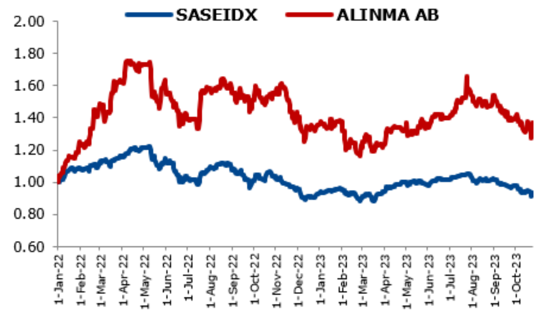
Alinma Bank

Strong asset quality and rising low-cost deposits boosted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 35.85	SAR 38.00	+6%	HOLD

- Alinma net advances recorded a growth of 15% YTD in 2023 owing to a growth in both Retail and Corporate Financing.
- The Bank's financing portfolio comprises 76% of the corporate loan and benefits from quick repricing in the rising interest rate scenario.
- Customer deposits rose strongly recording a 24% 2023 YTD growth mainly attributed to a strong rise in the CASA and time deposits.
- Cost-to-income ratio declined from 34.2% in 3Q22 to 30.1% in 3Q23 in line with its 2023 target of below 32.0%
- Alinma's NPLs declined from 1.9% in 2Q23 to 1.7% in 3Q23, with healthy provision coverage of 150.8% in 3Q23.



Stock Information	
Market Cap (SAR, mm)	71,700.00
Paid Up Capital (mm)	20,000.00
52 Week High	39.80
52 Week Low	27.40
3M Avg. daily value (SAR)	138,557,600

3Q23 Result Review (SAR, mm)	
Total Assets	232,585
Total Liabilities	199,125
Total Equity	33,460
Total Deposits	180,233
Net Profit	1,324

Financial Ratios	
Dividend Yield (12m)	3.16
Dividend Pay-out (%)	52.57
Price-Earnings Ratio(x)	16.50
Price-to-Book Ratio (x)	2.52
Book Value (SAR)	14.23
Return-on Equity (%)	15.99

Stock Performance	
5 Days	1.41%
1 Months	13.81%
3 Months	1.27%
6 Months	14.90%
1 Year	-4.02%
Month to Date (MTD%)	9.12%
Quarter to Date (QTD%)	7.49%
Year to Date (YTD%)	10.29%

3Q23 Net Profit in line with our estimate

Alinma Bank (ALINMA/ The Bank) reported a 33.9% YOY increase in net profit to SAR 1,324 Mn in 3Q23, in line with our estimate of SAR 1,290 Mn. The rise in net profit is primarily attributable to 22.4% YOY growth in total operating income driven by a rise in net income from financing and investment, fee income, exchange income and FVSI income partially offset by higher impairments and rising operating expenses.

P&L Highlights

Funded income rose significantly from SAR 2,049 Mn in 3Q22 to SAR 3,515 Mn in 3Q23 primarily due to a strong rise in Bank's loan book and expansion in asset yield. While funded expenses grew substantially to SAR 1,509 Mn in 3Q23 as compared to SAR 376 Mn in 3Q22 due to a rise in benchmark interest rates. Thus, net funded income rose 19.9% YOY to SAR 2,006 Mn in 2Q23. Non-funded income grew 33.1% YOY to SAR 535 Mn in 3Q23 owing to an increase in fees, exchange income, and FVIS income. Fee and commissions income grew 32.5% YOY to SAR 407 Mn in 3Q23 whereas exchange income rose 7.5% YOY to SAR 74 Mn in 3Q23. Moreover, other non-funded income grew from SAR 26 Mn in 3Q22 to SAR 53 Mn in 3Q23. Resultantly, total operating income rose 22.4% YOY to SAR 2,541 Mn in 3Q23. Further, total operating expenses grew 7.9% YOY to SAR 766 Mn in 3Q23 primarily due to a rise in G&A expenses, salaries expenses, rent, and depreciation charges. However, the cost-to-income ratio improved 406 bps YOY to 30.1% in 3Q23. Impairment charges rose 16.0% YOY to SAR 306 Mn in 3Q23. Moreover, the net profit before zakat grew 33.9% YOY to SAR 1,476 Mn in 3Q23. While zakat expenses rose 33.9% YOY to SAR 152 Mn in 3Q23 in line with the rise in profitability.

