

Al Rajhi Bank (RJHI)

Growth in net investment and advances boosted profitability

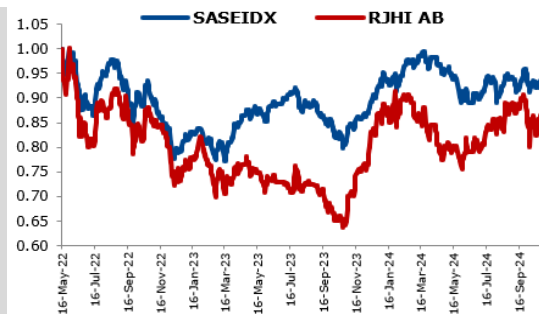
Current Price
SAR 94.40

Target Price
SAR 95.00

Upside/Downside (%)
+1.0%

Rating
HOLD

- NIMs improved 17 bps YOY and 13 bps QOQ to 3.17% in 3Q24 and revised 2024 NIMs growth forecast to 10-20 bps.
- Net advances grew 9.9% YOY to SAR 649.0 Bn in 3Q24, driven by an increase in retail, corporate and SME financing.
- Asset quality remained stable with NPLs of 0.8% in 3Q24 compared to 2Q24, with a decline in coverage from 168.1% in 2Q24 to 165.2% in 3Q24.
- Cost-to-income ratio fell 253 bps YOY and 109 bps QOQ to 24.5% in 3Q24 indicating the Bank's ability to control costs effectively.
- CASA deposits represented a significant proportion of total deposits at 72.2% in 3Q24.



3Q24 Net Profit higher than our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit increased 22.8% YOY to SAR 5,103 Mn in 3Q24, higher than our estimate of SAR 4,788 Mn. The growth in net profit is attributable to a substantial rise in funded and non-funded income partially offset by a rise in operating expenses, impairment, and zakat charges.

P&L Highlights

ALRAJHI's funded income rose 21.9% YOY to SAR 12,150 Mn in 3Q24 driven by a healthy growth in net advances and increase in asset yield. On the other hand, funded expenses increased significantly 25.9% YOY to SAR 5,753 Mn in 3Q24 primarily due to a rise in the cost of funds. Thus, ALRAJHI's net funded income grew 18.5% YOY to SAR 6,397 Mn in 3Q24. Net fees from banking services increased 38.2% YOY to SAR 1,242 Mn in 3Q24 due to the management's efforts to boost the fee income, while exchange income grew marginally 1.8% YOY to SAR 342 Mn in 3Q24. Furthermore, the Bank's other operating income almost doubled to SAR 457 Mn in 3Q24 from SAR 237 Mn in 3Q23. Thus, the Bank's total non-funded income rose significantly 38.7% YOY to SAR 2,042 Mn in 3Q24. ALRAJHI's total operating income expanded 22.8% YOY to SAR 8,439 Mn in 3Q24. Salaries & employee-related benefits expenses rose 9.0% YOY to SAR 961 Mn in 3Q24, whereas other general and administrative expenses grew 4.8% YOY to SAR 612 Mn in 3Q24. Additionally, depreciation and amortization expenses grew significantly 26.1% YOY to SAR 497 Mn in 3Q24. Resultantly, the Bank's total operating expenses increased 23.2% YOY to SAR 2,758 Mn in 3Q24. Thus, the cost-to-income ratio improved to 24.5% in 3Q24 from 27.1% in 3Q23. The Bank's impairment charges increased significantly from SAR 379 Mn in 3Q23 to SAR 688 Mn in 3Q24 due to an increase in gross charge and rise in

Stock Information

Market Cap (SAR, Mn)	377,600.00
Paid Up Capital (Mn)	40,000.00
52 Week High	96.00
52 Week Low	69.80
3M Avg. daily value(SAR)	416,307,600

3Q24 Result Review (SAR, Mn)

Total Assets	902,571
Total Loans	649,024
Total Equity	117,879
Total Deposits	622,572
Net Profit	5,103

Financial Ratios

Dividend Yield (12m)	2.54
Dividend Pay-out (%)	58.23
Price-Earnings Ratio(x)	21.58
Price-to-Book Ratio (x)	3.98
Book Value (SAR)	23.73
Return-on Equity (%)	19.37

Stock Performance

5 Days	6.55%
1 Months	10.54%
3 Months	10.41%
6 Months	19.49%
1 Year	33.52%
Month to Date (MTD%)	7.27%
Quarter to Date (QTD%)	8.26%
Year to Date (YTD%)	9.13%

write-offs. Additionally, the Bank zakat expenses rose 20.1% to SAR 574 Mn in 3Q24. Share of profit attributable to non-controlling interest holders stood at SAR 4 Mn in 3Q24.

