

# Alinma Bank

## Alinma's profits plunge by 42.0% Y-o-Y due to higher Investment losses & Impairments

21 June 2020

Despite the drop in Repo and Reverse Repo rates for two consecutive times in March 2020, Alinma's Income from Investing & Financing Assets grew by 8.1% Y-o-Y. However, the Investment revaluation losses and an increase in provisions pressured Alinma's Net Income by 42.0% Y-o-Y. Due to the decrease in Alinma share price during the previous two months, the stock converted to be undervalued. Therefore, we adjust our recommendation to Overweight, with a target price of SAR16.9.

During Q1 2020, Alinma successfully increased its Income from Investing & Financing Assets by 8.1% Y-o-Y to reach SAR1,395mn in Q1 2020 compared to SAR1,290mn in Q1 2019. Non-Interest Income fell to SAR147mn in Q1 2020 compared to SAR314mn in Q1 2019 as a result of Investment revaluation losses by 405% Y-o-Y to reach losses of SAR137mn in Q1 2020 compared by an income SAR45mn in Q1 2019 while provisions dramatically increased by 423.8% Y-o-Y. As a result, Alinma's net income plunged by 42.0% Y-o-Y to reach SAR370mn compared to SAR638mn in Q1 2019. Consequently, The bank's Net Income Margin declined dramatically to 26.5% in Q1 2020 compared to 49.5% in Q1 2019.

Alinma continued its investment strategy in governmental Sukuk, which is known to be a low-risk asset, and increased its Total Investments by 18.8% Y-o-Y to reach an all-time high of SAR24,621mn in Q1 2020 compared to SAR20,728mn in Q1 2019. Alinma's Investment to Deposits ratio increased to reach 23.7% in Q1 2020 compared to 22.5% in Q1 2019.

Despite the rise in Alinma's Deposits by 12.6% Y-o-Y, the bank's Finance to Deposits ratio continued its rise, reaching 94.1% in Q1 2020 compared to 93.1% in Q1 2019, which poses considerable risk to the bank. Alinma's Total Finance reached SAR97,784mn in Q1 2020 compared to SAR85,877mn in Q1 2019, representing a rise of 13.9% Y-o-Y.

Alinma increased its capital by 33.3% to reach SAR20bn compared to SAR15bn by offering 1 bonus share for every 3 shares. The capital increase was financed from the bank's reserves and retained earnings.

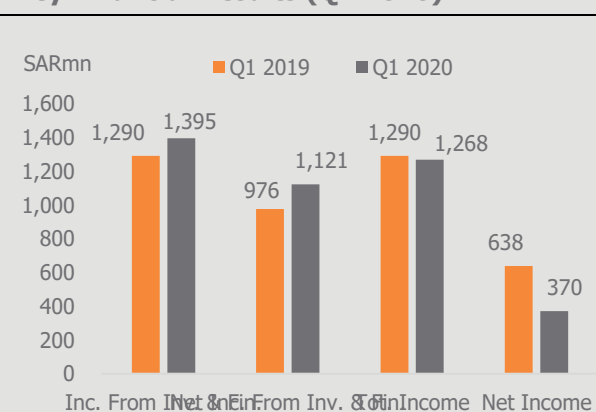
Due to the difficulty to determine the financial impact at the present time, we still believe that FY2020 will be a challenging year for the whole Saudi banking sector, especially Q2 2020, amid the reduction in Repo & Reverse Repo rates by SAMA combined with the high probability of private sector delinquency.

Recommendation	Overweight
Current Price (18-06-2020)	SAR14.9
Target Price	SAR16.9
Upside/ (Downside)	13.2%
Shariah Compliance	Pass

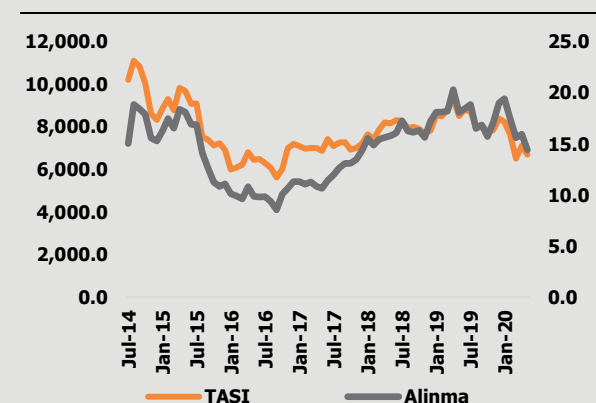
### Key Financial Ratios

Ratio	Q1 2020	Q4 2019	Q1 2019
Inc. From Inv. & Fin.	(5.4%)	0.7%	(1.1%)
Net Inc. From Inv. & Fin. Margin	80.4%	78.7%	75.7%
Net Inc. Margin	26.5%	34.5%	49.5%

