

Sector

Qatar Banking Sector

Resilient amidst economic slowdown

Company	Rating
Qatar National Bank (QNBK QD)	Hold

Date

13 February 2025

- > **The Qatar banking sector is a key enabler of the nation's economic ambitions, financing infrastructure projects under National Vision 2030.**
- > **With strong liquidity supported by LNG revenues and stable public-sector deposits, the sector is well-equipped to sustain credit expansion and meet evolving financial needs.**
- > **The sector is increasing focus on non-hydrocarbon industries, which are critical for reducing Qatar's reliance on energy revenues and achieving diversified economic growth.**

We initiate coverage on the Qatar banking sector with a focus on QNB. We rate QNB Hold with a target price of QAR 18.1. Our positive outlook is supported by loan growth back on track, National Vision 2030 initiatives and digital transformation, which are expected to drive moderate loan growth. The sector remains well-positioned to capitalize on economic diversification and evolving financial needs.

- > **Loan growth rebounds in FY24:** The sector recorded a year-on-year (YoY) loan growth of 4.8% as of 3Q24, with total loans reaching QAR 1,349.3 bn. This recovery from the post-World Cup slowdown was fuelled by robust credit demand across tourism, logistics, trade and services sectors government-backed credit demand for infrastructure and diversification initiatives. Projects linked to the North Field expansion are expected to create opportunities for lending while the broader objectives of National Vision 2030 continue to drive credit demand across non-hydrocarbon industries.
- > **Credit portfolio diversification efforts mitigating concentration risk:** Qatar's banking sector has shifted toward a more diversified credit portfolio, reducing dependency on public-sector lending. While government borrowing remains a cornerstone, the sector has expanded its focus on private sector and high-growth industries. This shift aligns with the nation's broader economic diversification goals. By fostering a more balanced credit mix, the sector is mitigating concentration risks and enhancing its resilience.
- > **Strengthened liquidity and robust capital base:** The Qatar banking sector demonstrates strong liquidity, supported by a rebound in non-resident deposits and steady public-sector contributions by LNG revenues. With a stable loan-to-deposit ratio (~101%) and a robust Tier 1 capital ratio (18.5%), the sector remains well-equipped to drive growth and manage risks effectively.

Fig 1. Key valuation metrics

Name	Last price (QAR)	Target price (QAR)	Upside / downside	P/E 25e (x)	P/B 25e (x)	RoA 25e (%)	RoE 25e (%)	Div. yield TTM (%)
QNB	16.6	18.1	9.0%	9.3	1.5	1.3	15.9	4.0

Source: Bloomberg, U Capital Research; Last price as of 12 Feb 2025

Research Department

Email: ubhar-research@u-capital.net

Tel: (968) 2494 90 36 | 59 | 24 | 12 | 21

Contents

Macro-economic overview	3
Qatar Banking sector	5
Qatar National Bank.....	11
Investment Rationale	12
Disclaimer	20

Macro-economic overview

Leveraging LNG revenues to build diversified economy

- > In the third quarter of 2024, Qatar's real GDP grew by 2.0% YoY, an improvement from the 0.8% growth observed in the previous quarter and marking the strongest expansion since the second quarter of 2023.
- > This growth was primarily driven by the non-hydrocarbon sector, which expanded by 4.5% YoY, up from 2.7% in the prior quarter. In contrast, the 'mining and quarrying' sector, which includes oil and gas activities, contracted by 2.3% YoY, following a 2.6% decline in the second quarter.

Fig 2. Qatar's GDP growth rate YoY



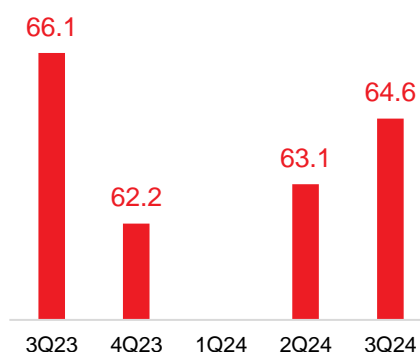
Source: IMF, U Capital Research

Fig 3. Real GDP is forecasted to return to growth in FY24e and FY25e



Source: IMF, U Capital Research

Fig 4. Mining activities GDP (QAR mn)

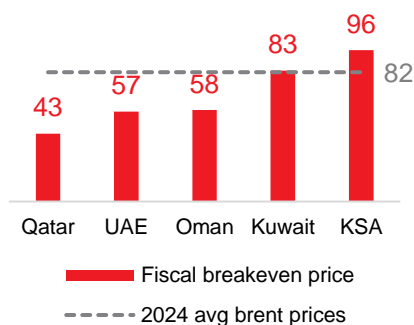


Source: Trading economics

- > The mining and quarrying sector, which includes oil and gas production, contracted by 2.3% YoY, reflecting ongoing production cuts and weaker hydrocarbon output. The construction sector recorded a significant growth of 7.7% in real terms during the third quarter compared to the same period in 2023, contributing more than 11% to Qatar's GDP. Financial and insurance services also saw robust growth, with a 10.6% YoY increase in real terms, representing 8.6% of GDP.

