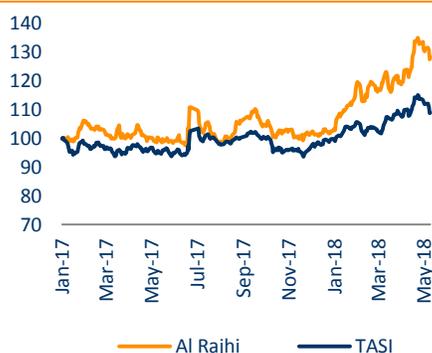


**1Q 2018 Results Update**
**May 14, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	81.9
Target Price (SAR)	79.5
Upside/Downside (%)	(2.9%)
<i>As of May 13<sup>th</sup> 2018</i>	

**Key Data (Source: Bloomberg)**

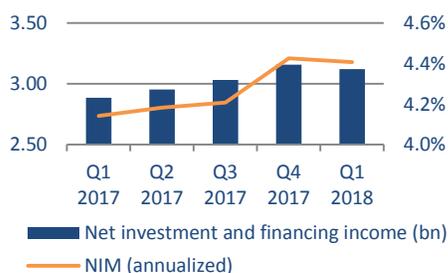
Market Cap (SAR bn)	133.1
52 Wk High (SAR)	85.60
52 Wk Low (SAR)	61.00
Total Outstanding shares (in mn)	1,625
Free Float (%)	86.8%

**Al Rajhi vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	4.6%	5.4%
6m	27.1%	13.8%
12m	27.8%	14.0%

**Major Shareholders (%)**

General Organization for Social Insurance	10.19
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**Net investment and financing income (SAR bn) and NIM (annualized)**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 13<sup>th</sup> May 2018

**1Q18 results in-line with our expectations**

Al Rajhi Bank reported strong 1Q18 with an increase of 7.5% YoY in operating income, driven by growth in net financing and investment income, which was partially offset by increase in the operating expenses. Besides, the impairment charge for financing moved up (21% YoY), resulting in a 7.3% YoY growth in the adjusted net income to SAR 2,382mn. Healthy net income further enhanced its superior ROE profile to 18.9% in 1Q18 (1Q17: 17.3%) on an annualized basis, supporting the bank's premium valuation to the peer group. Moreover, Al Rajhi's deposit franchise continues to remain strong at SAR 284bn (+4.7% YoY).

During the quarter, Saudi Arabian Monetary Authority (SAMA) pro-actively raised its repo rate for the first time since 2009 ahead of Fed rate hike. Yet another spell of Fed rate hikes (expected 2-3 times in 2018), would further raise KSA's interest rates, thereby impacting the demand for funds. However, Al Rajhi's focus on retail banking makes it less delicate to higher interest rates. In 2018, the management foresees stronger loan growth, with a prime focus on retail mortgages, auto loans and renewable energy. Given the countervailing factors, we remain 'Neutral' on the stock.

- The bank recorded a 7.0% YoY growth in gross financing and investing income to SAR3,237 mn in 1Q18. Al Rajhi's loans and advances remain flat YoY at SAR 229bn in 1Q18, down slightly from SAR 233bn in 4Q17. Consequently, the bank's net interest margins (NIM) improved from 4.1% a year ago to 4.4% in 1Q18.
- During the quarter, the total operating income rose 7.5% YoY to SAR4, 142mn owing to increase in fees and commissions from banking services (SAR114mn). However, the total operating expenses (excluding impairment charge for financing) rose 3.9% YoY, primarily driven by higher general and administrative expenses, while the salaries and employee related expenses declined 4.6% YoY.
- In 1Q18, the customer deposits rose 4.7% YoY to SAR 284bn. The deposits grew at a much faster pace than loans growth, thereby impacting the loan to deposit ratio, which dropped from 84.6% in 1Q17 to 76.7% in 1Q18.
- The investments surged by 57.6% YoY to SAR 40.8bn, which led to increase in total assets by 3.6% YoY to SAR349bn.
- The bank is a leading global shariah-compliant bank with a strong free float. In addition to its robust liquidity position, the bank's asset quality remained strong with an NPL ratio of 0.7% in 1Q18 (down from 1.0% in 1Q17); the asset quality is expected to remain strong going forward.
- The dividend pay-out is expected to remain stable, driven by the bank's strong earnings growth and sound capital buffers. Al Rajhi's CAR improved slightly to 21.5% in 1Q 2018 versus SAR 21.2% in 1Q17.
- Al Rajhi continues to trade at a 63% premium to peers median and 40% premium to TASI at a 1-year forward P/B of 2.4x. Besides, the stock price has run-up by 13% in the past 3-months leaving little headroom for a significant upside.

**Valuation:** We have revised our target price upwards with a fair value of SAR 79.5 per share, in-line with current share price run-up and incorporating the strong 1Q18 performance. We maintain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	3.1	2.9	8.2%	13.0	12.0	7.9%
Operating income (SAR bn)	4.1	3.9	7.5%	17.1	15.9	7.6%
EPS (SAR)	1.5	1.4	7.3%	6.1	5.6	8.4%
Net Interest Margin (%)	4.4%	4.1%	0.3%	4.5%	4.2%	0.2%
Cost to income (%)	31.6%	32.7%	-1.1%	32.6%	32.9%	-0.3%
RoE (%)	18.9%	17.3%	1.6%	17.2%	16.9%	0.3%
Total Assets (SAR bn)	349.2	337.2	3.6%	365.1	343.1	6.4%
Financing, net (SAR bn)	229.0	229.4	-0.2%	248.4	233.5	6.4%
Customer Deposits(SAR bn)	283.9	271.3	4.7%	290.4	273.1	6.4%

Source: Company Financials, FALCOM Research

## FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by 10%.

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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