

Masraf Al Rayan (MARK)

| | | | |
|----------------|----------------|--------------|---------|
| Recommendation | Market Perform | Risk Rating | R-3 |
| Share Price | QR2.341 | Price Target | QR2.623 |
| Implied Upside | 12.0% | | |

2Q2024 Earnings Misses Estimates Mainly on Non-Recurring Loss

Masraf Al Rayan reports QR383.0mn profit in 2Q2024 vs. QR379.7mn in 2Q2023, falling short of our estimate of QR414.3mn (variation of -7.6%). The miss was mainly attributable to a loss on sale of an associate as net operating income was in-line with our estimate of QR698.1mn (MARK reported QR694.3mn). The YoY flattish performance in earnings is due to margin pressure and loss on sale of an associate of QR10.5mn. Net-net, key takeaways from 2Q2024 results are margin pressure, strong non-funded income, improvement in loans and the continuous increase in credit costs. **We maintain our Market Perform rating.**

Highlights

- Masraf Al Rayan (MARK) bottom-line misses estimates.** MARK's net income inched up by 0.9% YoY (-5.7% QoQ) to QR383.0mn in 2Q2024. Excluding one-time loss on sale of associate, net income would have increased by 3.6% YoY.
- Non-funded income aided 2Q2024 bottom-line, offsetting margin pressure.** Revenue increased by 3.9% YoY to QR924.6mn due to a 31.9% increase in non-funded income as net interest & investment income decreased by 1.5% YoY. NIMs in 2Q2024 dipped by 3bps to ~1.95%. Sequentially, Revenue was up by only 1.1% supported by a 10.4% increase in non-funded income as net interest & investment income receded by 1.0%
- RoE continues to be weak and below its CoE.** 1H2024 annualized RoE came in at 7.1% in-line with 1H2023. We estimate it will take another 4 years for RoE to exceed the 10% level despite expected double-digit growth in earnings over 2025-2028.
- Although MARK's primary exposure is to the public sector (FY2023: 49%), asset quality remains under pressure; the bulk/majority of NPLs is attributed to the construction and real estate segments.** NPLs increased by 1.5% sequentially (+3.4% YTD) from QR6.5bn in 1Q2024 to QR6.6bn in 2Q2024 (FY2023: QR6.4bn). However, the NPL ratio remained flat at 5.86% vs. 1Q2024, because of growth in loans (FY2023: 5.71%). Moreover, Stage 2 loans as a % of total loans remains one of the highest domestically at 32% with negligible coverage. At the same time, coverage of Stage 3 loans improved from 59% in 1Q2024 (FY2023: 57%) to 62% (excluding eligible collateral).
- 1H2024 annualized CoR remained flat vs. 1H2023.** CoR (Annualized) came in at 97bps in 1H2024 vs. 98bps in 1H2023. Net credit provisions increased by 19.2% YoY and 12.6% sequentially as the bank continues to build buffers.
- Loans increased sequentially and YTD after numerous quarterly declines over the past two years.** Net loans increased by 1.3% sequentially to QR108.4bn (flat YoY). Moreover, deposits continued to improve, growing by 3.4% sequentially (+17.5% YTD) to QR108.9bn. As such, MARK's LDR further improved to 100% vs. 102% in 1Q2024 (FY2023: 117%).
- CET1 position remained robust.** MARK ended 2Q2024 with CET1/Tier-1 ratios of 21.6%/22.6%.

Catalysts

- 1) Normalizing CoR, which results in strong RoE ahead of expectations.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our PT at QR2.623/share and our Market Perform rating for now.** MARK is trading at 2024e/25e P/TB of 1.0/0.9x and P/E 14.6x/13.6x.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs and 3) write-offs

Key Financial Data and Estimates

| | 2023 | 2024e | 2025e | 2026e |
|-----------------------|-------|-------|-------|-------|
| EPS Attributable (QR) | 0.147 | 0.161 | 0.172 | 0.207 |
| EPS Growth (%) | 8.5 | 9.0 | 7.3 | 20.3 |
| P/E (x) | 15.9 | 14.6 | 13.6 | 11.3 |
| Tangible BVPS (QR) | 2.37 | 2.44 | 2.52 | 2.62 |
| P/TBV (x) | 1.0 | 1.0 | 0.9 | 0.9 |
| RoE (%) | 6.4 | 6.8 | 7.1 | 8.2 |
| DPS (QR) | 0.100 | 0.100 | 0.125 | 0.150 |
| Dividend Yield (%) | 4.3 | 4.3 | 5.3 | 6.4 |

