

Masraf Al Rayan (MARK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.590	Price Target	QR2.771
Implied Upside	7.0%		

4Q2023 Earnings Surge YoY on Lower Opex & CoR; In-Line DPS QR0.100

Masraf Al Rayan reports QR214.1mn profit in 4Q2023 vs. QR13.2mn in 4Q2022, exceeding our estimates. The YoY surge in earnings is based on both lower opex and provisions & impairments as revenue declined on margin compression. The company announced a flat DPS of QR0.100 for 2023, which is a low yield of 3.9%. Net-net, despite an improvement in opex given the weak top-line, most of the beat was due to lower provisions.

Highlights

- Masraf Al Rayan (MARK) beats estimates.** MARK reported 4Q2023 bottom-line of QR214.1mn vs. QR13.2mn in 4Q2022 and QR473.0mn (-54.7% QoQ), beating our estimate of QR65.2mn.
- 4Q2023 net profit surge was due to a drop in opex and lower provisions and impairments as revenue was weak.** Revenue dropped by 15.8% YoY to QR709.2mn due to margin compression. NIMs in 4Q2023 compressed by 44bps to -1.67% due to a surge in CoFs. On the other hand, a 22.2%/45.9% drop in opex and net credit provisions & impairments countered the drop in revenue, causing net profit to surge. Sequentially, earnings dropped on the back of weak revenue (margin compression) and a 21.4% rise in provisions & impairments.
- DPS in-Line.** The Board proposed a flat DPS of QR0.100 vs. 2022 (in-line with our estimate), which yields 3.9% with a payout of 68%.
- RoE continues to be weak and below its CoE.** FY2023 RoE came in at 6.4%. It will take a long time for RoE to pick up despite double-digit growth in earnings.
- 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 dropped by 11.9% from QR7.3bn in FY2022 to QR6.4bn in FY2023 mainly due to write-offs. As such, the NPL ratio declined from 6.0% in 2022 to 5.7% in 2023 due to a combination of write-offs and loan book contraction. Moreover, Stage 2 loans as a % of total loans remains one of the highest domestically at 30.0% with a negligible coverage. At the same time, coverage of Stage 3 loans is a low of 57%.
- MARK wrote-off QR953mn in loans.** The write-offs shaved off 0.8%/13.1% of loans and NPLs, respectively. 53% of write-offs are related to the real estate segment, 26% to corporates and 20% to SMEs.
- FY2023 CoR improved, but remains on the high side as expected.** CoR receded from 127bps in FY2022 to 108bps in FY2023.
- Loans continued its negative trajectory as MARK continued to de-risk its loan book.** Net loans decreased by 1.6% sequentially to QR108.2bn (-8.2% vs. FY2022). The contraction in the loan book was attributed to RE (-19.0% YoY) and corporate segments (-7.2% vs. FY2022). On the other hand, deposits continued to remain sequentially flat, but declined by 4.7% YoY to QR92.7bn.
- CET1 position remained robust.** MARK ended 4Q2023 with CET1/Tier-1 ratios of 20.2%/22.1%.

Catalysts

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

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our PT at QR2.771/share and our Accumulate rating for now.** MARK is trading at 2024e/25e P/TB of 1.1x and P/E 17.0x/13.4x.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs and 3) write-offs

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.136	0.147	0.152	0.194
EPS Growth (%)	-22.4	8.5	3.2	27.6
P/E (x)	19.1	17.6	17.0	13.4
Tangible BVPS (QR)	2.30	2.37	2.41	2.45
P/TBV (x)	1.1	1.1	1.1	1.1
RoE (%)	5.8	6.4	6.1	7.8
DPS (QR)	0.100	0.100	0.150	0.175
Dividend Yield (%)	3.9	3.9	5.8	6.8

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

Key Data

Current Market Price (QR)	2.590
Dividend Yield (%)	3.9
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	3.087/1.890
3-m Average Volume (mn)	2,399.0
Mkt. Cap. (\$ bn/QR bn)	6.6/24.1
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.2
1-Year Total Return (%)	(12.8)
Fiscal Year End	December 31

Source: Bloomberg (as of January 23, 2024), *Qatar Exchange (as of January 23, 2024); Note: FO is foreign institutional ownership

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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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