

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR52.20	Target Price	QR57.25
Implied Upside	9.7%		

A Pure Banking Play on the Qatar Growth Story

We are initiating coverage on Qatar International Islamic Bank (QIIB) with a target price of QR57.25 and a Market Perform Rating. In terms of assets, QIIB is the smallest of the three listed Islamic banks (7th out of the 8 listed banks). The bank has lost some market share to the big players in 2011 and in the early part of 2012. However, in 3Q2012, QIIB recovered some lost ground and outperformed the sector with a 10% QoQ growth in its loan book vs. 4% for the 8-listed banks and 5% for the overall sector. QIIB's focus on Qatar makes it one of the pure banking plays on the Qatar growth story with real estate and consumer as key target segments.

Highlights

- Leveraged to Qatar's real estate/infrastructure and consumer segments:** QIIB is focused on the State of Qatar, the world's fastest growing economy over 2007-11. Qatar continues to have ambitious plans going forward with the NDS 2011-16 estimating circa \$225bn of investments during 2011-16. Moreover, on the consumer side, rising affluence and a growing population supports growth in consumer credit. Given its focus on these segments (RE [with increased focus expected on infrastructure] and consumer made up ~56% and 32% of 2011 loan book, respectively), we expect QIIB to benefit.
- Improving balance sheet capacity for anticipated growth:** In order to cash in on Qatar's anticipated loan growth, QIIB has focused on improving its balance sheet size. The bank recently closed a \$700mn sukuk transaction at an attractive rate of 2.69% and is monitoring its tier I capital.
- We expect QIIB to post a strong bottom-line CAGR of 9.2% over 2011-15.** The overall loan book should expand at a CAGR of 18.1% causing the loan-deposit-ratio (LDR) to jump from 65.5% (at the end of September 2012) to 81.4% in 2015. However, loan re-pricing could limit revenue growth.

Catalysts

- Qatar's growth story is underpinned by an array of projects.** QNB Group estimates annual spend of circa \$30bn over the next three years. As these projects are implemented, QIIB should be able to benefit and expand its loan book. Newsflow regarding loans should act as catalysts.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate QIIB a Market Perform with a price target of QR57.25.** Our target price implies an upside of 9.7%. While dividend yield is attractive, valuation appears to be fair vs. other Qatari banks.
- Risks:** 1) QIIB loses market share and 2) Exposure to the real estate and consumer segments creates concentration risk.

Key Financial Data and Estimates

	FY2010	FY2011	FY2012e	FY2013e	FY2014e
EPS (QR)	3.69	4.31	4.70	5.14	5.73
EPS Growth (%)	9.3	16.9	9.0	9.2	11.5
P/E (x)	14.1	12.1	11.1	10.2	9.1
BVS (QR)	25.22	32.33	33.43	35.07	37.04
P/B (x)	2.1	1.6	1.6	1.5	1.4
DPS (QR)	3.44	3.50	3.50	3.75	4.20
Dividend Yield (%)	6.6	6.7	6.7	7.2	8.0

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

Key Data:

Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA00069297879
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	56.00/47.90
3-m Average Volume	25,605
Mkt. Cap. (\$ bn/QR bn)	2.2/7.9
Shares Outstanding (mn)	151.4
FO Limit* (%)	19.7%
Current FO* (%)	2.7%
1-Year Total Return (%)	0.25
Fiscal Year End	December 2011

Source: Bloomberg (as of November 18, 2012), *Qatar Exchange (as of November 18, 2012); Note: FO is foreign ownership

Relative Price Performance vs. Peers



Source: Bloomberg; Note: MARK is Masraf Al Rayan and QIBK is Qatar Islamic Bank

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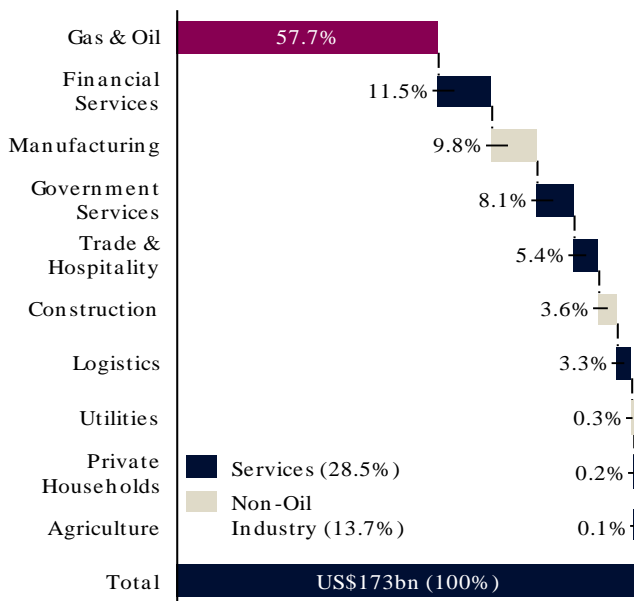
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Executive Summary

