

## AL RAJHI BANK



## EVENT FLASH

## Profits flat YoY due to higher provisions

Al Rajhi reported a 0.6% increase in 4Q12 net income to SR1,911mn, 5% below our estimates and 2.6% below consensus. The bank's NSCI and total operating income grew YoY due to continued expansion in financing portfolio. However, increase in provision charges led to muted growth in net income on a YoY basis.

- **Total op. income:** 4Q12 came in at SR3,490mn in-line with the NCBC estimate of SR3,447mn. 4Q12 was an increase of 5.0% YoY (SR3,323mn in 4Q11).
- **Net Income:** 4Q12 came in at SR1,911, 4.9% below the NCBC estimate of SR2,010mn. 4Q12 was an increase of 0.6% YoY (SR1,899mn in 4Q11).
- In summary, this is a mixed set of results from Al Rajhi, but broadly in-line with our estimates. Expanding loan book and strong fee and other income are key positives from the results. However, the relatively steep margin contraction is a key point of concern.
- Al Rajhi's net income remained flat YoY with only 0.6% growth to SR1,911mn. Net income came in slightly lower than our expectations while NSCI and total operating income remained in-line with our estimates. Net income was 2.6% lower than consensus. Despite top-line expansion, bottom-line remained flat, suggesting increase in operating expenses and provision charges.
- We believe the bank's operating expenses grew 2.0% YoY and provision charges 25% YoY to SR678mn (40% higher than our estimate of SR485mn).
- Al Rajhi's focus on expanding its financing portfolio resulted in 22% YoY and 3.6% QoQ growth in lending. Continued growth in its financing portfolio, enhanced the bank NSCI and fee income. However, based on the preliminary numbers, we estimate, the bank's NIMs declined by 42bps YoY and 20bps QoQ against the sector average of 13 bps YoY and 12 bps QoQ.
- We are currently Overweight on the stock with a PT of SR89.4. Al Rajhi's expanding financing portfolio, growing top-line, and better RoE as compared to peers are key positives of the stock.

## 4Q12 Results Summary

SR mn	4Q12A	4Q11A	% YoY	4Q12E	% Var <sup>^</sup>
Net sp comm income	2,421	2,271	6.6	2,432	(0.5)
Fee and other income	1,069	1,052	1.6	1,015	5.4
Total operating income	3,490	3,323	5.0	3,447	1.2
Net income	1,911	1,899	0.6	2,010	(4.9)
Financing portfolio (bn)	172	141	22.2	168	1.9
Deposits (bn)	221	178	24.2	194	13.8
Investments (bn)	41	39	5.7	36	14.9
Assets (bn)	267	221	20.9	246	8.5
EPS (SR)	1.27	1.27	0.6	1.34	(4.9)

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

## OVERWEIGHT

**Target price (SR)** 89.4

**Current price (SR)** 69.5

## STOCK DETAILS

M52-week range H/L (SR)	82.8/63.5
Market cap (\$mn)	27,800
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.1	(1.1)	(4.1)
Rel. to market	3.4	(5.3)	(13.7)

Avg daily turnover (mn)	SR	US\$
3M	124.4	33.2
12M	108.6	29.0

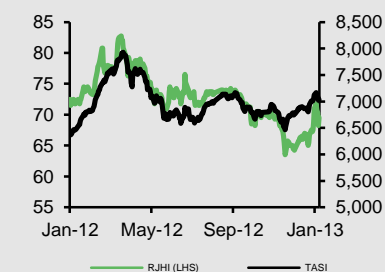
Reuters code	1120.SE
Bloomberg code	RJHI AB
	<a href="http://www.alrajhibank.com.sa">www.alrajhibank.com.sa</a>

## VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	15.7	14.7	13.1
P/BV (x)	3.6	3.3	3.1
P/ABV (x)	3.5	3.2	3.0
Div Yield (%)	4.7	4.5	5.5

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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# SAMBA FINANCIAL GROUP



## EVENT FLASH

### Tighter margins and high provisions reduce profits

Samba's net income declined 7.8% YoY to SR869mn, lower than our estimate of SR1,048mn and vs. SR1,090mn consensus. Despite strong loan growth, NSCI and top-line income remained muted due to contracting NIMs. In addition, increased provisions supported the decline in net income.

