

2Q20 Results Update

August 20, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	64.1
Target Price (SAR)	58.6
Upside/Downside (%)	(8.6%)

As of 17th August 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	160.3
52-Wk High (SAR)	68.2
52-Wk Low (SAR)	51.0
Total Outstanding shares (in mn)	2,500
Free Float (%)	91.5%

Al Rajhi vs. TASI (Rebased)

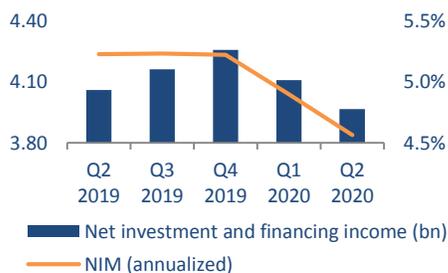


Price Performance (%)	Absolute	Relative
1m	11.7%	7.2%
6m	(0.2%)	1.6%
12m	(4.6%)	4.7%

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 17th August 2020

Al Rajhi's balance sheet remains strong in 2Q20 despite economic headwinds

Al Rajhi Bank's net income contracted 3.9% YoY to SAR 2.4bn in 2Q20 from SAR 2.5bn primarily due to lower net financing and investment income during the period. The bank's gross financing and investment income fell 2.4% to SAR 4.1bn during the quarter on account of lower SAIBOR rates and SAMA's initiatives to defer loan payments for SMEs. Total operating income also declined (down 1.1% YoY to SAR 4.8bn) owing to a 14.1% YoY decrease in net exchange income to SAR 169.9mn. However, this was slightly offset by a 74.7% YoY surge in net other operating income to 141.0mn. Pre-provision profit shrank 1.3% YoY to SAR 3.2bn. This, coupled with a 18.8% YoY rise in net impairment charge for financing, led to a 3.9% YoY decline in net income for the quarter. However, Al Rajhi's balance sheet remained strong in 2Q20, with growth in the loan book (+15.3% YoY) outpacing that in customer deposits (+11.3% YoY). This resulted in a 280.1 bps YoY rise in the loan-to-deposit ratio to 82.2%.

Despite the economic challenges faced due to COVID-19, the bank witnessed steady growth in financing assets and customer deposits. Growth in the loan book was largely supported by strong growth in the retail financing segment (up 22.3% YoY), which accounts for nearly 75.9% of total loans. Notwithstanding steady performance in the quarter, the bottom line may see some pressure on expectations of a low interest rate environment and higher provisions for impairment in 2H20 due to the pandemic. Moreover, the decline in consumer spending may create certain economic headwinds and offset the effect of recovery in oil prices and easing of restrictions for Saudi banks. Considering these factors, we maintain our "Neutral" rating on the stock.

- Gross financing and investment income fell 2.4% YoY to SAR 4.1bn, whereas the cost of funds (returns on time investment by customers, banks, and financial institutions) was down 6.0% YoY to SAR 114.5mn. This led to a 2.3% YoY decline in net financing and investment income to SAR 4.0bn.
- Total operating income (down 1.1% YoY to SAR 4.8bn) declined at a slower pace compared to that of net financing and investment income, as a 14.1% YoY decrease in net exchange income to SAR 169.9mn was offset by a 1.4% YoY rise in net fee from banking services to SAR 529.2mn.
- Operating expenses, excluding impairment charges, decreased 0.8% YoY to SAR 1.6bn due to lower general and administrative expenses, which fell 10.1% YoY to SAR 643.7mn.
- The cost-to-income ratio increased marginally to 34.0% in 2Q20 from 33.9% in 2Q19. Additionally, the bank witnessed a 18.8% YoY rise in net impairment charges for financing during the quarter.
- Customer deposits rose 11.3% YoY to SAR 334.7bn, and net financing was up 15.3% YoY to SAR 274.9bn. The loan-to-deposit ratio stood at 82.2%, up 280.1 bps from 79.3% in 2Q19.

Valuation: We revise our target price to a fair value of SAR 58.6 per share. We maintain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Net financing and investment income (SAR bn)	4.0	4.1	(2.3%)	15.6	16.4	(5.1%)
Operating income (SAR bn)	4.8	4.9	(1.1%)	18.9	19.5	(2.9%)
EPS (SAR)	0.97	1.01	(3.9%)	5.81	6.25	(7.0%)
Net Interest Margin (%)	4.6%	5.2%	(0.7%)	4.8%	5.2%	(0.3%)
Cost to income (%)	34.0%	33.9%	0.1%	33.3%	32.8%	0.6%
RoE (%)	19.2%	20.1%	(0.9%)	18.1%	20.4%	(2.3%)
Total Assets (SAR bn)	417.7	369.2	13.1%	355.9	384.1	(7.3%)
Financing, net (SAR bn)	274.9	238.5	15.3%	232.6	249.7	(6.8%)
Customer Deposits (SAR bn)	334.7	300.6	11.3%	280.3	312.4	(10.3%)

Source: Company Financials, FALCOM Research

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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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