

Riyad Bank (BUY, TP: SAR 24.7, 1010.SE) 1Q26 Results Review

Higher 2H26 loan growth and debt raised post 1Q25 to aid NSCI guidance; repricing and selective growth helps NIM Q/Q; opportunistic investments made in 1Q26

Riyad Bank (RIBL)'s net income in 1Q26 rose 5% Y/Y to SAR 2.61bn (1Q26 EPS: SAR 0.65). Total income was up 2% to SAR 4.61bn on higher NSCI and NII. Operating expenses, ex provisions, fell 1% Y/Y, leading to the reported cost-to-income ratio (CIR) easing 89bps to 29.7%. Impairments fell 24% to SAR 275mn. Deposits grew faster than loans, leading to a 453bps narrowing of headline LDR to 106.9%. Regulatory LDR fell 619bps to 79.5%. Balance sheet leveraging stood at 8.1x vs. 7.6x in 1Q25. Reported RoE and RoA stood at 16.0% (-46bps Y/Y) and 2.0% (-19bps Y/Y).

- NSCI was up 3% Y/Y at SAR 3.39bn in 1Q26, driven by a 15% increase in net financing income, partly offset by 107% Y/Y decline in net investment income. Sequentially, NSCI fell 1% as net investment income fell 113%, partly offset by a 5% increase in net financing income.
- Reported NIM fell 24bps Y/Y and 1bpt Q/Q to 2.85% in 1Q26. NIM was mainly impacted by yields declining 25bps Y/Y and 24bps Q/Q to 5.73%, while the fall in the CoF was more moderate at 1bpt Y/Y and 24bps Q/Q to 2.88%. However, the bank clarified that 1Q25 saw a comparatively higher margin growth. Costs of additional debt raised post 1Q25 will narrow the Y/Y gap in rest of 2026.
- NII rose 1% Y/Y but fell 2% Q/Q to SAR 1.23bn in 1Q26. Y/Y increase was led by higher investment related income, partly offset by a fall in fee and other operating income. Q/Q decline was led by lower fee income, partly offset by higher exchange, investment related, and other operating income.
- Consequently, total operating income was 2% higher Y/Y but down 1% Q/Q, in line with street estimates.
- Operating expenses, excluding provisions, fell 1% Y/Y but gained 1% Q/Q to SAR 1.37bn in 1Q26. Y/Y fall was led by lower premised, G&A, and other operating expenses, partly offset by higher employee and D&A costs. Q/Q rise was led by higher staff and D&A charges, partly offset by lower premises, G&A, and other operating expenses. Resultantly, the reported CIR eased 89bps Y/Y and 56bps Q/Q to 29.73%. The bank warned that the flat costs in 1Q26 should not be extrapolated quarterly, as ongoing investment in technology, rollout initiatives, and franchise build-out will continue, albeit under strict cost discipline. Staff costs, which have been rising modestly, is a part of the bank's strategic spends, which will continue in the future as well.
- Impairments fell 24% Y/Y and 25% Q/Q to SAR 275mn mainly due to lower impairment charge for credit losses and other financial assets, partially offset by an increase in impairment charge for investments. Reported CoR rose 5bps Y/Y but fell 1bpt Q/Q to 0.45%.
- Net income was up 5% Y/Y but down 1% Q/Q at SAR 2.61bn in 1Q26, beating analysts' consensus by 5.5%.
- NPL balances fell 18% Y/Y but rose 8% Q/Q to SAR 3.21bn. Calculated annualized NPL formation in 1Q26 stood at 0.47% of average gross loans vs 0.80% in FY25. NPL ratio came in at 0.84% vs. 0.79% in 4Q25, and 1.14% in 1Q25. The NPL coverage stood at 151.4% up 1.3ppts, both Y/Y and Q/Q.
- Assets were up 15% Y/Y (+3% Q/Q) to SAR 537.08bn, mainly attributed to the growth in financing (+11% Y/Y, +1% Q/Q) and investment (+25% Y/Y, +9% Q/Q) assets.

SAR mln	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Net income from Financing	3,406	3,245	2,963	5%	15%
Net income from Investments	-21	160	319	-113%	-107%
Net Interest Income	3,385	3,405	3,282	-1%	3%
Non-Interest Income	1,230	1,259	1,221	-2%	1%
Total Income	4,614	4,664	4,504	-1%	2%
Operating Expenses	1,372	1,361	1,379	1%	-1%
Total provisions	275	367	362	NM	NM
Income before Zakat	2,977	2,945	2,772	1%	7%
Net Income	2,614	2,641	2,486	-1%	5%
EPS	0.65	0.66	0.62	-1%	5%
Assets	537,083	519,481	466,455	3%	15%
Investments	86,842	79,513	69,722	9%	25%
Loans & Advances	377,047	373,305	338,991	1%	11%
Deposits	352,567	331,721	304,092	6%	16%
Shareholders' Equity	66,348	64,105	61,591	3%	8%
Reported RoCE (%)	16.0	16.8	16.5	-78 bps	-46 bps
Reported RoAA (%)	2.0	2.1	2.2	-08 bps	-19 bps
Simple LDR (%)	106.9	112.5	111.5	-559 bps	-453 bps
Assets to Equity (x)	8.1	8.1	7.6	0%	7%
Cost of Risk (%)	0.45	0.46	0.40	-1 bps	5 bps

