

Alinma Bank (Alinma) posted a net income of SAR 618.7mn (EPS of SAR 0.31), below our and consensus estimate of SAR 705.7mn and SAR 713.4mn, respectively, in Q4-21. The deviation from our estimate was mainly attributed to lower-than-expected income from investment and financing activities. Total deposits and loans increased 1.3% Y/Y and 13.6% Y/Y, respectively, in Q4-21. Total deposits of SAR 121.1bn were 1.6% below our forecast, while loans of SAR 126.3bn were 2.6% above our estimate. The Murabaha lending rate decreased by 10 bps Q/Q. We maintain our “Neutral” recommendation, with a TP of SAR 23.0/share.

- Alinma posted earnings of SAR 618.7mn (57.0% Y/Y, -16.2% Q/Q) in Q4-21. Net financing and investment income stood at SAR 1,309mn (7.8% Y/Y, -6.0% Q/Q), below our expectation of SAR 1,390mn. The main reason for deviation as compared to our estimate is a decline of 10 bps Q/Q in lending rate. The Murabaha rate/lending rate came in 9 bps below our expectation. An increase in Y/Y net financing and investment income can be attributed to SAR 126.3bn worth of loans (13.6% Y/Y, 4.1% Q/Q), up by SAR 5.0bn. Our total loan expectation stood at SAR 123.1bn.
- Deposits increased by SAR 4.4bn Q/Q to SAR 121.1bn (3.8% Y/Y, 1.3% Q/Q), 1.6% below our estimate of SAR 123.0bn. As loan growth outpaced deposit growth, the ADR ratio increased to 104.3%, from 104.0% in Q3-21.
- The bank posted an operating income of SAR 1.67bn (0.4% Y/Y, -3.2% Q/Q), below our estimate of SAR 1.74bn. The Q/Q decrease in operating profit was mainly attributed to the decline in net income from investment and financing activities.
- Operating expense of SAR 979.7mn (-20.1% Y/Y, 9.2% Q/Q) was above our estimate of SAR 954.2mn. Even though Alinma did not provide an OPEX breakup, we believe the Q/Q increase is attributed to higher impairment charges, salaries and employee related expenses, and other general and administrative expenses.

AJC view: For revenue growth, the bank depends on corporate loans, contributing 78.7% to total loans in Q3-21. The current pressure on NIMs is expected to ease with the Fed at least three rate hikes in FY22. Moreover, a strong economic outlook for KSA GDP in FY22 augurs well for the corporate sector. The expected increase in the further interest rates and the positive economic outlook is likely to benefit Alinma due to the repricing of loans, consequently benefiting NIMs. The bank established Alinma SPV Ltd (the authorized capital equivalent of SAR 187,500), an LLC in the Cayman Islands, to execute and engage financial derivatives transactions and repurchase agreements with international banks. We think it is too early to gauge the impact of this initiative on the company's financials. We expect the bank to post earnings of SAR 2.8bn in FY22. Once it publishes the detailed financials, we will revisit our estimates. We maintain our “Neutral” recommendation on Alinma with TP of SAR 23.0/share.

Results Summary

SARmn	Q4-20	Q3-21	Q4-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Net financing & investments income	1,214.2	1,392.5	1,309.3	7.8%	-6.0%	-5.8%
<i>Net financing margin</i>	<i>88.2%</i>	<i>92.1%</i>	<i>90.2%</i>			
Total operating income	1,662.7	1,723.7	1,669.2	0.4%	-3.2%	-4.0%
Net Profit	394.0	738.1	618.7	57.0%	-16.2%	-12.3%
EPS	0.20	0.37	0.31			

Source: Company reports, Aljazira Capital

Neutral

Target Price (SAR)	23.0
Upside / (Downside)*	-20.9%

Source: Tadawul *prices as of 7th of February 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E
Net financing and inv. income	4,647.8	5,137.0	5,147.2
Growth %	7.5%	10.5%	0.2%
Net Income	1,966.0	2,708.8	2,857.6
Growth %	-22.4%	37.8%	5.5%
EPS	0.99	1.36	1.44

Source: Company reports, Aljazira Capital

Note: EPS is calculated by dividing the net income for FY21 and FY22 by 1,987.7mn and 1,987.1mn shares, respectively, as stated by the company in the earnings release

Key Ratios

	FY20	FY21	FY22E
NIMs	2.8%	3.1%	3.1%
Operating Margin	40%	53%	53%
PE (x)	16.5	17.7	20.8
P/B (x)	1.3	1.6	1.9
Dividend Yield	1.9%	3.1%	2.7%
ROA	1.3%	1.6%	1.6%
ROE	8.0%	8.8%	9.0%
Gross loans growth	17%	15%	2%

Source: Company reports, Argaam, Aljazira Capital

Note: NIMs and Gross loan growth for FY21 are estimated as the detailed financials are not yet available

Key Market Data

Market Cap (bn)	59.3
YTD %	23.7%
52 week (High)/(Low)	30.3/16.1
Shares Outstanding (mn)	2,000.0

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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