

## QNBFS Alert – MARK's 4Q2017 Net Operating Profit In-Line; DPS QR2.00 In-Line With Estimates

- **Net operating income in-line, bottom-line misses estimates due to a surge in provisions.** Masraf Al Rayan (MARK) reported net profit of QR466.2mn in 4Q2017 (vs. QR542.0mn in 3Q2017), missing our estimate of QR559.5mn due to an unprecedented surge in provisions; bottom-line dropped by 14.0% QoQ (-9.6% YoY) solely due to provisions. However, Net operating income came (before provisions) in at QR588.6mn, in-line with our estimate of QR570.1mn (+3.2% variation).
- **CoR moved up to 15bps in 2017 vs. nil in 2016.** MARK booked provisions of QR115.8mn vs. a reversal in 3Q2017 (provisions of QR27.1mn in 4Q2016).
- **DPS came in-line with our estimate.** The board announced DPS QR2.00/share, yielding 4.7%.
- **Net Loans displayed strong performance.** Net loans expanded by 5.3% QoQ (+6.6% YoY) to QR72.1bn, while deposits followed suit and jumped by 4.1% QoQ (+7.8% YoY) to QR62.5bn. Thus, MARK's LDR remained challenging at 115% vs. 114% in 3Q2017 (117% in FY2016). Loans growth was driven by the public sector while growth in deposits was mainly attributable to a mix between public sector/retail.
- **Asset quality remains a non-issue, but witnessed some stress.** The bank's NPL ratio increased to 0.47% vs. 0.17% in 2016.
- **Capitalization remained robust.** MARK ended 2017 with a CAR of 19.3%.
- **Recommendation and valuation:** The stock trades at a P/TB of 2.2x on our 2018 estimates.

### Recommendations

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

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

### Risk Ratings

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

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

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