

Alinma Bank

Strong growth in funded income due to improved margins drove profitability

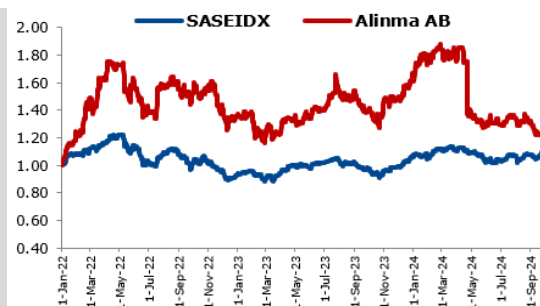
Current Price
SAR 28.30

Target Price
SAR 37.00

Upside/Downside (%)
+31%

Rating
BUY

- Net advances grew 15.9% YOY and 3.2% QOQ to SAR 195.9 Bn in 3Q24, whereas Customer deposits grew 16.0% YOY and 1.8% QOQ to SAR 209.1 Bn in 3Q24.
- Asset quality remained stable as the NPL ratio stood unchanged at 0.8% in 3Q24 compared to 2Q24.
- Cost of risk declined to 0.43% in 3Q24 from 0.68% in 2Q24 due to significantly lower impairments. The Bank revised its cost of risk guidance from 60-70 bps to 50-60 bps.
- Board of directors announced cash dividend of SAR 0.3 per share for 3Q24 amounting to SAR 746 Mn.



3Q24 Net Profit higher than our estimate

Alinma Bank (ALINMA/ The Bank) reported 18.7% YOY growth in net profit to SAR 1,571 Mn in 3Q24, higher than our estimate of SAR 1,462 Mn. The rise in net profit is primarily attributable to an increase in funded and non-funded income along with significant reduction in impairment partially offset by higher operating and zakat expenses.

P&L Highlights

Funded income rose 19.1% YOY to SAR 4,188 Mn in 3Q24, primarily due to an increase in net advances and other interest-earnings assets. Funded expenses grew substantially from SAR 1,509 Mn in 3Q23 to SAR 1,967 Mn in 3Q24 due to an increase in the cost of funds driven by high benchmark rates. Thus, net funded income rose 10.7% YOY to SAR 2,220 Mn in 3Q24. Fees and commission income declined marginally 1.4% YOY to SAR 402 Mn in 3Q24, whereas trading gains rose 25.1% YOY to SAR 93 Mn. Moreover, other non-funded income almost doubled from SAR 53 Mn in 3Q23 to SAR 101 Mn in 3Q24. Thus, the Bank's non-funded income grew 11.3% YOY to SAR 595 Mn in 3Q24. Resultantly, total operating income grew 10.8% YOY to SAR 2,815 Mn in 3Q24. Furthermore, total operating expenses rose 11.4% YOY to SAR 852 Mn in 3Q24 mainly due to an increase in employee-related costs and G&A expenses. However, the cost-to-income ratio improved 15 bps YOY to 30.3% in 3Q24, while the company expects it to remain below 31% in 2024. Besides, impairment charges declined significantly 29.7% YOY to SAR 212 Mn in 3Q24. In addition, zakat expenses rose 18.7% YOY to SAR 181 Mn in 3Q24, in line with the rise in profitability.

Balance Sheet Highlights

ALINMA's total assets grew 14.8% YOY and 2.6% QOQ to SAR 267.0 Bn in 3Q24 mainly due to an increase in net financing assets and

Stock Information

Market Cap (SAR, mn)	70,750.00
Paid Up Capital (mn)	25,000.00
52 Week High	36.00
52 Week Low	27.28
3M Avg. daily value (SAR)	211,492,300

3Q24 Result Review (SAR, mn)

Total Assets	266,983
Total Liabilities	225,825
Total Equity	41,158
Total Deposits	209,140
Net Profit	1,571

Financial Ratios

Dividend Yield (12m)	2.61
Dividend Pay-out (%)	36.44
Price-Earnings Ratio(x)	13.27
Price-to-Book Ratio (x)	2.18
Book Value (SAR)	12.96
Return-on Equity (%)	17.42

