Al Rajhi Bank
Investment Update

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Loan growth & fee income exceed expectations, demanding upward revision in estimates; maintain "Overweight"

Alrajhi bank significantly exceeded management guidance and AJC estimates on loan growth, NIMs and operating efficiency in 2024. Upbeat performance continued in Q1-25 as assets cross SAR 1tn mark, driving net income to record level of SAR 5.9bn, up 34.1% Y/Y (up 7.1% Q/Q). Incorporating the impact of increase in White land tax and recent uptick in mortgage originations, we raise estimates for loans & Net Special Commission Income (NSCI). We also revise up non-yield income expectations on the success of 'Harmonise the group' strategy, strong growth in corporate loans & digital payments business. Overall, we raise earnings for 2025/26e by 7.8/8.2% to SAR 22.4/25.5bn, suggesting Y/Y increase of 20.3/13.7%, respectively. Due to favourable asset liability duration mismatch we see a notable improvement in margins and ROE in the medium term as rates come down further. Alrajhi justifies premium valuation as it offers highest ROE in the sector that is driven by (1) Lowest funding cost owed to 2nd highest demand deposit mix, (2) Sector best cost-to-income ratio and (3) Pristine asset quality. We forecast AlRajhi to deliver medium term (2024-27) earnings CAGR of 14.8% and best in class average ROE of 21.7%. The bank is likely to maintain 55% payout which translates into 2025/26 DPS of SAR 3.0/3.5 and DY of 3.3/3.8% respectively. We maintain our "Overweight" recommendation, with revised up TP of SAR 107.0/share.

Alrajhi significantly exceeded management guidance and AJC estimates on loan growth, NIMs and operating efficiency in 2024; upbeat performance continued in Q1-25: Alrajhi's financing portfolio expanded by 16.7% Y/Y in 2024 against management guidance of mid-single digit increase, shared at the start of the year (+7.1% Y/Y AJC estimate). Robust 4.3% growth in non-oil economic activity supported the demand for credit especially in the non-retail sector, where the bank managed to increase, its market share from 12.3% in 2023 to 13.6% in 2024, and its total non-retail loan book by 30.7% Y/Y to SAR 218bn (+31.8/29.6% Y/Y for corporate/SME respectively). In terms of NIMs, bank ended 2024 up 14bps Y/Y, near the upper limit of +5 to +15bps range guidance shared by the management at the beginning of 2024 (+8bps AJC estimate). Cost to income ratio for 2024 was recorded at 24.9%, sizably lower than management guidance of 'below 27%' (26.2% AJC estimate), as operating expenses increased by just 6.3% Y/Y amidst a 20.5% Y/Y increase in earning assets. Overall, the aforementioned performance excesses resulted in bank posting an ROE of 19.7% against initial guidance of 'above 19%' (19.5% AJC estimate). Upbeat performance continued in Q1-25 as assets cross SAR 1tn mark, driving net income to record level of SAR 5.9bn, up 34.1% Y/Y (up 7.1% Q/Q). Loan book expanded by 18.7% Y/Y & 4.2% Q/Q to SAR 722.7bn in Q1-25, 3.1% higher than our estimate of SAR 701.2bn. Non-yield income increased by 32.9% Y/Y, 16.6% above AJC estimate. Operational efficiencies continued to advance as cost-to-income ratio improved to 22.7% in Q1-25, as compared to 26.2% in Q1-24. Cost of risk remained stable at 29bps in Q1-25, up 1bps Y/Y.

Incorporating the impact of increase in White land tax and recent uptick in mortgage originations, we raise estimates for loans and NSCI: We revise up our loan expectation for 2025 by +11.1% to SAR 758bn, which translates to Y/Y increase of 9.5%. The aforementioned revision is owed to recent changes made by the Ministry of Municipalities & Housing on regulations on White land tax. In the latest update, fees on undeveloped land have been raised from 2.5% to 10%, which is likely to increase land supply and support mortgage origination. We highlight that monthly mortgage issuances averaged at SAR 8.5bn in 4M-25, up 24.1% compared to same period last year. We also raise 2025 investment estimate by 7.4% to SAR 192bn. Overall, we expect the company to record Net Special Commission Income of SAR 29.5bn in 2025, 7.0% higher than earlier estimate of SAR 27.6bn, and 18.9% higher on Y/Y basis. We forecast bank's earnings assets/NSCI to grow at a medium term (2024-2027) CAGR of 8.5/14.1% respectively.

