

## Al Rajhi Bank (ALRAJHI)

Target Price: SAR 99.4/share

Upside: 14.6%

## Recommendation

Buy

Current Market Price (SAR)	86.8
52wk High / Low (SAR)	89.9/63.1
Mkt. Cap. (USD/SAR Mn)	92,529/347,200
Shares Outstanding (mn)	4,000
Free Float (%)	97.8%
3m Average Vol. (000)	4,325.3
3m Avg Daily Turnover (SAR'000)	325,535
Dividend Yield '24e (%)	2.9%
Adjusted P/E'24e (x)*	4.3
P/B'24e (x)	3.5

Source: Bloomberg

\*EPS post sukuk payment

## Relative Price Performance



## Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Net yield income	20,392	22,173	21,353	23,327
Non yield income	5,324	6,402	6,336	6,803
Operating income	25,716	28,575	27,689	30,131
Impairment charge	2,345	2,001	1,494	2,677
Net income	14,746	17,151	16,796	17,857
Cost to income (%)	27%	26%	27%	25%
EPS (SAR)	3.69	4.29	4.20	4.46
Adjusted EPS (SAR)	3.69	4.24	3.99	4.26
ROAE (%)	24%	22%	18%	18%
Financing	452,831	568,338	603,490	649,843
Customers' deposits	512,072	564,925	571,638	616,606

Source: Company Reports, Yaqeen Capital

## Major Shareholders (%)

Abdullah Bin Sulaiman Al Rajhi	2.18%
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Source: Bloomberg, Yaqeen Capital

## Higher funding costs weighed on profitability

- ALRAJHI net income declined by 4.6% YoY (+0.1% QoQ) to SAR 4,155mn in 3Q2023 due to lower net yield income and a significant drop in net fee income. However, higher other operating income (SAR 237mn vs. SAR65mn in 3Q2022) and a notable decline in provisions (SAR 379mn vs. SAR 490mn in 3Q2022) contained the impact at bottom-line level during the quarter.
- Operating income came lower by 4.6% YoY (+0.7% QoQ) to SAR 6,873mn in 3Q2023 on account of 5.0% YoY decline (+4.0% QoQ) in net yield income and lower net fee income (-20.8% YoY, -20.3% QoQ).
- In 3Q2023, operating expenses remained relatively stable at SAR 1,860mn due to decreased employee costs, which offset the impact of higher depreciation & amortization costs.
- Net financing portfolio (~72% retail, ~23% corporate) increased to SAR 591bn in 3Q2023 compared to SAR 558bn in 3Q2022 driven by a significant rise in corporate portfolio (+23.9% YoY) while retail portfolio remained broadly flat at SAR 425bn.
- Customer deposits were marginally up by 1.8% YoY to SAR 566bn in 3Q2023 led by 13.8% YoY growth in time deposits (~33% of deposits book as of Sep 2023), partially offset by lower demand deposits (-3.6% YoY).
- NPL ratio dropped to 0.60% in 3Q2023 from 0.64% in 3Q2022 while NPL coverage ratio came at 239.9% vs, 248.4% in 3Q2022.
- The total capital ratio improved to 20.8% in 3Q2023, up from 19.4% in 3Q2022. Additionally, the Liquidity Coverage Ratio (LCR) reached 144.7%, a significant increase from 121.2% in 3Q2022.
- For 9M2023, net income came lower by 2.3% YoY to SAR 12,451mn, primarily due to increased funding costs (2.34% compared to 0.68% in 9M2022), resulting in a decrease in the net profit margin to 2.98% from 3.66% in 9M2022.

**Outlook & Valuation:** Al Rajhi Bank maintains a robust position in the domestic banking sector, well-poised to capitalize on anticipated credit growth. With increased government spending, potential private sector investments, and projected interest rate adjustments, the bank's strong asset quality, solid capitalization, and healthy net interest margin (NIM) consolidate its standing within the sector. This positions Al Rajhi Bank favorably to harness opportunities for both growth and sustained performance. The stock is currently trading at a P/B of 3.5x (based on FY2024e BVPS). Based on equal weighted valuation using Residual Income and P/B methodologies, we arrive at a fair value of SAR 99.4/share, offering a potential 14.6% upside from the current level. Hence, we recommend a Buy rating on the stock.

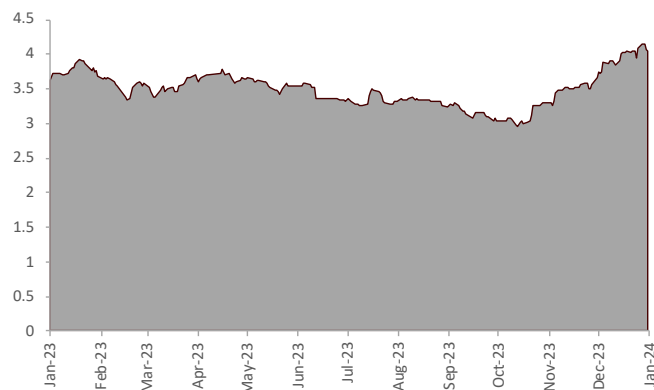
## Financial Summary

SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Net yield income	5,401	5,687	-5%	5,194	4%
Non yield income	1,472	1,519	-3%	1,634	-10%
Operating income	6,873	7,206	-5%	6,827	1%
Impairment charge	379	490	-23%	360	5%
Net income	4,155	4,355	-5%	4,150	0%
Cost to income (%)	27%	26%		27%	
EPS (SAR)	1.04	1.09	-5%	1.04	0%
Adjusted EPS (SAR)*	0.99	1.07	-8%	0.98	1%

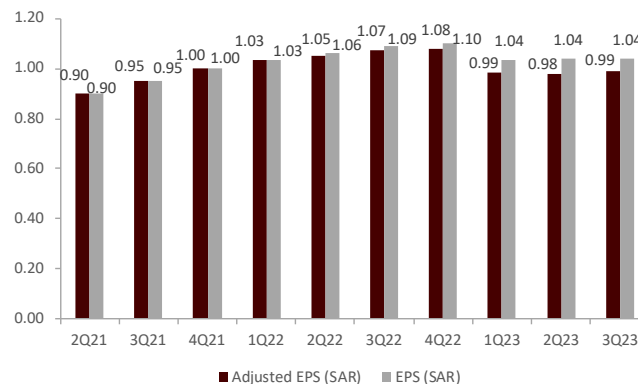
Source: Company Reports, Yaqeen Capital

\*EPS post sukuk payment

Price to Book Ratio Trend



EPS &amp; Adjusted EPS\* (SAR) Trend



\*EPS post sukuk payment

## Rating Methodology

**Buy:** The Target share price exceeds the current share price by  $\geq 10\%$

**Hold:** The Target share price is either more or less than the current share price by 10%

**Sell:** The Target share price is less than the current share price by  $\geq 10\%$

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