

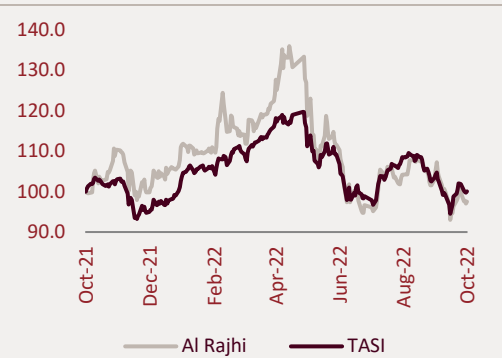
2Q22 Results Update

October 13, 2022

| Recommendation | Overweight |
|-------------------------------------|------------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 82.3 |
| Target Price (SAR) | 94.0 |
| Upside/Downside (%) | 14.2% |
| <i>As of October 12, 2022</i> | |
| Key Data (Source: Bloomberg) | |

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 329.2 |
| 52-wk High (SAR) | 117.4 |
| 52-wk Low (SAR) | 78.5 |
| Total Outstanding shares (in bn) | 4.0 |
| Free Float (%) | 90.3% |

Al Rajhi vs. TASI (Rebased)

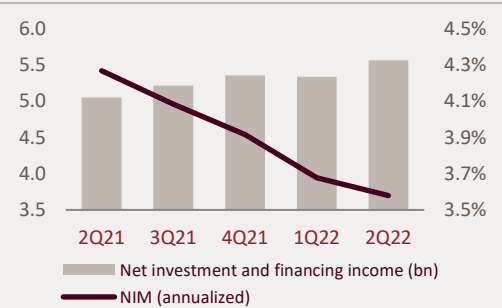


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (7.2%) | (3.3%) |
| 6m | (23.6%) | (8.3%) |
| 12m | (2.5%) | (2.6%) |

Major Shareholders (%)

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

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



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of October 12, 2022

Mortgages and corporate loan book drive growth in 2Q22

Al Rajhi Bank (Al Rajhi)'s net financing and investment income increased 10.2% YoY to SAR 5.6bn, primarily due to a 23.6% YoY rise in gross financing and investment income, partly offset by an increase in return on time investments of customers, banks, and financial institutions during the quarter. Rise in fees from banking services and exchange income offset the decline in other operating income, resulting in a 12.8% YoY increase in total operating income to SAR 7.1bn in 2Q22. Total operating expenses grew 5.2% YoY to SAR 1.8bn on an increase in salaries as well as other general and administrative expenses. The bank's cost-to-income ratio improved 184bps YoY to 25.5% during the quarter. Lower impairment charges slightly offset the rise in zakat expenses and led to an 18.1% YoY rise in the bank's net income to SAR 4.3bn in 2Q22. The bank's net financing assets grew 33.2% YoY to SAR 519.7bn, while customer deposits rose 23.6% YoY to SAR 553.0bn.

Al Rajhi continued to report strong performance in 2Q22 as its loan book advanced sharply during the quarter, supported by a 31.7% YoY increase in retail financing assets to SAR 410.2bn, coupled with a 39.1% YoY rise in corporate financing assets to SAR 109.5bn during the quarter. Growth in loan book was largely driven by a 45% YoY rise in mortgage financing, which represented 38% of the total book. The bank's liquidity and asset quality position improved during the quarter. The NPL ratio improved to 0.57% in 2Q22 from 0.67% in 2Q21. However, the NPL coverage ratio deteriorated to 293.0% in 2Q22 from 318.1% in 2Q21. Al Rajhi's reported LDR marginally rose to 83.8% in 2Q22 from 83.2% in 2Q21, but remained well below the regulatory requirement of 90%, showcasing a healthy liquidity position for the bank. The bank's risk weighted assets advanced 27.1% YoY to SAR 471.1bn (representing 66.4% of the total assets) and the total tier I and II capital rose 34.8% YoY to SAR 84.3bn, thus maintaining a stable capital position. The bank's NIM lowered 68 bps to 3.76% in 2Q22, mainly driven by a 61 bps contraction in retail book, which was mainly impacted by the back book pricing. The US Fed increased interest rates and is likely to announce more rate hikes during FY22. Considering the aforementioned factors, we revise our rating to "Overweight" on the stock.

- Gross financing and investment income increased 23.6% YoY to SAR 6.5bn in 2Q22 but was slightly offset by a 376.7% YoY surge in return on time investments of customers, banks, and financial institutions. Consequently, net financing and investment income gained 10.2% YoY to SAR 5.6bn.
- The bank's operating income advanced 12.8% YoY to SAR 7.1bn in 2Q22, led by a rise in fees from banking services and exchange income despite a fall in other operating income.
- Operating expenses increased 5.2% YoY due to an increase in salary, depreciation expenses, and other general and administrative expenses. However, as operating income grew at a faster rate, the bank's cost-to-income ratio improved to 25.5% from 27.3% in 2Q21.
- The bank's net income climbed 18.1% YoY to SAR 4.3bn in 2Q22 despite an increase in zakat expenses, which was slightly offset by a decline in impairment charges.
- Total assets advanced 30.0% YoY to SAR 709.8bn, driven by a 33.2% YoY rise in net financing to SAR 519.7bn, while customer deposits grew 23.6% YoY to SAR 553.0bn. Consequently, the bank's reported LDR rose to 83.8% in 2Q22 from 83.2% in 2Q21.
- Return on equity increased to 23.4% in 2Q22 from 23.1% in 2Q21. However, reported return on assets dropped to 2.6% in 2Q22 from 2.7% in 2Q21.
- Al Rajhi's capital adequacy ratio rose to 19.0% in 2Q22 from 18.0% in 2Q21. In addition, its tier I capital ratio advanced to 17.9% from 16.9% in 2Q21.

Valuation: We revise our target price to a fair value of SAR 94.0 per share but revise our rating to "Overweight" on the stock.

| | 2Q22 | 2Q21 | % YoY | FY22E | FY21 | %YoY |
|--|-------|-------|--------|-------|-------|--------|
| Net financing and investment income (SAR bn) | 5.6 | 5.1 | 10.2% | 22.2 | 20.4 | 8.7% |
| Operating income (SAR bn) | 7.1 | 6.3 | 12.8% | 28.1 | 25.7 | 9.4% |
| EPS (SAR) | 1.06 | 0.90 | 18.1% | 4.06 | 3.69 | 10.0% |
| Net Interest Margin (%) | 3.6% | 4.3% | (0.7%) | 3.6% | 4.6% | (0.9%) |
| Cost to income (%) | 25.5% | 27.3% | (1.8%) | 26.1% | 26.9% | (0.9%) |
| RoE (%) | 23.1% | 24.3% | (1.1%) | 21.9% | 24.9% | (2.9%) |
| Total Assets (SAR bn) | 709.8 | 546.1 | 30.0% | 704.1 | 623.7 | 12.9% |
| Financing, net (SAR bn) | 519.7 | 390.3 | 33.2% | 530.2 | 452.8 | 17.1% |
| Customer Deposits (SAR bn) | 553.0 | 447.5 | 23.6% | 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.

Yaqeen Capital

Contact us on the below phone numbers:

Customer Services: 8004298888

Brokerage Services: 920004711

Fax or Email us at the below number:

Fax: +966 11 2032546

Email: addingvalue@yaqeen.sa

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, Yaqeen Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Yaqeen Capital does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. Yaqeen Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and Yaqeen Capital shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent Yaqeen Capital current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

Yaqeen Capital acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.