

## Banque Saudi Fransi

Sharp decrease in Impairment charges supported the bottom-line

### 4Q21 Net profit higher than our estimate

Banque Saudi Fransi (BSFR) reported a significant increase in Net profit to SAR993 Mn in 4Q21, as compared to SAR94 Mn in 4Q20, beating our estimate of SAR835 Mn by 18.9%. This increase was mainly due to a decrease in both Impairment charges and operating expenses in addition to higher funded income.

### P&L highlights

Funded Income has increased by 2.5% YOY to SAR1,460 Mn in 4Q21, up from SAR1,425 Mn in 4Q20. While the Funded Expense decreased by 11% YOY to SAR128 Mn in 4Q21, down from SAR143 Mn in 4Q20. Therefore, the Net Funded Income increased by 4% YOY to SAR1,332 Mn in 4Q21, up from SAR1,281 Mn in 4Q20. Fees and Commissions income decreased by 11.6% YOY to SAR287 Mn in 4Q21, down from SAR324 Mn in 4Q20. Whereas, the Trading Income has significantly decreased from SAR61 Mn in 4Q20 to a negative of SAR12 Mn in 4Q21. Moreover, the Other non-funded income increased by 6.9% YOY to SAR118 Mn in 4Q21 compared to SAR110 Mn in 4Q20. As a result, the Non-Funded Income decreased by 20.8% YOY to SAR393 Mn in 4Q21, down from SAR496 Mn in 4Q20. Thus, the Operating Income decreased by 2.9% YOY to SAR1,725 Mn in 4Q21 from SAR1,777 Mn in 4Q20. Similarly, the Operating Expenses have decreased by 7.7% YOY to SAR620 Mn in 4Q21, down from SAR672 Mn in 4Q20. Consequently, the Cost to income ratio dropped by 185 bps to 36% in 4Q21, down from 37.8% in 4Q20. Furthermore, the Impairment charges have strongly decreased by 94.8% YOY to SAR45 Mn in 4Q21, as compared to SAR872 Mn in 4Q20, supporting the profitability. Tax decreased by 52.8% YOY to SAR66 Mn in 4Q21, down from SAR139 Mn in 4Q20.

### Balance sheet highlights

Net Advances have increased by 13.2% YOY to SAR147.81 Bn in 4Q21, up from SAR130.57 Bn in 4Q20. Customer Deposits increased by 11.7% YOY to SAR141.95 Bn in 4Q21, up from SAR127.11 Bn in 4Q20. Similarly, the Total assets increased by 11.2% YOY to SAR215.8 Bn in 4Q21 as compared to SAR194.1 Bn in 4Q20. Total Equity rose by 2.7% YOY to SAR39.69 Bn in 4Q21, up from SAR38.64 Bn in 4Q20. While the Total Liabilities increased by 13.3% YOY to SAR176.12 Bn in 4Q21, up from SAR155.44Bn in 4Q20.

### Target price and rating

We assign a REDUCE rating on BSFR, with a revised target price of SAR47. Bank Saudi Fransi is a Saudi Arabian Joint Stock Company, with the aim to become the most modern, innovative and experience focused Bank in the region. At the year ended 31 December 2021, the Bank has reported a significant increase in the Net profit, mainly attributed to a strong decline in the Total Impairment Charges. BSFR's Funded income has dropped by 6.6% YOY to SAR 5.87 Bn at the end of 2021, whereas the Funded expense strongly decreased by 52.6% YOY to reach SAR 495 Mn,

**Rating : REDUCE**

### First Look Note – 4Q21

Sector: Banking

#### Recommendation

Current Price (24-Feb)	52.10
Target Price	47.00
Upside/Downside (%)	-7%

#### Stock Information

Market Cap (SAR/mm)	62,437.50
Paid Up Capital (mm)	12,053.57
52 Week High	53.50
52 Week Low	27.80
3M Avg. daily value (SAR)	27,446,470



#### Financial Ratios

Dividend Yield (12month)	2.03
Dividend Payout	29.57
Price-Earning Ratio	18.85
Price-to-Book Ratio	1.79
Book Value	28.91
Return-on Equity	10.10
Earning Per Share	2.75
Beta	1.26

