

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR34.75	Current Target Price	QR34.00
Implied Upside	(2.16%)		

Non-Recurring Loss & Margin Pressure Dents QoQ Growth

Masraf Al Rayan (MARK) is the second largest Shari'ah compliant bank among listed banks. Incorporated in 2006, MARK is focused on the public sector, which dominates its loan portfolio. Public sector loans grew by a CAGR (2009-2015) of 28.2% and represents 50% (December 2015) of MARK's loan portfolio. On the other hand, retail loans make up an immaterial 8.3% of the loan book. Notably, MARK has the best asset quality with an NPL ratio of 0.09%, one of the highest RoAEs of ~17% and robust capitalization at 18.4%.

Highlights

- **MARK reports in-line net profit.** MARK generated net profit of QR537.05mn, in-line with our estimate of QR518.91mn (+3.5% variation) and 5.4% above Bloomberg consensus (QR509.5mn). Moreover net operating income was also in-line at QR494.38mn vs. our estimate of QR498.14mn (-0.8% variation).
- **MARK's QoQ drop in profitability was due to non-recurring loss and margin compression.** MARK posted net profit of QR537.05mn, dropping by 4.0% QoQ (+5.1% YoY). Net Interest income dropped by 13.0% QoQ (down 14.5% YoY) to QR349.14mn. Hence, NIMs experienced extreme pressure, dropping by ~38bps and ~52bps to ~2.19%, QoQ and YoY, respectively. MARK also reported loss from assets held for sale (non-recurring) of QR35.94mn which also dented the bottom-line.
- **Opex improved considerably as expected.** The bank retrenched on its opex due to the weak operating environment. As such, MARK posted opex of QR119.49mn vs. QR163.92mn in 4Q2015 (QR120.67mn in 1Q2015), dropping by 27.1% and 1.0% QoQ and YoY, respectively. Thus, the bank's cost-to-income ratio improved to 19.5% vs. 25.8% in 4Q2015.
- **Asset quality remained robust.** MARK's NPLs ratio remained negligible at 0.09% in 1Q2016 (0.09% in 4Q2015). On the other hand, the coverage ratio dropped to 73% vs. 89% in FY2015.
- **Net loans exhibited impressive performance vs. a slow 2015.** MARK's loan book grew by 5.1% YTD to QR65.43bn. Conversely, deposits displayed flattish performance at QR56.13bn. Consequently, the bank's LDR jumped to 117% vs. 112% in FY2015.
- **Capitalization remained strong.** MARK generated a CAR of 18.41% in 1Q2016, one of the highest domestically.

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Improvement in NIMs and spreads.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** *We maintain our Price Target of QR34.00.* MARK is trading at a 2016e P/B and P/E of 2.0x and 12.3x, respectively. The stock offers an attractive yield of 5.0% in 2015 and 2016.
- **Risks:** 1) Depressed oil prices remains the biggest risk for MARK and the banking sector, 2) Increase in credit costs, 3) MARK loses market share in the government segment and 4) LDR requirement from the QCB could create short-term issues.

Key Financial Data and Estimates

	FY2015	FY2016e	FY2017e	FY2018e
Attributable EPS (QR)	2.70	2.83	3.06	3.36
EPS Growth (%)	3.6	5.1	7.9	10.1
P/E (x)	13.3	12.3	11.4	10.3
Tangible BVPS (QR)	16.1	17.1	18.4	20.1
P/TB (x)	2.2	2.0	1.9	1.7
DPS (QR)	1.75	1.75	1.75	2.00
Dividend Yield (%)	4.9	5.0	5.0	5.8

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	34.75
Dividend Yield (%)	5.0
Bloomberg Ticker	MARK.QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000AOM8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	49.90/28.60
3-m Average Volume ('000)	824.4
Mkt. Cap. (\$ bn/QR bn)	7.2/26.1
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	9.8
1-Year Total Return (%)	(24.5)

