

Alinma Bank

Growth in net funded income and lower impairment charges boosted profit

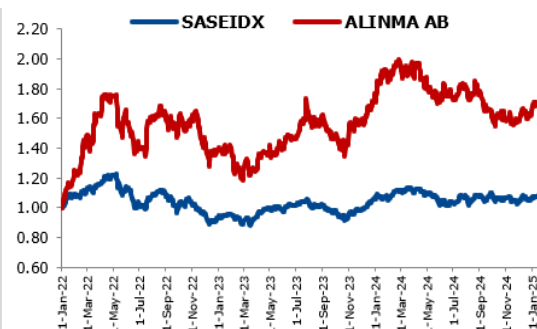
Current Price
SAR 30.70

Target Price
SAR 37.00

Upside/Downside (%)
+21%

Rating
BUY

- Net advances grew 16.5% YOY and 3.3% QOQ to SAR 202.3 Bn in 4Q24; expects advances to grow by mid-teens in FY2025.
- Customer deposits rose 12.1% YOY and 0.7% QOQ to SAR 210.5 Bn in 4Q24 driven by solid growth in CASA.
- NPL ratio rose from 0.8% in 3Q24 to 1.1% in 4Q24 due to the transfer of assets from stage 2 to stage 3; the coverage ratio stood at 172.3% in 4Q24.
- Cost of risk fell from 0.77% in FY2023 to 0.55% in FY2024. The guidance for FY2025 stood at 50-60 bps.
- ALINMA bank maintained a healthy capitalization, with a CAR of 17.7% & Tier 1 capital ratio of 16.7% in 4Q24.



4Q24 Net Profit in line with our estimate

Alinma Bank (ALINMA/ The Bank) reported a 15.8% YOY growth in net profit to SAR 1,529 Mn in 4Q24, which is in line with our estimate of SAR 1,498 Mn. The rise in net profit is mainly due to growth in net funded and non-funded income, and a decline in impairment charges partially offset by an increase in operating expenses.

P&L Highlights

Funded income grew 12.1% YOY to SAR 4,207 Mn in 4Q24, primarily due to an expansion in net advances and other interest-bearing assets partially offset by a softening in asset yield. Funded expenses grew from SAR 1,700 Mn in 4Q23 to SAR 1,941 Mn in 4Q24, mainly due to higher liabilities offset by lower funding costs owing to a decline in benchmark rates. Thus, net funded income rose 10.3% YOY to SAR 2,266 Mn in 4Q24. Fees and commission income rose 13.8% YOY to SAR 408 Mn in 4Q24, whereas trading income expanded 35.3% YOY to SAR 107 Mn. Furthermore, other non-funded income fell from SAR 76 Mn in 4Q23 to SAR 33 Mn in 4Q24 owing to a drop in valuation of investments. As a result, the Bank's non-funded income grew 6.7% YOY to SAR 549 Mn in 4Q24. Total operating income rose 9.6% YOY to SAR 2,815 Mn in 4Q24. Moreover, total operating expenses increased 11.6% YOY to SAR 864 Mn in 4Q24, primarily due to a rise in personnel costs and other G&A expenses. However, the cost-to-income ratio improved 57 bps YOY to 30.7% in 4Q24, while the company expects it to remain below 30% in FY2025. Besides, impairment charges declined 16.8% YOY to SAR 252 Mn in 4Q24. Zakat expenses rose 15.8% YOY to SAR 176 Mn in 4Q24 due to the growth in pre-tax profit.

Stock Information

Market Cap (SAR, mn)	76,750.00
Paid Up Capital (mn)	25,000.00
52 Week High	36.00
52 Week Low	27.35
3M Avg. daily value (SAR)	165,847,000

4Q24 Result Review (SAR, mn)

Total Assets	276,827
Total Liabilities	235,386
Total Equity	41,442
Total Deposits	210,545
Net Profit	1,529

Financial Ratios

Dividend Yield (12m)	2.61
Dividend Pay-out (%)	36.30
Price-Earnings Ratio(x)	13.85
Price-to-Book Ratio (x)	2.35
Book Value (SAR)	13.08
Return-on Equity (%)	17.77

