Qatar National Bank…*on growth trajectory*

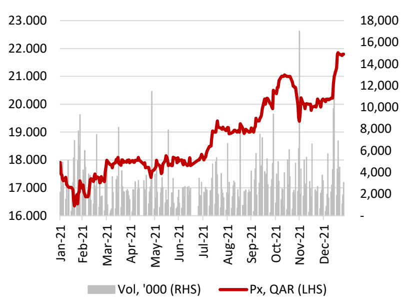
TP: QAR 24.40 / share
Upside/ (Downside): 12%

Recommendation	**Accumulate**
Bloomberg Ticker	QNBK QD
Current Market Price, QAR	21.80
52wk High / Low, QAR	21.88/16.35
12m Average Vol., '000	3,034.3
Mkt. Cap. (USD/QAR bn)	55/201
Shares Outstanding, mn	9,236.4
Free Float (%)	48%
3m Avg Daily Turnover (QAR mn)	72.2
6m Avg Daily Turnover (QAR mn)	63.3
P/E'2022e, x	14.9
PTangBv 2022e, x	2.4
Dividend Yield 2022e, %	3%

Price Performance:	
1 month (%)	9
3 month (%)	10
12 month (%)	22

Source: Bloomberg

Price-Volume Performance



Source: Bloomberg

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Contents

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- **Largest bank by market capitalization within the GCC; Largest by total assets of about USD 300bn**
- **Well-positioned to benefit from rising interest rates; Re-initiate with Accumulate**
- **One of the most profitable banks in the GCC with ROaE of over 15% vs. GCC peer-group average of 12%; second-most profitable locally**
- **Superior efficiency, despite the sheer size of the bank, with Cost-to-Income at 22.8% vs peer group average of 34% during 9M21; CIR at of QNB at 23.1% for full year 2021**
- **Strong asset quality amid robust capital adequacy metrics**

We re-initiate coverage on Qatar National Bank (QNB) with an **Accumulate** rating and a 12-month target price (TP) of **QAR 24.40 per share**. Our TP implies a P/E'22e of 16.7x and a P/B'22e of 2.7x vs. peer-group P/B'22e of 2.3x, which we believe is justified given the bank's superior efficiency, robust capital strength and commendable asset quality metrics given its size, as compared to other dominant banking groups in the GCC. Further, we believe that QNB can deliver a steady profit growth through net interest margin expansion as well as an expected loan-book growth of a CAGR of about 5% over 2022-2026e (guidance for FY22: 6-8%). The bank's management is adamant on maintaining payout ratio at about 40%, to support its capital adequacy as well as reigning in ROE expansion.

Domestic loan-book expansion to fuel growth

We believe that Qatar's domestic credit growth outlook remains robust on higher real GDP growth expected in the coming years as compared to recent years. Several projects have been announced under Qatar's Vision 2030 and we believe that there is room for banks to grow their domestic credit. In terms of loans & deposits, QNB has a leading market share, at roughly about 61% and 63% within Qatar's listed banks (data contains 2 banks' data of 9M21). We are expecting QNB to grow its loan-book at a CAGR of about 5.0% during 2022-2026e, which is justified in our view, based on our expectation of an increase in overall credit and GDP, given the bank's low Loan-to-Deposit ratio. We have assumed a 6.6%YoY growth in the bank's balance sheet for 2022e, as per management guidance of an expected growth between 6-8% for the year.

Net interest income to grow with expansion in NIM as well as loan-book growth

The group's net interest margin (NIM) expanded by about 6bps, as per our calculations, during FY21, after declines seen in the previous few years. We are expecting net interest income to continue to grow over the forecast period on a healthy loan growth outlook, with expansion in net interest margin (NIM) given expected interest rate hikes from 2022 onward. During 2021, average NIM rose to about 244bps from 238bps in 2020. The NIM was impacted favorably by a faster drop in cost of funding as compared to the drop in interest yield during FY21. Going forward, we expect NIM to trend higher during 2022-26e compared to the historical average of 250bps during 2018-2021.

High quality lending portfolio but prudently rising cost of risk as loan-book expands

QNB's non-performing loan (NPL) coverage ratio has remained robust amidst the regional economic slowdown, with a coverage of 117% as at 2021-end. The ratio has gone up from 100% in 2019 and 107% in 2020. The bank's NPL ratio rose to 2.3% at end-FY21 as compared to prior years (2020: 2.1%; 2019: 1.9%) but is still well below most of its regional peers. Within the business segments, corporate NPLs formed about 66% of total, followed by retail at 26% and SMEs at 9%. Cost of credit risk is expected to continue to grow, as the management has indicated prudent build-up of provisions as revenue rises.

Key Risks

Upside risks to our valuation are: (1) Faster-than-expected loan growth (2) Lower-than-expected net ECL charges (3) An increase in proposed dividends in the future, affecting profitability metrics favorably. The key downside risks include deterioration in geo-political situation which can impact macroeconomic outlook of the country and weakening of asset quality warranting faster provision buildup.

Key Indicators

Year	FY19	FY20	FY21	FY22e	FY23e	FY24e
Total Net Loans, QAR mn	678,682	723,795	763,652	820,253	868,755	911,444
Total Customer Deposits, QAR mn	684,489	738,738	785,512	823,397	871,210	913,104
Operating Income, QAR mn	25,636	25,540	28,313	31,600	34,385	36,727
Net Profit, QAR mn	14,351	12,003	13,211	14,500	16,264	17,359
EPS, QAR	1.45	1.19	1.32	1.46	1.65	1.77
BVPS, QAR	7.97	8.21	8.55	9.01	9.51	10.01
Tangible BVPS, QAR	7.54	7.78	8.13	8.56	9.04	9.51
PE, x	14.2	15.0	15.3	14.9	13.2	12.3
PB, x	2.6	2.2	2.4	2.4	2.3	2.2
P/TangBVPS, x	2.7	2.3	2.5	2.5	2.4	2.3
Dividend Yield, %	2.9%	2.5%	2.7%	3.0%	3.4%	3.6%

Source: Company Financials, U Capital Research

Valuation

We have used Excess Returns Methodology and peer-group Price-to-Book multiple for 2022e (Source: Bloomberg) to arrive at a blended target price for Qatar National Bank (QNB). We have assigned a 80% weight to Excess Returns Methodology and the rest to price-to-book multiple-based valuation of book value of QNB for 2022e.

Beginning book value of Equity invested currently	78,943,153				
	31-Dec-22	**31-Dec-23**	**31-Dec-24**	**31-Dec-25**	**31-Dec-26**
Discount Factor	**0.93**	**1.93**	**2.93**	**3.93**	**4.93**
QAR'000					
Net Income	**13,500,499**	**15,264,344**	**16,359,267**	**17,050,140**	**17,772,727**
Less: Equity Cost	8,478,343	8,936,055	9,437,644	9,930,329	10,376,181
Excess Equity Return	**5,022,156**	**6,328,289**	**6,921,623**	**7,119,810**	**7,396,546**
Present value of Excess Equity Return	4,566,043	5,195,560	5,131,570	4,766,581	4,471,608
Sum of present value of Excess Return	**14,893,173**			**9,238,188**	
Equity Cost					
Opening book value	**78,943,153**	**83,204,976**	**87,875,355**	**92,462,821**	**96,614,218**
Cost of Equity	10.7%	10.7%	10.7%	10.7%	10.7%
Equity Cost	8,478,343	8,936,055	9,437,644	9,930,329	10,376,181
Terminal value projections					
Book value of equity at start of year 6	**92,462,821**				
Net income in Stable period	17,105,622				
Less equity cost	9,930,329				
Excess return	7,175,292				
Terminal Value	230,739,733				
PV of Terminal Value	139,494,517				
Total Equity value , QAR'000	233,330,843				
Total shares out, '000	9,236,429				
Target Price, QAR	**25.3**				
Peer-Group Multiples Based Approach					
Average Peer-Group Price-to-Book (x) '22e	2.3				
QNBK BVPS'22e	9.01				
Target Price, QAR	**20.72**				
Weighted-average Target Price, QAR	**24.40**				
Current Price, QAR	21.80				
Upside / (Downside), %	11.9%				

Source: Bloomberg, U Capital Research

We have used a risk-free rate of 2.36%, a Bloomberg-sourced country risk premium of about 8%, a 2-Yr monthly adjusted beta of 1.048x to arrive at the cost of equity of 10.74%. We have assumed a terminal ROE of 18.5% and a terminal sustainable growth rate of 7%. Our TP implies a P/E'22e of 16.6x and a P/B'22e of 2.7x vs. peer-group PB'22e of 2.3x, which we believe is justified given the bank's superior efficiency, robust capital strength and commendable asset quality metrics, given its size, as compared to other dominant banking groups in the GCC.

