

Banque Saudi Fransi

Higher impairments impacted the profitability

4Q20 Net profit misses our estimate

Banque Saudi Fransi reported an 81.8% YOY decline in Net profit of SAR94 mm in 4Q20, compared to a Net profit of SAR515 mm in 4Q19, missing our estimate of SAR233 mm. This was mainly due to the increase in higher impairment charge for credit losses and a decline in Funded income.

P&L highlights

Funded income decreased by 20.1% YOY to SAR1,425 mm in 4Q20 from SAR1,783 mm in 4Q19. Funded expense decreased by 70.9% YOY to SAR143 mm in 4Q20 from SAR492 mm in 4Q19. Therefore, the Net funded income decreased by 0.8% YOY to SAR1,281 mm in 4Q20 from SAR1,291 mm in 4Q19. Fees and commissions increased by 15.7% YOY to SAR324 mm in 4Q20 from SAR280 mm in 4Q19 and as a result, the Non-funded income increased by 19.6% YOY to SAR496 mm in 4Q20 from SAR414 mm in 4Q19. Operating income increased by 4.2% YOY to SAR1,777 mm in 4Q20 from SAR1,706 mm in 4Q19 primarily due to higher Non-funded income that consists of Fees and commissions income, Trading income and Exchange income. Operating expenses decreased by 2.1% YOY to SAR672 mm in 4Q20 from SAR686 mm in 4Q19. Impairment charges increased by 95.1% YOY to SAR872 mm in 4Q20 from SAR447 mm in 4Q19. Tax increased to SAR139 mm in 4Q20 from SAR58 mm in 4Q19.

Balance sheet highlights

Net advances increased by 3.8% YOY to SAR130.5 bn in 4Q20 from SAR125.7 bn in 4Q19 due to cheaper borrowings and lower interest rates. Customer deposits declined by 4.3% YOY to SAR127.1 bn in 4Q20 from SAR132.8 bn in 4Q19. Due to lower interest rates. Total equity rose majorly by 17.3% YOY to SAR38.6 bn due to the SAR5 bn Tier 1 Sukuk issuance.

Target price and rating

We maintain our HOLD rating on Banque Saudi Fransi with a revised target price of SAR29.10. Banque Saudi Fransi is a leading banking group in Saudi Arabia with their prime focus on local operations. 17.7% of BSF is foreign owned. Their aim is to become a modern and experience focused bank in the region. The bank's loans and Advances increased by 3.8% in 2020 driven primarily by a 54% increase in mortgages. This is due to the low interest rate environment. Further due to poor economic conditions caused by COVID-19 there has been an increase in overdrafts and commercial loans as well. Total assets have also increased due to significant investments showing a growth of 20% in 2020. This was increased holding in Saudi Government bonds. Liabilities grew by 7% due to an increase in interbank funding as well as SAMA's profit free funding. The NPL ratio has been fairly stable at 2.78% in 2020 with an increase of 14bps from 2019. The Cost of Risk has gone up to 2.07% an increase by 127bps. This is primarily due to the uncertainty caused by COVID-19 economic slowdown. The NPL coverage ratio stands at 125% in 2020 with an increase by 16.1%. Deposits declined in total. This is primarily due to a decline in interest bearing deposits due to lower interest rates, which was partly offset by an 18% growth in non-interest-bearing deposits. These account for 68% of the total deposits compared to 55% in 2019. The NIM for the banks stands at 3.00% in 2020 a decrease of 4ps YOY. Net interest in-

Rating : HOLD

First Look Note – 4Q20

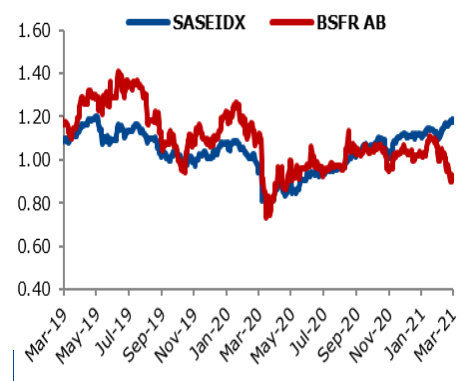
Sector: Banking

Recommendation

Current Price (4-Mar)	28.65
Target Price	29.10
Upside/Downside (%)	1.6%

Stock Information

Market Cap (SAR/mm)	34,292.41
Paid Up Capital (mm)	12,053.57
52 Week High	35.20
52 Week Low	22.34
3M Avg. daily value (SAR)	1,37,45,450



Dividend Yield (12month)	3.51
Dividend Payout	0.00
Price-Earning Ratio	22.08
Price-to-Book Ratio	1.01
Book Value	28.05
Return-on Equity	4.64
Earning Per Share	1.29
Beta	1.18

