MARK Alert – In-Line 4Q2018 Net Profit/DPS; Maintain Market Perform

- **MARK reports in-line 4Q2018:** Masraf Al Rayan (MARK) reported a net profit of QR498.5mn in 4Q2018, in-line with our estimate of QR496.7mn. The bottom-line gained by 6.9% YoY (-11.9% QoQ) solely due to net reversal of provisions (QR28.3mn vs. provisions of QR115.8mn in 4Q2017). The drop QoQ was due to weak net interest & investment income and non-funded income.

- **Margins remained under pressure.** NIMs compressed by 20bps YoY and 18bps QoQ to ~2.26%. This was mainly due to the CoFs outpacing yield on assets. CoFs jumped by 71bps YoY (+34bps QoQ) to 2.97%, while yields increased by only 34bps YoY (6bps QoQ) to 4.68%.

- **DPS came in-line with our estimate.** The board announced DPS QR2.00 (unchanged vs. 2017), yielding 4.8%.

- **Loans and deposits displayed flattish performance.** Net loans contracted by 2.7% QoQ (flat YoY) to QR72.2bn, while deposits followed suit and decreased by 4.5% QoQ (-1.5% YoY) to QR61.6bn. Thus, MARK's LDR position remained challenging at 117% vs. 115% in both 3Q2018 and FY2017. Moreover, loans to stable sources of funds also remained on the high side at 110%. Drop in deposits was mainly attributable to the corporate segment.

- **Asset quality remains a non-issue, but witnessed some stress.** The bank's NPL ratio increased to 0.83% vs. 0.47% in 2017. Moreover, coverage of stage 3 loans was 50%.

- **Capitalization remained robust and one of the highest among its peers.** MARK ended 2018 with a CET1 and CAR of 18.7% and 19.2%, respectively.

- **Recommendation and valuation:** The stock trades at a P/B of 2.3x on our 2019 estimates. *We will tweak our estimates shortly.* For now, we rate MARK a Market Perform.

Recommendations		Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price		*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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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