

Qatar Islamic Bank (QIBK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR18.17	Target Price	QR24.18
Implied Upside	33.1%		

Valuation Remains Undemanding; Upgrading to Outperform

We still maintain our expected 5-year earnings CAGR of 11.5% (2022-27e) for Qatar Islamic Bank (QIBK) after its 3Q2023 results despite slightly tweaking our estimates for 2023, 2024 and 2025 (see page 3). We also retain our PT of QR24.18/share, but raise our rating from Accumulate to Outperform. As such, we believe the stock is trading at attractive levels. QIBK is trading at a P/B of 1.5x on our 2024e estimates (53% discount to its 5-year median of 2.3x), which implies significant upside, in our view. We note that the stock's 5-year median P/B is 2.3x (5-year high P/B of 3.0x and 5-year low of 1.6x). Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e/24e: 17.5% & 2025e: 17.6%); moreover, the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium.

Highlights

- **QIBK reported in-line 3Q2023 net profit:** Qatar Islamic Bank (QIBK) reported earnings of QR1,099.9mn in 3Q2023, in-line with our estimate of QR1,119.4mn (variation of -1.7%).
- **Bottom-line was driven by core banking income and cost management.** Total revenue increased by 5.2% YoY to QR1,659.7mn (right in-line with our estimate of QR1,658.6mn), driven by net interest & investment income and fees. Net interest & investment income increased by 7.0% YoY to QR1,405.2mn, also in-line with our estimate of QR1,398.7mn (variation of +0.5%); NIMs expanded by 19bps YoY to ~3.3%. At the same time, fees increased by 2.7% YoY. Opex dropped by 3.7%, resulting in net operating income increasing by 7.2% to QR1,384.1mn (in-line with our estimate of QR1,391.0mn; variation of -0.5%).
- **Robust RoE and RoRWA trajectory to continue; 9M2023 RoE came in at 17.5%:** QIBK boasts one of the highest RoEs and RoRWAs among its domestic and regional peers. Moreover, RoRWAs was an impressive 2.8%. The bank's RoE jumped from 15.2% in FY2016 to 18.1% in FY2022, despite the large amounts of provisions booked during the COVID-19 pandemic era along with precautionary provisions due to QIBK's prudent risk approach. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.8% in 2022/9M2023 and we still expect this metric to increase to 3.2% by 2027.
- **QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs; reported C/I of 17.3% and neutral JAWs in 9M2023.** The bank's C/I ratio dropped from 30.8% in 2015 to 17.4% in 2022 (1Q2023: 18.8%). Moreover, QIBK generated robust JAWs of 8.7% on average (2017-2022). We pencil in C/I ratios of 17.0%/16.6% in 2023/2024.
- **Net loans continued its positive trajectory but remains sluggish.** Net loans increased by 1.9% sequentially to QR121.8bn (+2.1% YTD). Deposits picked up pace and increased by 3.9% QoQ to QR121.5bn (-0.7% YTD). We lower our growth forecast for net loans from 6.7% to 2.3% in 2023, but maintain a CAGR of 6.1% (2022-2027e).
- **CoR to remain elevated given management's conservative risk management nature but we do not expect it to be > ~100bps levels (2020 & 2021).** Net credit provisions increased by 16.5% YoY in 3Q2023 (declined by 5.3% sequentially) to QR267.3mn. On a positive note, 9M2023 CoR improved from 118bps in 9M2022 to 90bps (FY2022: 92bps). We lower our estimate of CoR from 84bps to 79bps for 2023e. We still expect CoR to normalize ~70bps by 2026e/27e. A decent chunk of CoR is coming from Stage 1 loans as management is upping its buffers. 59% of ECLs (FY2022: 54%) is attributed to Stage 1 loans.
- **Asset quality remains superior; we still do not expect any headwinds going forward.** NPL ratio improved to 1.45% in 3Q2023 vs 1.51% in 2Q2023 and 1.53% in FY2022. During the same time, NPL formation was negative, which is a positive (dropping by 2.0% sequentially and 3.3% vs. FY2022; also dropping by 11.1% in FY2022 vs. FY2021). Coverage of Stage 3 loans was a strong 95%.

