

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR99.00	Target Price	QR104.00
Implied Upside	+5.1%		

Strong 2Q; Revising Estimates, Maintain PT QR104.00/sh

QIBK is the largest Islamic bank with a market share of 11.7% and 11.9% in total loans and deposits, respectively. QIBK spent the past couple of years regaining lost market share. The bank's loan book grew by a CAGR of 27.1% (2011-16).

Highlights

- QIBK posted strong 2Q2017 results, besting our estimates and that of BBG consensus.** Qatar Islamic Bank (QIBK) reported a net profit of QR609.8mn in 2Q2017, rising by 9.8% QoQ (+8.9% YoY), exceeding our estimate of QR568.4mn (+7% variation) and BBG consensus QR580.2mn.
- Results were strong across the board but higher provisioning prevented further bottom-line growth.** Net interest & investment income grew by 14.2% QoQ (31.9% YoY) to QR961.6mn driven by interest income. Moreover, non-funded income displayed strong performance, gaining by 9.8% QoQ (down 3.9% YoY) as a result of fees and f/x income. On the other hand, net provisions & investment impairments were on the high side, surging by 41.5% QoQ to QR249.1mn vs. QR88.3mn in 2Q2016. *In our view, management's prudent provisioning practice is to help it mitigate any risks that may arise in the future.*
- Margins significantly improved.** QIBK's net interest margin expanded by 29bps QoQ and 59bps YoY to 2.94%, respectively. This was a result of yield on assets jumping by 25bps QoQ and 60bps YoY, cost of funds inched up by 5bps and 6bps QoQ and YoY, respectively.
- QIBK's operating efficiency improved.** The bank's C/I ratio receded to 24% from 26% in 1Q2017 (30% in 2Q2016). During 1H2017 QIBK generated robust JAWs of 20% as revenue grew by 18.3% YoY while opex declined by 1.5%.
- Net loans' performance was strong and impressive given current weak market conditions.** Net loans expanded by 10.2% QoQ (+11.7% YTD) to QR109.7bn in an environment with no appetite for credit and liquidity concerns; impressive performance. On the other hand, deposits contracted by 6.7% QoQ (+1.6 YTD) to QR96.9bn. As such, QIBK's LDR was lifted to 113% vs. 96% in 1Q2017 (103% in FY2016). *In our view, it appears that the drop in time deposits was due to some GCC nations withdrawing funds from QIBK (24% of deposits and liabilities are exposed to the GCC. Having said this, liquidity could become an issue in the near future.*
- Asset quality further improved and remains strong; non-material.** The bank's NPL ratio receded to 0.88% vs. 1.01% at the end of 2016. During the same time NPLs declined by 2.6% YTD to QR970mn. Moreover, the coverage ratio improved to 110% vs. 80% at the end of 2016.
- Capitalization remains strong.** The banks CAR remained strong at 16.6%.

Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Improvement in NIMs and spreads.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR104.00.** QIBK is trading at a 2017e P/B and P/E of 1.6x and 10.9x, respectively. The stock is trading close to its fair value (PEG of 0.9x).
- Risks:** 1) Geopolitical factors/concerns, 2) Depressed oil prices, 3) Increase in credit costs and 4) Exposure to real estate segment.

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Attributable EPS (QR)	8.32	9.05	10.75	12.48
EPS Growth (%)	6.0	8.8	18.7	16.1
P/E (x)	12.1	10.9	9.2	7.9
Tangible BVPS (QR)	58.4	63.1	69.0	76.4
P/TB (x)	1.7	1.6	1.4	1.3
DPS (QR)	4.75	5.00	5.25	5.50
Dividend Yield (%)	4.7	5.1	5.3	5.6

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

Key Data

Current Market Price (QR)	99.0
Dividend Yield (%)	5.1
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	117.00/86.90
3-m Average Volume ('000)	91.3
Mkt. Cap. (\$ bn/QR bn)	6.4/23.4
Shares Outstanding (mn)	236.3
FO Limit* (%)	25.0
Current FO* (%)	6.0
1-Year Total Return (%)	+0.3
Fiscal Year End	December 31

Source: Bloomberg (as of July 24, 2017), *Qatar Exchange (as of July 23, 2017); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2017 Old	New	Change (%)	2018 Old	New	Change (%)
Net Interest Income	2,882	3,160	9.7	3,150	3,558	13.0
Non Interest Income	945	981	3.9	960	974	1.5
Net Operating Income	2,698	3,056	13.3	2,918	3,407	16.8
Net Income (Reported/Headline)	2,264	2,399	6.0	2,456	2,809	14.4
Net Income (Attributable)	2,007	2,139	6.6	2,195	2,539	15.7

