

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR77.10	Target Price	QR77.90
Implied Upside	1.0%		

3Q2012 Net Income beat Estimates; Revising Estimates Slightly

3Q2012 results beat estimates; Maintain Market Perform. Qatar Islamic Bank (QIBK) reported a net profit of QR393.9mn for 3Q2012, up 12.8% QoQ from QR349.2mn in 2Q2012. The results were above our estimate of QR359.7mn. The main driver was a 38.3% QoQ increase in income from investing activities. QIBK is aggressively tapping the GCC interbank market and has benefited from the spreads. On the valuation front, the stock is trading at a P/E ratio of 11.6x and P/B ratio of 1.5x on our 2013 estimates.

Financial Results and Key Takeaways

- Income from financing activities increased by 7.3% QoQ to QR530.0mn. The growth was on the back of 6.7% QoQ increase in the loan book. Income from investing activities jumped by 38.3% QoQ to QR242.2mn. The bank has been making a spread on the domestic interbank market vs. the GCC interbank market (lower rates). However, we see this only as a short-term window for the bank. Net commission and fee income for the period was QR105.5mn, down from QR114.2mn in 2Q2012, a decline of 7.6% QoQ.
- Payments to unrestricted investment account holders increased by 53.1% QoQ for 3Q2012. The increase is on the back of 19.4% QoQ increase in combined deposits and equity of unrestricted investment account holders. In this respect, the bank has benefited from GCC depositors, who are willing to put deposits in QIBK due to relatively higher deposit rates.
- The higher-than-expected deposit growth resulted in a loan-to-deposit ratio of 96% in 3Q2012 vs. 107% in 2Q2012 (107% at the end of 2011). The strong QoQ deposit growth is a positive for the bank. However, we feel deposit growth at relatively low costs will be the key for improving the bottom-line in the coming quarters.
- In other developments, the bank's successful sukuk issuance has raised the prospect of another similar issue over the next 12 months.

In light of the recent data, we have revised our estimates and expect the bank to post EPS of QR6.33 (previously QR6.37) and QR6.67 (previously QR6.88) for 2012 and 2013, respectively. We expect NIMs will contract by 10bps in 2013 as the industry is experiencing re-pricing by existing clients.

Key Data:

Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Financial Services
52wk High/52wk Low (QR)	86.10/75.00
3-m Average Volume	49,417
Mkt. Cap. (\$ bn/QR bn)	5.0/18.1
Shares Outstanding (mn)	236.3
FO Limit* (%)	20.6
Current FO*	4.0
1-Year Total Return (%)	1.4

Fiscal Year End Dec. 31
 Source: Bloomberg (as of October 23, 2012), *Qatar Exchange (as of October 23, 2012); Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	3
Hold	6
Sell	0

Source: Bloomberg

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Key Financial Data and Estimates

In QR	2010	2011	2012E	2013E
EPS	5.34	5.78	6.33	6.67
EPS Growth (%)	(4.5)	8.2	9.6	5.3
P/E (x)	14.4	13.3	12.2	11.6
BVPS	38.31	47.41	49.56	51.22
P/B (x)	2.0	1.6	1.6	1.5
DPS	4.6	4.5	5.0	5.3
Dividend Payout (%)	85.2	77.9	79.0	78.8
Dividend Yield (%)	5.9	5.8	6.5	6.8

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

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