

Qatar International Islamic Bank (QIIB)

Recommendation	REDUCE	Risk Rating	R-4
Share Price	QR7.59	Target Price	QR6.23
Implied Upside/ (Downside)	(17.90)	Old Target Price	QR6.30

In-Line 2Q2019; Moving to Reduce Given Valuation

Qatar International Islamic Bank (QIIB) reported a 2Q2019 net profit of QR244.54mn, in-line with our estimate of QR244.56mn. QIIB's net profit increased by 6.0% YoY driven by a sharp drop in provisions and impairments. Having said this, the bank generated strong growth in income from financing (+6.6% YoY) and income from investing (+51.2%). However, the flattish performance in net interest & investment income was due to an increase in interest expense (CoFs) as the bank issued sukuk in 1Q2019. The bank remained cost efficient with a C/I ratio of 25.5% and generated positive JAWS (in 1H2019). Margins remained under pressure, while loans gained by 1.3% QoQ and deposits dropped by 5.8%. The stock has rallied 46.6% on a 1-year TTR basis driven by speculation of MSCI EM Index inclusion, besting its peers and we see limited upside. QIIB trades at a 2019e P/B of 1.9x with a PEG of 1.8x (based on 7.3% earnings CAGR 2018-23e) implying rich valuation. Moreover, the market is pricing in a sustainable RoE of 17.8% (which is high) vs. our estimate of 15.5%. Hence, we change our rating from Market Perform to Reduce and we lower our PT to QR6.23/sh. from QR6.30/sh as we lower our estimates (page 2).

Highlights

- **QIIB reports in-line 2Q2019 net profit:** QIIB generated a net profit of QR244.54mn growing by 6.0% YoY (-8.1% QoQ), bang in-line with our estimate of QR244.56mn.
- **NIM compressed YoY and sequentially.** NIM contracted by 34bps YoY to 2.39% due to CoFs rising by 46bps while yields remaining flat. On a QoQ basis, NIM also contracted by 22bps as CoFs increased by 17bps while yields declined by 5bps.
- **The bank remains efficient and continued to generate positive JAWS.** 1H2019 revenue was flattish YoY while opex decreased by 2.4%, resulting in positive JAWS of 1.7%. Moreover, cost-to-income ratio remained at a healthy level of 25.5% in 2Q2019 vs. 24.6% in 2Q2018 (22.2% in 1Q2019).
- **Net loans increased while deposits dropped.** QIIB's loan book moved up by 1.3% QoQ to QR31.4bn (+12.3% YTD). On the other hand, deposits dropped by 5.8% QoQ to QR33.3bn (+6.9% YTD). Hence, LDR increased to 94% vs. 88% in 1Q2019 (90% at the end of 2018). The drop in deposits was due to withdrawals by the public sector after the sovereign bond issuance in 1Q2019.
- **Asset quality improved in 2Q2019...** QIIB's NPL ratio receded to 1.92% vs. 1.98% in 1Q2019 and FY2018; NPLs decreased by 1.4% QoQ to QR647mn (+8.2% YTD).
- **...and capitalization remains strong.** QIIB ended 2Q2019 with a Tier-1 ratio of 16.7% vs. 18.4% in FY2018.

Catalysts

- **Catalysts include:** 1) If it meets the MSCI EM Index conditions on the next round of rebalancing then we may expect a rally in the name.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We lower our price target to QR6.23.** QIIB is trading at a 2019e P/TB and P/E of 1.9x and 13.0x, respectively. The stock offers an attractive DY of 5.3%.
- **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

	2018	2019e	2020e	2021e
EPS (QR)	0.55	0.58	0.62	0.67
EPS Growth (%)	6.4	6.8	6.9	7.9
P/E (x)	13.9	13.0	12.2	11.3
Tangible BVPS (QR)	3.8	4.0	4.2	4.5
P/TBV (x)	2.0	1.9	1.8	1.7
DPS (QR)	0.40	0.40	0.40	0.40
Dividend Yield (%)	5.3	5.3	5.3	5.3

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

Key Data

Current Market Price (QR)	7.59
Dividend Yield (%)	5.3
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	7.90/5.45
3-m Average Volume (mn)	1.45
Mkt. Cap. (\$ bn/QR bn)	3.2/11.5
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	49.0
Current FO* (%)	12.8
1-Year Total Return (%)	+46.6

Fiscal Year End December 31

Source: Bloomberg (as of July 21, 2019), *Qatar Exchange (as of July 21, 2019); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Change in Estimates

	2019e			2020e			2021e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,265	1,176	-7.0	1,385	1,278	-7.7	1,504	1,380	-8.2
Non Interest Income	177	150	-15.3	189	152	-19.7	219	178	-18.7
Net Operating Income	1,110	998	-10.1	1,228	1,087	-11.5	1,353	1,207	-10.8
Net Income (Reported/Headline)	994	939	-5.6	1,117	1,000	-10.5	1,213	1,074	-11.4
Net Income (Attributable)	914	860	-5.9	1,034	920	-11.1	1,128	992	-12.0

