

Qatar Islamic Bank (QIBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR26.750	Target Price	QR24.176
Implied Upside	(9.6%)		

Impressive Rally Hikes Multiples; Retain Price Target But Moving to MP

After 1H2022, we maintain our earnings CAGR of 11.5% (2021-26e). As such, we maintain our PT of QR24.176/share. Since our last **upgrade**, QIBK stock has rallied ~36%, ~5% shy of its 52-week high of QR28.0/share (April 11 2022). The stock is up an impressive ~46% YTD and is now trading at a P/B of 2.8x, with limited upside remaining, in our view. Moreover, the stock is trading close to its 5-year high P/B of 3.0x (5-year low of 1.4x & median 2.2x). Hence, we revise our rating on the name from **Accumulate to Market Perform**. Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2018: 16.7%, 2019: 18.5%, 2020: 16.6%, 2021: 18.2%, 2022e: 17.3% and 2023e: 17.5%); 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. QIBK is still expected to generate superior RoE/RoRWAs vs. peers (>17%/>2.0%) in the medium-term.

Highlights

- **QIBK reported 1H2022 net profit in-line with estimates.** QIBK reported a net profit of QR1.81bn in 1H2022, in-line with our estimate of QR1.78bn. Net profit gained by 13.8% YoY.
- **NIM expansion, cost containment and a drop in provisions & impairments led to double-digit growth in 1H2022 earnings.** Total revenue increased by 5.1% YoY due to weak non-funded income (mainly f/x income) as net interest & investment income gained by 8.1% YoY. However, flattish opex YoY led to a 6.0% growth in net operating income. As such, an 8.5% drop in provisions & impairments led to a 13.8% increase in the earnings. Fees displayed healthy growth of 5.9% driven by investment banking income and should further grow in 4Q driven by the World Cup.
- **Robust RoE (1H2022: 17.5%) and RoRWA trajectory to continue:** QIBK boasts one of the highest RoEs & RoRWAs among its domestic and regional peers. The bank's RoE jumped from 15.2% in FY2016 to 18.2% in FY2021, despite the large amounts of provisions booked during the COVID-19 pandemic era. We expect RoEs of 17.3% in 2022 and 17.5% in 2023. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.6% in 2021 and we still expect this metric to increase to 3.2% by 2026.
- **QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 18.1% in 2021 (1H2022: 16.8%). Moreover, QIBK generated robust JAWs of 10.7% on average (2015-2021). We model C/I ratios of 17.4%/17.6% in 2022/2023 and 17.1% in 2024.
- **Loans growth remains muted in 1H2022 vs. FY2021; we lower our loan growth forecast from 7.8% to 6.9% over 2021-26e:** Net loans receded 0.2% in 2Q2022 vs. 1Q2022 (-1.3% in 1H2022 vs. FY2021) to QR126.75bn. The decline in loans is due to public sector repayments. On the other hand, deposits expanded by 5.1% sequentially (-1.2% 1H2022 vs. FY2021) to QR129.5bn.
- **CoR to remain elevated given management's conservative risk management nature.** Net credit provisions declined by 3.3% in 1H2022 vs. 1H2021 to QR884.9mn. Moreover, annualized CoR was flat at 134bps vs. 139bps in 1H2021. We increase our estimate of CoR from 97bps to 100bps for 2022. However, we maintain 80bps for 2023e. We expect CoR to normalize at 60bps by 2026e. A decent chunk of CoR is coming from Stage 1 loans as management is upping its buffers. 55% of allowance for loan losses is attributed to Stage 1 loans.
- **Asset quality remains healthy; we still do not expect major impairments going forward.** NPL ratio improved from FY2021's 1.8% to 1.5% in 1H2022. During the same time, NPL formation was negative, which is a positive (dropping by 17.9% vs. FY2021). Coverage of Stage 3 loans was a strong 95%. We expect the NPL ratio to further improve over the coming years.
- **Capitalization remains strong.** QIBK ended 1H2022 with robust CET1 and Tier-1 ratios at 14.4% and 17.4%, respectively. We still expect management to maintain these levels going forward.

Catalysts

- In light of the stock's impressive YTD rally, for QIBK shares to move up further, we need to see better-than-expected earnings performance and/or dividend upside.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target at QR24.176 but revise the stock's rating from Accumulate to Market Perform.** QIBK is trading at a 2022e P/TB and P/E of 2.8x and 18.0x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2021	2022e	2023e	2024e
EPS (QR)	1.38	1.49	1.65	1.85
EPS Growth (%)	17.5	7.4	10.9	12.2
P/E (x)	19.3	18.0	16.2	14.5
Tangible BVPS (QR)	8.6	9.5	10.6	11.8
P/TBV (x)	3.1	2.8	2.5	2.3
RoE (%)	18.2	17.2	17.3	17.5
DPS (QR)	0.575	0.600	0.625	0.700
Dividend Yield (%)	2.1	2.2	2.3	2.6

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

Key Data

Current Market Price (QR)	26.750
Dividend Yield (%)	2.1
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	28.00/17.03
3-m Average Volume ('000)	3,812.8
Mkt. Cap. (\$ bn/QR bn)	17.4/63.2
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	15.4
1-Year Total Return (%)	59.0
Fiscal Year End	December 31

Source: Bloomberg (as of August 10, 2022), *Qatar Exchange (as of August 10, 2022); Note: FO is foreign ownership

