

Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR62.40	Target Price	QR63.00
Implied Upside	+1.0%		

1Q2017 In-Line; Sharp Drop in Provisions & Opex Boosts Earnings

Qatar International Islamic Bank (QIIK) 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. QIIK is focused on the real estate and retail segments which collectively make up 66% of the bank's loan book. Currently, the bank is in the process of expanding into Morocco.

Highlights

- **QIIK reports in-line net profit for 1Q2017.** QIIK generated a net profit of QR236.51mn vs. QR118.37mn in 4Q2016 (+6.0% YoY), in-line with our estimate of QR228.91mn (+3.3% variation). Moreover, net operating income was also in-line at QR239.03mn vs. our estimate of QR230.91mn (+3.5% variation).
- **Surge in profitability on a QoQ basis was driven by a sharp drop in provisions and opex, while YoY growth (+6.0%) was limited by a spike in opex.** Net operating income gained by 10.4% QoQ to QR239.03mn due to a 18.9% drop in opex (QR81.56mn vs. QR100.60mn in 4Q2016). Total revenue only grew by 1.1% as investment income receded by 3.5% and net interest income ticked up by only 1.0%. On the other hand, the surge in the bottom-line QoQ was attributable to muted provisions. QIIK booked net provisions of QR2.52mn vs. QR98.22mn in 4Q2016. Spike in opex prevented further growth YoY. Net profit grew by 6.0% only due to 32.5% spike in opex.
- **Net loans and deposits displayed strong performance.** QIIK's loan book expanded by 7.6% YTD to QR29.31bn while deposits followed suit and grew by 8.4% YTD to QR28.88bn. Hence, LDR remained at 102% at the end of 1Q2017 vs. 2016 year-end. We are of the view that the aggressive growth in deposits was led by expensive deposits.
- **Asset quality continues to deteriorate, although not alarming.** QIIK's NPL ratio increased to 1.84% in 1Q 2017 vs. 1.74% at the end of 2016. Although the NPL ratio is low, NPLs expanded by 13.1% QoQ to QR577mn after jumping by 11.7% YoY in 2016 (we are of the view that there is a legacy NPL of ~QR150mn which is most likely provisioned for). Moreover, the coverage ratio declined to 64% vs. 72% at the end of 2016.
- **Capitalization remains robust.** QIIK's CAR stood at 17.9% at the end of 1Q2017 vs. 19.5% at the end of 2016.

Catalysts

- **Limited catalysts; Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Clarity/progress on Morocco expansion and 2) significant increase in traded volumes.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR63.00.** QIIK is trading at a 2017e P/B and P/E of 1.6x and 12.6x, respectively. The stock offers an attractive yield of 6.4% in 2017. *The market is currently factoring in a RoE of 15.6% (P/B of 1.6x) which is in-line with our estimates. Moreover, the stock trades at a 2018e PEG of 1.3x (based on a 2016-2021e earnings CAGR of 8.6% vs. 3.1% in the previous 5 years. This implies, the stock is trading around its fair value.*
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk which further results in impairments.

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Reported/Headline EPS (QR)	5.18	5.45	5.92	6.83
EPS Growth (%)	0.1	5.2	8.6	15.4
P/E (x)	12.0	11.4	10.5	9.1
Tangible BVPS (QR)	37.4	38.4	39.8	41.9
P/TB (x)	1.7	1.6	1.6	1.5
DPS (QR)	4.00	4.00	4.25	4.50
Dividend Yield (%)	6.4	6.4	6.8	7.2

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

Key Data

Current Market Price (QR)	62.40
Dividend Yield (%)	6.4
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	71.50/58.10
3-m Average Volume ('000)	260.2
Mkt. Cap. (\$ bn/QR bn)	2.6/9.4
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	11.0
1-Year Total Return (%)	+5.9
Fiscal Year End	December 31

