

Rating
12- Month Target Price
Neutral
SAR 69.00
AL RAJHI BANK
4Q2017 First Look
Solid Performance in 2017

Al Rajhi reported its 4Q17 results with a net income of SAR 2.45 billion (+20% Y/Y, +8% Q/Q) beating our forecast of SAR 2.32 billion and consensus' of SAR 2.33 billion. The jump in profitability resulted from higher non-core income coupled with an increase in net financing and investments income. Al Rajhi continues to perform well in terms of credit quality, recording a decline in provisions Y/Y. During the quarter, the bank added SAR 3 billion in deposits while investments and net financing were more or less flat. Trading at a 2018E P/B of 2.3x, we maintain a target price at SAR 69.00 and our Neutral recommendation.

LDR remains at 86%

Deposits witnessed an increase by almost SAR 3 billion Q/Q to reach SAR 273 billion, partially reversing last quarter's fall of SAR 15 billion. On the other hand, net financing remained flat for the second quarter in a row at SAR 234 billion (a rise of only SAR 355 million Q/Q) amid a general decline in the sector. Despite the increase in deposits, LDR remained at the same level as it was in the preceding quarter, at 86%. Growth pace for investments slowed this quarter, increasing by just SAR 709 million to SAR 36 billion, close to our expectations. This is despite Government sukuk issuance during the quarter. Over the year, investments have grown by SAR 2.4 billion.

Non-core income surges

Net financing and investments income has increased by +4% Q/Q and +8% Y/Y to SAR 3.16 billion, in line with our SAR 3.06 billion forecast, on the back of financing income growth amid the addition of SAR 8.5 billion to net financing since 4Q16. Simultaneously, funding cost witnessed a steep decline, which was somewhat of a surprise, leading to widening spreads. On the other end, non-core income witnessed a robust growth of +17% Y/Y to SAR 1.04 billion due to an increase in banking fees. As a result, total income rose to SAR 4.2 billion, +6% Q/Q and +10% Y/Y, close to our expectations of SAR 4.03 billion.

Provisions decline Y/Y

As anticipated, Al Rajhi did not record extra provisions due to its retail client base. Quarterly growth in opex was due to an increase in rent and general expenses, amid the opening of 5 new branches this quarter, rather than a seasonal increase in provisions. However, it declined slightly Y/Y mainly on the back of the decrease in impairment charges for financing as well as salary expenses.

Net income beats consensus

As a result of the improvement in total income and the decline in opex, net income reached SAR 2.45 billion for 4Q17 beating our SAR 2.32 billion estimate as well as the market's SAR 2.33 billion forecast. The stock offers a dividend yield of 5.7%, trading at a 2018E P/B of 2.3x and close to our target price of SAR 69.00, we maintain our Neutral stance with no apparent trigger for price movement.

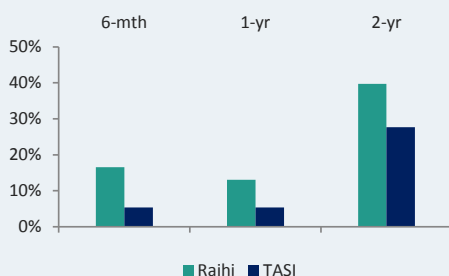
Expected Total Return

Price as on Feb-15, 2018	SAR 74.04
Upside to Target Price	(6.8%)
Expected Dividend Yield	5.7%
Expected Total Return	(1.1%)

Market Data

52 Week H/L	SAR 76.00/61.00
Market Capitalization	SAR 120,315 mln
Shares Outstanding	1,625 mln
Free Float	86.8%
12-Month ADTV	3,167,718
Bloomberg Code	RJHI AB

1-Year Price Performance

Source: Bloomberg


4Q2017 (SAR mln)	Actual	RC Forecast
Net Fin. Income	3,157	3,056
Total Op Income	4,198	4,031
Net Income	2,453	2,315
Net Financing	233,536	234,719
Deposits	273,056	272,803

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Fin. Inc	11,223	12,029*	12,601
Prov for cred loss	2,208	1,786	1,650
Net Income	8,126	9,121*	9,546
EPS (SAR)	5.00	5.61*	5.87
DPS (SAR)	2.25	4.00	4.25

**preliminary announced data*
Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	3.6%	3.5%	3.6%
ROAE	16.5%	17.4%	18.0%
ROAA	2.5%	2.6%	2.6%
CAR	22.0%	19.2%	18.5%
P/B	2.3x	2.3x	2.3x

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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