

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR17.65	Target Price	QR19.696
Implied Upside	11.6%	Old Target Price	QR15.700

Trading at a Justified Premium; Upgrading to Accumulate & Raising PT

After solid results in 2020/1Q2021, we raise our PT to QR19.696/share and upgrade QIBK's stock to Accumulate; we pencil in an earnings CAGR of 11.7% (2020-25e) vs. an 8.4% CAGR (2015-2020). The bank's financial performance was strong during 2017-2020 despite the blockade and the COVID-19 pandemic. QIBK's fundamentals continue to remain robust with strong RoE generation (2018: 16.7%, 2019: 18.5%, 2020: 16.6%, 2021e: 17.0% & 2022e: 18.0%); the bank is cost efficient, has a strong Tier-1 position and superior asset quality vs. its peers. As such, we believe the stock warrants a premium. Moreover, we have upped our estimate for QIBK's sustainable RoE from 16.4% to 16.8% over our forecast horizon (QIBK is expected to generate superior RoE vs. peers - >17% in the medium-term). Finally, the stock trades at a 2021e P/E of 13.7%, an 8% discount to its fundamental P/E of 14.9x.

Highlights

- QIBK reported in-line earnings for 1Q2021; hefty provisions offset strong growth in net operating income.** Qatar Islamic Bank (QIBK) reported a net profit of QR750.0mn in 1Q2021, in-line with our estimate of QR758.5mn (variation of -1.1%). Net profit gained by 9.1% YoY but declined by 11.6% sequentially (in-line with historical trends). Net operating income increased by 42.3% YoY (+13.0% sequentially) to QR1.58bn as a result of strong revenue (margin expansion & robust non-funded income) and cost containment. On the other hand, a surge in provisions outweighed the growth in net operating income, resulting in a 9.1% growth in earnings YoY.
- Positive RoE trajectory to continue:** QIBK boasts one of the highest RoEs among its peers. The bank's RoE jumped from 15.2% in FY2016 to 18.5% in FY2019. However, RoE slipped to 16.6% in FY2020 due to flat earnings because of precautionary provisions taken for the COVID-19 pandemic. We expect a RoE of 17.0% and 18.0% in 2021 and 2022, respectively.
- QIBK remains cost-efficient & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 20.1% in 2020 (17.0% in 1Q2021). Moreover, QIBK generated robust JAWs of 9.0% on average (2015-2020). We continue to model positive JAWs in our forecast horizon. Moreover, we forecast C/I ratios of 19.3% and 18.9% in 2021 and 2022, respectively.
- Management is guiding loan growth ahead of the industry's 6-7%:** Net loans grew by 5.1% sequentially in 1Q2021 to QR125.1bn vs. 4.7% YoY in FY2020. Deposits grew by 6.6% QoQ to QR126.0bn. We pencil in a 7.8% loan growth over 2020-25e.
- CoR to remain a recurring theme given management's prudent/conservative nature.** Net provisions and impairments surged by 99% YoY (+79% QoQ) to QR549.8mn. Moreover, 1Q2021 annualized CoR jumped to 173bps vs. 75bps in 1Q2020 (105bps in FY2020). We forecast CoR of 98bps and 65bps for 2021 & 2022e, respectively, before normalizing to historical range of 49-56bps.
- Asset quality remains healthy and manageable; we do not expect serious impairments going forward.** NPL ratio increased from 1.4% in FY2020 to 1.5% (still a low percentage) in 1Q2021. During the same time, NPLs increased by 5.6% QoQ to QR1.88bn. However, the coverage ratio of Stage 3 loans (NPLs) remained strong at 92%. Stage 1 loans increased, while Stage 2 loans remained stable.
- Capitalization remains strong.** QIBK's CET1 and Tier-1 ratios remained robust at 14.5% and 17.8%, respectively. We expect management to maintain these levels going forward.

