

3Q 2018 Results Update

Nov 01, 2018

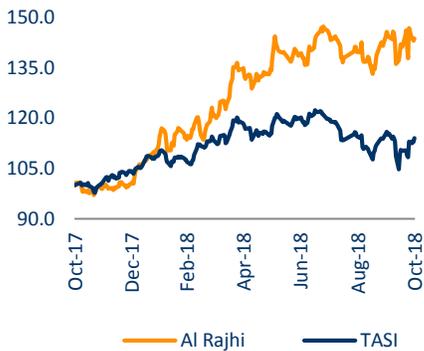
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	87.5
Target Price (SAR)	82.2
Upside/Downside (%)	(6.0%)

As of 31st Oct 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	142.2
52 Wk High (SAR)	92.4
52 Wk Low (SAR)	61.8
Total Outstanding shares (in mn)	1,625
Free Float (%)	87.2%

Al Rajhi vs. TASI (Rebased)

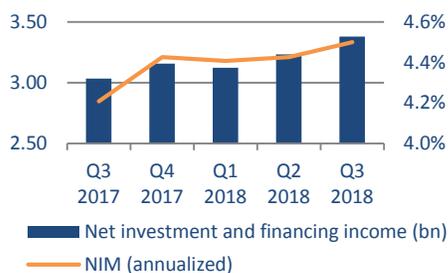


Price Performance (%)	Absolute	Relative
1m	(0.5%)	0.7%
6m	6.5%	10.2%
12m	43.8%	29.7%

Major Shareholders (%)

General Organization for Social Insurance	10.19%
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Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 31st Oct 2018

Higher net financing and investment income, fees from banking services drives 3Q18 results

Al Rajhi Bank's net income grew 13.6% YoY to SAR 2.6bn, marginally lower than consensus estimates. Total operating income increased 10.2% YoY to SAR 4.4bn primarily due to higher net financing and investment income (up 11.5% YoY to SAR 3.4bn) and higher fee from banking services (up 14.0% YoY to SAR 0.8bn). This was partially offset by lower exchange income and other operating income. Total operating income, excluding impairment charges, increased 7.1% YoY to SAR 1.4bn mainly due to higher staff expenses and other general and administrative expenses. Impairment charges increased marginally by 1.8% YoY to SAR 0.4bn. Net financing grew 0.5% YoY to SAR 234.4bn, while customer deposits increased 6.9% YoY to SAR 288.8bn. Loan-to-deposit ratio for 3Q18 stood at 81.1% compared to 86.3% in 3Q17. Investments increased 34.1% YoY to 47.9bn.

Following the US Federal Reserve rate hike in September, Saudi Arabian Monetary Authority (SAMA) raised its repo rate by 25bps for the third time this year, taking the rate up to 2.75%. These rate hikes may impact credit demand in the coming quarters. However, Al Rajhi Bank's low loan to deposit ratio provides the bank sufficient room for portfolio expansion. Given the countervailing arguments, we retain our 'Neutral' rating on the stock.

- Gross financing and investment income increased 10.4% YoY to SAR 3.5bn, while cost of funds (return on customers', banks' and financial institutions' time investments) declined 12.0% YoY to SAR 0.1bn. As a result, net financing and investment income rose 11.5% YoY to SAR 3.4bn, and net interest margin increased from 4.2% in 3Q17 to 4.5% in 3Q18.
- Total operating income increased 10.2% YoY to SAR 4.4bn mainly due to higher net financing and investment income, supported by higher fee from banking services, which grew 14.0% YoY to SAR 0.8bn. This growth was partially offset by a decline in exchange income (down 6.9% YoY to SAR 0.2bn), and lower other operating income (down 72.7% YoY to SAR 0.01bn).
- Operating expense, excluding impairment charges, increased 7.1% YoY to SAR 1.4bn, mainly due to higher salaries and employee related expenses (up 6.6% YoY to SAR 0.7bn) and higher general and administrative expenses (up 9.6% YoY to SAR 0.5bn).
- Cost-to-income ratio improved from 32.7% in 3Q17 to 31.8% in 3Q18. Furthermore, net impairment charge for financing decreased 1.8% YoY to SAR 0.4bn, leading net income to grow 13.6% YoY to SAR 2.6bn.
- Customer deposits grew 6.9% YoY to SAR 288.8bn, while net financing increased 0.5% YoY to SAR 234.4bn. Consequently, loan to deposit ratio declined from 86.3% in 3Q17 to 81.2% in 3Q18. Investments grew 34.1% YoY to SAR 47.9bn during the quarter and the bank's asset quality remained strong with an NPL ratio of 0.8% in 3Q18.
- Latest data released by SAMA reveals that total loans by Saudi banks to the public and private sectors increased 2% YoY to SAR 1.49 trillion during 9M18. We expect the banking sector to stabilise in coming quarters led by the recovery in oil prices and government expenditures to drive developments in the kingdom. However, recent rate hikes could affect borrowings by consumers especially in a short-term inflationary environment.

Valuation: We maintain our target price of SAR 82.2 per share and re-iterate our 'Neutral' rating on the stock.

	3Q18	3Q17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	3.4	3.0	11.5%	13.2	12.0	9.4%
Operating income (SAR bn)	4.4	4.0	10.2%	17.3	15.9	8.7%
EPS (SAR)	1.6	1.4	13.6%	6.1	5.6	8.8%
Net Interest Margin (%)	4.5%	4.2%	0.3%	4.6%	4.2%	0.4%
Cost to income (%)	31.8%	32.7%	-0.9%	33.3%	32.9%	0.4%
RoE (%)	19.6%	16.9%	2.7%	17.3%	16.9%	0.3%
Total Assets (SAR bn)	356.4	338.0	5.4%	362.0	343.1	5.5%
Financing, net (SAR bn)	234.4	233.2	0.5%	238.4	233.5	2.1%
Customer Deposits(SAR bn)	288.8	270.1	6.9%	287.3	273.1	5.2%

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.

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