

## Alinma Bank

Higher Funded and Non-funded income and lower impairments boost profits

### 2Q22 Net Profit higher than our estimate

Alinma Bank reported a significant increase in net profit to SAR 925 Mn in 2Q22 from SAR 710 Mn in 2Q21, beating our estimate of SAR 874 Mn. This increase was primarily due to the increase in net operating income owing mostly to the increase in financing and investment income, FVIS investment income, fee and exchange income and other operating income.

### P&L highlights

Net funded income increased 14.8% YOY to SAR 1,414 Mn in 2Q22. The improvement in performance was mainly due to an increase in funded income which rose 21.3% YOY to SAR 1,653 Mn in 2Q22 and on the other hand funded expense increased to 82.0% YOY to SAR 239 Mn in 2Q22. Total non-funded income increased 23.0% YOY to SAR 519 Mn in 2Q22 due to growth in fee income, FVIS investment income, exchange and other operating income. Thus, net operating income rose 16.9% YOY to SAR 1,932 Mn in 2Q22. Total operating expenses increased SAR 546 Mn in 2Q22 due to rise in salaries expenses, and increase in G&A expense. As a result, cost to Income ratio decreased to 28.3% in 2Q22 from 31.5% in 2Q21. Impairment charges significantly declined to SAR 240 Mn in 2Q22 down from SAR 342 Mn in 2Q21. Resultantly, the net profit before tax increased to SAR 1,031 Mn in 2Q22 from SAR 792 Mn in 2Q21. Zakat expenses rose to SAR 106 Mn in 2Q22 due to rise in profitability.

### Balance sheet highlights

Net Financing and investing increased 9.7% YOY to SAR 131 Bn in 2Q22. Customer Deposit increased 3.6% YOY to SAR 130 Bn in 2Q22. As a result, total assets increased 12.5% YOY to SAR 185 Bn in 2Q22. Total Equity increased 24.9% YOY to SAR 31 Bn in 2Q22.

### Target price and rating

We revise our rating from ACCUMULATE to HOLD on Alinma Bank with an unchanged target price of SAR 38.00. The Bank share price recorded a gain of 11.3% since our last rating. Alinma is anticipated to benefit from a rising interest rate environment due to a positive interest rate sensitivity gap. We believe the Bank NIM benefited during 2Q22 due to increase in yield as compared to rise in cost of funds based on our calculation. Alinma is also expected to maintain a healthy balance sheet growth rate through deeper penetration of the existing customer base. The bank is further expecting strong growth in financing due to strong economic growth and robust demand for credit from their mid-corporate and retail segments. However, growth in advances remained subdued rising 1.7% QOQ to SAR 131 Bn in 2Q22 trailing peer growth rate during 2Q22. Asset remain healthy with a NPL ratio of 2.0% with a robust coverage of 150% in 1Q22. Healthy coverage shields the Bank against rise in NPLs in the future. Based on FY2022 financials, Alinma is trading at a PE multiple of 22.5x compared to peer average of 17.1x and expected to generate a dividend yield of 2.4% compared to peer average of 2.9% renders it expensive. Considering all these factors, we recommend a 'HOLD' rating on the stock.

**Rating : HOLD**

## First Look Note – 2Q22

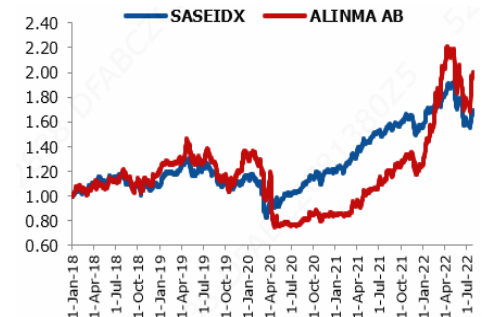
Sector: Banking

### Recommendation

Current Price (28-July-22)	38.05
Target Price (SAR)	38.00
Upside/Downside (%)	-0.1%

### Stock Information

Market Cap (mm)	76,500.00
Paid Up Capital (mm)	20,000.00
52 Week High	42.45
52 Week Low	21.60
3M Avg. daily value (SAR)	287,865,600



### Financial Ratios

Dividend Yield (12m)	2.09
Dividend Pay-out (%)	56.06
Price-Earnings Ratio (x)	25.35
Price-to-Book Ratio (x)	2.88
Book Value (SAR)	13.26
Return-on Equity (%)	11.02
Earning Per Share (SAR)	1.51
Beta	1.19

