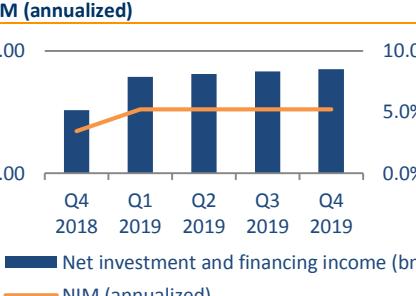


FY19 Results Update

February 27, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	62.8
Target Price (SAR)	66.0
Upside/Downside (%)	5.2%
As of 26 th February 2020	
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	157.0
52 Wk High (SAR)	76.9
52 Wk Low (SAR)	56.7
Total Outstanding shares (in mn)	2,500
Free Float (%)	91.5%
Al Rajhi vs. TASI (Rebased)	
	
Price Performance (%)	Absolute Relative
1m	(1.4%) 4.1%
6m	(2.8%) 3.9%
12m	(0.2%) 6.3%
Major Shareholders (%)	
General Organization for Social Insurance	5.9%
Net investment and financing income (SAR bn) and NIM (annualized)	
	

Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th February 2020

Lower Zakat expenses, higher operating income push up Al Rajhi's net income in FY19

Al Rajhi Bank's net income surged 169.6% YoY to SAR 10.2bn in FY19 from SAR 3.8bn in FY18. This was due to a sharp decline in Zakat expenses, which fell 81.7% YoY to SAR 1.2bn from SAR 6.4bn over the comparable period, as 2018 expenses included settlement of zakat claims up to 2017. In addition, total operating income increased 12.5% YoY to SAR 19.5bn in FY19 aided by an increase in net special commission income, income fees from banking services, net exchange income, and other operating income. Pre-provision profit expanded 12.3% YoY to SAR 13.1bn, despite the increase in total operating expenses. On an annual basis, loan growth at 7.7% outpaced the 6.3% rise in customer deposits.

The bank posted impressive results in FY19 owing to a rise in operating income despite oil price volatility and weak economic growth. It benefitted from the overall credit growth in the country propelled by rate cuts by the Saudi Arabian Monetary Authority (SAMA) in line with the US Federal Reserve. The S&P rating agency expects future credit growth in KSA to be mortgage-led and credit losses to stabilize in 2020. Thus, retail loans forming almost 75% of the bank's portfolio, stand to benefit from the government's push toward increasing home ownership. On the other hand, the bank needs to be prudent in its lending policies as relaxed rules related to mortgage lending from SAMA may lead to increase in its non-performing assets. In addition, the IMF reduced Saudi Arabia's growth forecast to 1.9% from 2.2%, citing weaker oil output growth. Thus, in view of the uncertain economic conditions, we retain our "Neutral" rating on the stock.

- Gross financing and investment income grew 13.1% YoY to SAR 17.0bn, and cost of funds (returns on time investment by customers, banks, and financial institutions) rose 5.6% YoY to SAR 534.9mn. As a result, net financing and investment income grew 13.4% YoY to SAR 16.4bn.
- Total operating income jumped 12.5% YoY to SAR 19.5bn, primarily driven by higher net financing and investment income, an increase in net fees from banking services (up 6.4% YoY to SAR 2.0bn), and other operating income (up 40.8% YoY to SAR 295.3mn). Net exchange income too contributed to the rise (up 2.4% YoY to SAR 774.1mn).
- Operating expense, excluding impairment charges, increased 13.0% YoY to SAR 6.4bn, due to a sharp rise in depreciation and amortization (up 75.7% YoY to SAR 1.1bn) and higher general and administrative expenses (up 31.5% to SAR 2.5bn), despite decline in salaries.
- The cost-to-income ratio was marginally up to 32.8% in FY19 from 32.6% in FY18. Furthermore, net impairment charges for financing rose 15.8% YoY to SAR 1.8bn.
- Customer deposits increased 6.3% YoY to SAR 312.4bn and net financing was up 7.7% YoY to SAR 249.7bn. The loan-to-deposit ratio, however, stayed in line with the previous year at 83.0%. Investments rose 8.8% YoY to SAR 46.8bn during the year.
- The bank's gross NPL ratio declined to 0.90% in FY19 compared with 0.96% in FY18.
- Al Rajhi's Board of Directors recommended the distribution of SAR 3.8bn in cash dividends to shareholders for 2H19. Dividends will be distributed at SAR 1.5 per share after the deduction of Zakat.
- In 4Q19, Al Rajhi Bank appointed Walid bin Abdullah Al-Moqbel as Chief Executive Officer, replacing Stefano Bertamini, whose contract expired in December 2019.

Valuation: We revise our target price to a fair value of SAR 66.0 per share. We maintain our "Neutral" rating on the stock.

	4Q19	4Q18	% YoY	FY20E	FY19	% YoY
Net financing and	4.3	3.8	11.8%	17.0	16.4	3.3%
Operating income (SAR bn)	5.0	4.5	11.0%	21.3	19.5	9.1%
EPS (SAR)	0.9	(2.2)	NM	7.1	6.3	13.4%
Net Interest Margin (%)	5.2%	5.1%	0.1%	5.2%	5.2%	0.0%
Cost to income (%)	38.1%	34.7%	3.4%	32.4%	32.8%	(0.4%)
RoE (%)	17.2%	(28.1%)	NM	21.7%	20.4%	1.2%
Total Assets (SAR bn)	384.1	364.0	5.5%	374.5	384.1	(2.5%)
Financing, net (SAR bn)	249.7	231.8	7.7%	246.7	249.7	(1.2%)
Customer Deposits (SAR bn)	312.4	293.9	6.3%	297.3	312.4	(4.9%)

Source: Company Financials, FALCOM Research

FY19 Results Update

February 27, 2020

FALCOM Rating Methodology

FALCOM Financial Services 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: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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