

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR3.930	Price Target	QR3.766
Implied Upside	(4.2%)		

Flat Earnings Expected in 2020; Remain Market Perform

After 1H2020 results, we maintain our 2020-24e earnings estimates. We also maintain our Market Perform rating & PT of QR3.766. MARK boasts one of the highest dividend yields (5.7%), is cost-efficient, a strong RoE generator (2019: 16.0%, 2020e: 15.2% & 2021e: 15.7%) and maintains superior asset quality vs. its peers. Having said that, we believe the market has priced in MARK's positive attributes as it trades at 2020e/21e P/B of 2.1x/2.0x (in-line with its fundamental P/B). Moreover, MARK is trading at a 2021e P/E of 13.1x, which is in-line with its intrinsic P/E (13.0x).

Highlights

- Management expects flat bottom-line in 2020e vs. FY2019, barring any negative surprises in 2H2020:** Masraf Al Rayan (MARK) reported a net profit of QR536.5mn in 2Q2020, in-line with our estimate of QR517.3mn (variation of +3.7%). The bottom-line remained flat YoY (-1.9% QoQ). MARK's reported figures were generally in-line across the board in 1H2020. As such, we maintain our 2020-2024 earnings forecasts. We have modestly tweaked our model, which does not change our overall earnings forecasts. We expect MARK's profitability to grow by a CAGR of 4.2% (2019-2024) vs. 1.7% (2014-2019).
- Margins remained stable/showed healthy improvement in 1H2020 given MARK's asset/liability interest rate gap; 88% of the loan portfolio (corporates/public sector) has been repriced downwards.** 64% of the bank's assets are repricable within 1-year vs. 67% of liabilities to total assets, thus leading to a stable net interest margin. NIMs displayed healthy performance in 1H2020, increasing to 2.39% vs. 2.31% in 1H2019 (2.37% in FY2019) because of effective management of CoFs. However, we expect margin pressure in 2020-24e as MARK's main exposure is the public sector, which is a low margin business.
- MARK remained cost-efficient; C/I ratio of 22%/23% is expected.** MARK generated a C/I ratio of 22.8% in 2Q2020 vs. 24.0% in 2Q2019 (22.6% in 1Q2020). We expect the bank to maintain a C/I ratio of ~23% in 2020-24e.
- Asset quality remains superior as MARK's primary exposure is to the public sector; management does not expect large provisions in 2H2020 or a significant jump in CoR vs. 2019 as it booked adequate credit costs in 1H2020.** The bank's NPL ratio remained flat QoQ at 0.94% vs. 1.01% at the end of 2019. Moreover, coverage of stage 3 loans remained flat at 46% vs. 43% in 2019 (management indicated that NPLs are strongly collateralized). MARK generated a CoR of 19bps in 1H2020 vs. 11bps in FY2019. We expect CoR to decrease to 11bps for 2020e, as management does not expect significant provisions in 2H2020. What is important to note here is that management is being conservative/prudent in booking provisions. Going forward, we do not foresee any pressure on asset quality due to the nature of the bank (primary exposure is to the public sector).
- Loans are estimated to display mid-single digit growth in 2020.** Net loans decreased by 1.5% sequentially to QR78.1bn (+4.4% YTD), while deposits remained flat at QR67.4bn. Management is surveying demand for credit from the private sector. Demand for credit will be clearer once business activity picks up after the lockdown.
- Capitalization remained robust and one of the highest among its peers.** MARK ended 2Q2020 with a CET1 and CAR of 19.1% and 19.7%, respectively. We expect CAR to remain elevated at current levels going forward due to the conservative nature of the bank.

