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First Look Note | 3Q25

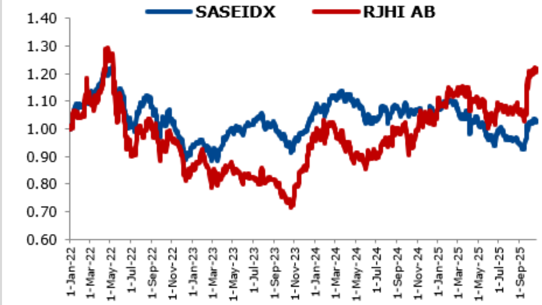
Saudi Equity Research   Sector: Banking   Market: Tadawul

Al Rajhi Bank (RJHI)

Healthy asset quality and increased lending supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 107.80	SAR 110.00	+2.0%	HOLD

- Non-funded income rose 26.7% YOY to SAR 2,588 Mn in 3Q25, driven by an increase in income exchange income, fees from banking services, and other operating income.
- Net advances grew 16.5% YOY and 1.9% QOQ to SAR 756.0 Bn in 3Q25, driven by a strong expansion in mortgage credit, consumer financing and corporate financing portfolio.
- Asset quality remained stable with an NPL ratio of 0.8% in 3Q25, compared to 2Q25.
- ALRAJHI's capitalization ratio stood strong with a TIER 1 capital of 19.7% and a total CAR of 21.1%, during 3Q25.



Stock Information	
Market Cap (SAR, Mn)	431,200.00
Paid Up Capital (Mn)	40,000.00
52 Week High	113.00
52 Week Low	84.00
3M Avg. daily value(SAR)	359,048,400

3Q25 Result Review (SAR, Mn)	
Total Assets	1,059,240
Total Loans	755,985
Total Equity	137,515
Total Deposits	670,180
Net Profit	6,360

Financial Ratios	
Dividend Yield (12m)	2.05
Dividend Pay-out (%)	51.37
Price-Earnings Ratio(x)	18.78
Price-to-Book Ratio (x)	4.11
Book Value (SAR)	26.25
Return-on Equity (%)	21.60

Stock Performance	
5 Days	-0.37%
1 Months	15.29%
3 Months	12.29%
6 Months	10.68%
1 Year	26.82%
Month to Date (MTD%)	0.56%
Quarter to Date (QTD%)	0.56%
Year to Date (YTD%)	13.95%

3Q25 Net Profit in line with our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit grew 24.6% YOY to SAR 6,360 Mn in 3Q25, in line with our estimate of SAR 6,202 Mn. The growth in net profit is attributed to a double-digit growth across net funded and non-funded income coupled with lower impairments, partially offset by an increase in total operating expenses and zakat charges.

P&L Highlights

ALRAJHI's funded income rose 17.5% YOY to SAR 14,280 Mn in 3Q25, fueled by a growth in gross financing and investment portfolio. On the other hand, funded expenses surged 21.4% YOY to SAR 6,987 Mn in 3Q25. Thus, ALRAJHI's net funded income grew 14.0% YOY to SAR 7,294 Mn in 3Q25. The Bank's total non-funded income grew 26.7% YOY to SAR 2,588 Mn in 3Q25 supported by strong growth across the exchange income, fees from banking services and other operating income. As a result, ALRAJHI's total operating income expanded 17.1% YOY to SAR 9,882 Mn in 3Q25. The Bank's total operating expenses increased by 7.0% YOY to SAR 2,216 Mn in 3Q25 due to an increase in depreciation expense, salaries and employees' related benefits and general and administrative expenses. However, the Bank's cost-to-income ratio declined from 24.5% in 3Q24 to 22.4% in 3Q25. Additionally, impairment charges reduced 17.2% YOY to SAR 570 Mn in 3Q25 due to rise in recoveries. Zakat charges grew 27.1% YOY to SAR 729 Mn in 3Q25.

Balance Sheet Highlights

ALRAJHI's total assets increased 17.4% YOY and 1.9% QOQ to SAR 1,059.2 Bn in 3Q25, fueled by strong growth in net investments, and net financing. Net investment grew 11.2% YOY but fell 1.4% QOQ to SAR 179.9 Bn in 3Q25. The Bank's net advances rose 16.5% YOY and

1.9% QOQ to SAR 756.0 Bn in 3Q25, driven by strong growth across the Retail and Corporate portfolios. Similarly, customer deposits rose 7.6% YOY and 4.4% QOQ to SAR 670.2 Bn in 3Q25, with CASA deposits representing 65.6% of the total deposits in 3Q25. The Bank's reported loan-to-deposit ratio declined from 82.5% in 2Q25 to 81.2% in 3Q25. ALRAJHI's reported ROA and ROE stood at 2.4% and 23.6% in 3Q25 compared to 2.3% and 21.6% respectively in 3Q24, reflecting improved operating efficiency. Likewise, ALRAJHI's reported LCR grew from 152.9% in 2Q25 to 154.4% in 3Q25, above the minimum LCR requirement.

