

2Q19 Results Update

August 18, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	67.1
Target Price (SAR)	69.1
Upside/Downside (%)	3.0%

As of 18th August 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	167.7
52 Wk High (SAR)	76.9
52 Wk Low (SAR)	50.9
Total Outstanding shares (in mn)	2,500
Free Float (%)	90.3%

Al Rajhi vs. TASI (Rebased)

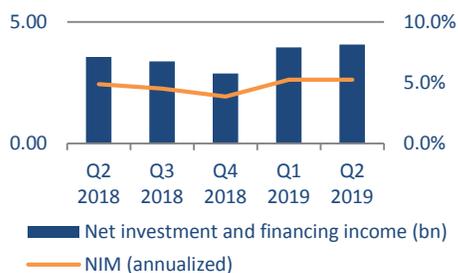


Price Performance (%)	Absolute	Relative
1m	(2.4%)	0.8%
6m	5.7%	6.4%
12m	23.3%	19.2%

Major Shareholders (%)

General Organization for Social Insurance	5.9%
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Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 18th August 2019

Higher operating income drives Al Rajhi's net profit for 1H19

Al Rajhi Bank's net income grew 8.2% YoY in 1H19 to SAR 5.2bn owing to improved operating income and lower employee benefits. In 2Q19, the net profit was up 4.3% YoY to SAR 2.6bn, marginally lower by 0.6% QoQ, due to higher administrative and general expenses. Operating income improved 13.4% YoY to SAR 4.9bn as a result of higher financing and investment income coupled with increased fee from banking services, exchange income, and other operating income. Impairment charges increased to SAR 385.6mn, up 15.7%. On an annual basis, customer deposits grew at 7.2% YoY outpacing the 5.3% YoY increase in the net financing.

Last year, the Saudi Arabian Monetary Authority (SAMA) raised its repo rate four times, in line with the Fed rate hikes, bringing the rate up to 3.0%. These consistent hikes boosted deposit growth and also helped Al Rajhi earn better margins on improved product mix, focus on mortgage and higher average investment portfolio balances. However, in July, SAMA cut its repo rate to 275 basis points (bps) from 300 bps, in line with the rate cuts announced by Fed. On one hand, these rate cuts may boost the overall credit demand in the country while on the other hand; they may hamper the company's profit margins. Moreover, the company's loan-to-deposit ratio declined marginally in the quarter. Given the countervailing arguments, we retain our "Neutral" rating on the stock.

- Gross financing and investment income grew 14.0% YoY to SAR 4.2bn, and cost of funds (returns on time investment by customers, banks, and financial institutions) increased 4.3% YoY to SAR 121.8mn. Thus, net financing and investment income grew 14.3% YoY to SAR 4.1bn and net interest margin increased to 5.2% in 2Q19 from 4.9% in 2Q18.
- Total operating income jumped 13.4% YoY and 4.8% QoQ to SAR 4.9bn, primarily driven by higher net financing and investment income. The rise was further aided by the increase in fees from banking services (up 11.3% YoY to SAR 521.9mn), exchange income (up 1.9% YoY to SAR 197.7mn), and other operating income (up 10.6% YoY to SAR 0.8bn).
- Operating expense, excluding impairment charges, increased 16.1% YoY to SAR 1.6bn, due to a sharp rise in the general and administrative expenses (up 54.6% YoY to SAR 716.1mn).
- The cost-to-income ratio increased to 33.1% in 2Q19 from 32.3% in 2Q18 and 29.4% in 1Q19. Furthermore, net impairment charges for financing increased 15.7% YoY to SAR 385.6mn, limiting the rise in the net income to 4.3% YoY to SAR 2.6bn.
- Customer deposits increased 7.2% YoY to SAR 300.6bn and net financing was up 5.3% YoY to SAR 238.5bn. Consequently, the loan-to-deposit ratio edged down to 79.3% in 2Q19 from 80.8% in 2Q18. Investments declined 4.8% YoY to SAR 45.9bn during the year. The bank's asset quality remained strong, with a gross NPL ratio of 0.85% in 2Q19, compared with 0.82% in 2Q18.
- The company's board of directors recommended a 15.0% cash dividend at SAR 1.50 per share, amounting to SAR 3.8bn for its 2.5bn shareholders.

Valuation: We revise our target price to a fair value of SAR 69.1 per share. We reiterate our "Neutral" rating on the stock.

	2Q19	2Q18	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR bn)	4.1	3.6	14.3%	14.9	13.3	12.3%
Operating income (SAR bn)	4.9	4.3	13.4%	19.2	17.3	10.7%
EPS (SAR)	1.0	1.0	4.3%	7.2	6.3	14.0%
Net Interest Margin (%)	5.2%	4.9%	0.4%	4.7%	4.5%	0.2%
Cost to income (%)	33.1%	32.3%	0.8%	30.8%	31.7%	(0.9%)
RoE (%)	20.4%	19.2%	1.2%	23.0%	19.7%	3.3%
Total Assets (SAR bn)	369.5	347.6	6.3%	367.7	364.3	0.9%
Financing, net (SAR bn)	238.5	226.5	5.3%	243.9	231.8	5.2%
Customer Deposits(SAR bn)	300.6	280.4	7.2%	290.3	293.9	(1.2%)

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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