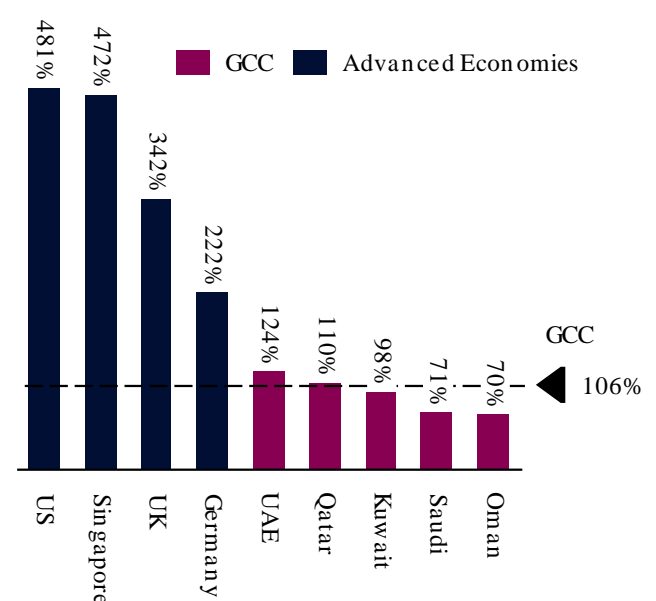
Qatar Focus

Leveraged to the Qatari real estate and consumer segments. Qatar was the world's fastest growing economy from 2007-11 and has ambitious plans going forward. Qatar's long-term goals are set out in Qatar National Vision 2030 and will be implemented through a series of medium-term plans, beginning with the National Development Strategy 2011-16 (NDS 2011-16). The NDS 2011-16 estimates that around \$225bn of investment will be executed during 2011-16. This is roughly in line with the \$243bn of projects that are currently underway and planned in Qatar. The NDS 2011-16 estimates that the government will provide 42% of total investment, laying the foundations for the private sector to make up the remainder. We continue to believe the banking sector will benefit from the Qatar growth story by cashing on the increased demand of funds and services. Furthermore, there remains plenty of potential for increased banking penetration over the long term. We note that the ratio of Qatar's banking assets relative to its GDP, which provides a measure of the importance of the banking sector to the overall economy, was 110% in 2011. While this was slightly above the average level for the Gulf Cooperation Council (GCC) nations, it is fairly low when compared with countries that are major global financial centers, implying potential growth opportunities for the sector. Given its Qatar focus, we expect QIHK to benefit from this expected growth in the Qatari banking sector.

Breakdown of GDP by Sector (2011)



Total Banking Assets to GDP (2011)



Source: Qatar Statics Authority (QSA), Central Banks, QNB Group

Room for growth In Qatar. Based on data for initiated projects, the overall spending should be \$31bn in 2012 and \$30bn in 2013. Investors can also expect new projects to be initiated with time. This will sustain the growth in the construction sector, which QNB Group expects to grow at 8.0% in 2012-13, in real terms.

On the consumer side, rising affluence and a growing population supports growth in consumer credit. During our meeting with QIHK's management, they highlighted that the bank was also targeting the expat community that is expected to increase as Qatar allows more foreign workers and their families into the country. Hence, as the Qatar growth story blossoms, we expect loan growth for smaller banks targeting expats to improve. So far, in 9M2012, the public sector has been the driver with the sector's loan book expanding by 38.1% year-to-date (YTD) vs. 8.2% for the private sector; we note that QNB group (QNBK) and Masraf Al Rayan (MARK) are the key players in the public segment. However, we do point out that QIHK posted a 19.2% loan book growth in 9M2012 (almost comparable to the 19.6% growth posted by the sector).

Another positive for QIHK is the Qatar Central Bank's (QCB) directive to separate Shari'ah compliant and conventional banks in 2011. In recent years, Islamic banks in Qatar have enjoyed faster asset growth relative to conventional banks. According to the QCB, during the 2002-2011, total Islamic banking assets in Qatar grew at a compound annual growth rate (CAGR) of 33% versus a CAGR of 25% for conventional banking. We expect this outperformance to continue in the medium-term given the relatively small asset base of Islamic banks and as Islamic banks introduce more products.

Given the impending Islamic Bank of Britain (IBB) divestiture, we expect QIHK to become a pure play on Qatar. QIHK is actively considering the sale of its 88.41% stake in IBB to MARK. The deal could allow MARK to acquire a 70% stake in IBB, with the remaining 30% being bought by the Qatari government. IBB is one of the few standalone Islamic retail banks in the UK and has a high street presence with five branches and ~50,000 customers. We believe that QIHK has begun initial, non-binding discussions with the concerned parties and expect an announcement by early 2013. We believe this sale would allow QIHK to refocus on Qatar.

Improving Balance Sheet Capacity for Anticipated Growth

QIIK recently issued a \$700mn, 5-year Sukuk with an attractive annual profit rate of 2.69% (settled semi-annually). In order to cash in on Qatar's anticipated loan growth, QIIK is focusing on improving its balance sheet size. The Sukuk transaction represents the bank's first foray into the international debt markets. According to QIIK's Chairman and Managing Director HE Sheikh Dr. Khaled Bin Thani Bin Abdullah Al-Thani, the Sukuk transaction was in line with the bank's strategic plans to actively participate in Qatar's nation building and finance large projects. We note that in this regard, QIIK's strategy is not unique as several regional banks are aggressively tapping the bond/Sukuk markets to improve their balance sheet capacity and take advantage of the low interest rate environment. In Qatar, QNB Group raised another \$1bn from a 5-year bond sale in November. This issue was priced at 145 basis points (bps) above the mid-swap rate; the bond offers a coupon of 2.125%. Qatar Islamic Bank (QIBK), the biggest Shari'ah compliant bank (by assets) in Qatar, issued a \$750mn, 5-year Sukuk in October 2012. This issue was priced at 175 bps above the mid-swap rate and the Sukuk offers a profit rate of 2.50%.

