

Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR8.515	Target Price	QR7.950
Implied Upside/(Downside) %	(6.64)		

QIIK Remains a Dividend Play; Maintain Market Perform & PT

We tweak our estimates for Qatar International Islamic Bank (QIIK) after 1H2020 results but maintain our Market Perform rating and PT at QR7.950/sh. The stock has lagged its peers on a YTD basis after outperforming in 2019 in anticipation of MSCI EM Index inclusion (QIIK is now a constituent in the index), and we see limited upside as valuation metrics remain rich. QIIK trades at a 2020e P/TB of 2.1x with a PEG of 1.9x (based on 7.9% earnings CAGR 2019-24e). Moreover, the stock is trading at a 2020e P/E of 15.0x, which is a 20% premium to its intrinsic P/E of 12.5x. Further, the market is pricing in a sustainable RoE of 17.3% (which is high) vs. our estimate of 15.5%.

Highlights

- **QIIK generates low single-digit growth in 1H2020 bottom-line because of a surge in provisions:** QIIK posted a net profit of QR521.34mn, growing by 2.1% YoY and broadly in-line with our estimate of QR512.60 (+1.7% variation). We slightly tweak our estimates (page 2).
- **Net operating income growth was driven by strong revenue and cost control.** Net operating income increased by 20.3% YoY in 1H2020, mainly attributable to net interest income (+14.7%), non-funded income (+35.1%) & cost containment (+4.2%, C/I: 21.4%).
- **Relatively safe dividend play:** The stock offers an attractive yield of 5.0% (2020e) and 5.3% (2021e). Management can maintain QR0.425 DPS (translates to 75% payout) without affecting its capitalization levels.
- **Given QIIK's asset/liability interest rate gap, we expect flat margins in 2020.** 56% of the bank's assets are repriciable within 1 year vs. 55% of liabilities-to-total assets, thus leading to flat net interest margin in 2020, resulting in a NIM of 2.56%.
- **The bank remains efficient and continued to generate positive JAWS.** Revenue growth in 1H2020 (+16.5%) outpaced growth in opex (+4.2%), resulting in positive JAWS of 12.2%. Moreover, cost-to-income ratio remained at a very healthy level, declining from 23.9% in 1H2019 to 21.4% in 1H2020 (24.1% in FY2019). Management aims to maintain the C/I ratio at an optimal level of 22-23%.
- **Net loans expected to exhibit flat performance end-2020e.** Net loans contracted by 8.9% QoQ (-5.3% YTD) to QR35.0bn due to the repayment of facilities by the public sector. On the positive side, retail loans expanded by 11% at the end of 2Q2020 vs. FY 2019 and makes up 37% of total loans (31% in FY2019). Deposits declined by 4.2% (+11.4% YTD) to QR34.8bn. Hence, LDR dropped from 106% in 1Q2020 to 101% in 2Q2020 (119% in FY2019). Management aims to reduce this ratio below 100% in the coming quarters.
- **CoR in 2020e is expected to be in-line with 2019's 35bps.** QIIK booked large provisions (1H2020: QR85.8mn vs. 1H2019: QR6.2mn) as a precautionary measure due to COVID-19 disruptions. Hence, CoR came in at 24bps vs. a negligible figure in 1H2019.
- **Asset quality remains healthy...**NPL ratio remained flat sequentially at 2.0% in 2Q2020. Coverage ratio of stage 3 loans improved to 57% vs 51% in FY2019, although it remains low. Moreover, total coverage ratio improved from 84% in FY2019 to 99% in 1H2020. Going forward, we forecast coverage ratio to increase incrementally above 100%.
- **...and capitalization remains strong.** QIIK ended 1H2020 with a Tier-1 ratio of 16.5% vs. 17.7% in FY2020. We expect management to maintain a healthy capital position in the near future.

Catalysts

- We need to see increasing momentum in reported results, in our view.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Market Perform rating and price target at QR7.950. QIIK is trading at a 2020e P/TB and P/E of 2.1x and 15.0x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in impairments and 2) Geopolitical risks.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
Attributable EPS (QR)	0.561	0.566	0.622	0.672
EPS Growth (%)	5.4	0.9	9.9	8.1
P/E (x)	15.2	15.0	13.7	12.7
Tangible BVPS (QR)	4.0	4.1	4.3	4.6
P/TBV (x)	2.1	2.1	2.0	1.9
RoE (%)	14.6	14.1	15.0	15.5
DPS (QR)	0.425	0.425	0.450	0.450
Dividend Yield (%)	5.0	5.0	5.3	5.3

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

Key Data

Current Market Price (QR)	8.515
Dividend Yield (%)	5.0
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	9.940/6.944
3-m Average Volume (mn)	1.1
Mkt. Cap. (\$ bn/QR bn)	3.5/12.9
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	49.0
Current FO* (%)	17.2
1-Year Total Return (%)	+16.7
Fiscal Year End	December 31

Source: Bloomberg (as of September 01, 2020), *Qatar Exchange (as of August 31, 2020); Note: FO is foreign ownership

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Change in Estimates

	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,345	1,354	0.6	1,449	1,464	1.1	1,574	1,570	-0.3
Non Interest Income	157	169	7.5	171	171	0.2	216	196	-9.5
Total Revenue	1,502	1,522	1.4	1,620	1,636	1.0	1,790	1,765	-1.4
Opex	354	350	-1.1	372	368	-1.1	390	384	-1.5
Net Operating Income	1,148	1,172	2.1	1,248	1,268	1.6	1,400	1,381	-1.4
Net Income (Attributable)	856	857	0.1	922	941	2.1	1,025	1,018	-0.7

