

1Q20 Results Update

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	15.0
Target Price (SAR)	16.0
Upside/Downside (%)	6.5%

As of 9th June, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	30.0
52-Wk High (SAR)	19.91
52-Wk Low (SAR)	13.72
Total Outstanding Shares (in mn)	2,000
Free Float (%)	94.4%

Alinma Bank vs. TASI (Rebased)

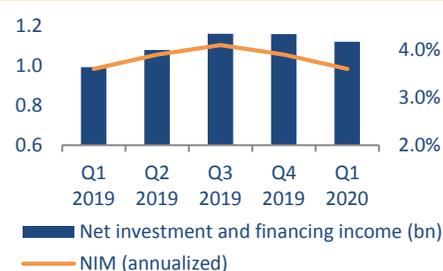


Price Performance (%)	Absolute	Relative
1m	3.2%	(20.1%)
6m	(17.1%)	(17.7%)
12m	(18.4%)	(12.3%)

Major Shareholders (%)

Public Investment Fund	10.0%
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Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 9th June 2020

Alinma Bank's net profit shrinks on higher impairment charges

Alinma Bank's net income slumped 41.9% YoY to SAR 370.3mn due to a sharp rise in impairment charges, along with investment revaluation charges. Net financing and investment income grew 14.8% YoY to SAR 1.1bn. Operating expenditure was slightly down 0.2% to SAR 512mn due to a decline in rental and depreciation expense. Customers' deposits for the period grew 12.6% YoY to SAR 103.9bn, whereas net financing went up 13.9% YoY to SAR 97.8bn; thus, the loan-to-deposit ratio (LDR) advanced to 94.1% in 1Q20 from 93.1% in 1Q19 and 92.9% in 4Q19. The bank's capital adequacy ratio (CAR) was 19.3% in 1Q20 (21.7% in 1Q19).

The bank continued to expand its financing portfolio with a rise in net financing and investment income. The impairment-led drop in net profit raises concern amid the ongoing COVID-19 crisis, which may lead to poorer asset quality and slowdown in credit growth as the bank has a corporate-focused portfolio. Though the bank's financial soundness indicators are strong enough to withstand the economic distress caused by the pandemic, continued disruption in economic activity may adversely impact profitability as per Fitch. The S&P ratings also indicate that Saudi banks have sufficient capital to absorb the economic stress despite the impact on net margins. The Saudi government has injected SAR 50bn liquidity into the banking sector to tackle the slowdown. Thus, in view of uncertain economic conditions, we retain our "Neutral" rating on the stock.

- Gross financing and investment income rose 8.1% YoY to SAR 1.4bn in 1Q20; net financing and investment income was up 14.8% YoY to SAR 1.1bn as the return on customers, banks, and financial institutions' time investments declined 12.8% over the comparable period.
- Total operating income observed a marginal dip of 1.7% YoY to SAR 1.3bn due to loss from FVSI financial instruments, which offset the gain in the dividend and exchange income. The fee from banking services slid 0.4% YoY to SAR 222mn.
- The bank's total operating expense shrank 0.2% to SAR 512mn on lower rent and depreciation expense, which offset the gain in salary and employee benefits as well as other general and administrative expenditure. However, pre-provision profit fell 2.6% YoY to SAR 755.8mn owing to lower operating income.
- The charge for impairment of financing spiked to SAR 342.6mn in 1Q20 from SAR 65.4mn in 1Q19. Consequently, net income contracted 41.9% YoY to SAR 370.3mn.
- Net financing rose 13.9% YoY to SAR 97.8bn and customer deposits were up 12.6% YoY to SAR 103.9bn. The LDR was 94.1% as of 1Q20.
- Investments rose 18.8% YoY to SAR 24.6bn in 1Q20 from SAR 20.7bn. Shareholders' equity increased 11.3% YoY to SAR 22.8bn from SAR 20.5bn.
- In April 2020, shareholders approved the board's recommendation of a capital increase to SAR 20bn from SAR 15bn through a 1-for-3 bonus issue. The capital top-up will be financed through the capitalization of SAR 5bn from reserves and retained earnings.

Valuation: We maintain our "Neutral" rating on the stock with a revised target price of SAR 16.0 per share.

	Q1'20	Q1'19	% YoY	FY20e	FY19	% YoY
Net financing and investment income (SAR mn)	1,121	976	14.8%	4,503	4,394	2.5%
Operating income (SAR mn)	1,268	1,290	(1.7%)	5,790	5,610	3.2%
EPS (SAR)	0.19	0.32	(41.9%)	1.00	1.27	(21.3%)
Net interest margin (%)	3.6%	3.5%	0.1%	3.5%	3.8%	(0.3%)
Cost to income (%)	40.4%	39.8%	0.6%	40.0%	37.0%	3.0%
RoE (%)	6.5%	12.2%	(5.7%)	8.9%	11.6%	(2.7%)
Total assets (SAR bn)	138	122	13.3%	146	132	10.7%
Financing, net (SAR bn)	98	86	13.9%	108	95	13.5%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

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

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

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

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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