Stock Performance

5 Days	-0.32%
1 Months	1.99%
3 Months	11.84%
6 Months	-4.81%
1 Year	-13.28%
Month to Date (MTD%)	2.85%
Quarter to Date (QTD%)	6.04%
Year to Date (YTD%)	6.04%

Balance Sheet Highlights

ALINMA's total assets grew 16.9% YOY and 3.7% QOQ to SAR 276.8 Bn in 4Q24, primarily due to increased financing and investment activities. The Bank's net advances grew 16.5% YOY and 3.3% QOQ to SAR 202.3 Bn in 4Q24, driven by growth in retail and corporate advances. Customer deposits grew 12.1% YOY and 0.7% QOQ to SAR 210.5 Bn in 4Q24, mainly due to a 20% YOY growth in CASA deposits. CASA ratio rose from 48.2% in 4Q23 to 51.6% in 4Q24. The loan-to-deposit ratio increased from 242 bps QOQ to 96.1% in 4Q24 due to lower growth in deposits compared to advances.

Target Price and Rating

We maintain our BUY rating on Alinma Bank with an unchanged target price of SAR 37.00. The Bank reported profitability in line to our estimates in 4Q24 owing to a growth in funded and non-funded income and a decline in provisioning. It further expects strong mid-teens growth in advances in FY2025 followed by strong growth recorded in the previous year. Alinma also expects flat NIMs FY2025 owing to faster repricing of liabilities compared to assets, retail advances comprising 24% of the total loan book in FY2024 and higher advances attributed to the mid-corporates and SMEs sector. The Bank has sizable exposure in investments which amounted to SAR 48.6 Bn in 4Q24 equivalent to 17.6% of total assets. The majority of the investment is of a long-term nature which benefits in a declining interest rate scenario. It also expects the cost-to-income ratio to remain below 30% in the forecasted period. Alinma is expected to benefit from the growth in economic activity and expects a cost of risk of 45-55 bps in FY2025. In addition, it expects no significant change in cost of risk in the next three to five years given the robust economic activity expected going forward. ALINMA maintained a healthy capitalization, with a CAR of 17.7% & Tier 1 capital ratio of 16.7% in 4Q24. The Bank declared a dividend of SAR 0.30 per share in 4Q24 amounting to a total dividend of SAR 1.10 per share in FY2024. Thus, based on the above-mentioned factors, we maintain a BUY rating on the stock.

Alinma - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	39.10	28.37	21.36	15.89	13.87	12.11
PB	3.15	3.09	2.97	2.62	2.35	2.12
Dividend yield	0.8%	1.9%	2.5%	3.0%	3.6%	3.6%

FABS Estimates & Co Data

Alinma - P&L

SAR mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	3,754	4,188	4,207	4,193	0.3%	12.1%	0.5%	13,228	16,155	22.1%
Funded expense	-1,700	-1,967	-1,941	-1,997	-2.8%	14.2%	-1.4%	-5,573	-7,506	34.7%
Net funded income	2,054	2,220	2,266	2,196	3.2%	10.3%	2.1%	7,655	8,649	13.0%
Fees and commissions	359	402	408	419	-2.7%	13.8%	1.7%	1,459	1,608	10.2%
Trading gain/(loss)	79	93	107	84	27.1%	35.3%	15.6%	330	380	14.9%
Other non-funded income	76	101	33	80	-58.4%	-56.3%	-66.9%	282	304	7.7%
Non-funded income	515	595	549	584	-6.0%	6.7%	-7.8%	2,071	2,291	10.6%
Operating income	2,569	2,815	2,815	2,780	1.3%	9.6%	0.0%	9,726	10,940	12.5%
Operating expenses	-774	-852	-864	-850	1.6%	11.6%	1.3%	-3,044	-3,384	11.2%
Pre-provision profit	1,795	1,963	1,951	1,929	1.1%	8.7%	-0.6%	6,682	7,556	13.1%
Impairment	-303	-212	-252	-260	-3.0%	-16.8%	19.2%	-1,272	-1,050	-17.5%
Share of profit of associates	1	-2	3	0	NM	NM	NM	12	-5	NM
Net profit before zakat	1,472	1,752	1,705	1,669	2.1%	15.8%	-2.7%	5,396	6,502	20.5%
Zakat	-152	-181	-176	-171	2.5%	15.8%	-2.7%	-556	-670	20.5%
Net profit attributable	1,320	1,571	1,529	1,498	2.1%	15.8%	-2.7%	4,839	5,832	20.5%

