



Al Rajhi Bank posted a net income of SAR 4.40bn, in line with our estimate and consensus estimates of SAR 4.45bn and SAR 4.39bn, respectively. Deposits increased 10.3% Y/Y to SAR 564.9bn, as compared to our estimate of SAR 592.3bn. Loans expanded by 25.5% Y/Y to SAR 568.3bn, below our estimate of SAR 598.2bn. NIM in FY22 came in at 3.7% as compared to 4.2% in FY21 due to the higher cost of deposits. We expect the bank to continue increasing its market share in the mortgage segment with an improved focus on the corporate loan segment, while NIMs are likely to stay subdued due to substantial increase in time deposits. We maintain our recommendation of **“Neutral”** with a TP of **SAR 95.0/share**.

- Al Rajhi Bank (Al Rajhi) posted earnings of SAR 4.4bn, up 9.8% Y/Y and 1.1% Q/Q. The growth in net income was aided by a rise in net financing and investments income, as well as growth in fee and other income, exchange income, and other operating income. Net financing and investment income increased 4.2% Y/Y (-1.9% Q/Q) at SAR 5.6bn, in line with our expectation of SAR 5.7bn. Other operating income witnessed a rise of 12.4% Y/Y to 1.7bn in Q4-22 as compared to SAR 1.5bn in Q4-21.
- Yield on earnings assets came in at 5.1% in Q4-22 as compared to 4.4% in Q3-22 and 4.3% in Q4-21, however, NIM was lower at 3.7% in Q4-22 as compared to 4.2% in Q4-21 (3.6% in Q3-22) given higher cost of funds (2.1% in Q4-22 vs. 1.2% in Q3-22).
- Loan book depicted a robust expansion of 25.5% Y/Y and 1.9% Q/Q to SAR 568.3bn, below our estimate of SAR 598.2bn. Meanwhile, deposits grew 10.3% Y/Y and 1.6% Q/Q to SAR 564.9bn as compared to our estimate of SAR 592.3bn. As loan growth outpaced deposit growth, the ADR ratio rose to 100.6% in Q4-22 from 100.3% in Q3-22 and 88.4% in Q4-21.
- The bank posted an operating income of SAR 7.3bn (6.0% Y/Y, 0.8% Q/Q), in line with our estimate of SAR 7.3bn. The Y/Y increase in operating profit can be attributed to the rise in net financing and investment income as well as other income.
- Operating expenses of SAR 2.4bn (-1.2% Y/Y, 0.1% Q/Q) was in line with our estimate of SAR 2.3bn. The Y/Y decline can be ascribed to a decline in impairment costs. Al Rajhi posted impairment charges of SAR 352.0mn (-40.3 Y/Y, -28.1% Q/Q), below our estimate of SAR 620.0mn. Consequently, cost of risk declined to 0.2% in Q4-22, lower than our estimate of 0.4% (0.4% in Q3-22). However, OPEX excluding provisions increased 11.8% Y/Y (7.5% Q/Q) to SAR2.0bn in Q4-22, leading to a cost to income ratio of 27.5% in Q4-22 from 25.8% in Q3-22 (26.1% in Q4-21).

AJC view: Al Rajhi bank is expected to maintain strong growth momentum in FY23E. We foresee the bank to continue gaining a higher market share in mortgage loans as well as expand its corporate credit book. However, NIM is expected to slightly decline to 3.6% in FY23E compared to 3.7% in FY22 due to expected higher cost of funds. Total operating income is estimated to rise 15.0% in FY23 (FY22: 11.1%). Our ADR assumption stands at 96.1% for FY23 (FY22: 100.6%). We expect retail loans to continue to drive loan growth for the bank, mainly led by mortgages (retail loan growth forecasted at 14.6% in FY23E). We estimate an EPS of SAR 4.63 for FY23, supported by growth in loans and deposits, complemented by the improving cost-to-income ratio. We maintain our **“Neutral”** recommendation on Al Rajhi with a TP of **SAR 95.0/share**.

Results Summary

| SARmn | Q4-21 | Q3-22 | Q4-22 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|-------------------------------------|----------------|----------------|----------------|-------------|-------------|------------------------------|
| Net financing and investment income | 5,354.9 | 5,687.0 | 5,579.0 | 4.2% | -1.9% | -2.7% |
| <i>Net financing margin</i> | <i>93.1%</i> | <i>77.9%</i> | <i>65.4%</i> | - | - | - |
| Total Operating income | 6,853.6 | 7,206.5 | 7,264.1 | 6.0% | 0.8% | -0.2% |
| Net Profit | 4,011.4 | 4,354.6 | 4,404.5 | 9.8% | 1.1% | -1.1% |
| EPS | 1.00 | 1.09 | 1.10 | 9.8% | 1.1% | -1.1% |

Source: Company Reports, Aljazira Capital

| | |
|-----------------------------|----------------|
| Recommendation | Neutral |
| Target Price (SAR) | 95.0 |
| Upside / (Downside)* | 15.6% |

Source: Tadawul *prices as of 29th of January 2023

Key Financials

| SARmn (unless specified) | FY21 | FY22 | FY23E | FY24E |
|-------------------------------------|--------|--------|--------|--------|
| Net financing and investment income | 20,392 | 22,173 | 26,187 | 30,718 |
| Growth % | 20.6% | 8.7% | 15.4% | 17.3% |
| Net Income | 14,746 | 17,151 | 18,509 | 21,412 |
| Growth % | 39.2% | 16.3% | 8.8% | 15.7% |
| EPS | 3.68 | 4.25 | 4.63 | 5.35 |

Source: Company reports, Aljazira Capital

Key Ratios

| | FY21 | FY22 | FY23E | FY24E |
|------------------|-------|-------|-------|-------|
| NIMs | 4.2% | 3.7% | 3.6% | 3.8% |
| Operating Margin | 76.7% | 67.8% | 62.2% | 60.7% |
| P/E (x) | 22.3 | 19.4 | 17.8 | 15.4 |
| P/B (x) | 5.27 | 3.51 | 3.31 | 2.99 |
| Dividend Yield | 1.7% | 1.5% | 2.0% | 2.6% |
| ROA | 2.4% | 2.2% | 2.3% | 2.4% |
| ROE | 23.5% | 20.5% | 22.0% | 25.1% |
| Loans growth* | 43.4% | 25.5% | 13.5% | 9.7% |

Source: Company reports, Argaam, Aljazira Capital *Net Loans Growth

Key Market Data

| | |
|------------------------|------------|
| Market Cap(bn) | 328.8 |
| YTD% | 9.3% |
| 52 week (High)/(Low) | 114.8/72.1 |
| Share Outstanding (mn) | 4,000.0 |

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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