MARK Alert – 3Q2021 Broadly In-Line; Margin Pressure Weighed on the Bottom-line

- **MARK's 3Q2021 earnings came broadly in-line with estimates; results were somewhat lackluster:** Masraf Al Rayan (MARK) reported a net profit of QR569.96mn in 3Q2021, in-line with our estimate of QR588.60mn (variation of -3.4%). The bottom-line moderately decreased by 1.5% YoY but was flat sequentially.

- **Margin pressure and higher opex hindered the bottom-line YoY, but a large drop in provisions & impairments prevented net income from a significant drop.** Net interest & investment income receded by 4.3% YoY (-12.3% QoQ), resulting in a 1.4% decline in revenue. Moreover, opex increased by 19.9% YoY (+10.7% QoQ), resulting in a 6.7% drop in net operating income (-16.9% sequentially). However, provisions and impairments dropped by 40.3% YoY (-69.2% sequentially), resulting in only 1.5% dip YoY (flat QoQ) in the bottom-line.

- **MARK enjoys one of the highest RoEs among its peers.** The bank generated an RoE of 15.6% for 3Q2021.

- **Loans dropped sequentially while deposits increased.** Net loans declined sequentially by 4.6% (+1.2% YTD) to QR87.01bn. On the other hand, deposits moved up by 2.9% QoQ (+13.4% YTD) to QR78.16bn.

- **Asset quality remains superior as MARK's main exposure is to the public sector.** However, it is worth noting that the bank's NPLs jumped by 31.0% and 31.8% QoQ/YTD, respectively to QR1.3bn. Moreover, the bank's NPL ratio moved up to 1.46% vs. 1.07% in 2Q2021 (1.13% in FY2020).

- **Capitalization remained robust and one of the highest among its peers.** MARK ended 3Q2021 with a CAR of 20.6%.

- **Recommendation and valuation:** The stock trades at a P/B of 2.3x on our 2021 estimates. We maintain our PT of QR5.113 and Accumulate rating. With its merger with KCBK expected to close imminently, we continue to like MARK. The upcoming implementation of its FOL increase to 100% and its weight increase in MSCI/FTSE, should act as potential catalysts.

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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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