

Alinma Bank posted net income of SAR 642.0mn (EPS of SAR 0.32) in Q1-21, above our and consensus estimates of SAR 512.7mn and SAR 509.4mn, respectively. The deviation from our estimate was mainly due to lower-than-expected impairment charges and higher fee income. Deposits and loans increased 16.2% Y/Y and 19.8% Y/Y, respectively. Deposit of SAR 120.7bn was in line with our forecast, while SAR 117.1bn in loan was 4.4% above our estimate. The Murabaha rate/lending rate decreased marginally. We expect the bank's net income to be impacted by the higher impairment charges in the near term. We maintain our recommendation of "Overweight" with TP of SAR 19.0/share.

- Alinma Bank (Alinma) posted earnings of SAR 642mn (73.5% Y/Y, 62.9% Q/Q). Net financing and investment income stood at SAR 1,204mn (7.4% Y/Y, -2.7% Q/Q), in-line with our expectation of SAR 1,248mn. This can be attributed to SAR 117.1bn worth of loans (19.8% Y/Y, 5.4% Q/Q), representing an addition of SAR 5.9bn. Our total loan expectation stood at SAR 112.2bn. Moreover, the Murabaha rate/lending rate came in below our expectation.
- Deposits increased by SAR 1.2bn Q/Q to SAR 120.7bn (16.2% Y/Y, 1.0% Q/Q), in-line with our estimate of SAR 120.6bn. As loan growth outpaced deposit growth, the ADR ratio rose to 97.1% from 93.1% in Q4-20.
- The bank posted operating income of SAR 1.6bn (27.7% Y/Y, -0.7% Q/Q), in-line with our estimate. The Q/Q increase in operating profit can be ascribed to the rise in fee income, investment income, and other operating income.
- Operating expense of SAR 903mn (5.6% Y/Y, -24.4% Q/Q) was below our estimate of SAR 1,001.2mn. The Q/Q decrease is mainly ascribed to lower impairment charges, which decreased to SAR 344mn compared with SAR 650mn in Q4-20, below our estimate of SAR 411mn. We expect an increase in provisions in H2-21 as the deferred payments program has been extended until June 30, 2021. This could lead to higher operating expense, and thereby adversely impact net income.

AJC view: Alinma's top line and operating income was in line with our expectations. However, due to lower-than estimated impairment charges, the net income surpassed our estimate.

Alinma's loan book contains 79% corporate loans, while 42% of its deposits are Murabaha deposits. A higher concentration of corporate loans leaves the bank susceptible to higher NPLs, which increased to 2.6% in FY20 from 1.9% in FY19. Additionally, higher corporate exposure could result in the re-pricing of loans, consequently impacting NIMs.

We expect the bank to post earnings of SAR 2.1bn (9.8% Y/Y) in FY21. Once it publishes the detailed financials, we will revisit our estimates. We maintain a cautious "Overweight" recommendation on Alinma with TP of SAR 19.0/share.

Results Summary

SARmn	Q1-20	Q4-20	Q1-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Net financing & investments income	1,121.0	1,237.0	1,204.0	7.4%	-2.7%	-3.5%
<i>Net financing margin</i>	80.4%	88.4%	89.3%			
Total operating income	1,268.0	1,631.0	1,619.0	27.7%	-0.7%	2.8%
Net Profit	370.0	394.0	642.0	73.5%	62.9%	25.2%
EPS	0.19	0.20	0.32			

Source: Company reports, Aljazira Capital

Overweight

Target Price (SAR)	19.0
Upside / (Downside)*	5.1%

Source: Tadawul *prices as of 21st of April 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Net financing and inv. income	4,323.2	4,647.8	4,839.7
Growth %	13.8%	7.5%	4.1%
Net Income	2,534.8	1,966.0	2,158.8
Growth %	-11.3%	-22.4%	9.8%
EPS	1.28	0.99	1.09

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
NIMs	1.9%	2.3%	2.2%
Operating Margin	51%	40%	42%
PE (x)	14.7x	16.5x	16.8x
P/B (x)	1.9x	1.6x	1.7x
Dividend Yield	3.2%	1.9%	3.6%
ROA	1.9%	1.3%	1.3%
ROE	11.3%	8.0%	8.6%
Gross loans growth	13%	17%	8%

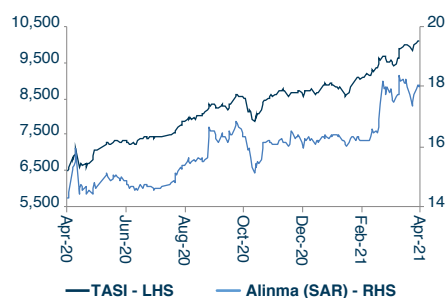
Source: Company reports, Argaam, Aljazira Capital

Key Market Data

Market Cap (bn)	36.7
YTD %	11.7%
52 week (High)/(Low)	18.4/14.0
Shares Outstanding (mn)	1,987.0

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg

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RATING TERMINOLOGY

- 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.
- 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.
- 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.
- 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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