

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR105.35	Target Price	QR104.00
Implied Upside	(1.3%)		

Healthy 1Q2018 Results on an Operating Level, Maintain PT104

QIBK is the largest Islamic bank with a market share of ~12% in both total loans and deposits. QIBK spent the past number of years regaining lost market share from conventional banks. The bank's loan book and net income grew by CAGR of 18.9% & 12.1% (2012-17), respectively.

Highlights

- **Headline net profit declined 0.8% QoQ; on an adjusted basis (before minorities) earnings were up 22.5%.** QIBK reported net profit of QR625.2mn in 1Q2018, receding by 0.8% QoQ (+12.6%), exceeding our estimate by 8.6%. Net income on an adjusted basis (before minorities) increased by 22.5% (QoQ) to QR596.5mn, in-line with our estimate of QR575.6mn (+3.6% variation). Total revenue was also in-line at QR1.1bn. Total revenue grew by 18.4% QoQ (+8.3% YoY) on the back of net interest & investment income, driven by strong margins/spreads.
- **Margins significantly improved, CoFs dropped.** QIBK's net interest margin expanded by 21bps QoQ (+18bps YoY) to ~2.83%. This was a result of yield on assets gaining by 11bps while cost of funds dropping by 8bps. On a YoY basis, yield on assets jumped by 31bps while cost of funds moved up by 17bps.
- **QIBK's operating efficiency improved QoQ, generating positive JAWs.** The bank's C/I ratio receded to 26.5% from 30% in 4Q2017 (remained flat YoY). Moreover, QIBK generated robust JAWs of 12.6% as revenue grew by 18.4% QoQ while opex increased by 5.8%.
- **Net loans gained while deposits remained flattish.** Net loans increased by 2.0% YTD to QR104.6bn, while deposits inched up by 0.5% YTD to QR102.3bn. Hence, QIBK's LDR remained flattish QoQ at 102% vs. 101% in FY2017.
- **Asset quality remains stable as shown by stage 1 loans.** The bank's NPL ratio remained unchanged at 1.2% in 1Q2018. During the same time CoR doubled to 44bps vs. 22bps in 2016. QIBK's stage one loans (credit risk has not increased significantly since initial recognition) represent 85.7% of total loans while stage two loans (past due but not impaired; credit risk has increased significantly since initial recognition) represent 13.2%. Stage three loans (impaired loans) are only 1.1%.
- **Capitalization remains strong.** The bank's Tier-1 ratio remained strong at 16.2% in 1Q2018 vs. 16.9% in FY2017. Had the bank not implemented IFRS 9, CET-1 ratio would have been 13.4% vs. the current 12.5%.

Catalysts

- 1) FOL increase to 49% is already implemented; weight to double to 0.06% in MSCI EM on May 31 attracting QR420mn in funds and 2) Consistent improvement in NIMs and spreads

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR104.00.** QIBK is trading at a 2018e P/B and P/E of 1.6x and 10.4x, respectively. The stock is trading close to its fair value (PEG of 0.8x).
- **Risks:** 1) Further geopolitical factors/concerns, 2) Depressed oil prices, 3) Increase in credit costs and 4) Exposure to real estate segment.

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	9.31	10.12	11.52	12.26
EPS Growth (%)	8.9	8.6	13.9	6.4
P/E (x)	11.3	10.4	9.1	8.6
Tangible BVPS (QR)	63.0	64.1	70.2	76.8
P/TB (x)	1.7	1.6	1.5	1.4
DPS (QR)	5.00	5.25	5.50	5.75
Dividend Yield (%)	4.7	5.0	5.2	5.5

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

Key Data

Current Market Price (QR)	105.35
Dividend Yield (%)	5.0
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	106.00/86.90
3-m Average Volume ('000)	105.2
Mkt. Cap. (\$ bn/QR bn)	6.8/24.9
Shares Outstanding (mn)	236.3
FO Limit* (%)	49.0
Current FO* (%)	7.1
1-Year Total Return (%)	+9.2
Fiscal Year End	December 31

