

BANQUE SAUDI FRANSI



EVENT FLASH

Profit growth moderate on increased provisions

BSF's reported a moderate growth in net income of 3.5% YoY to SR685mn, but was 3.3% below our expectation. The bank's NSCI total operating income remained moderate as compared to peers but was 4.2% higher than our estimates. We therefore attribute the lower net income to higher than expected provisions. Nonetheless, we continue to favour BSF and we do not believe there is a material pressure on asset quality.

- NCBC view on the result:** Led by the increase in provisions, BSF reported a moderate growth in net income for 3Q13 (+3.5% YoY). Although the net interest margins contracted by 10bps, it widened by 7bps on a QoQ basis. This is significant for the bank as its loan book is mostly corporate (>90%) and hence believe there is a bottoming out of yields on like for like loans. Despite higher than expected provisions, we continue to believe that the asset quality of the bank is intact.
- BSF's NSCI grew 5.3% YoY led by the 10.1% YoY growth in net loans. Our primary calculation suggests that the bank's NIMs declined 10bps YoY but increased 7bps QoQ. The bank's NIMs is one of the lowest in the industry due to higher share of corporate loans in its loan mix. However, we believe this is a key advantage as their assets will get re-priced faster than other peers with the increase in interest rates. Fee and other income grew 5.0% YoY, consequently total operating income recorded a 5.2% YoY growth. This was 4.2% higher than our estimates.
- Our calculation based on the reported numbers suggests that the bank's pre-provision profits also grew 5.2% YoY to SR879mn. However, the 11.8% YoY increase in provisions to SR195mn resulted in a moderate profit growth. Provisions also came-in higher than our expectations of SR135mn.
- We are currently Overweight on BSF's stock with a PT of SR38.4. We believe the bank's stock is undervalued due to (1) the lower NIMs, which we are near the bottom, and (2) concerns over the Zain KSA debt which has been resolved. While the stock could be under pressure today due to the higher than expected provisions, we continue to favour the stock as we believe there is upside on the back of good loan growth going forward.

3Q13 Results Summary

SR mn	3Q13A	3Q12A	% Y O Y	3Q13E	% VAR^
Net sp comm income	870	826	5.3	834	4.3
Fee and other income	414	394	5.0	398	4.1
Total operating income	1,284	1,220	5.2	1,232	4.2
Net income	685	662	3.5	709	(3.3)
Loans (bn)	113	102	10.1	112	0.1
Deposits (bn)	125	117	6.9	127	(1.7)
Investments (bn)	33	21	57.6	33	1.8
Assets (bn)	168	155	8.4	170	(1.1)
EPS (SR)	0.76	0.73	3.5	0.78	(3.3)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

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OVERWEIGHT

Target price (SR) 38.4

Current price (SR) 35.5

STOCK DETAILS

M52-week range H/L (SR)	35.8/28.9
Market cap (\$mn)	8,558
Shares outstanding (mn)	904.0
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.9	5.3	14.1
Rel. to market	2.7	1.9	(2.8)

Avg daily turnover (mn)	SR	US\$
3M	9.6	2.5
12M	8.6	2.3

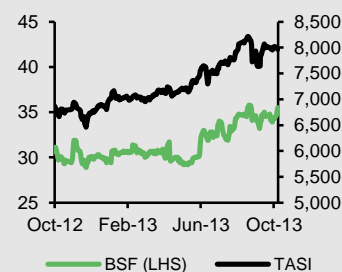
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Bloomberg code	BSFR AB
	www.alfransi.com.sa

VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	10.9	11.3	9.9
P/BV (x)	1.5	1.3	1.2
P/ABV (x)	1.4	1.3	1.2
Div Yield (%)	2.3	2.1	2.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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SABB



EVENT FLASH

Profits in line with estimate; NIMs widen

SABB reported strong set of results with net income growing 29.0% YoY to SR846mn, which was broadly in line with our estimate. Although the loan growth remained low vs peers, the expansion in NIMs facilitated the 12.9% YoY growth in NSCI. We attribute the widening of margins to changes in the asset mix. With low deposit growth compared to the loan growth, SABB may see pressure on their cost of funds in the short-term.

- NCBC view on the result:** SABB's results remained broadly in line with our expectation, with total operating income and net income increasing 11.2% and 29.0% YoY respectively. Widening NIMs and lower YoY provisions are the primary reason for the strong bottom-line result. However, on a QoQ basis, SABB reported a decline of 15.8% in net income due to the higher provisions booked.
- Read across for other banks:** We expect Saudi bank's NSCI to remain strong YoY on flat/increasing NIMs coupled with expanded loan books. This is likely to offset any decline in fee and other income and keep total operating income growth positive. Some banks such as BJAZ and BSF might report a limited decline in provisions as compared to its peers due to relatively lower NPL coverage ratio.
- Led by the 13bps YoY increase in NIMs, SABB's NSCI grew 12.9% YoY to SR950mn. The widening of NIMs overshadowed the lower than expected growth of the credit portfolio (+10.3% YoY). Investments also grew moderately by 5.7% YoY keeping the earning assets growth below the industry average. The bank's fee and other income grew 8.3% YoY, enabling the 11.2% expansion in operating income.
- SABB's operating expenses including provisions declined 6.8% YoY. Our primary estimates suggest that provisions decreased 22.8% YoY to SR222mn from SR288mn a year ago. However, it remained in-line with our estimate of SR215mn.
- We are positive on SABB's ability to grow loan volumes and increase its NSCI as well as net income. Bottoming out of NIMs is a key positive for the bank. However, we remain Neutral on the stock as we believe its key positives are priced in.

3Q13 Results Summary

SR mn	3Q13A	3Q12A	% Y O Y	3Q13E	% VAR [^]
Net sp comm income	950	842	12.9	934	1.7
Fee and other income	524	484	8.3	475	10.3
Total operating income	1,474	1,325	11.2	1,410	4.6
Net income	846	656	29.0	817	3.5
Loans (bn)	108	98	10.3	108	0.2
Deposits (bn)	130	120	8.5	128	1.2
Investments (bn)	31	29	5.7	31	(1.4)
Assets (bn)	166	156	6.4	165	0.9
EPS (SR)	0.85	0.66	29.0	0.82	3.5

Source: Company, NCBC Research [^] % Var indicates variance from NCBC forecasts

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NEUTRAL

Target price (SR) 44.9

Current price (SR) 40.3

STOCK DETAILS

M52-week range H/L (SR)	40.5/28.5
Market cap (\$mn)	10,747
Shares outstanding (mn)	1,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.3	1.5	33.4
Rel. to market	(0.9)	(1.9)	16.5

Avg daily turnover (mn)	SR	US\$
3M	6.9	1.8
12M	5.8	1.5

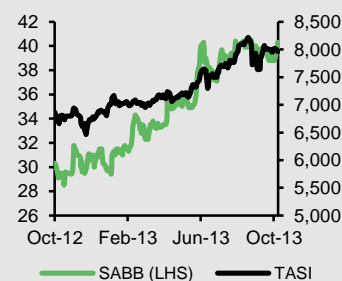
Reuters code	1060.SE
Bloomberg code	SABB AB
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VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	12.6	11.2	10.2
P/BV (x)	2.1	1.9	1.6
P/ABV (x)	2.0	1.8	1.6
Div Yield (%)	2.3	2.3	2.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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