Sensitivity Analysis

Our model is sensitive to changes in cost of equity but not to slight changes in our assumptions for terminal growth rate, cost of risk for 2022e, and stable period ROE. With all else constant, we can see that with one +/- 0.1% movement in stable period ROE, our target price changes by +/-1%.

QNBK

	Stable Period ROE				
Cost of Equity	**18.3%**	**18.4%**	**18.5%**	**18.6%**	**18.7%**
10.2%	27.00	27.40	27.80	28.30	28.70
10.5%	25.30	25.60	26.00	26.30	26.70
10.7%	23.80	24.10	**24.40**	24.70	25.00
11.0%	22.50	22.70	23.00	23.20	23.50
11.2%	21.30	21.60	21.80	22.00	22.30

	Terminal Growth Rate				
Cost of credit risk '22e	**7.2%**	**7.3%**	**7.4%**	**7.5%**	**7.6%**
91.0	24.00	24.30	24.70	25.10	25.50
96.0	23.80	24.20	24.50	24.90	25.30
101.0	23.60	24.00	**24.40**	24.70	25.10
106.0	23.50	23.80	24.20	24.60	25.00
111.0	23.30	23.60	24.00	24.40	24.80

Source: U Capital Research

Our TP is more sensitive to declines in cost of equity, whereby while keeping all else constant, with every -0.25% movement in cost of equity, our target price increases by 7%. It is comparatively less sensitive to increases in cost of equity, with every +0.25% movement in cost of equity, our target price decreases by 5%.

Regional Peer-Group Key Indicators

	Qatar Banks				Large cap GCC Banks									
	QNBK	QIBK	MARK	CBQK	FAB	KFH	NBK	EMIRATES	SNB	RIBL	SABB	ADCB	Simple Average	Median
Asset size (USD bn)	297.6	52.8	32.8	45.1	267.6	72.9	107.8	190.3	240.7	85.0	71.9	117.6	**131.8**	**96.4**
Market cap (USD bn)	55.0	12.7	12.9	7.9	60.9	25.0	24.9	23.2	85.4	26.2	22.2	16.9	**31.1**	**24.1**
Growth Metrics														
Gross Loan Growth, YoY (%)	6.5	12.8	8.1	11.9	4.0	8.5	11.2	-0.2	49.2	10.1	7.0	-1.8	**10.6**	**8.3**
Deposit Growth, YoY (%)	9.6	15.0	17.3	10.3	0.7	7.3	1.6	1.9	44.2	1.3	0.0	-4.1	**8.8**	**4.6**
Profitability														
ROA (%)	1.2	1.9	1.8	1.5	1.3	1.0	1.1	1.2	1.7	1.7	1.3	9.2	**2.1**	**1.4**
ROE (%)	15.4	16.9	15.5	11.1	12.7	11.3	9.2	10.7	11.4	11.9	6.8	9.2	**11.8**	**11.4**
NIM (%)	2.3	3.0	2.8	2.6	1.8	3.4	2.7	2.8	3.2	3.0	2.5	2.4	**2.7**	**2.7**
Capital & Liquidity Ratios														
CAR (%)	18.6	18.0	20.1	18.3	15.9	18.1	18.1	19.2	19.1	19.3	21.9	16.3	**18.6**	**18.5**
Tier1 Ratio (%)	17.5	16.1	19.3	16.2	14.8	16.5	15.6	18.1	18.2	16.0	19.3	15.0	**16.9**	**16.4**
LCR (%)	165.0	-	-	-	124.0	223.6	111.5	157.2	178.0	168.0	189.0	131.7	**160.9**	**165.0**
CASA Ratio (%)	24.0	31.2	20.6	37.1	44.9			52.1	74.7	55.5	78.6	56.5	**47.5**	**48.5**
Asset Quality														
Provision Cover (%)	137.9	258.6	89.6	115.9	93.7	581.0	220.0	126.8	99.5	116.4	80.2	65.8	**165.4**	**116.2**
NPL Ratio (%)	2.3	1.4	1.5	3.9	3.9	2.3	1.4	6.1	2.1	1.6	5.1	6.1	**3.1**	**2.3**
Cost of Risk, (%)	0.9	0.2	-0.1	0.1	0.0	1.4	0.7	0.2	0.3	0.5	0.4	1.5	**0.5**	**0.4**
Efficiency														
Cost to Income Ratio (%)	22.8	19.0	24.6	29.0	46.1	31.6	42.1	34.0	35.3	35.3	47.6	34.9	**33.5**	**34.4**
Valuation														
Current P/E	16.5	13.8	17.1	14.1	18.4	35.8	24.3	10.7	21.5	18.7	24.0	13.3	**19.0**	**17.7**
P/E 1Yr Forward	12.3	11.6	14.5	9.5	18.4	27.3	21.0	8.4	19.0	16.1	21.8	11.0	**15.9**	**15.3**
Current P/B	2.6	2.2	2.6	1.6	2.3	3.9	2.2	1.1	2.1	2.1	1.6	1.2	**2.1**	**2.2**
P/B 1Yr Forward	2.4	2.2	2.7	1.6	2.3	3.9	2.3	1.1	3.1	2.2	1.6	1.2	**2.2**	**2.3**
Div Yield (%)	2.5	2.9	3.3	2.2	3.6	1.0	1.8	3.0	1.8	3.3	1.2	3.0	**2.5**	**2.7**

Source: U Capital Research, Bloomberg

All figures as at the end of 9M21 and annualized if necessary, prior period values used, if 9M21 unavailable. Valuation as at Jan 25th, 2021

Highlighted cells indicate values above or below the median values

Sector Overview & Outlook

• Qatar's economic outlook is positive; real GDP growth expected to recover to 4.0% in 2022, the fastest in the GCC

Favourable movements in global oil prices, growing natural gas production, restoration of economic activities as the covid-19 vaccine rolls out across the globe and the removal of the fiscal strain due to the removal of economic blockade in January 2021 have likely provided an overall macroeconomic stability in 2021. Qatar's Planning and Statistics Authority and multilateral agencies such as the IMF share this optimism about Qatar's economic outlook, which all project a real GDP growth of about 2% during 2021 while the World Bank recently updated the expected growth rate to 3% for 2021.

Future boosts to Qatar's economy are expected in the form of the football World Cup in 2022 and the expansion of the North Field gas project. In its latest World Economic Outlook report, the International Monetary Fund (IMF) said that it expects Qatar's real GDP to grow by 4.0% in 2022 and 2.6% in 2023. The IMF forecasts an average of 3.8% real GDP growth for the country during 2022-2026.