Balance Sheet Highlights

ALRAJHI's total assets increased 12.7% YOY and 4.1% QOQ to SAR 902.6 Bn in 3Q24 driven by growth in the net advances and net investment. Net investment grew 25.8% YOY and 5.0% QOQ to SAR 160.8 Bn in 3Q24, due to growth in domestic investments and international investments. Domestic investments expanded 24.7% YOY to SAR 134.0 Bn in 3Q24, whereas international investments grew 32.0% YOY to SAR 26.8 Bn in 3Q24. Net advances grew 9.9% YOY and 4.4% QOQ to SAR 649.0 Bn in 3Q24, driven by an increase in retail, corporate and SME financing. Retail financing recorded a growth of 6.2% YOY to SAR 452 Bn in 3Q24 due to growth in the total mortgage book and consumer financing. Mortgage financing grew 9.9% YOY and consumer financing expanded 1.6% YOY in 3Q24. Additionally, corporate financing grew 20.1% YOY to SAR 162 Bn in 3Q24. Furthermore, SME financing increased 21.6% YOY to SAR 35 Bn in 3Q24. On the other hand, customer deposits rose 10.0% YOY to SAR 622.6 Bn in 3Q24 and remained flat on QOQ basis. Thus, the headline loan-to-deposit ratio increased from 99.9% in 2Q24 to 104.2% in 3Q24.

Target Price and Rating

We revise our rating on ALRAJHI from ACCUMULATE to HOLD with an unchanged target price of SAR 95.00. The Bank's share prices increased 9.2% since our previous rating. ALRAJHI witnessed strong growth in profitability driven by a substantial rise in funded and non-funded income in 3Q24. The Bank's net advances rose 9.9% YOY to SAR 649.0 Bn in 3Q24, owing to strong growth in retail, corporate, and SME financing. The Bank revised its 2024 loan guidance from high-single-digit to low-teens owing to strong growth in 9M24. On the other hand, customer deposits increased 10.0% YOY to SAR 622.6 Bn but remained flat on QOQ basis. Meanwhile, CASA deposits represented a significant proportion of total deposits at 72.2% in 3Q24. Hence, ALRAJHI's headline loan-to-deposit ratio increased from 99.9% in 2Q24 to 104.2% in 3Q24. The Bank's reported NIMs improved 13 bps QOQ to 3.17% in 3Q24 benefiting the profitability. The Bank further expects its NIMs to grow by 10-20 bps in 2024. ALRAJHI is expected to witness slower repricing in the declining interest rate scenario as the Bank's major financing comprises a retail portfolio. Furthermore, the bank's cost-to-income declined 253 bps YOY and 109 bps QOQ to 24.5% in 3Q24, indicating the Bank's ability to control costs effectively. ALRAJHI's asset quality remained stable as the NPL ratio remained unchanged at 0.8% in 3Q24 compared to 2Q24 while provision coverage moderated from 168.1% in 2Q24 to 165.2% in 3Q24 providing a solid buffer against loan losses in the forthcoming period. Additionally, the Bank plans to enhance its product penetration and acquire new customer segments by investing in digitization & automation. Besides, capitalization remained strong with a Tier 1 ratio of 19.7% and CAR of 20.7% in 3Q24. The Bank declared a cash dividend of SAR 1.25 per share for 1H24 amounting to SAR 5.0 Bn generating a dividend yield of 2.8%. However, ALRAJHI trades at a PB multiple of 3.9x compared to a peer multiple of 2.0x rendering the stock expensive. Thus, based on our analysis, we assign a HOLD rating on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	36.50	35.00	25.15	21.86	23.47	20.36
PB	7.82	6.38	5.51	4.71	4.11	3.95
Dividend yield	2.0%	0.7%	0.9%	1.3%	2.5%	2.7%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	9,970	11,238	12,150	11,562	5.1%	21.9%	8.1%	38,738	46,171	19.2%
Funded expense	-4,569	-5,380	-5,753	-5,501	4.6%	25.9%	6.9%	-17,468	-21,758	24.6%
Net funded income	5,401	5,857	6,397	6,061	5.5%	18.5%	9.2%	21,269	24,413	14.8%
Fees from banking services	899	1,123	1,242	1,090	14.0%	38.2%	10.6%	4,226	4,690	11.0%
Exchange income, net	336	319	342	312	9.5%	1.8%	7.3%	1,246	1,296	4.0%
Other operating income	237	337	457	287	59.6%	93.1%	35.6%	790	1,501	90.0%
Total non-funded income	1,472	1,780	2,042	1,689	20.9%	38.7%	14.7%	6,262	7,488	19.6%
Net operating income	6,873	7,637	8,439	7,750	8.9%	22.8%	10.5%	27,531	31,901	15.9%
Salary & related exp.	-882	-918	-961	-936	2.7%	9.0%	4.7%	-3,525	-3,781	7.3%
Other G&A expenses	-584	-565	-612	-582	5.2%	4.8%	8.3%	-2,395	-2,395	0.0%
D&A expense	-394	-474	-497	-460	8.1%	26.1%	5.0%	-1,578	-1,920	21.7%
Profit before provisions	5,012	5,681	6,369	5,772	10.3%	27.1%	12.1%	20,033	23,805	18.8%
Impairment charge	-379	-455	-688	-452	52.2%	81.4%	51.3%	-1,504	-2,247	49.4%
Total operating expenses	-2,240	-2,411	-2,758	-2,430	13.5%	23.2%	14.4%	-9,002	-10,343	14.9%
Net income before zakat	4,633	5,226	5,681	5,320	6.8%	22.6%	8.7%	18,529	21,558	16.3%
Zakat	-478	-528	-574	-532	7.8%	20.1%	8.7%	-1,908	-2,220	16.4%
Non-controlling interest	0	0	-4	0	NM	NM	NM	0	-10	NM
Net profit for the year	4,155	4,698	5,103	4,788	6.6%	22.8%	8.6%	16,621	19,328	16.3%

