

Rating	Neutral
12-Month Target Price	SAR 14.00

## ALINMA BANK (ALINMA)

1Q2017 First Look

### LDR Peaks, Deposit Growth Slows

Alinma reported inline 1Q results with a net income of SAR 421 million (+8% Y/Y, +35% Q/Q) almost matching our SAR 424 million forecast. Strong bottomline was driven directly from expanding spreads with net income from financing soaring +38% Y/Y and even +15% Q/Q with the bank benefitting from higher SAIBOR. Non-core income surged +61% Y/Y at SAR 194 million but was lower than the preceding quarter, which gained from higher investments income. We believe provisions on financing and investments were higher than our expectations and close to the SAR 120 million level accrued in 4Q. Deposit growth slowed in 1Q to just +1% Q/Q at SAR 81.5 billion but net financing grew at a faster pace (+5% Q/Q) to SAR 73.5 billion. Banks as a whole have tried to unwind higher cost deposits, which they accumulated in 4Q2016. We find Alinma appropriately valued at 1.1x 2017E P/B and near our SAR 14.00 target. Recommend a Neutral.

### Deposit costs plunge, aiding spreads

Net financing and investment income has witnessed a robust +38% Y/Y growth and has even increased +15% Q/Q to SAR 814 million. This shows that the bank was able to limit high cost deposits in 1Q while at the same time took advantage of higher SAIBOR to post expanded spreads. We had highlighted rising cost of funds as a concern in our 4Q2016 First Look note, which has been addressed as cost of deposits plunged -32% Q/Q to SAR 194 million. Concurrently, income from financing grew +2% Q/Q.

### LDR at 90% limit

We are surprised by the soft +1% growth in deposits Q/Q given that Alinma managed to increase deposits by SAR 16 billion in 2016 in difficult market conditions; this can be explained by a strategy of releasing high cost money and raising new money only at modest rates. Net financing increased by SAR 3.2 billion (+5% Q/Q) pointing to a healthy credit demand. However, this combo has resulted in LDR reaching the 90% threshold. Deposit accumulation needs to be pursued to address this.

### Provisions higher than expected

Non-core income has come in line with our expectations at SAR 191 million, up +32% over 1Q2016 but lower than 4Q. Gains on investments have continued from 4Q. Operating expenses have grown +71% Y/Y and +3% Q/Q to SAR 584 million, beyond our estimates. Alinma has likely booked higher provisions for impairment on financing and investments close to last quarter's level of SAR 120 million while we had forecasted a normalized level of SAR 45 million.

### Net income very close to forecast

Net income at SAR 421 million almost matched our SAR 424 million forecast. Elevated level of provisioning, pretty much across the sector, points to continuing credit concerns. The stock is actively traded and is near fair values, in our view, prompting us to recommend a Neutral.

#### 1Q2017 (SAR mln)

#### Actual

#### RC Forecast

1Q2017 (SAR mln)	Actual	RC Forecast
Net Fin. Income	814	701
Total Op Income	1,005	900
Net Income	421	424
Net Financing	73,542	71,110
Deposits	81,445	82,542

#### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Fin. Inc	2,551	2,782	2,982
Prov for cred loss	196	285	270
Net Income	1,502	1,639	1,755
EPS (SAR)	1.00	1.09	1.17
DPS (SAR)	0.50	0.55	0.60

#### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.7%	2.6%	2.4%
ROAE	8.0%	8.4%	8.7%
ROAA	1.6%	1.5%	1.4%
CAR	19.8%	17.6%	16.3%
P/B	1.1x	1.1x	1.0x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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