



Results Review

Al Rajhi

Rating: Market Perform

Al Rajhi - 1Q 2010

Not afraid to lend as provisioning charges continue to be high

- **Al Rajhi reported 1Q 2010 net profit of SR 1.68bn (+15% qoq, -3% yoy) beating our estimate by 48m.** Overall, revenues grew to 2.8bn, a growth rate of 3.4% yoy helped by gains in interest income (+1.7% qoq) and a sharp jump in non-interest income (+7.6% qoq). However, the bottom line was marred slightly by continued build up in provisioning charges. We estimate a provisioning charge of SR 404mm, while 8% lower than the quarterly average of SR 440mm last year, was nonetheless 40% higher than the provisions booked in Q109 of 288mm.
- While the bank seems to have changed the way it details information in the quarterly earnings press release, it did disclose **robust growth in financing assets to SR 117bn from SR 110bn (+6% yoy) and customer deposits to SR 130bn from SR 120bn (+7.6%), especially in light of dismal sector growth of 1.9% and 4.4%, respectively over the same time period.** Al Rajhi has always had a dominant retail franchise (making up 40% of the loan book), but slowly moving toward the corporate sector in the last 2 years. With the asset quality issues seen in the Saudi corporate sector, the loan growth may be indicative of retail lending returning to the fore. (NPL's at end of 2009 rose to 2.1% with coverage ratio of 107.5)
- Based on our estimates, the bank was also successful in reigning in non-interest operating costs back by at least 10% qoq, after the sharp rise seen in Q409. The current cost structure (efficiency ratio of 26%) is the **most cost-efficient in our Saudi banking coverage showing** Rajhi's ability to successfully wring efficiencies out of its vast retail footprint (425 branches – largest in Saudi and 54% more than closest competitor)
- While the growth in financing assets and deposits is encouraging, there are many unanswered questions while we await the detailed financials – breakup of investments vs. loan book, provisioning charge vs. non-interest expense breakdown, main sectors of lending growth. The stock trades at a significant premium to the sector (2010e P/B of 4.1x vs. sector average of 2.2x) due to high NIM, strong revenue base and good cost efficiency translating to high ROE. **However, we believe the stock (up 13% ytd) is near full value and trades close to our TP of SR 80.4, thus prompting our rating change to 'Market Perform'**

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Rajhi						
(SAR Millions)	1Q09	4Q09	1Q10E	1Q10A	qoq	yoy
Net Income from Investment	2,284	2,165	2,392	2,203	1.7%	-3.5%
Non Investment Income	456	584	349	629	7.6%	38.0%
Total Income	2,740	2,750	2,741	2,832	3.0%	3.4%
Non Investment Expense	(720)	(824)	(751)	(744)	-9.6%	3.4%
Provisions	(288)	(457)	(353)	(404)	-11.6%	40.0%
Net Income for Shareholders	1,732	1,470	1,636	1,684	14.6%	-2.8%
Net Loans and Advances	140,134	148,707	149,851			
Total Assets	162,211	170,730	171,000	172,000	0.7%	6.0%
Customer Deposits	119,877	120,533	125,319	129,000	7.0%	7.6%
Loans/Deposits	117%	123%	120%			
Efficiency Ratio	-26%	-30%	-27%	-26%	-12.2%	0.0%

❖ Grey areas are estimates as detailed financials not available yet

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