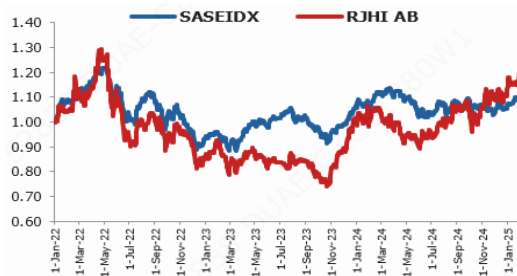


Al Rajhi Bank (RJHI)

Strong growth in lending and exposure to mortgage benefitted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 99.60	SAR 103.0	+3%	HOLD

- NIMs expanded 21 bps YOY and 7 bps QOQ to 3.1% in 4Q24 despite a decline in the interest rates.
- Cost-to-income ratio improved to 23.4% in 4Q24 compared to 28.3% in 4Q23 and 24.5% in 3Q24 owing to cost efficiencies measures.
- Net advances grew 16.7% YOY and 6.8% QOQ to SAR 693.4 Bn in 4Q24, driven by an expansion in credit to all segments including mortgages, retail, corporate and SME financing.
- The Bank declared a cash dividend of SAR 1.46 per share for 2H24 amounting to SAR 5.8 Bn. It will lead to a dividend yield of 2.7% in FY2024 combined with the dividend of 1H24.



Stock Information

Market Cap (SAR, Mn)	398,400.00
Paid Up Capital (Mn)	40,000.00
52 Week High	102.20
52 Week Low	75.50
3M Avg. daily value(SAR)	392,140,000

4Q24 Net Profit higher than our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit increased 32.3% YOY to SAR 5,516 Mn in 4Q24, higher than our estimate of SAR 5,122 Mn. The growth in net profit is attributable to a substantial rise in funded and non-funded income partially offset by higher impairment and zakat charges.

P&L Highlights

ALRAJHI's funded income rose 19.8% YOY to SAR 12,828 Mn in 4Q24 driven by a healthy growth in net advances and other interest-earning assets. On the other hand, funded expenses increased significantly by 14.2% YOY to SAR 5,886 Mn in 4Q24 primarily due to a rise in the customer deposits and other interest-bearing liabilities. Thus, ALRAJHI's net funded income grew 25.1% YOY to SAR 6,941 Mn in 4Q24. Net fees from banking services increased 30.4% YOY to SAR 1,288 Mn in 4Q24, while exchange income grew 4.9% YOY to SAR 337 Mn in 4Q24. However, the Bank's other operating income fell 4.4% YOY to SAR 183 Mn in 4Q24. Thus, the Bank's total non-funded income rose significantly by 20.5% YOY to SAR 1,809 Mn in 4Q24. ALRAJHI's total operating income expanded 24.1% YOY to SAR 8,750 Mn in 4Q24. Salaries & employee-related benefits expenses rose 6.8% YOY to SAR 946 Mn in 4Q24, whereas other general and administrative expenses declined 19.2% YOY to SAR 544 Mn in 4Q24. Additionally, D&A expenses grew significantly 27.7% YOY to SAR 561 Mn in 4Q24. Resultantly, the Bank's total operating expenses increased 2.6% YOY to SAR 2,050 Mn in 4Q24. Thus, the cost-to-income ratio improved to 23.4% in 4Q24 compared to 28.3% in 4Q23. The Bank's impairment charges increased significantly from SAR 406 Mn in 4Q23 to SAR 553 Mn in 4Q24. Additionally, the Bank zakat expenses rose 31.3% YOY to SAR 626 Mn in 4Q24.

Share of profit attributable to non-controlling interest holders stood at SAR 5 Mn in 4Q24.

4Q24 Result Review (SAR, Mn)

Total Assets	974,387
Total Loans	693,410
Total Equity	123,139
Total Deposits	628,239
Net Profit	5,516

Financial Ratios

Dividend Yield (12m)	2.41
Dividend Pay-out (%)	51.37
Price-Earnings Ratio(x)	21.32
Price-to-Book Ratio (x)	4.00
Book Value (SAR)	24.87
Return-on Equity (%)	19.70

Stock Performance

5 Days	-2.16%
1 Months	3.97%
3 Months	5.51%
6 Months	15.81%
1 Year	10.79%
Month to Date (MTD%)	0.61%
Quarter to Date (QTD%)	5.29%
Year to Date (YTD%)	5.29%

