

Alinma Bank

Robust growth in net advances and deposits bolstered the profitability

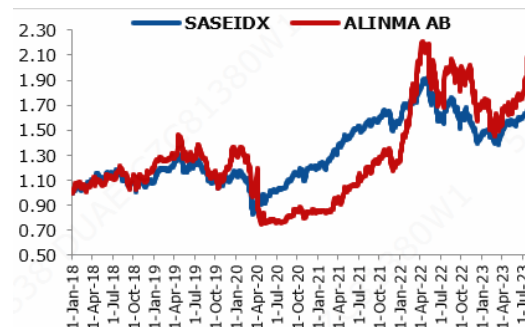
Current Price
SAR 35.45

Target Price
SAR 38.00

Upside/Downside (%)
+7.2%

Rating
Hold

- Alinma deposits rose 36.4% YOY and 11.2% QOQ higher than loan growth leading to a decline in the loan-to-deposit ratio from 95.8% in 1Q23 to 90.9% in 2Q23
- CASA ratio fell from 53.0% in 1Q23 to 49% in 2Q23 owing to strong growth in term deposits given high interest rate environment
- Advances to grow at a strong rate of 23.3% YOY and 5.6% QOQ to SAR 161.8 Bn in 2Q23
- Non-funded income rose 11.3% YOY and 29.8% QOQ owing to strong growth in fee and exchange income partially offset by a decline in investment income



2Q23 Net Profit higher than our estimate

Alinma Bank (ALINMA/ The Bank) reported 32.4% YOY increase in net profit to SAR 1,225 Mn in 2Q23, higher than our estimate of SAR 1,076 Mn. The rise in net profit is primarily driven by an increase in funded and non-funded income partially offset by an increase in operating expenses, impairment and zakat.

P&L Highlights

Funded income rose significantly from SAR 1,653 Mn in 2Q22 to SAR 3,176 Mn in 2Q23 primarily due to a rise in asset yield and supported by an increase in interest-earning assets by 6.01% QOQ in 2Q23. While funded expense increased substantially to SAR 1,316 Mn in 2Q23 as compared to SAR 239 Mn in 2Q22 due to a rise in benchmark interest rates. Thus, net funded income rose 31.6% YOY to SAR 1,860 Mn in 2Q23. Non-funded income grew 11.3% YOY to SAR 577 Mn in 2Q23 owing to an increase in fees and exchange income, gain in trading income partly offset by a decline in investment income. Fee and commissions income grew 29.6% YOY to SAR 385 Mn in 2Q23 whereas exchange income rose 40.0% YOY to SAR 91 Mn. Moreover, other non-funded income almost declined 35.3% YOY to SAR 101 Mn in 2Q23. Resultantly, total operating income increased 26.1% YOY to SAR 2,437 Mn in 2Q23. Further, total operating expenses increased 12.6% YOY to SAR 747 Mn in 2Q23 due to a rise in G&A expenses, salaries expenses, rent, depreciation, and an increase in impairment charges. However, the cost-to-income ratio decreased 369 bps YOY to 30.6% in 2Q23. Impairment charges rose 35.6% YOY to SAR 325 Mn in 2Q23. Moreover, the net profit before zakat increased 32.4% YOY to SAR 1,366 Mn in 2Q23. While zakat expenses rose 32.4% YOY to SAR 141 Mn in 2Q23 in line with the increase in profitability.

Stock Information

Market Cap (SAR, mm)	70,900.00
Paid Up Capital (mm)	20,000.00
52 Week High	39.80
52 Week Low	27.40
3M Avg. daily value (SAR)	144,746,900

2Q23 Result Review (SAR, mm)

Total Assets	226,900
Total Liabilities	193,924
Total Equity	32,977
Total Deposits	177,874
Net Profit	1,225

Financial Ratios

Dividend Yield (12m)	2.82
Dividend Pay-out (%)	52.57
Price-Earnings Ratio(x)	17.84
Price-to-Book Ratio (x)	2.53
Book Value (SAR)	13.99
Return-on Equity (%)	14.86

Stock Performance

5 Days	-3.93%
1 Months	1.29%
3 Months	12.90%
6 Months	21.61%
1 Year	-5.84%
Month to Date (MTD%)	-4.19%
Quarter to Date (QTD%)	5.82%
Year to Date (YTD%)	8.91%

