

Al Rajhi Bank

Strong advances growth mitigates funding pressure

Rating : ACCUMULATE

First Look Note – 3Q22

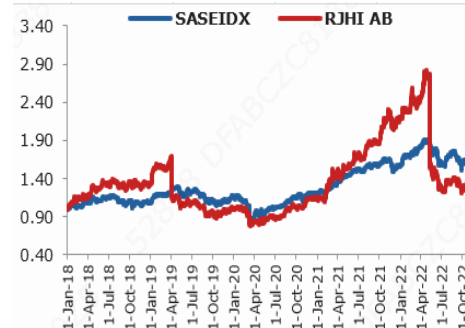
Sector: Banking

Recommendation

Current Price (10-Nov-22)	85.30
Target Price (SAR)	95.00
Upside/Downside (%)	+11.4%

Stock Information

Market Cap (mm)	341,200.00
Paid Up Capital (mm)	40,000.00
52 Week High	117.40
52 Week Low	78.50
3M Avg. daily value (SAR)	410,085,200



Financial Ratios

Dividend Yield (12m)	
Dividend Pay-out (%)	23.73
Price-Earnings Ratio (x)	20.53
Price-to-Book Ratio (x)	4.29
Book Value (SAR)	19.90
Return-on Equity (%)	23.40
Earning Per Share (SAR)	4.15
Beta	1.19

Stock Performance

5 Days	-0.47%
1 Months	3.39%
3 Months	-2.40%
6 Months	-21.02%
1 Year	-8.40%
Month to Date (MTD)	0.12%
Quarter to Date (QTD)	4.92%
Year to Date (YTD)	-3.76%

3Q22 Net Profit in line with our estimate

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit grew to SAR 4,355 Mn in 3Q22 from SAR 3,794 Mn in 3Q21, marginally lower than our estimate of SAR 4,453 Mn. This increase is attributable to 9.6% increase in total operating income due to increases in net financing and investment income, fees from banking services, and exchange income, partly offset by rise in total operating expense.

P&L highlights

The Bank's net financing and investment income rose 9.1% YOY to SAR 5.7 Bn in 3Q22. Financing and investment income rose 32.0% YOY to SAR 7.3 bn in 3Q22 mainly due to robust growth in advances further accelerated by a rise in asset yield on QOQ basis. On the other hand, financing and investing expenses rose significantly from SAR 315 Mn to SAR 1,610 Mn in 3Q22 due to increase in benchmark interest rates and change in deposit mix. Non-funded income rose 11.5% YOY to SAR 1.5 Bn in 3Q22, owing to an increase in fees from banking services and exchange income partly offset by a decrease in other operating income. Thus, net operating income rose 9.6% YOY to SAR 7.2 Bn in 3Q22. While, operating expenses rose 6.1% YOY to SAR 1.9 Bn in 3Q22, driven by an increase in salaries and employee-related benefits, and depreciation expenses with a cost-to-income ratio of 25.8% in 3Q22. The impairment charge fell 17.5% YOY to SAR 490 Mn in 3Q22. Zakat expense increased 14.8% YOY to SAR 0.5 Bn in 3Q22 mainly due to the increase in profit.

Balance Sheet highlights

Net Advances rose significantly 32.4% YOY to SAR 557.5 Bn in 3Q22 driven by a strong growth in corporate loans. Total assets increased 27.1% YOY to SAR 740.6 Bn in 3Q22. Customer deposits increased 16.2% YOY and 0.5% QOQ to SAR 555.8 Bn in 3Q22 with a loan-to-deposit ratio of 100.3% in 3Q22 compared to 94.0% in 2Q22. Whereas, total equity increased 35.3% YOY to SAR 86.1 Bn in 3Q22.

