

3Q19 Results Update

December 08, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.0
Target Price (SAR)	23.0
Upside/Downside (%)	(4.2%)

As of 8th December, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	36.0
52-Wk High (SAR)	28.3
52-Wk Low (SAR)	19.6
Total Outstanding Shares (in mn)	1,500
Free Float (%)	81.1%

Alinma Bank vs. TASI (Rebased)

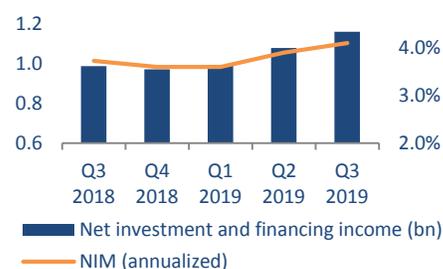


Price Performance (%)	Absolute	Relative
1m	5.8%	(1.0%)
6m	(7.4%)	(3.3%)
12m	0.6%	(2.7%)

Major Shareholders (%)

Public Pension Agency	5.8%
Public Investment Fund	10.0%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 8th December 2019

Higher net financing and investment income push up net income in 3Q19

Alinma Bank's net income grew 11.9% YoY and 5.5% QoQ to SAR 712.8bn in 3Q19. The increase was driven by a rise in net financing and investment income, increased net exchange income, and higher dividend income. Net financing and investment income grew 17.6% YoY and 7.5% QoQ to SAR 1.2bn, surpassing the previously achieved billion riyal mark. The bank's operating expenses rose considerably over the comparable period due to higher salaries and G&A expenses. Customers' deposits for the period grew 11.1% YoY to SAR 99.8bn, whereas net financing went up 9.2% YoY to SAR 90.8bn; thus, the loan-to-deposit ratio (LDR) declined to 90.9% in 3Q19 from 92.5% in 3Q18. The bank's capital adequacy ratio was 20.2% in 3Q19 against 20.5% in 3Q18.

The Saudi Arabian Monetary Authority (SAMA) slashed repo rates by 25 basis points (bps) to 250 bps for the second time during this year, in line with US Federal Reserve's rate cut announcement in September. The bank has managed to expand its net financing portfolio in a low-rate scenario, yet there was a rise in the non-performing loans. In addition, the improvement in the interest margins may reverse if the repo rates continue to fall further or the loan portfolio mix changes. On the other hand, there was a drop in the bank's LDR but it remains in the healthy range. The bank's capital adequacy ratio too remained much above the minimum requirement. Thus, in view of these countervailing factors, we maintain our "Neutral" rating.

- Gross financing and investment income rose 13.6% YoY to SAR 1.5bn in 3Q19; net financing and investment income was up 17.6% YoY to SAR 1.2bn.
- Total operating income surged 18.9% YoY to SAR 1.4bn, led by a steep rise in net financing and investment income, growth in net exchange income (+31.2% YoY SAR 56.9mn), and dividend income (+240.0% YoY to SAR 2.6mn). Conversely, fees from banking services declined 7.7% YoY to SAR 192.9mn.
- Total operating expenses grew 19.5% YoY to SAR 537.4mn due to higher depreciation and increased staff and other G&A expenses. Rental expenses, meanwhile, continued to slide.
- The charge for impairment of financing was down sequentially, but rose 10.2% YoY to SAR 108.3mn.
- Net financing rose 9.2% YoY to SAR 90.8bn and customer deposits were up 11.1% YoY to SAR 99.8bn. The LDR for the quarter was 90.9% in 3Q19 against 92.5% in 3Q18 and 94.5% in 2Q19.
- Investments grew 28.9% YoY to SAR 22.7bn in 3Q19 from SAR 17.6bn a year ago. Shareholders' equity increased 8.5% YoY to SAR 21.9bn from SAR 20.2bn during this period.
- Alinma Bank signed a 10-year credit facility worth SAR 3.0bn with Etihad Etisalat Company (Mobily) to help the latter replace its existing debt and cover its capital expenditure.

Valuation: We maintain our "Neutral" rating on the stock with a target price to SAR 23.0 per share.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR mn)	1,160	987	17.6%	4,563	3,798	20.2%
Operating income (SAR mn)	1,441	1,212	18.9%	5,728	4,845	18.2%
EPS (SAR)	0.48	0.43	11.9%	1.80	1.69	6.6%
Net interest margin (%)	4.1%	3.7%	0.3%	4.0%	3.5%	0.4%
Cost to income (%)	37.3%	37.1%	0.2%	36.8%	38.3%	(1.5%)
RoE (%)	13.2%	12.8%	0.4%	12.3%	12.1%	0.2%
Total assets (SAR bn)	128	120	6.5%	132	122	8.5%
Financing, net (SAR bn)	91	83	9.2%	91	84	8.8%

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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