

## Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR4.14	Price Target	QR3.94
Implied Upside	(4.8%)	Old Price Target	QR3.40

### Prudent Strategy to Drive Mid-Single-Digit Growth Next 5-Years

After 2019's results, we increase our estimates and raise our PT from QR3.40 to QR3.94/share. The stock has underperformed its peers on a 1-year TTR & YTD basis despite MARK boasting one of the highest dividend yields (5.4%), being cost-efficient, a strong RoE generator (2019: 16.0%, 2020e: 16.1% & 2021e: 16.3%) and maintaining superior asset quality vs. its peers. We believe the underperformance stems from MARK's soft bottom-line growth vs. its peers. We increase our forecasts for net attributable income by 6.3% over 2020-22e and raise our PT to QR3.94 by lowering MARK's cost of equity to reflect our sector wide view of improving risk premiums. Furthermore, we have upped our estimate for MARK's sustainable RoE from 15.8% to 16.3% over our forecast horizon in light of its estimated 5-year earnings CAGR of 3.2% (2019-2024e).

### Highlights

- Provisions cap earnings growth YoY:** MARK reported a net profit of QR524.8mn (in-line with our estimate of QR530mn; -1.0% variation) in 4Q2019. Net operating income (+22.7% YoY) was strong due to solid revenue and cost management. However, MARK booked provisions of QR49.4mn vs. net reversals of QR28.3mn in 4Q2018, leading to only a 5.3% bottom-line growth YoY. The sequential drop (-8.8%) in earnings was led by weak non-funded income and a surge in provisions.
- MARK upped its DPS from QR0.200 in 2018 to QR0.225.** The bank announced DPS of QR0.225 (vs. our estimate of QR.200), yielding 5.4% and payout ratio of 77%.
- Margins remained stable; expect margin compression in the medium term.** NIMs remained flat YoY at 2.37% vs. 2.39% in FY2018. However, we expect margin pressure in 2020-22e as MARK raises funds to improve its liquidity.
- MARK remained cost-efficient and generated positive JAWS.** MARK generated a C/I ratio of 22.8% in FY2019 vs. 24.0% in FY2018. Moreover, the bank generated positive JAWS of 5.2% as revenue moved up by 3.7% while opex decreased by 1.5%. The drop in opex was mainly due to consulting and advertising expenses. We expect the bank to maintain a C/I ratio ~22% in 2020-22e.
- Asset quality remains healthy.** The bank's NPL ratio increased to 1.01% (0.66% in 3Q2019) vs. 0.83% at the end of 2018. Moreover, coverage of stage 3 loans declined to 43% vs. 55% in 2018 (management indicated that NPLs are strongly collateralized). Stage 2 & 3 loans increased by 30% and 24.5% YoY, respectively. Stage 2 loans contributes 16.6% to total loans vs. 13.6% in FY2018. What is important to note here is that management is being conservative/prudent and is hence increasing provisions.
- Loans experienced low-single-digit growth, driven by the private sector (loans to public sector declined by 4.0%).** Net loans moved up by 3.2% YoY to QR74.8bn, while deposits expanded by 6.6% YoY to QR65.6bn. Thus, MARK's LDR position improved to 114% vs. 118% in FY2018. Moreover, loans to stable sources of funds improved from 111% to 105% in 2019 thanks to the \$500mn sukuk issuance. We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile and lower its LDR.
- Capitalization remained robust and one of the highest among its peers.** MARK ended 2019 with a CET1 and CAR of 19.7% and 20.3%, respectively. We expect CaR to remain elevated going forward due to the conservative nature of the bank.

### Catalysts

- News flow and/or strategy in growing the business.

### Recommendation, Valuation and Risks

- Recommendation and valuation:** MARK is trading at P/B and P/E of 1.9x and 13.9x on our 2020 estimates, respectively.
- Risks:** 1) Geopolitical factors, 2) Greater-than-expected increase in credit costs and 3) Losing market share in the government segment.

### Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS Attributable (QR)	0.28	0.30	0.31	0.33
EPS Growth (%)	2.3	5.3	5.2	5.2
P/E (x)	14.6	13.9	13.2	12.5
Tangible BVPS (QR)	1.9	1.9	2.0	2.0
P/TBV (x)	2.2	2.1	2.1	2.0
DPS (QR)	0.225	0.250	0.275	0.290
Dividend Yield (%)	5.4	6.0	6.6	7.0

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

### Key Data

Current Market Price (QR)	4.14
Dividend Yield (%)	5.4
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.23/3.37
3-m Average Volume (mn)	4.2
Mkt. Cap. (\$ bn/QR bn)	8.5/31.0
Shares Outstanding (mn)	750,000.0
FO Limit* (%)	49.0
Current FO* (%)	13.3
1-Year Total Return (%)	7.7
Fiscal Year End	December 31

Source: Bloomberg (as of January 26, 2020), \*Qatar Exchange (as of January 23, 2020); Note: FO is foreign ownership

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## Changes in Estimates

In QR mn	2020e			2021e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,386	2,365	-0.9	2,560	2,471	-3.5
Non Interest Income	532	663	24.6	591	746	26.2
Revenue	2,918	3,028	3.8	3,151	3,217	2.1
Opex	(720)	(672)	-6.7	(751)	(706)	-5.9
Net Operating Income	2,198	2,356	7.2	2,400	2,511	4.6
Net Income (Reported)	2,216	2,293	3.5	2,216	2,413	8.9
Net Income (Attributable)	2,161	2,236	3.5	2,161	2,353	8.9

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
<b>Net Interest Income</b>	<b>2,264</b>	<b>2,268</b>	<b>2,300</b>	<b>2,365</b>	<b>2,471</b>	<b>2,583</b>
Fees & Commissions	274	315	388	446	514	577
FX Income	143	152	162	174	186	202
Other Income	56	53	42	43	46	48
<b>Non-Interest Income</b>	<b>473</b>	<b>521</b>	<b>593</b>	<b>663</b>	<b>746</b>	<b>827</b>
<b>Total Revenue</b>	<b>2,736</b>	<b>2,788</b>	<b>2,892</b>	<b>3,028</b>	<b>3,217</b>	<b>3,410</b>
Operating Expenses	(577)	(668)	(659)	(672)	(706)	(769)
<b>Net Operating Income</b>	<b>2,159</b>	<b>2,120</b>	<b>2,234</b>	<b>2,356</b>	<b>2,511</b>	<b>2,641</b>
Net Provisions & Impairments	(113)	22	(45)	(50)	(84)	(91)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>2,045</b>	<b>2,142</b>	<b>2,189</b>	<b>2,306</b>	<b>2,427</b>	<b>2,550</b>
Tax	(5)	(2)	(1)	(3)	(3)	(3)
<b>Net Profit Before Minority Interest</b>	<b>2,041</b>	<b>2,140</b>	<b>2,188</b>	<b>2,303</b>	<b>2,424</b>	<b>2,547</b>
Minority Interest	(13)	(9)	(10)	(10)	(11)	(9)
<b>Net Profit (Reported/Headline)</b>	<b>2,028</b>	<b>2,130</b>	<b>2,178</b>	<b>2,293</b>	<b>2,413</b>	<b>2,538</b>
Social & Sports Contribution Fund	(51)	(53)	(54)	(57)	(60)	(63)
<b>Net Profit (Attributable)</b>	<b>1,977</b>	<b>2,077</b>	<b>2,124</b>	<b>2,236</b>	<b>2,353</b>	<b>2,475</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e
<b>Assets</b>						
Cash & Balances with Central Bank	2,800	3,027	3,123	3,376	3,791	4,159
Interbank Loans	3,312	1,513	6,035	3,191	5,084	3,869
Net Investments	23,423	19,222	21,379	23,933	25,605	28,064
Net Loans	72,097	72,515	74,837	79,773	84,740	92,126
Investment In Associates	520	526	527	537	548	558
Other Assets	636	302	267	255	271	276
Net PP&E	160	189	228	254	293	328
<b>Total Assets</b>	<b>102,949</b>	<b>97,294</b>	<b>106,397</b>	<b>111,320</b>	<b>120,333</b>	<b>129,381</b>
<b>Liabilities</b>						
Interbank Deposits	25,123	16,546	19,367	18,398	18,447	16,652
Customer Deposits	62,531	61,569	65,613	70,337	77,370	86,655
Other Liabilities	1,905	5,706	7,285	7,895	9,337	10,474
<b>Total Liabilities</b>	<b>89,559</b>	<b>83,820</b>	<b>92,265</b>	<b>96,629</b>	<b>105,154</b>	<b>113,781</b>
<b>Minority Interest</b>	<b>199</b>	<b>196</b>	<b>213</b>	<b>223</b>	<b>234</b>	<b>243</b>
<b>Total Shareholders' Equity</b>	<b>13,191</b>	<b>13,277</b>	<b>13,919</b>	<b>14,467</b>	<b>14,945</b>	<b>15,357</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>102,949</b>	<b>97,294</b>	<b>106,397</b>	<b>111,320</b>	<b>120,333</b>	<b>129,381</b>

