

Banque Saudi Fransi (BSF)

One-off trading gains and lower impairments boost profitability

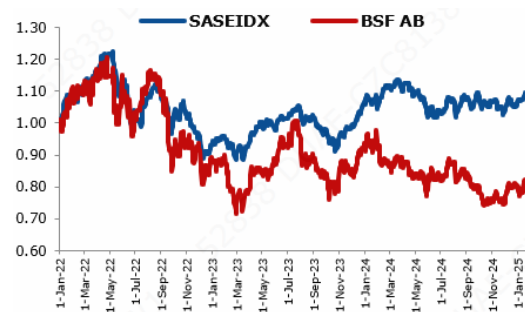
Current Price
SAR 16.74

Target Price
SAR 21.70

Upside/Downside (%)
+30%

Rating
BUY

- The Bank continued to record strong momentum in loan book with 13.8% YOY and 1.6% QOQ growth to SAR 204.2 Bn in 4Q24. BSF expects its advances portfolio to grow by low teens in 2025.
- BSF launched its digital mobile application that features comprehensive functionality with additional services to be added in 2025.
- The Bank launched the BSF 2030 Strategy aimed at strengthening its core business.
- BSF estimates a 100bps interest rate change to translate into a 90 Mn impact on net interest income.
- Proposed a dividend of SAR 0.50 per share for 2H24 amounting to SAR 1,246 Mn with a dividend yield of 5.8%.



Stock Information

Market Cap (SAR, mn)	41,850.00
Paid Up Capital (mn)	25,000.00
52 Week High	18.97
52 Week Low	14.56
3M Avg. daily value (SAR)	30,916,850

4Q24 Net Profit lower than our estimate

Banque Saudi Fransi's (BSF/the Bank) net profit rose significantly 35.0% YOY to SAR 1,117 Mn in 4Q24, slightly lower than our estimate of SAR 1,184 Mn. The increase in the net profit is mainly attributable to a strong growth in net funded and non-funded income along with a decline in impairments partially offset by a rise in operating expenses and higher zakat expense.

P&L Highlights

Funded income grew 18.6% YOY to SAR 4,160 Mn in 4Q24 driven by strong loan growth and an increase in return from financing and investments partially offset by a decline in asset yield. On the other hand, funded expenses rose 29.4% YOY to SAR 2,120 Mn in 4Q24 owing to high benchmark rates. Thus, net funded income grew 9.2% YOY to SAR 2,039 Mn in 4Q24. Calculated NIMs moderated 65 bps YOY and 4 bps QOQ to 2.9% in 4Q24. Meanwhile, fee and commission income stood flat on YOY basis at SAR 238 Mn in 4Q24 while exchange income grew 28.1% YOY to SAR 151 Mn in 4Q24. BSF recorded trading gains of SAR 135 Mn in 4Q24 compared to a loss of SAR 38 Mn in 4Q23 driven by a one-off trading gain. Thus, the Bank's non-funded income grew 64.8% YOY to SAR 533 Mn in 4Q24. Total operating income increased 17.4% YOY to AD 2,572 Mn in 4Q24. Furthermore, salaries and employee-related expenses increased 4.1% YOY to SAR 476 Mn in 4Q24, whereas rent and premises-related expenses rose 49.7% YOY to SAR 26 Mn. BSF's other G&A expenses rose 30.0% YOY to SAR 380 Mn in 4Q24. BSF witnessed an exceptional expense of SAR 117 Mn in 4Q24 out of which 60% belongs to a discontinued investment loss, 25% to prior-period operation expenses, and 15% to staff-related costs. Total operating expenses rose 14.6% YOY to SAR 970 Mn in 4Q24. However, the Bank's cost to income fell 90 bps YOY to 37.7% in 4Q24. Additionally, impairments

4Q24 Result Review (SAR, mn)

Total Assets	292,776
Investments	60,289
Total Equity	46,607
Total Deposits	185,118
Net Profit	1,184

Financial Ratios

Dividend Yield (12m)	5.76
Dividend Pay-out (%)	81.87
Price-Earnings Ratio(x)	9.19
Price-to-Book Ratio (x)	1.08
Book Value (SAR)	15.57
Return on Equity (%)	12.12

Stock Performance

5 Days	4.23%
1 Months	7.45%
3 Months	8.33%
6 Months	2.12%
1 Year	-8.27%
Month to Date (MTD%)	4.23%
Quarter to Date (QTD%)	5.68%
Year to Date (YTD%)	5.68%

declined 14.0% YOY to SAR 355 Mn in 4Q24, while zakat charge increased 24.8% YOY to SAR 130 Mn in 4Q24.

