Al Rajhi Bank

Sector : Banking

BUY

12 August 2026

Target price (SAR)	**75.0**
Current price (SAR)	**64.1**
Return	**17.0%**

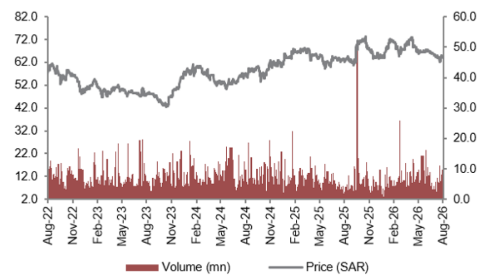
- **ARB reported 2Q26 operating income of SAR 10.9bn, up 13% YoY and in line with our estimates. This was driven by 13.7% YoY growth in NII and 12.2% growth in non-interest income.**
- **2Q26 net income also grew 14% YoY, 3% above our estimates, supported by higher operating profits and lower taxes, despite higher provisions.**
- **YTD net loans and deposits grew 1.2% and 3.2%, respectively. Management had revised its loan growth guidance from low-to-mid-single-digit growth to low-single-digit growth and increased its cost of risk guidance by 5bps at either end of the range to 0.35%-0.45%.**
- **We maintain our BUY rating and target price of SAR 75/share following in-line performance and despite a marginal moderation in guidance.**

ARB's 2Q26 operating income rose 13% YoY, supported by 13.7% growth in NII and 12.2% growth in non-interest income. NII growth was driven by a 36bps YoY expansion in NIM to 3.50%, with retail NIMs expanding by 21bps, aided by asset repricing, while cost of funds improved by 14bps YoY. Sequentially, NIM declined marginally by 4bps, though improved by 36bps in 1H26,well within management's guidance of 30-40bps for 2026. Non-interest income growth was driven by a 17% YoY increase in core net fee and commission income, supported by sustained growth in payments, trade, cash management, investment banking, and assets under management. Further supporting fee income, FX income increased by 19% YoY. The share of non-interest income in total income remained steady at 23%. Operating expenses increased by 11.7% YoY, resulting in operating profit growth of 13.8% YoY. The CI ratio stood at 22% in 2Q26 and 22.7% in 1H26, well within the guidance of below 23% for 2026. For 1H26, operating income growth stood at 13.9% YoY.

Impairments increased 46.9% YoY in 2Q26 and 39.7% QoQ, resulting in an increase in the cost of risk to 0.39%. Management increased its 2026 cost of risk guidance by 5bps at either end of the range to 0.35%-0.45%. For 1H26, the impairment charge increased by 34% YoY, driven by higher charges in the non-retail segment, even as charges in the retail segment declined. Management clarified that the increase in provisions in the non-retail segment was not driven by giga projects and was largely due to change in ECL model. Higher operating profit and a decline in the effective tax rate were partly offset by higher provisions, resulting in 14% YoY net income growth in 1H26.

YTD net loans and deposits increased by 1.2% and 3.2%, respectively. Muted loan growth was driven by a decline in the retail loan book, partly offset by growth in the corporate segment, including higher corporate and SME exposure. Within the retail segment, mortgage and other retail loans declined. The retail loan book now constitutes 62.6% of total loans in 2Q26, versus 66.1% a year ago. Deposit growth of 3.2% was driven by increase in both time and demand deposits. Demand deposits now account for 63.2% of total deposits in 2Q26, versus 64.3% a year ago. NPLs remained steady at 0.74% in 2Q26.

Valuation: ARB's operating income was in line with expectations, while net income was marginally ahead. Management has made minor adjustments to its loan growth and cost of risk guidance. We maintain our BUY rating and target price of SAR 75/share. The stock currently trades at 13.8x 2026E P/E and 2.9x P/B, and offers a dividend yield of 3%.



Exchange	Saudi Arabia
Index weight (%)	14.6%

(mn)	SAR	USD
Market Cap	384,600	102,432
Total Assets	1,043,268	277,857

Major shareholders	
Vanguard Group Inc	2.24%
Al Rajhi Abdullah	2.18%
Blackrock Inc	1.76%
Others	93.82%

Valuation Summary (TTM)	
Price (SAR)	64.10
PER TTM (x)	15.4
P/Book (x)	3.2
Dividend Yield (%)	2.6
Free Float (%)	94%
Shares O/S (mn)	6,000
YTD Return (%)	-1%
Beta	1.1

Key ratios	2023	2024	2025
EPS (SAR)	2.63	3.11	3.90
BVPS (SAR)	15.04	16.58	19.14
DPS (SAR)	1.53	1.60	1.47
Payout ratio (%)	58%	51%	38%

Price performance (%)	1M	3M	12M
Al Rajhi Bank	-2%	-4%	2%
Tadawul All Share Index	0%	-3%	0%

