

Alinma Bank

Higher Funded and Non-funded income and lower impairments boost profits

2Q22 Net Profit higher than our estimate

Alinma Bank reported a significant increase in net profit to SAR 925 Mn in 2Q22 from SAR 710 Mn in 2Q21, beating our estimate of SAR 874 Mn. This increase was primarily due to the increase in net operating income owing mostly to the increase in financing and investment income, FVIS investment income, fee and exchange income and other operating income.

P&L highlights

Net funded income increased 14.8% YOY to SAR 1,414 Mn in 2Q22. The improvement in performance was mainly due to an increase in funded income which rose 21.3% YOY to SAR 1,653 Mn in 2Q22 and on the other hand funded expense increased to 82.0% YOY to SAR 239 Mn in 2Q22. Total non-funded income increased 23.0% YOY to SAR 519 Mn in 2Q22 due to growth in fee income, FVIS investment income, exchange and other operating income. Thus, net operating income rose 16.9% YOY to SAR 1,932 Mn in 2Q22. Total operating expenses increased SAR 546 Mn in 2Q22 due to rise in salaries expenses, and increase in G&A expense. As a result, cost to Income ratio decreased to 28.3% in 2Q22 from 31.5% in 2Q21. Impairment charges significantly declined to SAR 240 Mn in 2Q22 down from SAR 342 Mn in 2Q21. Resultantly, the net profit before tax increased to SAR 1,031 Mn in 2Q22 from SAR 792 Mn in 2Q21. Zakat expenses rose to SAR 106 Mn in 2Q22 due to rise in profitability.

Balance sheet highlights

Net Financing and investing increased 9.7% YOY to SAR 131 Bn in 2Q22. Customer Deposit increased 3.6% YOY to SAR 130 Bn in 2Q22. As a result, total assets increased 12.5% YOY to SAR 185 Bn in 2Q22. Total Equity increased 24.9% YOY to SAR 31 Bn in 2Q22.

Target price and rating

We revise our rating from ACCUMULATE to HOLD on Alinma Bank with an unchanged target price of SAR 38.00. The Bank share price recorded a gain of 11.3% since our last rating. Alinma is anticipated to benefit from a rising interest rate environment due to a positive interest rate sensitivity gap. We believe the Bank NIM benefited during 2Q22 due to increase in yield as compared to rise in cost of funds based on our calculation. Alinma is also expected to maintain a healthy balance sheet growth rate through deeper penetration of the existing customer base. The bank is further expecting strong growth in financing due to strong economic growth and robust demand for credit from their mid-corporate and retail segments. However, growth in advances remained subdued rising 1.7% QOQ to SAR 131 Bn in 2Q22 trailing peer growth rate during 2Q22. Asset remain healthy with a NPL ratio of 2.0% with a robust coverage of 150% in 1Q22. Healthy coverage shields the Bank against rise in NPLs in the future. Based on FY2022 financials, Alinma is trading at a PE multiple of 22.5x compared to peer average of 17.1x and expected to generate a dividend yield of 2.4% compared to peer average of 2.9% renders it expensive. Considering all these factors, we recommend a 'HOLD' rating on the stock.

Rating : HOLD

First Look Note – 2Q22

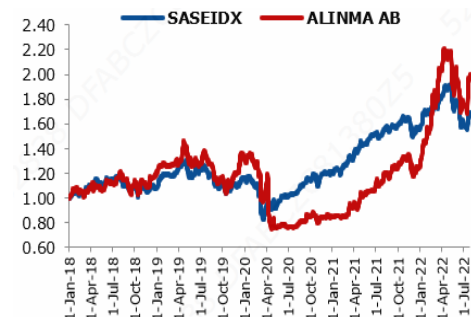
Sector: Banking

Recommendation

Current Price (28-July-22)	38.05
Target Price (SAR)	38.00
Upside/Downside (%)	-0.1%

