

## Masraf Al Rayan (MARK)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR2.722	Price Target	QR3.112
Implied Upside	14.6%		

### Stock Needs a Catalyst; Stay Accumulate For Now

**Factoring in 1Q2023 results, we maintain our estimates for 2023 and 2024.** Thus, our RoE estimates for 2023/2024 remains unchanged at 6.7/8.2%. Hence, we maintain MARK's price target at QR3.112/share and our Accumulate rating. Given MARK's asset quality situation, the stock is trading at 2023e/24e P/B of 1.2x /1.1x (lower than its historical 5-year median of 2.2x and its high of 2.5x). The stock has underperformed its peers on an YTD and 1-year TTR basis. We note that while MARK's current relative valuation looks attractive, the stock needs a strong catalyst.

#### Highlights

- We still expect double-digit growth in earnings:** We still estimate MARK's bottom-line to grow from 2022's QR1.26bn to QR2.74bn by 2027e. The bank's earnings should be driven by CoR normalizing (although CoR is expected to remain elevated).
- MARK's 1Q2023 net profit fell short of our estimates on the account of high CoFs:** Masraf Al Rayan reported a net profit of QR385.0mn in 1Q2023 (lower than our estimate of QR518.0mn), declining by 21.1% YoY. We note sequential results (1Q2023 vs. 4Q2022) are not strictly comparable due to restatements.
- The drop in 1Q2023 profitability was mainly attributable to a large jump in CoFs.** CoFs increased from ~1.39% in 1Q2022 to ~4.36% in 1Q2023. As such, MARK's NIM contracted from 2.32% in 1Q2022 to 1.80% in 1Q2023.
- 1Q2023 annualized RoE came in at 6.9% vs. 8.6% in 1Q2022; RoE is battered and it will take a while to recover.** RoE declined from 11.3% in 2021 to 5.8% in 2022 (pre-merger RoE hovered at the 16% level). It will take a long time for RoE to pick up despite double-digit growth in earnings; thus, we maintain our RoE estimates for 2023/2024 at 6.7/8.2%.
- Although MARK's primary exposure is to the public sector, asset quality has faced headwinds with NPLs spiking; the bulk/majority of NPLs appear to be attributed to the construction and real estate segments.** Pre-merger, the NPL ratio hovered around 1% but has increased to 6.2% by the end of 1Q2023. NPLs surged from QR1.92bn in FY2021 to QR7.45bn in 1Q2023 (NPL formation of QR5.53bn). Moreover, Stage 2 loans as a % of total loans increased from 2021's 14% to 25% as of 1Q2023. At the same time, coverage of Stage 3 loans increased from 46% in FY2022 to 50% in 1Q2023.
- CoR to stay on the high side in the near-to-medium term as MARK builds buffers to reach a coverage ratio of >100%; credit provisions jumped by 20.7% to QR328.2mn YoY in 1Q2023.** CoR spiked from 87bps in 1Q2022 to 109bps in 1Q2023. We maintain our estimates of CoR at 114bps for 2023 and 92bps in 2024 (2025: 82bps) as management increases coverage of Stage 3 loans. We expect CoR to normalize at ~60bps by 2027.
- Loans and deposits both dropped sequentially in 1Q2023; loans are still estimated to increase by a CAGR of 5.6% in 2022-27e.** Net loans decreased by 1.1% QoQ to QR116.5bn, while deposits declined by 3.7% sequentially to QR93.7bn. We maintain our estimates and still expect loans to increase from 2022's QR117.9bn to QR154.4bn by the end of 2027. We expect loan growth to be driven by the public sector.
- CET1 to remain robust and highest among its peers.** MARK ended 1Q2023 with CET1/Tier-1 ratios of 19.0%/20.0%.

#### Catalysts

- 1) Normalizing CoR, which results in strong RoE ahead of expectations.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our QR3.112 PT and Accumulate rating.** MARK is trading at P/TB and P/E of 1.2x and 17.8x on our 2023 estimates, respectively.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

#### Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.14	0.15	0.19	0.23
EPS Growth (%)	-22.4	12.8	25.9	21.2
P/E (x)	20.0	17.8	14.1	11.6
Tangible BVPS (QR)	2.30	2.35	2.42	2.51
P/TBV (x)	1.2	1.2	1.1	1.1
RoE (%)	5.8	6.7	8.2	9.6
DPS (QR)	0.100	0.125	0.150	0.175
Dividend Yield (%)	3.7	4.6	5.5	6.4

