

MARK Alert – 2Q2022 Falls Short of Estimates; Provisions and Impairments Surge

- **MARK's 2Q2022 earnings misses our estimates due to larger-than-estimated provisions:** Masraf Al Rayan (MARK) reported a net profit of QR519.7mn in 2Q2022, short of our estimate of QR580.1mn. The bottom-line dropped by 8.6% YoY as a result of hefty provisions (earnings sequentially climbed up by 2.7%). On a positive note, net operating income increased by 26.6% and 15.0% on YoY/QoQ basis to QR969.0mn.
- **Net interest & investment income and non-funded income continued to display strong performance.** *We note that YoY comparisons are skewed because 2Q2022 figures are consolidated, whereas 2Q2021 numbers are pre-merger.* Net interest & investment income grew by 21.1% YoY to QR988.7mn (+8.1% QoQ). Moreover, fees and f/x income increased by 29.4% and 28.5%, respectively, on a YoY basis; on a QoQ basis, fees grew 31.9%, while f/x income fell 13.6%.
- **Surge in net provisions and impairments adversely impacted the bottom-line.** MARK booked provisions and impairments of QR374.6mn vs. QR196.6.9mn in 2Q2021 (QR286.6mn in 1Q2022), which remains one of the highest in its operating history. 1H2022 annualized CoR increased to 96bps vs. 79bps in 1H2021.
- **Asset quality came under some pressure; asset quality remains manageable as MARK's main exposure is to the public sector.** The bank's NPLs further surged by 39.7% YTD to QR2.86bn vs. QR2.05bn in FY2021. Moreover, MARK's NPL ratio moved up to 2.36% (1Q2022: 2.25%) vs. 1.67% in FY2021. Stage 3 ECLs increased by 49.4% YTD. However, coverage of Stage 3 loans increased from 50% in FY2021 to 54% in 2Q2022 (Stage 3 loans highly collateralized)
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 2Q2022 with a CET1/Tier-1 of 18.0%/18.9%.
- **Recommendation and valuation:** We maintain our PT of QR6.10 and Outperform rating for the time being.

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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