Fiscal Year End December 31

Source: Bloomberg (as of April 19, 2016), *Qatar Exchange (as of April 19, 2016); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2015	FY2016e	FY2017e	FY2018e
Profitability (%)				
RoAE (Attributable)	17.3	17.1	17.2	17.5
RoAA (Attributable)	2.5	2.4	2.4	2.4
RoRWA (Attributable)	3.6	3.5	3.4	3.2
NIM (% of IEAs)	2.65	2.65	2.66	2.62
NIM (% of RWAs)	3.62	3.54	3.53	3.33
NIM (% of AAs)	2.48	2.46	2.49	2.49
Spread	2.4	2.4	2.4	2.4
Efficiency (%)				
Cost-to-Income (Headline)	22.9	21.5	20.2	19.9
Cost-to-Income (Core)	23.3	22.4	21.1	20.8
Liquidity (%)				
LDR	111.9	114.3	108.8	99.1
Loans/Assets	75.0	73.8	74.8	75.0
Cash & Interbank Loans-to-Total Assets	6.2	8.3	6.4	6.4
Deposits to Assets	67.0	64.6	68.7	75.7
Wholesale Funding to Loans	21.4	26.0	20.1	11.0
IEAs to IBLs	125.5	120.3	123.4	119.5
Asset Quality (%)				
NPL Ratio	0.09	0.09	0.10	0.09
NPLs to Shareholder's Equity	0.50	0.51	0.58	0.54
NPLs to Tier 1 Capital	0.56	0.60	0.67	0.62
Coverage Ratio	89.5	79.7	65.6	94.1
ALL/Average Loans	0.1	0.1	0.1	0.1
Cost of Risk	0.00	0.00	0.00	0.03
Capitalization (%)				
Tier 1 Ratio	18.5	17.2	16.8	15.0
CAR	18.5	17.2	16.8	15.0
Tier 1 Capital to Assets	12.9	12.0	12.0	11.7
Tier 1 Capital to Loans	17.1	16.2	16.1	15.5
Tier 1 Capital to Deposits	19.2	18.5	17.5	15.4
Leverage (x)	6.9	7.2	7.2	7.4
Growth (%)				
Net Interest Income	3.5	6.5	10.9	9.9
Non-Interest Income	5.6	31.1	14.5	13.9
OPEX	15.3	3.8	4.7	9.3
Net Operating Income	0.8	12.5	13.5	11.0
Net Income (Attributable)	3.6	2.1	7.9	10.1
Loans	7.5	9.2	9.5	12.0
Deposits	-11.1	7.0	15.0	23.0
Assets	3.7	10.9	8.2	11.7
RWAs	5.9	11.5	11.1	21.3

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	2,024	2,156	2,390	2,627
Fees & Commissions	238	262	288	332
FX Income	108	135	166	192
Other Income	44	114	131	143
Non-Interest Income	390	511	585	667
Total Income	2,414	2,667	2,976	3,294
Operating Expenses	(552)	(573)	(600)	(656)
Net Operating Income	1,862	2,094	2,376	2,638
Net Provisions	(47)	(9)	(2)	(26)
Net Profit Before Taxes & Non-Recurring Items	1,815	2,085	2,374	2,612
Non-Recurring Income	186	57	0	0
Net Profit After Non-Recurring Income	2,001	2,142	2,374	2,612
Tax	25	(3)	(3)	(3)
Net Profit Before Minority Interest	2,026	2,139	2,371	2,609
Minority Interest	47	40	(19)	(21)
Net Profit (Headline/Reported)	2,073	2,179	2,351	2,588
Social & Sports Contribution Fund	(52)	(54)	(59)	(65)
Net Profit (Attributable)	2,022	2,125	2,293	2,523

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Assets				
Cash & Balances with Central Bank	2,737	3,571	3,422	4,209
Interbank Loans	2,376	4,081	2,979	2,919
Net Investments	14,625	15,294	17,570	19,347
Net Loans	62,261	68,021	74,487	83,409
Investment In Associates	469	501	536	574
Other Assets	410	463	447	601
Net PP&E	147	178	177	177
Investment in Real Estate	-	-	-	-
Total Assets	83,026	92,108	99,619	111,236
Liabilities				
Interbank Deposits	13,345	17,675	14,992	9,162
Customer Deposits	55,623	59,517	68,444	84,187
Other Liabilities	1,700	1,786	2,053	2,526
Total Liabilities	70,668	78,978	85,489	95,874
Total Shareholders' Equity	12,044	12,856	13,836	15,047
Total Liabilities & Shareholders' Equity	83,026	92,108	99,619	111,236

Source: Company data, QNBFS 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

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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