

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR103.60	Target Price	QR102.00
Implied Upside	(1.5%)		

Transferring Coverage & Revising Estimates

We maintain our Market Perform rating on Qatar Islamic Bank (QIBK) and target price of QR102.00. QIBK posted a 19.9% rise in its FY2014 net profit to QR1.60bn vs. our estimate of QR1.49bn. EPS came in at QR6.78 vs. our estimate of QR6.30 and QR5.65 in 2013. Further, the bank's board recommended a cash DPS of QR4.25/share (yield of 4.1%), in-line with our estimate. Going forward, we expect a CAGR (2014-18e) of 10.5% in the bottom-line and believe the market has already priced in this growth.

Highlights

- **We estimate a loan book CAGR of 11.6% for 2014-18e.** Management has been actively diversifying its loan book since 2008 when the real estate segment (~36%) dominated the loan book. During that time, retail loans represented ~15%, contracting (~7%), public sector (~6%) and other corporates (36%). Fast forward to 2014, the composition of QIBK's loan portfolio changed. Real estate segment dropped to ~23% while the retail and public sector segments jumped to ~22% and ~11%, respectively. Moreover, other corporates increased to ~39%. Going forward, we expect the same trend to continue.
- **QIBK to post net income of QR1.77bn in 2015 and QR2.00bn in 2015 and 2016, respectively. Post 2014 results, we have slightly revised our 2015 and 2016 net profit estimates upward.** We now expect net profit to reach QR1.77bn and QR2.00bn in 2015 and 2016, respectively (previously QR1.74bn and QR1.89bn). In 2015, we expect net interest income to continue its positive momentum and grow by 14.1% YoY (+10.6% in 2014). We also expect NIMs to be under some pressure, declining by ~7bps to 2.87% (2.94% in 2014). Moreover, after a strong performance in fees & commission during 2014 (+35.8% YoY), we expect a more modest growth of 12.0% YoY. On the other hand, we expect net provisions to increase by 10.8% YoY. We expect net income to grow by 10.5% in 2016, mainly driven by net interest income (+12.1%), fees & commissions (+10.0%), marginal increase in net provisions (5.2%) and a combination of investment income & gains from real estate.

Catalysts

- **Upside possible near term given potential ETF launches.** The QSE expects to list several new ETFs in 2015; buying demand from such ETFs could lead to a stock price rally.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate QIBK a Market Perform with a price target of QR102.00.** While dividend yield is attractive, valuation appears to be fair vs. other Qatari banks.
- **Risks:** 1) QIBK loses market share and 2) Exposure to the real estate and consumer segments creates concentration risk.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	5.65	6.78	7.51	8.29
EPS Growth	7.6	19.9	10.8	10.5
P/E (x)	18.3	15.3	13.8	12.5
P/TB (x)	2.1	2.0	1.9	1.8
DPS (QR)	4.00	4.25	4.50	4.75
Dividend Yield (%)	3.9	4.1	4.3	4.6

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price	103.60
Dividend Yield (%)	4.3
Bloomberg Ticker	QIBKQD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low	126.00/71.80
3-m Average Volume	140.6
Mkt. Cap. (\$ bn/QR bn)	6.7/24.5
Shares Outstanding (mn)	236.3
FO Limit* (%)	25.0
Current FO* (%)	6.6
1-Year Total Return (%)	43.6
Fiscal Year End	December 31

Source: Bloomberg (as of March 09, 2015), *Qatar Exchange (as of March 09, 2015); Note: FO is foreign ownership

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Recent Results Review

QIBK posted a net profit of QR1.60bn in 2014 vs. QR1.34bn in 2013, up 19.9% YoY. EPS came in at QR6.78 vs. our estimate of QR6.30 and QR5.65 in 2013. Further, the bank's board recommended a cash DPS of QR4.25/share (yield of 4.1%), in-line with our estimate.

The results were driven by an increase in net interest income, a surge in non-interest income and sharp decline in net provisions. QIBK generated QR392.0mn from fees & commissions, growing by 35.8% YoY. Moreover gains from real estate surged by 34.5% YoY to QR121.2. This real estate income contributed 17.6% and 4.2% to non-interest income and total income, respectively. Furthermore, net interest income rebounded, growing by 10.6% YoY vs. a decline of 4.4% in 2013. It should be mentioned that heavy competition is still prevalent in the domestic banking sector. As such, QIBK's yield on interest earning assets contracted by 10bps (3.93% yield on assets), while cost of funds increased by 4bps. Hence, the spread and NIM dropped to 2.6% (2.8% in 2013) and 2.94% (3.07% in 2013), respectively. Finally, the bottom-line was helped by a sharp drop in provisions. Net provisions (loan loss provisions and investment impairments) witnessed a sharp decline of 27.0% YoY, reaching QR269.9mn. As such, the NPL ratio dropped to 0.83% vs. 0.89% in 2013. Furthermore, the coverage ratio improved to 93.6% as opposed to 89.9% in 2013. On the expenses side, QIBK's operating expenses grew by 8.5% YoY to QR919.9mn resulting in a cost-to-income ratio of 31.8% (33.6% in 2013). QIBK concluded 2014 with a RoAE of 13.2% vs. 11.4% in 2013.

