

Rating
12- Month Target Price
Neutral
SAR 69.00
AL RAJHI BANK
2Q2017 First Look
Expected Total Return

Price as on Jul-25, 2017	SAR 63.54
Upside to Target Price	8.6%
Expected Dividend Yield	3.9%
Expected Total Return	12.5%

Market Data

52 Week H/L	SAR 71.70 /48.60
Market Capitalization	SAR 103,253 mln
Shares Outstanding	1,625 mln
Free Float	86.8%
12-Month ADTV	2,405,967
Bloomberg Code	RJHI AB

1-Year Price Performance

Source: Bloomberg


2Q2017 (SAR mln)	Actual	RC Forecast
Net Fin. Income	2,954	2,940
Total Op Income	3,877	3,928
Net Income	2,182	2,262
Net Financing	232,797	232,773
Deposits	285,390	275,022

Deposits grow +5% Q/Q

Al Rajhi announced 2Q net income at SAR 2.18 billion (+6% Y/Y, -2% Q/Q). Bottom line slightly missed our SAR 2.26 billion forecast and SAR 2.23 billion market consensus as non-core income came in below expectations. While EPS is marginally under street estimates, the bank has registered a massive SAR 14.1 billion Q/Q rise in deposits to SAR 285 billion. Net financing also grew by SAR 3.4 billion Q/Q. Consequently, LDR has mellowed over the preceding quarter. Net financing income has risen both on a Y/Y and Q/Q basis to SAR 2.9 billion, in line with our forecast. However, non-core income has proved to be weak, declining -5% Q/Q and missing our forecast by SAR 70 million. Provisions have likely accrued over SAR 400 million, higher than SAR 372 million in 1Q. We raise our target price to SAR 69.00 from SAR 62.00 as we tweak projections on the upside. Maintain Neutral.

SAIBOR starting to inch up

Net financing and investments income is up +7% Y/Y and +2% Q/Q to SAR 2.95 billion, in line with our SAR 2.94 billion forecast on the back of a +7% rise in financing income. SAIBOR stabilized in 2Q after falling in 1Q and has started to inch up in the last month as Fed raises rates. Further rate increase augurs well for Al Rajhi in terms of better spreads. Cost of deposits has increased marginally from SAR 139 million in 1Q to SAR 143 million this quarter despite a substantial SAR 14 billion growth in deposits confirming the overwhelming proportion of NIBs with the bank.

LDR down to 82%

After a surprising but minor decline in deposits in 1Q, Al Rajhi is back with an enormous SAR 14.1 billion Q/Q rise to SAR 285 billion. Restoration of allowances of government employees (one of its main customers) has started showing results in 2Q and should be good for business going forward. Net financing is up by SAR 3.4 billion Q/Q to SAR 233 billion but lagged deposit growth resulting in a decline in LDR from 85% in 1Q to 82% in 2Q, giving it room to expand financing.

Operating expenses in line

Non-core income has been lackluster for the quarter at SAR 923 million, declining by -5% Q/Q and missing our SAR 991 million estimate, likely due to lower fee-based income. Operating expenses are in line with expectations at SAR 1.7 billion. Provisions appears to have come in above SAR 400 million, as per estimates, but slightly higher than SAR 372 million accrued last quarter.

Target price swells to SAR 69

Net income at SAR 2.18 billion (+6% Y/Y, -2% Q/Q), missed our SAR 2.26 billion forecast by 4%. We have revised upwards our estimates for 2017 and beyond resulting in an increase in target price from SAR 62.00 to SAR 69.00 but maintain Neutral rating. While it trades at an expensive 1.9x 2017E book value, the premium to market and sector has historically been consistent. 1H DPS of SAR 1.50 is higher than expected; a full year payout SAR 2.50 is likely, yielding 4% at current prices.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Fin. Inc	11,165	11,825	11,966
Prov for cred loss	2,208	2,050	2,010
Net Income	8,126	8,853	8,826
EPS (SAR)	5.00	5.45	5.43
DPS (SAR)	2.25	2.50	2.75

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	3.6%	3.5%	3.5%
ROAE	16.5%	16.8%	16.4%
ROAA	2.5%	2.6%	2.5%
CAR	22.0%	19.6%	19.2%
P/B	2.0x	1.9x	1.9x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299
riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712