

Al Rajhi Bank

Decline in non-funded income and a rise in impairments dragged the bottom line

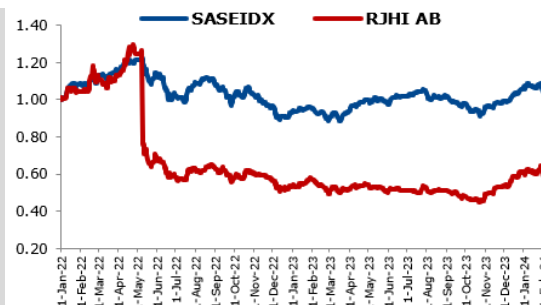
Current Price
SAR 89.50

Target Price
SAR 90.00

Upside/Downside (%)
+1%

Rating
HOLD

- Al Rajhi witnessed a healthy loan growth of 4.6% to SAR 594 Bn in 2023.
- Deposits increased marginally 1.4% to SAR 573 Bn in 2023 pressurizing liquidity. Thus, loan to deposit ratio rose to 103.7% in 2023 from 100.6% in 2022.
- Al Rajhi's asset quality remained stable in 4Q23 with NPLs of 0.7% with robust coverage of 203.0%.
- Al Rajhi's capitalization stood strong with a Tier 1 ratio of 20.4% and CAR of 21.5% in 4Q23.
- The Bank continues to maintain strong liquidity with a liquidity coverage ratio of 143.0% in 4Q23.
- Al Rajhi benefitted from higher CASA deposits of 63.7% of total deposits in 2023.



4Q23 Net Profit in-line with our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit declined 5.3% YOY to SAR 4,171 Mn in 4Q23, in line with our estimate of SAR 4,256 Mn. The decline in net profit is attributable to a fall in non-funded income and a rise in impairments partially offset by a marginal decline in operating expenses and lower zakat charges.

P&L Highlights

ALRAJHI's funded income rose 25.4% YOY to SAR 10,704 Mn in 4Q23, mainly driven by higher net advances and growth in investments. On the other hand, funded expense rose significantly from SAR 2,955 Mn in 4Q22 to SAR 5,155 Mn in 4Q23 owing to a rise in the cost of funds due to higher benchmark rates. Thus, net funded income marginally declined 0.5% YOY to SAR 5,550 Mn in 4Q23. ALRAJHI's total non-funded income fell 10.9% YOY to SAR 1,501 Mn in 4Q23. The decline is attributed to a decrease in fees from banking services and other operating income partially offset by an increase in exchange income. As a result, total operating income declined 2.9% YOY to SAR 7,051 Mn in 4Q23. Furthermore, the Company's operating expenses fell marginally 0.2% YOY to SAR 1,998 Mn in 4Q23 due to a decline in the G&A expenses partially offset by an increase in salary and employee-related expenses and D&A expenses. ALRAJHI's cost-to-income ratio increased 79 bps YOY and 127 bps QOQ to 28.3% in 4Q23. The Bank recorded a sharp rise in impairments increased 15.0% YOY to SAR 406 Mn in 4Q23. While the Bank's Zakat expense eased 5.8% YOY to SAR 477 Mn in 4Q23 supporting profitability. Thus, ALRAJHI's net profit declined 5.3% YOY to SAR 4,171 Mn in 4Q23 from SAR 4,404 Mn in 4Q22.

Stock Information

Market Cap (SAR, mm)	358,000.00
Paid Up Capital (mm)	40,000.00
52 Week High	92.50
52 Week Low	63.10
3M Avg. daily value(SAR)	375,725,400

4Q23 Result Review (SAR, mm)

Total Assets	808,098
Total Loans	594,205
Total Equity	106,759
Total Deposits	573,101
Net Profit	4,171

Financial Ratios

Dividend Yield (12m)	2.57
Dividend Pay-out (%)	29.11
Price-Earnings Ratio(x)	22.63
Price-to-Book Ratio (x)	3.97
Book Value (SAR)	22.56
Return-on Equity (%)	18.16

Stock Performance

5 Days	-0.44%
1 Months	5.17%
3 Months	19.49%
6 Months	22.60%
1 Year	18.54%
Month to Date (MTD%)	6.55%
Quarter to Date (QTD%)	3.47%
Year to Date (YTD%)	3.47%

Balance Sheet Highlights

ALRAJHI's net advances grew 4.6% to SAR 594.2 Bn in 2023, driven by an increase in loans to corporates, FIs, and SME segment partially offset by a decline in the retail segment. Although financing to the retail segment declined in 2023, mortgages recorded a growth of 5.6% in 2023. Moreover, customer deposits rose 1.4% to SAR 573.1 Bn in 2023, of which 63.7% is contributed by the CASA deposits. The loan-to-deposit ratio stood at 103.7% in 2023 compared to 100.6% in 2022. Total assets increased 6.1% to SAR 808.1 Bn in 2023 driven by growth in the financing and investment portfolio.

