

MARK/KCBK Alert – QFMA Approves Merger Between MARK and KCBK

The Qatar Financial Markets Authority (QFMA) approves the merger between Masraf Al Rayan (MARK) and Al Khalij Commercial Bank (KCBK). We are positive that the proposed merger will be approved by the Qatar Central Bank, the Ministry of Commerce & Industry and other relevant official bodies, along with approval of the shareholders of both MARK and KCBK after the completion of a detailed legal and financial due diligence. *We are of the view that QFMA's approval is a positive step.*

Once the merger is consummated in the 3rd or 4th quarter of 2021, the combined entity would be one of the largest Shar'ah compliant banks in Qatar with a market share of 10%, in-line with QIBK. MARK has a 7% market share in loans, while KCBK has a market share of 3%. Moreover, the combined bank will have assets north of QR164bn. *Increased weighting in MSCI and FTSE indices should drive further momentum in MARK shares.*

Merger pricing mechanism. MARK will issue 0.50 shares for every KCBK share, corresponding to a total of 1,800 million new shares issued to KCBK's shareholders. This results in a pricing of QR2.277/share vs. current price of QR2.190/share. KCBK's shares rallied by 60.3% from its closing price on June 30, 2020 (before the official announcement of the merger). At that time KCBK was trading at a significant discount to its book value. After the merger announcement the stock is currently trading above its book value.

Valuation:

- **MARK trades at a P/B and P/E of 2.2x and 14.6x on our 2021 estimates, respectively.** We rate MARK an Outperform with a PT of QR5.113/ share.
- **KCBK trades at a P/B and P/E of 1.1x and 12.1x on our 2021 estimates, respectively.** We rate KCBK a Market Perform

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

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