Qatar	Estimates in April 2021					Latest Estimates in October 2021					Change (Apr'21/Oct'20)	Change (Oct'21/Apr'21)
	2022e	2023e	2024e	2025e	2026e	2022e	2023e	2024e	2025e	2026e	2022e	2022e
Real GDP Growth (%)	3.6	2.2	1.8	2.2	1.9	4.0	2.6	3.9	4.1	4.2	(0.3)	0.4
General government revenue (% of GDP)	37.4	36.6	35.2	34.2	33.6	36.4	36.7	35.8	35.6	35.8	3.2	(0.9)
General government total expenditure (% of GDP)	30.1	29.5	28.7	27.7	26.8	30.8	28.3	27.1	26.0	24.9	2.4	0.7
Current account balance (% of GDP)	7.9	7.2	6.4	5.6	5.8	11.6	7.3	7.7	7.6	8.6	4.5	3.7

Source: IMF's WEO Database Oct'20, Apr'21, Oct'21, U Capital Research

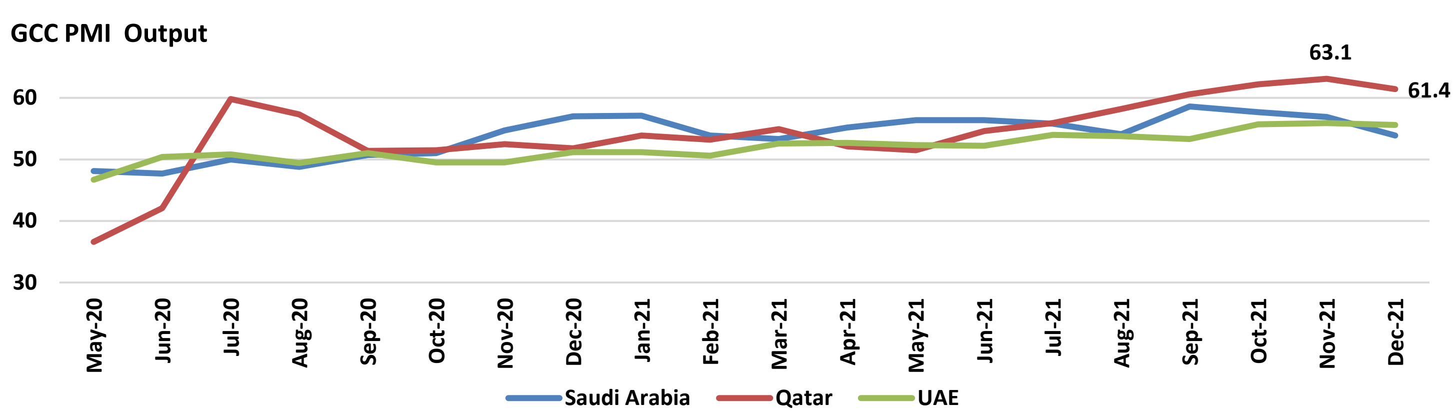
Qatar introduced the Qatar National Visions 2030 (QNV 2030) with the aim to transform the country into a knowledge-based economy. QNV 2030 aims to promote diversification away from oil and foster human, social, economic and environmental development. A major physical infrastructure and investment programme is laying the foundation for QNV 2030 and diversification.

Infrastructure spending will come from the expansion of Lusail Mixed-Use Development, Qatar Integrated Rail, and the Hamad Airport and Port, among many other, supporting credit until 2030, with QNB and international lenders participating in the pipeline. The next credit-growth catalyst will be the construction of new LNG liquefaction facilities, with six new LNG trains that will increase Qatar's LNG production by 64% to 126 million tonnes per annum. There are two phases within the North Field Expansion: (1) Phase I, North Field East, will increase Qatar's annual production from 77 to 110 million tonnes (about 40%), with first gas expected from four trains by 2025. (2) Phase II, North Field South, will then further boost production to 126 million tonnes (another 15%), with first gas by 2027. The LNG expansion will also unleash further downstream growth, as abundant feedstock favours the petrochemical and manufacturing sectors.

Qatar PMI hit record high in November 2021; eased slightly in December 2021 but still third highest on record

Qatar has surpassed its regional counterparts like Saudi Arabia and the UAE to get ahead in PMI output expansion since July'21, with a record high recorded reading of 63.1 in November of 2021 but the latest figure for December at 61.4 was still the third-highest since the survey began in April 2017. While UAE's output growth has slowed, although the economy is still in an expansionary mode (with readings above 50), Qatar is on a solid upward trajectory as the country boasts about 80% vaccination rate (one of the highest in the region and worldwide).

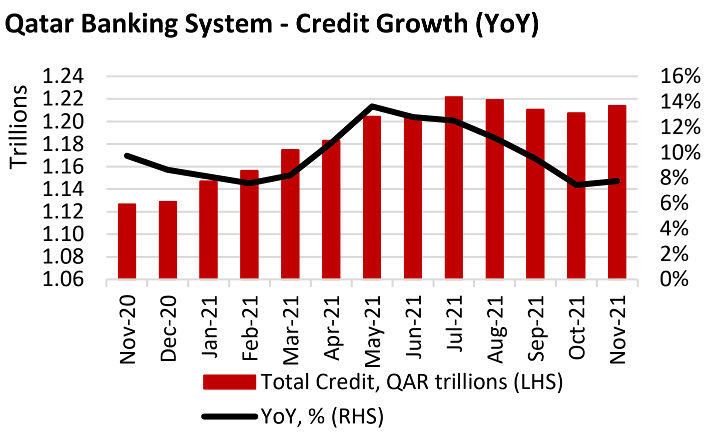
- Qatar's burgeoning non-energy private sector economy contributed to overall business conditions improving at the strongest growth rate seen in over a year, and at the fastest pace since the survey began in April 2017. Qatar's September data signalled continued gains in both new business and total activity, alongside rising backlogs and higher employment.
- This recent strength of the PMI is **<u>pointing to a generous rebound in official gross domestic product or GDP data for the last few quarters</u>**.

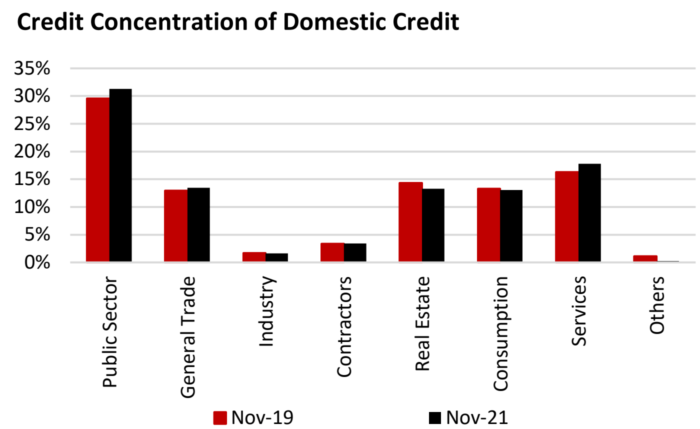


Source: Bloomberg, IHS Markit

Robust growth in Qatar's domestic banking credit

Qatar has 12 domestic banks and 8 international banks catering to a population of about 2.9mn, where QNB comprises almost half of the banking sector's assets. We believe that Qatar's domestic credit growth outlook remains robust on higher real GDP growth expected as compared to the recent years. Qatar's banking credit grew to QAR 1.21 trillion at end-Nov'21, up 8% year-on-year (YoY) and +7.5% on year-to-date (YTD) basis. Of this, domestic credit which forms about 94% of total, grew 8.8%YoY and 8.5% YTD. This points to an increased demand for credit as the Public Sector invests heavily in infrastructure projects.