Catalysts

- For the stock to move up further,** raising the FOL limit to 100% should help boost QIBK's weight in major indices such as MSCI EM & FTSE EM and contribute to increased foreign institutional ownership in the company.

Recommendation, Valuation and Risks

- Recommendation and valuation:** We raise our Price Target to QR19.696 from QR15.700 and we upgrade the stock's rating from Market Perform to Accumulate. QIBK is trading at a 2021e P/TB and P/E of 2.1x and 13.7x, respectively.
- Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2020	2021e	2022e	2023e
EPS (QR)	1.18	1.29	1.53	1.68
EPS Growth (%)	0.3	9.5	18.7	9.5
P/E (x)	15.0	13.7	11.5	10.5
Tangible BVPS (QR)	7.6	8.5	9.6	10.8
P/TBV (x)	2.3	2.1	1.8	1.6
RoE (%)	16.6	17.0	18.0	17.4
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	2.3	2.4	2.7	2.8

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

Key Data

Current Market Price (QR)	17.65
Dividend Yield (%)	2.3
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	18.48/14.61
3-m Average Volume ('000)	1,235.9
Mkt. Cap. (\$ bn/QR bn)	11.5/41.7
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	49.0
Current FO* (%)	10.9
1-Year Total Return (%)	+23.6
Fiscal Year End	December 31

Source: Bloomberg (as of April 20, 2021), *Qatar Exchange (as of April 20, 2021); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

(In QR mn)	2018	2019	2020	2021e	2022e	2023e
Net Interest Income	3,542	3,859	4,350	4,654	5,007	5,441
Fees & Commissions	576	693	661	738	790	787
FX Income	259	59	76	148	167	139
Other Income	142	219	353	261	242	253
Non-Interest Income	978	971	1,090	1,147	1,199	1,179
Total Revenue	4,519	4,830	5,439	5,801	6,205	6,619
Operating Expenses	(1,161)	(1,101)	(1,092)	(1,118)	(1,173)	(1,215)
Net Operating Income	3,358	3,729	4,348	4,682	5,032	5,405
Net Provisions & Impairments	(720)	(733)	(1,316)	(1,318)	(1,063)	(1,078)
Net Profit Before Taxes & Non-Recurring Items	2,638	2,996	3,032	3,364	3,969	4,327
Tax	2	(11)	(7)	(8)	(12)	(13)
Net Profit Before Minority Interest	2,641	2,985	3,024	3,356	3,957	4,314
Minority Interest	115	71	41	(20)	(36)	(39)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	2,755	3,055	3,065	3,336	3,922	4,275
Interest On Tier-1 Sukuk	(205)	(205)	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(69)	(76)	(77)	(83)	(98)	(107)
Net Profit (Attributable)	2,481	2,774	2,783	3,047	3,619	3,963

Source: Company data, QNB FS Research

(In QR mn)	2018	2019	2020	2021e	2022e	2023e
Assets						
Cash & Balances with Central Bank	7,299	7,185	8,357	8,196	8,103	8,646
Interbank Loans	6,424	3,552	6,913	5,202	6,453	4,643
Net Investments	31,474	33,490	33,248	34,486	37,559	40,270
Net Loans	102,210	113,754	119,072	130,048	143,401	154,755
Investment In Associates	568	545	1,134	1,135	1,137	1,142
Other Assets	3,161	1,966	1,937	1,770	1,966	1,822
Net PP&E	479	452	462	472	431	472
Investment In Real Estate	1,231	2,175	2,863	2,857	2,879	2,901
Assets of a Subsidiary Held for Sale	0	0	0	0	0	0
Goodwill & Intangible Assets	386	400	370	324	218	218
Total Assets	153,232	163,519	174,356	184,489	202,147	214,868
Liabilities						
Interbank Deposits	17,234	14,355	13,828	11,922	9,465	7,077
Customer Deposits	100,598	111,621	118,144	128,068	142,156	151,680
Sukuk Financing	9,189	10,934	14,059	14,059	16,730	20,410
Other Liabilities	5,472	4,450	5,120	5,123	5,828	4,854
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	136,493	145,360	155,150	163,171	178,179	188,021
Minority Interest	1,319	1,026	903	923	958	997
Total Shareholders' Equity	15,420	17,133	18,304	20,395	23,009	25,850
Total Liabilities & Shareholders' Equity	153,232	163,519	174,356	184,489	202,147	214,868

