ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Valuation have become more attractive due to a strong earnings performance, a shift in the interest rate outlook, and recent price declines

Alinma has reported robust Q3-24 results, with a significant 18.7% Y/Y growth surpassing expectations. The Federal Reserve's cautious stance suggests fewer rate cuts and higher interest rates than earlier expectation, benefiting corporate-focused banks like Alinma (less than expected NIM compression). The recent decline in share price (down 21.3% from 52 week high) has opened up valuation upside for Alinma. Alinma posted healthy growth of 15.9% Y/Y in loans during Q3-24; we expect deposits and loans to grow by 15.9/13.9% and 17.5/14.7% Y/Y in 2024/2025, respectively. In terms of guidance, bank sees lower cost of risk, however expects slightly lower NIMs as compared to direction shared in Q2-24. We expect cost of risk to stand at 55bps, CAR to clock in around 18% and cost to income ratio to remain at 30% in 2025. Overall, we forecast EPS to grow by 18.5/10.3% Y/Y to SAR 2.20/2.43 in 2024/2025 respectively (2023-27 CAGR 13.1%). At 2025E PB of 2.0x and ROE of 17.5%, we believe bank has good re-rating potential. We are upgrading our recommendation to "Overweight" with a maintained TP of SAR 35.5 per share.

Alinma posts double digit earnings growth of 18.7% in Q3-24; logs in highest ever NSCI due to robust asset growth: Alinma bank posted earnings of SAR 1.57bn in Q3-24, up 18.7% Y/Y (+10.9% sequentially), the result was broadly in-line with AJC estimates (+8.7% deviation). The deviation was driven by lower than expected debt provisions (deviation -34.8%) and better performance on net special commision income front (+2.4% deviation). Net Special Commission Income grew due to 15.9% and 14.6% Y/Y increase in loans and investments. Non-Commission Income improved by 11.3% Y/Y (-2.8% deviation from AJC estimate). Operating expenses (excluding debt provisions) totaled at SAR 852mn, up 11.4% Y/Y (+2.2% on Q/Q basis), in-line with our estimates (+0.6% deviation). A relatively larger increase in opex as compared to operating income, caused the cost to income ratio to increase by 15bps Y/Y to 30.3% in Q3-24. Provision expenses declined by 31.9% Y/Y to SAR 209mn (-36.1% on a Q/Q basis), 34.8% below our estimate of SAR 320mn.

NPL ratio saw a 91bps Y/Y drop to 0.78% in Q3-24, while coverage improved by 94.4ppts to 245.2%. The sharp increase in coverage and improvement in NPL ratio is owed to the SAR 1.4bn write offs booked during 1H-24. Loan book expanded by 15.9% Y/Y & 3.2% Q/Q to SAR 195.8bn in Q3-24; retail loans grew by 14.6% Y/Y while corporate loans increased by 13.1% Y/Y. ADR ratio declined by 14bps to 93.7% in Q3-24 from 93.8% in Q3-23 (92.5% in Q2-24), as deposit growth outpaced loan growth. Moreover, the bank expanded its investments book by 14.6% Y/Y (+0.7% Q/Q) to SAR 46.9bn. CAR improved by 70bps Y/Y to 18.2% in Q3-24.

Change in Fed tone implies there will be fewer rate cuts in 2025; this implies less than previously expected NIM compression for Alinma: US Federal reserve cut interest rates by 25bps in November (compared to 50bps cut in Sept-24), moreover in September Fed predicted four rate cuts in 2025 vs earlier expectation of three cuts (due to cooling inflation and slowdown in job market). However, recent strong economic data and likely policy changes (import tariffs, deportation of undocumented immigrants) by president elect Donald trump have changed market's and Fed's expectations around interest rates. According to Fed chair, economy is not signalling to hurry lowering rates. Overall, market now expects a more measured decline in interest rates in 2025. According to CME Fedwatch there is a 74.9% chance of a 25bps cut in Dec-24, the probability of Fed maintaining interest rates in Jan-25/Mar-25 has increased to 63.2/35.0% from 47.7/24.0%, respectively a month ago. In this backdrop, banks with higher floating rate corporate exposure like Alinma (60.0% of assets reprice within one year, as compared to 54.1% of liabilities), would benefit from lower than expected compression in NIMs. Overall, we see only 19bps reduction in 2025 NIMs for Alinma. This reduction is estimated to be more than compensated by the robust loan growth, consequently alinma is estimated to see a 9.6% Y/Y increase in NSCI in 2025, (2023-27E CAGR 10.4%) despite rate cuts.

