

Qatar Islamic Bank (QIBK)

Recommendation	REDUCE	Risk Rating	R-3
Share Price	QR15.33	Target Price	QR12.90
Implied Upside	(15.9%)		

Strong 3Q2019; Reduce on Stretched Valuations

Qatar Islamic Bank (QIBK) reported QR700.2mn in 3Q2019, beating our estimate (+7.9% variation) on the back of higher-than-expected non-funded income. Net profit grew by 16.2% YoY driven by net interest & investment income (+5.2% YoY), non-funded income (+29.0%), flat opex and a small decrease in provisions (4.4%). QIBK's margins compressed YoY and sequentially while the bank's positive RoE trajectory continued (19.3%). Moreover, QIBK remained cost efficient while generating positive JAWs. Furthermore, asset quality and capitalization levels remained healthy. We tweak our estimates for 2019, 2020 & 2021 (page 2).

Highlights

- **Net profit jumped by 16.2% YoY (+6.8% QoQ) driven by net interest & investment income, fees & commissions along with flat opex and lower provisions.** QIBK reported net profit of QR790.0mn in 3Q2019, gaining by 16.2% YoY, beating our estimate (+7.9% variation). The beat was solely due to non-funded income coming in much higher than what we had anticipated. Net operating income (in-line with estimates) increased by 12.4% due to strong growth in revenue (net interest & investment income and fees) along with flat opex. Moreover, net income increased because of a 4.4% decline in provisions and impairments. Non-funded income was strong mainly due to fee income, which was unusually large and in our view, not sustainable. The sequential growth in the bottom-line was mainly due to a 15.6% drop in provisions & impairments.
- **Margins remained under pressure YoY and sequentially.** The bank generated net interest margin of ~3.0% in 3Q2019, contracting YoY by 10bps. This was a result of growth in CoFs outpacing growth in yields on assets. On a QoQ basis, NIM also compressed by ~10bps as CoFs expanded by ~20bps, while yields gained by 10bps.
- **Positive RoE trajectory continues.** QIBK boasts one of the highest RoEs among its peers. The bank's RoE (annualized) increased from 18.0% in 3Q2018 to 19.3% in 3Q2019.
- **QIBK remained cost-efficient generating positive JAWs.** The bank's C/I ratio receded to 23.0% vs. 25.2% in 3Q2018 (23.8% in 2Q2019). Moreover, QIBK generated JAWs of 9.3% and 3.6% YoY and QoQ, respectively.
- **Net loans sequentially remained flat, while deposits declined.** Net loans remained flat QoQ at QR107.0bn (+4.7% YTD). On the other hand, deposits dropped by 0.9% QoQ (+6.0% YTD) to QR106.6bn. QIBK's LDR (based on stable sources of funds) improved to 90% vs. 93% in FY2018.
- **Asset quality remains healthy.** NPL ratio remained at 1.2% in 3Q2019 vs. 2Q2019 and FY2018. During the same time, NPLs increased modestly by 4.2% QoQ (+3.6% YTD). On the other hand, coverage ratio of Stage 3 loans (NPLs) was a strong 100%.
- **Capitalization remained strong.** QIBK's CET1 and Tier-1 ratios remained robust at 13.5% and 17.2%, respectively.

Catalysts

- Given that QIBK is trading at an elevated premium to its historical P/B of 1.6x, we believe the company will have to show accelerating performance to maintain momentum in its stock price.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR12.90 and Reduce rating.** QIBK is trading at a 2019e P/TB and P/E of 2.4x and 14.2x, respectively. Valuation remains rich at these levels.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	1.08	1.18	1.27	1.38
EPS Growth (%)	15.9	9.6	7.8	7.9
P/E (x)	14.2	13.0	12.0	11.1
Tangible BVPS (QR)	6.4	7.0	7.8	8.6
P/TB (x)	2.4	2.2	2.0	1.8
DPS (QR)	0.50	0.50	0.525	0.575
Dividend Yield (%)	3.3	3.3	3.4	3.8

