

Al Rajhi Bank (RJHI)

Strong lending growth and diversified income supported profitability

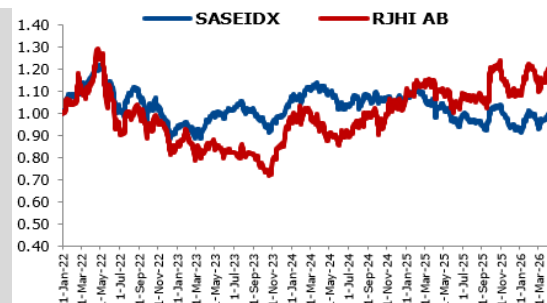
Current Price
SAR 68.55

Target Price
SAR 78.00

Upside/Downside (%)
+13.8%

Rating
ACCUMULATE

- Net advances grew 4.3% YOY and 0.1% QOQ to SAR 753.7 Bn in 1Q26, driven by balanced expansion across retail and non-retail segments.
- The Bank's Board recommended a cash dividend of SAR 7.0 Bn for 2H25, translating into a dividend of SAR 1.75 per share.
- ALRAJHI's asset quality remained robust, with an NPL ratio of 0.77% and a strong provision coverage ratio of 150.3% in 1Q26.
- The Bank completed a capital increase of SAR 20.0 Bn through the capitalization of retained earnings, executed via the issuance of one bonus share for every two shares held.



Stock Information

Market Cap (SAR, Mn)	411,000.00
Paid Up Capital (Mn)	60,000.00
52 Week High	75.33
52 Week Low	58.53
3M Avg. daily value(SAR)	412,322,000

1Q26 Net Profit in line with our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit attributable to equity shareholders grew 14.3% YOY to SAR 6,752 Mn in 1Q26, in line with our estimate of SAR 6,834 Mn. The growth is primarily driven to double-digit growth in net funded income and rise in non-funded income, partially offset by an increase in total operating expenses, higher impairments and higher share of profit to NCI holders.

1Q26 Result Review (SAR, Mn)

Total Assets	1,051,268
Total Loans	753,730
Total Equity	152,644
Total Deposits	678,734
Net Profit	6,752

P&L Highlights

ALRAJHI's funded income grew 10.1% YOY to SAR 14,507 Mn in 1Q26, driven by an increase in the loan book. On the other hand, funded expenses increased marginally 0.5% YOY to SAR 6,102 Mn in 1Q26. Thus, ALRAJHI's net funded income grew 18.4% YOY to SAR 8,405 Mn in 1Q26. The Bank's total non-funded income grew 1.0% YOY to SAR 2,124 Mn in 1Q26. As a result, ALRAJHI's total operating income expanded 14.4% YOY to SAR 10,528 Mn in 1Q26, supported by an 18.4% increase in net yield income, driven by margin expansion and solid growth in the financing portfolio. The Bank's total operating expenses before credit impairment charges increased 17.7% YOY to SAR 2,457 Mn in 1Q26, mainly due to an increase in general and administrative expenses and salaries and employees related benefits, partially offset by a decrease in depreciation expense. Thus, the Bank's calculated cost-to-income ratio improved 64 bps YOY and declined 241 bps QOQ to 23.3% in 1Q26. Additionally, impairment charges increased 20.2% YOY to SAR 631 Mn in 1Q26. Zakat remained stable at SAR 677 Mn in 1Q26, while non-controlling interest stood at SAR 11 Mn in 1Q26 compared to SAR 4 Mn in 1Q25.

Financial Ratios

Dividend Yield (12m)	2.42
Dividend Pay-out (%)	37.75
Price-Earnings Ratio(x)	17.03
Price-to-Book Ratio (x)	3.58
Book Value (SAR)	19.14
Return-on Equity (%)	21.85

Stock Performance

5 Days	-5.91%
1 Months	1.53%
3 Months	-2.97%
6 Months	-4.86%
1 Year	5.49%
Month to Date (MTD%)	-3.61%
Quarter to Date (QTD%)	-3.61%
Year to Date (YTD%)	5.38%

Balance Sheet Highlights

ALRAJHI's total assets increased 3.0% YOY and 0.8% QOQ to SAR 1,051.3 Bn in 1Q26, driven by growth in overall financing. Net investments declined 2.6% YOY and 0.7% QOQ to SAR 174.3 Bn in 1Q26. The Bank's loans and advances portfolio rose 4.3% YOY and marginally 0.1% QOQ to SAR 753.7 Bn in 1Q26. Similarly, customer deposits increased 7.9% YOY and 1.7% QOQ to SAR 678.7 Bn in 1Q26. The Bank's total equity grew 13.8% YOY and 6.8% QOQ to SAR 152.6 Bn in 1Q26.

