

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR17.960	Target Price	QR19.696
Implied Upside	10.0%		

Tweaking Estimates but Overall Earnings Growth Unchanged

We incorporate QIBK's reported 1H2021 financials in our model and tweak our estimates for various accounts. However, our earnings CAGR of 11.7% (2020-25e) remains intact. Hence, we maintain our PT of QR19.696 and Accumulate rating. The bank's financial performance was strong during 2017-2020 despite the blockade and the COVID-19 pandemic. QIBK's fundamentals continue to remain robust with strong RoE generation (2018: 16.7%, 2019: 18.5%, 2020: 16.6%, 2021e: 17.1% & 2022e: 16.9%); the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium. QIBK is expected to generate superior RoE vs. peers – ~17% in the medium-term. Finally, the stock still trades at a 2021e P/E of 13.8%, an 8% discount to its fundamental P/E of 14.9x.

Highlights

- **QIBK reported strong net operating income and earnings for 1H2021; provisions offset strong growth in net operating income.** Qatar Islamic Bank (QIBK) reported a net profit of QR1.60bn in 1H2021, gaining by 11.8% YoY. Net operating income increased by 22.8% YoY to QR3.06bn because of strong revenue (margin expansion & robust f/x income) and cost containment. On the other hand, a jump in provisions outweighed the growth in net operating income, resulting in an 11.8% growth in earnings YoY (still a strong percentage).
- **Positive RoE trajectory to continue:** QIBK boasts one of the highest RoEs among its peers. The bank's RoE jumped from 15.2% in FY2016 to 18.5% in FY2019. However, RoE slipped to 16.6% in FY2020 due to flat earnings because of precautionary provisions taken for the COVID-19 pandemic. We expect a RoE of 17.1% and 16.9% in 2021 and 2022, respectively.
- **QIBK remains cost-efficient & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 20.1% in 2020 (17.5% in 1H2021). Moreover, QIBK generated robust JAWs of 9.0% on average (2015-2020) and 20.2% in 1H2021. We continue to model positive JAWs in our forecast horizon. Moreover, we forecast C/I ratios of 17.8% and 17.4% in 2021 and 2022, respectively.
- **Net loans continued its positive traction:** Net loans grew by 6.7% in 1H2021 vs. FY2020 to QR127.0bn. Deposits grew by 6.1% in 1H2021 to QR125.4bn. We still maintain our 7.8% loan growth forecast over 2020-25e.
- **CoR to remain elevated given management's conservative risk management nature.** Net provisions and impairments increased by 37.5% in YoY in 1H2021 to QR914.2mn. Moreover, 1H2021 annualized CoR jumped to 139bps vs 105bps in 1H2020 (105bps in FY2020). We forecast CoR of 118bps and 101bps for 2021 & 2022e, respectively.
- **Asset quality remains healthy; we still do not expect major impairments going forward.** NPL ratio remained flat at 1.4% in 1H2021 vs. FY2020 (low percentage). During the same time, NPLs increased by 7.6% to QR1.89bn vs. QR1.75bn in FY2020. However, the coverage ratio of Stage 3 loans (NPLs) improved to 95% from FY2020's 92%. Stage 1 loans increased, while Stage 2 loans remained stable.
- **Capitalization remains strong.** QIBK's CET1 and Tier-1 ratios remained robust at 14.0% and 17.2%, respectively. We expect management to maintain these levels going forward.

Catalysts

- **For the stock to move up further,** raising the FOL limit to 100% should help boost QIBK's weight in major indices such as MSCI EM & FTSE EM and contribute to increased foreign institutional ownership in the company.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Price Target of QR19.696 and Accumulate rating. QIBK is trading at a 2022e P/TB and P/E of 1.9x and 12.5x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2020	2021e	2022e	2023e
EPS (QR)	1.18	1.30	1.44	1.62
EPS Growth (%)	0.3	10.2	10.8	12.8
P/E (x)	15.2	13.8	12.5	11.1
Tangible BVPS (QR)	7.6	8.5	9.6	10.7
P/TBV (x)	2.4	2.1	1.9	1.7
RoE (%)	16.6	17.1	16.9	17.0
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	2.2	2.4	2.6	2.8

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

Key Data

Current Market Price (QR)	17.960
Dividend Yield (%)	2.2
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	18.70/15.53
3-m Average Volume ('000)	1,089.5
Mkt. Cap. (\$ bn/QR bn)	11.7/42.4
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	49.0
Current FO* (%)	11.9
1-Year Total Return (%)	+15.0
Fiscal Year End	December 31

Source: Bloomberg (as of September 21, 2021), *Qatar Exchange (as of September 21, 2021); Note: FO is foreign ownership

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Detailed Financial Statements

(In QR mn)	2018	2019	2020	2021e	2022e	2023e
Net Interest Income	3,542	3,859	4,350	4,830	5,214	5,675
Fees & Commissions	576	693	661	738	790	787
FX Income	259	59	76	174	197	164
Other Income	142	219	353	261	242	253
Non-Interest Income	978	971	1,090	1,173	1,228	1,204
Total Revenue	4,519	4,830	5,439	6,003	6,443	6,878
Operating Expenses	(1,161)	(1,101)	(1,092)	(1,067)	(1,119)	(1,156)
Net Operating Income	3,358	3,729	4,348	4,937	5,324	5,722
Net Provisions & Impairments	(720)	(733)	(1,316)	(1,550)	(1,580)	(1,526)
Net Profit Before Taxes & Non-Recurring It	2,638	2,996	3,032	3,386	3,744	4,197
Tax	2	(11)	(7)	(8)	(11)	(13)
Net Profit Before Minority Interest	2,641	2,985	3,024	3,378	3,732	4,184
Minority Interest	115	71	41	(20)	(34)	(38)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	2,755	3,055	3,065	3,358	3,699	4,146
Interest On Tier-1 Sukuk	(205)	(205)	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(69)	(76)	(77)	(84)	(92)	(104)
Net Profit (Attributable)	2,481	2,774	2,783	3,069	3,401	3,838

