

2Q19 Results Update

August 28, 2019

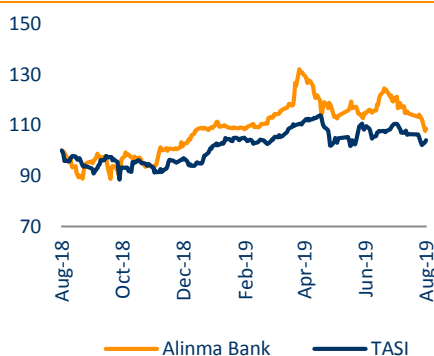
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	22.3
Target Price (SAR)	24.0
Upside/Downside (%)	7.5%

As of 28th August, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	33.5
52-Wk High (SAR)	28.25
52-Wk Low (SAR)	18.96
Total Outstanding Shares (in mn)	1,500
Free Float (%)	79.9%

Alinma Bank vs. TASI (Rebased)

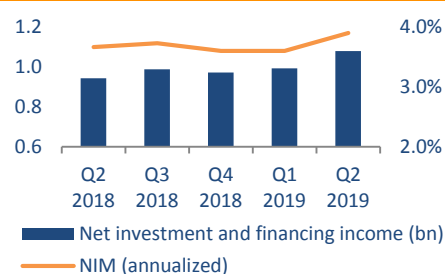


Price Performance (%)	Absolute	Relative
1m	(13.2%)	(3.2%)
6m	(3.7%)	0.4%
12m	5.7%	4.4%

Major Shareholders (%)

Public Investment Fund	10.0%
Public Pension Agency	5.8%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 28th August 2019

Net financing income crosses SAR 1bn, but net profits miss consensus estimates

Alinma Bank's net profit grew 11.5% YoY and 5.9% QoQ to SAR 675.7bn in 2Q19. This increase was driven by higher net financing income, exchange income, and income from FVIS financial instruments. Net financing income grew 14.6% YoY and 8.7% QoQ to SAR 1.1bn, crossing the billion riyal mark for the first time. The company benefitted from higher interest rates and solid growth in net financing assets. The customer's deposits for the period grew 4.4% YoY to SAR 92.8bn, taking the loan-to-deposit ratio (LDR) to 94.5% from 92.1% a year ago. On the other hand, lower fee from banking services and dividend income offset gains from net exchange income and FVIS financial instruments.

In July, the Saudi Arabian Monetary Authority cut repo rates by 25 basis points to 275 basis points after a four-step rate hike in the previous year, following the Fed's footsteps. Alinma Bank has managed to expand its net financing portfolio in a low rate scenario, but the subsequent rise in non-performing loans and increasing loan to deposit ratio poses a concern for strong portfolio expansion. Though the bank's net interest margin continued to improve, the trend may change as repo rates fall or the company's loan portfolio mix changes. Thus, in view of these countervailing factors, we maintain our "Neutral" rating.

- Gross financing and investment income advanced 16.2% YoY to SAR 1.4bn in 2Q19, while net financing and investment income was up 14.6% YoY to SAR 1.1bn.
- Total operating income grew 10.8% YoY to SAR 1.4bn, led by a rise in net financing and investment income, growth in net exchange income (+14.2% YoY SAR 52.4mn), and income from FVIS instruments (+91.0% YoY to SAR 48.3mn). The decline in dividend income and fee from banking services pared these gains.
- Total operating expenses rose 5.3% YoY to SAR 466.8mn due to higher staff, depreciation, and other G&A expenses. The rental expenses recorded a sharp decline.
- The charge for impairment of financing declined 13.0% YoY to SAR 141.6mn but was up 116.6% on a quarterly basis.
- Net financing grew 7.0% YoY to SAR 87.7bn, and customer deposits were up 4.4% YoY to SAR 92.8bn. The LDR for the quarter stood at 94.5% in 2Q19 as against 92.1% in 2Q18 and 93.1% in 1Q19.
- Investments grew 31.5% YoY to SAR 21.3bn in 2Q19 from SAR 16.2bn. Shareholders' equity increased 8.1% to SAR 21.2bn from SAR 19.6bn during this period.
- We expect Alinma's loan portfolio to grow moderately, led by a rise in government spending. Moreover, cost efficiencies, high ROE and solid capitalization are likely to bode well for the bank going forward.

Valuation: We maintain our "Neutral" rating on the stock with a target price of SAR 24.0 per share.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR mn)	1,080	942	14.6%	4,136	3,798	8.9%
Operating income (SAR mn)	1,364	1,231	10.8%	5,267	4,845	8.7%
EPS (SAR)	0.45	0.41	11.5%	1.72	1.69	1.7%
Net interest margin (%)	3.9%	3.7%	0.2%	3.7%	3.5%	0.2%
Cost to income (%)	34.2%	36.0%	(1.8%)	40.3%	38.3%	2.0%
RoE (%)	13.0%	12.2%	0.8%	11.8%	12.1%	-0.3%
Total assets (SAR bn)	123	117	5.9%	125	122	2.9%
Financing, net (SAR bn)	88	82	7.0%	85	84	1.3%

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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