

Al Rajhi Bank (RJHI)

Strong Net Funded Income Growth and Lending Expansion Supported Earnings

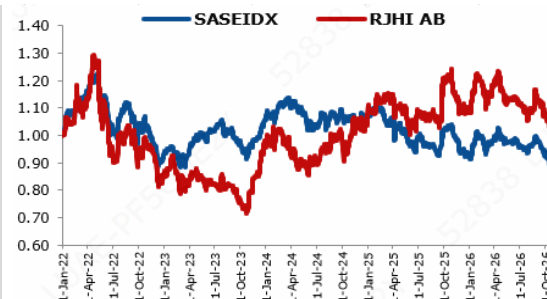
Current Price
SAR 59.80

Target Price
SAR 78.00

Upside/Downside (%)
+30%

Rating
BUY

- Net advances grew 2.5% YOY and 1.7% QOQ to SAR 774.9 Bn in 3Q26, driven by growth in the non-retail book.
- During 3Q26, the Bank completed several securitization transactions, including SAR 5.0 Bn of mortgage loans and SAR 1.9 Bn of consumer loans.
- The Bank maintained a stable funding profile, with CASA deposits accounting for 61% of total deposits as of 9M26.
- ALRAJHI's asset quality remained robust, with an NPL ratio of 0.76% and a strong provision coverage ratio of 152.1% in 3Q26.
- The Bank has approved a cash dividend of SAR 7.6 Bn for 1H26, translating into a dividend of SAR 1.26 per share after Zakat deduction.



3Q26 Net Profit in line with our estimates

Al Rajhi Bank's ("ALRAJHI", "The Bank") net profit attributable to equity shareholders grew 11.7% YOY to SAR 7,106 Mn in 3Q26, in line with our estimate of SAR 7,110 Mn. The growth is primarily driven by double-digit growth in net funded income partially offset by decrease in non-funded income coupled with an increase in total operating expenses, higher impairments, higher share of profit to NCI holders and zakat charges.

P&L Highlights

ALRAJHI's funded income grew 5.5% YOY to SAR 15,062 Mn in 3Q26. On the other hand, funded expenses decreased 7.7% YOY to SAR 6,449 Mn in 3Q26. Thus, ALRAJHI's net funded income grew 18.1% YOY to SAR 8,613 Mn in 3Q26. The Bank's total non-funded income decreased 3.3% YOY to SAR 2,502 Mn in 3Q26, due to an increase in gross financing and investment income, while there was a decrease in gross financing and investment return. As a result, ALRAJHI's total operating income expanded 12.5% YOY to SAR 11,115 Mn in 3Q26. The Bank's total 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. Thus, the Bank's calculated cost-to-income ratio declined 122 bps YOY and 79 bps QOQ to 21.2% in 3Q26. Additionally, impairment charges increased from SAR 570 Mn in 3Q25 to SAR 852 Mn in 3Q26, primarily driven by a 10.4% increase in gross impairment charges, coupled with 13.4% YOY decline in recoveries from written-off financing. Zakat charges increased 8.5% YOY to SAR 791 Mn in 3Q26, while share of profit to NCI holders increased from SAR 6 Mn in 3Q25 to SAR 9 Mn in 3Q26.

Stock Information

Market Cap (SAR, Mn)	360,000.00
Paid Up Capital (Mn)	60,000.00
52 Week High	73.40
52 Week Low	59.55
3M Avg. daily value(SAR)	411,026,000

3Q26 Result Review (SAR, Mn)

Total Assets	1,075,636
Net Loans	774,859
Total Equity	154,669
Total Deposits	700,277
Net Profit	7,106

Financial Ratios

Dividend Yield (12m)	4.04
Dividend Pay-out (%)	37.75
Price-Earnings Ratio(x)	13.76
Price-to-Book Ratio (x)	2.98
Book Value (SAR)	20.11
Return-on Equity (%)	22.14

Stock Performance

5 Days	-1.64%
1 Months	-6.90%
3 Months	-6.61%
6 Months	-14.59%
1 Year	-16.67%
Month to Date (MTD%)	-5.21%
Quarter to Date (QTD%)	-5.21%
Year to Date (YTD%)	-7.69%

Balance Sheet Highlights

ALRAJHI'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. Net investments declined marginally by 0.5% YOY and increased 1.6% QOQ to SAR 179.0 Bn in 3Q26. The Bank's net 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. Similarly, customer deposits increased marginally 0.9% YOY and 1.7% QOQ to SAR 700.3 Bn in 3Q26. The Bank's total equity grew 12.5% YOY and 1.4% QOQ to SAR 154.7 Bn in 3Q26.

