

Al Rajhi Bank

Sector : Banking

- 1Q26 operating income increased 14% YoY, slightly exceeding our estimates by 2%, driven by strong NII growth (+18% YoY) and stable non-interest income.
- 1Q26 net income also grew 14% YoY, surpassing our estimates by 6%, supported by higher operating profits despite increased provisions, while taxes remained broadly stable YoY.
- Net loans and deposits grew 4% and 3% YoY, respectively. Management reiterated its guidance for low- to mid-single-digit loan growth in 2026.
- We maintain our BUY rating and target price of SAR 75/share following the earnings beat and reaffirmation of guidance.

ARB's 1Q26 operating income rose 14% YoY, supported by higher NII and resilient non-interest income. The 18% YoY increase in NII was driven by a 38bps expansion in NIM to 3.54%, despite moderate lending growth of 4% YoY. NIM expansion was supported by improvements of 21bps and 7bps in the retail and corporate segments, respectively. Management also upgraded its NIM guidance by 5bps at both ends of the range, reflecting the bank's larger fixed-rate loan book. Non-interest income remained broadly flat, as growth in core net fee and commission income (+17% YoY) and exchange income (+24% YoY) offset a 72% YoY decline in other operating income. Fee income growth was driven by management's cross-selling strategy and expansion into new retail and corporate segments. The decline in other income was primarily attributable to mark-to-market losses on the investment portfolio. Operating expenses increased 18% YoY, leading to a 64bps rise in the CI ratio to 23.3% in 1Q26. Management reiterated its guidance for a CI ratio below 23% for 2026.

Impairments increased 20% YoY in 1Q26 and remained flat QoQ, with the cost of risk stable at 0.8%. No additional provision overlays were recorded during the quarter, as there were changes to the assumptions underpinning the ECL model were neutral. The cost of risk remained healthy at 0.33% in 1Q26, and management maintained its 2026 guidance range of 0.30%-0.40%. Higher operating profits were partly offset by increased provisions; however, an improvement in the effective tax rate by 120bps to 9% supported 14% YoY growth in net income. The earnings beat was largely driven by the lower effective tax rate.

Net loans increased a moderate 4% YoY, while deposits rose 3% YoY. Sequentially, loan growth was largely flat at 0.1%, whereas deposits increased 2% QoQ. Loan growth was driven by a 7% YoY increase in corporate lending, while retail loans, which account for 67% of the loan book, declined 1% YoY. Deposit growth was supported by a 7% increase in demand deposits, partially offset by a 2% decline in time deposits. The NPL ratio edged up slightly to 0.77% from 0.74% a year earlier, while NPL coverage remained strong at 150%.

Valuation: ARB's operating performance exceeded our expectations at both the operating income and net income levels. Management reiterated its 2026 guidance across all key metrics while raising NIM guidance by 5bps. The bank also announced bonus shares, effective 20 April 2026. We maintain our BUY rating and target price of SAR 75/share. The stock currently trades at 14.3x 2026E P/E, 3.1x P/B, and offers a dividend yield of 3%.

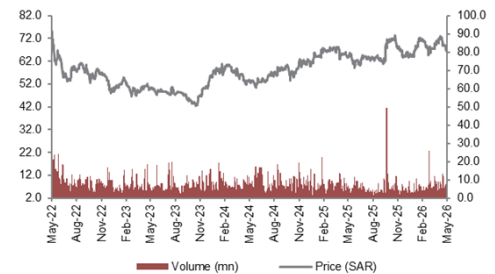
BUY

10 May 2026

Target price (SAR) **75.0**

Current price (SAR) **66.6**

Return **12.6%**



Exchange Saudi Arabia
Index weight (%) 14.4%

(mn)	SAR	USD
Market Cap	399,600	106,532
Total Assets	1,043,268	278,131

Major shareholders

Vanguard Group Inc/T	2.21%
Al Rajhi Abdullah Bi	2.18%
Blackrock Inc	1.74%
Others	93.87%