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

Key Data

| | |
|---------------------------|--------------------|
| Current Market Price (QR) | 2.341 |
| Dividend Yield (%) | 4.3 |
| Bloomberg Ticker | MARK QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | MARK.QA |
| ISIN | QA000A0M8VM3 |
| Sector* | Banks & Fin. Svcs. |
| 52wk High/52wk Low (QR) | 2.665/1.89 |
| 3-m Average Volume (mn) | 10.5 |
| Mkt. Cap. (\$ bn/QR bn) | 6.0/21.8 |
| Shares Outstanding (mn) | 9,300 |
| FO Limit* (%) | 100.0 |
| Current FO* (%) | 13.9 |
| 1-Year Total Return (%) | (1.3) |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of July 17, 2024), *Qatar Exchange (as of July 17, 2024); Note: FO is foreign institutional ownership

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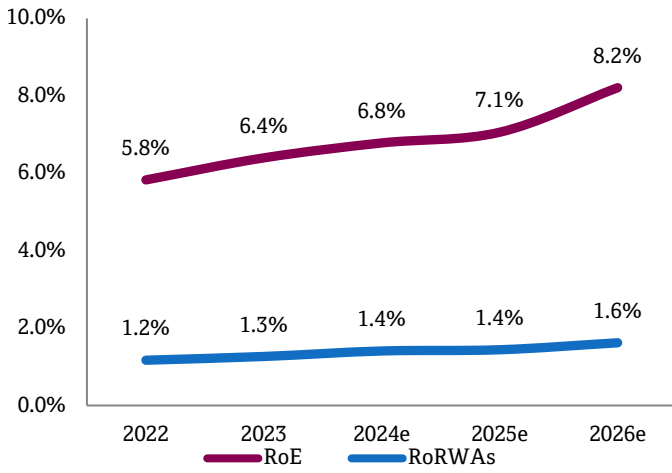
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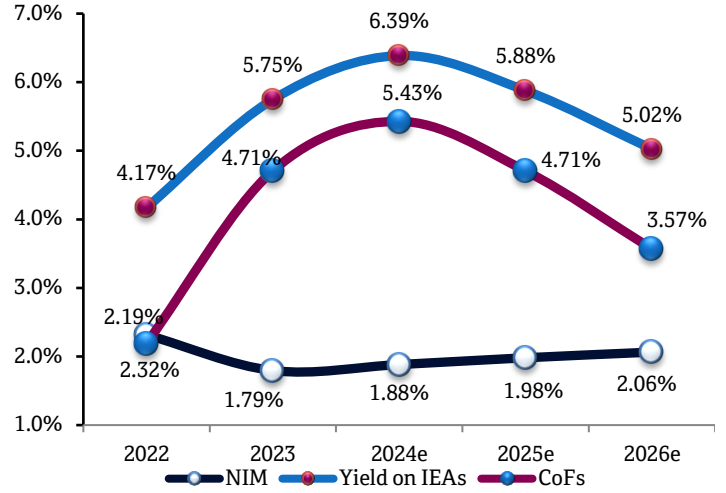
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RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE

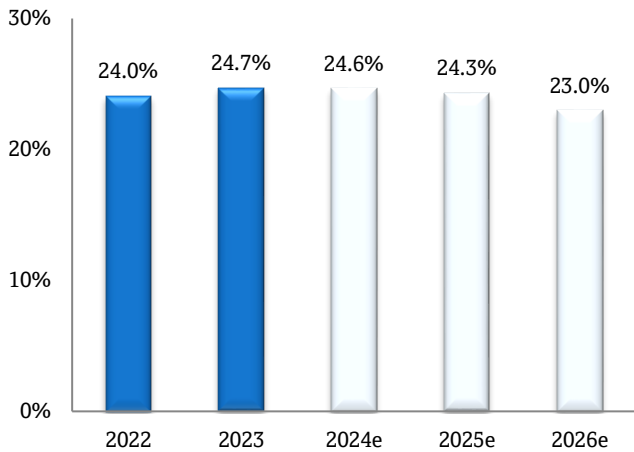


Source: Company data, QNB FS Research

While Margins to Gradually Improve

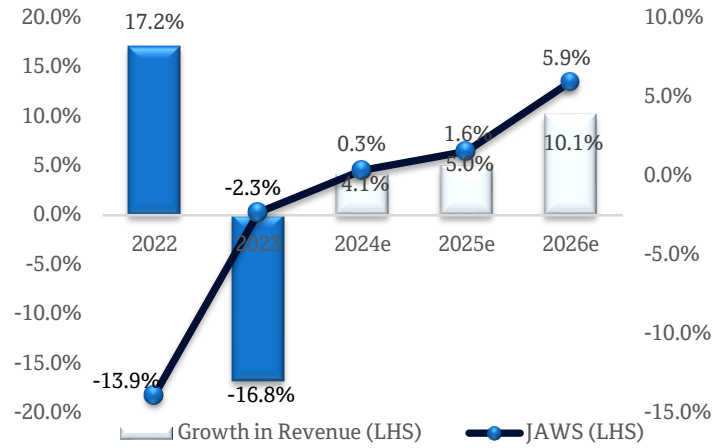


C/I Ratio to Improve Due to Cost Containment

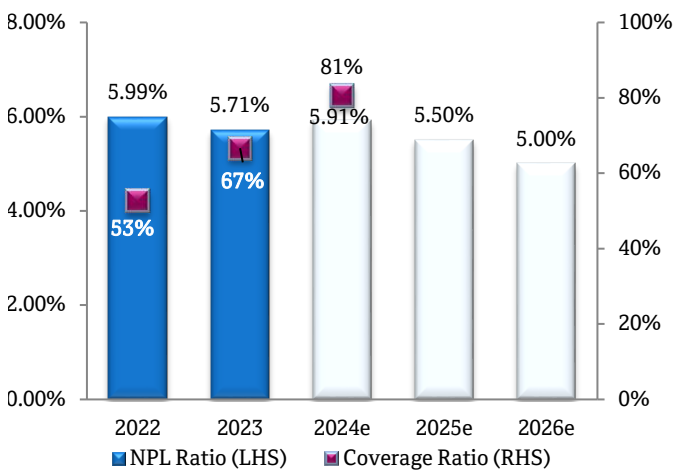


Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

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 32% to Total Loans



Source: Company data, QNB FS Research

| 2Q2024 | Stage 1 | Stage 2 | Stage 3 |
|-----------------------|--------------|-------------|------------|
| Gross Loans | 70,795,408 | 35,865,169 | 6,640,982 |
| ALLs | 42,256 | 736,458 | 4,113,522 |
| Stages % Loans | 62.5% | 31.7% | 5.86% |
| Coverage Ratio | 0.06% | 2.1% | 62% |

Detailed Financial Statements

| Income Statement (In QR mn) | 2022 | 2023 | 2024e | 2025e | 2026e |
|--|--------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 3,607 | 2,727 | 2,836 | 3,073 | 3,369 |
| Fees & Commissions | 328 | 319 | 341 | 365 | 401 |
| FX Income | 271 | 197 | 248 | 271 | 298 |
| Other Income | 46 | 295 | 257 | 158 | 190 |
| Non-Interest Income | 645 | 810 | 846 | 794 | 889 |
| Total Revenue | 4,251 | 3,537 | 3,682 | 3,866 | 4,259 |
| Operating Expenses | (1,022) | (874) | (907) | (938) | (978) |
| Net Operating Income | 3,229 | 2,663 | 2,775 | 2,928 | 3,281 |
| Net Provisions & Impairments | (1,710) | (1,165) | (1,129) | (1,177) | (1,184) |
| Net Profit Before Taxes & Minority Interest | 1,519 | 1,498 | 1,646 | 1,751 | 2,097 |
| Tax | (22) | (35) | (35) | (26) | (31) |
| Net Profit Before Minority Interest | 1,497 | 1,463 | 1,611 | 1,725 | 2,066 |
| Minority Interest | (19) | (28) | (33) | (35) | (42) |
| Non-Recurring Items | (134) | 17 | - | - | - |
| Net Profit (Reported/Headline) | 1,344 | 1,452 | 1,578 | 1,690 | 2,023 |
| Interest Expense on AT1 Bond | (46) | (46) | (46) | (46) | (46) |
| Social & Sports Contribution Fund | (36) | (36) | (39) | (42) | (51) |
| Net Profit (Attributable) | 1,263 | 1,369 | 1,493 | 1,601 | 1,927 |
| EPS | 0.140 | 0.151 | 0.165 | 0.177 | 0.213 |

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 | 5,308 | 5,786 | 5,338 |
| Interbank Loans | 6,300 | 5,663 | 4,894 | 5,654 | 6,161 |
| Net Investments | 31,477 | 38,599 | 37,902 | 42,390 | 43,268 |
| Net Loans | 117,859 | 108,228 | 108,745 | 113,077 | 118,477 |
| Investment In Associates | 346 | 349 | 372 | 397 | 417 |
| Other Assets | 3,869 | 3,835 | 3,852 | 3,896 | 3,960 |
| Net PP&E | 915 | 969 | 999 | 1,031 | 1,063 |
| Goodwill & Intangibles | 1,679 | 1,565 | 1,451 | 1,337 | 1,223 |
| Total Assets | 167,533 | 164,200 | 163,523 | 173,567 | 179,908 |
| Liabilities | | | | | |
| Interbank Deposits | 29,316 | 32,204 | 21,591 | 24,510 | 23,423 |
| Customer Deposits | 97,292 | 92,724 | 100,142 | 107,152 | 113,581 |
| Sukuks & Borrowings | 11,525 | 9,821 | 10,411 | 10,411 | 10,411 |
| Other Liabilities | 5,118 | 4,644 | 5,976 | 5,386 | 5,579 |
| AT1 Notes | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total Liabilities | 144,251 | 140,393 | 139,120 | 148,458 | 153,993 |
| Minority Interest | 198 | 237 | 270 | 306 | 348 |
| Total Shareholders' Equity | 23,084 | 23,569 | 24,132 | 24,803 | 25,568 |
| Total Liabilities & Shareholders' Equity | 167,533 | 164,200 | 163,523 | 173,567 | 179,908 |
| Risk Weighted Assets | 111,079 | 105,187 | 106,780 | 115,596 | 122,338 |
| TBVPS | 2.30 | 2.37 | 2.44 | 2.52 | 2.62 |

