

Banking

STRONG BUY: 12M TP @ 18.36

Upside + 28%

Valuation Summary (TTM)

Price (QAR)	14.25
PER TTM (x)	9.0
P/Book (x)	1.6
Dividend Yield (%)	4.6
Free Float (%)	45%
Shares O/S (mn)	9,236
YTD Return (%)	-14%
Beta	1.0

(mn)	QAR	USD
Market Cap	131,619	36,090
Total Assets	1,236,569	339,670

Price performance (%)	1M	3M	12M
Qatar National Bank QPSC	-3%	-11%	-6%
Qatar Exchange Index	-4%	-5%	-1%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (000)	52,764	55,925	64,480
Avg Daily Volume (,000)	3,996	3,738	4,199
52 week	High	Low	CTL*
Price (QAR)	17.29	13.90	2.5

* CTL is % change in CMP to 52wk low

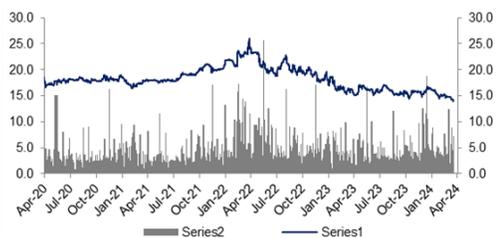
Major shareholders

Qatar Investment Authority	52%
Vanguard Group Inc/T	2.0%
BlackRock Inc	1.6%
Others	44.6%

Other details

Exchange	Qatar
Sector	Banks

Key ratios	2021	2022	2023
EPS (QAR)	1.32	1.44	1.55
BVPS (QAR)	8.55	9.21	9.65
DPS (QAR)	0.55	0.65	0.65
Payout ratio (%)	42%	45%	42%



Qatar National Bank – on growth trajectory

Qatar National Bank reported 1Q24 operating income of QAR 10.3bn (vs. QAR 9.2bn, +12.4% YoY), higher than our estimates of QAR 9.8bn. The reported 1Q24 net income before loss from hyperinflation stood at QAR 5.4bn (vs. 4.7bn, +16% YoY) above our estimates of QAR4.9bn. The loss from hyperinflation increased by 60.7% YoY to QAR1.2bn in 1Q24, due to hyperinflationary trend in Turkey and Egypt. The management has indicated that it expects the trend to reverse in the third and fourth quarter of this year. The operating income growth was driven by 12.1% YoY in NII and 35% growth in non-interest income, mainly on account of forex gains, driven by bank's ability to mine better spreads from its customers. The growth in operating income and lower impairment charge of QAR 1.7bn (vs 2.5bn in 1Q23 -ve 31%YoY) helped the bank achieve superior profitability. The lower impairment charge shaved off credit costs by 24bps to 77bps in 1Q24. The bank's net loans and deposits grew by 7.1% YoY and 6.3% YoY respectively. In our last update, we had a BUY rating with a price target of QAR 18.36/share, given the superior performance across all parameters, we continue to maintain the target price and revise the rating to **STRONG BUY**.

Firing all cylinders: The bank continues to maintain robust growth across all key parameters. The YoY loan growth stood at 7.1%, driven by increase in domestic loan book by 8.6%, of which corporate banking book grew by 7.8%. The subdued international loan book growth in QAR terms was at 1.6% YoY, mainly on account of currency effects. The management has retained its guidance of loan book growth at 4-6% for 2024e, as it expects repayment of government loans in the second and third quarter. The bank also allayed fears of any negative surprise in the exposure to hospitality industry. The deposit book grew by 6% YoY, resulting 7bps improvement in loan to deposit ratio to 98.6%. The bank expects to maintain its current NIMs in the remaining quarter to 2.6%-2.7%, which is in line with our expectations. The cost to income ratio remained stable YoY, despite increase in absolute costs due to operations in the countries with inflationary environment. The cost of risk stood at 77bps and the management has guided for 80-90bps for the year, which is positive. The growth in operating income (incl share of results from associates) from international operations was at 21%, as against the group's operating income growth of 11%. However, the profits from international operations declined by 10% YoY, as against the group's profit growth of 7% YoY. The decline in profits from international operations can be attributed to net monetary loss due to hyperinflation. In local currency terms however, the key international operations have reported are double digit growth in profits. On dividend front, the management has indicated that the bank will increase the payout ratio to neutralize any negative impact arising due to increased taxation from 2025e so as to maintain steady dividends in the hands of shareholders. Overall, the performance was above our expectations and the bank continues to be on a growth trajectory.