Balance Sheet Highlights

ALINMA's net advances recorded strong growth of 23.3% YOY and 5.6% QOQ to SAR 161.8 Bn in 2Q23. The growth in net financing is mainly driven by 6.4% QOQ growth in corporate segment and 3.9% QOQ growth in retail financing. The loan-to-deposit ratio stood at 90.9% in 2Q23 as compared to 95.8% in 1Q23. Total assets increased 22.9% YOY and 6.2% QOQ to SAR 226.9 Bn in 2Q23. Moreover, customer deposits rose 36.4% YOY and 11.2% QOQ to SAR 177.9 Bn in 2Q23. Whereas, total equity rose 4.8% YOY and declined marginally 0.6% QOQ to SAR 33.0 Bn in 2Q23.

Target Price and Rating

We revised our rating from ACCUMULATE to HOLD on Alinma Bank with a revised target price of SAR 38.00. The Bank demonstrated robust growth in profitability, primarily driven by a significant increase in net advances and also, driven by an increase in interest rates. Further, Alinma Bank foresees its loan book expansion by the mid-teens in 2023, fueled by the introduction of new products and offerings targeting Mid-Corporate, SMEs, and retail customers. The Bank's corporate portfolio constituted 74.8% of the total loan book in 2Q23, while the remaining 25.2% attributed to the retail segment. Moreover, the Bank exhibited a favorable cost-to-income ratio, which decreased by 369 basis YOY and 413 basis QOQ to 30.6% in 2Q23, aligning with its goal of achieving below 32.0% in 2023. Although Alinma Bank's net interest margins improved from 3.42% in 1Q23 to 3.45% in 2Q23. Alinma anticipates NIMs to grow by 35-45 basis points in 2023. This growth is expected to be driven by a rising interest rate environment and a substantial increase in CASA deposits. Customer deposits witnessed a notable growth of 36.4% YOY and 11.2% QOQ to SAR 177.8 Bn in 2Q23 boosting the Bank's liquidity position and providing additional room for credit growth. Alinma's asset quality improved as reflected by a decline in NPL from 2.1% in 1Q23 to 1.9% in 2Q23, while provision coverage grew from 121.5% in 1Q23 to 130.1% in 2Q23. Alinma maintained a robust capitalization, with a CAR of 18.4% & Tier 1 capital of 17.2% in 2Q23. Further, the bank's board of directors distributed a cash dividend of SAR 0.55 for 1H23, which led to an expected dividend yield of 3.0% in 2023. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

Alinma - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	18.5	27.8	35.8	27.1	20.5	16.1
PB	3.6	4.0	2.9	2.8	2.7	2.5
Dividend yield	2.1%	NM	0.8%	2.1%	2.7%	3.1%

FABS Estimates & Co Data

Alinma – P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	1,653	2,783	3,176	3,050	4.1%	92.2%	14.1%	7,613	12,708	66.9%
Funded expense	-239	-1,048	-1,316	-1,193	10.3%	450.5%	25.6%	-1,546	-4,992	222.8%
Net funded income	1,413	1,735	1,860	1,857	0.2%	31.6%	7.2%	6,066	7,716	27.2%
Fees and commissions	297	308	385	318	21.1%	29.6%	24.8%	1,209	1,300	7.5%
Trading gain/(loss)	65	86	91	87	5.3%	40.0%	6.4%	291	352	21.0%
Other non-funded income	157	51	101	44	132.5%	-35.3%	100.2%	397	206	-48.1%
Non-funded income	519	445	577	448	28.9%	11.3%	29.8%	1,897	1,857	-2.1%
Operating income	1,932	2,179	2,437	2,305	5.7%	26.1%	11.8%	7,963	9,574	20.2%
Operating expenses	-663	-758	-747	-752	-0.7%	12.6%	-1.5%	-2,765	-3,044	10.1%
Pre-provision profit	1,269	1,422	1,690	1,553	8.9%	33.2%	18.9%	5,198	6,529	25.6%
Impairment	-240	-343	-325	-325	0.0%	35.6%	-5.0%	-1,198	-1,483	23.8%
Net profit before zakat	1,031	1,081	1,366	1,200	13.8%	32.4%	26.3%	4,013	5,047	25.8%
Zakat	-106	-111	-141	-124	14.0%	32.4%	26.3%	-414	-520	25.6%
Net Profit attributable	925	970	1,225	1,076	13.8%	32.4%	26.3%	3,599	4,527	25.8%

