Al Rajhi Bank (HOLD, TP: SAR 105.4, 1120.SE) 4Q/FY25 Results Review

Strategic investments drive CIR above guidance; RJHI indicates resuming 50-60% dividend payout; bank drops investments to optimize portfolio in rate cut cycle

Al Rajhi Bank net income in 4Q25 was up 16% Y/Y and flat Q/Q at SAR 6.38bn (4Q25 EPS: SAR 0.1.59) as total income increased 19% to SAR 10.41bn driven by higher NSCI and NII. Operating expenses rose 31%, taking the cost-to-income ratio (CIR) to 25.7% (+232bps Y/Y), while provisions rose 13%. Loans grew faster than deposits, leading to a 694bps widening of the headline LDR to 112.8%. Balance sheet levering stood at 7.3x vs. 7.9x in 4Q24. Reported RoAE and RoAA rose 12bps and 6bps to 22.8% and 2.4%, respectively. FY25 net profit rose 26% to SAR 24.79bn from NSCI (+20%), NII (+28%), partly offset by opex (+15%) and impairments (+10%). The BoD proposed a dividend of SAR 1.75 per share, taking the full year DPS to SAR 2.5, translating to a payout ratio of 40.3%.

- NSCI was up 17% Y/Y and 12% Q/Q at SAR 8.15bn in 4Q25 led by the 16% Y/Y and 12% Q/Q increase in net financing income and the 27% Y/Y and 13% Q/Q higher net investment income. In the year, NSCI rose 20% led by higher net financing income (+18%) and net investment income (+40%). Reported NIM rose 8bps Y/Y and 36bps Q/Q to 3.35% in the quarter. FY25 NIM was up 3bps to 3.16%
- In 4Q25 NII was up 25% Y/Y but fell 13% Q/Q to SAR 2.26bn. Core NII (fee and exchange income) registered growth both Y/Y and Q/Q. While other operating income was up Y/Y, it was down Q/Q. The movement in other operating income was mainly on account of securitization gains that were booked in 2Q and 3Q25. For the year, NII was up 28% to SAR 9.25bn on higher fee, exchange, and other operating income. Consequently, total operating income rose 19% Y/Y and 5% Q/Q to SAR 10.41bn in the quarter. For FY25, it was up 22% Y/Y to SAR 39.1bn.
- Opex in the quarter rose 31% Y/Y and 21% Q/Q to SAR 2.68n in 4Q25, while in 2025, it rose 15% to SAR 9.13bnhigher employee, D&A, and G&A expenses. The bank ascribed this growth to strategy execution and indicated that these investments will continue. Meanwhile, the CIR, ex provisions, widened 232bps Y/Y and 332bps Q/Q to 25.7% in 4Q25. In 2025, it eased 152bps to 23.3%.
- Provisions in 4Q25 jumped 13% Y/Y and 10% Q/Q to SAR 625mn. For the year, it increased 10% Y/Y to SAR 2.32bn as gross charge rose 26%, partly offset by 41% higher recoveries from written off loans. The CoR was stable Y/Y but rose 3bps Q/Q to 0.33% in 4Q25, while for the year it eased 1bpt to 0.32%.
- NPL balances rose 7% Y/Y but fell 2% Q/Q to SAR 5.69bn with the NPL ratio coming in at 0.75% vs. 0.76% in both 3Q25 and 4Q25. The NPL coverage ratio stood at 152.5% down 696bps Y/Y and 128bps Q/Q.
- Net income was up 16% Y/Y but was flat Q/Q at SAR 6.38bn in 4Q25. For the year, it registered a growth of 26% Y/Y to SAR 24.79bn.
- Total assets were up 7% Y/Y (-2% Q/Q) to SAR 1.04tn, mainly attributed to the growth in financing (+9% Y/Y, flat Q/Q). This is the first time since 3Q19 that the bank has seen a Q/Q decline in assets, due to a few securitizations in 2H25. Estimated interest-earning assets (IEA) rose 7% Y/Y but were down 3% Q/Q to SAR 945.66bn, accounting for 90.6% of assets in 4Q25, up 1bps Y/Y but down 93bps Q/Q. Balance sheet levering stood at 7.3x in 4Q25 vs. 7.7x in 3Q25 and 7.9x in 4Q24.

SAR mln	*4Q25*	*3Q25*	*4Q24*	*Q/Q %*	*Y/Y %*
Net income from Financing	7,105	6,369	6,119	12%	16%
Net income from Investments	1,045	925	823	13%	27%
Net Interest Income	**8,150**	**7,294**	**6,942**	**12%**	**17%**
Non-Interest Income	2,259	2,588	1,808	-13%	25%
Total Income	**10,409**	**9,882**	**8,750**	**5%**	**19%**
Operating Expenses	2,680	2,216	2,050	21%	31%
Impairment provisions	625	570	553	10%	13%
Income before Zakat	7,103	7,096	6,147	0%	16%
Net Income	**6,375**	**6,360**	**5,516**	**0%**	**16%**
EPS	1.59	1.59	1.38	0%	16%
Assets	1,043,268	1,059,240	972,444	-2%	7%
Investments	174,305	179,916	175,034	-3%	0%
Loans & Advances	752,760	755,985	693,410	0%	9%
Deposits	667,288	693,905	654,989	-4%	2%
Shareholders' Equity	142,762	137,390	123,033	4%	16%
RoAE (%)	22.84	23.63	22.72	-79 bps	12 bps
RoAA (%)	2.43	2.44	2.37	-01 bps	06 bps
Simple LDR (%)	112.8	108.9	105.9	386 bps	694 bps
Assets to Equity (x)	7.3	7.7	7.9	-5%	-8%

