net funded income fell 4.0% YOY to SAR 1,986 Mn in 3Q24. Total non-funded income rose 6.6% YOY to SAR 426 Mn in 3Q24 due to higher exchange income and gains on non-trading investments partially offset by a decline in net fee and commission income and trading income. Thus, the Bank's operating income fell 2.3% YOY to SAR 2,412 Mn in 3Q24. Operating expenses rose 15.8% YOY to SAR 857 Mn in 3Q24 owing to higher salaries & employee-related expenses, other operating and G&A expenses, and depreciation & amortization expenses. As a result, the Bank's cost-to-income ratio grew 554 bps YOY and 98 QOQ to 35.5% in 3Q24. In addition, impairment charges declined 20.5% YOY to SAR 274 Mn in 3Q24 a decline in impairment on loans and advances partially offset by higher impairment charge for investments, financial assets and others. Tax expenses fell 3.3% YOY to SAR 133 Mn in 3Q24 owing to a decline in profitability.

### 3Q24 Result Review (SAR, mn)

Total Assets	287,670
Investments	57,386
Total Equity	46,117
Total Deposits	193,342
Net Profit	1,148

### Financial Ratios

Dividend Yield (12m)	6.37
Dividend Pay-out (%)	55.37
Price-Earnings Ratio(x)	8.89
Price-to-Book Ratio (x)	0.99
Book Value (SAR)	31.87
Return on Equity (%)	11.75

### Stock Performance

5 Days	0.32%
1 Months	-2.48%
3 Months	-15.14%
6 Months	-14.32%
1 Year	-9.12%
Month to Date (MTD%)	-2.48%
Quarter to Date (QTD%)	-2.48%
Year to Date (YTD%)	-21.50%

## Balance Sheet Highlights

BSF's total assets grew 15.1% YOY but declined marginally 0.4% QOQ to SAR 287.7 Bn in 3Q24 mainly due to the growth in net advances and investment portfolio. Net advances grew 15.1% YOY and 2.0% QOQ to SAR 201.0 Bn in 3Q24. The Bank's investment portfolio grew 23.7% YOY and 3.4% QOQ to SAR 57.4 Bn in 3Q24. Customer deposits grew 16.2% YOY but fell 1.5% QOQ to SAR 193.3 Bn in 3Q24. Moreover, BSF's total equity rose 17.4% YOY and 10.3% QOQ to SAR 46.1 Bn in 3Q24.

## Target Price and Rating

We maintain our BUY rating on BSF with a revised target price of SAR 45.00. The Bank continued to record strong momentum in net loan book with 15.1% YOY and 2.0% QOQ growth to SAR 201.0 Bn in 3Q24. However, deposits declined 1.5% QOQ but rose 16.2% YOY to AED 193.3 Bn in 3Q24. BSF's headline loan-to-deposit ratio increased from 100.5% in 2Q24 to 104.0% in 3Q24. BSF revised its 2024 advances growth forecast from low double-digit to mid-teens in 2Q24. Moreover, BSF's reported NPL ratio stood flat at 0.9% in 2Q24 compared to the previous quarter, whereas the Bank's reported NPL coverage ratio stood increased to 161.9% 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. The Bank's CASA ratio declined from 47.6% in 1Q24 to 42.8% in 2Q24. Moreover, BSF's capitalization stood healthy with a Tier 1 capital ratio of 17.4% and a total CAR of 18.1% in 2Q24. Furthermore, the Saudi Capital Market Authority approved BSF's request to increase capital from SAR 12.05 Bn to SAR 25 Bn. The Bank will distribute 1.07 bonus shares for every 1 share held. Besides, BSF will fund the bonus issue by transferring SAR 5 Bn from the statutory reserve and SAR 7.95 Bn from retained earnings to the Company's capital. Additionally, BSF already received the no-objection certificate for increasing capital from the Saudi Central Bank in a board meeting held in May 2024. The increase in capital is aimed to improve the Bank's financial position for achieving its strategic objectives. 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	11.98	25.12	11.54	11.16	9.35	8.75
PB	1.18	1.12	1.11	1.15	1.07	1.02
Dividend yield	6.3%	1.3%	4.8%	5.3%	6.3%	6.3%

