

## Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR12.490	Target Price	QR10.438
Implied Upside	(16.4%)		

### YTD Rally Leaves Little Room for Further Gains; Maintain QR10.438 PT

We maintain our expected 5-year earnings CAGR of 10.8% (2021-26e) for Qatar International Islamic Bank (QIIK) after 1H2022 results. We also retain our Market Perform rating and our TP of QR10.438, as growth in earnings is already priced-in. The stock has rallied ~21% vs. ~9% for the QSE Index since we raised our price target in mid-February. Currently, QIIK's stock is up ~36% YTD, only lagging QIBK's gains among banks. While the stock is set to have its weight increased in MSCI (in November) and in FTSE (in December), we see limited upside as valuation remains rich. QIIK trades at a 2022e P/TB of 2.7x, with a PEG of 1.9x (based on 10.8% earnings CAGR over 2021-26e). Moreover, the stock is trading close to its 5-year high P/B of 3.0x (Low: 1.2x and median: 2.2x). Further, the market is pricing in a sustainable RoE of 20%, above our estimate of 16.5% (20% sustainable RoE is very challenging to achieve, in our view).

### Highlights

- **QIIK generates +5.0% in 1H2022 bottom-line YoY because of a sharp drop in provisions & impairments; non-funded income was strong:** QIIK posted a 1H2022 net profit of QR571.1mn growing by 5.0% YoY, in-line with our estimate of Q565.1mn (+1.1% variation). The large drop in provisions & impairments (-41.1%) offset margin pressure (CoFs remained rigid while yields contracted). On a positive note, fees and f/x income surged by 28.7% and 108.3%, respectively.
- **Healthy RoE generator:** The bank reported a RoE (annualized) of 17.3% in 1H2022 vs. 17.5% in 1H2021. We still forecast RoE to reach 16.5% by 2025e from 14.0% in 2021. Moreover, we estimate RoRWAs to increase from 1.8% in 2021 to 2.0% by 2025e.
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC.** QIIK's cost-to-income ratio remained at a very healthy level, declining from 26.7% in 2017 to 18.8% in 2021 and 19.0% in 1H2022. We expect the C/I ratio to further decline to 17% by 2024, supported primarily by revenue growth.
- **Net loans are expected to grow by a 5-year CAGR (2021-26e) of 5.4% vs. 6.3% in 2016-21.** Net loans contracted by 4.3% in 1H2022 vs. FY2021 to QR35.4bn due to the repayment of facilities by the public sector (excluding loans to the public sector, growth in loans would have been 5.0%). On the hand, retail loans expanded by 12.6% at the end of 1H2022 vs. FY2021 and makes up 44% of total loans (38% in FY2021). Having a large portion of the loan portfolio concentrated with retail loans may give rise to further impairments, in-line with FY2021. On the other hand, deposits increased by 1.6% in 1H2022 vs. FY2021 to QR39.3bn. Hence, LDR dropped from 96% in FY2021 to 90% in 1H2022 (111% in FY2020). Management met its goal in reducing this ratio below 100% and we expect the LDR to hover around the 90% levels.
- **CoR in 2022e is expected to remain high at 89bps, lower than 2021's 95bps.** QIIK booked lower provisions in 1H2022 (QR120.1mn vs QR140.4mn in 1H2021). Hence, CoR (annualized) came in at 33bps vs. 67bps in 1H2021 (FY2021: 95bps). On the other hand, we expect provisions to increase in 2H2022 vs. 1H2022. Moreover, the bank plans to increase credit provisions as it aims to reach 100% coverage of Stage 3 loans.
- **Asset quality remained under pressure, primarily from the retail side...** NPL ratio jumped from 2.57% in FY2021 to 2.73% in 1H2022 (2.64% in 1Q2022 & 1.56% in FY2020). On a positive note, coverage of Stage 3 loans improved to 82% vs. 75% in FY2021. Moreover, management continued on building its buffers for Stage 2 loans. As such, allowance for loan losses (Stage 2) increased by 10% vs. FY2021. Going forward, we forecast coverage ratio to continue to increase as management targets 100% coverage of Stage 3 loans.
- **...however, capitalization remains strong.** QIIK ended 1H2022 with a robust Tier-1 ratio of 15.2%. CET1 ratio was flat 11.2% vs. FY2020. We expect management to maintain a healthy capital position in the near future.

### Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 3.2%); 2) Weight increases in MSCI/FTSE EM indices this year.

### Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Market Perform rating and price target of QR10.438. QIIK is trading at a 2022e P/TB and P/E of 2.7x and 20.5x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in impairments and 2) Geopolitical risks.

### Key Financial Data and Estimates

	2021	2022e	2023e	2024e
Attributable EPS (QR)	0.575	0.609	0.655	0.744
EPS Growth (%)	7.9	6.0	7.4	13.7
P/E (x)	21.7	20.5	19.1	16.8
Tangible BVPS (QR)	4.3	4.6	4.8	5.2
P/TBV (x)	2.9	2.7	2.6	2.4
RoE (%)	14.0	14.0	14.3	15.4
DPS (QR)	0.375	0.400	0.425	0.475
Dividend Yield (%)	3.0	3.2	3.4	3.8

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

### Key Data

Current Market Price (QR)	12.490
Dividend Yield (%)	3.0
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	14.390/9.210
3-m Average Volume (mn)	1.25
Mkt. Cap. (\$ bn/QR bn)	5.2/18.9
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	18.1
1-Year Total Return (%)	+35.7
Fiscal Year End	December 31

Source: Bloomberg (as of August 21, 2022), \*Qatar Exchange (as of August 18, 2022); 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

