

Al Rajhi Bank

Q1 2017

Recommendation Neutral

Fair Value (SAR) 67.25

Price as of April 18, 2017 63.75
Expected Return %5.5

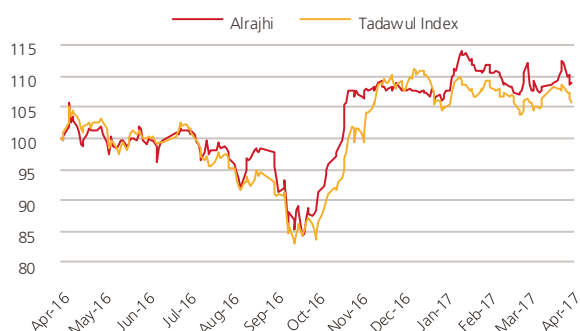
Company Data

Tadawul Symbol	1120.SE
52 Week High (SAR)	67.50
52 Week Low (SAR)	48.60
YTD Change	%1.59
3-Month Average Volume (Thousand Shares)	2,052
Market Cap. (SAR Million)	103,594
Market Cap. (USD Million)	27,625
Outstanding Shares (Million Shares)	1,625

Major Shareholders (> 5%)

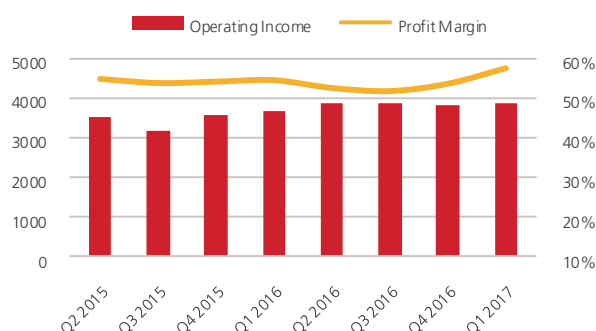
General Organization for Social Insurance	%10.19
Sulaiman Abdulaziz Al Rajhi Endowment	%9.2

52-week Stock Price Movement



Source: Tadawul

Quarterly Operating Income (SAR mn) and Profit Margin



Source: Company Filings, Albilad Capital Research Estimates

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Al Rajhi Bank reported first-quarter profit of SAR 2,221 million, up 10.1% year-over-year and 8.5% quarter-over-quarter, and beat our estimates of SAR 2,137 million, showing strong improvement.

On a positive note, operating income rose 4.3% YoY, driven mainly by net special commission income growth of 12% YoY, as a result of higher interest rate on the US dollar, coupled with an increase in the reverse repo agreements rate during the period. The Saudi Interbank Interest Rate⁽¹⁾ (SAIBOR) for 3 months increased to 1.98% from 1.72% in the first-quarter of 2016. On the other hand, non-interest income fell 13.7% YoY, due to decline in fees and commission income and foreign exchange income.

Meanwhile, profits on a quarterly basis were advanced by lower operating expenses (down 7.5% QoQ) on the back of a decrease in impairment charge for financing and staff related expenses. This was partially offset by an increase in general and administrative expenses, depreciation expense and rent expense.

Customer deposits declined slightly by 0.5% from the previous-quarter, in line with the sector's overall trend but on a slower pace (sector deposits⁽²⁾ fell by 2%). Meanwhile, the bank expanded its loan portfolio by 2% QoQ, as a result, the loans-to-deposits ratio increased by 203 basis points, reaching 84.6%, the highest level in five years⁽³⁾.

Despite the expectation of the local economic slowdown, we expect that Al Rajhi bank's positive performance will continue. This is supported by credit growth mainly through fundamentals and population factors that will motivate the retail banking growth in the medium-term, in addition to improvement in the bank's profit margin as well as positive environment for global interest rates. Thus, we upgrade our valuation to SAR 67.25 from SAR 59.5 per share with assigning a "Neutral" recommendation.