Valuation Summary (TTM)

Price (SAR)	66.60
PER TTM (x)	16.6
P/Book (x)	3.3
Dividend Yield (%)	2.5
Free Float (%)	94%
Shares O/S (mn)	6,000
YTD Return (%)	2%
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	-7%	-7%	4%
Tadawul All Share Index	-3%	-2%	-3%

52 week	High	Low	CTL*
Price (SAR)	75.33	58.53	13.8

* CTL is % change in CMP to 52wk low

in SAR mn	1Q26	4Q25	QoQ (%)	1Q25	YoY (%)	2025	2024	YoY (%)
Operating Income	10,528	10,409	1.1%	9,200	14.4%	39,094	32,055	22.0%
Operating Expenses	-2,457	-2,679	-8.3%	-2,088	17.7%	-9,127	-7,971	14.5%
Operating Profit	8,071	7,730	4.4%	7,112	13.5%	29,967	24,085	24.4%
Provision Expenses	-631	-626	0.8%	-525	20.2%	-2,320	-2,117	9.6%
Profit before tax	7,440	7,104	4.7%	6,587	13.0%	27,646	21,968	25.8%
Zakat & Tax	-677	-717	-5.5%	-677	0.0%	-2,822	-2,237	26.2%
Profit after tax	6,763	6,387	5.9%	5,910	14.4%	24,825	19,731	25.8%
Profit attributable to Equity holders	6,752	6,375	5.9%	5,906	14.3%	24,792	19,722	25.7%
Loan Book	753,730	752,760	0.1%	722,785	4.3%	752,760	693,410	8.6%
Deposits	678,734	667,288	1.7%	657,179	3.3%	667,288	654,989	1.9%
Total Equity (Excl tier 1 bond)	120,900	115,004	5.1%	105,141	15.0%	115,004	99,585	15.5%
Cost to Income ratio	23.3%	25.7%		22.7%		23.3%	24.9%	
NPL Ratio	0.77%	0.75%		0.74%		0.75%	0.76%	
Net Loan to deposits	111.0%	112.8%		110.0%		112.8%	105.9%	



Income Statement (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e
Net income from loans and investment	21,269	24,843	29,846	34,328	35,707	37,236	38,108
Net fee income	4,226	4,693	5,869	6,025	7,481	8,905	9,154
Other income	2,037	2,520	3,379	3,430	3,554	3,732	3,929
Total income	27,531	32,055	39,094	43,783	46,742	49,872	51,191
Operating expenses	-7,498	-7,971	-9,127	-9,893	-9,887	-10,823	-10,807
Profit before impairments	20,033	24,085	29,967	33,890	36,855	39,049	40,384
Impairments	-1,504	-2,117	-2,320	-2,801	-3,163	-3,343	-3,910
Profit before tax	18,529	21,968	27,646	31,089	33,691	35,706	36,474
Tax	-1,908	-2,237	-2,822	-3,171	-3,437	-3,642	-3,720
Profit after tax	16,621	19,731	24,825	27,918	30,255	32,064	32,754

Balance Sheet (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e
Cash and statutory deposits	41,768	53,245	54,005	67,895	68,292	63,875	68,303
Due to financial institutions	9,507	19,530	26,941	28,475	29,757	30,848	32,009
Investments - Net	133,376	175,034	174,305	184,229	192,529	199,584	207,095
Financing - Net	594,205	693,410	752,760	794,138	828,220	856,892	887,082
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	21,235	21,253	22,115	22,444
Total Assets	808,098	972,444	1,043,268	1,109,292	1,151,323	1,182,855	1,225,006
Liabilities and Equity							
Liabilities							
Due to banks and other FI	97,247	117,677	117,284	116,119	127,831	139,654	143,914
Customer deposits	573,101	654,989	667,288	714,714	727,759	727,257	745,747
Other liabilities	30,991	76,639	115,785	119,551	119,492	121,332	121,969
Total liabilities	701,339	849,305	900,356	950,384	975,082	988,244	1,011,630
Equity							
Share capital	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Reserves	50,259	59,479	74,854	90,812	108,106	126,433	145,156
Total shareholders' equity	90,259	99,479	114,854	130,812	148,106	166,433	185,156
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	158,907	176,241	194,611	213,376
Total liabilities and equity	808,098	972,444	1,043,268	1,109,292	1,151,323	1,182,855	1,225,006

