

Alinma Bank

Lower impairments and strong non-core income supported profitability

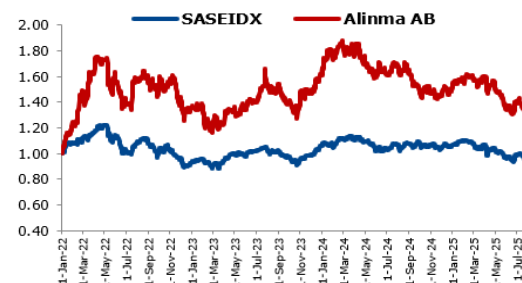
Current Price
SAR 26.14

Target Price
SAR 37.00

Upside/Downside (%)
+42%

Rating
BUY

- The Bank's net advances increased 15.1% YOY and 4.4% QOQ to SAR 218.6 Bn in 2Q25, while the customer deposits expanded 12.0% YOY and 5.1% QOQ to SAR 229.9 Bn in 2Q25.
- Loan-to-deposit ratio increased 259 bps YOY and declined 64 bps QOQ to 95.1% in 2Q25.
- Impairment charges fell 13.9% YOY to SAR 281 Mn in 2Q25, supported by the addition of better-quality new assets.
- The Bank anticipates NIMs to decline 10–20 bps in 2025, from the earlier guidance of a 0–10 bps.
- The Bank announced to distribute a dividend of SAR 0.30 per share in 2Q25, amounting to SAR 746.2 Mn.



Stock Information

Market Cap (SAR, Mn)	65,350.00
Paid Up Capital (Mn)	25,000.00
52 Week High	33.20
52 Week Low	24.52
3M Avg. daily value (SAR)	152,110,100

2Q25 Net Profit in line with our estimate

Alinma Bank (ALINMA/ The Bank) recorded an 11.1% YOY rise in net profit to SAR 1,573 Mn in 2Q25, in line with our estimate of SAR 1,532 Mn. The rise in net profit is mainly attributed to an increase in both net funded and non-funded income, coupled with lower impairment charges, partially offset by higher operating expenses and zakat charges.

P&L Highlights

ALINMA's funded income grew 7.4% YOY to SAR 4,254 Mn in 2Q25, driven by an increase in financing and investment portfolio. Conversely, the funded expenses also rose 9.5% YOY to SAR 1,983 Mn in 2Q25, due to growth in time deposits. The funded expenses grew at a faster rate compared to the funded income. Thus, the net funded income increased 5.6% YOY to SAR 2,272 Mn in 2Q25. The Bank's non-funded income grew 13.4% YOY to SAR 675 Mn in 2Q25, due to a rise in fee income, FVIS income and other operating income, partially offset by a decline in exchange income. As a result, the operating income increased 7.3% YOY to SAR 2,947 Mn in 2Q25. ALINMA's operating expenses grew 10.0% YOY to SAR 917 Mn in 2Q25, due to which the calculated cost-to-income ratio rose 75 bps YOY to 31.1% in 2Q25. Furthermore, impairment charges fell 13.9% YOY to SAR 281 Mn in 2Q25, supported by the addition of better-quality new assets. The Bank's Zakat expenses increased 7.0% YOY to SAR 174 Mn in 2Q25.

Balance Sheet Highlights

ALINMA's total assets increased 14.3% YOY and 3.5% QOQ to SAR 297.2 Bn in 2Q25, primarily due to increased financing and investment portfolio. Net investments grew 10.7% YOY and 4.4% QOQ to SAR 51.6 Bn in 2Q25. The Bank's net advances increased 15.1% YOY and 4.4% QOQ to SAR 218.6 Bn in 2Q25.