52 week	High	Low	CTL*
Price (SAR)	75.33	60.10	6.7

* CTL is % change in CMP to 52wk low

in SAR mn	2Q26	1Q26	QoQ (%)	2Q25	YoY (%)	1H26	1H25	YoY (%)
Operating Income	10,884	10,528	3.4%	9,603	13.3%	21,413	18,803	13.9%
Operating Expenses	-2,395	-2,457	-2.6%	-2,143	11.7%	-4,852	-4,231	14.7%
Operating Profit	8,490	8,071	5.2%	7,460	13.8%	16,561	14,572	13.7%
Provision Expenses	-881	-631	39.7%	-600	46.9%	-1,512	-1,125	34.4%
Profit before tax	7,609	7,440	2.3%	6,860	10.9%	15,049	13,447	11.9%
Zakat & Tax	-583	-677	-13.9%	-699	-16.6%	-1,260	-1,376	-8.4%
Profit after tax	7,026	6,763	3.9%	6,161	14.0%	13,789	12,071	14.2%
Profit attributable to Equity holders	7,012	6,752	3.9%	6,151	14.0%	13,764	12,057	14.2%
Loan Book	762,096	753,730	1.1%	741,715	2.7%	762,096	741,715	2.7%
Deposits	688,359	678,734	1.4%	664,687	3.6%	688,359	664,687	3.6%
Total Equity (Excl tier 1 bond)	120,823	120,900	-0.1%	105,105	15.0%	120,823	105,105	15.0%
Cost to Income ratio	22.0%	23.3%		22.3%		22.7%	22.5%	
NPL Ratio	0.74%	0.77%		0.74%		0.74%	0.74%	
Net Loan to deposits	110.7%	111.0%		111.6%		110.7%	111.6%	

Income Statement (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e
Net income from loans and investment	21,269	24,843	29,846	33,330	36,093	37,542	39,482
Net fee income	4,226	4,693	5,869	7,010	7,313	9,288	9,459
Other income	2,037	2,520	3,379	3,421	3,636	3,871	4,134
Total income	**27,531**	**32,055**	**39,094**	**43,761**	**47,042**	**50,700**	**53,075**
Operating expenses	-7,498	-7,971	-9,127	-9,774	-10,670	-11,206	-11,699
Profit before impairments	**20,033**	**24,085**	**29,967**	**33,986**	**36,372**	**39,494**	**41,376**
Impairments	-1,504	-2,117	-2,320	-2,867	-3,228	-3,508	-3,590
Profit before tax	**18,529**	**21,968**	**27,646**	**31,119**	**33,144**	**35,987**	**37,786**
Tax	-1,908	-2,237	-2,822	-3,174	-3,381	-3,671	-3,854
Profit after tax	**16,621**	**19,731**	**24,825**	**27,945**	**29,764**	**32,316**	**33,931**

Balance Sheet (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e
Cash and statutory deposits	41,768	53,245	54,005	70,048	71,729	68,184	75,587
Due to financial institutions	9,507	19,530	26,941	27,999	28,975	30,012	30,807
Investments - Net	133,376	175,034	174,305	181,155	187,467	194,179	199,321
Financing - Net	594,205	693,410	752,760	780,936	806,566	833,860	854,119
PP&E and right to use assets	12,853	15,275	15,740	13,320	11,273	9,540	8,073
Other assets	16,391	15,952	19,518	21,008	20,802	21,630	21,834
Total Assets	**808,098**	**972,444**	**1,043,268**	**1,094,467**	**1,126,812**	**1,157,405**	**1,189,742**
Liabilities and Equity							
Liabilities							
Due to banks and other FI	97,247	117,677	117,284	120,941	123,736	135,116	137,464
Customer deposits	573,101	654,989	667,288	695,562	708,624	707,560	717,752
Other liabilities	30,991	76,639	115,785	119,042	118,478	120,239	120,596
Total liabilities	**701,339**	**849,305**	**900,356**	**935,545**	**950,838**	**962,915**	**975,813**
Equity							
Share capital	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Reserves	50,259	59,479	74,854	90,827	107,840	126,312	145,708
Total shareholders' equity	**90,259**	**99,479**	**114,854**	**130,827**	**147,840**	**166,312**	**185,708**
Tier 1 Sukuk	16,500	23,554	27,908	27,908	27,908	27,908	27,908
Total Equity	**106,759**	**123,139**	**142,912**	**158,923**	**175,975**	**194,489**	**213,929**
Total liabilities and equity	**808,098**	**972,444**	**1,043,268**	**1,094,467**	**1,126,812**	**1,157,405**	**1,189,742**