### Key Financial Results (Q1 2020)



### Share Price Performance



# Financial Projection

## Residual Income Valuation

	2020 E	2021 F	2022 F	2023 F	2024 F
Net Income	2,181	2,516	2,934	3,431	3,904
Excess Return for Excess Capital	327	311	285	271	269
Adjusted Net Income	1,854	2,205	2,649	3,159	3,635
Equity Charge	1,720	1,868	2,045	2,241	2,458
Economic Value Added (EVA)	134	337	604	918	1,176
Discount Factor	0.92	0.83	0.75	0.67	0.61
NPV of EVA	93	280	452	619	714
EVA Forecast period	2,159				
Perpetual Growth Rate	3.0%	We have valued Alinma Bank using the Residual Income approach, considering a Cost of Equity equal to 11.1% (based on a risk-free rate of 4.4%, market risk premium 7.3%, Beta of 0.92).			
Terminal Value	14,991				
Terminal Value Discounted	9,100	Based on the Residual Income valuation, the fair price of Alinma share price is SAR16.9, which is higher than the traded value by 13.2%.			
Required Equity	14,366				
Surplus Capital	8,079				
Dividends	0				
Total Fair Value	33,703				
Number of shares	2,000				
Target price per share (52 Weeks)	16.9				
Current share price (18-06-2020)	14.88				
Upside/(downside)	13.2%				

## Local Peers

	Country	Code	Market Price (SR)	Market Cap (SRBN)	P/E	Income from Inv. & Fin. (SRMN)	Net Income (SRMN)
<b>Alinma Bank</b>	<b>KSA</b>	<b>1150</b>	<b>14.88</b>	<b>29.8</b>	<b>11.7</b>	<b>5,609</b>	<b>2,535</b>
Al Rajhi Bank	KSA	1120	58.90	147.3	15.3	16,986	9,654
Samba Financial Group	KSA	1090	23.70	47.4	11.9	8,427	3,991
Riyad Bank	KSA	1010	17.64	52.9	9.4	10,371	5,602
Bank Al Jazira	KSA	1020	11.38	9.3	9.4	3,228	991
Banque Saudi Fransi	KSA	1050	30.70	37.0	11.9	7,370	3,115
The Saudi British Bank (SABB)	KSA	1060	23.28	47.8	17.0	8,928	2,812
National Commercial Bank (NCB)	KSA	1180	37.60	112.8	9.9	20,527	11,401
Bank Al Bilad	KSA	1140	22.22	16.7	13.9	3,455	1,197

# Financial Projection

Financial Ratios	2018 A	2019 A	2020 E	2021 F	2022 F	2023 F	2024 F
Net Profit Margin	58.4%	45.2%	39.0%	40.4%	42.2%	44.0%	45.6%
Net Spread	3.4%	3.6%	3.3%	3.4%	3.5%	3.5%	3.5%
Total Finances / Total Deposits	95.6%	95.4%	95.4%	95.4%	95.4%	95.4%	95.4%
Investments / Total Deposits	20.4%	23.0%	23.4%	23.6%	23.6%	23.6%	23.6%
Net Interest Margin	3.5%	3.8%	3.4%	3.5%	3.6%	3.7%	3.7%
Return on Average Equity	12.1%	12.9%	10.3%	11.0%	12.1%	13.4%	14.4%
CASA Ratio	60.4%	57.8%	58.1%	58.2%	58.2%	58.4%	58.7%

Income Statement	2018 A	2019 A	2020 E	2021 F	2022 F	2023 F	2024 F
Income from Investments & Financing	4,894	5,609	5,587	6,231	6,958	7,801	8,567
Net Income from Investments & Financing	3,798	4,394	4,365	4,893	5,474	6,147	6,724
Non-Operating Income	<b>1,047</b>	<b>1,216</b>	<b>1,321</b>	<b>1,442</b>	<b>1,580</b>	<b>1,738</b>	<b>1,912</b>
Total Income	4,845	5,610	5,686	6,335	7,054	7,885	8,636
Operating income	2,984	3,523	3,386	3,840	4,343	4,937	5,430
Net Income	<b>2,857</b>	<b>2,535</b>	<b>2,181</b>	<b>2,516</b>	<b>2,934</b>	<b>3,431</b>	<b>3,904</b>

Balance Sheet	2018 A	2019 A	2020 E	2021 F	2022 F	2023 F	2024 F
Total Investments	18,399	23,478	25,825	28,408	31,249	34,374	37,811
Total Financing	83,889	94,801	101,862	110,513	121,133	132,882	145,951
Total assets	<b>121,538</b>	<b>131,839</b>	<b>141,714</b>	<b>153,857</b>	<b>167,775</b>	<b>183,039</b>	<b>200,151</b>
Customers Deposits	90,128	102,063	110,228	120,148	132,163	145,380	159,917
Total Liabilities	100,240	109,395	117,088	127,514	140,098	153,932	169,140
Total equity	<b>21,298</b>	<b>22,445</b>	<b>24,626</b>	<b>26,342</b>	<b>27,676</b>	<b>29,107</b>	<b>31,010</b>
Total liabilities and equity	<b>121,538</b>	<b>131,839</b>	<b>141,714</b>	<b>153,856</b>	<b>167,774</b>	<b>183,038</b>	<b>200,151</b>

# Guide to Ratings and Disclaimer

## Guide to Ratings

<b>Buy</b>	An upside potential of more than 20% in 52-week period
<b>Overweight</b>	An upside Potential of more than 10% in 52-week period
<b>Neutral</b>	Will stay in the range of it value (up/down 10%) in a 52-week period
<b>Underweight</b>	A downside potential of more than 10% in 52-week period
<b>Sell</b>	A downside potential of more than 20% in 52-week period

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