

FY18 Results Update

February 13, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.0
Target Price (SAR)	23.8
Upside/Downside (%)	(0.8%)

As of 13th Feb, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	35.8
52 Wk High (SAR)	24.60
52 Wk Low (SAR)	18.96
Total Outstanding shares (in mn)	1,490
Free Float (%)	74.0%

Alinma Bank vs. TASI (Rebased)

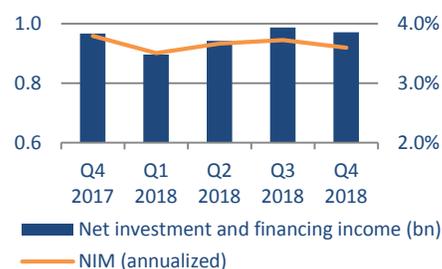


Price Performance (%)	Absolute	Relative
1m	0.2%	(3.9%)
6m	6.1%	1.6%
12m	22.1%	5.5%

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 13th Feb 2019

Strong 4Q18 results in-line with consensus

Alinma Bank continued to report strong numbers, with 18.0% Y/Y growth in net income during 4Q18 (SAR 661mn), in-line with consensus estimates. The increase was driven by lower charge for impairment of financing. For FY18, net income surged 25.2% Y/Y, driven by an increase in total operating income (+10.8% Y/Y), mainly due to the rise in net income from financing & investments, gain on investments, fee from banking services and a rise in exchange income. Alinma's loans and advances portfolio grew 5.8% Y/Y to SAR 83.7bn and Investments grew 22.1% Y/Y to SAR 18.4bn. Total assets increased 5.7% Y/Y to SAR 121.3bn. The yield-cost spread remained flat at 3.4% in FY18 as increase in yield on earnings asset (4.6%) was offset by higher costs of fund (1.2%).

Following the US Fed rate hike, the Saudi Arabian Monetary Authority (SAMA) in December 2018, raised its repo rates by 25bps to 3.0%, after similar increases in March, June and September in 2018. These rate hikes may impact credit demand in the coming quarters. Despite higher interest rates, corporate credit may increase on account of a rebounding economy, and increased government spending to boost industrial growth. Corporate and treasury segments constitute the majority of Alinma's asset portfolio. However, an increasing loan to deposit ratio (92.8% in FY18 versus 88.8% in FY17) and higher cost of funds may limit margin expansion. Given the countervailing factors, we maintain our 'Neutral' rating.

- Gross financing and investment income grew 15.0% Y/Y to SAR 4,894mn in 2018. Net financing and investment income rose to SAR 3,798mn (up 8.7% Y/Y) during the year, boosted by higher contribution from the Retail, Corporate and Treasury segments.
- Total operating income grew 10.8% Y/Y to SAR 4,845mn, primarily due to increase in net financing and investment income, growth in fee from banking services, a rise in exchange income and investment income. This was partially offset by a lower dividend income.
- Total operating expenses grew 6.4% Y/Y owing to higher staff and G&A expenses partially offset by a decrease in provisions for impairment and depreciation expenses. Rentals rose due to the bank opening five new branches in 2018, three in the fourth quarter of the year. Conversely, depreciation and provisions for impairment declined 10.7% Y/Y. Net income grew 25.2% Y/Y to SAR 2,517mn for the year.
- Net financing grew 5.8% Y/Y to SAR 83.7bn, while total assets increased 5.7% Y/Y to SAR 121.3bn.
- Customer deposits increased 1.2% Y/Y to SAR 90.1bn. Deposits grew at a much slower pace than loans, thereby increasing the loan to deposit ratio to 92.8% in FY18 from 88.8% in FY17.
- Investments grew 22.1% Y/Y to SAR 18.4bn in FY18 from SAR 15.1bn in FY17. Shareholders' equity increased 4.7% Y/Y from SAR 20.3bn to SAR 21.3bn during the same period.
- We expect Alinma's loan portfolio to grow moderately, led by a rise in government spending. Moreover, cost efficiencies, high ROE and solid capitalization are likely to bode well for the stock going forward. We also project the bank's earnings to be boosted by a strong growth in both funded and non-funded income. However, we remain watchful of the asset quality owing to the high proportion of stage 2 loans among the total gross loans.

Valuation: We have slightly revised our target price upwards to SAR 23.8 per share, in lieu of strong 4Q18 results while reiterate our 'Neutral' rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Net financing and investment income (SAR mn)	972	967	0.5%	4,092	3,798	7.8%
Operating income (SAR mn)	1,292	1,299	-0.5%	5,254	4,845	8.4%
EPS (SAR)	0.44	0.38	18.0%	1.93	1.69	14.0%
Net Interest Margin (%)	3.6%	3.8%	-0.2%	3.7%	3.5%	0.1%
Cost to income (%)	40.2%	38.8%	1.3%	40.3%	38.3%	2.0%
RoE (%)	12.7%	11.1%	1.6%	13.1%	12.1%	1.0%
Total Assets (SAR mn)	1,21,333	1,14,752	5.7%	1,24,014	1,21,333	2.2%
Financing, net (SAR mn)	83,685	79,063	5.8%	83,918	83,685	0.3%

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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