

MARK Alert – In-Line 1Q2020; Surge in Provisions Prevented Growth in Bottom-Line

- **MARK reports in-line 1Q2020:** Masraf Al Rayan (MARK) reported a net profit of QR547.0mn in 1Q2020, in-line with our estimate of QR556.3mn (variation of -1.7%). The bottom-line remained flat YoY (+4.2% QoQ) solely due to a surge in net provisions as net operating income grew by 7.1%. Mark reported provisions of QR41.0mn vs. QR0.6mn in 1Q2019 (QR49.4mn in 4Q2019). The sequential gain in net income was due to a 17.0% drop in provisions.
- **Margins slightly improved both YoY and sequentially.** NIMs increased by ~4bps YoY and ~3bps QoQ to ~2.39%. This was mainly due to the CoFs dropping more than yields.
- **C/I ratio remained healthy; generated neutral JAWS.** MARK generated a C/I ratio of 22.6% in 1Q2020 vs. 22.5% in 1Q2019 (20.3% in 4Q2019). On the other hand, the bank generated neutral JAWS of -0.5%.
- **Loans and deposits expanded.** Net loans increased by 5.9% YTD to QR79.3bn, while deposits moved up by 3.2% to QR67.7bn. Thus, MARK's LDR position remained challenging at 117% vs. 114% in FY2019.
- **Asset quality remains a non-issue.** The bank's NPL ratio decreased to 0.94% vs. 1.01% at the end of 2019.
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 1Q2020 with a CET1 and CAR of 19.3% and 19.9%, respectively.
- **Recommendation and valuation:** The stock trades at a P/B of 1.9x on our 2020 estimates. For now, we maintain our PT QR3.94 and Market Perform rating.

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

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

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

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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