

3Q21 Results Update

November 22, 2021

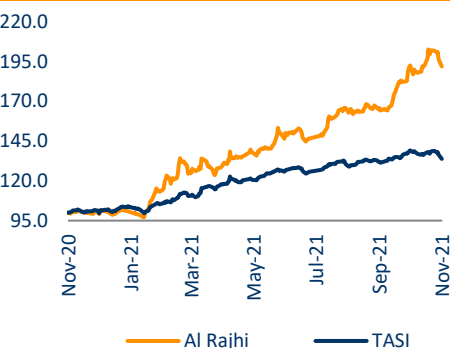
| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 135.2 |
| Target Price (SAR) | 136.0 |
| Upside/Downside (%) | (4.0%) |

As of November 21, 2021

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 354.0 |
| 52-Wk High (SAR) | 151.0 |
| 52-Wk Low (SAR) | 71.4 |
| Total Outstanding Shares (in bn) | 2.5 |
| Free Float (%) | 90.3% |

Al Rajhi vs. TASI (Rebased)

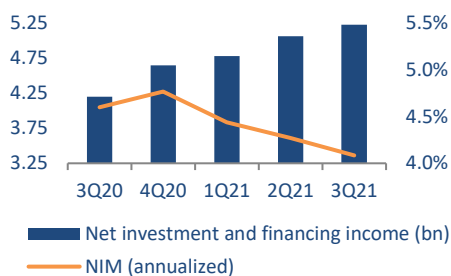


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (0.3%) | 3.5% |
| 6m | 39.6% | 28.6% |
| 12m | 92.4% | 58.6% |

Major Shareholders (%)

| | |
|---|-------|
| General Organization for Social Insurance | 9.61% |
|---|-------|

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 21, 2021

Continued momentum in mortgages drives loan book growth in 3Q21

Al Rajhi Bank (Al Rajhi)'s net financing and investment income surged by 24.3% YoY to SAR 5.2bn, owing to high financing and investment income during the quarter. Total operating income rose by 27.7% YoY to SAR 6.6bn, driven by an increase in fees from banking services and other operating income by 50.4% YoY and 61.1% YoY, respectively. Total operating expenses inched up 1.8% YoY to SAR 1.8bn in 3Q21. Consequently, the bank's cost-to-income ratio improved by 679bps to 26.7% in 3Q21. Despite the rise in impairment charge and zakat expense, the bank reported a 42.7% YoY rise in net income to SAR 3.8bn in 3Q21, ascribed to high topline. The bank's net financing assets grew by 45.3% YoY to SAR 421.0bn, while customer deposits rose by 38.5% YoY to SAR 478.3bn. Consequently, the bank's reported loan-to-deposit ratio (LDR) increased by 410bps to 4.10%.

Al Rajhi's loan book continued its momentum in 9M21, supported by a 51.2% YoY surge in retail financing assets to SAR 340.6bn, along with a 24.4% YoY rise in corporate financing assets to SAR 80.3bn. Growth in Al Rajhi's loan book was driven by continued momentum in the mortgage financing and other retail financing segments in 9M21. The bank improved its liquidity and asset quality position during the quarter. NPL ratio improved to 0.67% in 3Q21 from 0.83% in 3Q20, while NPL coverage ratio increased to 307.5% in 3Q21 from 293.0% in 3Q20. Al Rajhi's reported LDR rose to 82.7% in 3Q21 from 79.9% in 3Q20, but remained well below the regulatory requirement of 90%, indicating healthy liquidity position. The bank also maintained a stable capital position, with risk weighted assets growing by 31.2% YoY to SAR 395.8bn (67.9% of total assets) and total tier I and II capital increasing by 22.0% YoY to SAR 71.0bn. The bank's NIM continued to contract during the quarter, amid the low interest rate environment and drop in the mortgage financing rates. However, robust growth in financing is expected to offset the impact of low NIM on the bottom line caused by reduced interest and mortgage rates. Moreover, the continuing uncertainty due to the COVID-19 pandemic may create headwinds for the economy and adversely affect the Saudi banking sector. Considering the aforementioned factors, we continue to maintain our "Neutral" rating on the stock.

- Net financing and investment income soared by 24.3% YoY to SAR 5.2bn in 3Q21, driven by growth in financing and investment income.
- Higher fees from banking services, exchange income, and other operating income led to a 27.7% YoY rise in operating income to SAR 6.6bn in 3Q21.
- Total operating expense marginally increased by 1.8% YoY to SAR 1.8bn in 3Q21 owing to the rise in salary and depreciation expenses. However, the bank's cost-to-income ratio improved to 26.7% from 33.5% in 3Q20.
- High topline offset the rise in impairment charge and zakat expense. Consequently, the bank's net income surged by 42.7% YoY to SAR 3.8bn in 3Q21.
- Total assets grew by 35.4% YoY to SAR 582.7bn. Net financing rose by 45.3% YoY to SAR 421.0bn, while customer deposits rose by 38.5% YoY to SAR 478.3bn. Consequently, the bank's reported LDR rose to 82.7% in 3Q21 from 79.9% in 3Q20.
- Return on equity increased to 24.6% in 3Q21 from 19.9% in 3Q20, while reported return on assets inched up to 2.7% in 3Q21 from 2.5% in 3Q20.
- Al Rajhi's capital adequacy ratio declined to 17.9% in 3Q21 from 19.3% in 3Q20. In addition, its tier I capital ratio narrowed to 16.8% from 18.2% in 3Q20.

Valuation: We revise our target price upward to a fair value of SAR 136.0 per share and maintain our "Neutral" rating on the stock.

| | 3Q21 | 3Q20 | % YoY | FY21E | FY20 | % YoY |
|--|-------|-------|--------|-------|-------|--------|
| Net financing and investment income (SAR bn) | 5.2 | 4.2 | 24.3% | 20.4 | 16.9 | 20.9% |
| Operating income (SAR bn) | 6.6 | 5.2 | 27.7% | 25.5 | 20.7 | 23.0% |
| EPS (SAR) | 1.52 | 1.06 | 42.7% | 5.76 | 4.24 | 36.0% |
| Net Interest Margin (%) | 4.1% | 4.6% | (0.5%) | 4.6% | 4.6% | 0.01% |
| Cost to income (%) | 26.7% | 33.5% | (6.8%) | 27.4% | 32.5% | (5.2%) |
| RoE (%) | 24.6% | 19.9% | 4.7% | 24.0% | 19.4% | 4.6% |
| Total Assets (SAR bn) | 582.7 | 430.3 | 35.4% | 612.2 | 468.8 | 30.6% |
| Financing, net (SAR bn) | 421.0 | 289.7 | 45.3% | 442.0 | 315.7 | 40.0% |
| Customer Deposits (SAR bn) | 478.3 | 345.3 | 38.5% | 502.3 | 382.6 | 31.3% |

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 $\geq 10\%$.

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, FALCOM Research.

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