

Al Rajhi Bank (RJHI)

NIMs expansion and non-yield income growth boosted profits

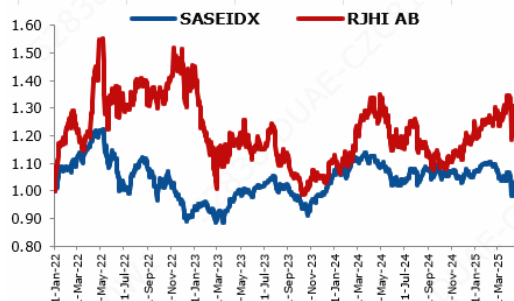
Current Price
SAR 98.50

Target Price
SAR 105.0

Upside/Downside (%)
+7%

Rating
HOLD

- Funded income grew faster than funded expense on a YOY basis, leading to NIMs expansion of 8 bps YOY in 1Q25.
- Non-funded income rose 32.9% YOY to SAR 2.1 Bn in 1Q25 attributed to strong growth in fees, exchange and other operating income.
- Cost-to-income ratio improved to 22.7% in 1Q25 compared to 26.2% in 1Q24 owing to cost efficiencies measures.
- Net advances grew 18.7% YOY and 4.2% QOQ to SAR 722.7 Bn in 1Q25, driven by a strong expansion in mortgages credit and SME financing.
- Cost of risk rose marginally 1 bps YOY to 0.29% in 1Q25.



1Q25 Net Profit higher than our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit grew 34.1% YOY to SAR 5,906 Mn in 1Q25, higher than our estimate of SAR 5,652 Mn. The growth in net profit is attributed to a robust increase in funded and non-funded income partially offset by an increase in impairment charges and zakat charges.

P&L Highlights

ALRAJHI's funded income rose 21.9% YOY to SAR 13,171 Mn in 1Q25 fueled by a notable growth in net advances, investments securities and other interest-earning assets. On the other hand, funded expenses surged by 17.8% YOY to SAR 6,074 Mn in 1Q25 primarily due to a rise in the customer deposits and other interest-bearing liabilities. Thus, ALRAJHI's net funded income grew 25.7% YOY to SAR 7,097 Mn in 1Q25. NIMs expanded 9 bps YOY to 2.94% in 1Q25. Fees income from banking services increased 32.2% YOY, alongside exchange income grew 11.6% YOY at the same time, other operating income surged 61.2% YOY in 1Q25. Thus, the Bank's total non-funded income rose significantly by 32.9% YOY to SAR 2,103 Mn in 1Q25. ALRAJHI's total operating income expanded 27.3% YOY to SAR 9,200 Mn in 1Q25. Total operating expenses increased 10.3% YOY to SAR 2,088 Mn in 1Q25, while the cost-to-income ratio improved from 26.2% in 1Q24 to 22.7% in 1Q25. Impairment charges increased significantly from SAR 421 Mn in 1Q24 to SAR 525 Mn in 1Q25. Zakat expenses rose 32.9% YOY to SAR 677 Mn in 1Q25 in line with the growth in profit before taxes. Share of profit attributable to non-controlling interest holders stood at SAR 4 Mn in 1Q25 compared to nil profit attributed in 1Q24.

Stock Information

Market Cap (SAR, Mn)	394,000.00
Paid Up Capital (Mn)	40,000.00
52 Week High	104.00
52 Week Low	75.50
3M Avg. daily value(SAR)	428,505,000

1Q25 Result Review (SAR, Mn)

Total Assets	1,023,080
Total Loans	722,785
Total Equity	133,977
Total Deposits	629,229
Net Profit	5,906

Financial Ratios

Dividend Yield (12m)	2.75
Dividend Pay-out (%)	51.37
Price-Earnings Ratio(x)	19.57
Price-to-Book Ratio (x)	3.96
Book Value (SAR)	24.87
Return-on Equity (%)	19.70

Stock Performance

5 Days	1.13%
1 Months	-3.43%
3 Months	-0.51%
6 Months	11.93%
1 Year	23.28%
Month to Date (MTD%)	-3.43%
Quarter to Date (QTD%)	-3.43%
Year to Date (YTD%)	4.12%

