

MARK Alert – 3Q2020 Beats Estimates; Encouraging Set of Results

- **MARK Beats estimates in 3Q2020:** Masraf Al Rayan (MARK) reported a net profit of QR578.8mn in 3Q2020, beating our estimate of QR544.3mn (variation of +6.3%). The bottom-line remained flattish YoY (+7.9% QoQ).
- **Net interest & investment income and cost containment aided the bottom-line YoY offsetting weak non-funded income.** MARK reported net interest & investment income of QR748.0mn, expanding by 25.9% YoY (+18.2% QoQ) on strong margin improvement. On the other hand, as expected, non-funded income dropped by 36.1% YoY (+1.7% QoQ) on the back of weak fees (as a result of subdued operating environment caused by COVID-19 disruptions). Fees & commissions dropped by 48.7% YoY but recovered QoQ (+20.2%) after COVID-19 partial restrictions were lifted.
- **MARK booked hefty net provisions & impairments.** Net provisions & impairments came in at QR101.3mn vs QR1.0mn in 3Q2019 (QR31.7mn in 2Q2020). Although asset quality did not materially deteriorate, we believe the bank booked precautionary provisions as a result of COVID-19 disruptions.
- **Margins improved both YoY and sequentially.** NIMs increased by ~43bps YoY and ~42bps QoQ to ~2.84%. This was mainly due to the CoFs dropping more than yields.
- **C/I ratio remained healthy; MARK generated positive JAWS.** MARK generated a C/I ratio of 20.1% in 3Q2020 vs. 24.1% in 3Q2019 (22.8% in 2Q2020). Moreover, the bank generated positive JAWS of 8.3% YoY in 9M2020 as revenue grew by 8.6% while opex remained flat.
- **Loans expanded QoQ while deposits receded.** Net loans increased by 3.4% sequentially to QR80.8bn (+7.9% YTD), while deposits declined by 1.1% to QR66.7bn. Thus, MARK's LDR position remained challenging at 121% vs. 114% in FY2019.
- **Asset quality remains superior as MARK's main exposure is to the public sector.** The bank's NPL ratio increased QoQ from 0.94% in 2Q2020 to 1.08% in 3Q2020 (1.01% at the end of 2019).
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 3Q2020 with a CET1 and CAR of 18.8% and 19.5%, respectively.
- **Recommendation and valuation:** The stock trades at a P/B of 2.2x on our 2020 estimates. For now, we maintain our PT of QR3.766 and Market Perform rating.

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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