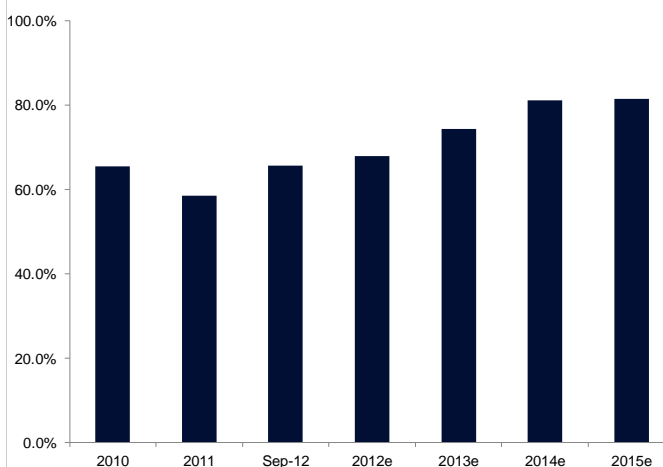
Increasing Tier I capital. Given the anticipated growth in its loan book, we believe QIIK may raise its tier I capital to maintain a healthy tier I ratio; the bank had a tier I capital ratio of 23.77% at the end of 2011. We believe QIIK would like to maintain its tier 1 capital ratio in excess of 20.0% going forward. We further believe the company could consider a combination of the following options to limit the burden on one group of investors while raising its tier 1 capital ratio:

- **Rights issue or stock dividend:** The bank can opt for a small rights issue. Recently, Ahli Bank (ABQK) announced a 20% right issue and a similar issue by QIIK cannot be ruled out. Moreover, the bank can go for a stock dividend and reduce cash dividends.
- **International GDR:** If management feels that local appetite for capital injection is inadequate, the bank could consider an international GDR, which will help diversify its shareholding complemented by increased visibility in international markets.
- **Shari'ah compliant hybrid tier I Sukuk.** Such an offering allows the bank to maintain a high ROE for shareholders, while allowing it to expand its loan book. There has been regional precedence of such an issue, most recently by Abu Dhabi Islamic Bank (ADIB), which issued a \$1bn perpetual tier I Sukuk in November 2012.

Solid Growth in Future Earnings

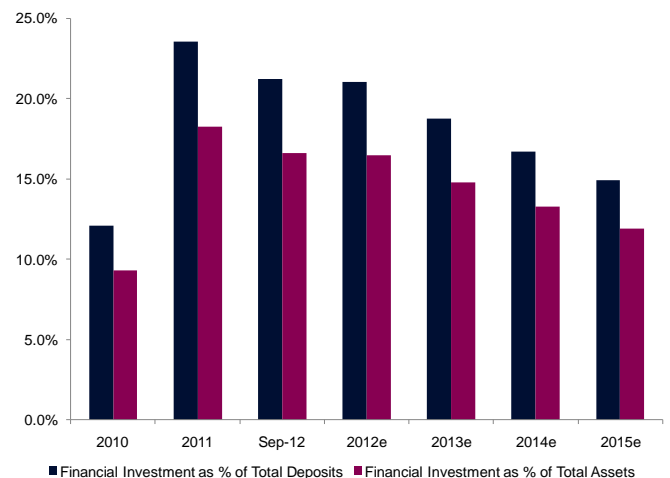
We estimate QIIK to post a CAGR of 9.2% in its bottom-line for 2011-2015. We estimate revenue from financing activities to grow at CAGR of 9.3% over 2011-2015 (2011 as the base year). We assume QIIK is going to grow its revenue by focusing on the real estate (especially infrastructure projects) and consumer (expatriates) segments. During our meeting, management also highlighted that the bank is aggressively targeting other segments of the economy. The recent syndicate lending to Nakilat is a result of this renewed focus on other segments of the economy. Furthermore, the recent Sukuk issue and potential increase in tier 1 capital will help the bank expand its loan book. We expect the loan-deposit-ratio (LDR) to jump from 65.5% (at the end of September 2012) to 81.4% in 2015. Current LDR is fairly low as QIIK invested heavily in financial investments in 2011 (21.2% of total deposits including URIA and 16.6% of total assets, as of September 2012). However, given the low interest rate environment we expect focus going forward to be on loan growth with limited funds flowing to financial investments.

Loan-Deposit-Ratio (LDR) to Grow



Source: Company data, QNBFS estimates

Financial Investments to Decline



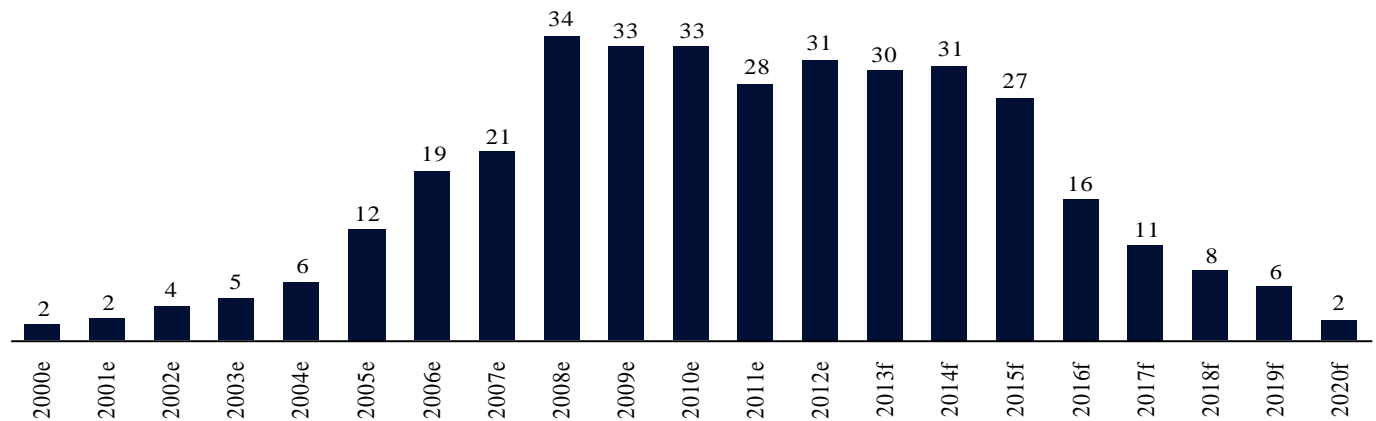
9M2012 Results and Outlook for 2012 and 2013

