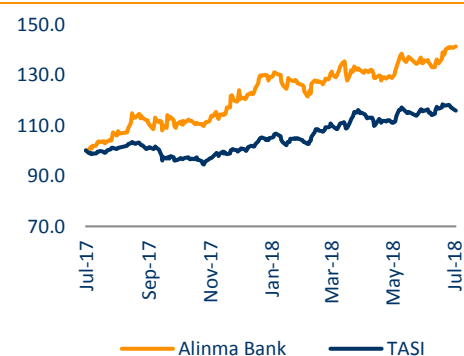


**2Q 2018 Results Update**
**July 31, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	23.0
Target Price (SAR)	21.3
Upside/Downside (%)	(7.5%)

*As of 31<sup>st</sup> July, 2018*
**Key Data (Source: Bloomberg)**

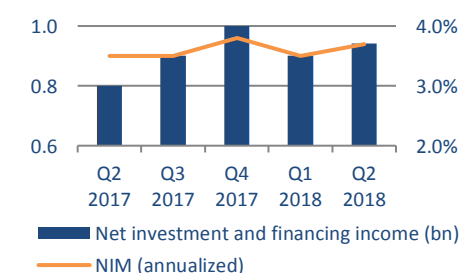
Market Cap (SAR bn)	34.3
52 Wk High (SAR)	15.80
52 Wk Low (SAR)	22.98
Total Outstanding shares (in mn)	1,490
Free Float (%)	73.8%

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


Price Performance (%)	Absolute	Relative
1m	4.4%	4.5%
6m	8.3%	(1.4%)
12m	41.3%	25.5%

**Major Shareholders (%)**

Public Pension Agency	10.7%
Public Investment Fund	10.0%
General Organization for Social Insurance	5.1%

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


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 31<sup>st</sup> July 2018

**Strong 2Q 2018 results beat consensus estimates**

Alinma Bank reported another strong quarter in 2Q 2018, with 27.3% YoY growth in net income (SAR 621mn), and 22.3% YoY growth in operating income (SAR 1,231mn). This was mainly attributable to higher net financing and investment income along with higher fee and dividend income. Operating expenses increased mainly due to higher provisions for impairment of financing, staff costs and general and administrative expenses resulting from the increase in number of bank branches. Gross financing and investment income increased by 16% YoY to SAR 1,186mn during 2Q 2018, as Alinma's loans and advances portfolio grew by 6.5% YoY to SAR 81.9bn. Investments more than doubled, while total assets grew by 4.9% YoY to SAR 116.6bn.

In June 2018, Saudi Arabian Monetary Authority (SAMA) further increased its repo rates by 25bps, after a similar increase in March 2018, which was for the first time since 2009, ahead of the Fed rate hike. Yet another spell of Fed rate hikes (expected 2-3 times in 2018), would further raise KSA's interest rates, thereby impacting the demand for funds. Despite higher interest rates, corporate credit may increase on account of a rebounding economy following the recovery in oil prices, and steps taken by the government to boost industrial growth. Corporate and treasury segments constitute a majority of Alinma's asset portfolio. Given the countervailing factors, we maintain our 'Neutral' rating on the stock.

- The bank recorded a 16% YoY growth in gross financing and investing income to SAR 1,186mn in 2Q 2018. Net financing and investment income grew by 13% YoY to SAR 942mn in 2Q 2018, up from SAR 834mn in 2Q 2017, bolstered by higher contribution from the corporate and treasury segments.
- During the quarter, total operating income increased by 22.3% YoY to SAR 1,231mn (up by SAR 224mn YoY), as a result of SAR 108mn increase in net financing and investment income, and SAR 116mn increase in fee and dividend income.
- Total operating expenses increased by 17% YoY, mainly due to increase in provisions for impairment of financing, higher staff costs and higher general and administrative expenses resulting from the increase in number of bank branches.
- Net financing grew by 6.5% YoY to SAR 81.9bn, while total assets increased by 4.9% YoY to SAR 116.6bn.
- Customer deposits increased by 3.7% YoY to SAR 88.8bn. Deposits grew at a much slower pace than loans, thereby impacting the loan to deposit ratio, which increased from 89.7% in 2Q 2017 to 92.1% in 2Q 2018.
- Investments more than doubled year-on-year, increasing from SAR 7.1bn in 2Q 2017 to SAR 16.2bn in 2Q 2018. Shareholder's equity increased from SAR 19.3bn to SAR 19.6bn during the same period.
- KSA's debt management office launched local currency government bonds in June aimed at stimulating the demand for debt and widening the portfolio of investor holdings. Alinma participated in the sukuk launch as a primary dealer marketing them to investors.

**Valuation:** We have revised our target price upwards with a fair value of SAR 21.3 per share, in-line with current share price run-up and incorporating the strong 2Q 2018 performance. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Net financing and investment income (SAR mn)	942	834	13.0%	4,245	3,493	21.5%
Operating income (SAR mn)	1,231	1,007	22.3%	5,264	4,373	20.4%
EPS (SAR)	0.4	0.3	27.3%	1.9	1.3	43.2%
Net Interest Margin (%)	3.7%	3.5%	0.2%	3.9%	3.5%	0.4%
Cost to income (%)	36.0%	39.1%	-3.1%	41.0%	39.9%	1.1%
RoE (%)	12.5%	10.0%	2.5%	13.6%	10.2%	3.4%
Total Assets (SAR mn)	116,588	111,376	4.7%	125,288	114,752	9.2%
Financing, net (SAR mn)	81,942	76,961	6.5%	86,133	79,063	8.9%

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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