3Q20 Results Update

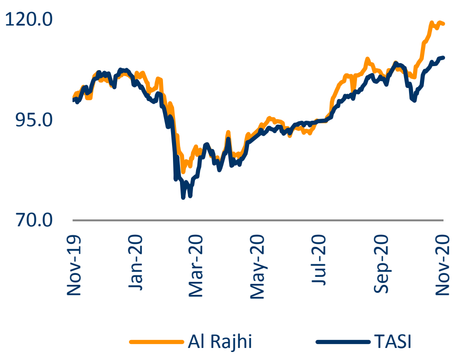
December 30, 2020

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	74.0
Target Price (SAR)	69.0
Upside/Downside (%)	(6.8%)

As of November 29, 2020

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	185.0
52-Wk High (SAR)	74.5
52-Wk Low (SAR)	51.0
Total Outstanding Shares (in mn)	2,500
Free Float (%)	91.8%

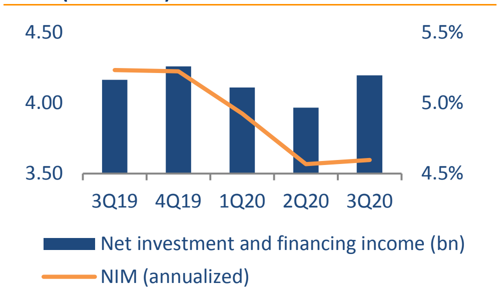
Al Rajhi vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	12.5%	2.3%
6m	31.7%	8.2%
12m	19.0%	8.4%

Major Shareholders (%)	
General Organization for Social Insurance	5.86%

Net Investment and Financing Income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 29, 2020

Al Rajhi's balance sheet remains robust in 3Q20 amid strong growth in loans and deposits

Al Rajhi Bank's net income contracted 3.0% YoY to SAR 2.7bn in 3Q20 primarily due to higher impairment charge and operating expenses. The bank's net financing and investment income increased 0.8% YoY to SAR 4.2bn during the quarter on account of lower funding costs. Total operating income rose 3.4% YoY to SAR 5.2bn, whereas total operating expense firmed up 8.0% YoY to SAR 1.7bn. This resulted in the widening of the cost-to-income ratio to 33.5% in 3Q20. However, Al Rajhi's balance sheet remained strong in 3Q20, as growth in loans (+18.5% YoY) outperformed that in customer deposits (+15.6% YoY).

Al Rajhi's financing assets and customer deposits continued to grow steadily during the quarter despite the prevalent economic slowdown due to the COVID-19 pandemic. Loan book growth was primarily supported by the retail financing segment's (up 25.7% YoY) performance, which was driven mainly by growth in mortgage financing. The bank's healthy retail portfolio allowed it to limit its NPL ratio at 0.84% and NPL coverage ratio at 293.0% in 3Q20. However, a low interest rate environment and higher provisions for impairment may put pressure on the bottom line. Growing infection cases and rising probability of additional lockdowns may hamper business sentiment and result in a decline in consumer spending; this may create economic headwinds for Saudi banks. Considering these factors, we continue to maintain our "Neutral" rating on the stock.

- Net financing and investment income increased 0.8% YoY to SAR 4.2bn in 3Q20, supported by a 27.3% YoY drop in cost of funds (returns on time investment by customers, banks, and financial institutions) to SAR 85.9mn.
- Operating income rose 3.4% YoY to SAR 5.2bn, as higher fees from banking services and other operating income counterbalanced the dip in the net exchange income.
- Total operating expense firmed up 8.0% YoY to SAR 1.7bn in 3Q20 owing to the rise in general and administrative costs and salary expenses, which offset the decline in depreciation expense. Subsequently, the bank's cost-to-income ratio slipped to 33.5% from 32.0% in 3Q19.
- Higher impairment charge offset the decline in zakat expense and resulted in a 3.0% YoY fall in the bank's net income to SAR 2.7bn in 3Q20.
- The bank's total assets grew 16.8% YoY to SAR 430.3bn. Net financing increased 18.5% YoY to SAR 289.7bn, whereas customer deposits grew 15.6% YoY to SAR 345.3bn. However, the bank's loan-to-deposit ratio stood at 79.9% against 81.4% in 3Q19.
- Return on equity decreased to 19.9% in 3Q20 from 22.1% in 3Q19; return on assets fell to 2.5% in 3Q20 as against 3.0% during the same period last year.
- Al Rajhi's capital adequacy ratio declined to 19.3% in 3Q20 compared with 19.5% in 3Q19. Additionally, its Tier I capital ratio contracted to 18.2% from 18.5% in 3Q19.
- The bank's NPL ratio stood at 0.84% in 3Q20 as against 0.94% in 3Q19 and 1.02% in 2Q20.

Valuation: We revise our target price to a fair value of SAR 69.0 per share. We maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Net financing and investment income (SAR bn)	4.2	4.2	0.8%	16.7	16.4	1.4%
Operating income (SAR bn)	5.2	5.0	3.4%	20.2	19.5	3.7%
EPS (SAR)	1.06	1.10	(3.0%)	6.21	6.25	(0.7%)
Net Interest Margin (%)	4.6%	5.2%	(0.6%)	4.8%	5.2%	(0.4%)
Cost to income (%)	33.5%	32.0%	1.4%	33.7%	32.8%	0.9%
RoE (%)	19.9%	22.1%	(2.2%)	19.2%	20.4%	(1.2%)
Total Assets (SAR bn)	430.3	368.3	16.8%	429.9	384.1	11.9%
Financing, net (SAR bn)	289.7	244.6	18.5%	290.0	249.7	16.1%
Customer Deposits (SAR bn)	345.3	298.8	15.6%	353.6	312.4	13.2%

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 ≥ 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 ≥ 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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