

## Al Rajhi Bank (RJHI)

Healthy asset quality and increased lending supported profitability

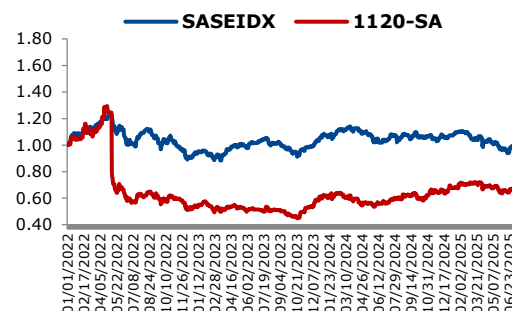
**Current Price**  
SAR 95.00

**Target Price**  
SAR 105.0

**Upside/Downside (%)**  
**+10.5%**

**Rating**  
**ACCUMULATE**

- Funded income grew 21.4% YOY to SAR 13,647 Mn in 2Q25, due to growth in gross financing and investment return.
- Non-funded income rose 29.1% YOY to SAR 2,298 Mn in 2Q25, driven by an increase in fees from banking services, other operating income and exchange income.
- Net advances grew 19.3% YOY and 2.6% QOQ to SAR 741.7 Bn in 2Q25, driven by a strong expansion in mortgage credit, consumer financing and corporate financing portfolio.
- ALRAJHI's capitalization ratio stood strong with a TIER 1 capital of 19.4% and a total CAR of 20.2%, during 2Q25.



### 2Q25 Net Profit in line with our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit grew 30.9% YOY to SAR 6,151 Mn in 2Q25, in line with our estimate of SAR 6,034 Mn. The growth in net profit is attributed to a double-digit growth across net funded and non-funded income, partially offset by an increase in total operating expenses and impairment charges.

### P&L Highlights

ALRAJHI's funded income rose 21.4% YOY to SAR 13,647 Mn in 2Q25, fueled by growth in gross financing and investment portfolio. On the other hand, funded expenses surged 17.9% YOY to SAR 6,342 Mn in 2Q25. Thus, ALRAJHI's net funded income grew 24.7% YOY to SAR 7,305 Mn in 2Q25. The Bank's total non-funded income grew 29.1% YOY to SAR 2,298 Mn in 2Q25, driven by an increase in fees from banking services, other operating income and exchange income. As a result, ALRAJHI's total operating income expanded 25.7% YOY to SAR 9,603 Mn in 2Q25. The Bank's total operating expenses increased 9.5% YOY to SAR 2,143 Mn in 2Q25, supported by a rise in depreciation expenses, salaries and employees related benefits and general & administrative expenses. However, the Bank's cost-to-income ratio declined from 25.6% in 2Q24 to 22.3% in 2Q25. Additionally, impairment charges increased 31.9% YOY to SAR 600 Mn in 2Q25. The rise in net provisions for expected credit losses was driven by an increase in new potential loan defaults, alongside a jump in recoveries from previously written-off financing. Zakat charges grew 32.5% YOY to SAR 699 Mn in 2Q25.

### Balance Sheet Highlights

ALRAJHI's total assets increased by 19.8% YOY and 1.6% QOQ to SAR 1,039.0 Bn in 2Q25, fueled by strong growth in net investments, and net financing. Net investment grew 18.5% YOY and 2.0% QOQ to SAR

### Stock Information

Market Cap (SAR, Mn)	384,000.0
Paid Up Capital (Mn)	4,000.0
52 Week High	104.0
52 Week Low	81.0
3M Avg. daily value(SAR)	2,850,201.4

### 2Q25 Result Review (SAR, Mn)

Total Assets	1,038,988
Total Loans	741,715
Total Equity	133,930
Total Deposits	641,987
Net Profit	6,151

### Financial Ratios

Dividend Yield (12m)	2.9
Dividend Pay-out (%)	58.01
Price-Earnings Ratio(x)	20.25
Price-to-Book Ratio (x)	3.80
Book Value (SAR)	24.87
Return-on Equity (%)	19.70

