

## Alinma Bank

Strong growth in advances and deposit supported profit

### 1Q23 Net profit lower than our estimate

Alinma Bank (ALINMA/ The Bank) reported 17.6% YOY increase in net profit to SAR 970 Mn in 1Q23, lower than our estimate of SAR 1,013 Mn. The rise in net profit is primarily driven by 20.6% YOY increase in net operating income which rose due to growth in net income from financing and investment, fee and exchange income partially offset by a decrease in FVSI income and other operating income.

### P&L highlights

Funded income rose significantly from SAR 1,474 Mn in 1Q22 to SAR 2,783 Mn in 1Q23 primarily due to strong growth in net advances. Net advances rose 18.8% YOY to SAR 153.1 Bn in 1Q23. Moreover, the Bank's funded expense increased substantially to SAR 1,048 Mn in 1Q23 as compared to SAR 163 Mn in 1Q22 due to a rise in benchmark interest rates. Thus, net funded income rose 32.3% YOY to SAR 1,735 Mn in 1Q23. Non-funded income witnessed a decline 10.4% YOY to SAR 445 Mn in 1Q23 mainly due to a decrease in income from FVIS and other operating income partially offset by an increase in fee and commission income. Resultantly, total operating income increased 20.6% YOY to SAR 2,179 Mn in 1Q23. Total operating expenses increased 18.0% YOY to SAR 758 Mn in 1Q23 due to a rise in G&A expenses, salaries expenses, rent, depreciation and an increase in impairment charges. However, cost-to-income ratio decreased 76 bps YOY to 34.8% in 1Q23. Impairment charges rose 40.7% YOY to SAR 343 Mn in 1Q23. Moreover, the net profit before zakat increased 17.6% YOY to SAR 1,081 Mn in 1Q23. While zakat expenses rose 17.6% to SAR 112 Mn in 1Q23 and in line with the rise in profitability.

### Balance sheet highlights

ALINMA's net advances rose significantly 18.8% YOY and 4.5% QOQ to SAR 153.2 Bn in 1Q23. Customer deposits witnessed strong growth of 24.9% YOY and 10.2% QOQ to SAR 160.0 Bn in 1Q23, strengthening the bank's liquidity with a loan-to-deposit ratio of 95.8% in 1Q23 compared to 100.9% in 4Q22. On the other hand, total assets rose 19.1% YOY to SAR 213.7 Bn in 1Q23. Whereas, total equity increased 5.2% YOY to SAR 33.2 Bn in 1Q23.

### Target price and rating

We maintain our BUY rating on Alinma Bank with a target price of SAR 40.00. The Bank reported strong growth in profitability with a robust increase in net advances owing to a rising interest rate. Net advances reported significant growth of 18.8% YOY and 4.5% QOQ to SAR 153.2 Bn in 1Q23. The Bank further expects its loan book to increase by mid-teens in 2023 owing to the new products and offerings for Mid-Corp, SME, and Retail. The corporate portfolio of the Bank accounted for 75.1% of the total loan book in 4Q22 as compared to 74.8% in 3Q22. We further expect the Bank's corporate portfolio lending to grow owing to the KSA's Vision 2030-related projects. Furthermore, the cost-to-income ratio of the Bank declined 76 bps to 34.8% in 1Q23 in line with its outlook of below 32.0% in 2023. Alinma NIMs softened marginally in 1Q23 based on our calculation. However, the Bank further expects it NIMs to rise 35-45 bps in 2023 mainly due to a rising interest rate scenario and strong increase in the CASA deposit. Customer deposits rose 24.9% YOY and 10.2% QOQ to SAR 160.0 Bn in 1Q23, which will

