

2Q22 Results Update

September 23, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	36.8
Target Price (SAR)	39.6
Upside/Downside (%)	7.8%

As of September 21, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	73.5
52-wk High (SAR)	42.5
52-wk Low (SAR)	22.2
Total Outstanding shares (in bn)	2.0
Free Float (%)	99.9%

Alinma Bank vs. TASI (Rebased)

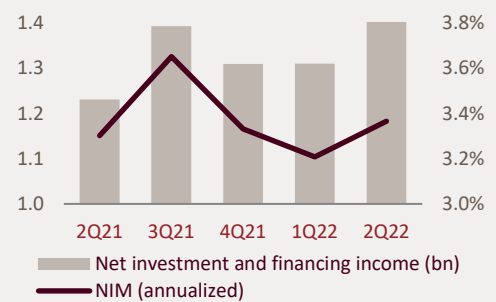


Price Performance (%)	Absolute	Relative
1m	(6.0%)	2.7%
6m	(3.8%)	6.9%
12m	54.2%	52.9%

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, Yaqeen Capital;
Data as of September 21, 2022

Loan books improve on solid performance from Corporate and Retail segments

Alinma Bank (Alinma)'s net financing and investment income surged 14.8% YoY to SAR 1.4bn in 2Q22, driven by a 21.3% YoY rise in gross financing and investment income to SAR 1.7bn. This growth was slightly offset by an 82.0% YoY rise in cost of funds to SAR 239.1mn during the quarter. Operating income advanced 16.9% YoY to SAR 1.9bn in 2Q22, led by an increase in fees from banking services, other operating income, exchange income, income from FVSI financial instruments, and dividend income. However, the rise in salaries and employee-related benefits, rent and premises-related expense, depreciation and amortization, and general and administrative expenditure led to a 27.8% YoY surge in total operating expense to SAR 663.2mn during the quarter. Consequently, the bank's cost-to-income ratio deteriorated 294 bps YoY to 34.3% in 2Q22. The higher share of profits from associates, coupled with lower impairment charges, offset the rise in zakat expense and led the bank to report 30.2% YoY growth in net income to SAR 925.1mn in 2Q22. Alinma's net financing assets advanced 9.7% YoY to SAR 131.2bn, while customer deposits rose 3.6% YoY to SAR 130.4bn in 2Q22. As a result, the loan-to-deposit ratio (LDR) expanded 560 bps YoY to 100.6% in 2Q22.

Alinma reported strong performance as its loan book continued its uptrend and advanced 9.7% YoY to SAR 131.2bn in 2Q22. The growth in loan book was due to solid performance from its Retail (up 25.1% YoY to SAR 32.3bn) and Corporate (up 5.4% YoY to SAR 98.9bn) segments. The bank's asset quality continued to improve during the quarter as the NPL ratio lowered to 1.90% in 2Q22 from 2.26% in 2Q21. Subsequently, coverage ratio advanced to 150.1% in 2Q22 as against 139.7% in 2Q21. Additionally, the bank's capital position improved, with risk-weighted assets accounting for 84.0% of the total assets in 2Q22 vis-à-vis 87.5% in 2Q21. LDR expanded to 100.6% in 2Q22 from 95.0% in 2Q21, following a slower rise in deposits on YoY basis. Meanwhile, NIM rose slightly by 6 bps to 3.36% during the quarter. However, the bank expects modest growth in the corporate segment owing to pricing competition. Nevertheless, the bank has improved its NIM guidance and expects it to expand 20-25 bps in FY22, driven by 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.

- Gross financing and investment income went up 21.3% YoY to SAR 1.7bn in 2Q22 while cost of funds grew 82.0% YoY during the period. Consequently, net financing and investment income advanced 14.8% YoY to SAR 1.4bn in 2Q22.
- An increase in fees from banking services, other operating income, exchange income, dividend income, and income from FVSI financial instruments resulted in a 16.9% YoY surge in total operating income to SAR 1.9bn during the quarter.
- Total operating expense soared 27.8% YoY to SAR 663.2mn 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 34.3% in 2Q22 from 31.4% in 2Q21.
- Lower impairment charges and a higher share of profit from associates and JV countervailed higher zakat expense as the bank recorded a 30.2% YoY surge in net income to SAR 925.1mn in 2Q22.
- Total assets advanced 12.5% YoY to SAR 184.6bn on a 9.7% YoY increase in net financing assets to SAR 131.2bn and 22.9% YoY growth in investment assets to SAR 37.7bn in 2Q22.
- Customer deposits rose 3.6% YoY to SAR 130.4bn in 2Q22. The LDR rose to 100.6% during the quarter compared to 95.0% in 2Q21.
- Alinma's capital adequacy ratio rose to 21.8% in 2Q22 from 19.2% in 2Q21. Additionally, its Tier I capital ratio expanded to 20.7% from 18.1% in 2Q21.
- Alinma's NPL ratio stood at 1.90% in 2Q22 as against 2.26% in 2Q21, whereas the coverage ratio increased to 150.1% in 2Q22 from 139.7% in 2Q21.

Valuation: We revise our target price upward to a fair value of SAR 39.6 per share and maintain a "Neutral" rating on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Net financing and investment income (SAR bn)	1.4	1.2	14.8%	5.8	5.1	12.4%
Operating income (SAR bn)	1.9	1.7	16.9%	7.7	6.7	15.0%
EPS (SAR) – Adjusted for bonus share	0.47	0.36	30.2%	1.93	1.36	41.5%
Net interest margin (%)	3.4%	3.3%	0.1%	3.47%	3.41%	0.1%
Cost to income (%)	34.3%	31.4%	2.9%	35.0%	35.5%	(0.4%)
RoE (%)	11.7%	11.3%	0.4%	12.1%	9.8%	2.3%
Total assets	184.6	164.1	12.5%	186.3	173.5	7.4%
Loan and advances portfolio	131.2	119.6	9.7%	136.7	126.3	8.3%

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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