Balance Sheet Highlights

ALRAJHI's total assets increased 22.4% YOY and 5.0% QOQ to SAR 1,023.0 Bn in 1Q25, fueled by strong growth in net investments, due from banks, cash, net financing and other net assets. Net investment grew 25.1% YOY and 1.7% QOQ to SAR 178.9 Bn in 1Q25. Net advances rose 18.7% YOY and 4.2% QOQ to SAR 722.7 Bn in 1Q25 due to growth in retail and non-retail financing. Retail financing, a contributor of growth in net advances, recorded a growth of 12.1% in 1Q25 due to growth in the mortgage and consumer financing. Mortgage financing grew 15.2% YOY and consumer financing expanded 7.7% YOY in 1Q25. Additionally, corporate financing grew 35.8% YOY in 1Q25. Furthermore, SME financing increased 34.5% YOY in 1Q25. NPL ratio remains healthy at 0.74% compared to 0.76% in 4Q24 and 0.77% in 1Q24. Provision coverage ratio stood at 152.7% in 1Q25 compared to 159.4% in 4Q24. On the other hand, customer deposits rose 4.2% YOY and 0.2% QOQ to SAR 629.2 Bn in 1Q25. CASA represented 69.0% in 1Q25. Thus, the regulatory loan-to-deposit ratio increased from 78.7% in 1Q24 to 84.9% in 1Q25. The headline loan-to-deposit ratio rose from 110.4% in 4Q24 to 114.9% in 1Q25 due to slower growth in deposits. The Bank maintained a healthy LCR of 148.6% in 1Q25 above the minimum LCR required.

Target Price and Rating

We maintain our HOLD rating on ALRAJHI with a revised target price of SAR 105.00. ALRAJHI witnessed a strong growth in profitability driven by a substantial rise in funded and non-funded income in 1Q25. Non-funded income as a percentage of total operating income grew from 21.9% in 1Q24 to 23.0% in 1Q25, reflecting the Bank's continued efforts to diversify its revenue base. The Bank plans to achieve higher growth in non-funded income by increasing product penetration among existing customers through cross-selling additional products. It also plans to leverage ALRAJHI's leading position in financial products and distribution capabilities to increase this penetration. ALRAJHI also expects its NIMs to benefit from the negative interest rate sensitivity gap in 2025. Net advances grew 18.7% YOY and 4.2% QOQ to SAR 722.7 Bn in 1Q25, owing to an increase in corporate and retail financing portfolio. Retail financing portfolio grew 12.1% YOY, driven by a strong growth in mortgage book and consumer financing, whereas the corporate financing portfolio grew by 35.8% YOY due to strong growth in the SME portfolio. The Bank expects the financing portfolio to grow by high single digits in 2025, and the forecast might be revised upward owing to the strong growth in 1Q25. ALRAJHI continued to maintain robust asset quality with a NPL ratio of 0.74% and a provision coverage ratio of 152.7% in 1Q25. Higher provision coverage provides a buffer against unforeseen losses. Slower growth in customer deposits compared to growth in advances increases the Bank's reliance on other funding sources would lead to a growth in cost of funds, leading to slower growth in margins. The Bank distributed a cash dividend of SAR 1.46 per share for 2H24, amounting to SAR 5.8 Bn leading to a dividend yield of 2.8% 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	37.0	26.6	23.1	24.8	21.0	17.2
PB	6.7	5.8	5.0	4.3	4.2	3.5
DPS (SAR)	0.63	0.88	1.25	2.30	2.71	3.18
Dividend yield	0.6%	0.9%	1.3%	2.3%	2.8%	3.2%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Funded Income	10,803	12,828	13,171	13,133	0.3%	21.9%	2.7%	47,018	52,475	11.6%
Funded Expenses	-5,156	-5,886	-6,074	-6,055	0.3%	17.8%	3.2%	-22,175	-22,982	3.6%
Net Funded Income	5,647	6,941	7,097	7,077	0.3%	25.7%	2.2%	24,843	29,493	18.7%
Total non-funded Income	1,582	1,809	2,103	1,888	11.4%	32.9%	16.3%	7,212	8,291	15.0%
Total Operating Income	7,229	8,750	9,200	8,965	2.6%	27.3%	5.1%	32,055	37,784	17.9%
Total operating Expenses	-1,894	-2,050	-2,088	-2,060	1.4%	10.3%	1.8%	-7,971	-8,411	5.5%
Profit before provisions	5,335	6,700	7,112	6,905	3.0%	33.3%	6.2%	24,085	29,373	22.0%
Impairment charge	-421	-553	-525	-620	-15.4%	24.6%	-5.0%	-2,117	-2,641	24.7%
Total Operating Expenses	-2,315	-2,603	-2,613	-2,680	-2.5%	12.9%	0.4%	-10,087	-11,051	9.6%
Net income before zakat	4,914	6,147	6,587	6,285	4.8%	34.0%	7.2%	21,968	26,732	21.7%
Zakat	-509	-626	-677	-628	7.7%	32.9%	8.1%	-2,237	-2,673	19.5%
non-controlling interest	0	-5	-4	-4	1.0%	NM	-25.8%	-9	-17	87.5%
Net profit for the year	4,405	5,516	5,906	5,652	4.5%	34.1%	7.1%	19,722	24,042	21.9%