Balance Sheet Highlights

BSF's total assets grew 15.4% YOY and 1.8% QOQ to SAR 292.8 Bn in 4Q24 mainly due to the growth in net advances and investment portfolio. Net advances grew 13.8% YOY and 1.6% QOQ to SAR 204.2 Bn in 4Q24. The Bank's investment portfolio increased 23.7% YOY and 5.1% QOQ to SAR 60.3 Bn in 4Q24. Customer deposits grew 7.5% YOY but fell 4.3% QOQ to SAR 185.1 Bn in 4Q24. Moreover, BSF's total equity rose 12.6% YOY and 1.1% QOQ to SAR 46.6 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on BSF with an unchanged target price of SAR 21.70. The Bank continued to record strong momentum in net loan book with 13.8% YOY and 1.6% QOQ growth to SAR 204.2 Bn in 4Q24. Commercial loans grew 13% YOY to SAR 166.5 Mn in 4Q24 driven by strong growth in commerce, utilities, and contracting sector while consumer loans recorded a 16% YOY growth to SAR 37.7 Bn attributable to growth in mortgages, auto loans, and personal loans. The Bank expects its advances to grow by low teens in 2025. However, deposits declined 4.3% QOQ but rose 7.5% YOY to SAR 185.1 Bn in 4Q24 with CASA deposits accounting for 46.5% of total deposits. Thus, BSF's headline loan-to-deposit ratio increased from 104.0% in 3Q24 to 110.3% in 4Q24. Moreover, BSF's calculated NPL ratio increased from 0.9% in 3Q24 to 1.0% in 4Q24 whereas, the calculated NPL coverage ratio fell to 168.3% in 4Q24 compared to 186.0% in 3Q24. A strong coverage ratio provides a healthy cushion to absorb losses in case of a loan default. Moreover, BSF's capitalization stood healthy with a Tier 1 capital ratio of 18.8% and a total CAR of 19.7% in 4Q24. As of 31 December 2024, BSF estimates its net interest income to change by SAR 90 Mn with a 100bps change in interest rates. The Bank is mitigating its interest rate risk through a combination of balance sheet instruments including cash-flow hedges. Resultantly, BSF's notional amount of cash flow hedge declined 14% YOY in 2024 owing to an increase in fixed investments creating a natural hedge against interest rate risk. Furthermore, BSF launched its digital mobile application that features comprehensive functionality with additional services to be added in 2025. Mobile application launch will increase the Bank's offerings and boost its non-core income. It also launched a BSF 2030 Strategy aimed at strengthening its core business. The board proposed a dividend of SAR 0.50 per share for 2H24 amounting to SAR 1,246 Mn with solid growth in profitability resulting in a dividend yield of 5.8%, while in 1H24, the bank distributed a dividend of SAR 1 per share excluding the bonus share adjustment (a 107.4% capital increase from SAR 12.05 Bn to SAR 25 Bn) and after the bonus share adjustment the dividend stood at SAR 0.48 for the 1H24 which results in a total DPS of SAR 0.98 for 2024. Thus, based on our analysis, we assign a BUY rating on the stock.

BSF - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	28.46	13.07	12.64	10.56	9.86	8.50
PB	1.26	1.26	1.30	1.20	1.15	1.06
Dividend yield	1.1%	4.2%	4.7%	5.5%	5.8%	6.4%

FABS Estimates & Co Data

BSF – P&L

SAR mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded Income	3,506	4,221	4,160	4,279	-2.8%	18.6%	-1.5%	13,218	16,372	23.9%
Funded Expense	1,639	2,235	2,120	2,200	-3.6%	29.4%	-5.1%	5,383	8,489	57.7%
Net Funded Income	1,868	1,986	2,039	2,080	-1.9%	9.2%	2.7%	7,835	7,883	0.6%
Fee and commission income	237	223	238	249	-4.4%	0.1%	6.5%	915	972	6.3%
Exchange income, net	118	138	151	149	1.2%	28.1%	9.6%	455	482	5.9%
Trading income, net	-38	53	135	30	NM	NM	NM	114	276	NM
Dividend income	5	4	4	4	7.6%	-5.3%	6.1%	15	16	7.3%
Gains/ Losses on non-trading investments, net	0	8	4	2	104.0%	NM	-47.1%	-16	27	NM
Other operating income	1	0	0	6	-94.8%	-54.3%	NM	6	1	-88.1%
Non-funded income	323	426	533	440	20.9%	64.8%	24.9%	1,489	1,774	19.2%
Operating income	2,191	2,412	2,572	2,520	2.1%	17.4%	6.6%	9,324	9,658	3.6%
Salary & emp. related exp.	457	480	476	465	2.4%	4.1%	-0.8%	1,742	1,883	8.1%
Rent & premises expenses	17	18	26	17	50.8%	49.7%	38.4%	67	75	10.8%
D&A	80	77	89	75	17.6%	11.0%	15.8%	251	299	19.4%
Other G&A expenses	292	282	380	291	30.4%	30.0%	34.5%	962	1,151	19.7%
Operating Expenses	846	857	970	848	14.3%	14.6%	13.2%	3,022	3,409	12.8%
Pre-provision profit	1,345	1,555	1,602	1,672	-4.2%	19.1%	3.0%	6,302	6,249	-0.8%
Impairment	413	275	355	353	0.7%	-14.0%	29.5%	1,594	1,180	-26.0%
PBT	932	1,281	1,247	1,319	-5.5%	33.8%	-2.6%	4,708	5,069	7.7%
Tax	104	132	130	134	-3.2%	24.8%	-1.8%	485	525	8.3%
Net profit attributable	827	1,148	1,117	1,184	-5.7%	35.0%	-2.7%	4,223	4,544	7.6%

