

# Marmore Company Reports



## Al Rajhi Bank

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<b>Country</b>	Saudi Arabia
<b>Sector</b>	Financial Services (Banks)

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## 1. Executive Summary

**Table 1.1: Al Rajhi Summary, 2014**

Market Capitalization	USD 25.3bn	Total Assets	USD 82bn
Listings	TASI	Loan Growth, 5yr CAGR	16.3%
% share in the index	4.9%	NPL Ratio	4.79%
Number of Employees	13,014 <sup>1</sup>	P/E (TTM)	13.91x
Regional Ranking <sup>1</sup>	3/63	P/B	2.27x

Source: Al Rajhi, Reuters Eikon; <sup>1</sup> in terms of market capitalization

- Al Rajhi bank domiciled in Saudi Arabia, the biggest economy in the GCC region, is the largest Islamic bank in the region.
- Al Rajhi bank is 75% owned by the public; 10% by General Organisation for Social Insurance (GOSI) and the remaining is held by Awak Sulaiman bin Abdul Aziz Al Rajhi family.
- Al Rajhi bank has over 500 branches in Saudi Arabia and their business model is oriented towards retail banking. Retail loans account for the majority of lending by the bank at c.70% as of 2014.
- Despite the large scale assets, the bank has been quite efficient with RoE's > 17% over the years.
- Al Rajhi remains well capitalized (Capital Adequacy Ratio >19%) with cheap source of funds and stable funding profile (demand deposits account for >80%)
- Al Rajhi stock price has underperformed compared to the Saudi main index (TASI) in both the shorter and longer horizon (1yr to 5yr period).
- Al Rajhi bank incurred seventh successive quarterly decline in profit in Q1, 2015. The Bank attributed this to the increase in operating expenses and decrease in fees collected from retail loans.

<sup>1</sup> Bloomberg (as on Feb 2015)

**Table 1.2: Al Rajhi Business Review**

Parameter	Review
Sector Attractiveness	Positive
Business Model Attractiveness	Moderate
Industry Competition	Moderate
STEEPLED Analysis	Positive

Source: Al Rajhi, Marmore Research

Al Rajhi Bank is one of the largest Islamic banks in the world with total assets of USD 77bn.

High exposure to retail segment has weighed down on the performance of the bank in the recent past due to capping of retail fees by the central bank.

Saudi Arabian banking industry is one of the largest in the GCC region with 24 banks providing retail/corporate banking, investment services, brokerage facilities, derivatives etc. Banking sector in KSA is overseen by two major bodies of the government – The Ministry of Finance which oversees the economic policies of the government and SAMA (Saudi Arabia Monetary Agency) which manages fiscal policy, the currency as well as the commercial banks of the country. In addition to the above the government has also established five specialized credit agencies which provide loans for development of the following – Agriculture, Industry and Construction as well a Real estate.

Al Rajhi Bank is one of the largest Islamic banks in the world with total assets of USD 77bn. In KSA, Al Rajhi Bank is the market leader in terms of retail loan issuances. However such high exposure to retail segment has weighed down on the performance of the bank in the recent past due to capping of retail fees by the central bank. Recent mortgage rule which limits the maximum loan-to-value ratio at 70% has led to subdued growth in mortgage segment.

In terms of the sector attractiveness the banking sector in Saudi Arabia is attractive owing to increasing credit needs such as project finance, corporate loans, trade financing for the corporates and mortgages, vehicle loans, personal loans for the retail segments. Higher HH (Herfindahl Hirschman) index suggests higher concentration of market share among the top players and the competitive intensity is moderate.

**Table 1.3: Al Rajhi Financial Review**

Parameter	
Top-line Growth	Medium
Bottom-line Growth	Medium
Interest Margins	Medium
Return Ratios	High
Liquidity	High
Balance Sheet Strength	High
Earnings Quality	High

Source: Reuters, Marmore Research

Assets have increased at a CAGR of 13.6% in the past five years (2010-2014)

Net profit has shown a few ups and downs over the period (2010-2014) while the return on average equity has been over 17% in each of those five years. Bank's revenue and income have shown a slight decline with respect to the previous year.

Customer deposits account for more than 90% of the total liabilities and most of them are interest free deposits which provides the bank with cheap source of funds

Assets have increased at a CAGR of 13.6% in the past five years (2010-2014) on back of increased credit disbursal (CAGR of 16.3%) and the bank is expected to continue its growth momentum.

With loans to deposit ratio at 85.4%, as of 2014, liquidity profile of Al Rajhi remains strong. Deposit growth over the past 5 years stood at a CAGR of 14.8%. Customer deposits account for more than 90% of the total liabilities and most of them are interest free deposits which provides the bank with cheap source of funds. The retail consumer oriented business model and a large scale network of branches, over 500 in number, which are spread throughout the country has supported the bank to accumulate large demand deposits. The capital adequacy ratio of the bank stood at 19.5% much higher than the requirement of 8% under Basel III norms. This signifies the ability of Al Rajhi to absorb losses when things turn adverse.

The bank has scored well above the industry standards in its earning quality. Al Rajhi has expanded its operations, internationally, by starting new subsidiaries across countries like Malaysia, Kuwait and Jordan.

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