

Alinma Bank

Strong loan growth and healthy asset quality supported profitability

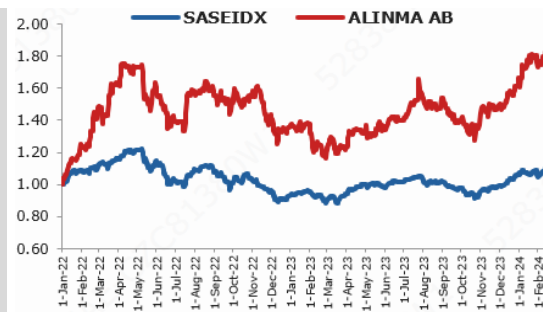
Current Price
SAR 43.95

Target Price
SAR 43.00

Upside/Downside (%)
-2%

Rating
HOLD

- Alinma experienced 18% growth in gross lending, driven by a 16% rise in retail financing and a 19% growth in corporate financing.
- The Bank anticipates mid-teens growth in loan-book for 2024, with expectations of stable NIMs owing to anticipation of rate cuts
- Customer deposits grew 29% in 2023, with the CASA balance declining from 49.9% in 3Q23 to 48.2% in 4Q23, attributed to a decline in CASA balance and a rise in time deposits.
- NPLs declined from 1.7% in 3Q23 to 1.6% in 4Q23, with healthy provision coverage of 154.9% in 4Q23.
- Capitalization stood strong with Tier 1 capital of 16.3% and total CAR of 17.5% in 2023.



Stock Information

Market Cap (SAR, mm)	87,900.00
Paid Up Capital (mm)	20,000.00
52 Week High	45.00
52 Week Low	27.75
3M Avg. daily value (SAR)	179,809,300

4Q23 Net Profit in line with our estimate

Alinma Bank (ALINMA/ The Bank) reported a 53.5% YOY growth in net profit to SAR 1,320 Mn in 4Q23, in line with our estimate of SAR 1,340 Mn. The rise in net profit is primarily attributable to growth in net funded and non-funded income along with lower impairments partially offset by an increase in operating expenses.

P&L Highlights

Funded income rose significantly from SAR 2,437 Mn in 4Q22 to SAR 3,754 Mn in 4Q23 primarily due to a strong growth in net advances and expansion in asset yield. While funded expenses grew significantly from SAR 769 Mn in 4Q22 to SAR 1,700 Mn in 4Q23 due to a rise in benchmark rates. Thus, net funded income rose 23.2% YOY to SAR 2,054 Mn in 4Q23. NIMs grew 12 bps YOY to 3.6% in 4Q23. Fees and commission income grew 7.5% YOY to SAR 359 Mn in 4Q23. While trading income declined 6.3% YOY to SAR 79 Mn in 4Q23. Other non-funded income grew from SAR 62 Mn in 4Q22 to SAR 76 Mn in 4Q23. Thus, non-funded income grew 7.2% YOY to SAR 515 Mn in 4Q23. Resultantly, total operating income grew 19.6% YOY to SAR 2,569 Mn in 4Q23. Furthermore, total operating expenses rose 3.2% YOY to SAR 774 Mn in 4Q23 primarily due to a rise in G&A expenses, salaries expenses, and depreciation charges. However, the cost-to-income improved 480 bps YOY to 30.1% in 4Q23. Impairment charges declined 33.8% YOY to SAR 298 Mn in 4Q23. Moreover, the net profit before zakat grew 53.5% YOY to SAR 1,472 Mn in 4Q23. While zakat expenses rose 53.5% YOY to SAR 152 Mn in 4Q23 in line with the rise in profitability.

4Q23 Result Review (SAR, mm)

Total Assets	236,715
Total Liabilities	202,381
Total Equity	34,334
Total Deposits	187,901
Net Profit	1,320

Financial Ratios

Dividend Yield (12m)	2.58
Dividend Pay-out (%)	34.93
Price-Earnings Ratio(x)	18.27
Price-to-Book Ratio (x)	3.00
Book Value (SAR)	14.67
Return-on Equity (%)	17.22

Stock Performance

5 Days	-1.24%
1 Months	6.03%
3 Months	22.77%
6 Months	19.11%
1 Year	49.24%
Month to Date (MTD%)	6.03%
Quarter to Date (QTD%)	13.71%
Year to Date (YTD%)	13.71%

Balance Sheet Highlights

ALINMA's total assets grew 18.1% to SAR 237 Bn in 4Q23 driven by strong growth in cash and balance with SAMA, investments and net advances. The Bank's net advances recorded strong growth of 18.5% to SAR 174 Bn in 2023 driven by increased lending to corporate and retail sectors. The Bank's investment grew 12.2% to SAR 43 Bn in 4Q23. Moreover, customer deposits rose strongly 29.4% to SAR 188 Bn in 2023. Total equity grew 7.7% to SAR 34 Bn in 2023.

