



## Al Rajhi Bank

2 December, 2024

We initiate coverage on Al Rajhi Bank with a target price of SR106/share and an Overweight rating. We believe the bank's retail-heavy loan book, with a sizable portion contributed by long-term mortgages, positions it firmly to benefit during the monetary easing cycle. Margins have mainly been stable at the peak cycle, and we expect the bank to deliver the most robust margin and RoAE expansion; CASA migration could limit some gains as LDR remains relatively elevated. Meanwhile, the bank continues to improve its operating leverage, leaving margin expansion to filter into the earning growth strongly; adjusted earnings will grow at a CAGR of 16% between 2023-28e. While we expect a recovery in the retail loan growth to accelerate in 2025e, corporate lending would drive overall loan growth in the short term. Despite a strong price performance after the 3Q24 earnings print, which showed a strong margin expansion and a pickup in lending growth, we still think there is room for valuation gain at 2024e PER of 19.9x and PBV of 3.7x. A premium valuation is justified, in our view, considering superior returns and a strong franchise with RoAE expansion likely throughout the monetary easing cycle.

**We estimate NIMs to expand** by 10bps in 2024e and another 27bps in 2025e. Al Rajhi's lending profile (with over 70% in retail sector loans and nearly 40% accounted by mortgages), with an extended duration and an interest-sensitive funding base, positions the bank firmly to gain in a declining rate environment. Repricing the legacy portfolio will provide a further boost to the gains. However, CASA migration could limit some of these gains, especially with elevated LDR, which would require strong deposit mobilization, which we think the bank could deliver given its past track record, vast network, and customer base.

**Loan growth to pick up.** We expect 2024e loan growth to slightly improve from last year, with a further pick-up in growth to accelerate as rate cuts are more entrenched, especially with the retail sector. However, while the bank focuses on driving value from its retail position, growth will likely be driven by the corporate sector as it repositions itself to increase market share and enters newer segments. It has already established itself as the third-largest corporate bank.

**The bank benefits from its substantial operating leverage** while utilizing its scale as the largest retail bank and having the country's most extensive customer base. It continues to rationalize its branch network, focusing on centralization to improve efficiency. Enhanced digitalization offers further improved leverage. Meanwhile, the bank's cost of risk is likely to gradually normalize as it continues to build up its buffers and enhance ECL coverage without any major signs of asset quality stress. Bank is also in the process of divesting its subsidiary, Ejada Systems Limited, to unlock value.

**Valuation:** In our opinion, despite rich valuations at a 2024e PBV of 3.7x, a premium to a median 2024e PBV of 1.8x for our coverage is justified, considering its superior returns and strong franchise (the largest bank in the retail space) benefiting from the monetary easing.

**Risks:** The key downside risk is pressures on NIMs from CASA migration, as LDR remains quite elevated. The dividend payout might also be short of expectations. As growth picks up, the bank would need to deliver on some strong deposit mobilization for funding which has been quite weak in recent quarters. Moreover, lower-than-expected spreads due to competitive pressures would limit its margin recovery.

### RATING SUMMARY

**Overweight**

Target Price (SR)	106
Upside/Downside	16%
Div. Yield (%)	3%
Total Exp. Return	19%

### ISSUER INFORMATION

Bloomberg Code	RJHI AB
Last Price (SR)	91.1
No of Shares (mn)	4,000
Market Cap bn (SR/USD)	364/97
52-week High / Low (SR)	94.4/75.3
12-month ADTV (mn) (SR/USD)	419/112
Free Float (%)	98%
Foreign Holdings (%)	14%

Last price as of November 28<sup>th</sup>

### VALUATIONS

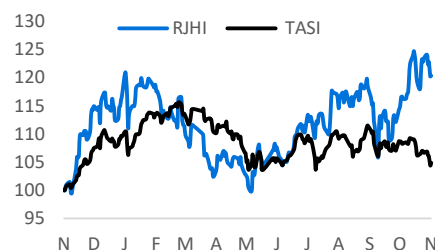
	2023A	2024e	2025F	2026F
EPS (SR)	4.0	4.6	5.6	6.5
PER (x)	18.7	19.9	16.4	14.0
PBV (x)	3.3	3.7	3.4	3.1
DPS (SR)	2.4	2.8	3.3	3.9
Div. Yield (%)	3.3	3.0	3.7	4.3
RoAE (%)	19.1	20.5	22.9	24.3
RoAA (%)	2.1	2.2	2.4	2.5

### FINANCIALS (SRbn)

	2023A	2024e	2025F	2026F
Oper. Income	27.5	31.5	37.9	43.9
Provisions	(1.5)	(1.9)	(2.5)	(3.0)
Net Income*	15.8	18.3	22.2	26.0
Investments	134	168	181	196
Loans & Advances	594	650	718	803
Deposits	573	636	714	795
NIM (%)	3.0	3.1	3.3	3.5
Cost to Income (%)	27.2	25.5	24.8	24.0
NPL Ratio (%)	0.7	0.8	0.9	0.9
Simple LDR (%)	104	102	101	101

