# Alinma Bank: Overweight rating reaffirmed amidst shifting rate outlook, improved operating efficiencies, and compelling valuation

**We have become incrementally optimistic on Alinma due to, (1) change in outlook on interest rate cuts; we now expect a more measured decline in interest rates, which will result in smaller NIM compression for Alinma, and (2) growing valuation discount; after the 13.6% decline in stock price over the last 12 months the stock trades at 2025/26e PB of 1.9/1.7x as compared to last 3 year average of 2.4x and justified PB of 2.2x. Despite 11bps Y/Y contraction in NIMs, Alinma has reported robust Q1-25 results with a 14.7% Y/Y increase in earnings, owing to 12.7% Y/Y growth in earning assets and 14.4% Y/Y decline in debt provisions. We expect Alinma to deliver 2024-28 earnings CAGR of 9.8% and average ROE of 17.7%. We reiterate that reduction in NIMs (down 30bps over 2024-28) would be more than compensated by the robust loan growth (2024-28 CAGR 10.2%) and improvement in operating efficiencies (cost to income -379bps over 2024-28). Due to the volatile oil price environment, we cut our 2025/26 loan estimates by 1.8/4.1% to SAR 229.8/254.8bn, however, we maintain our "Overweight" recommendation with a revised TP of SAR 32.7 per share.**

**Alinma posts robust earnings growth of 14.7% in Q1-25; double-digit asset growth limits the impact of NIM contraction:** Alinma posted earnings of SAR 1.5bn in Q1-25, up 14.7% Y/Y (down 1.4% sequentially). The Q1-25 net income was in line with our estimates (-3.0% deviation). The slight deviation is mainly owed to higher operating expenses. The Y/Y improvement in earnings is owed to 13.5% Y/Y growth in Net Special Commission Income (NSCI) and 14.4% Y/Y decline in debt provisions. Overall, operating income grew by 9.7% Y/Y (largely unchanged Q/Q) in Q1-25 (-1.7% deviation). Net financing and investment margins declined by 11bps Y/Y, gross financing and investment income grew by 8.4% Y/Y (-2.1% Q/Q), whereas funding costs increased by 2.7% Y/Y (-5.5% Q/Q). Alinma is adversely affected by declining rates due to large floating rate corporate exposure, hence margin contraction is likely to continue. Operating expenses (excluding debt provisions) totaled at SAR 905mn up 8.6% Y/Y (+4.8% Q/Q), +2.5% deviation to AJC estimate. Cost to income ratio improved to 32.2% in Q1-25, as compared to 32.5% witnessed in Q1-24. Provision expenses declined by 14.4% Y/Y to SAR 226mn (-9.3% Q/Q), 9.5% below our estimate of SAR 250mn. Cost of risk stood at 43bps in Q1-25, down 15bps Y/Y as compared to 59bps in Q1-24 (down 7bps Q/Q and 5bps lower than our estimate). Loan book expanded by 15.9% Y/Y & 3.5% Q/Q to SAR 209.4bn in Q1-25, 1.5% higher than our estimate of SAR 206.3bn. Meanwhile, deposits grew 15.8% Y/Y and 3.9% Q/Q to SAR 218.8bn, as compared to our estimate of SAR 214.7bn. The ADR ratio increased to 95.7% in Q1-25 (+9bps Y/Y -39bps Q/Q). Moreover, the bank has grown its investments by 9.1% Y/Y (1.7% on a Q/Q basis) to SAR 49.4bn.