Cash Flows (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e
Cash from operations	27,423	33,651	(22,373)	26,300	12,860	8,616	20,677
Cash from investments	(34,300)	(41,743)	(1,564)	(170)	(170)	(170)	(170)
Cash from financing	(6,886)	19,756	36,302	(11,935)	(12,711)	(13,802)	(14,491)
Net changes in cash	(13,764)	11,665	12,365	14,195	(21)	(5,356)	6,016
Cash balance	**12,436**	**24,100**	**36,465**	**50,660**	**50,639**	**45,283**	**51,298**

Ratios	2023	2024	2025	2026e	2027e	2028e	2029e
Operating performance							
NIM	2.9%	2.9%	3.2%	3.5%	3.6%	3.7%	3.8%
NII to total income	77.3%	77.5%	76.3%	76.2%	76.7%	74.0%	74.4%
Fee income to total income	15.3%	14.6%	15.0%	16.0%	15.5%	18.3%	17.8%
Other income to total income	7.4%	7.9%	8.6%	7.8%	7.7%	7.6%	7.8%
Cost to income ratio	27.2%	24.9%	23.3%	22.3%	22.7%	22.1%	22.0%
Liquidity							
Deposits to total funding	73.4%	70.2%	66.2%	65.9%	65.1%	63.3%	62.5%
Market funds to total funding	15.1%	19.1%	22.3%	21.7%	21.3%	21.7%	21.3%
Loans to deposits	103.7%	105.9%	112.8%	112.3%	113.8%	117.8%	119.0%
Investments and cash to total assets	21.7%	23.5%	21.9%	23.0%	23.0%	22.7%	23.1%
Asset quality							
Cost of risk	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
NPL	0.7%	0.8%	0.7%	0.8%	0.9%	1.0%	1.1%
NPL coverage	203.0%	159.4%	152.5%	156.3%	160.9%	163.1%	167.4%
Stage 1 ratio	96.5%	96.9%	96.9%	96.9%	96.8%	96.8%	96.8%
Stage 2 ratio	2.3%	2.0%	2.1%	2.0%	1.9%	1.8%	1.7%
Stage 3 ratio	1.2%	1.1%	1.0%	1.1%	1.3%	1.4%	1.5%
Stage 1 coverage	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Stage 2 coverage	12.2%	12.0%	10.6%	10.6%	10.6%	10.7%	10.8%
Stage 3 coverage	60.4%	54.8%	55.5%	65.4%	75.1%	82.3%	90.0%
Impairment coverage	13.3	11.4	12.9	11.9	11.3	11.3	11.5
Provisions to gross loans	1.4%	1.2%	1.1%	1.3%	1.5%	1.7%	1.9%
Capital adequacy							
Equity to total assets	11.2%	10.2%	11.0%	12.0%	13.1%	14.4%	15.6%
Tier 1	20.4%	19.3%	20.5%	21.8%	23.5%	25.3%	27.2%
Core Tier 1	17.2%	15.4%	16.3%	17.8%	19.7%	21.6%	23.6%
Total capital	21.5%	20.2%	21.9%	23.1%	24.8%	26.6%	28.4%
Return ratios							
ROA	2.1%	2.0%	2.4%	2.6%	2.6%	2.8%	2.9%
ROE	18.4%	19.8%	21.6%	21.4%	20.1%	19.4%	18.3%
Return on RWA	3.2%	3.2%	3.7%	4.0%	4.1%	4.3%	4.4%
Per share ratios							
EPS	4.2	4.9	6.2	4.7	5.0	5.4	5.7
BVPS	22.6	24.9	28.7	21.8	24.6	27.7	31.0
DPS	2.3	2.7	2.5	2.0	2.1	2.3	2.4
Valuation							
M.Cap (SAR mn)	348,000	378,400	390,000	384,600	384,600	384,600	384,600
P/E	20.9	19.2	15.7	13.8	12.9	11.9	11.3
P/BV	3.9	3.8	3.4	2.9	2.6	2.3	2.1
Div. yield	2.6%	2.9%	2.6%	3.1%	3.3%	3.6%	3.8%

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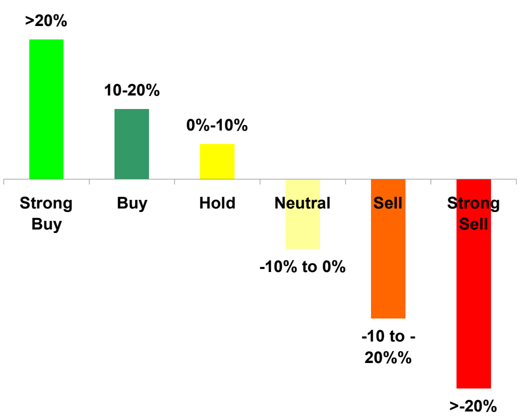
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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