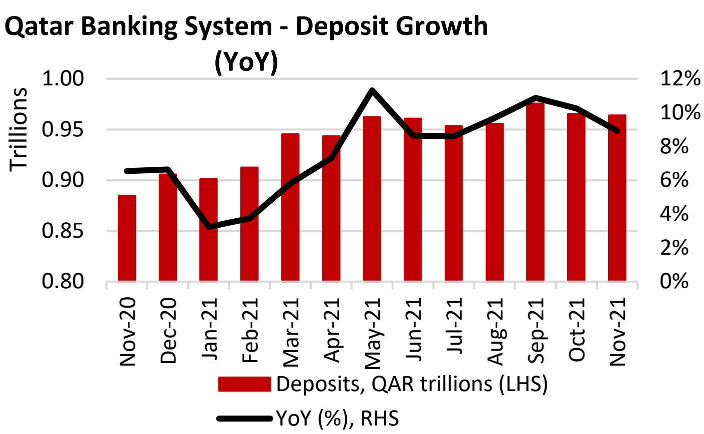


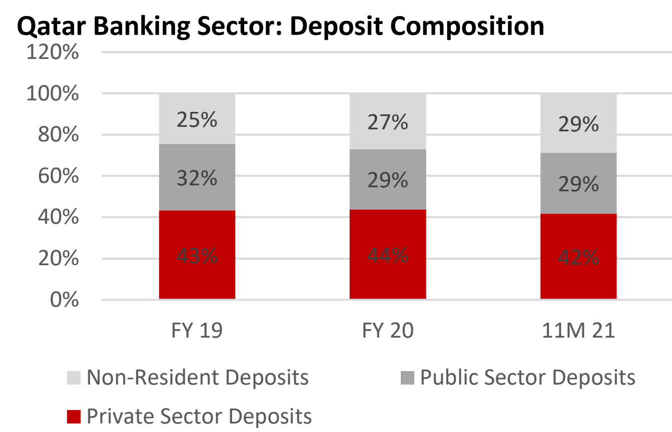
Source: Qatar Central Bank (QCB), U Capital Research

Over the years, domestic credit has increased its share in total credit of Qatar's commercials banks. Accordingly, credit extended to non-residents declined by around 11%YoY in 2018, 7%YoY in 2019 but rose 1% in 2020 before contracting again by 7%YoY at end-Nov'21. As per the Qatar Central Bank (QCB), the economic diversification drive which resulted in progress in services sector including hospitality, education, medical services etc., might have contributed to the higher growth in services sector credit.

Deposits to grow in tandem with domestic credit

Deposit growth in Qatar's banking system has been strong during 2021, with total deposits at QAR 963.8bn, up 9%YoY at end-Nov'21. Of these, 29% were non-resident deposits.

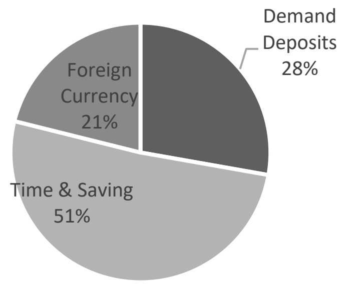




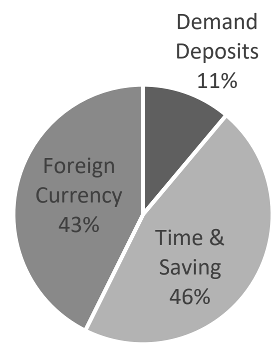
Source: QCB

As at the end-Nov'21, non-resident deposits grew 16%YoY, whereas domestic deposits grew 6%YoY. We believe that going forward, deposit growth will remain healthy and will move in tandem with credit growth, given elevated gas prices to continue.

Private Sector Deposit Mix, Nov'21



Public Sector Deposit Mix, Nov'21



Source: QCB

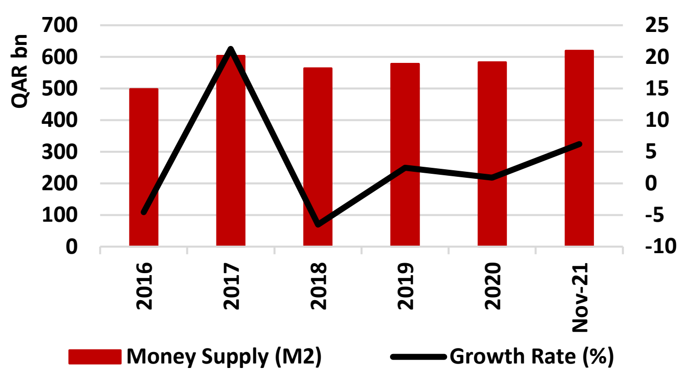
As at Nov'21-end, private sector deposits comprise of 28% local currency (LCY) demand, 51% time and savings deposits, whereas the remaining deposits are foreign currency (FCY). This profile is stable from end-2020.

Within the public sector deposits, about 57% are LCY and the rest FCY. The LCY-FCY deposit mix profile has improved tremendously from 2018, when about 60% of public sector deposits were denominated in FCY, thereby reducing currency pressure.

- **Broad money supply is healthy and growing**

Qatar's money supply is growing at a healthy rate. M1, which comprises of currency in circulation and demand deposits, rose by 2.6%YoY as at the end of Nov'21. M2, which comprises of M1 and Quasi-money, rose by a notable 6.2%YoY.

Qatar: Money Supply



Source: QCB

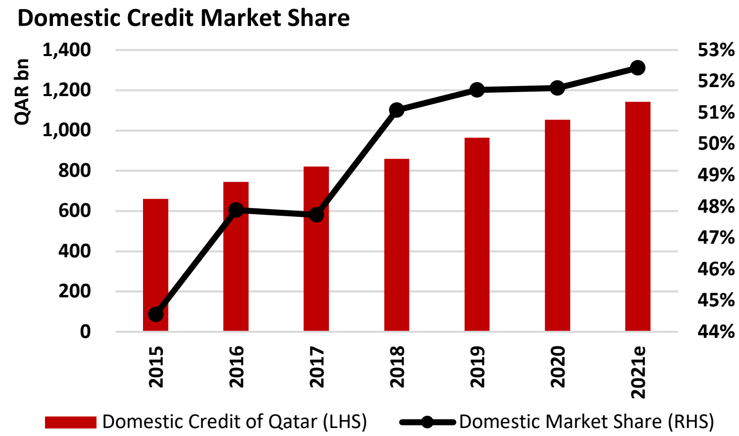
Key risks

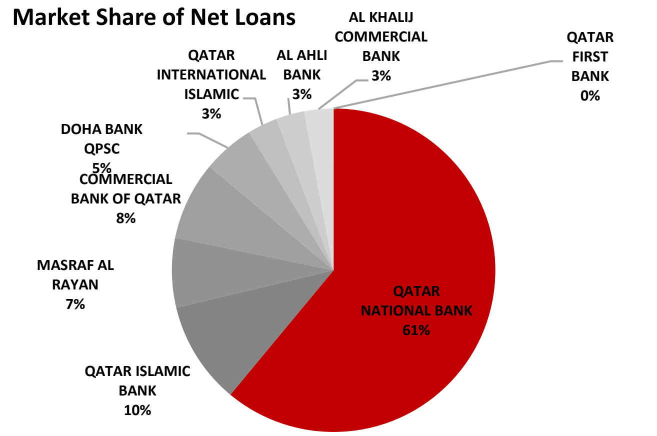
Some of the key risks facing Qatar's banking sector are: (1) Weakening of the global economic development can have spill over effect on the banking sector through tightening of global financial market and lower energy prices. (2) Further developments in the US monetary policy also need to be carefully monitored. (3) Banking sector's dependence on external funds and the associated cost also needs focused attention to keep the profitability of the banking sector to grow at a sustainable level.

Peer Group Analysis

QNB gains domestic market share, as international loan-book growth stagnates

QNB's domestic loans increased by 10%YoY in 2021 as the bank deliberately focused on private sector growth within the country, and its market share reached about 52.4% in 2021 for domestic loans. QNB has been rapidly gaining domestic market share since 2015. Its share of total credit (domestic + international) of Qatar's banking sector is somewhat stable at about 64%, as its international credit declined.



