

MARK Alert – 4Q2020 Falls Short of Estimates; 24% Cut in DPS; Maintain Market Perform

- **MARK's 4Q2020 earnings comes in below estimates:** Masraf Al Rayan (MARK) reported a net profit of QR513.1mn in 4Q2020, falling short of our estimate of QR553.5mn (variation of -7.3%). The bottom-line declined by 2.2% YoY (-11.3% QoQ).
- **Hefty net provisions and impairments offset strong net interest & investment income, resulting in a drop in the bottom-line YoY; non-funded income remained weak YoY and sequentially.** MARK reported net interest & investment income of QR787.4mn, expanding by 32.2% YoY (+5.3% QoQ) on strong margin improvement. On the other hand, non-funded income dropped by 30.8% YoY (-14.4% QoQ) on the back of weak fees & f/x income (as a result of subdued operating environment caused by COVID-19 disruptions). Fees & commissions dropped by 13.1% YoY but recovered QoQ (+8.1%) after further COVID-19 partial restrictions were lifted. Moreover, f/x income dropped by 66.8% and 60.7% YoY and QoQ, respectively.
- **MARK cut DPS, in-line with QIBK and QNBK.** The bank cut DPS by 24% from QR0.225 in 2019 to 0.170 in FY2020, offering a yield of 3.8%.
- **MARK booked a surge in net provisions & impairments.** Net provisions & impairments came in at QR177.7mn vs QR49.5mn in 4Q2019 (QR101.3mn in 3Q2020). Although asset quality did not materially deteriorate, we believe the bank booked precautionary provisions as a result of COVID-19 disruptions.
- **Margins improved YoY but remained flat sequentially.** NIMs increased by ~50bps YoY to ~2.86%. This was mainly due to the CoFs dropping more than yields.
- **C/I ratio remained healthy; MARK generated positive JAWS.** MARK generated a C/I ratio of 20.9% in 4Q2020 vs. 20.5% in 4Q2019 (20.1% in 3Q2020). Moreover, the bank generated positive JAWS of 6.2% YoY in FY2020 as revenue grew by 11.6%, outpacing the 5.4% growth in opex.
- **Loans expanded QoQ & YoY; deposits followed suit.** Net loans increased by 6.4% sequentially to QR85.98bn (+14.9% YoY), while deposits gained by 3.4% to QR68.92bn (+5.0% YoY). Thus, MARK's LDR position remained challenging at 125% vs. 114% in FY2019. Growth in loans was driven by the government and real estate sectors.
- **Asset quality remains superior as MARK's main exposure is to the public sector.** The bank's NPL ratio increased QoQ from 1.08% in 3Q2020 to 1.13% at the end of 2020 (1.01% at the end of 2019).
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 2020 with a CAR of 19.7%.
- **Recommendation and valuation:** The stock trades at a P/B of 2.2x on our 2021 estimates. For now, we maintain our PT of QR3.766 and Market Perform rating.

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

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

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

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.