Balance Sheet Highlights

ALRAJHI's total assets increased 20.6% YOY and 8.0% QOQ to SAR 974.4 Bn in 4Q24 driven by growth in the net advances, due from banks, cash and net investment. Net investment grew 31.2% YOY and 8.9% QOQ to SAR 175.0 Bn in 4Q24, due to growth in domestic investments and international investment. Net advances grew 16.7% YOY and 6.8% QOQ to SAR 693.4 Bn in 4Q24, driven by an increase in retail, corporate and SME financing. Retail financing, recorded a growth of 11.2% YOY to SAR 475.2 Bn in 4Q24 due to growth in the mortgage and consumer financing. Mortgage financing grew 15.9% YOY and consumer financing expanded 7.6% YOY in 4Q24. Additionally, corporate financing grew 31.8% YOY to SAR 177.8 Bn in 4Q24. Furthermore, SME financing increased 29.6% YOY to SAR 39.1 Bn in 4Q24. On the other hand, customer deposits rose 9.6% YOY and 0.9% QOQ to SAR 628.2 Bn in 4Q24 with CASA representing 73.4% of the total deposits. Thus, the headline loan-to-deposit ratio increased from 104.2% in 3Q24 to 110.4% in 4Q24. While the SAMA loan-to-deposit ratio stood at 85.5% in 4Q24 compared to the regulatory limit of 90%.

Target Price and Rating

We maintain our HOLD rating on ALRAJHI with a revised target price of SAR 103.00. ALRAJHI witnessed strong growth in profitability driven by a substantial rise in funded and non-funded income in 4Q24. NIMs expanded 21 bps YOY and 7 bps QOQ to 3.1% in 4Q24 despite a decline in the interest rates. The Bank's 2025 loan guidance stood at high-single-digit for 2025. Moreover, its high exposure to long-term fixed-rate mortgages and the retail sector will benefit ALRAJHI owing to slower asset repricing in a declining interest rate scenario. Moreover, the Bank NIMs are poised to benefit from the CASA deposits which represent 73.4% of the total deposits in 4Q24. CASA deposits are a cheaper source of funding compared to time deposits. The Bank's NIMs are expected to expand by 5-15 bps YOY in 2025. It expects one rate cut by 2H25. Al Rajhi's cost-to-income ratio also declined significantly in 4Q24 reflecting solid efficiencies likely to benefit the profitability in the long term. Moreover, the cost-to-income ratio is anticipated to be lower than 24.5% in 2025. The Bank's asset quality remained stable as NPL's improved 3 bps QOQ to 0.8% in 4Q24, while the provision coverage stood at 159.4% in 4Q24, reflecting its prudent risk management approach. The Cost of risk guidance for 2025 stood at 0.3-0.5%. ALRAJHI's capitalization remained strong with a Tier 1 ratio of 19.3% and CAR of 20.2% in 4Q24. ALRAJHI Bank completed the issuance of U.S. dollar-denominated additional tier 1 capital sustainable sukuk valued at USD 1.5 Bn with a coupon of 6.25%. The Sukuk is perpetual and callable after 5 years. The Bank declared a cash dividend of SAR 1.46 per share for 2H24 amounting to SAR 5.8 Bn generating a dividend yield of 2.7% for 2024. Thus, based on our analysis, we assign a HOLD rating on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	38.13	27.40	23.82	25.57	21.62	17.86
PB	6.95	6.00	5.13	4.48	4.30	3.62
Dividend yield	0.6%	0.9%	1.2%	2.3%	2.7%	3.1%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	10,704	12,150	12,828	11,981	7.1%	19.8%	5.6%	38,738	47,018	21.4%
Funded expense	-5,155	-5,753	-5,886	-5,469	7.6%	14.2%	2.3%	-17,468	-22,175	26.9%
Net funded income	5,550	6,397	6,941	6,511	6.6%	25.1%	8.5%	21,269	24,843	16.8%
Fees from banking services	988	1,242	1,288	1,286	0.2%	30.4%	3.7%	4,226	4,693	11.1%
Exchange income, net	322	342	337	341	-1.0%	4.9%	-1.4%	1,246	1,293	3.7%
Other operating income	192	457	183	458	-60.0%	-4.4%	-60.0%	790	1,227	55.2%
Total non-funded income	1,501	2,042	1,809	2,085	-13.2%	20.5%	-11.4%	6,262	7,212	15.2%
Net operating income	7,051	8,439	8,750	8,596	1.8%	24.1%	3.7%	27,531	32,055	16.4%
Salary & related exp.	-885	-961	-946	-1,002	-5.7%	6.8%	-1.6%	-3,525	-3,724	5.6%
Other G&A expenses	-673	-612	-544	-673	-19.3%	-19.2%	-11.2%	-2,395	-2,265	-5.4%
D&A expense	-439	-497	-561	-499	12.4%	27.7%	12.9%	-1,578	-1,982	25.6%
Total operating expenses	-1,998	-2,070	-2,050	-2,175	-5.7%	2.6%	-1.0%	-7,498	-7,971	6.3%
Profit before provisions	5,053	6,369	6,700	6,421	4.3%	32.6%	5.2%	20,033	24,085	20.2%
Impairment charge	-406	-688	-553	-683	-19.1%	36.2%	-19.7%	-1,504	-2,117	40.7%
Total operating expenses	-2,403	-2,758	-2,603	-2,858	-8.9%	8.3%	-5.6%	-9,002	-10,087	12.1%
Net income before zakat	4,647	5,681	6,147	5,737	7.1%	32.3%	8.2%	18,529	21,968	18.6%
Zakat	-477	-574	-626	-610	2.7%	31.3%	9.1%	-1,908	-2,237	17.2%
Non-controlling interest	0	-4	-5	-6	-11.3%	NM	50.2%	0	-9	NM
Net profit for the year	4,171	5,103	5,516	5,122	7.7%	32.3%	8.1%	16,621	19,722	18.7%