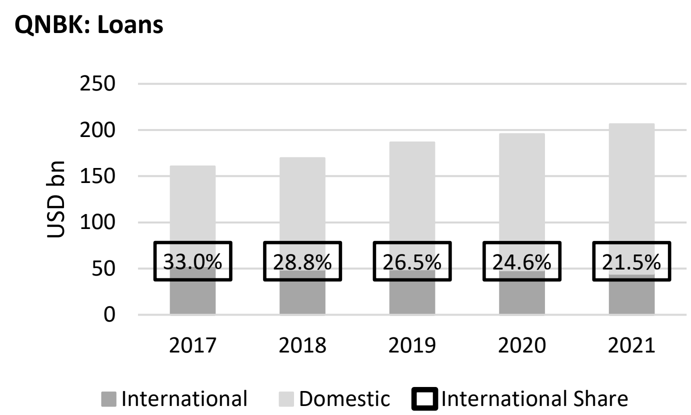


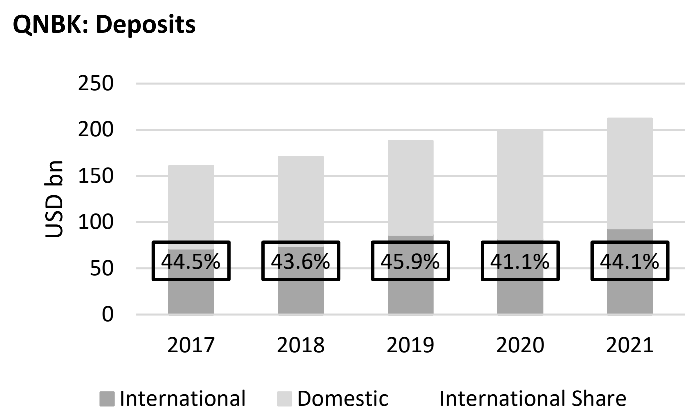
Source: QCB, Bloomberg, U Capital Research, Domestic Credit of Qatar at end-Nov'21 *Note: 9M'21 Numbers for banks that have not reported FY21 results*

QNB's international loan book declined by 8%YoY in 2021, after rising by 1% in 2020. This points to opportunistic growth in international markets in order to stay conservative, given the currency pressures in markets like Turkey. Loans denominated in USD represent 63% of total loans while loan exposures are of a high quality with 37% concentration to Government and public sector entities.

International deposit base provides support to lending growth

International deposit base continues to remain significant for QNB, with about 44% of total deposits being non-resident at end FY21, up from 41% at end FY20.

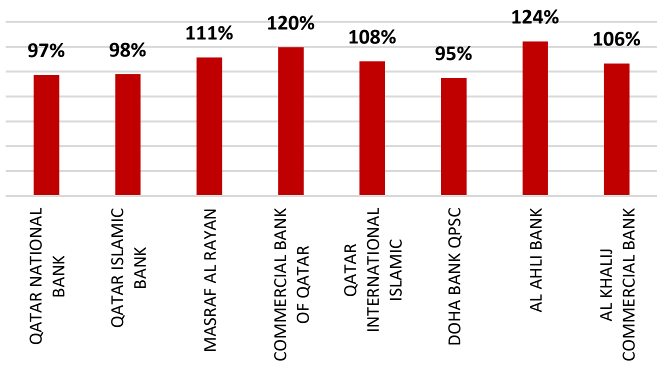




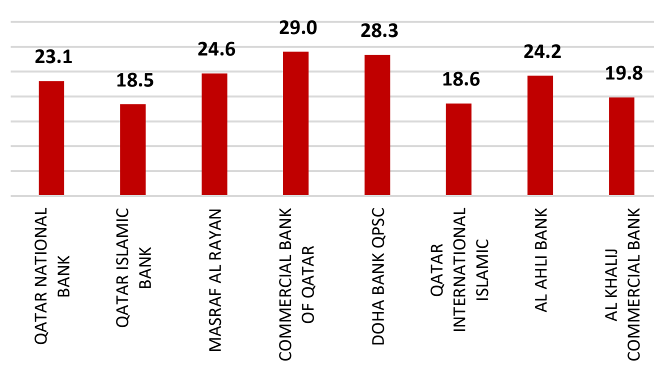
Source: Bloomberg, U Capital Research

For QNB, USD, EGP and TRY denominated deposits represent 46%, 8% and 3% of total deposits respectively.

Lon-to-Deposit Ratio (%)



Cost to Income Ratio (%)



Source: Bloomberg, U Capital Research

Note: 9M'21 Numbers for all banks except QNB, CBQ and QIB

Loan-to-deposit ratio of QNB stood at about 97% for 2021, one of the lowest in the country. This ratio continues to outperform the industry by attracting foreign deposits. QCB data shows that the industry ratio was at 126% at end-Nov'21 (total domestic & international), but weaker in domestic loan-to-deposit ratio at 166%.

Superior efficiency metrics support income growth

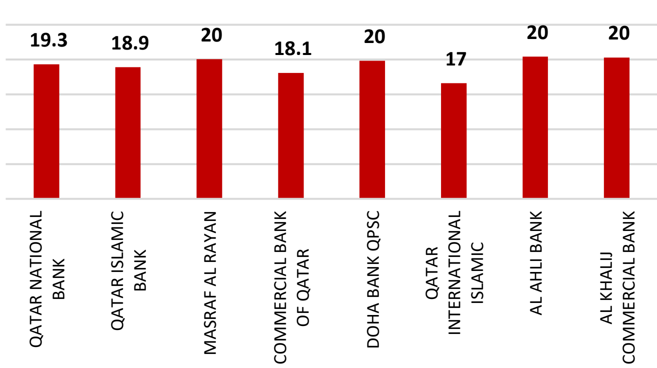
The bank boasts superior efficiency within the banking sector of Qatar, given its massive size, with cost-to-income at 23.1% in 2021, which is below that average cost-to-income ratio for all domestic listed banks at 24.4%, down from 25.1% in 2020.

When compared with other large-cap GCC banks, QNB has a low cost-to-income ratio vs. an average of 34% for the other banks.

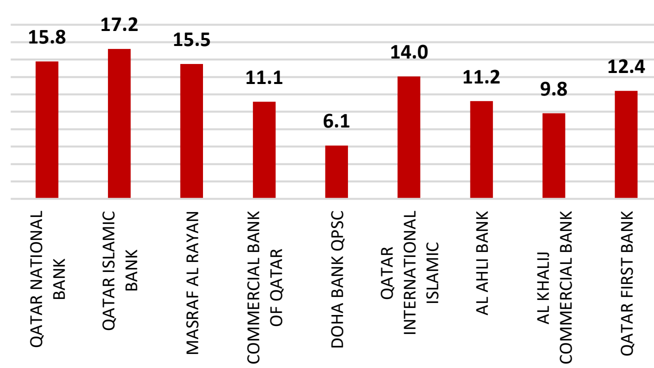
D-SIB bank status warrants strong capital adequacy levels

QNB maintains strong capital adequacy ratios, with Capital Adequacy Ratio (CAR) at 19.3%, which is above QCB and Basel III requirements including the applicable Domestically Systemically Important Bank (D-SIB) buffer of 2.5% effective from 1st Jan 2019. The bank's Tier 1 Capital Ratio at 18.2% has been improving every year and is above the 13% minimum required by QCB. Its Core Equity Tier 1 (CET1) Ratio is at 14.2% which is also above the QCB minimum of 11%.

Total Capital Adequacy Ratio (CAR), %



Return on Common Equity, %



Source: Bloomberg, U Capital Research; Note: Numbers for 2021 and 9M21

High profitability metrics within the peer group

QNB maintains high profitability metrics within its regional peer-group, with ROaE and ROaA at 15.8% and 1.3% respectively as compared to peer-group average of 11.8% and 2.1%.