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

#### Key Data

Current Market Price (QR)	2.722
Dividend Yield (%)	3.7
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000AOM8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.890/2.427
3-m Average Volume (mn)	13.2
Mkt. Cap. (\$ bn/QR bn)	6.9/25.3
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	15.1
1-Year Total Return (%)	(40.2)
Fiscal Year End	December 31

Source: Bloomberg (as of May 21, 2023), \*Qatar Exchange (as of May 21, 2023); Note: FO is foreign ownership

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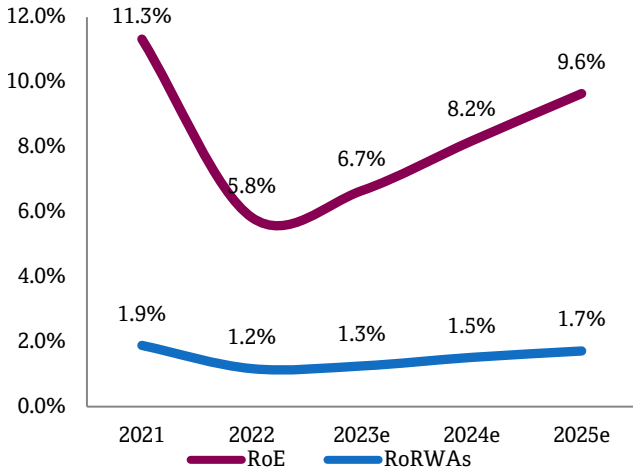
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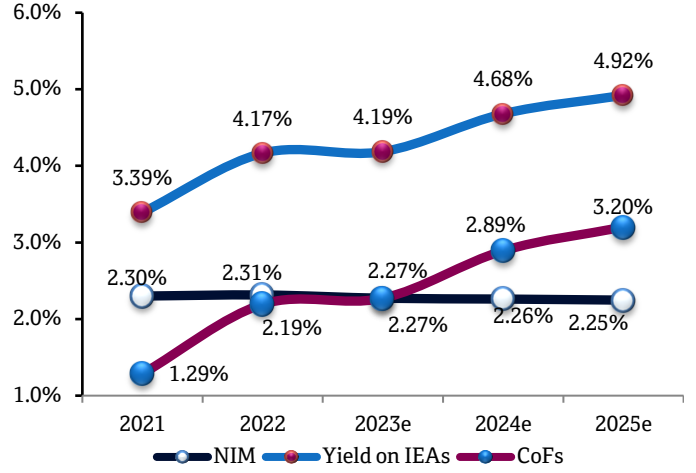
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**RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE**

