

Rating **Neutral**
 12- Month Target Price **SAR 74.00**

AL RAJHI BANK
 1Q2019 First Look

Expected Total Return

Price as on Apr-29, 2019	SAR 75.00
Upside to Target Price	(1.3%)
Expected Dividend Yield	4.0%
Expected Total Return	2.7%

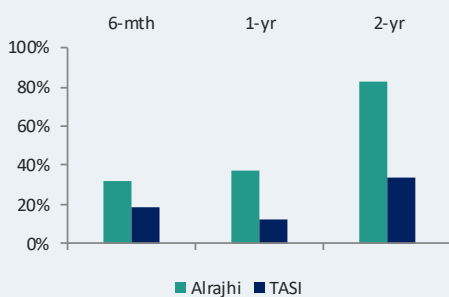
Market Data

52 Week H/L	SAR 76.90/50.86
Market Capitalization	SAR 187,500 mln
Shares Outstanding	2,500 mln
Free Float	85.8%
12-Month ADTV	4,191,722
Bloomberg Code	RJHI AB

1-Year Price Performance



Source: Bloomberg



1Q2019 (SAR mln)	Actual	RC Forecast
Net Fin. Income	3,944	3,572
Total Op Income	4,639	4,604
Net Income	2,885	2,900
Net Financing	236,419	233,833
Deposits	293,504	295,294

New Record Profits

Al Rajhi reported its 1Q2019 results with a net income of SAR 2.89 billion (+21% Y/Y, +4% Q/Q), matching our forecast of SAR 2.90 billion and in-line with consensus of SAR 2.80 billion. The main driver for profitability this quarter was net financing and investments income as it was +15% Y/Y and +3% Q/Q higher, while non-core income and operating expenses were little changed. Provisions declined by -14% Y/Y, but rose +18% Q/Q to reach SAR 389 million. During the quarter, the bank added SAR 3.1 billion in net financing and SAR 2.5 billion in investments while deposits dropped minimally by SAR 405 million. Trading at a 2019E P/B of 3.5x, we maintain our Neutral stance, but raise our target price to SAR 74.00.

LDR rises to 81%

Net financing increased by SAR 3.1 billion Q/Q to reach SAR 236 billion. Deposits, on the other hand, were more or less flat this quarter, falling by only SAR 405 million Q/Q, to remain unchanged at SAR 294 billion. Consequently, LDR edged up to 81% from 79% last quarter. Investments augmented by SAR 2.5 billion Q/Q, after dropping in the previous two quarters, to reach SAR 46 billion. Al Rajhi's Balance Sheet items followed the general sector trend, as sector loans increased by SAR 17 billion in 1Q19 and deposits decreased by SAR 32 billion, while banks holdings of government bonds increased by SAR 31 billion, according to SAMA's monthly bulletin.

Net financing and investments income up +15% Y/Y

Net financing and investments income increased +15% Y/Y and +3% Q/Q to a new record of SAR 3.94 billion, higher than our SAR 3.57 billion forecast, supported by elevated SAIBOR rates. Financing income exceeded SAR 4.0 billion (+15% Y/Y, +3% Q/Q), marginally offset by the +23% Y/Y rise in funding cost, though it retreated slightly by -2% Q/Q to SAR 143 million. The bank maintains its relatively low funding cost given its remarkably large base of zero-cost deposits.

Opex flat

Non-core income was more or less flat both on an annual and quarterly basis at SAR 695 million. Fee-based income increased, while net exchange income and other operating income decreased Y/Y and Q/Q. Total operating income rose to SAR 4.64 billion, +12% Y/Y and +3% Q/Q, almost matching our estimate. Operating expenses did not witness much change as well reaching SAR 1.75 billion, flat Y/Y and +1% over last quarter, close to our estimate of SAR 1.70 billion. Provisions were at SAR 389 million (-14% Y/Y, +18% Q/Q). Salaries and employees related expenses and depreciation expense increased while rent expenses decreased both Y/Y and Q/Q.

Net income matches forecast

Net income of SAR 2.89 billion (+21% Y/Y, +4% Q/Q) matched our SAR 2.90 billion estimate and was in-line with market consensus of SAR 2.80 billion, marking the highest quarterly profit in Al Rajhi's history. The stock offers a 4.0% dividend yield and trades at a rich 2019E P/B of 3.5x which we believe is justified. We raise our target price from SAR 71.50 to SAR 74.00 but maintain a Neutral recommendation.

Key Financial Figures

FY Dec31 (SAR mln)	2018A	2019E	2020E
Net Fin. Inc	13,253	14,433	14,529
Prov for cred loss	1,531	1,470	1,487
Net Income	10,297	11,698	11,771
EPS (SAR)	4.12	4.68	4.71
DPS (SAR)	2.76	3.00	3.10

Key Financial Ratios

FY Dec31	2018A	2019E	2020E
NIM	3.9%	4.1%	4.0%
ROAE	19.7%	23.1%	22.0%
ROAA	2.9%	3.2%	3.2%
CAR	20.2%	20.4%	20.2%
P/B	3.9x	3.5x	3.5x

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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