

## Masraf Al Rayan (MARK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.495	Price Target	QR2.623
Implied Upside	5.1%		

### 4Q2024 Off Mark; Asset Quality Recovers; Flat DPS of QR0.10 (DY: 4%)

**Masraf Al Rayan reports QR218.9mn net profit in 4Q2024 vs. QR214.1mn in 4Q2023, falling short of our estimate of QR272.8mn (variation of -19.8%).** The miss was attributable across the board. The YoY growth of 2.2% in earnings is due to a 7.9% drop in net credit provisions & impairments, offsetting weak non-funded income. Sequentially, the bottom-line dropped by 56.2% due to a 23.4% drop in net operating income (weak non-funded income and significant margin pressure) coupled with a 67.4% jump in net credit provisions & impairments. **Net-net, results were weak across the board with the exception of asset quality – the bank reclassified a decent chunk of its loans from Stage 2 to Stage 1, which is a positive in our view – Stage 2 loans decreased from 30% in FY2023 to 20% in FY2024. MARK announced a flat DPS of QR0.100, which translates into a DY of 4.0%, which is toward the lower end of our coverage list of banks. We maintain our Market Perform rating and QR2.623 PT.**

#### Highlights

- **Masraf Al Rayan's (MARK) bottom-line comes below estimates.** MARK's net income increased by 2.2% YoY (declined by 56.2% QoQ) to QR218.9mn in 4Q2024.
- **The board announced a flat DPS of QR0.100 for 2024 vs. 2023, in-line with our estimate.** This corresponds to a DY of 4.0% and a payout ratio of 65%.
- **Margins remained flat YoY, but compressed QoQ.** 4Q2024 margins remained flat YoY at 1.63%, but compressed by 39bps sequentially.
- **RoE continues to be weak and below its CoE.** FY2024 tangible RoE came in at 6.5% vs. 6.4% in FY2023. **We estimate it will take another 4 to 5 years for RoE to exceed the 10% level despite expected double-digit growth in earnings over 2025-2029.**
- **MARK's asset quality improved; the bulk/majority of NPLs is attributed to the construction and real estate segments.** NPLs decreased by 8.1% sequentially (-2.7% YoY) from QR6.8bn/QR6.4bn in 4Q2024/FY2023 to QR6.3bn in FY2024. Moreover, the NPL ratio declined to 5.45% vs. 5.91% 3Q2024 (FY2023: 5.71%). **Moreover, the bank reclassified a decent chunk of its loans from Stage 2 to Stage 1, which is a positive in our view. As such, Stage 1 loans as a % of total loans increased from 65% in FY2023 to 74% in FY2024; Stage 2 loans decreased from 30% in FY2023 to 20% in FY2024.** At the same time, coverage of Stage 3 loans remained sequentially flat at 62% (FY2023: 57%) excluding eligible collateral.
- **Lower provisions aided the bottom-line YoY.** Net credit provisions dropped by 10.9% YoY, leading to a 2.2% increase in the bottom-line. Sequentially, net credit provisions increased by 62.1%. FY2024 CoR improved to 92bps vs. 108bps in FY2023.
- **Loans remained flat sequentially.** Net loans exhibited flat performance sequentially at QR110.0bn (+1.7% YoY). Moreover, deposits remained flattish sequentially (+16.1% YoY) at QR107.6bn.
- **CET1 position remained robust.** MARK ended 4Q2024 with CET1/Tier-1 ratios of 21.7%/22.7%.

#### Catalysts

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

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our PT at QR2.623/share and our Market Perform rating for now.** MARK is trading at 2024/25e P/TB of 1.0x and P/E 16.3x/14.0x.
- **Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs and 3) write-offs

#### Key Financial Data and Estimates

	2022	2023	2024e	2025e
EPS Attributable (QR)	0.136	0.147	0.153	0.178
EPS Growth (%)	-22.4	8.5	3.9	16.2
P/E (x)	18.4	16.9	16.3	14.0
Tangible BVPS (QR)	2.30	2.37	2.43	2.52
P/TBV (x)	1.1	1.1	1.0	1.0
RoE (%)	5.8	6.4	6.5	7.3
DPS (QR)	0.100	0.100	0.100	0.125
Dividend Yield (%)	4.0	4.0	4.0	5.0

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

#### Key Data

Current Market Price (QR)	2.495
Dividend Yield (%)	4.0
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.579/2.200
3-m Average Volume (mn)	8.4
Mkt. Cap. (\$ bn/QR bn)	6.4/23.2
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.0
1-Year Total Return (%)	6.2
Fiscal Year End	December 31