QIIK posted a net profit of QR530.8mn in 9M2012 vs. QR503.8mn in 9M2011. This represented a growth of 5.4% on a year-on-year (YoY) basis. Income from financing activities declined to QR573.1mn vs. QR645.5mn. The decline is due to re-pricing of loans, as the loan book increased by 19.2% YTD. Income from investing activities increased to QR249.6mn vs. QR147.6mn in 2011, the primary reason for the bottom-line growth. However, impairments of financial investments increased to QR44.5mn vs. QR15.0mn in 9M2011. Going forward, we estimate QIIK to post net income of QR180.9mn in 4Q2012 vs. QR190.7mn in 3Q2012, a decline of 5.2% QoQ. The decline will primarily be due to the absence of reversal in provisions; the bank reversed earlier provisions on financing activities in 3Q2012. For 2012 and 2013, we expect QIIK to post earnings of QR711.7mn and QR777.3mn, respectively.

Catalysts

Qatar's growth story is underpinned by an array of projects, which are crucial to driving economic growth. We estimate an annual spend of approximately \$30bn for the next three years before a drop in spending in 2016 on projects that are currently underway or announced (owing to project completion). However, it is likely that new projects will be initiated, which will boost project spending in the longer term. The total budgets of all projects currently underway in Qatar is \$243bn, including all projects that have been initiated, including those that are under study, being designed or in the tendering process, and also including medium to long-term spending plans. Thus, as the projects are implemented and the private sector becomes more involved, we expect QIIK to aggressively expand its loan book by CAGR of 18.1% (2011-2015). The increase in credit off take would lead to a 9.0% and 9.2% YoY bottom-line growth for 2012 & 2013, respectively. Furthermore, the net income growth rate is expected to accelerate to 11.5% in 2014.

Projects Spend Approximately \$30bn from 2008 to 2015



Source: MEED Projects, QNB Group; Note: Forecasts based on current budgets

Valuation

Our target price of QR57.25 per share implies an upside of 9.7% on the stock. Thus, we rate QIIK a Market Perform.

Valuation Methodology

We have valued QIIK using a blended valuation methodology, which assigns a 75%:25% weighting to a) Warranted Equity Valuation (WEV) and b) Dividend Discount Model (DDM).

We utilize a WEV technique derived from the Gordon Growth Model: $P/B = (RoAE-g)/(Ke-g)$.

This model uses sustainable return on average equity (RoAE) based on the mean forecast over the next 5 years, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at a fair value for this stock. We consider this method best suited to arriving at an intrinsic valuation through the economic cycle.

b) The DDM is a standard discounted cash flow analysis of forecasted dividends, which results in a present value of expected cash flows or cash flow equivalents to investors.

Both valuation perspectives rest on a common Cost of Equity (CoE) assumption of 11.4%.

This discount rate results from the aggregation of the current yield on the 10-year Qatar sovereign bond, equivalent to a risk-free rate of 2.6% and local equity risk premium of 8.0%. We have used a beta of 1.1x vs. 0.98 (actual) to be conservative and to address relative illiquidity.

Valuation Matrix

WEV	
Sustainable RoAE (%)	15.5%
Book Value of 2013e (QR)	35.1
Estimated Cost of Equity (%)	11.4%
Terminal Growth Rate (%)	3.0%
Intrinsic Value (QR)	57.75
Current Market Price (QR)	52.20
Upside Potential/ Valuation Gap (%)	10.6
Equity Value (QR mn)	8,741

DDM	
Present Value of Dividends (QR)	16.8
Present Value of Terminal Value (QR)	39.0
Estimated Cost of Equity (%)	11.4%
Terminal Growth Rate (%)	3%
Intrinsic Value (QR)	55.77
Current Market Price (QR)	52.20
Upside Potential/ Valuation Gap (%)	6.8
Equity Value (QR mn)	8,442

Methodology	Equity Value (QR mn)	Weight (%)	Final Value (QR mn)
DDM	8,442	25	2,111
WEV	8,741	75	6,556
Blended Equity Value			8,666
Shares Outstanding (mn)			151.37
Target Price (QR)			57.25

Source: Bloomberg, *QNBFS estimates

Relative Valuation

Valuation appears to be fair. We believe the bank is fairly valued relative to its Qatari peers. The bank trades on a P/E and P/B multiple of 10.2x and 1.5x on our 2013 estimates, which is in line with the overall average for the Qatari banking sector. QIIK offers an attractive dividend yield (DY) of 7.2% for 2013 in the Qatari banking sector.