Target Price and Rating

We maintain our HOLD rating on Alinma Bank with a revised target price of SAR 43.00. The Bank's stock price grew 6.1% since our last rating. ALINMA's gross financing grew 18.3% to SAR 178 Bn in 2023. The growth was mainly driven by a 19% and 16% respectively rise in corporate and retail financing in 2023. Corporate and retail financing comprise 76% and 24% respectively of the total loan book 2023. The growth in retail financing was driven by a rise in home and personal financing in 2023. The growth in corporate financing was fuelled by an increase in lending to mid-corporate and SMEs. The Bank further expects the loan book to grow by mid-teens in 2024. This is due to the niche it has built across corporate and retail segments by investing in resources and launching new products to maintain the growth momentum. Customer deposits grew strongly by 29.4% to SAR 188 Bn in 4Q23. 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 Bank's CASA balance. CASA deposits are anticipated to decline further as the Bank emphasizes increasing time deposits over CASA deposits. This is primarily due to the expectation of a mid-teen growth in loans, which will require additional financing from time deposits. NIMs grew 12 bps YOY and 1 bps QOQ to 3.6% in 4Q23. Furthermore, the Bank expects the NIMs to remain nearly stable in 2024. This is due to the expectation of the Bank's slower repricing of assets compared to 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 further expects the cost-to-income to be at 30% in 2024, mainly due to digitization, operational efficiency, and anticipated growth in operating income. Cost of risk also declined from 0.72% in 3Q23 to 0.68% in 4Q23. 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. The Bank also maintained a healthy capitalisation, with a CAR of 17.5% & Tier 1 capital ratio of 16.3% in 4Q23. Despite all the positives, the stock trades at a 2023 dividend yield of 1.9% compared to the sector average of 3.6%. The bank also trades at an expensive 2023 P/B ratio of 3.0x compared to the peer average of 2.2x. Thus, based on the above-mentioned factors, we maintain our HOLD rating on the stock.

Alinma - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	35.3	45.5	33.0	24.8	18.5	16.6
PB	5.1	3.7	3.6	3.5	3.0	3.2
Dividend yield	NM	0.7%	1.7%	2.1%	1.9%	2.4%

FABS Estimates & Co Data

Alinma – P&L

SAR mm	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	2,437	3,515	3,754	3,912	-4.0%	54.1%	6.8%	7,613	13,228	73.7%
Funded expense	-769	-1,509	-1,700	-1,853	-8.3%	121.1%	12.7%	-1,546	-5,573	260.4%
Net funded income	1,668	2,006	2,054	2,059	-0.2%	23.2%	2.4%	6,066	7,655	26.2%
Fees and commissions	334	407	359	423	-15.2%	7.5%	-11.8%	1,209	1,459	20.7%
Trading gain/(loss)	85	74	79	83	-5.0%	-6.3%	6.9%	291	330	13.6%
Other non-funded income	62	53	76	30	151.0%	24.1%	42.9%	397	282	-29.0%
Non-funded income	480	535	515	537	-4.2%	7.2%	-3.8%	1,897	2,071	9.2%
Operating income	2,148	2,541	2,569	2,596	-1.0%	19.6%	1.1%	7,963	9,726	22.1%
Operating expenses	-750	-766	-774	-775	-0.2%	3.2%	1.1%	-2,765	-3,044	10.1%
Pre-provision profit	1,398	1,775	1,795	1,821	-1.4%	28.4%	1.1%	5,198	6,682	28.5%
Impairment	-450	-306	-298	-327	-9.0%	-33.8%	-2.8%	-1,198	-1,272	6.2%
Share of profit of assoc	2	7	1	0	NM	-46.2%	NM	4	12	NM
Net profit before zakat	959	1,476	1,472	1,493	-1.4%	53.5%	-0.3%	4,013	5,396	34.5%
Zakat	-99	-152	-152	-153	-1.1%	53.5%	-0.3%	-414	-556	34.5%
Net Profit attributable	860	1,324	1,320	1,340	-1.5%	53.5%	-0.3%	3,599	4,839	34.5%

