

Masraf Al Rayan (MARK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.556	Price Target	QR2.623
Implied Upside	2.6%	Old Price Target	QR2.771

De-Risking to Continue in 2024; Lowering PT & Moving To MP

Factoring in FY2023 results, we maintain our estimates for 2024, but lower our estimates for 2025 & 2026 (see page 2). Thus, our RoE estimates drop for 2025/2026e. Hence, we lower our price target from QR2.771 to QR2.623 and change our rating from Accumulate to Market Perform. Given MARK's asset quality situation, the stock is trading at 2024e/25e P/B of 1.0x (lower than its 3-year average of 1.7x). The stock has underperformed its peers on an YTD and 1-year TTR basis due to asset quality headwinds and RoE erosion. We note that we do not apply global minimum tax rate of 10-15% for 2025 estimates, as implementation is not clear. If implemented in 2025, our estimates will be subject to downward revision.

Highlights

- **MARK's FY2023 net profit beat our estimates on lower provisions (net operating income was broadly in-line; variation of -4.5%).** Masraf Al Rayan reported a net profit of QR1.37bn in FY2023 (higher than our estimate of QR1.22bn), increasing by 8.5% YoY. A 31.9% drop in provisions & impairments drove YoY bottom-line. Core banking income was weak on margin compression and lower fees and f/x income. Net operating income dropped by 17.5%.
- **FY2023 RoE came in at 6.4% vs. 5.8% in FY2022; RoE is significantly below pre-merger levels and remains well below its CoE of 11.7%.** RoE declined from 11.3% in 2021 to 5.8% in 2022 (pre-merger [MARK standalone] RoEs hovered around the 16% level). It will take a while for RoEs to pick up despite double-digit growth in earnings; thus, we lower our RoE estimates for 2025 from 8.1% to 7.1% (we maintain our 2024 RoE at 6.5%). Finally, we expect RoE to reach 9.5% by 2028e.
- **NIMs compressed by 52bps to 1.79% in 2023 on the back of CoFs increasing more than yields on IEAs following rate hikes.** However, we believe MARK could see an 8bps improvement in NIMs in 2024 as benchmark rates are expected to decline.
- **Although MARK's primary exposure is to the public sector (FY2023: 49%), asset quality has faced headwinds with NPLs spiking; the bulk/majority of NPLs is attributed to the construction and real estate segments.** NPL ratio improved from 6.47% in 3Q2023 to 5.71% in FY2023 and 6.0% in FY2022 (partially due to a drop in loans and write-offs). Moreover, NPL formation was negative vs. 3Q2023 and FY2022. On the other hand, Stage 2 loans as a % of total loans increased from 2021's 14% to 30% as of FY2023 (FY2022: 24%). At the same time, coverage of Stage 3 loans increased from 46% in FY2022 to 57% in FY2023 (remains low; but with collateral coverage would be around 90%). Coverage of Stage 2 loans is only 1.8%; 10-15% coverage would be prudent in our view.
- **CoR to stay on the high side in the near-to-medium term as MARK builds buffers to reach a coverage ratio of 70% to 80% for Stage 3 loans; credit provisions moved down by 18.4% to QR1.27bn YoY in FY2023.** CoR decreased from 127bps in FY2022 to 108bps in FY2023. We estimate CoR at-100bps in 2024-2026e before normalizing to 90bps 2027/28e. (continued on page 2)

Catalysts

- 1) Normalizing CoR, which results in stronger RoE generation ahead of our expectations.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We lower our PT from QR2.771 to QR2.623/share and lower our rating from Accumulate to Market Perform.** MARK is trading at 2023e/24e P/TB of 1.1/1.0x and P/E of 16.7x/14.7x.
- **Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
EPS Attributable (QR)	0.147	0.153	0.174	0.198
EPS Growth (%)	8.5	4.2	13.2	13.7
P/E (x)	17.4	16.7	14.7	12.9
Tangible BVPS (QR)	2.37	2.43	2.52	2.60
P/TBV (x)	1.1	1.1	1.0	1.0
RoE (%)	6.4	6.5	7.1	7.8
DPS (QR)	0.100	0.100	0.125	0.150
Dividend Yield (%)	3.9	3.9	4.9	5.9