Target Price and Rating

We maintain our rating to BUY on ALRAJHI with a target price of SAR 78.00. ALRAJHI delivered a strong earnings performance in 3Q26, supported by an increase in total operating income by 12.5% YOY caused by an increase in net financing and investment income and fees from banking services, partially offset by decrease in other operating income and exchange income, coupled with higher operating expenses, impairments, higher share of profit to NCI holders and zakat charges. Fee income grew 14.9% YOY in 9M26, supported by the continued implementation of the Bank's "Harmonize the Group" strategy and initiatives to strengthen fee generation across cards, payments, bancassurance, and brokerage businesses. Meanwhile, exchange income increased by 12.2% YOY in 9M26, contributing to non-funded income growth during the period. The Bank's calculated cost-to-income ratio improved by 122 bps YOY and 79 bps QOQ to 21.2% in 3Q26. Additionally, ALRAJHI's net advances grew 2.5% YOY and 1.7% QOQ to SAR 774.9 Bn in 3Q26, 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 3.9% YOY and 32.2% YOY, respectively, in 3Q26. While retail financing declined slightly by 1.3% YOY in 3Q26. During 3Q26, the Bank completed several securitization transactions, including SAR 5.0 Bn of mortgage loans and SAR 1.9 Bn of consumer loans. This follows the securitization of an additional SAR 2.9 Bn of consumer loans completed in 1Q26. The Bank's customer deposits grew marginally 0.9% YOY and 1.7% QOQ to SAR 700.3 Bn in 3Q26. However, the Bank maintained a stable funding profile, with CASA deposits accounting for 61% of total deposits as of 9M26. ALRAJHI's asset quality remained robust, with an NPL ratio of 0.76% and a strong provision coverage ratio of 152.1% in 3Q26, providing a solid buffer against potential credit losses. Moreover, the Bank's liquidity coverage ratio improved from 154.4% in 3Q25 to 165.8% in 3Q26, indicating a strengthened liquidity position. ALRAJHI's capitalization remained healthy with a TIER 1 capital ratio of 21.5% and a total CAR of 23.6% during 3Q26. The Bank also recorded strong shareholder returns, with a reported ROA and ROE of 2.68% and 23.17%, respectively, during 3Q26. Al Rajhi successfully issued USD 600 Mn in US dollar-denominated, Sharia-compliant Tier 2 social sukuk during 3Q26 to eligible domestic and international investors, marking its second Tier 2 issuance in the international debt capital markets. The Bank has approved a cash dividend of SAR 7.6 Bn for 1H26, translating into a dividend of SAR 1.26 per share after Zakat deduction. Thus, based on our analysis, we maintain our rating to BUY on the stock.

Al Rajhi Bank - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	24.47	14.19	22.84	19.31	15.41	13.64
PB	5.36	4.58	4.00	3.84	3.80	2.92
BVPS	11.214	13.121	15.043	15.646	15.838	20.566
EPS	2.458	4.240	2.633	3.114	3.902	4.409
DPS (Pre Bonus shares)	0.875	1.250	2.300	2.710	2.500	3.637
DPS (Post Bonus shares)	0.583	0.833	1.533	1.807	1.667	2.425
Dividend yield	1.0%	1.4%	2.5%	3.0%	2.8%	4.0%

FABS Estimates & Co Data

Al Rajhi Bank - P&L

SAR Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded Income	14,280	14,484	15,062	14,509	3.8%	5.5%	4.0%	55,850	59,429	6.4%
Funded Expenses	-6,987	-6,177	-6,449	-6,253	3.1%	-7.7%	4.4%	-26,004	-25,096	-3.5%
Net Funded Income	7,294	8,307	8,613	8,256	4.3%	18.1%	3.7%	29,846	34,333	15.0%
Total non-funded Income	2,588	2,578	2,502	2,660	-5.9%	-3.3%	-2.9%	9,248	9,662	4.5%
Total Operating Income	9,882	10,884	11,115	10,916	1.8%	12.5%	2.1%	39,094	43,995	12.5%
Total operating expenses	-2,216	-2,395	-2,357	-2,418	-2.5%	6.3%	-1.6%	-9,127	-9,980	9.3%
Profit before provisions	7,665	8,490	8,758	8,498	3.1%	14.3%	3.2%	29,967	34,015	13.5%
Impairment charge	-570	-881	-852	-677	25.8%	49.5%	-3.3%	-2,320	-3,122	34.5%
Total Op Exp after imp	-2,786	-3,276	-3,209	-3,095	3.7%	15.2%	-2.0%	-11,447	-13,102	14.4%
Net income before zakat	7,096	7,609	7,906	7,821	1.1%	11.4%	3.9%	27,646	30,893	11.7%
Zakat	-729	-583	-791	-704	12.4%	8.5%	35.7%	-2,822	-2,780	-1.5%
Non-controlling interest	-6	-14	-9	-7	26.5%	49.1%	-33.7%	-33	-45	37.3%
Net profit for the year	6,360	7,012	7,106	7,110	-0.1%	11.7%	1.3%	24,792	28,068	13.2%

