

Rating **Neutral**
12- Month Target Price **SAR 91.00**

AL RAJHI BANK
3Q2018 First Look

Expected Total Return

Price as on Oct-29, 2018	SAR 87.50
Upside to Target Price	4.0%
Expected Dividend Yield	5.8%
Expected Total Return	9.8%

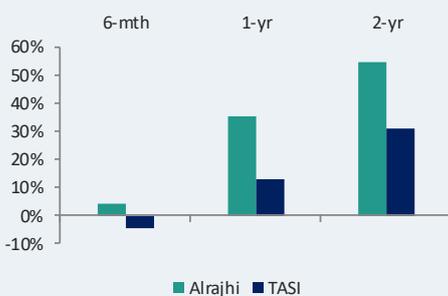
Market Data

52 Week H/L	SAR 92.40/61.80
Market Capitalization	SAR 142,188 mln
Shares Outstanding	1,625 mln
Free Float	87.2%
12-Month ADTV	4,192,059
Bloomberg Code	RJHI AB

1-Year Price Performance



Source: Bloomberg



3Q2018 (SAR mln)	Actual	RC Forecast
Net Fin. Income	3,379	3,331
Total Op Income	4,383	4,414
Net Income	2,573	2,634
Net Financing	234,427	231,292
Deposits	288,836	275,504

Another Strong Performance

Al Rajhi reported 3Q2018 results with a net income of SAR 2.57 billion, up +14% Y/Y but flat Q/Q, in-line with our forecast of SAR 2.63 billion and consensus of SAR 2.61 billion. Strong profitability was a result of an improvement in total income on the back of higher net financing and investments income and better non-core income Y/Y. We believe spreads widened as financing income climbed and funding cost plummeted Y/Y. Operating expenses registered a growth of +6% Y/Y and +5% Q/Q, as provisions, depreciation and G&A expenses increased. Net financing rose by SAR 5.5 billion, while deposits swelled by SAR 8.4 billion. As a result, LDR declined slightly to 81%. Investments were more or less flat Q/Q, declining by SAR 326 million. The stock offers a 5.8% expected dividend yield, which is attractive to income investors. We maintain a target price of SAR 91.00 and a Neutral rating.

LDR retreats to 81%

Al Rajhi managed to reverse the downward trend in net financing, which was trending since the start of the year, and raise it by SAR 5.5 billion to SAR 234 billion, close to our forecast. Deposits added SAR 8.4 billion, as opposed to last quarter's decline of SAR 3.6 billion, to reach SAR 289 billion. Given the larger increase in deposits, LDR fell from 82% to 81% at 3Q-end. Net Financing and deposits followed the overall sector trend this quarter, where they have grown by SAR 16.2 billion and SAR 22.2 billion respectively. Investments, however, were more or less flat at SAR 48 billion (dipping slightly by SAR 326 million Q/Q) despite the availability of sovereign Islamic paper in the market.

Net financing and investments income up +11% Y/Y

Net financing and investments income has increased +11% Y/Y and +5% Q/Q to SAR 3.38 billion, in line with our SAR 3.33 billion forecast. The annual incline came as spreads improved on the dual impact of a +10% rise in financing income and a -12% decline in funding cost, while on a quarterly basis both items rose. Net financing and investments income went up as SAIBOR continues its uptrend.

Provisions rise

Non-core income witnessed +6% Y/Y rise and -5% Q/Q fall to SAR 1.00 billion. Fee-based income increased while net exchange income and other operating income decreased on an annual and quarterly basis. However, the rise in fee-based income could not compensate for the fall in the other two items Q/Q. As a result, total income came at SAR 4.38 billion, up +10% Y/Y and +2% Q/Q. Operating expenses went up +6% Y/Y and +5% Q/Q to SAR 1.81 billion, in-line with our SAR 1.78 billion forecast. This resulted from higher provisions, depreciation expense, general and other administrative expenses, while salaries expenses remained more or less flat.

Net income meets expectations

Net income at SAR 2.57 billion went up +14% Y/Y but remained flat Q/Q, and came in-line with our estimate and market consensus of SAR 2.63 billion and SAR 2.61 billion respectively. The stock offers a dividend yield of 5.8% at current price. Trading at an expensive 2018E P/B of 2.5x (maintaining its premium to the market and sector) and close to our target price of SAR 91.00, we continue to recommend Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Fin. Inc	12,029	13,228	13,770
Prov for cred loss	1,548	1,646	1,765
Net Income	9,121	10,180	10,404
EPS (SAR)	5.61	6.26	6.40
DPS (SAR)	4.00	5.10	5.00

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	3.7%	4.0%	4.0%
ROAE	16.9%	17.9%	17.7%
ROAA	2.7%	2.9%	2.9%
CAR	23.3%	22.4%	22.6%
P/B	2.6x	2.5x	2.4x

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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