

Qatar International Islamic Bank (QIIK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR10.290	Target Price	QR10.438
Implied Upside	1.4%	Old Target Price	QR8.379

Growth and RoE Priced In; Raising PT to QR10.437/sh. But Maintain MP

We increase our estimates for Qatar International Islamic Bank (QIIK) after 2021 results. We maintain our Market Perform rating, but increase our TP from QR8.379 to QR10.438/sh. on better RoE and strong growth in expected earnings – 10.8% 5-year CAGR (2021-26e) vs. 3.2% (2016-21). 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 (QIIK is now a constituent in the index), and we see limited upside as valuation remains rich. QIIK trades at a 2022e P/TB of 2.2x, with a PEG of 1.5x (based on 10.8% earnings CAGR over 2021-26e). Further, the market is pricing in a sustainable RoE of 16.6%, in-line with our estimate of 16.8% (our previous sustainable RoE was 15.8%).

Highlights

- **QIIK generates +7.9% in FY2021 bottom-line because of strong non-funded income coupled with cost containment:** QIIK posted a 2021 net profit of QR870.0mn growing by 7.9% YoY, in-line with our estimate of QR865.6mn (+0.5% variation). We raise our estimates (page 2).
- **Decent dividend play.** The stock offers an attractive yield of 3.9% (2022e) and 4.1% (2023e). Management can increase DPS to QR0.400/QR0.425 (translates to 62% payout) in FY2022/23 without affecting its capitalization levels.
- **Healthy RoE generator.** We forecast RoE to reach 16.5% (previously 15.8%) by 2025e from 14.4% in 2021. Moreover, we estimate RoRWAs to increase from 1.8% in 2021 to 2.1% by 2024e.
- **The bank remains efficient and continued to generate positive JAWS.** Fall in opex (-3.9%), resulted in positive JAWS of 7.8%. Moreover, cost-to-income ratio remained at a very healthy level, declining from 26.7% in 2017 to 18.8% in 2021. We expect the C/I ratio to further decline to 17.3% by 2024, supported primarily by revenue growth.
- **Net loans are expected to grow by a 5-year CAGR (2021-26e) of 7.0% vs. 6.3% in 2016-21.** Net loans contracted by 8.6% YoY to QR37.0bn due to the repayment of facilities by the public sector (excluding loans to the public sector, growth in loans would have been 7.5%). On the hand, retail loans expanded by 10.7% at the end of FY2021 vs. FY2020 and makes up 38% of total loans (32% in FY2020). Having a large portion of the loan portfolio concentrated with retail loans may give rise to further impairments. On the other hand, deposits increased by 6.3% in FY2021 vs. FY2020 to QR38.6bn. Hence, LDR dropped from 111% in FY2020 to 96% in FY2021 (119% in FY2019). Management met its goal in reducing this ratio below 100% and we expect the LDR to hover around the 94%/96% levels. .
- **CoR in 2022e is expected to remain high at 87bps, in-line with 2021's 92bps.** QIIK booked large provisions (2021: QR377.2mn vs. 2020: QR231.2mn) on impaired retail loans. Hence, CoR came in at 92bps 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 came under pressure, primarily from the retail side...** NPL ratio jumped from 1.56% in 2020 to 2.57% in FY2021. Moreover, NPLs increased by 52.0%. On a positive note, coverage of Stage 3 loans improved to 75% vs. 71% in FY2020. It should be noted that 86% of Stage 3 provisions is attributable to the retail sector. Going forward, we forecast coverage ratio to continue to increase as management targets 100% coverage of Stage 3 loans. At the end of FY2021, coverage of Stage 3 loans stood at 75%.
- **...however, capitalization remains strong.** QIIK ended 2021 with a Tier-1 ratio of 15.6%, in-line with FY2020. CET1 ratio was also flat 11.3% vs. 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 QR10.438. QIIK is trading at a 2021e P/TB and P/E of 2.2x and 15.9x, 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

