

2Q21 Results Update

August 20, 2021

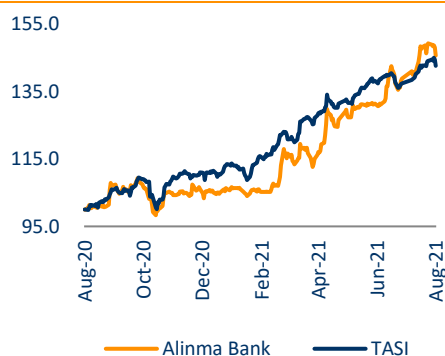
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	22.4
Target Price (SAR)	21.5
Upside/Downside (%)	(4.2%)

As of August 19, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	44.9
52-Wk High (SAR)	23.1
52-Wk Low (SAR)	15.1
Total Outstanding Shares (in bn)	2.0
Free Float (%)	99.9%

Alinma Bank vs. TASI (Rebased)

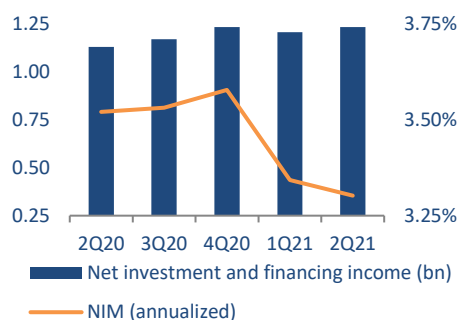


Price Performance (%)	Absolute	Relative
1m	5.0%	1.2%
6m	38.5%	15.2%
12m	45.7%	3.1%

Major Shareholders (%)

Public Investment Fund	10.00%
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Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 19, 2021

Loan book continues to swell in 2Q21

Alinma Bank (Alinma)'s net financing and investment income rose 9.2% YoY to SAR 1.2bn, supported by a 39.0% YoY reduction in cost of funds to SAR 131.4mn in 2Q21. Total operating income soared 24.2% YoY to SAR 1.7bn on higher fee from banking services, while total operating expense inched up 3.9% YoY to SAR 520.6mn due to increase in general and administrative expense. This narrowed the bank's cost-to-income ratio by 616 bps YoY to 31.5%. Higher operating income led the bank to report a 24.1% YoY surge in net income to SAR 710.3mn in 2Q21. Alinma's net financing assets grew 15.9% YoY to SAR 119.6bn, while customer deposits rose 17.2% YoY to SAR 125.9bn in 2Q21. As a result, the loan-to-deposit ratio (LDR) eased 102 bps YoY to 95.0% in 2Q21.

Alinma's loan book continued to record sharp growth in 2Q21 due to the strong performance of its Retail (+21.8% YoY to SAR 26.2bn) and Corporate (+15.3% YoY to SAR 94.5bn) segments. The bank's asset quality improved in 1Q21, with the NPL ratio improving to 2.3% in 2Q21 as against 2.6% in 2Q20, while coverage ratio increased to 139.7% in 2Q21 vis-à-vis 112.5% in 2Q20. Moreover, the bank's capital position improved, with risk-weighted assets being equivalent to 87.5% of the total assets in 2Q21 as against 91.9% in 2Q20. Furthermore, the bank's LDR eased to 95.0% in 2Q21 from 96.1% in 2Q20, indicating an improvement in its liquidity position. Higher exposure to corporate loans (78.3% of the gross loans in 2Q21) and sustained low interest rate scenario could weigh on the bank's asset quality and profitability in the near term. Moreover, resurgence in COVID-19 cases due to the Delta variant may create headwinds for the economy and weigh on the bank's profitability. Considering these factors, we maintain our "Neutral" rating on the stock.

- Net financing and investment income inched up 9.2% YoY to SAR 1.2bn, led by a 39.0% YoY decline in cost of funds to SAR 131.4mn.
- Total operating income rose 24.2% YoY to SAR 1.7bn during the quarter due to increase in fee from banking services, and other operating income.
- Total operating expense increased 3.9% YoY to SAR 520.6mn due to higher general and administrative expense. Subsequently, the cost-to-income ratio improved to 31.5% in 2Q21 from 37.6% in 2Q20.
- Higher operating income offset the increase in total impairment charges and zakat expense. Consequently, the bank recorded a 24.1% YoY surge in net income to SAR 710.3mn in 2Q21.
- Total assets rose 15.4% YoY to SAR 164.1bn owing to a 15.9% YoY increase in net financing assets to SAR 119.6bn and 18.6% YoY rise in investment assets to SAR 30.7bn.
- Customer deposits were up 17.2% YoY to SAR 125.9bn in 2Q21, resulting in an LDR of 95.0% during the quarter, as opposed to 96.1% in 2Q20.
- Alinma's capital adequacy ratio slipped to 19.2% in 2Q21 from 19.6% in 2Q20. Additionally, its Tier I capital ratio contracted to 18.1% from 18.5% in 2Q20.
- Alinma's NPL ratio stood at 2.3% in 2Q21 as against 2.6% in 2Q20, whereas the coverage ratio increased to 139.7% in 2Q21 compared with 112.5% in 2Q20.
- On July 1, Alinma issued Additional Tier 1 Sukuk through private placement and raised SAR 5bn. Alinma offered 5,000 perpetual sukuk with a par value of SAR 1mn each and a rate of return of 4% per annum.
- On August 1, the bank's Board recommended a cash dividend of SAR 0.35 per share for 1H21, equivalent to SAR 695.74mn (3.5% of Alinma's share capital).

Valuation: We revise our target price upward to a fair value of SAR 21.5 per share and maintain a "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21e	FY20	% YoY
Net financing and investment income (SAR bn)	1.2	1.1	9.2%	5.2	4.6	12.0%
Operating income (SAR bn)	1.7	1.3	24.2%	6.9	5.7	20.3%
EPS (SAR)	0.36	0.29	24.1%	1.41	0.99	42.7%
Net interest margin (%)	3.3%	3.5%	(0.2%)	3.4%	3.6%	(0.1%)
Cost to income (%)	31.5%	37.6%	(6.2%)	33.9%	36.9%	(3.0%)
RoE (%)	11.3%	9.9%	1.4%	11.2%	8.4%	2.8%
Total assets (SAR bn)	164.1	142.2	15.4%	175.6	156.9	11.9%
Financing, net (SAR bn)	119.6	103.2	15.9%	128.9	111.2	15.9%

Source: Company Financials, FALCOM Research

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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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