

Al Rajhi Bank (RJHI)

Healthy asset quality and growth in lending supported profitability

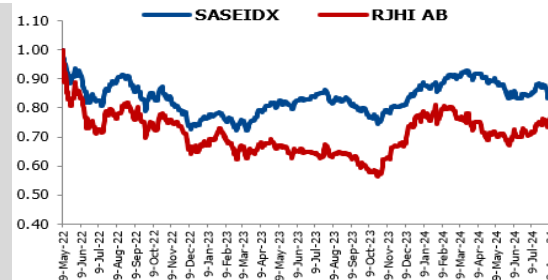
Current Price
SAR 83.80

Target Price
SAR 90.00

Upside/Downside (%)
+7%

Rating
HOLD

- Al Rajhi's net advances grew 7.4% YOY and 2.1% QOQ to SAR 622 Bn in 2Q24, driven by increased corporate and SME financing in 2Q24.
- The Bank's CASA deposits stood at 70.1% of total deposits as of 2Q24, compared to 67.5% in 1Q24.
- Al Rajhi's asset quality remained stable with NPLs of 0.78% in 2Q24 compared to 1Q24, with a coverage of 168.1% in 2Q24.
- The cost-to-income ratio improved by 133 bps YOY and 58 bps QOQ to 25.6% in 2Q24, indicating the Bank's ability to control costs effectively.
- ALRAJHI declared a cash dividend of SAR 1.25 per share for 1H24 to be paid on 26th August 2024.



Stock Information

Market Cap (SAR, mn)	335,200.00
Paid Up Capital (mn)	40,000.00
52 Week High	92.50
52 Week Low	63.10
3M Avg. daily value(SAR)	378,073,300

2Q24 Net Profit higher than our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit increased 13.2% YOY to SAR 4,698 Mn in 2Q24, higher than our estimate of SAR 4,418 Mn. The growth in net profit is attributable to a rise in funded and non-funded income partially offset by a rise in operating expenses and higher impairment and zakat charges.

2Q24 Result Review (SAR, mn)

Total Assets	866,960
Net Loans	621,891
Total Equity	116,396
Total Deposits	622,572
Net Profit	4,698

P&L Highlights

ALRAJHI's funded income rose 20.9% YOY to SAR 11,238 Mn in 2Q24 driven by a healthy growth in net advances and higher asset yield. Funded expenses increased significantly 31.2% YOY to SAR 5,380 Mn in 2Q24 primarily due to higher cost of funds. Thus, ALRAJHI's net funded income rose 12.8% YOY to SAR 5,857 Mn in 2Q24. NIMs grew 11 bps YOY and 1 bps QOQ to 2.9% in 2Q24. ALRAJHI's total non-funded income rose 8.9% YOY to SAR 1,780 Mn in 2Q24 mainly due to higher exchange and other operating income partially offset by a marginal decline in fees and commission income. Fees and commission income decline 0.5% YOY to SAR 1,123 Mn in 2Q24. Exchange income grew 9.6% YOY to SAR 319 Mn in 2Q24. In addition, other operating income grew from SAR 214 Mn in 2Q23 to SAR 337 Mn in 2Q24. Thus, total operating income increased 11.9% YOY to SAR 7,637 Mn in 2Q24. Furthermore, the Company's operating expenses rose 6.3% YOY to SAR 1,956 Mn in 2Q24 due to an increase in the depreciation and salary & employee-related expenses partially offset by a decline in other G&A expenses. Salaries and employee related expenses grew 3.7% YOY to SAR 918 Mn in 2Q24. Depreciation and amortization expenses grew 24.1% YOY to SAR 474 Mn in 2Q24, whereas other general and amortization expenses declined 1.4% YOY to SAR 565 Mn in 2Q24. However, ALRAJHI's cost-to-income ratio improved 133 bps YOY and 58 bps QOQ to 25.6% in 2Q24. Impairments charges grew 26.2% YOY to SAR 455 Mn in 2Q24.

Financial Ratios

Dividend Yield (12m)	2.86
Dividend Pay-out (%)	29.11
Price-Earnings Ratio(x)	20.21
Price-to-Book Ratio (x)	3.57
Book Value (SAR)	23.47
Return-on Equity (%)	18.38

Stock Performance

5 Days	-2.33%
1 Months	0.84%
3 Months	4.49%
6 Months	-6.58%
1 Year	15.91%
Month to Date (MTD%)	-2.10%
Quarter to Date (QTD%)	4.75%
Year to Date (YTD%)	-3.12%

due to growth in its financing portfolio. Furthermore, the Bank's Zakat expense rose 10.6% YOY to SAR 528 Mn in 2Q24.