\*Net Income adjusted for cost of AT Sukuk

### RELATIVE PRICE PERFORMANCE



INITIATION OF COVERAGE

## Financial Summary:

SAR mn							CAGR	
	2023	2024E	2025E	2026E	2027E	2028E	2018-2023	2023-2028e
<b>Income Statement</b>								
Interest Income	38,738	45,916	47,015	49,516	55,602	62,246	21%	10%
Interest Expense	(17,468)	(21,644)	(17,179)	(14,562)	(15,188)	(16,309)	103%	-1%
<b>NSCI</b>	<b>21,269</b>	<b>24,272</b>	<b>29,835</b>	<b>34,954</b>	<b>40,413</b>	<b>45,936</b>	8%	17%
NII	6,262	7,235	8,088	8,917	9,660	10,433	17%	11%
<b>Operating Income</b>	<b>27,531</b>	<b>31,507</b>	<b>37,923</b>	<b>43,871</b>	<b>50,074</b>	<b>56,369</b>	10%	15%
Operating expenses	(7,498)	(8,034)	(9,386)	(10,529)	(11,642)	(12,683)	6%	11%
Provisions	(1,504)	(1,947)	(2,498)	(3,036)	(3,987)	(4,736)	0%	26%
<b>Total Expenses</b>	<b>(9,002)</b>	<b>(9,981)</b>	<b>(11,884)</b>	<b>(13,565)</b>	<b>(15,629)</b>	<b>(17,419)</b>	5%	14%
NPBT	18,529	21,526	26,039	30,306	34,444	38,950	31%	16%
<b>Net Income*</b>	<b>15,800</b>	<b>18,344</b>	<b>22,220</b>	<b>26,048</b>	<b>29,760</b>	<b>33,801</b>	33%	16%
Shares Outstanding (mn)	4,000	4,000	4,000	4,000	4,000	4,000		
EPS	4.0	4.6	5.6	6.5	7.4	8.5		
DPS	2.4	2.8	3.3	3.9	4.5	5.1		
<b>Balance Sheet</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2018-2023</b>	<b>2023-2028e</b>
Cash and balances with central bank	41,768	46,356	52,011	57,909	64,900	72,253	-1%	12%
Due from other financial institutions, net	9,507	28,367	41,699	43,032	42,894	49,338	-22%	39%
Investments, net	134,299	167,873	181,303	195,807	205,598	209,710	26%	9%
Financing, net	594,205	650,428	718,005	803,244	912,581	1,025,814	21%	12%
Other	28,321	29,615	30,713	31,553	32,084	32,268	16%	3%
<b>Total Assets</b>	<b>808,098</b>	<b>922,638</b>	<b>1,023,731</b>	<b>1,131,547</b>	<b>1,258,056</b>	<b>1,389,382</b>	17%	11%
Due to other financial institutions	97,247	121,559	133,714	147,086	161,795	174,738	68%	12%
Customers' deposits	573,101	636,054	713,658	794,585	890,500	991,400	14%	12%
Other liabilities	27,202	29,239	31,684	34,782	38,764	42,726	13%	9%
<b>Total Liabilities</b>	<b>701,339</b>	<b>802,425</b>	<b>894,629</b>	<b>992,026</b>	<b>1,106,631</b>	<b>1,224,437</b>	17%	12%
<b>Total Equity</b>	<b>106,759</b>	<b>120,214</b>	<b>129,102</b>	<b>139,521</b>	<b>151,425</b>	<b>164,945</b>	17%	9%
<b>Total liabilities and equity</b>	<b>808,098</b>	<b>922,638</b>	<b>1,023,731</b>	<b>1,131,547</b>	<b>1,258,056</b>	<b>1,389,382</b>	17%	11%
<b>Growth (Y/Y)</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>		
NSCI	-4%	14%	23%	17%	16%	14%		
NII	-2%	16%	12%	10%	8%	8%		
Total operating income	-4%	14%	20%	16%	14%	13%		
Net income	-7%	16%	21%	17%	14%	14%		
Financing	5%	9%	10%	12%	14%	12%		
Deposits	1%	11%	12%	11%	12%	11%		
<b>Ratios</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>		
NIM (%)	3.0	3.1	3.3	3.5	3.7	3.8		
Operating cost to income (%)	27.2	25.5	24.8	24.0	23.3	22.5		
Cost of risk (bps)	24.9	29.5	34.3	37.2	43.0	45.5		
NPL coverage (%)	203	173	168	163	159	155		
NPL ratio (%)	0.7	0.8	0.9	0.9	1.0	1.0		
Simple LDR (%)	104	102	101	101	102	103		
RoAA (%)	2.1	2.2	2.4	2.5	2.6	2.6		
RoAE (%)	19.1	20.5	22.9	24.3	25.1	25.8		
Assets to Equity (x)	7.6	7.7	7.9	8.1	8.3	8.4		
<b>Valuation</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>		
BVPS	22.6	24.4	26.6	29.3	32.2	35.6		
P/B	3.3	3.7	3.4	3.1	2.8	2.6		
P/E	18.7	19.9	16.4	14.0	12.2	10.8		
Dividend yield (%)	3.3	3.0	3.7	4.3	4.9	5.6		

