

### 1Q21 Results Update

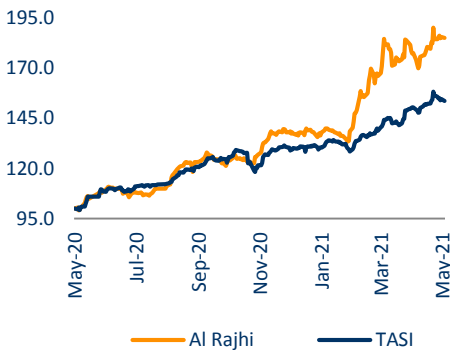
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	99.2
Target Price (SAR)	96.0
Upside/Downside (%)	(3.3%)

As of May 9, 2021

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	248.0
52-Wk High (SAR)	102.0
52-Wk Low (SAR)	51.8
Total Outstanding Shares (in bn)	2.5
Free Float (%)	94.1%

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

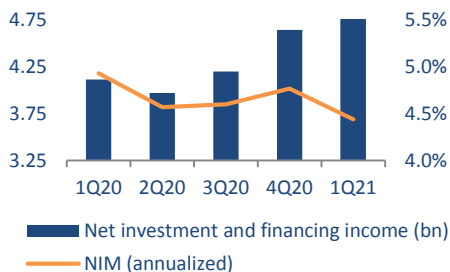


Price Performance (%)	Absolute	Relative
1m	4.2%	2.0%
6m	44.6%	18.2%
12m	85.1%	31.4%

#### 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 May 9, 2021

#### Steady growth in mortgage portfolio drives loan book growth in 1Q21

Al Rajhi Bank (Al Rajhi)'s net financing and investment income surged 16.1% YoY to SAR 4.8bn owing to higher financing and investment income from the Retail and Treasury segments during the quarter. Total operating income soared 19.7% YoY to SAR 5.9bn, whereas total operating expenses scaled up 1.9% YoY to SAR 1.7bn in 1Q21. As a result, the bank's cost-to-income ratio improved 480 bps to 27.8% during 1Q21. The drop in impairment charge offset the rise in zakat expense, leading the bank to report a 40.1% YoY rise in net income to SAR 3.3bn in 1Q21. The bank's financing assets grew 36.3% YoY to SAR 356.1bn, whereas customer deposits rose 33.5% YoY to SAR 421.3bn. However, the bank's reported loan-to-deposit ratio (LDR) declined 150bps to 80.6%.

Al Rajhi's balance sheet remained robust in 1Q21 as financing assets and customer deposits continued to grow steadily during 1Q21. Loan book growth was primarily driven by the strong performance of the Retail financing segment (up 13.0% QoQ) due to steady growth in mortgage portfolio. The bank maintained strong liquidity and asset quality during the period. The bank's NPL ratio improved to 0.70% in 1Q21 from 1.07% in 1Q20, while NPL coverage ratio increased to 317.7% in 1Q21 from 253.2% in 1Q20. Al Rajhi's liquidity coverage ratio stood at 142%, while its high-quality liquid assets surged 17.7% YoY to SAR 79.7bn. The bank also maintained a stable capital position with risk weighted assets growing 25.2% YoY to SAR 353.5bn (69.0% of total assets), while total tier I and II capital increased 19.9% YoY to SAR 63.1bn. The robust growth in financing is expected to offset the impact of low NIM on the bottom line caused by reduced interest and mortgage rates. However, re-emergence of COVID-19 cases could impact business sentiment and consumer spending and 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 16.1% YoY to SAR 4.8bn in 1Q21, driven by growth in financing and investment income from the Retail and Treasury segments.
- Operating income rose 19.7% YoY to SAR 5.9bn, supported by higher fee from banking services.
- Total operating expense rose 1.9% YoY to SAR 1.7bn in 1Q21 owing to the rise in general and administrative, and salary expenses. Consequently, the bank's cost-to-income ratio improved to 27.8% from 32.6% in 1Q20.
- Higher operating income, coupled with the drop in impairment charge, offset the increase in zakat expense. As a result, the bank's net income soared 40.1% YoY to SAR 3.3bn in 1Q21.
- The bank's total assets grew 30.7% YoY to SAR 512.2bn. Net financing increased 36.3% YoY to SAR 356.1bn, whereas customer deposits rose 33.5% YoY to SAR 421.3bn. However, the bank's reported LDR fell to 80.6% in 1Q21 from 82.1% in 1Q20.
- Return on equity inched up to 22.7% in 1Q21 from 18.9% in 1Q20, whereas reported return on assets increased to 2.8% in 1Q21 from 2.5% during the same period last year.
- Al Rajhi's capital adequacy ratio declined to 17.9% in 1Q21 from 18.6% in 1Q20. Additionally, its tier I capital ratio contracted to 16.8% from 17.6% in 1Q20.
- The bank's reported NPL ratio stood at 0.70% in 1Q21 vis-à-vis 1.07% in 1Q20. This was primarily due to improvement in Corporate NPL ratio to 2.13% from 3.22% in 1Q20. The bank also maintained an NPL coverage ratio of 317.7% in 1Q21 compared with 253.2% in 1Q20.
- On March 29, shareholders approved the Board's recommendation of SAR 1.0 per share cash dividend for FY20, equivalent to SAR 2.5bn (10% of the company's share capital).

**Valuation:** We revise our target price upward to a fair value of SAR 96.0 per share and maintain "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Net financing and investment income (SAR bn)	4.8	4.1	16.1%	18.7	16.9	10.4%
Operating income (SAR bn)	5.9	5.0	19.7%	23.6	20.7	13.8%
EPS (SAR)	1.33	0.95	40.1%	5.01	4.24	18.2%
Net Interest Margin (%)	4.4%	4.9%	(0.5%)	4.7%	4.6%	0.1%
Cost to income (%)	27.8%	32.6%	(4.9%)	30.8%	32.5%	(1.8%)
RoE (%)	22.7%	18.9%	3.8%	21.3%	19.4%	1.9%
Total Assets (SAR bn)	512.2	391.9	30.7%	538.2	468.8	14.8%
Financing, net (SAR bn)	356.1	261.4	36.3%	373.7	315.7	18.4%
Customer Deposits (SAR bn)	421.3	315.7	33.5%	439.6	382.6	14.9%

Source: Company Financials, FALCOM Research

1Q21 Results Update

May 10, 2021

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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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