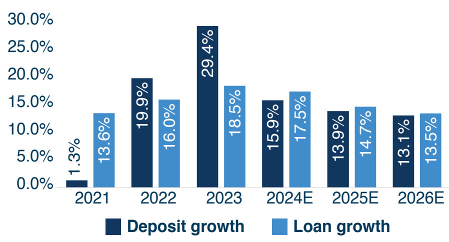
Recommendation	Overweight
Target Price (SAR)	35.5
Upside / (Downside)*	23.7%

Source: Tadawul *prices as of 5th of December 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Net financing & investment income	6,066	7,655	8,624	9,452
Growth %	18.1%	26.2%	12.7%	9.6%
Net Profit	3,441	4,639	5,499	6,064
Growth %	29.4%	34.8%	18.5%	10.3%
EPS	1.38	1.86	2.20	2.43
DPS	0.75	0.75	1.10	1.10

Fig 1: Loans and Deposit Growth



Source: AlJazira Capital Research, Company reports

Key Ratios

	FY22	FY23	FY24E	FY25E
NIMs	3.5%	3.8%	3.6%	3.4%
P/E (x)	22.6	15.5	13.0	11.8
P/B (x)	3.0	2.6	2.2	2.0
Dividend Yield	2.3%	2.6%	3.8%	3.8%
ROA	1.8%	2.1%	2.1%	2.0%
ROE	12.9%	16.5%	17.6%	17.5%
Net loan growth	16.0%	18.5%	17.5%	14.7%
Deposit growth	19.9%	29.4%	15.9%	13.9%

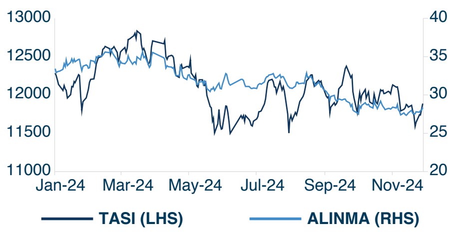
Source: AlJazira Capital Research, Company reports

Key Market Data

Market Cap (SAR bn)	71.8
YTD%	-7.2%
52 weeks (High)/(Low)	36/27.4
Share Outstanding (mn)	2500

Source: Company reports, Bloomberg, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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Management maintains guidance on loan growth in Q3-24; we see deposits and loans to grow by 15.9/13.9% and 17.5/14.7% Y/Y in 2024/2025: In the Q1-24 investor presentation the bank management guided for loan growth to remain in mid-teens in 2024. However, Alinma revised up 2024 loan growth expectation to high teens in Q2-24 investor briefing. The management maintained its guidance on loan growth in Q3-24. The bank expects strong growth in mid-corporate, SME & retail and sustained growth in corporate loan book. Overall loan growth stood at 15.9% Y/Y in Q3-24 (3.2% Q/Q) and outstanding loans reached SAR 195.8bn, retail loans grew by 14.6% Y/Y while corporate loans increased by 13.1% Y/Y. We forecast loan growth to stand at 17.5/14.7% in 2024/25, driven by strong demand from corporate and project financing, due to mega/giga projects and declining interest rates. Deposits grew by 16.0% Y/Y to SAR 209.1bn and share of demand deposits in total deposits increased by 117bps Y/Y. We expect the deposit growth to stand at 15.9% Y/Y in 2024 and slowdown to 13.9% in 2025.

Bank sees lower cost of risk, however expects slightly lower NIMs as compared to direction shared in Q2-24: Management has revised two key variables in Q3-24 investor presentation. Firstly the management expects cost of risk to see some moderation due to stable asset quality and better coverage, and remain in the 50-60bps range in 2024 as compared to previous range of 60-70bps. Secondly NIMs are expected to change around -10bps to 0bps against previous expectation of -5bps to +5bps. Guidance on Cost to income ratio, ROE and CAR is maintained at below 31%, above 18% and 18-19% respectively. We expect cost of risk to remain at 60bps, CAR to clock in around 18% and cost to income ratio remain at 30% in 2025.

