

## Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR9.400	Target Price	QR8.379
Implied Upside/(Downside) %	(10.86)	Old Target Price	QR7.950

### QIIB Remains a Solid Dividend Play; Raising PT to QR8.379/share

We tweak our estimates for Qatar International Islamic Bank (QIIB) after 1H2021 results. We maintain our Market Perform rating, but increase our TP from QR7.950 to QR8.379/sh. on better RoE expectations vs. previously. The stock has lagged its peers on a YTD/one-year basis and on a two-year basis after outperforming in 2019 in anticipation of MSCI EM Index inclusion (QIIB is now a constituent in the index), and we see limited upside as valuation remains rich. QIIB trades at a 2021e P/TB of 2.2x, with a PEG of 1.6x (based on 9.8% earnings CAGR over 2020-25e). Moreover, the stock is trading at a 2021e P/E of 16.2x, which is a 36% premium to its intrinsic P/E of 11.9x. Further, the market is pricing in a sustainable RoE of 17.8% (which is high) vs. our estimate of 15.8%.

#### Highlights

- **QIIB generates mid-single digit growth (+6.1%) in 1H2021 bottom-line because of a surge in provisions:** QIIB posted a 1H2021 net profit of QR543.90mn growing by 6.1% YoY, broadly in-line with our estimate of QR554.80mn (-2.0% variation). We tweak our estimates (page 2).
- **Net operating income growth was driven by strong revenue and cost control.** Net operating income increased by 18.0% YoY in 1H2021, attributable to net interest income (+9.1%), non-funded income (+52.8%) and cost containment (-2.7%, C/I: 18.3%). We pencil in a growth of 8.3% in net operating income (2020-25e) vs. 8.1% (2015-2020).
- **Relatively safe dividend play.** The stock offers an attractive yield of 3.5% (2021e) and 4.0% (2022e). Management can maintain QR0.325/QR0.375 DPS (translates to 57% payout) without affecting its capitalization levels.
- **RoE remains above CoE, which is a positive.** We forecast RoE to reach 15.8% by 2025e from 13.3% in 2020.
- **The bank remains efficient and continued to generate positive JAWS.** Revenue growth in 1H2021 (+13.6%), along with a fall in opex (-2.7%), resulted in positive JAWS of 16.3%. Moreover, cost-to-income ratio remained at a very healthy level, declining from 21.4% in 1H2020 to 18.3% in 1H2021 (20.3% in FY2020). We expect the C/I ratio to hover around the 18% levels, supported primarily from revenue growth.
- **Net loans expected to grow by 5.3% end-2021e vs. a flat performance in 1H2021.** Net loans contracted by 3.3% QoQ (flat YTD) to QR40.6bn due to the repayment of facilities by the public sector. On the positive side, retail loans expanded by 8% at the end of 2Q2021 vs. FY2020 and makes up 35% of total loans (32% in FY2020). On the other hand, deposits increased by 1.7% (+6.8% YTD) to QR38.8bn. Hence, LDR dropped from 111% in FY2020 to 105% in 2Q2021 (119% in FY2019). Management aims to reduce this ratio below 100% in the coming quarters.
- **CoR in 2021e is expected to be in-line with 1H2021's annualized 67bps.** QIIB booked large provisions (1H2021: QR140.4mn vs. 1H2020: QR94.5mn) as a precautionary measure due to COVID-19 disruptions. Hence, CoR came in at 67bps vs. 56bps in FY2020. Moreover, the bank plans to increase credit provisions as it aims to reach 100% coverage of Stage 3 loans.
- **Asset quality remains healthy...** NPL ratio remained flat at 1.58% in 2Q2021 vs. 1.56% in FY2020. However, NPLs receded by 2.3% sequentially. Coverage of Stage 3 loans improved to 77% vs. 71% in 1Q2021 and FY2020. Moreover, total coverage ratio improved from 129% in FY2020 to 148% in 1H2021. Going forward, we forecast coverage ratio to continue to increase as management targets 100% coverage of Stage 3 loans.
- **...and capitalization remains strong.** QIIB ended 1H2021 with a Tier-1 ratio of 16.3% vs. 15.6% in FY2020. CET1 ratio also climbed up to 11.9% vs. 11.2% 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 but raise our price target to QR8.379. QIIB is trading at a 2021e P/TB and P/E of 2.2x and 16.2x, 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

