

3Q19 Results Update

November 26, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	62.4
Target Price (SAR)	65.1
Upside/Downside (%)	4.4%

As of 26th November 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	156.0
52 Wk High (SAR)	76.9
52 Wk Low (SAR)	52.0
Total Outstanding shares (in mn)	2,500
Free Float (%)	90.3%

Al Rajhi vs. TASI (Rebased)

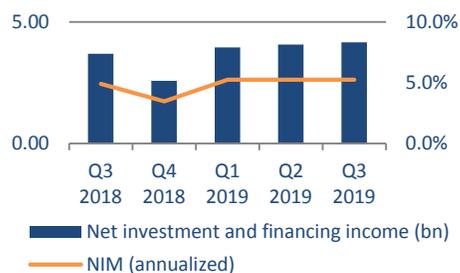


Price Performance (%)	Absolute	Relative
1m	3.5%	2.3%
6m	(6.4%)	(0.3%)
12m	18.0%	11.3%

Major Shareholders (%)

General Organization for Social Insurance	5.9%
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Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th November 2019

Lower impairments, higher operating income help grow Al Rajhi's net income in 3Q19

Al Rajhi Bank's net income grew 12.5% YoY to SAR 2.8bn in 3Q19 due to improved operating income and lower impairment charges for financing. Operating income improved 13.6% YoY and 2.5% QoQ to SAR 5.0bn, supported by higher net financing and investment income (up 13.1% YoY and 2.5% QoQ) and increased net exchange income (up 11.7% YoY and 5.4% QoQ). Impairment charges for financing dropped 20.4% YoY and 13.8% QoQ to SAR 332.3mn. On an annual basis, customer deposits grew at 3.5%, but this was outpaced by a 4.3% increase in net financing.

The Saudi Arabian Monetary Authority (SAMA) slashed repo rates by 25 basis points (bps) to 250 bps for the second time this year, in line with the US Federal Reserve's rate cut announced in September. These rate cuts may boost overall credit demand in Saudi Arabia, while they could hamper the company's bottom line. However, the company has a retail-focused portfolio, which would enable it to weather the impact of the drop in repo rates. Also, the company's loan-to-deposit ratio increased during the quarter while there was a drop in its cost-to-income ratio. We retain our "Neutral" rating on the stock.

- Gross financing and investment income grew 12.3% YoY to SAR 4.3bn, whereas cost of funds (returns on time investment by customers, banks, and financial institutions) fell 8.3% YoY to SAR 118.1mn. Thus, net financing and investment income grew 13.1% YoY to SAR 4.2bn and net interest margin increased to 5.2% in 3Q19 from 4.9% in 3Q18.
- Total operating income jumped 13.6% YoY and 2.5% QoQ to SAR 5.0bn, primarily driven by higher net financing and investment income. The rise was further aided by the increase in exchange income (up 11.7% YoY to SAR 208.4mn) and other operating income (up 650.1% YoY to SAR 0.07mn). The net fees from banking services too contributed to the rise (up 6.3% YoY to SAR 536.4mn).
- Operating expense, excluding impairment charges, increased 8.1% YoY to SAR 1.5bn, due to a sharp rise in depreciation and amortization (up 103.4% YoY to SAR 226.6mn) and higher general and administrative expenses.
- The cost-to-income ratio fell to 30.2% in 3Q19 from 31.8% in 3Q18 and 33.1% in 2Q19. Furthermore, net impairment charges for financing declined 20.4% YoY to SAR 332.3mn, thereby helping expand the net income by 12.5% YoY to SAR 2.8bn.
- Customer deposits increased 3.5% YoY to SAR 298.8bn and net financing was up 4.3% YoY to SAR 244.6bn. Consequently, the loan-to-deposit ratio edged up to 81.9% in 3Q19 from 81.2% in 3Q18. Investments declined 4.0% YoY to SAR 45.9bn during the year. The bank's gross NPL ratio increased to 0.94% in 3Q19, compared with 0.83% in 3Q18.
- Al Rajhi Bank appointed Walid bin Abdullah Al-Moqbel as the new CEO. The appointment follows SAMA's approval and goes into effect January 2020.

Valuation: We revise our target price to a fair value of SAR 65.1 per share. We maintain our "Neutral" rating on the stock.

	3Q19	3Q18	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR bn)	4.2	3.7	13.1%	16.3	13.3	22.6%
Operating income (SAR bn)	5.0	4.4	13.6%	19.3	17.3	11.6%
EPS (SAR)	1.1	1.0	12.5%	6.7	6.3	5.4%
Net Interest Margin (%)	5.2%	4.9%	0.3%	5.1%	4.5%	0.6%
Cost to income (%)	30.2%	31.8%	(1.6%)	29.7%	31.7%	(2.0%)
RoE (%)	22.8%	19.2%	3.6%	21.5%	19.7%	1.7%
Total Assets (SAR bn)	368.3	356.4	3.3%	370.8	364.3	1.8%
Financing, net (SAR bn)	244.6	234.4	4.3%	244.7	231.8	5.6%
Customer Deposits(SAR bn)	298.8	288.8	3.5%	298.4	293.9	1.5%

Source: Company Financials, FALCOM Research

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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