Catalysts

- **For QIBK shares to regain momentum, we need to see dividend upside.** Investor sentiment also generally needs to become more constructive regarding the banking sector and Qatari equities.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target at QR24.18, but increase our rating from Accumulate to Outperform.** QIBK is trading at a 2023e/24e P/TB and P/E of 1.7x/1.5x and 10.6x/9.6x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS (QR)	1.57	1.71	1.89	2.12
EPS Growth (%)	13.7	8.7	10.6	12.0
P/E (x)	11.5	10.6	9.6	8.6
Tangible BVPS (QR)	9.8	10.8	12.1	13.4
P/TBV (x)	1.9	1.7	1.5	1.4
RoE (%)	18.1	17.5	17.5	17.6
DPS (QR)	0.625	0.675	0.725	0.800
Dividend Yield (%)	3.4	3.7	4.0	4.4

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

Key Data

Current Market Price (QR)	18.17
Dividend Yield (%)	3.4
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	25.23/16.81
3-m Average Volume ('000)	1,205.7
Mkt. Cap. (\$ bn/QR bn)	11.8/42.9
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	15.2
1-Year Total Return (%)	(22.7)
Fiscal Year End	December 31

Source: Bloomberg (as of November 08, 2023), *Qatar Exchange (as of November 08, 2023); Note: FO is foreign institutional ownership

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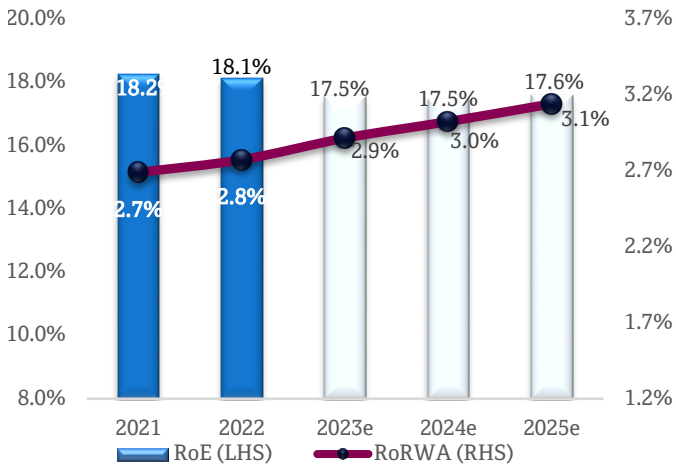
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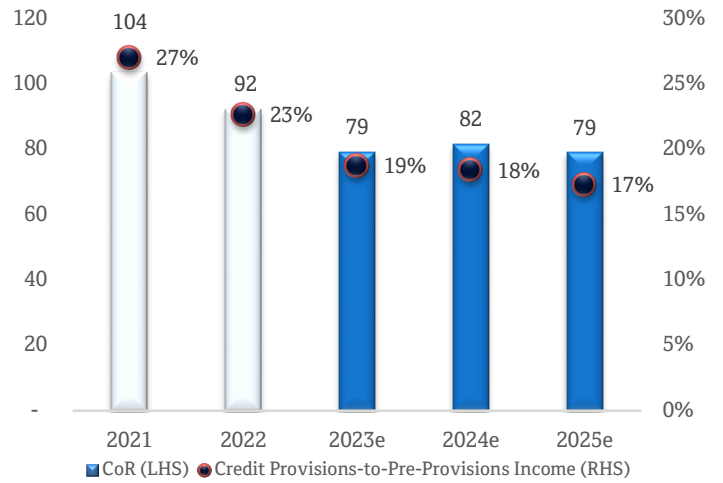
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Robust RoE and RoRWAs Generator