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	1,063	1,164	1,255	1,354	1,464	1,570
Fees & Commissions	119	129	181	168	178	196
FX Income	41	11	12	15	17	17
Other Income	(1)	1	(32)	(14)	(23)	(17)
Non-Interest Income	159	141	161	169	171	196
Total Revenue	1,221	1,305	1,416	1,522	1,636	1,765
Operating Expenses	(326)	(325)	(342)	(350)	(368)	(384)
Net Operating Income	896	979	1,074	1,172	1,268	1,381
Net Provisions & Impairments	(63)	(97)	(147)	(183)	(191)	(226)
Net Profit (Headline/Reported)	832	882	927	990	1,076	1,155
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(108)	(108)	(108)
Social & Sports Contribution Fund	(21)	(22)	(23)	(25)	(27)	(29)
Net Profit (Attributable)	756	805	849	857	941	1,018

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019e	2020e	2021e	2022e
Cash & Balances with Central Bank	2,432	2,736	2,270	2,647	2,638	3,118
Interbank Loans	3,274	12,839	9,617	10,781	10,149	8,868
Net Investments	6,180	4,929	6,189	6,630	6,953	7,597
Net Loans	32,500	27,991	37,011	37,176	40,595	44,339
Investment In Associates	365	388	337	313	292	275
Other Assets	685	216	293	318	289	310
Net PP&E	757	280	261	243	229	215
Investments In Real Estate	427	882	854	854	854	854
Total Assets	46,619	50,260	56,831	58,961	61,999	65,575
Liabilities						
Interbank Deposits	6,606	11,578	14,010	11,730	9,119	7,230
Customer Deposits	32,479	31,130	31,229	35,288	40,581	45,857
Term Loans	0	0	2,563	2,563	2,563	2,563
Tier-1 Perpetual Sukuk	1,000	1,000	2,092	2,092	2,092	2,092
Other Liabilities	718	722	870	1,006	1,063	917
Total Liabilities	40,802	44,430	50,764	52,680	55,419	58,660
Total Shareholders' Equity	5,817	5,830	6,068	6,281	6,579	6,915
Total Liabilities & Shareholders' Equity	46,619	50,260	56,831	58,961	61,999	65,575

Source: Company data, QNB FS Research

Ratios/Indicators	2017	2018	2019	2020e	2021e	2022e
Profitability (%)						
RoE	13.3	13.8	14.6	14.1	15.0	15.5
RoAA	1.7	1.7	1.6	1.5	1.6	1.6
RoRWA	2.4	2.2	2.2	2.0	2.1	2.1
NIM (% of IEAs)	2.7	2.7	2.6	2.6	2.6	2.6
NIM (% of RWAs)	3.3	3.3	3.2	3.2	3.2	3.2
NIM (% of AAs)	2.4	2.4	2.3	2.3	2.4	2.5
Spread	2.2	2.2	2.0	2.1	2.1	2.0
Efficiency (%)						
Cost-to-Income (Headline)	26.7	24.9	24.1	23.0	22.5	21.8
Cost-to-Income (Core)	26.8	25.1	23.7	22.9	22.3	21.6
Liquidity (%)						
LDR	100.1	89.9	118.5	105.3	100.0	96.7
Loans/Assets	69.7	55.7	65.1	63.1	65.5	67.6
Cash & Interbank Loans-to-Total Assets	12.2	31.0	20.9	22.8	20.6	18.3
Deposits to Assets	69.7	61.9	54.9	59.9	65.5	69.9
Wholesale Funding to Loans	20.3	41.4	44.8	38.4	28.8	22.1
IEAs to IBLs	129.5	127.9	128.0	127.9	133.4	133.5
Asset Quality (%)						
NPL Ratio	1.3	2.0	2.0	1.9	1.9	2.0
NPL to Shareholders' Equity	7.8	10.3	13.2	12.1	12.8	13.8
NPL to Tier 1 Capital	7.5	10.1	11.1	10.2	10.9	11.8
Coverage Ratio	58.3	91.9	83.8	100.0	104.5	106.7
ALL/Average Loans	0.8	1.7	1.9	1.9	2.1	2.2
Cost of Risk (bps)	9	22	35	34	29	30
Capitalization (%)						
Tier 1 Ratio	17.9	15.7	17.7	16.8	16.6	16.1
CAR	17.9	16.4	18.5	17.7	17.5	17.0
Tier 1 Capital to Assets	13.0	11.8	12.7	12.6	12.5	12.3
Tier 1 Capital to Loans	18.6	21.2	19.5	20.0	19.1	18.2
Tier 1 Capital to Deposits	18.6	19.1	23.2	21.1	19.1	17.6
Leverage (x)	8.0	8.6	9.4	9.4	9.4	9.5
Growth (%)						
Net Interest Income	4.8	9.5	7.8	7.8	8.2	7.2
Non-Interest Income	-17.7	-11.2	14.0	5.0	1.5	14.1
OPEX	6.7	-0.1	4.9	2.5	5.1	4.5
Net Operating Income	-0.7	9.4	9.7	9.1	8.2	8.9
Net Income (Attributable)	1.9	6.4	5.4	0.9	9.9	8.1
Loans	19.3	-13.9	32.2	0.4	9.2	9.2
Deposits	21.9	-4.2	0.3	13.0	15.0	13.0
Assets	9.6	7.8	13.1	3.7	5.2	5.8
RWAs	11.2	11.8	7.8	8.5	5.6	7.3

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

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