

Rating
12- Month Target Price
Buy
SAR 27.00
BANQUE SAUDI FRANSI (BSF)
3Q2016 First Look
Impressive Deposit Growth

3Q results for Banque Saudi Fransi (BSF) were in line with estimates. Net income of SAR 1.01 billion (-1% Y/Y, -4% Q/Q) is close to our forecast of SAR 1.03 billion while street estimates averaged SAR 1.04 billion. At first look, it appears the bank booked better spreads this quarter on the back of rising SAIBOR. While loan growth was marginally higher than estimates, deposits growth have massively surprised rising by SAR 8.5 billion Q/Q to SAR 147 billion as compared to a contraction in 2Q. In an environment of tight liquidity, this is a praiseworthy achievement. Trading at 0.8x 2016E book value, we recommend a Buy with a SAR 27.00 target.

Spreads likely expanded

A +9% Y/Y and +8% Q/Q rise in net special commissions income to SAR 1.14 billion is better than our estimates and reflects that spreads have magnified in 3Q led by both loan growth and an increase in interest rates. Lending has kept up pace with last quarter as advances increased by SAR 4.3 billion in the quarter. However, the most striking element of the result announcement has been a growth in deposits by SAR 8.5 billion in the quarter at a time when peers are reporting deposit leakage and market liquidity continues to be constrained.

Lower LDR bodes well for 4Q

On the back of higher deposits, the bank has managed to bring down LDR from 89% in 2Q to 87% at September-end. This bodes well for the fourth quarter as BSF would have room to give out credit and be comfortable with the deposit situation at year-end when historically there is a race for money. However, it is pertinent to add that most likely the increase in deposits have been on the interest-bearing segment implying rising funding costs going forward.

Sensible rise in provisions

Bottom line would have been better were it not for higher operating expenses of SAR 606 million (+6% Y/Y) due to a rise in admin expenses as well as provisions for credit losses. We believe the bank has prudently bumped up provisions to over SAR 50 million (SAR 37 million in 2Q) given the economic outlook, a welcome addition. Expect 4Q provisions to be higher. Sequential fall in non-operating income is an ongoing concern as fee-based income drops.

Trading below book value

Net income of SAR 1.01 billion is in line with our SAR 1.03 billion forecast, almost flat Y/Y. At a full year DPS of SAR 1.00 for 2016, the stock offers a dividend yield of 5.1% and trades at a P/B of 0.8x. We believe these are attractive levels and continue to recommend a Buy with a SAR 27.00 target price.

Expected Total Return

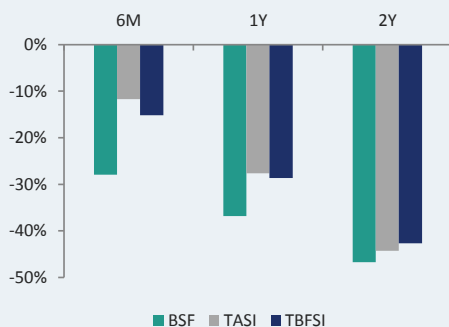
Price as on Oct-11, 2016	SAR 19.45
Upside to Target Price	38.8%
Expected Dividend Yield	5.1%
Expected Total Return	44.0%

Market Data

52 Week H/L	SAR 31.30/18.00
Market Capitalization	SAR 23,437 mln
Shares Outstanding	1,205 mln
Free Float	53.7%
12-Month ADTV	234,539

1-Year Price Performance


Source: Bloomberg



3Q2016E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,136	1,050
Total Op Income	1,616	1,589
Net Income	1,010	1,032
Loans & Advances	133,937	132,230
Deposits	147,277	143,876

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016E	2017E
Net Comm Inc	4,055	4,383	4,506
Prov for cred loss	181	585	648
Net Income	4,036	3,907	3,901
EPS (SAR)	3.35	3.24	3.24
DPS (SAR)	1.05	1.00	1.00

Key Financial Ratios

FY Dec31	2015A	2016E	2017E
NIM	2.2%	2.4%	2.4%
ROAE	15.0%	13.4%	12.1%
ROAA	2.2%	2.1%	2.0%
CAR	17.2%	17.4%	17.0%
P/E	5.8x	6.0x	6.0x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

** The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

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