	2020	2021e	2022e	2023e
Attributable EPS (QR)	0.532	0.582	0.644	0.707
EPS Growth (%)	-5.0	9.3	10.7	9.9
P/E (x)	17.7	16.2	14.6	13.3
Tangible BVPS (QR)	4.1	4.4	4.7	5.0
P/TBV (x)	2.3	2.2	2.0	1.9
RoE (%)	13.3	14.1	14.7	15.1
DPS (QR)	0.325	0.325	0.375	0.400
Dividend Yield (%)	3.5	3.5	4.0	4.3

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

#### Key Data

Current Market Price (QR)	9.400
Dividend Yield (%)	3.5
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	9.650/8.200
3-m Average Volume (mn)	0.74
Mkt. Cap. (\$ bn/QR bn)	3.9/14.2
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	49.0
Current FO* (%)	17.8
1-Year Total Return (%)	+18.6
Fiscal Year End	December 31

Source: Bloomberg (as of August 03, 2021), \*Qatar Exchange (as of August 03, 2021); Note: FO is foreign ownership

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## Change in Estimates

QRmn	2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,464	1,579	7.8	1,570	1,704	8.6
Non Interest Income	171	266	55.8	196	271	38.1
Total Revenue	1,635	1,845	12.9	1,766	1,975	11.8
Opex	368	335	-8.9	384	348	-9.5
Net Operating Income	1,268	1,510	19.1	1,381	1,627	17.8
Net Income (Attributable)	941	881	-6.4	1,018	975	-4.2

