

## Alinma Bank

Strong non-core income and lower impairments supported profitability

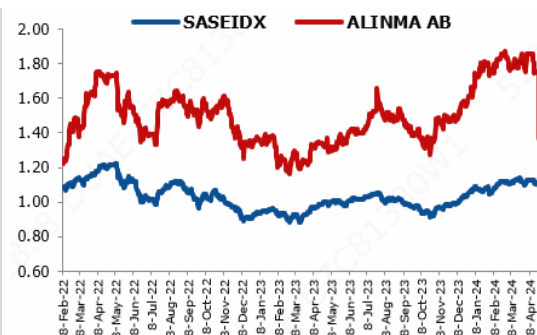
**Current Price**  
SAR 32.45

**Target Price**  
SAR 37.00

**Upside/Downside (%)**  
+14%

**Rating**  
**ACCUMULATE**

- Net advances grew 18.0% YOY and 4.1% QOQ to SAR 181 Bn in 1Q24. Meanwhile, customer deposits grew 18.2% YOY and 0.6% QOQ to SAR 189 Bn in 1Q24.
- The cost-to-income ratio improved by 227 bps YOY to 32.5% in 1Q24. The Bank expects the cost-to-income to range at 30% in 2024.
- Impairment charges declined 22.8% YOY to SAR 264 Mn in 1Q24, attributed to a decrease in non-performing loans due to fewer non-performing loans resulting from the settlement of impaired accounts and the addition of better-quality assets.
- NIMs grew 12 bps YOY and 1 bps QOQ to 3.6% in 4Q23 despite the higher cost of funds. Furthermore, the Bank expects the NIMs to remain nearly at the same level in 2024.



### 1Q24 Net Profit in line with our estimate

Alinma Bank (ALINMA/ The Bank) reported a 35.6% YOY growth in net profit to SAR 1,315 Mn in 1Q24, in line with our estimate of SAR 1,335 Mn. The rise in net profit is primarily attributable to the increase in total operating income driven by higher net income from financing and investment, fee income, FVSI income and other operating income, partially offset a decline in exchange income.

### P&L Highlights

Funded income rose significantly from SAR 2,783 Mn in 1Q23 to SAR 3,799 Mn in 1Q24, primarily due to strong growth in net advances and other interest-earnings assets. Funded expenses grew significantly from SAR 1,048 Mn in 1Q23 to SAR 1,787 Mn in 1Q24 due to higher cost of funds. Thus, net funded income rose 16.0% YOY to SAR 2,012 Mn in 1Q24. The Bank's non-funded income grew 24.3% YOY to SAR 553 Mn in 1Q24, mainly due to a higher fee income, FVIS, and other operating income partially offset by a decline in exchange income. Resultantly, total operating income grew 17.7% YOY to SAR 2,565 Mn in 1Q24. Furthermore, total operating expenses rose 10.0% YOY to SAR 834 Mn in 1Q24. However, the cost-to-income improved 227 bps YOY to 32.5% in 1Q24. Impairment charges declined 22.8% YOY to SAR 264 Mn in 1Q24, attributed to fewer non-performing loans resulting from the settlement of impaired accounts and the addition of better-quality assets. Moreover, the net profit before zakat grew 35.6% YOY to SAR 1,466 Mn in 1Q24. Zakat expenses rose 35.6% YOY to SAR 151 Mn in 1Q24, in line with the rise in profitability.

### Stock Information

Market Cap (SAR, mm)	81,125.00
Paid Up Capital (mm)	25,000.00
52 Week High	36.00
52 Week Low	24.24
3M Avg. daily value (SAR)	154,739,800

### 1Q24 Result Review (SAR, mm)

Total Assets	244,859
Total Liabilities	205,511
Total Equity	39,348
Total Deposits	188,988
Net Profit	1,315

### Financial Ratios

Dividend Yield (12m)	2.79
Dividend Pay-out (%)	34.93
Price-Earnings Ratio(x)	12.55
Price-to-Book Ratio (x)	2.21
Book Value (SAR)	14.67
Return-on Equity (%)	17.22

### Stock Performance

5 Days	-2.70%
1 Months	-8.75%
3 Months	-3.31%
6 Months	14.91%
1 Year	28.97%
Month to Date (MTD%)	-2.70%
Quarter to Date (QTD%)	-4.67%
Year to Date (YTD%)	4.95%

## Balance Sheet Highlights

ALINMA's total assets grew 14.6% YOY and 3.4% QOQ to SAR 245 Bn in 1Q24. The Bank's net advances recorded strong growth of 18.0% YOY and 4.1% QOQ to SAR 181 Bn in 1Q24. Customer deposits recorded strong growth of 18.2% YOY and 0.6% QOQ to SAR 189 Bn in 1Q24. Total equity grew 18.6% YOY and 14.6% QOQ to SAR 39 Bn in 1Q24.