QNB Performance & Outlook

Review of FY21 Results

Net profit at QAR 2.95bn in 4Q21 missed U Capital estimate on higher-than-expected provision expense; Strong top-line performance continues

QNB posted a net profit of QAR 2.95bn in 4Q21, which is up +17%YoY but was down 15%QoQ because of a 51%QoQ rise in provision expense. The bank's 4Q21 net interest income beat our expectation while other operating income was also higher than expected. Operating expenses for 4Q21 also rose roughly in tandem with operating income on QoQ basis, with cost-to-income ratio at 22.2% vs. 21.9% a quarter ago, still superior to most regional banks and commendable for a bank of this size. Net ECL charges for the quarter stood at QAR 2.58bn, which are up 31%YoY and 51%QoQ. Asset quality remained sound but NPLs creeped up to 2.3% of gross loans (from 2.1% in FY20; stable from 9M21) while provision cover of bad loans stood at 117% (as compared to 107% a year ago). We believe that the bank has built provision buffers in anticipation of weakness in the operating environment outside of Qatar as it "remains cautious on the external environment with respect to potential risks that may arise from key markets where QNB Group operates".

Net loans and customer deposits in line with our estimates; Capital adequacy remains firm with CAR at 19.3%

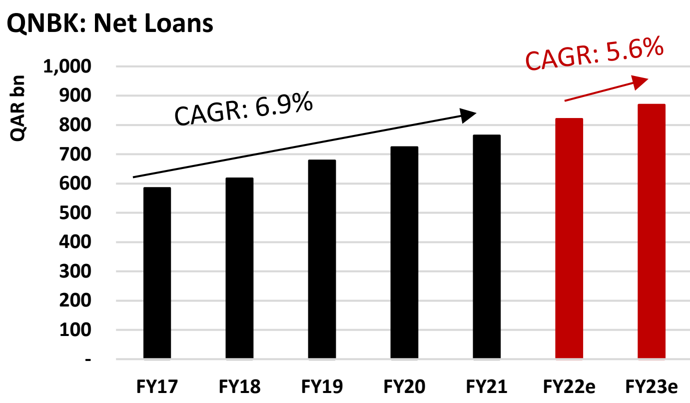
The bank posted a 6%YoY and flat QoQ growth in its net loans during FY21, matching our estimate. The bank's total asset growth continued to remain strong at 7%YoY and 1%QoQ. Customer deposits have grown by 6%YoY and are flat QoQ, in line with our estimate. Loan-to-deposit ratio contracted slightly to 97.2% from 97.8% a quarter ago. CAR remains well above the minimum regulatory requirement of 16% (including Capital Conservation buffer, ICAAP buffer and the applicable Domestically Systemically Important Bank ("DSIB") buffer), at 19.3%, but has been steadily declining since end-FY20 when it was 19.1%, despite flattish risk-weighted assets.

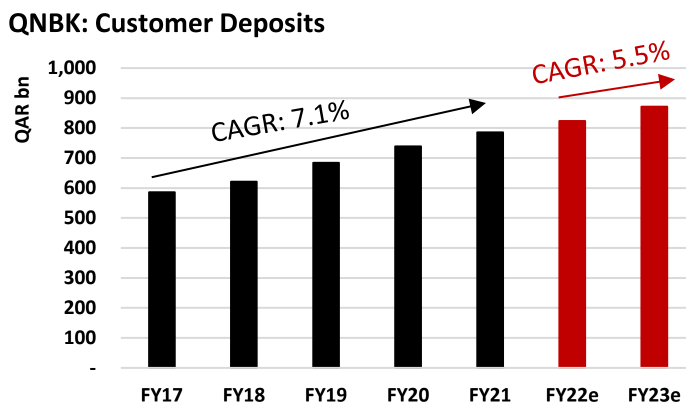
The bank's proposed dividend per share matched our estimate of QAR 0.55; Balance Sheet expected to grow 6-8% in FY22

The Group is forecasting a balance sheet growth of between 6% to 8% and for the profit and loss, it will be between 7% to 9%, which is slightly lower than what the bank posted for FY2021, on Turkey business contribution due to the continuing exchange rate issues. Overall growth for the group is expected to continue in line with what we have seen in 2021, strong but steady progress.

Net loans and customer deposits to grow at a CAGR of 5.6% and 5.5% respectively over 2022-2026e

We expect QNB's net loans and customer deposits to grow at a CAGR of 5.6% and 5.5% respectively over the forecast period while management guidance is of a 6%-8% growth in its balance sheet for 2022. Its loan-to-deposit ratio is about 99.6%, providing ample room to grow, however, management guidance is to maintain the ratio conservatively near 100%.





Source: Bank Financials, U Capital Research

QNB is expected to continue to focus on Qatar's dynamic private sector as well as Government's mega projects leveraging its large capital base in 2022 and beyond, similar to the trend observed over the last few years.

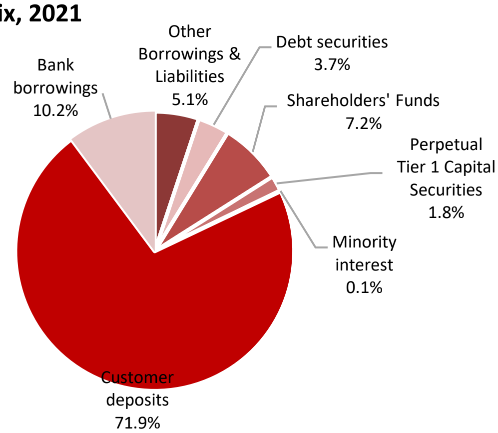
Customer deposits of the bank are expected to grow at a CAGR of 5.5%, buoyed by improving liquidity prospects as current account balance of the country keeps on improving.

Net Interest Income to grow at a CAGR of 6.5% over 2022-2026e

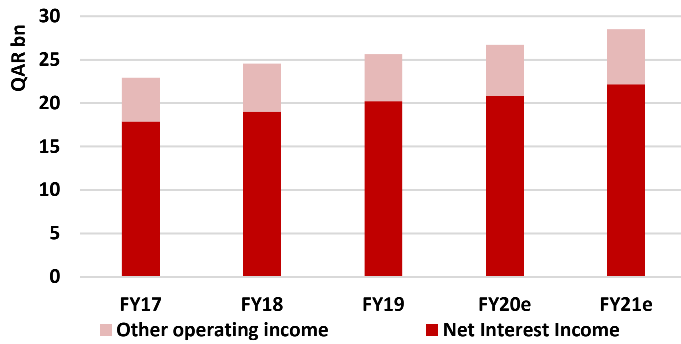
The group's interest income had been consistently rising on net loan growth as well as improvement in spreads, characteristic of a previously rising interest rate environment, except in FY20. We are expecting net interest income to continue to grow over the forecast period on a healthy loan growth as well as on an anticipated expansion in net interest margins (NIM) given the expected rate hikes, albeit slowly.

During 2021, average NIM expanded to 2.44% from 2.38% in 2020. The NIM was impacted favourably by a rise in yields on debt securities. However, lower yields on bank deposits and loans & advance weighed on the NIM, in spite of lower cost of funding, resulting in a net increase of 5.9bps. Going forward, we expect NIM to average around 266bps during 2022-26e compared to the historical average of 247bps during 2018-21.