Recommendation	Overweight
Target Price (SAR)	107.0
Upside / (Downside)*	16.9%

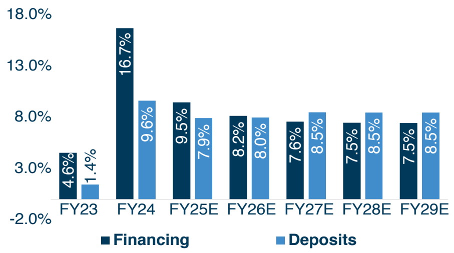
Source: Tadawul *prices as of 19th of June 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
NSCI	21,269	24,843	29,529	33,381
Growth %	-4.1%	16.8%	18.9%	13.0%
Oper. income	27,531	32,055	37,576	42,001
Growth %	-3.7%	16.4%	17.2%	11.8%
Net profit	16,621	19,731	23,903	26,785
Net profit (adj for Tier 1)	15,800	18,695	22,489	25,575
Growth %	-6.8%	18.3%	20.3%	13.7%
EPS (adj for Tier 1)	3.95	4.67	5.62	6.39
DPS	2.25	2.50	3.00	3.50

Source: Company reports, Aljazira Capital

Fig 1: Loans and Deposit Growth



Source: Company reports, Aljazira Capital Research

Key Ratios

	FY23	FY24	FY25E	FY26E
NIMs	3.0%	3.1%	3.2%	3.3%
P/E (x)	21.9	19.6	16.3	14.3
P/B (x)	3.2	3.7	3.3	3.0
Dividend Yield	2.5%	2.7%	3.3%	3.8%
ROA	2.0%	2.1%	2.2%	2.3%
ROE	18.2%	19.7%	21.4%	21.9%
Net loan growth	4.6%	16.7%	9.5%	8.2%
Deposit growth	1.4%	9.6%	7.9%	8.0%

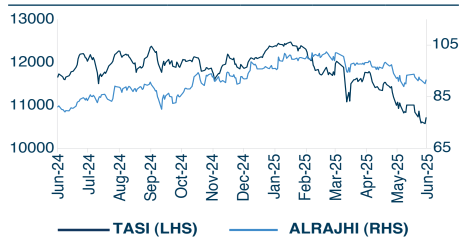
Source: AlJazira Capital, Company accounts

Key Market Data

Market Cap (SAR bn)	364.8
YTD%	-3.59%
52 week (High)/(Low)	104/78.6
Share Outstanding (mn)	4,000.0

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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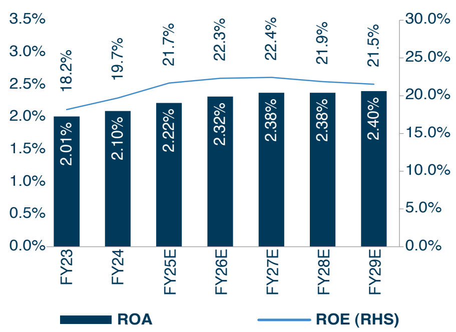
‘Harmonise the group’ strategy, strong growth in corporate loans & digital payments business are driving non-yield income; we revise up our fee income estimates: Alrajhi recorded a 24.9% increase in non-yield income in TTM ending Q1-25 (2021-24 CAGR 10.7%). The strong increase in non-yield income is driven by (1) the ‘Harmonize the group’ strategy that focuses on leveraging customer base to cross-sell products across different verticals such as micro-financing, wealth management, brokerage and insurance, (2) higher trade and cash management fee from the robust growth in corporate customers – Alrajhi’s corporate market share is up from 12.3% in 2023 to 13.8% in Q1-25 and (3) increased fees from digital payment services such as cards and POS where bank enjoys the number 1 position in the Kingdom - AlRajhi’s POS terminal market share is up from 35.4% in 2023 to 42.1% in Q1-25. Overall, we revise up our 2025 Fee income estimates by 15.3% to SAR 5,366mn, which corresponds to a 14.3% Y/Y increase. We forecast bank’s non-yield income to expand at a medium term (2024-2027) CAGR of 8.6%.

