

Banque Saudi Fransi

Higher funded income partially weighed by rising expenses

1Q23 Net profit in line with our estimate

Banque Saudi Fransi's (BSFR/the Bank) net profit rose 23.0% YOY to SAR 1,076 Mn in 1Q23, in line with our estimate of SAR 1,114 Mn. The rise in net profit is mainly attributable to 27.3% YOY strong growth in net operating income owing to an increase in net special commission and exchange income partially offset by decline in trading income and increase in operating expenses.

P&L Highlights

Funded income rose substantially from SAR 1,564 Mn in 1Q22 to SAR 2,997 Mn in 1Q23 driven by a strong growth in net advances. Net advances rose 7.9% YOY to SAR 164.8 Bn in 1Q23. While, funded expense rose significantly from SAR 149 Mn in 1Q22 to SAR 1,073 Mn in 1Q23 primarily due to higher benchmark rates. Thus, net funded income rose 36.0% YOY to SAR 1,924 Mn in 1Q23. Non-funded income declined 22.5% YOY to SAR 394 Mn in 1Q23. Moreover, operating income rose 27.3% YOY to SAR 2,318 Mn in 1Q23 due to the higher net special commission income and exchange income partially offset by a reduction in trading income. Operating expenses rose 17.8% YOY to SAR 712 Mn in 1Q23 owing to the rise in salaries and employee-related expenses, G&A expenses and other operating expenses. However, the cost-to-income ratio declined 248 bps YOY to 30.7% in 1Q23. Furthermore, impairment charges increased significantly from SAR 241 Mn in 1Q22 to SAR 406 Mn in 1Q23. While the tax expenses rose 23.3% YOY to SAR 124 Mn in 1Q23 in line with the growth in profitability.

Balance Sheet Highlights

BSFR's total assets rose 8.1% YOY to SAR 240.2 Bn in 1Q23 primarily due to strong growth in net advances and investments. Net advances recorded a strong growth of 7.9% YOY to SAR 164.8 Bn in 1Q23. Similarly, the Bank's investments rose 4.3% YOY to SAR 44.8 Bn in 1Q23. Furthermore, customer deposits also recorded a strong growth 11.0% YOY and 6.2% QOQ to SAR 167.4 Bn in 1Q23. Loan-to-deposit ratio declined by 286 bps YOY to 98.4% in 1Q23. BSFR's total equity rose 1.3% YOY and 3.1% QOQ to 40.0 Bn in 1Q23.

Target price and rating

We maintain our BUY rating on BSFR with a revised target price of SAR 45.00. BSFR net advances rose 7.9% YOY and 3.6% QOQ to SAR 164.8 Bn in 1Q23. BSFR maintained its strong position in the corporate banking segment with the highest exposure of its loan book to the segment. A total of 76.4% of the Bank's advances portfolio comprised of corporate loans which made it easy to reprice loans given the change in interest rates. We further anticipate the Bank's corporate loan book to grow owing to Vision 2030 which will provide an opportunity to fund a number of large projects. Moreover, the Bank also benefitted from the rising interest rate scenario. It recorded an increase in NIMs during 1Q23 based on our calculation. Furthermore, BSFR's liquidity also improved in 1Q23 driven by an increase in deposits. Customer deposits rose 11.0% YOY and 6.2% QOQ to SAR 167.4 Bn in 1Q23. The loan-to-deposit ratio declined from 101.9% in 4Q22 to 98.4% in 1Q23 which suggests that the bank has considerable liquidity and room for loan expansion in

Rating : BUY

First Look Note – 1Q23

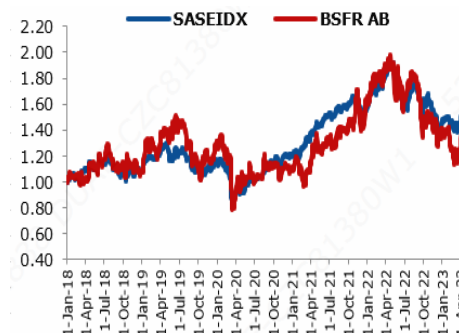
Sector: Banking

Recommendation

Current Price (14-May-23)	38.80
Target Price (SAR)	45.00
Upside/Downside (%)	+16%

Stock Information

Market Cap (mm)	46,104.91
Paid Up Capital (mm)	12,053.57
52 Week High	55.50
52 Week Low	32.45
3M Avg. daily value (SAR)	23,067,750



Financial Ratios

Dividend Yield (12m)	4.18
Dividend Pay-out (%)	55.41
Price-Earnings Ratio (x)	12.73
Price-to-Book Ratio (x)	1.31
Book Value (SAR)	29.13
Return-on Equity (%)	10.89
Earning Per Share (SAR)	3.00
Beta	1.12

Stock Performance

5 Days	-1.80%
1 Months	-1.03%
3 Months	5.52%
6 Months	-7.83%
1 Year	-22.88%
Month to Date (MTD)	-0.65%
Quarter to Date (QTD)	5.66%
Year to Date (YTD)	-5.79%

the near period. The asset quality of the Bank also improved as its NPL ratio declined from 2.8% in 3Q22 to 2.6% in 4Q22. Provision coverage also rose from 114.4% in 3Q22 to 116.9% in 4Q22, which will provide the Bank with an additional provision buffer going forward. BSFR also maintained a healthy capitalization with a Tier 1 capital ratio of 18.9% and a CAR of 19.9% in 4Q22. Thus, based on our analysis, we maintain our BUY rating on the stock.

