

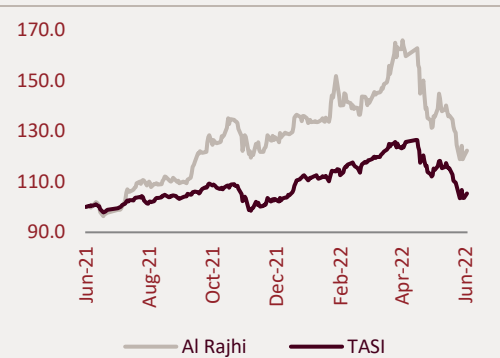
1Q22 Results Update

June 28, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	84.6
Target Price (SAR)	93.0
Upside/Downside (%)	9.9%
<i>As of June 26, 2022</i>	
Key Data (Source: Bloomberg)	

Market Cap (SAR bn)	338.4
52-wk High (SAR)	117.4
52-wk Low (SAR)	66.0
Total Outstanding shares (in bn)	4.0
Free Float (%)	90.3%

Al Rajhi vs. TASI (Rebased)

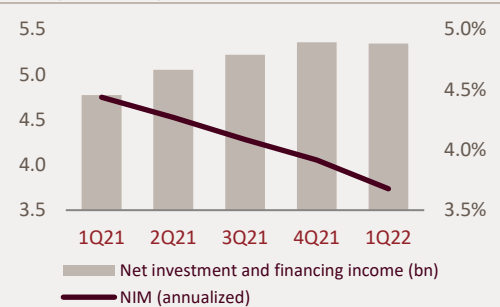


Price Performance (%)	Absolute	Relative
1m	(9.9%)	(1.8%)
6m	(3.3%)	(6.4%)
12m	22.4%	16.9%

Major Shareholders (%)

General Organization for Social Insurance	9.61%
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Net Investment and Financing Income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of June 26, 2022

Growth in loan book driven by all lines of business in 1Q22

Al Rajhi Bank (Al Rajhi)'s net financing and investment income soared 11.9% YoY to SAR 5.3bn, driven by a 19.9% YoY surge in financing and investment income, slightly offset by increase in return on the time investments of customers, banks, and financial institutions during the quarter. A rise in fees from banking services, exchange income, and other operating income led to a 17.0% YoY rise in total operating income to SAR 7.0bn in 1Q22. Rise in salaries and other general and administrative expenses resulted in a 7.1% YoY increase in the total operating expenses to SAR 1.8bn in 1Q22. The bank's cost-to-income ratio improved 234bps YoY to 25.4% during the quarter. Despite the rise in impairment charges and zakat expenses, the bank's net income soared 23.9% YoY to SAR 4.1bn in 1Q22. The bank's net financing assets grew 36.0% YoY to SAR 484.5bn, while customer deposits rose 20.6% YoY to SAR 507.9bn.

Al Rajhi reported strong earnings in 1Q22 as its loan book advanced steadily during the quarter, supported by a 36.9% YoY increase in retail financing assets to SAR 389.6bn, in addition to a 32.5% YoY rise in corporate financing assets to SAR 95.0bn during the quarter. Growth in Al Rajhi's loan book was largely driven by surge in mortgage financing, which was up SAR 15.2bn, as well as other retail financing segments (up SAR 8.6bn) in 1Q22. The bank's liquidity and asset quality position improved during the quarter. The NPL ratio improved to 0.62% in 1Q22 from 0.70% in 1Q21, while the NPL coverage ratio slightly deteriorated to 307.8% in 1Q22 from 317.7% in 1Q21. Al Rajhi's reported LDR rose to 87.9% in 1Q22 from 80.6% in 1Q21 but remained well below the regulatory requirement of 90%, showcasing a healthy liquidity position for the bank. The bank's risk weighted assets grew 26.4% YoY to SAR 446.7bn (representing 67.9% of the total assets) and the total tier I and II capital rose 36.4% YoY to SAR 86.1bn, thus maintaining a stable capital position. The bank's NIM lowered to 3.7% in 1Q22 from 4.4% in 1Q21. NIM continued to contract due to lower asset yield and higher funding cost during the first quarter of the year. The US Fed increased interest rates and is likely to announce more rate hikes during FY22. However, its retail-oriented loan book is likely to be repriced gradually and will negate the positive impact of higher interest rates. Considering the aforementioned factors, we maintain our "Neutral" rating on the stock.

- Net financing and investment income rose 11.9% YoY to SAR 5.3bn in 1Q22, mainly attributable to a 19.9% YoY increase in gross financing and investment income to SAR 5.9bn. This rise was slightly offset by a 282.3% YoY surge in return on the time investments of customers, banks, and financial institutions.
- The bank's operating income increased 17.0% YoY to SAR 7.0bn in 1Q22, led by higher fees from banking services, exchange income, and other operating income.
- Total operating expenses rose 7.1% YoY to SAR 1.8bn in 1Q22 owing to rise in salary, depreciation expenses, and other general and administrative expenses. Subsequently, the bank's cost-to-income ratio improved to 25.4% from 27.8% in 1Q21.
- Despite higher zakat expense and rise in impairment charges, the bank's net income surged 23.9% YoY to SAR 4.1bn in 1Q22.
- Total assets grew 28.4% YoY to SAR 657.6bn, driven by a 36.0% YoY rise in net financing to SAR 484.5bn, while customer deposits rose 20.6% YoY to SAR 507.9bn. Consequently, the bank's reported LDR rose to 87.9% in 1Q22 from 80.6% in 1Q21.
- Return on equity increased to 23.8% in 1Q22 from 22.4% in 1Q21. However, reported return on assets dropped to 2.6% in 1Q22 from 2.7% in 1Q21.
- Al Rajhi's capital adequacy ratio rose to 19.3% in 1Q22 from 17.9% in 1Q21. In addition, its tier I capital ratio advanced to 18.1% from 16.8% in 1Q21.

Valuation: We revise our target price upward to a fair value of SAR 93.0 per share and maintain our "Neutral" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Net financing and investment income (SAR bn)	5.3	4.8	11.9%	22.3	20.4	9.4%
Operating income (SAR bn)	7.0	5.9	17.0%	28.3	25.7	9.9%
EPS (SAR)	1.03	0.83	23.9%	4.04	3.69	9.7%
Net Interest Margin (%)	3.7%	4.4%	(0.8%)	3.7%	4.6%	(0.9%)
Cost to income (%)	25.4%	27.8%	(2.3%)	26.6%	26.9%	(0.3%)
RoE (%)	23.8%	22.7%	1.0%	22.3%	24.9%	(2.5%)
Total Assets (SAR bn)	657.6	512.2	28.4%	701.0	623.7	12.4%
Financing, net (SAR bn)	484.5	356.1	36.0%	530.2	452.8	17.1%
Customer Deposits (SAR bn)	507.9	421.3	20.6%	567.4	512.1	10.8%

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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