FABS estimate & Co Data
Al Rajhi Bank - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	78.7%	75.8%	79.3%	62	353	77.3%	77.5%	25
NIM	2.9%	3.0%	3.1%	21	7	2.8%	2.9%	10
NIS	2.4%	2.5%	2.6%	20	10	2.4%	2.5%	5
Fees & comms/OI	14.0%	14.7%	14.7%	71	0	15.3%	14.6%	-71
Exchange Income/OI	4.6%	4.1%	3.9%	-71	-20	4.5%	4.0%	-49
Cost to income	28.3%	24.5%	23.4%	-490	-110	27.2%	24.9%	-237
Impairment/PPP	-8.0%	-10.8%	-8.2%	-22	256	-7.5%	-8.8%	-128
NP/OI	59.2%	60.5%	63.0%	389	256	60.4%	61.5%	115
Cost of risk	0.3%	0.4%	0.3%	6	-10	0.3%	0.3%	7
Loan-to-deposit (calculated)	103.7%	104.2%	110.4%	669	612	103.7%	110.4%	669
NPL (Reported)	0.7%	0.8%	0.8%	5	-3	0.7%	0.8%	5
NPL Coverage (calculated)	203.0%	165.2%	159.4%	-4,358	-573	203.0%	159.4%	-4,358
Tier 1	20.4%	19.7%	19.3%	-111	-39	20.4%	19.3%	-111
Capital adequacy	21.5%	20.7%	20.2%	-131	-49	21.5%	20.2%	-131
ROAA	2.1%	2.2%	2.2%	10	6	2.1%	2.2%	10
ROAE	18.7%	19.4%	19.7%	100	33	18.7%	19.7%	99

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

SAR Mn	4Q23	1Q24	2Q24	3Q24	4Q24	Change
Net advances	594,205	608,990	621,891	649,024	693,410	16.7%
QOQ ch	0.6%	2.5%	2.1%	4.4%	6.8%	
Total assets	808,098	835,992	866,960	902,571	974,387	20.6%
QOQ ch	0.9%	3.5%	3.7%	4.1%	8.0%	
Customer deposits	573,101	603,978	622,572	622,572	628,239	9.6%
QOQ ch	1.3%	5.4%	3.1%	0.0%	0.9%	
Total equity	106,759	108,272	116,396	117,879	123,139	15.3%
QOQ ch	4.4%	1.4%	7.5%	1.3%	4.5%	

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	96.72	70%	67.71
Relative Valuation (RV)	117.65	30%	35.30
Weighted Average Valuation (SAR)			103.00
Current market price (SAR)			99.60
Upside/Downside (%)			+3

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.88 and equity risk premium of 4.5%. 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 3.0%.

Sum of PV (SAR, Mn)	64,048
Terminal value (SAR, Mn)	223,362
Book Value of Equity (as of Dec 2024)	99,479
FV to Common shareholders (SAR, Mn)	386,889
No. of share (Mn)	4,000
Current Market Price (SAR)	99.60
Fair Value per share (SAR)	96.72

Residual Income Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	22,618	26,112	29,550	33,369	35,964
(-) Equity Charge	-9,933	-11,146	-12,490	-13,997	-16,368
Excess Equity	12,685	14,966	17,061	19,372	19,596
Discounting Factor	0.92	0.84	0.77	0.71	0.65
Present Value of Excess Equity	11,649	12,620	13,210	13,774	12,795

2) Relative Valuation:

We have used local as well as international 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 2025 PB multiple of 4.2x. The premium in valuation stems for high composition of retail loan book and it generates superior return on assets as compared to its peers.

Bank	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	23,581	1.5	1.4	9.7	9.5	5.3	5.6
Alinma Bank	19,817	2.1	1.8	12.7	11.5	3.6	3.9
Abu Dhabi Islamic Bank	15,208	2.2	2.0	10.7	10.3	5.3	5.3
Arab National Bank	11,551	1.2	1.1	8.9	8.8	5.8	6.0
Bank Albilad	13,095	2.5	2.4	17.8	16.3	1.5	1.7
Average		1.9x	1.7x	12.0x	11.3x	4.3%	4.5%
Median		2.1x	1.8x	10.7x	10.3x	5.3%	5.3%
Max		2.2x	2.0x	12.7x	11.5x	5.3%	5.6%
Min		1.5x	1.4x	9.7x	9.5x	3.6%	3.9%

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%

FAB Securities Contacts:**Research Analyst**

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.