### Stock Performance

5 Days	1.16%
1 Months	5.26%
3 Months	-1.64%
6 Months	-0.52%
1 Year	14.29%
Month to Date (MTD%)	1.48%
Quarter to Date (QTD%)	1.48%
Year to Date (YTD%)	1.48%

182.5 Bn in 2Q25. The Bank's net advances rose 19.3% YOY and 2.6% QOQ to SAR 741.7 Bn in 2Q25, driven by strong growth across the Retail and Corporate portfolios. Similarly, customer deposits rose 3.1% YOY and 2.0% QOQ to SAR 642.0 Bn in 2Q25, with CASA deposits representing 68.4% of the total deposits in 2Q25. The Bank's reported loan-to-deposit ratio declined from 84.9% in 1Q25 to 82.5% in 2Q25. ALRAJHI's calculated ROAA and ROAE stood at 2.4% and 20.9% in 2Q25 compared to 2.1% and 18.4% respectively, in 2Q24 reflecting improved operating efficiency. Likewise, ALRAJHI's reported LCR grew from 148.6% in 1Q25 to 152.9% in 2Q25, above the minimum LCR requirement.

### Target Price and Rating

We revise our rating from BUY to ACCUMULATE on ALRAJHI with an unchanged target price of SAR 105.00. The stock grew by 3.3% since our last recommendation in June 2025 (June 2025). ALRAJHI experienced strong growth in profitability, driven by a substantial rise in both net funded and non-funded income during 2Q25. The Bank's net advances grew 19.3% YOY and 2.6% QOQ to SAR 741.7 Bn in 2Q25, owing to an increase in the corporate and retail financing portfolio. ALRAJHI's Retail financing portfolio grew 11.5% YOY, driven by strong growth across mortgage and consumer financing. Additionally, the Bank's Corporate financing portfolio also grew strongly by 37.9% YOY during 2Q25. The Bank further expects the financing portfolio to grow by high single digits in 2025. Customer deposits grew 3.1% YOY and 2.0% QOQ to SAR 642.0 Bn, with CASA deposits accounting for 68.4% in 2Q25, reflecting a strong and stable low-cost funding base. ALRAJHI's investment portfolio also continued to grow with a growth of 18.5% YOY and 2.0% QOQ to SAR 182.5 Bn in 2Q25. The Bank is also expected to benefit from a declining interest rate environment, as a significant portion of its investment portfolio is invested in fixed rate sukuks, which are likely to appreciate in value and provide a cushion against rate cuts. ALRAJHI also expects the NIMs to expand 5-15 bps during 2025. The Bank's calculated cost-to-income ratio improved 330 bps YOY to 22.3% in 2Q25. The Bank expects to maintain this ratio below 23.5% in 2025. ALRAJHI's asset quality remained robust, with a stable NPL ratio of 0.74% and a strong provision coverage ratio of 150.5% in 2Q25, providing a solid buffer against potential credit losses. Moreover, the Bank's liquidity coverage ratio improved from 148.6% in 1Q25 to 152.9% in 2Q25, indicating a strengthened liquidity position. ALRAJHI's capitalization remained healthy with a TIER 1 capital of 19.4% and a total CAR of 20.2%, during 2Q25. The Bank also recorded a strong shareholders return with a reported ROA and ROE of 2.4% and 23.9%, respectively, during 2Q25. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

### Al Rajhi Bank - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	35.68	25.63	22.29	23.92	20.23	16.25
PB	6.50	5.62	4.80	4.19	4.03	3.37
BVPS (SAR)	14.530	16.820	19.681	22.565	23.469	28.036
EPS (SAR)	2.649	3.687	4.240	3.950	4.672	5.815
DPS (SAR)	0.625	0.875	1.250	2.300	2.710	3.198
Dividend yield	0.7%	0.9%	1.3%	2.4%	2.9%	3.4%

