

QNBFS Alert – QIIK 3Q2016 Profitability In-Line

- **3Q2016 earnings in-line with estimates.** Qatar International Islamic Bank (QIIK) reported a net profit of QR223.30mn in 3Q2016, in-line with our expectations (QR221.84mn). Net income increased by 1.5% and 2.2% QoQ and YoY, respectively. Moreover, total revenue also came in-line at QR311.44mn vs. our estimate of QR296.71mn (+5.0% variation).
- **Provisions prevented the bottom-line from growing more than 1.5% QoQ (+2.2% YoY).** QIIK's Net interest and investment income increased by 8.6% QoQ (+9.8% YoY) to QR280.55mn while non-interest income receded by 11.7% QoQ (-16.9% YoY) to QR30.89mn due to weak f/x income. The bank's net operating income before provisions accelerated by 10.0% QoQ and YoY to 241.91mn. *However, the bank booked provisions of QR18.60mn in 3Q2016 vs. nil in 2Q2016 (QR1.61 in 3Q2015), which led to bottom-line growth of 1.5% and 2.2% QoQ and YoY, respectively.*
- **NIM remained under pressure.** QIIK's margins/spreads remained under pressure, with the NIM declining by ~6bps and ~41bps QoQ and YoY to 2.78%.
- **Efficiency remains intact.** The bank was cost efficient as opex declined by 5.3% QoQ (-4.3% YoY) to QR69.53mn. Thus, the cost-to-income ratio declined to 22.3% vs. 25.0% in 2Q2016 (24.8% in 3Q2015).
- **Loans exhibited flattish performance.** Net loans stood at QR26.83bn (flattish QoQ, +7.4% YTD), while Customer deposits declined by 4.5% QoQ (+1.5% YTD) to QR27.06bn. *As such, the bank's LDR was elevated to 99% vs. 94% in 2Q2016 (94% at the end of 2015).*
- **Asset quality worsened.** The NPL ratio moved up to 2.2% vs. 1.7% in FY2015. NPLs surged by 39.5% to QR637.0mn. QIIK's coverage dropped to 42% (127% including risk reserves) vs. 55% (175% including risk reserves) in FY2015. Moreover, QIIK booked provisions of QR18.60mn vs. nil provisions in 2Q2016 and 1Q2016.
- **Recommendation and valuation:** We maintain our Price Target of QR63.00 for now. QIIK trades at a P/E and P/TB of 12.6x and 1.7x on our 2016 estimates, respectively.

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

Saugata Sarkar
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL One Person Co. ("QNBFS") a wholly-owned subsidiary of Qatar National Bank ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.