Source: Company data, QNB FS Research

(In QR mn)	2018	2019	2020	2021e	2022e	2023e
Assets						
Cash & Balances with Central Bank	7,299	7,185	8,357	8,196	8,103	8,646
Interbank Loans	6,424	3,552	6,913	5,192	6,418	4,606
Net Investments	31,474	33,490	33,248	34,486	37,559	40,270
Net Loans	102,210	113,754	119,072	129,791	142,626	153,532
Investment In Associates	568	545	1,134	1,135	1,137	1,142
Other Assets	3,161	1,966	1,937	1,769	1,963	1,818
Net PP&E	479	452	462	472	431	472
Investment In Real Estate	1,231	2,175	2,863	2,857	2,879	2,901
Assets of a Subsidiary Held for Sale	0	0	0	0	0	0
Goodwill & Intangible Assets	386	400	370	324	218	218
Total Assets	153,232	163,519	174,356	184,220	201,333	213,604
Liabilities						
Interbank Deposits	17,234	14,355	13,828	11,632	8,849	6,138
Customer Deposits	100,598	111,621	118,144	128,068	142,156	151,680
Sukuk Financing	9,189	10,934	14,059	14,059	16,730	20,410
Other Liabilities	5,472	4,450	5,120	5,123	5,828	4,854
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	136,493	145,360	155,150	162,881	177,563	187,082
Minority Interest	1,319	1,026	903	923	956	994
Total Shareholders' Equity	15,420	17,133	18,304	20,416	22,813	25,528
Total Liabilities & Shareholders' Equity	153,232	163,519	174,356	184,220	201,333	213,604

Source: Company data, QNB FS Research

Key Indicators/KPIs	2018	2019	2020	2021e	2022e	2023e
Profitability (%)						
RoE	16.7	18.5	16.6	17.1	16.9	17.0
RoAA	1.6	1.8	1.6	1.7	1.8	1.8
RoRWA	2.3	2.6	2.4	2.4	2.5	2.6
NIM (% of IEAs)	2.60	2.71	2.87	3.01	2.99	3.01
NIM (% of RWAs)	3.27	3.56	3.75	3.79	3.76	3.77
NIM (% of AAs)	2.33	2.44	2.57	2.69	2.70	2.74
Spread	2.19	2.26	2.52	2.72	2.66	2.66
Efficiency (%)						
Cost-to-Income (Headline)	25.7	22.8	20.1	17.8	17.4	16.8
Cost-to-Income (Core)	26.2	23.6	21.2	18.4	17.9	17.3
Liquidity (%)						
LDR	101.6	101.9	100.8	101.3	100.3	101.2
Loans/Assets	66.7	69.6	68.3	70.5	70.8	71.9
Cash & Interbank Loans-to-Total Assets	9.0	6.6	8.8	7.3	7.2	6.2
Deposits to Assets	65.7	68.3	67.8	69.5	70.6	71.0
Wholesale Funding to Loans	25.9	22.2	23.4	19.8	17.9	17.3
IEAs to IBLs	123.1	121.1	120.9	122.0	123.5	123.5
Asset Quality (%)						
NPL Ratio	1.2	1.3	1.4	1.5	1.5	1.6
NPL to Shareholder's Equity	8.2	8.8	9.6	9.7	9.9	9.9
NPL to Tier 1 Capital	6.7	7.5	7.9	8.6	9.3	9.7
Coverage Ratio	173.9	182.5	226.8	253.9	282.9	305.8
ALL/Average Loans	1.9	2.3	3.1	3.6	4.2	4.7
Cost of Risk	48	56	105	118	101	91
Capitalization (%)						
Tier 1 Ratio	17.8	18.3	18.2	17.3	17.0	16.6
CAR	18.8	19.5	19.4	18.5	18.2	17.9
Tier 1 Capital to Assets	12.3	12.4	12.7	12.5	12.1	12.2
Tier 1 Capital to Loans	18.5	17.8	18.6	17.8	17.1	17.0
Tier 1 Capital to Deposits	18.8	18.1	18.7	18.0	17.2	17.2
Leverage (x)	9.9	9.5	9.5	9.0	8.8	8.4
Growth (%)						
Net Interest Income	4.2	9.0	12.7	11.1	8.0	8.8
Non-Interest Income	28.2	-0.7	12.3	7.7	4.7	-2.0
Total Revenue	8.6	6.9	12.6	10.4	7.3	6.8
OPEX	5.0	-5.2	-0.9	-2.3	4.9	3.3
Net Operating Income	9.9	11.1	16.6	13.5	7.8	7.5
Net Income (Attributable)	15.9	11.8	0.3	10.2	10.8	12.8
Loans	-0.4	11.3	4.7	9.0	9.9	7.6
Deposits	-1.2	11.0	5.8	8.4	11.0	6.7
Assets	1.9	6.7	6.6	5.7	9.3	6.1
RWAs	-3.3	3.8	10.1	9.9	7.8	8.9

Source: Company data, QNB FS 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

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