Stock Information

Market Cap (mm)	76,500.00
Paid Up Capital (mm)	20,000.00
52 Week High	42.45
52 Week Low	21.60
3M Avg. daily value (SAR)	287,865,600



Financial Ratios

Dividend Yield (12m)	2.09
Dividend Pay-out (%)	56.06
Price-Earnings Ratio (x)	25.35
Price-to-Book Ratio (x)	2.88
Book Value (SAR)	13.26
Return-on Equity (%)	11.02
Earning Per Share (SAR)	1.51
Beta	1.19

Stock Performance

5 Days	1.73%
1 Months	11.68%
3 Months	-7.72%
6 Months	34.92%
1 Year	76.92%
Month to Date (MTD)	14.52%
Quarter to Date (QTD)	14.52%
Year to Date (YTD)	59.64%

Alinma Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	33.1	30.1	38.8	28.1	22.5
P/B (x)	3.8	4.4	3.1	2.5	2.3
Dividend Yield (%)	1.5%	NM	0.8%	2.0%	2.4%

FABS Estimates & Co Data

Alinma Bank - P&L

SAR mm	2Q21	1Q22	2Q22	2Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	1,362	1,472	1,653	1,552	6.5%	21.3%	12.3%	5,674	6,316	11.3%
Funded expense	-131	-163	-239	-175	36.7%	82.0%	47.0%	-537	-733	36.4%
Net funded income	1,231	1,310	1,414	1,377	2.7%	14.8%	7.9%	5,137	5,584	8.7%
Non-funded income	424	498	519	381	36.1%	22.3%	4.1%	1,530	1,633	6.7%
Operating income	1,655	1,808	1,932	1,758	9.9%	16.7%	6.9%	6,667	7,217	8.2%
Operating expenses	-521	-642	-546	-544	0.4%	4.9%	-15.0%	-2,365	-2,482	4.9%
Pre-provision profit	1,134	1,165	1,386	1,214	14.2%	22.2%	18.9%	4,302	4,735	10.1%
Impairment	-342	-243	-240	-243	-1.3%	-29.9%	-1.4%	-1,266	-969	-23.5%
Net profit before zakat	792	920	1,031	971	6.2%	30.2%	12.2%	3,022	3,764	24.6%
Zakat	-82	-95	-106	-97	9.5%	30.2%	12.1%	-312	-379	21.5%
Net profit attributable	710	825	925	874	5.9%	30.2%	12.2%	2,709	3,384	24.9%

FABS Estimates & Co Data

Alinma Bank - Margins

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	74.4%	72.4%	73.2%	-121	71	77.0%	77.4%	32
Cost to income	31.5%	35.5%	28.3%	-319	-727	35.5%	34.4%	-109
Impairment/PPP	30.2%	20.9%	17.3%	-1285	-358	29.4%	20.5%	-897
NP/OI	42.9%	45.6%	47.9%	496	225	40.6%	46.9%	626
ROAE	9.6%	11.4%	12.1%	253	67	12.4%	11.6%	-81
ROAA	1.5%	1.6%	1.7%	24	7	1.6%	1.8%	18

FABS estimate & Co Data

Alinma Bank - B/S Key Items

SAR mm	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
Net advances	119,623	121,318	126,271	128,965	131,193	9.7%
QOQ change	2.1%	1.4%	4.1%	2.1%	1.7%	
Total assets	164,057	166,808	173,476	179,519	184,622	12.5%
QOQ change	2.6%	1.7%	4.0%	3.5%	2.8%	
Customer deposits	125,878	116,652	121,061	128,035	130,376	3.6%
QOQ change	4.3%	-7.3%	3.8%	5.8%	1.8%	
Total equity	25,199	30,164	30,711	31,518	31,467	24.9%
QOQ change	0.5%	19.7%	1.8%	2.6%	-0.2%	

FABS estimate & Co Data

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%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
 +971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"