## Detailed Financial Statements

Income Statement (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Net Interest Income	1,255	1,422	1,434	1,332	1,446	1,603
Fees & Commissions	181	203	250	290	255	286
FX Income	12	48	42	64	51	47
Other Income	(32)	3	16	27	27	35
<b>Non-Interest Income</b>	<b>161</b>	<b>253</b>	<b>308</b>	<b>381</b>	<b>333</b>	<b>369</b>
Total Revenue	1,416	1,675	1,742	1,713	1,779	1,971
Operating Expenses	(342)	(341)	(328)	(316)	(316)	(333)
Net Operating Income	1,074	1,335	1,414	1,398	1,463	1,638
Net Provisions & Impairments	(147)	(397)	(411)	(340)	(336)	(372)
<b>Net Profit (Headline/Reported)</b>	<b>927</b>	<b>938</b>	<b>1,003</b>	<b>1,057</b>	<b>1,127</b>	<b>1,266</b>
Payment on Tier-1 Sukuk	(55)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(23)	(25)	(26)	(28)	(32)
<b>Net Profit (Attributable)</b>	<b>849</b>	<b>806</b>	<b>870</b>	<b>923</b>	<b>991</b>	<b>1,126</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Cash & Balances with Central Bank	2,270	2,776	2,670	2,773	3,031	3,237
Interbank Loans	9,617	10,508	13,426	15,674	14,581	13,278
Net Investments	6,189	5,852	7,220	7,005	7,841	8,465
Net Loans	37,011	40,514	37,031	35,623	38,372	41,494
Investment In Associates	337	345	264	256	252	253
Other Assets	293	351	252	232	247	285
Net PP&E	261	242	231	223	211	201
Investments In Real Estate	854	724	697	697	697	697
<b>Total Assets</b>	<b>56,831</b>	<b>61,314</b>	<b>61,792</b>	<b>62,483</b>	<b>65,232</b>	<b>67,909</b>
<b>Liabilities</b>						
Interbank Deposits	14,010	13,128	9,922	8,847	8,538	7,783
Customer Deposits	31,229	36,352	38,646	40,192	42,684	45,586
Term Loans	2,563	2,566	3,543	3,543	3,543	3,543
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	870	944	979	844	1,024	1,071
<b>Total Liabilities</b>	<b>50,764</b>	<b>55,082</b>	<b>55,182</b>	<b>55,518</b>	<b>57,881</b>	<b>60,075</b>
<b>Total Shareholders' Equity</b>	<b>6,068</b>	<b>6,231</b>	<b>6,610</b>	<b>6,965</b>	<b>7,351</b>	<b>7,833</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>56,831</b>	<b>61,314</b>	<b>61,792</b>	<b>62,483</b>	<b>65,232</b>	<b>67,909</b>
<b>Risk Weighted Assets</b>	<b>40,763</b>	<b>47,132</b>	<b>49,250</b>	<b>53,423</b>	<b>56,752</b>	<b>60,439</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2019	2020	2021	2022e	2023e	2024e
<b>Profitability (%)</b>						
RoE	14.6	13.4	14.0	14.0	14.3	15.4
RoAA	1.6	1.4	1.4	1.5	1.6	1.7
RoRWA	2.2	1.8	1.8	1.8	1.8	1.9
NIM (% of IEAs)	2.56	2.60	2.51	2.35	2.46	2.55
NIM (% of RWAs)	3.20	3.24	2.97	2.60	2.63	2.73
NIM (% of AAs)	2.34	2.41	2.33	2.14	2.26	2.41
Spread	2.01	2.20	2.15	1.99	2.06	2.09
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	24.1	20.3	18.8	18.4	17.8	16.9
Cost-to-Income (Core)	23.7	20.5	19.1	18.8	18.1	17.3
<b>Liquidity (%)</b>						
LDR	110	104	88	81	83	84
Loans/Assets	65.1	66.1	59.9	57.0	58.8	61.1
Cash & Interbank Loans-to-Total Assets	20.9	21.7	26.0	29.5	27.0	24.3
Deposits to Assets	54.9	59.3	62.5	64.3	65.4	67.1
Wholesale Funding to Loans	44.8	38.7	36.4	34.8	31.5	27.3
IEAs to IBLs	128	129	129	126	133	134
<b>Asset Quality (%)</b>						
NPL Ratio	1.9	1.6	2.6	3.0	3.1	2.4
NPL to Shareholders' Equity	11.8	10.4	14.8	16.8	17.6	13.9
NPL to Tier-1 Capital	9.9	8.8	12.8	14.6	15.4	12.3
Coverage Ratio	93.6	128.9	123.1	131.6	143.7	199.1
ALL/Average Loans	1.9	2.0	2.9	3.9	4.6	5.0
Cost of Risk (bps)	37	59	95	89	83	74
<b>Capitalization (%)</b>						
CET1 Ratio	12.6	11.2	11.3	11.1	11.2	11.3
Tier-1 Ratio	17.7	15.6	15.6	15.0	14.8	14.7
CAR	18.5	16.5	16.7	16.2	16.0	15.9
Leverage (x)	9.4	9.8	9.3	9.0	8.9	8.7
<b>Growth (%)</b>						
Net Interest Income	7.8	13.3	0.8	-7.1	8.6	10.8
Non-Interest Income	14.0	57.7	21.5	23.7	-12.6	10.7
OPEX	4.9	-0.2	-3.9	-3.7	0.3	5.3
Net Operating Income	9.7	24.2	6.0	-1.2	4.7	12.0
Net Income (Attributable)	5.4	-5.0	7.9	6.0	7.4	13.7
Loans	32.2	9.5	-8.6	-3.8	7.7	8.1
Deposits	0.3	16.4	6.3	4.0	6.2	6.8
Assets	13.1	7.9	0.8	1.1	4.4	4.1
RWAs	7.8	15.6	4.5	8.5	6.2	6.5

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

### Contacts

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

Saugata Sarkar, CFA, CAIA  
Head of Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
Senior Research Analyst  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

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