- **Total operating income:** 4Q12 came in at SR1,458mn vs. the NCBC estimate of SR1,662mn. 4Q12 declined 3.7% YoY (SR1,514mn in 4Q11).
- **Net Income:** 4Q12 came in at SR869mn vs. the NCBC estimate of SR1,048mn. 4Q12 declined 7.8% YoY (SR943mn in 4Q11).
- In summary this is a weak set of results from Samba with net income 17% below our estimate and 20% below consensus. The bank's management attributes the decline in net income to decrease in NSCI. We attribute the miss in net income to two factors (1) steep margin contraction and (2) circa 50% higher than expected provisions.
- We believe the decline in NIM's is partly due to its maturing bond book and also the significant competition among corporate banks which contributed to lower yields on assets. Based on the preliminary calculation we estimate NIM contraction of 23bps YoY and 17bps QoQ which is higher than the average of 17bps YoY and 14bps QoQ for other corporate banks.
- The decline in margins contributed to a decline in NSCI by 5.4% YoY and 7.9% QoQ. This comes despite a strong loan growth, 17.8% YoY and 7.1% QoQ, Non-interest income, however, was flat YoY while declining on a QoQ, and hence further contributing towards decline in total operating income. We believe, the bank's total operating expense decreased 7.2% YoY, however, this was negated by increase in provision charges. Our primary calculation suggests that the bank's provision charges for the quarter increased 49.5% YoY to SR159mn. Consequently, net income declined 7.8% YoY.
- We are currently Overweight on Samba with a PT of SR59.7. Although, the bank's NSCI declined in 4Q12, strong loan growth improving loan-to-deposit ratio and strategy of capitalising on its strong treasury services are likely to enhance future profits in the medium-term.

#### 4Q12 Results Summary

SR mn	4Q12A	4Q11A	% Y o Y	4Q12E	% Var <sup>^</sup>
Net sp comm income	1,030	1,089	(5.4)	1,130	(8.9)
Non-interest income	428	425	0.8	532	(19.5)
Total operating income	1,458	1,514	(3.7)	1,662	(12.3)
Net income	869	943	(7.8)	1,048	(17.1)
Loans (bn)	105	89	17.8	102	3.3
Deposits (bn)	149	137	8.6	144	3.4
Investments (bn)	53	60	(11.9)	55	(4.3)
Assets (bn)	199	193	3.2	205	(2.8)
EPS (SR)	0.97	1.05	(7.8)	1.16	(17.1)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

## OVERWEIGHT

**Target price (SR) 59.7**

**Current price (SR) 47.3**

#### STOCK DETAILS

M52-week range H/L (SR)	56.8/43.4
Market cap (\$mn)	11,352
Shares outstanding (mn)	900
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.6	7.3	5.6
Rel. to market	1.9	3.0	(4.0)

Avg daily turnover (mn)	SR	US\$
3M	8.4	2.2
12M	10.8	2.9

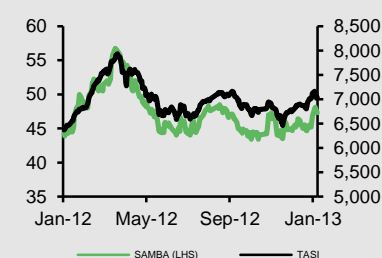
Reuters code	1090.SE
Bloomberg code	SAMBA AB
	<a href="http://www.samba.com.sa">www.samba.com.sa</a>

#### VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	10.2	9.7	9.1
P/BV (x)	1.6	1.4	1.3
P/ABV (x)	1.5	1.4	1.3
Div Yield (%)	3.5	4.0	4.2

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Tadawul

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- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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- NC:** Not covered. NCBC does not cover this company

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