Target Price and Rating

We revise our rating from ACCUMULATE to HOLD on ALRAJHI with a revised target price of SAR 110.00. The stock grew by 14.3% since our last recommendation (September 2025). The recent Saudi law easing share allotment and capital market regulations for instance, by allowing direct foreign investment, raising ownership limits, and simplifying account operations have further enhanced liquidity and investor confidence, supporting overall stock market growth. ALRAJHI strategy of "Harmonize the Group" positively supported its operations during 3Q25 by enhancing efficiency, driving growth in fee and non-funded income, and streamlining processes across business units to strengthen overall profitability. Additionally, ALRAJHI's net advances grew 16.5% YOY and 1.9% QOQ to SAR 756.0 Bn in 3Q25, owing to an increase in the corporate and retail financing portfolio. The Bank's Retail financing portfolio grew 7.9% YOY, driven by strong growth of 10.8% YOY across the mortgage portfolio during 3Q25. Additionally, the Bank's Non-Retail financing portfolio grew strongly by 36.2% YOY during 3Q25. Customer deposits grew 7.6% YOY and 4.4% QOQ to SAR 670.2 Bn, with CASA deposits accounting for 65.6% in 3Q25, reflecting a strong and stable low-cost funding base. The Bank revised its NIM outlook from flat to +10 bps, reflecting delayed rate cuts and ongoing pressure from tight funding spreads. However, we believe the Bank's diversification strategy, focused on increasing fee income from banking services and other non-funded income, should help cushion this impact. The Bank's cost-to-income ratio improved 211 bps YOY to 22.4% in 3Q25. The Bank expects to maintain this ratio below 23.5% in 2025. ALRAJHI's asset quality remained robust, with a stable NPL ratio of 0.76% and a strong provision coverage ratio of 151.2% in 3Q25, providing a solid buffer against potential credit losses. Moreover, the Bank's liquidity coverage ratio improved from 152.9% in 2Q25 to 154.4% in 3Q25, indicating a strengthened liquidity position. ALRAJHI's capitalization remained healthy with a TIER 1 capital of 19.7% and a total CAR of 21.1%, during 3Q25. The Bank also recorded strong shareholders' returns with a reported ROA and ROE of 2.4% and 23.6%, respectively, during 3Q25. Despite strong fundamentals and robust growth, ongoing cost pressures and high valuation limit near-term upside, leading us to assign a HOLD rating.

Al Rajhi Bank - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	40.36	29.00	25.21	27.06	22.88	18.15
PB	7.36	6.36	5.43	4.74	4.55	3.97
BVPS	14.530	16.820	19.681	22.565	23.469	26.942
EPS	2.649	3.687	4.240	3.950	4.672	5.890
DPS	0.625	0.875	1.250	2.300	2.710	2.650
Dividend yield	0.6%	0.8%	1.2%	2.2%	2.5%	2.5%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	3Q24	2Q25	3Q25	3Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Funded Income	12,150	13,647	14,280	13,858	3.0%	17.5%	4.6%	47,018	55,463	18.0%
Funded Expenses	-5,753	-6,342	-6,987	-6,492	7.6%	21.4%	10.2%	-22,175	-26,426	19.2%
Net Funded Income	**6,397**	**7,305**	**7,294**	**7,366**	**-1.0%**	**14.0%**	**-0.2%**	**24,843**	**29,036**	**16.9%**
Total non-funded Income	**2,042**	**2,298**	**2,588**	**2,375**	**9.0%**	**26.7%**	**12.6%**	**7,212**	**9,498**	**31.7%**
Net Operating Income	**8,439**	**9,603**	**9,882**	**9,741**	**1.4%**	**17.1%**	**2.9%**	**32,055**	**38,534**	**20.2%**
Total operating Expenses	**-2,070**	**-2,143**	**-2,216**	**-2,169**	**2.2%**	**7.0%**	**3.4%**	**-7,971**	**-8,673**	**8.8%**
Profit before provisions	**6,369**	**7,460**	**7,665**	**7,572**	**1.2%**	**20.4%**	**2.7%**	**24,085**	**29,861**	**24.0%**
Impairment charge	-688	-600	-570	-661	-13.8%	-17.2%	-5.0%	-2,117	-2,278	7.6%
Total Op Exp after imp	**-2,758**	**-2,743**	**-2,786**	**-2,830**	**-1.6%**	**1.0%**	**1.6%**	**-10,087**	**-10,951**	**8.6%**
Net income before zakat	**5,681**	**6,860**	**7,096**	**6,911**	**2.7%**	**24.9%**	**3.4%**	**21,968**	**27,583**	**25.6%**
Zakat	-574	-699	-729	-705	3.4%	27.1%	4.3%	-2,237	-2,841	27.0%
Non-controlling interest	-4	-10	-6	-4	38.1%	67.2%	-42.4%	-9	-25	NM
Net profit for the year	**5,103**	**6,151**	**6,360**	**6,202**	**2.5%**	**24.6%**	**3.4%**	**19,722**	**24,717**	**25.3%**