\*Net income adjusted for the cost of AT Sukuk

Source: Company Financials and anbc research

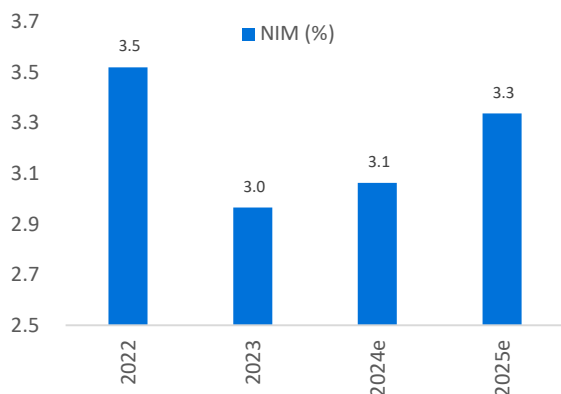
## Investment Thesis

### Best positioned to deliver the strongest margin expansion

Al Rajhi Bank is set to deliver the most robust net interest margin expansion (10bps in 2024e and 27bps in 2025e) and RoAE expansion (over 375bps during the same period) within our covered banks as it remains best positioned to benefit in a declining rate environment. We expect Al Rajhi Bank to reverse most of the lost ground within the next three years (its net interest margin has declined by over 120bps since 2021). We see an extended asset duration underpinned by its mortgage portfolio and a diversified funding base with a high composition of interest-sensitive liabilities offering an asset-liability duration gap, which would help improve margins with rate cuts in addition to the repricing of the legacy low-yielding portfolio.

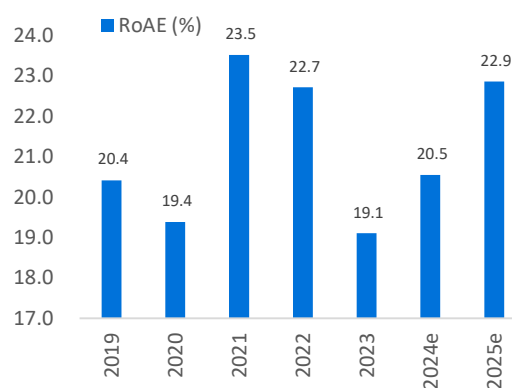
We expect 2023 to be an inflection point for NIMs, which have stabilized at the peak of the monetary cycle over the last few quarters. That said, we see rate cuts as necessary to drive this expansion and, subsequently, earnings growth amidst a relatively lower pace of lending growth. According to our calculations, NIMs staged a strong recovery in 3Q24, up 15bps YoY.

**Chart 54: We expect NIMs to expand cumulatively 37bps by 2025e end**



Source: Company Financials and anbc research

**Chart 55: RoAE expansion, which we estimate to improve to 22.9% in 2025e**



Source: Company Financials and anbc research

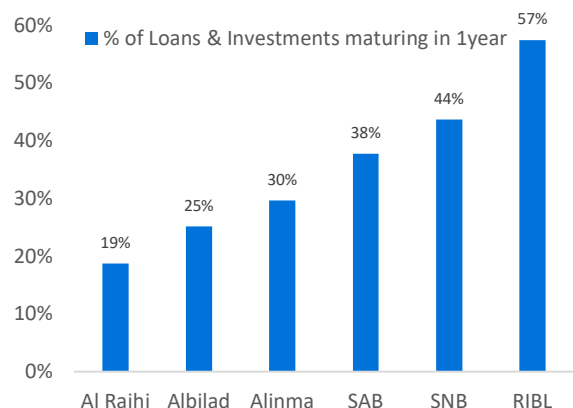
Al Rajhi Bank has the most extended asset maturity profile, with over 80% of lending and investment maturity after one year. This reflects the significant contribution of the long-term fixed-rate mortgage portfolio within its portfolio, accounting for nearly 40% of net loans at the end of 2023. This effectively allows the banks to lengthen the duration of the loan portfolio and slow asset repricing relative to shorter-duration liabilities to drive net interest margin expansion.

