

Banque Saudi Fransi (BSFR)

Strong advances growth coupled with a healthy CASA ratio boosted profit

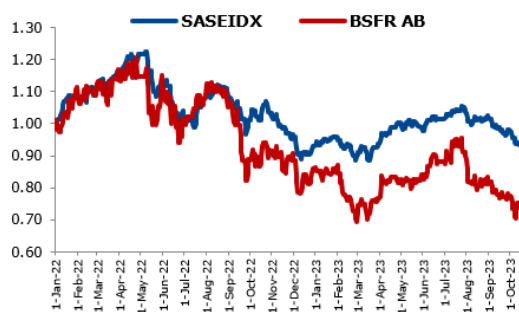
Current Price
SAR 34.55

Target Price
SAR 44.00

Upside/Downside (%)
+27%

Rating
BUY

- Net advances grew 10.2% YOY and 2.9% QOQ to c. SAR 175 Bn in 3Q23, whereas deposits rose 7.9% YOY and 3.2% QOQ growth to c. SAR 166 Bn in 3Q23.
- BSFR's headline loan-to-deposit ratio stood high at 105.0% in 3Q23 as compared to 105.3% in 2Q23.
- BSFR's cost-to-income ratio improved 256 bps YOY and 84 bps QOQ to 30.0% in 3Q23, reflecting the Bank's improvement in operating efficiency.
- Provision against bad loans fell 0.9% YOY and 19.9% QOQ to SAR 345 Mn in 3Q23, mainly due to improvement in the economic environment.



3Q23 Net Profit higher than our estimate

Banque Saudi Fransi's (BSFR/the Bank) net profit rose 29.6% YOY to SAR 1,245 Mn in 3Q23, higher than our estimate of SAR 1,154 Mn. The rise in net profit is mainly attributable to a strong growth in total funded income and a decline in provisioning expense partially offset by a decline in non-funded income, an increase in operating expenses, and tax expense.

P&L Highlights

Funded income rose substantially 54.4% YOY to SAR 3,489 Mn in 3Q23 driven by growth in asset yield and interest-earning assets. In comparison, funded expense rose significantly from SAR 542 Mn in 3Q22 to SAR 1,421 Mn in 3Q23 primarily due to an increase in cost of funds owing to higher benchmark rates. Thus, net funded income rose 20.4% YOY to SAR 2,068 Mn in 3Q23. Whereas, the bank's total non-funded income declined 18.3% YOY to SAR 400 Mn in 3Q23 attributable to a rise in net fee and commission income and trading income partially offset by a decline in exchange income and loss on non-trading investments. The Bank's operating expenses grew 9.2% YOY to SAR 740 Mn in 3Q23 primarily due to an increase in salaries and employee-related expenses. Furthermore, the Bank's cost-to-income ratio declined 256 bps YOY and 84 bps QOQ to 30.0% in 3Q23. In addition, impairment charges declined 0.9% YOY to SAR 345 Mn in 3Q23. Tax expenses rose from SAR 96 Mn in 3Q22 to SAR 138 Mn in 3Q23 in line with the growth in profitability.

Balance Sheet Highlights

BSFR's net advances grew 10.2% YOY and 2.9% QOQ to SAR 174.7 Bn in 3Q23. Total assets increased 7.9% YOY and 1.7% QOQ to SAR 249.9 Bn in 3Q23 primarily due to growth in net advances. Similarly, customer deposits recorded a growth of 5.4% YOY and 3.2% QOQ to

Stock Information

Market Cap (SAR, mm)	41,645.09
Paid Up Capital (mm)	12,053.57
52 Week High	45.70
52 Week Low	32.45
3M Avg. daily value (SAR)	20,890,820

3Q23 Result Review (SAR, mm)

Total Assets	249,862
Net advances	174,681
Total Equity	39,283
Total Deposits	166,367
Net Profit	1,245

Financial Ratios

Dividend Yield (12m)	5.35
Dividend Pay-out (%)	55.41
Price-Earnings Ratio(x)	9.80
Price-to-Book Ratio (x)	1.21
Book Value (SAR)	28.61
Return-on Equity (%)	12.81

Stock Performance

5 Days	1.77%
1 Months	-5.34%
3 Months	-18.90%
6 Months	-10.26%
1 Year	-20.02%
Month to Date (MTD%)	-5.34%
Quarter to Date (QTD%)	-5.34%
Year to Date (YTD%)	-14.90%

SAR 166.4 Bn in 3Q23. The loan-to-deposit ratio declined 30 bps YOY to 105.0% in 3Q23. Moreover, BSFR's total equity rose 3.9% YOY but declined 1.0% QOQ to SAR 39.3 Bn in 3Q23.