**Outlook on rate cuts has slowed down, implying less than previously expected NIM compression for Alinma:** US Fed slashed its medium-term GDP growth outlook, and raised 2025-27 unemployment and inflation estimates in its June-25 economic projections. Policy makers in US have slowed down their overall outlook on rate cuts; Central bank's median projections for 2026/27 end Fed fund rate stand at 3.6/3.4% in Jun-25 as compared to 3.4/3.1% in Mar-25. Policy makers expect two quarter percentage point rate cuts in remaining 2025 (unchanged from Mar-25 projections), however see only one quarter percentage point cut each in 2026/27 (previously two 25bps cuts were expected in 2026 and 2027). Overall, market now expects a more measured decline in interest rates. We see two 25bps cuts in interest rates in remaining 2025 and 2026, against earlier estimates of three cuts each in 2025/26. In this backdrop, we see smaller NIM compression for Alinma due to high floating rate corporate exposure. Overall, we see NIMs to drop by 14/11bps in 2025 and 2026, against previous estimates of -19/18bps reduction in 2025/26, respectively. We reiterate that the reduction in NIMs is expected to be more than compensated by the robust loan growth, consequently Alinma is estimated to see a 11.0/8.5% Y/Y increase in NSCI in 2025/26, despite rate cuts (2024-28E CAGR 9.8%).

| | |
|---|---|
| Recommendation | Overweight |
| Target Price (SAR) | 32.7 |
| Upside / (Downside)* | 22.7% |

Source: Tadawul *prices as of 2nd July 2025

### Key Financials

| in SAR mn, (unless specified) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| NSCI | 7,655 | 8,649 | 9,546 | 10,355 |
| Growth % | 26.2% | 13.0% | 10.4% | 8.5% |
| Oper. Income | 9,726 | 10,940 | 12,027 | 13,041 |
| Growth % | 22.1% | 12.5% | 9.9% | 8.4% |
| Net Income | 4,839 | 5,832 | 6,397 | 7,040 |
| Net Income (post sukuk) | 4,639 | 5,632 | 6,064 | 6,721 |
| Growth % | 34.8% | 18.2% | 8.6% | 10.8% |
| EPS (post sukuk) | 1.86 | 2.19 | 2.38 | 2.64 |
| DPS | 0.75 | 1.10 | 1.20 | 1.30 |

Source: Company reports, AlJazira Capital Research

### Key Ratios

| | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| NIMs | 3.78% | 3.65% | 3.51% | 3.40% |
| P/E (x) | 14.4 | 12.1 | 11.2 | 10.1 |
| P/B (x) | 2.6 | 2.0 | 1.9 | 1.7 |
| Dividend Yield | 2.8% | 4.1% | 4.5% | 4.9% |
| ROA | 2.1% | 2.1% | 2.0% | 2.0% |
| ROE | 16.5% | 17.7% | 17.4% | 17.7% |
| Net loan growth | 18.5% | 16.5% | 13.6% | 10.9% |
| Deposit growth | 29.4% | 12.1% | 10.7% | 10.7% |

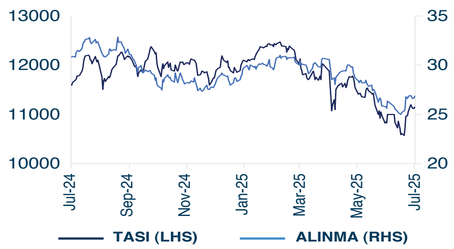
Source: Company reports, Aljazira Capital Research

### Key Market Data

| | |
|---|---|
| Market Cap (SAR bn) | 66.5 |
| YTD% | -7.4% |
| 52 weeks (High)/(Low) | 33/24.5 |
| Share Outstanding (mn) | 2500 |