While much of this portfolio (mortgage lending grew nearly 3x between 2019 and 2021) was added in a low-rate environment around the COVID period, limiting any meaningful expansion in gross yields at that time, we note that c25% of the current gross portfolio was added during the period of rising origination rates, which was also accompanied by SRC raising its benchmark rates. This increased contribution of newer loans should help offset some pressure on the legacy portfolio and drive upward the gross yields, which had been lagging in a monetary tightening period.

In addition, repricing legacy low-yielding loan portfolios is also expected to improve margins. While competitive pressures would limit some gains from lower spreads, we think most of these older loans, particularly the fixed-rate ex-mortgage instruments, had been priced at very low rates. According to our calculations, taking into account installment sales and credit card loans, over 30% of the 2021 gross outstanding retail loans have already been

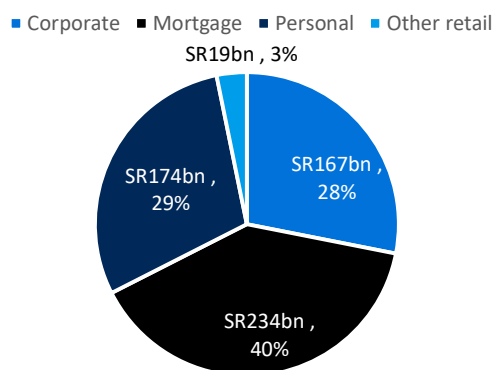
repriced in 2022 and 2023. Assuming these loans are repriced on maturity, typically five years, these should be completely repriced by 2026e at a neutral level interest rate which would be higher than the levels in 2021.

**Chart 56: Al Rajhi has the most extended loan maturity**



Source: Company Financials and anbc research

**Chart 57: reflecting the contribution from its fixed rate retail mortgages**

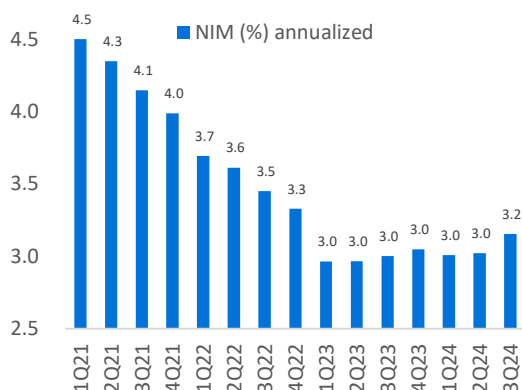


Source: Company Financials and anbc research

A retail-heavy loan book was also one of the key reasons Al Rajhi recorded such deep cuts to its net interest margins during rising rates. We estimate its net interest margins fell for nine consecutive quarters between 1Q21 and 1Q23, and on an annual basis, they have cumulatively declined over 120bps since 2021.

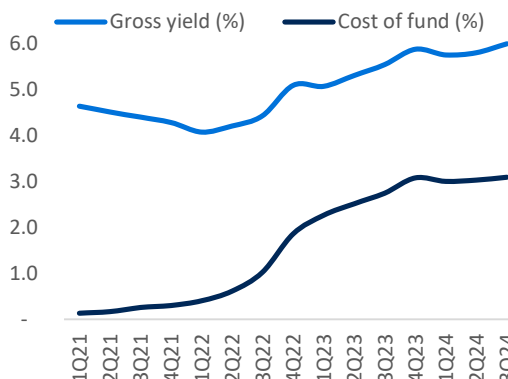
However, since 2Q23, when the monetary cycle peaked (only a 25bps rate increase vs. 450bps hikes between 1Q22 and 1Q23), net interest margins have broadly stabilized as gross yields picked up, offsetting the pressures from the rising cost of funds. Al Rajhi Bank also has 30% lending in the corporate sector with a relatively shorter duration and has been growing by over 20% YoY in 2023. This, coupled with growth in income from an investment portfolio, contributed significantly to driving upward the overall gross yield. In 3Q24, its margins improved as gross yields picked up amidst a relatively stable cost of funding.

**Chart 58: NIMs at an inflection point and broadly stable since 2Q23 – margins improved in 3Q24**



Source: Company Financials and anbc research

**Chart 59: As assets yields caught up and some pressures subsided**



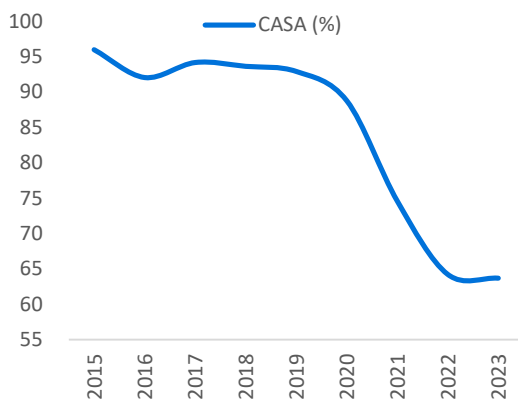
Source: Company Financials and anbc research

In our view, over the last two years, Al Rajhi Bank lost a significant competitive edge in deposit mobilization with substantial CASA migration, resulting in a sharp uptick in the cost of funds. Al Rajhi used to have a CASA mix of over 90% before 2020, which was the highest across the sector and a key catalyst for below-sector-average cost of funds, a core competitive edge the bank enjoyed over many years. It offered it a solid competitive power in effectively

pricing its products and maintaining a robust margin profile (net interest margins used to be well above the 4.5% mark between 2018-20).

