

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR68.86	Target Price	QR63.00
Implied Upside	(8.5%)		

2018 Earnings Driven by NII & Flat Opex; Minor Changes in Estimates

Qatar International Islamic Bank (QIIB) reported a 2018 net profit of QR805.1mn, in-line with our estimate of QR818.0mn (-1.6% variation). QIIB's net profit increased by 6.4% YoY due to strong growth in net interest income along with flat opex, which resulted in a 9.4% rise in net operating income. However, the full benefit of this operating performance improvement did not flow through to the bottom-line given a 53.3% surge in net provisions and impairments. The board also announced a DPS of QR4.00, in-line with our estimate. The stock yields a strong 5.8% and payout of 75%. We maintain our Market Perform rating and PT of QR63.00/share.

Highlights

- **QIIB reports in-line 2018 net profit.** QIIB generated attributable net profit of QR805.1mn growing by 6.4% YoY, in-line with our estimate of QR818mn (-1.6% variation).
- **Net income was driven by strong net interest income and flat opex; however, further earnings growth was impeded by a surge in net credit provisions and impairments.** Net interest income increased by 9.5% YoY and with opex remaining flat, led to a 9.4% growth in net operating income. On the other hand, net provisions & impairments surged by 53.3%, lowering the growth in net income to 6.4%.
- **No surprises on the dividends front with QIIB recommending QR4 in DPS, flat with 2017 and in line with our model.** Announced DPS implies a DY of 5.8% and a payout of 75%.
- **Margins remained stable in 2018.** NIM inched up by only 2bps YoY to 2.70% due to yield on assets and CoFs practically moving in-line. Yield on assets increased by 21bps YoY, while CoFs moved up by 20bps YoY.
- **The bank remains efficient and finally generated positive JAWS.** Revenue grew by 6.8% YoY while opex remained flat, resulting in positive JAWS of 6.9%. Moreover, cost-to-income ratio improved to 24.9% vs. 26.7% in 2017.
- **Net loans and deposits contracted in 2018 but liquidity improved.** QIIB's loan book declined by 15.1% YoY to QR27.5bn. Moreover, deposits dropped by 4.2% to QR31.1bn. Hence, LDR significantly improved, receding to 88% (100% at the end of 2017). The sharp drop in loans is attributable to the public sector, which took place in 2Q2018. Moreover, loans to the real estate segment decreased by 11.4%. Regarding deposits, the public sector contributed QR8.4bn vs. 2.7bn in 2017 as deposits from corporates dropped by 65.7%.
- **Asset quality has deteriorated vs. 2017...** QIIB's NPL ratio accelerated to 2.13% vs. 1.38% in 2017; NPLs gained by 32.1% YoY to QR598mn. Moreover, CoR jumped to 22bps vs. 9bps in 2017.
- **...but capitalization remains strong.** QIIB ended 2018 with a CET1 ratio of 15.7% (vs. 14.7% in 2017) and Tier-1 of 18.4% (vs. 17.9% in 2017).

Catalysts

- **Catalysts include:** 1) Increase in FOL to 49% from 25% and/or 2) increase in traded volumes.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** *We maintain our Price Target of QR63.00.* QIIB is trading at a 2019e P/TB and P/E of 1.7x and 11.1x, respectively. The stock offers an attractive DY of 5.8%.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could further result in impairments.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	5.46	6.20	7.02	7.65
EPS Growth (%)	2.1	13.5	13.1	9.1
P/E (x)	12.6	11.1	9.8	9.0
Tangible BVPS (QR)	38.4	40.4	43.3	46.8
P/TB (x)	1.8	1.7	1.6	1.5
DPS (QR)	4.00	4.00	4.00	4.00
Dividend Yield (%)	5.8	5.8	5.8	5.8

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

Key Data

Current Market Price (QR)	68.86
Dividend Yield (%)	5.8
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	70.98/49.05
3-m Average Volume ('000)	96.1
Mkt. Cap. (\$ bn/QR bn)	2.9/10.4
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	11.9
1-Year Total Return (%)	+24.6
Fiscal Year End	December 31

Source: Bloomberg (as of February 3, 2019), *Qatar Exchange (as of January 31, 2019); Note: FO is foreign ownership