Peer Group Valuation

Name	Mkt. Cap. (QR bn)	P/E (x)		P/B (x)		DY (%)	
		CY12e	CY13e	CY12e	CY13e	CY12e	CY13e
Qatar International Islamic Bank*	7.9	11.1	10.2	1.6	1.5	6.7	7.2
Qatar Islamic Bank*	18.0	12.1	11.2	1.5	1.5	6.6	6.9
Masraf Al Rayan*	19.7	13.6	12.6	2.1	1.9	3.8	4.2
Qatar National Bank	92.1	10.8	9.3	2.0	1.7	3.3	3.9
Commercial Bank of Qatar	17.9	9.0	8.2	1.2	1.2	8.1	8.3
Doha Bank*	10.6	7.7	7.5	1.4	1.3	7.8	7.8
Al Ahli Bank	5.9	N/A	N/A	N/A	N/A	N/A	N/A
Al Khalij Commercial Bank	6.2	12.7	15.9	1.1	1.1	5.9	5.9
Average		11.0	10.7	1.5	1.4	6.0	6.3

Source: Bloomberg, *QNBFS estimates

Risks to Our Target Price

- **QIIK cannot maintain market share:** The public sector has been experiencing relatively higher loan growth over the past few quarters. Historically, QNBK and MARK have been the biggest beneficiaries of public sector growth. However, if the trend continues with the public sector taking an increasing share of the lending pie, then QIIK will lose overall market share.
- **Exposed to real estate and consumer segments:** QIIK has 88% of its loan book in two segments; housing/RE (56%) and consumer (32%). Any downturn in these segments can negatively impact the bank. We note that the company is progressively looking to target the infrastructure segment going forward.

Qatar Banking Sector

In the first 9 months of 2012, as reported by the QCB, the banking sector has posted a 19.6% YTD growth in its loan book vs. an 18.5% growth in deposits. Growth has been largely driven by the public sector. The public sector has been the driver thus far, with the loan book improving by 38.1% YTD vs. 8.2% for the private sector; we note that QNBK and MARK are the key players in the public segment. For the full year 2012, we forecast loan growth in excess of 20% but also expect NIMs to contract by approximately 10bps. Going forward, in 2013 and 2014, we expect better visibility on project executions to lead to strong loan book growth; we expect the loan book to increase by 15% in 2013 and 2014. However, raising deposits to meet the expected loan growth could lead to further contraction in NIMs. Hence, we expect another 5bps to 10bps decline in NIMs for 2013.

The overall loan book posted an impressive growth of 19.6% YTD. Total domestic public sector loans were up by 38.1% YTD. The drivers behind this growth were mainly the semi-government and government segments, which grew by 32.7% YTD and 3.6% YTD, respectively. A significant portion of the growth in public sector loans took place in the second quarter (April-June), which witnessed a 26% sequential expansion. Private sector loans continue to lag that of the public sector, registering a growth of 8.2% YTD. The real estate segment posted a growth of 7.1% YTD, while consumption & others segment loans grew by 5.4% YTD.

The public sector led deposit growth in 2012 (YTD). Public sector deposits expanded by 26.6% YTD. As is generally the case, government institutions contributed to the bulk of the growth. This segment grew by 67.9% YTD. On the other hand, private sector deposits increased by 10.6% YTD. Deposits from the retail segment went up by 13.9%, while companies/institutions posted a 7.6% growth YTD.

The 9-months 2012 earnings for Qatari banks has been a mixed bag. Overall, the listed banks posted a 9.5% YoY growth in 9M2012 bottom-line. QNBK contributed the bulk of this bottom-line growth (QR810mn vs. QR1,073mn for the listed banking sector) followed by MARK and Commercial Bank (CBQK).

Net Income for Listed Qatari Banks

In QR mn	9M2011	9M2012	Change YoY	FY2011
Al Ahli Bank	349	367	5.1%	442
Commercial Bank	1,508	1,565	3.8%	1,884
Doha Bank	1,011	1,061	4.9%	1,241
Al Khalij Commercial Bank	359	378	5.3%	487
Masraf Al Rayan	1,012	1,083	7.0%	1,408
Qatar Islamic Bank	1,110	1,131	1.8%	1,365
Qatar International Islamic Bank	504	531	5.4%	653
QNB Group	5,417	6,227	15.0%	7,509
Total Banks	11,270	12,343	9.5%	14,990

Source: Company data

Company Description

QIHK is a full-service bank offering commercial banking services to retail and corporate customers in accordance with Shari'ah principles. Established in 1991, the bank offers commercial finance, foreign trade finance, Murabaha, Mudaraba, Musawama, Ijara and Istisna, current and savings accounts, time deposits, credit cards, consumer finance, electronic cards, safe deposit lockers, internet banking, mobile banking, phone banking services and investment banking related services. As of September 2012, the bank had 15 branches and 71 ATMs in operation.

Solid base with QIA as one of its major shareholders. We believe the 16.7% stake held by the Qatar Investment Authority (QIA) is a comforting factor for investors. Although the QIA has not put forward a nominee for QIHK's Board of Directors (BoD), the stake ensures that the sovereign fund keeps a close eye on the operations and growth prospects of the bank.

Management Team

Name	Designation
H.E. Sheikh Dr. Khaled Bin Thani Bin Abdullah Al-Thani	Chairman and Managing Director
H.E. Sheikh Abdullah Bin Thani Bin A. Al-Thani	Vice Chairman
Abdulbasit Ahmad Abdulrahman Al Shaibei	Chief Executive Officer, Board Director
Edward Tat Seng Wong	Chief Financial Officer