Balance Sheet Highlights

ALINMA's net advances recorded strong growth of 20.8% YOY and 4.5% QOQ to SAR 169.1 Bn in 3Q23. The growth in net financing is mainly driven by 6.0% QOQ growth in the corporate segment and 1.2% QOQ growth in retail financing. Total assets grew 20.4% YOY and 2.5% QOQ to SAR 232.6 Bn in 3Q23. Moreover, customer deposits rose strongly 36.5% YOY and 1.3% QOQ to SAR 180.2 Bn in 3Q23. Whereas total equity rose 6.9% YOY and 1.5% QOQ to SAR 33.5 Bn in 3Q23.

Target Price and Rating

We revise our rating from BUY to HOLD on Alinma Bank with a target price of SAR 38.00. The Bank's stock price moved up 9.6% since our last rating. Alinma recorded strong growth in profitability owing to a strong double-digit growth in net funded and non-funded income. The growth in funded income was fueled by an increase in net advances and other interest-earning assets. Whereas, growth in non-funded income was driven by a rise in fees and commission income, trading and FVIS income. Alinma's financing portfolio continued to grow in 3Q23 in line with its revised guidance of mid-teens to high teens in 2023. Net advances grew 20.8% YOY and 4.5% QOQ in 3Q23. The Bank's retail and corporate financing recorded 13% and 16% growth in 2023 on a YTD basis respectively. Alinma's financing portfolio comprises 76% of the corporate loan and 24% of retail loans as of 3Q23. Higher exposure to corporate loans enables quick repricing in rising interest rate scenarios. NIMs of the Bank improved 13 bps QOQ to 3.6% in 3Q23. Alinma anticipates NIMs to grow 20-30 bps in 2023 owing to rising interest rates and anticipated growth in low-cost CASA deposits. Customer deposits grew strongly 36.5% YOY and 1.3% QOQ to SAR 180.2 Bn in 3Q23 boosting the Bank's liquidity position. CASA deposits accounted for 49.9% of the Bank's total deposits in 3Q23. The regulatory loan-to-deposit ratio rose from 76.4% in 2Q23 to 79.8% in 3Q23. Despite the rise in income the operating expenses remained largely constant thus the Bank's cost-to-income ratio improved 406 bps YOY and 51 bps QOQ to 30.1% in 3Q23. Furthermore, Alinma's asset quality improved as the NPL ratio declined from 1.9% in 2Q23 to 1.7% in 3Q23, while provision coverage grew strongly from 130.1% in 2Q23 to 150.8% in 3Q23 providing a healthy buffer against bad loans. The Bank also maintained a healthy capitalization, with a CAR of 17.5% & Tier 1 capital ratio of 16.4% in 3Q23. Despite all the positives, the stock trades at a 2023 dividend yield of 3.1% compared to the sector average of 4.6%. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

Alinma - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	18.2	27.3	35.2	26.6	20.1	15.0
PB	3.5	4.0	2.8	2.8	2.7	2.4
Dividend yield	2.1%	NM	0.9%	2.1%	2.7%	3.2%

FABS Estimates & Co Data

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Alinma – P&L

SAR mm	3Q22	2Q23	3Q23A	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	2,049	3,176	3,515	3,353	4.8%	71.5%	10.7%	7,613	13,276	74.4%
Funded expense	-376	-1,316	-1,509	-1,436	5.0%	301.6%	14.6%	-1,546	-5,553	259.0%
Net funded income	**1,674**	**1,860**	**2,006**	**1,916**	**4.7%**	**19.9%**	**7.9%**	**6,066**	**7,723**	**27.3%**
Fees and commissions	307	385	407	404	0.8%	32.5%	5.8%	1,209	1,463	21.0%
Trading gain/(loss)	69	91	74	93	-20.2%	7.5%	-18.6%	291	343	18.0%
Other non-funded income	26	101	53	97	-44.9%	109.2%	-47.2%	397	311	-21.6%
Non-funded income	**402**	**577**	**535**	**594**	**-10.0%**	**33.1%**	**-7.4%**	**1,897**	**2,117**	**11.6%**
Operating income	**2,075**	**2,437**	**2,541**	**2,510**	**1.2%**	**22.4%**	**4.3%**	**7,963**	**9,841**	**23.6%**
Operating expenses	-710	-747	-766	-734	4.3%	7.9%	2.5%	-2,765	-3,044	10.1%
Pre-provision profit	**1,366**	**1,690**	**1,775**	**1,776**	**-0.1%**	**30.0%**	**5.0%**	**5,198**	**6,796**	**30.7%**
Impairment	-264	-325	-306	-338	-9.4%	16.0%	-5.8%	-1,198	-1,433	19.7%
Share of profit of assoc	1	1	7	0	NM	NM	NM	4	11	NM
Net profit before zakat	**1,103**	**1,366**	**1,476**	**1,438**	**2.7%**	**33.9%**	**8.1%**	**4,013**	**5,374**	**33.9%**
Zakat	-114	-141	-152	-148	2.8%	33.9%	8.1%	-414	-553	33.8%
Net Profit attributable	**989**	**1,225**	**1,324**	**1,290**	**2.7%**	**33.9%**	**8.1%**	**3,599**	**4,820**	**33.9%**