**Rating : BUY**

## First Look Note – 1Q23

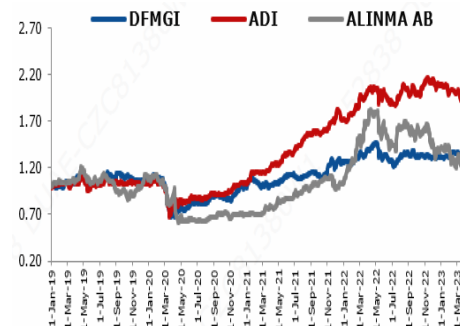
Sector: Banking

### Recommendation

Current Price (14-May-23)	31.45
Target Price (SAR)	40.00
Upside/Downside (%)	+27%

### Stock Information

Market Cap (mm)	62,900.00
Paid Up Capital (mm)	20,000.00
52 Week High	39.75
52 Week Low	27.40
3M Avg. daily value (SAR)	157,608,100



### Financial Ratios

Dividend Yield (12m)	3.02
Dividend Pay-out (%)	52.57
Price-Earnings Ratio (x)	17.35
Price-to-Book Ratio (x)	2.23
Book Value (SAR)	14.08
Return-on Equity (%)	13.69
Earning Per Share (SAR)	1.81
Beta	1.21

### Stock Performance

5 Days	0.00%
1 Months	-2.02%
3 Months	4.83%
6 Months	-15.80%
1 Year	-15.91%
Month to Date (MTD)	-1.41%
Quarter to Date (QTD)	6.79%
Year to Date (YTD)	-3.38%

further boost the bank's liquidity and provide additional room to meet credit demand. In addition, the Bank asset quality had deteriorated as its NPL rose from 1.7% in 3Q22 to 1.9% in 4Q22. Provision coverage also declined from 155.5% in 3Q22 to 136.3% in 4Q22. However, going forward, the Bank expects its asset quality to improve due to anticipated stable credit quality. It also maintained a strong capitalization with CAR at 19.8% in 4Q22. Considering all the aforementioned reasons we maintain our BUY rating on the stock.

**Alinma Bank - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	16.2	24.4	31.5	23.8	18.01	14.0
P/B (x)	3.1	3.6	2.5	2.5	2.40	2.18
Dividend Yield (%)	2.4%	NM	1.0%	2.4%	3.0%	3.3%

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**Alinma Bank - P&L**

SAR mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	1,474	2,437	2,783	2,594	7.3%	88.8%	14.2%	7,613	10,949	43.8%
Funded expense	-163	-769	-1,048	-835	25.6%	544.3%	36.3%	-1,546	-3,310	114.1%
<b>Net funded income</b>	<b>1,312</b>	<b>1,668</b>	<b>1,735</b>	<b>1,759</b>	<b>-1.4%</b>	<b>32.3%</b>	<b>4.0%</b>	<b>6,066</b>	<b>7,638</b>	<b>25.9%</b>
<b>Non-funded income</b>	<b>496</b>	<b>480</b>	<b>445</b>	<b>513</b>	<b>-13.4%</b>	<b>-10.4%</b>	<b>-7.4%</b>	<b>1,897</b>	<b>1,838</b>	<b>-3.1%</b>
<b>Operating income</b>	<b>1,808</b>	<b>2,148</b>	<b>2,179</b>	<b>2,273</b>	<b>-4.1%</b>	<b>20.6%</b>	<b>1.5%</b>	<b>7,963</b>	<b>9,476</b>	<b>19.0%</b>
Operating expenses	-642	-750	-758	-723	4.8%	18.0%	1.0%	-2,765	-2,962	7.1%
<b>Pre-provision profit</b>	<b>1,165</b>	<b>1,398</b>	<b>1,422</b>	<b>1,550</b>	<b>-8.3%</b>	<b>22.0%</b>	<b>1.7%</b>	<b>5,198</b>	<b>6,514</b>	<b>25.3%</b>
<b>Net profit before zakat</b>	<b>920</b>	<b>959</b>	<b>1,081</b>	<b>1,130</b>	<b>-4.3%</b>	<b>17.6%</b>	<b>12.7%</b>	<b>4,013</b>	<b>5,081</b>	<b>26.6%</b>
Zakat	-95	-99	-112	-116	-4.2%	17.6%	12.7%	-414	-508	22.8%
<b>Net profit attributable</b>	<b>825</b>	<b>860</b>	<b>970</b>	<b>1,013</b>	<b>-4.3%</b>	<b>17.6%</b>	<b>12.7%</b>	<b>3,599</b>	<b>4,573</b>	<b>27.1%</b>

