



Lower NIMs and Non-funded income impacted Q4-23 bottom line

Al Rajhi Bank posted earnings of SAR 4.2bn in Q4-23, down 5.3% Y/Y up 0.4% Q/Q. Despite a 24.8% Y/Y decline in debt provisions, the net profits were 3.1% lower on an Y/Y basis in 2023 thanks to the 4.1% decline in Net Special Commission Income (NSCI). NIM was lower at 3.05% in Q4-23 as compared to 3.33% in Q4-22 (3.01% in Q3-23) due to large fixed rate asset exposure. That said, this is the second consecutive quarter that has seen an increase in NIMs. Loan book expanded by 4.6% Y/Y and 0.6% Q/Q to SAR 594.2bn, Meanwhile, deposits grew 1.4% Y/Y and 1.3% Q/Q to SAR 573.1bn. 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 after 21% increase in stock price since our buy call. We update our recommendation to "Neutral" with TP of SAR 85.7/share.

- Al Rajhi Bank (Al Rajhi) posted earnings of SAR 4.2bn in Q4-23, down 5.3% Y/Y up 0.4% Q/Q. The Q4-23 net income was 2.1% below our expectation. The Y/Y decline in Q4-23 net income is owed to 0.5% Y/Y decline (+2.8% Q/Q) in NSCI, 10.9% drop (+2.0% Q/Q) in Non-Funded income, higher debt provisions and operating expenses. Despite a 24.8% Y/Y decline in debt provisions, the net profits were 3.1% lower on an Y/Y basis in 2023 thanks to the 4.1% decline in NSCI.
- Yield on assets came in at 5.3% in Q4-23 as compared to 5.0% in Q3-23 and 4.5% in Q4-22, however, NIM was lower at 3.05% in Q4-23 as compared to 3.33% in Q4-22 (3.01% in Q3-23) due to large fixed rate asset exposure. That said this is the second consecutive quarter that has seen an increase in NIMs.
- Loan book expanded by 4.6% Y/Y & 0.6% Q/Q to SAR 594.2bn, in-line with our estimate of SAR 593.8bn. Meanwhile, deposits grew 1.4% Y/Y and 1.3% Q/Q to SAR 573.1bn, as compared to our estimate of SAR 571.3bn. As loan growth outpaced deposit growth, the ADR ratio rose to 103.7% in Q4-23 from 100.6% in Q4-22 (104.4% in Q3-23).
- The bank posted operating income of SAR 7.1bn (-2.9% Y/Y, +2.6% Q/Q), in line with our estimate of SAR 7.1bn. The Y/Y decline in operating profit can be attributed to the 0.5% reduction in NSCI and 10.9% attrition in non-funded income.
- Operating expense (excluding debt provisions) stood at SAR 2.0bn (-5.3% Y/Y, +0.4% Q/Q) was slightly above our estimate of SAR 1.9bn. Al Rajhi posted provisions of SAR 405.0mn (+15.0 Y/Y, +6.9% Q/Q), inline with our estimate of SAR 400mn. Consequently, cost of risk increased to 27bps in Q4-23, vs 25bps in Q4-22. Cost to income ratio stood at 28.3% in Q4-23 as compared to 27.5% in Q4-22 and 27.1% in Q3-23.

AJC view: AlRajhi has seen major compression in NIMs, since the beginning of the policy tightening cycle in early 2022, thanks to its sizable exposure to fixed rate mortgage loans. We expect NIMs to post sizable recovery when rates start coming down in 2024-25, however, the positive story seems to be priced in after 21% increase in stock price since our buy call. We update our recommendation to "Neutral" with TP of SAR 85.7/share.

Results Summary

SARmn (unless specified)	Q4-22	Q3-23	Q4-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Net financing and investment income	5,578.7	5,400.6	5,549.4	-0.5%	2.8%	-1.8%
Total Operating income	7,264.1	6,872.5	7,050.4	-2.9%	2.6%	-0.6%
Net Profit	4,404.3	4,155.3	4,170.5	-5.3%	0.4%	-2.1%
EPS	1.10	1.04	1.07	-5.3%	0.4%	-2.1%

Source: Tadawul, AlJazira Capital Research

Recommendation	Neutral
Target Price (SAR)	85.7
Upside / (Downside)*	-2.7%

Source: Tadawul *prices as of 30th of Jan 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Net financing and investment income	22,173	21,269	24,480	29,874
Growth %	8.7%	-4.15	15.1%	22.0%
Net Income	17,151	16,621	19,076	23,606
Growth %	16.3%	3.09%	14.8%	23.7%
EPS	4.29	4.16	4.77	5.90

Source: Company reports, AlJazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
NIMs	3.52%	2.92%	3.17%	3.61%
P/E (x)	20.5	21.2	18.5	14.9
P/B (x)	3.6	3.9	3.5	3.2
DPS*	1.25	2.25	2.50	3.25
Dividend Yield	1.4%	2.6%	2.8%	3.7%
C/I	26.1%	27.2%	26.5%	23.8%
ROA	2.4%	2.1%	2.2%	2.5%
ROE	22.5%	18.4%	19.2%	21.6%
Loans growth	25.5%	4.6%	6.7%	5.9%
Deposit growth	10.3%	1.4%	11.1%	6.6%

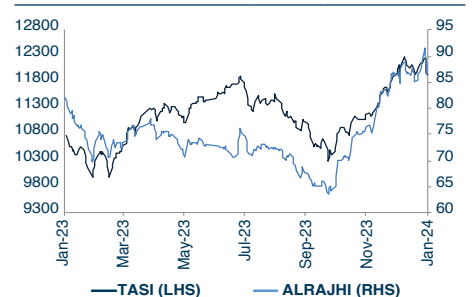
Source: Company reports, Argaam, AJC research *FY23 DPS is expected

Key Market Data

Market Cap(bn)	343.2
YTD%	1.8%
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

Senior Equity Analyst

Fahad Qureshi, CFA

+966 11 2256315

f.iran@aljaziracapital.com.sa





RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

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.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068