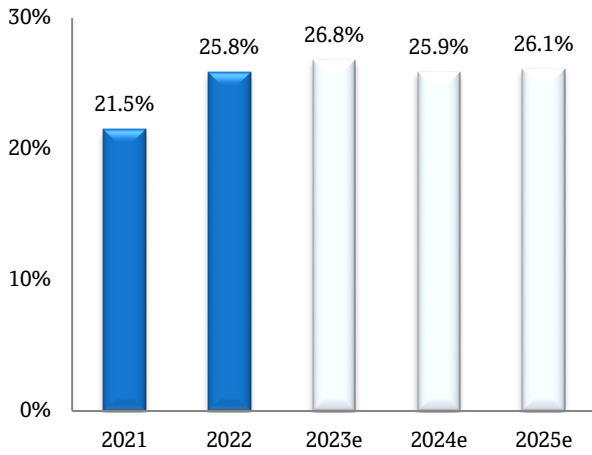


Source: Company data, QNB FS Research

**While Margins to Remain Under Pressure**

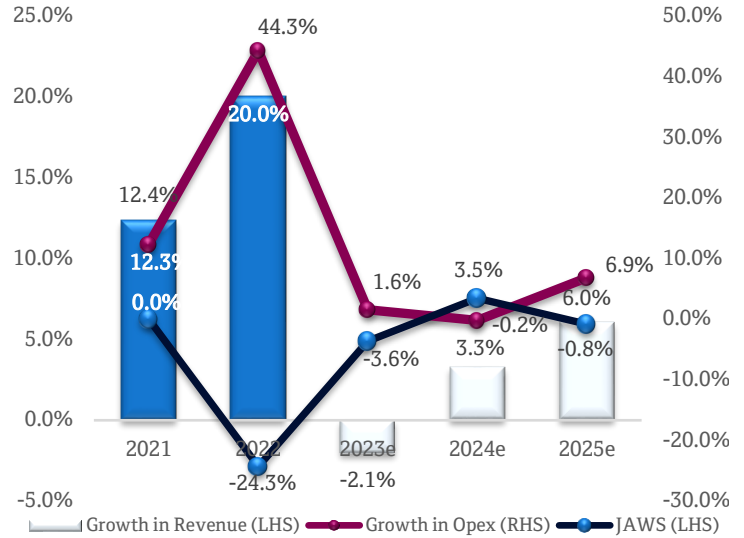


**C/I Ratio to Remain at Current Levels Due to Cost Containment**

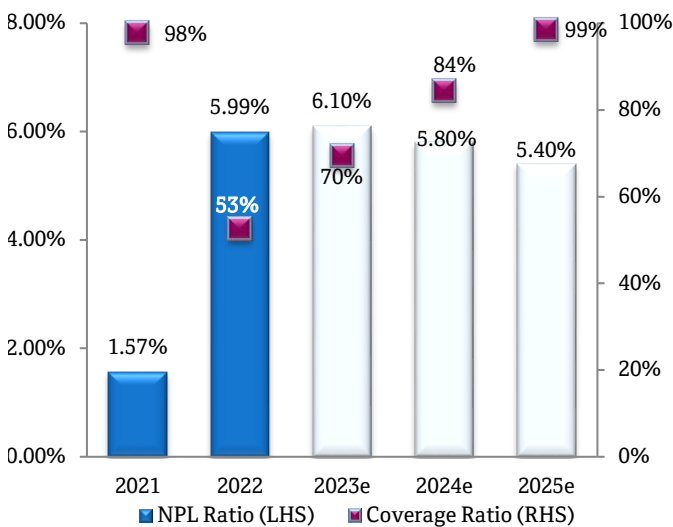


Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

**While Generating Negative-to-Neutral JAWS**



**NPL Ratio Spiked on The Back of Contracting & Real Estate Loans**



Source: Company data, QNB FS Research

**Coverage of Stage 3 Loans (NPLs) Remains at a Low of 50%**

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	83,248,020	30,026,391	7,451,394	120,725,805
ALLs	44,752	433,540	3,725,019	4,203,311
Stages %				
Loans	69.0%	24.9%	6.2%	
<b>Coverage Ratio</b>	<b>0.05%</b>	<b>1.44%</b>	<b>50%</b>	

## Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>3,113</b>	<b>3,607</b>	<b>3,528</b>	<b>3,611</b>	<b>3,799</b>	<b>3,984</b>
Fees & Commissions	324	432	401	441	494	569
FX Income	173	271	288	309	328	351
Other Income	19	46	47	42	48	50
<b>Non-Interest Income</b>	<b>516</b>	<b>748</b>	<b>736</b>	<b>793</b>	<b>871</b>	<b>969</b>
<b>Total Revenue</b>	<b>3,629</b>	<b>4,355</b>	<b>4,265</b>	<b>4,404</b>	<b>4,670</b>	<b>4,953</b>
Operating Expenses	(780)	(1,126)	(1,143)	(1,141)	(1,219)	(1,288)
<b>Net Operating Income</b>	<b>2,849</b>	<b>3,229</b>	<b>3,121</b>	<b>3,263</b>	<b>3,451</b>	<b>3,665</b>
Net Provisions & Impairments	(1,097)	(1,710)	(1,572)	(1,324)	(1,111)	(1,048)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>1,752</b>	<b>1,519</b>	<b>1,550</b>	<b>1,939</b>	<b>2,340</b>	<b>2,617</b>
Tax	(5)	(22)	(23)	(29)	(35)	(39)
<b>Net Profit Before Minority Interest</b>	<b>1,747</b>	<b>1,497</b>	<b>1,527</b>	<b>1,910</b>	<b>2,305</b>	<b>2,578</b>
Minority Interest	(13)	(19)	(19)	(24)	(29)	(33)
Non-Recurring Items	(16)	(134)	-	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>1,718</b>	<b>1,344</b>	<b>1,508</b>	<b>1,886</b>	<b>2,276</b>	<b>2,546</b>
Interest Expense on AT1 Bond	(48)	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(43)	(36)	(38)	(47)	(57)	(64)
<b>Net Profit (Attributable)</b>	<b>1,627</b>	<b>1,263</b>	<b>1,424</b>	<b>1,793</b>	<b>2,173</b>	<b>2,436</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
<b>Assets</b>						
Cash & Balances with Central Bank	5,221	5,088	5,312	5,465	5,957	6,434
Interbank Loans	9,156	6,109	7,102	6,230	7,369	4,334
Net Investments	32,753	31,477	34,975	32,204	36,194	39,075
Net Loans	120,880	117,859	118,365	124,608	133,979	144,483
Investment In Associates	349	346	355	365	375	382
Other Assets	3,280	4,074	4,068	3,937	3,806	3,898
Net PP&E	715	902	954	994	1,055	1,103
Goodwill & Intangibles	1,802	1,679	1,679	1,679	1,679	1,679
<b>Total Assets</b>	<b>174,155</b>	<b>167,533</b>	<b>172,808</b>	<b>175,483</b>	<b>190,414</b>	<b>201,388</b>
<b>Liabilities</b>						
Interbank Deposits	23,247	28,805	26,196	17,249	19,423	17,335
Customer Deposits	106,956	97,292	102,156	109,307	119,145	128,676
Sukuks & Borrowings	13,436	11,525	13,830	17,565	20,375	22,820
Other Liabilities	5,850	5,629	5,830	5,912	5,214	5,459
AT1 Notes	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Liabilities</b>	<b>150,488</b>	<b>144,251</b>	<b>149,013</b>	<b>151,033</b>	<b>165,157</b>	<b>175,290</b>
Minority Interest	200	198	217	242	271	303
<b>Total Shareholders' Equity</b>	<b>23,467</b>	<b>23,084</b>	<b>23,578</b>	<b>24,208</b>	<b>24,986</b>	<b>25,795</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>174,155</b>	<b>167,533</b>	<b>172,808</b>	<b>175,483</b>	<b>190,414</b>	<b>201,388</b>
<b>Risk Weighted Assets</b>	<b>104,741</b>	<b>111,079</b>	<b>116,127</b>	<b>120,206</b>	<b>133,290</b>	<b>142,986</b>