Catalysts

- 1) News flow and/or progress on merger with KCBK, 2) Strategy on growing the business

Recommendation, Valuation and Risks

- Recommendation and valuation:** We maintain our PT of QR3.766 and Market Perform rating. MARK is trading at P/B and P/E of 2.1x and 14.0x on our 2020 estimates, respectively.
- Risks:** 1) Geopolitical factors, 2) Greater-than-expected increase in credit costs and 3) Losing market share in the government segment.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS Attributable (QR)	0.28	0.28	0.30	0.32
EPS Growth (%)	2.3	-0.5	6.7	6.8
P/E (x)	13.9	14.0	13.1	12.3
Tangible BVPS (QR)	1.9	1.9	2.0	2.1
P/TBV (x)	2.1	2.1	2.0	1.9
RoE (%)	16.0	15.2	15.7	15.9
DPS (QR)	0.225	0.200	0.225	0.250
Dividend Yield (%)	5.7	5.1	5.7	6.4

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	3.930
Dividend Yield (%)	5.7
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.23/3.41
3-m Average Volume (mn)	4.88
Mkt. Cap. (\$ bn/QR bn)	8.1/29.5
Shares Outstanding (mn)	750,000.0
FO Limit* (%)	49.0
Current FO* (%)	13.7
1-Year Total Return (%)	15.5
Fiscal Year End	December 31

Source: Bloomberg (as of August 09, 2020), *Qatar Exchange (as of August 09, 2020); Note: FO is foreign ownership

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Changes in Estimates

In QR mn	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,373	2,389	0.7	2,501	2,526	1.0	2,662	2,700	1.4
Non Interest Income	559	518	-7.3	624	571	-8.5	690	631	-8.6
Revenue	2,932	2,907	-0.8	3,125	3,097	-0.9	3,352	3,331	-0.6
Opex	(674)	(670)	-0.6	(709)	(703)	-0.8	(773)	(767)	-0.8
Net Operating Income	2,258	2,238	-0.9	2,416	2,394	-0.9	2,579	2,564	-0.6
Net Income (Reported)	2,159	2,166	0.3	2,320	2,311	-0.4	2,476	2,468	-0.3
Net Income (Attributable)	2,105	2,112	0.3	2,262	2,253	-0.4	2,414	2,406	-0.3

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e	2023e
Net Interest Income	2,264	2,268	2,300	2,389	2,526	2,700	2,834
Fees & Commissions	274	315	388	283	326	366	256
FX Income	143	152	162	190	204	221	177
Other Income	56	53	42	44	41	44	43
Non-Interest Income	473	521	593	518	571	631	476
Total Revenue	2,736	2,788	2,892	2,907	3,097	3,331	3,310
Operating Expenses	(577)	(668)	(659)	(670)	(703)	(767)	(655)
Net Operating Income	2,159	2,120	2,234	2,238	2,394	2,564	2,655
Net Provisions & Impairments	(113)	22	(45)	(66)	(76)	(85)	(91)
Net Profit Before Taxes & Minority Interest	2,045	2,142	2,189	2,172	2,318	2,479	2,564
Tax	(5)	(2)	(1)	(1)	(3)	(3)	(3)
Net Profit Before Minority Interest	2,041	2,140	2,188	2,171	2,315	2,476	2,561
Minority Interest	(13)	(9)	(10)	(4)	(5)	(9)	(9)
Net Profit (Reported/Headline)	2,028	2,130	2,178	2,166	2,311	2,468	2,552
Social & Sports Contribution Fund	(51)	(53)	(54)	(54)	(58)	(62)	(64)
Net Profit (Attributable)	1,977	2,077	2,124	2,112	2,253	2,406	2,488

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e	2023e
Assets							
Cash & Balances with Central Bank	2,800	3,027	3,123	4,098	3,558	3,799	5,128
Interbank Loans	3,312	1,513	6,035	5,609	5,033	3,831	5,627
Net Investments	23,423	19,222	21,379	21,602	23,112	25,346	27,371
Net Loans	72,097	72,515	74,837	77,907	83,891	91,211	93,781
Investment In Associates	520	526	527	535	545	555	565
Other Assets	636	302	267	390	268	274	281
Net PP&E	160	189	228	250	285	316	321
Total Assets	102,949	97,294	106,397	110,391	116,693	125,331	133,074
Liabilities							
Interbank Deposits	25,123	16,546	19,367	19,478	19,553	19,863	20,079
Customer Deposits	62,531	61,569	65,613	68,303	72,606	79,140	85,471
Other Liabilities	1,905	5,706	7,285	8,049	9,215	10,281	10,856
Total Liabilities	89,559	83,820	92,265	95,829	101,374	109,285	116,407
Minority Interest	199	196	213	217	222	230	239
Total Shareholders' Equity	13,191	13,277	13,919	14,344	15,097	15,815	16,428
Total Liabilities & Shareholders' Equity	102,949	97,294	106,397	110,391	116,693	125,331	133,074