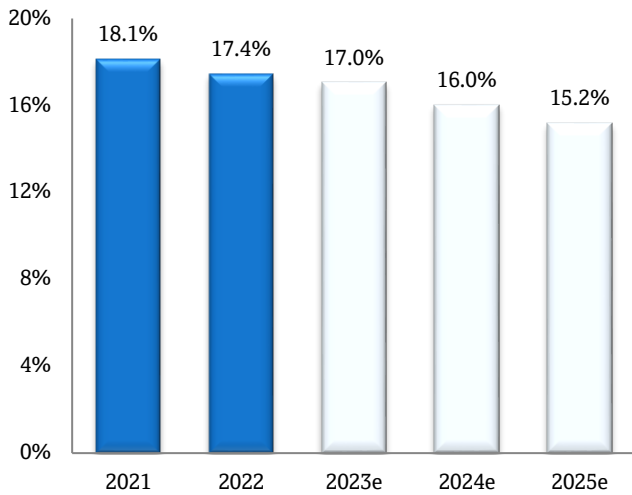


Source: Company data, QNB FS Research

With Healthy CoR Levels

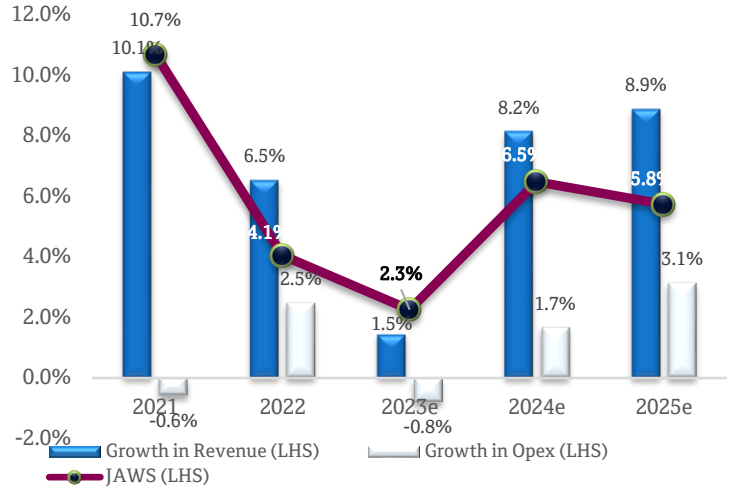


Efficiently Managed Bank

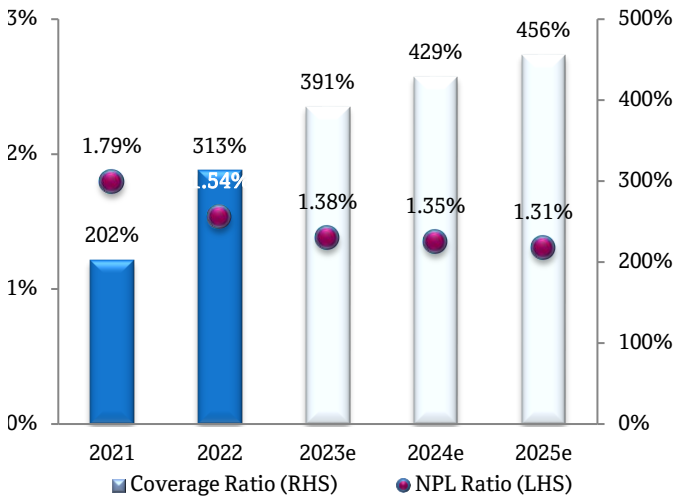


Source: Company data, QNB FS Research

While Generating Strong Revenue Growth and Positive JAWs



Superior Asset Quality



Source: Company data, QNB FS Research

Strong Coverage of Stage 3 Loans

3Q 2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	102,121,886	24,647,442	1,861,279	128,630,607
ECLs	4,025,276	1,038,662	1,764,290	6,828,228
Stages % of Loans	79.4%	19.2%	1.45%	
Stages % ECLS	59.0%	15.2%	25.8%	
Coverage Ratio	4%	4%	95%	

