

Rating
12- Month Target Price
Buy
SAR 35.00
BANQUE SAUDI FRANSI (BSF)

2Q2017 First Look

Deposit Growth Restored

Banque Saudi Fransi (BSF) appears to have booked slightly higher provisions for the second quarter as net income of SAR 1.01 billion missed our SAR 1.08 billion forecast as well as SAR 1.05 billion market consensus. NSCI is up +5% Q/Q on +3% higher special commission income while special commission expense was down -1%. Non-operating income is substantially lower Q/Q. However, deposits have jumped up by almost SAR 5.5 billion in the quarter. Net loans have not moved much resulting in a decline in LDR by 230bps over 1Q. BSF has been a preferred name in our banking coverage on business strength. We raise the target price from SAR 33.00 to SAR 35.00 and maintain a Buy recommendation.

NSCI up +5% Q/Q

While special commission income has grown +3% Q/Q despite almost flat net advances, implying higher asset yields; special commission expense is down -1% although deposits have increased handsomely pointing to declining cost of funds. Both these developments are positive for spreads resulting in net special commission income growing by +5% Q/Q to SAR 1.17 billion for the quarter. As rates are now on an upswing, we can expect a further widening of spreads for BSF going forward.

LDR declines to 76%

Deposits have surged by almost SAR 5.5 billion over the first quarter to SAR 164 billion. We believe most of the growth has come from NIBs in view of declining cost of funds. This follows an almost flat growth in 1Q. Net advances have also risen but by a minor SAR 300 million to SAR 129 billion. As a result, LDR has declined from 78.1% in 1Q to 75.8%, much below the 90% cap. As rates move up, the bank has the opportunity to take advantage with room to grow on the advances front.

Non-core income plummets -21% Q/Q

We are concerned with the -21% Q/Q drop in non-core income to SAR 463 million, lowest for over 2 years and likely a result of reduced fee-based, exchange and dividend income. Operating expense have risen +5% Q/Q to SAR 625 million versus our forecast of SAR 605 million. Provisions were reported at SAR 29 million in 1Q, we were expecting a rise to SAR 45 million this quarter. However, it appears the actual number came in north of SAR 50 million. Accruing above average provisions in an economic slowdown cannot be criticized.

Target price pushed up to SAR 35

Net income of SAR 1.01 billion, is down -4% Y/Y and -9% Q/Q missing our SAR 1.08 billion forecast on lower non-core income and higher opex. We raise our target price for BSF to SAR 35.00 from SAR 33.00. Trading at 0.9x 2017E P/B, the bank remains one of our picks in the banking sector on business strength.

Expected Total Return

Price as on Jul-24, 2017	SAR 31.26
Upside to Target Price	12.0%
Expected Dividend Yield	3.4%
Expected Total Return	15.3%

Market Data

52 Week H/L	SAR 33.20 /18.00
Market Capitalization	SAR 37,679 mln
Shares Outstanding	1,205 mln
Free Float	53.5%
12-Month ADTV	394,557
Bloomberg Code	BSFR AB

1-Year Price Performance


Source: Bloomberg



2Q2017E (SAR mln)	Actual	RC Forecast
Net Comm Income	1,167	1,147
Total Op Income	1,630	1,690
Net Income	1,005	1,084
Loans & Advances	129,383	130,382
Deposits	163,904	158,783

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	4,256	4,406	4,641
Prov for cred loss	768	393	240
Net Income	3,510	4,032	4,245
EPS (SAR)	2.91	3.34	3.52
DPS (SAR)	1.05	1.05	1.10

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.3%	2.2%	2.2%
ROAE	12.3%	12.8%	12.3%
ROAA	1.8%	2.0%	2.0%
CAR	17.8%	16.0%	16.1%
P/B	1.1x	0.9x	0.9x

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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