

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR56.80	Target Price	QR63.00
Implied Upside	+10.9%		

Strong 1Q2018; Maintain Market Perform Rating

Qatar International Islamic Bank (QIIB) is the smallest Shari'ah compliant bank among listed banks. The bank has a market share of 3% and 14% among listed banks and Shari'ah compliant banks, respectively. QIIB is focused on the real estate and retail segments which collectively make up 66% of the bank's loan book. The bank recently expanded into Morocco.

Highlights

- **QIIB delivered a strong 1Q2018, exceeding our estimates (+7.0%) on the back of lower than expected provisions.** QIIB generated a net profit of QR253.2mn vs. QR132.1mn in 4Q2018 (+7.1% YoY) due to strong net interest & investment income, fees, and a sharp drop in opex and provisions. On the other hand, YoY growth was driven by net interest & investment income coupled with lower opex. The beat in the bottom-line was due to lower than expected provisions as net operating income was in-line at QR257.6mn (vs. our estimate of QR250.4mn). The bank booked provisions of QR4.4mn vs. our estimate of QR13.8mn.
- **Margins expanded.** NIM gained by 22bps QoQ (+9bps) to 2.75% due to stronger yield on assets. Yield on assets increased by 23bps QoQ (+33bps YoY) while CoFs remained (+27bps YoY). Thus, net interest income grew by 8.2% (+9.7% YoY). However, we expect margin pressure in 2018 and 2019 as QIIB would have to raise expensive deposits and other sources of funds in order lower its LDR below 100% while maintaining loan growth.
- **Bank remains efficient, generating positive JAWS.** Revenue grew by 13.2% QoQ (+5.7% YoY) while opex declined by 25.0% (flattish performance YoY), resulting in positive JAWS of 38% (6% YoY). Moreover, cost-to-income ratio improved QoQ to 23.9% vs. 36.1% in 4Q2017 (25.4% 1Q2017).
- **Net loans increased while deposits slipped.** QIIB's loan book expanded by 3.2% YTD to QR33.6bn while deposits declined by 0.9% to QR32.2bn. Hence, LDR jumped to 104% vs. 100% at the end of 2017.
- **NPL ratio remained stable; ECLs of QR239.5mn netted against equity.** QIIB's NPL ratio remained stable at 1.35% vs. 1.32% at the end of 2017. The company booked credit provisions of QR2.9mn vs. QR25.0mn in 4Q2017 (QR3.0mn in 1Q2017). Hence, CoR was insignificant. Moreover, the coverage ratio stood at 87.6%. Under IFRS 9, the bank reported ECLs of QR239.5mn which was netted against equity (4.7% of CET1 and 71bps of RWAs).
- **IFRS 9 impact on CET1 ratio negligible, capitalization remains healthy.** QIIB's CET1 ratio receded by 74bps to 14.2% vs. 14.9% at the end of 2017.

Catalysts

- **Limited catalysts;** 1) Significant increase in traded volumes.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR63.00.** QIIB is trading at a 2018e P/B and P/E of 1.5x and 9.7x, respectively. The stock offers an attractive yield of 7.0%.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk which further results in impairments.

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
Attributable EPS (QR)	5.00	5.88	6.54	6.82
EPS Growth (%)	1.9	6.9	11.2	4.3
P/E (x)	10.3	9.7	8.7	8.3
Tangible BVPS (QR)	38.3	38.1	40.2	42.5
P/TB (x)	1.5	1.5	1.4	1.3
DPS (QR)	4.00	4.00	4.00	4.00
Dividend Yield (%)	7.0	7.0	7.0	7.0

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

Key Data

Current Market Price (QR)	56.80
Dividend Yield (%)	7.0
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	63.22/43.20
3-m Average Volume ('000)	260.2
Mkt. Cap. (\$ bn/QR bn)	2.4/8.6
Shares Outstanding (mn)	126.0
FO Limit* (%)	25.0
Current FO* (%)	11.6
1-Year Total Return (%)	-1.0
Fiscal Year End	December 31