Post our result update in Jan 24, the stock price has corrected due to concerns around the impact of operations arising out of inflation in Turkey and Egypt, however, we are of the view that the impact is overblown and there is a likelihood of inflation going down from 3Q of this year. At current levels the shares trade at 2024e normalized P/E (without effect of monetary loss arising out of hyperinflation) of 6.6x, 1.3x book value, and offers a dividend yield of 4.6%. We are of the view, given, the superior franchise, continued leadership position, stable cost to income ratio and reduced credit cost guidance, the stock is trading at attractive valuations.

While we maintain our earlier target price of QAR 18.36/share, we revise the rating to STRONG BUY. At the current market price of QAR 14.25/share, this offers a potential upside of 28.9%, besides a 2024e dividend yield of 4.5%

Summary of key numbers

in QAR mn	1Q24	4Q23	QoQ (%)	1Q23	YoY (%)	2023A	2022A	YoY (%)	2023A	2024E
Operating Income	10,300	9,977	3.2%	9,164	12.4%	38,477	34,560	11.3%	38,477	39,797
Operating Expenses	-2,308	-2,046	12.8%	-2,062	11.9%	-8,006	-7,047	13.6%	-8,006	-8,556
Operating Profit	7,992	7,931	0.8%	7,101	12.5%	30,471	27,513	10.8%	30,471	31,241
Provision Expenses	-1,819	-2,979	-38.9%	-2,576	-29.4%	-9,653	-9,144	5.6%	-9,653	-7,953
Profit before tax	6,238	5,092	22.5%	4,659	33.9%	21,464	18,914	13.5%	21,464	23,888
Taxation	-803	-588	36.6%	21	<i>nm</i>	-2,297	-2,719	-15.5%	-2,297	-2,628
Monetary loss due to hyperinflation*	-1,228	-822	49.5%	-764	60.7%	-3,503	-1,745	100.7%	-3,503	-2,500
Profit after tax	4,207	3,682	14.3%	3,916	7.4%	15,665	14,449	8.4%	15,665	18,760
Tier 1 Bond	-288	-288	0.0%	-288	0.0%	-1,150	-1,083	6.2%	-1,150	-1,150
Profit attributable to shareholders	4,143 ▲	3,638	13.9%	3,882	6.7% ▲	15,511 ▲	14,349	8.1%	15,511 ▲	18,607
Net Loan Book	867,371	852,987	1.7%	809,775	7.1%	852,987	807,601	5.6%	852,987	898,964
Deposits	879,619	857,106	2.6%	827,517	6.3%	857,106	842,279	1.8%	857,106	882,819
Total Equity (Excl tier 1 bond)	84,470	89,099	-5.2%	81,698	3.4%	89,099	85,087	4.7%	89,099	103,205
Cost to Income	22.41%	20.51%		22.50%		20.81%	20.39%		20.81%	21.50%
NPL ratio	2.80%	2.97%		2.81%		2.97%	2.83%		2.97%	2.80%
CAR	19.10%	19.80%		19.32%		19.80%	19.61%		19.80%	21.20%
Net Loan to Deposit	98.61%	99.52%		97.86%		99.52%	95.88%		99.52%	101.83%