Source: Company data, QNB FS Research

| Ratios/KPIs | 2022 | 2023 | 2024e | 2025e | 2026e |
|--|-------|-------|-------|-------|-------|
| Profitability (%) | | | | | |
| RoE | 5.8 | 6.4 | 6.8 | 7.1 | 8.2 |
| RoAA | 0.7 | 0.8 | 0.9 | 1.0 | 1.1 |
| RoRWA | 1.2 | 1.3 | 1.4 | 1.4 | 1.6 |
| NIM (% of IEAs) | 2.32 | 1.79 | 1.88 | 1.98 | 2.06 |
| NIM (% of RWAs) | 3.34 | 2.52 | 2.68 | 2.76 | 2.83 |
| NIM (% of AAs) | 2.11 | 1.64 | 1.73 | 1.82 | 1.91 |
| Spread | 2.0 | 1.0 | 1.0 | 1.2 | 1.5 |
| Efficiency (%) | | | | | |
| Cost-to-Income (Headline) | 24.0 | 24.7 | 24.6 | 24.3 | 23.0 |
| Cost-to-Income (Core) | 24.2 | 26.3 | 26.0 | 24.8 | 23.4 |
| Liquidity (%) | | | | | |
| LDR (Loans to Stable Sources of Funds) | 108 | 106 | 98 | 96 | 96 |
| Loans/Assets | 70.3 | 65.9 | 66.5 | 65.1 | 65.9 |
| Cash & Interbank Loans-to-Total Assets | 6.8 | 6.5 | 6.2 | 6.6 | 6.4 |
| Deposits to Assets | 58.1 | 56.5 | 61.2 | 61.7 | 63.1 |
| Wholesale Funding to Loans | 34.7 | 38.8 | 29.4 | 30.9 | 28.6 |
| IEAs to IBLs | 118.6 | 119.6 | 121.4 | 120.2 | 120.8 |
| Asset Quality (%) | | | | | |
| NPL Ratio | 5.99 | 5.71 | 5.91 | 5.50 | 5.00 |
| NPL to Shareholders' Equity | 31.60 | 27.26 | 28.08 | 26.65 | 24.79 |
| NPL to Tier 1 Capital | 33.71 | 28.86 | 28.17 | 25.62 | 22.85 |
| Coverage Ratio | 52.7 | 66.6 | 80.6 | 100.4 | 123.4 |
| ALL/Average Loans | 2.6 | 3.0 | 4.4 | 5.2 | 5.8 |
| Cost of Risk (bps) | 127 | 108 | 104 | 100 | 96 |
| Capitalization (%) | | | | | |
| CET1 Ratio | 18.6 | 20.2 | 21.6 | 21.5 | 21.9 |
| Tier-1 Ratio | 19.5 | 21.2 | 22.5 | 22.3 | 22.7 |
| CAR | 20.3 | 22.1 | 23.4 | 23.2 | 23.6 |
| Leverage (x) | 7.3 | 7.0 | 6.8 | 7.0 | 7.0 |
| Growth (%) | | | | | |
| Net Interest Income | 15.9 | -24.4 | 4.0 | 8.3 | 9.7 |
| Non-Interest Income | 25.0 | 25.7 | 4.4 | -6.2 | 12.1 |
| Opex | 31.0 | -14.5 | 3.7 | 3.5 | 4.2 |
| Net Operating Income | 13.4 | -17.5 | 4.2 | 5.5 | 12.1 |
| Net Provisions & Impairments | 55.9 | -31.9 | -3.1 | 4.2 | 0.6 |
| Net Income (Reported) | -21.7 | 8.0 | 8.7 | 7.1 | 19.8 |
| Net Income (Attributable) | | | | | |
| Loans | -2.5 | -8.2 | 0.5 | 4.0 | 4.8 |
| Deposits | -9.0 | -4.7 | 8.0 | 7.0 | 6.0 |
| Assets | -3.8 | -2.0 | -0.4 | 6.1 | 3.7 |
| RWAs | 6.1 | -5.3 | 1.5 | 8.3 | 5.8 |

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 |

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