FABS estimate & Co Data

Al Rajhi Bank - KPI

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	73.8%	76.3%	77.5%	368	117	76.3%	78.0%	170
Cost to income - (calculated)	22.4%	22.0%	21.2%	-122	-79	23.3%	22.7%	-66
Impairment/PPP	-7.4%	-10.4%	-9.7%	-229	65	-7.7%	-9.2%	-143
NP/OI	64.4%	64.4%	63.9%	-43	-49	63.4%	63.8%	38
Cost of risk - (reported)	0.30%	0.46%	0.44%	14	-2	0.31%	0.40%	9
Loan-to-deposit - (calculated)	108.9%	110.7%	110.7%	170	-6	112.8%	114.0%	119
NPL - (reported)	0.76%	0.74%	0.76%	0	2	0.75%	0.80%	5
Coverage - (reported)	151.2%	153.2%	152.1%	90	-110	152.5%	150.0%	-250
Tier 1	19.7%	21.7%	21.5%	180	-20	20.5%	21.1%	60
Capital adequacy	21.1%	23.5%	23.6%	250	10	21.9%	22.4%	53

FABS estimate & Co Data

Al Rajhi Bank - Key B/S items

SAR Mn	3Q25	4Q25	1Q26	2Q26	3Q26	Change
Net advances	755,985	752,760	753,730	762,096	774,859	2.5%
QOQ change	1.9%	-0.4%	0.1%	1.1%	1.7%	
Total assets	1,056,157	1,043,268	1,051,268	1,054,772	1,075,636	1.8%
QOQ change	2.0%	-1.2%	0.8%	0.3%	2.0%	
Customer deposits	693,905	667,288	678,734	688,359	700,277	0.9%
QOQ change	4.4%	-3.8%	1.7%	1.4%	1.7%	
Total equity	137,515	142,912	152,644	152,566	154,669	12.5%
QOQ change	2.6%	3.9%	6.8%	-0.1%	1.4%	

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	78.11	70%	54.68
Relative Valuation (RV)	77.74	30%	23.32
Weighted Average Valuation (SAR)			78.00
Current market price (SAR)			59.80
Upside/Downside (%)			+30%

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 5.7%, the beta of 0.88 and the equity risk premium of 3.8%. 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)	83,979
Terminal value (SAR, Mn)	263,996
Book Value of Equity (as of June 2026)	120,673
FV to Common shareholders (SAR, Mn)	468,649
No. of shares (Mn)	6,000
Current Market Price (SAR)	59.80
Fair Value per share (SAR)	78.11

Residual Income Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Net Profit	26,453	29,276	31,856	35,227	39,042	41,186
(-) Equity Charge	-10,338	-11,093	-12,465	-13,873	-15,455	-17,213
Excess Equity	16,115	18,183	19,391	21,354	23,587	23,973
Discounting Factor	0.98	0.90	0.82	0.76	0.69	0.64
Present Value of Excess Equity	3,943¹	16,326	15,973	16,137	16,353	15,248

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 2027 P/B multiple of 1.4x. 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	20,272	1.1	1.0	7.7	7.4	6.0%	6.4%
Alinma Bank	18,507	1.8	1.6	11.3	10.4	3.4%	3.6%
Abu Dhabi Islamic Bank	21,557	2.7	2.4	12.0	10.9	4.3%	4.7%
Arab National Bank	11,224	1.0	0.9	8.5	8.5	6.3%	6.4%
Bank Albilad	8,586	1.4	1.4	10.3	10.2	4.8%	5.0%
Average		1.6x	1.5x	10.0x	9.5x	4.9%	5.2%
Median		1.4x	1.4x	10.3x	10.2x	4.8%	5.0%
Max		1.8x	1.6x	11.3x	10.4x	6.0%	6.4%
Min		1.1x	1.0x	8.5x	8.5x	4.3%	4.7%

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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