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

Key Data

Current Market Price (QR)	2.556
Dividend Yield (%)	3.9
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	3.01/1.89
3-m Average Volume (mn)	17.7
Mkt. Cap. (\$ bn/QR bn)	6.5/23.8
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.2
1-Year Total Return (%)	(3.0)
Fiscal Year End	December 31

Source: Bloomberg (as of March 12, 2024), *Qatar Exchange (as of March 12, 2024); Note: FO is foreign institutional ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

- Loans continued its negative trajectory as MARK is de-risking its loan book; we increase our gross loan growth estimates from a CAGR of 3.4% in 2023-27e to 5.0% as the bank's lending appetite increases after cleaning up its books. Net loans contracted by 8.2% vs. FY2022 to QR108.2bn (-2.5% vs. FY2021). Moreover, deposits decreased by 4.7% vs. FY2022 to QR92.7bn. Drop in loans was attributable to the real estate and corporate segments.
- CET1 to remain robust and highest among its peers; however, if changes to RWAs regarding open f/x positions is implemented as per Basel, it would have an impact on capital. We cannot quantify the effect, as MARK does not disclose its US \$ position. MARK ended FY2023 with CET1/Tier-1 ratios of 20.2%/21.2%.

Change in Estimates

In QR mn	2024e			2025e			2026e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,217	2,895	-10.0	3,452	3,101	-10.2	3,811	3,353	-12.0
Non Interest Income	732	803	9.7	792	799	0.8	772	889	15.2
Revenue	3,949	3,699	-6.3	4,244	3,900	-8.1	4,583	4,242	-7.5
Opex	(1,013)	(903)	-10.8	(1,077)	(930)	-13.6	(1,142)	(970)	-15.1
Net Operating Income	2,936	2,796	-4.8	3,167	2,970	-6.2	3,441	3,272	-4.9
Net Income (Reported)	1,494	1,511	1.1	1,893	1,705	-10.0	2,139	1,931	-9.7
Net Income (Attributable)	1,410	1,427	1.2	1,800	1,616	-10.2	2,039	1,837	-9.9

Source: QNB FS Research

Valuation

We value MARK using the Residual Income Model (RI) based on a fundamental P/B:

We derive MARK's fair value by employing the RI valuation technique (based on a fundamental P/B).

We add Qatar's 10-year CDS rate of 0.82% to the 10-year US government bond yield (4.05%) to arrive at a risk free rate of 4.9%. We factor in an adjusted beta of 0.97x. Finally, we add a local equity risk premium of 7.0% to arrive at a Ke of 11.66%. However, we use a Ke of 10.0% for the terminal year.

Valuation Methodology

Fundamental P/B	
Sustainable RoE (%)	11.5
Estimated Cost of Equity (%)	10.0
Terminal Growth Rate (%)	5.0
Fundamental P/B	1.3x

RI Based on Fundamental P/B	
Beginning BVPS (2024) (QR)	2.53
Present Value of Interim Residuals (QR)	(0.47)
Present Value of Terminal Value (QR)	0.38
Less: Goodwill	0.09
Fundamental P/B	1.3x
Intrinsic Value (QR)	2.623
Current Market Price (QR)	2.556
Upside/(Downside) Potential (%)	+2.6%