#### Stock Performance

5 Days	-0.96%
1 Months	3.81%
3 Months	17.59%
6 Months	26.34%
1 Year	85.66%
Month to Date (MTD%)	-0.96%
Quarter to Date (QTD%)	9.63%
Year to Date (YTD%)	9.63%

compared to SAR 1.04 Bn in 2020. Therefore, the Net Funded income increased by 2.5% YOY reaching SAR 5.37 Bn, up from SAR 5.24 Bn in the end of 2020. While the Non-funded income marginally increased by 0.6% YOY standing at SAR 1.81 Bn in the year ended 2021, as compared to SAR 1.8 Bn in the same period last year, led by 22.6% YOY decrease in Other non-funded income to SAR 429 Mn in 2021. Moreover, Fees and commissions and Trading income have both increased by 12.1% and 2.4% YOY standing at SAR 1.21 Bn and SAR 172 Mn, respectively in 2021. As a result, the Bank's Operating income has barely grown by 2% YOY reaching SAR 7.19 Bn in 2021, up from SAR 7.05 Bn in 2020. Similarly, the Operating expenses have also increased by 3.5% YOY to SAR 2.45 Bn, up from SAR 2.36 Bn in 2020. Thus, the Cost to income (C/I) ratio slightly increase by 48 bps to 34%, up from 33.6% in 2020. Furthermore, the Bank's Impairment has strongly reduced by 66.2% YOY to SAR 904 Mn in the year ended 2021, compared to SAR 2.67 Bn at the same time last year, which directly supported the strong increase in the Net profit. Tax has declined by 16.5% YOY to SAR 388 Mn, down from SAR 464 Mn in the end of 2020.

On the other hand, BSFR has continued showing a strong performance in the Balance sheet, whereas the Total assets increased by 11.2% YOY to SAR 215.8 Bn compared to SAR 194.07 Bn in 2020. Additionally, the Net advances have also grown by 13.2% YOY reaching SAR 147.81 Bn at the end of 2021, as well as the 11.7% YOY increase in the Customer deposits standing at SAR 141.95 Bn in the year ended 2021. Resultantly, the Advances to Deposits Ratio (ADR) was up by 141 bps standing at 104.1%, up from 102.7% in 2020. The Bank profitability ratios such as ROAE and ROAA have increased both reaching 8.8% and 1.7%, respectively at the year ended 2021. Furthermore, the NIM and NIS have slightly dropped to 2.9% and 2.8%, down from 3.1% and 3% in 2020, respectively. Finally, the Board of Directors has proposed a final cash dividend of SAR 0.85 per share amounting SAR 1.02 Bn in the final year 2021. Based on our analysis, we assign a REDUCE rating on the stock.

