

Despite of 5.3% deviation from our estimates, Alinma result showed deviation on multiple fronts. Higher the expected growth in gross financing income, while other operating income was offset by 70%YoY higher operating expenses.

- Q12017 net income at SAR 421mn, came above our expectation of SAR 400mn, depicting a jump of 7.7% YoY and 7.9% QoQ. The growth in net income was supported by 37.7% YoY increase in gross financing and investment income and 31.7% YoY growth in other operating income, supported by gain from equity investments and foreign exchange income.
- Net operating expenses stood at SAR 584mn depicting a rise of 70.2% YoY and 5.0% QoQ. The operating expenses showed a deviation of 25.2% against our estimates. Higher impairment expenses in addition to higher salary expense, general & administrative expense and depreciation contributed to the higher operating expense bill.
- The strong growth in topline was supported by 22.06%YoY increase in loans standing at SAR 73.5bn whereas deposits stood at SAR 81.5bn depicting a jump of 18.4%YoY. ADR improved to 90.3% in 1Q-2017 as compared to 87.6% in 1Q-2016. Effective quarterly lending rate in 1Q-2017 stood at 1.37% as compared to 1.21% in 1Q-2016.

AJC view: Alinma's strong topline performance and higher operating income was result of solid loans and deposit growth along with higher interest rates. Higher provisions kept the earnings growth in check, however it still remained strong. Going forward, lower SAIBOR can impact the topline growth; however, strong loan growth can potentially counter the negative impact of lower lending rates. Alinma is currently trading at a 12 months trailing PE of 14.2x as compared to forwards PE of 13.2x . We maintain our price target of SAR 16.4 with an **"Overweight"** Recommendation

Results Summary

SARmn (unless specified)	Q1- 2016	Q4- 2016	Q1- 2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Net financing and investments income	611	727	814	33.2%	12.0%	-17.9%
Net Financing Margins	83.5%	71.1%	80.8%			
Total operating income	734	945	1,005	36.9%	6.3%	15.9%
Net Profit	391	390.0	421.0	7.7%	7.9%	5.3%
EPS	0.26	0.27	0.28			

Source: Company reports, Aljazira Capital

Recommendation	'Overweight'
Current Price* (SAR)	14.60
Target Price (SAR)	16.4
Upside / (Downside)	12.3%

*prices as of 17th of April 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Net financing and investments income	2,279	2,551	2,636
Growth %	9.8%	12.0%	3.3%
Net Income	1,470.0	1,502.3	1,660.7
Growth %	16.3%	2.2%	10.5%
EPS	0.99	1.01	1.12

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	21,900
YTD %	-3.0%
Shares Outstanding (mn)	1500.0
52 Week (High)	15.50
52 Week (Low)	10.75

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
NIMS	4%	3%	3%
Operating Margins	58%	45%	46%
PE (x)	14.90	14.58	13.19
PB (x)	1.30	1.22	1.19
Dividend Yield	4%	4%	4%
ROA	2%	1%	2%
ROE	4%	6%	7%
Gross Loans growth	6%	23%	7%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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