Target Price and Rating

We maintain our HOLD rating on Al Rajhi with an unchanged target price of SAR 90.00. ALRAJHI witnessed a decline in net profit both during 4Q23 and FY2023 due to a decline in total operating income. The Bank advances rose 4.6% to SAR 594.2 Bn in 2023, driven by strong growth of 22.7% and 20.0% in SME and corporate loans, respectively. On the other hand, deposits rose marginally 1.4% to SAR 573.1 Bn in 2023. As a result, loan to deposit ratio increased to 103.7% in 2023 compared to 100.6% in 2022. While the regulatory SAMA LDR ratio declined from 81.5% in 2022 to 80.7% in 2023. The Bank NIM is expected to improve in the declining interest rate scenario as we expect ALRAJHI to benefit from its large exposure to retail loans. As of 4Q23, the Bank's 72% of the total loan book comprised retail loans. The bank also benefited by a significant proportion of CASA deposits at 63.7% of total deposits as of 2023. In addition, the Bank is also undertaking measures to deploy the resources efficiently to reduce the cost of funds. Al Rajhi's asset quality stood stable with NPLs of 0.7% in 4Q23, with a robust coverage of 203.0%. Furthermore, Al Rajhi's capitalization remained healthy with a Tier 1 ratio of 20.4% and CAR of 21.5% in 4Q23. The bank continues to maintain a strong liquidity position with a liquidity coverage ratio of 143.0% in 2023. Al Rajhi is expecting a mid-single-digit growth in net advances in 2024. In addition, ALRAJHI trades at a 2023 PB multiple of 4.0x which trades relatively higher than the industry average of 2.2x rendering it expensive. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
PE	38.48	35.32	33.86	24.33	21.16	22.71	19.58
PB	7.99	7.56	6.17	5.33	4.56	4.0	3.58
Dividend yield	1.9%	2.1%	0.7%	1.0%	1.4%	2.6%	2.9%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Funded Income	8,534	9,970	10,704	10,676	0.3%	25.4%	7.4%	28,202	38,738	37.4%
Funded Expense	-2,955	-4,569	-5,155	-5,055	2.0%	74.5%	12.8%	-6,029	-17,468	189.7%
Net Funded Income	5,579	5,401	5,550	5,621	-1.3%	-0.5%	2.8%	22,173	21,269	-4.1%
Fees & commission income	1,179	899	988	924	6.9%	-16.2%	9.9%	4,624	4,226	-8.6%
Exchange income, net	298	336	322	272	18.2%	8.0%	-4.3%	1,162	1,246	7.3%
Other operating income	209	237	192	233	-17.8%	-8.2%	-19.1%	616	790	28.3%
Total non-funded Income	1,685	1,472	1,501	1,429	5.0%	-10.9%	2.0%	6,402	6,262	-2.2%
Net Operating Income	7,264	6,873	7,051	7,051	0.0%	-2.9%	2.6%	28,575	27,531	-3.7%
Salaries & emp. Benefit exp.	-846	-882	-885	-925	-4.3%	4.6%	0.4%	-3,395	-3,525	3.8%
Other G&A expenses	-791	-584	-673	-595	13.1%	-14.9%	15.3%	-2,726	-2,395	-12.1%
Dep & amortization	-364	-394	-439	-401	9.5%	20.8%	11.5%	-1,330	-1,578	18.6%
Op. Exp. before provision	-2,001	-1,860	-1,998	-1,922	4.0%	-0.2%	7.4%	-7,451	-7,498	0.6%
Profit before provisions	5,263	5,012	5,053	5,129	-1.5%	-4.0%	0.8%	21,124	20,033	-5.2%
Impairment charge	-353	-379	-406	-386	5.2%	15.0%	6.9%	-2,001	-1,504	-24.8%
Total Operating Expenses	-2,353	-2,240	-2,403	-2,307	4.2%	2.1%	7.3%	-9,452	-9,002	-4.8%
Net income before zakat	4,911	4,633	4,647	4,743	-2.0%	-5.4%	0.3%	19,123	18,529	-3.1%
Zakat	-506	-478	-477	-487	-2.1%	-5.8%	-0.2%	-1,972	-1,908	-3.2%
Net profit for the year	4,404	4,155	4,171	4,256	-2.0%	-5.3%	0.4%	17,151	16,621	-3.1%

