

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR102.20	Target Price	QR102.00
Implied Upside	1.8%		

4Q2014 Estimates & Outlook for 2015-16; Market Perform

We are maintaining our Market Perform recommendation on Qatar Islamic Bank (QIBK). However, given QIBK's better-than-expected financial performance in the first nine months of 2014, we are raising our 2014 EPS estimates to QR6.30 from QR6.19. We also roll forward our model and raise our 12-month price target to QR102.00 from QR94.30.

Highlights

- We estimate QR359.3mn in 4Q2014, down 0.3% YoY and 11.3% QoQ.** QIBK had an eventful 3Q2014 with limited impact on the bottom-line. The company's loan book expanded by 7.6% QoQ to QR58.7bn vs. QR54.5bn at the end of 2Q2014. To support its loan book growth, equity of unrestricted investment account holders jumped by 9.4% QoQ to QR51.4bn vs. QR47.0bn. However, income from financing activities increased by only 1.6% QoQ to QR613.2mn, while income from investing activities declined by 18.7% QoQ to QR145.2mn. Hence, total income declined by 4.8% QoQ. On the other hand, net impairment losses on investment securities and properties declined by 66.0% QoQ to QR16.8mn. The lower impairment charge allowed the bank to report a net profit of QR404.8mn for 3Q2014, up 3.9% QoQ. Going forward for 4Q2014, we expect slightly higher operating expenses and impairment charges on a sequential basis.
- We estimate a 2013-16e CAGR of 14.2% for the loan book.** On the back of improved performance in the first nine months of 2014, we raise our loan book growth estimate for 2013-16 to 14.2% (previously 10.9%). However, we expect loan book growth to slow down in 2015 and 2016. Overall, we model QIBK's loan book to grow to QR70.2bn in 2016e from QR58.7bn in 3Q2014.
- We estimate a CAGR of 10.3% for the bottom-line over 2013-16e.** We expect QIBK to post a bottom-line of QR1.49bn (previously QR1.46bn) in 2014. However, we expect net profit to reach QR1.61bn and QR1.79bn in 2015 and 2016, respectively (previously QR1.64bn and QR1.86bn).

Catalysts

- International expansion or dividends could act as primary catalysts for the stock.** The bank is looking at regional/international expansion and newsflow in this regard could act as a catalyst for the stock. Furthermore, dividend expectations for FY2014 could also provide momentum.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate QIBK a Market Perform with a price target of QR102.00.** Valuation appears to be fair vs. other banks.
- Risks:** Declining oil prices remain a substantial risk to regional equity prices. For QIBK in particular, exposure to the real estate segment creates concentration risk.

Key Financial Data and Estimates

	FY2013	FY2014e	FY2015e	FY2016e
EPS (QR)	5.65	6.30	6.79	7.58
EPS Growth	7.6%	11.5%	7.7%	11.7%
P/E (x)	17.7	15.9	14.8	13.2
DPS (QR)	4.00	4.50	5.00	6.00
Dividend Yield	4.0%	4.5%	5.0%	6.0%

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Dividend Yield (%)	5.0
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	126.00/71.80
3-m Avg. Volume ('000)	156.4
Mkt. Cap. (\$ bn/QR bn)	6.5/23.7
Shares Outstanding (mn)	236.3
FO Limit* (%)	25.0
Current FO* (%)	6.2
1-Year Total Return (%)	42.3
Fiscal Year End	December 31

Source: Bloomberg (as of January 06, 2015), *Qatar Exchange (as of January 06, 2015); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2013	2014e	2015e	2016e
Income From Financing Activities	2,003	2,429	2,692	2,898
Unrestricted Investments Profit Sharing	449	539	691	817
Sukuk Holders' Share of Profit	174	174	151	68
Net Financing Income	1,381	1,716	1,850	2,013
Income from Investing Activities	801	638	633	697
Fees and Commission Income	364	437	481	529
Fees and Commission Expense	76	87	96	105
Net Fees and Commission Income	289	350	385	424
Gain/(Loss) on Foreign Exchange Activities	44	62	62	62
Other Operating Income	8	23	23	23
Total Operating Income	2,522	2,788	2,953	3,218
General and Administrative Expenses	785	832	882	935
Depreciation	63	70	73	77
Provision for Impairment - Due from Financing Activities	97	117	128	138
Provision for Impairment - Financial Investments	263	180	180	195
Profit Before Minority Interest	1,326	1,548	1,646	1,825
Minority Interest	(10)	59	41	33
Profit for Shareholders	1,335	1,489	1,605	1,792
EPS (QR)	5.65	6.30	6.79	7.58

Source: Company data, QNBFS estimates; ; Note: All data based on current number of shares

Balance Sheet (In QR mn)	2013	2014e	2015e	2016e
Assets				
Cash and Balances with Central bank	2,993	3,741	3,853	3,969
Due from Banks and Other Financial Institutions	6,348	8,758	8,758	8,758
Financial Investments	14,852	18,207	22,007	23,865
Due from Financing Activities	47,139	59,182	64,730	70,221
Investment in Associates	742	816	816	816
Assets of a Subsidiary Held for Sale	303	-	-	0
Other Investments	793	1,456	1,456	1,456
Property and Equipment (Net)	436	567	584	602
Other Assets	3,430	3,481	3,481	3,481
Intangible Assets	319	315	315	315
Total Assets	77,354	96,521	105,999	113,480
Equity				
Share Capital	2,363	2,363	2,363	2,363
Reserve	7,793	7,805	7,805	7,805
Retained Earnings	758	1,184	1,607	1,981
Proposed Cash Dividend	945	1,063	1,181	1,418
Total Equity Attributable to Equity Holders of the Parent	11,860	12,416	12,957	13,567
Minority Interests	1,813	1,676	1,676	1,676
Total Shareholders' Equity and Minority Interests	13,673	14,092	14,633	15,244
Liabilities				
Due to Banks and Other Financial Institutions	6,491	8,882	14,734	15,572
Customers' Deposits	12,470	13,918	14,614	15,345
Other Liabilities	6,828	7,513	4,800	4,800
Unrestricted Investment Depositors Accounts	37,893	52,116	57,218	62,520
Total Liabilities	63,682	82,429	91,366	98,237
Equity and Liabilities	77,354	96,521	105,999	113,480

Source: Company data, QNBFS estimates

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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