Source: Company data, QNB FS Research

Ratios/KPIs	2017	2018	2019	2020e	2021e	2022e
<b>Profitability (%)</b>						
RoE	15.6	15.7	16.0	16.1	16.3	16.6
RoAA	2.0	2.1	2.1	2.1	2.0	2.0
RoRWA	3.2	3.3	3.4	3.6	3.6	3.6
NIM (% of IEAs)	2.48	2.39	2.37	2.29	2.26	2.18
NIM (% of RWAs)	3.71	3.61	3.65	3.76	3.76	3.73
NIM (% of AAs)	2.33	2.27	2.26	2.17	2.13	2.07
Spread	2.1	1.9	1.8	1.7	1.6	1.4
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	21.1	24.0	22.8	22.2	22.0	22.6
Cost-to-Income (Core)	21.5	24.4	23.1	22.4	22.2	22.8
<b>Liquidity (%)</b>						
LDR	115.3	117.8	114.1	113.4	109.5	106.3
Loans/Assets	70.0	74.5	70.3	71.7	70.4	71.2
Cash & Interbank Loans-to-Total Assets	5.9	4.7	8.6	5.9	7.4	6.2
Deposits to Assets	60.7	63.3	61.7	63.2	64.3	67.0
Wholesale Funding to Loans	34.8	28.0	33.0	30.8	30.5	27.0
IEAs to IBLs	120.5	124.2	122.2	121.0	119.2	119.5
<b>Asset Quality (%)</b>						
NPL Ratio	0.47	0.83	1.01	1.02	1.04	1.06
NPL to Shareholders' Equity	2.58	4.59	5.45	5.67	5.95	6.42
NPL to Tier 1 Capital	2.86	5.10	6.20	6.69	7.29	8.18
Coverage Ratio	48.7	92.6	84.0	85.1	87.4	87.3
ALL/Average Loans	0.2	0.7	0.8	0.8	0.9	0.9
Cost of Risk	0.15	N/M	0.07	0.07	0.09	0.09
<b>Capitalization (%)</b>						
Tier 1 Ratio	19.3	18.7	19.7	19.3	18.0	17.1
CAR	19.3	19.2	20.3	19.8	18.6	17.6
Tier 1 Capital to Assets	11.6	12.3	11.5	11.0	10.1	9.3
Tier 1 Capital to Loans	16.5	16.5	16.4	15.4	14.4	13.1
Tier 1 Capital to Deposits	19.0	19.4	18.7	17.4	15.8	13.9
Leverage (x)	7.8	7.3	7.6	7.7	8.1	8.4
<b>Growth (%)</b>						
Net Interest Income	17.9	0.2	1.4	2.8	4.5	4.5
Non-Interest Income	-9.9	10.1	13.9	11.9	12.5	10.8
Opex	24.7	15.8	-1.5	2.0	5.1	8.9
Net Operating Income	8.9	-1.8	5.4	5.5	6.6	5.2
Net Income	-2.3	5.0	2.3	5.3	5.2	5.2
Loans	6.6	0.6	3.2	6.6	6.2	8.7
Deposits	7.8	-1.5	6.6	7.2	10.0	12.0
Assets	12.5	-5.5	9.4	4.6	8.1	7.5
RWAs	2.4	3.5	-2.8	2.4	6.4	4.3

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*

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

### Risk Ratings

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

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

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