

## Masraf Al Rayan (MARK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR26.65</b>	<b>Target Price</b>	<b>QR27.21</b>
<b>Implied Upside</b>	<b>2.1%</b>		

### 3Q2012 Net Income Dips 3.6% QoQ; Lowering Estimates & Target Price

**Softer-than-expected results; Maintain Market Perform rating.** Masraf Al Rayan reported a net profit of QR358.3mn for 3Q2012, down 3.6% QoQ from QR371.7mn in 2Q2012. The results were below our forecast of QR392.5mn. The QoQ decline was due to a combination of absence of recoveries on financing & investing activities and a slight decline in the loan book (-0.3% QoQ). YTD, MARK shares have underperformed the Banking & Financial Service Index; the stock is down 2.5% (total return) versus the sector, which is up 9.9%. On the valuation front, MARK is trading at a P/E ratio of 12.8x and P/B ratio of 1.9x on our 2013 estimates.

### Financial Results and Key Takeaways

- Income from financing activity increased to QR419.3mn, up 2.8% QoQ. Income from investing activities was QR161.2mn, up 2.2% QoQ. Hence, total income from financing and investing activities jumped to QR580.6mn, up 2.7% QoQ.
- Payment to unrestricted investment account holders increased by 3.4% QoQ to QR178.8mn in 3Q2012. General and administrative expenses increased by 5.0% QoQ. Recovery from earlier impairments was QR0.95mn vs. a reversal of QR15.5mn in 2Q2012. Provisions stood at QR24.4mn in 1Q2012.
- The loan book declined by 0.3% QoQ to QR37.9bn, despite the fact that domestic public sector loans were up 4.0% QTD (Jul-Aug) period. Combined deposits (current accounts and equity of unrestricted investment account holders) grew by 1.0% QoQ to QR51.7bn. Hence, the loan to deposit ratio declined to 73.2% from 74.2% at the end of 2Q2012. MARK had 19.8% of its assets invested in financial investments as of September 2012.

**We have revised our estimates and expect the bank to post EPS of QR1.93 (previously QR2.10) and QR2.08 (previously QR2.55) for 2012 and 2013, respectively.** For next year, our downward revision is on the back of lower loan growth expectation in 2013 (15% YoY growth vs. 18% before). Furthermore, we believe NIMs will contract by 10bps in 2013 as the industry is experiencing repricing by existing clients. We have also updated other assumptions, which lead to a revised target price of QR27.21 from QR28.10 (details on page 2). Hence, we maintain our Market Perform rating on MARK shares.

### Key Data:

Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Services
52wk High/52wk Low (QR)	28.55/23.20
3-m Average Volume	363,343
Mkt. Cap. (\$ bn/QR bn)	5.4/19.8
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO*	15.0
1-Year Total Return (%)	9.1

Fiscal Year End Dec. 31

Source: Bloomberg (as of October 17, 2012), \*Qatar Exchange\* (as of October 17, 2012) Note: FO is foreign ownership

### Broker Recommendations

Recommendation	Number
Buy	0
Hold	3
Sell	1

Source: Bloomberg

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MARK Key Stats (In QR mn)	2Q2012	3Q2012	Change QoQ (%)	Change YoY (%)
Income from Financing Activities	408	419	2.8	28.0
Income from Investing Activities	158	161	2.2	5.3
Total Income from Financing and Investing Activities	565	581	2.7	20.7
Net Fees and Commission Income	30	30	(1.1)	24.5
Total Operating Income	617	629	1.9	19.9
General and Administrative Expenses	(82)	(86)	5.0	23.5
Depreciation	(5)	(5)	(3.4)	(1.0)
Recovery (Impairment Losses) on Receivables from Financing & Investing Activities	15	0	(99.4)	N/A
Return on Equity of Investment Account Holders	(173)	(179)	3.4	39.1
Net Profit to Equity Holders	372	358	(3.6)	11.6
	2Q2012	3Q2012	Change QoQ (%)	Change YTD (%)
Loan Book	37,982	37,862	(0.3)	8.9
Financial Investments	12,196	12,168	(0.2)	1.0
Total assets	60,534	61,436	1.5	11.2
Customer Current Accounts	2,029	2,564	26.4	(38.5)
Equity of Investment Account Holders	49,162	49,159	(0.0)	16.8
Total Shareholders' Equity	8,853	9,214	4.1	8.3

