

Al Rajhi Bank (RJHI)

Healthy advances growth and solid asset quality maintain healthy growth in profitability

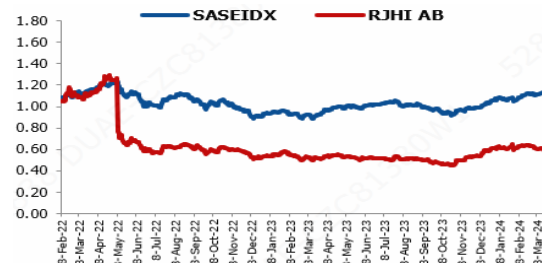
Current Price
SAR 80.10

Target Price
SAR 90.00

Upside/Downside (%)
+12.4%

Rating
ACCUMULATE

- Al Rajhi witnessed a healthy loan growth of 5.5% YOY and 2.5% QOQ to SAR 609 Bn in 1Q24.
- Deposits rose 8.6% YOY and 5.4% QOQ to SAR 604 Bn in 1Q24. Thus, the headline loan-to-deposit ratio declined to 100.8% in 1Q24 from 103.7% in 4Q23.
- Al Rajhi's asset quality remained stable in 1Q24 with NPLs of 0.8% with robust coverage of 175.3%
- Al Rajhi's capitalization stood strong with a Tier 1 ratio of 19.2% and CAR of 20.2% in 1Q24.
- The Bank continues to maintain strong liquidity with a liquidity coverage ratio of 134% in 1Q24.
- Al Rajhi benefitted from higher CASA deposits of 68% of total deposits in 1Q24.



1Q24 Net Profit marginally higher than our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit increased 6.3% YOY to SAR 4,405 Mn in 1Q24, slightly higher than our estimate of SAR 4,294 Mn. The growth in net profit is attributable to a rise in funded income partially offset by a rise in operating expenses and impairment charges coupled with a decline in non-funded income.

P&L Highlights

ALRAJHI's funded income rose 24.7% YOY to SAR 10,803 Mn in 1Q24 driven by a healthy growth in advances, whereas funded expense increased significantly 48.2% YOY to SAR 5,156 Mn due to high benchmark rates. Thus, ALRAJHI's net funded income rose 10.2% YOY to SAR 5,647 Mn in 1Q24. ALRAJHI's total non-funded income fell 4.4% YOY to SAR 1,582 Mn in 1Q24. The decline in non-funded income is attributed to a decline in fees from banking services and exchange income partially offset by an increase in other operating income. Moreover, total operating income increased 6.6% YOY to SAR 7,229 Mn in 1Q24. Furthermore, the Company's operating expenses rose 5.2% YOY to SAR 1,894 Mn in 1Q24 due to an increase in the depreciation and salary and employee-related expenses partially offset by a decline in other G&A expenses. ALRAJHI's cost-to-income ratio improved 35 bps YOY and 213 bps QOQ to 26.2% in 1Q24. The Bank recorded a rise in impairments of 17.3% YOY to SAR 421 Mn in 1Q24 due to a decline in recoveries from written-off financing by 12.6% YOY. Furthermore, the Bank's Zakat expense rose 6.8% YOY to SAR 509 Mn in 1Q24.

Balance Sheet Highlights

ALRAJHI's net advances grew 5.5% YOY and 2.5% QOQ to SAR 609.0 Bn in 1Q24, driven by an increase in loans to corporates and SME segment while retail financing remained flat in 1Q24.