Stock Performance

5 Days	-0.18%
1 Months	2.91%
3 Months	-8.41%
6 Months	-13.32%
1 Year	0.21%
Month to Date (MTD%)	0.71%
Quarter to Date (QTD%)	-0.70%
Year to Date (YTD%)	-8.47%

investments. The Bank's net advances grew 15.9% YOY and 3.2% QOQ to SAR 195.9 Bn in 3Q24 driven by an increase in advances across the retail and corporate segment. Customer deposits recorded strong growth of 16.0% YOY and 1.8% QOQ to SAR 209.1 Bn in 3Q24 mainly due to a healthy growth in CASA deposits that increased from SAR 90.0 Bn in 3Q23 to SAR 107.5 Bn in 3Q24 representing 51.4% of total deposits. The headline loan-to-deposit ratio increased from 92.5% in 2Q24 to 93.7% in 3Q24. Total equity grew 23.0% YOY and 2.8% QOQ to SAR 41.2 Bn in 3Q24 primarily due to Tier 1 sukuk issuance.

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 a healthy growth in core and non-core income. ALINMA's gross financing grew 15.1% YOY to SAR 199.7 Bn in 3Q24 mainly driven by 16.8% YOY growth in corporate financing to SAR 150.7 Bn and 14.3% YOY growth in retail financing to SAR 47.4 Bn. Strong growth in gross financing is attributable to a substantial rise in mid-corporate and SME financing. Furthermore, the Bank estimates its advances portfolio to record high-teens growth in 2024. Impairments declined 29.7% YOY in 3Q24 resulting in a fall in cost of risk to 0.43% in 3Q24 from 0.71% in 3Q23. CASA deposits improved to 51.4% of the Bank's total deposits in 3Q24 compared to 50.6% in 2Q24. The Bank revised its expected change in NIMs guidance range from negative 5 bps – positive 5 bps in 2Q24 to negative 10 bps – 0 bps in 3Q24, attributable to declining rates coupled with improving margins. Additionally, the Bank lowered its cost of risk guidance from 60-70 bps to 50-60 bps due to the improving economic environment. Furthermore, asset quality remained stable as the NPL ratio stood unchanged at 0.8% in 3Q24 compared to 2Q24, while provision coverage increased from 240.1% in 2Q24 to 245.2% in 3Q24. ALINMA maintained a healthy capitalization, with a CAR of 18.2% & Tier 1 capital ratio of 17.0% in 3Q24. Furthermore, the Bank announced a cash dividend of SAR 0.30 per share amounting to SAR 746 Mn for 3Q24 which is expected to be distributed in November 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	27.76	35.80	25.97	19.55	14.54	12.65
PB	4.03	2.88	2.82	2.72	2.40	2.16
Dividend yield	NM	0.8%	2.1%	2.7%	3.0%	3.0%

FABS Estimates & Co Data

Alinma – P&L

SAR mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	3,515	3,962	4,188	4,075	2.8%	19.1%	5.7%	13,228	16,293	23.2%
Funded expense	-1,509	-1,811	-1,967	-1,843	6.7%	30.4%	8.6%	-5,573	-7,602	36.4%
Net funded income	2,006	2,151	2,220	2,232	-0.5%	10.7%	3.2%	7,655	8,691	13.5%
Fees and commissions	407	404	402	408	-1.6%	-1.4%	-0.7%	1,459	1,619	11.0%
Trading gain/(loss)	74	103	93	87	6.4%	25.1%	-9.6%	330	350	6.0%
Other non-funded income	53	88	101	87	15.5%	88.3%	14.3%	282	348	23.3%
Non-funded income	535	595	595	583	2.1%	11.3%	0.0%	2,071	2,317	11.9%
Operating income	2,541	2,746	2,815	2,814	0.0%	10.8%	2.5%	9,726	11,008	13.2%
Operating expenses	-766	-834	-852	-849	0.4%	11.4%	2.2%	-3,044	-3,410	12.0%
Pre-provision profit	1,775	1,912	1,963	1,966	-0.1%	10.6%	2.7%	6,682	7,599	13.7%
Impairment	-301	-320	-212	-336	-37.0%	-29.7%	-33.9%	-1,272	-1,067	-16.1%
Share of profit of assoc.	7	-6	-2	0	NM	NM	NM	12	-11	NM
Net profit before zakat	1,476	1,579	1,752	1,630	7.5%	18.7%	10.9%	5,396	6,525	20.9%
Zakat	-152	-163	-181	-168	7.6%	18.7%	10.9%	-556	-672	20.8%
Net Profit attributable	1,324	1,417	1,571	1,462	7.5%	18.7%	10.9%	4,839	5,853	20.9%