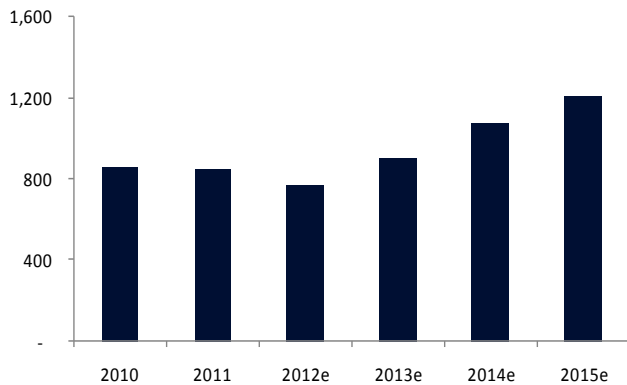
Source: Company data

Key Forecasts

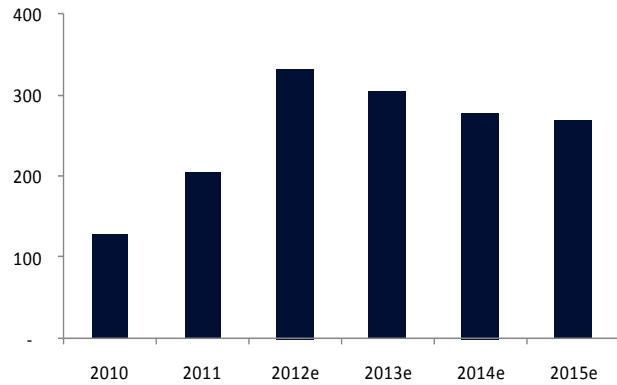
Revenue

We estimate income from financing activities to grow at a CAGR of 9.3% (2011-15). The growth will be driven by a CAGR of 18.1% in the loan book. However, we expect the average lending rate to decline to 5.7% in 2015 from 7.7% in 2011. The decline is already visible in 2012, where we estimate the average lending rate to be 5.9% for the current year. QIIK has also heavily invested in financial investments in 2010 and 2011; the bank raised its investments to QR4.26bn at the end of 2011 from QR0.67bn at the end of 2009. In 9M2012, financial investments have already declined by 4.2% YTD to QR4.08bn. Furthermore, profit rates on such investments (Sukuks) have declined due to ample liquidity in the market. Hence, we expect investments to decline by a CAGR of 3.0% (2011-15). Thus, we estimate revenue from this segment to gradually decline from 2012 and onward.

Revenue from Financing Activities (QR mn)



Revenue from Financial Investments (QR mn)

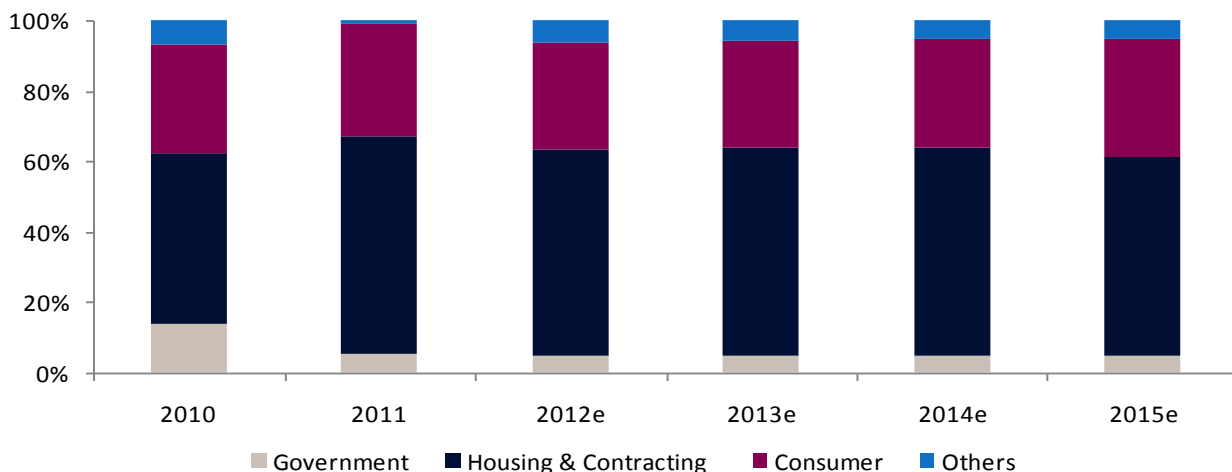


Source: Company data, QNBFS estimates

Loan Book

We estimate a CAGR of 18.1% in terms of loan book growth for 2011-15. Real estate/housing and consumer segments, the historical niche segments for the bank, will drive the growth. We note that management is increasingly focusing on winning business in the infrastructure segment, as opposed to traditional housing. As of 2011, QIIK had 88% of its loan book RE/housing (56%) and consumer (32%). Going forward, we have estimated a CAGR of 15.5% and 20.0% for 2011-15 in these two segments, respectively. Recently, QIIK, in syndication with QIBK extended \$380mn to Qatar Gas Transport Company (Nakilat). QIBK provided \$180mn of Nakilat's financing tranche, with QIIK providing the remaining \$200mn. Such syndicate lending is a positive for the bank, as it tries to improve its share in other segments of the economy.

Loan Book Profile



Source: Company data, QNBFS estimates

- Real estate/infrastructure segment:** Based on data for initiated projects, overall spending should be \$31bn in 2012 and \$30bn in 2013. Investors can also expect new projects to be initiated with time. This will sustain the growth in the construction/infrastructure sector, which the QNB group expects to grow by 8.0% (in real terms) in 2012-13. Historically, overall credit to the contracting segment grew at a CAGR of 16.8% from 2007-11; in the first nine months of 2012, credit growth has been 7.1% YTD.