Source: Bloomberg (as of April 25, 2017), *Qatar Exchange (as of April 25, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	13.2	13.0	13.8	15.4
RoAA (Attributable)	1.8	1.7	1.7	1.8
RoRWA (Attributable)	2.5	2.4	2.4	2.5
NIM (% of IEAs)	2.7	2.7	2.7	2.7
NIM (% of RWAs)	3.4	3.4	3.4	3.4
NIM (% of AAs)	2.4	2.4	2.4	2.4
Spread	2.3	2.3	2.2	2.1
Efficiency (%)				
Cost-to-Income (Headline)	25.3	24.2	23.6	23.4
Cost-to-Income (Core)	26.0	25.3	24.7	24.4
Liquidity (%)				
LDR	102.2	102.2	99.0	98.3
Loans/Assets	64.0	62.8	64.3	65.8
Cash & Interbank Loans-to-Total Assets	13.7	15.3	13.2	11.4
Deposits to Assets	62.6	61.5	64.9	66.9
Wholesale Funding to Loans	31.5	35.4	30.5	28.3
IEAs to IBLs	132.0	127.2	130.5	129.4
Asset Quality (%)				
NPL Ratio	1.8	2.0	2.0	1.6
NPLs to Shareholder's Equity	9.0	9.9	10.8	9.6
NPLs to Tier 1 Capital	8.6	9.9	10.8	9.7
Coverage Ratio	71.5	86.0	98.9	123.3
ALL/Average Loans	1.3	1.6	2.0	2.0
Cost of Risk	0.4	0.4	0.4	0.3
Capitalization (%)				
Tier 1 Ratio	19.5	17.7	16.9	16.1
CAR	19.5	17.7	16.9	16.1
Tier 1 Capital to Assets	13.9	12.7	12.2	11.3
Tier 1 Capital to Loans	21.7	20.1	18.9	17.2
Tier 1 Capital to Deposits	22.2	20.6	18.8	16.9
Leverage (x)	7.5	8.0	8.2	8.8
Growth (%)				
Net Interest Income	3.8	5.4	8.1	10.8
Non-Interest Income	-17.6	7.9	8.5	1.1
OPEX	-0.7	1.1	5.9	8.0
Net Operating Income	-0.2	7.4	8.9	9.6
Net Income (Attributable)	-2.9	1.0	9.3	16.4
Loans	9.0	7.0	9.4	15.2
Deposits	-0.1	7.0	13.0	16.0
Assets	5.0	9.0	7.0	12.5
RWAs	7.0	9.2	7.6	9.9

Source: Company data, QNBFS Research

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	1,014	1,069	1,155	1,280
Fees & Commissions	118	127	140	131
FX Income	41	25	28	34
Other Income	34	56	58	64
Non-Interest Income	193	208	226	228
Total Revenue	1,207	1,277	1,381	1,509
Operating Expenses	(305)	(308)	(327)	(353)
Net Operating Income	902	968	1,055	1,156
Net Provisions	(117)	(143)	(158)	(121)
Net Profit Before Taxes, Non-Recurring Items & Minority Interest	785	825	897	1,035
Minority Interest	0	0	0	0
Net Profit (Headline/Reported)	785	825	897	1,035
Payment on Tier-1 Sukuk	(23)	(55)	(55)	(55)
Social & Sports Contribution Fund	(20)	(21)	(22)	(26)
Net Profit (Attributable)	742	750	819	954

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	2,038	2,138	2,094	1,943
Interbank Loans	3,771	4,953	4,464	4,408
Net Investments	7,375	7,954	8,905	10,311
Net Loans	27,233	29,135	31,882	36,731
Investment In Associates	337	338	339	340
Other Assets	686	626	679	776
Net PP&E	681	794	828	910
Investment in Real Estate	431	427	424	420
Total Assets	42,551	46,364	49,614	55,838
Liabilities				
Interbank Deposits	6,039	7,778	7,177	7,834
Customer Deposits	26,640	28,505	32,210	37,364
Other Borrowings	2,548	2,548	2,548	2,548
Tier-1 Sukuk	1,000	1,000	1,000	1,000
Other Liabilities	647	713	644	747
Total Liabilities	36,874	40,543	43,579	49,493
Total Shareholders' Equity	5,677	5,821	6,035	6,345
Total Liabilities & Shareholders' Equity	42,551	46,364	49,614	55,838

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

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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