

## MARK Alert – MARK Reports Weak 1Q2023 Profitability Due to an Increase in CoFs & Misses Estimates

- **MARK's 1Q2023 net profit falls short of our estimates on the account of high CoFs:** Masraf Al Rayan (MARK) reported a net profit of QR385.0mn in 1Q2023 (lower than our estimate of QR518.0mn), declining by 21.1% YoY. We note sequential results (1Q2023 vs. 4Q2022) are not strictly comparable due to restatements.
- **The drop in profitability was mainly attributable to a large jump in CoFs.** CoFs increased from ~1.39% in 1Q2022 to ~4.36% in 1Q2023. As such, MARK's NIM contracted from 2.32% in 1Q2022 to 1.80% in 1Q2023. Moreover, net interest and investment income declined by 25.0% YoY to QR693.3mn. On a positive note, non-funded income increased by 9.8%, driven by a surge in fees.
- **Opex improved but C/I remained flat.** Expenses dropped by 18.4% YoY (excluding integration costs. However, C/I remained flat at 25.1% due to weak revenue.
- **Asset quality remains a headwind.** The bank's NPLs moved up by 2.1% QoQ to QR7.5bn vs. QR7.3bn in FY2022 (QR1.9bn in FY2021). Moreover, MARK's NPL ratio moved up to 6.2% from 6.0% in FY2022 (1.57% in FY2021). Stage 2 loans as a percentage of total loans remains high, representing 24% of total loans. Coverage of Stage 3 loans improved to 50% vs. 46% in FY2022.
- **Loans and deposits both dropped sequentially.** Net loans decreased by 1.1% QoQ to QR116.5bn. Moreover, deposits declined by 3.5% sequentially to QR93.7bn.
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 1Q2023 with a CET1/Tier-1 of 19.0%/20.0%.
- **Recommendation and valuation:** MARK trades at P/B of 1.1x based on our 2023 estimates. We maintain our TP of QR3.112/share and Accumulate rating.

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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