

Alinma Bank (ALINMA)

Target Price: SAR 46.9/share
Upside: 14.0%

Recommendation	Buy
Current Market Price (SAR)	41.2
52wk High / Low (SAR)	42.1/27.4
Mkt. Cap. (USD/SAR Mn)	21,933/82,300
Shares Outstanding (mn)	2,000
Free Float (%)	90.0%
3m Average Vol. (000)	4,396.6
3m Avg Daily Turnover (SAR'000)	157,093
Dividend Yield '24e (%)	3.6%
P/E'24e (x)	14.8
P/B'24e (x)	1.9

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Net yield income	5,140	6,066	7,661	8,552
Non yield income	1,519	1,897	2,107	2,164
Operating income	6,660	7,963	9,768	10,716
Impairment charge	1,252	1,198	1,309	1,369
Net income	2,709	3,599	4,876	5,547
Cost to income (%)	35%	35%	31%	30%
EPS (SAR)	1.36	1.81	2.45	2.79
RoE (%)	11%	13%	16%	15%
Financing	126,271	146,492	174,580	191,681
Customers' deposits	121,061	145,168	183,918	195,259

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Public Investment Fund	10.00%
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Source: Bloomberg, Yaqeen Capital

Earnings grow strongly led by higher funded income

- ALINMA net income jumped 33.9% YoY (+8.1% QoQ) to SAR 1,324mn in 3Q2023 driven by a notable rise in net funded income and higher fee income. However, higher provisions charges (SAR 301mn vs. SAR 273mn in 3Q2022) and increased operating expenses limited gains at bottom-line level.
- Operating income was up by 22.4% YoY to SAR 2,541mn (+4.3% QoQ) in 3Q2023 supported by a rise in net funded income (+19.9% YoY, +7.9% QoQ) due to higher interest rates. The increase in net fee income (+32.5% YoY, +5.8% QoQ) further contributed to the momentum during the quarter.
- Operating expenses increased by 7.9% YoY and 2.5% QoQ to SAR 766mn in 3Q2023, however, cost to income ratio improved to 30.1% vs. 34.2% in 3Q2022.
- Gross financing portfolio (24% retail, 76% corporate) grew 20.7% YoY (+4.6% QoQ) to SAR 173.5bn in 3Q2023 driven by strong growth in both corporate (76% of total loan book, +21.6% YoY) and retail (24%, +17.8% YoY) segments.
- Customer deposits were up by 36.5% YoY to SAR 180.2bn (+1.3% QoQ) in 3Q2023, primarily driven by a significant surge in time deposits (+97.8% YoY), while CASA deposits saw a 4.2% YoY increase. Yet, CASA % of total deposits declined to 49.9% in 3Q2023 from 65.5% in 3Q2022.
- NPL ratio rose slightly to 1.69% in 3Q2023 compared to 1.67% in 3Q2022 while NPL coverage ratio came at 150.8% vs. 155.5% in 3Q2022.
- Capital adequacy ratio (CAR) declined by 2.6ppts YoY to 17.5% as of Sep 2023 and Liquidity coverage ratio (LCR) reached 165%.
- For 9M2023, net income came at SAR 3,519mn (+28.5% YoY) driven by higher operating income (+23.1% YoY) partially offset by higher operating costs (+12.6% YoY) and provisions (+26.5% YoY).

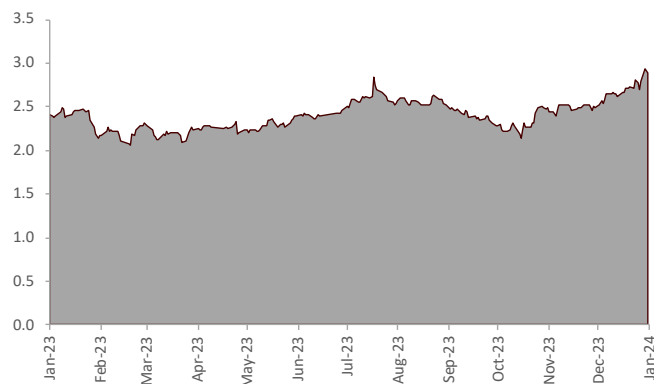
Outlook & Valuation: The domestic banking sector is strategically positioned to leverage anticipated robust credit growth, buoyed by ongoing rise in government spending, likely pick up in private sector investments, and the gradual softening of interest rates in the medium to long term. The sector's superior asset quality, robust capitalization levels, and healthy NIM further solidify its resilience. These positive trends paint an optimistic scenario for banks like ALINMA. We have projected ALINMA earnings to grow at a CAGR of ~16% during FY2022-26 driven by expected higher net funded income and likely improvement in cost to income ratio. The stock is currently trading at a P/B of 1.9x (based on FY2024e BVPS). Based on equal weighted valuation using Residual Income and P/B methodologies, we arrive at a fair value of SAR 46.9/share (+14.0% upside from current level), implying Buy recommendation on the stock.

Financial Summary

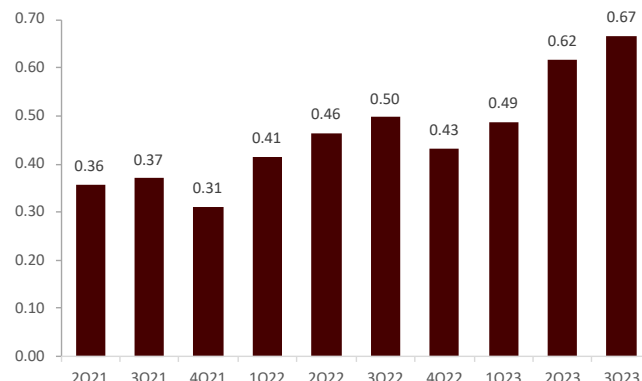
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Net yield income	2,006	1,674	20%	1,860	8%
Non yield income	535	402	33%	577	-7%
Operating income	2,541	2,075	22%	2,437	4%
Impairment charge	301	273	10%	326	-8%
Net income	1,324	989	34%	1,225	8%
Cost to income (%)	30%	34%		31%	
NPL ratio (%)	1.69%	1.67%		1.89%	
EPS (SAR)	0.67	0.50	34%	0.62	8%

Source: Company Reports, Yaqeen Capital

Price to Book Ratio Trend



EPS (SAR) Trend



Rating Methodology

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

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

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

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