

## Alinma Bank

Strong growth in funded income due to improved margins drove profitability

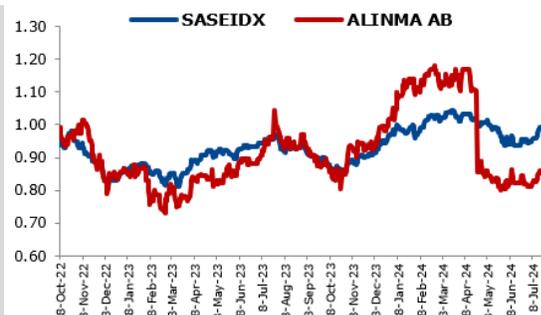
**Current Price**  
SAR 31.50

**Target Price**  
SAR 37.00

**Upside/Downside (%)**  
+18%

**Rating**  
BUY

- Net advances grew 17.4% YOY and 5.1% QOQ to SAR 189.9 Bn in 2Q24, whereas Customer deposits grew 15.5% YOY and 8.7% QOQ to SAR 205.4 Bn in 2Q24.
- Revised cost-to-income ratio guidance from c. 30% to below 31% for 2024.
- The Company revised its loan growth guidance from mid-teens to high teens for 2024.
- Asset quality improved as the NPL ratio declined significantly from 1.3% in 1Q24 to 0.8% in 2Q24.
- Board of Directors announced the distribution of a cash dividend of SAR 0.25 per share for 2Q24 amounting to SAR 621 Mn.



### 2Q24 Net Profit in line with our estimate

Alinma Bank (ALINMA/ The Bank) reported a 15.6% YOY growth in net profit to SAR 1,417 Mn in 2Q24, marginally higher than our estimate of SAR 1,394 Mn. The rise in net profit is primarily attributable to an increase in the funded and non-funded income partially offset rise in operating expenses.

### P&L Highlights

Funded income rose significantly 24.7% to SAR 3,962 Mn in 2Q24, primarily due to an increase in net advances and other interest earnings assets. Funded expenses grew substantially from SAR 1,316 Mn in 2Q23 to SAR 1,811 Mn in 2Q24 due to higher cost of funds driven by high benchmark rates. Thus, net funded income rose 15.7% YOY to SAR 2,151 Mn in 2Q24. Fees and commission income grew 5.1% YOY to SAR 404 Mn in 2Q24 due to higher fees from banking services, whereas trading gains rose 12.6% YOY to SAR 103 Mn in 2Q24. Moreover, other non-funded income declined 13.0% YOY to SAR 88 Mn in 2Q24. Thus, the Bank's non-funded income grew 3.1% YOY to SAR 595 Mn in 2Q24. Resultantly, total operating income grew 12.7% YOY to SAR 2,746 Mn in 2Q24. Furthermore, total operating expenses rose 11.7% YOY to SAR 834 Mn in 2Q24 mainly due to an increase in employee-related costs and G&A Expenses. However, the cost-to-income improved 26 bps YOY to 30.4% in 2Q24 and the company expects it to remain below 31% in FY2024. Impairment charges declined marginally 1.7% YOY to SAR 320 Mn in 2Q24. In addition, zakat expenses rose 15.6% YOY to SAR 163 Mn in 2Q24, in line with the rise in profitability.

### Stock Information

Market Cap (SAR, mn)	78,750.00
Paid Up Capital (mn)	25,000.00
52 Week High	36.00
52 Week Low	24.24
3M Avg. daily value (SAR)	135,251,800

### 2Q24 Result Review (SAR, mn)

Total Assets	260,138
Total Liabilities	220,101
Total Equity	40,037
Total Deposits	205,357
Net Profit	1,417

### Financial Ratios

Dividend Yield (12m)	2.32
Dividend Pay-out (%)	36.44
Price-Earnings Ratio(x)	15.13
Price-to-Book Ratio (x)	2.52
Book Value (SAR)	12.51
Return-on Equity (%)	17.47