Balance Sheet Highlights

ALRAJHI's total assets increased 10.6% YOY and 3.7% QOQ to SAR 867 Bn in 2Q24, driven by net advances and investment portfolio growth. Net advances grew 7.4% YOY and 2.1% QOQ to SAR 622 Bn in 2Q24, driven by an increase in corporate, retail and SME financing in 2Q24. In the retail financing segment, mortgages recorded a growth of 6.4% YOY in 2Q24. In addition, corporate financing increased by 21.8% YOY, and SME financing grew by 22.9% YOY in 2Q24. Moreover, customer deposits rose 9.1% YOY and 3.1% QOQ to SAR 623 Bn in 2Q24. The Bank's CASA deposits accounted for 70.1% of total deposits in 2Q24, up from 67.5% in 1Q24. The headline loan-to-deposit ratio stood at 99.9% in 2Q24 compared to 100.8% in 1Q24.

Target Price and Rating

We revise our rating from ACCUMULATE to HOLD on ALRAJHI with an unchanged target price of SAR 90.00. The Bank's stock price has grown 4.3% since our last rating. ALRAJHI witnessed strong growth in profitability driven by higher funded and non-funded income in 2Q24. The Bank's net advances rose 7.4% YOY and 2.1% QOQ to SAR 622 Bn in 2Q24, driven by strong growth of 22.9% YOY and 21.8% YOY in SME and corporate loans, respectively in 2Q24. On the other hand, deposits rose 9.1% YOY and 3.1% QOQ to SAR 623 Bn in 2Q24. Thus, the headline loan-to-deposit ratio declined 94 bps QOQ to 99.9% in 2Q24. ALRAJHI also benefited from a significant proportion of CASA deposits, which stood at 70.1% of total deposits in 2Q24, compared to 67.5% in 1Q24. NIMs grew 11 bps YOY and 1 bps QOQ to 2.9% in 2Q24. The Bank's growing CASA deposits are anticipated to benefit the NIMs as it is a cheaper source of funding. The Bank's cost-to-income ratio improved 133 bps YOY and 58 bps QOQ to 25.6% in 2Q24, indicating the Bank's ability to control costs effectively. Furthermore, ALRAJHI's asset quality remained stable, with reported NPLs of 0.78% in 2Q24 compared to 1Q24. However, reported provision coverage continued to decline from the previous four quarters to 168.1% in 2Q24. ALRAJHI should further increase its coverage to provide a cushion against bad loans going forward. Capitalization remained healthy with a Tier 1 ratio of 20.0% and CAR of 21.0% in 2Q24. ALRAJHI also declared a cash dividend of SAR 1.25 per share for 1H24 generating a dividend yield of 3.1% in 2024. Despite all the positives, the Bank trades at a high 2024 P/B ratio of 3.6x compared to the peer average of 1.7x. Considering the factors mentioned above, we revised our rating to HOLD on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	33.08	31.71	22.79	19.81	21.27	19.63
PB	7.08	5.78	4.99	4.27	3.72	3.58
Dividend yield	2.2%	0.7%	1.0%	1.5%	2.7%	3.1%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	9,296	10,803	11,238	10,999	2.2%	20.9%	4.0%	38,738	44,551	15.0%
Funded expense	-4,102	-5,156	-5,380	-5,233	2.8%	31.2%	4.4%	-17,468	-21,242	21.6%
Net Funded Income	5,194	5,647	5,857	5,767	1.6%	12.8%	3.7%	21,269	23,309	9.6%
Fees from banking services	1,129	1,039	1,123	1,028	9.3%	-0.5%	8.2%	4,226	4,564	8.0%
Exchange income, net	291	295	319	292	9.3%	9.6%	8.2%	1,246	1,321	6.0%
Other operating income	214	249	337	212	59.3%	57.4%	35.4%	790	885	12.0%
Total non-funded Income	1,634	1,582	1,780	1,532	16.2%	8.9%	12.5%	6,262	6,770	8.1%
Net Operating Income	6,827	7,229	7,637	7,298	4.6%	11.9%	5.6%	27,531	30,079	9.3%
Salaries and emp benef exp	-885	-899	-918	-912	0.6%	3.7%	2.1%	-3,525	-3,666	4.0%
Rent and premises exp	0	0	0	0	NM	NM	NM	0	0	NM
Other G&A expenses	-573	-545	-565	-572	-1.3%	-1.4%	3.7%	-2,395	-2,515	5.0%
D&A expense	-382	-450	-474	-450	5.2%	24.1%	5.2%	-1,578	-1,800	14.1%
Op. Exp. before provision	-1,840	-1,894	-1,956	-1,934	1.1%	6.3%	3.3%	-7,498	-7,981	6.4%
Profit before provisions	4,988	5,335	5,681	5,364	5.9%	13.9%	6.5%	20,033	22,098	10.3%
Impairment charge	-360	-421	-455	-433	5.0%	26.2%	8.0%	-1,504	-1,854	23.3%
Net income before zakat	4,627	4,914	5,226	4,931	6.0%	12.9%	6.3%	18,529	20,244	9.3%
Zakat	-477	-509	-528	-513	2.9%	10.6%	3.6%	-1,908	-2,024	6.1%
Net profit for the year	4,150	4,405	4,698	4,418	6.3%	13.2%	6.7%	16,621	18,220	9.6%