Source: Company data, QNBFS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	2,666	3,160	3,558	4,045
Fees & Commissions	519	535	568	616
FX Income	176	130	149	131
Other Income	291	316	258	297
Non-Interest Income	986	981	974	1,044
Total Revenue	3,652	4,142	4,532	5,089
Operating Expenses	(1,089)	(1,086)	(1,125)	(1,219)
Net Operating Income	2,563	3,056	3,407	3,869
Net Provisions	(448)	(630)	(567)	(604)
Net Profit Before Taxes & Non-Recurring Items	2,116	2,426	2,840	3,265
Tax	(10)	(12)	(14)	(16)
Net Profit Before Minority Interest	2,105	2,414	2,826	3,249
Minority Interest	44	(14)	(17)	(19)
Non-Recurring/Unusual Gains/(Losses)	5	0	0	0
Net Profit (Headline/Reported)	2,155	2,399	2,809	3,230
Interest on Tier-1 Sukuk	(135)	(205)	(205)	(205)
Social & Sports Contribution Fund	(54)	(55)	(65)	(76)
Net Profit (Attributable)	1,966	2,139	2,539	2,949

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	5,447	5,663	6,067	6,795
Interbank Loans	10,150	7,858	9,927	8,362
Net Investments	19,959	21,077	24,351	26,545
Net Loans	98,171	112,252	124,091	139,361
Investment In Associates	875	889	906	920
Other Assets	3,354	3,817	4,095	4,460
Net PP&E	517	516	534	553
Investment in Real Estate	930	1,592	1,483	1,383
Assets of a Subsidiary Held for Sale	-	-	-	-
Goodwill & Other Intangibles	432	390	348	305
Total Assets	139,834	154,053	171,802	188,684
Liabilities				
Interbank Deposits	13,607	19,513	15,339	15,554
Customer Deposits	95,397	101,121	121,345	135,906
Sukuk Financing	6,791	9,518	9,518	9,518
Other Liabilities	4,041	2,831	3,155	3,534
Liabilities of a Subsidiary Held for Sale	-	-	-	-
Tier-1 Sukuk	4,000	4,000	4,000	4,000
Total Liabilities	123,835	136,983	153,358	168,512
Total Shareholders' Equity	14,238	15,295	16,652	18,361
Total Liabilities & Shareholders' Equity	139,834	154,053	171,802	188,684

Source: Company data, QNBFS Research

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	14.2	14.5	15.9	16.8
RoAA (Attributable)	1.5	1.5	1.6	1.6
RoRWA (Attributable)	1.9	1.9	2.0	2.1
NIM (% of IEAs)	2.21	2.38	2.42	2.47
NIM (% of RWAs)	2.54	2.80	2.85	2.89
NIM (% of AAs)	2.00	2.15	2.18	2.24
Spread	1.86	2.01	2.03	2.03
Efficiency (%)				
Cost-to-Income (Headline)	29.8	26.2	24.8	24.0
Cost-to-Income (Core)	32.2	28.2	26.2	25.3
Liquidity (%)				
LDR	102.9	111.0	102.3	102.5
Loans/Assets	70.2	72.9	72.2	73.9
Cash & Interbank Loans-to-Total Assets	11.2	8.8	9.3	8.0
Deposits to Assets	68.2	65.6	70.6	72.0
Wholesale Funding to Loans	20.8	25.9	20.0	18.0
IEAs to IBLs	124.6	117.7	117.2	117.8
Asset Quality (%)				
NPL Ratio	1.0	0.9	1.1	1.2
NPLs to Shareholder's Equity	7.0	6.7	8.3	9.3
NPLs to Tier 1 Capital	4.7	6.1	7.6	8.6
Coverage Ratio	80.2	121.1	119.1	123.3
ALL/Average Loans	0.8	1.1	1.3	1.4
Cost of Risk (bps)	24	45	39	38
Capitalization (%)				
Tier 1 Ratio	20.0	13.9	14.1	13.1
CAR	20.5	14.4	14.6	13.6
Tier 1 Capital to Assets	15.1	10.9	10.6	10.5
Tier 1 Capital to Loans	21.5	15.0	14.6	14.2
Tier 1 Capital to Deposits	22.1	16.6	15.0	14.6
Leverage (x)	9.8	10.1	10.3	10.3
Growth (%)				
Net Interest Income	3.9	18.5	12.6	13.7
Non-Interest Income	19.2	-0.5	-0.8	7.2
OPEX	4.3	-0.3	3.6	8.4
Net Operating Income	9.1	19.2	11.5	13.6
Net Income (Attributable)	6.0	8.8	18.7	16.1
Loans	12.2	14.3	10.5	12.3
Deposits	4.2	6.0	20.0	12.0
Assets	9.8	10.2	11.5	9.8
RWAs	0.2	15.1	6.2	17.7

Source: Company data, QNBFS 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

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