

## Al Rajhi Bank

Profit in line with estimates

### 2Q22 Net Profit in line with our estimate

Al Rajhi Bank ("ALRAJHI", "The Bank") reported a significant increase in net profit to SAR 4,258 Mn in 2Q22 from SAR 3,605 Mn in 2Q21, almost in-line with our estimate of SAR 4,240 Mn. This increase is attributable to a 12.8% increase in total operating income due to increases in net finance and investment income, fees from banking services, and exchange income, partly offset by increase in total operating expense.

### P&L highlights

The Bank's net financing and investment income increased 10.2% YOY to SAR 5.56 Bn in 2Q22. Financing and investment income rose 23.6% YOY to SAR 6.48 bn in 2Q22 mainly due to strong growth in advances and rise in asset yield on QOQ basis. On the other hand, financing and investing expense increased 376.7% YOY and 65.8% QOQ to SAR 913 Mn mainly due to increase in benchmark interest rates. Non-funded income rose 23.1% YOY to SAR 1.58 Bn in 2Q22, owing to an increase in fees from banking services and exchange income partly offset by a decrease in other operating income. Thus, net operating income rose 12.8% YOY to SAR 7.14 Bn in 2Q22. While, total operating expenses increased 3.7% YOY to SAR 2.40 Bn in 2Q22, driven by an increase in salaries and employees' related benefits, depreciation expenses and other G&A expenses. The impairment charge fell marginally 0.7% YOY to SAR 580 Mn in 2Q22. Zakat expense increased 17.1% YOY to SAR 489 Mn in 2Q22 mainly due to the increase in profit.

### Balance sheet highlights

Net Advances rose significantly 33.2% YOY to SAR 519.7 Bn in 2Q22. Customer deposits increased 23.6% YOY and 8.9% QOQ to SAR 553.0 Bn in 2Q22, offsetting a 0.8% drop in 1Q22. Total assets increased 30.0% YOY to SAR 709.8 Bn in 2Q22. Whereas, total equity increased 37.3% YOY to SAR 81.9 Bn in 2Q22.

### Target price and rating

We maintain our HOLD rating on Al Rajhi Bank with a target price of SAR 90.00. The net financing portfolio of the bank recorded a strong growth of 33.2% YOY and 7.3% QOQ in 2Q22, mainly due to the improved economic activity. Earlier in 1Q22, the Bank revised its advances growth upward for 2022 and anticipate advances to grow in low twenties in 2022 supported by growth in mortgages and corporate loans. The market share of mortgages rose from 41.0% in 2021 to 41.5% and corporate loans from 8.7% in 2021 to 9.0% in 1Q22. ALRAJHI further plans to grow its advances market share in the corporate loan segment in 2022. The Bank NIM is expected to benefit in a rising interest rate scenario due to a positive interest rate sensitivity gap. Along with this, it held 71.3% of the total deposit in the form of CASA deposits, which will further benefit NIMs in a rising interest rate scenario. ALRAJHI asset quality remains healthy across economic cycles underscoring superior underwriting standard with a coverage ratio of approximately 293% in 2Q22. Al Rajhi revised down its NIM guidance due to competitive pressure amid a decline in CASA deposit in 1Q22. Considering these factors, we assign a HOLD rating on the stock.

**Rating : HOLD**

### First Look Note – 2Q22

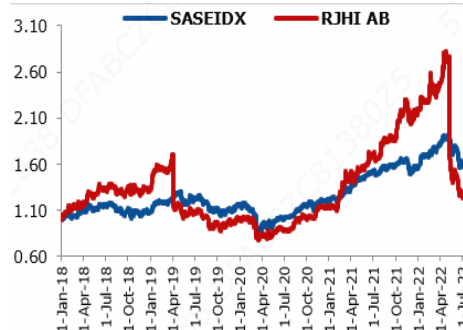
**Sector: Banking**

#### Recommendation

Current Price (02-Aug-22)	88.20
Target Price (SAR)	90.00
Upside/Downside (%)	+2.0%

#### Stock Information

Market Cap (mm)	352,800.00
Paid Up Capital (mm)	40,000.00
52 Week High	117.40
52 Week Low	71.25
3M Avg. daily value (SAR)	678,085,400



#### Financial Ratios

Dividend Yield (12m)	0.99
Dividend Pay-out (%)	23.73
Price-Earnings Ratio (x)	21.78
Price-to-Book Ratio (x)	3.07
Book Value (SAR)	28.74
Return-on Equity (%)	23.72
Earning Per Share (SAR)	4.05
Beta	1.12

#### Stock Performance

5 Days	0.80%
1 Months	6.91%
3 Months	-20.09%
6 Months	-4.52%
1 Year	20.62%
Month to Date (MTD)	-0.67%
Quarter to Date (QTD)	7.03%
Year to Date (YTD)	-0.37%

