

FY20 Results Update

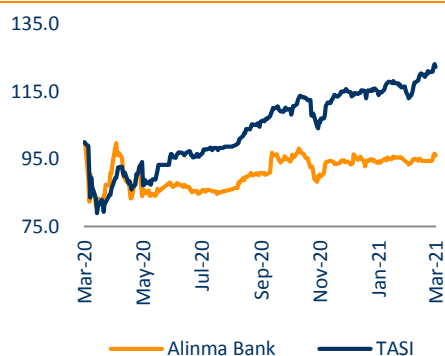
March 04, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	16.5
Target Price (SAR)	16.0
Upside/Downside (%)	(2.9%)
<i>As of March 04, 2021</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	33.0
52-Wk High (SAR)	17.3
52-Wk Low (SAR)	13.7
Total Outstanding Shares (in bn)	2.0
Free Float (%)	100.0%

Alinma Bank vs. TASI (Rebased)

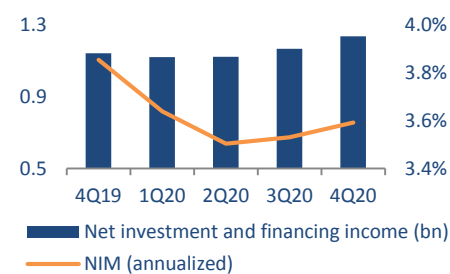


Price Performance (%)	Absolute	Relative
1m	2.9%	(5.3%)
6m	5.6%	(9.7%)
12m	(4.0%)	(26.3%)

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 March 04, 2021

Robust growth in loan book in FY20, but NPL and coverage ratios deteriorate

Alinma Bank (Alinma)'s net financing and investment income expanded 7.5% YoY to SAR 4.6bn on account of the 32.3% YoY reduction in cost of funds to SAR 822.2mn in FY20. Total operating income scaled up 2.2% YoY to SAR 5.7bn, whereas total operating expense increased 2.0% YoY to SAR 2.1bn. This narrowed the bank's cost-to-income ratio to 36.9%. Higher impairment provisions hurt the bank's net income, which declined 22.4% YoY to SAR 2.0bn. Alinma's net financing assets grew 17.3% YoY to SAR 111.2bn, while customer deposits rose 17.0% YoY to SAR 119.4bn. As a result, the loan-to-deposit ratio widened to 93.1% in FY20 from 92.9% in FY19.

Alinma continued to record steady growth in net financing assets in FY20 owing to the strong performance of its Retail (+20.5% YoY to SAR 23.5bn) and Corporate (+16.5% YoY to SAR 87.7bn) segments. Alinma also noted a sturdy rise in customer deposits, despite the challenging situation created by the COVID-19 pandemic. The bank was able to hold its NIM stable in FY20 compared to FY19, despite lower interest rates during the year. However, the NPL ratio widened to 2.5% and coverage ratio narrowed to 115.7% in FY20 compared with 1.9% and 140.3%, respectively in FY19. The bank is expected to maintain higher impairment provisions in 1H21 owing to its higher exposure to the corporate sector. In addition, a sustained low interest rate environment could weigh on the bank's bottom line. Furthermore, new variants of the COVID-19 virus could result in an increase in restrictions, and impact business and consumer sentiment. This could result in economic headwinds for Saudi banks. Therefore, in view of the countervailing factors mentioned above, we maintain our "Neutral" rating on the stock.

- Net financing and investment income inched up 7.5% YoY to SAR 4.6bn due to the 32.3% YoY decline in cost of funds to SAR 822.2mn.
- Total operating income rose 2.2% YoY to SAR 5.7bn during the quarter due to the higher fee from banking services and net exchange income.
- Total operating expense increased 2.0% YoY to SAR 2.1bn due to higher salary and G&A expenditure. Consequently, the cost-to-income ratio improved 6.9 bps to 36.9% in FY20.
- The sharp rise in impairment charges during the year offset the improvement in zakat expense and share of results from associate companies. This led the bank to record a 22.4% YoY drop in net income to SAR 2.0bn in FY20.
- Total assets rose 19.0% YoY to SAR 156.9bn owing to the 17.3% YoY increase in net financing assets to SAR 111.2bn. Customer deposits were up 17.0% YoY to SAR 119.4bn in FY20, resulting in a 20.1 bps increase in LDR to 93.1% during the year.
- Alinma's NPL ratio stood at 2.5% in FY20 as against 1.9% in FY19, whereas coverage ratio declined to 115.7% in FY20 compared with 140.3% in FY19.
- On November 29, Alinma appointed Abdullah Bin Ali Alkhalifa as CEO of the bank, following the resignation of Abdulmohsen Bin Abdul Aziz Al-Fares from the position.
- On December 15, Fitch affirmed the Long-Term Issuer Default Rating of Alinma Bank at BBB+ with a negative outlook. The bank was placed on Rating Watch Negative in March 2020 due to increased risks from the pandemic but has now been removed from it by the rating agency.
- On March 3, the bank's Board recommended a cash dividend of SAR 0.3 per share equivalent to SAR 596.12mn or about 3% of the bank's share capital.

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

	4Q20	4Q19	% YoY	FY21e	FY20	% YoY
Net financing and investment income (SAR bn)	1.2	1.1	8.3%	4.9	4.6	5.4%
Operating income (SAR bn)	1.6	1.5	7.6%	6.3	5.7	9.3%
EPS (SAR)	0.20	0.26	(22.5%)	1.22	0.99	23.6%
Net interest margin (%)	3.6%	3.9%	(0.3%)	3.4%	3.6%	(0.2%)
Cost to income (%)	33.4%	36.9%	(3.5%)	37.9%	36.9%	0.9%
RoE (%)	6.5%	9.2%	(2.7%)	9.8%	8.4%	1.4%
Total assets (SAR bn)	156.9	131.8	19.0%	168.6	156.9	7.5%
Financing, net (SAR bn)	111.2	94.8	17.3%	114.6	111.2	3.1%

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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