

### 3Q20 Results Update

December 28, 2020

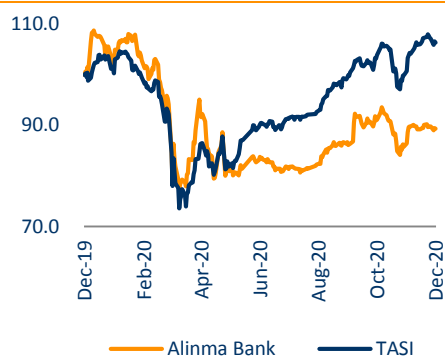
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	16.1
Target Price (SAR)	16.0
Upside/Downside (%)	(0.5%)

As of December 8, 2020

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	32.2
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)

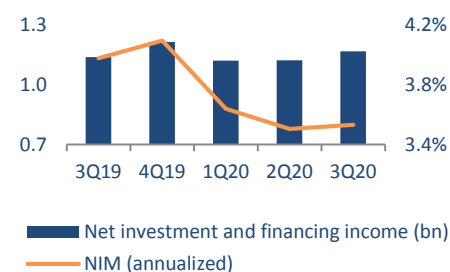


Price Performance (%)	Absolute	Relative
1m	3.3%	(2.2%)
6m	6.6%	(11.3%)
12m	(10.7%)	(17.0%)

#### 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 December 8, 2020

#### Operating income improved in 3Q20

Alinma Bank (Alinma)'s net financing and investment income expanded 2.5% YoY to SAR 1.2bn on account of a 44.3% YoY reduction in the bank's cost of funds to SAR 169.8mn during 3Q20. Total operating income scaled up 3.3% YoY to SAR 1.5bn, whereas total operating expense increased 1.7% YoY to SAR 546.6mn. This narrowed the bank's cost-to-income ratio to 36.7%. Higher impairment provisions and zakat expense hurt the bank's net income, which declined 11.7% YoY to SAR 629.2mn. Alinma's net financing assets grew 16.0% YoY to SAR 105.3 bn, while customer deposits rose 11.5% YoY to SAR 111.3bn. As a result, the loan-to-deposit ratio widened by 368.4 bps to 94.6% in 3Q20.

Alinma maintained a robust balance sheet in 3Q20 owing to steady growth in the bank's loan book during the period. Alinma also recorded a sturdy rise in customer deposits amid the pandemic-related economic uncertainties. The bank also managed to hold a steady NIM in 3Q20 compared with 2Q20 despite lower interest rates. However, the bank's NPL ratio widened to 2.1% during the quarter compared with 1.9% in the same period in the previous year. The bank is expected to maintain higher impairment provisions owing to its higher exposure to the corporate sector. Moreover, a sustained low interest rate environment 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.

- Net financing and investment income inched up 2.5% YoY to SAR 1.2bn, as the 44.3% YoY decline in cost of funds (return on customers, banks, and financial institutions' time investments) to SAR 169.8mn offset the 7.4% YoY fall in the gross financing and investment income to SAR 1.3bn.
- The bank's total operating income rose 3.3% YoY to SAR 1.5bn during the quarter owing to the higher fee from banking services, net other operating income, and dividend income.
- The bank's total operating expense increased 1.7% YoY to SAR 546.6mn due to higher salary and employee benefits, and other general and administrative expenses. Subsequently, the bank's cost-to-income ratio contracted by 58.1 bps to 36.7% in 3Q20.
- However, rise in impairment charges and zakat expense weighed on the net income, which dropped 11.7% YoY to SAR 629.2mn in 3Q20.
- The bank's total assets rose 15.5% YoY to SAR 147.8bn owing to a 16.0% YoY increase in net financing assets to SAR 105.3bn. Customer deposits were up 11.5% YoY to SAR 111.3bn in 3Q20, resulting in a 368.4 bps increase in LDR to 94.6% during the quarter.
- Return on equity (ROE) for the quarter decreased to 10.6% in 3Q20 from 13.2% in 3Q19; return on assets (ROA) fell to 1.7% in 3Q20 as against 2.3% in the previous year.
- Alinma's capital adequacy ratio (CAR) declined to 19.7% in 3Q20 compared with 20.2% in 3Q19. Additionally, its Tier I capital ratios fell to 18.6% in 3Q20 from 19.1% in 3Q19.
- Alinma's NPL ratio stood at 2.1% in 3Q20 as against 1.9% in 3Q19.

**Valuation:** We continue to maintain "Neutral" rating on the stock and retain our target price of SAR 16.0 per share.

	3Q20	3Q19	% YoY	FY20e	FY19	% YoY
Net financing and investment income (SAR mn)	1,167	1,139	2.5%	4,636	4,394	5.5%
Operating income (SAR mn)	1,489	1,441	3.3%	5,628	5,610	0.3%
EPS (SAR)	0.31	0.36	(11.7%)	1.12	1.27	(11.7%)
Net interest margin (%)	3.5%	4.0%	(0.4%)	3.6%	3.8%	(0.2%)
Cost to income (%)	36.7%	37.3%	(0.6%)	38.1%	37.0%	1.1%
RoE (%)	10.6%	13.2%	(2.6%)	8.9%	11.6%	(2.7%)
Total assets (SAR bn)	148	128	15.5%	154	132	17.2%
Financing, net (SAR bn)	105	91	16.0%	110	95	16.0%

Source: Company Financials, FALCOM Research

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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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