Investment thesis and valuation: With declining interest rates Alinma is expected to see compression in NIMs, however, we expect limited impact on the bottom-line due to robust asset growth (bank's strong project finance franchise places it well to benefit from uptick in credit demand from Vision 2030 investments) and better balance sheet mix (higher weight of term deposits and increase in fixed rate investments). At 2024/25E PB of 2.2/2.0x and medium term (2023-25) earnings CAGR of 13.1% and average ROE of 17.9% Alinma is a good investment proposition

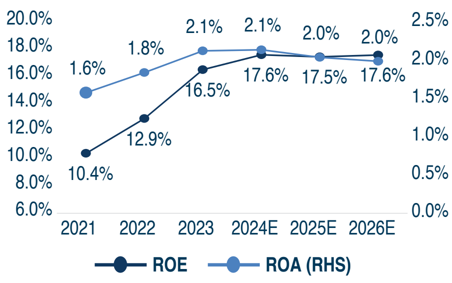
We value the stock based on equal weight to Residual Income and Two staged Gordon growth. Our residual income-based TP assuming the cost of equity of 11.5% is SAR 35.7 per share whereas; through the Two staged Gordon growth model, based on ROE of 17.5%, we arrive at a justified P/B multiple of 2.3x. Hence, the equal weight TP stands at **SAR 35.5 per share** which translates to an upside of 23.7% from the CMP of SAR 28.7 per share, hence we upgrade our recommendation to "**Overweight**".

Weighted Average TP

Method	Value	Weight	W.Value
RI	35.70	50%	17.85
Justified P/B	35.29	50%	17.64
Price Target			**35.50**
Upside/Downside			**23.7%**

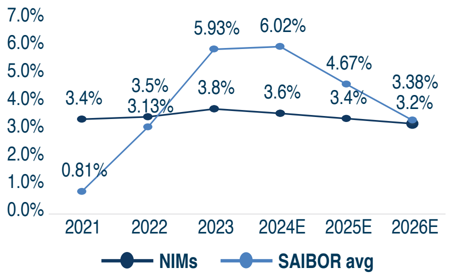
Source: Aljazira capital Research, prices as of 5th of December 2024

