



Al Rajhi posts another strong set of results, driven by expansion in net interest margins, growth in earning assets and strong increase in non-funded income.

Al Rajhi Bank posted earnings of SAR 5.1bn in Q3-24, up 22.8% Y/Y (+8.6% on a Q/Q basis). The Q3-24 result was broadly in-line (+5.9% deviation) with AJC estimate of SAR 4,818mn; however was above (+8% deviation) consensus estimate of SAR 4,723mn. The Net financing and investment margin improved by 17bps Y/Y (+13bps Q/Q) to 3.17%. Total operating income grew by 22.8% Y/Y (10.5% Q/Q) to SAR 8,439mn, vs AJC estimate of SAR 7,819mn. Operating expenses grew by 11.3% Y/Y (+5.8% Q/Q) to SAR 2,070mn, (+4.9% deviation to AJC estimate). Provision expenses increased by 81.4% Y/Y to SAR 688mn, which implies a cost of risk of 43bps +17bps Y/Y (+14bps Q/Q). Due to substantial long-term fixed rate mortgage exposure, bank's margins would post sizable recovery as rates continue coming down in 2024-25. We maintain our **"Overweight"** recommendation with TP of **SAR 102.0/share**.

- Al Rajhi Bank posted earnings of SAR 5.1bn in Q3-24, up 22.8% Y/Y (+8.6% on a Q/Q basis). The Q3-24 result was broadly in-line (+5.9% deviation) with AJC estimate of SAR 4,818mn; however was above (+8% deviation) consensus estimate of SAR 4,723mn. Deviation to our earnings estimate arise from higher net financing and investment income and non-funding income.
- Net financing and investment income improved by 18.4% Y/Y (9.2% Q/Q) to SAR 6,397mn (+4.8% deviation to AJC estimate of SAR 6,103mn). The growth in funded income is owed to 17bps Y/Y (13bps Q/Q) improvement in NIMs to 3.17%. Moreover, the 25.7% Y/Y and 9.9% Y/Y increase in investments and financing to SAR 161.76bn and SAR 649.0bn, respectively, further boosted the funded income.
- Total operating income grew by 22.8% Y/Y (10.5% Q/Q) to SAR 8,439mn, vs AJC estimate of SAR 7,819mn. Operating expenses grew by 11.3% Y/Y (+5.8% Q/Q) to SAR 2,070mn, (+4.9% deviation to AJC estimate). Cost to income ratio dropped by 254bps Y/Y (108bps Q/Q) to 24.5%.
- Provision expenses increased by 81.4% Y/Y to SAR 688mn, which implies a cost of risk of 43bps +17bps Y/Y (+14bps Q/Q). Non-performing loan ratio increased by 19bps Y/Y to 79bps, while coverage stood at 165.2% (down 74.8 ppts).
- The bank maintained a healthy Tier 1, total capital ratio and liquidity coverage ratio of 19.7%, 20.7% and 137%, respectively.

AJC view and valuation: The Q3-24 result was broadly in-line (+5.9% deviation) with AJC estimate of SAR 4,818mn. Al Rajhi has experienced a 124bps decline in NIMs since the beginning of interest rate increases in 2022, thanks to the large fixed rate mortgage exposure. Due to favorable asset liability duration mismatch we see a notable improvement in margins and ROE in the medium term. We forecast Al Rajhi to deliver medium term (2023-27) earnings CAGR of 12.0% and best in class average ROE of 20.0%. We forecast EPS to grow by 11.7/19.1% to SAR 4.41/5.25 per share, and DPS to stand at SAR 2.5/3.0 per share (DY 2.9/3.5%) in 2024/25, respectively. At 2024/25E PB of 3.4/3.1x, we see sizable room for re-rating of the stock. We maintain our **"Overweight"** recommendation with TP of **SAR 102.0/share**.

Results Summary

SAR mn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
NSCI	5,401	5,857	6,397	18.40%	9.20%	4.80%
Operating income	6,873	7,637	8,439	22.80%	10.50%	7.90%
<i>Net Profit</i>	<i>4,155</i>	<i>4,699</i>	<i>5,103</i>	<i>22.80%</i>	<i>8.60%</i>	<i>5.90%</i>
EPS	1.04	1.17	1.28	-	-	-

Source: Company Reports, Aljazira Capital Research

Recommendation **Overweight**

Target Price (SAR) **102.0**

Upside / (Downside)* **20.1%**

Source: Tadawul *prices as of 24th of October 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Net financing & investment income	22,173	21,269	23,686	27,749
Growth %	8.7%	-4.1%	11.4%	17.2%
Net Profit	16,954	15,800	17,649	21,017
Growth %	15.0%	-6.8%	11.7%	19.1%
EPS	4.24	3.95	4.41	5.25
DPS	1.25	2.25	2.50	3.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
NIMs	3.52%	2.97%	3.05%	3.29%
P/E	17.7	21.9	19.2	16.2
P/B	3.0	3.2	3.4	3.1
Dividend Yield	1.5%	2.7%	2.9%	3.5%
ROA	2.4%	2.0%	2.1%	2.3%
ROE	22.5%	18.2%	18.7%	20.3%
Net loan growth	25.5%	4.6%	7.1%	7.4%
Deposit growth	10.3%	1.4%	10.2%	7.9%

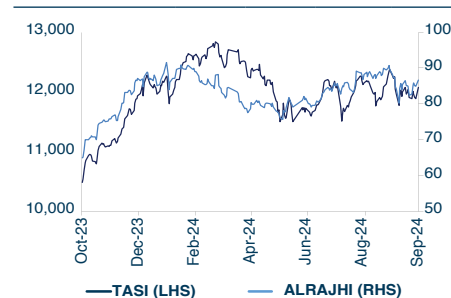
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	348.8
YTD%	-1.8%
52 week (High)/(Low)	92.5/63.8
Share Outstanding (mn)	4,000

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital

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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.

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