FABS estimate & Co Data

Al Rajhi Bank - KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	78.1%	79.3%	77.1%	-97	-219	77.5%	78.1%	56
NIM	2.9%	3.1%	2.9%	9	-12	2.9%	3.0%	12
Cost to income	26.2%	23.4%	22.7%	-350	-73	24.9%	22.3%	-260
Impairment/PPP	-7.9%	-8.2%	-7.4%	51	87	-8.8%	-9.0%	-20
NP/OI	60.9%	63.0%	64.2%	326	116	61.5%	63.6%	211
Cost of risk	0.28%	0.33%	0.29%	1	-4	0.32%	0.36%	4
NPL (Reported)	0.8%	0.8%	0.7%	-3	-2	0.8%	0.8%	3
Tier 1	19.2%	19.3%	19.8%	60	51	19.3%	19.8%	47
Capital adequacy	20.2%	20.2%	20.6%	40	39	20.2%	20.6%	40
ROAA	2.1%	2.2%	2.3%	23	7	2.2%	2.4%	16
ROAE	18.6%	19.7%	17.5%	-111	-217	19.7%	21.8%	216

FABS estimate & Co Data

Al Rajhi Bank - Key B/S items

SAR Mn	1Q24	2Q24	3Q24	4Q24	1Q25	Change
Net advances	6,08,990	6,21,891	6,49,024	6,93,410	7,22,785	18.7%
QOQ ch	2.5%	2.1%	4.4%	6.8%	4.2%	
Total assets	8,35,992	8,66,960	9,02,571	9,74,387	10,23,080	22.4%
QOQ ch	3.5%	3.7%	4.1%	8.0%	5.0%	
Customer deposits	6,03,978	6,22,572	6,22,572	6,28,239	6,29,229	4.2%
QOQ ch	5.4%	3.1%	0.0%	0.9%	0.2%	
Total equity	1,08,272	1,16,396	1,17,879	1,23,139	1,33,977	23.7%
QOQ ch	1.4%	7.5%	1.3%	4.5%	8.8%	

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	100.11	70%	70.07
Relative Valuation (RV)	116.43	30%	34.93
Weighted Average Valuation (SAR)			105.00
Current market price (SAR)			98.50
Upside/Downside (%)			+7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, 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)	63,487
Terminal value (SAR, Mn)	237,393
Book Value of Equity (as of Mar 2025)	99,545*
FV to Common shareholders (SAR, Mn)	400,425
No. of share (Mn)	4,000
Current Market Price (SAR)	98.50
Fair Value per share (SAR)	100.11

Residual Income Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	23,100	26,696	29,923	33,678	36,470
(-) Equity Charge	-9,816	-11,037	-12,370	-13,865	-16,236
Excess Equity	13,284	15,659	17,553	19,813	20,233
Discounting Factor	0.92	0.85	0.78	0.71	0.66
Present Value of Excess Equity	9,160¹	13,237	13,642	14,157	13,292

Fab Securities & Co. ¹Adjusted for partial year, *calculated by adding 1Q25 profit to the book value at the end of 4Q24 and subtracting dividend payable for 2H24.

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	24,284	1.4	1.3	9.2	9.0	5.6%	5.6%
Alinma Bank	19,637	2.0	1.8	12.1	11.1	3.7%	3.9%
Abu Dhabi Islamic Bank	16,157	2.4	2.2	11.3	10.6	4.9%	5.2%
Arab National Bank	11,949	1.1	1.0	9.0	8.9	5.6%	5.9%
Bank Albilad	11,642	2.7	2.3	17.7	15.5	1.5%	1.7%
Average		1.9x	1.7x	11.9x	11.0x	4.3%	4.4%
Median		2.0x	1.8x	11.3x	10.6x	4.9%	5.2%
Max		2.4x	2.2x	12.1x	11.1x	5.6%	5.6%
Min		1.4x	1.3x	9.2x	9.0x	3.7%	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%

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