

January 23, 2017

Rating **Neutral**
12- Month Target Price **SAR 62.00**

AL RAJHI BANK 4Q2016 First Look

4Q Caps a Profitable Year

Al Rajhi Bank's reported 4Q results with a net income of SAR 2.05 billion, very close to our forecast of SAR 2.03 billion but lower than market consensus of SAR 2.07 billion. While net financing and investment income was as per expectations, growth in other income was not as robust and at the same time provisioning is likely lower than last quarter despite exposure to consumer segment. Most of its peers have posted a jump in provisions to reflect credit concerns that have appeared in 2016. We are surprised to note zero growth in deposits for 4Q despite a rise in the overall industry. Decline in net financing slightly short of SAR 1 billion helped bring down the LDR to 82.5% in 4Q. We raise target price to SAR 62.00 from SAR 51.00 on rollover of forecasts. Trading at 1.9x 2017E P/B, we recommend a Neutral.

Deposits flat Q/Q

+29% Y/Y rise in net financing and investments income at SAR 2.9 billion matches our estimates and comes on the back of rising yields on earning assets in the year which has helped push net financing income higher each quarter. SAIBOR has risen from 1.55% at the start of the year to 2.04% at year-end. Cost of funds has grown at a much slower pace as Alrajhi benefits from an overwhelming proportion of zero-cost demand deposits. A flat trend in deposits to SAR 272.6 billion was unexpected given an increase of SAR 17.7 billion in total industry deposits for 4Q, given that Alrajhi has historically capitalized on these trends. This time, however, the rise in deposits was likely from corporates while Alrajhi's strength is in retail.

Net financing declines Q/Q

We believe the decline in net financing Q/Q by SAR 870 million to SAR 225 billion is deliberate by management in order to keep LDR in check. LDR went up from 81.7% in 1Q to 82.9% in 3Q but has now been brought down to 82.5%, although we would like to note that there is still room until the 90% regulatory limit.

Lower provisioning Q/Q

Non-operating income has been on a downward spiral since the beginning of the year and has reached its lowest level in 4Q at SAR 891 million (-20% Y/Y) from SAR 1.1 billion in 1Q, likely due to significantly lower fee from banking services and net exchange income. Operating expenses have increased just +7% Y/Y and are actually down Q/Q to SAR 1.8 billion versus our SAR 1.9 billion forecast. The deviation is likely due to lower than expected provisioning. While we were expecting SAR 588 million, actuals are possibly SAR 100 million lower.

Target raised to SAR 62.00

Net income of SAR 2.05 billion is +19% higher Y/Y and +2% up Q/Q and almost matches our SAR 2.03 billion forecast. At first look, we believe Alrajhi has been saved from any major provisions in view of lower corporate exposure, unlike its peers. We increase our target price from SAR 51.00 to SAR 62.00 as we rollover our forecasts. However, trading at 1.9x 2017E P/B and close to our target, we stick to a Neutral rating.

Expected Total Return

Price as on Jan-22, 2016	SAR 63.00
Upside to Target Price	(1.6%)
Expected Dividend Yield	2.8%
Expected Total Return	1.2%

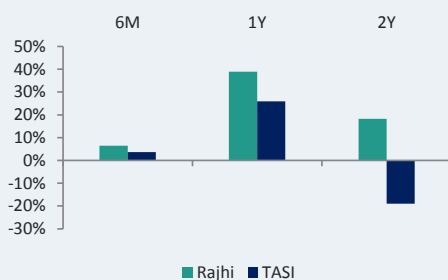
Market Data

52 Week H/L	SAR 65.00 /46.60
Market Capitalization	SAR 102,391 mln
Shares Outstanding	1,625 mln
Free Float	72.16%
12-Month ADTV	2,140,037

1-Year Price Performance



Source: Bloomberg



4Q2016 (SAR mln)	Actual	RC Forecast
Net Fin. Income	2,921	2,971
Total Op Income	3,812	3,966
Net Income	2,047	2,030
Net Financing	224,994	226,285
Deposits	272,593	278,007

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016A	2017E
Net Fin. Inc	9,959	11,165	11,313
Prov for cred loss	1,958	2,222*	2,399
Net Income	7,130	8,126	7,845
EPS (SAR)	4.39	5.00	4.83
DPS (SAR)	1.50	2.25	1.75

*Estimated

Key Financial Ratios

FY Dec31	2015A	2016E	2017E
NIM	3.3%	3.5%	3.4%
ROAE	16.1%	16.8%	15.3%
ROAA	2.3%	2.5%	2.3%
CAR	20.8%	19.2%	19.0%
P/B	2.2x	2.1x	1.9x

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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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