FABS estimate & Co Data
Alinma - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	77.6%	79.0%	80.0%	232	102	76.2%	78.7%	252
NIM	3.5%	3.6%	3.6%	12	1	3.3%	3.6%	26
NIS	3.1%	3.1%	3.0%	-9	-4	3.1%	3.1%	-6
Fees & comms/OI	15.5%	16.0%	14.0%	-157	-205	15.2%	15.0%	-18
Trading/OI	3.9%	2.9%	3.1%	-85	17	3.7%	3.4%	-26
Cost to income	34.9%	30.1%	30.1%	-480	-2	34.7%	31.3%	-343
Impairment/PPP	32.2%	17.3%	16.6%	-1561	-67	23.0%	19.0%	-400
NP/OI	40.1%	52.1%	51.4%	1135	-71	45.2%	49.8%	456
Cost of risk	1.2%	0.7%	0.7%	-55	-4	0.9%	0.8%	-8
Loan-to-deposit	103.7%	96.3%	94.8%	-889	-150	103.7%	94.8%	-889
NPL	1.9%	1.7%	1.6%	-33	-8	1.9%	1.6%	-33
NPL Coverage	136.3%	150.8%	154.9%	1860	410	136.3%	154.9%	1860
Tier 1	18.6%	16.4%	16.3%	-230	-6	18.6%	16.3%	-230
Capital adequacy	19.8%	17.5%	17.5%	-231	-3	19.8%	17.5%	-231
ROAE	13.8%	15.5%	16.7%	295	123	14.0%	17.6%	364
ROAA	1.8%	1.9%	2.1%	23	16	1.9%	2.2%	29

FABS estimate & Co Data

Alinma – Key B/S items

SAR mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	146,492	153,153	161,773	169,063	173,624	18.5%
QOQ change	4.6%	4.5%	5.6%	4.5%	2.7%	
Total assets	200,436	213,749	226,900	232,585	236,715	18.1%
QOQ change	3.7%	6.6%	6.2%	2.5%	1.8%	
Customer deposits	145,168	159,948	177,874	180,233	187,901	29.4%
QOQ change	9.9%	10.2%	11.2%	1.3%	4.3%	
Total equity	31,876	33,164	32,977	33,460	34,334	7.7%
QOQ change	1.8%	4.0%	-0.6%	1.5%	2.6%	

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	46.82	70.0%	32.78
Relative Valuation (RV)	34.07	30.0%	10.22
Weighted Average Valuation (SAR)			43.00
Current market price (SAR)			43.95
Upside/Downside (%)			-2%

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.1%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.90 and equity risk premium of 3.8%. 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)	14,755
Terminal value (SAR, Mn)	49,049
Book value of Equity (as of Dec, 2023)	29,334
FV to Common shareholders (SAR, Mn)	93,138
No. of share (Mn)	1,989
Current Market Price (SAR)	43.95
Fair Value per share (SAR)	46.82

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,374	5,957	6,554	7,296	7,958
(-) Equity Charge	-2,251	-2,552	-2,884	-3,259	-3,666
Excess Equity	3,123	3,405	3,670	4,038	4,292
Discounting Factor	0.94	0.87	0.80	0.74	0.69
Present Value of Excess Equity	2,926	2,951	2,942	2,993	2,943

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	93,910	3.5	3.2	19.8	17.4	2.9	3.4
Saudi National Bank	68,190	1.5	1.4	12.3	11.2	4.2	4.5
Banque Saudi Fransi	13,190	1.3	1.2	10.4	9.8	5.2	5.5
Riyad Bank	24,050	1.5	1.4	10.7	10.2	4.7	4.7
Bank Al Bilad	12,450	2.7	2.4	17.3	15.8	1.8	2.2
Abu Dhabi Islamic Bank	10,107	1.7	1.6	8.9	8.3	5.9	6.2
Average		2.0x	1.9x	13.2x	12.1x	4.1%	4.4%
Median		1.6x	1.5x	11.5x	10.7x	4.4%	4.6%
Max		2.4x	2.2x	16.1x	14.7x	5.1%	5.3%
Min		1.5x	1.4x	10.5x	9.9x	3.2%	3.7%

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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