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Change in Estimates

	2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,203	1,265	5.2	1,324	1,385	4.6
Non Interest Income	245	177	-27.8	274	189	-31.0
Net Operating Income	1,084	1,110	2.4	1,204	1,228	2.0
Net Income (Reported/Headline)	997	994	-0.3	1,115	1,117	0.2
Net Income (Attributable)	918	914	-0.4	1,033	1,034	0.1

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	1,164	1,265	1,385	1,504
Fees & Commissions	129	131	122	131
FX Income	11	41	42	37
Other Income	1	5	25	51
Non-Interest Income	141	177	189	219
Total Revenue	1,305	1,442	1,574	1,723
Operating Expenses	(325)	(332)	(346)	(371)
Net Operating Income	979	1,110	1,228	1,353
Net Provisions & Impairments	(97)	(116)	(111)	(140)
Net Profit (Headline/Reported)	882	994	1,117	1,213
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(55)
Social & Sports Contribution Fund	(22)	(25)	(28)	(30)
Net Profit (Attributable)	805	914	1,034	1,128

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Assets				
Cash & Balances with Central Bank	2,736	2,928	2,811	3,007
Interbank Loans	12,801	9,356	6,373	6,295
Net Investments	4,890	5,458	6,529	6,976
Net Loans	27,463	29,237	31,864	34,973
Investment In Associates	388	378	373	368
Other Assets	821	690	806	877
Net PP&E	280	277	200	194
Investment in Real Estate	882	876	967	958
Total Assets	50,260	49,200	49,922	53,648
Liabilities				
Interbank Deposits	11,554	8,717	6,343	7,026
Customer Deposits	31,130	32,531	35,133	37,593
Other Borrowings	0	0	0	0
Tier-1 Sukuk	1,000	1,000	1,000	1,000
Other Liabilities	746	813	878	940
Total Liabilities	44,430	43,061	43,354	46,558
Total Shareholders' Equity	5,830	6,139	6,567	7,090
Total Liabilities & Shareholders' Equity	50,260	49,200	49,922	53,648

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
Profitability (%)				
RoE Attributable (Based on Beginning Equity)	13.8	15.7	16.8	17.2
RoAA (Attributable)	1.7	1.8	2.1	2.2
RoRWA (Attributable)	2.2	2.4	2.7	2.6
NIM (% of IEAs)	2.7	2.7	2.9	3.2
NIM (% of RWAs)	3.3	3.4	3.6	3.5
NIM (% of AAs)	2.4	2.5	2.8	2.9
Spread	2.2	2.0	1.8	1.9
Efficiency (%)				
Cost-to-Income (Headline)	24.9	23.1	22.0	21.5
Cost-to-Income (Core)	25.1	23.2	22.4	22.2
Liquidity (%)				
LDR	88.2	89.9	90.7	93.0
Loans/Assets	54.6	59.4	63.8	65.2
Cash & Interbank Loans-to-Total Assets	30.9	25.0	18.4	17.3
Deposits to Assets	61.9	66.1	70.4	70.1
Wholesale Funding to Loans	42.1	29.8	19.9	20.1
IEAs to IBLs	126.3	139.7	142.5	132.9
Asset Quality (%)				
NPL Ratio	2.1	2.3	2.4	2.2
NPLs to Shareholder's Equity	10.3	10.9	11.9	11.1
NPLs to Tier 1 Capital	8.6	9.0	9.6	8.9
Coverage Ratio	91.9	92.8	87.6	96.0
ALL/Average Loans	1.7	2.0	2.1	2.1
Cost of Risk	22	24	19	19
Capitalization (%)				
Tier 1 Ratio	18.4	20.0	20.3	19.5
CAR	19.1	20.7	21.0	19.5
Tier 1 Capital to Assets	13.8	15.2	16.3	16.5
Tier 1 Capital to Loans	25.3	25.5	25.5	25.4
Tier 1 Capital to Deposits	22.3	22.9	23.1	23.6
Leverage (x)	8.6	8.0	7.6	7.6
Growth (%)				
Net Interest Income	9.5	8.7	9.5	8.6
Non-Interest Income	-16.7	25.5	6.8	16.0
OPEX	-3.2	2.1	4.1	7.1
Net Operating Income	9.4	13.3	10.7	10.2
Net Income (Attributable)	6.4	13.6	13.1	9.1
Loans	-15.5	6.5	9.0	9.8
Deposits	-4.2	4.5	8.0	7.0
Assets	7.8	-2.1	1.5	7.5
RWAs	11.8	-1.1	6.8	14.2

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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