Source: Company data, QNB FS Research

Key Indicators/KPIs	2018	2019	2020	2021e	2022e	2023e
Profitability (%)						
RoE	16.7	18.5	16.6	17.0	18.0	17.4
RoAA	1.6	1.8	1.6	1.7	1.9	1.9
RoRWA	2.3	2.6	2.4	2.4	2.7	2.7
NIM (% of IEAs)	2.60	2.71	2.87	2.89	2.87	2.87
NIM (% of RWAs)	3.27	3.56	3.75	3.72	3.72	3.73
NIM (% of AAs)	2.33	2.44	2.57	2.59	2.59	2.61
Spread	2.19	2.26	2.52	2.58	2.51	2.49
Efficiency (%)						
Cost-to-Income (Headline)	25.7	22.8	20.1	19.3	18.9	18.4
Cost-to-Income (Core)	26.2	23.6	21.2	20.0	19.5	18.9
Liquidity (%)						
LDR	101.6	101.9	100.8	101.5	100.9	102.0
Loans/Assets	66.7	69.6	68.3	70.5	70.9	72.0
Cash & Interbank Loans-to-Total Assets	9.0	6.6	8.8	7.3	7.2	6.2
Deposits to Assets	65.7	68.3	67.8	69.4	70.3	70.6
Wholesale Funding to Loans	25.9	22.2	23.4	20.0	18.3	17.8
IEAs to IBLs	123.1	121.1	120.9	122.0	123.5	123.6
Asset Quality (%)						
NPL Ratio	1.2	1.3	1.4	1.5	1.5	1.6
NPL to Shareholder's Equity	8.2	8.8	9.6	9.7	9.8	9.8
NPL to Tier 1 Capital	6.7	7.5	7.9	8.6	9.2	9.6
Coverage Ratio	173.9	182.5	226.8	240.8	248.7	257.5
ALL/Average Loans	1.9	2.3	3.1	3.4	3.7	3.9
Cost of Risk	48	56	105	98	65	62
Capitalization (%)						
Tier 1 Ratio	17.8	18.3	18.2	17.9	17.5	17.5
CAR	18.8	19.5	19.4	19.1	18.7	18.7
Tier 1 Capital to Assets	12.3	12.4	12.7	12.5	12.2	12.3
Tier 1 Capital to Loans	18.5	17.8	18.6	17.7	17.2	17.1
Tier 1 Capital to Deposits	18.8	18.1	18.7	18.0	17.3	17.4
Leverage (x)	9.9	9.5	9.5	9.0	8.8	8.3
Growth (%)						
Net Interest Income	4.2	9.0	12.7	7.0	7.6	8.7
Non-Interest Income	28.2	-0.7	12.3	5.2	4.5	-1.6
Total Revenue	8.6	6.9	12.6	6.6	7.0	6.7
OPEX	5.0	-5.2	-0.9	2.4	4.9	3.6
Net Operating Income	9.9	11.1	16.6	7.7	7.5	7.4
Net Income (Attributable)	15.9	11.8	0.3	9.5	18.7	9.5
Loans	-0.4	11.3	4.7	9.2	10.3	7.9
Deposits	-1.2	11.0	5.8	8.4	11.0	6.7
Assets	1.9	6.7	6.6	5.8	9.6	6.3
RWAs	-3.3	3.8	10.1	5.9	9.1	7.5

Source: Company data, QNB FS Research

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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