

FY18 Results Update

February 19, 2019

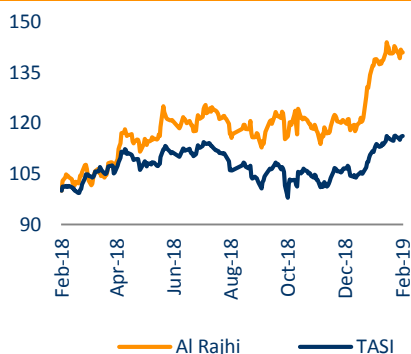
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	101.0
Target Price (SAR)	103.2
Upside/Downside (%)	2.2%

As of 18th February 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	164.1
52 Wk High (SAR)	104.0
52 Wk Low (SAR)	72.50
Total Outstanding shares (in mn)	1,625
Free Float (%)	85.8%

Al Rajhi vs. TASI (Rebased)

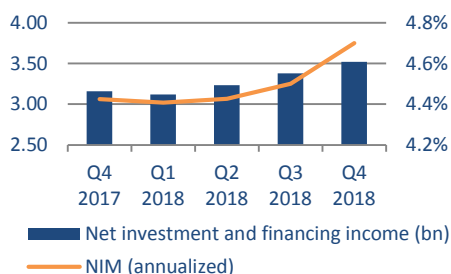


Price Performance (%)	Absolute	Relative
1m	2.8%	(1.5%)
6m	20.4%	11.1%
12m	41.0%	24.8%

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 18th February 2019

Al Rajhi recorded robust 4Q18 earnings ahead of consensus estimates

Al Rajhi Bank's net income grew 12.9% YoY to SAR 10.3bn led by higher operating income and controlled expenses, barring the rise in general and administrative expenses. Total operating income increased 8.9% YoY to SAR 17.3bn on increased net financing and investment income, and fees from banking services. The gains were somewhat limited by the decline in exchange and the other operating income. Impairment charges marginally declined 1.1% YoY to SAR 1.5bn. Net financing growth decelerated while customer deposits growth picked up. Investments increased 18.3% YoY to SAR 43.1bn.

Following the US Federal Reserve's rate hike in December 2018, the Saudi Arabian Monetary Authority (SAMA) raised its repo rate by 25bps for the fourth time in 2018, taking the rate up to 3.0%. These rate hikes may boost deposit growth, but may also limit credit demand in the upcoming year. Besides, the government expenditure plans are expected to drive developments in the Kingdom, but a sharp downturn in oil prices during 4Q18 and a weak outlook may adversely impact the overall economy.

- Gross financing and investment income increased 9.4% YoY to SAR 13.8bn, while cost of funds (return on customers', banks' and financial institutions' time investments) declined 8.1% YoY to SAR 0.5bn. Consequently, net financing and investment income rose 10.2% YoY to SAR 13.3bn and net interest margin increased from 4.2% in FY17 to 4.5% in FY18.
- Total operating income increased 8.9% YoY to SAR 17.3bn, primarily driven by higher net financing and investment income, aided by higher fees from banking services, which grew 15.0% YoY to SAR 3.1bn. This growth was partially offset by a decline in exchange income (-10.2% YoY to SAR 0.8bn) and lower other operating income (-37.7% YoY to SAR 0.2bn).
- Operating expense, excluding impairment charges, increased 4.9% YoY to SAR 5.5bn, mainly due to higher general and administrative expenses (up 15.2% YoY to SAR 1.9bn). Meanwhile, expenses on salaries, rent, and depreciation remained mostly in line with the figures in FY17.
- The cost-to-income ratio improved to 31.7% in FY18. Further, net impairment charge for financing declined 1.1% YoY to SAR 1.5bn, leading net income to grow 12.9% YoY.
- Customer deposits grew 7.6% YoY to SAR 293.9bn, while net financing increased 0.2% YoY to SAR 234.1bn. Consequently, the LDR declined to 83.0% in FY18 from 85.5% in FY17. Investments grew 18.3% YoY to SAR 43.1bn during the year. The bank's asset quality remained strong with a gross NPL ratio of 0.9% in FY18.
- Earlier this year, Al Rajhi entered into discussions for a possible merger between Al Rajhi Banking & Investment Corporation (Malaysia) BHD and Malaysian Industrial Development Finance BHD (MIDF), subject to regulatory approvals. We do not expect any material financial impact on the bank from the merger.
- The bank received CMA's approval to issue 7 bonus shares for every existing 13 shares expanding its outstanding shares to 2.5bn from 1.63bn shares. The capital increases will be partially financed from the retained earnings.
- Al Rajhi renewed its SAR 200mn Shariah compliant loan facility with Saudi Marketing Co. which will be used to finance its working capital needs.

Valuation: We upwardly revised our target price to SAR 103.2 per share in lieu of better than expected 4Q18 results, and improved outlook. We reiterate our 'Neutral' rating on the stock.

	4Q18	4Q17	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR bn)	3.5	3.2	11.5%	15.8	13.3	18.9%
Operating income (SAR bn)	4.5	4.2	7.3%	20.2	17.3	16.5%
EPS (SAR)	1.7	1.5	13.0%	7.5	6.3	17.9%
Net Interest Margin (%)	4.7%	4.4%	0.3%	4.8%	4.5%	0.3%
Cost to income (%)	31.1%	33.0%	-1.9%	31.7%	31.7%	0.0%
RoE (%)	22.1%	18.0%	4.1%	23.7%	19.7%	4.0%
Total Assets (SAR bn)	365.0	343.1	6.4%	395.5	365.0	8.3%
Financing, net (SAR bn)	234.1	233.5	0.2%	266.3	234.1	13.8%
Customer Deposits(SAR bn)	293.9	273.1	7.6%	317.0	293.9	7.9%

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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