Cash Flows (SAR mn)	2023	2024	2025	2026e	2027e	2028e	2029e
Cash from operations	27,423	33,651	(22,373)	23,305	11,249	7,544	16,560
Cash from investments	(34,300)	(41,743)	(1,564)	(170)	(170)	(170)	(170)
Cash from financing	(6,886)	19,756	36,302	(11,923)	(12,921)	(13,694)	(13,989)
Net changes in cash	(13,764)	11,665	12,365	11,212	(1,842)	(6,320)	2,401
Cash balance	12,436	24,100	36,465	47,677	45,835	39,516	41,917



Ratios	2023	2024	2025	2026e	2027e	2028e	2029e
Operating performance							
NIM	2.9%	2.9%	3.2%	3.5%	3.5%	3.5%	3.5%
NII to total income	77.3%	77.5%	76.3%	78.4%	76.4%	74.7%	74.4%
Fee income to total income	15.3%	14.6%	15.0%	13.8%	16.0%	17.9%	17.9%
Other income to total income	7.4%	7.9%	8.6%	7.8%	7.6%	7.5%	7.7%
Cost to income ratio	27.2%	24.9%	23.3%	22.6%	21.2%	21.7%	21.1%
Liquidity							
Deposits to total funding	73.4%	70.2%	66.2%	66.8%	65.5%	63.7%	63.0%
Market funds to total funding	15.1%	19.1%	22.3%	20.9%	21.2%	21.7%	21.3%
Loans to deposits	103.7%	105.9%	112.8%	111.1%	113.8%	117.8%	119.0%
Investments and cash to total assets	21.7%	23.5%	21.9%	22.7%	22.7%	22.3%	22.5%
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%	0.9%	1.0%	1.1%	1.2%
NPL coverage	203.0%	159.4%	152.5%	155.4%	159.5%	161.9%	166.0%
Stage 1 ratio	96.5%	96.9%	96.9%	96.8%	96.8%	96.8%	96.7%
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%	10.5%	10.6%	10.6%	10.7%
Stage 3 coverage	60.4%	54.8%	55.5%	65.3%	75.0%	82.3%	90.2%
Impairment coverage	13.3	11.4	12.9	12.1	11.7	11.7	10.3
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%	11.8%	12.9%	14.1%	15.1%
Tier 1	20.4%	19.3%	20.5%	21.5%	23.0%	24.8%	26.3%
Core Tier 1	17.2%	15.4%	16.3%	17.6%	19.3%	21.2%	22.8%
Total capital	21.5%	20.2%	21.9%	22.8%	24.3%	26.0%	27.5%
Return ratios							
ROA	2.1%	2.0%	2.4%	2.5%	2.6%	2.7%	2.7%
ROE	18.4%	19.8%	21.6%	21.3%	20.4%	19.3%	17.7%
Return on RWA	3.2%	3.2%	3.7%	3.9%	4.1%	4.2%	4.1%
Per share ratios							
EPS	4.2	4.9	6.2	4.7	5.0	5.3	5.5
BVPS	22.6	24.9	28.7	21.8	24.7	27.7	30.9
DPS	2.3	2.7	2.5	2.0	2.2	2.3	2.3
Valuation							
M.Cap (SAR mn)	348,000	378,400	390,000	399,600	399,600	399,600	399,600
P/E	20.9	19.2	15.7	14.3	13.2	12.5	12.2
P/BV	3.9	3.8	3.4	3.1	2.7	2.4	2.2
Div. yield	2.6%	2.9%	2.6%	3.0%	3.2%	3.4%	3.5%

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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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