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	1,422	1,579	1,704
Fees & Commissions	119	129	181	203	233	250
FX Income	41	11	12	48	41	44
Other Income	(1)	1	(32)	3	(8)	(24)
<b>Non-Interest Income</b>	<b>159</b>	<b>141</b>	<b>161</b>	<b>253</b>	<b>266</b>	<b>271</b>
<b>Total Revenue</b>	<b>1,221</b>	<b>1,305</b>	<b>1,416</b>	<b>1,675</b>	<b>1,845</b>	<b>1,975</b>
Operating Expenses	(326)	(325)	(342)	(341)	(335)	(348)
<b>Net Operating Income</b>	<b>896</b>	<b>979</b>	<b>1,074</b>	<b>1,335</b>	<b>1,510</b>	<b>1,627</b>
Net Provisions & Impairments	(63)	(97)	(147)	(397)	(496)	(516)
<b>Net Profit (Headline/Reported)</b>	<b>832</b>	<b>882</b>	<b>927</b>	<b>938</b>	<b>1,014</b>	<b>1,111</b>
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(108)	(108)	(108)
Social & Sports Contribution Fund	(21)	(22)	(23)	(23)	(25)	(28)
<b>Net Profit (Attributable)</b>	<b>756</b>	<b>805</b>	<b>849</b>	<b>806</b>	<b>881</b>	<b>975</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019e	2020e	2021e	2022e	2023e
Cash & Balances with Central Bank	2,736	2,270	2,776	2,863	3,020	3,217
Interbank Loans	12,839	9,617	10,508	10,090	9,514	11,373
Net Investments	4,929	6,189	5,852	5,563	6,078	6,783
Net Loans	27,991	37,011	40,514	42,040	45,307	47,388
Investment In Associates	388	337	345	326	308	296
Other Assets	216	293	351	327	317	332
Net PP&E	280	261	242	219	200	180
Investments In Real Estate	882	854	724	724	724	724
<b>Total Assets</b>	<b>50,260</b>	<b>56,831</b>	<b>61,314</b>	<b>62,153</b>	<b>65,469</b>	<b>70,293</b>
<b>Liabilities</b>						
Interbank Deposits	11,578	14,010	13,128	10,072	9,771	11,771
Customer Deposits	31,130	31,229	36,352	39,769	43,150	45,307
Term Loans	0	2,563	2,566	2,566	2,566	2,566
Tier-1 Perpetual Sukuk	1,000	2,092	2,092	2,092	2,092	2,092
Other Liabilities	722	870	944	1,034	863	1,065
<b>Total Liabilities</b>	<b>44,430</b>	<b>50,764</b>	<b>55,082</b>	<b>55,534</b>	<b>58,442</b>	<b>62,801</b>
<b>Total Shareholders' Equity</b>	<b>5,830</b>	<b>6,068</b>	<b>6,231</b>	<b>6,620</b>	<b>7,027</b>	<b>7,492</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>50,260</b>	<b>56,831</b>	<b>61,314</b>	<b>62,153</b>	<b>65,469</b>	<b>70,293</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2018	2019	2020	2021e	2022e	2023e
<b>Profitability (%)</b>						
RoE	13.8	14.6	13.3	14.1	14.7	15.2
RoAA	1.7	1.6	1.4	1.4	1.5	1.6
RoRWA	2.2	2.2	1.8	1.8	1.8	1.9
NIM (% of IEAs)	2.7	2.6	2.6	2.8	2.9	2.9
NIM (% of RWAs)	3.3	3.2	3.2	3.2	3.2	3.2
NIM (% of AAs)	2.4	2.3	2.4	2.6	2.7	2.7
Spread	2.2	2.0	2.2	2.4	2.4	2.5
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	24.9	24.1	20.3	18.2	17.6	17.5
Cost-to-Income (Core)	25.1	23.7	20.5	18.2	17.5	17.4
<b>Liquidity (%)</b>						
LDR	90	110	104	99	99	99
Loans/Assets	55.7	65.1	66.1	67.6	69.2	67.4
Cash & Interbank Loans-to-Total Assets	31.0	20.9	21.7	20.8	19.1	20.8
Deposits to Assets	61.9	54.9	59.3	64.0	65.9	64.5
Wholesale Funding to Loans	41.4	44.8	38.7	30.1	27.2	30.3
IEAs to IBLs	127.9	128.0	129.3	132.0	131.3	126.1
<b>Asset Quality (%)</b>						
NPL Ratio	2.0	1.8	1.5	1.5	1.4	1.9
NPL to Shareholders' Equity	10.3	11.8	10.4	9.8	9.8	13.1
NPL to Tier-1 Capital	10.1	9.9	8.8	8.4	8.4	11.4
Coverage Ratio	91.9	93.6	128.9	173.8	206.7	174.0
ALL/Average Loans	1.7	1.9	2.0	2.6	3.0	3.4
Cost of Risk (bps)	22	35	56	69	61	58
<b>Capitalization (%)</b>						
Tier-1 Ratio	15.7	17.7	15.6	15.2	14.9	14.5
CAR	16.4	18.5	16.5	16.2	15.9	15.5
Tier 1 Capital to Assets	11.8	12.7	12.0	12.5	12.5	12.3
Tier 1 Capital to Loans	21.2	19.5	18.2	18.5	18.0	18.2
Tier 1 Capital to Deposits	19.1	23.2	20.3	19.5	18.9	19.1
Leverage (x)	8.6	9.4	9.8	9.4	9.3	9.4
<b>Growth (%)</b>						
Net Interest Income	9.5	7.8	13.3	11.0	7.9	6.3
Non-Interest Income	-11.2	14.0	57.7	5.1	1.5	-9.3
OPEX	-0.1	4.9	-0.2	-1.6	3.7	3.4
Net Operating Income	9.4	9.7	24.2	13.1	7.8	4.3
Net Income (Attributable)	6.4	5.4	-5.0	9.3	10.7	9.9
Loans	-13.9	32.2	9.5	3.8	7.8	4.6
Deposits	-4.2	0.3	16.4	9.4	8.5	5.0
Assets	7.8	13.1	7.9	1.4	5.3	7.4
RWAs	11.8	7.8	15.6	8.1	7.9	8.6

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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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