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**Alinma Bank - Margins**

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	72.6%	77.6%	79.6%	704	195	76.2%	80.6%	442
Cost to income	35.5%	34.9%	34.8%	-76	-14	34.7%	31.3%	-347
Impairment/PPP	20.9%	32.2%	24.1%	321	-811	23.0%	22.0%	-105
NP/OI	45.6%	40.1%	44.5%	-112	445	45.2%	48.3%	306

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**Alinma Bank - B/S Key Items**

SAR mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
<b>Net advances</b>	128,965	131,193	139,987	146,492	153,153	<b>18.8%</b>
QOQ change	2.1%	1.7%	6.7%	4.6%	4.5%	
<b>Total assets</b>	179,519	184,622	193,229	200,436	213,749	<b>19.1%</b>
QOQ change	3.5%	2.8%	4.7%	3.7%	6.6%	
<b>Customer deposits</b>	128,035	130,376	132,048	145,168	159,949	<b>24.9%</b>
QOQ change	5.8%	1.8%	1.3%	9.9%	10.2%	
<b>Total equity</b>	31,518	31,467	31,302	31,876	33,164	<b>5.2%</b>
QOQ change	2.6%	-0.2%	-0.5%	1.8%	4.0%	

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## 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	45	70.0%	31.53
Relative Valuation	28	30.0%	8.43
<b>Weighted Average Valuation (SAR)</b>			<b>40.00</b>
<b>Current market price (SAR)</b>			<b>31.15</b>
<b>Upside/Downside (%)</b>			<b>27.2%</b>

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.95 and equity risk premium of 4.1%. 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)	12,705
Terminal value (SAR, Mn)	51,055
Book Value of equity (as of March 2023)	25,880
<b>FV to Common shareholders (SAR, Mn)</b>	<b>89,640</b>
No. of share (Mn)	1,990
Current Market Price (SAR)	31.15
<b>Fair Value per share (SAR)</b>	<b>45.04</b>

### Residual Income Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,418	5,589	6,377	7,455	8,617
(-) Equity charge	-2,384	-2,683	-3,030	-3,452	-3,954
<b>Excess Equity</b>	<b>1,356</b>	<b>2,906</b>	<b>3,347</b>	<b>4,003</b>	<b>4,662</b>
Discounting Factor	0.95	0.87	0.81	0.74	0.69
<b>Present Value of Excess Equity</b>	<b>1,285</b>	<b>2,541</b>	<b>2,699</b>	<b>2,979</b>	<b>3,201</b>

## 2) Relative Valuation:

We have used Saudi 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 PB multiple of 2.0x as compared to peer valuation of 1.5x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Al Rajhi Bank	79,892	3.3	2.8	17.1	15.1	2.2%	3.0%
Bank Albilad	10,887	2.7	2.4	15.4	13.3	1.4%	1.7%
Riyad Bank	24,203	1.7	1.6	11.7	11.0	4.2%	4.5%
Banque Saudi Fransi	12,399	1.2	1.1	10.5	10.3	4.9%	5.3%
Arab National Bank	10,613	1.2	1.1	11.0	10.9	4.8%	4.9%
Saudi National Bank	58,925	1.3	1.3	12.0	10.9	4.1%	4.7%
<b>Average</b>		1.9x	1.7x	12.9x	11.9x	3.6%	4.0%
<b>Median</b>		1.5x	1.4x	11.8x	11.0x	4.2%	4.6%
<b>Max</b>		2.5x	2.2x	14.6x	12.8x	4.7%	4.8%
<b>Min</b>		1.2x	1.2x	11.1x	10.9x	2.6%	3.4%

**Research Rating Methodology:**

<b>Rating</b>	<b>Upside/Downside potential</b>
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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