



Strong set of results driven by robust growth in funded and non-yield income. Loans grew by a solid 19.3% Y/Y

Al Rajhi Bank posted earnings of SAR 6.2bn in Q2-25, up 30.9% Y/Y (up 4.1% sequentially). The Q2-25 net income was in line with our estimates (+4.3% deviation). The slight deviation is mainly owed to higher non-commission income (+10.3% deviation). The Y/Y improvement in earnings is owed to 24.7% Y/Y growth in Net Special Commission Income (NSCI) and 29.1% Y/Y expansion in Fee and other income. Overall, operating income grew by 25.7% Y/Y (+4.4% Q/Q) in Q2-25. Cost to income ratio improved to 22.3% in Q2-25 as compared to 25.6% in Q2-24 (AJC estimate 22.8%). Cost of risk stood at 32bps in Q2-25 as compared to 29bps in Q2-24 (deviation of +1bps to our estimate). Loan book expanded by 19.3% Y/Y & 2.6% Q/Q to SAR 741.7bn in Q2-25; the bank has raised its investments by 18.6% Y/Y (1.4% on a Q/Q basis) to SAR 181.4bn. We forecast AlRajhi to deliver medium term (2024-27) earnings CAGR of 14.8% and best in class average ROE of 21.7%. We maintain our **"Overweight"** recommendation with TP of **SAR 107.0/share**.

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- Net financing and investment margins improved by 9bps Y/Y, gross financing and investment income grew by 21.4% (+3.6% Q/Q), whereas funding costs increased by 17.9% Y/Y (+4.4% Q/Q). We reiterate that Alrajhi profits from declining interest rates due to large fixed rate asset exposure, hence margin expansion is expected to continue.
- Operating expenses (excluding debt provisions) totaled at SAR 2,143mn up 9.5% Y/Y (+2.6% on Q/Q basis), in line with our estimates (+1.3% deviation). Cost-to-income ratio improved to 22.3% in Q2-25 as compared to 25.6% in Q2-24 (AJC estimate 22.8%).
- Provision expenses grew by 31.9% Y/Y to SAR 600mn (+14.3% on a sequential basis), 4.3% above our estimate of SAR 575mn. Cost of risk stood at 32bps in Q2-25 as compared to 29bps in Q2-24 (deviation of +1bps to our estimate). Overall, there was a 63.6% Y/Y increase in the gross charge and a 108% Y/Y increase in recoveries from written off financing. NPL ratio stood at 0.74% with coverage ratio of 150%.
- Loan book expanded by 19.3% Y/Y & 2.6% Q/Q to SAR 741.7bn in Q2-25, 2.1% higher than our estimate of SAR 726.5bn. Meanwhile, deposits grew 3.1% Y/Y and 2.0% Q/Q to SAR 635.2bn, as compared to our estimate of SAR 629.2bn. The ADR ratio increased to 115.5% in Q2-25 from 99.9% in Q2-24 (114.9% in Q1-25), reflecting the bank's increasing reliance on Sukuks for funding. Moreover, bank has raised its investments by 18.5% Y/Y (2.0% on a Q/Q basis) to SAR 182.5bn.

AJC view and valuation: Al Rajhi Bank posted earnings of SAR 6.2bn in Q2-25, up 30.9% Y/Y (up 4.1% sequentially). Loan growth accelerated to 19.3% Y/Y in Q2-25, this recent uptick in lending has further enhanced Alrajhi's investment case. Due to substantial long-term fixed rate mortgage exposure, bank's margins would post sizable recovery as rates continue coming down in 2025-26. We maintain our **"Overweight"** recommendation with TP of **SAR 107.0/share**.

Results Summary

SAR mn	Q2-24	Q1-25	Q2-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Net financing & investment income	5,857	7,097	7,305	24.7%	2.9%	1.7%
Total Operating income	7,637	9,200	9,603	25.7%	4.4%	3.6%
Net Profit	4,699	5,909	6,151	30.9%	4.1%	4.3%
EPS	1.17	1.48	1.54			

Source: Company Reports, Aljazira Capital Research

Recommendation

Overweight

Target Price (SAR)

107

Upside / (Downside)*

13.2%

Source: Tadawul *prices as of 20th July 2025

Key Financials

SARmn (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 Research

Key Ratios

	FY23	FY24	FY25E	FY26E
NIMs	3.0%	3.1%	3.2%	3.3%
P/E (x)	21.9	20.2	16.8	14.8
P/B (x)	3.2	3.8	3.4	3.1
Dividend Yield	2.4%	2.6%	3.2%	3.7%
ROA	2.0%	2.1%	2.2%	2.3%
ROE	18.2%	19.7%	21.4%	21.9%
Loans growth	4.6%	16.7%	9.5%	8.2%
Deposit growth	1.4%	9.6%	7.9%	8.0%

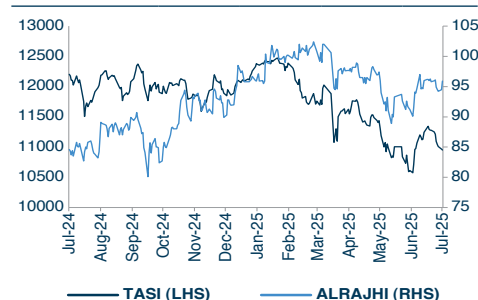
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	384.4
YTD%	-0.11%
52 week (High)/(Low)	104/80.1
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.firfan@aljaziracapital.com.sa





RESEARCH DIVISION

Head of Sell-Side Research - Director
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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