- Consumer segment:** Consumer spending is becoming a key segment for the overall GDP growth of Qatar. As the volume of projects being implemented has leveled off since 2008, the composition of Qatar's imports (proxy for consumer credit) breakdown has shifted. Categories that relate mainly to major construction and oil and gas projects constituted 52% of the import bill in 2010, down from 64% in 2007. Meanwhile, categories that mainly relate to household spending (vehicles, food, beverages, plants & animals, textiles, clothing, furniture and bedding) accounted for 30% of the import bill in 2010, up from 22% in 2007. Lending for consumption, which is mainly car and personal loans, accounts for almost a third of credit to the private sector. This suggests that domestic demand is growing and consumer spending will be a key factor of GDP growth in the coming years. QNB group expects imports to continue to grow in 2012-13. They are strongly correlated to nominal GDP and expectations for strong services and consumer-driven GDP growth will be replicated in the import bill. In our meeting with QIIK, management also highlighted the fact that they are also targeting the expat community, which is also expected to increase as Qatar allows more foreign workers and their families into the country.

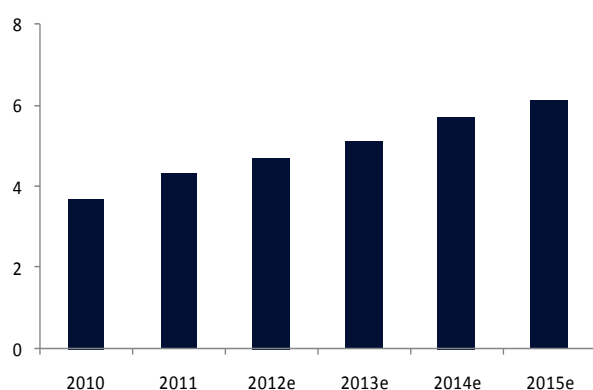
Deposit Book

QIIK's deposit book has been stable during the last three years. Holders of unrestricted accounts (URIA) have been in the range of 78% to 80%, while customer current accounts have been in the range of 20% to 22%. Furthermore, URIA is dominated by individuals; the share has increased from 60% in 2009 to 72% in 2011. Going forward, we estimate little change, as individuals remain sticky depositors for the banks.

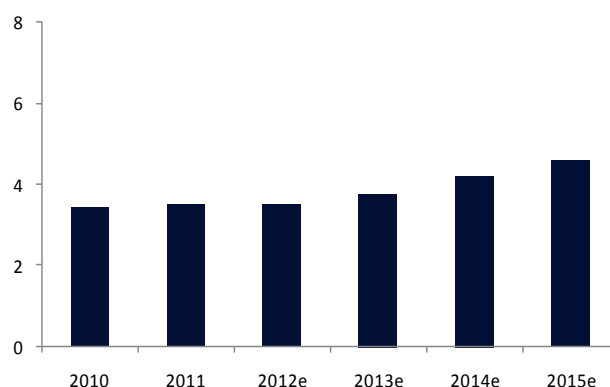
Earnings

QIIK is expected to close the year with an EPS of QR4.70, primarily due to growth in income from financial investments. We feel the bank will maintain DPS of QR3.50, as it will try to keep cash in the company for future loan growth. We expect the dividend payout ratio to be in the vicinity of 75% for the coming years.

EPS Estimates (QR)



DPS Estimates (QR)



Source: Company data, QNBFS estimates; Note: EPS & DPS based on current number of shares

Key Financial Data and Estimates

	2010	2011	2012e	2013e	2014e
EPS (QR)	3.69	4.31	4.70	5.14	5.73
EPS Growth (%)	9.3	16.9	9.0	9.2	11.5
P/E (x)	14.1	12.1	11.1	10.2	9.1
BVS (QR)	25.22	32.33	33.43	35.07	37.04
P/B (x)	2.1	1.6	1.6	1.5	1.4
DPS (QR)	3.44	3.50	3.50	3.75	4.20
Dividend Payout Ratio (%)	93.1	81.1	74.4	73.0	73.4
Dividend Yield (%)	6.6	6.7	6.7	7.2	8.0
ROE (%)	14.7	15.0	14.3	15.0	15.9
ROA (%)	3.3	3.1	2.9	3.0	3.1
LDR (%)	65.4	58.5	67.9	74.4	81.1
Loan Growth (%)	1.2	15.4	26.0	19.1	18.7
Deposit Growth (%)	21.5	28.9	8.7	8.7	8.8

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

Detailed Financial Statements

Income Statement

(In QR mn)	2010	2011	2012e	2013e	2014e	2015e
Income from Financing Activities	855	851	763	902	1,074	1,214
Income from Investing Activities	128	205	332	304	278	269
Total Income from Financing and Investing Activities	983	1,057	1,095	1,206	1,352	1,482
Commission and Fees Income	100	77	83	77	89	52
Commission and Fees Expense	(6)	(7)	(22)	(20)	(24)	(14)
Income from Commission and Fees	94	70	61	56	65	38
Gain from Foreign Exchange Operations	9	7	11	12	13	15
Net Operating Income	1,085	1,134	1,167	1,274	1,430	1,535
General and Administrative Expenses	(154)	(182)	(149)	(157)	(164)	(173)
Depreciation and Amortization	(12)	(13)	(13)	(13)	(13)	(13)
Impairment of Financial Investments	(41)	(2)	(47)	(52)	(57)	(63)
Impairment of Receivables and Financing Activities	(16)	(19)	(10)	(10)	(11)	(11)
Other Income	25	-	-	-	-	-
Sub Total	(197)	(216)	(219)	(232)	(245)	(260)
Net Profit Before URIA	888	918	947	1,042	1,185	1,275
Share of Holders of Unrestricted Investment Accounts (URIA)	(329)	(265)	(236)	(265)	(318)	(348)
Net Profit Attributable to Shareholders	559	653	712	777	867	927
EPS (QR)	3.69	4.31	4.70	5.14	5.73	6.13

Source: Company data, QNBFS estimates Note: EPS based on current number of shares