Stock Information

Market Cap (SAR, mn)	320,400.00
Paid Up Capital (mn)	40,000.00
52 Week High	92.50
52 Week Low	63.10
3M Avg. daily value(SAR)	348,227,600

1Q24 Result Review (SAR, mn)

Total Assets	835,992
Total Loans	608,990
Total Equity	108,272
Total Deposits	603,978
Net Profit	4,405

Financial Ratios

Dividend Yield (12m)	2.87
Dividend Pay-out (%)	29.11
Price-Earnings Ratio(x)	19.95
Price-to-Book Ratio (x)	3.55
Book Value (SAR)	22.56
Return-on Equity (%)	18.16

Stock Performance

5 Days	0.25%
1 Months	-5.21%
3 Months	-8.87%
6 Months	13.46%
1 Year	6.80%
Month to Date (MTD%)	0.25%
Quarter to Date (QTD%)	-2.67%
Year to Date (YTD%)	-7.40%

Mortgages recorded a growth of 6.2% YOY in 1Q24, corporate financing increased 19.1% YOY, and SME financing grew 24.3% YOY in 1Q24. Moreover, customer deposits rose 8.6% YOY and 5.4% QOQ to SAR 604.0 Bn in 1Q24, of which 68% is contributed by the CASA deposits. The headline loan-to-deposit ratio stood at 100.8% in 1Q24 compared to 103.7% in 4Q23. Total assets increased 7.8% YOY and 3.5% QOQ to SAR 836.0 Bn in 1Q24 driven by growth in the financing and investment portfolio.

Target Price and Rating

We maintain our ACCUMULATE rating on Al Rajhi with an unchanged target price of SAR 90.00. ALRAJHI witnessed a rise in net profit during 1Q24 due to a growth in total operating income partially offset by growth in operating expenses. The Bank's advances rose 5.5% YOY to SAR 609.0 Bn in 1Q24, driven by strong growth of 24.3% and 19.1% in SME and corporate loans, respectively. Furthermore, the Bank expects its advances to grow by a mid-single-digit in 2024. On the other hand, deposits rose 8.6% YOY and 5.4% QOQ to SAR 604.0 Bn in 1Q24. As a result, the headline loan-to-deposit ratio declined to 100.8% in 1Q24 compared to 103.7% in 4Q23, while the regulatory SAMA LDR ratio declined from 82.9% in 4Q23 to 78.7% in 1Q24. The bank also benefited from a significant proportion of CASA deposits, at 68.0% of total deposits as of 1Q24. In addition, the Bank is also undertaking measures to deploy the resources efficiently to reduce the cost of funds as a result of which NIMs improved marginally by 3 bps YOY to 3.0% in 1Q24. Al Rajhi's asset quality stood stable with NPLs of 0.77% in 1Q24 compared to 0.71% in 4Q23, with a robust coverage of 175.3% in 1Q24. Furthermore, Al Rajhi's capitalization remained healthy with a Tier 1 ratio of 19.2% and CAR of 20.2% in 1Q24. The bank continues to maintain a strong liquidity position with a liquidity coverage ratio of 134% in 1Q24 compared to 143% in 4Q23. ALRAJHI paid a total dividend of SAR 2.30 per share in 2023 with a dividend yield of 2.9%. Thus, considering the above-mentioned factors, we maintain our ACCUMULATE rating on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	31.62	30.31	21.78	18.94	20.33	17.91
PB	6.77	5.53	4.77	4.08	3.56	3.23
Dividend yield	2.3%	0.8%	1.1%	1.6%	2.9%	3.2%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	8,768	10,704	10,803	10,931	-1.2%	24.7%	2.1%	38,738	43,851	13.2%
Funded expense	-3,643	-5,155	-5,156	-5,398	-4.5%	48.2%	4.7%	-17,468	-20,065	14.9%
Net Funded Income	5,125	5,550	5,647	5,534	2.1%	10.2%	1.8%	21,269	23,786	11.8%
Total non-funded Income	1,655	1,501	1,582	1,604	-1.4%	-4.4%	5.4%	6,262	6,643	6.1%
Total Operating Income	6,781	7,051	7,229	7,137	1.3%	6.6%	2.5%	27,531	30,429	10.5%
Op. Exp. before provision	-1,800	-1,998	-1,894	-1,910	-0.8%	5.2%	-5.2%	-7,498	-7,759	3.5%
Profit before provisions	4,980	5,053	5,335	5,227	2.1%	7.1%	5.6%	20,033	22,670	13.2%
Impairment charge	-359	-406	-421	-456	-7.6%	17.3%	3.8%	-1,504	-1,845	22.7%
Net income before zakat	4,622	4,647	4,914	4,771	3.0%	6.3%	5.7%	18,529	20,825	12.4%
Zakat	-477	-477	-509	-477	6.7%	6.8%	6.8%	-1,908	-2,083	9.1%
Net profit for the year	4,145	4,171	4,405	4,294	2.6%	6.3%	5.6%	16,621	18,743	12.8%

