

Rating **Neutral**
12- Month Target Price **SAR 22.00**

ALINMA BANK (ALINMA)
2Q2018 First Look

Expected Total Return

Price as on Jul-19, 2018	SAR 22.20
Upside to Target Price	(0.9%)
Expected Dividend Yield	3.4%
Expected Total Return	2.5%

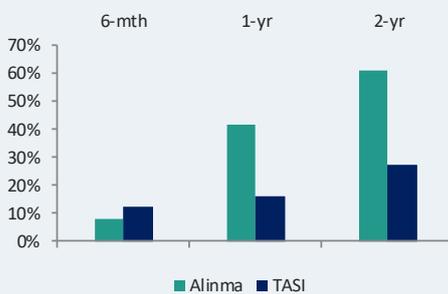
Market Data

52 Week H/L	SAR 22.42/15.62
Market Capitalization	SAR 33,300 mln
Shares Outstanding	1,500 mln
Free Float	73.8%
12-Month ADTV	26,776,337
Bloomberg Code	ALINMA AB

1-Year Price Performance



Source: Bloomberg



2Q2018 (SAR mln)	Actual	RC Forecast
Net Fin. Income	942	941
Total Op Income	1,231	1,139
Net Income	621	602
Net Financing	81,942	79,677
Deposits	88,938	90,072

LDR Surges

Alinma Bank continued its record of strong performance reporting a +27% Y/Y and +7% Q/Q growth in net income to SAR 621 million, in-line with our SAR 602 million forecast but beat market consensus of SAR 591 million. The growth in bottom line primarily stems from higher net financing and investment income of SAR 942 million (+13% Y/Y, +5% Q/Q), due to an increase in gross financing and investment income and despite the rise in return on time investments; in addition to higher non-core income of SAR 289 million (+68% Y/Y, +35% Q/Q). Operating expenses have risen on the back of higher provisions. Net financing went up by SAR 3 billion in 2Q, while deposits fell by SAR 402 million, both taking on opposite trends than last quarter; whereas investments grew by a mere SAR 250 million. Trading at a 2018E P/B of 1.6x, we continue to recommend a Hold but raise our target price to SAR 22.00.

Financing up SAR 3 billion

Contrary to last quarter's scenario where net financing dropped by SAR 246 million Q/Q, it increased noticeably this quarter by SAR 3 billion Q/Q to SAR 82 billion, close to our SAR 80 billion forecast. Deposits however followed sector trend (seen in last released SAMA numbers as of May-end 2018) and fell by SAR 402 million to SAR 89 billion. We believe the bank may have disposed of some costly deposits, in light of the recent uptick in SAIBOR to 2.58% by quarter-end. As a result, LDR went up from 88% last quarter to 92%, a high not seen in years. It is essential for the bank to expand its deposit base massively to free up financing limit. On the other hand, investments grew modestly during the quarter by SAR 250 million to reach SAR 16 billion, its lowest growth momentum since 1Q17.

Impressive income growth

Net financing and investment income has grown +13% Y/Y and +5% Q/Q to SAR 942 million, almost matching our SAR 941 million forecast. This came on the back of a +16% Y/Y and +7% Q/Q rise in income from financing, and in spite of an increase in cost of deposits by +31% Y/Y and +13% Q/Q. We believe this was due to the rise in SAIBOR rate during the quarter, in addition to the increase in net financing. Non-core income went up significantly by +35% Q/Q to SAR 289 million, as fees from banking services and dividend income improved. Consequently, total income came in at SAR 1.2 billion, up +11% Q/Q.

Higher provisions

Operating expenses of SAR 605 million were up +17% Y/Y and +14% Q/Q. The annual increase was the result of higher provisions for impairment, employee costs and general and administrative expenses due to opening 9 more branches since 2Q17. On the other hand, the quarterly increase was mainly due to the higher provisions for impairment, given the growth of net financing this quarter.

Net income grows +27% Y/Y

Alinma continued its steady growth this quarter to record a net income of SAR 621 million, up +27% Y/Y and +7% Q/Q. This result came in-line with our SAR 602 million forecast and slightly higher than market's SAR 591 million, which could boost stock price in the short term. We find the stock fairly valued at 1.6x 2018E book value. We maintain our Neutral recommendation on the stock but raise our target price from SAR 20.00 to SAR 22.00.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Fin. Inc	3,493	3,544	3,875
Prov for cred loss	558	343	364
Net Income	2,011	2,119	2,289
EPS (SAR)	1.34	1.41	1.53
DPS (SAR)	0.79	0.75	0.85

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	3.3%	3.0%	2.9%
ROAE	10.1%	10.2%	10.7%
ROAA	1.8%	1.7%	1.7%
CAR	21%	17%	16%
P/B	1.6x	1.6x	1.5x

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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