### Stock Performance

5 Days	2.11%
1 Months	-2.78%
3 Months	-0.63%
6 Months	-10.31%
1 Year	11.70%
Month to Date (MTD%)	-2.78%
Quarter to Date (QTD%)	1.29%
Year to Date (YTD%)	1.88%

### Balance Sheet Highlights

ALINMA's total assets grew 14.6% YOY and 6.2% QOQ to SAR 260.2 Bn in 2Q24 mainly due to an increase in net financing assets and investments. The Bank's net advances recorded strong growth of 17.4% YOY and 5.1% QOQ to SAR 189.9 Bn in 2Q24 primarily driven by increased advances in the corporate segment. Customer deposits recorded strong growth of 15.5% YOY and 8.7% QOQ to SAR 205.4 Bn in 2Q24 mainly due to a strong growth in CASA deposits. CASA deposits increased from SAR 87.2 Bn in 2Q23 to SAR 103.9 Bn in 2Q24 representing 50.6% of total deposits. The loan-to-deposit ratio moderated from 95.6% in 1Q24 to 92.5% in 2Q24. Total equity grew 21.4% YOY and 1.8% QOQ to SAR 40.0 Bn in 2Q24.

### Target Price and Rating

We maintain our BUY rating on Alinma Bank with an unchanged target price of SAR 37.00. The Bank reported an increase in profitability driven by an increase in core and non-core income. ALINMA's gross financing grew 18.0% YOY to SAR 193.6 Bn in 2Q24 mainly driven by 21.0% YOY growth in corporate financing to SAR 147.3 Bn supported by 9.0% YOY growth in retail financing to SAR 44.7 Bn. Strong growth in gross financing is attributable to a substantial rise in mid-corporate financing and SME financing. Alinma Bank also revised its loan growth guidance from mid-teens to high-teens in 2024. Customer deposits grew significantly 8.7% QOQ to SAR 205.4 Bn in 2Q24. CASA deposits remained stable 50.6% of the Bank's total deposits in 2Q24 compared to 50.7% in 1Q24. ALINMA's NIMs marginally improved 7 bps QOQ to 3.5% in 2Q24 owing to a decline in cost of funds. Furthermore, the Bank expects its NIMs to remain nearly stable in 2024, attributed to declining rates along with improving margins. The cost-to-income ratio improved 26 bps YOY and 213 bps QOQ to 30.4% in 2Q24, owing to a strong rise in operating income. The Bank revised its cost-to-income from c. 30% to below 31% in 2024, mainly due to the increased spending on digitization. Additionally, the Bank lowered its cost of risk guidance from 65-75 bps to 60-70 bps due to improving economic environment. Furthermore, asset quality improved as the NPL ratio declined significantly from 1.3% in 1Q24 to 0.8% in 2Q24 due write-offs and recoveries, while provision coverage grew strongly from 181.1% in 1Q24 to 240.1% in 2Q24. ALINMA also maintained a healthy capitalization, with a CAR of 18.5% & Tier 1 capital ratio of 17.3% in 2Q24. Furthermore, the Bank has also announced a cash dividend of SAR 0.25 per share amounting to SAR 621 Mn for 2Q24 which is expected to be distributed in September 2024. Thus, based on the above-mentioned factors, we assign a BUY rating on the stock.

#### Alinma - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	30.97	39.93	28.97	21.81	16.22	14.47
PB	4.50	3.21	3.15	3.03	2.68	2.40
Dividend yield	NM	0.8%	1.9%	2.4%	2.2%	3.1%

