

Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR86.50	Target Price	QR86.00
Implied Upside	(0.6%)		

Transferring Coverage & Revising Estimates

We maintain our Market Perform rating on Qatar International Islamic Bank (QIIK) with a target price of QR86.00 (previously QR85.00). QIIK posted a 10.1% rise in its FY2014 net profit to QR825.8mn vs. our estimate of QR819.7mn. EPS came in at QR5.46 vs. our estimate of QR5.42 and QR4.96 in 2013. Further, the bank's board recommended cash DPS of QR4.00/share (yield of 4.6%), in-line with our estimate. Going forward, we expect a CAGR (2014-18e) of 9.1% in the bottom-line and believe the market has already priced in this growth.

Highlights

- **We estimate a loan book CAGR of 11.8% for 2014-18e.** Management is increasingly focusing on winning business in the infrastructure segment, as opposed to traditional housing. The share of the government segment in gross loans has increased to 14.8% in 2013 versus 0.7% in 2012. We expect strong performance to continue in this segment as the bank aggressively targets QRail and other projects. On the other hand, real estate/housing and consumer segments, the historical niche segments for the bank, should also witness increased credit off-take. As of 2014, QIIK had 66% of its loan book in RE/housing (38%) and consumer (28%). Overall, we expect the loan book to grow to QR34.1bn in 2018e from QR21.8bn in 2014.
- **We estimate QIIK to post net income of QR912.3mn in 2015 and QR1.0bn in 2015 and 2016, respectively.** Post 2014 results, we have revised our 2015 and 2016 net profit estimates upward. We now expect net profit to reach QR912.3mn and QR1.0bn in 2015 and 2016, respectively (previously QR902.7mn and QR984.3mn). In 2015, we expect a rebound in net interest income (+8.1% YoY) after a subdued performance in 2014 (+2.5% YoY). We also expect NIMs to be under some pressure, declining by ~5bps to 2.71% (2.76% in 2014). Moreover after a strong performance in fees & commission during 2014 (+83.7% YoY), we expect a more modest growth of 8.0% YoY. We also expect net provisions to further decline by 12.0% YoY. We expect net income to grow by 10.4% in 2016.

Catalysts

- **Limited near-term catalysts.** The bank has been trying to diversify away from real estate and into the public sector. If QIIK continues to take market share in the public sector, this could be a long-term positive for the stock.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We rate QIIK a Market Perform with a price target of QR86.00. While dividend yield is attractive, valuation appears to be fair vs. other Qatari banks.
- **Risks:** 1) QIIK loses market share and 2) Exposure to the real estate and consumer segments creates concentration risk.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	4.96	5.46	6.03	6.65
EPS Growth	10.5	10.1	10.5	10.4
P/E (x)	17.5	15.9	14.4	13.0
P/B (x)	2.5	2.4	2.3	2.2
DPS (QR)	3.75	4.00	4.25	4.50
Dividend Yield (%)	4.3	4.6	4.9	5.2

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

Key Data

Current Market Price	86.50
Dividend Yield (%)	4.9
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low	95.40/68.00
3-m Average Volume	182.1
Mkt. Cap. (\$ bn/QR bn)	3.6/13.1
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	2.8
1-Year Total Return (%)	18.4
Fiscal Year End	December 31

Source: Bloomberg (as of March 08, 2015), *Qatar Exchange (as of March 08, 2015); Note: FO is foreign ownership

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Recent Results Review

QIIK posted a net profit of QR825.8mn in 2014 vs. QR750.3mn in 2013, up 10.1% YoY. QIIK posted a 10.1% rise in its FY2014 net profit to QR825.8mn vs. our estimate of QR819.7mn. EPS came in at QR5.46 vs. our estimate of QR5.42 and QR4.96 in 2013. Further, the bank's board recommended a cash DPS of QR4.00/share (yield of 4.6%), in-line with our estimate.

