

ALRAJHI Bank

The rise in both Funded and Non-funded income & Reduction in Impairment charges drive the growth

1Q21 Net profit higher than our estimate

Al Rajhi Bank reported a 40.1% increase in Net Profit to SAR3,335 mm in 1Q21 from SAR2,380 mm in 1Q20, which beats our forecast of SAR3,207 mm. The Net Profit exceeded our expectation by 4%. The increase in net profit was primarily due to increase in both Funded and Non-funded income in addition to decrease in impairment charges.

P&L highlights

The Net Funded income increased by 16.1% YOY to SAR4,771 mm in 1Q21 from SAR4,110 mm in 1Q20. This was due to 15.6% YOY increase in the Funded Income to SAR4,915 mm in 1Q21 from SAR4,253 mm. The Non-Funded Income increased by 37.3% YOY to SAR1,177 mm in 1Q21 from SAR857 mm in 1Q20. This was driven by 47.1% YOY increase in Fees and Commissions and a significant increase in Other Non-funded Income. The Operating expenses increased slightly by 1.9% to SAR1,652 mm in 1Q21 from SAR1,621 mm in 1Q20. The Impairment charges decreased by 16.7% YOY to SAR577 mm in 1Q21 from SAR693 mm in 1Q20.

Balance sheet highlights

Total Assets increased by 31% YOY to SAR512.2 bn in 1Q21 from SAR391.9 bn in 1Q20. Total liabilities increased by 32% YOY to SAR453 bn in 1Q21 from SAR342.3 bn in 1Q20. Total Equity increased by 19% YOY to SAR59.2 bn in 1Q21 from SAR49.6 bn in 1Q20.

Target price and rating

We maintain a HOLD rating on Al Rajhi with a target price of SAR99. Al Rajhi Banking and Investment Corporation (RJHI) has delivered a strong performance in the first quarter of 2021. The Net Profit increased by 40.1% YOY to SAR3,335 mm in 1Q21 from SAR2,380 mm in 1Q20. The Net Profit Margin reduced to 4.56% in 1Q21 from 5% in 1Q20. This was mainly due to the negative SAIBOR Impact, lower spreads, Fee waivers, and modification loss recorded in the period. The Bank's current performance and market position is in line with their strategy 2021-2023. ARB has distinguished certain key areas to focus on that will help it to build its core operations further. The Bank has managed to increase its market share of KSA banking assets by 17%. The Bank has witnessed 13% YOY growth in Retail Financing, including the private sector, in line with their 2021-2023 strategy. Corporate Financing, another focus area, has increased by 12% YOY, demonstrating corporate growth. The Bank wants to position itself as the 'Bank of Choice for SMEs' through increasing financing to the SMEs. Resultantly, the growth of financing to SMEs has increased by 8% YOY in 1Q21. The current accounts are an important funding mix to the bank and have increased by 8% YOY. Moreover, the Bank's core strategy is to improve the Revenue mix by increasing the contribution from the Non-yield income.

Rating : HOLD

First Look Note – 1Q21

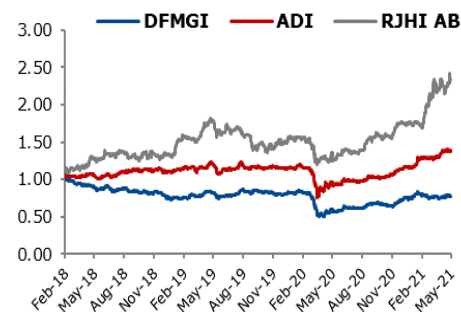
Sector: Banking

Recommendation

Current Price (04-May)	99.80
Target Price	99.00
Upside/Downside (%)	-0.8%

Stock Information

Market Cap (SAR/mm)	249,500.00
Paid Up Capital (mm)	25,000.00
52 Week High	102.00
52 Week Low	51.80
3M Avg. daily value (SAR)	432,430,000



Financial Ratios

Dividend Yield (12month)	1.00
Dividend Payout	0.00
Price-Earning Ratio	21.66
Price-to-Book Ratio	4.21
Book Value	23.69
Return-on Equity	21.23
Earning Per Share	4.61
Beta	0.95

Stock Performance

5 Days	2.04%
1 Months	2.04%
3 Months	34.50%
6 Months	47.42%
1 Year	89.37%
Month to Date (MTD%)	0.91%
Quarter to Date (QTD%)	1.01%
Year to Date (YTD%)	35.60%