	2021	2022e	2023e	2024e
Attributable EPS (QR)	0.575	0.647	0.687	0.804
EPS Growth (%)	7.9	12.6	6.2	17.0
P/E (x)	17.9	15.9	15.0	12.8
Tangible BVPS (QR)	4.3	4.6	4.9	5.3
P/TBV (x)	2.4	2.2	2.1	1.9
RoE (%)	14.0	14.9	14.9	16.4
DPS (QR)	0.375	0.400	0.425	0.475
Dividend Yield (%)	3.6	3.9	4.1	4.6

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

Key Data

Current Market Price (QR)	10.290
Dividend Yield (%)	3.6
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	10.400/8.311
3-m Average Volume (mn)	0.86
Mkt. Cap. (\$ bn/QR bn)	4.3/15.6
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	49.0
Current FO* (%)	17.4
1-Year Total Return (%)	+18.8
Fiscal Year End	December 31

Source: Bloomberg (as of February 10, 2022), *Qatar Exchange (as of February 10, 2022); Note: FO is foreign ownership

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Change in Estimates

QRmn	2022e			2023e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,579	1,546	-2.1	1,570	1,620	3.2
Non Interest Income	266	327	22.9	196	291	48.7
Total Revenue	1,845	1,873	1.5	1,766	1,911	8.2
Opex	335	336	0.2	384	335	-12.9
Net Operating Income	1,510	1,538	1.8	1,381	1,577	14.2
Net Income (Attributable)	881	980	11.2	1,018	1,040	2.2

Source: QNB FS Research

Valuation

We value QIIK using the Residual Income Model (RI) based on a fundamental P/B:

We derive QIIK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model: $P/B = (RoE-g)/(Ke-g)$. This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 2.3x.**

We add Qatar's 10-year CDS rate of 0.81% to the 10-year US government bond yield (1.77%) to arrive at a risk free rate of 2.6%. We factor in an adjusted beta of 0.96x. Finally, we add a local equity risk premium of 8.0% to arrive at a Ke of 10.22%.

Valuation Methodology

Fundamental P/B	RI Based on Fundamental P/B	
Sustainable RoE (%)	16.8	
Estimated Cost of Equity (%)	10.2	
Terminal Growth Rate (%)	5.0	
Fundamental P/B	2.3x	
	Beginning BVPS (2021) (QR)	4.37
	Present Value of Interim Residuals (QR)	1.46
	Present Value of Terminal Value (QR)	4.64
	Less: Intangibles & Goodwill (QR)	0.03
	Fundamental P/B	2.3x
	Intrinsic Value (QR)	10.438
	Current Market Price (QR)	10.290
	Upside/(Downside) Potential (%)	+1.4%

Source: QNB FS Research

Forecasts

	2022e	2023e	2024e	2025e	2026e	2027e	Terminal
Beginning BVPS	4.37	4.64	4.93	5.31	5.70	6.16	6.67
Attributable EPS	0.65	0.69	0.80	0.87	0.96	1.03	1.08
DPS	0.38	0.40	0.43	0.48	0.50	0.53	0.53
Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	4.64	4.93	5.31	5.70	6.16	6.67	7.22
Equity Charge	0.45	0.47	0.50	0.54	0.58	0.63	0.70
Residual Income	0.20	0.21	0.30	0.33	0.38	0.40	0.38
Terminal Value (Based on Fundamental P/B)							9.09
Discounted Interim Residuals	0.18	0.18	0.23	0.23	0.23	0.22	0.19
Discounted Terminal Value							4.64

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Net Interest Income	1,255	1,422	1,434	1,546	1,620	1,752
Fees & Commissions	181	203	250	256	225	252
FX Income	12	48	42	42	38	41
Other Income	(32)	3	16	29	29	38
Non-Interest Income	161	253	308	327	291	331
Total Revenue	1,416	1,675	1,742	1,873	1,911	2,084
Operating Expenses	(342)	(341)	(328)	(336)	(335)	(360)
Net Operating Income	1,074	1,335	1,414	1,538	1,577	1,724
Net Provisions & Impairments	(147)	(397)	(411)	(422)	(399)	(365)
Net Profit (Headline/Reported)	927	938	1,003	1,116	1,178	1,359
Payment on Tier-1 Sukuk	(55)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(23)	(25)	(28)	(29)	(34)
Net Profit (Attributable)	849	806	870	980	1,040	1,217