FABS estimate & Co Data

Alinma - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	79.0%	78.3%	78.9%	-9	53	78.7%	78.9%	25
NIM	3.6%	3.5%	3.5%	-12	-3	3.6%	3.4%	-14
NIS	3.1%	2.9%	2.9%	-21	-3	3.1%	2.8%	-24
Fees & comms/OI	16.0%	14.7%	14.3%	-176	-46	15.0%	14.7%	-29
Trading/OI	2.9%	3.7%	3.3%	38	-44	3.4%	3.2%	-22
Cost to income	30.1%	30.4%	30.3%	15	-10	31.3%	31.0%	-32
Impairment/PPP	17.0%	16.7%	10.8%	-618	-595	19.0%	14.0%	-499
NP/OI	52.1%	51.6%	55.8%	371	423	49.8%	53.2%	341
Cost of risk (calculated)	0.7%	0.7%	0.4%	-28	-25	0.8%	0.6%	-22
Loan-to-deposit	93.8%	92.5%	93.7%	-14	119	94.8%	97.0%	224
NPL (calculated)	1.7%	0.8%	0.8%	-91	0	1.6%	0.8%	-81
NPL Coverage	150.8%	240.1%	245.2%	9443	510	154.9%	230.0%	NM
Tier 1	16.4%	17.3%	17.0%	59	-36	16.3%	17.1%	77
Capital adequacy	17.5%	18.5%	18.2%	65	-37	17.5%	18.1%	62
ROAE	15.2%	17.5%	17.4%	221	-5	17.7%	19.0%	135
ROAA	2.1%	2.2%	2.3%	19	4	2.2%	2.3%	5

FABS estimate & Co Data

Alinma – Key B/S items

SAR mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	169,063	173,624	180,702	189,912	195,895	15.9%
<i>QOQ change</i>	4.5%	2.7%	4.1%	5.1%	3.2%	
Total assets	232,585	236,715	244,859	260,138	266,983	14.8%
<i>QOQ change</i>	2.5%	1.8%	3.4%	6.2%	2.6%	
Customer deposits	180,233	187,901	188,988	205,357	209,140	16.0%
<i>QOQ change</i>	1.3%	4.3%	0.6%	8.7%	1.8%	
Total equity	33,460	34,334	39,348	40,037	41,158	23.0%
<i>QOQ change</i>	1.5%	2.6%	14.6%	1.8%	2.8%	

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	37.66	70.0%	26.36
Relative Valuation (RV)	32.11	30.0%	9.63
Weighted Average Valuation (SAR)			37.00
Current market price (SAR)			28.30
Upside/Downside (%)			+31%

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 4.8%, beta of 0.90 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)	12,177
Terminal value (SAR, Mn)	49,577
Book value of Equity (as of Sep, 2024)	32,406
FV to Common shareholders (SAR, Mn)	94,160
No. of share (Mn)	2,500
Current Market Price (SAR)	28.30
Fair Value per share (SAR)	37.66

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,531	6,039	6,786	7,562	8,697
(-) Equity Charge	-2,762	-3,073	-3,416	-3,793	-4,222
Excess Equity	2,769	2,965	3,370	3,768	4,475
Discounting Factor	0.98	0.90	0.83	0.76	0.70
Present Value of Excess Equity	676	2,669	2,796	2,882	3,154

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 1.6x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Al Rajhi Bank	90,490	3.4	3.1	19.1	16.1	3.0	3.6
Saudi National Bank	54,420	1.2	1.2	10.2	9.6	5.4	5.8
Banque Saudi Fransi	9,860	1.0	0.9	8.6	7.9	6.6	6.9
Riyad Bank	20,310	1.3	1.2	9.1	8.8	6.0	6.3
Bank Al Bilad	11,990	2.6	2.3	16.7	15.1	1.8	1.9
Abu Dhabi Islamic Bank	12,517	2.0	1.8	8.5	9.1	5.5	5.9
Average		1.9x	1.8x	12.0x	11.1x	4.7x	5.1x
Median		1.6x	1.5x	9.7x	9.4x	5.5x	5.8x
Max		2.4x	2.2x	15.1x	13.7x	5.9x	6.2x
Min		1.2x	1.2x	8.7x	8.9x	3.6x	4.1x

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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