

FY20 Results Update

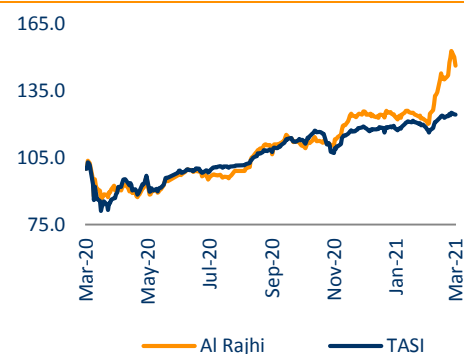
March 02, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	87.1
Target Price (SAR)	85.0
Upside/Downside (%)	(2.5%)
<i>As of March 01, 2021</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	217.8
52-Wk High (SAR)	92.0
52-Wk Low (SAR)	51.0
Total Outstanding Shares (in mn)	2,500
Free Float (%)	92.0%

Al Rajhi vs. TASI (Rebased)

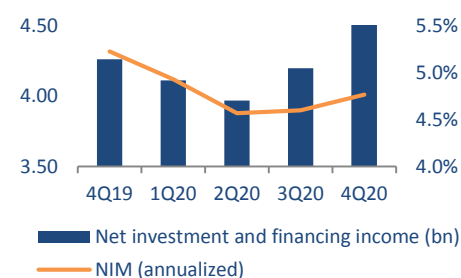


Price Performance (%)	Absolute	Relative
1m	21.0%	15.3%
6m	37.4%	21.7%
12m	46.4%	22.0%

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 March 01, 2021

Steady rise in financing assets in FY20 amid strong growth in mortgage portfolio

Al Rajhi Bank's net financing and investment income surged 3.0% YoY to SAR 16.9bn in FY20 on account of a 13.1% YoY decline in funding costs during the year. Total operating income rose 6.3% YoY to SAR 20.7bn, whereas total operating expenses inched up 5.6% YoY to SAR 6.7bn in FY20. As a result, the bank's cost-to-income ratio improved 24 bps to 32.5% during the year. This offset the increase in impairment charge and zakat expense, leading the bank to report a 4.3% YoY rise in net income to SAR 10.6bn in FY20. Moreover, Al Rajhi's balance sheet remained strong in FY20, as growth in loans (+26.4% YoY) exceeded that in customer deposits (+22.5% YoY), but the loan-to-deposit ratio declined 259bps to 82.5%.

Al Rajhi's financing assets and customer deposits continued to grow steadily during FY20, despite the turbulent economic situation due to the COVID-19 pandemic. Loan book growth was primarily aided by the strong performance of the Retail financing segment (up 34.2% YoY), driven by robust growth in mortgage financing portfolio (up 90% YoY). Due to the healthy retail portfolio, the bank's NPL ratio improved to 0.76% in FY20 from 0.90% in FY19, while NPL coverage ratio increased to 305.6% from 303.0% in FY19. We anticipate further growth in the mortgage sector, aided by government incentives, would drive top line growth and offset the impact of low NIM on the bottom line. However, new variants of the COVID-19 virus could result in an increase in restrictions, and impact business sentiment and 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 3.0% YoY to SAR 16.9bn in FY20, supported by a 13.1% YoY drop in cost of funds to SAR 464.9mn.
- Operating income rose 6.3% YoY to SAR 20.7bn, aided by higher fee from banking services.
- Total operating expense rose 5.6% YoY to SAR 6.7bn in FY20 owing to the rise in general and administrative costs, salary, and depreciation expenses. Consequently, the bank's cost-to-income ratio improved to 32.5% from 32.8% in FY19.
- Higher operating income offset the increase in impairment charge and zakat expense. As a result, the bank's net income surged 4.3% YoY to SAR 10.6bn in FY20.
- The bank's total assets grew 22.1% YoY to SAR 468.8bn. Net financing increased 26.4% YoY to SAR 315.7bn, whereas customer deposits rose 22.5% YoY to SAR 382.6bn. However, the bank's reported loan-to-deposit ratio fell to 82.5% in FY20 from 79.9% in FY19.
- Reported return on equity decreased to 19.9% in FY20 from 20.5% in FY19, whereas reported return on assets fell to 2.6% in FY20 from 2.8% during the same period last year.
- Al Rajhi's capital adequacy ratio declined to 19.1% in FY20 from 19.9% in FY19. Additionally, its Tier I capital ratio contracted to 18.0% from 18.8% in FY19.
- The bank's NPL ratio stood at 0.76% in FY20 vis-à-vis 0.90% in FY19. This was primarily due to improvement in its Retail NPL ratio to 0.30% from 0.33% in FY19. The bank also maintained an NPL coverage ratio at 305.6% in FY20.
- On February 28, the bank's Board recommended a cash dividend of SAR 1.0 per share for FY20 equivalent to SAR 2.5bn or 10% of the company's share capital.

Valuation: We revise our target price upward to a fair value of SAR 85.0 per share and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Net financing and investment income (SAR bn)	4.6	4.3	8.9%	18.3	16.9	8.4%
Operating income (SAR bn)	5.8	5.0	15.8%	22.7	20.7	9.4%
EPS (SAR)	1.25	0.93	34.7%	4.78	4.24	12.9%
Net Interest Margin (%)	4.8%	5.2%	(0.5%)	4.6%	4.6%	0.0%
Cost to income (%)	30.4%	34.8%	(4.4%)	31.0%	32.5%	(1.6%)
RoE (%)	22.1%	18.5%	3.6%	20.4%	19.4%	1.0%
Total Assets (SAR bn)	468.8	384.1	22.1%	529.8	468.8	13.0%
Financing, net (SAR bn)	315.7	249.7	26.4%	367.1	315.7	16.3%
Customer Deposits (SAR bn)	382.6	312.4	22.5%	431.9	382.6	12.9%

Source: Company Financials, FALCOM Research

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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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