# Al Rajhi Bank

Result Flash Note 1Q-2017 April 2017

ALJAZIRA CAPITAL الجزيرة للأسواق المالية الجزيرة كابيتال

Please read Disclaimer on the back

**Net income of SAR 2.22bn came in in line with AJC estimate of SAR 2.16bn, depicting a deviation of 2.6%. Net financing and investment income led the charge as it grew by 12.1% YoY. On the other hand, 13.7% YoY fall in other operating income' diluted total operating income growth to 4.3%. Fall of 2.7% in operating expenses partially offset the fall in other operating income.**

- Q1-2017 net income at SAR2.22bn showed a jump of 10.1% YoY and 8.5% QoQ. Gross financing and investments income at SAR 3.02bn marked a growth of 12.0% YoY, driven by a 6% YoY rise in financing activity to SAR 229.4bn. Effective quarterly financing rate translated into 1.32% (7 bps[1] above Q1-2016 effective quarterly rate of 1.25%).
- Total operating income for Al Rajhi stood at SAR 3.85bn depicting a jump of 4.3%YoY and 1.08% QoQ. Dilution in YoY growth was a result of 13.7%YoY fall in other operating income which stood at SAR 967mn in Q1-2017, as compared to 1,121mn in Q1-2016. However, Operating expenses at SAR 1.63bn for Q1-2017 were 2.7% below SAR 1.68bn operating expenses realized in Q1-2016.
- Al Rajhi's deposit base grew 1.83% YoY and fell short 0.48% QoQ to SAR 271.3bn. Financing activity remained strong as loan book grew to SAR 229.4bn depicting a rise of 6.0% YoY and 2.0% QoQ. ADR[2] improved in Q1-2017 to 84.6% as compared to 82.5% in Q4-2016 and 81.7% in Q1-2017.

**Our estimates:** Al Rajhi results came in line with our estimates for Q1-2017, largely supported by strong income from financing and investments. However, income from other operating activities is a cause of concern, which we believe resulted from weak income from banking fees and services, as well as income from foreign exchange. For the year 2017, we expect Al Rajhi to post earnings of SAR 8.5bn depicting a jump of 4.2%. On a forward PE basis, the company is trading at 12.1x compared to current PE at 12.3x. We maintain our price target of SAR 70.3, However we update our recommendation to "**Neutral**" based on the current market price.

## Results Summary

| SARmn (unless specified) | Q1-2016 | Q4-2016 | Q1-2017 | Change YoY | Change QoQ | Deviation from AJC Estimates |
|---|---|---|---|---|---|---|
| Net financing and investments income | 2,574 | 2,921 | 2,886 | 12.1% | -1.2% | -0.9% |
| *Net Financing Margins* | *95.3%* | *94.7%* | *95.4%* | | | |
| Total operating income | 3,695 | 3,812 | 3,853 | 4.3% | 1.1% | -4.4% |
| Net Profit | 2,017 | 2,047 | 2,221 | 10.1% | 8.5% | 2.6% |
| **EPS** | **1.24** | **1.26** | **1.37** | | | |

Source: Company reports, Aljazira Capital

| | |
|---|---|
| Recommendation | **'Neutral'** |
| Current Price* (SAR) | 64.46 |
| Target Price (SAR) | **70.30** |
| Upside / (Downside) | **9.08%** |

*prices as of 16 of April 2017

## Key Financials

| SARmn (unless specified) | FY15 | FY16 | FY17E |
|---|---|---|---|
| Net financing and investments income | 9,959 | 11,165 | 12,020 |
| Growth % | 1.4% | 12.1% | 7.7% |
| Net Income | 7,130.1 | 8,126.0 | 8,467.8 |
| Growth % | 4.3% | 14.0% | 4.2% |
| EPS | 4.39 | 5.00 | 5.21 |

Source: Company reports, Aljazira Capital

## Key Market Data

| | |
|---|---|
| Market Cap (mn) | 102,521 |
| YTD % | 2.7% |
| Shares Outstanding (mn) | 1625.00 |
| 52 Week (High ) | 67.50 |
| 52 Week (Low) | 48.60 |

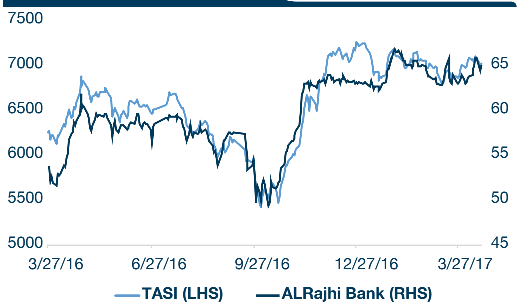
Source: Company reports, Aljazira Capital

## Key Ratios

| SARmn (unless specified) | FY15 | FY16 | FY17E |
|---|---|---|---|
| NIMS | 1.74% | 1.99% | 1.78% |
| Operating Margins | 73.10% | 68.70% | 68.70% |
| Net Margins | 73.10% | 68.70% | 68.70% |
| PE (x) | 11.9 | 12.6 | 12.1 |
| PB (x) | 1.8 | 2.0 | 1.9 |
| Dividend Yield | 2.9% | 3.3% | 2.4% |
| ROA | 2.3% | 2.4% | 2.4% |
| ROE | 15.3% | 15.6% | 15.9% |
| Gross Loans growth | 2.6% | 6.9% | 2.1% |

Source: Company reports, Aljazira Capital

## Price Performance




Source: Bloomberg, Aljazira Capital

Acting Head of Research
**Talha Nazar**
+966 11 2256250
t.nazar@aljaziracapital.com.sa

[1] Basis Points
[2] Advance to Deposit Ratio

الجزيرة كابيتال
الجزيرة للأسواق المالية ALJAZIRA CAPITAL

RESEARCH DIVISION


Acting Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst
Sultan Al Kadi
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

Analyst
Muhanad Al-Odan
+966 11 2256115
M.alodan@aljaziracapital.com.sa


BROKERAGE AND INVESTMENT CENTERS DIVISION


General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers
Mansour Hamad Al-shuaibi
+966 12 6618443
m.alshuaibi@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa


RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

## Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Aljazira Capital from sources believed to be reliable, but Aljazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Aljazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investment. Some fees might be levied on some investments in securities. This report has been written by professional employees in Aljazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Aljazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Aljazira Capital. Funds managed by Aljazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Aljazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Aljazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Aljazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Aljazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.