

## QIHK Alert – 3Q2021 Broadly In-Line; Bottom-Line Driven by a Sharp Drop in Provisions

- **QIHK's 3Q2021 broadly in-line with estimates.** Qatar International Islamic Bank (QIHK) reported a net income of QR295.9mn in 3Q2021, broadly in-line our estimate of QR280.8mn (+5.4% variation). Net income increased by 8.8% YoY (+12.2% sequentially). The YoY and sequential increase in profitability was mainly driven by a drop in credit provisions.
- **QIHK's YoY & QoQ growth was mainly attributable to a significant drop in provisions as the bank experienced margin pressure and weak non-funded income.** Total revenue decreased by 8.8% YoY (-12.4% QoQ) to QR409.7mn. The decline in revenue was mainly due to margin compression and drop in fees.
- **The bank remains cost-efficient, although C/I ratio went up; not a significant percent.** QIHK's C/I ratio increased to 19.5% vs. 17.7% in 3Q2020 (17.7% in 2Q2021). The increase in the C/I ratio was due to weak revenue as management contained costs. Revenue dropped by 8.8% YoY (-12.4% sequentially), while costs remained flattish YoY (dropped by 3.4% QoQ).
- **Asset quality came under pressure.** NPL ratio increased from 1.58% in 2Q2021 to 2.47% in 3Q2021 (1.56% in FY2020). Moreover, NPLs surged by 44.3% sequentially (47.0% YTD). Hence, Coverage of Stage 3 loans also dropped to 59% vs. 77% in 2Q2021 (FY2020: 71%).
- **QIHK booked significantly lower credit provisions vs. 3Q2020 and 2Q2021.** QIHK booked credit provisions of QR37.1mn vs. QR54.2mn in 3Q2020 and QR122.3mn in 2Q2021. 9M2021 annualized CoR dropped to 61bps vs. 67bps in 1H2021 (56bps in FY2020).
- **Net loans continued to decline, while deposits exhibited healthy performance.** Net loans decreased by 8.1% sequentially to QR37.4bn (down 7.8% YTD), while deposits moved up by 1.3% (+8.2% YTD) to QR39.3bn. As such, the bank's LDR dropped below 2Q2021's 105% to 95% (FY2020: 111%).
- **QIHK maintains a healthy capital position, although it declined sequentially.** Tier-1 ratio declined to 15.5% vs. 16.3% in 2Q2021 (15.6% in FY2020). CET1 ratio moderately receded to 11.3% vs. 11.9% in 2Q2021 (11.2% in FY2020).
- **Valuation and recommendation.** QIHK trades at a P/B of 2.2x on our 2021 estimates. We maintain our Market Perform rating and PT of QR8.379/share for the time being.

### 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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