

Retal Urban Development Co. (BUY, TP: SAR 17, 4322.SE) 1Q26 Results Review

Higher operating expenses and negative contribution from associates led to earnings decline. New regulations for foreign ownership to provide tailwind. Maintain BUY.

Retal Urban Development (RETAL) reported a 13% Y/Y and 43% Q/Q decline in earnings during 1Q26. Revenue increased on a year-on-year basis but fell sequentially. Cost of sales declined Y/Y, supporting an improvement in gross profit. On a quarterly basis, although cost of sales also decreased, gross profit contracted due to weaker gross margins. Operating expenses rose compared to 1Q25 but declined versus the previous quarter. Consequently, operating income improved Y/Y but weakened Q/Q. Net profit margin stood at 10% in 1Q26.

- Revenue increased 2% Y/Y to SAR 577mn in 1Q26, supported by growth in development contract revenue, which rose 2% Y/Y to SAR 569mn. The increase was primarily driven by higher contributions from real estate funds and progress in the percentage of completion across ongoing projects. On a sequential basis, revenue declined 18% due to exceptionally strong performance in 4Q25, which benefited from robust sales activity during Cityscape, while 1Q26 experienced a seasonal slowdown associated with Ramadan.
- Gross profit grew 10% Y/Y in 1Q26, supported by a 189bps expansion in gross margin. However, on a Q/Q basis, gross profit declined 38%, with gross margin contracting by 777bps compared to 4Q25.
- Operating expenses increased 25% Y/Y to SAR 143mn, mainly due to higher marketing expenditures ahead of new project launches. On a sequential basis, operating expenses declined 48% from the elevated levels recorded in 4Q25. Finance costs increased marginally to SAR 30mn in 1Q26 from SAR 29mn in 1Q25 but declined from SAR 37mn reported in 4Q25. As a result, the company reported a net profit of SAR 59mn (EPS: SAR 0.12) in 1Q26, compared with SAR 68mn (EPS: SAR 0.14) in 1Q25 and SAR 104mn (EPS: SAR 0.21) in 4Q25.
- 1Q26 was a relatively soft quarter for the company, as growth in development contract revenues moderated on a Y/Y basis, likely reflecting seasonal factors given the slowdown in real estate activity during Ramadan. Despite this, the company continues to maintain a strong project pipeline. As of March 2026, Retal's development portfolio comprised 22 projects with a total value of SAR 22bn, including 17 ongoing projects and 5 projects in the pipeline. Of the total portfolio value, SAR 3.4bn (16%) has been recognized as revenue, while SAR 18.6bn (84%) remains unrecognized, including SAR 10.4bn attributable to upcoming projects. The backlog of ongoing projects stood at 7,080 units, of which 5,833 units had been sold and 1,247 units remained unsold. Upcoming projects account for an additional backlog of 7,763 units, bringing the total backlog to 14,843 units. Over the longer term, Retal remains well positioned to benefit from ongoing reforms in Saudi Arabia's real estate sector and the gradual opening of selected geographic areas to foreign investors, which is expected to support demand for the company's higher-margin developments. Notably, several regions in Riyadh have been opened to foreign ownership, including King Salman Park, where Retal has an upcoming project under a fund structure along with existing inventory in Sedra. In addition to organic growth opportunities, the company is pursuing a strategic transaction to acquire a stake in Ajdan Real Estate Development Company through the issuance of new ordinary shares. The proposed acquisition would provide Retal with access to a diversified portfolio of assets, including landmark projects such as Ajdan Waterfront and Ajdan Al Ramis, as well as ongoing developments such as the Fairmont Ajdan Al Khobar Hotel and the Infinity project. While this transaction is not yet incorporated into our forecasts, we expect it to be value accretive and supportive of the company's future financial performance. Following the incorporation of 1Q26 financial results and the latest backlog data, as well as rolling forward our valuation to a 12-month horizon, our target price has declined by 3%. Maintain Buy.

Rating and Risks

We are Buy rated on RETAL and our 12-month target price is SAR 17. Upside risks include stronger-than-expected residential demand and decline in interest rates. Downside risks include slump in demand, and slowdown in NHC and ROSHN projects.

SAR mln	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Revenues	577	706	567	-18%	2%
Cost of Sales	-434	-476	-437	-9%	-1%
Gross Profit	143	230	130	-38%	10%
Operating Expenses	-40	-77	-32	-48%	25%
Operating Profit	103	153	98	-33%	5%
Net Income	59	104	68	-43%	-13%
EPS	0.12	0.21	0.14	-43%	-13%

Margins (%)					
Gross Margin	25	33	23	-777 bps	189 bps
Operating Margin	18	22	17	-384 bps	60 bps
Net Margin	10	15	12	-441 bps	-175 bps

Rating Summary and Forecasts

Rating Summary

Rating	Buy
Market Price	12.5
12-month Target Price	17
Upside / Downside	38%
Mkt Cap (SAR mn)	6,250.0
52 week High/Low	16.43/10.57

Forecasts

	12/25 A	12/26 A	12/27 E	12/28 E
Net Income (SAR mn)	293	341	495	590
PER (x)	21.3	18.3	12.6	10.6
PBV (x)	6.2	5.0	3.8	3.1
EPS (SAR)	0.6	0.7	1.0	1.2
DPS (SAR)	0.3	0.3	0.5	0.6
RoE (%)	28.9	27.1	30.5	29.2
Dividend Yield (%)	2.3	2.7	4.0	5.2

Price Chart



Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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