

Rating
12- Month Target Price

Buy
SAR 35.00

BANQUE SAUDI FRANSI (BSF)
3Q2017 First Look

Expected Total Return

Price as on Nov-01, 2017	SAR 28.50
Upside to Target Price	22.8%
Expected Dividend Yield	5.4%
Expected Total Return	28.2%

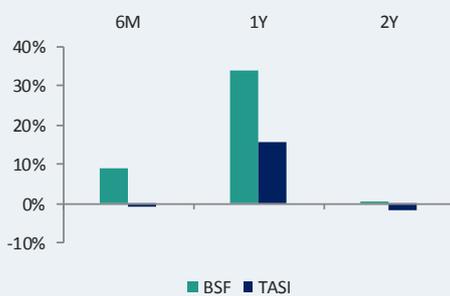
Market Data

52 Week H/L	SAR 33.40 /22.10
Market Capitalization	SAR 34,353 mln
Shares Outstanding	1,205 mln
Free Float	53.5%
12-Month ADTV	1,160,433
Bloomberg Code	BSFR AB

1-Year Price Performance



Source: Bloomberg



Deposits Plunge -8% Q/Q

Banque Saudi Fransi (BSF) posted 3Q results matching our expectations. Net income came in at SAR 1.0 billion, flat Q/Q but -1% down Y/Y. NSCI has grown +3% Q/Q to SAR 1.2 billion (matching our forecast) on the back of +2% higher special commission income as special commission expense was similar to last quarter. Non-core income continues its sequential steady drop and has now fallen to SAR 423 million, -9% Q/Q. Operating expenses are similar to last quarter indicating no major deviation in key line items. We are surprised by a SAR 8.4 billion (-5%) fall in deposits. Net loans have not moved much. Thus, LDR has increased by 380bps over 2Q. BSF was in the news lately due to the 16.2% shareholding transfer from Credit Agricole to Kingdom Holding at SAR 29.50 per share, sinking stock price. Maintain a Buy recommendation with a SAR 35.00 target.

Special commission income grows +2% Q/Q

Net special commission income has risen by +3% Q/Q to SAR 1.2 billion this quarter, same as our forecast, led by a +2% growth in special commission income while special commission expense has been flat. As net advances have marginally fallen by SAR 142 million, BSF has managed to increase asset yields although SAIBOR has been stable through the quarter. However, flat cost of funds when deposits have plummeted by -5% also implies higher rates offered.

LDR rises to 81%

We are taken aback by a substantial SAR 8.4 billion Q/Q decline in deposits to SAR 155 billion coming on the back of a SAR 5.5 billion Q/Q surge in 2Q. It is possible that the 3Q decline is due to some short term deposits which were added in 2Q and have been wound down. We note that deposit accumulation has historically been volatile. With flat net loans and a decline in deposits, LDR has predictably risen from 77.1% at 2Q-end to 80.9% now. While there is room before hitting the ceiling, we believe BSF needs to focus on reacquisition of lost deposits.

Non-core income falls further

We reiterate our concern over the sequential drop in non-core income, down a further -9% Q/Q to SAR 423 million. Although we understand that this is a sector-trend on falling fee-based income, some peers have managed to compensate the fall through higher investment income. Investments have grown by SAR 2.4 billion Q/Q but it does not appear to have had much impact. Operating expenses are flat Q/Q with nothing major to report.

Dividend yield attractive

Net income of SAR 1.0 billion, is -1% lower Y/Y but flat Q/Q and matches our SAR 1.0 billion estimates. A much higher interim DPS of SAR 1.05, raises hopes for a full year SAR 1.55 payout, yielding 5.4%. Trading at 1.1x 2017E P/B, we recommend a Buy.

3Q2017 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,207	1,194
Total Op Income	1,630	1,645
Net Income	1,001	1,006
Loans & Advances	128,948	130,509
Deposits	155,472	164,951

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	4,256	4,694	4,641
Prov for cred loss	768	221	195
Net Income	3,510	4,133	4,137
EPS (SAR)	2.91	3.43	3.43
DPS (SAR)	1.05	1.55	1.55

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.7%	2.3%	2.2%
ROAE	12.3%	13.3%	12.2%
ROAA	1.8%	2.0%	1.9%
CAR	17.8%	14.7%	14.6%
P/B	1.2x	1.1x	1.0x

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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