Source: QNB FS Research

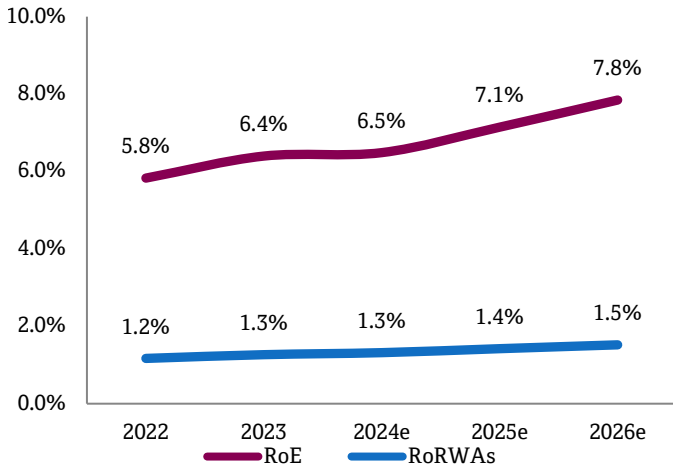
Forecasts

	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Terminal
Beginning BVPS	2.53	2.59	2.66	2.73	2.81	2.89	2.97	3.05	3.12	3.19
Attributable EPS	0.153	0.174	0.198	0.228	0.256	0.277	0.299	0.322	0.344	0.367
DPS	0.100	0.100	0.125	0.150	0.175	0.200	0.215	0.250	0.275	0.300
Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	2.59	2.66	2.73	2.81	2.89	2.97	3.05	3.12	3.19	3.26
Equity Charge	0.30	0.30	0.31	0.32	0.33	0.34	0.35	0.36	0.36	0.32
Residual Income	-0.14	-0.13	-0.11	-0.09	-0.07	-0.06	-0.05	-0.03	-0.02	0.05
Terminal Value (Based on Fundamental P/B)										0.98
Discounted Interim Residuals	-0.13	-0.10	-0.08	-0.06	-0.04	-0.03	-0.02	-0.01	-0.01	0.02
Discounted Terminal Value										0.38

Growth	4.2%	13.2%	13.7%	15.5%	12.1%	8.3%	7.8%	7.7%	7.0%	6.7%
RoE	6.1%	6.7%	7.4%	8.3%	9.1%	9.6%	10.1%	10.5%	11.0%	11.5%
Implied P/B	1.0x	1.0x	1.0x	0.9x	0.9x	0.9x	0.9x	0.8x	0.8x	0.8x

