

Earnings Update

Al Rajhi

ST Rating: Market Perform

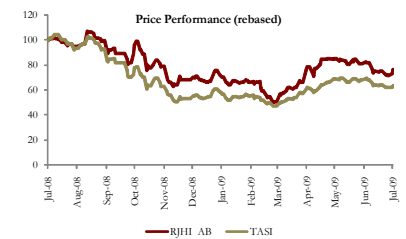
LT Rating: Outperform

Al Rajhi Bank 2Q09 Results

- Al Rajhi reported preliminary 2Q09 net profit of SAR 1,771mm (+1.6% yoy, 2.3% qoq) in line with our expectation of SAR 1,727mm. Total revenues rose by 6% qoq, showing resilience in both the funded and unfunded businesses. While interest income saw a healthy growth on a flat loan book, the non-investment income is where the major growth came from, rising 23.3% qoq to SAR 562 mm for the quarter. On the interest income front, the bank enjoys a 250 bp margin advantage on other Saudi banks and continues to display the ability to do so in the future.
- Preliminary results have not broken out the provisioning amount from the non-interest expense amounts. We estimate non-interest related expenses at SAR 720mm (flat qoq), leaving us with estimated provisions for loan losses of SAR 410mm, higher than Q109 provisions by 42.2%. The bank has a predominantly retail franchise and the higher provisioning points to more expected stress in the sector. NPL and coverage ratio were last reported at the end of 2008 at 1.2% and 191.2%, respectively.
- Although loans grew by a small amount (+0.8% qoq) and deposits were flat in the quarter, Al Rajhi was able to grow the revenue and net income lines. This came on the back of maintaining high margins and recovery in the non-funded business, despite the continued build up in provisioning. Although the balance sheet has not expanded by much, the macro-economic environment in the country is stressed (especially in light of the Saad and Al Gosaibi news flow), we believe the prudent new loan origination is the right strategic direction.
- The bank managed to increase or maintain margins, grow the revenues and bottom line while still being conservative in growing the provisions for loan losses. The bank currently trades at a 09E P/B of 3.3x, the most expensive in the Saudi market. However, the bank has displayed the ability to maintain strong margins (250 bp above competition) and low costs (efficiency ratio of 26% vs. a peer average of 30%). We maintain our LT 'Outperform' rating on the stock with a TP of 80.4 an upside of 25.6%

Equity Data

Current Price (SAR)	64.0
Target Price (SAR)	80.4
Upside/downside	26%
Short-Term Rating	Market Perform
Long-Term Rating	Outperform
12 Mo. Performance	-17.8%
52-Week Range (SAR)	40.6-91.0
Market Cap. (SAR bn.)	96.0
RIC	1120.SE
Bloomberg	RJHI AB



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SAR Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	2,140	2,284	2,339	9.3%	2.4%
Non-Interest Income	577	456	562	-2.6%	23.3%
Total Income	2,717	2,740	2,901	6.8%	5.9%
Non-Interest Expense	(698)	(720)	(719.8) *	4.3%	0.0%
Provision for Loan Losses (PLL)	(277)	(288)	(410.2) *	68.8%	-68.5%
Net Income for Shareholders	1,742	1,732	1,771	1.6%	2.3%
Net Loans and Advances	125,261	143,116	144,300	15.2%	0.8%
Total Assets	150,039	162,211	165,000	10.0%	1.7%
Customer Deposits	113,028	123,088	123,000	8.8%	-0.1%
Loans/Deposits	111%	116%	117%		
Efficiency Ratio	-25.7%	-26.3%	-24.8%		

* Al Mal estimate

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