FABS estimate & Co Data

Al Rajhi Bank – KPI

	3Q24	2Q25	3Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	75.8%	76.1%	73.8%	-200	-227	77.5%	75.4%	-215
Cost to income - (calculated)	24.5%	22.3%	22.4%	-211	11	24.9%	22.5%	-236
Impairment/PPP	-10.8%	-8.0%	-7.4%	337	60	-8.8%	-7.6%	116
NP/OI	60.5%	64.1%	64.4%	389	31	61.5%	64.1%	262
Cost of risk – (reported)	0.4%	0.3%	0.3%	-13	-2	0.3%	0.3%	-1
Loan-to-deposit – (calculated)	104.2%	115.5%	112.8%	855	-273	110.4%	116.0%	563
NPL - (reported)	0.8%	0.7%	0.76%	-3	2	0.8%	0.7%	-3
Coverage - (reported)	165.2%	150.5%	151.2%	-1,400	70	159.4%	154.0%	-544
Tier 1	19.7%	19.4%	19.7%	2	30	19.3%	19.6%	33
Capital adequacy	20.7%	20.2%	21.1%	39	90	20.2%	20.4%	20
ROAA	2.2%	2.4%	2.4%	28	6	2.2%	2.4%	21
ROAE	19.4%	21.6%	23.5%	416	194	19.7%	22.7%	306

FABS estimate & Co Data

Al Rajhi Bank - Key B/S items

SAR Mn	3Q24	4Q24	1Q25	2Q25	3Q25	Change
Net advances	649,024	693,410	722,785	741,715	755,985	16.5%
QOQ change	4.4%	6.8%	4.2%	2.6%	1.9%	
Total assets	902,571	974,387	1,023,080	1,038,988	1,059,240	17.4%
QOQ change	4.1%	8.0%	5.0%	1.6%	1.9%	
Customer deposits	622,572	628,239	629,229	641,987	670,180	7.6%
QOQ change	0.0%	0.9%	0.2%	2.0%	4.4%	
Total equity	117,879	123,139	134,084	134,049	137,515	16.7%
QOQ change	1.3%	4.5%	8.9%	0.0%	2.6%	

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 the RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	113.15	70%	79.20
Relative Valuation (RV)	102.66	30%	30.80
Weighted Average Valuation (SAR)			**110.00**
Current market price (SAR)			107.80
Upside/Downside (%)			+2.0%

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 the 10-year government bond yield of 4.9%, the beta of 0.88 and the equity risk premium of 4.5%. The government bond yield is calculated by adding the KSA 10-year CDS spread to the 10-year US risk-free rate. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (SAR, Mn)	73,346
Terminal value (SAR, Mn)	**241,733**
Book Value of Equity (as of Sept 2025)	137,515
FV to Common shareholders (SAR, Mn)	**452,594**
No. of shares (Mn)	4,000
Current Market Price (SAR)	107.80
Fair Value per share (SAR)	**113.15**

Residual Income Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	23,560	26,020	28,823	31,634	34,438	37,210
(-) Equity Charge	-8,772	-9,492	-10,549	-11,767	-13,097	-14,539
Excess Equity	**14,788**	**16,527**	**18,274**	**19,867**	**21,340**	**22,671**
Discounting Factor	0.92	0.84	0.78	0.71	0.66	0.60
Present Value of Excess Equity	**3,397**[1]	**13,957**	**14,182**	**14,169**	**13,986**	**13,654**

Fab Securities & Co. [1]Adjusted 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 2026 PB multiple of 3.4x. The premium in valuation stems from a high composition of retail loan book, and it generates superior return on assets as compared to its peers.

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Bank	Market	P/B (x)		P/E (x)		Dividend Yield (%)	
	(USD Mn)	2025F	2026F	2025F	2026F	2025F	2026F
Riyad Bank	22,063	1.3	1.2	8.5	8.3	6.2	6.3
Alinma Bank	17,664	1.8	1.7	11.2	10.8	4.3	4.3
Abu Dhabi Islamic Bank	21,614	3.0	2.7	12.7	11.9	4.1	4.4
Arab National Bank	13,588	1.2	1.2	9.9	9.6	5.2	5.4
Bank Albilad	11,734	2.4	2.0	14.8	13.8	2.5	2.3
Average		**2.0x**	**1.8x**	**11.4x**	**10.9x**	**4.5%**	**4.5%**
Median		**1.8x**	**1.7x**	**11.2x**	**10.8x**	**4.3%**	**4.4%**
Max		**2.4x**	**2.0x**	**12.7x**	**11.9x**	**5.2%**	**5.4%**
Min		**1.3x**	**1.2x**	**9.9x**	**9.6x**	**4.1%**	**4.3%**

Source: FAB Securities

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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 +971-2-6161777	Online Trading Link
Institutional Desk	+971-4-4245765	

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