FABS estimate & Co Data
Al Rajhi Bank – KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	76.1%	78.1%	76.7%	63	-141	77.3%	77.5%	24
NIM	2.8%	2.9%	2.9%	11	1	2.8%	2.9%	7
NIS	2.4%	2.4%	2.4%	1	0	2.4%	2.5%	2
Fees & comms/OI	16.5%	14.4%	14.7%	-182	35	15.3%	15.2%	-18
Exchange Income/OI	4.3%	4.1%	4.2%	-9	10	4.5%	4.4%	-13
Cost to income	26.9%	26.2%	25.6%	-133	-58	27.2%	26.5%	-70
Impairment/PPP	-7.2%	-7.9%	-8.0%	-78	-11	-7.5%	-8.4%	-88
NP/OI	60.8%	60.9%	61.5%	73	59	60.4%	60.6%	20
Cost of risk	0.3%	0.3%	0.3%	3	1	0.3%	0.3%	5
Loan-to-deposit (calculated)	101.5%	100.8%	99.9%	-158	-94	103.7%	98.6%	-505
NPL (Reported)	0.7%	0.8%	0.8%	9	1	0.7%	0.8%	8
Coverage (reported)	209.6%	175.3%	168.1%	-4150	-720	203.0%	173.0%	-2997
Tier 1	20.5%	19.2%	20.0%	-50	82	20.4%	21.1%	69
Capital adequacy	21.7%	20.2%	21.0%	-61	85	21.5%	22.1%	59
ROAA	2.1%	2.1%	1.9%	-18	-11	2.0%	2.0%	2
ROAE	19.6%	17.9%	18.1%	-153	24	18.7%	18.1%	-56

FABS estimate & Co Data
Al Rajhi Bank - Key B/S items

SAR mn	2Q23	3Q23	4Q23	1Q24	2Q24	Change
Net advances	579,080	590,826	594,205	608,990	621,891	7.4%
QOQ ch	0.4%	2.0%	0.6%	2.5%	2.1%	
Total assets	783,930	801,483	808,098	835,992	866,960	10.6%
QOQ ch	1.0%	2.2%	0.8%	3.5%	3.7%	
Customer deposits	570,665	565,719	573,101	603,978	622,572	9.1%
QOQ ch	2.6%	-0.9%	1.3%	5.4%	3.1%	
Total equity	103,187	102,280	106,759	108,272	116,396	12.8%
QOQ ch	4.0%	-0.9%	4.4%	1.4%	7.5%	

FABS estimate & Co Data

Valuation:

We use the Residual Income and Relative Valuation (RV) method to value Al Rajhi. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	94.77	70.0%	66.34
Relative Valuation (RV)	78.86	30.0%	23.66
Weighted Average Valuation (SAR)			90.00
Current market price (SAR)			83.80
Upside/Downside (%)			+7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 0.88 and equity risk premium of 4.1%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	53,298
Terminal value (SAR, Mn)	231,906
Book Value of Equity (as of June 2024)	93,878
FV to Common shareholders (SAR, Mn)	379,082
No. of share (Mn)	4,000
Current Market Price (SAR)	83.80
Fair Value per share (SAR)	94.77

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	17,116	20,961	25,143	29,598	33,177
(-) Equity Charge	-8,479	-9,404	-10,501	-11,827	-13,269
Excess Equity	8,637	11,557	14,642	17,771	19,907
Discounting Factor	0.96	0.88	0.81	0.75	0.69
Present Value of Excess Equity	4,144¹	10,210	11,910	13,308	13,726

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local peers to value Al Rajhi and it is valued using the PB multiple. We have applied a premium as ALRAJHI trades at a premium to its peers and is valued at a 2024 PB multiple of 3.4x. The premium in valuation stems for high composition of retail loan book and it generates superior return on assets as compared to its peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	21,660	1.4	1.3	10.1	9.4	5.2	5.5
Alinma Bank	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Banque Saudi Fransi	11,640	1.2	1.1	9.8	9.0	5.6	6.0
Arab National Bank	11,390	1.1	1.1	9.0	9.2	5.8	5.7
Bank Albilad	11,500	2.4	2.2	15.9	14.2	1.5	1.9
Average		1.7x	1.6x	12.0x	11.1x	4.2x	4.4x
Median		1.4x	1.3x	10.1x	9.4x	5.2x	5.5x
Max		2.4x	2.2x	15.2x	13.5x	5.6x	5.7x
Min		1.2x	1.1x	9.8x	9.2x	2.9x	3.1x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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