

2Q20 Results Update

September 15, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	15.5
Target Price (SAR)	16.0
Upside/Downside (%)	3.2%

As of September 8, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	31.0
52-Wk High (SAR)	19.6
52-Wk Low (SAR)	13.7
Total Outstanding Shares (in mn)	2,000
Free Float (%)	100.0%

Alinma Bank vs. TASI (Rebased)

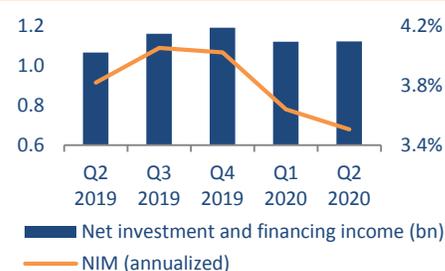


Price Performance (%)	Absolute	Relative
1m	4.7%	(3.1%)
6m	1.6%	(16.6%)
12m	(6.6%)	(7.1%)

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 September 8, 2020

Higher impairment provisions hurt bottom line in 2Q20

Alinma Bank (Alinma)'s net financing and investment income expanded 5.3% YoY to SAR 1.1bn owing to 27.9% YoY reduction in the bank's cost of funds to SAR 215.4mn during the quarter. Total operating income declined 1.3% YoY to SAR 1.3bn in 2Q20, as increase in net exchange income and other operating income was offset by decline in fees from banking services and losses from FVSI financial instruments. Higher total operating expense due to increased salary costs coupled with higher impairment provisions weighed on the bank's net income, which fell 15.3% YoY to SAR 572.5mn. Alinma's loan book grew 17.7% YoY to SAR 103.2 bn, while customer deposits increased 15.7% YoY to SAR 107.4bn; thus, the loan-to-deposit ratio (LDR) advanced to 96.1% in 2Q20 compared with 94.5% in 2Q19.

Alinma's balance sheet remained strong in 2Q20 supported by steady growth in the bank's financing assets during the period. Moreover, growth in customer deposits remained stable despite the economic uncertainty created by the COVID-19 pandemic. The bank also managed to limit the contraction in the net interest margin during the quarter despite the sharp reduction in SAIBOR rates. Though Alinma's fundamentals have remained strong, continued disruption in economic activity may adversely impact profitability. The bank is also expected to maintain higher provisions for impairment during the second half of the year due to the pandemic. Furthermore, anticipation of sustained low interest rates in the near term could weigh on the bank's bottom line. Therefore, in view of the countervailing factors mentioned above, we maintain our "Neutral" rating on the stock.

- Gross financing and investment income fell 2.0% YoY to SAR 1.3bn in 2Q20. However, net financing and investment income scaled up 5.3% YoY to SAR 1.1bn, as cost of funds (return on customers, banks, and financial institutions' time investments) fell 27.9% YoY to SAR 215.4mn, offsetting the decline in the top line.
- Decline in fees from banking services coupled with net losses from FVSI financial instruments weighed on the bank's total operating income, which declined 1.3% YoY to SAR 1.3bn during the quarter.
- The bank's total operating expense inched up 10.4% YoY to SAR 515.3mn owing to higher salary and employee benefits as well as other general and administrative expenses. This resulted in a 7.4% YoY decline in pre-provision profit to SAR 831.2mn in 2Q20.
- The bank's cost-to-income ratio increased to 38.3% in 2Q20 from 34.2% in 2Q19 due to the increase in operating expenses and the slight decrease in total operating income.
- In addition to the above factors, a 35.6% YoY rise in charge for impairment of financing to SAR 192.1mn weighed on the net income, which contracted 15.3% YoY to SAR 572.5mn.
- The bank's total assets rose 15.2% YoY to SAR 142.2bn supported by 17.7% YoY increase in net financing assets to SAR 103.2bn. Customer deposits were up 15.7% YoY to SAR 107.4bn in 2Q20, resulting in an increase in LDR to 96.1% in 2Q20 from 94.5% in 2Q19.
- Return on equity (ROE) for the quarter decreased to 9.9% in 2Q20 from 13.0% in 2Q19; return on assets (ROA) fell to 1.6% in 2Q20 as against 2.2% in the previous year.
- Alinma's capital adequacy ratio (CAR) declined to 19.6% in 2Q20 compared with 20.3% in 2Q19. Additionally, its Tier I capital ratios fell to 18.5% in 2Q20 from 19.2% in 2Q19.

Valuation: We maintain our "Neutral" rating on the stock with a target price of SAR 16.0 per share.

	2Q20	2Q19	% YoY	FY20e	FY19	% YoY
Net financing and investment income (SAR mn)	1,122	1,066	5.3%	4,157	4,394	(5.4%)
Operating income (SAR mn)	1,346	1,364	(1.3%)	5,473	5,610	(2.4%)
EPS (SAR)	0.29	0.34	(15.3%)	0.92	1.27	(27.1%)
Net interest margin (%)	3.5%	3.8%	(0.3%)	3.2%	3.8%	(0.6%)
Cost to income (%)	38.3%	34.2%	4.1%	39.3%	37.0%	2.3%
RoE (%)	9.9%	13.0%	(3.1%)	8.3%	11.6%	(3.3%)
Total assets (SAR bn)	142	123	15.2%	145	132	9.9%
Financing, net (SAR bn)	103	88	17.7%	109	95	15.1%

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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