FABS estimate & Co Data

Alinma - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	80.0%	78.9%	80.5%	53	163	78.7%	79.1%	35
NIM	3.6%	3.5%	3.4%	-16	-3	3.6%	3.5%	-13
NIS	3.0%	2.9%	2.8%	-19	-2	3.1%	2.9%	-19
Fees & comms/OI	14.0%	14.3%	14.5%	53	24	15.0%	14.7%	-30
Trading/OI	3.1%	3.3%	3.8%	73	52	3.4%	3.5%	7
Cost to income	30.1%	30.3%	30.7%	57	40	31.3%	30.9%	-36
Impairment/PPP	16.9%	10.8%	12.9%	-396	215	19.0%	13.9%	-514
NP/OI	51.4%	55.8%	54.3%	292	-150	49.8%	53.3%	355
Cost of risk (calculated)	0.7%	0.4%	0.5%	-19	7	0.8%	0.5%	-22
Loan-to-deposit	92.4%	93.7%	96.1%	369	242	94.8%	97.9%	311
NPL (calculated)	1.6%	0.8%	1.1%	-55	28	1.6%	1.1%	-55
NPL Coverage	154.9%	245.2%	172.3%	1736	NM	154.9%	172.3%	NM
Tier 1	16.3%	17.0%	16.7%	36	-29	16.3%	16.7%	36
Capital adequacy	17.5%	18.2%	17.7%	26	-42	17.5%	17.7%	26
ROAE	16.8%	17.4%	17.8%	95	34	17.7%	18.9%	122
ROAA	2.2%	2.3%	2.3%	6	2	2.2%	2.3%	6

FABS estimate & Co Data

Alinma – Key B/S items

SAR mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	173,624	180,702	189,912	195,895	202,308	16.5%
QOQ change	2.7%	4.1%	5.1%	3.2%	3.3%	
Total assets	236,715	244,859	260,138	266,983	276,827	16.9%
QOQ change	1.8%	3.4%	6.2%	2.6%	3.7%	
Customer deposits	187,901	188,988	205,357	209,140	210,545	12.1%
QOQ change	4.3%	0.6%	8.7%	1.8%	0.7%	
Total equity	34,334	39,348	40,037	41,158	41,442	20.7%
QOQ change	2.6%	14.6%	1.8%	2.8%	0.7%	

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	37.21	70.0%	26.04
Relative Valuation (RV)	36.53	30.0%	10.96
Weighted Average Valuation (SAR)			37.00
Current market price (SAR)			30.70
Upside/Downside (%)			+21%

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.90 and equity risk premium of 4.3%. 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)	14,674
Terminal value (SAR, Mn)	45,648
Book value of Equity (as of Sep, 2024)	32,691
FV to Common shareholders (SAR, Mn)	93,014
No. of share (Mn)	2,500
Current Market Price (SAR)	30.70
Fair Value per share (SAR)	37.21

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	6,313	7,001	7,574	8,352	9,308
(-) Equity Charge	-3,165	-3,522	-3,906	-4,335	-4,819
Excess Equity	3,147	3,479	3,668	4,017	4,489
Discounting Factor	0.93	0.85	0.79	0.72	0.67
Present Value of Excess Equity	2,925	2,974	2,884	2,905	2,986

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 1.9x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Al Rajhi Bank	105,477	3.6	3.3	18.5	16.4	3.1	3.5
Saudi National Bank	54,661	1.2	1.1	9.7	8.9	5.9	6.5
Banque Saudi Fransi	10,689	1.0	0.9	9.1	8.5	6.3	6.6
Riyad Bank	23,581	1.5	1.4	9.7	9.5	5.3	5.6
Bank Albilad	13,095	2.5	2.4	17.8	16.3	1.5	1.7
Abu Dhabi Islamic Bank	15,208	2.2	2.0	10.7	10.3	5.3	5.3
Average		2.0x	1.9x	12.6x	11.6x	4.6x	4.9x
Median		1.9x	1.7x	10.2x	9.9x	5.3x	5.4x
Max		2.4x	2.3x	16.0x	14.8x	5.7x	6.3x
Min		1.2x	1.2x	9.7x	9.0x	3.7x	3.9x

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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