FABS estimate & Co Data

Alinma - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	73.2%	79.6%	76.3%	316	-328	76.2%	80.6%	441
NIM	3.17%	3.42%	3.4%	28	3	3.3%	3.6%	26
NIS	3.0%	3.0%	3.0%	-7	-1	3.1%	3.1%	-2
Fees & comms/OI	15.4%	14.1%	15.8%	42	164	15.2%	13.6%	-161
Trading/OI	3.4%	3.9%	3.7%	37	-19	3.7%	3.7%	2
Cost to income	34.3%	34.8%	30.6%	-369	-413	34.7%	31.8%	-293
Impairment/PPP	18.9%	24.1%	19.2%	34	-485	23.0%	22.7%	-33
NP/OI	47.9%	44.5%	50.3%	239	577	45.2%	47.3%	209
ROAE	11.9%	14.1%	14.7%	276	55	14.3%	16.8%	251
ROAA	1.7%	1.8%	1.8%	13	3	1.9%	2.1%	13

FABS estimate & Co Data

Alinma – Key B/S items

SAR mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	131,193	139,987	146,492	153,153	161,773	23.3%
QOQ ch	1.7%	6.7%	4.6%	4.5%	5.6%	
Total assets	184,622	193,229	200,436	213,749	226,900	22.9%
QOQ ch	2.8%	4.7%	3.7%	6.6%	6.2%	
Customer deposits	130,376	132,048	145,168	159,948	177,874	36.4%
QOQ ch	1.8%	1.3%	9.9%	10.2%	11.2%	
Total equity	31,467	31,302	31,876	33,164	32,977	4.8%
QOQ ch	-0.2%	-0.5%	1.8%	4.0%	-0.6%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value ALINMA. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income Method	38.55	70.0%	26.98
Relative Valuation (RV)	36.73	30.0%	11.02
Weighted Average Valuation (SAR)			38.00
Current market price (SAR)			35.45
Upside/Downside (%)			+7.2%

1) DCF Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.73%. Cost of equity is calculated by using 10-year government bond yield of 4.71%, beta of 0.90 and equity risk premium of 3.35%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (SAR, Mn)	10,739
Terminal value (SAR, Mn)	38,001
Book value of Equity (as of June, 2023)	27,977
FV to Common shareholders (SAR, Mn)	76,716
No. of share (Mn)	1,990
Current Market Price (SAR)	35.45
Fair Value per share (SAR)	38.55

DCF Method

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,372	4,986	5,895	6,004	6,269
(-) Equity Charge	-2,181	-2,409	-2,692	-2,968	-3,249
Excess Equity	1,461	2,578	3,204	3,036	3,020
Discounting Factor	0.95	0.88	0.82	0.76	0.71
Present Value of Excess Equity	1,390	2,277	2,627	2,311	2,134

Source: FAB Securities

2) Relative Valuation:

We have used Saudi Banking peers to value Alinma and it is valued using the PB multiple. We applied premium to peer valuation since it generates superior return on assets as compared to its peers also, expect this premium to be maintained. It is valued at a PB multiple of 2.6x as compared to peer valuation of 1.7x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Al Rajhi Bank	75,542	3.0	2.7	16.5	14.7	2.5	3.4
Saudi National Bank	64,126	1.5	1.4	12.5	11.1	4.1	4.5
Banque Saudi Fransi	14,126	1.5	1.4	12.3	11.4	4.5	4.6
Riyad Bank	11,303	1.9	1.8	12.8	12.1	4.0	4.2
Bank Albilad	11,563	2.8	2.5	18.3	15.9	1.4	1.8
Arab National Bank	11,303	1.3	1.2	11.1	10.9	4.8	5.1
Average		2.0x	1.8x	13.9x	12.7x	3.5%	3.9%
Median		1.7x	1.6x	12.7x	11.8x	4.0%	4.4%
Max		2.6x	2.3x	15.6x	14.1x	4.4%	4.6%
Min		1.5x	1.4x	12.4x	11.2x	2.9%	3.6%

Source: FAB Securities