Income Statement (QAR Mn)	2021	2022	2023	2024E	2025E	2026E	2027E
Interest Income	44,736	59,672	97,133	68,651	68,219	70,095	74,066
Interest Expense	-21,700	-30,807	-66,716	-36,770	-36,691	-36,426	-37,956
Net Interest Income	23,036	28,865	30,417	31,881	31,528	33,669	36,110
Non Interest Income	4,907	5,696	8,060	7,916	9,198	9,524	9,864
Net Operating Income	27,943	34,560	38,477	39,797	40,726	43,193	45,973
Operating Expenses	-13,647	-16,191	-17,659	-16,509	-17,285	-19,290	-19,953
Share of results from associates	370	544	646	600	600	600	600
Profit Before Taxation	14,666	18,914	21,464	23,888	24,041	24,503	26,621
Tax expense	-1,390	-2,719	-2,297	-2,628	-4,327	-4,901	-5,324
Profit for the year*	13,276	16,194	19,168	21,260	19,714	19,602	21,297

*before net monetary loss arising from hyperinflation

Balance sheet (QAR Mn)	2021	2022	2023	2024E	2025E	2026E	2027E
Cash and balances with Central Bank	88,551	91,564	87,820	82,599	77,468	68,067	57,826
Due from banks	69,055	96,260	86,477	89,936	93,983	98,682	103,616
Loans & advances to customers	763,652	807,601	852,987	898,964	943,912	993,247	1,045,154
Investment securities/associates	150,288	167,815	180,582	194,479	209,641	226,004	243,663
Property and Equipment/Intangibles	9,044	10,120	9,356	10,285	11,232	12,228	13,280
Other Assets	12,447	15,859	13,763	14,451	15,173	15,932	17,127
Total Assets	1,093,038	1,189,219	1,230,985	1,290,713	1,351,408	1,414,161	1,480,667

LIABILITIES AND SHAREHOLDER'S EQUITY

Due to banks	111,442	142,815	156,991	172,691	185,642	199,566	209,544
Customers' deposits	785,512	842,279	857,106	882,819	913,718	945,698	983,526
Debt Securities	40,089	35,153	36,289	39,918	43,910	48,300	53,131
Other Borrowings	26,138	25,593	29,400	27,930	26,534	25,207	23,947
Other Liabilities	29,801	37,323	40,991	43,041	45,193	47,453	49,825
Total Liabilities	992,981	1,083,162	1,120,778	1,166,399	1,214,996	1,266,224	1,319,972
Paid-up Capital	9,236	9,236	9,236	9,236	9,236	9,236	9,236
Other Reserves	10,589	10,002	6,760	6,760	6,760	6,760	6,760
Retained earnings	59,118	65,849	73,102	87,209	99,307	110,832	123,590
Shareholder's Equity	78,943	85,087	89,099	103,205	115,303	126,828	139,586
Non - Controlling Interests	1,113	970	1,108	1,108	1,108	1,108	1,108
Tier 1 Perpetual subordinated bonds	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total Equity	100,057	106,057	110,207	124,314	136,412	147,937	160,694
Total Liabilities and Equity	1,093,038	1,189,219	1,230,985	1,290,713	1,351,408	1,414,161	1,480,667

Cash Flow Statement (QAR Mn)	2021	2022	2023	2024E	2025E	2026E	2027E
Cash flow from operating activities	35,787	59,119	1,466	15,262	16,680	13,703	14,226
Cash flow from investing activities	-24,233	-25,894	-17,652	-15,489	-16,791	-18,091	-19,499
Cash flow from financing activities	-6,570	-9,811	-889	-4,995	-5,020	-5,013	-4,969
Net change in cash	4,984	23,413	-17,074	-5,222	-5,131	-9,400	-10,242
Cash at the end of period	106,660	127,314	108,129	82,599	77,468	68,067	57,826