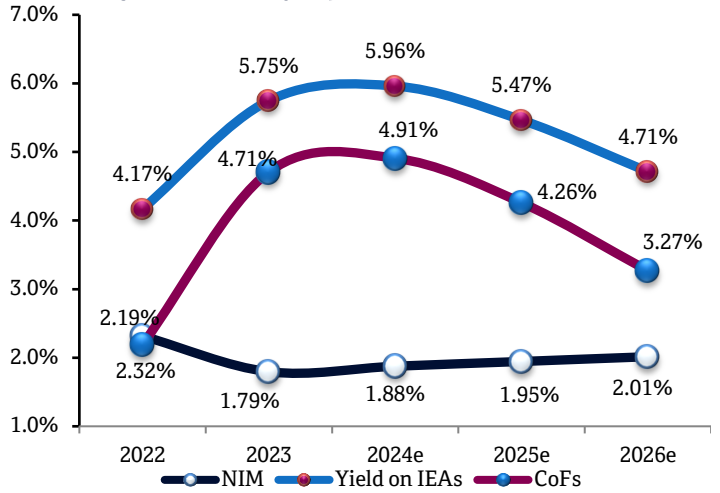
Source: QNB FS Research

RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE

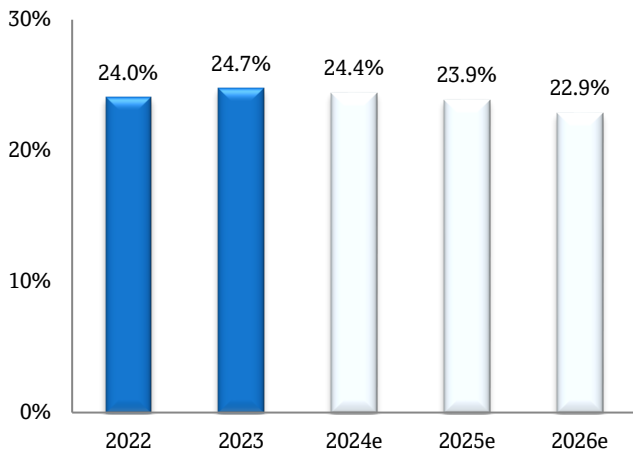


Source: Company data, QNB FS Research

While Margins to Gradually Improve

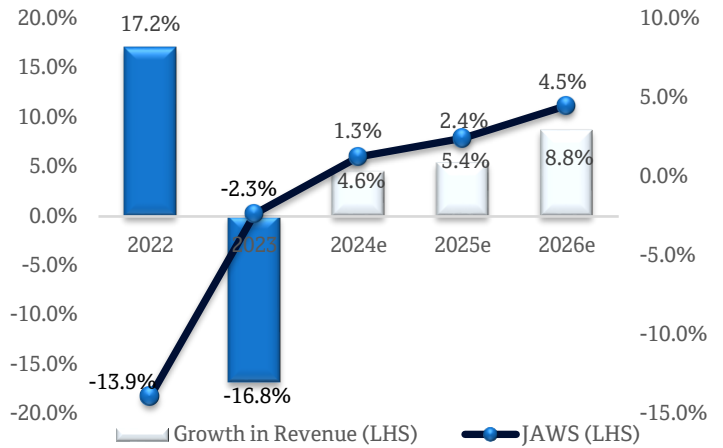


C/I Ratio to improve Due to Cost Containment

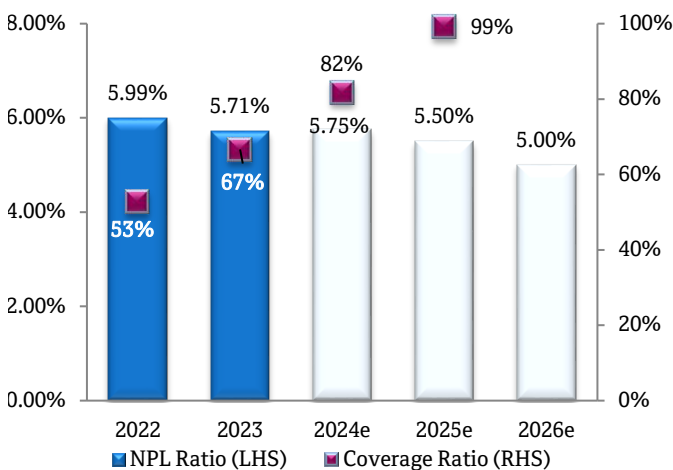


Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

While Generating Single-Digit JAWS



NPL Ratio Remains High on the Back of Contracting & Real Estate Loans Stage 2 Loans on the High Side, Contributing 30% to Total Loans



Source: Company data, QNB FS Research

FY2023	Stage 1	Stage 2	Stage 3
Gross Loans	72,732,418	33,352,574	6,424,659
ALLs	47,378	589,960	3,644,132
Stages % Loans	64.6%	29.6%	5.71%
Coverage Ratio	0.07%	1.8%	57%

Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,607	2,727	2,895	3,101	3,353
Fees & Commissions	328	319	352	377	405
FX Income	271	197	256	307	338
Other Income	46	295	195	115	146
Non-Interest Income	645	810	803	799	889
Total Revenue	4,251	3,537	3,699	3,900	4,242
Operating Expenses	(1,022)	(874)	(903)	(930)	(970)
Net Operating Income	3,229	2,663	2,796	2,970	3,272
Net Provisions & Impairments	(1,710)	(1,165)	(1,220)	(1,203)	(1,270)
Net Profit Before Taxes & Minority Interest	1,519	1,498	1,576	1,767	2,002
Tax	(22)	(35)	(33)	(27)	(30)
Net Profit Before Minority Interest	1,497	1,463	1,543	1,740	1,972
Minority Interest	(19)	(28)	(32)	(36)	(40)
Non-Recurring Items	(134)	17	-	-	-
Net Profit (Reported/Headline)	1,344	1,452	1,511	1,705	1,931
Interest Expense on AT1 Bond	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(36)	(36)	(38)	(43)	(48)
Net Profit (Attributable)	1,263	1,369	1,427	1,616	1,837
EPS	0.140	0.151	0.158	0.178	0.203