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	1,014	1,063	1,164	1,176	1,278	1,380
Fees & Commissions	118	119	129	131	122	131
FX Income	41	41	11	13	13	12
Other Income	34	(1)	1	5	16	35
Non-Interest Income	193	159	141	150	152	178
Total Revenue	1,207	1,221	1,305	1,326	1,430	1,558
Operating Expenses	(305)	(326)	(325)	(328)	(343)	(351)
Net Operating Income	902	896	979	998	1,087	1,207
Net Provisions & Impairments	(117)	(63)	(97)	(59)	(88)	(133)
Net Profit (Headline/Reported)	785	832	882	939	1,000	1,074
Payment on Tier-1 Sukuk	(23)	(55)	(55)	(55)	(55)	(55)
Social & Sports Contribution Fund	(20)	(21)	(22)	(23)	(25)	(27)
Net Profit (Attributable)	742	756	805	860	920	992

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Cash & Balances with Central Bank	2,038	2,432	2,736	3,362	2,932	3,137
Interbank Loans	3,771	3,274	12,839	11,342	7,065	6,976
Net Investments	7,375	6,180	4,929	5,841	6,988	7,467
Net Loans	27,233	32,500	27,991	32,407	35,326	38,753
Investment In Associates	337	365	388	378	368	359
Other Assets	686	685	216	341	363	390
Net PP&E	681	757	280	279	201	196
Investments In Real Estate	431	427	882	876	967	958
Total Assets	42,551	46,619	50,260	54,826	54,209	58,235
Liabilities						
Interbank Deposits	6,039	6,606	11,578	11,495	7,467	8,480
Customer Deposits	26,640	32,479	31,130	33,620	36,646	39,211
Term Loans	2,548	0	0	1,836	1,836	1,836
Tier-1 Perpetual Sukuk	1,000	1,000	1,000	1,000	1,000	1,000
Other Liabilities	647	718	722	790	861	921
Total Liabilities	36,874	40,802	44,430	48,741	47,810	51,449
Total Shareholders' Equity	5,677	5,817	5,830	6,085	6,399	6,786
Total Liabilities & Shareholders' Equity	42,551	46,619	50,260	54,826	54,209	58,235

Source: Company data, QNB FS Research

Ratios/Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoAE	13.4	13.3	13.8	14.8	15.1	15.5
RoAA	1.8	1.7	1.7	1.6	1.7	1.8
RoRWA	2.5	2.4	2.2	2.2	2.2	2.1
NIM (% of IEAs)	2.7	2.7	2.7	2.4	2.5	2.6
NIM (% of RWAs)	3.4	3.3	3.3	3.0	3.0	3.0
NIM (% of AAs)	2.4	2.4	2.4	2.2	2.3	2.5
Spread	2.3	2.2	2.2	1.9	1.6	1.6
Efficiency (%)						
Cost-to-Income (Headline)	25.3	26.7	24.9	24.7	24.0	22.5
Cost-to-Income (Core)	26.0	26.8	25.1	25.0	24.4	23.1
Liquidity (%)						
LDR	102.2	100.1	89.9	96.4	96.4	98.8
Loans/Assets	64.0	69.7	55.7	59.1	65.2	66.5
Cash & Interbank Loans-to-Total Assets	13.7	12.2	31.0	26.8	18.4	17.4
Deposits to Assets	62.6	69.7	61.9	61.3	67.6	67.3
Wholesale Funding to Loans	31.5	20.3	41.4	41.1	26.3	26.6
IEAs to IBLs	132.0	129.5	127.9	127.5	139.3	130.4
Asset Quality (%)						
NPL Ratio	1.8	1.4	2.1	2.0	2.0	2.0
NPL to Shareholder's Equity	9.0	7.8	10.3	10.8	11.0	11.6
NPL to Tier 1 Capital	8.6	7.5	8.6	8.9	8.8	9.2
Coverage Ratio	71.5	58.3	91.9	90.8	92.4	92.9
ALL/Average Loans	1.3	0.8	1.7	1.8	1.8	1.8
Cost of Risk	42	9	22	14	14	22
Capitalization (%)						
Tier 1 Ratio	19.5	17.9	18.4	17.8	18.3	17.3
CAR	19.5	17.9	19.1	18.5	19.0	17.3
Tier 1 Capital to Assets	13.9	13.0	13.8	13.5	14.7	14.7
Tier 1 Capital to Loans	21.7	18.6	24.8	22.9	22.5	22.1
Tier 1 Capital to Deposits	22.2	18.6	22.3	22.0	21.7	21.9
Leverage (x)	7.5	8.0	8.6	9.0	8.5	8.6
Growth (%)						
Net Interest Income	3.8	4.8	9.5	1.0	8.7	8.0
Non-Interest Income	-17.6	-17.7	-11.2	6.3	1.4	17.2
OPEX	-0.7	6.7	-0.1	0.8	4.6	2.2
Net Operating Income	-0.2	-0.7	9.4	1.9	8.9	11.1
Net Income	-2.9	1.9	6.4	6.9	6.9	7.9
Loans	9.0	19.3	-13.9	15.8	9.0	9.7
Deposits	-0.1	21.9	-4.2	8.0	9.0	7.0
Assets	5.0	9.6	7.8	9.1	-1.1	7.4
RWAs	7.0	11.2	11.8	10.2	4.1	14.1

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

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

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