FABS Estimates & Co Data

**Al Rajhi Bank - P&L**

SAR Mn	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded Income	11,238	13,171	13,647	13,340	2.3%	21.4%	3.6%	47,018	53,250	13.3%
Funded Expenses	-5,380	-6,074	-6,342	-6,100	4.0%	17.9%	4.4%	-22,175	-23,566	6.3%
<b>Net Funded Income</b>	<b>5,857</b>	<b>7,097</b>	<b>7,305</b>	<b>7,240</b>	<b>0.9%</b>	<b>24.7%</b>	<b>2.9%</b>	<b>24,843</b>	<b>29,684</b>	<b>19.5%</b>
<b>Total non-funded Income</b>	<b>1,780</b>	<b>2,103</b>	<b>2,298</b>	<b>2,167</b>	<b>6.0%</b>	<b>29.1%</b>	<b>9.3%</b>	<b>7,212</b>	<b>8,752</b>	<b>21.3%</b>
<b>Total Operating Income</b>	<b>7,637</b>	<b>9,200</b>	<b>9,603</b>	<b>9,407</b>	<b>2.1%</b>	<b>25.7%</b>	<b>4.4%</b>	<b>32,055</b>	<b>38,436</b>	<b>19.9%</b>
<b>Total operating Expenses</b>	<b>-1,956</b>	<b>-2,088</b>	<b>-2,143</b>	<b>-2,112</b>	<b>1.5%</b>	<b>9.5%</b>	<b>2.6%</b>	<b>-7,971</b>	<b>-8,459</b>	<b>6.1%</b>
<b>Profit before provisions</b>	<b>5,681</b>	<b>7,112</b>	<b>7,460</b>	<b>7,295</b>	<b>2.3%</b>	<b>31.3%</b>	<b>4.9%</b>	<b>24,085</b>	<b>29,976</b>	<b>24.5%</b>
Impairment charge	-455	-525	-600	-571	5.1%	31.9%	14.3%	-2,117	-2,720	28.5%
Total Operating Exp after imp	<b>-2,411</b>	<b>-2,613</b>	<b>-2,743</b>	<b>-2,683</b>	<b>2.2%</b>	<b>13.8%</b>	<b>5.0%</b>	<b>-10,087</b>	<b>-11,180</b>	<b>10.8%</b>
<b>Net income before zakat</b>	<b>5,226</b>	<b>6,587</b>	<b>6,860</b>	<b>6,724</b>	<b>2.0%</b>	<b>31.3%</b>	<b>4.1%</b>	<b>21,968</b>	<b>27,256</b>	<b>24.1%</b>
Zakat	-528	-677	-699	-686	1.9%	32.5%	3.2%	-2,237	-2,807	25.5%
Non-controlling interest	0	-4	-10	-4	NM	NM	NM	-9	-29	NM
<b>Net profit for the year</b>	<b>4,698</b>	<b>5,906</b>	<b>6,151</b>	<b>6,034</b>	<b>1.9%</b>	<b>30.9%</b>	<b>4.1%</b>	<b>19,722</b>	<b>24,419</b>	<b>23.8%</b>

FABS estimate & Co Data

**Al Rajhi Bank – KPI**

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	76.7%	77.1%	76.1%	-63	-107	77.5%	77.2%	-27
Cost to income - (calculated)	25.6%	22.7%	22.3%	-330	-38	24.9%	22.0%	-286
Impairment/PPP	-8.0%	-7.4%	-8.0%	-4	-66	-8.8%	-9.1%	-29
NP/OI	61.5%	64.2%	64.1%	253	-14	61.5%	63.5%	201
Cost of risk – (reported)	0.3%	0.3%	0.3%	3	3	0.3%	0.4%	5
Loan-to-deposit – (calculated)	99.9%	114.9%	115.5%	1,564	67	110.4%	114.0%	363
NPL - (reported)	0.8%	0.7%	0.7%	-4	0	0.8%	0.7%	-3
Coverage - (reported)	168.1%	152.7%	150.5%	-1,760	-220	159.4%	156.4%	-300
Tier 1	20.0%	19.8%	19.4%	-62	-40	19.3%	20.4%	113
Capital adequacy	21.0%	20.6%	20.2%	-85	-40	20.2%	21.3%	106
ROAA	2.1%	2.3%	2.4%	27	10	2.2%	2.4%	18
ROAE	18.4%	20.7%	20.9%	256	23	19.7%	22.0%	231

