

Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.370	Target Price	QR10.438
Implied Upside	0.7%		

Stock is Trading at Fair Value; Maintain Market Perform & QR10.438 PT

We maintain our expected 5-year earnings CAGR of 10.8% (2022-27e) for Qatar International Islamic Bank (QIIK) after FY2022 results. We also retain our Market Perform rating and our TP of QR10.438 as growth in earnings is already priced-in. The stock rallied in 2022, as it was set to have its weight increased in both the MSCI and FTSE indices. Hence, it was trading very close to its 5-year high P/B of 3.0x. Afterwards the stock sharply corrected and is now trading at 2023 P/B of 2.1x, in-line with its 5-year median. As a result, we see limited upside as the stock is trading around its fair value. At these levels, it would imply that QIIK is trading at 17% premium to QIBK (2023e P/B 1.8x) and it should be noted that QIBK has better profitability and asset quality indicators. Further, the market is pricing in a sustainable RoE of 18%, above our estimate of 16.0% (18% sustainable RoE is very challenging to achieve, in our view).

Highlights

- **QIIK generates 8.1% growth in FY2022 bottom-line YoY because of a drop in provisions & impairments; non-funded income (fees and f/x income) was strong:** QIIK posted a FY2022 attributable net profit of QR940.1mn, growing by 8.1% YoY, which was in-line with our estimate. The drop in provisions & impairments (-7.1%) offset flattish net interest income. On a positive note, fees and f/x income gained by 19.1% and 103.4%, respectively.
- **Healthy RoE generator (>CoE):** The bank reported a RoE of 14.3% in FY2022 vs. 14.0% in FY2021. We still forecast RoE to reach 16.6% by 2026e from 14.3% in 2022. Moreover, we estimate RoRWAs to increase from 1.9% in 2022 (1.8% in 2021) to 2.2% by 2026e.
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC, consistently generating positive JAWs.** QIIK's cost-to-income ratio remained at a very healthy level, declining from 26.7% in 2017 to 18.7% in 2022. We expect the C/I ratio to hover around ~18.0%.
- **Net loans are expected to grow by a 5-year CAGR (2022-27e) of 6.4%.** Net loans contracted by 5.4% (-4.5% on a gross basis) in FY2022 vs. FY2021 to QR35.0bn due to the repayment of facilities by the public sector (excluding loans to the public sector, growth in loans would have been 7.2%). On the hand, retail loans expanded by 21.2% at the end of FY2022 vs. FY2021 and makes up 48% of total loans (38% in FY2021). Having a large portion of the loan portfolio concentrated with retail loans may give rise to further impairments, in-line with FY2021. Deposits followed suit and decreased by 5.0% in FY2022 vs. FY2021 to QR36.7bn. Hence, LDR remained flattish at 95% in FY2022. Management met its goal in reducing this ratio below 100% during FY2021 and we expect the LDR to hover around the 95% levels.
- **CoR in 2022 improved to 81bps, lower than 2021's 95bps.** QIIK booked lower credit provisions in 2022 (QR302.3mn vs QR377.2mn in 2021). Hence, its CoR improved. Further, we expect CoR to steadily improve and reach 72bps by 2026e.
- **NPLs remained stable vs. 2021 (asset quality came under pressure in 2021).** NPL ratio jumped from 2.57% in FY2021 to 2.80% in FY2022, while NPLs remained flattish primarily due to a drop in loans. On a positive note, coverage of Stage 3 loans improved to 93% vs. 75% in FY2021. Moreover, management continued building buffers for Stage 1 loans. As such, allowance for loan losses (Stage 1) increased by 46% vs. FY2021 and contributes 21% of allowance for loan losses. Going forward, we forecast coverage ratio to continue to increase as management books precautionary provisions.
- **Capitalization remains strong.** QIIK ended FY2022 with a robust Tier-1 ratio of 16.3%. CET1 ratio also increased to 12.0% vs. 11.3% in 2021 and 11.2% in FY2020. We expect management to maintain a healthy capital position in the near future.

Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 4.4%).

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Market Perform rating and price target of QR10.438. QIIK is trading at a 2023e P/TB and P/E of 2.1x and 15.1x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in further impairments and 2) Geopolitical risks.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.621	0.685	0.751	0.811
EPS Growth (%)	8.1	10.3	9.7	7.9
P/E (x)	16.7	15.1	13.8	12.8
Tangible BVPS (QR)	4.6	4.9	5.2	5.5
P/TBV (x)	2.3	2.1	2.0	1.9
RoE (%)	14.3	14.9	15.4	15.6
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	3.9	4.1	4.6	4.8

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

Key Data

Current Market Price (QR)	10.370
Dividend Yield (%)	3.9
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	13.200/9.970
3-m Average Volume (mn)	1.58
Mkt. Cap. (\$ bn/QR bn)	4.3/15.7
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.5
1-Year Total Return (%)	+4.7
Fiscal Year End	December 31