## Target Price and Rating

We revise our rating from HOLD to ACCUMULATE on Alinma Bank with a revised target price of SAR 37.00. The Bank's stock price declined 24% since our last rating. The Bank reported an increase in profitability driven by an increase in core and non-core income along with lower impairments in 1Q24. ALINMA's gross financing grew 4.1% QOQ to SAR 181 Bn in 1Q24. The Bank further expects the loan book to grow by mid-teens in 2024. Customer deposits grew marginally 0.6% QOQ to SAR 189 Bn in 1Q24. CASA deposits stood at 48.2% of the Bank's total deposits in 4Q23 compared to 49.9% in 3Q23, mainly due to a decline in the Bank's CASA balance. CASA deposits are further anticipated to decline as the Bank focuses on increasing time deposits over CASA deposits. This is primarily due to the expectation of mid-teen loan growth, which will require additional financing from time deposits. ALINMA's NIMs grew 12 bps YOY and 1 bps QOQ to 3.6% in 4Q23 despite the higher cost of funds. Furthermore, the Bank expects the NIMs to remain nearly stable in 2024, attributed to its slower asset repricing than other corporate banks. The cost-to-income ratio improved 480 bps YOY to 30.1% in 4Q23 despite the rise in operating expenses owing to a strong rise in income. The Bank expects the cost-to-income to be at 30% in 2024, mainly due to the digitization and operational efficiency and anticipated growth in operating income. Cost of risk also declined from 0.72% in 3Q23 to 0.68% in 4Q23, indicating the Bank's ability to manage risk efficiently. Furthermore, asset quality improved as the NPL ratio declined from 1.7% in 3Q23 to 1.6% in 4Q23, while provision coverage grew strongly from 150.8% in 3Q23 to 154.9% in 4Q23. ALINMA also maintained a healthy capitalization, with a CAR of 17.5% & Tier 1 capital ratio of 16.3% in 4Q23. Furthermore, the Bank also distributed a cash dividend of SAR 0.25 per share for 1Q24, generating a dividend yield of 3.1% in 2024. Thus, based on the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

### Alinma - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	31.6	40.7	29.5	22.2	16.5	15.6
PB	4.6	3.3	3.2	3.1	2.7	2.1
Dividend yield	NM	0.7%	1.9%	2.4%	3.1%	3.2%

FABS Estimates & Co Data

### Alinma - P&L

SAR mm	1Q23	4Q23	1Q24A	1Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	2,783	3,754	3,799	3,844	-1.2%	36.5%	1.2%	13,228	15,153	14.6%
Funded expense	-1,048	-1,700	-1,787	-1,723	3.7%	70.5%	5.1%	-5,573	-6,472	16.1%
<b>Net funded income</b>	<b>1,735</b>	<b>2,054</b>	<b>2,012</b>	<b>2,121</b>	<b>-5.1%</b>	<b>16.0%</b>	<b>-2.1%</b>	<b>7,655</b>	<b>8,682</b>	<b>13.4%</b>
<b>Non-funded income</b>	<b>445</b>	<b>515</b>	<b>553</b>	<b>528</b>	<b>4.6%</b>	<b>24.3%</b>	<b>7.4%</b>	<b>2,071</b>	<b>2,072</b>	<b>0.1%</b>
<b>Operating income</b>	<b>2,179</b>	<b>2,569</b>	<b>2,565</b>	<b>2,649</b>	<b>-3.2%</b>	<b>17.7%</b>	<b>-0.2%</b>	<b>9,726</b>	<b>10,754</b>	<b>10.6%</b>
Operating expenses	-758	-774	-834	-821	1.6%	10.0%	7.7%	-3,044	-3,227	6.0%
<b>Pre-provision profit</b>	<b>1,422</b>	<b>1,795</b>	<b>1,731</b>	<b>1,828</b>	<b>-5.3%</b>	<b>21.8%</b>	<b>-3.6%</b>	<b>6,682</b>	<b>7,527</b>	<b>12.6%</b>
Impairment	-343	-298	-264	-341	-22.4%	-22.8%	-11.2%	-1,272	-1,436	12.9%
Share of profit of assoc	2	1	-1	0	NM	NM	NM	12	0	NM
<b>Net profit before zakat</b>	<b>1,081</b>	<b>1,472</b>	<b>1,466</b>	<b>1,488</b>	<b>-1.5%</b>	<b>35.6%</b>	<b>-0.4%</b>	<b>5,396</b>	<b>6,091</b>	<b>12.9%</b>
Zakat	-111	-152	-151	-153	-1.3%	35.6%	-0.4%	-556	-627	12.8%
<b>Net Profit attributable</b>	<b>970</b>	<b>1,320</b>	<b>1,315</b>	<b>1,335</b>	<b>-1.5%</b>	<b>35.6%</b>	<b>-0.4%</b>	<b>4,839</b>	<b>5,464</b>	<b>12.9%</b>

