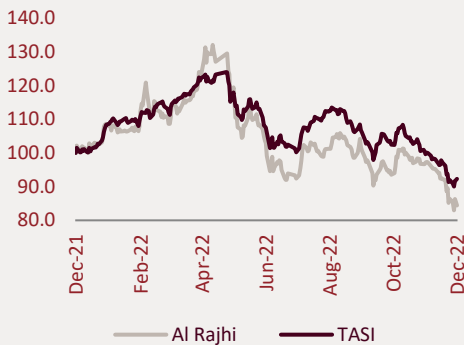


3Q22 Results Update

December 16, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	73.4
Target Price (SAR)	89.0
Upside/Downside (%)	21.3%
<i>As of December 15, 2022</i>	
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	293.6
52-wk High (SAR)	117.4
52-wk Low (SAR)	71.8
Total Outstanding shares (in bn)	4.0
Free Float (%)	90.3%

Al Rajhi vs. TASI (Rebased)

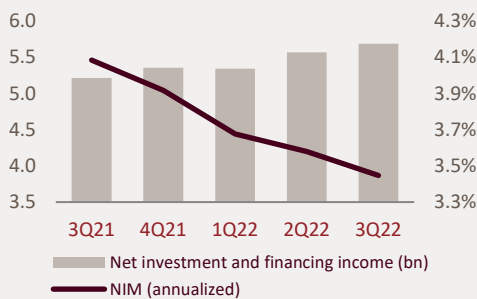


Price Performance (%)	Absolute	Relative
1m	(13.0%)	(5.8%)
6m	(18.0%)	(3.9%)
12m	(15.5%)	(7.9%)

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, Yaqaen Capital; Data as of December 15, 2022

Retail and corporate segments drive loan book growth

Al Rajhi Bank (Al Rajhi)'s net financing and investment income advanced 9.1% YoY to SAR 5.7bn in 3Q22, primarily driven by a 32.0% YoY rise in gross financing and investment income and partially offset by an increase in returns on the time investments of customers, banks, and financial institutions. Its total operating income surged 9.6% YoY to SAR 7.2bn as the low other operating income was offset by an increase in fees from banking services and exchange income in 3Q22. A rise in salary and employee-related expenses countervailed a fall in other general and administrative expenses, resulting in a 6.1% YoY increase in total operating expenses to SAR 1.8bn. The bank's cost-to-income ratio improved 84bps YoY to 25.8% during the quarter. Moreover, a rise in zakat expenses was offset by a decline in impairment charges, leading to a 14.8% YoY rise in the bank's net income to SAR 4.4bn in 3Q22. The bank's net financing assets advanced 32.4% YoY to SAR 557.5bn, while customer deposits rose 16.2% YoY to SAR 555.8bn.

Al Rajhi continued to report a robust performance in 3Q22 as its loan book grew sharply, supported by a 24.8% YoY rise in retail financing assets to SAR 425.2bn and a 64.7% YoY increase in corporate financing assets to SAR 132.3bn. Growth in the loan book was driven by growth in all lines of business. The bank's liquidity and asset quality also improved in 3Q22. The NPL ratio improved to 0.55% in 3Q22 from 0.67% in 3Q21. However, the NPL coverage ratio fell to 272.3% in 3Q22 from 307.5% in 3Q21. Al Rajhi's reported LDR rose marginally to 88.4% in 3Q22 from 82.7% in 3Q21, but remained well below the regulatory requirement of 90%, implying a healthy liquidity position for the bank. The bank's risk-weighted assets surged 21.1% YoY to SAR 479.2bn (representing 64.7% of the total assets), and the total (tier-I and -II) capital rose 32.1% YoY to SAR 93.8bn, showing a stable capital position. The bank's NIM declined 66bps to 3.66% in 9M22, mainly attributable to a 47bps contraction in the retail book and a 49bps fall in cost of finance. The bank expects its loan growth to be in the high twenties in FY22. Additionally, the US Fed increased interest rates, which are expected to stay elevated for the rest of the year. Considering the aforementioned factors, we reaffirm our "Overweight" rating on the stock.

- Gross financing and investment income climbed 32.0% YoY to SAR 7.3bn in 3Q22 but was slightly offset by a 411.1% YoY surge in returns on the time investments of customers, banks, and financial institutions. Consequently, net financing and investment income jumped 9.1% YoY to SAR 5.7bn.
- The rise in fees from banking services and exchange income countervailed the fall in other operating income. As a result, the bank's operating income grew 9.6% YoY to SAR 7.2bn in 3Q22.
- Operating expenses soared 6.1% YoY to SAR 5.3bn, owing to an increase in salary and employee-related expenses as well as depreciation. However, as operating income grew rapidly, the bank's cost-to-income ratio improved to 25.8% in 3Q22 from 26.7% in 3Q21.
- The bank's net income advanced 14.8% YoY to SAR 4.4bn in 3Q22, supported by a 17.5% YoY decline in impairment charges.
- Al Rajhi's total assets climbed 27.1% YoY to SAR 740.6bn in 3Q22. The rise was driven by a 32.4% YoY increase in net financing to SAR 557.5bn and a 24.1% YoY jump in investments to SAR 101.8bn.
- Customer deposits grew 16.2% YoY to SAR 555.8bn. Consequently, the bank's reported LDR rose to 88.4% in 3Q22 from 82.7% in 3Q21.
- Return on equity fell to 22.5% in 3Q22 from 24.6% in 3Q21, while return on assets dropped to 2.4% in 3Q22 from 2.7% in 3Q21.
- Al Rajhi's capital adequacy ratio rose to 19.6% in 3Q22 from 17.9% in 3Q21. In addition, its tier-I capital ratio advanced to 18.4% in 3Q22 from 16.8% in 3Q21.

Valuation: We revise our target price to a fair value of SAR 89.0 per share but reaffirm our "Overweight" rating on the stock.

	3Q22	3Q21	% YoY	FY22E	FY21	%YoY
Net financing and investment income (SAR bn)	5.7	5.2	9.1%	22.9	20.4	12.4%
Operating income (SAR bn)	7.2	6.6	9.6%	29.6	25.7	15.0%
EPS (SAR)	1.09	0.95	14.8%	4.43	3.69	20.2%
Net Interest Margin (%)	3.4%	4.1%	(0.6%)	3.7%	4.6%	(0.9%)
Cost to income (%)	25.8%	26.7%	(0.8%)	25.0%	26.9%	(1.9%)
RoE (%)	22.5%	24.6%	(2.1%)	23.7%	24.9%	(1.1%)
Total Assets (SAR bn)	740.6	582.7	27.1%	733.7	623.7	17.6%
Financing, net (SAR bn)	557.5	421.0	32.4%	559.6	452.8	23.6%
Customer Deposits (SAR bn)	555.8	478.3	16.2%	598.9	512.1	17.0%

Source: Company Financials, Yaqaen Capital

3Q22 Results Update Yaqeen Capital Rating Methodology

December 16, 2022

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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