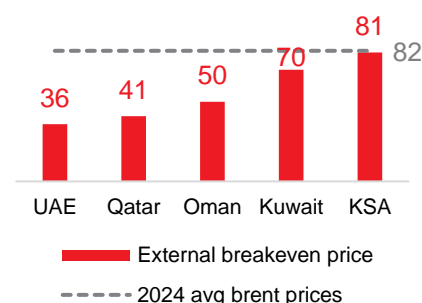
- > On a quarterly basis, the economy grew by 1.9% in real terms. Annual growth over the first three quarters of the year averaged 1.4%. While a modest improvement is expected in the final quarter, forecasts have been adjusted, with real GDP growth for 2024 now projected at 1.7%, down from the previous estimate of 2.0%. Looking ahead to 2025, growth is anticipated to pick up to 2.6% as the hydrocarbons sector returns to positive growth and the non-hydrocarbons sector maintains its expansion.
- > According to the International Monetary Fund (IMF), Qatar's real GDP growth is projected to reach 2% in 2024, supported by public investment, spillovers from the ongoing Liquefied Natural Gas (LNG) expansion project, and strong tourism. The medium-term outlook is more favourable, with average annual growth projected to be around 4.75%, benefiting from significant LNG production expansion and the implementation of the Third National Development Strategy (NDS3).
- > Qatar is not a member of the Organization of the Petroleum Exporting Countries (OPEC) and therefore is not directly involved in OPEC+ oil production cuts. Qatar's economy is heavily reliant on natural gas exports, particularly LNG, and the country is actively expanding its LNG production capacity through the North Field expansion project. This expansion is expected to significantly boost Qatar's hydrocarbon output in the coming years.

Fig 5. Fiscal breakeven price (USD)



Source: IMF, U Capital Research

Fig 6. External breakeven price (USD)



Source: IMF, U Capital Research

- > Qatar's fiscal and external breakeven oil prices for 2024 are among the lowest in the GCC, reflecting its robust fiscal and external positions. The fiscal breakeven price is estimated at US\$43 per barrel, while the external breakeven price stands at US\$41 per barrel, both significantly below the 2024 average Brent crude price of US\$81 per barrel. This highlights Qatar's ability to maintain fiscal and current account surpluses even at much lower oil prices, underscoring its economic resilience. The low breakeven prices are attributed to Qatar's efficient fiscal management, high LNG export revenues, and ongoing diversification efforts under its National Vision 2030. This strong position provides Qatar with a buffer against global energy price volatility.
- > The surplus generated from low breakeven prices allows Qatar to invest heavily in non-oil sectors under its National Vision 2030, ensuring long-term economic sustainability.

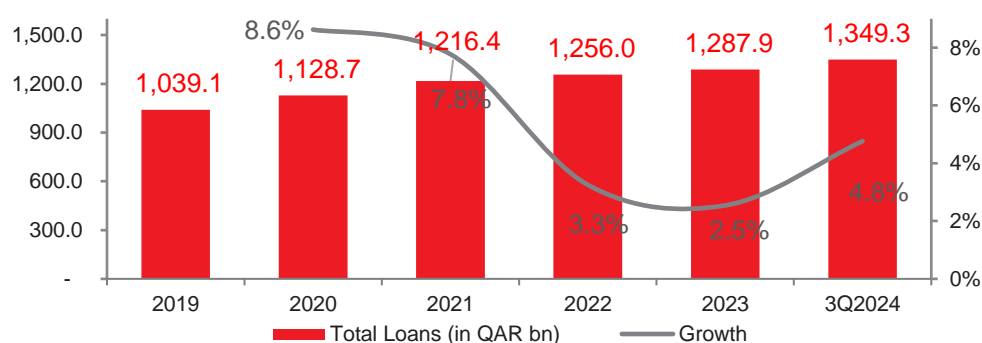
Qatar Banking Sector Overview

The Qatar banking sector is characterized by its robust financial services, encompassing retail, corporate and investment banking, as well as a significant focus on Islamic finance. It plays a pivotal role in driving economic growth and supporting Qatar's diversification efforts under National Vision 2030.

Qatar banking sector returns to growth path

- > The Qatar banking sector has exhibited moderate growth in total loans, reaching QAR 1,349.3 bn by 3Q24. This reflects a growth of 4.8% since FY23, marking a slight rebound compared to the slower expansion observed in FY22 and FY23. This recovery has been supported by a gradual pickup in demand across corporate and retail segments as the economy stabilizes post World Cup investments.
- > The deceleration in credit growth over FY22-FY23 was primarily due to the culmination of World Cup-related infrastructure projects, tighter monetary policy following global rate hikes, and an oversupplied real estate market. Loan growth slowed significantly from 7.8% in FY21 to 3.3% in FY22 and further to 2.5% in FY23, reflecting these challenges.
- > However, in FY24, government-backed borrowing and strong international demand for credit helped revive loan growth. Furthermore, the services sector, particularly tourism and logistics, has seen growing credit allocation in line with Qatar's National Vision 2030, contributing to the expansion.

Fig 7. Qatar loan growth rebounds in FY24 after two-year slowdown



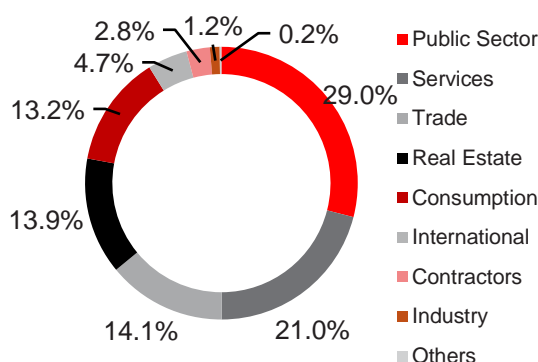
Source: Qatar Central Bank

- > Additionally, the Qatar Central Bank's (QCB) strategic objectives have provided a clear roadmap for sustainable credit growth. These include enhancing private sector credit with a strong emphasis on SMEs and non-hydrocarbon industries, as well as fostering international lending and sustainable financing initiatives. QCB's strategy is aligned with Qatar's National Vision 2030, aiming to ensure the banking sector actively supports economic diversification while maintaining financial stability and resilience.
- > Looking ahead, credit growth is expected to stabilize, driven by ongoing public sector projects, further international lending opportunities and targeted support for non-hydrocarbon industries.

