

Rating **Neutral**  
12- Month Target Price **SAR 84.00**

**AL RAJHI BANK**  
1Q2018 First Look

#### Expected Total Return

Price as on May-06, 2018	SAR 82.80
Upside to Target Price	1.4%
Expected Dividend Yield	6.2%
Expected Total Return	7.6%

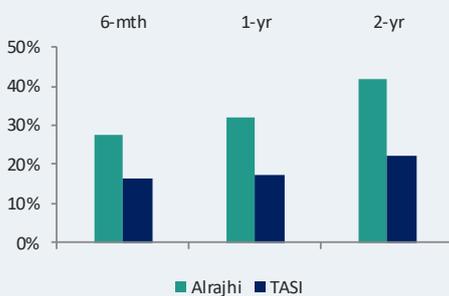
#### Market Data

52 Week H/L	SAR 85.60/61.00
Market Capitalization	SAR 134,550 mln
Shares Outstanding	1,625 mln
Free Float	86.8%
12-Month ADTV	4,560,699
Bloomberg Code	RJHI AB

#### 1-Year Price Performance



Source: Bloomberg



1Q2018 (SAR mln)	Actual	RC Forecast
Net Fin. Income	3,121	3,212
Total Op Income	4,142	4,218
Net Income	2,383	2,483
Net Financing	229,043	234,198
Deposits	283,936	274,003

## Deposits Soar

Al Rajhi reported its 1Q2018 results with a net income of SAR 2.38 billion (+7% Y/Y, -3% Q/Q), slightly below our forecast of SAR 2.48 billion and consensus of SAR 2.46 billion. The Y/Y increase in profitability came on the back of higher net financing and investments income as well as an increase in non-core income, in spite of the higher operating expenses. Provisions came in higher Y/Y and Q/Q, in-line with our expectations. During the quarter, the bank added SAR 10.9 billion in deposits and SAR 4.3 billion in investments while net financing dropped by SAR 4.5 billion. Trading at a 2018E P/B of 2.3x, we raise our target price from SAR 69.00 to SAR 84.00, but maintain our Neutral stance on the stock.

### LDR drops to 81%

Net financing declined by SAR 4.5 billion Q/Q to reach SAR 229.0 billion, lower than 1Q2017 level and -2% lower than our forecast of SAR 234.2 billion. Deposits, on the other hand, surged significantly by SAR 10.9 billion to SAR 283.9 billion, beating both our expectations of SAR 274 billion and the general trend in the sector. As a result, LDR dropped to 81% from 86% last quarter. Investments grew this quarter by SAR 4.3 billion to reach SAR 40.7 billion, to reprise its growth pace shown in 2Q17 and 3Q17.

### Total income up +8% Y/Y

Net financing and investments income has increased by +8% Y/Y but declined by -1% Q/Q to SAR 3.12 billion, marginally below our SAR 3.21 billion forecast. At first look, we believe that funding cost for Alrajhi was not affected significantly by the surge in deposits given that the bank is known for its huge proportion of zero-cost deposits. Hence, we attribute the rise in net financing and investments income to the high gross financing income, on the back of higher SAIBOR rate. However, we await detailed financials for more certainty.

### Provisions rise Y/Y and Q/Q

Non-core income witnessed +6% Y/Y growth and a -2% decline Q/Q to SAR 1.02 billion. This resulted in a +8% Y/Y increase but a -1% Q/Q decline in total income to SAR 4.14 billion, close to our expectations of SAR 4.21 billion. Operating expenses were up +8% Y/Y and +1% Q/Q to SAR 1.76 billion, in-line with our SAR 1.74 billion forecast. The Q/Q increase was due to higher salaries and employee related expenses. Additionally, Impairment charges have been elevated on both annual and quarterly basis, in spite of the drop in financing, which can be attributed to the IFRS 9 effect.

### Net income in-line

Net income of SAR 2.38 billion, up +7% Y/Y but down -3% Q/Q, came close to our estimates and market consensus of SAR 2.48 and SAR 2.46 billion respectively. The stock offers a 6.2% dividend yield and trades at 2018E P/B of 2.3x. We raise our target price from SAR 69.00 to SAR 84.00, but maintain our Neutral recommendation.

#### Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Fin. Inc	12,029	12,561	13,143
Prov for cred loss	1,548	1,399	1,506
Net Income	9,121	9,763	10,041
EPS (SAR)	5.61	6.01	6.18
DPS (SAR)	4.00	5.10	4.50

#### Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	3.7%	3.8%	3.8%
ROAE	16.9%	17.3%	17.6%
ROAA	2.7%	2.8%	2.9%
CAR	23.3%	22.3%	22.5%
P/B	2.4x	2.3x	2.2x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299  
[riyadcapital.com](http://riyadcapital.com)

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234  
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712