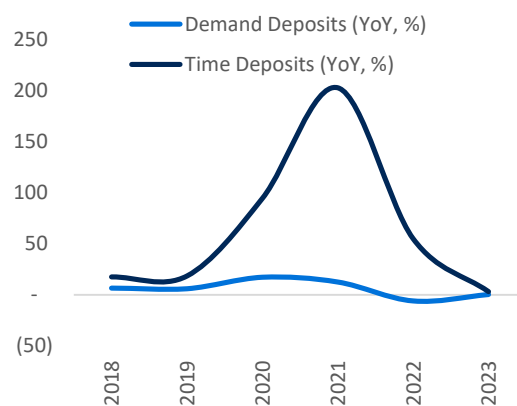
However, CASA migration accelerated quickly as the bank needed to fund the very strong lending growth. Between 2020 and 2023, demand deposits grew only by 6% cumulatively, while time deposits were up 4.8x, resulting in the CASA mix declining to 64% at the end of 2023 vs. 90% in 2020.

**Chart 60: CASA fell to 64% at the end of 2023 vs. 75% in 2021**



Source: Company Financials and anbc research

**Chart 61: as deposit growth primarily resulted from Time deposits**



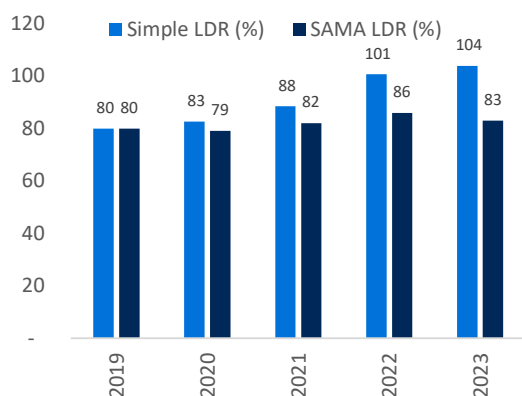
Source: Company Financials and anbc research

LDRs quickly rose as deposit mobilization failed to match lending growth, with Al Rajhi Bank's non-regulatory LDR expanding to 104% at the end of 2023, up from 88% at the end of 2021. With already elevated LDRs, the bank found itself between a rock and a hard place with the need for quick deposit mobilization at a time when rates had been increasing at one of the most aggressive paces of tightening. This left the bank to fund its growth through expensive time deposits and other liabilities.

In light of tight liquidity dynamics, Al Rajhi Bank has also been diversifying its funding sources during this period, tapping the wholesale funding market, including interbank, and has issued AT1 instruments. Its treasury liabilities as a % of total liabilities increased from less than 5% in 2021 to over 19% at the end of 2023, with the bulk of this coming from interbank funding.

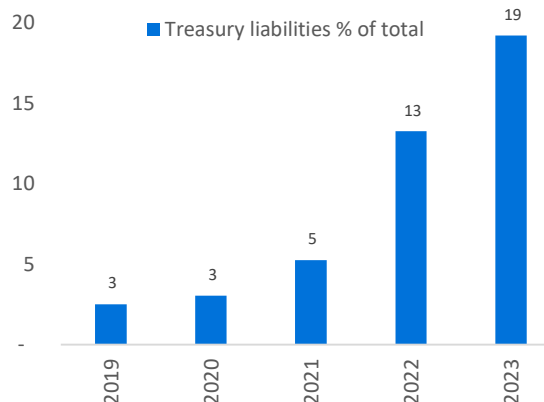
In addition, Al Rajhi also issued SR16.5bn Tier 1 Sukuk in 2022 and, more recently, dollar-dominated USD1bn Sukuk in 2Q24, in addition to USD1.9bn in syndicated loan issued in 4Q24. The latter offers much-needed liquidity support and alleviates some pressures through equity-generated funds while capitalizing its books. Meanwhile, increased interest sensitivity liabilities, particularly interbank funding, also drive a favorable asset-liability duration gap for the bank.

