

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR18.35	Target Price	QR24.18
Implied Upside	31.7%		

In-Line 3Q2023; Earnings Driven by Core Banking Income & Low Opex

- QIBK reported in-line 3Q2023 net profit:** Qatar Islamic Bank (QIBK) reported earnings of QR1,099.9mn in 3Q2023, in-line with our estimate of QR1,119.4mn (variation of -1.7%).
- Bottom-line was driven by core banking income and cost management.** Total revenue increased by 5.2% YoY to QR1,659.7mn (right in-line with our estimate of QR1,658.6mn), driven by net interest & investment income and fees. Net interest & investment income increased by 7.0% YoY to QR1,405.2mn, also in-line with our estimate of QR1,398.7mn (variation of +0.5%); NIMs expanded by 19bps YoY to ~3.3%. At the same time, fees increased by 2.7% YoY. Opex dropped by 3.7%, resulting in net operating income increasing by 7.2% to QR1,384.1mn (in-line with our estimate of QR1,391.0mn; variation of -0.5%). Sequentially, earnings grew by 4.8% on the back of net interest & investment income (+2.7%), fees (+6.6%) and flat provisions and impairments.
- Robust RoE and RoRWA trajectory continued; 9M2023 RoE came in at 17.5%:** QIBK boasts one of the highest RoEs & RoRWAs among its domestic and regional peers. Moreover, RoRWA was an impressive 2.8%.
- QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs.** The bank's C/I ratio dropped from 18.2% in 3Q2022 YoY to 16.6% (2Q2023: 16.6%). Moreover, QIBK generated robust JAWs of 9.0% YoY as revenue grew by 5.2%, while opex receded by 3.7%
- Net loans continued its positive trajectory but remains sluggish.** Net loans increased by 1.9% sequentially to QR121.8bn (+2.1% YTD). Deposits picked up pace and increased by 3.9% QoQ to QR121.5bn (-1.7% YTD)
- Net credit provisions increased YoY, but declined QoQ.** Net credit provisions increased by 16.5% YoY in 3Q2023 (declined by 5.3% sequentially) to QR267.3mn. On a positive note, 9M2023 CoR improved from 118bps in 9M2022 to 90bps (FY2022: 92bps).
- Asset quality remains superior.** NPL ratio remained improved to 1.4% in 3Q2023 vs 1.5% in 2Q2023 and FY2022. During the same time, NPL formation was negative, which is a positive (dropping by 2.0% sequentially and 3.3% YTD). Coverage of Stage 3 loans was a strong 95%.
- Capitalization remains strong.** QIBK ended 3Q2023 with robust CET1 and Tier-1 ratios at 15.0% and 17.8%, respectively.

Catalysts

- For QIBK shares to regain momentum, we need to see dividend upside.** Investor sentiment also generally needs to become more constructive regarding the banking sector and Qatari equities.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target at QR24.18 and our Accumulate rating.** QIBK is trading at a 2023e P/TB and P/E of 1.7x and 10.5x, respectively.
- Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS (QR)	1.57	1.75	1.96	2.21
EPS Growth (%)	13.7	11.0	12.0	13.1
P/E (x)	11.7	10.5	9.4	8.3
Tangible BVPS (QR)	9.8	10.9	12.2	13.6
P/TBV (x)	1.9	1.7	1.5	1.3
RoE (%)	18.1	17.9	18.0	18.2
DPS (QR)	0.625	0.675	0.725	0.800
Dividend Yield (%)	3.4	3.7	4.0	4.4

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

Key Data

Current Market Price (QR)	18.35
Dividend Yield (%)	3.4
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	25.23/17.07
3-m Average Volume ('000)	1,215.3
Mkt. Cap. (\$ bn/QR bn)	11.9/43.4
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Institutional FO* (%)	15.2
1-Year Total Return (%)	(20.9)
Fiscal Year End	December 31

Source: Bloomberg (as of October 17, 2023), *Qatar Exchange (as of October 17, 2023); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