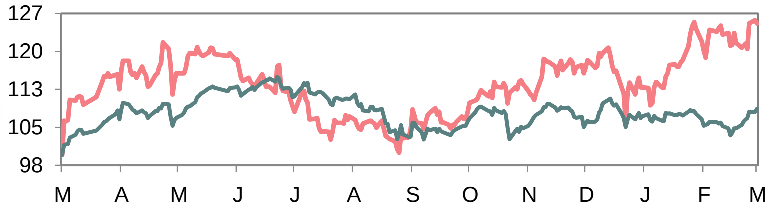
Rating Summary and Forecasts

Rating Summary	
Rating	Hold
Market Price	101.2
12-month Target Price	105.4
Upside / Downside	4%
Mkt Cap (SAR mn)	404,800
52-week High/Low	113.0/87.8

Forecasts	12/24 A	12/25 E	12/26 E	12/27 E
Net Income (SAR mn)	24,792	27,791	30,210	31,398
PER (x)	16.3	14.6	13.4	12.9
PBV (x)	3.5	3.2	2.9	2.5
EPS (SAR)	6.20	6.95	7.55	7.85
DPS (SAR)	2.71	3.15	3.45	3.60
RoE (%)	21.6	22.2	21.3	19.8
Dividend Yield (%)	2.7	3.1	3.4	3.6

Price Chart

RJHI TASI



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- Loan growth of 9% was led by corporate (+24%) and retail (+1%). Retail growth was after the securitization of SAR 10bn in mortgages and SAR 4bn in ex-mortgage retail book. Excluding this impact retail growth would have stood at over 4% led by mortgage (+7% vs. 3% reported) and ex-mortgage retail (+4% vs. reported degrowth of 1%). The mortgage book at SAR 276bn, represents 36.2% of the total book and 57.2% of the retail book. Non-retail book growth was driven by Corporate and SME, up 19% and 50%, respectively. Retail makes up 64% of total loans, while non-retail constitutes 36%.

- Customer deposits were up 2% Y/Y at SAR 667.0bn driven by 21% increase in time deposits, while demand deposits and other deposits saw a decline of 6% and 23%, respectively. The CASA ratio in 4Q25 stood at 64.8% vs. 63.3% in 3Q25. In 1Q25, RJHI had a major account that transited to time deposit. However, it managed to negate that impact over the last nine months.

- Regulatory LDR stood at 82.8% vs. 81.2% in 3Q25 and 85.5% in 4Q24. LCR came in at 168.7% and NSFR at 109.0%, at healthy levels.

Investment thesis

- *RJHI delivered a strong top-line performance in 4Q25, exceeding our estimates. NSCI benefited from NIM expansion driven by rate cuts, as expected, while NII continued to show robust growth, supported by the 'Harmonize the Group' strategy, which emphasizes cross-selling across group activities. As the rate cuts were largely back-ended in 2025, we expect the full benefit on cost of funds (CoF) to materialize in 1Q26. RJHI's balance sheet structure (floating liabilities ~2.1x floating assets) positions it well to sustain these gains over the year. The impact of repricing of ~36% corporate loans is likely to be limited and should be offset by management's efforts to reprice retail assets. However, evolving geopolitical developments have tempered rate cut expectations. As a result, we now assume FY26 NIM at the lower end of RJHI's guidance (3.4%), 5–6bps above 4Q25 levels. While RJHI is making steady progress on profitability through improved origination mix and a focus on value, the eventual NIM trajectory will remain sensitive to deposit trends. It is worth noting that the bank expects CASA share to decline modestly from current levels. On costs, while RJHI continues to invest in IT capabilities and infrastructure, it reiterated its commitment to delivering positive jaws and improving efficiency. The bank expects NII growth to remain resilient despite recent regulations, with higher volumes offsetting any impact on other banking services. That said, we would like to monitor the net impact of these regulations on the country's largest retail bank.*

- *On balance sheet growth, RJHI remains focused on value-based expansion and is targeting mid-single-digit growth in FY26, including securitizations. The growth mix is expected to remain broadly unchanged, with SME lending growing the fastest. Non-retail lending growth will continue to outpace retail. The bank attributed relatively slower mortgage growth to regulatory measures such as white land policies, rent caps, and broader affordable housing initiatives. In our view, some borrowers may also be waiting to lock in fixed-rate mortgages near the bottom of the rate cycle. With rates close to trough levels (we expect an additional ~50bps of cuts), mortgage activity could pick up in 2026, especially given the uncertainties related to the timing of rate cuts. Asset quality remains stable, with steady new NPL formation as a percentage of performing loans. However, given geopolitical uncertainties, the bank may increase its NPL coverage (currently ~150%, down from >300%), which could weigh on return ratios.*

RJHI trades at 3.5x PBV (on CET1) with a 5-year forward RoAE (post-AT1 cost) of 20.7%. The stock trades at a 6% discount to its 2-year average of 3.7x, but at a 130% premium to the sector average of 1.5x (vs. a 2-year average sector premium of 123%). Maintain Hold.

Rating and Risks

We are HOLD rated on RJHI and our 12-month price target is SAR 105.4. Upside risks include stronger than anticipated credit growth, recoveries from written off accounts, and expansion of operating leverage. Leading downside risk is geopolitical; prolonged US-Isreal-Iran conflict, closure of trade routes, and damage to energy infrastructure. Operational risks include CASA dilution, material dip in system credit quality, delayed rate cuts, and economic slowdown.

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Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

BSF Capital
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