Target Price and Rating

We revised our rating to ACCUMULATE on ALRAJHI with a revised target price of SAR 78.00. ALRAJHI delivered a strong earnings performance in 1Q26, supported by rise in both funded and non-funded income. The Bank's "Harmonize the Group" strategy continued to positively support operations, reflected in a double-digit increase in funded income during 1Q26. Additionally, ALRAJHI's net advances grew 4.3% YOY to SAR 753.7 Bn in 1Q26, driven by growth in the non-retail book, while retail financing declined slightly. Non-retail lending growth was led by strong momentum in large corporate and SME portfolios, which grew 8.1% YOY and 47.7% YOY, respectively, in 1Q26. While retail financing declined slightly by 1.0% YOY in 1Q26. The Bank's customer deposits grew 3.3% YOY and 1.7% QOQ to SAR 678.7 Bn in 1Q26. However, the Bank maintained a stable funding profile, with CASA deposits accounting for 67.8% of total deposits as of 1Q26. ALRAJHI's asset quality remained robust, with an NPL ratio of 0.77% and a strong provision coverage ratio of 150.3% in 1Q26, providing a solid buffer against potential credit losses. Moreover, the Bank's liquidity coverage ratio improved from 148.6% in 1Q25 to 162.3% in 1Q26, indicating a strengthened liquidity position. ALRAJHI's capitalization remained healthy with a TIER 1 capital ratio of 21.6% and a total CAR of 23.0% during 1Q26. The Bank also recorded strong shareholder returns, with a reported ROA and ROE of 2.6% and 22.9%, respectively, during 1Q26. The Bank's Board recommended a cash dividend of SAR 7.0 Bn for 2H25, translating into a dividend of SAR 1.75 per share. In addition, the Bank completed a capital increase of SAR 20.0 Bn through the capitalization of retained earnings, executed via the issuance of bonus shares at a ratio of 1 share for every 2 shares held. Thus, based on our analysis, we revised our rating to an ACCUMULATE on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	29.05	16.84	27.11	22.93	18.30	16.15
PB	6.37	5.44	4.75	4.56	4.51	3.41
BVPS	11.214	13.121	15.043	15.646	15.838	20.922
EPS	2.458	4.240	2.633	3.114	3.902	4.420
DPS (Pre Bonus shares)	0.875	1.250	2.300	2.710	2.500	3.050
DPS (Post Bonus shares)	0.583	0.833	1.533	1.807	1.667	2.033
Dividend yield (Post Bonus shares)	0.8%	1.2%	2.1%	2.5%	2.3%	2.8%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	1Q25	4Q25	1Q26	1Q26F	Var.	YOY Ch	QOQ Ch	2025	2026F	Change
Funded Income	13,171	14,752	14,507	15,062	-3.7%	10.1%	-1.7%	55,850	61,052	9.3%
Funded Expenses	-6,074	-6,602	-6,102	-6,698	-8.9%	0.5%	-7.6%	-26,004	-26,816	3.1%
Net Funded Income	7,097	8,150	8,405	8,364	0.5%	18.4%	3.1%	29,846	34,237	14.7%
Total non-funded Income	2,103	2,260	2,124	2,317	-8.3%	1.0%	-6.0%	9,248	9,850	6.5%
Net Operating Income	9,200	10,409	10,528	10,681	-1.4%	14.4%	1.1%	39,094	44,087	12.8%
Total operating expenses	-2,088	-2,680	-2,457	-2,426	1.3%	17.7%	-8.3%	-9,127	-9,947	9.0%
Profit before provisions	7,112	7,730	8,071	8,256	-2.2%	13.5%	4.4%	29,967	34,140	13.9%
Impairment charge	-525	-626	-631	-631	-0.1%	20.2%	0.8%	-2,320	-2,745	18.3%
Total Op Exp after imp	-2,613	-3,306	-3,088	-3,057	1.0%	18.2%	-6.6%	-11,447	-12,692	10.9%
Net income before zakat	6,587	7,104	7,440	7,624	-2.4%	12.9%	4.7%	27,646	31,395	13.6%
Zakat	-677	-717	-677	-785	-13.8%	NM	-5.5%	-2,822	-3,234	14.6%
Non-controlling interest	-4	-13	-11	-5	NM	NM	-12.9%	-33	-28	-14.0%
Net profit for the year	5,906	6,375	6,752	6,834	-1.2%	14.3%	5.9%	24,792	28,134	13.5%

