

1Q20 Results Update

June 10, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.9
Target Price (SAR)	59.7
Upside/Downside (%)	1.4%
<i>As of 08th June 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	147.3
52 Wk High (SAR)	73.2
52 Wk Low (SAR)	51.0
Total Outstanding shares (in mn)	2,500
Free Float (%)	91.5%

Al Rajhi vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	2.1%	(0.3%)
6m	(6.7%)	0.3%
12m	(15.1%)	(0.7%)

Major Shareholders (%)

General Organization for Social Insurance	5.9%
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Source: Bloomberg, Company Financials, FALCOM Research; Data as of 8th June 2020

Al Rajhi's net profit shrinks in 1Q20 due to high operating expenses

Al Rajhi Bank's net income narrowed 7.3% YoY to SAR 2.4bn compared with SAR 2.6bn in 1Q19 due to a sharp rise of almost 15.7% in operating expenses during the comparable period. The company's gross financing and investment income grew 4.1% to SAR 4.3bn. Overall operating income was up 7.1% YoY to SAR 5.0bn owing to a sharp rise in banking service charges and exchange income that offset the drop in other operating income. Pre-provision profit expanded 3.4% YoY to SAR 3.3bn. However, due to a spike in impairment charges for net financing, the company's net income for the period shrank. Al Rajhi's loan book growth at 11.3% YoY outpaced the rise in customer deposits at 7.5% YoY during the comparable period, thereby taking the loan to deposit ratio to 82.8% from 80.0% a year ago.

Following an impressive performance in 2019, the bank reported shrinkage in net profit due to increased operating expenses and impairment charges in 1Q20. The economic challenges posed by the COVID-19 situation globally has made it difficult to assess the impact on the overall business performance. However, the company's financial soundness indicators remain strong and the government support to the private sector is expected to limit the financial impact on the business sectors. The S&P ratings indicate that Saudi banks have enough capital to absorb the economic stress despite impact on net margins. According to Fitch, continued economic disruptions may lead to poorer asset quality that may pressurize the company's profitability. The government has taken several measures to boost liquidity with an infusion of SAR 50bn into the country's banking sector to improve its lending capacity. However, in view of the uncertain economic conditions, we retain our "Neutral" rating on the stock.

- Gross financing and investment income grew 4.1% YoY to SAR 4.3bn, whereas cost of funds (returns on time investment by customers, banks, and financial institutions) was down (0.2%) YoY to SAR 142.4mn. As a result, net financing and investment income grew 4.2% YoY to SAR 4.1bn.
- Total operating income jumped 7.1% YoY to SAR 5.0bn, primarily driven by higher net financing and investment income, an increase in net fees from banking services (up 30.7% YoY to SAR 617.7mn), and net exchange income (up 19.5% YoY to SAR 207.4mn), which offset the 34.4% YoY drop in other operating income to SAR 32mn.
- Operating expenses, excluding impairment charges, increased 15.7% YoY to SAR 1.6bn due to a sharp rise in depreciation and amortization (up 29.1% YoY to SAR 275.4mn) and higher general and administrative expenses (up 21.7% to SAR 612.2mn).
- The cost-to-income ratio increased to 32.6% in 1Q20 from 30.2% in 1Q19. Furthermore, net impairment charges for net financing rose 77.9% YoY to SAR 692.8mn.
- Customer deposits increased 7.5% YoY to SAR 315.7bn and net financing was up 11.3% YoY to SAR 261.4bn. The loan-to-deposit ratio was 82.8% against 80.0% in 1Q19 and 79.9% in 4Q19.

Valuation: We revise our target price to a fair value of SAR 59.7 per share. We maintain our "Neutral" rating on the stock.

	1Q20	1Q19	% YoY	FY20E	FY19	% YoY
Net financing and investment income (SAR bn)	4.1	3.9	4.2%	16.0	16.4	(2.7%)
Operating income (SAR bn)	5.0	4.6	7.1%	19.3	19.5	(1.0%)
EPS (SAR)	0.95	1.03	(7.3%)	5.7	6.3	(9.3%)
Net Interest Margin (%)	4.9%	5.2%	(0.3%)	4.9%	5.2%	(0.3%)
Cost to income (%)	32.6%	30.2%	2.4%	33.8%	32.8%	1.1%
RoE (%)	18.9%	20.7%	(1.8%)	17.7%	20.4%	(2.7%)
Total Assets (SAR bn)	391.9	363.1	7.9%	372.2	384.1	(3.1%)
Financing, net (SAR bn)	261.4	234.8	11.3%	246.7	249.7	(1.2%)
Customer Deposits (SAR bn)	315.7	293.5	7.5%	297.3	312.4	(4.9%)

Source: Company Financials, FALCOM Research

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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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