Change in Estimates

(In QR mn)	2023			2024			2025		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	5,392	5,175	-4.0	5,887	5,621	-4.5	6,618	6,964	5.2
Non Interest Income	1,330	1,299	-2.3	1,433	1,382	-3.5	1,402	1,508	0.1
Total Revenue	6,722	6,475	-3.7	7,320	7,003	-4.3	8,020	8,472	5.6
Opex	1,130	1,103	-2.4	1,197	1,122	-6.3	1,245	1,224	0.0
Net Operating Income	5,592	5,371	-3.9	6,123	5,881	-3.9	6,775	7,248	7.0
Net Provisions & Impairments	1,128	1,022	-9.4	1,115	1,089	-2.4	1,135	1,354	0.2
Net Income (Reported/Headline)	4,425	4,336	-2.0	4,934	4,776	-3.2	5,557	5,873	5.7
Net Income (Attributable)	4,127	4,040	-2.1	4,623	4,469	-3.3	5,230	5,538	0.1

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR m)	2020	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	4,350	4,774	4,999	5,175	5,621	6,241	6,964
Fees & Commissions	661	726	810	836	922	932	1,011
FX Income	76	200	122	86	103	96	110
Other Income	353	289	451	377	358	358	387
Non-Interest Income	1,090	1,215	1,383	1,299	1,382	1,385	1,508
Total Revenue	5,439	5,990	6,382	6,475	7,003	7,626	8,472
Operating Expenses	(1,092)	(1,085)	(1,112)	(1,103)	(1,122)	(1,157)	(1,224)
Net Operating Income	4,348	4,904	5,270	5,371	5,881	6,469	7,248
Net Provisions & Impairments	(1,316)	(1,342)	(1,235)	(1,022)	(1,089)	(1,122)	(1,354)
Net Profit Before Taxes & N	3,032	3,563	4,034	4,350	4,793	5,346	5,894
Tax	(7)	(10)	(11)	(12)	(13)	(15)	(16)
Net Profit Before Minority I	3,024	3,553	4,023	4,338	4,779	5,332	5,877
Minority Interest	41	2	(18)	(1)	(3)	(4)	(5)
Non-Recurring/Unusual Gai	0	0	0	0	0	0	0
Net Profit (Headline)	3,065	3,555	4,005	4,336	4,776	5,327	5,873
Interest On Tier-1 Sukuk	(205)	(196)	(188)	(188)	(188)	(188)	(188)
Social & Sports Contribution Fur	(77)	(89)	(100)	(108)	(119)	(133)	(147)
Net Profit (Attributable)	2,783	3,270	3,717	4,040	4,469	5,006	5,538

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Assets							
Cash & Balances with Central Bank	8,357	7,177	7,951	7,239	7,983	8,056	9,451
Interbank Loans	6,913	7,461	3,188	3,907	3,473	4,160	3,002
Net Investments	33,248	44,380	45,774	48,321	49,956	49,318	52,796
Net Loans	119,072	128,409	119,285	122,085	128,635	138,661	150,099
Investment In Associates	1,134	1,140	1,130	1,163	1,196	1,232	1,270
Other Assets	1,937	1,709	2,576	2,655	2,618	2,763	2,674
Net PP&E	462	570	558	524	509	500	495
Investment In Real Estate	2,863	2,854	3,321	3,358	3,396	3,434	3,471
Goodwill & Intangible Assets	370	218	218	218	218	218	218
Total Assets	174,356	193,916	184,001	189,470	197,985	208,341	223,476
Liabilities							
Interbank Deposits	13,828	19,856	17,382	18,624	18,951	17,475	17,538
Customer Deposits	118,144	131,095	122,371	124,818	129,811	138,898	150,010
Sukuk Financing	14,059	14,063	12,453	11,830	11,830	11,830	11,830
Other Liabilities	5,120	3,491	3,868	3,707	4,024	3,472	3,780
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	155,150	172,504	160,075	162,979	168,617	175,676	187,158
Minority Interest	903	676	669	670	673	677	682
Total Shareholders' Equity	18,304	20,736	23,257	25,821	28,695	31,988	35,636
Total Liabilities & Shareholders' Equity	174,356	193,916	184,001	189,470	197,985	208,341	223,476
Risk Weighted Assets	121,582	134,045	138,570	147,787	159,378	170,840	189,955