We raise 2025/26e earnings by 7.8/8.2% to SAR 22.4/25.5bn, suggesting Y/Y increase of 20.3/13.7%; bank offers DY of 3.3/3.8% for 2025/26e respectively: Incorporating the revisions in funded and non-funded income, we raise our 2025/26 operating income expectations by 8.8/9.3% to SAR 37.5/42.0bn, which imply Y/Y increase of 17.2/11.8%, respectively. Our expectations around operating expenses largely remain unchanged, however, due to higher operating income our cost-to-income ratio for 2025/26e has improved by 189/195bps to 22.9/22.1%. Our forecasts for pre-provision profits for 2025/26 are up 11.5/12.1% to SAR 28.9/32.7bn, respectively, implying 20.3/12.9% Y/Y increase. That said, we also raise our 2025/26 expectations for debt provisioning by 16.0/24.1% to SAR 2.4/2.9bn, implying a CoR of 33/37bps, respectively. Overall, we revise up our 2025/26 earnings (post Tier-1 sukuk payments) by 7.8/8.2% to SAR 22.4/25.5bn, implying Y/Y growth of 20.3/13.7%, respectively. The bank is likely to maintain 55% payout which translates into 2025/26 DPS of SAR 3.0/3.50 and DY of 3.3/3.8% respectively. Our estimates for 2025/26 ROE stand at 21.4/21.9%. Overall, in the medium we expect the bank to deliver 2024-27e net income CAGR of 14.8%.

Favorable asset-liability duration mismatch to further improve NIMs as rates come down; we expect two 25bps cuts in remaining 2025 and 50bps cut in 2026: Alrajhi has experienced a sizable decline in NIMs and ROE since the beginning of interest rate increases in 2022, thanks to the large fixed-rate mortgage exposure. Due to favourable asset liability duration mismatch we see a notable improvement in margins and ROE in the medium term as rates come down further. According to CME FedWatch, FED will cut interest rates by a cumulative 50bps in the rest of 2025. We expect two 25bps cuts in remaining 2025 and 50bps cut in 2026, in this backdrop, due to favourable assets/liabilities duration mismatch we expect Al Rajhi to see a notable improvement in NIMs, +12/12bps to 3.17/3.30% in 2025/26E respectively. We see a strong decline in funding costs in 2025-26, unlike what bank underwent in the previous rate down cycle, due to higher time deposits and bank borrowings, while we expect yields on earning assets to come down at a much slower rate, due to higher long-dated mortgage and fixed rate sukuk exposure.

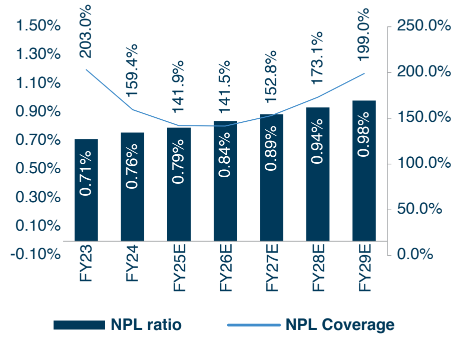
Lowest funding cost (driven by 2nd highest demand deposit mix), sector best cost-to-income ratio & pristine asset quality drive superior ROE & justify premium valuations: Alrajhi outperforms the sector on multiple fronts to deliver superior ROE (TTM ROE 21.8% vs 15.4% for the sector) and justify premium valuations (TTM PB 3.48x vs 1.65x for the sector). Firstly, the bank has the one of the best deposit franchises with 2nd highest demand deposit weight of 67.0% as of Q1-25 vs industry average of 57.2%. Resultantly the bank has the lowest funding costs of 2.9% (Q1-25) vs 3.36% for the sector. The bank also leads the sector in terms of operating efficiency, with cost-to-income ratio of 24.0% as of Q1-25, vs 29.8% for the sector. In terms of asset quality, the bank has the lowest NPL ratio of 0.75% (as of Q1-25) as compared to sector average of 1.24%, which along with a coverage ratio of 153% helps keep cost of risk in check. Overall, we expect 18bps increase in NPL ratio over 2024-28, and Cost of risk to average around 39bps. With a CET1/Tier-1 ratio of 15.8/19.8% bank remains in a comfortable position to maintain 55% payout.

