

Rating **Neutral**  
 12- Month Target Price **SAR 16.00**

## ALINMA BANK (ALINMA)

3Q2017 First Look

### Exceptional Profit Growth

Alinma posted exceptional bottom line growth of +74% Y/Y reporting a net income of SAR 542 million. EPS was up +29% Q/Q to SAR 0.36. At first look, this stellar growth has resulted from a substantial rise in net financing income; income from financing increased by +19% Y/Y while cost of funds declined by -19% Y/Y. Concurrently, Alinma was able to grow other income (+13% Y/Y) and keep a check on operating expenses (+2% Y/Y). Deposit growth rate is more muted than the preceding two quarters with SAR 1.4 billion added in 3Q versus SAR 5.1 billion addition in 1H2017. Interesting to note that net financing has grown just SAR 850 million Q/Q while investments have augmented by SAR 6.0 billion Q/Q indicating that the bank is shifting new funds towards investment avenues particularly with the availability of government Islamic instruments. We expect the market to take this result positively in the short-term. We raise our 12-month target price to SAR 16.00 from SAR 14.00 but maintain a Neutral rating.

#### Deposit growth slows

Net financing and investment income went up +32% Y/Y to SAR 877 million, slightly above our SAR 860 million forecast. While the +19% Y/Y rise in income from financing is in line with our forecast, a drop in cost of deposits by -19% Y/Y was unanticipated since SAIBOR was more or less flat in the third quarter. Alinma continues to grow deposits, although the pace has slowed down in 3Q with an addition of SAR 1.4 billion as compared to a total of SAR 5.1 billion in the preceding two quarters.

#### Investments jump SAR 6 billion Q/Q

Net financing growth has been kept in check, with a rise of only SAR 850 million Q/Q versus a SAR 6.6 billion addition in 1H2017. We believe the bank has chosen to direct liquidity towards investments, particularly as government Islamic instruments are now increasingly available and at attractive returns. Investments jumped SAR 6 billion in the quarter after being more or less stable for 6 quarters. Consequently, LDR has retreated from its 90% limit in 2Q to 89% at 3Q-end. This could be a trend going forward if investments remain an attractive option.

#### Other income swells +13% Y/Y

Non-core income is up +13% Y/Y and +8% Q/Q to SAR 186 million, beating our SAR 166 million forecast as we were predicting soft trade and fee-based income in line with the industry trend. We are surprised by a minor +2% Y/Y growth in operating expenses to SAR 521 million while our estimates were higher at SAR 569 million. We believe the deviation is likely due to a decline in provisions to around SAR 100 million.

#### Target price increased to SAR 16

Net income of SAR 542 million (+74% Y/Y, +29% Q/Q) beat all market expectations and will likely cause short-term excitement at the Tadawul. While Alinma continues to grow impressively in business terms even in tough economic times, we believe most positives are incorporated in price. We raise our 12-month target price from SAR 14.00 to SAR 16.00. However, trading at 1.3x 2017E book value, we continue to remain Neutral on the stock.

#### Expected Total Return

Price as on Oct-15, 2017	SAR 17.24
Upside to Target Price	(7.2%)
Expected Dividend Yield	3.5%
Expected Total Return	(3.7%)

#### Market Data

52 Week H/L	SAR 18.46 /11.45
Market Capitalization	SAR 25,860 mln
Shares Outstanding	1,500 mln
Free Float	73.8%
12-Month ADTV	26,168,207
Bloomberg Code	ALINMA AB

#### 1-Year Price Performance



Source: Bloomberg



3Q2017E (SAR mln)	Actual	RC Forecast
Net Fin. Income	877	847
Total Op Income	1,063	1,047
Net Income	542	421
Net Financing	77,812	80,213
Deposits	87,229	88,916

#### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Net Fin. Inc	2,551	2,782	2,982
Prov for cred loss	196	450	357
Net Income	1,502	1,950	2,280
EPS (SAR)	1.00	1.30	1.52
DPS (SAR)	0.50	0.60	0.75

#### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
NIM	2.7%	3.0%	3.0%
ROAE	8.0%	9.9%	11.0%
ROAA	1.6%	1.7%	1.8%
CAR	20.5%	17.9%	16.9%
P/B	1.3x	1.3x	1.2x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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