Target price and rating

We maintain our ACCUMULATE rating on Al Rajhi Bank with a target price of SAR 95.0. The net financing portfolio of the bank recorded a strong growth of 23.1% on YTD basis higher than the banking system credit growth. As a result, the market share of KSA banking assets rose from 16.9% in FY2020 to 21.5% in 2Q22. It further expects advances to grow in the high twenties in FY2022 supported by growth in mortgages and corporate loans. Despite, high CASA ratio ALRAJHI is expected to face margin pressure due to change in liability mix and intense competition. NIMs declined 13 bps QOQ to 3.3% in 3Q22. Also, the Deposit growth significantly lagged credit growth pressurizing NIMs as loan-to-deposit rose from 94.0% in 2Q22 to 100.3% in 3Q22. The Bank is still expected to record healthy growth in profit and ROA despite margin pressure due to large scale operation. ALRAJHI asset quality remains healthy across economic cycles underscoring superior underwriting standards with a coverage ratio of approximately 272% in 9M22. It also maintained a healthy capitalization level with CET 1 ratio of 18.4% and total CAR ratio of 19.6% in 3Q22. Considering these factors, we assign an ACCUMULATE rating on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	36.8	33.8	32.4	23.3	20.0
P/B (x)	7.7	7.2	5.9	5.1	4.0
Dividend Yield (%)	2.0%	2.2%	0.7%	1.0%	1.3%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR mm	3Q21	2Q22	3Q22	3Q22F	Var	YOY Ch	QOQ Ch	2021	2022	Change
Financing and investment income	5,530	6,480	7,297	6,854	6.5%	32.0%	12.6%	21,442	27,415	27.9%
Financing and investment Expense	-315	-913	-1,610	-1,049	53.5%	411.1%	76.3%	-1,050	-4,847	361.8%
Net Financing and investment Income	5,215	5,567	5,687	5,804	-2.0%	9.1%	2.2%	20,392	22,568	10.7%
Total operating Income	1,363	1,581	1,519	1,602	-5.2%	11.5%	-3.9%	5,324	6,220	16.8%
Net Operating Income	6,578	7,148	7,206	7,407	-2.7%	9.6%	0.8%	25,716	28,788	11.9%
Total operating Expenses before credit impairment	-1,754	-1,820	-1,861	-1,836	1.4%	6.1%	2.2%	-6,927	-7,378	6.5%
Profit before provisions	4,824	5,328	5,345	5,571	-4.1%	10.8%	0.3%	18,790	21,410	13.9%
Impairment charge for financing and other	-594	-580	-490	-607	-	-17.5%	-15.6%	-2,345	-2,299	-2.0%
Total Operating Expenses	-2,348	-2,401	-2,351	-2,442	-3.7%	0.1%	-2.1%	-9,272	-9,677	4.4%
Net income before zakat	4,230	4,747	4,855	4,965	-2.2%	14.8%	2.3%	16,445	19,112	16.2%
Zakat	-436	-489	-501	-511	-2.1%	14.8%	2.4%	-1,699	-1,970	16.0%
Net profit attributable	3,794	4,258	4,355	4,453	-2.2%	14.8%	2.3%	14,746	17,141	16.2%

FABS Estimates & Co Data

Al Rajhi Bank - P&L KPI

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	79.3%	77.9%	78.9%	-36	104	79.3%	78.4%	-90
NIM	3.8%	3.4%	3.3%	-55	-13	3.9%	3.3%	-52
NIS	3.8%	3.3%	3.1%	-64	-18	3.8%	3.2%	-59
Fees & comms/OI	14.8%	16.3%	15.7%	91	-52	15.3%	15.9%	58
Exchange Income/OI	3.2%	4.3%	4.4%	124	13	3.1%	4.1%	103
Cost to income	26.7%	25.5%	25.8%	-84	36	26.9%	25.6%	-131
Impairment/PPP	-12.3%	-10.9%	-9.2%	314	173	-12.5%	-10.7%	174
NP/OI	57.7%	59.6%	60.4%	275	85	57.3%	59.5%	220
ROAA	2.5%	2.4%	2.3%	-14	-6	2.7%	2.5%	-24
ROAE	22.5%	20.2%	19.9%	-252	-27	23.5%	22.3%	-117

FABS estimate & Co Data

Al Rajhi Bank - B/S Key Items

SAR mm	3Q21	4Q21	1Q22	2Q22	3Q22	YOY Ch
Net advances	420,954	452,831	484,526	519,701	557,498	32.4%
QOQ change	7.9%	7.6%	7.0%	7.3%	7.3%	
Total assets	582,684	623,672	657,628	709,779	740,627	27.1%
QOQ change	6.7%	7.0%	5.4%	7.9%	4.3%	
Customer deposits	478,331	512,072	507,892	552,957	555,767	16.2%
QOQ change	6.9%	7.1%	-0.8%	8.9%	0.5%	
Total equity	63,637	67,309	78,341	81,913	86,101	35.3%
QOQ change	6.6%	5.8%	16.4%	4.6%	5.1%	

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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