FABS Estimates & Co Data

### BSF - P&L

SAR mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded Income	3,489	4,170	4,221	4,334	-2.6%	21.0%	1.2%	13,218	16,608	25.6%
Funded Expense	1,421	2,230	2,235	2,338	-4.4%	57.3%	0.2%	5,383	8,797	63.4%
<b>Net Funded Income</b>	<b>2,068</b>	<b>1,940</b>	<b>1,986</b>	<b>1,996</b>	<b>-0.5%</b>	<b>-4.0%</b>	<b>2.4%</b>	<b>7,835</b>	<b>7,811</b>	<b>-0.3%</b>
<b>Non-funded income</b>	<b>400</b>	<b>402</b>	<b>426</b>	<b>389</b>	<b>9.4%</b>	<b>6.6%</b>	<b>5.9%</b>	<b>1,489</b>	<b>1,558</b>	<b>4.7%</b>
<b>Operating income</b>	<b>2,468</b>	<b>2,342</b>	<b>2,412</b>	<b>2,385</b>	<b>1.1%</b>	<b>-2.3%</b>	<b>3.0%</b>	<b>9,324</b>	<b>9,369</b>	<b>0.5%</b>
<b>Operating Expenses</b>	<b>740</b>	<b>809</b>	<b>857</b>	<b>782</b>	<b>9.6%</b>	<b>15.8%</b>	<b>5.9%</b>	<b>3,022</b>	<b>3,198</b>	<b>5.8%</b>
<b>Pre-provision profit</b>	<b>1,728</b>	<b>1,533</b>	<b>1,555</b>	<b>1,603</b>	<b>-3.0%</b>	<b>-10.0%</b>	<b>1.4%</b>	<b>6,302</b>	<b>6,170</b>	<b>-2.1%</b>
Impairment	345	274	274	304	-9.9%	-20.5%	0.1%	1,594	1,155	-27.6%
<b>PBT</b>	<b>1,383</b>	<b>1,259</b>	<b>1,281</b>	<b>1,299</b>	<b>-1.4%</b>	<b>-7.4%</b>	<b>1.7%</b>	<b>4,708</b>	<b>5,016</b>	<b>6.5%</b>
Tax	137	130	133	134	-0.6%	-3.3%	2.2%	485	517	6.5%
<b>Net profit attributable</b>	<b>1,245</b>	<b>1,129</b>	<b>1,148</b>	<b>1,166</b>	<b>-1.5%</b>	<b>-7.8%</b>	<b>1.7%</b>	<b>4,223</b>	<b>4,499</b>	<b>6.5%</b>

FABS estimate & Co Data

### BSF - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	83.8%	82.8%	82.3%	-147	-48	84.0%	83.4%	-66
Cost to income	30.0%	34.5%	35.5%	554	98	32.4%	34.1%	173
Impairment/PPP	19.9%	17.9%	17.6%	-233	-24	25.3%	18.7%	-659
NP/OI	50.5%	48.2%	47.6%	-288	-61	45.3%	48.0%	273
Headline Loan-to-deposit	105.0%	100.5%	104.0%	-103	350	104.2%	101.8%	-235
ROE	12.1%	11.5%	11.2%	-94	-34	11.8%	12.3%	47
ROA	1.8%	1.6%	1.6%	-20	-5	1.7%	1.6%	-10

FABS estimate & Co Data

### BSF - Key B/S items

SAR mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	174,681	179,391	185,408	197,160	201,008	15.1%
QOQ ch	2.9%	2.7%	3.4%	6.3%	2.0%	
Total assets	249,862	253,383	268,376	288,826	287,670	15.1%
QOQ ch	1.7%	1.4%	5.9%	7.6%	-0.4%	
Customer deposits	166,367	172,209	174,828	196,248	193,342	16.2%
QOQ ch	3.2%	3.5%	1.5%	12.3%	-1.5%	
Total equity	39,283	41,121	41,928	41,809	46,117	17.4%
QOQ ch	-1.0%	4.7%	2.0%	-0.3%	10.3%	

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	46.74	70%	32.72
Relative Valuation (RV)	40.93	30%	12.28
<b>Weighted Average Valuation (SAR)</b>			<b>45.00</b>
Current market price (SAR)			31.40
Upside/Downside (%)			+43%

### 1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. The cost of equity is calculated by using a 10-year government bond yield of 4.8%, a beta of 0.87 and an equity risk premium of 4.1%. 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)	4,159
Terminal value (SAR, Mn)	<b>14,048</b>
Book value of Equity (as of Sep, 2024)	38,117
<b>FV to Common shareholders (SAR, Mn)</b>	<b>56,324</b>
No. of share (Mn)	1,205
Current Market Price (SAR)	31.40
<b>Fair Value per share (SAR)</b>	<b>46.74</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	4,274	4,776	5,101	5,481	5,911
(-) Equity Charge	-3,192	-3,513	-3,860	-4,237	-4,648
<b>Excess Equity</b>	<b>1,082</b>	<b>1,263</b>	<b>1,242</b>	<b>1,245</b>	<b>1,262</b>
Discounting Factor	0.95	0.87	0.81	0.75	0.69
<b>Present Value of Excess Equity</b>	<b>256</b>	<b>1,105</b>	<b>1,003</b>	<b>928</b>	<b>868</b>

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 1.3x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	20,310	1.3	1.2	9.1	8.8	6.0	6.3
Alinma Bank	18,790	2.2	1.9	12.9	11.8	3.0	3.5
Saudi National bank	54,420	1.2	1.2	10.2	9.6	5.4	5.8
Arab National Bank	10,280	1.0	1.0	8.0	8.3	7.6	6.4
Bank Albilad	11,990	2.7	2.3	16.7	15.1	1.8	1.9
<b>Average</b>		<b>1.7x</b>	<b>1.5x</b>	<b>11.4x</b>	<b>10.7x</b>	<b>4.8%</b>	<b>4.8%</b>
<b>Median</b>		<b>1.3x</b>	<b>1.2x</b>	<b>10.2x</b>	<b>9.6x</b>	<b>5.4%</b>	<b>5.8%</b>
<b>Max</b>		<b>2.2x</b>	<b>1.9x</b>	<b>12.9x</b>	<b>11.8x</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Min</b>		<b>1.2x</b>	<b>1.2x</b>	<b>9.1x</b>	<b>8.8x</b>	<b>0.0%</b>	<b>0.0%</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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