Fig 2: ROE and ROA expectations



Source: Company financials, Aljazira Capital Research

Fig 3: NIMs and SAIBOR trend



Source: Company financials, Aljazira Capital Research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement							
Net financing and investments income	**6,066**	**7,655**	**8,624**	**9,452**	**10,175**	**11,227**	**12,487**
Fees from banking services, net	1,209	1,459	1,709	1,917	2,133	2,342	2,540
Exchange income, net	291	330	347	364	382	401	421
Dividend and other operating income	397	282	292	303	315	327	340
Total operating income	**7,963**	**9,726**	**10,972**	**12,035**	**13,004**	**14,297**	**15,788**
Impairment charge for financing	(1,198)	(1,272)	(1,075)	(1,315)	(1,367)	(1,540)	(1,713)
Other operating expenses	(2,756)	(3,070)	(3,388)	(3,581)	(3,765)	(3,929)	(4,071)
Operating Profit	**4,010**	**5,384**	**6,509**	**7,140**	**7,872**	**8,828**	**10,005**
Y/Y	**32.1%**	**34.3%**	**20.9%**	**9.7%**	**10.3%**	**12.1%**	**13.3%**
Share of loss from associate	4	12	12	12	12	12	12
Zakat	(414)	(556)	(672)	(737)	(813)	(912)	(1,033)
Net income	**3,599**	**4,839**	**5,849**	**6,414**	**7,071**	**7,929**	**8,984**
Y/Y	**32.8%**	**34.4%**	**20.9%**	**9.7%**	**10.2%**	**12.1%**	**13.3%**
Net income (adjusted for Tier-1)	**3,441**	**4,639**	**5,499**	**6,064**	**6,721**	**7,579**	**8,634**
EPS (adjusted for Tier-1)	1.38	1.86	2.20	2.43	2.69	3.03	3.45
DPS	0.75	0.75	1.10	1.10	1.20	1.40	1.60
Balance sheet							
Assets							
Cash and balances with SAMA	9,723	12,598	13,598	16,635	18,819	21,023	23,210
Due from banks and other financial institutions	1,454	1,701	4,571	2,246	2,541	2,838	3,134
Investments, net	38,529	43,236	48,881	57,088	64,585	72,149	79,654
Financing, net	146,492	173,624	204,004	234,049	265,669	297,686	329,581
Property and equipment, net	2,633	2,888	3,206	3,527	3,880	4,268	4,694
Total assets	**200,436**	**236,715**	**277,823**	**317,286**	**359,422**	**402,089**	**444,605**
Liabilities & owners' equity							
Due to banks and other financial institutions	16,483	7,431	9,860	14,193	18,203	21,796	24,740
Customers' deposits	145,168	187,901	217,796	248,099	280,681	313,552	346,168
Amount due to Mutual Funds' unitholders	137	94	94	94	94	94	94
Other liabilities	6,772	6,956	8,185	9,790	11,630	13,641	15,813
Share capital	20,000	20,000	25,000	25,000	25,000	25,000	25,000
Statutory reserve	2,169	3,378	3,747	5,263	6,944	8,838	10,997
Other reserves	(507)	62	244	244	244	244	244
Retained earnings	4,285	1,118	4,349	6,055	8,080	10,376	13,001
Total shareholders' equity	31,876	34,334	41,888	45,110	48,815	53,006	57,790
Total equity & liabilities	**200,436**	**236,715**	**277,823**	**317,286**	**359,422**	**402,089**	**444,605**
Key fundamental ratios							
Capital Ratios							
Equity/ Total Assets	16%	15%	15%	14%	14%	13%	13%
Tier 1 ratio	19%	16%	17%	16%	15%	15%	14%
Total (Tier 1 and Tier 2 ratio)	20%	17%	18%	17%	16%	15%	15%
Profitability Ratios							
NIMs	3.5%	3.8%	3.6%	3.4%	3.2%	3.2%	3.2%
Return On Assets (ROA)	1.8%	2.1%	2.1%	2.0%	2.0%	2.0%	2.0%
Return On Equity (ROE)	12.9%	16.5%	17.6%	17.5%	17.6%	18.0%	18.5%
ROE/ROA (Leverage Ratio) (X)	7.0	7.8	8.2	8.6	8.9	9.0	9.1
Asset Quality Ratios							
NPL ratio	1.9%	1.6%	0.8%	0.8%	0.8%	0.8%	0.8%
NPL Coverage	136%	155%	250%	236%	218%	204%	192%
Funding Ratios							
Loans/ Customer Deposits	100.9%	92.4%	93.7%	94.3%	94.7%	94.9%	95.2%
Liquid Assets / Total Assets	97.9%	97.7%	97.6%	97.7%	97.8%	97.9%	98.0%
Net Loans / Total Assets	73.1%	73.3%	73.4%	73.8%	73.9%	74.0%	74.1%
Market/valuation ratios							
Dividend Yield	2.3%	2.6%	3.8%	3.8%	4.2%	4.9%	5.6%
Book Value Per Share (BVPS)	10.8	11.7	13.3	14.5	16.0	17.7	19.6
Market price	32.6	30.9	28.7	28.7	28.7	28.7	28.7
PE (x)	22.6	15.5	13.0	11.8	10.7	9.5	8.3
PB (x)	3.0	2.6	2.2	2.0	1.8	1.6	1.5
Growth rates							
Investments (Y/Y)	15.8%	12.2%	13.1%	16.8%	13.1%	11.7%	10.4%
Financing (Y/Y)	16.0%	18.5%	17.5%	14.7%	13.5%	12.1%	10.7%
Deposits (Y/Y)	19.9%	29.4%	15.9%	13.9%	13.1%	11.7%	10.4%

Source: Company reports, Bloomberg, Aljazira Capital Research, price as of 5th Dec 2024

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer