

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

**BANQUE SAUDI FRANSI (BSF)**  
4Q2018 First Look

#### Expected Total Return

Price as on Feb-04, 2019	SAR 35.60
Upside to Target Price	(1.7%)
Expected Dividend Yield	5.2%
Expected Total Return	3.5%

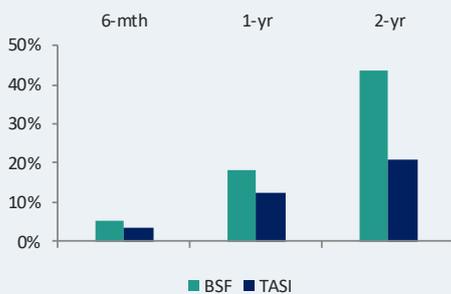
#### Market Data

52 Week H/L	SAR 38.70/27.20
Market Capitalization	SAR 42,911 mln
Shares Outstanding	1,205 mln
Free Float	53.1%
12-Month ADTV	395,241
Bloomberg Code	BSFR AB

#### 1-Year Price Performance



Source: Bloomberg



4Q2018 (SAR mln)	Actual	RC Forecast
Net Comm Income	1,247	1,299
Total Op Income	1,693	1,902
Net Income	269	767
Loans & Advances	120,632	122,931
Deposits	148,368	145,218

## Provisions Led Disappointment

Banque Saudi Fransi delivered a negative surprise this quarter, posting a net profit of SAR 269 million (-36% Y/Y, -73% Q/Q), well below market consensus of SAR 810 million. The deviation was primarily due to the significant rise in opex, specifically record provisions. NSCI components increased on the back of high interest rates, leading NSCI to grow by +3% Y/Y but fall -1% Q/Q, while non-core income improved on an annual and quarterly basis. Loans fell by SAR 3.1 billion Q/Q, while deposits improved by SAR 1.7 billion. Thus, LDR declined to 80%. We maintain a Neutral recommendation with a SAR 35.00 target for now. However, we eagerly await detailed financials and management feedback on the cause of this extraordinary impairment.

### LDR drops to 80%

Loans followed the general sector trend during the quarter and dropped by SAR 3.1 billion Q/Q to SAR 121 billion, taking BSF's net drop in loans for the year to SAR 1 billion; against the sector trend, which added SAR 39 billion during 2018. Deposits increased by SAR 1.7 billion to reach SAR 148 billion. In 3Q, it was evident that the bank was inclined towards adding time deposits; however, we await full financials for this quarter's scenario. Due to the dual effect of falling loans and rising deposits, LDR declined from 83% in 3Q to 80%. Investment retreated by SAR 1.1 billion Q/Q to SAR 28 billion.

### NSCI up +3% Y/Y

Special commission expense surged +55% Y/Y and +12% Q/Q to SAR 585 million, which could be attributed to the rise in time deposits the previous quarter, amid increasing interest rates. Special commission income went up +15% Y/Y and +3% Q/Q to SAR 1.83 billion (matching our forecast), despite the fall in loans, suggesting higher yields. Consequently, net special commission income has risen by +3% Y/Y to SAR 1.25 billion but declined -1% Q/Q, in-line with our forecast.

### Extraordinary surge in operating expenses

Non-core income increased +10% Y/Y and +2% Q/Q in 4Q to SAR 446 million, but well below our SAR 603 million estimate. Total operating income came in at SAR 1.69 billion, up +5% Y/Y but flat Q/Q, below our expectations. Operating expenses were a blow to financials at SAR 1.42 billion, soaring +19% Y/Y and +106% Q/Q, and +25% higher than our SAR 1.14 billion estimate. The massive spike in provisions by +70% Y/Y and +609% Q/Q to SAR 878 million compared to our forecast of SAR 475 million was the major cause for surging opex.

### Net income substantially trails estimates

Thanks to the massive provisioning charge, net income missed both our forecast of SAR 767 million and market consensus of SAR 810 million, coming in at just SAR 269 million, down -36% Y/Y and -73% Q/Q. 4Q bottomline was disappointing, especially after exceeding SAR 1.0 billion last quarter. We await management feedback to know the sustainability of high provisions, which will affect our forecasts going forward. The stock trades at a 2019E P/B of 1.3x and close to our SAR 35.00 target. We maintain our Neutral stance on the stock and expect weak investor sentiment in the short term.

#### Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Comm Inc	4,700	5,017*	5,104
Prov for cred loss	661	1,222	1,096
Net Income	3,532	3,307*	3,354
EPS (SAR)	2.93	2.74*	2.78
DPS (SAR)	1.24	1.70*	1.85

\*preliminary announced data

#### Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	2.4%	2.7%	2.7%
ROAE	11.5%	10.6%	10.6%
ROAA	1.8%	1.7%	1.7%
CAR	19.4%	19.5%	20.0%
P/B	1.4x	1.4x	1.3x

## 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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