FABS Estimates & Co Data

**Alinma – P&L**

SAR mn	2Q23	1Q24	2Q24	2Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	3,176	3,799	3,962	3,881	2.1%	24.7%	4.3%	13,228	16,091	21.6%
Funded expense	-1,316	-1,787	-1,811	-1,766	2.6%	37.6%	1.3%	-5,573	-7,257	30.2%
<b>Net funded income</b>	<b>1,860</b>	<b>2,012</b>	<b>2,151</b>	<b>2,115</b>	<b>1.7%</b>	<b>15.7%</b>	<b>6.9%</b>	<b>7,655</b>	<b>8,834</b>	<b>15.4%</b>
Fees and commissions	385	394	404	411	-1.6%	5.1%	2.5%	1,459	1,547	6.0%
Trading gain/(loss)	91	77	103	78	32.1%	12.6%	33.4%	330	350	6.0%
Other non-funded income	101	81	88	74	18.8%	-13.0%	8.5%	282	318	12.7%
<b>Non-funded income</b>	<b>577</b>	<b>553</b>	<b>595</b>	<b>563</b>	<b>5.7%</b>	<b>3.1%</b>	<b>7.7%</b>	<b>2,071</b>	<b>2,214</b>	<b>6.9%</b>
<b>Operating income</b>	<b>2,437</b>	<b>2,565</b>	<b>2,746</b>	<b>2,678</b>	<b>2.5%</b>	<b>12.7%</b>	<b>7.1%</b>	<b>9,726</b>	<b>11,048</b>	<b>13.6%</b>
Operating expenses	-747	-834	-834	-843	-1.1%	11.7%	0.1%	-3,044	-3,330	9.4%
<b>Pre-provision profit</b>	<b>1,690</b>	<b>1,731</b>	<b>1,912</b>	<b>1,835</b>	<b>4.2%</b>	<b>13.1%</b>	<b>10.4%</b>	<b>6,682</b>	<b>7,718</b>	<b>15.5%</b>
Impairment	-325	-266	-320	-281	13.8%	-1.7%	20.2%	-1,272	-1,262	-0.8%
Reversal/ Impairment on Financial Assets	0	-2	7	0	NM	NM	NM	27	0	NM
Share of profit of assoc.	1	-1	-6	0	NM	NM	NM	12	0	NM
<b>Net profit before zakat</b>	<b>1,366</b>	<b>1,466</b>	<b>1,579</b>	<b>1,554</b>	<b>1.6%</b>	<b>15.6%</b>	<b>7.7%</b>	<b>5,396</b>	<b>6,457</b>	<b>19.7%</b>
Zakat	-141	-151	-163	-160	1.7%	15.6%	7.7%	-556	-665	19.5%
<b>Net Profit attributable</b>	<b>1,225</b>	<b>1,315</b>	<b>1,417</b>	<b>1,394</b>	<b>1.6%</b>	<b>15.6%</b>	<b>7.7%</b>	<b>4,839</b>	<b>5,524</b>	<b>14.2%</b>

FABS estimate & Co Data

**Alinma - Margins**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	76.3%	78.5%	78.3%	202	-12	78.7%	80.0%	125
NIM	3.4%	3.4%	3.5%	4	7	3.6%	3.5%	-7
NIS	3.0%	2.8%	2.9%	-8	8	3.1%	3.0%	-10
Fees & comms/OI	15.8%	15.4%	14.7%	-107	-66	15.0%	14.0%	-100
Trading/OI	3.7%	3.0%	3.7%	0	74	3.4%	3.2%	-23
Cost to income	30.6%	32.5%	30.4%	-26	-213	31.3%	30.1%	-115
Impairment/PPP	19.2%	15.4%	16.7%	-252	135	19.0%	16.3%	-269
NP/OI	50.3%	51.3%	51.6%	132	32	49.8%	52.4%	266
Cost of risk (calculated)	0.81%	0.6%	0.7%	-13	9	0.8%	0.7%	-12
Loan-to-deposit	90.9%	95.6%	92.5%	153	-314	94.8%	95.0%	24
NPL (calculated)	1.9%	1.3%	0.8%	-111	-50	1.6%	1.7%	9
NPL Coverage	130.1%	181.1%	240.1%	NM	NM	154.9%	180.0%	NM
Tier 1	17.2%	17.9%	17.3%	15	-54	16.3%	16.9%	51
Capital adequacy	18.4%	19.1%	18.5%	15	-53	17.5%	17.8%	35
ROAE	14.0%	16.6%	16.7%	278	9	18.4%	19.9%	144
ROAA	1.7%	2.1%	2.1%	30	-2	2.2%	2.2%	3