The results were driven by a sharp drop in provisions, gains from sale of real estate and a surge in fees and commissions. QIIK generated QR88.7mn from gains from sale of real estate, growing by 111.0% YoY. This real estate income contributed 32.5% and 7.6% to non-interest income and total income, respectively. Moreover, fees and commissions surged by 83.7% YoY reaching QR101.6mn. Finally, the primary driver of the growth in the bottom-line was primarily attributed to the sharp drop in provisions. Net provisions (loan loss provisions and investment impairments) witnessed a sharp decline of 40.0% YoY, reaching QR39.6mn. As such, the NPL ratio dropped to 0.98% vs. 1.08% in 2013. Furthermore, the coverage ratio improved to 65.4% as opposed to 56.0% in 2013. On the other hand, net interest income exhibited weak results, growing by only 2.1% (loans grew by 14.8% YoY). We can attribute this performance due to the heavy competition occurring in the domestic banking sector. QIIK's yield on interest earning assets contracted by 53bps (3.88% yield on assets), while cost of funds receded by only 20bps. Hence, the spread and NIM dropped to 2.4% (2.7% in 2013) and 2.76% (3.18% in 2013), respectively. On the expenses side, QIIK's operating expenses grew by 19.4% YoY to QR283.4mn resulting in a cost-to-income ratio of 24.4% (21.1% in 2013). QIIK concluded 2014 with a RoAE of 15.7% vs. 14.8% in 2013.

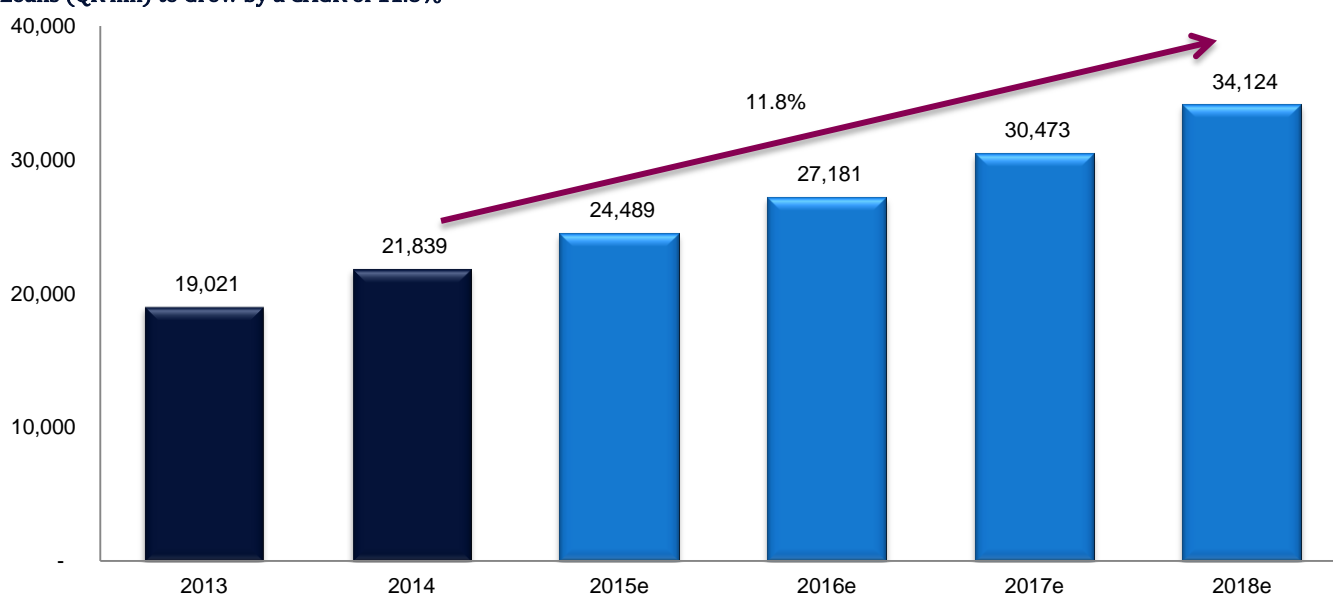
QIIK's loan book expanded by 14.8% YoY: QIIK's loan book grew by 14.8% YoY vs. 13.1% for the Qatari banking sector (domestic loans) and 14.6% for the 8-listed banks (includes domestic and international loans). This healthy loan growth was based on two factors: 1) Corporate loans (excluding real estate, contracting, and public sector) expanded by 34.2% YoY vs. a contraction of 21.3% in 2013 and 2) Real estate and retails loans gained by 15.0% and 12.9% YoY, respectively. Total deposits only grew by 8.8% YoY due to growth subsiding in the retail segment. Retail loans marginally increased by 4.5% and it contributed to 56.1% of total deposits. As such, QIIK ended 2014 with a LDR of 82.0% vs. 77.7% in 2013 (74.1% in 2012). It should be noted that QIIK has historically operated with a low LDR and should not have any problems meeting the QCB's 100% LDR cap which banks must comply with by Jan. 1st 2018. QIIK's investment book dropped by 17.2% YoY mainly due to sale and maturities of government debt.