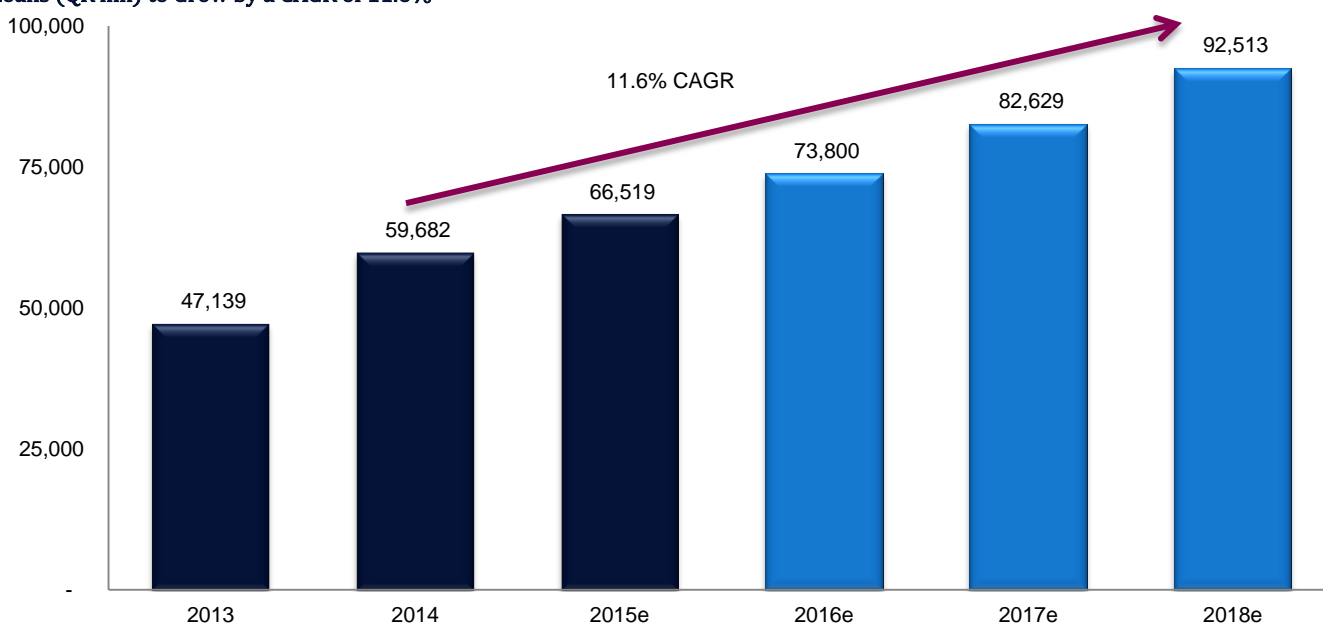
QIBK's loan book expanded by 26.6% YoY: QIBK's loan book grew by 26.6% YoY vs. 13.1% for the Qatari banking sector (domestic loans) and 14.6% for the 8-listed banks (includes domestic and international loans). This strong loan growth was based on two factors: 1) Corporate loans (excluding real estate, contracting, and public sector) expanded by 36.7% YoY and 2) Retail and public sector loans gained by 45.3% and 12.8% (as opposed to a drop of 13.0% in 2013) YoY, respectively. Total deposits outpaced loan growth, surging by 32.2% YoY due to a 56.7% growth in the corporate segment. Retail loans increased by 12.2% (dipped by 2.2% in 2013) and it contributed to 40.6% of total deposits. As such, QIBK ended 2014 with a LDR of 90% vs. 94% in 2013 (100% in 2012). It should be noted that QIBK has historically operated with a LDR north of 100%. Having said that, the bank has been reducing its LDR since 2011 and should not face problems meeting the QCB's 100% LDR cap which banks must comply with by Jan. 1st 2018. QIBK's investment book increased by 7.4% YoY while its domestic peers witnessed a shrinkage (mainly due to sale and maturities of government debt).