Source: Company data, QNB FS Research

Ratios/KPIs	2021	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>						
RoE	11.3	5.8	6.7	8.2	9.6	10.5
RoAA	1.1	0.7	0.8	1.0	1.2	1.2
RoRWA	1.9	1.2	1.3	1.5	1.7	1.8
NIM (% of IEAs)	2.30	2.31	2.27	2.26	2.25	2.19
NIM (% of RWAs)	3.61	3.34	3.11	3.06	3.00	2.88
NIM (% of AAs)	2.11	2.11	2.07	2.07	2.08	2.03
Spread	2.1	2.0	1.9	1.8	1.7	1.6
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	21.5	25.8	26.8	25.9	26.1	26.0
Cost-to-Income (Core)	21.6	26.0	27.1	26.1	26.4	26.3
<b>Liquidity (%)</b>						
LDR (Loans to Stable Sources of Funds)	100	108	102	98	96	95
Loans/Assets	69.4	70.3	68.5	71.0	70.4	71.7
Cash & Interbank Loans-to-Total Assets	8.3	6.7	7.2	6.7	7.0	5.3
Deposits to Assets	61.4	58.1	59.1	62.3	62.6	63.9
Wholesale Funding to Loans	30.3	34.2	33.8	27.9	29.7	27.8
IEAs to IBLs	118.1	118.9	118.5	120.6	118.9	118.9
<b>Asset Quality (%)</b>						
NPL Ratio	1.57	5.99	6.10	5.80	5.40	5.00
NPL to Shareholders' Equity	8.19	31.60	31.98	31.39	30.58	29.67
NPL to Tier 1 Capital	9.04	33.70	32.96	31.36	29.70	28.09
Coverage Ratio	97.8	52.7	69.6	84.5	98.6	112.1
ALL/Average Loans	1.7	2.6	3.9	4.6	5.1	5.4
Cost of Risk (bps)	87	127	114	92	82	71
<b>Capitalization (%)</b>						
CET1 Ratio	19.4	18.6	18.8	19.3	18.6	18.4
Tier-1 Ratio	20.3	19.5	19.7	20.2	19.3	19.1
CAR	21.2	20.3	20.5	21.0	20.1	19.9
Leverage (x)	7.4	7.3	7.3	7.2	7.6	7.8
<b>Growth (%)</b>						
Net Interest Income	12.4	15.9	-2.2	2.4	5.2	4.9
Non-Interest Income	11.9	45.1	-1.6	7.6	9.9	11.3
Opex	12.3	44.3	1.6	-0.2	6.9	5.7
Net Operating Income	12.4	13.4	-3.3	4.5	5.8	6.2
Net Income (Reported)	-21.0	-21.7	12.2	25.1	20.7	11.8
Net Income (Attributable)						
Loans	40.2	-2.5	0.4	5.3	7.5	7.8
Deposits	55.2	-9.0	5.0	7.0	9.0	8.0
Assets	43.7	-3.8	3.1	1.5	8.5	5.8
RWAs	54.8	6.1	4.5	3.5	10.9	7.3

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

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