Earnings Call Insight | 3Q26

Saudi Equity Research | Sector: Banking | Market: Tadawul

Al Rajhi Bank (RJHI)

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 59.75	SAR 78.00	+31%	BUY

3Q26 Net Profit in line with our estimate

- Al Rajhi Bank (RJHI/the Bank) reported an 11.7% YOY increase in net profit to SAR 7,106 Mn in 3Q26, supported by double-digit growth in net funded income partially offset by a decline in non-funded income, higher operating expenses, impairment charges, share of profit to NCI holders and zakat expenses.
- Net funded income increased 18.1% YOY to SAR 8,613 Mn, supported by a 5.5% YOY increase in funded income to SAR 15,062 Mn and a 7.7% YOY decline in funded expenses to SAR 6,449 Mn in 3Q26.
- Non-funded income declined 3.3% YOY to SAR 2,502 Mn in 3Q26, due to a decline in other operating income and exchange income, partially offset by an increase in fees from banking services.
- Operating expenses before credit impairment charges increased 6.3% YOY to SAR 2,357 Mn in 3Q26, due to an increase in general and administrative expenses and salaries and employees related benefits, partially offset by a decrease in depreciation expense.
- The cost-to-income ratio declined 122 bps YOY and 79 bps QOQ to 21.2% in 3Q26.
- Pre-provision profit increased 14.3% YOY to SAR 8,758 Mn in 3Q26.
- Impairment charges increased from SAR 570 Mn in 3Q25 to SAR 852 Mn in 3Q26. Cost of risk rose 14 bps YOY to 0.44% in 3Q26.
- The Bank's loans and advances portfolio rose 2.5% YOY and 1.7% QOQ to SAR 774.9 Bn in 3Q26, supported by growth in the non-retail book, where large corporate and SME increased 3.9% and 32.2% YOY, respectively.
- Customer deposits increased marginally 0.9% YOY and 1.7% QOQ to SAR 700.3 Bn in 3Q26.
- Loan-to-deposit ratio rose 170 bps YOY to 110.7% in 3Q26, as financing growth outpaced deposit growth, while it eased 6 bps QOQ as deposit growth slightly outpaced financing growth during the quarter.
- Al Rajhi's total assets increased 1.8% YOY and 2.0% QOQ to SAR 1,075.6 Bn in 3Q26, driven by growth in overall financing.

Earnings Call Summary

- The Bank noted that the Fed's September hike and its base case of one further hike this quarter could weigh on margins. The Bank said its margin sensitivity has fallen to c. 6 bps per 25 bps rate move from c. 7 bps earlier in the year, supported by mortgage securitization, a greater focus on floating-rate lending and hedges.
- Management expects some sequential NIMs pressure in 4Q26, although it continues to target 30–40 bps NIM expansion for FY26. Asset repricing has already contributed around 25 bps to gross yield, while the Bank continues to optimize funding costs.
- Funding market conditions have started to normalize, with the average spread declining from a peak of around 180 bps to c. 130 bps at the time of the call, versus 107 bps average in 3Q26. Management expects the spread to remain broadly stable around current levels, subject to market conditions.
- Mortgage origination averaged c. SAR 5.6 Bn per month, down YOY, with the Bank attributing the slowdown partly to changes in white land taxes earlier this year. Management noted that 4Q26 is typically seasonally stronger, supported by the Cityscape property conference, and confirmed that it was not aware of any changes to the event. The Bank views the recent moderation as temporary and remains positive on the medium- to long-term mortgage growth outlook.
- Management remains comfortable with current Stage 2 trends, with Stage 2 exposure at 2.4%, attributing the increase to migration from lower-risk categories and highlighting ongoing investments in credit monitoring and recovery.

- CASA remains a strategic funding priority, although the ratio declined from 64% in 2Q26 to c.61% in 3Q26 following temporary deposit movements. Management noted early signs of deposit recovery in 4Q26 and remains comfortable with current levels.
- The Bank acknowledged that higher interest rates could lead to some corporate loan repayments but does not consider this a material concern, noting that its corporate portfolio grew by c. SAR 24 Bn in 2022 and c. SAR 40 Bn in 2023 despite the rate-hiking cycle. Management also reiterated its preference for SAR-denominated lending, as the majority of customer time deposits are held in SAR.
- Al Rajhi reiterated that securitization is not undertaken due to capital or liquidity constraints, given its comfortable ratios, but is used to optimize its funding profile. The Bank will consider further transactions when the economics are attractive, with the benefit assessed based on the spread between new mortgage origination rates and the rate on the securitized portfolio.
- The Bank attributed the SAR 815 Mn YOY increase in 9M26 gross impairment charges to a forward-looking provisioning approach, management overlays reflecting the current environment, and ECL model updates for recent macroeconomic changes.
- Management does not expect current geopolitical tensions to weigh on 4Q26 fee income and suggested the effect could be positive as more consumer spending stays local, supporting acquiring profitability.
- Al Rajhi reaffirmed its 2026 guidance, unchanged from 2Q26. It expects low single-digit financing growth, net profit margin expansion of 30-40 bps, a cost-to-income ratio below 23%, ROE above 23.5%, cost of risk of 35-45 bps and a Tier 1 ratio above 21%.

Al Rajhi Bank - P&L

SAR Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch
Funded Income	14,280	14,484	15,062	14,509	3.8%	5.5%	4.0%
Funded Expenses	-6,987	-6,177	-6,449	-6,253	3.1%	-7.7%	4.4%
Net Funded Income	**7,294**	**8,307**	**8,613**	**8,256**	**4.3%**	**18.1%**	**3.7%**
Total non-funded Income	2,588	2,578	2,502	2,660	-5.9%	-3.3%	-2.9%
Net Operating Income	**9,882**	**10,884**	**11,115**	**10,916**	**1.8%**	**12.5%**	**2.1%**
Total operating expenses	-2,216	-2,395	-2,357	-2,418	-2.5%	6.3%	-1.6%
Profit before provisions	**7,665**	**8,490**	**8,758**	**8,498**	**3.1%**	**14.3%**	**3.2%**
Impairment charge	-570	-881	-852	-677	25.8%	49.5%	-3.3%
Total Op Exp after imp	**-2,786**	**-3,276**	**-3,095**	**-3,095**	**0.0%**	**11.1%**	**-5.5%**
Net income before zakat	**7,096**	**7,609**	**7,906**	**7,821**	**1.1%**	**11.4%**	**3.9%**
Zakat	-729	-583	-791	-704	12.4%	8.5%	35.7%
Non-controlling interest	-6	-14	-9	-7	26.5%	49.1%	-33.7%
Net profit to shareholders	**6,360**	**7,012**	**7,106**	**7,110**	**-0.1%**	**11.7%**	**1.3%**

FABS estimate & Co Data

Management Guidance 2026:

		FY 2026 Guidance	9M 2026 Actual	Guidance Revision
Balance Sheet	Financing	Low to mid single digit	+2.9%	▬ Low single digit
Profitability	Net profit margin	+30 bps to +40 bps	+35 bps	▬ +30 bps to +40 bps
	Cost to income ratio	Below 23.0%	22.2%	▬ Below 23.0%
	ROE	Above 23.5%	23.3%	▬ Above 23.5%
Asset Quality	Cost of risk	0.30% - 0.40%	0.41%	▬ 0.35% - 0.45%
Capital	Tier 1 ratio	Above 21%	21.5%	▬ Above 21%

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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