

1Q 2018 Results Update
May 31, 2018

Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	20.5
Target Price (SAR)	19.3
Upside/Downside (%)	(6.2%)

As of May 29th 2018
Key Data (Source: Bloomberg)

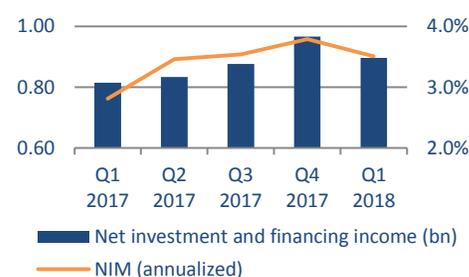
Market Cap (SAR bn)	30.6
52 Wk High (SAR)	21.58
52 Wk Low (SAR)	14.05
Total Outstanding shares (in mn)	1,490
Free Float (%)	73.8%

Alinma Bank vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	-1.6%	1.4%
6m	13.9%	-0.3%
12m	45.5%	28.8%

Major Shareholders (%)

Public Pension Agency	10.7%
Public Investment Fund	10.0%
General Organization for Social Insurance	5.1%

Net investment and financing income (SAR bn) and NIM (annualized)


Source: Bloomberg, Capital IQ, Company Financials, FALCOM Research; Data as of 29th May 2018

1Q18 results in-line with our expectations

Alinma Bank reported a strong 1Q18 with 10.4% YoY increase in operating income, mainly due to growth in net financing and investment income along with higher fee income. Additionally, impairment charge for financing reduced by 28% YoY, and the bank realized a net profit from associates and JV (as compared to a loss in 1Q17). This has resulted in a 38% YoY growth in net income to SAR 582mn. Healthy net income enhanced its ROE profile to 11.5% in 1Q18 (1Q17: 7.6%) on an annualized basis.

During the quarter, Saudi Arabian Monetary Authority (SAMA) pro-actively raised its repo rate for the first time since 2009 ahead of Fed rate hike. Yet another spell of Fed rate hikes (expected 2-3 times in 2018), would further raise KSA's interest rates, thereby impacting the demand for funds. Despite higher interest rates, corporate credit may increase on account of a rebounding economy following the recovery in oil prices and steps taken by the government to boost industrial growth. Corporate and treasury segments constitute a majority of Alinma's asset portfolio. Given the countervailing factors, we have revised our rating on the stock from 'Underweight' to 'Neutral'.

- The bank recorded a 10.5% YoY growth in gross financing and investing income to SAR 1,113mn in 1Q18. Alinma's net financing grew by 7.2% YoY to SAR 78.8bn in 1Q18, down slightly from SAR 79.0bn in 4Q17. Consequently, the bank's net interest margins (NIM) improved from 2.8% a year ago to 3.5% in 1Q18.
- During the quarter, the total operating income rose 10.4% YoY to SAR 1,110mn primarily due to increase in net financing and investment income (SAR 82mn). Moreover, the total operating expenses (excluding impairment charge for financing) increased only marginally by 0.4% YoY.
- In 1Q18, the customer deposits rose 9.7% YoY to SAR 89bn. The deposits grew at a faster pace than loans, thereby impacting the loan to deposit ratio, which dropped from 90.3% in 1Q17 to 88.2% in 1Q18.
- Higher investments (SAR 15.9bn, 159.0% YoY) were offset by lower due from banks and other financial institutions (SAR 5.7bn, -61.9% YoY). Net financing grew by 7.2% YoY to SAR 78.8bn and cash balance grew by 32.2% YoY to SAR 9.3bn. Thus total assets increased by 8.3% YoY to SAR 113.7bn.
- Alinma is a leading shariah-compliant bank with a decent free float. The bank's asset quality remained within reasonable limits, with a gross NPL ratio of 1.1% in 1Q18 (up slightly from 0.9% in 1Q17).
- The bank has restated its investments for previous quarters to conform with current presentation. Investments were reduced by SAR 178mn for 1Q17 and SAR 253mn for 4Q17. Shareholder's equity was reduced by the same amounts.

Valuation: We have revised our target price upwards with a fair value of SAR 19.3 per share, in-line with current share price run-up and incorporating the strong 1Q18 performance. We revise our rating on the stock from 'Underweight' to 'Neutral'.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR bn)	0.9	0.8	10.1%	4.2	3.5	19.9%
Operating income (SAR bn)	1.1	1.0	10.4%	5.2	4.4	18.4%
EPS (SAR)	0.4	0.3	38.1%	1.9	1.3	39.3%
Net Interest Margin (%)	3.5%	2.8%	0.7%	3.9%	3.5%	0.3%
Cost to income (%)	39.9%	43.9%	-4.0%	41.9%	39.9%	2.0%
RoE (%)	11.5%	7.5%	4.0%	13.3%	10.2%	3.1%
Total Assets (SAR bn)	113.7	105.1	8.3%	125.2	114.8	9.1%
Financing, net (SAR bn)	78.8	73.5	7.2%	86.0	79.1	8.9%
Customer Deposits(SAR bn)	89.3	81.4	9.7%	97.9	89.1	9.9%

Source: Company Financials, FALCOM Research

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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