QNBK: Funding Mix, 2021



QNB

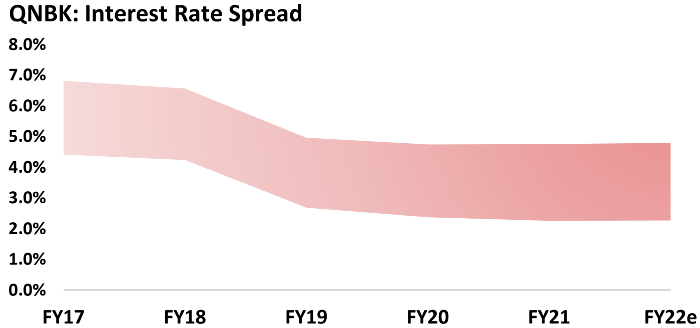


Source: Bank Financials, U Capital Research

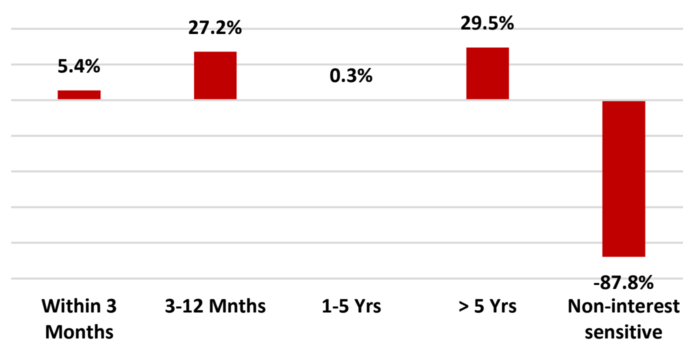
The group's heavy reliance on customer deposits is expected to favour its net interest margins given the anticipated expansion in cost of funding. About 72% of the bank's balance sheet is funded by customer deposits (with CASA at 23% of total deposits), and about 80% of liabilities are comprised of customer deposits.

Additionally, the bank will be able to re-price its assets faster than its liabilities within the next 12 months, allowing it to pass on rate hikes to customers and hence improving its interest income. Furthermore, about 20% of the bank's liabilities are non-interest sensitive, that are used to fund shorter term assets. Hence, the outlook for NIM expansion is positive, given the bank's interest risk management.

QNBK: Interest Rate Spread



Interest Rate Gap (% of Assets)

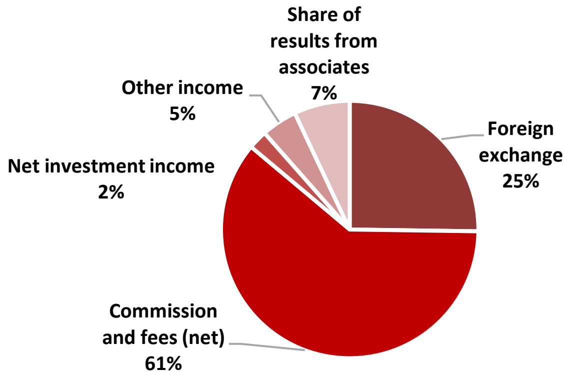


Source: Bank Financials, U Capital Research

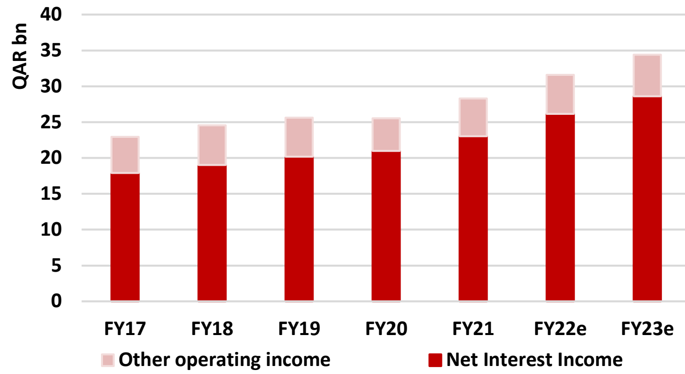
Other operating income declined in 2020 but is expected to recover on rising fee income

Other operating income of the bank has net commission and fees as a significant component. Other operating income witnessed a steep decline in the wake of covid-19 pandemic during FY20 but recovered dramatically by 16%YoY during FY21. We expect other operating income growth to remain strong, given the loan growth outlook and overall better operating environment.

QNBK: Other Operating Income constituents



QNBK: Operating Income Components

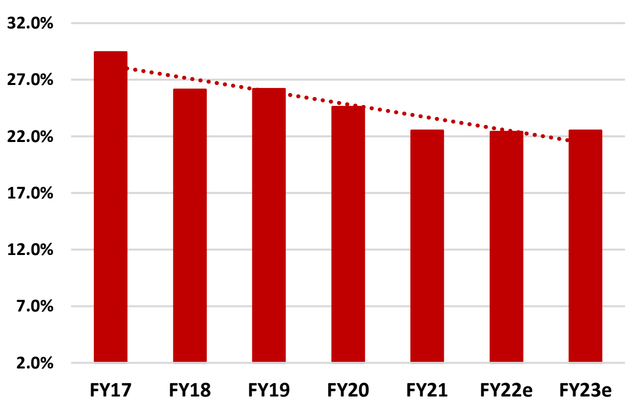


Source: Bank Financials, U Capital Research

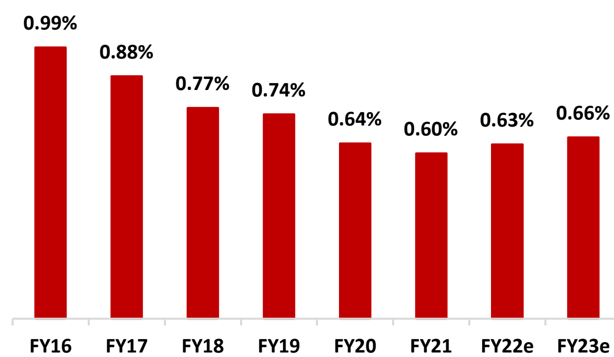
Superior efficiency metrics

The bank's operating expenses fell 6.4%YoY in 2020, while operating income was somewhat flat. In 2021, however, operating expenses grew by 1.4%YoY, far slowly as compared to operating income growth, resulting in a drop in cost-to-income ratio to 22.5% in 2021 (2020: 24.6%; 2019: 26.2%). Going forward, we expect the bank to maintain a similar cost-to-income ratio, on stronger operating income growth and despite management guidance of staying close to 25%.

QNBK: Cost to Income Ratio



QNBK: Cost to Average Total Assets



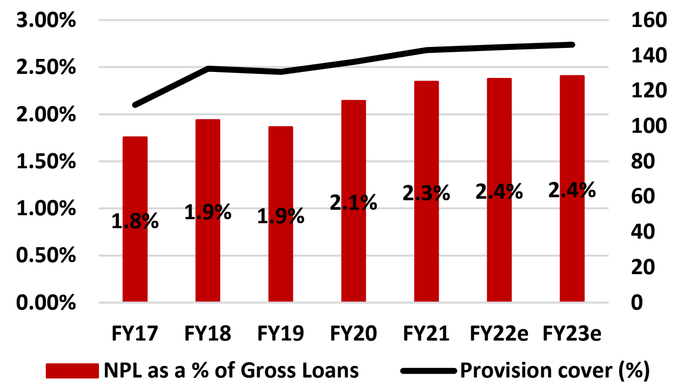
Source: Bank Financials, Bloomberg, U Capital Research

Loan-book quality to remain intact; Cost of credit risk expected to rise on increasing private sector exposure

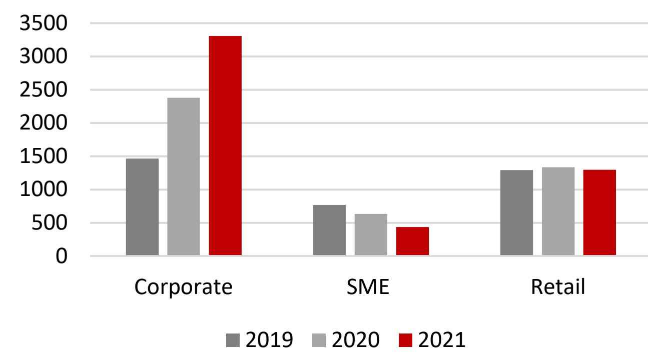
The group's ratio of non-performing loans to gross loans has creeped up to 2.3% in 2021, up from 2.1% in FY20 and 1.9% in FY19. However, even at 2.35%, the NPL ratio is at a level considered to be one of the lowest amongst financial institutions in the Middle East and Africa region, reflecting a high quality of the group's loan-book and the effective management of credit risk. The group's conservative policy with regards to provisioning continued with the coverage ratio rising to 143% as at the Dec-end 2021 as compared to 136% in 2020.