During 1Q21, the contribution of the Non-Yield Income increased to 20%, up by 3% from the same period in the previous year. The Bank is heavily focused on digitalization and has transformed its technological capabilities. The Digital/Manual ratio stands at 85/15. Around 328 AI robots are incorporated to improve the customer's digital experience. Furthermore, the Bank plans to deepen relationships via X-Sell, a 360-degree system for the customer base. The Bank aspires to become the leading finance company through its 100% owned subsidiary Emkan financing. The digital platforms will enable the bank to achieve cost optimization leading to higher positive jaws. The Cost-to-Income ratio reduced to 27.8% in 1Q21 from 32.6% in 1Q20. The Bank's asset quality is healthy, with Impairment charges decreasing by 16.7% YOY to SAR577 mm in 1Q21 from SAR693 mm in 1Q20. The cost of risk has also reduced to 0.67% in 1Q21 from 1.05% in 1Q20. The NPL ratio had a declining trend and stood at 0.7% in 1Q21, down from 1.07% in 1Q20. The NPL coverage ratio is at a strong level at 317.7% in 1Q21. The Bank has continued to demonstrate its prudent risk management through its healthy ECL stage coverages. ARB's LCR ratio had a declining trend throughout the year (except in 4Q20) and stood at 142% in 1Q21 from 177% in 1Q20. However, the ratio is comfortably within the minimum regulatory requirements. The NSFR also demonstrated a declining trend to 116% in 1Q21 from 127% in 1Q20. The High-Quality Liquid Assets (HQLA) increased by 17.7% to SAR79.7 bn in 1Q21 as compared to SAR67.7 bn in 1Q20. The Capital Adequacy Ratio (CAR) decreased to 17.9% in 1Q21 from 18.6% in 1Q20. This was mainly due to a 25.2% increase in Risk-Weighted Assets (RWA). The Return on Equity and Return on Assets improved to 22.43% (1Q20:18.36%) and 2.75% (1Q20:3.43%) respectively in 1Q21. The Earnings per share (EPS) increased by 40.1% YOY to SAR1.33 in 1Q21 from SAR0.95 in 1Q20. The Net financing increased by 36.3% to SAR356.1 bn in 1Q21. This was mainly driven by growth in mortgage and Other retail. Total Customer Deposits increased by 33.5% to SAR421.3 bn in 1Q21 as compared to SAR315.7 bn in 1Q20. This was driven by demand deposits and time deposits. The Bank currently trades at a P/B multiple of 4.21X. We maintain a HOLD rating on Al Rajhi.

Al Rajhi Bank - Relative valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	27.4	66.1	24.6	23.5	18.4
P/B (x)	4.5	5.2	4.9	4.3	4.2
Dividend yield	2.6%	2.8%	3.0%	1.0%	3.0%

FABS Estimates & Co data
Al Rajhi Bank - P&L

SAR mm	1Q20	4Q20	1Q21	1Q21F	Var	YOY ch	QOQ ch	2020	2021F	YOY ch
Funded income	4,253	4,760	4,915	4,999	-2%	15.6%	3.2%	17,378	20,551	18.3%
Funded expense	-142	-122	-144	-135	7%	1.1%	18.0%	-465	-555	19.3%
Net funded income	4,110	4,638	4,771	4,864	-2%	16.1%	2.8%	16,913	19,996	18.2%
Fees and commissions	618	864	909	680	34%	47.1%	5.2%	2,660	2,803	5.4%
Trading gain/(loss)	207	210	175	201	-13%	-15.4%	-16.3%	784	817	4.2%
Other non-funded income	32	82	93	86	8%	190.2%	13.1%	365	355	-2.7%
Non-funded income	857	1,155	1,177	967	22%	37.3%	1.9%	3,808	3,974	4.4%
Operating income	4,968	5,794	5,948	5,831	2%	19.7%	2.7%	20,721	23,971	15.7%
Operating expenses	-1,621	-1,763	-1,652	-1,734	-5%	1.9%	-6.3%	-6,742	-6,885	2.1%
Pre-provision profit	3,347	4,030	4,296	4,097	5%	28.4%	6.6%	13,979	17,085	22.2%
Impairment	-693	-550	-577	-510	13%	-16.7%	4.9%	-2,166	-1,965	-9.3%
Net profit to owners	2,380	3,121	3,335	3,207	4%	40.1%	6.9%	10,596	13,550	27.9%

FABS Estimates & Co data

Al Rajhi Bank - P&L KPI	1Q20	4Q20	1Q21	YOY ch bps	QOQ ch bps	2020	2021F	YOY ch bps
Net FI/OI	82.7%	80.1%	80.2%	-254	15	81.6%	83.4%	180
NIM	5.6%	4.7%	4.7%	-90	0	5.0%	5.0%	1
NIS	5.6%	4.7%	4.7%	-92	-1	5.0%	5.0%	0
Fees & comms/OI	12.4%	14.9%	15.3%	285	37	12.8%	11.7%	-114
Trading/OI	4.2%	3.6%	3.0%	-123	-67	3.8%	3.4%	-38
Cost to income	32.6%	30.4%	27.8%	-486	-267	-32.5%	-28.7%	381
Impairment/PPP	20.7%	13.6%	13.4%	-727	-22	-15.5%	-11.5%	399
NP/OI	47.9%	53.9%	56.1%	817	221	51.1%	56.5%	539
ROAE	21.0%	18.7%	6.1%	-1,490	-1,262	19.4%	23.3%	393
ROAA	2.7%	2.4%	0.7%	-196	-162	2.5%	2.7%	18

FABS Estimates & Co data

Al Rajhi Bank - Key B/S Items

SAR mm	1Q20	2Q20	3Q20	4Q20	1Q21	YOY ch
Net advances	2,61,385	2,74,928	2,89,729	3,15,712	3,56,144	36.25%
QOQ change	4.7%	5.2%	5.4%	9.0%	12.8%	
Total assets	3,91,901	4,17,684	4,30,300	4,68,825	5,12,234	30.70%
QOQ change	2.0%	6.6%	3.0%	9.0%	9.3%	
Customer deposits	3,15,661	3,34,665	3,45,322	3,82,631	4,21,269	33.46%
QOQ change	1.0%	6.0%	3.2%	10.8%	10.1%	
Total Equity	49,587	51,930	54,919	58,119	59,222	19.43%
QOQ change	-3.1%	4.7%	5.8%	5.8%	1.9%	

FABS Estimates & Co data

Research Rating Methodology:

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

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