

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR168.50	Target Price	QR129.00
Implied Upside	(23.4%)		

Modest 1Q2019 Beat on Lower Costs; Stay Market Perform

Qatar Islamic Bank (QIBK) reported QR685.2mn in 1Q2019, modestly besting our estimate of QR650.7mn (+5.3% variation). Net profit grew by 9.6% YoY driven by net interest & investment income (+8.3% YoY), a significant drop in opex (8.1%) and a small decrease in provisions (2.0%). QIBK's margins expanded YoY and sequentially while the bank's positive RoE trajectory continued (18.4%). Moreover, QIBK remained cost efficient while generating positive JAWs. Furthermore, asset quality and capitalization levels remained healthy. **Net-net, a good set of results but not overly surprising; we continue to like the name considering its positive earnings trajectory but remain Market Perform given valuation.**

Highlights

- Net profit jumped by 9.6% YoY driven by net interest & investment income, along with a significant drop in opex and lower provisions.** QIBK reported net profit of QR685.2mn in 1Q2019, gaining by 9.6% YoY, modestly beating our estimate (+5.3% variation). The beat was mainly due to opex coming in lower than what we had anticipated. Net operating income (in-line with estimates) gained by 9.5% due to modest growth in revenue and a significant drop in opex. Moreover, net income increased because of a 2.0% decline in provisions and impairments. Non-funded income was weak mainly due to f/x income.
- Margins increased YoY and sequentially.** The bank generated net interest margin of ~2.9% in 1Q2019. This was a result of growth in yields outpacing growth in cost of funds. On a YoY basis, NIM gained by 4bps as yields expanded by 64bps, while cost of funds gained by 57bps.
- Positive RoE trajectory continues.** QIBK boasts one of the highest RoEs among its peers. The bank's RoE increased from 11.3% in 2013 to 18.4% (annualized) in 1Q2019.
- QIBK's operating efficiency significantly improved, generating positive JAWs.** The bank's C/I ratio receded to 23.2% vs. 26.5% in 1Q2018 (26.4% in 4Q2018). Moreover, QIBK generated JAWs of 13.0% and 12.1% YoY and QoQ, respectively.
- Net loans and deposits displayed strong performance after a weak 2018.** Net loans expanded by 4.0% QoQ to QR106.3bn. Moreover, deposits followed suit and accelerated by 7.1% QoQ to QR107.8bn. QIBK's LDR (based on stable sources of funds) improved to 89% vs. 93% in FY2018 (94% in FY2017).
- Asset quality remains healthy.** NPL ratio remained at 1.2% in 1Q2019 vs. FY2018. Moreover, coverage ratio of Stage 3 loans (NPLs) was a strong 100%.
- Capitalization remained strong.** QIBK's CET1 and Tier-1 ratios remained strong at 13.8% and 17.6%, respectively.

Catalysts

- Given that QIBK is trading at a nice premium to its historical P/B of 1.6x, we believe the company will have to show accelerating performance to maintain momentum in its stock price.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR129.00 and keep our Market Perform rating.** QIBK is trading at a 2019e P/TB and P/E of 2.4x and 14.6x, respectively. Valuation remains rich at these levels.
- Risks:** 1) Increase in credit costs and 2) Exposure to real estate segment.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	10.79	11.51	12.46	13.05
EPS Growth (%)	15.9	6.7	8.3	4.7
P/E (x)	15.6	14.6	13.5	12.9
Tangible BVPS (QR)	63.6	70.0	77.3	85.0
P/TB (x)	2.6	2.4	2.2	2.0
DPS (QR)	5.00	5.00	5.25	5.75
Dividend Yield (%)	3.0	3.0	3.1	3.4

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

Key Data

Current Market Price (QR)	168.50
Dividend Yield (%)	3.0
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	168.51/101.51
3-m Average Volume ('000)	70.7
Mkt. Cap. (\$ bn/QR bn)	10.9/39.8
Shares Outstanding (mn)	236.3
FO Limit* (%)	49.0
Current FO* (%)	11.3
1-Year Total Return (%)	+62.9
Fiscal Year End	December 31

