

## Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR59.20	Target Price	QR63.00
Implied Upside	+6.4%		

### Strong 3Q2018; Maintain Market Perform Rating

*Qatar International Islamic Bank (QIIB) is the smallest Shari'ah compliant bank among listed banks. The bank has a market share of 3% and 14% among listed banks and Shari'ah compliant banks, respectively. QIIB is focused on the real estate and retail segments which collectively make up 66% of the bank's loan book. The bank recently expanded into Morocco.*

#### Highlights

- **QIIB delivered a strong 3Q2018 YoY, but sequential growth was solely attributed to lower provisions.** QIIB generated a net profit of QR251.2mn growing by 6.9% YoY (+8.8% QoQ) due to strong figures across the board, beating our estimate by 6.7%. On the other hand, sequential growth was driven by a sharp drop (-58.5%) in provisions. The bank provisions of QR13.7mn vs. QR33.0mn in 2Q2018. QIIB's total revenue receded by 3.2% QoQ while opex dropped 14.2%, resulting in a flat net operating income. Hence the above mentioned drop in provisions drove the bottom-line growth.
- **Margins expanded YoY but remained under pressure QoQ.** NIM gained by 18bps YoY (sequentially receded by 2bps) to 2.71% due to stronger yield on assets. Yield on assets increased by 50bps YoY (+24bps QoQ) while CoFs moved up by 39bps YoY (+31bps QoQ). Thus, net interest & investment income grew by 9.1% (flat QoQ). However, we expect some margin pressure in 2018 and 2019 as QIIB would have to raise expensive deposits and other sources of funds in order to grow its loan book which has contracted by 13.5% YTD.
- **Bank remains efficient, generating positive JAWS.** Revenue grew by 9.7% YoY (-3.2% QoQ) while opex increased by 2.6% (sequential drop of 14.2%), resulting in positive JAWS of 7.1%. Moreover, cost-to-income ratio improved YoY to 21.8% vs. 23.3% in 3Q2017 (24.6% 2Q2017).
- **Net loans and deposits gained traction.** QIIB's loan book expanded by 3.1% QoQ (-13.5% YTD) to QR28.2bn. Deposits increased by 1.6% QoQ (-2.7% YTD) to QR31.6bn. Hence, LDR remained flat at 89% vs. 88% in 2Q2018 (100% at the end of 2017).
- **NPL ratio remained stable QoQ, but asset quality has deteriorated since the end of 2017.** QIIB's NPL ratio remained stable at 2.15% vs. 2.19% in 2Q2018 (1.32% end of 2017). Moreover, NPLs remained flat QoQ by jumped by 43% YTD to QR649.6mn. On the other hand, 9 months annualized CoR was insignificant at 16bps.
- **Capitalization remains healthy.** QIIB ended the 3<sup>rd</sup> quarter with a CET1 ratio of 13.1% and CAR of 16.5%.

#### Catalysts

- **Limited catalysts;** 1) Significant increase in traded volumes.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR63.00.** QIIB is trading at a 2018e P/B and P/E of 1.6x and 10.0x, respectively. The stock offers an attractive yield of 6.8%.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk which further results in impairments.

#### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	5.50	5.91	6.59	7.37
EPS Growth (%)	6.0	7.6	11.4	11.8
P/E (x)	10.8	10.0	9.0	8.0
Tangible BVPS (QR)	38.3	38.2	40.3	43.1
P/TB (x)	1.5	1.6	1.5	1.4
DPS (QR)	4.00	4.00	4.00	4.00
Dividend Yield (%)	6.8	6.8	6.8	6.8

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

#### Key Data

Current Market Price (QR)	59.20
Dividend Yield (%)	6.8
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	63.22/43.40
3-m Average Volume ('000)	46.5
Mkt. Cap. (\$ bn/QR bn)	2.5/9.0
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	11.6
1-Year Total Return (%)	+26.6
Fiscal Year End	December 31

Source: Bloomberg (as of October 17, 2018), \*Qatar Exchange (as of October 16, 2018); Note: FO is foreign ownership

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## Detailed Financial Statements