Source: Company reports, Aljazira Capital Research

### Price Performance




Source: Tadawul, Aljazira Capital Research

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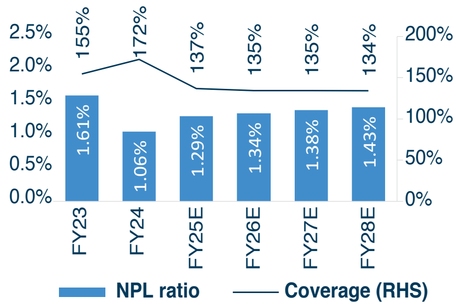
**Despite reduction in loan growth outlook, we make small upward revision in earnings on better NIM outlook (owed to fewer rate cuts):** In light of the current volatile oil price environment we cut our 2025/26 loan estimates by 1.8/4.1% to SAR 229.8/254.8bn, respectively. That said, negative earnings effect of decrease in loan growth is more than offset by the upwards revision in NIMs (owed to fewer rate cuts), our 2025/26 NSCI estimate is up 1.6/2.4% to SAR 9.6/10.4bn, respectively. We adjust our provision expense estimate for 2025/26 by -6.0/+3.2%, while we slash operating expenses by 0.4/0.2%. As a result, cost of risk for 2025/26 stands at 57/58bps against earlier estimate of 56/51bps. Overall, we raise our 2025/26 earnings (post sukuk) forecast by 1.6/0.2% respectively. We expect the bank to report ROE of 17.4/17.7% in 2025/26, respectively.

**Bank to sustain high teen ROE over the medium term due to loan growth and improving operating efficiency; decent dividend yield on the offer:** Alinma is expected to deliver 2024-28 earnings CAGR of 9.8% led by: (1) 8.9% NII CAGR, underpinned by bank's renewed focus on mid-corporate and SME business, (2) 7.8% non-yield income CAGR, (3) 379bps reduction in cost-to-income ratio – as bank exits its investment cycle, and (4) lower cost of risk of 59bps as compared to 82% for last four years. In this backdrop, we forecast ROE to average around 17.7% between 2025-28, significantly above 2021-24 average of 14.4%. We expect the bank to maintain payout ratio at 50%, which implies 2025/26e dividend yield of 4.5/4.8%, respectively.

**Investment thesis and valuation:** We have become incrementally positive on Alinma due to, (1) change in outlook on interest rate cuts; we now expect a more measured decline in interest rates, which will result in smaller NIM compression for Alinma, and (2) the 13.6% decline in stock price over the last 12 months, after which the stock trades at 2025/26e PB of 1.9/1.7x vs last 3 year average of 2.4x. We reiterate that reduction in NIMs would be more than compensated by the robust loan growth and improvement in operating efficiencies. Over the medium term, Alinma is expected to deliver 2024-28 earnings CAGR of 9.8% and average ROE of 17.7%.

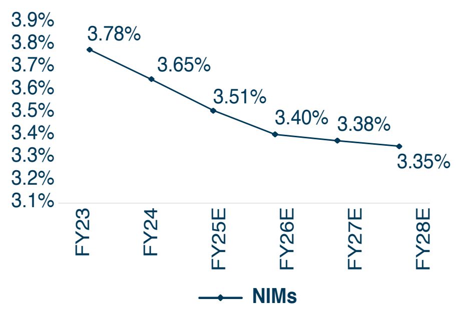
We value the stock based on equal weight to Residual Income and Two staged Gordon growth. Our residual income-based TP assuming the cost of equity of 11.24% is SAR 32.0 per share whereas; through the Two staged Gordon growth model, based on ROE of 17.4%, we arrive at a justified P/B multiple of 2.2x. Hence, the equal weight TP stands at **SAR 32.7 per share** which translates to an upside of 22.7%, hence we maintain our "**Overweight**" recommendation.

**Fig 1: Asset quality trend**



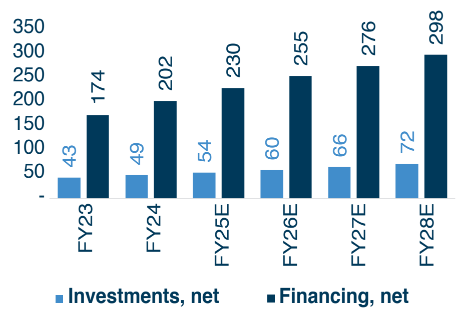

Source: Company reports, AlJazira capital Research

**Fig 2: NIMs to decline but at a measured pace**




Source: Company reports, AlJazira capital Research

**Fig 3: Investment and financing (SAR bn)**




Source: Company reports, AlJazira capital Research

## Weighted Average TP

| Method | Value | Weight | W. Value |
|---|---|---|---|
| RI | 32.0 | 50% | 16.0 |
| Justified P/B (2.2x) | 33.3 | 50% | 16.7 |
| **Price Target** | | | **32.7** |
| Upside/Downside | | | **22.7%** |