Diversified credit portfolio reducing sector concentration risks

- > The credit portfolio of Qatar's banking sector demonstrates a growing alignment with the nation's economic diversification strategy. Historically dominated by public sector lending, this segment now constitutes 29% of total credit, reflecting a gradual shift in focus. Government-backed projects continue to play a crucial role in driving infrastructure development and economic expansion, ensuring the public sector remains a cornerstone of the credit portfolio.
- > Private sector lending is gaining momentum, driven by increased activity in sectors such as services, trade, real estate and consumption. The services sector, which accounts for 21% of total credit, highlights the banking sector's strategic emphasis on industries like tourism, logistics, and hospitality. This focus aligns with Qatar's broader economic diversification agenda. Real estate lending, which surged during the 2022 FIFA World Cup has moderated since its peak, reflecting a more cautious approach to addressing potential oversupply risks.

Fig 8. Diversified credit allocation of Qatar banking sector as of 3Q24



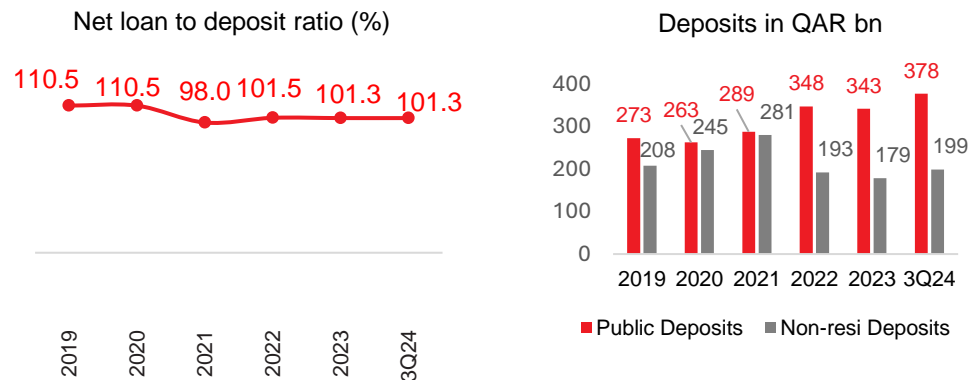
Source: Qatar Central Bank

- > International lending, after experiencing significant contraction over the past three years, has shown a marked recovery in FY24, registering a 13.9% increase by 3Q24. These rebounds highlight efforts by Qatari banks to capitalize on cross-border opportunities. As of 3Q24, international loans account for 4.7% of total credit.
- > National Development Strategy 3 (2024-2030) has set ambitious targets for its financial sector. By 2030, the financial services sector aims to contribute QAR 84 bn to GDP, achieving a compound annual growth rate of 4.7%. Moreover, the strategy envisions 77% of commercial credit being directed toward private companies, with 7% allocated specifically to SMEs.

Stable liquidity profile, LDR and improving deposits

- > The sector's net loan-to-deposit ratio (LDR) remained stable in 2024, despite notable loan growth, as deposit inflows balanced the increased lending activity. LDR, which was exceptionally high during FY19-20 due to significant loan growth, declined to 98% in FY21 before rising to 101.5% in FY22. Since then, it has remained steady, reflecting the sector's improved liquidity management.
- > A significant factor affecting deposit trends during FY22 and FY23 was the sharp reduction in non-resident deposits, which fell by 31.4% and 7%, respectively. However, in FY24, non-resident deposits rebounded, increasing by 11.3%, contributing to the stability of LDR. Another major contributor was public sector deposits, which grew by 10.3% in 2024 and now constitute 36% of total deposits. This increase was driven by elevated liquefied natural gas (LNG) revenues, supported by stable production levels and favourable global demand, enabling the government to accumulate and allocate surplus funds to deposits.

Fig 9. Increase in deposits supports stability in net loan to deposit ratio



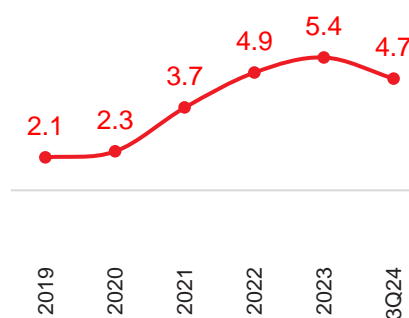
Source: Bloomberg

Source: Qatar Central Bank

Resilient capital ratios and improving asset quality

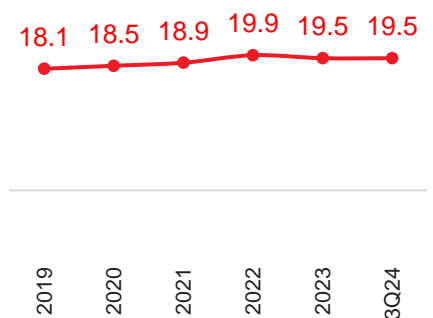
- Looking ahead, deposits are expected to remain stable as Qatar’s economy continues to stabilize, supported by the North Field Expansion project, which will significantly increase LNG production. This stability in deposits is expected to keep the sector’s LDR steady or potentially improve it further, ensuring a healthy liquidity position to support sustained loan growth and economic development.
- Qatari banking sector demonstrates strong financial health, marked by robust capital adequacy ratios and effective risk management practices. Qatari banks have successfully maintained solid Common Equity Tier 1 (CET1) and Tier 1 capital ratios despite challenges such as modest loan growth and the presence of non-performing assets (NPAs). As of 3Q24, the median CET1 ratio stands at 14.7%, well above the regulatory minimum of 8.5%, while the Tier 1 ratio is at 18.5%, exceeding the 10.5% regulatory requirement. This reflects the sector’s resilience and adherence to stringent capital adequacy standards enforced by the Qatar Central Bank (QCB).

