

3Q 2018 Results Update

October 31, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	21.7
Target Price (SAR)	21.3
Upside/Downside (%)	(1.7%)

As of 30th Oct, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	32.3
52 Wk High (SAR)	23.52
52 Wk Low (SAR)	17.20
Total Outstanding shares (in mn)	1,490
Free Float (%)	74.0%

Alinma Bank vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	0.7%	2.7%
6m	3.9%	8.5%
12m	23.8%	11.1%

Major Shareholders (%)

Public Pension Agency	10.7%
Public Investment Fund	10.0%
General Organization for Social Insurance	5.1%

Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 30th Oct 2018

Strong operating income boosts bottom line

Alinma Bank reported yet another strong quarter in 3Q 2018, with 20.6% Y/Y growth in net income (SAR 653mn) driven by 14.0% Y/Y growth in total operating income (SAR 1,212mn). This growth was mainly attributable to increase in net financing and investment income along with higher fee from banking services. Operating expenses increased mainly due to higher staff costs and rental expenses resulting from the increase in number of bank branches. Gross financing and investment income increased by 21.5% YoY to SAR 1,290mn during 3Q18, as Alinma's loans and advances portfolio grew by 6.6% Y/Y to SAR 83.0bn. Investments grew 35.3% Y/Y to SAR 17.6bn, while total assets grew by 8.0% YoY to SAR 120.0bn.

Following the US Fed rate hike, in September 2018, Saudi Arabian Monetary Authority (SAMA) further increased its repo rates by 25bps to 2.75%, after similar increases in March and June this year. These rate hikes may impact credit demand in the coming quarters. Despite higher interest rates, corporate credit may increase on account of a rebounding economy following the recovery in oil prices, and steps taken by the government to boost industrial growth. Corporate and treasury segments constitute a majority of Alinma's asset portfolio. However, an increasing loan to deposit ratio (92.3% in 3Q18 vs 89.2% in 3Q17) and higher cost of funds may limit margin expansion. Given the countervailing factors, we maintain our 'Neutral' rating on the stock.

- Gross financing and investing income grew 21.5% Y/Y to SAR 1,290mn during 3Q18. Net financing and investment income grew 12.5% Y/Y to SAR 987mn, up from SAR 877mn in 3Q17, boosted by higher contribution from the corporate and treasury segments.
- Total operating income increased 14.0% Y/Y to SAR 1,212mn, mainly as a result of increase in net financing and investment income, and 59.8% Y/Y growth in fee from banking services. This was partially offset by a SAR 29mn loss on investments in 3Q18 vs SAR 8mn gain in 3Q17, and lower dividend income.
- Total operating expenses increased 11.2% Y/Y mainly due to higher staff costs and rental expenses resulting from the increase in number of bank branches. Conversely, provisions for impairment declined year-on-year, leading net income to increase 20.6% Y/Y to SAR 653mn.
- Net financing grew 6.6% Y/Y to SAR 83.0bn, while total assets increased by 8.0% Y/Y to SAR 120.0bn.
- Customer deposits increased 3.0% Y/Y to SAR 89.9bn. Deposits grew at a much slower pace than loans, thereby impacting the loan to deposit ratio, which increased from 89.2% in 3Q17 to 92.3% in 3Q18.
- Investments grew 35.3% Y/Y from SAR 13.0bn in 3Q17 to SAR 17.6bn in 3Q18. Shareholder's equity increased 1.8% Y/Y from SAR 19.8bn to SAR 20.2bn during the same period.
- We expect Alinma's loan portfolio to see reasonable growth in coming quarters, driven by the demand from mega projects unveiled during the recent Future Investment Initiative (FII) 2018 conference held in Riyadh. However, an increasing loan to deposit ratio (92.3% in 3Q18 vs 89.2% in 3Q17) and higher cost of funds may limit margin expansion.

Valuation: We maintain our target price of SAR 21.3 per share and re-iterate our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR mn)	987	877	12.5%	3,811	3,493	9.1%
Operating income (SAR mn)	1,212	1,063	14.0%	4,802	4,373	9.8%
EPS (SAR)	0.44	0.36	20.6%	1.62	1.35	20.1%
Net Interest Margin (%)	3.7%	3.5%	0.2%	3.5%	3.5%	0.0%
Cost to income (%)	37.1%	38.1%	-1.0%	39.5%	39.9%	-0.4%
RoE (%)	13.1%	11.0%	2.1%	11.5%	10.2%	1.4%
Total Assets (SAR mn)	120,005	111,121	8.0%	117,826	114,752	2.7%
Financing, net (SAR mn)	82,971	77,812	6.6%	83,610	79,063	5.8%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.