

Al Rajhi Bank

Mortgages continue to drive significant growth for Al Rajhi

Al Rajhi's net income grew by 40.1% Y-o-Y, mainly supported by a record high financing growth of 36.3% Y-o-Y, higher non-financing income, and lower provisions. Accelerating mortgages growth continued to drive unprecedented financing growth for AlRajhi, driving earnings growth. We maintain our **Neutral recommendation for Al Rajhi with a target price of SAR97.0/share.**

AlRajhi's net financing and investment income grew by 16.1% Y-o-Y and 2.9% Q-o-Q, representing the highest growth rate since Q4 2018. Net financing and investment income accelerated on account of record growth for financing (+36.3% Y-o-Y) and investments (+36.9% Y-o-Y). Al Rajhi's financing growth has been accelerating over the past 6 quarters thanks to the rising demand for mortgages in the market coupled with rising market share for Al Rajhi. The bank's mortgage loans grew by 93.1% Y-o-Y and 20.1% Q-o-Q as of Q1 2021, accounting for nearly 52% of the growth in loans during the quarter and 34% of the total financing portfolio. Net Profit Margin (NPM), on the other hand, tightened to 4.6% vs 5.0% in Q1 2020 on the back of lower SAIBOR and lower spreads.

Non-financing income accelerated by 37.3% Y-o-Y and 1.9% Q-o-Q, mainly driven by the rising income from brokerage fees from Al Rajhi Capital which reportedly increased its market share and demand volume. Total operating income grew by 19.7% Y-o-Y and 2.7% Q-o-Q. Net operating income (before provisions) hiked by 28.4% Y-o-Y and 6.6% Q-o-Q. Cost to Income Ratio fell from 32.6% in Q1 2020 to 27.8% in Q1 2021. The bank aims to maintain the ratio below 30% during the year, supported by cost optimization and higher income.

Provisions fell by 16.7% Y-o-Y and 4.9% Q-o-Q, despite loan growth, due to recoveries/reversals of previously recorded provisions. Cost of Risk tightened to 0.67% vs 0.75% in FY2020. Net income jumped by 40.1% Y-o-Y and 6.9% Q-o-Q. The bank's net income margin reached 67.9%, the highest since Q4 2017.

AlRajhi's deposits grew by 33.5% Y-o-Y and 10.1% Q-o-Q, mainly driven by current accounts growth. Loan to Deposits Ratio (LDR) increased to 81% vs 79% in Q1 2021 but remains considerably below the maximum threshold, leaving ample room for financing growth.

During March 2021, Al Rajhi announced the distribution of cash dividends of SAR1.0/share for FY2020, representing 24% payout ratio. The bank's liquidity, asset quality, and capital ratios remain strong. Non-performing loans (NPL) fell to 0.70% vs 0.76% in Q4 2020 with NPL coverage at 318%, reflecting strong buffers against any possible credit quality deterioration, while liquidity ratios remain above 100%.

AlRajhi's NIM is expected to continue its downtrend on the back of lower SAIBOR and reduced mortgage rates, as stipulated by Saudi Real Estate Refinance Co. (SRC) starting from the 1st of April. Cost optimization efforts, which were evident over the past 2 quarters, and fast financing growth is likely to offset lower NIM though. We raise our 2021 estimates for loan growth and net income for Al Rajhi on the faster than expected financing growth and lower cost to income ratio. Al Rajhi is currently trading at a historical high multiple of 4.0x Price/Book and TTM P/E of 21.2x.

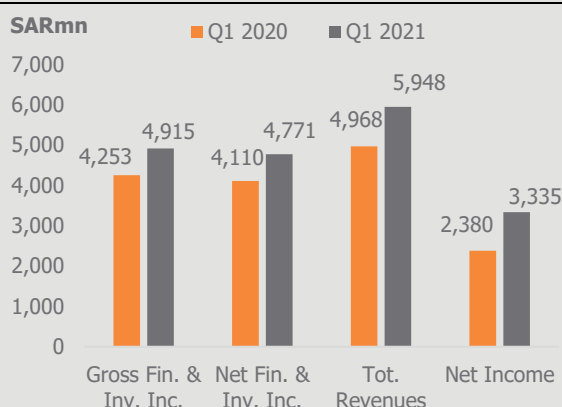
28 April 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (27-04-2021)	SAR97.8
Target Price (52 weeks)	SAR97.0
Upside/ (Downside)	-1.0%
Shariah Compliance	Pass

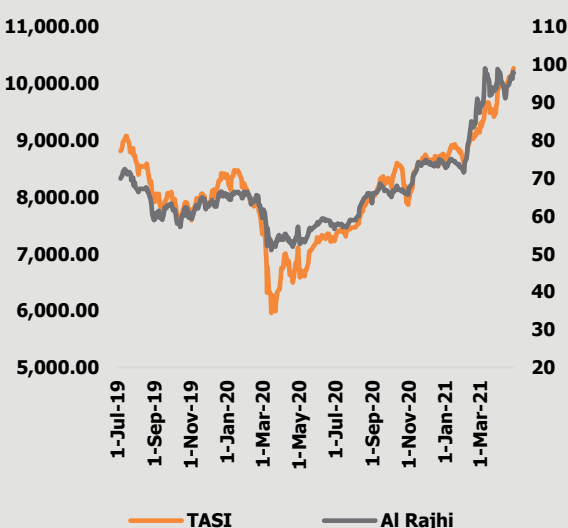
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Gross Fin. & Inv.	3.2%	11.2%	-3.6%
Net Fin. Margin	97.1%	97.4%	96.7%
Net Inc. Margin	67.9%	65.6%	56.0%

Key Financial Results (Q1 2021)



Share Price Performance



Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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