Fig 10. NPL Ratio, median (%)



Source: Bloomberg

Fig 11. Total Capital Ratio, median (%)



Source: Bloomberg

- > Notably, banks have sustained these strong capital levels without significantly reducing dividends between 2019 and 2023, underscoring their ability to balance shareholder returns with regulatory compliance. Operational efficiency improvements have allowed banks to effectively manage costs, while enhanced non-interest income has further supported their ability to meet capital requirements. These factors collectively highlight the sector's focus on maintaining financial stability through diverse revenue streams and prudent cost management.
- > Asset quality is also showing signs of improvement, with the NPL ratio declining to 4.7% in 2024 from a peak of 5.4% in FY23. This improvement shows effective credit risk management and recovery measures. Looking ahead, the sector is expected to sustain its strong capital position while maintaining moderate NPL levels, supported by the QCB's stringent regulatory oversight.
- > The complete adoption of Basel III reforms in January 2024 marked a significant milestone for the sector, introducing enhanced credit risk measures and revised frameworks that emphasize risk sensitivity. These reforms have strengthened the sector's capital positions, ensuring Qatari banks are well-prepared to navigate future economic challenges while continuing to support sustainable growth and financial stability.

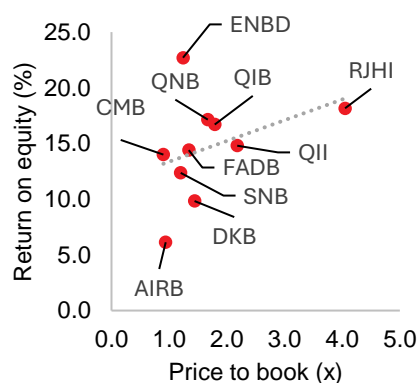
Peer Group Analysis

Fig 12. Peer Group Valuation Table

Name	M. Cap (QAR mn)	Last Px (QAR)	Px change 1M, %	Px change 3M, %	Px change YTD, %	Current P/B (x)	P/E TTM (x)	RoE TTM %	Div. Yield TTM
Large cap GCC banks									
Qatar National Bank	153,139	16.58	0.36	-3.90	-4.51	1.33	9.83	20.64	4.04
Al Rajhi	387,180	96.80	3.86	8.62	5.18	4.00	21.32	19.70	2.41
Saudi National Bank	197,670	32.95	1.65	1.19	1.04	1.18	9.86	12.43	5.60
First Abu Dhabi Bank	157,870	14.29	1.97	7.89	5.38	1.33	9.73	13.89	4.93
Emirates NBD	135,710	21.48	-0.68	11.02	0.93	1.17	6.08	23.54	5.54
Qatar banks									
Qatar Islamic Bank	49,390	20.90	4.50	0.24	-2.15	1.82	11.26	16.70	2.39
Al Rayan Bank	22,110	2.38	-0.99	0.67	-3.16	0.92	15.13	6.19	4.20
Dukhan Bank	19,730	3.77	4.65	2.74	2.19	1.52	15.45	9.81	4.24
Commercial Bank Qatar	18,510	4.57	10.68	9.97	4.92	0.90	6.46	14.61	5.47
Qatar International Islamic	16,270	10.75	4.17	1.99	-1.65	2.17	14.14	15.62	4.28

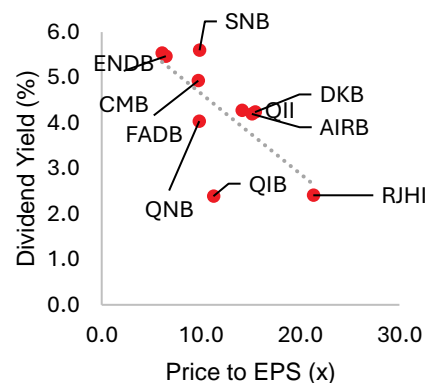
Source: Bloomberg, U Capital Research, valued as of 12 Feb 2025;

Fig 13. Price to book & Return on Equity



Source: Bloomberg, U Capital Research

Fig 14. Price to EPS & Dividend yield



Source: Bloomberg, U Capital Research

Key risks & upside levers

Key downside risks to our valuations include:

- > A sustained decline in LNG prices or disruptions in the global economy could negatively affect government revenues, reduce public sector deposits, and limit overall liquidity, thereby constraining loan growth.
- > Any decline in public and non-resident deposits could lead to funding challenges, especially if deposit growth lags credit expansion.
- > Delayed or smaller-than-expected rate cuts by the Qatar Central Bank, in line with U.S. Federal Reserve policy, could limit net interest margin expansion, especially for banks reliant on floating-rate loans.
- > Continued oversupply in the real estate sector could result in deteriorating asset quality, increasing non-performing loans (NPLs), and leading to higher provisioning requirements for banks with high exposure to this sector.
- > Despite recent stability, sustained high loan to deposit ratios could constrain funding capabilities and limit flexibility to finance additional loan growth.
- > Elevated geopolitical tensions in the region or slower-than-expected growth in the non-hydrocarbon economy could weaken loan demand, particularly in sectors like services and trade.