ROA and ROE



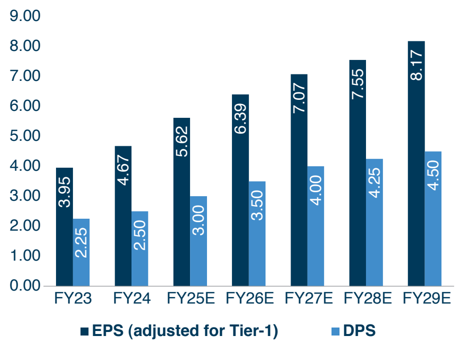
Source: Company reports, Aljazira Capital Research

Fig 3: Pristine asset quality



Source: Company reports, Aljazira Capital Research

Fig 4: EPS and DPS trend



Source: Company reports, Aljazira Capital Research

Investment thesis and valuation:

AlRajhi is expected to post a notable increase in ROE over the next three years as interest rates come further down. Due to higher time deposits and bank borrowings, we see a strong decline in funding costs in 2025-26, unlike what bank underwent in the previous rate down cycle, while we expect yields on earning assets to come down at a much slower rate, due to high exposure to long-dated mortgages and fixed rate sukuks. We see NIMs expanding by 12/12bps in 2025/26, respectively, because of the asset liability duration mismatch. We forecast AlRajhi to deliver medium term (2024-27) earnings CAGR of 14.8% and best in class average ROE of 21.7%. The bank is likely to maintain 55% payout which translates into 2025/26 DPS of SAR 3.0/3.5 and DY of 3.3/3.8% respectively.

We value the stock based on equal weight to Residual Income and Two staged Gordon growth. Our residual income-based TP assuming the cost of equity of 11.2% is SAR 102.8 per share whereas; through the Two staged Gordon growth model, based on 2025E ROE of 21.4%, we arrive at a justified P/B multiple of 3.8x. Hence, the equal weight revised up TP stands at **SAR 107 per share** which translates to an upside of 16.9%, hence we maintain our "**Overweight**" recommendation.

Weighted Average TP

Method	Value	Weight	W.Value
RI	102.84	50%	51.4
Justified P/B (3.75x)	110.91	50%	55.5
Price Target			**107**
Upside/Downside			**16.9%**