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024e	2025e	2026e
Assets					
Cash & Balances with Central Bank	5,088	4,993	4,868	5,000	5,190
Interbank Loans	6,300	5,663	6,106	6,936	6,120
Net Investments	31,477	38,599	41,827	40,033	44,414
Net Loans	117,859	108,228	111,009	115,592	122,409
Investment In Associates	346	349	374	397	424
Other Assets	3,869	3,835	3,810	3,843	3,893
Net PP&E	915	969	999	1,047	1,098
Goodwill & Intangibles	1,679	1,565	1,451	1,337	1,223
Total Assets	167,533	164,200	170,443	174,185	184,772
Liabilities					
Interbank Deposits	29,316	32,204	32,834	28,835	32,268
Customer Deposits	97,292	92,724	97,360	104,175	110,426
Sukuks & Borrowings	11,525	9,821	9,821	9,821	9,821
Other Liabilities	5,118	4,644	5,092	5,296	5,484
AT1 Notes	1,000	1,000	1,000	1,000	1,000
Total Liabilities	144,251	140,393	146,107	149,128	158,999
Minority Interest	198	237	269	305	345
Total Shareholders' Equity	23,084	23,569	24,067	24,753	25,427
Total Liabilities & Shareholders' Equity	167,533	164,200	170,443	174,185	184,772
Risk Weighted Assets	111,079	105,187	111,299	116,007	125,645
TBVPs	2.30	2.37	2.43	2.52	2.60

Source: Company data, QNB FS Research

Ratios/KPIs	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoE	5.8	6.4	6.5	7.1	7.8
RoAA	0.7	0.8	0.9	0.9	1.0
RoRWA	1.2	1.3	1.3	1.4	1.5
NIM (% of IEAs)	2.32	1.79	1.88	1.95	2.01
NIM (% of RWAs)	3.34	2.52	2.67	2.73	2.77
NIM (% of AAs)	2.11	1.64	1.73	1.80	1.87
Spread	2.0	1.0	1.1	1.2	1.4
Efficiency (%)					
Cost-to-Income (Headline)	24.0	24.7	24.4	23.9	22.9
Cost-to-Income (Core)	24.2	26.3	25.3	24.4	23.4
Liquidity (%)					
LDR (Loans to Stable Sources of Funds)	108	106	104	101	102
Loans/Assets	70.3	65.9	65.1	66.4	66.2
Cash & Interbank Loans-to-Total Assets	6.8	6.5	6.4	6.9	6.1
Deposits to Assets	58.1	56.5	57.1	59.8	59.8
Wholesale Funding to Loans	34.7	38.8	38.4	33.4	34.4
IEAs to IBLs	118.6	119.6	120.7	121.3	120.9
Asset Quality (%)					
NPL Ratio	5.99	5.71	5.75	5.50	5.00
NPL to Shareholders' Equity	31.60	27.26	27.94	27.28	25.74
NPL to Tier 1 Capital	33.71	28.86	28.09	26.31	23.83
Coverage Ratio	52.7	66.6	81.8	99.3	121.9
ALL/Average Loans	2.6	3.0	4.4	5.1	5.8
Cost of Risk (bps)	127	108	106	100	100
Capitalization (%)					
CET1 Ratio	18.6	20.2	20.6	21.3	21.1
Tier-1 Ratio	19.5	21.2	21.5	22.1	21.9
CAR	20.3	22.1	22.4	23.0	22.7
Leverage (x)	7.3	7.0	7.1	7.0	7.3
Growth (%)					
Net Interest Income	15.9	-24.4	6.2	7.1	8.1
Non-Interest Income	25.0	25.7	-0.9	-0.6	11.3
Opex	31.0	-14.5	3.3	3.0	4.2
Net Operating Income	13.4	-17.5	5.0	6.2	10.2
Net Provisions & Impairments	55.9	-31.9	4.7	-1.4	5.6
Net Income (Reported)	-21.7	8.0	4.1	12.8	13.3
Net Income (Attributable)					
Loans	-2.5	-8.2	2.6	4.1	5.9
Deposits	-9.0	-4.7	5.0	7.0	6.0
Assets	-3.8	-2.0	3.8	2.2	6.1
RWAs	6.1	-5.3	5.8	4.2	8.3

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. W.L.L. (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.