Source: Company data

## New vs. Old Estimates

Key Estimates (In QR mn)	2012	2013	2014
<b>Income from Financing &amp; Investing Activities (New Estimate)</b>	<b>2,288</b>	<b>2,438</b>	<b>2,739</b>
Income from Financing & Investing Activities (Old Estimate)	2,255	2,710	3,410
<b>Return on Equity of Investment Account Holders (New Estimate)</b>	<b>681</b>	<b>713</b>	<b>803</b>
Return on Equity of Investment Account Holders (Old Estimate)	606	660	1,000
<b>Net Profit to Equity Holders (New Estimate)</b>	<b>1,450</b>	<b>1,561</b>	<b>1,755</b>
Net Profit to Equity Holders (Old Estimate)	1,574	1,913	2,264
<b>Loan Book (New Estimate)</b>	<b>39,633</b>	<b>45,578</b>	<b>51,047</b>
Loan Book (Old Estimate)	39,978	47,238	54,986
<b>Total Assets (New Estimate)</b>	<b>63,331</b>	<b>71,810</b>	<b>80,156</b>
Total Assets (Old Estimate)	56,626	62,699	68,662
<b>Equity of Investment Account Holders &amp; Deposits (New Estimate)</b>	<b>53,222</b>	<b>60,571</b>	<b>67,831</b>
Equity of Investment Account Holders & Deposits (Old Estimate)	46,261	51,174	55,519
<b>Loan to Deposit Ratio (New Estimate)</b>	<b>74%</b>	<b>75%</b>	<b>75%</b>
Loan to Deposit Ratio (Old Estimate)	86%	92%	99%

## Valuation

Based on our valuation model, the shares of MARK offer 2.1% upside from the current price.

## Valuation Methodology

We have valued MARK 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.
- The DDM is a standard discounted cash flow analysis of forecast declared 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 10.6%.
- 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%.

## Valuation Details

WEV	
Sustainable RoAE (%)	16.8
Book Value of 2013e (QR)	13.9
Estimated Cost of Equity (%)	10.6
Terminal Growth Rate (%)	5.0
Intrinsic Value (QR)	29.2
Current Market Price (QR)	26.6
Upside Potential/ Valuation Gap (%)	9.8
Equity Value (QR mn)	21,899

DDM	
Present Value of Dividends (QR)	4.9
Present Value of Terminal Value (QR)	16.3
Estimated Cost of Equity (%)	10.6
Terminal Growth Rate (%)	5.0
Intrinsic Value (QR)	21.2
Current Market Price (QR)	26.6
Upside Potential/ Valuation Gap (%)	(20.2)
Equity Value (QR mn)	15,922

Methodology	Equity Value (QR mn)	Weight (%)	Final Value (QR mn)
DDM	15,922	25	3,980
WEV	21,899	75	16,424
<b>Blended Equity Value</b>			<b>20,405</b>
Shares Outstanding (mn)			750
<b>Target Price (QR)</b>			<b>27.21</b>

Source: Company data, QNBFS estimates

**Key Financial Data and Estimates**

In QR	2010	2011	2012E	2013E
EPS	1.62	1.88	1.93	2.08
EPS Growth	38%	16%	3%	8%
P/E (x)	16.47	14.17	13.76	12.78
BVPS	9.50	11.34	12.77	13.86
P/B (x)	2.80	2.35	2.08	1.92
DPS	-	0.50	1.00	1.10
Dividend Payout	N/A	27%	52%	53%
Dividend Yield	N/A	2%	4%	4%

Source: Company data, QNBFS estimates

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

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