

2Q 2018 Results Update

Aug 07, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	87.8
Target Price (SAR)	82.2
Upside/Downside (%)	-6.4%

As of Aug 06th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	142.7
52 Wk High (SAR)	95.4
52 Wk Low (SAR)	61.8
Total Outstanding shares (in mn)	1,625
Free Float (%)	86.8%

Al Rajhi vs. TASI (Rebased)

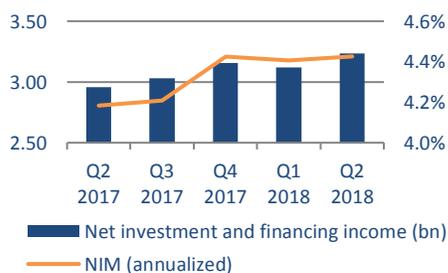


Price Performance (%)	Absolute	Relative
1m	3.4%	2.6%
6m	17.8%	9.2%
12m	41.4%	25.1%

Major Shareholders (%)

General Organization for Social Insurance	10.19%
---	--------

Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 06th Aug 2018

Higher net financing and investment income, fees from banking services drives 2Q18 results

Al Rajhi Bank reported robust performance in 2Q18, with net income growing 17.7% YoY to SAR 2.6bn, in line with the recovery in Saudi Arabian economy. Total operating income increased 10.6% YoY to SAR 4.3bn primarily due to higher net financing and investment income (up 9.4% YoY to SAR 3.2bn) and fee from banking services (up 22.9% YoY to SAR 0.8bn). Gross financing and investment income increased 8.1% YoY to SAR 3.3bn, while cost of funds declined 17.9% YoY to SAR 0.1bn. Bank's board of directors have recommended a dividend of SAR 2.0 per share, amounting to SAR 3.2bn, for 1H18.

In line with US Federal Reserve rate hike in June, Saudi Arabian Monetary Authority (SAMA) raised its repo rate by 25bps for the second time during the year, taking the rate up to 2.50%. Further rate hikes (expected 2-3 times in 2018) may impact credit demand in the country. However, Al Rajhi Bank's loan portfolio primarily comprises of retail loans, giving it some cushion over other banks whose portfolios are dominated by corporate loans. Given the countervailing arguments, we retain our 'Neutral' rating on the stock.

- In spite of 1.7% YoY decline in net financing of SAR 228.9bn, the bank reported 8.1% YoY increase in gross financing and investment income of SAR 3.3bn, indicating an improvement in gross yield rates during the period. Cost of funds (Return on customers' banks' and financial institutions' time investments) declined 17.9% YoY to SAR 0.1bn following the 1.8% YoY decline in customers' deposits. As a result, net financing and investment income rose 9.4% YoY to SAR 3.2bn.
- Total operating income increased 10.6% YoY to SAR 4.3bn primarily due to increase in net financing and investment income as discussed above, supported by higher fee from banking services, which grew 22.9% YoY to SAR 0.8bn. This growth was partially offset by 8.5% YoY decline in net exchange income of SAR 0.2bn.
- Operating expense, excluding impairment charges, increased 7.4% YoY to SAR 1.4bn, as a result of 21.7% YoY increase in general and administrative expenses of SAR 0.5bn and 1.6% YoY increase in salaries and employee related benefits expenses of SAR 0.7bn. Despite higher operating expenses, cost-to-income ratio for the bank improved from 33.3% in 2Q17 to 32.3% in 2Q18. Furthermore, net impairment charge for financing decreased 17.8% YoY to SAR 0.3bn, leading to 17.7% YoY growth in net income of SAR 2.6bn.
- At the end of 2Q18, the bank had strong funding from customer deposits of SAR 280.4bn, making 93% of total liabilities of the bank. Loan to deposit ratio stood at 81.7% in 2Q18, as compared to 81.6% in 2Q17.
- The bank is a leading global shariah-compliant bank with a strong free float. In addition to its robust liquidity position, the bank's asset quality remained strong with an NPL ratio of 0.8% in 2Q18; the asset quality is expected to remain strong going forward.

Valuation: We have revised our target price upwards with a fair value of SAR 82.2 per share, in-line with current share price run-up and incorporating strong 2Q18 performance. We retain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	3.2	3.0	9.4%	13.1	12.0	8.8%
Operating income (SAR bn)	4.3	3.9	10.6%	17.2	15.9	8.3%
EPS (SAR)	1.6	1.3	17.7%	6.1	5.6	9.2%
Net Interest Margin (%)	4.4%	4.2%	0.2%	4.5%	4.2%	0.3%
Cost to income (%)	32.3%	33.3%	-1.0%	32.6%	32.9%	-0.3%
RoE (%)	19.9%	16.6%	3.3%	17.3%	16.9%	0.4%
Total Assets (SAR bn)	348.4	345.6	0.8%	365.2	343.1	6.4%
Financing, net (SAR bn)	228.9	232.8	-1.7%	248.4	233.5	6.4%
Customer Deposits(SAR bn)	280.4	285.4	-1.8%	290.4	273.1	6.4%

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.