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Cash & Balances with Central Bank	2,270	2,776	2,670	2,900	3,124	3,336
Interbank Loans	9,617	10,508	13,426	10,349	12,439	11,204
Net Investments	6,189	5,852	7,220	7,940	8,889	9,179
Net Loans	37,011	40,514	37,031	39,803	41,464	44,817
Investment In Associates	337	345	264	256	252	253
Other Assets	293	351	252	309	270	311
Net PP&E	261	242	231	216	201	220
Investments In Real Estate	854	724	697	697	697	697
Total Assets	56,831	61,314	61,792	62,470	67,336	70,018
Liabilities						
Interbank Deposits	14,010	13,128	9,922	7,348	9,191	8,258
Customer Deposits	31,229	36,352	38,646	41,428	43,997	46,989
Term Loans	2,563	2,566	3,543	3,543	3,543	3,543
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	870	944	979	1,036	1,056	1,104
Total Liabilities	50,764	55,082	55,182	55,448	59,879	61,986
Total Shareholders' Equity	6,068	6,231	6,610	7,023	7,457	8,031
Total Liabilities & Shareholders' Equity	56,831	61,314	61,792	62,470	67,336	70,018

Source: Company data, QNB FS Research

Ratios/Indicators	2019	2020	2021	2022e	2023e	2024e
Profitability (%)						
RoE	14.6	13.4	14.0	14.9	14.9	16.4
RoAA	1.6	1.4	1.4	1.6	1.6	1.8
RoRWA	2.2	1.8	1.8	1.9	1.9	2.1
NIM (% of IEAs)	2.56	2.60	2.51	2.61	2.67	2.76
NIM (% of RWAs)	3.20	3.24	2.97	3.05	2.98	3.00
NIM (% of AAs)	2.34	2.41	2.33	2.49	2.50	2.55
Spread	2.01	2.20	2.15	2.19	2.24	2.33
Efficiency (%)						
Cost-to-Income (Headline)	24.1	20.3	18.8	17.9	17.5	17.3
Cost-to-Income (Core)	23.7	20.5	19.1	18.3	17.9	17.7
Liquidity (%)						
LDR	110	104	88	89	87	89
Loans/Assets	65.1	66.1	59.9	63.7	61.6	64.0
Cash & Interbank Loans-to-Total Assets	20.9	21.7	26.0	21.2	23.1	20.8
Deposits to Assets	54.9	59.3	62.5	66.3	65.3	67.1
Wholesale Funding to Loans	44.8	38.7	36.4	27.4	30.7	26.3
IEAs to IBLs	128	129	129	138	126	133
Asset Quality (%)						
NPL Ratio	1.9	1.6	2.6	2.6	2.6	2.4
NPL to Shareholders' Equity	11.8	10.4	14.8	15.6	15.6	14.6
NPL to Tier-1 Capital	9.9	8.8	12.8	13.5	13.6	12.9
Coverage Ratio	93.6	128.9	123.1	143.0	163.2	187.6
ALL/Average Loans	1.9	2.0	2.9	3.8	4.3	4.7
Cost of Risk (bps)	35	56	92	87	75	66
Capitalization (%)						
CET1 Ratio	12.6	11.2	11.3	11.5	11.4	11.6
Tier-1 Ratio	17.7	15.6	15.6	15.5	15.1	15.1
CAR	18.5	16.5	16.7	16.5	16.1	16.1
Leverage (x)	9.4	9.8	9.3	8.9	9.0	8.7
Growth (%)						
Net Interest Income	7.8	13.3	0.8	7.9	4.8	8.2
Non-Interest Income	14.0	57.7	21.5	6.1	-10.8	13.8
OPEX	4.9	-0.2	-3.9	2.5	-0.3	7.5
Net Operating Income	9.7	24.2	6.0	8.7	2.6	9.3
Net Income (Attributable)	5.4	-5.0	7.9	12.6	6.2	17.0
Loans	32.2	9.5	-8.6	7.5	4.2	8.1
Deposits	0.3	16.4	6.3	7.2	6.2	6.8
Assets	13.1	7.9	0.8	1.1	7.8	4.0
RWAs	7.8	15.6	4.5	5.9	8.6	6.3

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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