Source: Company data, QNB FS Research

Key Indicators/KPIs	2020	2021	2022	2023e	2024e	2025e	2026e
Profitability (%)							
RoE (Tangible)	16.6	18.2	18.1	17.5	17.5	17.6	17.4
RoAA	1.6	1.8	2.0	2.2	2.3	2.5	2.6
RoRWA	2.5	2.7	2.8	2.9	3.0	3.1	3.2
NIM (% of IEAs)	2.87	2.90	2.97	3.13	3.25	3.43	3.60
NIM (% of RWAs)	3.75	3.74	3.67	3.61	3.66	3.78	3.86
NIM (% of AAs)	2.57	2.59	2.65	2.77	2.90	3.07	3.23
Spread	2.52	2.66	2.67	2.53	2.59	2.62	2.64
Efficiency (%)							
Cost-to-Income (Headline)	20.1	18.1	17.4	17.0	16.0	15.2	14.4
Cost-to-Income (Core)	21.2	18.9	18.7	18.1	16.9	15.9	15.1
Liquidity (%)							
LDR	100.8	98.0	97.5	97.8	99.1	99.8	100.1
Loans/Assets	68.3	66.2	64.8	64.4	65.0	66.6	67.2
Cash & Interbank Loans-to-Total Assets	8.8	7.5	6.1	5.9	5.8	5.9	5.6
Deposits to Assets	67.8	67.6	66.5	65.9	65.6	66.7	67.1
Wholesale Funding to Loans	23.4	26.4	25.0	24.9	23.9	21.1	19.6
IEAs to IBLs	120.9	117.1	122.2	120.1	121.1	122.2	122.8
Asset Quality (%)							
NPL Ratio	1.4	1.8	1.5	1.4	1.4	1.3	1.3
NPL to Shareholder's Equity	9.6	11.5	8.3	6.9	6.4	6.0	5.7
NPL to Tier 1 Capital	7.9	10.1	7.4	6.5	6.3	6.2	6.0
Coverage Ratio	226.8	202.4	313.0	391.2	428.9	455.7	473.8
ALL/Average Loans	3.1	3.5	4.2	4.7	5.0	5.2	5.3
Cost of Risk	105	104	92	79	82	79	74
Capitalization (%)							
CET1 Ratio	14.9	14.7	15.8	15.8	15.8	16.0	15.7
Tier-1 Ratio	18.2	17.7	18.7	18.5	18.3	18.3	17.8
CAR	19.4	18.9	19.9	19.7	19.5	19.5	19.0
Leverage (x)	9.5	9.4	7.9	7.3	6.9	6.5	6.3
Growth (%)							
Net Interest Income	12.7	9.8	4.7	3.5	8.6	11.0	11.6
Non-Interest Income	12.3	11.5	13.8	-6.1	6.4	0.2	8.9
Total Revenue	12.6	10.1	6.5	1.5	8.2	8.9	11.1
OPEX	-0.9	-0.6	2.5	-0.8	1.7	3.1	5.7
Net Operating Income	16.6	12.8	7.4	1.9	9.5	10.0	12.0
Net Income (Attributable)	0.3	17.5	13.7	8.7	10.6	12.0	10.6
Loans	4.7	7.8	-7.1	2.3	5.4	7.8	8.2
Deposits	5.8	11.0	-6.7	2.0	4.0	7.0	8.0
Assets	6.6	11.2	-5.1	3.0	4.5	5.2	7.3
RWAs	10.1	10.3	3.4	6.7	7.8	7.2	11.2

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>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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