FY - Ending December	2015A	2016A	2017E	2018F
Net Interest Margin	%3.67	%3.97	%4.09	%4.19
Return on Assets	%2.3	%2.5	%2.5	%2.6
Return on Equity	%15.3	%15.6	%15.6	%15.7
Net Special Commission Growth	%1.4	%12.1	%7.5	%7.8
Expenses to Income	%48.1	%46.8	%46.6	%46.1
Net Loans / Deposits	%81.5	%82.5	%84.4	%84.8
NPL / Total Loans	%1.2	%1.2	%1.2	%1.2
Coverage Ratio	%197.4	%195.1	%195.6	%197.5
PE	14.5	12.7	11.9	11.0
P / BV	2.22	1.99	1.86	1.72
Dividend Yield	%2.4	%3.5	%3.9	%3.6
EPS (SAR)	4.39	5.00	5.37	5.81

Source: Company Filings, Albilad Capital Research Estimates

1) Average of January and February of this year.

2) Since the beginning of this year until February 2017.

3) On a quarterly basis.

Summary of Q1 Results

Income Statement (SAR mn)	Q1 2016	Q1 2017	Change	Q4 2016	Change
Special Commission Income	2,700	3,024	%12	3,085	(%2)
Special Commission Expense	126	138	%9.5	164	(%15.9)
Net Special Commission Income	2,574	2,886	%12.1	2,921	(%1.2)
Other Incomes	1,121	967	(%13.7)	891	%8.5
Total Operating Income	3,695	3,853	%4.3	3,812	%1.1
Total Operating Expenses	1,678	1,632	(%2.7)	1,765	(%7.5)
Net Income	2,017	2,221	%10.1	2,047	%8.5
EPS (SAR)	1.24	1.37		1.26	

Balance Sheet (SAR mn)	Q1 2016	Q1 2017	Change	Q4 2016	Change
Investments	41,112	25,843	(%37.1)	34,033	(%24.1)
Loans and advances, net	216,394	229,421	%6.0	224,994	%2.0
Total Assets	323,297	337,230	%4.3	339,712	(%0.7)
Customer Deposits	266,417	271,290	%1.8	272,593	(%0.5)
Loans / Deposits	%81.2	%84.6	%3.3	%82.5	%2.0

Summary of Financial Statements & Forecasts

Income Statement (SAR mn)	2014A	2015A	2016A	2017E	2018F
Special Commission Income	10,213	10,258	11,751	12,624	13,620
Special Commission Expense	395	299	586	619	680
Net Special Commission Income	9,817	9,959	11,165	12,005	12,940
Fees & Commission Income, net	2,738	2,704	2,950	3,130	3,308
Foreign Exchange Income, net	952	980	925	902	893
Other Income	159	103	243	306	369
Total Operating Income	13,667	13,746	15,284	16,343	17,510
Salaries & Employee-related Expense	2,514	2,661	2,950	3,140	3,367
Rent & Premises-related Expense	1,335	1,379	1,307	1,371	1,416
Other expenses	670	618	693	726	749
Total Operating Expenses	4,519	4,658	4,949	5,238	5,532
Impairment Charge for Credit Losses, net	2,312	1,958	2,208	2,382	2,533
Net Income	6,836	7,130	8,126	8,724	9,445

Balance Sheet (SAR mn)	2014A	2015A	2016A	2017E	2018F
Cash & Balances with SAMA & Other Fin. Institutions	50,102	53,965	68,728	69,218	72,359
Investments, net	42,550	39,877	34,033	32,511	34,170
Loans & Advances, net	205,940	210,218	224,994	239,560	254,315
Property & Equipment, net	4,814	5,579	6,485	7,427	8,251
Other Assets	4,306	5,981	5,471	6,410	7,186
Total Assets	307,712	315,620	339,712	355,126	376,281
Due to Banks & Other Financial Institutions	2,135	4,558	8,917	9,175	9,695
Customer Deposits	256,077	257,822	272,593	283,870	299,941
Other Liabilities	7,603	6,601	6,255	6,310	6,422
Total Liabilities	265,815	268,981	287,765	299,355	316,058
Total Equity	41,896	46,639	51,947	55,771	60,223
Total Liabilities & Shareholders' Equity	307,712	315,620	339,712	355,126	376,281

Source: Company Filings, Albilad Capital Research Estimates

A: Actual. E: Albilad Capital Research Estimates. F: Albilad Capital Research Forecasts.

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by $< 10\%$.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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