

Q4 2022

Cost of funds impacted profitability

Although AlRajhi Bank reported an in-line set of Q4 22 results, we believe the underlying result trends indicate weakness. Net income grew by 9.8% yoy (+1.1% qoq) to SAR4.41bn (+1.1% qoq) and was in-line with the SNB Capital and consensus estimates of SAR3.43bn and SAR4.39bn, respectively. However, the significant increase in cost of funds and cost to income ratio are the key highlights. Loan book increased by 25.5% yoy (+1.9% qoq) to SAR568bn, but lagged our estimates of SAR580bn.

- Total operating income increased by 6.0% yoy (+0.8% qoq) to SAR7.26bn, but was lower than our estimates of SAR7.55bn. The yoy growth was driven by a 42% yoy growth in net special commission income (NSCI) to reach SAR5.58bn, but was 4.9% lower than our estimates. We believe the deviation was due to higher than expected cost of funds. Fees and other income increased by 12.4% yoy (+10.9% qoq) to SAR1.68bn and was in-line with our estimates.
- NIMs declined c58bps to 3.0% in Q4 22, marginally lower than our estimate. Asset yields increased by 81bps yoy (+60bps qoq) to 5.0%, but the impact was offset by an increase in cost of funds which grew by 154bps yoy (+80bps) to 1.9% in Q4 22 and was higher than our estimate of 1.6%. We believe that the recent Tier I sukuk had a minimal impact in easing the pressure on the cost of funds.
- Operating expenses (ex-provisioning) increased 11.7% yoy (+7.5% qoq) to SAR2.0bn, higher than our estimates of SAR1.89bn. Subsequently, cost to income ratio stood at 27.5% in Q4 22 vs 26.1% in Q4 21 and 25.8% in Q3 22. This is also higher than our estimate of 25.0%.
- Provisioning expenses declined sharply both yoy and qoq to SAR352mn in Q4 22, significantly lower than our estimate of SAR700mn. This resulted in a decline in cost of risk to 0.2% in Q4 22 vs 0.5% in Q4 21.
- Although the bank reported a strong loan book growth of 25.5% yoy (+1.9% qoq) to reach SAR568bn, it lagged our estimates of SAR580bn. Deposits increased 10.3% yoy (+1.6% qoq) to SAR565bn compared to our estimate of SAR563bn. The bank's L/D ratio increased to 100.6% in Q4 22 vs 88.4% in Q4 21 and 100.3% in Q3 22.

Outlook

Based on our recent update in January 2023, we are Neutral on Al Rajhi with a PT of SAR85.2. The stock is trading at 2023f P/B of 3.3x (higher than the long-term average of 2.9x). We believe margins will remain under pressure due to the bank's retail focused portfolio.

Q4 22 Results Summary (SAR mn)

	Q4 22	Q4 21	%yoy	Q4 22f	%Var [^]	Q3 22	% qoq
Gross Special Commission Income	8,534	5,754	48.3%	8,461	0.9%	7,297	17.0%
Net Special Commission Income	5,579	5,355	4.2%	5,868	(4.9)%	5,687	(1.9)%
Fee and other Income	1,685	1,500	12.4%	1,677	0.5%	1,519	10.9%
Total Operating Income	7,264	6,854	6.0%	7,546	(3.7)%	7,206	0.8%
Net Income	4,404	4,012	9.8%	4,428	(0.5)%	4,355	1.1%
Net income (after Tier 1 sukuk)	4,320	4,040	6.9%	4,344	9.2%	4,320	(0.0)%
Loans (bn)	568	453	25.5%	580	(2.0)%	557	1.9%
Deposits (bn)	565	512	10.3%	563	0.3%	556	1.6%
Investments (bn)	102	84	21.0%	106	(3.2)%	102	0.3%
Assets (bn)	762	624	22.2%	755	1.0%	741	2.9%
EPS (SAR)	1.08	1.01	6.9%	1.09	(0.5)%	1.08	(0.0)%

Source: The company, SNB Capital Research, [^] % Var indicates variance from SNB Capital forecasts

REVENUE



Last 4 Quarters vs Q4 22. SAR

NEUTRAL

Price target (SAR)	85.2
Current price (SAR)	80.9

PT last updated in January 2023

VALUATION MULTIPLES

	21	22f	23f
P/E (x)	21.9	18.8	17.2
P/B (x)	4.8	3.9	3.3
Div Yield (%)	0.0	0.0	3.8
ROE (%)	21.9	20.5	19.4

Source: SNB Capital Research estimates

STOCK DETAILS

M52-week range H/L (SAR)	117/72
Market cap (\$mn)	86,208
Shares outstanding (mn)	4,000
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	7.6	(5.0)	(12.4)
Rel. to market	4.3	2.2	(1.3)

Avg daily turnover (mn)	SAR	US\$
3M	315.2	83.9
12M	530.4	141.3

Reuters code	1120.SE
Bloomberg code	RJHI AB

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