### Stock Performance

5 Days	1.73%
1 Months	11.68%
3 Months	-7.72%
6 Months	34.92%
1 Year	76.92%
Month to Date (MTD)	14.52%
Quarter to Date (QTD)	14.52%
Year to Date (YTD)	59.64%

**Alinma Bank - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	33.1	30.1	38.8	28.1	22.5
P/B (x)	3.8	4.4	3.1	2.5	2.3
Dividend Yield (%)	1.5%	NM	0.8%	2.0%	2.4%

*FABS Estimates & Co Data*
**Alinma Bank - P&L**

SAR mm	2Q21	1Q22	2Q22	2Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	1,362	1,472	1,653	1,552	6.5%	21.3%	12.3%	5,674	6,316	11.3%
Funded expense	-131	-163	-239	-175	36.7%	82.0%	47.0%	-537	-733	36.4%
<b>Net funded income</b>	<b>1,231</b>	<b>1,310</b>	<b>1,414</b>	<b>1,377</b>	<b>2.7%</b>	<b>14.8%</b>	<b>7.9%</b>	<b>5,137</b>	<b>5,584</b>	<b>8.7%</b>
<b>Non-funded income</b>	<b>424</b>	<b>498</b>	<b>519</b>	<b>381</b>	<b>36.1%</b>	<b>22.3%</b>	<b>4.1%</b>	<b>1,530</b>	<b>1,633</b>	<b>6.7%</b>
<b>Operating income</b>	<b>1,655</b>	<b>1,808</b>	<b>1,932</b>	<b>1,758</b>	<b>9.9%</b>	<b>16.7%</b>	<b>6.9%</b>	<b>6,667</b>	<b>7,217</b>	<b>8.2%</b>
Operating expenses	-521	-642	-546	-544	0.4%	4.9%	-15.0%	-2,365	-2,482	4.9%
<b>Pre-provision profit</b>	<b>1,134</b>	<b>1,165</b>	<b>1,386</b>	<b>1,214</b>	<b>14.2%</b>	<b>22.2%</b>	<b>18.9%</b>	<b>4,302</b>	<b>4,735</b>	<b>10.1%</b>
Impairment	-342	-243	-240	-243	-1.3%	-29.9%	-1.4%	-1,266	-969	-23.5%
<b>Net profit before zakat</b>	<b>792</b>	<b>920</b>	<b>1,031</b>	<b>971</b>	<b>6.2%</b>	<b>30.2%</b>	<b>12.2%</b>	<b>3,022</b>	<b>3,764</b>	<b>24.6%</b>
Zakat	-82	-95	-106	-97	9.5%	30.2%	12.1%	-312	-379	21.5%
<b>Net profit attributable</b>	<b>710</b>	<b>825</b>	<b>925</b>	<b>874</b>	<b>5.9%</b>	<b>30.2%</b>	<b>12.2%</b>	<b>2,709</b>	<b>3,384</b>	<b>24.9%</b>

*FABS Estimates & Co Data*
**Alinma Bank - Margins**

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	74.4%	72.4%	73.2%	-121	71	77.0%	77.4%	32
Cost to income	31.5%	35.5%	28.3%	-319	-727	35.5%	34.4%	-109
Impairment/PPP	30.2%	20.9%	17.3%	-1285	-358	29.4%	20.5%	-897
NP/OI	42.9%	45.6%	47.9%	496	225	40.6%	46.9%	626
ROAE	9.6%	11.4%	12.1%	253	67	12.4%	11.6%	-81
ROAA	1.5%	1.6%	1.7%	24	7	1.6%	1.8%	18

*FABS estimate & Co Data*
**Alinma Bank - B/S Key Items**

SAR mm	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
<b>Net advances</b>	119,623	121,318	126,271	128,965	131,193	9.7%
QOQ change	2.1%	1.4%	4.1%	2.1%	1.7%	
<b>Total assets</b>	164,057	166,808	173,476	179,519	184,622	12.5%
QOQ change	2.6%	1.7%	4.0%	3.5%	2.8%	
<b>Customer deposits</b>	125,878	116,652	121,061	128,035	130,376	3.6%
QOQ change	4.3%	-7.3%	3.8%	5.8%	1.8%	
<b>Total equity</b>	25,199	30,164	30,711	31,518	31,467	24.9%
QOQ change	0.5%	19.7%	1.8%	2.6%	-0.2%	

*FABS estimate & Co Data*

**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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