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

Key Data

Current Market Price (QR)	15.33
Dividend Yield (%)	3.3
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	17.70/14.16
3-m Average Volume ('000)	820.9
Mkt. Cap. (\$ bn/QR bn)	10.0/36.2
Shares Outstanding (bn)	2.36
FO Limit* (%)	49.0
Current FO* (%)	10.8
1-Year Total Return (%)	+11.9
Fiscal Year End	December 31

Source: Bloomberg (as of October 21, 2019), *Qatar Exchange (as of October 20, 2019); 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

Change in Estimates

(In QR mn)	2019			2020			2021		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,838	3,793	-1.2	4,139	4,154	0.4	4,504	4,612	2.4
Non Interest Income	1,022	960	-6.1	1,100	1,078	-2.0	1,179	1,160	-1.6
Total Revenue	4,860	4,753	-2.2	5,239	5,232	-0.1	5,683	5,771	1.6
Opex	1,211	1,132	-6.6	1,290	1,212	-6.0	1,386	1,302	-6.0
Net Operating Income	3,648	3,621	-0.7	3,949	4,020	1.8	4,297	4,469	4.0
Net Provisions & Impairments	702	694	-1.2	761	765	0.6	969	973	0.4
Net Income (Reported/Headline)	2,925	3,000	2.5	3,150	3,216	2.1	3,289	3,454	5.0
Net Income (Attributable)	2,647	2,720	2.7	2,866	2,931	2.3	3,002	3,163	5.4

Source: QNB FS Research

Detailed Financial Statements

(In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,666	3,400	3,542	3,793	4,154	4,612
Fees & Commissions	519	518	576	652	711	709
FX Income	176	139	259	130	145	157
Other Income	291	106	142	178	222	294
Non-Interest Income	986	763	978	960	1,078	1,160
Total Revenue	3,652	4,162	4,519	4,753	5,232	5,771
Operating Expenses	(1,089)	(1,106)	(1,161)	(1,132)	(1,212)	(1,302)
Net Operating Income	2,563	3,057	3,358	3,621	4,020	4,469
Net Provisions & Impairments	(448)	(785)	(720)	(694)	(765)	(973)
Net Profit Before Taxes & Non-Recurring Items	2,116	2,271	2,638	2,927	3,255	3,496
Tax	(10)	(18)	2	(18)	(20)	(21)
Net Profit Before Minority Interest	2,105	2,253	2,641	2,910	3,236	3,475
Minority Interest	44	155	115	90	(19)	(21)
Non-Recurring/Unusual Gains/(Losses)	5	(2)	0	0	0	0
Net Profit (Headline)	2,155	2,405	2,755	3,000	3,216	3,454
Interest On Tier-1 Sukuk	(135)	(205)	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(54)	(60)	(69)	(75)	(80)	(86)
Net Profit (Attributable)	1,966	2,140	2,481	2,720	2,931	3,163

Source: Company data, QNB FS Research

(In QR mn)	2016	2017	2018	2019e	2020e	2021e
Assets						
Cash & Balances with Central Bank	5,447	5,546	7,299	6,507	9,191	6,862
Interbank Loans	10,150	4,876	6,424	6,979	5,743	5,091
Net Investments	19,959	30,402	31,146	32,765	36,080	40,324
Net Loans	98,171	102,613	102,210	107,371	114,867	127,283
Investment In Associates	875	669	568	574	587	598
Other Assets	3,354	3,156	3,489	3,308	4,046	4,623
Net PP&E	517	511	479	469	479	480
Investment In Real Estate	930	1,944	1,231	1,169	1,203	1,238
Assets of a Subsidiary Held for Sale	0	246	0	0	0	0
Goodwill & Intangible Assets	432	411	386	343	300	257
Total Assets	139,834	150,375	153,232	159,485	172,495	186,755
Liabilities						
Interbank Deposits	13,607	17,191	17,234	13,541	10,429	6,705
Customer Deposits	95,397	101,815	100,598	108,445	122,542	137,248
Sukuk Financing	6,791	7,057	9,145	10,974	11,523	12,099
Other Liabilities	4,041	3,432	5,516	4,338	4,044	4,804
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	123,835	133,495	136,493	141,297	152,539	164,855
Minority Interest	1,761	1,591	1,319	1,229	1,248	1,269
Total Shareholders' Equity	14,238	15,289	15,420	16,959	18,708	20,631
Total Liabilities & Shareholders' Equity	139,834	150,375	153,232	159,485	172,495	186,755