Key Forecasts

Loan Book

We estimate a loan book CAGR of 11.8% for 2014-18e. Management is increasingly focusing on winning business in the infrastructure segment, as opposed to traditional housing. The share of the government segment in gross loans has increased to 14.8% in 2013 versus 0.7% in 2012. We expect strong performance to continue in this segment as the bank aggressively targets QRail and other projects. On the other hand, real estate/housing and consumer segments, the historical niche segments for the bank, should also witness increased credit off-take. As of 2014, QIIK had 66% of its loan book in RE/housing (38%) and consumer (28%). Overall, we expect the loan book to grow to QR34.1bn in 2018e from QR21.8bn in 2014.

Loans (QR mn) to Grow by a CAGR of 11.8%



Source: Company data, QNBFS estimates

Deposit Book

We estimate deposits to grow at a CAGR of 10.0% for 2014-18e. Retail deposits (56.1%) dominate QIHK's deposit base followed by the corporate segment at 26.9% and the public sector at 16.9%. Historically, the retail segments share of deposits were in the uppers 70s. Over the few years, the bank has been diversifying its deposit book to include more corporate and public sector funds. Going forward, we estimate similar trends to drive QIHK's deposit book.

Operating Performance

QIHK to post net income of QR912.3mn in 2015 and QR1.0bn in 2015 and 2016, respectively. Post 2014 results, we have revised our 2015 and 2016 net profit estimates upward. We now expect net profit to reach QR912.3mn and QR1.0bn in 2015 and 2016, respectively (previously QR902.7mn and QR984.3mn). In 2015, we expect a rebound in net interest income (+8.1% YoY) after a subdued performance in 2014 (+2.5% YoY). We also expect NIMs to be under some pressure, declining by ~5bps to 2.71% (2.76% in 2014). Moreover, after a strong performance in fees & commission during 2014 (+83.7% YoY), we expect a more modest growth of 8.0% YoY. We also expect net provisions to further decline by 12.0% YoY. We expect net income to grow by 10.4% in 2016, mainly driven by net interest income (+11.7%), fees & commissions (+8.0%) and decline in net provisions (7.7%).

Efficiency

QIHK's cost-to-income ratio has been on the lower end relative to its domestic peers. Historically, QIHK has maintained a healthy efficiency ratio at an average of 22.1% (2009-14), which is much lower than that of its GCC peers. We estimate QIHK's efficiency ratio at an average of 25.5% (2015e-18e) as the bank continues to build on its human capital as well as improving its IT infrastructure.

Asset Quality

QIHK exhibits healthy asset quality. QIHK ended 2014 with an NPL ratio of 0.98% vs. 1.08% in 2013 (1.56% in 2012). Moreover, the bank's coverage ratio improved from 56.0% in 2013 (47.0% in 2012) to 65.4% in 2014. Going forward, we do not expect this trend in asset quality to reverse. As such, we pencil in an average NPL ratio and coverage ratio of 1.06% and 63.1% during 2015-2018, respectively.

Capitalization

QIHK is adequately capitalized. The bank's CAR marginally dropped to 16.4% as compared to 18.9% in 2013. Historically, the bank's CAR has been on the high side, averaging 20.4% (2009-14). Going forward, we are of the view that the bank will maintain a high level of CAR. Thus, we estimate an average CAR of 16.8% (2015e-18e).

Company Description

QIHK is a full-service Shari'a compliant bank offering Shari'a compliant commercial banking services to retail and corporate customers in accordance with Shari'a principles. Established in 1991, the bank offers commercial finance, foreign trade finance, Murabaha, Mudaraba, Musawama, Ijara and Istisna, current and savings accounts, time deposits, credit cards, consumer finance, electronic cards, safe deposit lockers, internet banking, mobile banking and phone banking services. As of December 2014, the bank had 16 branches and 80 ATMs in operation. The bank enjoys a solid shareholder base with QIA as one of its major shareholders. According to Ezdan Holding Group's (ERES) 2014 annual report, ERES owns a 22.66% ownership interest in QIHK.