**Chart 62: Non-regulatory LDR at elevated levels, estimated at 104% in 2023**



Source: Company Financials and anbc research

**Chart 63: But the bank put much effort into diversifying its funding base**



Source: Company Financials and anbc research

While we remain positive on Al Rajhi Bank's net interest margin direction, we highlight caution regarding elevated LDRs requiring the bank to deliver strongly on deposit mobilization amidst continued tight liquidity. Its past track record of increasing market share in deposits (which we estimate increased by 6.8ppt in last five years to 26% at the end of 2023) and significant scale with the largest retail branches of over 500 branches across Saudi Arabia alone and a large customer base (15.8mn active customers), offers some comfort in the bank's ability to easily finance its liquidity needs and positions it for additional market share gains. However, this could potentially come at the cost of further CASA migration as rate cuts would be gradual.

### Lending growth to accelerate in 2025e

While we think the bank is positioned firmly (in terms of lending profile and loan book mix), lower rates are much needed for any meaningful earnings expansion amidst relatively slower lending growth. Overall lending slowed to 5% YoY in 2023 from one of the prime years in 2022 and 2021, and while we expect growth to recover in 2024e, it will remain relatively short of the levels of corporate-focused banks.

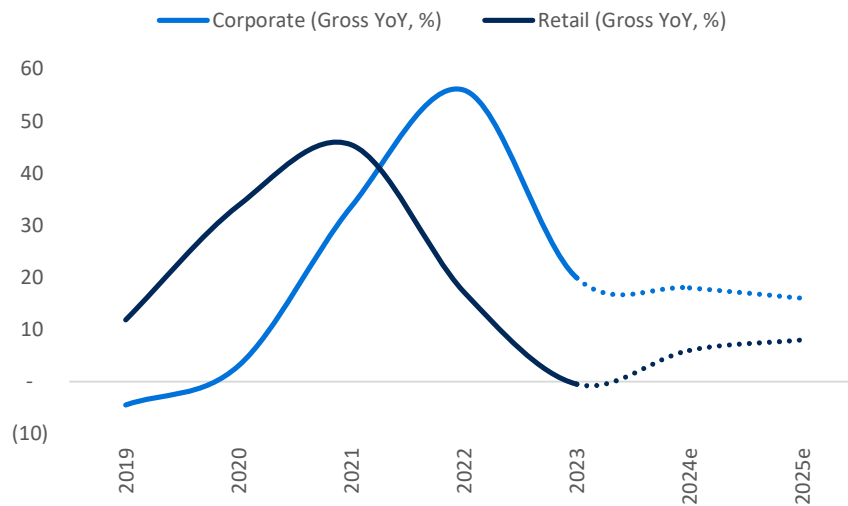
Moderating growth in 2023 had been primarily driven by the muted performance of the retail portfolio, which, in net terms, was nearly flat on a YoY basis in 2023. While retail mortgage lending rose 6% YoY, the pressure was primarily from the ex-mortgage retail portfolio, particularly personal loans, as high rates weighed on consumer appetite for financing.

We expect loan book growth to further accelerate in 2025e and beyond as monetary easing becomes more entrenched and filters into the accelerated attraction of consumer lending. The macroeconomic backdrop is positive, accelerating growth and increasing income levels with an additional boost from a relatively less tight monetary stance. This would also continue to support the bank's corporate lending portfolio, which the Bank's new corporate strategy focuses on to expand its footprint and drive overall growth.

As such, the management initiated a new strategy under "Harmonizing the growth," which effectively utilizes this period to optimize its growth levers and position the bank once lending growth accelerates. Key aspects of this new strategy are to focus on increasing its customer base and entering newer segments to diversify its risk base. This is in addition to stabilizing its operations and improving further efficiencies, including spending on digitalization as the bank focuses on profit growth. The four key pillars of the strategy include:

- **B2C:** Under a business-to-customer strategy primarily for the retail business, Al Rajhi focuses on cross-selling to increase growth in NII as it leverages its large customer base. In addition, it is targeting to enter new business segments by expanding its product and service portfolio.
- **B2B:** Within the corporate segment, the key target is to increase market share and become a leading corporate bank. It also emphasizes SME lending and growing the contribution of SME lending through specialized and tailored banking solutions for the sector.
- **Business Support:** Under this, the bank aims to centralize its operations further and increase efficiency by enhancing its operating leverage.
- **Digital:** The bank’s digital strategy focuses on expanding digital capabilities to improve customer journey and customer satisfaction and become a leading digital bank in the country.

**Chart 64: Loan growth sharply slowed down amidst elevated interest rates**



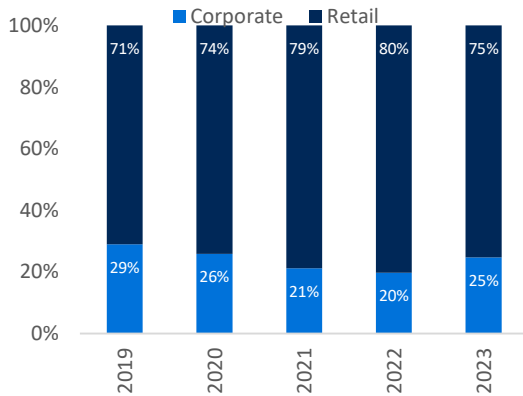
Source: Company Financials and anbc research

One of the key focus areas under the bank’s new corporate strategy has been developing its corporate segment. We believe Al Rajhi’s prominent retail positioning often overshadows its corporate penetration, as it is the third largest bank in Saudi Arabia in corporate lending with a market share of over 12%—later increased from less than 9% in 2021.