Target Price and Rating

We maintain our BUY rating on BSFR with an unchanged target price of SAR 44.00. BSFR recorded a strong growth in net advances of 2.9% QOQ to SAR 174.7 Bn and deposits rose slightly faster at 3.2% QOQ to SAR 166.4 Bn in 3Q23. The Bank's headline loan-to-deposit ratio softened marginally to 105.0% in 3Q23 as compared to 105.3% in 2Q23. The Bank expected its loan book to grow by high single digit in 2023 and revised its NIMs guidance upwards to 3.45-3.55% in 2023 in 2Q23. BSFR's cost-to-income ratio declined 256 bps YOY and 84 bps QOQ to 30.0% in 3Q23 reflecting the Bank's improvement in operating efficiency. Moreover, BSFR's CASA deposits as a percentage of total deposits stood at 59.4% in 2Q23 as compared to 57% in 1Q23 which benefits the NIMs in the high interest rate scenario. Furthermore, the BSFR's asset quality improved as the NPL ratio declined to 2.4% in 2Q23, down from 2.6% in 1Q23. Whereas, the Bank's provision coverage strengthened to 132.1% in 2Q23 as against 121.8% in 1Q23. Similarly, stage 2 loans as a percentage of gross loans declined to 7.5% in 2Q23 from 7.6% in 1Q23. In addition, the Bank's capitalization stood healthy with Tier 1 capital ratio of 19.0% and CAR of 20.0% in 2Q23. BSFR trades at an attractive 2023 dividend yield of 5.8% as compared to peer average of 4.2%. 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	30.09	13.54	28.39	13.04	12.62	8.88
PB	1.42	1.34	1.26	1.26	1.30	1.21
Dividend yield	4.8%	5.6%	1.1%	4.2%	4.7%	5.8%

FABS Estimates & Co Data

BSFR - P&L

SAR mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded Income	2,259	3,226	3,489	3,331	4.7%	54.4%	8.1%	8,307	12,959	56.0%
Funded Expense	542	1,251	1,421	1,341	6.0%	162.2%	13.6%	1,881	5,026	167.2%
Net Funded Income	1,717	1,976	2,068	1,990	3.9%	20.4%	4.7%	6,427	7,933	23.4%
Non-funded income	489	372	400	415	-3.6%	-18.3%	7.6%	1,591	1,638	3.0%
Operating income	2,083	2,347	2,468	2,405	2.6%	18.5%	5.1%	8,017	9,571	19.4%
Operating Expenses	678	724	740	726	2.0%	9.2%	2.3%	2,654	2,927	10.3%
Pre-provision profit	1,405	1,624	1,728	1,680	2.9%	23.0%	6.4%	5,364	6,643	23.9%
Impairment	348	431	345	398	-13.2%	-0.9%	-19.9%	1,360	1,608	18.3%
PBT	1,057	1,193	1,383	1,282	7.9%	30.8%	15.9%	4,004	5,035	25.8%
Tax	96	120	138	128	7.6%	43.8%	15.3%	429	504	17.4%
Net Profit attributable	961	1,073	1,245	1,154	7.9%	29.6%	16.0%	3,575	4,532	26.8%

FABS estimate & Co Data

BSFR - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	82.4%	84.2%	83.8%	136	-37	80.2%	82.9%	273
Cost to income	32.5%	30.8%	30.0%	-256	-84	33.1%	30.6%	-251
Impairment/PPP	24.8%	26.5%	20.0%	-481	-656	25.4%	24.2%	-114
NP/OI	46.1%	45.7%	50.4%	431	472	44.6%	47.3%	276
ROE	11.2%	11.7%	13.3%	209	157	10.8%	13.4%	258
ROA	1.6%	1.7%	1.7%	15	8	1.6%	1.9%	26

FABS estimate & Co Data
BSFR – Key B/S items

SAR mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	158,481	159,012	164,779	169,695	174,681	10.2%
QOQ ch	-0.7%	0.3%	3.6%	3.0%	2.9%	
Total assets	231,659	232,078	240,236	245,718	249,862	7.9%
QOQ ch	0.2%	0.2%	3.5%	2.3%	1.7%	
Customer deposits	157,821	157,592	167,414	161,165	166,367	5.4%
QOQ ch	-0.1%	-0.1%	6.2%	-3.7%	3.2%	
Total equity	37,805	38,745	39,936	39,696	39,283	3.9%
QOQ ch	0.2%	2.5%	3.1%	-0.6%	-1.0%	

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	44.08	70.0%	30.85
Relative Valuation (RV)	43.82	30.0%	13.15
Weighted Average Valuation (SAR)			44.00
Current market price (SAR)			34.55
Upside/Downside (%)			+27%

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 using a 10-year government bond yield of 4.5%, a beta of 0.95, 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)	4,775
Terminal value (SAR, Mn)	13,642
Book value of Equity (as of June, 2023)	34,696
FV to Common shareholders (SAR, Mn)	53,113
No. of share (Mn)	1,250
Current Market Price (SAR)	34.55
Fair Value per share (SAR)	44.08

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,307	4,751	4,993	4,788	5,048
(-) Equity Charge	-2,945	-3,155	-3,400	-3,618	-3,857
Excess Equity	227	1,596	1,594	1,170	1,191
Discounting Factor	0.99	0.91	0.84	0.78	0.72
Present Value of Excess Equity	224	1,453	1,339	907	852

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 PB multiple of 1.5x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Riyad Bank	20,340	1.4	1.3	9.8	9.0	5.2	5.5
Alinma Bank	17,230	2.1	2.0	13.5	12.1	3.9	4.3
Al Rajhi Bank	68,490	2.7	2.5	15.7	14.2	3.4	3.8
Saudi National Bank	11,030	1.2	1.1	9.8	9.0	5.1	5.5
Arab National Bank	9,241	1.0	1.0	5.9	6.2	5.9	6.2
Bank Albilad	9,774	2.4	2.1	15.6	13.5	1.8	2.1
Average		1.8x	1.7x	11.7x	10.7x	4.2x	4.6x
Median		1.7x	1.7x	11.7x	10.5x	4.5x	4.9x
Max		2.3x	2.1x	15.1x	13.2x	5.1x	5.5x
Min		1.2x	1.1x	9.8x	9.0x	3.5x	3.9x

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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