FABS estimate & Co Data

**Alinma - Margins**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	79.6%	80.0%	78.5%	-115	-152	78.7%	80.7%	203
Cost to income	34.8%	30.1%	32.5%	-227	239	31.3%	30.0%	-128
Impairment/PPP	24.1%	16.6%	15.3%	-882	-131	19.0%	19.1%	4
NP/OI	44.5%	51.4%	51.3%	676	-14	49.8%	50.8%	105
ROAE	95.8%	92.4%	95.6%	-14	321	94.8%	97.0%	224
ROAA	14.1%	16.7%	16.3%	216	-47	18.7%	17.5%	-123

FABS estimate & Co Data

**Alinma - Key B/S items**

SAR mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	153,153	161,773	169,063	173,624	180,702	18.0%
QOQ change	4.5%	5.6%	4.5%	2.7%	4.1%	
Total assets	213,749	226,900	232,585	236,715	244,859	14.6%
QOQ change	6.6%	6.2%	2.5%	1.8%	3.4%	
Customer deposits	159,948	177,874	180,233	187,901	188,988	18.2%
QOQ change	10.2%	11.2%	1.3%	4.3%	0.6%	
Total equity	33,164	32,977	33,460	34,334	39,348	18.6%
QOQ change	4.0%	-0.6%	1.5%	2.6%	14.6%	

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	37.11	70.0%	25.98
Relative Valuation (RV)	36.75	30.0%	11.02
<b>Weighted Average Valuation (SAR)</b>			<b>37.00</b>
Current market price (SAR)			32.45
Upside/Downside (%)			+14%

### 1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.90 and equity risk premium of 3.7%. 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)	13,132
Terminal value (SAR, Mn)	<b>49,040</b>
Book value of Equity (as of Dec, 2023)	30,598
<b>FV to Common shareholders (SAR, Mn)</b>	<b>92,770</b>
No. of share (Mn)	2,500
Current Market Price (SAR)	32.45
<b>Fair Value per share (SAR)</b>	<b>37.11</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,114	5,951	7,016	8,015	9,259
(-) Equity Charge	-3,263	-3,164	-3,570	-4,043	-4,601
<b>Excess Equity</b>	<b>1,851</b>	<b>2,787</b>	<b>3,447</b>	<b>3,972</b>	<b>4,658</b>
Discounting Factor	0.95	0.88	0.81	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>1,764</b>	<b>2,445</b>	<b>2,783</b>	<b>2,953</b>	<b>3,188</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 2.4x as compared to peer valuation of 1.6x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Al Rajhi Bank	83,840	3.1	2.8	17.8	15.7	3.2	3.7
Saudi National Bank	59,340	1.4	1.2	11.0	10.1	4.7	5.1
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Riyad Bank	22,360	1.5	1.4	10.3	9.6	5.2	5.4
Bank Al Bilad	11,570	2.5	2.2	16.0	14.3	1.6	1.8
Abu Dhabi Islamic Bank	39,950	1.8	1.6	8.6	8.5	6.3	6.3
<b>Average</b>		<b>1.9x</b>	<b>1.7x</b>	<b>12.3x</b>	<b>11.2x</b>	<b>4.5x</b>	<b>4.7x</b>
<b>Median</b>		<b>1.6x</b>	<b>1.5x</b>	<b>10.7x</b>	<b>9.9x</b>	<b>5.0x</b>	<b>5.3x</b>
<b>Max</b>		<b>2.3x</b>	<b>2.1x</b>	<b>14.8x</b>	<b>13.3x</b>	<b>5.5x</b>	<b>5.8x</b>
<b>Min</b>		<b>1.4x</b>	<b>1.3x</b>	<b>10.2x</b>	<b>9.1x</b>	<b>3.6x</b>	<b>4.1x</b>

Source: FAB Securities

### Research Rating Methodology:

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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%

### FAB Securities Contacts:

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#### Research Analyst

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

#### Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link  
+971-2-6161777

Institutional Desk +971-4-4245765

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