Major Shareholders

	Ownership %
Qatar Holding*	16.96%
Ezdan Holding Group#	22.66%
Total	39.62%

Source: *QSE, #ERES 2014 Annual Report

Detailed Financial Statements

Ratios	FY2013	FY2014	FY2015e	FY2016e
Profitability (%)				
RoAE	14.8	15.7	16.6	17.3
RoAA	2.4	2.3	2.3	2.4
RoRWA	3.3	3.3	3.3	3.3
NIM (% of IEAs)	3.2	2.8	2.7	2.8
NIM (% of RWAs)	3.9	3.6	3.5	3.6
NIM (% of AAs)	2.8	2.5	2.4	2.5
Spread	2.7	2.4	2.4	2.5
Efficiency (%)				
Cost-to-Income (Headline)	21.1	24.4	25.4	25.7
Cost-to-Income (Core)	24.9	27.8	29.3	29.3
Liquidity (%)				
LDR	77.7	82.0	83.6	84.3
Loans/Assets	55.9	56.9	60.5	60.1
Cash & Interbank Loans-to-Total Assets	19.1	23.8	19.5	20.5
Deposits to Assets	71.9	69.4	72.4	71.3
Wholesale Funding to Loans	20.7	26.9	20.1	23.3
IEAs to IBLs	133.3	131.7	132.4	125.3
Asset Quality (%)				
NPL Ratio	1.1	1.0	1.0	1.0
NPL to Shareholder's Equity	4.3	4.3	4.6	5.1
NPL to Tier 1 Capital	5.4	5.6	5.6	6.1
Coverage Ratio	56.0	65.4	65.8	63.7
ALL/Average Loans	0.7	0.7	0.7	0.7
Cost of Risk	0.1	0.1	0.1	0.1
Capitalization (%)				
Tier 1 Ratio	17.8	15.3	16.6	16.1
CAR	18.9	16.3	17.6	17.1
Tier 1 Capital to Assets	11.9	10.6	11.5	11.0
Tier 1 Capital to Loans	21.3	18.6	19.0	18.2
Tier 1 Capital to Deposits	16.5	15.3	15.9	15.4
Leverage (x)	6.6	7.2	7.2	7.5
Growth (%)				
Net Interest Income	16.1	2.1	8.1	11.7
Net Operating Income	18.9	-0.8	7.9	9.7
Net Income	10.5	10.1	10.5	10.4
Loans	29.6	14.8	12.1	11.0
Deposits	23.6	8.8	10.0	10.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	2013	2014	2015e	2016e
Net Interest Income	871	889	961	1,073
Fees & Commissions	55	102	110	119
FX Income	17	18	18	19
Other Income	179	153	180	187
Non-Interest Income	252	273	308	325
Total Income	1,123	1,162	1,269	1,398
Operating Expenses	(237)	(283)	(322)	(359)
Net Provisions	(66)	(40)	(35)	(32)
Net Profit Before Taxes & Non-Recurring Items	819	838	912	1,007
Tax	(69)	(13)	0	0
Net Profit Before Minority Interest	750	826	912	1,007
Minority Interest	0	0	0	0
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0
Net Profit	750	826	912	1,007

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	2013	2014	2015e	2016e
Assets				
Cash & Balances with Central Bank	1,669	1,622	1,758	1,934
Interbank Loans	4,849	7,514	6,122	7,339
Net Investments	6,760	5,598	6,252	6,864
Net Loans	19,021	21,839	24,489	27,181
Investment In Associates	372	355	360	366
Other Assets	376	467	490	544
Net PP&E	402	516	536	557
Investment In Real Estate	591	486	446	409
Total Assets	34,040	38,397	40,453	45,194
Liabilities				
Interbank Deposits	1,396	3,339	2,369	3,782
Customer Deposits	24,486	26,638	29,302	32,232
Borrowings	2,542	2,544	2,544	2,544
Other Liabilities	479	508	586	645
Total Liabilities	28,903	33,029	34,801	39,203
Shareholders' Equity				
Share Capital	1,514	1,514	1,514	1,514
Statutory Reserves	2,452	2,452	2,452	2,452
Banking Risk Reserve	413	475	532	591
Fair Value Reserve	7	-	-	-
Foreign Currency Translation Reserve	0	0	0	0
Other Reserves	126	85	85	85
Proposed Dividends	568	605	643	681
Proposed Bonus Shares	-	-	-	-
Retained Earnings	58	237	426	668
Total Shareholders' Equity	5,137	5,368	5,652	5,991
Total Liabilities & Shareholders' Equity	34,040	38,397	40,453	45,194

Source: Company data, QNBFS estimates

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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