

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

## BANQUE SAUDI FRANSI (BSF)

1Q2019 First Look

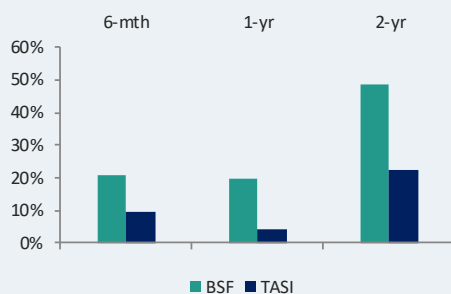
### Expected Total Return

Price as on May-14, 2019	SAR 38.80
Upside to Target Price	(9.8%)
Expected Dividend Yield	4.8%
Expected Total Return	(5.0%)

### Market Data

52 Week H/L	SAR 41.20/27.20
Market Capitalization	SAR 46,768 mln
Shares Outstanding	1,205 mln
Free Float	53.1%
12-Month ADTV	649,931
Bloomberg Code	BSFR AB

### 1-Year Price Performance



1Q2019 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,273	1,290
Total Op Income	1,723	1,715
Net Income	1,126	999
Loans & Advances	121,274	121,941
Deposits	144,820	149,041

## Opex Improvement Support Profits

Contrary to 4Q18, Banque Saudi Fransi delivered a positive surprise this quarter, posting a net profit of SAR 1.13 billion (+1% Y/Y, +319% Q/Q), surpassing both our and street's expectations of SAR 999 million and SAR 991 million respectively. The deviation was primarily due to the drop in opex Y/Y and Q/Q, though provisions for credit losses increased by +61% Y/Y but fell Q/Q to SAR 144 million compared to SAR 567 million in 4Q18. NSCI improved marginally on the back of a slight increase in loans and a decline in time deposits during the quarter, amid high interest rates. Non-core income decreased -8% on an annual basis but increased by +1% Q/Q. BSF added SAR 5.3 billion in investments and SAR 642 million in loans, while deposits slumped by SAR 3.5 billion. Thus, LDR climbed to 83%. We maintain a Neutral stance with a SAR 35.00 target.

### LDR rises to 83%

Net loans increased slightly over the quarter by SAR 642 million, remaining at SAR 121 billion, in-line with our forecast. Deposits, however, followed the general sector trend and dropped by -2% Q/Q (SAR 3.5 billion) to reach SAR 145 billion, whereas we expected a minor increase. Most of the drop came from time deposits, falling by SAR 7.2 billion, offset by an increase of SAR 3.4 billion in demand deposits. Due to the dual effect of the fall in deposits and the marginal rise in loans, LDR increased from 80% last quarter to 83% in 1Q. On the other hand, investments jumped by SAR 5.3 billion (+19% Q/Q) to SAR 34 billion, also following the sector trend.

### NSCI is stable

Special commission expense surged +63% Y/Y but retreated -2% Q/Q to SAR 573 million. The annual rise is mostly due to the addition of SAR 10.3 billion in time deposits over 1Q18, while the quarterly decline is likely attributed to time deposits easing Q/Q. Special commission income rose +15% Y/Y and +1% Q/Q to SAR 1.85 billion. As a result, net special commission income (NSCI) went up +1% Y/Y and +2% Q/Q to SAR 1.27 billion, in line with our SAR 1.29 billion forecast.

### Operating expenses improve

Most non-core income items improved Y/Y, however, it declined by -8% Y/Y mainly due to the exceptional gain of SAR 97 million on partial sale of Allianz Saudi Fransi recognized in 1Q18, to reach SAR 450 million, better than our estimate. Total operating income came in at SAR 1.72 billion, down -1% Y/Y but +2% Q/Q, matching our estimate. Operating expenses came down -6% Y/Y and -58% Q/Q to SAR 596 million due to a decline in salary expenses, rent expenses and other operating expenses in addition to an increase in reversal of impairment charge for investments and other financial assets. Impairment charge for credit losses, however, went up +61% Y/Y but down -75% Q/Q after last quarter's jump, to reach SAR 144 million.

### Bottom-line beats expectations

Due to lower than expected opex, net income beat both our forecast of SAR 999 million and market consensus of SAR 991 million, coming in at SAR 1.13 billion, up +1% Y/Y and +319% Q/Q. The massive Q/Q drop in impairment charges has been the major determinant for the quarterly spike. The stock trades at a 2019E P/B of 1.4x and offers an expected dividend yield of almost 5%. We maintain our target price and Neutral stance on the stock.

### Key Financial Figures

FY Dec31 (SAR mln)	2018A	2019E	2020E
Net Comm Inc	5,017	5,129	5,275
Prov for cred loss	910	827	728
Net Income	3,307	3,686	4,006
EPS (SAR)	2.74	3.06	3.32
DPS (SAR)	1.70	1.85	1.90

### Key Financial Ratios

FY Dec31	2018A	2019E	2020E
NIM	2.7%	2.8%	2.8%
ROAE	10.6%	11.7%	12.2%
ROAA	1.7%	1.9%	2.1%
CAR	19.8%	20.5%	20.8%
P/B	1.5x	1.4x	1.4x

## 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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