Source: Bloomberg (as of January 23, 2025), \*Qatar Exchange (as of January 23, 2025); Note: FO is foreign institutional ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024	2025e
<b>Net Interest Income</b>	<b>3,607</b>	<b>2,727</b>	<b>2,738</b>	<b>3,084</b>
Fees & Commissions	328	319	299	320
FX Income	271	197	190	184
Other Income	46	295	306	307
<b>Non-Interest Income</b>	<b>645</b>	<b>810</b>	<b>794</b>	<b>810</b>
<b>Total Revenue</b>	<b>4,251</b>	<b>3,537</b>	<b>3,532</b>	<b>3,894</b>
Operating Expenses	(1,022)	(874)	(920)	(950)
<b>Net Operating Income</b>	<b>3,229</b>	<b>2,663</b>	<b>2,612</b>	<b>2,944</b>
Net Provisions & Impairments	(1,710)	(1,165)	(1,041)	(1,138)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>1,519</b>	<b>1,498</b>	<b>1,571</b>	<b>1,807</b>
Tax	(22)	(35)	(33)	(27)
<b>Net Profit Before Minority Interest</b>	<b>1,497</b>	<b>1,463</b>	<b>1,537</b>	<b>1,780</b>
Minority Interest	(19)	(28)	(20)	(36)
Non-Recurring Items	(134)	17	(10.52)	-
<b>Net Profit (Reported/Headline)</b>	<b>1,344</b>	<b>1,452</b>	<b>1,507</b>	<b>1,743</b>
Interest Expense on AT1 Bond	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(36)	(36)	(38)	(44)
<b>Net Profit (Attributable)</b>	<b>1,263</b>	<b>1,369</b>	<b>1,423</b>	<b>1,654</b>
<b>EPS</b>	<b>0.140</b>	<b>0.151</b>	<b>0.157</b>	<b>0.182</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024	2025e
<b>Assets</b>				
Cash & Balances with Central Bank	5,088	4,993	5,672	6,218
Interbank Loans	6,300	5,663	5,165	5,636
Net Investments	31,477	38,599	43,767	48,964
Net Loans	117,859	108,228	110,040	112,715
Investment In Associates	346	349	348	379
Other Assets	3,869	3,835	3,640	3,885
Net PP&E	915	969	1,011	1,024
Goodwill & Intangibles	1,679	1,565	1,451	1,337
<b>Total Assets</b>	<b>167,533</b>	<b>164,200</b>	<b>171,094</b>	<b>180,158</b>
<b>Liabilities</b>				
Interbank Deposits	29,316	32,204	23,757	23,630
Customer Deposits	97,292	92,724	107,610	115,143
Sukuks & Borrowings	11,525	9,821	9,672	9,672
Other Liabilities	5,118	4,644	4,724	5,622
AT1 Notes	1,000	1,000	1,000	1,000
<b>Total Liabilities</b>	<b>144,251</b>	<b>140,393</b>	<b>146,763</b>	<b>155,067</b>
Minority Interest	198	237	252	289
<b>Total Shareholders' Equity</b>	<b>23,084</b>	<b>23,569</b>	<b>24,078</b>	<b>24,802</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>167,533</b>	<b>164,200</b>	<b>171,094</b>	<b>180,158</b>
<b>Risk Weighted Assets</b>	<b>111,079</b>	<b>105,187</b>	<b>100,406</b>	<b>119,985</b>
<b>TBVPs</b>	<b>2.30</b>	<b>2.37</b>	<b>2.43</b>	<b>2.52</b>

Source: Company data, QNB FS Research

Ratios/KPIs	2022	2023	2024	2025e
<b>Profitability (%)</b>				
RoE	5.8	6.4	6.5	7.3
RoAA	0.7	0.8	0.8	0.9
RoRWA	1.2	1.3	1.4	1.5
NIM (% of IEAs)	2.32	1.79	1.77	1.90
NIM (% of RWAs)	3.34	2.52	2.66	2.80
NIM (% of AAs)	2.11	1.64	1.63	1.76
Spread	2.0	1.0	1.0	1.3
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	24.0	24.7	26.1	24.4
Cost-to-Income (Core)	24.2	26.3	27.7	25.7
<b>Liquidity (%)</b>				
LDR (Loans to Stable Sources of Funds)	108	106	94	90
Loans/Assets	70.3	65.9	64.3	62.6
Cash & Interbank Loans-to-Total Assets	6.8	6.5	6.3	6.6
Deposits to Assets	58.1	56.5	62.9	63.9
Wholesale Funding to Loans	34.7	38.8	30.4	29.5
IEAs to IBLs	118.6	119.6	118.2	119.7
<b>Asset Quality (%)</b>				
NPL Ratio	5.99	5.71	5.45	5.50
NPL to Shareholders' Equity	31.60	27.26	25.97	26.39
NPL to Tier 1 Capital	33.71	28.86	27.39	26.56
Coverage Ratio	52.7	66.6	76.0	90.0
ALL/Average Loans	2.6	3.0	3.6	4.7
Cost of Risk (bps)	127	108	92	97
<b>Capitalization (%)</b>				
CET1 Ratio	18.6	20.2	21.7	19.7
Tier-1 Ratio	19.5	21.2	22.7	20.5
CAR	20.3	22.1	23.9	21.7
Leverage (x)	7.3	7.0	7.1	7.3
<b>Growth (%)</b>				
Net Interest Income	15.9	-24.4	0.4	12.6
Non-Interest Income	25.0	25.7	-2.0	2.0
Opex	31.0	-14.5	5.2	3.2
Net Operating Income	13.4	-17.5	-1.9	12.7
Net Provisions & Impairments	55.9	-31.9	-10.6	9.3
Net Income (Reported)	-21.7	8.0	3.8	15.7
Net Income (Attributable)				
Loans	-2.5	-8.2	1.7	2.4
Deposits	-9.0	-4.7	16.1	7.0
Assets	-3.8	-2.0	4.2	5.3
RWAs	6.1	-5.3	-4.5	19.5

Source: Company data, QNB FS Research

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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