#### Al Rajhi Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	38.2	35.1	33.6	24.2	21.4
P/B (x)	7.9	7.5	6.1	5.3	3.9
Dividend Yield (%)	1.9%	2.1%	0.7%	1.6%	2.2%

FABS Estimates & Co Data

#### Al Rajhi Bank - P&L

SAR mm	2Q21	1Q22	2Q22	2Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
SAR mm										
Financing and investment income	5,243	5,891	6,480	6,168	5.1%	23.6%	10.0%	21,442	25,230	17.7%
Financing and investment Expense	-192	-551	-913	-629	45.2%	376.7%	65.8%	-1,050	-2,713	158.5%
<b>Net Financing and investment Income</b>	<b>5,052</b>	<b>5,340</b>	<b>5,567</b>	<b>5,539</b>	<b>0.5%</b>	<b>10.2%</b>	<b>4.2%</b>	<b>20,392</b>	<b>22,516</b>	<b>10.4%</b>
<b>Total operating Income</b>	<b>1,285</b>	<b>1,616</b>	<b>1,581</b>	<b>1,569</b>	<b>0.7%</b>	<b>23.1%</b>	<b>-2.2%</b>	<b>5,324</b>	<b>6,143</b>	<b>15.4%</b>
<b>Net Operating Income</b>	<b>6,336</b>	<b>6,957</b>	<b>7,148</b>	<b>7,108</b>	<b>0.6%</b>	<b>12.8%</b>	<b>2.8%</b>	<b>25,716</b>	<b>28,659</b>	<b>11.4%</b>
<b>Total operating Ex-penses before credit impairment</b>	<b>-1,730</b>	<b>-1,769</b>	<b>-1,821</b>	<b>-1,813</b>	<b>0.4%</b>	<b>5.3%</b>	<b>2.9%</b>	<b>-6,927</b>	<b>-7,273</b>	<b>5.0%</b>
Profit before provisions	4,606	5,188	5,327	5,295	0.6%	15.6%	2.7%	18,790	21,386	13.8%
Impairment charge for financing and other	-584	-578	-580	-568	2.1%	-0.7%	0.3%	-2,345	-2,808	19.7%
<b>Total Operating Ex-penses</b>	<b>-2,314</b>	<b>-2,347</b>	<b>-2,400</b>	<b>-2,381</b>	<b>0.8%</b>	<b>3.7%</b>	<b>2.2%</b>	<b>-9,272</b>	<b>-10,081</b>	<b>8.7%</b>
<b>Net income before za-kat</b>	<b>4,022</b>	<b>4,609</b>	<b>4,747</b>	<b>4,727</b>	<b>0.4%</b>	<b>18.0%</b>	<b>3.0%</b>	<b>16,445</b>	<b>18,578</b>	<b>13.0%</b>
Zakat	-418	-476	-489	-487	0.4%	17.1%	2.8%	-1,699	-1,915	12.7%
<b>Net profit attributable</b>	<b>3,605</b>	<b>4,134</b>	<b>4,258</b>	<b>4,240</b>	<b>0.4%</b>	<b>18.1%</b>	<b>3.0%</b>	<b>14,746</b>	<b>16,664</b>	<b>13.0%</b>

FABS Estimates & Co Data

#### Al Rajhi Bank - P&L KPI

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	79.7%	76.8%	77.9%	-185	112	79.3%	78.6%	-73
Cost to income	27.3%	25.4%	25.5%	-183	5	26.9%	25.4%	-156
Impairment/PPP	-12.7%	-11.1%	-10.9%	179	26	-12.5%	-13.1%	-65
NP/OI	56.9%	59.4%	59.6%	268	15	57.3%	58.1%	80
ROAE	2.4%	2.4%	2.4%	-3	-6	2.7%	2.4%	-27
ROAA	21.4%	21.3%	20.2%	-118	-113	23.5%	21.1%	-244

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#### Al Rajhi Bank - B/S Key Items

SAR mm	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
<b>Net advances</b>	390,296	420,954	452,831	484,526	519,701	33.2%
QOQ change	9.6%	7.9%	7.6%	7.0%	7.3%	
<b>Total assets</b>	546,139	582,684	623,672	657,628	709,779	30.0%
QOQ change	6.6%	6.7%	7.0%	5.4%	7.9%	
<b>Customer deposits</b>	447,506	478,331	512,072	507,892	552,957	23.6%
QOQ change	6.2%	6.9%	7.1%	-0.8%	8.9%	
<b>Total equity</b>	59,670	63,637	67,309	78,341	81,913	37.3%
QOQ change	0.8%	6.6%	5.8%	16.4%	4.6%	

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**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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