Subdued retail origination (flat YoY in 2023) was offset by a 20% YoY corporate lending growth, providing crucial support to its overall book. According to the bank’s disclosures on economic concentration, the corporate portfolio is focused on the commercial, industrial, and services sectors, providing strong and well-diversified exposure to non-oil economic activity.

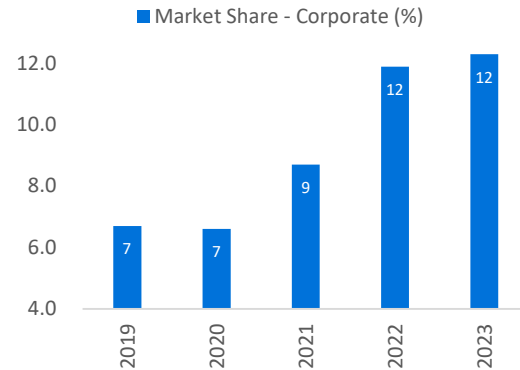
During 2024e and 2025e, we expect corporate lending to drive growth for the overall Al Rajhi portfolio since any pickup in retail lending will continue only after rate cuts have become more entrenched. We estimate Al Rajhi’s lending portfolio to grow at a CAGR of 12% between 2023-28e vs. 21% in the last five years. Corporate sector lending will likely outpace growth at a CAGR of 16% vs. retail sector loan growth of 10% in the next five years.

**Chart 65: Contribution of the corporate book has slightly increased to 25% in 2023**



Source: Company Financials and anbc research

**Chart 66: Its market share has been increasing in corporate; ranked third largest bank**



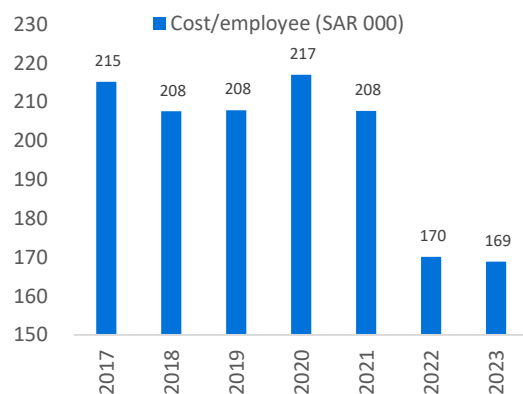
Source: Company Financials and anbc research

**Significant scale benefits to support earnings expansion**

Al Rajhi Bank still carries significant scale benefits, being the largest bank in terms of bank branches and number of customers. It also has the widest network of ATMs and POS terminals and is the leading bank with the most remittance centers. Its efforts in digitalization have also been notable, with 95% of new retail accounts opening through digital channels. The bank's large scale, coupled with the cost-effectiveness of digital capabilities, offers the most competitive cost structure and significant operating leverage - it has the lowest cost-to-income ratio among our covered banks.

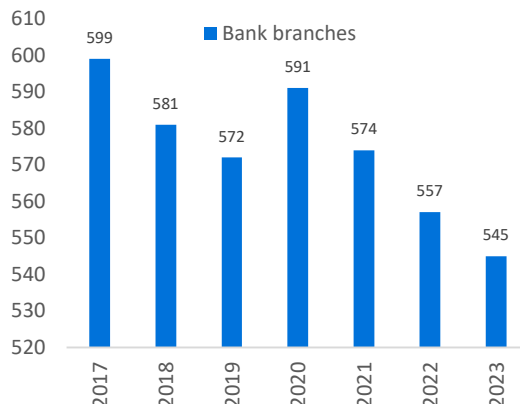
The bank's cost per employee has declined over the past two years as it rationalized its branch network to slightly below 550 branches in Saudi Arabia alone. Under the new strategy, the bank intends to focus on this to continue yielding positive benefits from improved efficiencies and improving cost structure. Its operating cost-to-income ratio is down to 27% in 2023 from over 30% in 2020. This was also accompanied by rising interest rates, which negatively impacted the bank's margins, and despite that, its cost-to-income only increased by 100bps YoY in 2023 as the bank well-managed its Opex growth. With margins recovery to pick up in the coming years, we pencil in at least a 2ppt improvement in the bank's cost-to-income ratio over the next two years. The downside risk includes materially increasing digital spending that could limit some of the gains in the initial years.

