

Bank Aljazira (HOLD, TP: SAR 13.0, 1020.SE) 2Q26 Results Review

BJAZ leads sector with 9% YTD loan and 24% CASA growth; SAR 1.46bn of AT1 sukuk in 1Q26 boosts numbers, however, post AT1 net income up just 1% Y/Y in 1H26

Bank Aljazira (BJAZ)'s net income in 2Q26 rose 16% Y/Y to SAR 443mn (2Q26 EPS: SAR 0.35). Total income was up 10% at SAR 1.22bn led by higher NSCI and non-interest income. Operating expenses, ex provisions, rose 8% Y/Y, leading to the reported cost-to-income ratio (CIR) easing 125bps to 50.85%. Meanwhile, provisions came in flat. Loans grew faster than deposits, leading to a 29bps widening of headline LDR to 91.1%. Balance sheet leveraging stood at 7.7x vs. 8.2x in 2Q25. Reported RoAE fell 33bps to 7.63%, while RoAA rose 2bps to 1.00%.

- NSCI was up 11% Y/Y and 3% Q/Q to SAR 842mn driven by the 163% Y/Y and 72% Q/Q growth in net investment income, partly offset by the decline of 13%, both Y/Y and Q/Q in net financing income.
- Reported NIM narrowed 12bps Y/Y and 8bps Q/Q to 2.02% in 2Q26.
- NII increased by 10% Y/Y and 12% Q/Q to SAR 374mn in 2Q26. The Y/Y growth was led by higher gains on FVIS financial instruments, dividend income, and absence of loss on derecognition of non-trading investments, partly offset by lower fee, exchange, and other operating income. The sequential rise was attributed to an increase in net gains on FVIS investments and dividend income, partly offset by lower fees income.
- Consequently, the total operating income rose 10% Y/Y and 6% Q/Q to SAR 1.22bn in the quarter, in line with estimates.
- Operating expenses, excluding provisions, increased 8% Y/Y and 2% Q/Q to SAR 618mn due to the increase in employee, D&A, and premise related expenses against lower G&A charge Y/Y, while the Q/Q growth came from higher G&A, employee, and premise related costs against lower other operating expenses. Consequently, the reported CIR, ex provisions, eased 125bps Y/Y and 190bps Q/Q to 50.85% in the quarter. 1H26 growth of 8% Y/Y, led by salaries, other G&A and D&A, reflected the bank's investment in the franchise.
- Provisions in 2Q26 were flat Y/Y but rose 30% Q/Q to SAR 97mn. The CoR increased 3bps Y/Y and 21bps Q/Q to 0.41%.
- Net income was up 16% Y/Y and 9% Q/Q to SAR 443mn in 2Q26. For 1H26, it increased 14% Y/Y to SAR 848mn, driven by revenue growth of 9% from NSCI (+10%) and non-interest-income (+6%) along with a 14% decline in impairments. This was partly offset by an 8% increase in operating expenses.
- NPL balances fell 31% Y/Y and 30% Q/Q to SAR 1.07bn. Calculated annualized NPL formation in 2Q26 stood at 0.32% of average gross loans vs 1.31% in 1Q26 and 0.81% in FY25. NPL ratio came in at 0.87% vs.1.32% in 1Q26, and 1.47% in 2Q25. The NPL coverage stood at 177.4% up 15.0pps Y/Y and 26.2pps Q/Q.
- Assets were up 15% Y/Y (+5% Q/Q) to SAR 181.18bn, mainly attributed to the growth in financing (+17% Y/Y, +6% Q/Q) and investment (+9% Y/Y, +2% Q/Q) assets.

SAR mln	2Q26	1Q26	2Q25	Q/Q %	Y/Y %
Net income from Financing	575	664	661	-13%	-13%
Net income from Investments	266	155	101	72%	163%
Net Interest Income	842	819	762	3%	11%
Non-Interest Income	374	334	340	12%	10%
Total Income	1,216	1,152	1,102	6%	10%
Operating Expenses	618	608	574	2%	8%
Total provisions	97	74	97	30%	0%
Income before Zakat	503	472	436	7%	15%
Net Income	443	405	382	9%	16%
EPS	0.35	0.32	0.30	9%	16%
Assets	181,184	173,114	157,785	5%	15%
Investments	40,964	40,232	37,594	2%	9%
Loans & Advances	120,962	114,266	103,702	6%	17%
Deposits	132,738	123,958	114,155	7%	16%
Shareholders' Equity	23,400	23,004	19,304	2%	21%
Reported RoAE (%)	7.63	7.24	7.96	39 bps	-33 bps
Reported RoAA (%)	1.00	0.96	0.98	04 bps	02 bps
Simple LDR (%)	91.1	92.2	90.8	-105 bps	29 bps
Assets to Equity (x)	7.7	7.5	8.2	3%	-5%
Cost of Risk (%)	0.41	0.20	0.38	21 bps	3 bps