Key upside potential to our valuations include:

- > Higher-than-expected LNG prices, coupled with the expansion of the North Field project, could further bolster public sector deposits, enhance liquidity and support higher loan growth.
- > Expansion in non-hydrocarbon sectors such as tourism, logistics and manufacturing, in line with Vision 2030 goals, could sustain private credit growth and diversify loan portfolios.
- > Continued declines in NPL ratios, supported by effective risk management practices and a recovery in the real estate market, could reduce provisioning needs and boost profitability.
- > A faster-than-anticipated interest rate cut cycle by the QCB could expand NIMs, particularly benefiting retail heavy banks and those with strong CASA bases.
- > A sustained rebound in non-resident deposits could provide additional funding flexibility, supporting loan growth and reducing reliance on more expensive funding sources.
- > Accelerated adoption of digital banking and FinTech solutions could increase fee-based income, enhance operational efficiency and improve customer acquisition.

Company

Qatar National Bank

Rating

Hold

Bloomberg Ticker

QNBK QD

Date

13 February 2025

Recommendation

Target Price QAR 18.1/share

Upside 9.0%

Recommendation Hold

The largest bank in the GCC leverages its diversified portfolio, dominant market share in Qatar and extensive international presence to sustain growth and capitalize on regional and global opportunities.

Strong performance supported by market leadership and diversification

- QNB continues to leverage its dominant market position in Qatar, holding 69% of gross loans and 85% of total deposits, while expanding its footprint across 29 countries. International operations contribute approximately 48% of the bank's operating income, ensuring a well-balanced revenue stream.
- A diversified loan portfolio with exposure to key sectors such as services, trade, real estate and infrastructure, positions QNB to mitigate risks and capitalize on Qatar's economic diversification initiatives.

Favourable outlook driven by National Vision 2030

- QNB is well-positioned to benefit from Qatar's National Vision 2030, with its focus on financing large-scale infrastructure projects, economic diversification efforts and the North Field expansion.
- The bank's strong liquidity position, supported by robust deposit growth and stable funding costs, ensures its ability to sustain credit expansion and meet evolving financial needs.

Fig 15. Financial Summary

Year	FY23	FY24	FY25e	FY26e	FY27e
Net loans (QAR mn)	852,987	910,758	954,065	1,011,309	1,066,228
Customer deposits (QAR mn)	857,106	887,010	936,484	1,002,514	1,067,538
Operating Income (QAR mn)	38,477	40,729	41,861	44,348	46,104
Net Profit (QAR mn)	15,665	16,942	16,236	20,662	23,618
EPS (QAR)	1.5	1.7	1.8	2.2	2.5
Tangible BVPS (QAR)	9.4	9.8	10.8	12.3	14.1
Dividend Yield (%)	4.2	4.0	4.5	4.8	5.1
P/E (x)	10.0	10.2	9.4	7.4	6.5
P/BV (x)	1.6	1.7	1.5	1.3	1.2

Source: Company Reports, U Capital Research; *Dividend Yield, P/E, and P/BV from FY25 onwards are calculated on current price

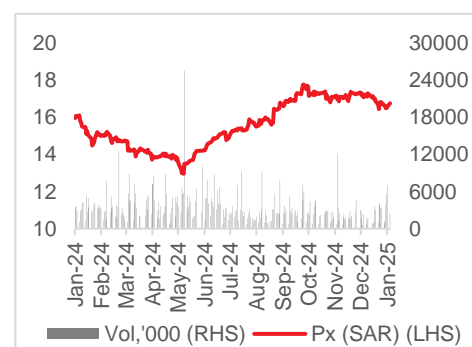
Current price (QAR)	16.6
52wk High / Low (QAR)	17.8/12.8
12m Average Vol. (000)	3,325
Mkt. Cap. (USD/QAR mn)	42,011/153,139
Shares outstanding (mn)	9,236
Free Float	48.1%
3m Av. daily turn. (QAR'000)	43,214
6m Av. daily turn. (QAR'000)	44,110
P/E 2025e (x)	9.4
P/B 2025e (x)	1.5
Dividend Yield 2025e	4.5%

Price Performance

1 month (%)	0.4
3 months (%)	-3.9
12 months (%)	14.0

Source: Bloomberg, valued as of 12 Feb 2025

Fig 16. Price-Volume Performance



Source: Bloomberg

Research Department

Email: ubhar-research@u-capital.net

Tel: (968) 2494 90 36 | 59 | 24 | 12 | 21

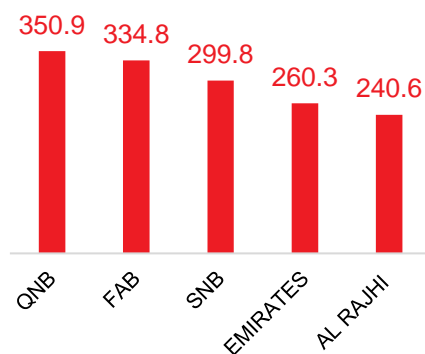
Investment Rationale

Largest bank in GCC with sovereign backing

QNB is the largest financial institution in the GCC region by assets, loans and deposits, reflecting its scale. Within Qatar, QNB dominates the banking sector with a 69% market share in gross loans and 85% in total deposits, driven by its comprehensive operations across corporate banking, international banking, consumer banking and asset and wealth management business. This diversified business model ensures resilience and adaptability in varying economic conditions.

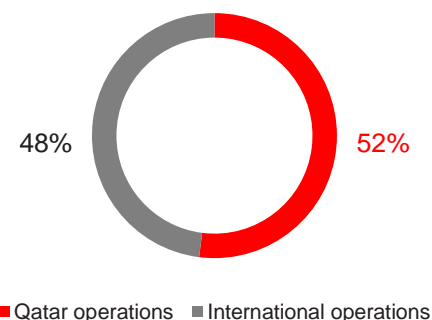
Over the years, QNB has strategically expanded into high-growth markets such as Southeast Asia, Africa and Europe, leveraging both acquisitions and organic growth. The bank now operates in 29 countries, with international operations contributing around 48% of its operating income, compared to 52% from Qatar operations. This diversification provides exposure to growth markets while maintaining a strong domestic foundation.