FABS estimate & Co Data
BSF - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	85.2%	82.3%	79.3%	-596	-303	84.0%	81.6%	-240
NIM	3.1%	2.9%	2.93%	-65	-4	3.4%	3.0%	-37
NIS	2.2%	1.8%	1.9%	-88	2	2.7%	1.9%	-75
Fees & comms/OI	10.8%	9.3%	9.2%	-11	-203	9.8%	10.1%	26
Trading/OI	-1.7%	2.2%	5.2%	-75	98	1.2%	2.9%	163
Cost to income	38.6%	35.5%	37.7%	-90	217	32.4%	35.3%	289
Impairment/PPP	30.7%	17.7%	22.2%	-854	453	25.3%	18.9%	-642
NP/OI	37.8%	47.6%	43.4%	565	-418	45.3%	47.1%	176
Cost of risk	0.91%	0.5%	0.7%	-22	15	0.9%	0.6%	-32
Headline Loan-to-deposit	104.2%	104.0%	110.3%	612	633	104.2%	110.3%	612
NPL calculated	1.1%	0.9%	1.0%	-8	15	1.1%	1.0%	-8
Coverage exl. collateral (calculated)	137.7%	186.0%	168.3%	3,057	-1,769	134.2%	168.3%	3,403
Tier 1	19.0%	18.6%	18.8%	-18	18	19.0%	18.8%	-18
Capital adequacy	19.6%	19.4%	19.7%	9	26	19.6%	19.7%	9
ROE	11.8%	11.1%	11.7%	-4	65	11.8%	11.7%	-4
ROA	1.7%	1.6%	1.7%	-8	8	1.7%	1.7%	-8

FABS estimate & Co Data

BSF – Key B/S items

SAR mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	179,391	185,408	197,160	201,008	204,168	13.8%
QOQ ch	2.7%	3.4%	6.3%	2.0%	1.6%	
Total assets	253,666	268,376	288,826	287,670	292,776	15.4%
QOQ ch	1.5%	5.8%	7.6%	-0.4%	1.8%	
Customer deposits	172,209	174,828	196,248	193,342	185,118	7.5%
QOQ ch	3.5%	1.5%	12.3%	-1.5%	-4.3%	
Total equity	41,404	41,928	41,809	46,117	46,607	12.6%
QOQ ch	5.4%	1.3%	-0.3%	10.3%	1.1%	

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	21.50	70%	15.05
Relative Valuation (RV)	22.17	30%	6.65
Weighted Average Valuation (SAR)			21.70
Current market price (SAR)			16.74
Upside/Downside (%)			+30%

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. The cost of equity is calculated by using a 10-year government bond yield of 5.1%, a beta of 0.90 and an equity risk premium of 4.2%. 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)	4,234
Terminal value (SAR, Mn)	12,166
Book value of Equity (as of Dec, 2024)	37,361
FV to Common shareholders (SAR, Mn)	53,761
No. of share (Mn)	2,500
Current Market Price (SAR)	16.74
Fair Value per share (SAR)	21.50

DCF Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2030E
Net Profit	4,984	4,983	5,418	5,591	5,655
(-) Equity Charge	-3,560	-3,779	-4,019	-4,259	-4,489
Excess Equity	1,424	1,204	1,399	1,331	1,166
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Present Value of Excess Equity	118	1,098	1,171	1,023	823

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 2025 PB multiple of 1.4x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	23,206	1.4	1.3	1.4	1.3	5.7	5.9
Alinma Bank	20,571	2.1	1.9	2.1	1.9	3.9	3.8
Saudi National bank	54,864	1.2	1.1	1.2	1.1	5.8	6.5
Arab National Bank	11,640	1.1	1.0	1.1	1.0	6.0	6.2
Bank Albilad	13,019	2.4	2.1	2.4	2.1	1.8	2.1
Average		1.6x	1.5x	1.6x	1.5x	4.6%	4.9%
Median		1.4x	1.3x	1.4x	1.3x	5.7%	5.9%
Max		2.1x	1.9x	2.1x	1.9x	5.8%	6.2%
Min		1.2x	1.1x	1.2x	1.1x	3.9%	3.8%

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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