

Rating **Neutral**
 12- Month Target Price **SAR 24.00**

ALINMA BANK (ALINMA)

4Q2018 First Look

Robust Growth in 2018

Alinma Bank posted 4Q results in line with expectations. Net income came in at SAR 661 million, up +18% Y/Y and +1% Q/Q; close to our forecast of SAR 682 million and matching street's estimate. The annual increase came mainly on the back of lower opex, since total operating income was flat Y/Y. The modest quarterly growth in profitability, however, was salvaged by non-core income, in spite of lower net financing and investment income and higher opex. Net financing has managed to grow by SAR 714 million Q/Q, while deposits have shown a modest incline by SAR 260 million. Investments growth has been decent, rising by SAR 758 million. Trading at a 2019E P/B of 1.6x, we raise our target price to SAR 24.00 but maintain a Neutral recommendation.

LDR rises further

Alinma added SAR 714 million to net financing during the quarter to reach SAR 84 billion; however, growth momentum has been weaker than the previous two quarters where financing increased by SAR 4.2 billion collectively. Deposits have been more or less flat, increasing by a mere SAR 260 million to remain at SAR 90 billion. The bank's lending ability is restricted due to high LDR, which increased by 52 bps to 93% on the larger rise in financing. Thus, it needs to grow its deposit base aggressively to resolve this issue. Investments grew by SAR 758 million to SAR 18 billion, well below 3Q18 level where it added SAR 1.5 billion.

Return on time investments jumps

On an annual basis, return on time investments surged by +69% to SAR 333 million, which was more than offset by a +12% growth in gross financing and investment income that reached SAR 1.3 billion, leading to a +1% increase in net financing and investment income to SAR 972 million. On a quarterly basis, however, gross financing and investment income increase could not compensate for the rise in return on time investments, which caused a -2% drop in net financing and investment income, lagging our estimate of SAR 1.1 billion. Rise in SAIBOR rates and Alinma's large portion of time deposits have influenced these results.

Non-core income +43% Q/Q

Non-core income witnessed a significant increase Q/Q to SAR 320 million in 4Q18, up +43% Q/Q but down -3% Y/Y. Throughout the year, gain on investments, fees from banking services and exchange income has been higher than the previous year. Total operating income witnessed a +7% Q/Q increase to SAR 1.3 billion but was flat Y/Y. We are surprised by the -14% Y/Y decrease in operating expenses to SAR 632 million, though it increased by +14% Q/Q. During 2018, provisions and depreciation declined Y/Y, while employee costs and G&A expenses rose amid the opening of 5 branches, 3 of which were opened in 4Q.

Net income in-line

Net income of SAR 661 million (+18% Y/Y, +1% Q/Q) came in-line with our SAR 682 million estimate and matched consensus. Alinma managed to grow its earnings impressively by +25% during the year compared to 2017, as it registered SAR 2.5 billion net income this year. The stock trades at 1.6x 2019E book value and close to our revised SAR 24.00 target, we continue to remain Neutral on the stock.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Net Fin. Inc	3,493	3,798*	4,115
Prov for cred loss	558	550	523
Net Income	2,011	2,517*	2,694
EPS (SAR)	1.34	1.68*	1.80
DPS (SAR)	0.79	1.00*	1.00

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
NIM	3.3%	3.5%	3.4%
ROAE	10.2%	12.1%	12.3%
ROAA	1.8%	2.1%	2.2%
CAR	20.5%	18.6%	18.7%
P/B	1.8x	1.7x	1.6x

Expected Total Return

Price as on Feb-03, 2019	SAR 24.20
Upside to Target Price	(0.8%)
Expected Dividend Yield	4.1%
Expected Total Return	3.3%

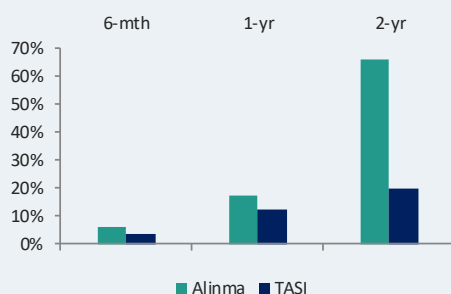
Market Data

52 Week H/L	SAR 24.60/18.96
Market Capitalization	SAR 36,300 mln
Shares Outstanding	1,500 mln
Free Float	74.0%
12-Month ADTV	22,140,734
Bloomberg Code	ALINMA AB

1-Year Price Performance



Source: Bloomberg



4Q2018 (SAR mln)	Actual	RC Forecast
Net Fin. Income	972	1,082
Total Op Income	1,293	1,446
Net Income	661	682
Net Financing	83,685	85,190
Deposits	90,128	91,861

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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