Fig 17. Top GCC banks by total assets as of 3Q24 (USD bn)



Source: Bloomberg

Fig 18. QNB's operating income split



Source: Bloomberg

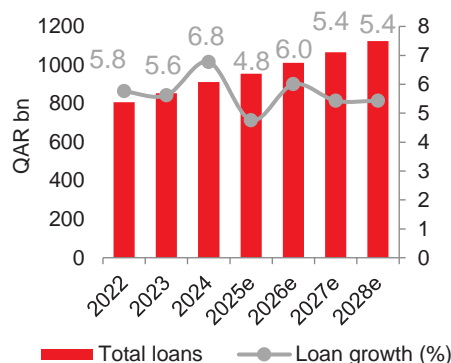
The bank's 52% ownership by the Qatar Investment Authority (QIA) enhances confidence in its stability and ability to participate in Qatar's long-term economic initiatives. As the sovereign wealth fund of Qatar, QIA's backing ensures QNB's alignment with the country's economic goals such as infrastructure development and the Vision 2030 program.

QNB ranks fifth in the GCC by net profit, and it holds a leading position in assets, loans and deposits which indicates its strong market presence and growth potential. Its expansion into emerging and developed markets, along with solid domestic operations and support from the Qatari sovereign, reinforces its position as a key regional and international financial institution.

Consistent loan growth with diversified portfolio

QNB's total loans increased at a CAGR of 6% over the last five years. The bank maintained strong loan growth during 2022 and 2023, outperforming the broader banking sector despite challenging conditions. While Qatar's total credit growth slowed to 3.3% in 2022 and 2.5% in 2023 due to post-World Cup normalization and tighter financial conditions, QNB achieved loan growth of 5.8% in 2022 and 5.6% in 2023, showing its ability to navigate a subdued credit environment. QNB's well-diversified loan portfolio, spanning multiple industries and geographies, played a key role in reducing the impact of localized economic challenges and is expected to continue supporting its growth and resilience in the years ahead.

Fig 19. Loan growth to remain aligned with sector trends



Source: Company Filings, U Capital Research

QNB's strong position in Qatar's public sector provided stable credit demand in 2022, enabling consistent loan growth despite broader industry challenges. In 2023, growth was further fuelled by robust demand from the services sector, a key component of the bank's well-diversified loan portfolio. Its international subsidiaries also contributed on loan growth during this period.

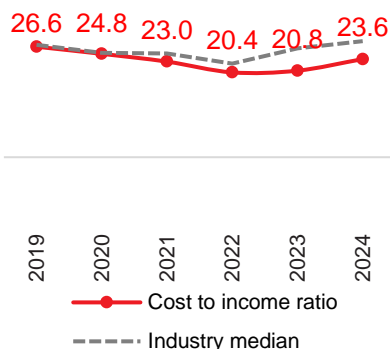
Looking forward, QNB's loan growth is expected to align with the industry average over the next 4-5 years despite the large loan book size. Growth will likely be driven by major infrastructure projects under Qatar's National Vision 2030 initiative, increased public and private investments and expanded financing opportunities in international markets. Additionally, projects related to the expansion of Qatar's North Field gas reserves will provide further lending opportunities.

Efficient operations keep QNB's cost-to-income ratio below industry average

As one of the largest banks in the Middle East and Africa (MEA) region, QNB has leveraged economies of scale to achieve superior operational efficiency. Its extensive network enables the bank to spread fixed costs over a larger revenue base, resulting in a cost-to-income ratio that is below the industry average and among the best in the MEA region for large financial institutions.

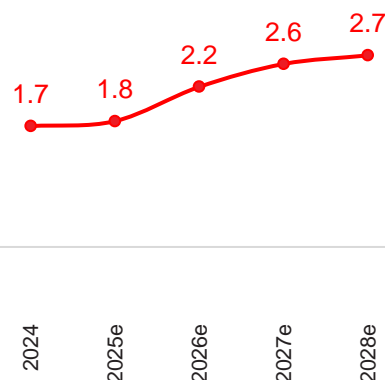
QNB's significant investments in digital banking platforms and automation have also played a critical role in enhancing efficiency. By reducing reliance on physical branches and manual processes, the bank has been able to lower operational costs while improving service delivery. Additionally, the establishment of a centralized procurement division has further streamlined operations, reduced procurement costs, and reinforced ethical practices. Back-office consolidation across regions and outsourcing of non-core activities have also contributed to cost savings, while targeted cost-saving measures in international markets like Turkey helped mitigate challenges like hyperinflation.

Fig 20. Cost-to-Income ratio of QNB (%)



Source: Company Filings, U Capital Research

Fig 21. EPS growth driven by efficiency efforts



Source: Company Filings, U Capital Research

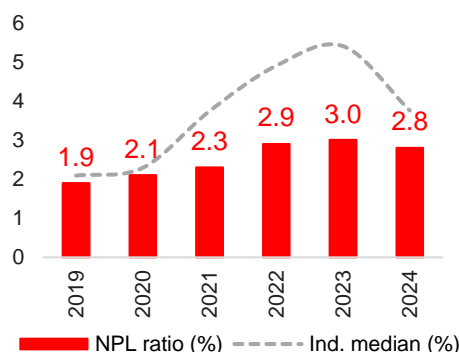
These efforts have helped QNB to maintain operational efficiency and drive consistent profitability. As a result, the bank's EPS has grown at a 9.2% CAGR since 2020. The combination of lower costs and robust operational execution has supported steady EPS growth, which is expected to continue in the coming years.