Rating Summary and Forecasts

Rating Summary

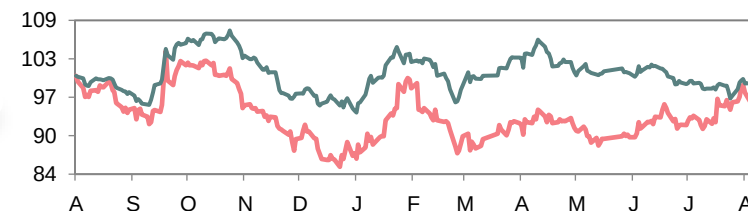
Rating	Hold
Market Price	12.3
12-month Target Price	13.0
Upside / Downside	6%
Mkt Cap (SAR mn)	15,721
52-week High/Low	13.31/10.81

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	1,506	1,650	1,802	1,907
PER (x)	10.4	9.5	8.7	8.2
PBV (x)	1.0	1.0	0.9	0.9
EPS (SAR)	1.18	1.29	1.41	1.49
DPS (SAR)	0.50	0.50	0.55	0.60
RoAE (%)	8.9	8.2	9.0	9.4
Dividend Yield (%)	4.1	4.1	4.5	4.9

Price Chart

● BJAZ ● TASI



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- Estimated interest-earning assets (IEA) rose 13% Y/Y and 5% Q/Q to SAR 167.24bn, accounting for 92.3% of assets in 2Q26, down 165bps Y/Y but up 9bps Q/Q. Balance sheet leveraging was 7.7x in 2Q26 vs. 7.5x in 1Q26 and 8.2x in 2Q25.
- Gross financing growth of 9% YTD to SAR 121.0bn was driven by 11% increase in commercial and 6% in consumer. Q/Q, it was up 6%. Consumer financing increased 7% YTD to SAR 42.2bn in 2Q26, driven by growth in residential financing (+5%), personal financing (+8%), and auto financing (+11%), and credit cards (+1%). Commercial financing increased 10% YTD (+SAR 7.6bn) to SAR 74.3bn in 2Q26, driven by growth in corporate (+13%), MSMEs (+3%), banks & others (+1%). Commercial financing accounted for 65.4% of net financing in 2Q26, including large corporates (41%), mid corporates (18%), and MSMEs (6%), while consumer financing represented 34.6%, including residential financing (20%), personal financing (10%), and other consumer financing (3%).
- Deposits rose 7% Q/Q and 15% YTD to SAR 132.7bn. YTD growth was driven by growth in savings & call deposits of 82%, time deposits of 9%, while demand deposits were flat. CASA share spiked to 44.6% vs. 41.3% in 1Q26 and 41.6% in 2Q25. Demand deposit ratio came in at 26%. Corporate deposits made up 65% of total deposits and retail made up 35%.
- Regulatory LDR was well within required levels at 76.0%, down 225bps Y/Y and 46bps Q/Q. LCR and NSFR came in at 196% and 114%, comfortably above the 100% minimum.

Investment thesis

- *BJAZ in 2Q26 delivered the strongest asset growth in the sector, registering an impressive 9% YTD increase in loans in 1H26. More encouragingly, CASA deposits grew 24% YTD, which the bank clarified were not transitory. This volume growth enabled the bank to post double-digit NSCI growth this quarter, making it the only bank after RJHI and SNB to achieve this. NIM resilience was another factor contributing to the performance. The entire sector experienced varying degrees of NIM compression, as floating loans adjusted to lower SAIBOR during the quarter, while CoF did not compensate due to liquidity premium. BIAZ stated that margins were expected to be higher in 2H26. Strong CASA growth in 1H26, coupled with selective growth, should support this. BIAZ delivered one of the highest net income growth rates in the sector, driven by revenue growth and positive jaws. However, we note that NSCI received significant support from the AT1 Sukuk of SAR 1.46bn raised in 1Q26, the cost of which appears only on the retained earnings line. If we were to analyze post-AT1 net income for 1H26, net income growth would have come in at 1.4% Y/Y (+14.1% reported), due to the SAR 95.5mn of additional AT1 cost in 1H26. This means that while NIM is painting a positive picture by appearing resilient, the real story is reflected in ROAE post-AT1 payment, which, by our calculations, fell by ~50bps Y/Y in 1H26.*
- *The bank is improving its cost efficiency by targeting revenue growth, with a particular focus on non-yield income through cross-selling. However, the pace of improvement has slowed significantly over the last year.*

BJAZ trades with a 1.0x PBV (on shareholders equity) with a 3-year forward RoAE (post-AT1 cost) of 9.4%. The stock trades at a 12% discount to its 2-year average of 1.2x. This discount is likely to persist despite the strong growth exhibited in 2Q26 until the overall sector liquidity outlook improves. Against the sector, BIAZ trades at a warranted 30% discount to the sector average of 1.5x given its relatively poor RoAE. Maintain Hold.

Rating and Risks

We are HOLD rated on BIAZ and our 12-month price target is SAR 13.0. Upside risks include material pick up in credit demand, robust recoveries, easing of liquidity, and growth in CASA share. Aside from geopolitics, operational risks include worsening deposit mix, material dip in system credit quality, 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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