Source: Bloomberg (as of February 05, 2023), *Qatar Exchange (as of February 05, 2023); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	1,422	1,434	1,423	1,481	1,580	1,703
Fees & Commissions	203	250	298	321	360	369
FX Income	48	42	85	68	63	70
Other Income	3	16	(13)	10	18	26
Non-Interest Income	253	308	370	399	442	464
Total Revenue	1,675	1,742	1,793	1,880	2,021	2,167
Operating Expenses	(341)	(328)	(336)	(343)	(362)	(387)
Net Operating Income	1,335	1,414	1,457	1,537	1,660	1,780
Net Provisions & Impairments	(397)	(411)	(382)	(363)	(382)	(411)
Net Profit (Headline/Reported)	938	1,003	1,075	1,174	1,277	1,370
Payment on Tier-1 Sukuk	(108)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(25)	(27)	(29)	(32)	(34)
Net Profit (Attributable)	806	870	940	1,037	1,137	1,227

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	2,776	2,670	2,491	2,702	2,865	2,978
Interbank Loans	10,508	13,426	9,760	12,064	11,683	13,368
Net Investments	5,852	7,220	7,752	8,372	8,833	9,456
Net Loans	40,514	37,031	35,022	36,557	38,943	41,777
Investment In Associates	345	264	192	182	173	167
Other Assets	351	252	275	239	271	247
Net PP&E	242	231	231	222	264	262
Investments In Real Estate	724	697	669	669	669	669
Total Assets	61,314	61,792	56,393	61,008	63,702	68,924
Liabilities						
Interbank Deposits	13,128	9,922	6,918	8,602	8,417	10,816
Customer Deposits	36,352	38,646	36,706	39,166	41,516	43,799
Term Loans	2,566	3,543	2,794	2,794	2,794	2,794
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	944	979	900	940	976	1,007
Total Liabilities	55,082	55,182	49,411	53,594	55,795	60,508
Total Shareholders' Equity	6,231	6,610	6,983	7,414	7,908	8,416
Total Liabilities & Shareholders' Equity	61,314	61,792	56,393	61,008	63,702	68,924
Risk Weighted Assets	47,132	49,250	49,109	53,687	57,014	63,203

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE	13.4	14.0	14.3	14.9	15.4	15.6
RoAA	1.4	1.4	1.6	1.8	1.8	1.9
RoRWA	1.8	1.8	1.9	2.0	2.1	2.0
NIM (% of IEAs)	2.60	2.51	2.59	2.78	2.77	2.79
NIM (% of RWAs)	3.24	2.97	2.89	2.88	2.85	2.83
NIM (% of AAs)	2.41	2.33	2.41	2.52	2.53	2.57
Spread	2.20	2.15	2.08	2.22	2.20	2.16
Efficiency (%)						
Cost-to-Income (Headline)	20.3	18.8	18.7	18.3	17.9	17.8
Cost-to-Income (Core)	20.5	19.1	18.7	18.4	18.1	18.1
Liquidity (%)						
LDR	104	88	89	87	88	90
Loans/Assets	66.1	59.9	62.1	59.9	61.1	60.6
Cash & Interbank Loans-to-Total Assets	21.7	26.0	21.7	24.2	22.8	23.7
Deposits to Assets	59.3	62.5	65.1	64.2	65.2	63.5
Wholesale Funding to Loans	38.7	36.4	27.7	31.2	28.8	32.6
IEAs to IBLs	129	129	136	128	133	128
Asset Quality (%)						
NPL Ratio	1.6	2.6	2.8	2.9	2.8	2.7
NPL to Shareholders' Equity	10.4	14.8	14.6	14.7	14.4	14.0
NPL to Tier-1 Capital	8.8	12.8	12.8	13.0	12.8	12.5
Coverage Ratio	128.9	123.1	147.7	165.3	185.7	208.2
ALL/Average Loans	2.0	2.9	3.9	4.6	5.1	5.5
Cost of Risk (bps)	59	95	81	80	79	77
Capitalization (%)						
CET1 Ratio	11.2	11.3	12.0	11.8	12.0	11.6
Tier-1 Ratio	15.6	15.6	16.3	15.7	15.6	14.9
CAR	16.5	16.7	17.7	17.1	17.0	16.3
Leverage (x)	9.8	9.3	8.1	8.2	8.1	8.2
Growth (%)						
Net Interest Income	13.3	0.8	-0.8	4.1	6.7	7.8
Non-Interest Income	57.7	21.5	20.2	7.8	10.6	5.1
OPEX	-0.2	-3.9	2.5	2.2	5.4	6.9
Net Operating Income	24.2	6.0	3.0	5.5	8.0	7.3
Net Income (Attributable)	-5.0	7.9	8.1	10.3	9.7	7.9
Loans	9.5	-8.6	-5.4	4.4	6.5	7.3
Deposits	16.4	6.3	-5.0	6.7	6.0	5.5
Assets	7.9	0.8	-8.7	8.2	4.4	8.2
RWAs	15.6	4.5	-0.3	9.3	6.2	10.9

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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