

### 2Q21 Results Update

August 25, 2021

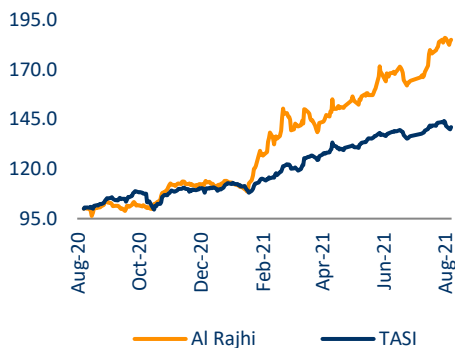
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	121.0
Target Price (SAR)	117.0
Upside/Downside (%)	(3.3%)

As of August 25, 2021

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	302.5
52-Wk High (SAR)	123.0
52-Wk Low (SAR)	62.7
Total Outstanding Shares (in bn)	2.5
Free Float (%)	94.1%

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

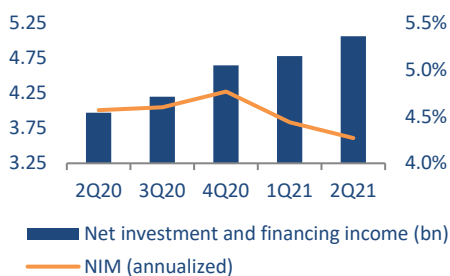


Price Performance (%)	Absolute	Relative
1m	11.3%	8.9%
6m	36.5%	14.8%
12m	85.1%	44.1%

#### 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 August 25, 2021

#### Steady growth in mortgage portfolio drives loan book growth in 2Q21

Al Rajhi Bank (Al Rajhi)'s net financing and investment income surged 27.3% YoY to SAR 5.1bn owing to high financing and investment income from the Corporate Banking and Treasury segments during the quarter. Total operating income soared 31.8% YoY to SAR 6.3bn, whereas total operating expenses scaled up 5.9% YoY to SAR 1.7bn in 2Q21. As a result, the bank's cost-to-income ratio improved 650 bps to 27.5% in 2Q21. Despite the rise in impairment charge and zakat expense, the bank reported a 48.0% YoY rise in net income to SAR 3.6bn in 2Q21 due to high topline. The bank's financing assets grew 42.0% YoY to SAR 390.3bn, whereas customer deposits rose 33.7% YoY to SAR 447.5bn. Consequently, the bank's reported loan-to-deposit ratio (LDR) increased 440bps to 83.2%.

Al Rajhi's loan book continued to grow sturdily in 1H21 with Retail financing assets surging 49.3% YoY to SAR 311.6bn, whereas corporate financing assets advanced 18.9% YoY to SAR 78.7bn. Continued momentum in the mortgage financing space in KSA led to sharp growth in Al Rajhi's loan book in 1H21. The bank managed to improve its liquidity and asset quality position during 2Q21. NPL ratio improved to 0.67% in 2Q21 from 1.02% in 2Q20, while NPL coverage ratio increased to 318.1% in 2Q21 from 252.8% in 2Q20. Al Rajhi's reported LDR rose 440 bps to 83.2%, but remained well below the regulatory requirement of 90%, indicating healthy liquidity position. The bank's NIM continued to contract during the quarter amid the low interest rate environment and the drop in the mortgage financing rates. The bank also maintained a stable capital position with risk weighted assets growing 28.2% YoY to SAR 370.8bn (67.9% of total assets), while total tier I and II capital increased 21.2% YoY to SAR 66.7bn. 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, we anticipate strong momentum in mortgage market, driven by the Kingdom's Vision 2030 plans, to continue supporting its loan book growth in the forthcoming years and offset the impact of the low NIM. Nevertheless, re-emergence of COVID-19 cases could affect impact business sentiment and consumer spending and create economic headwinds for Saudi banks. As a Considering these factors, we continue to maintain our "Neutral" rating on the stock.

- Net financing and investment income increased 27.3% YoY to SAR 5.1bn in 2Q21, driven by growth in financing and investment income from the Corporate Banking and Treasury segments.
- Operating income rose 31.8% YoY to SAR 6.3bn, supported by high fee from banking services.
- Total operating expense rose 5.9% YoY to SAR 1.7bn in 2Q21 on rise in salary expense. Consequently, the bank's cost-to-income ratio improved to 27.3% from 34.0% in 2Q20.
- High operating income offset the increase in impairment charge and zakat expense. As a result, the bank's net income soared 48.0% YoY to SAR 3.6bn in 2Q21.
- The bank's total assets grew 30.8% YoY to SAR 546.1bn. Net financing increased 42.0% YoY to SAR 390.3bn, whereas customer deposits rose 33.7% YoY to SAR 447.5bn. Consequently, the bank's reported LDR rose to 83.2% in 2Q21 from 78.8% in 2Q20.
- Return on equity increased to 24.3% in 2Q21 from 19.2% in 2Q20, whereas reported return on assets inched up to 2.7% in 2Q21 from 2.4% in the same period last year.
- Al Rajhi's capital adequacy ratio declined to 18.0% in 2Q21 from 19.0% in 2Q20. Additionally, its tier I capital ratio contracted to 16.9% from 18.0% in 2Q20.
- On June 29, shareholders approved the board's recommendation of SAR 1.40 per share cash dividend for 1H FY21, equivalent to SAR 3.5bn (14% of the company's share capital).

**Valuation:** We revise our target price upward to a fair value of SAR 117.0 per share and maintain "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Net financing and investment income (SAR bn)	5.1	4.0	27.3%	21.4	16.9	26.5%
Operating income (SAR bn)	6.3	4.8	31.8%	26.5	20.7	27.8%
EPS (SAR)	1.44	0.97	48.0%	5.98	4.24	41.0%
Net Interest Margin (%)	4.3%	4.6%	(0.3%)	5.0%	4.6%	0.4%
Cost to income (%)	27.3%	34.0%	(6.7%)	27.2%	32.5%	(5.3%)
RoE (%)	24.3%	19.2%	5.1%	24.9%	19.4%	5.5%
Total Assets (SAR bn)	546.1	417.7	30.8%	599.7	468.8	27.9%
Financing, net (SAR bn)	390.3	274.9	42.0%	418.7	315.7	32.6%
Customer Deposits (SAR bn)	447.5	334.7	33.7%	489.7	382.6	28.0%

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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