Stock Performance

5 Days	1.97%
1 Months	-7.78%
3 Months	-11.65%
6 Months	-12.46%
1 Year	-17.89%
Month to Date (MTD%)	-2.08%
Quarter to Date (QTD%)	-10.76%
Year to Date (YTD%)	-10.76%

come grew by 1% in 2020 as there was a 15% decline in interest income and a 51.7% decrease in funding cost. Net commission and fees declined by 5% YOY due to lower trade finance activity and COVID-19 related waiver fees. Non-interest income increased by 8% from improved exchange trading and other income. ROAA for the bank is 0.8% compared to 1.67, primarily due to lower profits in 2020. Similarly ROAE dropped from 9.66% to 4.47% in 2020. Cost to income ratio for the bank stood at 33.6% in 2020 compared to 33.3% in 2019. The net profit margin (NPM) in 2020 was 24.6% compared to 42.4% in 2019. This was primarily due to an increase in impairment charges. Total capital increased by 18% YOY during 2020. One of the reasons being Tier 1 sukuk issuances. The Capital Adequacy Ratio was at 21.56% and Tier 1 ratio was 20.56%. The leverage ratio of the bank remains at 16.5% in 2020 compared to 15.3% in 2019. BSFR proposed dividends with respect to 2019 is SAR1.00 per share. For 2020, the BOD recommended dividends of SAR0.40 per share. BSFR is rated BBB+ by Standard & Poor's stable & A1 by Moody's negative. The stock is trading at a P/B multiple of 1.01x. Therefore, we maintain our HOLD rating on the stock.

BSFR - Relative Valuation

(At CMP)	2016	2017	2018	2019	2020
P/E	9.8	9.7	24.5	11.0	23.1
P/B	1.2	1.1	1.1	1.0	1.0
Dividend yield	3.7%	4.9%	5.9%	7.0%	1.4%

FABS estimate & Co data
BSFR - P&L

SAR mm	4Q19	3Q20	4Q20	4Q20F	VAR	YOY Ch	QOQ Ch	2019	2020	YOY Ch
Funded income	1,783	1,569	1,425	1,607	-11.3%	-20.1%	-9%	7,370	6,285	-14.7%
Funded expense	-492	-194	-143	-209	-31.4%	-70.9%	-26%	-2,164	-1,044	-51.7%
Net funded income	1,291	1,375	1,281	1,398	-8.4%	-0.8%	-7%	5,206	5,240	0.7%
Fees and commissions	280	250	324	273	18.7%	15.7%	30%	1,140	1,082	-5.1%
Trading gain/(loss)	16	26	61	39	59.2%	NM	139%	92	168	82.2%
Other non-funded income	118	100	110	94	16.7%	-7.1%	10%	435	555	27.4%
Non-funded income	414	376	496	406	22.1%	19.6%	32%	1,667	1,804	8.2%
Operating income	1,706	1,751	1,777	1,804	-1.5%	4.2%	1.5%	6,873	7,045	2.5%
Operating expenses	-686	-576	-672	-669	0.5%	-2.1%	16.6%	-2,287	-2,364	3.4%
Pre-provision profit	1,020	1,175	1,105	1,135	-2.7%	8.4%	-5.9%	4,585	4,681	2.1%
Impairment	-447	-751	-872	-837	4.1%	95.1%	16.2%	-966	-2,670	NM
PBT	573	424	233	298	-21.8%	-59.3%	-45.0%	3,619	2,010	-44.5%
Tax	-58	-90	-139	-65	NM	NM	54.2%	-504	-464	-8.0%
Net profit attributable	515	333	94	233	-59.8%	-81.8%	-71.9%	3,115	1,546	-50.4%

FABS estimate & Co data
BSFR - Key B/S items

SAR mm	4Q19	1Q20	2Q20	3Q20	4Q20	YOY Ch	2019	2020	YOY Ch
Net advances	125,725	134,882	135,749	134,356	130,565	3.8%	125,725	130,565	3.8%
QOQ change	1.85%	7.28%	0.64%	-1.03%	-2.82%				
Total assets	178,149	199,178	201,953	197,445	194,074	8.9%	178,149	194,074	8.9%
QOQ change	-4.41%	11.80%	1.39%	-2.23%	-1.71%				
Customer deposits	132,838	146,772	138,046	135,655	127,112	-4.3%	132,838	127,112	-4.3%
QOQ change	-6.39%	10.49%	-5.95%	-1.73%	-6.30%				
Total equity	32,947	33,945	33,677	33,683	38,636	17.3%	32,947	39,116	18.7%
QOQ change	1.03%	3.03%	-0.79%	0.02%	14.71%				

FABS estimate & Co data

BSFR - KPI

	4Q19	1Q20	2Q20	3Q20	4Q20	YOY Ch	QOQ Ch	2019	2020	YOY Ch
P&L KPI										
Net FI/OI	75.7%	73.3%	73.7%	78.5%	72.1%	-360	-644	75.7%	74.4%	-136
NIM	3.0%	2.9%	2.8%	2.8%	5.0%	200	219	3.0%	5.0%	200
NIS	2.7%	2.7%	2.6%	2.6%	4.7%	201	206	2.7%	4.7%	201
Fees & comms/OI	16.4%	16.2%	12.7%	14.3%	18.3%	181	399	16.6%	15.4%	-122
Trading/OI	0.9%	-0.3%	4.9%	1.5%	3.5%	254	199	1.3%	2.4%	104
Cost to income	40.2%	31.8%	31.6%	32.9%	37.8%	-241	489	33.3%	33.6%	28
Impairment/PPP	43.8%	33.2%	54.1%	63.9%	78.9%	3,507	1,498	21.1%	57.1%	NM
NP/OI	30.2%	38.8%	24.8%	19.0%	5.3%	-2,489	-1,376	45.3%	21.9%	NM
ROAE	9.5%	8.6%	7.4%	5.8%	4.6%	-491	-125	5.8%	5.0%	-83
ROAA	1.7%	1.5%	1.3%	1.0%	0.8%	-92	-20	1.0%	0.9%	-12

FABS estimate & Co data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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