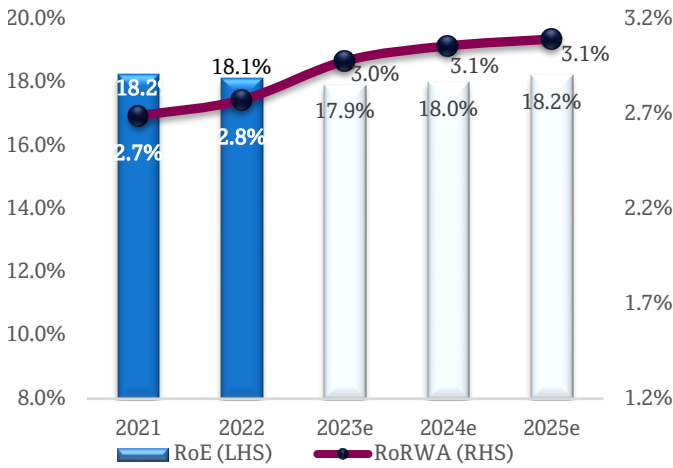
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

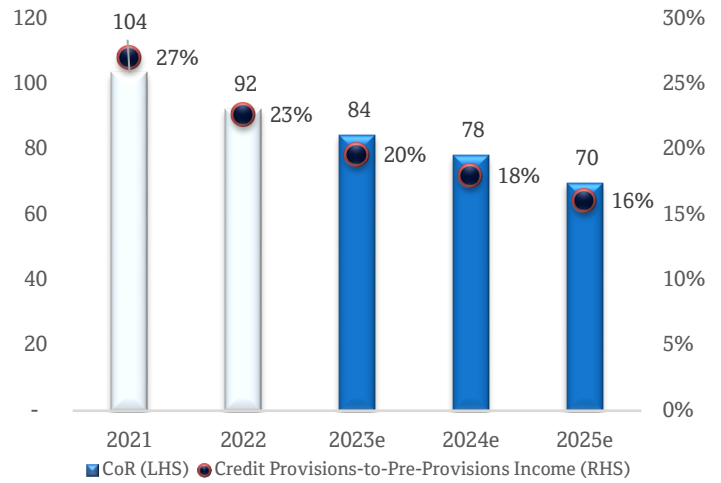
saugata.sarkar@qnbfs.com.qa

Robust RoE and RoRWAs Generator

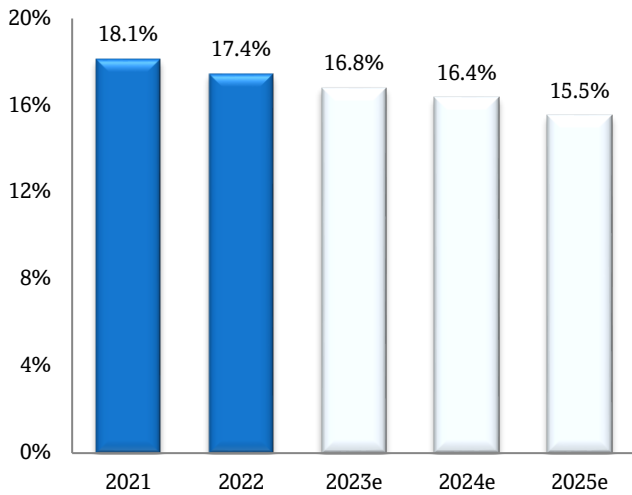


Source: Company data, QNB FS Research

With Healthy CoR Levels

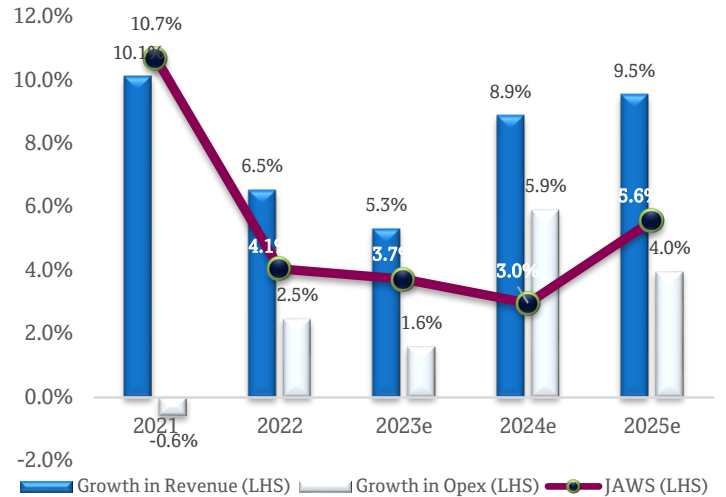


Efficiently Managed Bank

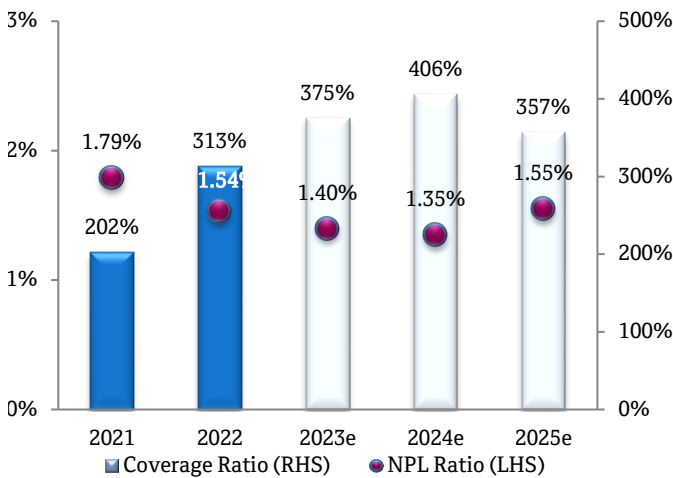


Source: Company data, QNB FS Research

While Generating Strong Revenue Growth and Positive JAWs



Superior Asset Quality



Source: Company data, QNB FS Research

Strong Coverage of Stage 3 Loans

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	102,121,886	24,647,442	1,861,279	128,630,607
ECLs	4,025,276	1,038,662	1,764,290	6,828,228
Stages % of Loans	79.4%	19.2%	1.4%	
Stages % ECLS	59.0%	15.2%	25.8%	
Coverage Ratio	4%	4%	95%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	4,350	4,774	4,999	5,392	5,887	6,618