Balance Sheet

(In QR mn)	2010	2011	2012e	2013e	2014e	2015e
Assets						
Cash and Balances with Qatar Central Bank	955	935	953	1,029	1,132	1,246
Balances and Investments with Banks and Other Financial Institutions	5,148	5,734	4,646	3,890	2,858	3,176
Receivables and Balances from Financing Activities	9,178	10,589	13,343	15,895	18,865	20,591
Financial Investments	1,694	4,259	4,131	4,007	3,887	3,771
Investment in Associates	228	365	376	387	399	411
Investment Properties Held for Leasing	75	236	234	232	229	227
Investment Properties Held for Trading	444	640	768	921	1,105	1,326
Property and Equipment	216	186	187	189	191	193
Other Assets	241	414	476	548	630	724
Total Assets	18,179	23,358	25,115	27,100	29,298	31,665
Liabilities						
Current Accounts from Banks and Financial Institutions	100	16	19	23	28	33
Customers' Current Accounts	2,836	3,952	4,347	4,782	5,260	5,786
Other Liabilities	228	358	375	394	414	435
Total Liabilities	3,164	4,326	4,742	5,199	5,702	6,254
Holders of Unrestricted Investment Accounts	11,198	14,139	15,313	16,593	17,989	19,513
Shareholders' Equity						
Share Capital	1,388	1,514	1,514	1,514	1,514	1,514
Legal Reserves	1,651	2,452	2,452	2,452	2,452	2,452
Fair Value Reserves	66	107	98	98	98	98
Risk Reserves	153	168	168	168	168	168
Foreign Currency Translation Reserve	(2)	(11)	(14)	(14)	(14)	(14)
Other Reserve	41	33	31	31	31	31
Proposed Cash Dividends	520	530	530	568	636	696
Retained Earnings	0	100	282	492	723	954
Total Shareholders' Equity	3,817	4,893	5,060	5,308	5,607	5,898
Total Liabilities, Holders of Unrestricted Investment Accounts and Shareholders' Equity	18,179	23,358	25,115	27,100	29,298	31,665

Source: Company data, QNBFS estimates

Appendix

Major Projects

	\$ bn	Sector	End	Comment
Lusail Mixed-Use Development	45.0	Construction	2015	Waterfront development to the north of Doha. The lead developer is Qatari Diar, a Qatar Investment Authority property investment fund. This phase includes an island, marina and residential, commercial and business districts.
Qatar Integrated Rail Network	35.0	Transport	2020	The project scope includes 300 km of rail, a metro and light rail network in Doha, a passenger and freight railway linking Ras Laffan and Messaieed via Doha, a high-speed rail link between the New Doha International Airport, Doha City Centre and Bahrain via a planned causeway and a freight rail to be linked to a planned GCC network. Phase I of the project, the core elements of the Doha metro and light rail link, is currently being tendered and involves \$12bn of spending, 62km of underground structures and 30km of elevated structures. The main contract for enabling works was awarded in July 2012.
New Doha International Airport	17.5	Transport	2013	The old airport has become inadequate to cater for Qatar's expansion. The new airport, much of it built on reclaimed land, will have six times the capacity. It will eventually handle 50m passengers and 2m tonnes of cargo each year by the time it is complete, although the initial phase opening in 2013 will only include capacity for 25m.
Roads and Associated Facilities	14.6	Construction	2016	The master developer for this project is Asghal, the public works authority. It includes a network of roads, utilities and infrastructure in North Doha (\$4.6bn), South Doha (\$3.9bn), West Doha (\$2.7bn), North Qatar (\$1.8bn) and South Qatar (\$1.6bn). The North Doha projects are at the execution stage while the other areas are at the pre-qualification stage.
Barzan Gas Development	10.3	Gas	2022	RasGas is developing this project to increase gas supply to the domestic market to meet rising demand for power as well as to supply ethane and propane to industry.
Barwa Mixed-Use Development	8.3	Construction	2015	This development to the south of Doha includes residential areas, schools, hospitals, hotels, a golf course, commercial facilities and recreational areas.
Doha, Lusail and Dukhan Highways	8.1	Transport	2016	This project is part of Ashgal's plans to develop a number of major motorways.
New Doha Port	7.0	Transport	2030	The new port will be built to the south of Doha, replacing the old port in central Doha. The project will be completed in five phases, taking total capacity to 12m 20-foot containers.
Education City	6.9	Construction	2014	Qatar Foundation's Education City project includes a university campus, schools, a science and technology park and associated facilities.
Ras Laffan Olefins Complex	6.4	Chemical	2017	A QP and Shell petrochemicals project that will produce downstream products such as ethylene glycol and alpha olefins.
Musheireb Mixed-Use Development	5.5	Construction	2016	A regeneration project in central Doha, balancing modern innovation with cultural heritage. The development will house over 27,000 residents and includes commercial, retail, cultural and entertainment areas.
Ras Laffan Petrochemical Complex	5.0	Chemical	2018	A QP and QAPCO project to increase production of ethylene and propylene, intermediate products in the petrochemical sector.
The Pearl Mixed-Use Development	5.0	Construction	2014	Ongoing development of a man-made island near West Bay, Doha's business district. It is the largest real estate development in the country and is the first to offer freehold to international investors.
2022 World Cup Stadiums	4.0	Construction	2019	Plans for nine new air-conditioned stadiums for the FIFA World Cup in 2022. Most of the stadiums will have a capacity of 40k-50k while the Lusail stadium will have a capacity of 86,250 and will host the opening and final matches.
Al Sidra Golf and Residential Development	3.5	Construction	2015	A golf and residential district within the Lusail development. The project is a JV between Arcapita and Barwa real estate development.

Source: MEED Project and QNB Group

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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