Superior risk management driving strong asset quality

QNB has maintained a low non-performing loan (NPL) ratio, averaging 2.8%-3.0% over the past 4-5 years, despite challenges in markets like Qatar, Egypt, and Turkey.

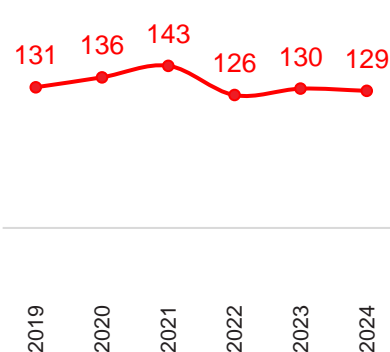
QNB also maintains a loan loss coverage ratio above 100%, ensuring that any potential losses are fully provisioned. This robust provisioning practice strengthens the bank's financial stability and provides confidence in its ability to manage credit risks effectively.

Fig 22. NPL ratio below industry median



Source: Company Filings, U Capital Research

Fig 23. QNB maintaining coverage ratio above 100%



Source: Bloomberg

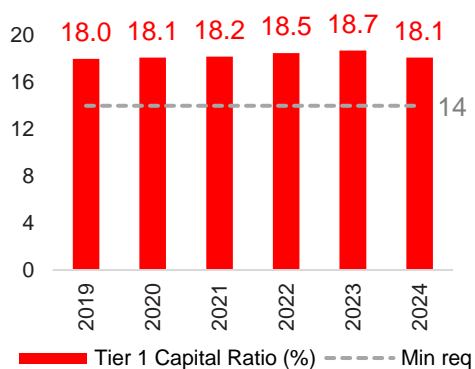
QNB manages its loan portfolio using three-lines-of-defense risk management model, coupled with its adherence to Basel III and regulatory guidelines that enable the early identification, assessment, and mitigation of risks. The bank employs advanced risk measurement tools, such as the Risk-Adjusted Return on Capital (RAROC) methodology and Moody's risk rating systems to assess corporate credits and align capital allocation.

Bank's focus on lending to high-rated corporate clients and public-sector entities, particularly in Qatar, has further minimized credit risks. A substantial portion of its domestic loans is allocated to government-backed projects, which carry low default risk.

Capital ratios well above regulatory requirements

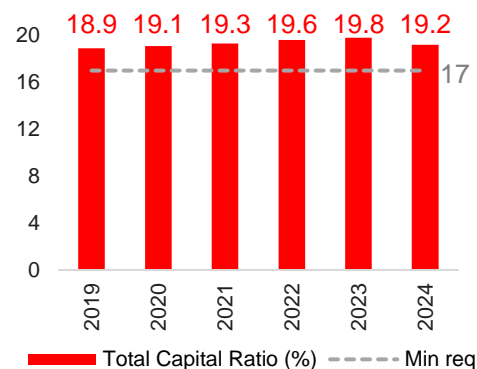
QNB has consistently maintained its Tier 1 capital ratio and total capital ratio well above regulatory requirements, demonstrating its strong capital position and financial stability. As of December 2024, QNB's Tier 1 capital ratio stood at 18.1%, significantly exceeding the regulatory requirement of 14%, while its total capital ratio reached 19.2%, surpassing the required 17%, including the additional charge for being classified as a Systemically Important Bank.

Fig 24. Robust Tier 1 capital maintained above 14% requirement



Source: Company Filings

Fig 25. Total capital remains above 17% regulatory threshold



Source: Company Filings

A key driver of QNB's robust capital base is its consistent profitability. Over the last four years, QNB's net profit has grown at a CAGR of 9%, fueled by a diversified revenue base and efficient cost management. The bank retains a portion of these profits to strengthen its equity, directly enhancing its Tier 1 capital, ensuring long-term financial strength.

The bank also actively manages its risk-weighted assets (RWA) by focusing on high-quality lending to government-backed projects and highly rated corporate clients, minimizing credit risk and maintaining a favorable RWA-to-total-assets ratio. This strategic approach reinforces capital efficiency and ensures prudent balance sheet management.

To further optimize its capital structure, QNB balances Common Equity Tier 1 capital with Additional Tier 1 instruments, such as non-cumulative perpetual bonds. These instruments enhance the Tier 1 capital base without diluting shareholder equity, ensuring a sustainable and balanced capital framework.

Sensitivity analysis

Our target price exhibits sensitivity to changes in both the cost of equity and the stable period ROE assumptions. A 20-basis point (+/- 0.2%) change in the cost of equity results in an approximate +/- 3.5% change in the target price. Likewise, a 100-basis point (+/- 1.0%) change in the stable period ROE leads to an impact of approximately +/- 10% to target price. These sensitivities highlight the importance of our assumptions and their influence on valuation outcomes.

Fig 26. Sensitivity analysis: Stable period ROE vs Cost of Equity

		Stable period ROE				
		17.0%	18.0%	19.0%	20.0%	21.0%
Cost of equity	12.6%	16.8	17.8	18.8	19.7	20.7
	12.8%	16.6	17.5	18.4	19.4	20.3
	13.0%	16.3	17.2	18.1	19.0	19.9
	13.2%	16.0	16.9	17.8	18.7	19.6
	13.4%	15.8	16.7	17.5	18.4	19.3

Source: Bloomberg, Company Filings, U Capital Research.

**The sensitivity tables show the variations in our blended target price.*

Valuation

Our target price is based on blended valuation methodologies – (i) Residual income and (ii) Relative valuation (using P/B).