FABS estimate & Co Data

Al Rajhi Bank – KPI

	1Q25	4Q25	1Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	77.1%	78.3%	79.8%	269	154	76.3%	77.7%	131
Cost to income - (calculated)	22.7%	25.7%	23.3%	64	-241	23.3%	22.6%	-78
Impairment/PPP	-7.4%	-8.1%	-7.8%	-44	28	-7.7%	-8.0%	-30
NP/OI	64.2%	61.2%	64.1%	-6	289	63.4%	63.8%	40
Cost of risk - (reported)	0.29%	0.33%	0.33%	4	0	0.31%	0.35%	4
Loan-to-deposit - (calculated)	114.9%	112.8%	111.0%	-382	-176	112.8%	114.0%	119
NPL - (reported)	0.7%	0.8%	0.8%	3	2	0.75%	0.80%	5
Coverage - (reported)	152.7%	152.5%	150.3%	-240	-220	152.5%	150.0%	-250
Tier 1	19.8%	20.5%	21.6%	180	110	20.5%	21.0%	56
Capital adequacy	20.6%	21.9%	23.0%	240	110	21.9%	22.3%	48
ROAA	2.3%	2.5%	2.5%	17	-1	2.5%	2.6%	16
ROAE	20.7%	21.8%	21.4%	65	-49	21.8%	22.2%	39

FABS estimate & Co Data

Al Rajhi Bank - Key B/S items

SAR Mn	1Q25	2Q25	3Q25	4Q25	1Q26	Change
Net advances	722,785	741,715	755,985	752,760	753,730	4.3%
QOQ change	4.2%	2.6%	1.9%	-0.4%	0.1%	
Total assets	1,020,631	1,038,988	1,059,240	1,043,268	1,051,268	3.0%
QOQ change	5.0%	1.8%	1.9%	-1.5%	0.8%	
Customer deposits	657,179	641,987	693,905	667,288	678,734	3.3%
QOQ change	0.3%	-2.3%	8.1%	-3.8%	1.7%	
Total equity	134,084	134,049	137,515	142,912	152,644	13.8%
QOQ change	9.0%	0.0%	2.6%	3.9%	6.8%	

FABS estimate & Co Data

Valuation:

We use the Residual Income and Relative Valuation (RV) method to value Al Rajhi. We have assigned 70% weight to Residual Income, and 30% to the RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	81.11	70%	56.78
Relative Valuation (RV)	70.74	30%	21.22
Weighted Average Valuation (SAR)			78.00
Current market price (SAR)			68.55
Upside/Downside (%)			+13.8%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using the 10-year government bond yield of 5.5%, the beta of 0.88 and the equity risk premium of 4.1%. The government bond yield is calculated by adding the KSA 10-year CDS spread to the 10-year US risk-free rate. Also, assumed a terminal growth rate of 3.0%.

Sum of PV (SAR, Mn)	77,257
Terminal value (SAR, Mn)	284,789
Book Value of Equity (as of Dec 2025)	124,599
FV to Common shareholders (SAR, Mn)	486,645
No. of shares (Mn)	6,000
Current Market Price (SAR)	68.55
Fair Value per share (SAR)	81.11

Residual Income Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	26,519	30,237	33,227	36,585	40,539
(-) Equity Charge	-10,366	-11,166	-12,423	-13,847	-15,424
Excess Equity	16,153	19,072	20,803	22,738	25,115
Discounting Factor	0.94	0.86	0.79	0.72	0.66
Present Value of Excess Equity	11,354¹	16,395	16,403	16,444	16,660

¹Adjusted for partial year

2) Relative Valuation:

We have used local as well as international peers to value Al Rajhi, and it is valued using the P/B multiple. We have applied a premium as ALRAJHI trades at a premium to its peers and is valued at a 2026 P/B multiple of 1.6x. The premium in valuation stems from a high composition of retail loan book, and it generates superior return on assets as compared to its peers.

Bank	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2026F	2027F	2026F	2027F	2026F	2027F
Riyad Bank	23,457	1.3	1.2	8.7	8.1	4.8	5.6
Alinma Bank	19,851	1.8	1.7	11.8	10.8	3.2	3.6
Abu Dhabi Islamic Bank	22,346	2.8	2.5	12.0	10.8	4.4	4.8
Arab National Bank	11,730	1.0	0.9	9.3	8.7	5.6	5.9
Bank Albilad	10,792	1.6	1.7	12.8	11.7	3.8	3.6
Average		1.7x	1.6x	10.9x	10.0x	4.4%	4.7%
Median		1.6x	1.7x	11.8x	10.8x	4.4%	4.8%
Max		1.8x	1.7x	12.0x	10.8x	4.8%	5.6%
Min		1.3x	1.2x	9.3x	8.7x	3.8%	3.6%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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