Key ratios	2021	2022	2023	2024E	2025E	2026E	2027E
<u>Operating performance</u>							
Yield on average earning assets	4.3%	5.4%	8.2%	5.8%	5.7%	5.5%	5.5%
Cost of funds	2.3%	3.0%	6.3%	3.4%	3.2%	3.1%	3.1%
Interest spread	2.1%	2.3%	1.9%	2.4%	2.5%	2.5%	2.5%
NIM	2.2%	2.50%	2.53%	2.7%	2.5%	2.6%	2.6%
Interest income/operating income	160.1%	172.7%	252.4%	172.5%	167.5%	162.3%	161.1%
Net interest income/operating income	82.4%	83.5%	79.1%	80.1%	77.4%	78.0%	78.5%
Non interest income/operating income	17.6%	16.5%	20.9%	19.9%	22.6%	22.0%	21.5%
Cost to income ratio	23.0%	20.4%	20.8%	21.5%	22.0%	22.0%	21.0%
<u>Liquidity</u>							
Net Loan to Deposit Ratio	85.1%	82.0%	84.1%	85.2%	85.9%	86.7%	87.6%
Customer deposits/total deposits	87.6%	85.5%	84.5%	83.6%	83.1%	82.6%	82.4%
Net loans to customer deposits	97.2%	95.9%	99.5%	101.8%	103.3%	105.0%	106.3%
Investments/total assets	13.1%	13.4%	14.0%	14.5%	14.9%	15.4%	15.9%
<u>Asset quality</u>							
Stage 1 loan ratio	91.1%	91.2%	91.5%	91.0%	91.0%	91.0%	91.0%
Stage 2 loan ratio	6.6%	5.9%	5.5%	6.2%	6.2%	6.2%	6.2%
Gross NPL ratio	2.3%	2.8%	3.0%	2.8%	2.8%	2.8%	2.8%
Provision as a % of gross loans	3.3%	3.6%	3.9%	3.5%	3.5%	3.8%	4.0%
NPL Coverage	143.0%	126.1%	129.8%	125.0%	125.0%	133.9%	142.9%
Cost of credit	0.9%	1.0%	1.0%	0.8%	0.8%	0.9%	0.9%
Stage 1 coverage	0.2%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%
Stage 2 coverage	6.5%	8.1%	10.2%	7.8%	7.8%	11.8%	15.9%
Stage 3 coverage	116.8%	98.5%	100.1%	98.0%	98.0%	98.0%	98.0%
<u>Capital adequacy</u>							
Tier I ratio	18.2%	18.5%	18.7%	20.2%	21.3%	22.1%	23.1%
Tier II ratio	1.1%	1.1%	1.1%	1.0%	1.0%	0.9%	0.9%
CAR	19.3%	19.6%	19.8%	21.2%	22.2%	23.1%	23.9%
Net Equity to Gross Loans	10.0%	10.2%	10.0%	11.1%	11.8%	12.3%	12.8%
Net Equity to Total Assets	7.2%	7.2%	7.2%	8.0%	8.5%	9.0%	9.4%
<u>Return ratios</u>							
Reported ROE	17.2%	19.7%	22.0%	23.0%	18.0%	16.2%	16.0%
Adjusted ROE	15.8%	16.2%	16.5%	18.9%	15.5%	14.3%	14.6%
ROA	1.3%	1.4%	1.6%	1.7%	1.5%	1.4%	1.5%
RoRWA	2.7%	3.2%	3.7%	3.9%	3.3%	3.2%	3.3%
<u>Per share ratios</u>							
EPS	1.32	1.44	1.55	1.89	1.83	1.87	2.11
BVPS	8.55	9.21	9.65	11.17	12.48	13.73	15.11
DPS	0.55	0.60	0.65	0.65	0.70	0.75	0.80
<u>Valuation</u>							
Price	20.19	18.00	16.53	14.25	14.25	14.25	14.25
P/E	15.3	12.5	10.6	7.5	7.8	7.6	6.8
P/E (w/o monetary loss on Hyper inflation)	15.3	11.1	8.5	6.6	7.1	7.2	6.6
P/B	2.4	2.0	1.7	1.3	1.1	1.0	0.9
Dividend Yield	2.7%	3.3%	3.9%	4.6%	4.9%	5.3%	5.6%

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Rating Criteria and Definitions

Rating	Rating Definitions
	<p>Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%</p> <p>Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%</p> <p>Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%</p> <p>Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%</p> <p>Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%</p> <p>Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%</p> <p>Not rated This recommendation used for stocks which does not form part of Coverage Universe</p>

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