Key Forecasts

Loan Book

We estimate a loan book CAGR of 11.6% for 2014-18e. Management has been actively diversifying its loan book since 2008 when the real estate segment (~36%) dominated the loan book. During that time, retail loans represented ~15%, contracting (~7%), public sector (~6%) and other corporates (36%). Fast forward to 2014, the composition of QIBK's loan portfolio changed. Real estate segment dropped to ~23% while the retail and public sector segments jumped to ~22% and ~11%, respectively. Moreover, other corporates increased to ~39%. Going forward, we expect the same trend to continue. Overall, we expect the loan book to grow to QR92.5bn in 2018e from QR59.7bn in 2014.

Loans (QR mn) to Grow by a CAGR of 11.6%



Source: Company data, QNBFS estimates

Deposit Book

We estimate deposits to grow at a CAGR of 10.0% for 2014-18e. Corporate deposits (~47%) dominate QIBK's deposit base followed by the retail segment at ~41% and the public sector at ~12%. Historically, the retail segment dominated the deposit book with an average of ~52% vs. corporate deposits (~41%). Over the past few years, the bank has been diversifying its deposit book to include more corporate and public sector funds. Going forward, we estimate similar trends to drive QIBK's deposit book.

Operating Performance

QIBK to post net income of QR1.77bn in 2015 and QR2.00bn in 2015 and 2016, respectively. Post 2014 results, we have slightly revised our 2015 and 2016 net profit estimates upward. We now expect net profit to reach QR1.77bn and QR2.00bn in 2015 and 2016, respectively (previously QR1.74bn and QR1.89bn). In 2015, we expect net interest income to continue its positive momentum and grow by 14.1% YoY (+10.6% in 2014). We also expect NIMs to be under some pressure, declining by ~7bps to 2.87% (2.94% in 2014). Moreover, after a strong performance in fees & commission during 2014 (+35.8% YoY), we expect a more modest growth of 12.0% YoY. On the other hand, we expect net provisions to increase by 10.8% YoY. We expect net income to grow by 10.5% in 2016, mainly driven by net interest income (+12.1%), fees & commissions (+10.0%), marginal increase in net provisions (5.2%) and a combination of investment income & gains from real estate.

Efficiency

QIBK's cost-to-income ratio has been in-line with its domestic peers. Historically, QIBK has maintained a healthy efficiency ratio at an average of 30.9% (2009-14), which is lower than that of its GCC peers. We estimate QIBK's efficiency ratio at an average of 31.9% (2015e-18e) as the bank continues to build on its human capital as well as improving its IT infrastructure.

Asset Quality

QIBK seems to exhibit healthy asset quality. QIBK ended 2014 with an NPL ratio of 0.83% vs. 0.89% in 2013 (1.65% in 2012). Moreover, the bank's coverage ratio improved from 89.9% in 2013 (57.3% in 2012) to 93.6% in 2014. Going forward, we do not expect this trend in asset quality to reverse. As such, we pencil in an average NPL ratio and coverage ratio of 0.95% and 91.1% during 2015-2018, respectively.

Capitalization

QIBK is adequately capitalized. The bank's CAR dropped by 189bps to 14.6% as compared to 16.5% in 2013. Historically, the bank's CAR has been decent, averaging 16.6% (2009-14). QIBK announced that it plans to issue Tier-1 sukuk up to QR2bn (as initiated by CBQK and DHBK at the end of 2013). We have modeled the sukuk from the second quarter of 2015 and have assumed a 6.0% profit rate on the instrument. However, the expense will be deducted from retained earnings and will not impact the reported bottom-line of the bank. Thus, we estimate CAR at 15.2% and 14.1% in 2015 and 2016, respectively.

Company Description

Established in 1982, the bank is primarily involved in corporate, retail and investment banking, and has 29 branches in Qatar and one branch in Sudan. In addition to its core banking activities, QIBK has a stake in a number of other Qatari Shari'a-compliant companies such as QInvest, Al Jazeera Finance, Aqar Real Estate and Damaan Islamic Insurance Company (Beema). QIBK also has international presence through its affiliates: QIB UK in London, AFH in Lebanon, AFB in Malaysia, and QIB Sudan.