**Chart 67: Improving efficiency as cost per employee has seen a marked decline**



Source: Company Financials and anbc research

**Chart 68: Rationalizing bank branches to improve efficiency**



Source: Company Financials and anbc research

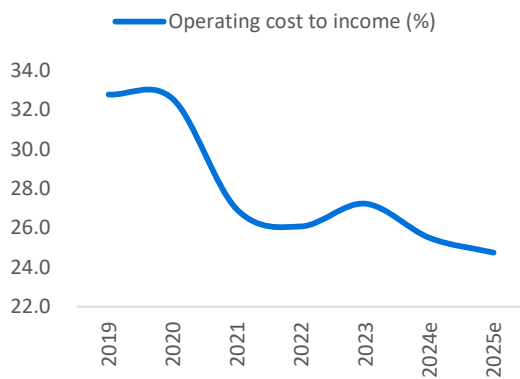


In addition to substantial operating leverage, NPL formation has been well managed despite the high rates. While coverage has fallen to less than 200% from above 300% in 2021, this reflects an improved economic outlook. The headline number has dropped, but Al Rajhi still maintains strong coverage on its retail portfolio, over 350% in 2023. On the overall portfolio, the Bank’s stage 2 allocation of gross loans rose to 2.3% in 2023 from 1.7%, while for stage 3, it increased to 1.2%, leaving a slightly higher NPL formation.

However, coverage for expected credit loss for both stages remained stable, which management attributed to an improved business outlook without significant signs of asset quality stress. Recoveries remained strong, while NPL formation was predominantly within the corporate sector, while retail witnessed improvement.

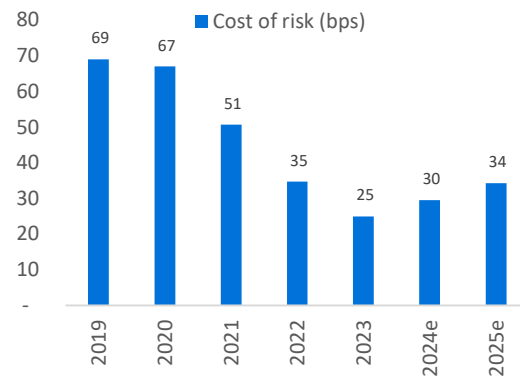
The bank’s asset quality remains robust without any major signs of stress. While corporate showed some increased NPL formation, we don’t expect it to continue amidst a solid macroeconomic backdrop. In addition, according to the company’s economic concentration report, 20% of the gross corporate loans are public sector loans, providing some protection against any unexpected headwinds. That said, the bank’s cost of risk is likely to gradually normalize upward as it continues to build up its buffers and enhance ECL coverage.

**Chart 69: Cost to income ratio has sharply improved over the years**



Source: Company Financials and anbc research

**Chart 70: CoR to normalize though asset quality shows no signs of stress**



Source: Company Financials and anbc research

## Valuations:

We have used a residual income model to value Al Rajhi Bank, which has a cost of equity of 10.9% and a terminal growth rate of 5%. Our target price of SR106/share values Al Rajhi at a 2025e PER of 19x and PBV of 4.0x, with a median RoAE of 24% between 2024e-28e. We have an Overweight rating. Despite a strong rally in the share price after the bank posted a 3Q24 earnings print, which showed a strong margin expansion and recovery in lending growth, we think there is still further room for valuation gains. We expect adjusted earnings to grow at a CAGR of 16% over the next five years, likely outperforming the rest of the banks in our coverage. We note that Al Rajhi's premium valuation (median 2024e PBV of 1.8x for our coverage) reflects its superior profitability (2024e RoAE of 20.4% vs. median 16.8%) and its strong franchise (largest retail bank) in our view.

### Valuation Table:

SARmn	2024e	2025e	2026e	2027e	2028e	2029e	Terminal
Beginning BV of equity	90,259	97,694	106,582	117,001	128,905	142,425	157,594
Cost of equity (%)	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%
Cost of equity	9,809	10,617	11,583	12,715	14,009	15,478	17,126
Adjusted net income	18,344	22,220	26,048	29,760	33,801	37,921	42,347
Excess equity return	8,535	11,603	14,465	17,045	19,793	22,443	25,221
Terminal excess equity return							451,332
Discount factor	1.0	1.1	1.3	1.4	1.5	1.7	1.7
PV of excess equity returns	8,382	10,278	11,557	12,283	12,862	13,155	264,543
Equity invested	90,259						
PV of excess return on Equity	333,061						
Value of equity	423,320						
Number of shares (mn)	4,000						
<b>Target Price</b>	<b>106</b>						

### Earnings Sensitivity:

	CoE	Growth rate				
		3%	4%	5%	6%	7%
9%		124	141	167	212	305
10%		103	114	130	154	195
11%		88	96	<b>106</b>	120	142
12%		76	82	89	98	111
13%		67	71	76	82	90

Source: Company Financials and anbc research