FABS estimate & Co Data
Al Rajhi Bank – KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.6%	76.7%	75.8%	-278	-89	77.3%	76.5%	-73
NIM	2.8%	2.9%	3.0%	18	14	2.8%	2.9%	11
NIS	2.4%	2.4%	2.5%	10	13	2.4%	2.5%	3
Fees & comms/OI	13.1%	14.7%	14.7%	164	1	15.3%	14.7%	-65
Exchange Income/OI	4.9%	4.2%	4.1%	-84	-12	4.5%	4.1%	-46
Cost to income	27.1%	25.6%	24.5%	-253	-109	27.2%	25.4%	-186
Impairment/PPP	-7.6%	-8.0%	-10.8%	-323	-280	-7.5%	-9.4%	-193
NP/OI	60.5%	61.5%	60.5%	1	-105	60.4%	60.6%	22
Cost of risk	0.3%	0.3%	0.4%	17	15	0.3%	0.4%	10
Loan-to-deposit (calculated)	104.4%	99.9%	104.2%	-19	436	103.7%	106.0%	232
NPL (Reported)	0.6%	0.8%	0.8%	19	1	0.7%	0.8%	8
NPL Coverage (reported)	239.9%	168.1%	165.2%	-7,472	-292	203.0%	165.0%	-3,800
Tier 1	19.6%	20.0%	19.7%	4	-34	20.4%	20.3%	-8
Capital adequacy	20.8%	21.0%	20.7%	-6	-34	21.5%	21.3%	-24
ROAA	2.2%	2.1%	2.2%	-3	5	2.1%	2.2%	11
ROAE	19.6%	18.4%	19.4%	-26	99	18.7%	19.1%	40

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

SAR Mn	3Q23	4Q23	1Q24	2Q24	3Q24	Change
Net advances	590,826	594,205	608,990	621,891	649,024	9.9%
QOQ ch	2.0%	0.6%	2.5%	2.1%	4.4%	
Total assets	800,799	808,098	835,992	866,960	902,571	12.7%
QOQ ch	2.2%	0.9%	3.5%	3.7%	4.1%	
Customer deposits	565,719	573,101	603,978	622,572	622,572	10.0%
QOQ ch	-0.9%	1.3%	5.4%	3.1%	0.0%	
Total equity	102,280	106,759	108,272	116,396	117,879	15.3%
QOQ ch	-0.9%	4.4%	1.4%	7.5%	1.3%	

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	95.13	70.0%	66.59
Relative Valuation (RV)	94.70	30.0%	28.41
Weighted Average Valuation (SAR)			90.00
Current market price (SAR)			94.40
Upside/Downside (%)			+1.0%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.88 and equity risk premium of 4.2%. 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)	48,766
Terminal value (SAR, Mn)	236,832
Book Value of Equity (as of Sep 2024)	94,929
FV to Common shareholders (SAR, Mn)	380,527
No. of share (Mn)	4,000
Current Market Price (SAR)	94.40
Fair Value per share (SAR)	95.13

Residual Income Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	18,208	21,666	23,263	27,624	31,444
(-) Equity Charge	-8,629	-9,597	-10,551	-11,797	-13,176
Excess Equity	9,579	12,069	12,712	15,827	18,268
Discounting Factor	0.98	0.90	0.83	0.76	0.70
Present Value of Excess Equity	2,346¹	10,887	10,559	12,106	12,867

Source: FAB Securities, ¹Adjusted 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 2024 PB multiple of 4.0x. 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 (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Riyad Bank	20,310	1.3	1.2	9.1	8.8	6.0	6.3
Alinma Bank	18,790	2.1	1.9	12.9	11.8	3.0	3.5
Abu Dhabi Commercial Bank	12,103	2.0	1.8	8.7	9.0	6.2	6.2
Arab National Bank	10,280	1.0	1.0	8.0	8.3	7.6	6.4
Bank Albilad	11,990	2.6	2.3	16.7	15.1	1.8	1.9
Average		1.8x	1.6x	11.1x	10.6x	4.9x	4.9x
Median		2.0x	1.8x	9.1x	9.0x	6.0x	6.2x
Max		2.1x	1.9x	12.9x	11.8x	6.2x	6.3x
Min		1.3x	1.2x	8.7x	8.8x	3.0x	3.5x

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.