Rating Summary and Forecasts

Rating Summary

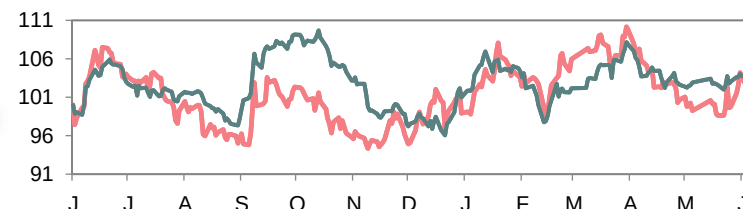
Rating	Buy
Market Price	21.0
12-month Target Price	24.7
Upside / Downside	18%
Mkt Cap (SAR mn)	83,800
52-week High/Low	22.42/18.98

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	10,411	11,133	11,769	12,727
PER (x)	8.0	7.5	7.1	6.6
PBV (x)	1.3	1.2	1.1	1.0
EPS (SAR)	2.60	2.78	2.94	3.18
DPS (SAR)	1.05	1.45	1.55	1.65
RoE (%)	16.9	15.7	15.7	16.0
Dividend Yield (%)	5.0	6.9	7.4	7.9

Price Chart

● RIBL ● TASI



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- Estimated interest-earning assets (IEA) rose 15% Y/Y and 5% Q/Q at SAR 501.48bn, accounting for 93.4% of assets in 1Q26, down 31bps Y/Y but up 104bps Q/Q. Balance sheet leveraging was 8.1x in 1Q26 stable vs. 4Q25 and up from 7.6x in 1Q25.
- 1% YTD growth in loans to SAR 377.05bn was driven by 2% increase in commercial lending, partly offset by 1% lower retail lending. The loan book composition is dominated by commercial loans, constituting 74% and retail at 26%. Within commercial loans, corporates made up 66% and MSME made up the balance 34%. Of the SAR 98bn retail book, SAR 67bn was mortgage and SAR 31bn was other retail.
- Deposits growth of 6% YTD was led by 14% in NIBs, partly offset by 1% lower IBs. NIB share came in at 50.6% vs. 47.2% in 4Q25 and 53.2% in 1Q25. However, the bank explained that a significant portion of the SAR 22bn in NIBs added were transitory deposits received in the final two days of the quarter, implying some normalization after quarter-end.
- Regulatory LDR was at 79.5, down 6.2ppts Y/Y and 2.3ppts Q/Q. LCR and NSFR came in at 145.4% and 113.4%, comfortably above the 100% minimum.

Investment thesis

- *RIBL's 1Q26 results came in line with our estimates despite softer-than-anticipated NSCI, supported by strong investment income gains that enabled fee and other income to register modest 1% Y/Y growth. Regulatory changes to banking fees, effective from the first week of February, materially impacted core fee income, which contracted 12% Y/Y. While we anticipate a sequential recovery from here, we forecast an 11% decline in fees for FY26, leaving total non-interest income marginally lower on a full-year basis, before reverting to high single-digit growth in non-yield income. Management attributed NIM compression (-24bps Y/Y) to elevated margins in 1Q25. The pace of decline is expected to moderate as the cost impact of post-1Q25 debt issuance is absorbed. Management also highlighted upside risks to NIM from corporate loan repricing and deployment of maturing loans into higher-yielding segments like MSMEs. Capitalizing on market volatility, RIBL opportunistically deployed SAR 10.7bn into non-trading investments in 1Q26 versus SAR 6.4bn in 1Q25, which will also provide incremental margin support. Combined with stronger anticipated loan growth in 2H26, the bank remains on track to meet its high single-digit NSCI growth guidance. On costs, management guided that 1Q26's flat performance was not indicative of the run-rate, with continued investment in technology and people, while reaffirming strict cost discipline. The optimization program has entered a more advanced phase, focusing on procurement, vendor contract renegotiation, and operating model efficiency. We expect this momentum to continue; RIBL is already amongst the top three cost-efficient banks in the KSA.*
- *Geopolitical conditions remain fluid, though sector-wide commentary indicates no discernible shifts in asset quality, customer behavior, or liquidity metrics under stress testing. While markets are currently pricing a swift resolution, the risk of escalation cannot be dismissed, and as the leading SME lender, RIBL carries relatively greater sensitivity to disruptions in trade routes. That said, a significant proportion of the SME book is Kafala-guaranteed, which underpins one of the sector's lowest MSME NPL ratios at 1.1%. Management has also meaningfully expanded the special assets and recoveries unit over the past two years, now one of the bank's larger and more sophisticated internal teams, reinforcing the recovery focus. The bank confirmed it is well-positioned to absorb the countercyclical buffer introduction in May, and we expect RIBL to revert to its normalized dividend payout ratio of ~ 52%.*

RIBL trades at 1.3x P/BV on shareholders' equity, against a five-year forward RoE (post-AT1 cost) of 16.0%. Corporate peers Alinma and ALBI, with comparable mid-teens forward RoE profiles, trade at 2.0x P/BV. While a portion of the premium reflects Sharia compliance, we believe RIBL's ~35% valuation discount is not warranted. An expected FY26 dividend yield of 6.9% provides meaningful downside protection. Maintain Buy.

Rating and Risks

We are BUY rated on RIBL and our 12-month price target is SAR 24.7. Upside risks include stronger than anticipated credit growth, recoveries from written off accounts, and expansion of operating leverage. Leading downside risk is geopolitical flareup, which has seen substantial easing. Operational risks include faster than anticipated rate hikes amounting to CASA dilution and slowdown in credit demand, material dip in system credit quality, high international costs, and slowdown in economic activity.

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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