2Q25 Result Review (SAR, Mn)

Total Assets	297,216
Net Advances	218,596
Total Equity	44,775
Total Deposits	229,944
Net Profit	1,573

Financial Ratios

Dividend Yield (12m)	4.40
Dividend Pay-out (%)	36.30
Price-Earnings Ratio(x)	11.31
Price-to-Book Ratio (x)	1.91
Book Value (SAR)	13.66
Return-on Equity (%)	17.54

Stock Performance

5 Days	1.24%
1 Months	-3.19%
3 Months	-7.30%
6 Months	-14.99%
1 Year	-15.27%
Month to Date (MTD%)	1.24%
Quarter to Date (QTD%)	-2.54%
Year to Date (YTD%)	-9.71%

Customer deposits expanded 12.0% YOY and 5.1% QOQ to SAR 229.9 Bn in 2Q25. As a result, the loan-to-deposit ratio increased from 92.5% in 2Q24 to 95.1% in 2Q25. The Bank's total equity increased 11.8% YOY and 4.2% QOQ to SAR 44.8 Bn in 2Q25.

Target Price and Rating

We maintain our BUY rating on Alinma Bank with a target price of SAR 37.00. ALINMA recorded an increase in net profit owing to a rise in net-funded and non-funded income, as well as lower impairment charges during 2Q25. ALINMA's net advances grew 15.1% YOY and 4.4% QOQ to SAR 218.6 Bn in 2Q25, with the corporate segment serving as the major contributor. The Bank's CASA deposits stood at a healthy 50.7% of total deposits as of 2Q25, with a stable mix of 64% from the retail segment and 36% from non-retail. The higher CASA contribution is expected to support NIMs resilience amid a declining interest rate environment. The Bank anticipates NIMs to decline 10–20 bps in 2025, from the earlier guidance of a 0–10 bps decline, driven by expectations of lower interest rates and a higher cost of funds. ALINMA's cost-to-income ratio reached 31.1% in 2Q25, and the Bank now expects it to remain below 31.0% for 2025, revising its earlier guidance of below 30.5%. This upward revision reflects trimmed NIMs expectations and continued investment in AI capabilities and strategic tech projects. Further, the reported NPL ratio remained declined from 1.27% in 1Q25 to 1.25% in 2Q25. The reported NPL coverage also grew from 156.4% in 1Q25 to 173.9% in 2Q25, reflecting robust coverage against bad loans. The Bank expects the cost of risk for 2025 to remain between 40–50 bps, supported by stable asset quality and healthy NPL coverage levels. ALINMA also maintained a healthy capitalization, with a tier 1 ratio of 17.3% and total CAR of 18.5% in 2Q25. Recently, the Bank issued USD-denominated sustainable additional tier 1 capital certificates under its AT1 capital certificate issuance programme, with a total value of USD 500 Mn and annual returns of 6.5%. This issuance is expected to strengthen the Bank's Tier 1 capital base and enhance its regulatory capital buffers. Additionally, the Bank announced to distribute a dividend of SAR 0.30 per share for 2Q25, amounting to SAR 746.2 Mn. Thus, based on the above-mentioned factors, we maintain a BUY rating on the stock.

Alinma - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025
PE	33.29	24.16	18.18	13.52	11.81	10.80
PB	2.68	2.63	2.53	2.23	2.00	1.80
BVPS	9.772	9.966	10.352	11.733	13.077	14.518
EPS	0.786	1.084	1.440	1.936	2.217	2.424
DPS	0.239	0.597	0.756	0.915	1.100	1.210
Dividend yield	0.9%	2.3%	2.9%	3.5%	4.2%	4.6%

FABS Estimates & Co Data

Alinma – P&L

SAR Mn	2Q24	1Q25	2Q25A	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	3,962	4,118	4,254	4,139	2.8%	7.4%	3.3%	16,155	17,132	6.0%
Funded expense	-1,811	-1,835	-1,983	-1,836	8.0%	9.5%	8.1%	-7,506	-7,689	2.4%
Net funded income	2,151	2,283	2,272	2,303	-1.4%	5.6%	-0.5%	8,649	9,443	9.2%
Non-funded income	595	531	675	556	21.4%	13.4%	27.2%	2,291	2,472	7.9%
Operating income	2,746	2,814	2,947	2,859	3.1%	7.3%	4.7%	10,940	11,915	8.9%
Operating expenses	-834	-905	-917	-914	0.4%	10.0%	1.4%	-3,384	-3,633	7.4%
Pre-provision profit	1,912	1,909	2,029	1,945	4.3%	6.2%	6.3%	7,556	8,282	9.6%
Impairment	-327	-226	-281	-237	18.5%	-13.9%	24.3%	-1,050	-1,066	1.5%
Net profit before zakat	1,579	1,681	1,748	1,708	2.3%	10.6%	3.9%	6,502	7,216	11.0%
Zakat	-163	-173	-174	-176	-1.0%	7.0%	0.5%	-670	-743	10.9%
Net profit attributable	1,417	1,508	1,573	1,532	2.7%	11.1%	4.3%	5,832	6,473	11.0%