Fees & Commissions	661	726	810	855	942	904
FX Income	76	200	122	131	148	126
Other Income	353	289	451	345	343	371
Non-Interest Income	1,090	1,215	1,383	1,330	1,433	1,402
Total Revenue	5,439	5,990	6,382	6,723	7,321	8,020
Operating Expenses	(1,092)	(1,085)	(1,112)	(1,130)	(1,197)	(1,245)
Net Operating Income	4,348	4,904	5,270	5,593	6,124	6,775
Net Provisions & Impairments	(1,316)	(1,342)	(1,235)	(1,128)	(1,115)	(1,135)
Net Profit Before Taxes & Non-Recurring	3,032	3,563	4,034	4,465	5,008	5,640
Tax	(7)	(10)	(11)	(12)	(14)	(16)
Net Profit Before Minority Interest	3,024	3,553	4,023	4,452	4,994	5,625
Minority Interest	41	2	(18)	(27)	(60)	(67)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,065	3,555	4,005	4,425	4,934	5,557
Interest On Tier-1 Sukuk	(205)	(196)	(188)	(188)	(188)	(188)
Social & Sports Contribution Fund	(77)	(89)	(100)	(111)	(123)	(139)
Net Profit (Attributable)	2,783	3,270	3,717	4,127	4,623	5,230

