

Rating **Buy**  
 12- Month Target Price **SAR 35.00**

## BANQUE SAUDI FRANSI (BSF)

4Q2017 First Look

### Expected Total Return

Price as on Mar-05, 2018	SAR 28.01
Upside to Target Price	25.0%
Expected Dividend Yield	5.5%
Expected Total Return	30.5%

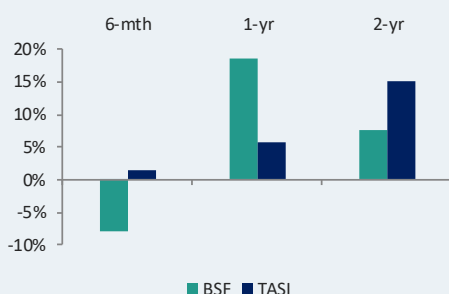
### Market Data

52 Week H/L	SAR 33.40 /22.75
Market Capitalization	SAR 33,762 mln
Shares Outstanding	1,205 mln
Free Float	53.5%
12-Month ADTV	1,126,875
Bloomberg Code	BSFR AB

### 1-Year Price Performance



Source: Bloomberg



4Q2017 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,214	1,191
Total Op Income	1,620	1,622
Net Income	423	976
Loans & Advances	121,940	130,238
Deposits	150,954	158,582

## Provisions surge in 4Q, Again

Banque Saudi Fransi delivered a negative surprise this quarter, posting a net profit of SAR 423 million (+13% Y/Y and -58% Q/Q), well below market consensus of SAR 926 million. The quarterly drop in profitability came mainly on the back of higher operating expenses and lower non-core income, despite higher NSCI. Provisions this quarter were a surprise, we expect it to be in the ball park SAR 600 million range. This follows a similar extraordinary charge taken in 4Q2016. Loans declined by SAR 7 billion Q/Q, outpacing the drop in deposits of SAR 4.5 billion, which led to a contraction in LDR. Investments were more or less flat, decreasing by just SAR 790 million. Trading at a 2018E P/B of 1.0x, we maintain our SAR 35.00 target price and Buy rating. However, we eagerly await detailed financials and management feedback on the cause of this extraordinary impairment charge.

### LDR drops to 79%

Loans followed the sector trend and dropped by SAR 7 billion to SAR 122 billion, while deposits fell by SAR 4.5 billion to reach SAR 151 billion. The decrease in special commission expense has led us to believe that the bank dropped some interest bearing deposits. Consequently, LDR declined and is now below 80%. Investment on the other hand were more or less flat, retreating by a meager SAR 790 million Q/Q to SAR 25 billion, despite the government Sukuk issuance during the quarter.

### NSCI up +19% Y/Y

Net special commission income (NSCI) was up +1% Q/Q and +19% Y/Y to SAR 1.21 billion, in line with our SAR 1.19 billion forecast. This resulted from a -26% Q/Q drop in special commission expense, while special commission income was down -7% Q/Q. On the other hand, non-core income declined by -24% Y/Y mainly due to a decrease in fee based income as well as most other heads. Thus, total income came in at SAR 1.62 billion, down -1% Q/Q but up +4% Y/Y, in line with our expectations.

### Provisions swell Q/Q

Operating expenses were slightly higher by +1% Y/Y but surged by +90% Q/Q to SAR 1.2 billion. The Q/Q increase was primarily due to higher impairment charge for credit losses. While we had anticipated normalized provisions, given no major default story in 4Q, they have likely come in the vicinity of SAR 600 million, slightly below SAR 636 million last year but substantially above 3Q17 levels.

### Net income miss

As a result of the substantial provisioning charge, net income missed both our forecast of SAR 976 million and market consensus of SAR 926 million, coming in at SAR 423 million, up +13% Y/Y but down -58% Q/Q. The stock offers a 25% upside to our SAR 35.00 target price. Trading at a 2018E P/B of 1.0x, we keep our Buy recommendation but will be looking at the cause of this rise in provisions to determine its sustainability.

### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Comm Inc	4,256	4,700*	4,641
Prov for cred loss	768	743	195
Net Income	3,510	3,532*	4,137
EPS (SAR)	2.91	2.94*	3.43
DPS (SAR)	1.05	1.40*	1.55

\*preliminary announced data

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.7%	2.4%	2.2%
ROAE	12.3%	13.3%	12.2%
ROAA	1.8%	2.0%	1.9%
CAR	17.8%	18.9%	19.2%
P/B	1.1x	1.0x	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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