FABS estimate & Co Data

**Al Rajhi Bank - Key B/S items**

SAR Mn	2Q24	3Q24	4Q24	1Q25	2Q25	Change
Net advances	621,891	649,024	693,410	722,785	741,715	19.3%
QOQ change	2.1%	4.4%	6.8%	4.2%	2.6%	
Total assets	866,960	902,571	974,387	1,023,080	1,038,988	19.8%
QOQ change	3.7%	4.1%	8.0%	5.0%	1.6%	
Customer deposits	622,572	622,572	628,239	629,229	641,987	3.1%
QOQ change	3.1%	0.0%	0.9%	0.2%	2.0%	
Total equity	116,396	117,879	123,139	134,084	133,930	15.1%
QOQ change	7.5%	1.3%	4.5%	8.9%	-0.1%	

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 the RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	105.08	70%	73.55
Relative Valuation (RV)	104.83	30%	31.45
<b>Weighted Average Valuation (SAR)</b>			<b>105.00</b>
Current market price (SAR)			95.00
Upside/Downside (%)			+10.5

### 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 the 10-year government bond yield of 5.1%, the beta of 0.88 and the equity risk premium of 4.0%. The government bond yield is calculated by adding the KSA 10-year CDS spread to the 10-year US risk-free rate. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (SAR, Mn)	62,022
Terminal value (SAR, Mn)	<b>253,257</b>
Book Value of Equity (as of June 2025)	105,028
<b>FV to Common shareholders (SAR, Mn)</b>	<b>420,307</b>
No. of shares (Mn)	4,000
Current Market Price (SAR)	95.00
<b>Fair Value per share (SAR)</b>	<b>105.08</b>

### Residual Income Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	23,262	26,974	30,105	33,696	37,023
(-) Equity Charge	-9,664	-10,895	-12,226	-13,709	-16,104
<b>Excess Equity</b>	<b>13,598</b>	<b>16,079</b>	<b>17,878</b>	<b>19,987</b>	<b>20,919</b>
Discounting Factor	0.92	0.85	0.78	0.72	0.66
<b>Present Value of Excess Equity</b>	<b>6,259<sup>1</sup></b>	<b>13,627</b>	<b>13,949</b>	<b>14,355</b>	<b>13,832</b>

Fab Securities & Co. <sup>1</sup>Adjusted for partial year.

## 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 3.7x. The premium in valuation stems from a 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	22,393	1.3	1.2	8.6	8.3	6.2%	6.3%
Alinma Bank	17,652	1.8	1.6	11.0	10.3	4.3%	4.6%
Abu Dhabi Islamic Bank	21,773	3.2	2.8	13.6	12.7	3.8%	4.2%
Arab National Bank	11,428	1.0	1.0	8.5	8.2	6.2%	6.4%
Bank Albilad	10,791	2.2	2.0	13.8	13.3	2.1%	2.0%
<b>Average</b>		<b>1.9x</b>	<b>1.7x</b>	<b>11.1x</b>	<b>10.6x</b>	<b>4.5%</b>	<b>4.7%</b>
<b>Median</b>		<b>1.8x</b>	<b>1.6x</b>	<b>11.0x</b>	<b>10.3x</b>	<b>4.3%</b>	<b>4.6%</b>
<b>Max</b>		<b>2.2x</b>	<b>2.0x</b>	<b>13.6x</b>	<b>12.7x</b>	<b>6.2%</b>	<b>6.3%</b>
<b>Min</b>		<b>1.3x</b>	<b>1.2x</b>	<b>8.6x</b>	<b>8.3x</b>	<b>3.8%</b>	<b>4.2%</b>

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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