FABS estimate & Co Data

Alinma - Margins

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	80.6%	76.3%	79.0%	-169	264	76.2%	78.5%	230
NIM	3.6%	3.4%	3.6%	-5	13	3.3%	3.6%	25
NIS	3.4%	3.0%	3.1%	-36	9	3.1%	3.1%	-4
Fees & comms/OI	14.8%	15.8%	16.0%	122	24	15.2%	14.9%	-32
Trading/OI	3.3%	3.7%	2.9%	-41	-82	3.7%	3.5%	-16
Cost to income	34.2%	30.6%	30.1%	-406	-51	34.7%	30.9%	-379
Impairment/PPP	19.3%	19.2%	17.3%	-208	-199	23.0%	21.1%	-195
NP/OI	47.7%	50.3%	52.1%	445	184	45.2%	49.0%	379
ROAE	12.7%	14.7%	15.5%	279	85	14.3%	17.8%	351
ROAA	1.8%	1.8%	1.9%	13	7	1.9%	2.2%	26

FABS estimate & Co Data

Alinma – Key B/S items

SAR mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	139,987	146,492	153,153	161,773	169,063	20.8%
QOQ ch	6.7%	4.6%	4.5%	5.6%	4.5%	
Total assets	193,229	200,436	213,749	226,900	232,585	20.4%
QOQ ch	4.7%	3.7%	6.6%	6.2%	2.5%	
Customer deposits	132,048	145,168	159,948	177,874	180,233	36.5%
QOQ ch	1.3%	9.9%	10.2%	11.2%	1.3%	
Total equity	31,302	31,876	33,164	32,977	33,460	6.9%
QOQ ch	-0.5%	1.8%	4.0%	-0.6%	1.5%	

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	39.31	70.0%	27.52
Relative Valuation (RV)	34.92	30.0%	10.48
Weighted Average Valuation (SAR)			**38.00**
Current market price (SAR)			35.85
Upside/Downside (%)			+6%

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.74%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.90 and equity risk premium of 4.5%. 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)	10,088
Terminal value (SAR, Mn)	**39,699**
Book value of Equity (as of Sept, 2023)	28,460
FV to Common shareholders (SAR, Mn)	**78,247**
No. of share (Mn)	1,990
Current Market Price (SAR)	35.85
Fair Value per share (SAR)	**39.31**

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,620	5,583	5,771	6,592	7,643
(-) Equity Charge	-2,491	-2,805	-3,118	-3,485	-3,927
Excess Equity	**355**	**2,779**	**2,653**	**3,107**	**3,716**
Discounting Factor	0.99	0.91	0.83	0.77	0.71
Present Value of Excess Equity	**350**	**2,520**	**2,213**	**2,383**	**2,622**

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 PB multiple of 2.4x as compared to peer valuation of 1.6x.

Company	Market	P/B (x)		P/E (x)		Dividend Yield (%)	
	(USD Mn)	2023F	2024F	2023F	2024F	2023F	2024F
Al Rajhi Bank	68,490	2.7	2.5	15.7	14.2	3.4	3.8
Saudi National Bank	50,470	1.2	1.1	9.8	9.0	5.1	5.5
Banque Saudi Fransi	11,030	1.1	1.1	9.2	8.5	5.8	6.0
Riyad Bank	20,340	1.4	1.3	9.8	9.0	5.2	5.5
Bank Al Bilad	9,775	2.4	2.1	15.6	13.5	1.8	2.1
Abu Dhabi Islamic Bank	9,928	1.9	1.7	8.8	9.1	6.5	5.8
Average		**1.8x**	**1.6x**	**11.5x**	**10.5x**	**4.6%**	**4.8%**
Median		**1.6x**	**1.5x**	**9.8x**	**9.0x**	**5.1%**	**5.5%**
Max		**2.2x**	**2.0x**	**14.2x**	**12.4x**	**5.6%**	**5.8%**
Min		**1.2x**	**1.1x**	**9.3x**	**9.0x**	**3.8%**	**4.2%**

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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