FABS estimate & Co Data

Alinma - Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	78.3%	81.1%	77.1%	-123	-404	79.1%	79.3%	20
Cost to income - calculated	30.4%	32.2%	31.1%	75	-103	30.9%	30.5%	-44
Impairment/PPP	17.1%	11.9%	13.9%	-322	201	13.9%	12.9%	-102
NP/OI	51.6%	53.6%	53.4%	180	-20	53.3%	54.3%	102
Loan-to-deposit	92.5%	95.7%	95.1%	259	-64	97.9%	100.0%	213
ROAE	17.5%	17.4%	18.9%	142	147	18.9%	17.5%	-143
ROAA	2.2%	2.3%	2.2%	1	-5	2.3%	2.2%	-9

FABS estimate & Co Data

Alinma – Key B/S items

SAR Mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net advances	189,912	195,895	202,308	209,435	218,596	15.1%
QOQ change	5.1%	3.2%	3.3%	3.5%	4.4%	
Total assets	260,138	266,983	276,827	287,222	297,216	14.3%
QOQ change	6.2%	2.6%	3.7%	3.8%	3.5%	
Customer deposits	205,357	209,140	210,545	218,839	229,944	12.0%
QOQ change	8.7%	1.8%	0.7%	3.9%	5.1%	
Total equity	40,037	41,158	41,442	42,952	44,775	11.8%
QOQ change	1.8%	2.8%	0.7%	3.6%	4.2%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	38.28	70.0%	26.80
Relative Valuation (RV)	34.01	30.0%	10.20
Weighted Average Valuation (SAR)			37.00
Current market price (SAR)			26.14
Upside/Downside (%)			+42%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. The cost of equity is calculated using a 10-year government bond yield of 5.2%, a beta of 0.90, and an 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 2.0%.

Sum of PV (SAR, Mn)	13,986
Terminal value (SAR, Mn)	47,568
Book value of Equity (as of June, 2025)	34,149
FV to Common shareholders (SAR, Mn)	95,704
No. of share (Mn)	2,500
Current Market Price (SAR)	26.14
Fair Value per share (SAR)	38.28

Residual Income Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	6,029	7,097	8,176	9,018	9,841
(-) Equity Charge	-3,229	-3,597	-4,017	-4,486	-5,006
Excess Equity	2,800	3,500	4,158	4,532	4,835
Discounting Factor	0.93	0.85	0.78	0.72	0.66
Present Value of Excess Equity	1,300¹	2,983	3,255	3,257	3,191

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value ALINMA, and it is valued using the PB multiple. We applied a premium to peer valuation since it generates superior return on assets as compared to its peers, and we also expect this premium to be maintained. It is valued at a 2025 PB multiple of 2.3x as compared to the peer valuation of 1.7x.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Al Rajhi Bank	102,498	17.0	15.1	3.5	3.1	3.3	3.7
Saudi National Bank	59,751	10.0	9.3	1.2	1.2	5.5	6.0
Banque Saudi Fransi	11,700	9.2	8.8	1.1	1.0	6.0	6.2
Riyad Bank	22,393	8.6	8.3	1.3	1.2	6.2	6.3
Bank Albilad	10,791	13.8	13.3	2.2	2.0	2.1	2.0
Abu Dhabi Islamic Bank	21,773	13.6	12.7	3.2	2.8	3.8	4.2
Average		12.0x	11.3x	2.1x	1.9x	4.5%	4.7%
Median		11.8x	11.0x	1.7x	1.6x	4.7%	5.1%
Max		13.7x	13.1x	2.9x	2.6x	5.9%	6.2%
Min		9.4x	8.9x	1.3x	1.2x	3.4%	3.8%

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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