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Assets						
Cash & Balances with Central Bank	8,357	7,177	7,951	7,834	8,038	9,392
Interbank Loans	6,913	7,461	3,188	3,819	5,585	4,672
Net Investments	33,248	44,380	45,774	52,210	55,592	52,491
Net Loans	119,072	128,409	119,285	127,304	139,625	155,735
Investment In Associates	1,134	1,140	1,130	1,170	1,211	1,250
Other Assets	1,937	1,709	2,576	2,481	2,561	2,230
Net PP&E	462	570	558	539	522	516
Investment In Real Estate	2,863	2,854	3,321	3,358	3,396	3,434
Goodwill & Intangible Assets	370	218	218	218	218	218
Total Assets	174,356	193,916	184,001	198,934	216,748	229,938
Liabilities						
Interbank Deposits	13,828	19,856	17,382	21,665	22,921	16,217
Customer Deposits	118,144	131,095	122,371	130,570	141,015	156,527
Sukuk Financing	14,059	14,063	12,453	12,702	15,243	16,005
Other Liabilities	5,120	3,491	3,868	3,395	3,878	3,913
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	155,150	172,504	160,075	172,331	187,057	196,662
Minority Interest	903	676	669	695	755	823
Total Shareholders' Equity	18,304	20,736	23,257	25,908	28,936	32,453
Total Liabilities & Shareholders' Equity	174,356	193,916	184,001	198,934	216,748	229,938
Risk Weighted Assets	121,582	134,045	138,570	151,190	169,063	181,651

Source: Company data, QNB FS Research

Key Indicators/KPIs	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Tangible)	16.6	18.2	18.1	17.9	18.0	18.2
RoAA	1.6	1.8	2.0	2.2	2.2	2.3
RoRWA	2.5	2.7	2.8	3.0	3.1	3.1
NIM (% of IEAs)	2.87	2.90	2.97	3.16	3.15	3.29
NIM (% of RWAs)	3.75	3.74	3.67	3.72	3.68	3.77
NIM (% of AAs)	2.57	2.59	2.65	2.82	2.83	2.96
Spread	2.52	2.66	2.67	2.77	2.77	2.89
Efficiency (%)						
Cost-to-Income (Headline)	20.1	18.1	17.4	16.8	16.4	15.5
Cost-to-Income (Core)	21.2	18.9	18.7	17.7	17.1	16.3
Liquidity (%)						
LDR	100.8	98.0	97.5	97.5	99.0	99.5
Loans/Assets	68.3	66.2	64.8	64.0	64.4	67.7
Cash & Interbank Loans-to-Total Assets	8.8	7.5	6.1	5.9	6.3	6.1
Deposits to Assets	67.8	67.6	66.5	65.6	65.1	68.1
Wholesale Funding to Loans	23.4	26.4	25.0	27.0	27.3	20.7
IEAs to IBLs	120.9	117.1	122.2	120.8	118.5	124.2
Asset Quality (%)						
NPL Ratio	1.4	1.8	1.5	1.4	1.4	1.6
NPL to Shareholder's Equity	9.6	11.5	8.3	7.3	6.9	7.9
NPL to Tier 1 Capital	7.9	10.1	7.4	6.8	6.8	8.0
Coverage Ratio	226.8	202.4	313.0	375.2	406.0	357.0
ALL/Average Loans	3.1	3.5	4.2	4.7	5.1	5.3
Cost of Risk	105	104	92	84	78	70
Capitalization (%)						
CET1 Ratio	14.9	14.7	15.8	15.5	15.0	15.3
Tier-1 Ratio	18.2	17.7	18.7	18.2	17.4	17.5
CAR	19.4	18.9	19.9	19.4	18.6	18.7
Leverage (x)	9.5	9.4	7.9	7.7	7.5	7.1
Growth (%)						
Net Interest Income	12.7	9.8	4.7	7.9	9.2	12.4
Non-Interest Income	12.3	11.5	13.8	-3.8	7.7	-2.2
Total Revenue	12.6	10.1	6.5	5.3	8.9	9.5
OPEX	-0.9	-0.6	2.5	1.6	5.9	4.0
Net Operating Income	16.6	12.8	7.4	6.1	9.5	10.6
Net Income (Attributable)	0.3	17.5	13.7	11.0	12.0	13.1
Loans	4.7	7.8	-7.1	6.7	9.7	11.5
Deposits	5.8	11.0	-6.7	6.7	8.0	11.0
Assets	6.6	11.2	-5.1	8.1	9.0	6.1
RWAs	10.1	10.3	3.4	9.1	11.8	7.4

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

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”) QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.