Source: Bloomberg (as of April 18, 2019), *Qatar Exchange (as of April 17, 2019); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	3,542	3,838	4,139	4,504
Fees & Commissions	576	625	681	679
FX Income	259	181	203	219
Other Income	142	215	216	280
Non-Interest Income	978	1,022	1,100	1,179
Total Revenue	4,519	4,860	5,239	5,683
Operating Expenses	(1,161)	(1,211)	(1,290)	(1,386)
Net Operating Income	3,358	3,648	3,949	4,297
Net Provisions	(720)	(702)	(761)	(969)
Net Profit Before Taxes & Minority	2,638	2,946	3,188	3,329
Tax	2	(18)	(19)	(20)
Net Profit Before Minority Interest	2,641	2,928	3,169	3,309
Minority Interest	115	(3)	(19)	(20)
Net Profit (Headline/Reported)	2,755	2,925	3,150	3,289
Interest on Tier-1 Sukuk	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(69)	(73)	(79)	(82)
Net Profit (Attributable)	2,481	2,647	2,866	3,002

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Assets				
Cash & Balances with Central Bank	7,299	8,547	9,054	6,761
Interbank Loans	6,424	6,906	5,695	5,049
Net Investments	31,146	33,641	37,064	41,381
Net Loans	102,210	106,243	113,909	126,217
Investment In Associates	568	574	587	598
Other Assets	3,489	3,716	4,021	4,594
Net PP&E	479	472	481	482
Investment in Real Estate	1,231	1,021	1,048	1,075
Goodwill & Other Intangibles	386	343	300	257
Total Assets	153,232	161,462	172,160	186,413
Liabilities				
Interbank Deposits	17,234	17,201	13,170	9,888
Customer Deposits	100,598	106,835	120,724	135,210
Sukuk Financing	9,145	9,877	10,371	10,889
Other Liabilities	5,516	5,342	3,984	4,732
Tier-1 Sukuk	4,000	4,000	4,000	4,000
Total Liabilities	136,493	143,254	152,248	164,720
Total Shareholders' Equity	15,420	16,886	18,571	20,332
Total Liabilities & Shareholders' Equity	153,232	161,462	172,160	186,413

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
Profitability (%)				
RoE Attributable (Based on Beginning Book Value)	16.2	17.2	17.0	16.2
RoAA (Attributable)	1.6	1.7	1.7	1.7
RoRWA (Attributable)	2.3	2.4	2.4	2.2
NIM (% of IEAs)	2.60	2.74	2.79	2.80
NIM (% of RWAs)	3.27	3.49	3.44	3.29
NIM (% of AAs)	2.33	2.44	2.48	2.51
Spread	2.19	2.20	2.23	2.11
Efficiency (%)				
Cost-to-Income (Headline)	25.7	24.9	24.6	24.4
Cost-to-Income (Core)	26.2	25.8	25.5	25.4
Liquidity (%)				
LDR	101.6	99.4	94.4	93.3
Loans/Assets	66.7	65.8	66.2	67.7
Cash & Interbank Loans-to-Total Assets	9.0	9.6	8.6	6.3
Deposits to Assets	65.7	66.2	70.1	72.5
Wholesale Funding to Loans	25.8	25.5	20.7	16.5
IEAs to IBLs	122.9	119.6	116.9	119.6
Asset Quality (%)				
NPL Ratio	1.2	1.3	1.2	1.2
NPLs to Shareholder's Equity	8.2	8.4	7.7	7.7
NPLs to Tier 1 Capital	6.7	7.4	6.9	7.0
Coverage Ratio	173.9	180.8	214.1	230.0
ALL/Average Loans	1.9	2.2	2.5	2.7
Cost of Risk (bps)	45	50	49	48
Capitalization (%)				
Tier 1 Ratio	17.8	16.8	16.3	15.2
CAR	18.8	17.8	17.3	16.2
Tier 1 Capital to Assets	12.3	11.8	12.0	12.0
Tier 1 Capital to Loans	18.5	17.9	18.2	17.7
Tier 1 Capital to Deposits	18.8	17.8	17.1	16.5
Leverage (x)	9.9	9.6	9.3	9.2
Growth (%)				
Net Interest Income	4.2	8.4	7.8	8.8
Non-Interest Income	28.2	4.5	7.7	7.1
OPEX	5.0	4.3	6.5	7.5
Net Operating Income	9.9	8.6	8.2	8.8
Net Income (Attributable)	15.9	6.7	8.3	4.7
Loans	-0.4	3.9	7.2	10.8
Deposits	-1.2	6.2	13.0	12.0
Assets	1.9	5.4	6.6	8.3
RWAs	-3.3	6.8	11.8	15.6

Source: Company data, QNB FS Research

Recommendations

Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

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