FABS estimate & Co Data
Al Rajhi Bank - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	76.8%	78.6%	78.7%	191	12	77.6%	77.3%	-34
NIM	3.1%	2.83%	2.87%	-20	4	3.3%	2.8%	-50
NIS	2.8%	2.4%	2.4%	-38	-1	3.2%	2.4%	-74
Fees & comms/OI	16.2%	13.1%	14.0%	-222	93	16.2%	15.3%	-83
Exchange Income/OI	4.1%	4.9%	4.6%	46	-33	4.1%	4.5%	46
Cost to income	27.5%	27.1%	28.3%	79	127	26.1%	27.2%	116
Impairment/PPP	-6.7%	-7.6%	-8.0%	-133	-46	-9.5%	-7.5%	197
NP/OI	60.6%	60.5%	59.2%	-148	-131	60.0%	60.4%	35
Cost of risk	0.3%	0.3%	0.3%	2	1	0.4%	0.3%	-14
Loan-to-deposit (regulatory)	85.9%	81.0%	82.9%	-300	190	85.9%	82.9%	-300
NPL	0.6%	0.6%	0.7%	9	11	0.6%	0.7%	9
Coverage excluding collateral	237.8%	239.9%	203.0%	-3480	-3690	237.8%	203.0%	-3480
CET 1	17.0%	16.5%	17.2%	20	70	17.0%	17.2%	20
Capital adequacy	21.4%	20.8%	21.5%	12	76	21.4%	21.5%	12
ROAA	2.3%	2.1%	2.1%	-22	-6	2.5%	2.1%	-36
ROAE	21.6%	18.8%	18.0%	-364	-87	23.5%	19.7%	-382

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

SAR mm	4Q22	1Q23	2Q23	3Q23	4Q23	Change
Net advances	568,338	577,011	579,080	590,826	594,205	4.6%
QOQ ch	1.9%	1.5%	0.4%	2.0%	0.6%	
Total assets	761,619	776,196	784,520	801,483	808,098	6.1%
QOQ ch	2.8%	1.9%	1.1%	2.2%	0.8%	
Customer deposits	564,925	556,197	570,665	565,719	573,101	1.4%
QOQ ch	1.6%	-1.5%	2.6%	-0.9%	1.3%	
Total equity	100,225	99,227	103,187	102,280	106,759	6.5%
QOQ ch	16.4%	-1.0%	4.0%	-0.9%	4.4%	

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	91.37	70.0%	63.96
Relative Valuation (RV)	86.79	30.0%	26.04
Weighted Average Valuation (SAR)			90.00
Current market price (SAR)			89.50
Upside/Downside (%)			+1%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.0%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.95 and equity risk premium of 3.5%. 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)	55,778
Terminal value (SAR, Mn)	219,446
Book Value of Equity (as of Dec 2023)	90,259
FV to Common shareholders (SAR, Mn)	365,484
No. of share (Mn)	4,000
Current Market Price (SAR)	89.50
Fair Value per share (SAR)	91.37

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	18,321	22,658	24,964	27,082	28,602
(-) Equity Charge	-8,040	-9,073	-9,937	-10,751	-11,568
Excess Equity	8,567	13,585	15,027	16,331	17,034
Discounting Factor	0.94	0.87	0.80	0.74	0.69
Present Value of Excess Equity	8,034	11,792	12,075	12,148	11,729

Source: FAB Securities

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 PB multiple of 3.5x. The premium in valuation stems from high composition of retail loan book and 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	24,050	1.5	1.4	10.7	10.2	4.7	4.7
Alinma Bank	22,730	2.6	2.4	16.0	14.9	3.1	3.3
Banque Saudi Fransi	13,190	1.3	1.2	10.4	9.8	5.2	5.5
Arab National Bank	9,840	1.0	1.0	9.2	9.2	6.0	6.1
Bank Albilad	12,450	2.7	2.4	17.3	15.8	1.8	2.2
Average		1.8x	1.7x	12.7x	12.0x	4.1%	4.3%
Median		1.5x	1.4x	10.7x	10.2x	4.7%	4.7%
Max		2.6x	2.4x	16.0x	14.9x	5.2%	5.5%
Min		1.3x	1.2x	10.4x	9.8x	3.1%	3.3%

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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