

Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR82.50	Target Price	QR85.00
Implied Upside	3.0%		

Lowering Dividend Estimates & Target; Market Perform

We are maintaining our Market Perform recommendation on Qatar International Islamic Bank (QIIK). We also maintain our 2014 and 2015 bottom-line estimates. However, we have toned down the cash DPS to QR4.00 for 2014 and 2015 from QR4.50 and QR5.00 for 2014 and 2015, respectively. This has resulted in a revised target price of QR85.00 from QR89.70.

Highlights

- **We estimate QR194.9mn in 4Q2014, up 7.2% YoY but down 12.5% QoQ.** QIIK reported net profit of QR222.8mn for 3Q2014, up 12.6% QoQ. The QoQ growth in earnings was mainly due to lower provisions of QR0.1mn in 3Q2014 vs. QR7.8mn in 2Q2014. Furthermore, there was no foreign exchange loss on translation of investment in associates vs. a loss of QR6.0mn in 2Q2014. The loan book and deposits were flat on a QoQ basis. Furthermore, income from investing activities declined by 20.4% QoQ. Going forward for 4Q2014, we expect slightly higher operating expenses QoQ and estimate net income of QR194.9 in 4Q2014, up 7.2% YoY but down 12.5% QoQ.
- **We estimate a CAGR of 13.6% for the loan book over 2013-16e.** We maintain our loan book growth estimate for 2013-16. Overall, we expect QIIK's loan book to grow to QR27.9bn in 2016e from QR19.0bn in 2013.
- **We estimate a CAGR of 9.5% for the bottom-line over 2013-16e.** We continue to expect QIIK to actively participate in infrastructure projects over the next three years and expect net income to increase by a CAGR of 9.5% for 2013-2016e. We forecast net financing income to grow by a CAGR of 7.8% over 2013-2016e. This along with a CAGR of 6.9% in expected investment income should help the bottom-line grow to QR984.3mn in 2016e. While we maintain our bottom-line growth estimates, we have adopted a more measured approach with dividends, as we expect the firm to be conservative in distributing dividends given regulatory requirements.

Catalysts

- **International expansion or dividends could act as primary catalysts for the stock.** The bank is actively looking at international expansion. Any newsflow in this regard could act as a catalyst for the stock. Furthermore, dividend expectations for 2014 could act as a short-term catalyst for the stock.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate QIIK a Market Perform with a price target of QR85.00.** Valuation appears to be fair vs. other Qatari banks.
- **Risks:** Declining oil prices remain a substantial risk to regional equity prices. Company-specific risks include: 1) QIIK loses market share and 2) Exposure to the real estate and consumer segments creates concentration risk.

Key Financial Data and Estimates

	FY2013	FY2014e	FY2015e	FY2016e
EPS (QR)	4.96	5.42	5.96	6.50
EPS Growth	10.5%	9.3%	10.1%	9.0%
P/E (x)	16.6	15.2	13.8	12.7
DPS (QR)	3.75	4.00	4.00	5.00
Dividend Yield	4.5%	4.8%	4.8%	6.1%

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

Key Data

Current Market Price (QR)	82.50
Dividend Yield (%)	4.8
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	95.40/59.90
3-m Average Volume ('000)	140.1
Mkt. Cap. (\$ bn/QR bn)	3.4/12.5
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	3.3
1-Year Total Return (%)	43.3
Fiscal Year End	December 31

Source: Bloomberg (as of December 24, 2014), *Qatar Exchange (as of December 24, 2014); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2013	2014e	2015e	2016e
Income from Financing Activities	950	1,027	1,123	1,229
Income from Investing Activities	370	376	412	452
Total Income from Financing and Investing Activities	1,320	1,403	1,535	1,681
Commission and Fees Income	78	115	125	115
Commission and Fees Expense	(22)	(22)	(23)	(22)
Income from Commission and Fees	55	94	101	93
Gain from Foreign Exchange Operations & Share of Associates' Results	82	66	72	80
Net Operating Income	1,458	1,562	1,708	1,854
General and Administrative Expenses & Others	(223)	(257)	(288)	(322)
Depreciation and Amortization	(14)	(14)	(15)	(15)
Impairment of Financial Investments	(56)	(34)	(33)	(32)
Impairment of Receivables and Financing Activities	(10)	(11)	(12)	(13)
Others	(69)	(52)	(39)	(29)
Sub Total	(372)	(367)	(386)	(411)
Net Profit Before URIA	1,086	1,195	1,323	1,443
Share of Holders of Unrestricted Investment Account	(335)	(375)	(420)	(458)
Net Profit Attributable to Shareholders	750	820	903	984
EPS (QR)	4.96	5.42	5.96	6.50

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

Balance Sheet (In QR mn)	2013	2014e	2015e	2016e
Assets				
Cash and Balances with Qatar Central Bank	1,669	1,836	2,020	2,222
Balances and Investments with Banks and Other Financial Institutions	4,849	6,647	8,961	13,289
Receivables and Balances from Financing Activities	19,021	21,907	25,021	27,896
Financial Investments	6,760	6,696	7,085	7,505
Investment in Associates	372	361	351	342
Investment Properties Held for Leasing	182	173	164	156
Investment properties Held for Trading	791	692	606	530
Property and Equipment (Net)	402	442	487	535
Other Assets	376	443	522	614
Total Assets	34,421	39,198	45,216	53,089
Liabilities				
Current Accounts from Banks and Financial Institutions	1,396	2,392	4,099	7,024
Customers' Current Accounts	5,671	6,238	6,862	7,548
Other Liabilities	3,022	3,151	3,286	3,427
Total Liabilities	10,088	11,781	14,247	17,999
Holdings of Unrestricted Investment Accounts	19,019	21,851	25,106	28,848
Total Liabilities	29,108	33,632	39,353	46,847
Equity				
Share Capital	1,514	1,514	1,514	1,514
Legal Reserves	2,452	2,452	2,452	2,452
Fair Value Reserves	183	183	183	183
Risk Reserves	413	434	434	434
Foreign Currency Translation Reserve	-	-	-	-
Other Reserve	126	126	126	126
Proposed Cash Dividends	568	605	605	757
Retained Earnings	58	252	549	776
Total Shareholders' Equity	5,314	5,566	5,863	6,242
Total Liabilities and Shareholders' Equity	34,421	39,198	45,216	53,089

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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