

Earnings in line with our estimate; growth driven by balance sheet expansion & improvement in NIMs.

Al Rajhi Bank posted earnings of SAR 4.4bn in Q1-24, up 6.3% Y/Y (+ 5.6% on a Q/Q basis). The Q1-24 net income was in line with our estimates (+0.6% deviation). Net financing and investment margins improved by 3bps Y/Y, due to improvement in asset yields that saw a ~76bps Y/Y expansion in Q1-24, amidst a ~73bps Y/Y increase in cost of funds. Provision expenses grew by 17.3% Y/Y to SAR 421mn (+3.8% on a sequential basis), 5.3% above our estimate of SAR 400mn. Cost to income ratio dropped to 26.2% in Q1-24, as compared to 26.5% witnessed in Q1-23. Due to substantial long-term fixed rate mortgage exposure, bank's margins would post sizable recovery when rates start coming down in 2024-25, however, the positive story seems to be priced in the stock. We maintain our "Neutral" recommendation with TP of SAR 85.7/share.

- Al Rajhi Bank posted earnings of SAR 4.4bn in Q1-24, up 6.3% Y/Y (up 5.6% Q/Q). The Q1-24 net income was in line with our estimates (+0.6% deviation). The Y/Y improvement in earnings is owed to 10.2% Y/Y growth in Net Special Commission Income (NSCI). On the other hand, Fee and other income saw a 4.4% Y/Y decline in Q1-24. Overall, operating income grew by 6.6% Y/Y (+2.5% Q/Q) in Q1-24.
- Net financing and investment margins improved by 3bps Y/Y, due to improvement in asset yields that saw a 76bps Y/Y expansion in Q1-24, amidst a 73bps growth in cost of funds. The improvement in Yield is owed to increase in interest rate and large fixed rate asset exposure.
- Operating expenses (excluding debt provisions) totaled at SAR 1,894mn, up 5.2% Y/Y (-5.2% on Q/Q basis), in line with our estimates (+1.3% deviation). Provision expenses grew by 17.3% Y/Y to SAR 421mn (+3.8% on a sequential basis), 5.3% above our estimate of SAR 400mn. Cost to income ratio dropped to 26.2% in Q1-24, as compared to 26.5% witnessed in Q1-23.
- Loan book expanded by 5.5% Y/Y & 2.5% Q/Q to SAR 608.9bn in Q1-24, 2% higher than our estimate of SAR 597.2bn. Retail loans remained largely unchanged while non-retail loans grew by 20.3% Y/Y. Meanwhile, deposits grew 8.6% Y/Y and 5.4% Q/Q to SAR 603.9bn, as compared to our estimate of SAR 578.8bn.
- As deposit growth outpaced loan growth, the ADR ratio dropped to 78.7% in Q1-24 from 87.8% in Q1-23 (82.9% in Q4-23). Moreover, the bank has grown its investments by 24.7% Y/Y (7.2% on a Q/Q basis) to SAR 143bn.
- NPL ratio saw an 8bps increase to 0.77% in Q1-24, while coverage declined by 38.8ppts to 175.3%. The rapid expansion in risk weighted assets resulted in a 60/70bps decline in Tier-1/total CAR ratios to 19.2/20.2%, respectively.

AJC view and valuation: AlRajhi posted earnings of SAR 4.4bn in Q1-24, up 6.3% Y/Y (up 5.6% Q/Q). The Q1-24 net income was in line with our estimates (+0.6% deviation). We expect NIMs to post sizable recovery when rates start coming down in 2024-25, however, the positive story seems to be priced in the stock. We maintain our "Neutral" recommendation with TP of SAR 85.7/share.

Results Summary

| SARmn (unless specified) | Q1-23 | Q4-23 | Q1-24 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|-------------------------------------|-------|-------|-------|------------|------------|------------------------------|
| Net financing and investment income | 5,125 | 5,550 | 5,647 | 10.2% | 1.8% | -0.8% |
| Total Operating income | 6,781 | 7,051 | 7,229 | 6.6% | 2.5% | 1.1% |
| Net Profit | 4,145 | 4,171 | 4,405 | 6.3% | 5.6% | 0.6% |
| EPS | 1.04 | 1.04 | 1.10 | 6.3% | 5.6% | 0.6% |

Source: Tadawul, Aljazira Capital Research

| Recommendation | Neutral |
|----------------------|---------|
| Target Price (SAR) | 85.7 |
| Upside / (Downside)* | 9.0% |

Source: Tadawul *prices as of 28th April 2024

Key Financials

| SARmn (unless specified) | FY21 | FY22 | FY23 | FY24E |
|-------------------------------------|--------|--------|--------|--------|
| Net financing and investment income | 20,392 | 22,173 | 21,269 | 24,480 |
| Growth % | 20.6% | 8.7% | -4.2% | 15.1% |
| Net Income | 14,746 | 17,151 | 16,621 | 19,076 |
| Growth % | 39.2% | 16.3% | 3.09% | 14.8% |
| EPS | 3.69 | 4.29 | 4.16 | 4.77 |

Source: Company reports, Aljazira Capital

Key Ratios

| | FY21 | FY22 | FY23 | FY24E |
|----------------|-------|-------|-------|-------|
| NIMs | 4.21% | 3.52% | 2.92% | 3.17% |
| P/E (x) | 15.0 | 22.3 | 23.0 | 20.1 |
| P/B (x) | 3.3 | 3.9 | 4.2 | 3.8 |
| DPS* | 1.5 | 1.25 | 2.30 | 2.50 |
| Dividend Yield | 1.7% | 1.7% | 2.7% | 3.2% |
| C/I | 26.9% | 26.1% | 27.2% | 26.5% |
| ROA | 2.7% | 2.4% | 2.1% | 2.2% |
| ROE | 23.5% | 22.5% | 18.4% | 19.2% |
| Loans growth | 43.4% | 25.5% | 4.6% | 6.7% |
| Deposit growth | 33.8% | 10.3% | 1.4% | 11.1% |

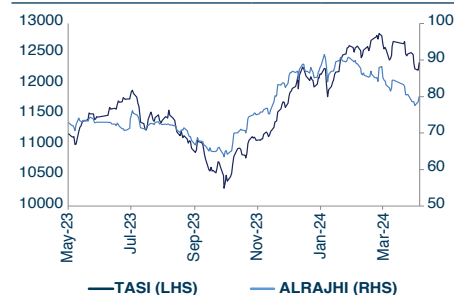
Source: Company reports, Argaam, AJC research

Key Market Data

| | |
|------------------------|-----------|
| Market Cap(bn) | 320.0 |
| YTD% | -9.1% |
| 52 week (High)/(Low) | 92.5/63.1 |
| Share Outstanding (mn) | 4,000.0 |

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg, AJC Research

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RESEARCH DIVISION

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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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