Source: Bloomberg (as of April 16, 2018), *Qatar Exchange (as of April 15, 2018); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	3,400	3,685	4,096	4,572
Fees & Commissions	518	543	590	643
FX Income	139	152	170	153
Other Income	106	219	238	231
Non-Interest Income	763	914	998	1,027
Total Revenue	4,162	4,600	5,094	5,599
Operating Expenses	(1,106)	(1,145)	(1,239)	(1,368)
Net Operating Income	3,057	3,455	3,855	4,230
Net Provisions	(785)	(890)	(886)	(1,086)
Net Profit Before Taxes & Non-Recurring Items	2,271	2,565	2,969	3,145
Tax	(18)	(21)	(24)	(25)
Net Profit Before Minority Interest	2,253	2,544	2,945	3,120
Minority Interest	155	51	(18)	(19)
Non-Recurring/Unusual Gains/(Losses)	(2)	0	0	0
Net Profit (Headline/Reported)	2,405	2,595	2,927	3,101
Interest on Tier-1 Sukuk	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(60)	(65)	(73)	(78)
Net Profit (Attributable)	2,140	2,325	2,649	2,818

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	5,546	5,498	5,883	6,648
Interbank Loans	4,876	6,492	6,989	6,506
Net Investments	30,402	34,429	37,194	35,213
Net Loans	102,613	108,196	116,484	130,124
Investment In Associates	669	681	695	709
Other Assets	3,156	3,440	3,972	4,443
Net PP&E	511	496	504	515
Investment in Real Estate	1,944	1,642	1,534	1,433
Assets of a Subsidiary Held for Sale	246			
Goodwill & Other Intangibles	411	368	324	281
Total Assets	150,375	161,241	173,579	185,871
Liabilities				
Interbank Deposits	17,191	19,883	22,631	17,468
Customer Deposits	101,815	109,960	117,657	132,952
Sukuk Financing	7,057	7,057	7,057	7,057
Other Liabilities	3,432	3,299	3,765	4,387
Liabilities of a Subsidiary Held for Sale	0	0	0	0
Tier-1 Sukuk	4,000	4,000	4,000	4,000
Total Liabilities	133,495	144,199	155,111	165,865
Total Shareholders' Equity	15,289	15,502	16,911	18,430
Total Liabilities & Shareholders' Equity	150,375	161,241	173,579	185,871

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	14.5	15.1	16.3	15.9
RoAA (Attributable)	1.5	1.5	1.6	1.6
RoRWA (Attributable)	2.0	2.1	2.2	2.1
NIM (% of IEAs)	2.60	2.62	2.71	2.82
NIM (% of RWAs)	3.16	3.30	3.43	3.39
NIM (% of AAs)	2.34	2.37	2.45	2.54
Spread	2.23	2.17	2.21	2.29
Efficiency (%)				
Cost-to-Income (Headline)	26.6	24.9	24.3	24.4
Cost-to-Income (Core)	27.0	25.9	25.3	25.4
Liquidity (%)				
LDR	100.8	98.4	99.0	97.9
Loans/Assets	68.2	67.1	67.1	70.0
Cash & Interbank Loans-to-Total Assets	6.9	7.4	7.4	7.1
Deposits to Assets	67.7	68.2	67.8	71.5
Wholesale Funding to Loans	23.6	24.9	25.5	18.8
IEAs to IBLs	123.8	121.3	119.0	117.5
Asset Quality (%)				
NPL Ratio	1.2	1.5	1.7	1.9
NPLs to Shareholder's Equity	7.9	10.4	12.0	13.5
NPLs to Tier 1 Capital	6.5	9.3	11.0	12.4
Coverage Ratio	99.1	156.1	151.2	152.6
ALL/Average Loans	1.1	2.2	2.5	2.8
Cost of Risk (bps)	44	51	55	62
Capitalization (%)				
Tier 1 Ratio	16.9	15.2	14.8	13.9
CAR	17.3	15.6	15.2	14.3
Tier 1 Capital to Assets	12.4	10.7	10.7	10.8
Tier 1 Capital to Loans	18.1	15.9	15.9	15.4
Tier 1 Capital to Deposits	18.3	15.6	15.8	15.1
Leverage (x)	9.8	10.4	10.3	10.1
Growth (%)				
Net Interest Income	27.5	8.4	11.2	11.6
Non-Interest Income	-22.7	19.9	9.1	2.9
OPEX	1.5	3.5	8.3	10.4
Net Operating Income	19.2	13.0	11.6	9.7
Net Income (Attributable)	8.9	8.7	13.9	6.4
Loans	4.5	5.4	7.7	11.7
Deposits	6.7	8.0	7.0	13.0
Assets	7.5	7.2	7.7	7.1
RWAs	4.7	3.0	10.9	15.0

Source: Company data, QNBFS Research

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

mohamed.abodaff@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

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