Major Shareholders

	Ownership %
Qatar Holding	16.90%

Source: QSE

Detailed Financial Statements

Ratios	FY2013	FY2014	FY2015e	FY2016e
Profitability (%)				
RoAE	11.4	13.2	13.8	14.4
RoAA	1.8	1.8	1.8	1.8
RoRWA	2.1	2.3	2.1	2.1
NIM (% of IEAs)	3.1	2.9	2.9	2.9
NIM (% of RWAs)	3.3	3.2	3.1	3.1
NIM (% of AAs)	2.6	2.5	2.5	2.6
Spread	2.8	2.6	2.6	2.6
Efficiency (%)				
Cost-to-Income (Headline)	33.6	31.8	32.2	32.4
Cost-to-Income (Core)	36.4	34.1	34.0	33.8
Liquidity (%)				
LDR	93.6	89.6	90.8	91.6
Loans/Assets	60.9	62.1	63.7	64.0
Cash & Interbank Loans-to-Total Assets	12.1	14.4	12.5	12.5
Deposits to Assets	65.1	69.3	70.1	69.9
Wholesale Funding to Loans	25.3	22.7	18.6	20.1
IEAs to IBLs	133.6	128.2	131.8	128.1
Asset Quality (%)				
NPL Ratio	0.9	0.8	0.9	0.9
NPL to Shareholder's Equity	4.0	4.4	5.1	5.5
NPL to Tier 1 Capital	5.1	4.8	5.2	5.6
Coverage Ratio	89.9	93.6	89.6	91.4
ALL/Average Loans	0.8	0.9	0.9	0.9
Cost of Risk	0.2	0.2	0.1	0.1
Capitalization (%)				
Tier 1 Ratio	15.7	14.6	15.1	14.1
CAR	16.5	14.6	15.2	14.1
Tier 1 Capital to Assets	11.9	11.8	12.3	11.9
Tier 1 Capital to Loans	19.6	19.1	19.4	18.5
Tier 1 Capital to Deposits	18.3	17.1	17.6	17.0
Leverage (x)	6.5	7.7	7.9	8.2
Growth (%)				
Net Interest Income	-4.4	10.6	14.1	12.1
Net Operating Income	0.1	18.0	10.9	9.7
Net Income	7.6	19.9	10.8	10.5
Loans	9.3	26.6	11.5	10.9
Deposits	16.7	32.2	10.0	10.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	2013	2014	2015e	2016e
Net Interest Income	1,994	2,206	2,516	2,820
Fees & Commissions	289	392	439	483
FX Income	44	73	76	80
Other Income	196	225	199	173
Non-Interest Income	528	690	714	736
Total Income	2,522	2,895	3,230	3,556
Operating Expenses	(848)	(920)	(1,039)	(1,152)
Net Provisions	(370)	(270)	(299)	(315)
Net Profit Before Taxes & Non-Recurring Items	1,304	1,706	1,892	2,089
Tax	17	(39)	(44)	(48)
Net Profit Before Minority Interest	1,322	1,667	1,848	2,041
Minority Interest	10	(67)	(74)	(82)
Non-Recurring/Unusual Gains/(Losses)	4	2	0	0
Net Profit	1,335	1,601	1,774	1,960

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	2013	2014	2015e	2016e
Assets				
Cash & Balances with Central Bank	2,993	4,933	4,396	4,836
Interbank Loans	6,348	8,931	8,647	9,594
Net Investments	14,852	15,954	17,783	19,498
Net Loans	47,139	59,682	66,519	73,800
Investment In Associates	742	967	972	977
Other Assets	3,430	3,546	3,991	4,428
Net PP&E	436	509	538	573
Investment In Real Estate	793	1,216	1,252	1,290
Assets of a Subsidiary Held for Sale	303	61	61	61
Goodwill & Intangible Assets	319	307	307	307
Total Assets	77,354	96,106	104,467	115,364
Liabilities				
Interbank Deposits	6,491	8,104	6,930	9,388
Customer Deposits	50,363	66,605	73,265	80,592
Borrowings	5,444	5,450	5,450	5,450
Other Liabilities	1,379	1,757	1,832	2,015
Liabilities of a Subsidiary Held for Sale	5	19	19	19
Tier-1 Sukuk	-	-	2,000	2,000
Total Liabilities	63,682	81,935	89,496	99,464
Shareholders' Equity				
Share Capital	2,363	2,363	2,363	2,363
Statutory Reserves	6,370	6,370	6,370	6,370
Banking Risk Reserve	1,085	1,369	1,526	1,693
Fair Value Reserve	95	93	93	93
Foreign Currency Translation Reserve	(50)	(29)	(29)	(29)
Other Reserves	294	299	299	299
Proposed Dividends	945	1,004	1,063	1,122
Proposed Bonus Shares	-	-	-	-
Retained Earnings	758	1,009	1,518	2,140
Total Shareholders' Equity	11,860	12,478	13,204	14,051
Total Liabilities, Minority Interest & Shareholders' Equity	77,354	96,106	104,467	115,364

Source: Company data, QNBFS estimates

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

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