FABS estimate & Co Data

Al Rajhi Bank – KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	75.6%	78.7%	78.1%	253	-59	77.3%	78.2%	91
Cost to income	26.5%	28.3%	26.2%	-35	-213	27.2%	25.5%	-174
Impairment/PPP	-7.2%	-8.0%	-7.9%	-69	14	-7.5%	-8.1%	-63
NP/OI	61.1%	59.2%	60.9%	-20	178	60.4%	61.6%	122
Cost of risk	0.3%	0.3%	0.3%	3	1	0.3%	0.3%	5
Loan-to-deposit (headline)	103.7%	103.7%	100.8%	-291	-285	103.7%	103.3%	-35
Coverage excluding collateral	214.1%	203.0%	175.3%	NM	NM	203.0%	200.0%	-297
Tier 1	19.7%	20.4%	19.2%	-53	-120	20.4%	20.9%	55
Capital adequacy	20.9%	21.5%	20.2%	-67	-132	21.5%	22.0%	48
ROAA	2.2%	2.1%	2.1%	-18	-1	2.1%	2.3%	16

FABS estimate & Co Data

Al Rajhi Bank - Key B/S items

SAR mn	1Q23	2Q23	3Q23	4Q23	1Q24	Change
Net advances	577,011	579,080	590,826	594,205	608,990	5.5%
QOQ ch	1.5%	0.4%	2.0%	0.6%	2.5%	
Total assets	775,796	784,520	801,483	808,098	835,992	7.8%
QOQ ch	1.9%	1.1%	2.2%	0.8%	3.5%	
Customer deposits	556,197	570,665	565,719	573,101	603,978	8.6%
QOQ ch	-1.5%	2.6%	-0.9%	1.3%	5.4%	
Total equity	99,227	103,187	102,280	106,759	108,272	9.1%
QOQ ch	-1.0%	4.0%	-0.9%	4.4%	1.4%	

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	91.52	70.0%	64.06
Relative Valuation (RV)	86.48	30.0%	25.94
Weighted Average Valuation (SAR)			90.00
Current market price (SAR)			80.10
Upside/Downside (%)			+12.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90 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)	55,295
Terminal value (SAR, Mn)	220,813
Book Value of Equity (as of Dec 2023)	89,954
FV to Common shareholders (SAR, Mn)	366,063
No. of share (Mn)	4,000
Current Market Price (SAR)	80.10
Fair Value per share (SAR)	91.52

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	17,934	22,847	26,038	28,948	31,279
(-) Equity Charge	-8,355	-9,397	-10,508	-11,722	-13,010
Excess Equity	5,588	13,450	15,530	17,226	18,270
Discounting Factor	0.95	0.88	0.81	0.75	0.69
Present Value of Excess Equity	5,331	11,836	12,607	12,900	12,621

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	22,360	1.5	1.4	10.3	9.6	5.2	5.4
Alinma Bank	21,670	2.5	2.2	14.8	13.6	2.9	3.1
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Arab National Bank	11,660	1.1	1.1	9.6	9.7	5.2	5.4
Bank Albilad	11,570	2.5	2.2	16.0	14.3	1.6	1.8
Average		1.7x	1.6x	12.2x	11.2x	4.1%	4.3%
Median		1.5x	1.4x	10.3x	9.7x	5.2%	5.4%
Max		2.5x	2.2x	14.8x	13.6x	5.2%	5.4%
Min		1.1x	1.1x	10.2x	9.6x	2.9%	3.1%

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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