Fig 27. Valuation Summary (QNB)

Particulars	QAR
Residual income	
Beginning BV of equity Year 1 (mn)	102,265
Beginning BV of equity Year 2 (mn)	116,048
Beginning BV of equity Year 3 (mn)	132,225
Beginning BV of equity Year 4 (mn)	149,053
Beginning BV of equity Year 5 (mn)	166,570
Sum of present value of Excess Return	9,095
Book value of equity at time 0 (mn)	92,545
Terminal value projections	
Book value of equity at start of year 6	166,569
Net income in Stable period	31,648
Excess return	9,912
Terminal Value	113,923
PV of Terminal Value	62,226
Equity Value (mn)	173,234
Outstanding Shares (nos. in mn)	9,232
Assumptions	
Risk Free Rate (%)	4.6%
Adjusted Beta	1.02
Risk Premium (%)	8.2%
Target Price	18.8
Peer-Group Multiples Based Approach	
Median Peer-Group P/B (x) '25e	1.4
Bank's BVPS'25e	11
Target Price, QAR	15.4
Weighted-average Target Price, QAR	18.1
Current Market Price	16.6
Upside/(Downside)	9.0%
Recommendation	Hold

Source: Bloomberg, Company Filings, U Capital Research

Key Financial Tables

QAR mn	FY22	FY23	FY24	FY25e	FY26e	FY27e	FY28e	FY29e
P&L Statement								
Interest income	59,672	97,133	125,323	123,220	121,164	128,079	135,033	142,362
Interest expense	-30,807	-66,716	-92,503	-90,070	-86,100	-91,919	-97,886	-104,248
Net interest income	28,865	30,417	32,819	33,150	35,064	36,159	37,147	38,114
Operating income	34,560	38,477	40,729	41,861	44,348	46,104	47,796	49,516
Operating expense	-16,191	-17,659	-18,043	-22,250	-20,070	-18,739	-19,331	-19,936
Operating profit	18,369	20,819	22,686	19,611	24,279	27,365	28,466	29,580
Net profit	14,449	15,665	16,942	16,236	20,662	23,618	24,731	25,856
Balance Sheet								
Cash & Bank	91,564	87,820	84,535	94,636	120,035	149,660	181,749	216,496
Investments	167,815	180,582	183,184	191,895	203,408	214,454	226,097	238,367
Net financing	807,601	852,987	910,758	954,065	1,011,309	1,066,228	1,124,111	1,185,117
Other assets	15,859	13,763	13,738	14,391	15,255	16,083	16,956	17,876
Total Assets	1,189,219	1,230,985	1,297,917	1,365,714	1,467,378	1,570,171	1,679,376	1,795,400
Customers' deposits	842,279	857,106	887,010	936,484	1,002,514	1,067,538	1,136,875	1,210,819
Total Liabilities	1,083,162	1,120,778	1,184,132	1,241,999	1,329,570	1,415,807	1,507,764	1,605,832
Share Capital	9,236	9,236	9,236	9,236	9,236	9,236	9,236	9,236
Retained Earnings	65,849	73,102	78,180	87,281	100,247	115,640	131,642	148,288
Shareholders' Equity	85,087	89,099	92,545	102,265	116,048	132,225	149,053	166,570
Tier 1 Sukuk	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Minority interest	970	1,108	1,240	1,451	1,761	2,139	2,559	2,999
Total Equ. and Liab.	1,189,219	1,230,985	1,297,917	1,365,714	1,467,378	1,570,171	1,679,376	1,795,400
Key Ratios								
ROA	1.4%	1.4%	1.4%	1.3%	1.6%	1.8%	1.7%	1.7%
ROE	17.0%	17.7%	18.3%	15.9%	18.9%	19.0%	17.6%	16.4%
Net interest income / Operating Income	83.5%	79.1%	80.6%	79.2%	79.1%	78.4%	77.7%	77.0%
Cost / Op. Income	20.4%	20.8%	23.6%	23.8%	23.5%	23.0%	22.5%	22.0%
Operating profit	53%	54%	56%	47%	55%	59%	60%	60%
NIM	2.8%	2.8%	2.8%	2.7%	2.8%	2.7%	2.6%	2.5%
Credit to deposit	95.9%	99.5%	102.7%	101.9%	100.9%	99.9%	98.9%	97.9%
NPA	2.8%	3.0%	2.8%	3.2%	3.2%	3.0%	2.8%	2.6%
Total capital ratio	19.6%	19.8%	19.2%	20.5%	21.3%	22.3%	23.2%	23.9%
Dividend Payout	41.7%	41.9%	41.4%	42.6%	35.7%	33.2%	33.6%	33.9%
Dividend Yield	3.7%	4.2%	4.0%	4.5%	4.8%	5.1%	5.4%	5.7%
P/E (x)	11.3	10.0	10.2	9.4	7.4	6.5	6.2	5.9
P/BV (x)	1.8	1.6	1.7	1.5	1.3	1.2	1.0	0.9



Investment Research

Ubhar-Research@u-capital.net

Research Team

Ahlam Al-Harthi

+968 2494 9024

ahlam.harthi@u-capital.net

Sandesh Shetty

+968 2494 9059

sandesh@u-capital.net

Amira Al Alawi

+968 2494 9112

amira.alalawi@u-capital.net

Dua Al Mawali

+968 2494 9021

dua@u-capital.net

Head of Brokerage

Talal Al Balushi

+968 2494 9051

talal@u-capital.net

Visit us at

www.u-capital.net

Disclaimer

Recommendation

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

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net

PO Box 1137, PC 111, Sultanate of Oman

Tel: +968 2494 9000 | **Fax:** +968 2494 9099 | **Email:** research@u-capital.net

Disclaimer: This report has been prepared by Ubhar Capital (U Capital) Research and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital Research team's judgment as at the date of production of this report and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any other purpose.