**BSFR - Relative Valuation**

(At CMP)	2017	2018	2019	2020	2021
P/E	17.72	44.53	20.04	42.02	19.30
P/B	1.97	2.02	1.90	1.86	1.80

*FABS estimate & Co data*
**BSFR - P&L**

SAR mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Funded income	1,425	1,542	1,460	1,609	-9.3%	2.5%	-5.4%	6,285	5,869	-6.6%
Funded expense	143	119	128	139	-8.2%	-11.0%	7.6%	1,044	495	-52.6%
<b>Net funded income</b>	<b>1,281</b>	<b>1,424</b>	<b>1,332</b>	<b>1,470</b>	<b>-9.4%</b>	<b>4.0%</b>	<b>-6.4%</b>	<b>5,240</b>	<b>5,373</b>	<b>2.5%</b>
Fees and commissions	324	295	287	300	-4.5%	-11.6%	-2.7%	1,082	1,213	12.1%
Trading gain/(loss)	61	84	-12	27	-143.9%	NM	NM	168	172	2.4%
Other non-funded income	110	112	118	118	-0.5%	6.9%	5.2%	555	429	-22.6%
<b>Non-funded income</b>	<b>496</b>	<b>490</b>	<b>393</b>	<b>446</b>	<b>-11.9%</b>	<b>-20.8%</b>	<b>-19.9%</b>	<b>1,804</b>	<b>1,814</b>	<b>0.6%</b>
<b>Operating income</b>	<b>1,777</b>	<b>1,914</b>	<b>1,725</b>	<b>1,915</b>	<b>-9.9%</b>	<b>-2.9%</b>	<b>-9.9%</b>	<b>7,045</b>	<b>7,188</b>	<b>2.0%</b>
Operating expenses	672	608	620	656	-5.5%	-7.7%	2.0%	2,364	2,447	3.5%
<b>Pre-provision profit</b>	<b>1,105</b>	<b>1,306</b>	<b>1,104</b>	<b>1,259</b>	<b>-12.3%</b>	<b>-0.1%</b>	<b>-15.4%</b>	<b>4,681</b>	<b>4,741</b>	<b>1.3%</b>
Impairment	872	289	45	295	-84.6%	-94.8%	-84.3%	2,670	904	-66.2%
<b>PBT</b>	<b>233</b>	<b>1,017</b>	<b>1,059</b>	<b>964</b>	<b>9.9%</b>	<b>NM</b>	<b>4.1%</b>	<b>2,010</b>	<b>3,837</b>	<b>90.9%</b>
Tax	139	110	66	129	-49.0%	-52.8%	-40.0%	464	388	-16.5%
<b>Net profit attributable</b>	<b>94</b>	<b>907</b>	<b>993</b>	<b>835</b>	<b>18.9%</b>	<b>NM</b>	<b>9.5%</b>	<b>1,546</b>	<b>3,450</b>	<b>NM</b>

*FABS estimate & Co Data*

**BSFR - KPI**

	<b>4Q20</b>	<b>3Q21</b>	<b>4Q21</b>	<b>YOY Ch</b>	<b>QOQ Ch</b>	<b>2020</b>	<b>2021</b>	<b>Change</b>
SAR mm								
Net FI/OI	72.1%	74.4%	77.2%	513	286	74.4%	74.8%	37
NIM	3.0%	2.9%	2.8%	-18	-6	3.1%	2.9%	-24
NIS	2.9%	2.8%	2.8%	-15	-6	3.0%	2.8%	-21
Fees & comms/OI	18.3%	15.4%	16.6%	-162	123	15.4%	16.9%	152
Trading/OI	3.5%	4.4%	-0.7%	-414	-506	2.4%	2.4%	1
Cost to income	37.8%	31.8%	36.0%	-185	419	33.6%	34.0%	48
Impairment/PPP	78.9%	22.1%	4.1%	-7478	-1802	57.1%	19.1%	-3799
NP/OI	5.3%	47.4%	57.6%	5231	1019	21.9%	48.0%	2605
ROAE	4.6%	7.0%	9.3%	462	227	4.3%	8.8%	449
ROAA	0.8%	1.3%	1.7%	89	43	0.8%	1.7%	85

*FABS estimate & Co Data*
**BSFR - BS Key items**

	<b>4Q20</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>YOY Ch</b>
SAR mm						
<b>Net advances</b>	<b>130,565</b>	<b>134,105</b>	<b>141,807</b>	<b>144,393</b>	<b>147,813</b>	<b>13.2%</b>
QOQ Change	-2.8%	2.7%	5.7%	1.8%	2.4%	
<b>Total Assets</b>	<b>194,074</b>	<b>202,233</b>	<b>211,310</b>	<b>213,335</b>	<b>215,802</b>	<b>11.2%</b>
QOQ Change	-1.7%	4.2%	4.5%	1.0%	1.2%	
<b>Customer deposits</b>	<b>127,112</b>	<b>132,987</b>	<b>140,805</b>	<b>143,322</b>	<b>141,950</b>	<b>11.7%</b>
QOQ Change	-6.3%	4.6%	5.9%	1.8%	-1.0%	
<b>Total Equity</b>	<b>38,636</b>	<b>39,198</b>	<b>39,259</b>	<b>39,242</b>	<b>39,686</b>	<b>2.7%</b>
QOQ Change	14.7%	1.5%	0.2%	-0.04%	1.13%	

*FABS estimate & Co Data*

**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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