Source: Aljazira capital Research, prices as of 2nd July 2025

## Key Financial Data

| Amount in SARmn, unless otherwise specified | FY23 | FY24 | FY25E | FY26E | FY27E | FY28E | FY29E |
|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | |
| **Net financing and investments income** | **7,655** | **8,649** | **9,546** | **10,355** | **11,263** | **12,143** | **13,111** |
| Fees from banking services, net | 1,459 | 1,608 | 1,755 | 1,915 | 2,061 | 2,218 | 2,385 |
| Exchange income, net | 330 | 380 | 406 | 434 | 464 | 497 | 532 |
| Dividend and other operating income | 282 | 304 | 320 | 338 | 357 | 377 | 399 |
| **Total operating income** | **9,726** | **10,940** | **12,027** | **13,041** | **14,146** | **15,235** | **16,427** |
| Impairment charge for financing | (1,272) | (1,050) | (1,236) | (1,411) | (1,572) | (1,731) | (1,905) |
| Other operating expenses | (3,070) | (3,383) | (3,653) | (3,776) | (3,954) | (4,134) | (4,313) |
| **Operating Profit** | **5,384** | **6,507** | **7,138** | **7,855** | **8,619** | **9,370** | **10,209** |
| **Y/Y** | **34.3%** | **20.9%** | **9.7%** | **10.0%** | **9.7%** | **8.7%** | **9.0%** |
| Share of loss from associate | 12 | (5) | (5) | (5) | (5) | (5) | (5) |
| Zakat | (556) | (670) | (735) | (809) | (888) | (966) | (1,052) |
| **Net income** | **4,839** | **5,832** | **6,397** | **7,040** | **7,726** | **8,399** | **9,152** |
| **Y/Y** | **34.4%** | **20.5%** | **9.7%** | **10.0%** | **9.7%** | **8.7%** | **9.0%** |
| **Net income (adjusted for Tier-1)** | **4,639** | **5,482** | **5,954** | **6,596** | **7,282** | **7,956** | **8,708** |
| **EPS (adjusted for Tier-1)** | **1.86** | **2.19** | **2.38** | **2.64** | **2.91** | **3.18** | **3.48** |
| **DPS** | **0.75** | **1.10** | **1.20** | **1.30** | **1.50** | **1.60** | **1.70** |
| **Balance sheet** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with SAMA | 12,598 | 13,850 | 15,329 | 16,967 | 18,551 | 20,281 | 22,170 |
| Due from banks and other financial institutions | 1,701 | 4,510 | 4,992 | 5,525 | 6,041 | 6,605 | 7,220 |
| Investments, net | 43,236 | 48,625 | 53,820 | 59,568 | 65,697 | 72,440 | 79,858 |
| Financing, net | 173,624 | 202,308 | 229,766 | 254,738 | 275,590 | 298,097 | 322,384 |
| Property and equipment, net | 2,888 | 3,401 | 3,741 | 4,115 | 4,527 | 4,979 | 5,477 |
| **Total assets** | **236,715** | **276,827** | **311,988** | **345,470** | **375,191** | **407,426** | **442,384** |
| **Liabilities & owners' equity** | | | | | | | |
| Due to banks and other financial institutions | 7,431 | 13,936 | 21,872 | 25,123 | 24,943 | 24,417 | 23,467 |
| Customers' deposits | 187,901 | 210,545 | 233,036 | 257,928 | 282,022 | 308,321 | 337,026 |
| Amount due to Mutual Funds' unitholders | 94 | 115 | 115 | 115 | 115 | 115 | 115 |
| Other liabilities | 6,956 | 10,790 | 12,540 | 14,574 | 16,732 | 19,206 | 22,044 |