BSFR- Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	33.16	14.92	31.29	14.37	13.91	9.99
P/B	1.57	1.47	1.39	1.39	1.43	1.33
Dividend yield	4.4%	5.0%	1.0%	3.8%	4.3%	4.5%

FABS Estimates & Co Data

BSFR- P&L

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var	YOY Ch	QOQ Ch	2022	2023F	Change
Funded Income	1,564	2,649	2,997	2,899	3.4%	91.6%	13.1%	8,307	12,422	49.5%
Funded Expense	149	871	1,073	1,058	1.4%	619.3%	23.2%	1,881	4,687	149.2%
Net Funded Income	1,415	1,778	1,924	1,841	4.5%	36.0%	8.2%	6,427	7,735	20.4%
Non-funded income	508	146	394	503	-21.7%	-22.5%	170.4%	1,591	1,649	3.7%
Operating income	1,821	2,243	2,318	2,344	-1.1%	27.3%	3.3%	8,017	9,384	17.1%
Total operating Exp.	604	723	712	687	3.6%	17.8%	-1.5%	2,654	2,834	6.8%
Pre-provision profit	1,217	1,520	1,606	1,656	-3.0%	32.0%	5.7%	5,364	6,550	22.1%
Impairment	241	476	406	414	-2.0%	68.5%	-14.7%	1,360	1,620	19.2%
PBT	976	1,044	1,200	1,242	-3.4%	23.0%	15.0%	4,004	4,929	23.1%
Tax	101	141	128	128	0.0%	27.2%	-9.2%	429	493	15.0%
Net profit attributable	875	903	1,076	1,114	-3.4%	23.0%	19.2%	3,575	4,437	24.1%

FABS estimate & Co Data

BSFR - KPI

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	77.7%	79.3%	83.0%	531	373	80.2%	82.4%	227
Cost to income	33.2%	32.2%	30.7%	-248	-152	33.1%	30.2%	-289
Impairment/PPP	19.8%	31.3%	25.3%	547	-604	25.4%	24.7%	-61
NP/OI	48.0%	40.3%	46.4%	-163	616	44.6%	47.3%	268
ROA	1.6%	1.5%	0.8%	-78	-70	1.6%	1.9%	26

FABS estimate & Co Data

BSFR - Key BS Items

SAR mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	152,690	159,625	158,481	159,012	164,779	7.9%
QOQ Change	3.3%	4.5%	-0.7%	0.3%	3.6%	
Total Assets	222,211	231,267	231,659	232,078	240,236	8.1%
QOQ Change	3.0%	4.1%	0.2%	0.2%	3.5%	
Customer deposits	150,759	157,919	157,821	157,592	167,414	11.0%
QOQ Change	6.2%	4.7%	-0.1%	-0.1%	6.2%	
Total Equity	39,428	37,742	37,805	38,745	39,936	1.3%
QOQ Change	-0.7%	-4.3%	0.2%	2.5%	3.1%	

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	45.2	70.0%	31.7
Relative	44.3	30.0%	13.3
Weighted Average Valuation (SAR)			45.00
Current market price (SAR)			38.80
Upside/Downside (%)			15.98%

1) Residual Income 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 4.5%, beta of 1.0 and equity risk premium of 4.0%. 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)	4,895
Terminal value (SAR, Mn)	16,936
Book Value of equity (as of March 2023)	32,666
FV to Common shareholders (SAR, Mn)	54,497
No. of share (Mn)	1,205
Current Market Price (SAR)	38.80
Fair Value per share (SAR)	45.23

Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,212	4,426	4,348	4,926	5,304
(-) Equity charge	-2,907	-3,118	-3,307	-3,534	-3,792
Excess Equity	869	1,308	1,041	1,392	1,512
Discounting Factor	0.95	0.88	0.81	0.75	0.69
Present Value of Excess Equity	824	1,146	842	1,040	1,043

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. We don't think this premium valuation is expected to narrow in the near-term. It is valued at PB multiple of 1.5x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Alinma Bank	16,736	2.2	2.1	14.1	12.9	3.9	4.4
Saudi National Bank	58,925	1.3	1.3	12.0	10.9	4.1	4.7
Arab National Bank	10,613	1.2	1.1	11.0	10.9	4.8	4.9
Riyad Bank	24,203	1.7	1.6	11.7	11.0	4.2	4.5
Bank Albilad	10,887	2.7	2.4	15.4	13.3	1.4	1.7
Al Rajhi Bank	79,892	3.3	2.8	17.1	15.1	2.2	3.0
Average		1.8x	1.7x	12.8x	11.8x	3.7x	4.0x
Median		1.7x	1.6x	12.0x	11.0x	4.1x	4.5x
Max		2.2x	2.1x	14.1x	12.9x	4.2x	4.7x
Min		1.3x	1.3x	11.7x	10.9x	3.9x	4.4x

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%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office
 Trading Desk +971-2-6161700/1 [Online Trading Link](#)
 +971-2-6161777
 Institutional Desk +971-4-4245765
 Sales and Marketing +971-2-6161703

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