

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR26.95</b>	<b>Target Price</b>	<b>QR28.10</b>
<b>Implied Upside</b>	<b>4.3%</b>		

## 1Q2012 Net Income up 7.8%; Stock Price Outperformance leads to Market Perform Rating

**1Q2012 Net Income up 6.8%; stock price close to our target price – Market Perform.** Masraf Al Rayan reported net profit of QR353.5mn for 1Q2012, up 7.8% YoY from QR328.0mn in 1Q2011. However, on a QoQ basis the net profit is down 10.7%. The improved YoY performance was a combination of higher income from financing and investing activities. However, lower fee and commission income and greater impairments on financing activities restricted the bottom-line growth. Over the previous one year, the stock has outperformed the Banking & Financial Service Index; the stock is up 19.94% (total return) versus the sector, which is up 17.26%. Given the outperformance the stock is trading close to our target price of QR28.1 and implies an upside of only 4.3%. On the valuation front, the stock is trading at a P/E ratio of 13.9x and P/B ratio of 2.2x on our 2012 estimates.

### Financial Results and Key Takeaways

- Income from financing activity increased to QR395.2mn, up 38.1% YoY. While income from investing activities was QR156.8mn, up 19.8% YoY. Hence, total income from financing and investing activities jumped to QR552.0mn, up 32.3% YoY.
- Payment to unrestricted investment account holders decreased by 10.3% YoY to QR155.9mn in 1Q2012.
- The key culprit was the net lower fees and commission income, which was down 80.7% YoY. Last year, the bank had converted some foreign currency loans (non-recurring activity) and had booked higher fee and commission income which was absent in this quarter.
- Impairment losses on receivables from financing activities increased to QR24.4mn from QR1.6mn in the same period last year.
- The loan book increased by 3.4% QoQ to QR36.0bn, while combined deposits (current accounts and Equity of unrestricted investment account holders) grew by 5.4% QoQ to QR48.7bn. Hence, the loan to deposit ratio increased to 73.8% from 75.1% at the end of 2011. MARK has 20.8% of its assets invested in financial investments.

Going forward, we expect the bank to post strong YoY growth in coming quarters. However, the stock appears rich on valuation relative to other banks in the region. Furthermore, the stock has outperformed the banking sector and offers a relatively low dividend yield of 3.0%. **Hence, we change our rating on the MARK share to Market Perform from Accumulate rating.**

### Key Data:

Bloomberg ticker	MARK QD
ADR/GDR ticker	N/A
Reuters ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector	Banks & Financial Services
52wk high/52wk low (QR)	28.55/22.13
3-m average volume ('000)	1,060.4
Mkt. cap. (USD bn/QR bn)	5.5/20.2
Shares outstanding (mn)	750
FOL* (%)	15.8
FOL Limit* (mn)	367.5
1-year total return (%)	19.94
Fiscal year end	Dec. 31

Source: Bloomberg (as of April 24, 2012), \*Qatar Exchange

### Broker Recommendations

Recommendation	Number
Buy	0
Hold	4
Sell	1

Source: Bloomberg

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MARK Key Stats (In QR mn)	1Q 2011	1Q 2012	Change (%)
Income from financing activities	286	395	38.1
Income from investing activities	131	157	19.8
Total income from financing and investing activities	417	552	32.3
Net fees and commission income	137	26	(80.7)
Total Operating Income	587	616	4.9
General and administrative expenses	(78)	(77)	(1.7)
Depreciation	(5)	(5)	(7.1)
Impairment losses on receivables from financing activities	(2)	(24)	1,440.7
Return on equity of investment account holders	(174)	(156)	(10.3)
Net Profit	328	353	7.8

Source: Company data

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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