

Qatar Islamic Bank (QIBK)

| Recommendation | MARKET PERFORM | Risk Rating | R-3 |
|----------------|----------------|--------------|----------|
| Share Price | QR142.50 | Target Price | QR104.00 |
| Implied Upside | (27.0%) | | |

Decent 3Q2018; In-Line With Estimates

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

- Net profit jumped by 11.5% YoY driven by decent net interest & investment income, flat opex and lower provisions; sequential drop was due to operational weakness.** QIBK reported net profit of QR680.0mn in 3Q2018, gaining by 11.5% YoY (-2.9% QoQ), in-line with our estimate (+2.4% variation). Total revenue increased by 4.6% YoY to QR1.12bn driven by net interest & investment income (+4.8% YoY). Net operating income gained by 6.4% as a result of flat opex. Moreover, net income jumped as a result of 15.3% decline provisions and impairments.
- Margins contracted YoY and sequentially.** QIBK's net interest margin moved down by 7bps QoQ (receded by 10bps YoY) to ~2.82%. This was a result of cost of funds increasing by 16bps while yield on assets gained by only 7bps. On a YoY basis, cost of funds moved up by 39bps while yield on assets increased by 36bps.
- QIBK's operating efficiency remained healthy, generating positive JAWs.** The bank's C/I ratio remained flat 25% vs. 26% in 3Q2017 (25% in 2Q2018). Moreover, QIBK generated robust JAWs of 5.0% as revenue grew by 4.6% YoY while opex exhibited flat performance.
- Net loans and deposits displayed strong improvement.** Net loans increased by 6.1% QoQ (+3.7% YTD) to QR106.4bn. Deposits followed suit and expanded by 4.0% QoQ (+1.0% YTD) to QR102.9bn. Hence, QIBK's LDR remained flattish QoQ at 103% vs. 101% in 2Q2018.
- Asset quality remains stable as shown by stage 1 loans.** The bank's NPL ratio remained unchanged at 1.1% in 3Q2018. QIBK's stage one loans (credit risk has not increased significantly since initial recognition) represent 85.8% 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 and unchanged at 16.4% in 3Q2018 vs. 2Q2018.

Catalysts

- 1) 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 2.2x and 13.8x, respectively. Valuations remain rich at these levels
- 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 | 10.31 | 11.29 | 12.62 |
| EPS Growth (%) | 8.9 | 10.7 | 9.6 | 11.7 |
| P/E (x) | 13.1 | 13.8 | 12.6 | 11.3 |
| Tangible BVPS (QR) | 63.0 | 64.2 | 70.2 | 77.1 |
| P/TB (x) | 1.9 | 2.2 | 2.0 | 1.8 |
| DPS (QR) | 5.00 | 5.25 | 5.50 | 5.75 |
| Dividend Yield (%) | 4.1 | 3.7 | 3.9 | 4.0 |

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

Key Data

| | |
|---------------------------|--------------------|
| Current Market Price (QR) | 142.50 |
| Dividend Yield (%) | 3.7 |
| Bloomberg Ticker | QIBK QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | QISB.QA |
| ISIN | QA0006929853 |
| Sector* | Banks & Fin. Svcs. |
| 52wk High/52wk Low (QR) | 144.00/91.01 |
| 3-m Average Volume ('000) | 81.8 |
| Mkt. Cap. (\$ bn/QR bn) | 9.2/33.7 |
| Shares Outstanding (mn) | 236.3 |
| FO Limit* (%) | 49.0 |
| Current FO* (%) | 21.0 |
| 1-Year Total Return (%) | +61.8 |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of October 18, 2018), *Qatar Exchange (as of October 17, 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

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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