

### 3Q21 Results Update

November 26, 2021

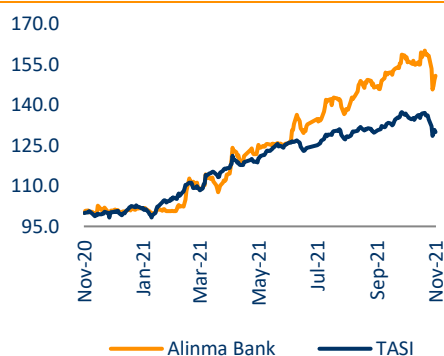
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.3
Target Price (SAR)	23.0
Upside/Downside (%)	-5.3%

As of November 25, 2021

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	48.6
52-Wk High (SAR)	26.0
52-Wk Low (SAR)	15.9
Total Outstanding Shares (in bn)	2.0
Free Float (%)	99.9%

#### Alinma Bank vs. TASI (Rebased)

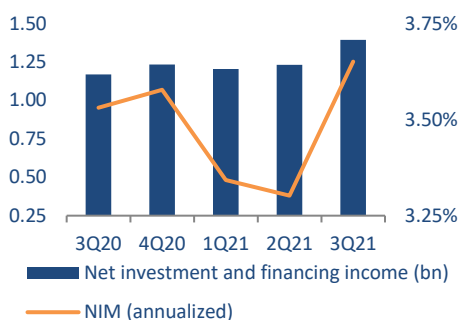


Price Performance (%)	Absolute	Relative
1m	(4.0%)	1.0%
6m	20.5%	12.4%
12m	50.9%	20.9%

#### 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 November 25, 2021

#### Net Profit continues to increase in 3Q21

Alinma Bank (Alinma)'s net financing and investment income surged 17.5% YoY to SAR 1.4bn, supported by a 30.0% YoY reduction in cost of funds to SAR 118.8mn and an 11.5% YoY rise in gross investment and financing income to SAR 1.5bn in 3Q21. Increase in fee from banking service, exchange income and gain from FVSI instruments during the quarter resulted in total operating income to increase 16.5% YoY to SAR 1.7bn. Total operating expense soared 14.9% YoY to SAR 617.8mn following a rise in general and administrative expense. This marginally narrowed the bank's cost-to-income ratio by 48 bps YoY to 35.8%. Higher net interest income and operating income led the bank to report a 17.3% YoY surge in net income to SAR 738.1mn in 3Q21. Alinma's net financing assets grew 15.2% YoY to SAR 121.3bn, while customer deposits rose 4.8% YoY to SAR 116.7bn in 3Q21. As a result, the loan-to-deposit ratio (LDR) was up 938 bps YoY to 104.0% in 3Q21.

Alinma's loan book continued its upward trend, with a 15.2% YoY rise to SAR 121.3bn, driven by strong performance in its Corporate (up 15.9% YoY to SAR 96.1bn) and Retail (up 15.7% YoY to SAR 26.5bn) segments. Asset quality of the bank marginally deteriorated on YoY basis in 3Q21, with NPL ratio of 2.3% in 3Q21 as against 2.1% in 3Q20. However, coverage ratio increased to 156.8% in 3Q21 vis-à-vis 133.6% in 3Q20. Moreover, the bank's capital position improved, with risk-weighted assets being equivalent to 87.1% of the total assets in 3Q21 as against 90.0% in 3Q20. Following Tier 1 Sukuk issuance, the bank enhanced its lending capacity. The bank's LDR jumped to 104.0% in 3Q21 from 94.6% in 3Q20, following a slower rise in deposits on YoY basis. Higher exposure to corporate loans (76% of the gross loans in 3Q21) and sustained low interest rate scenario could weigh on the bank's asset quality and profitability in the near term. Moreover, the continuing uncertainty due to COVID-19 may create headwinds for the economy and weigh on the bank's profitability. Considering these factors, we maintain our "Neutral" rating on the stock.

- Net financing and investment income soared 17.5% YoY to SAR 1.4bn, led by a 30.0% YoY decline in cost of funds to SAR 118.8mn.
- Total operating income climbed 16.5% YoY to SAR 1.7bn during the quarter due to increase in fee from banking services, exchange income and gain from FVSI financial instruments.
- Total operating expense increased 14.9% YoY to SAR 617.8mn due to higher general and administrative expense. Subsequently, the cost-to-income ratio improved marginally to 35.8% in 3Q21 from 36.3% in 3Q20.
- Higher operating income counterbalanced the rise in total impairment charges as the bank recorded a 17.3% YoY surge in net income to SAR 738.1mn in 3Q21.
- Total assets rose 12.8% YoY to SAR 166.8bn, owing to a 15.2% YoY increase in net financing assets to SAR 121.3bn and 20.5% YoY rise in investment assets to SAR 31.9bn.
- Customer deposits inched up 4.8% YoY to SAR 116.7bn in 3Q21, resulting in an LDR of 104.0% during the quarter, as opposed to 94.6% in 3Q20.
- Alinma's capital adequacy ratio rose to 22.4% in 3Q21 from 19.7% in 3Q20. Additionally, its Tier I capital ratio expanded to 21.3% from 18.6% in 3Q20.
- Alinma's NPL ratio stood at 2.3% in 3Q21 as against 2.1% in 3Q20, whereas the coverage ratio increased to 156.8% in 3Q21 compared with 133.6% in 3Q20.

**Valuation:** We revise our target price upward to a fair value of SAR 23.0 per share and maintain a "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21e	FY20	% YoY
Net financing and investment income (SAR bn)	1.4	1.2	17.5%	5.2	4.6	12.1%
Operating income (SAR bn)	1.7	1.5	16.5%	6.8	5.7	18.7%
EPS (SAR)	0.37	0.32	17.3%	1.43	0.99	44.8%
Net interest margin (%)	3.7%	3.6%	0.1%	3.4%	3.6%	(0.1%)
Cost to income (%)	35.8%	36.3%	(0.5%)	34.8%	36.9%	(2.1%)
RoE (%)	10.7%	10.6%	0.1%	11.3%	8.4%	2.9%
Total assets (SAR bn)	166.8	147.8	12.8%	175.8	156.9	12.1%
Financing, net (SAR bn)	121.3	105.3	15.2%	129.1	111.2	16.1%

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, FALCOM Research.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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