Source: Bloomberg, Aljazira Capital Research. Price as of 19th June 2025

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Key Financials

Amount in SAR mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Net financing and investments income	**21,269**	**24,843**	**29,529**	**33,381**	**36,943**	**39,784**	**43,042**
Fee from banking services, net	4,226	4,693	5,366	5,766	6,200	6,666	7,168
Exchange income, net	1,246	1,293	1,382	1,478	1,582	1,693	1,812
Other operating income	790	1,227	1,299	1,376	1,459	1,547	1,640
Total operating income	**27,531**	**32,055**	**37,576**	**42,001**	**46,184**	**49,691**	**53,662**
Impairment charge for financing	(1,504)	(2,117)	(2,365)	(2,900)	(3,418)	(3,996)	(4,317)
Other operating expenses	(7,498)	(7,971)	(8,597)	(9,280)	(10,036)	(10,806)	(11,639)
Operating Profit	**18,529**	**21,968**	**26,613**	**29,821**	**32,730**	**34,889**	**37,706**
Y/Y	**-3.1%**	**18.6%**	**21.1%**	**12.1%**	**9.8%**	**6.6%**	**8.1%**
Zakat	(1,908)	(2,237)	(2,710)	(3,036)	(3,332)	(3,552)	(3,839)
Net income	**16,621**	**19,731**	**23,903**	**26,785**	**29,398**	**31,337**	**33,867**
Y/Y	**-3.1%**	**18.7%**	**21.1%**	**12.1%**	**9.8%**	**6.6%**	**8.1%**
Net income (adjusted for Tier-1)	**15,800**	**18,695**	**22,489**	**25,575**	**28,287**	**30,192**	**32,689**
Y/Y	**-6.8%**	**18.3%**	**20.3%**	**13.7%**	**10.6%**	**6.7%**	**8.3%**
EPS	**4.16**	**4.93**	**5.98**	**6.70**	**7.35**	**7.83**	**8.47**
EPS (adjusted for Tier-1)	**3.95**	**4.67**	**5.62**	**6.39**	**7.07**	**7.55**	**8.17**
DPS	**2.25**	**2.50**	**3.00**	**3.50**	**4.00**	**4.25**	**4.50**
Balance sheet							
Assets							
Cash and balances with SAMA	41,768	53,245	57,463	62,053	67,322	73,030	79,217
Due from banks and other financial institutions	9,507	19,530	21,077	22,761	24,693	26,787	29,056
Financing, net	594,205	693,410	758,995	820,928	883,288	949,408	1,020,208
Investments, net	133,376	175,034	192,291	207,652	225,281	244,383	265,088
Investment Property	1,363	1,359	1,386	1,414	1,442	1,471	1,500
Property and equipment, net	12,853	13,894	14,450	15,028	15,629	16,254	16,905
Other assets, net	15,028	17,916	19,151	20,332	21,502	22,738	24,045
Total assets	**808,098**	**974,387**	**1,064,813**	**1,150,168**	**1,239,156**	**1,334,071**	**1,436,020**
Liabilities & owners' equity							
Due to banks and other financial institutions	97,247	173,435	195,003	212,080	223,630	235,235	246,888
Customers' deposits	573,101	628,239	678,011	732,174	794,335	861,686	934,692
Other liabilities	27,202	41,124	41,945	42,785	43,641	44,513	45,404
Share capital	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Reserves	50,259	59,585	70,783	83,141	96,615	110,726	126,122
Total shareholders' equity	90,259	99,585	110,783	123,141	136,615	150,726	166,122
Tier-1 Sukuk	**16,500**	**23,554**	**30,620**	**31,539**	**32,485**	**33,459**	**34,463**
Total equity & liabilities	**808,098**	**974,387**	**1,064,813**	**1,150,168**	**1,239,156**	**1,334,071**	**1,436,020**
Key fundamental ratios							
Capital Ratios							
Equity/ Total Assets	11%	10%	10%	11%	11%	11%	12%
Tier-1 ratio	20.4%	19.3%	21.1%	21.4%	21.7%	22.0%	22.3%
CAR	21.5%	20.2%	22.0%	22.2%	22.4%	22.7%	22.9%
Profitability Ratios							
NIMs	2.97%	3.06%	3.17%	3.30%	3.38%	3.38%	3.40%
Cost of funds	2.84%	2.91%	3.03%	3.16%	3.25%	3.25%	3.27%
Cost to income	27.2%	24.9%	22.9%	22.1%	21.7%	21.7%	21.7%
Return On Assets (ROA)	2.0%	2.1%	2.2%	2.3%	2.4%	2.3%	2.4%
Return On Equity (ROE)	18.2%	19.7%	21.4%	21.9%	21.8%	21.0%	20.6%
ROE/ROA (Leverage Ratio) (X)	9.0	9.4	9.7	9.5	9.2	9.0	8.7
Asset Quality Ratios							
NPL ratio	0.7%	0.76%	0.79%	0.84%	0.89%	0.94%	0.98%
NPL Coverage	203%	159%	143%	142%	153%	172%	190%
Cost of risk (bps)	26	33	33	37	40	44	44
Funding Ratios							
Loans/ Customer Deposits	103.7%	110.4%	111.9%	112.1%	111.2%	110.2%	109.1%
Liquid Assets / Total Assets	96.4%	96.6%	96.7%	96.8%	96.9%	97.0%	97.0%
Net Loans / Tot Assets	73.5%	71.2%	71.3%	71.4%	71.3%	71.2%	71.0%
Market/valuation ratios	2.66%						
DPS	2.25	2.50	3.00	3.50	4.00	4.25	4.50
Dividend Yield	2.5%	2.7%	3.3%	3.8%	4.4%	4.6%	4.9%
Book Value Per Share (BVPS)	26.7	30.8	35.4	38.7	42.3	46.0	50.1
Market price	86.50	92.80	91.50	91.50	91.50	91.50	91.50
PE (x)	21.9	19.6	16.3	14.3	12.9	12.1	11.2
PB (x)	3.2	3.7	3.3	3.0	2.7	2.4	2.2
Growth rates							
Investments (Y/Y)	31.6%	31.2%	9.9%	8.0%	8.5%	8.5%	8.5%
Financing (Y/Y)	4.6%	16.7%	9.5%	8.2%	7.6%	7.5%	7.5%
Deposits (Y/Y)	1.4%	9.6%	7.9%	8.0%	8.5%	8.5%	8.5%

Source: Company reports, Aljazira Capital Research

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer