

Alinma Bank (Alinma) posted net income of SAR 989.0mn (EPS if SAR 0.48), above our and consensus estimate of SAR 951.2mn and SAR 952.2mn respectively, in Q3-22. The deviation mostly resulted from a higher than expected net financing and investments income. Alinma's loans book reached SAR 140.0bn (15.4%Y/Y, 6.7%Q/Q), above our estimate of SAR 134.8bn while deposits stand at SAR 132.0bn (13.2% Y/Y, 1.3% Q/Q), marginally lower than our estimate of SAR 134.3bn. We maintain our recommendation of "Overweight", with TP of SAR 42.0/share.

- Alinma's net income came in at SAR 989.0mn (34.0%Y/Y, 6.9%Q/Q) in Q3-22. Net financing and investments income stood at SAR 1,674mn (20.2% Y/Y, 18.4% Q/Q), above our estimate of SAR 1,525mn (a 9.8% beat). The deviation was mainly attributable to higher than expected interest income which more than offset the impact from the higher than expected interest cost. A higher loan book growth compared to the deposit growth was accretive to the net financing income in addition to a prospective favourable mix.
- Loans book positively surprised our estimates of SAR 134.8bn by 3.8% to stand at SAR 140.0bn (15.4%Y/Y, 6.7%Q/Q). Whereas deposits at SAR 132.0bn (13.2% Y/Y, 1.3% Q/Q) came in marginally lower (-1.7%) compared to our estimate of SAR 134.3bn. Thus, the unweighted LDR now stands at 106.0% vs. 100.6% in Q2-22 and 104.0% in Q3-21.
- Operating income at SAR 2,075.4mn, however; was impacted by lower non-funded income (SAR 401.7 vs. SAR 468.0mn estimated and SAR 518.6 in Q2-22) mainly attributable to lower FVIS investment income. As such the beat at gross operating income level narrowed to 4.2%.
- Operating expenses (ex. impairment charges) of SAR 708.5mn (14.7% Y/Y, 8.2% Q/Q) was higher than our estimate of SAR 680.3mn. However, the cost to income ratio remained stable at 34.1%, given the higher operating income. Impairment charges were reported at SAR 264.2mn (-5.3% Y/Y, 6.4% Q/Q), which were higher than our estimate of SAR 250.0mn.

**AJC view:** The bank is likely to continue the loans growth trajectory underpinned by improved focus on retail and quality corporate. We expect the bank's retail share to improve while in corporate the bank is likely to adopt a cautious approach from a risk/reward standpoint. For FY22, the bank had guided for a low teens growth in loan book which it is likely to surpass given that loan book has grown 10.9% on a YTD basis. In terms of margins, NIM is likely to expand faster compared to peers considering a relatively low tenor loan book on an aggregate basis and the bank's ability to maintain a high CASA balance. As such we expect the bank to post earnings of SAR 3.7bn (37.1%Y/Y) in FY22 underpinned by strong loan growth, favorable deposit mix and stable cost to income ratio. We await the detailed financials for more information on lower investment income posted this quarter and could revisit our estimate accordingly. We maintain our "Overweight" recommendation on Alinma with TP of SAR 42.0/share.

### Results Summary

SARmn	Q3-21	Q2-22	Q3-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Net financing & investments income	1,393	1,413	1,674	20.2%	18.4%	9.8%
<i>Net financing margin</i>	3.6%	3.3%	3.8%	-	-	-
Total operating income	1,724	1,932	2,075	20.4%	7.4%	4.2%
Net Profit	738.1	925.1	989.0	34.0%	6.9%	4.0%
EPS	0.37	0.44	0.48	27.9%	8.0%	4.8%

Source: Company reports, Aljazira Capital

### Recommendation **Overweight**

Target Price (SAR) **42.0**

Upside / (Downside)\* **14.4%**

Source: Tadawul \*prices as of 25<sup>th</sup> of October 2022

### Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Net financing and inv. income	4,648	5,137	5,983	7,188
Growth %	7.5%	10.5%	16.5%	20.1%
Net Income	1,966	2,709	3,715	4,500
Growth %	-22%	38%	37%	21%
EPS	0.98	1.35	1.86	2.25

Source: Company reports, Aljazira Capital

### Key Ratios

	FY20	FY21	FY22E	FY23E
NIMs	3.6%	3.4%	3.6%	3.9%
Operating Margin	40%	53%	59%	56%
PE (x)	16.5	17.7	19.8	16.3
P/B (x)	1.3	1.6	2.3	2.2
Dividend Yield	1.9%	3.1%	2.8%	3.4%
ROA	1.3%	1.6%	2.0%	2.1%
ROE	8.0%	8.8%	14.2%	16.3%
Gross loans growth	17.3%	13.6%	13.3%	11.4%

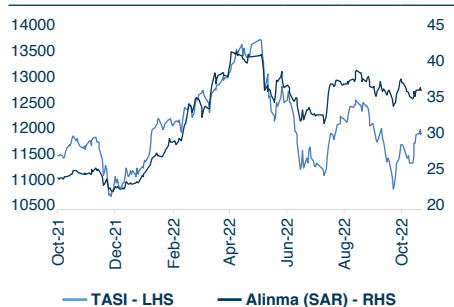
Source: Company reports, Argaam, Aljazira Capital

### Key Market Data

Market Cap (bn)	73.4
YTD %	53.17%
52 week (High)/(Low)	42.4/22.2
Shares Outstanding (mn)	2,000.0

Source: Company reports, Bloomberg, Aljazira Capital

### Price Performance



Source: Bloomberg

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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