FABS estimate & Co Data

**Alinma – Key B/S items**

<b>SAR mn</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>	<b>1Q24</b>	<b>2Q24</b>	<b>YOY Ch</b>
Net advances	161,773	169,063	173,624	180,702	189,912	17.4%
<i>QOQ change</i>	5.6%	4.5%	2.7%	4.1%	5.1%	
Total assets	226,900	232,585	236,715	244,859	260,138	14.6%
<i>QOQ change</i>	6.2%	2.5%	1.8%	3.4%	6.2%	
Customer deposits	177,874	180,233	187,901	188,988	205,357	15.5%
<i>QOQ change</i>	11.2%	1.3%	4.3%	0.6%	8.7%	
Total equity	32,977	33,460	34,334	39,348	40,037	21.4%
<i>QOQ change</i>	-0.6%	1.5%	2.6%	14.6%	1.8%	

*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	38.79	70.0%	27.15
Relative Valuation (RV)	32.83	30.0%	9.85
<b>Weighted Average Valuation (SAR)</b>			<b>37.00</b>
Current market price (SAR)			31.50
Upside/Downside (%)			+18%

### 1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.90 and equity risk premium of 4.0%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	13,364
Terminal value (SAR, Mn)	<b>63,315</b>
Book value of Equity (as of Jun, 2024)	31,286
<b>FV to Common shareholders (SAR, Mn)</b>	<b>96,965</b>
No. of share (Mn)	2,500
Current Market Price (SAR)	31.50
<b>Fair Value per share (SAR)</b>	<b>38.79</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,392	6,202	6,965	7,814	9,011
(-) Equity Charge	-2,777	-3,096	-3,447	-3,836	-4,279
<b>Excess Equity</b>	<b>2,615</b>	<b>3,106</b>	<b>3,517</b>	<b>3,978</b>	<b>4,731</b>
Discounting Factor	0.98	0.90	0.83	0.76	0.70
<b>Present Value of Excess Equity</b>	<b>1,277</b>	<b>2,795</b>	<b>2,918</b>	<b>3,041</b>	<b>3,334</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local and international peers to value Alinma and it is valued using the PB multiple. We applied premium to peer valuation since it generates superior return on assets as compared to its peers also, expect this premium to be maintained. It is valued at a 2024 PB multiple of 2.5x as compared to peer valuation of 1.7x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Al Rajhi Bank	88,910	3.4	3.2	18.9	16.5	3.1	3.5
Saudi National Bank	59,800	1.3	1.3	11.4	10.5	4.8	5.1
Banque Saudi Fransi	11,640	1.2	1.1	9.8	9.0	5.6	6.0
Riyad Bank	21,660	1.4	1.3	10.1	9.4	5.2	5.5
Bank Al Bilad	11,500	2.4	2.2	15.9	14.2	1.5	1.9
Abu Dhabi Islamic Bank	11,970	2.0	1.8	8.9	9.1	6.0	5.9
<b>Average</b>		<b>1.9x</b>	<b>1.8x</b>	<b>12.5x</b>	<b>11.4x</b>	<b>4.4%</b>	<b>4.7%</b>
<b>Median</b>		<b>1.7x</b>	<b>1.5x</b>	<b>10.8x</b>	<b>10.0x</b>	<b>5.0%</b>	<b>5.3%</b>
<b>Max</b>		<b>2.3x</b>	<b>2.1x</b>	<b>14.8x</b>	<b>13.3x</b>	<b>5.5%</b>	<b>5.8%</b>
<b>Min</b>		<b>1.3x</b>	<b>1.3x</b>	<b>9.9x</b>	<b>9.2x</b>	<b>3.5%</b>	<b>3.9%</b>

Source: FAB Securities