Cost of credit risk is expected to rise as guided by the management to maintain a prudent approach towards provisioning. Furthermore, QNB has Stage 3 non-performing loan coverage at 117%. However, QNB's provision coverage of Stage 2 loans, is relatively low at about 6.5%, with room for provision build-up. Thus, QNB's management is inclined to increase its Stage 2 coverage over the next two years, as a precaution.

QNBK: Asset Quality



Non Performing Loans by Segment



Source: Bank Financials, U Capital Research

Net Profit to grow at a CAGR of 6.7% over 2022-2026e

QNB recorded a notable growth in its net profit, given its size and prevailing circumstances due to covid-19 pandemic, at 9.9%YoY for 2021. Going forward, we estimate a CAGR of 6.7% in the bank's net profit over the forecast horizon, driven by growing net loans amid stable efficiency metrics and despite a rising cost of risk.

Key Financials

(QAR mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Interest/Financing Income	53,079	43,773	44,736	47,998	51,699	55,034
Interest Expense/Payment to Depositors	(32,882)	(22,778)	(21,700)	(21,829)	(23,105)	(24,411)
Net Interest/Financing Income	**20,196**	**20,995**	**23,036**	**26,169**	**28,593**	**30,623**
Fee & Commission Income	3,713	3,016	3,213	3,307	3,526	3,716
Other Income	1,727	1,528	2,065	2,125	2,266	2,388
Total Non-Interest/Financing Income	**5,440**	**4,545**	**5,277**	**5,431**	**5,792**	**6,104**
Total Operating Income	**25,636**	**25,540**	**28,313**	**31,600**	**34,385**	**36,727**
Provisions expense	(3,283)	(6,073)	(7,276)	(8,423)	(8,592)	(9,155)
Operating Expenses	(6,710)	(6,282)	(6,371)	(7,079)	(7,737)	(8,301)
Profit Before Taxation	**15,643**	**13,184**	**14,666**	**16,097**	**18,056**	**19,271**
Taxation & Minority Interest	(1,292)	(1,181)	(1,455)	(1,597)	(1,791)	(1,912)
Net Profit Attributable to Parent	**14,351**	**12,003**	**13,211**	**14,500**	**16,264**	**17,359**
Balance Sheet						
Cash Balances	11,383	81,551	88,551	63,362	61,560	60,134
Deposits with Central banks & other banks	50,772	-	-	-	-	-
Gross Loans & Financings	689,424	738,083	782,196	840,860	891,312	935,878
ECL (Impairment) Provision and Reserve Interest	(10,698)	(14,230)	(18,486)	(20,545)	(22,491)	(24,364)
Net Loans & Financings	678,726	723,853	763,709	820,315	868,821	911,513
Investment in Associates	7,117	7,065	7,467	8,020	8,495	8,912
Net Fixed Assets	5,378	5,405	5,157	5,539	5,867	6,155
Other Assets	203,817	219,611	240,777	258,623	273,915	287,375
Total Assets	**944,698**	**1,025,015**	**1,093,038**	**1,142,300**	**1,204,296**	**1,259,022**
Deposits from Banks & FIs	78,384	87,954	111,442	116,816	123,600	129,543
Deposits from Customers	684,489	738,738	785,512	823,397	871,210	913,104
Other Borrowings	59,045	70,475	66,227	66,509	67,402	68,090
Other Liabilities	28,061	30,947	29,801	31,238	33,052	34,641
Paid-up Capital	9,236	9,236	9,236	9,236	9,236	9,236
Retained Earnings	48,059	52,510	59,118	66,564	75,040	84,155
Other Reserves	16,303	14,064	10,589	7,405	3,599	(928)
Shareholders' Equity	**73,599**	**75,810**	**78,943**	**83,205**	**87,875**	**92,463**
Minority Interest	1,120	1,092	1,113	1,135	1,158	1,180
Tier 1 Perpetual Notes	20,000	20,000	20,000	20,000	20,000	20,000
Total Equity & Liability	**944,698**	**1,025,015**	**1,093,038**	**1,142,300**	**1,204,296**	**1,259,022**
Cash Flow Statement						
Cash from operations	19,234	105,508	39,046	(739)	22,294	22,632
Cash from investing activities	9,519	28,154	20,227	12,582	10,978	9,860
Cash from financing	(7,749)	(7,185)	(11,819)	(11,869)	(13,119)	(14,199)
Net changes in cash	1,966	70,168	7,000	(25,189)	(1,802)	(1,426)
Cash at the end of period	11,383	81,551	88,551	63,362	61,560	60,134
Key Ratios						
Return on Average Assets	1.6%	1.2%	1.2%	1.3%	1.4%	1.4%
Return on Average Equity	19.0%	14.7%	15.8%	16.7%	17.8%	18.1%
Return on Tangible Average Common Equity (ROTCE)	20.6%	16.7%	17.6%	18.3%	19.4%	19.7%
Recurring Income/Operating Income	93.3%	94.0%	92.7%	93.3%	93.4%	93.5%
Yield on Interest Earning & Islamic Finance Assets	6.6%	5.0%	4.7%	4.7%	4.8%	4.8%
Cost of Funds	4.2%	2.6%	2.3%	2.2%	2.2%	2.2%
Net Spread	2.4%	2.3%	2.4%	2.5%	2.6%	2.6%
Net Interest Margin (NIM)	2.5%	2.4%	2.4%	2.6%	2.7%	2.7%
Cost to Income Ratio	26.6%	24.7%	22.8%	22.7%	22.8%	22.9%
Net Loans to Customer Deposits	99.2%	98.0%	97.2%	99.6%	99.7%	99.8%
Non Performing Loans	12,839	15,811	18,345	19,973	21,439	22,792
Loan Loss Reserve	16,776	21,560	26,231	28,871	31,316	33,631
NPLs to Gross Loans	1.9%	2.1%	2.3%	2.4%	2.4%	2.4%
NPL Coverage (x)	130.7	136.4	143.0	144.5	146.1	147.6
Cost of Risk (bps)	40.5	68.8	77.1	83.3	79.6	80.5
Equity to Gross Loans	10.7%	10.3%	10.1%	9.9%	9.9%	9.9%
Equity to Total Assets	7.8%	7.4%	7.2%	7.3%	7.3%	7.3%
Cash Dividend Payout Ratio	41.5%	37.8%	41.6%	41.6%	41.6%	41.6%
Cash Dividend per share, QAR (RHS)	0.60	0.45	0.55	0.65	0.73	0.78
Stock Dividend per share (%)	-	-	-	-	-	-
Adjusted EPS (QAR)	1.45	1.19	1.32	1.46	1.65	1.77
Adjusted BVPS (QAR)	7.97	8.21	8.55	9.01	9.51	10.01
Tangible BVPS (QAR)	7.54	7.78	8.13	8.56	9.04	9.51
Market Price (QAR) *	20.59	17.83	20.19	21.80	21.80	21.80
Dividend Yield	2.9%	2.5%	2.7%	3.0%	3.4%	3.6%
P/E Ratio (x)	14.2	15.0	15.3	14.9	13.2	12.3
P/BV Ratio (x)	2.6	2.2	2.4	2.4	2.3	2.2
P/TangBVPS (x)	2.7	2.3	2.5	2.5	2.4	2.3

* Market price for the current and subsequent years as per the closing price of 25-Jan-2022

Source: Company Financials, U Capital Research

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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