Ratios	FY2017	FY2018e	FY2019e	FY2020e
<b>Profitability (%)</b>				
RoAE (Attributable)	13.2	14.1	15.4	16.4
RoAA (Attributable)	1.7	1.7	1.9	2.0
RoRWA (Attributable)	2.4	2.3	2.3	2.4
NIM (% of IEAs)	2.7	2.9	3.0	2.9
NIM (% of RWAs)	3.3	3.1	3.1	3.0
NIM (% of AAs)	2.4	2.4	2.5	2.6
Spread	2.2	2.5	2.4	2.2
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	27.3	26.0	25.1	24.7
Cost-to-Income (Core)	27.5	26.5	26.3	25.8
<b>Liquidity (%)</b>				
LDR	100.1	85.9	87.7	87.4
Loans/Assets	69.7	59.6	63.8	64.4
Cash & Interbank Loans-to-Total Assets	12.2	24.1	18.6	18.8
Deposits to Assets	69.7	69.4	72.7	73.7
Wholesale Funding to Loans	20.3	24.6	16.9	16.0
IEAs to IBLs	129.5	110.6	128.5	117.7
<b>Asset Quality (%)</b>				
NPL Ratio	1.4	2.3	2.4	2.0
NPLs to Shareholder's Equity	7.8	11.2	12.4	10.7
NPLs to Tier 1 Capital	7.5	11.1	12.4	10.6
Coverage Ratio	58.3	50.2	50.9	43.5
ALL/Average Loans	0.8	1.7	1.9	1.5
Cost of Risk	0.1	0.2	0.2	0.2
<b>Capitalization (%)</b>				
Tier 1 Ratio	17.9	15.4	15.0	14.2
CAR	17.9	16.1	15.0	14.2
Tier 1 Capital to Assets	13.0	12.3	12.7	12.3
Tier 1 Capital to Loans	18.6	20.6	19.9	19.1
Tier 1 Capital to Deposits	18.6	17.7	17.5	16.7
Leverage (x)	8.0	8.2	7.9	8.2
<b>Growth (%)</b>				
Net Interest Income	4.8	5.6	7.2	10.1
Non-Interest Income	-12.2	19.4	21.4	11.7
OPEX	10.2	2.5	5.6	8.3
Net Operating Income	-0.7	9.4	10.7	11.0
Net Income (Attributable)	1.9	8.1	12.2	12.5
Loans	19.3	-13.3	9.3	11.6
Deposits	21.9	1.0	7.0	12.0
Assets	9.6	1.4	2.1	10.4
RWAs	11.2	11.7	8.7	13.0

Source: Company data, QNBFS Research

<b>Income Statement (In QR mn)</b>	<b>FY2017</b>	<b>FY2018e</b>	<b>FY2019e</b>	<b>FY2020e</b>
Net Interest Income	1,063	1,122	1,203	1,324
Fees & Commissions	119	139	141	155
FX Income	41	37	38	46
Other Income	9	27	67	74
<b>Non-Interest Income</b>	<b>169</b>	<b>202</b>	<b>245</b>	<b>274</b>
<b>Total Revenue</b>	<b>1,232</b>	<b>1,324</b>	<b>1,448</b>	<b>1,598</b>
Operating Expenses	(336)	(344)	(364)	(394)
<b>Net Operating Income</b>	<b>896</b>	<b>980</b>	<b>1,084</b>	<b>1,204</b>
Net Provisions	(63)	(85)	(87)	(89)
<b>Net Profit Before Taxes, Non-Recurring Items &amp; Minority Interest</b>	<b>832</b>	<b>895</b>	<b>997</b>	<b>1,115</b>
Minority Interest	0	0	0	0
<b>Net Profit (Headline/Reported)</b>	<b>832</b>	<b>895</b>	<b>997</b>	<b>1,115</b>
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(55)
Social & Sports Contribution Fund	(21)	(22)	(25)	(28)
<b>Net Profit (Attributable)</b>	<b>756</b>	<b>818</b>	<b>918</b>	<b>1,033</b>

Source: Company data, QNBFS Research

<b>Balance Sheet (In QR mn)</b>	<b>FY2017</b>	<b>FY2018e</b>	<b>FY2019e</b>	<b>FY2020e</b>
<b>Assets</b>				
Cash & Balances with Central Bank	2,432	2,952	2,808	3,145
Interbank Loans	3,274	8,453	6,157	6,869
Net Investments	6,180	5,426	6,214	6,554
Net Loans	32,500	28,175	30,784	34,346
Investment In Associates	365	354	355	356
Other Assets	685	746	778	862
Net PP&E	757	276	307	317
Investment in Real Estate	427	892	886	877
<b>Total Assets</b>	<b>46,619</b>	<b>47,274</b>	<b>48,289</b>	<b>53,325</b>
<b>Liabilities</b>				
Interbank Deposits	6,606	6,927	2,153	2,445
Customer Deposits	32,479	32,803	35,100	39,312
Other Borrowings	0	0	3,057	3,057
Tier-1 Sukuk	1,000	1,000	1,000	1,000
Other Liabilities	718	754	877	983
<b>Total Liabilities</b>	<b>40,802</b>	<b>41,485</b>	<b>42,187</b>	<b>46,797</b>
<b>Total Shareholders' Equity</b>	<b>5,817</b>	<b>5,790</b>	<b>6,102</b>	<b>6,529</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>46,619</b>	<b>47,274</b>	<b>48,289</b>	<b>53,325</b>

Source: Company data, QNBFS 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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