| Share capital | 20,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Statutory reserve | 3,378 | 4,836 | 6,325 | 7,974 | 9,794 | 11,783 | 13,960 |
| Other reserves | 62 | (129) | (129) | (129) | (129) | (129) | (129) |
| Retained earnings | 1,118 | 3,188 | 4,683 | 6,340 | 8,169 | 10,167 | 12,354 |
| Total shareholders' equity | 34,334 | 41,442 | 44,425 | 47,731 | 51,380 | 55,367 | 59,731 |
| **Total equity & liabilities** | **236,715** | **276,827** | **311,988** | **345,470** | **375,191** | **407,426** | **442,384** |
| **Key fundamental ratios** | | | | | | | |
| **Capital Ratios** | | | | | | | |
| Equity/ Total Assets | 15% | 15% | 14% | 14% | 14% | 14% | 14% |
| Tier 1 ratio | 16% | 17% | 16% | 15% | 15% | 15% | 0% |
| Total (Tier 1 and Tier 2 ratio) | 17% | 18% | 17% | 16% | 16% | 16% | 0% |
| **Profitability Ratios** | | | | | | | |
| NIMs | 3.8% | 3.6% | 3.51% | 3.40% | 3.38% | 3.35% | 3.33% |
| Cost of funds | 3.0% | 3.4% | 3.0% | 2.6% | 2.3% | 2.2% | 2.2% |
| Cost to income | 31.6% | 30.9% | 30.4% | 29.0% | 28.0% | 27.1% | 26.3% |
| Return On Assets (ROA) | 2.1% | 2.1% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Return On Equity (ROE) | 16.5% | 17.7% | 17.4% | 17.7% | 17.8% | 17.8% | 17.8% |
| ROE/ROA (Leverage Ratio) (X) | 7.8 | 8.3 | 8.6 | 8.8 | 8.8 | 8.8 | 8.7 |
| **Asset Quality Ratios** | | | | | | | |
| NPL ratio | 1.6% | 1.1% | 1.3% | 1.3% | 1.4% | 1.4% | 1.5% |
| NPL Coverage | 155% | 172% | 137% | 135% | 135% | 134% | 133% |
| Cost of Risk (bps) | 79 | 56 | 57 | 58 | 59 | 60 | 61 |
| **Funding Ratios** | | | | | | | |
| Loans/ Customer Deposits | 92.4% | 96.1% | 98.6% | 98.8% | 97.7% | 96.7% | 95.7% |
| Liquid Assets / Total Assets | 97.7% | 97.3% | 97.4% | 97.5% | 97.5% | 97.5% | 97.6% |
| Net Loans / Total Assets | 73.3% | 73.1% | 73.6% | 73.7% | 73.5% | 73.2% | 72.9% |
| **Market/valuation ratios** | | | | | | | |
| Dividend Yield | 2.8% | 4.1% | 4.5% | 4.9% | 5.6% | 6.0% | 6.4% |
| Book Value Per Share (BVPS) | 11.7 | 13.1 | 14.3 | 15.6 | 17.1 | 18.6 | 20.4 |
| Market price | 30.9 | 26.6 | 26.6 | 26.6 | 26.6 | 26.6 | 26.6 |
| PE (x) | 14.4 | 12.1 | 11.2 | 10.1 | 9.1 | 8.4 | 7.6 |
| PB (x) | 2.6 | 2.0 | 1.9 | 1.7 | 1.6 | 1.4 | 1.3 |
| **Growth rates** | | | | | | | |
| Investments (Y/Y) | 12.2% | 12.5% | 10.7% | 10.7% | 10.3% | 10.3% | 10.2% |
| Financing (Y/Y) | 18.5% | 16.5% | 13.6% | 10.9% | 8.2% | 8.2% | 8.1% |
| Deposits (Y/Y) | 29.4% | 12.1% | 10.7% | 10.7% | 9.3% | 9.3% | 9.3% |

Source: Company reports, Bloomberg, Aljazira Capital Research, price as of 2nd July 2025

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RESEARCH DIVISION

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RATING TERMINOLOGY

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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