Source: Bloomberg (as of April 30, 2018), *Qatar Exchange (as of April 29, 2018); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	13.2	14.0	15.3	15.2
RoAA (Attributable)	1.7	1.7	1.7	1.7
RoRWA (Attributable)	2.4	2.3	2.4	2.3
NIM (% of IEAs)	2.7	2.7	2.6	2.7
NIM (% of RWAs)	3.3	3.2	3.2	3.3
NIM (% of AAs)	2.4	2.3	2.3	2.4
Spread	2.2	2.2	2.1	2.0
Efficiency (%)				
Cost-to-Income (Headline)	27.3	26.6	25.7	25.6
Cost-to-Income (Core)	27.5	26.8	26.5	26.4
Liquidity (%)				
LDR	100.1	102.2	103.9	104.4
Loans/Assets	69.7	68.7	71.6	72.3
Cash & Interbank Loans-to-Total Assets	12.2	16.3	12.3	13.9
Deposits to Assets	69.7	67.2	68.9	69.2
Wholesale Funding to Loans	20.3	26.1	22.4	22.6
IEAs to IBLs	129.5	118.5	129.6	123.8
Asset Quality (%)				
NPL Ratio	1.4	1.3	1.2	1.4
NPLs to Shareholder's Equity	7.8	7.8	7.3	9.4
NPLs to Tier 1 Capital	7.5	7.8	7.3	9.3
Coverage Ratio	58.3	59.2	61.6	51.9
ALL/Average Loans	0.8	1.4	1.3	1.2
Cost of Risk	0.1	0.2	0.2	0.3
Capitalization (%)				
Tier 1 Ratio	17.9	15.7	15.7	15.4
CAR	17.9	15.7	15.7	15.4
Tier 1 Capital to Assets	13.0	11.5	11.5	11.1
Tier 1 Capital to Loans	18.6	16.7	16.0	15.3
Tier 1 Capital to Deposits	18.6	17.0	16.6	16.0
Leverage (x)	8.0	8.8	8.8	9.1
Growth (%)				
Net Interest Income	4.8	6.6	7.4	10.7
Non-Interest Income	-12.2	6.4	18.9	11.3
OPEX	10.2	3.7	5.5	10.3
Net Operating Income	-0.7	7.6	10.3	11.0
Net Income (Attributable)	1.9	7.4	12.0	4.6
Loans	19.3	7.2	9.8	10.5
Deposits	21.9	5.0	8.0	10.0
Assets	9.6	8.9	5.3	9.5
RWAs	11.2	9.6	5.3	8.0

Source: Company data, QNBFS Research

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	1,063	1,132	1,216	1,347
Fees & Commissions	119	125	127	140
FX Income	41	42	42	50
Other Income	9	13	45	49
Non-Interest Income	169	180	214	238
Total Revenue	1,232	1,312	1,430	1,585
Operating Expenses	(336)	(349)	(368)	(406)
Net Operating Income	896	964	1,063	1,180
Net Provisions	(63)	(74)	(74)	(148)
Net Profit Before Taxes, Non-Recurring Items & Minority Interest	832	890	989	1,032
Minority Interest	0	0	0	0
Net Profit (Headline/Reported)	832	890	989	1,032
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(55)
Social & Sports Contribution Fund	(21)	(22)	(25)	(26)
Net Profit (Attributable)	756	812	909	951

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	2,432	3,069	2,762	3,039
Interbank Loans	3,274	5,228	3,825	5,074
Net Investments	6,180	5,185	5,937	5,343
Net Loans	32,500	34,854	38,255	42,284
Investment In Associates	365	354	355	356
Other Assets	685	815	964	1,060
Net PP&E	757	828	908	941
Investment in Real Estate	427	422	418	414
Total Assets	46,619	50,756	53,424	58,511
Liabilities				
Interbank Deposits	6,606	6,026	4,914	5,879
Customer Deposits	32,479	34,103	36,831	40,514
Other Borrowings	0	3,057	3,669	3,669
Tier-1 Sukuk	1,000	1,000	1,000	1,000
Other Liabilities	718	784	921	1,013
Total Liabilities	40,802	44,970	47,334	52,075
Total Shareholders' Equity	5,817	5,786	6,090	6,436
Total Liabilities & Shareholders' Equity	46,619	50,756	53,424	58,511

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

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