

1Q19 Results Update

May 8, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	71.5
Target Price (SAR)	73.9
Upside/Downside (%)	3.3%

As of 7th May 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	178.8
52 Wk High (SAR)	76.9
52 Wk Low (SAR)	50.9
Total Outstanding shares (in mn)	2,500
Free Float (%)	85.8%

Al Rajhi vs. TASI (Rebased)

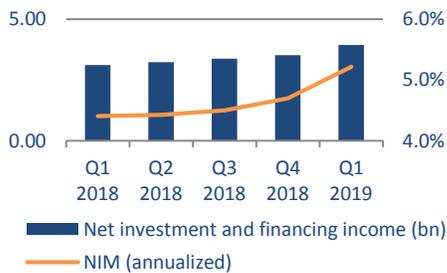


Price Performance (%)	Absolute	Relative
1m	5.2%	0.7%
6m	32.2%	13.7%
12m	41.1%	25.8%

Major Shareholders (%)

General Organization for Social Insurance	5.86
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Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 7th May 2019

Al Rajhi posts robust 1Q19 earnings, marginally beats consensus estimates

Al Rajhi Bank's net income grew 21.2% YoY to SAR 2.9bn in 1Q19, led by higher operating income and controlled expenses. The total operating income increased 12.0% YoY to SAR 4.6bn on growth in net financing and investment income; however, the impact on the total operating income was limited due to decline in fees from banking services, exchange income, and other operating income. Impairment charges declined 13.5% YoY to SAR 389mn. On an annual basis, growth in customer deposits marginally outpaced an increase in net financing. Investments improved 12% YoY to SAR 45.6bn.

Last year, the Saudi Arabian Monetary Authority (SAMA) raised its repo rate four times, in line with the Fed rate hikes, bringing the rate up to 3.0%. These rate hikes may boost deposit growth, but may simultaneously limit credit demand in the upcoming year. However, Al Rajhi Bank's low loan to deposit ratio and high asset quality provides the bank sufficient room for portfolio expansion. Given the countervailing arguments, we retain our 'Neutral' rating on the stock.

- Gross financing and investment income improved 26.2% YoY to SAR 4.0bn, and cost of funds (returns on time investment by customers, banks, and financial institutions) 22.5% YoY to SAR 142mn. Consequently, net financing and investment income rose 26.4% YoY to SAR 3.9bn and net interest margin increased to 5.2% in 1Q19 from 4.4% in 1Q18.
- Total operating income advanced 12.0% YoY to SAR 4.6bn, primarily driven by higher net financing and investment income, which offset decline in fees from banking services (down 39.0% YoY to SAR 472.7mn), exchange income (down 7.8% YoY to SAR 173.6mn), and other operating income (down 15.5% YoY to SAR 48.7mn).
- Operating expense, excluding impairment charges, increased 4.2% YoY to SAR 1.4bn, primarily due to higher general and administrative expenses (up 12.7% YoY to SAR 503.1mn).
- The cost-to-income ratio improved to 29.4% in 1Q19 from 31.6% in 1Q18 and 31.1% in 4Q18. Furthermore, net impairment charges for financing declined 13.5% YoY to SAR 389.4mn, resulting in 21.1% growth in net income to SAR 2.9bn.
- Customer deposits increased 3.4% YoY to SAR 293.5bn and net financing 3.2% YoY to SAR 236.4bn. Consequently, the loan-to-deposit ratio edged down to 80.6% in 1Q19 from 80.7% in 1Q18. Investments rose 12.0% YoY to SAR 45.6bn during the year. The bank's asset quality remained strong, with a gross NPL ratio of 0.9% in 1Q19, compared with 0.7% in 1Q18.
- Al Rajhi's shareholders approved a 53.8% capital hike to SAR 25bn, from SAR 16.25 billion, during an extraordinary general assembly meeting held on April 3. The number of shares was increased to 2.5bn from 1.625bn. The move is expected to boost the bank's resources and drive growth.
- Shareholders also approved a 22.5% cash dividend at SAR 2.25 per share, amounting to SAR 3.7bn for its 1.625bn shareholders.

Valuation: We revise our target price to a fair value of SAR 73.9 per share based on a share count of 2.5bn. We reiterate our "Neutral" rating on the stock.

	1Q19	1Q18	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR bn)	3.9	3.1	26.4%	14.9	13.3	12.5%
Operating income (SAR bn)	4.6	4.1	12.0%	19.2	17.3	10.9%
EPS (SAR)	1.8	1.5	21.1%	7.2	6.3	14.0%
Net Interest Margin (%)	5.2%	4.4%	0.8%	4.7%	4.5%	0.2%
Cost to income (%)	29.4%	31.6%	-2.2%	30.8%	31.7%	-0.9%
RoE (%)	23.1%	17.9%	5.2%	23.0%	19.7%	3.3%
Total Assets (SAR bn)	363.3	349.2	4.0%	370.4	364.3	1.7%
Financing, net (SAR bn)	236.4	229.0	3.2%	246.2	233.3	5.5%
Customer Deposits(SAR bn)	293.5	283.9	3.4%	293.1	293.9	-0.3%

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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