Source: Company data, QNB FS Research

Key Indicators/KPIs	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE	14.7	15.0	16.2	17.6	17.3	16.9
RoAA	1.5	1.5	1.6	1.7	1.8	1.8
RoRWA	1.9	2.0	2.3	2.5	2.4	2.3
NIM (% of IEAs)	2.22	2.60	2.60	2.69	2.78	2.85
NIM (% of RWAs)	2.54	3.16	3.27	3.47	3.47	3.36
NIM (% of AAs)	2.00	2.34	2.33	2.43	2.50	2.57
Spread	1.87	2.23	2.19	2.22	2.28	2.25
Efficiency (%)						
Cost-to-Income (Headline)	29.8	26.6	25.7	23.8	23.2	22.6
Cost-to-Income (Core)	32.2	27.0	26.2	24.4	24.0	23.5
Liquidity (%)						
LDR	102.9	100.8	101.6	99.0	93.7	92.7
Loans/Assets	70.2	68.2	66.7	67.3	66.6	68.2
Cash & Interbank Loans-to-Total Assets	11.2	6.9	9.0	8.5	8.7	6.4
Deposits to Assets	68.2	67.7	65.7	68.0	71.0	73.5
Wholesale Funding to Loans	20.8	23.6	25.8	22.8	19.1	14.8
IEAs to IBLs	123.8	123.8	122.9	122.4	117.7	120.7
Asset Quality (%)						
NPL Ratio	1.0	1.2	1.2	1.3	1.2	1.2
NPL to Shareholder's Equity	7.0	7.9	8.2	8.4	7.7	7.7
NPL to Tier 1 Capital	5.8	6.5	6.7	7.2	6.9	7.1
Coverage Ratio	80.2	99.1	173.9	182.1	215.9	231.5
ALL/Average Loans	0.8	1.1	1.9	2.2	2.5	2.7
Cost of Risk	22	44	45	54	48	47
Capitalization (%)						
Tier 1 Ratio	16.2	16.9	17.8	17.6	16.5	15.2
CAR	16.7	17.3	18.8	18.7	17.5	16.2
Tier 1 Capital to Assets	12.2	12.4	12.3	12.4	12.1	11.9
Tier 1 Capital to Loans	17.4	18.1	18.5	18.4	18.2	17.5
Tier 1 Capital to Deposits	17.9	18.3	18.8	18.3	17.1	16.3
Leverage (x)	9.8	9.8	9.9	9.4	9.2	9.1
Growth (%)						
Net Interest Income	3.9	27.5	4.2	7.1	9.5	11.0
Non-Interest Income	19.2	-22.7	28.2	-1.8	12.4	7.6
Total Revenue	7.6	14.0	8.6	5.2	10.1	10.3
OPEX	4.3	1.5	5.0	-2.6	7.1	7.4
Net Operating Income	9.1	19.2	9.9	7.8	11.0	11.2
Net Income (Attributable)	6.0	8.9	15.9	9.6	7.8	7.9
Loans	12.2	4.5	-0.4	5.0	7.0	10.8
Deposits	4.2	6.7	-1.2	7.8	13.0	12.0
Assets	9.8	7.5	1.9	4.1	8.2	8.3
RWAs	0.2	4.7	-3.3	5.5	13.4	15.6

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

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB") QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.