

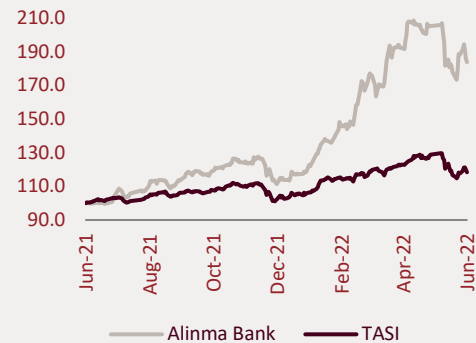
## 1Q22 Results Update

June 3, 2022

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	37.1
Target Price (SAR)	38.0
Upside/Downside (%)	2.4%
<i>As of June 2, 2022</i>	

<b>Key Data (Source: Bloomberg)</b>	
Market Cap (SAR bn)	74.2
52-wk High (SAR)	42.5
52-wk Low (SAR)	20.0
Total Outstanding shares (in bn)	2.0
Free Float (%)	99.9%

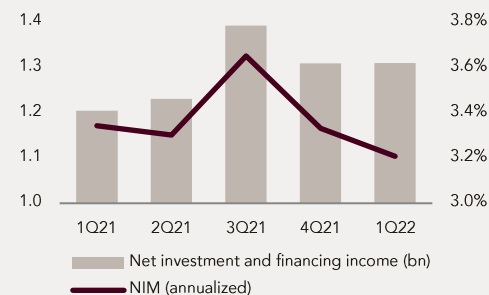
### Alinma Bank vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(10.5%)	(2.3%)
6m	64.9%	49.1%
12m	83.7%	65.4%

<b>Major Shareholders (%)</b>	
Public Investment Fund.	10.00%

### Net Investment and Financing Income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of June 2, 2022

### Loan books improve on solid performance from Corporate and Retail segments

Alinma Bank (Alinma)'s net financing and investment income increased 8.7% YoY to SAR 1.3bn in 1Q22, driven by a 9.1% YoY rise in gross financing and investment income to SAR 1.5bn. This increase was slightly offset by a 12.7% YoY rise in cost of funds to SAR 162.6mn during the quarter. Higher other operating income, exchange income and income from FVSI financials instruments led to a 12.5% YoY rise in operating income to SAR 1.8bn during the quarter. Total operating expense surged 18.3% YoY to SAR 642.3bn owing to a rise in salaries and employee-related benefits, rent and premises-related expense, depreciation and amortization, and general and administrative expenditure. Consequently, the bank's cost-to-income ratio deteriorated by 174 bps YoY to 35.5% in 1Q22. Higher net interest income, coupled with lower impairment charges, led the bank to report a 28.5% YoY surge in net income to SAR 824.7bn in 1Q22. Alinma's net financing assets grew 10.1% YoY to SAR 129.0bn, while customer deposits rose 6.1% YoY to SAR 128.0bn in 1Q22. As a result, the loan-to-deposit ratio (LDR) increased 367 bps YoY to 100.7% in 1Q22.

Alinma reported improved performance as its loan book continued its uptrend and climbed 10.1% YoY to SAR 129.0bn in 1Q22. The increase in loan book was due to solid performance from its Corporate (up 7.9% YoY to SAR 99.6bn) and Retail (up 19.3% YoY to SAR 30.7bn) segments. The bank's asset quality continued to improve during the quarter as the NPL ratio reached 2.01% in 1Q22 from 2.25% in 1Q21. Subsequently, the coverage ratio advanced to 150.0% in 1Q22 as against 132.7% in 1Q21. Additionally, the bank's capital position improved, with risk-weighted assets accounting for 83.1% of the total assets in 1Q22 vis-à-vis 89.1% in 1Q21. The bank's LDR improved to 100.7% in 1Q22 from 97.1% in 1Q21, following a slower rise in deposits on YoY basis. Meanwhile, NIM reduced by 14 bps to 3.21% during the quarter. Additionally, operating expense rose in 1Q22, mainly driven by higher salaries, increased commercial expense from POS terminal deployments, higher SMS communication costs and reduction in input VAT recoverability rate. However, the bank expects margins to expand 10–15 bps in FY22, driven by potential rate hikes during the year and a strong funding mix, which could potentially boost profitability. Considering these factors, we maintain our "Neutral" rating on the stock.

- Net financing and investment income surged 8.7% YoY to SAR 1.3bn, driven by a 9.1% YoY rise in gross financing and investment income to SAR 1.5bn in 1Q22.
- Lower fees from banking services were offset by the increase in other operating income, exchange income and income from FVSI financials instruments, which led to a 12.5% YoY surge in total operating income to SAR 1.8bn during the quarter.
- Total operating expense soared 18.3% YoY to SAR 642.3mn due to higher general and administrative expense, salaries and employee benefits, rent and premises-related expense, and depreciation and amortization expenditure. Subsequently, the cost-to-income ratio deteriorated to 35.5% in 1Q22 from 33.8% in 1Q21.
- Lower impairment charges and a decline in share of loss from associates and JV countervailed higher zakat expense as the bank recorded a 28.5% YoY surge in net income to SAR 824.7mn in 1Q22.
- Total assets rose 12.2% YoY to SAR 179.5bn, attributable to a 10.1% YoY increase in net financing assets to SAR 129.0bn and a 25.0% YoY rise in investment assets to SAR 36.0bn in 1Q22.
- Customer deposits increased 6.1% YoY to SAR 128.0bn in 1Q22. The LDR rose to 100.7% during the quarter compared to 97.1% in 1Q21.
- Alinma's capital adequacy ratio rose to 22.7% in 1Q22 from 19.2% in 1Q21. Additionally, its Tier I capital ratio expanded to 21.6% from 18.1% in 1Q21.
- Alinma's NPL ratio stood at 2.01% in 1Q22 as against 2.25% in 1Q21, whereas the coverage ratio increased to 150.0% in 1Q22 from 132.7% in 1Q21.

**Valuation:** We revise our target price upward to a fair value of SAR 38.0 per share and maintain "Neutral" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Net financing and investment income (SAR bn)	1.3	1.2	8.7%	5.8	5.1	12.2%
Operating income (SAR bn)	1.8	1.6	12.5%	7.9	6.7	18.4%
EPS (SAR) - Adjusted for bonus share	0.41	0.32	28.4%	1.72	1.36	26.2%
Net interest margin (%)	3.2%	3.3%	(0.1%)	3.46%	3.41%	0.0%
Cost to income (%)	35.5%	33.8%	1.7%	35.6%	35.5%	0.1%
RoE (%)	10.6%	10.4%	0.2%	10.9%	9.8%	1.0%
Total assets	179.5	160.0	12.2%	193.8	173.5	11.7%
Loan and advances portfolio	129.0	117.1	10.1%	137.2	126.3	8.7%

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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