

1Q19 Results Update

May 20, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	25.0
Target Price (SAR)	25.0
Upside/Downside (%)	0.2%

As of 19th May, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	37.2
52 Wk High (SAR)	28.25
52 Wk Low (SAR)	18.96
Total Outstanding shares (in mn)	1,490
Free Float (%)	74.0%

Alinma Bank vs. TASI (Rebased)

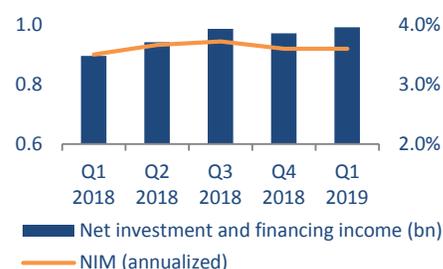


Price Performance (%)	Absolute	Relative
1m	(2.9%)	5.1%
6m	13.9%	6.0%
12m	18.9%	14.6%

Major Shareholders (%)

Public Pension Agency	10.0%
Public Investment Fund	5.81%

Net investment and financing income (SAR bn) and NIM (annualized)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 19th May 2019

Net income continues to rise, beating consensus estimates for the quarter

Alinma Bank maintained an uptrend in net income growth, with 21.8% YoY growth, to total SAR 708.5mn in 1Q19, surpassing street expectations. This increase was driven by higher net financing income, banking fees, exchange income, and income from FVIS financial instruments. Operating expenses increased to 15.8% YoY to SAR 513.3mn mainly due to higher staff costs and other general and administrative expenses. Alinma's loans and advances portfolio grew 9.0% YoY to SAR 85.9bn, and investments grew 30.0% YoY to SAR 20.7bn. Total assets increased 7.1% YoY to SAR 121.8bn. The yield-cost spread remained flat at 3.4% in 1Q19 as an increase in yield on earnings asset (4.7%) was offset by higher costs of fund (1.3%).

Going forward in 2019, we expect a slower rise in policy rates, considering the Saudi Arabian Monetary Agency raised repo rates four times, following the Fed's footsteps. These rate hikes may boost deposit growth in the country but simultaneously curb credit demand. Despite the bank recording a consistent rise in net income and the net interest margin improving marginally to 3.6% in 1Q19, compared with 3.5% on average in the previous eight quarters, an increasing loan to deposit ratio poses a concern for strong portfolio expansion. Thus, in view of these countervailing factors, we maintain our "Neutral" rating.

- Gross financing and investment income advanced 17.4% YoY to SAR 1.3bn in 1Q19. Net financing and investment income, however, increased merely 10.8% YoY to SAR 993mn as the return on investments to customers and banks surged 44.8% YoY to SAR 314mn for the period.
- Total operating income grew 16.2% YoY to SAR 1.3bn, primarily due to an increase in net financing and investment income, growth in fee from banking services (+36.6% YoY to SAR 206mn), and a rise in exchange income (+14.9% YoY SAR 45mn), and income from FVIS instruments (+234.1% YoY to SAR 44mn). This was partially offset by decline in dividend income.
- Total operating expenses grew 15.8% YoY due to higher depreciation, staff and G&A expenses, partially offset by decline in rental expenses.
- Net financing grew 9.0% YoY to SAR 85.9bn, and customer deposits were up 3.3% to SAR 92.3bn. The loan to deposit ratio for the quarter stood at 93.1% in 1Q19, compared with 88.2% in 1Q18 and 92.9% in end-FY18.
- Investments grew 30.0% YoY to SAR 20.7bn in 1Q19 from SAR 15.9bn in 1Q18. Shareholders' equity increased 1.4% YoY from SAR 20.2bn to SAR 20.5bn during the same period.
- Alinma Bank's shareholders approved a 10% cash dividend for fiscal year 2018, at SAR 1 per share, amounting to SAR 1.49bn. Shareholders also elected board members for the upcoming three-year term starting on May 21, 2019.

Valuation: We have slightly revised our target price upwards to SAR 25.0 per share, in lieu of strong 1Q19 results while reiterate our 'Neutral' rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR mn)	993	896	10.8%	4,097	3,798	7.9%
Operating income (SAR mn)	1,290	1,110	16.2%	5,227	4,845	7.9%
EPS (SAR)	0.48	0.39	21.8%	1.89	1.69	12.0%
Net Interest Margin (%)	3.6%	3.5%	0.1%	3.7%	3.5%	0.1%
Cost to income (%)	39.8%	39.9%	-0.1%	40.3%	38.3%	2.0%
RoE (%)	13.6%	11.5%	2.1%	12.9%	12.1%	0.8%
Total Assets (SAR bn)	122	114	7.1%	125	121	3.1%
Financing, net (SAR bn)	86	79	9.0%	85	84	1.6%

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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