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Key Indicators/KPIs	2019	2020	2021	2022e	2023e	2024e
Profitability (%)						
RoE (Tangible)	18.5	16.6	18.2	17.2	17.3	17.5
RoAA	1.8	1.6	1.8	1.8	1.9	1.9
RoRWA	2.6	2.4	2.6	2.5	2.7	2.8
NIM (% of IEAs)	2.71	2.87	2.90	2.81	2.86	2.87
NIM (% of RWAs)	3.56	3.75	3.74	3.61	3.70	3.80
NIM (% of AAs)	2.44	2.57	2.59	2.53	2.61	2.63
Spread	2.26	2.52	2.66	2.58	2.61	2.63
Efficiency (%)						
Cost-to-Income (Headline)	22.8	20.1	18.1	17.4	17.6	17.1
Cost-to-Income (Core)	23.6	21.2	18.9	18.4	18.1	17.6
Liquidity (%)						
LDR	101.9	100.8	98.0	98.0	98.6	99.6
Loans/Assets	69.6	68.3	66.2	67.3	66.2	65.8
Cash & Interbank Loans-to-Total Assets	6.6	8.8	7.5	6.7	7.7	7.0
Deposits to Assets	68.3	67.8	67.6	68.7	67.1	66.1
Wholesale Funding to Loans	22.2	23.4	26.4	22.7	26.1	27.3
IEAs to IBLs	121.1	120.9	117.1	121.0	118.0	118.3
Asset Quality (%)						
NPL Ratio	1.3	1.4	1.8	1.5	1.4	1.4
NPL to Shareholder's Equity	8.8	9.6	11.5	8.9	8.3	7.9
NPL to Tier 1 Capital	7.5	7.9	10.1	8.2	8.2	8.1
Coverage Ratio	182.5	226.8	202.4	302.6	342.7	375.7
ALL/Average Loans	2.3	3.1	3.5	4.2	4.7	5.0
Cost of Risk	57	105	104	100	80	76
Capitalization (%)						
CET1 Ratio	14.7	14.9	14.7	14.6	14.4	14.6
Tier-1 Ratio	18.3	18.2	17.7	17.4	17.0	17.1
CAR	19.5	19.4	18.9	18.6	18.2	18.3
Leverage (x)	9.5	9.5	9.4	8.7	8.6	8.3
Growth (%)						
Net Interest Income	9.0	12.7	9.8	4.3	9.0	9.6
Non-Interest Income	-0.7	12.3	11.5	6.0	-8.0	5.4
Total Revenue	6.9	12.6	10.1	4.6	5.5	8.9
OPEX	-5.2	-0.9	-0.6	0.8	6.1	5.9
Net Operating Income	11.1	16.6	12.8	5.5	5.3	9.5
Net Income (Attributable)	11.8	0.3	17.5	7.4	10.9	12.2
Loans	11.3	4.7	7.8	4.3	7.4	7.2
Deposits	11.0	5.8	11.0	4.3	6.7	6.2
Assets	6.7	6.6	11.2	2.6	9.3	7.8
RWAs	3.8	10.1	10.3	5.6	7.6	5.8

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Net Interest Income	3,859	4,350	4,774	4,979	5,426	5,949
Fees & Commissions	693	661	726	781	824	894
FX Income	59	76	200	154	123	99
Other Income	219	353	289	353	237	256
Non-Interest Income	971	1,090	1,215	1,288	1,185	1,249
Total Revenue	4,830	5,439	5,990	6,267	6,611	7,198
Operating Expenses	(1,101)	(1,092)	(1,085)	(1,094)	(1,161)	(1,229)
Net Operating Income	3,729	4,348	4,904	5,174	5,450	5,969
Net Provisions & Impairments	(733)	(1,316)	(1,342)	(1,330)	(1,203)	(1,215)
Net Profit Before Taxes & Non-Recurring	2,996	3,032	3,563	3,843	4,247	4,754
Tax	(11)	(7)	(10)	(12)	(13)	(14)
Net Profit Before Minority Interest	2,985	3,024	3,553	3,832	4,234	4,739
Minority Interest	71	41	2	(29)	(38)	(57)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,055	3,065	3,555	3,803	4,196	4,682
Interest On Tier-1 Sukuk	(205)	(205)	(196)	(196)	(196)	(196)
Social & Sports Contribution Fund	(76)	(77)	(89)	(95)	(105)	(117)
Net Profit (Attributable)	2,774	2,783	3,270	3,512	3,895	4,369

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Assets						
Cash & Balances with Central Bank	7,185	8,357	7,177	7,384	7,295	7,902
Interbank Loans	3,552	6,913	7,461	6,029	9,354	8,486
Net Investments	33,490	33,248	44,380	44,953	50,273	57,039
Net Loans	113,754	119,072	128,409	133,969	143,905	154,290
Investment In Associates	545	1,134	1,140	1,168	1,186	1,203
Other Assets	1,966	1,937	1,709	1,836	1,761	1,840
Net PP&E	452	462	428	400	363	386
Investment In Real Estate	2,175	2,863	2,854	2,899	2,921	2,943
Assets of a Subsidiary Held for Sale	0	0	0	0	0	0
Goodwill & Intangible Assets	400	370	360	360	360	360
Total Assets	163,519	174,356	193,916	198,997	217,417	234,449
Liabilities						
Interbank Deposits	14,355	13,828	19,856	18,112	25,124	27,195
Customer Deposits	111,621	118,144	131,095	136,732	145,893	154,938
Sukuk Financing	10,934	14,059	14,063	12,253	12,498	14,997
Other Liabilities	4,450	5,120	3,491	4,307	3,793	4,261
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	145,360	155,150	172,504	175,403	191,308	205,391
Minority Interest	1,026	903	676	705	743	800
Total Shareholders' Equity	17,133	18,304	20,736	22,889	25,366	28,258
Total Liabilities & Shareholders' Equity	163,519	174,356	193,916	198,997	217,417	234,449
Risk Weighted Assets	110,404	121,582	134,045	141,487	152,192	161,067

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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