Source: Company data, QNB FS Research

Ratios/KPIs	2017	2018	2019	2020e	2021e	2022e	2023e
Profitability (%)							
RoE	15.6	15.7	16.0	15.2	15.7	15.9	15.7
RoAA	2.0	2.1	2.1	1.9	2.0	2.0	1.9
RoRWA	3.2	3.3	3.4	3.3	3.4	3.5	3.5
NIM (% of IEAs)	2.48	2.39	2.37	2.33	2.36	2.35	2.32
NIM (% of RWAs)	3.71	3.61	3.65	3.78	3.86	3.95	3.95
NIM (% of AAs)	2.33	2.27	2.26	2.20	2.22	2.23	2.19
Spread	2.1	1.9	1.8	1.9	1.9	1.8	1.7
Efficiency (%)							
Cost-to-Income (Headline)	21.1	24.0	22.8	23.0	22.7	23.0	19.8
Cost-to-Income (Core)	21.5	24.4	23.1	23.3	23.0	23.3	20.0
Liquidity (%)							
LDR	115.3	117.8	114.1	114.1	115.5	115.3	109.7
Loans/Assets	70.0	74.5	70.3	70.6	71.9	72.8	70.5
Cash & Interbank Loans-to-Total Assets	5.9	4.7	8.6	8.8	7.4	6.1	8.1
Deposits to Assets	60.7	63.3	61.7	61.9	62.2	63.1	64.2
Wholesale Funding to Loans	34.8	28.0	33.0	32.9	32.1	30.8	30.6
IEAs to IBLs	120.5	124.2	122.2	119.9	119.7	120.1	118.3
Asset Quality (%)							
NPL Ratio	0.47	0.83	1.01	0.93	0.96	1.00	1.15
NPL to Shareholders' Equity	2.58	4.59	5.45	5.10	5.39	5.82	6.63
NPL to Tier 1 Capital	2.86	5.10	6.20	6.02	6.58	7.36	8.67
Coverage Ratio	48.7	92.6	84.0	99.1	97.8	94.7	88.3
ALL/Average Loans	0.2	0.7	0.8	0.9	0.9	0.9	1.0
Cost of Risk	0.15	N/M	0.07	0.11	0.08	0.08	0.09
Capitalization (%)							
Tier 1 Ratio	19.3	18.7	19.7	18.9	18.5	17.8	17.2
CAR	19.3	19.2	20.3	19.5	19.1	18.4	17.7
Tier 1 Capital to Assets	11.6	12.3	11.5	11.0	10.6	10.0	9.4
Tier 1 Capital to Loans	16.5	16.5	16.4	15.6	14.7	13.7	13.4
Tier 1 Capital to Deposits	19.0	19.4	18.7	17.8	17.0	15.8	14.7
Leverage (x)	7.8	7.3	7.6	7.7	7.7	7.9	8.1
Growth (%)							
Net Interest Income	17.9	0.2	1.4	3.9	5.7	6.9	5.0
Non-Interest Income	-9.9	10.1	13.9	-12.6	10.2	10.5	-24.5
Opex	24.7	15.8	-1.5	1.7	5.0	9.0	-14.6
Net Operating Income	8.9	-1.8	5.4	0.2	7.0	7.1	3.5
Net Income	-2.3	5.0	2.3	-0.5	6.7	6.8	3.4
Loans	6.6	0.6	3.2	4.1	7.7	8.7	2.8
Deposits	7.8	-1.5	6.6	4.1	6.3	9.0	8.0
Assets	12.5	-5.5	9.4	3.8	5.7	7.4	6.2
RWAs	2.4	3.5	-2.8	3.3	3.7	5.3	4.3

Source: Company data, QNB FS Research

Recommendations

Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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