

Banking

BUY: 12M TP @ 20.32

Valuation Summary (TTM)

Price (QAR)	15.96	
PER TTM (x)	10.5	
P/Book (x)	1.7	
Dividend Yield (%)	3.8	
Free Float (%)	44.6%	
Shares O/S (mn)	9,236	
YTD Return (%)	-11%	
Beta	1.0	
(Bn)	QAR	USD
Market Cap	147.4	40
Total Assets	1,186	364

Price performance (%)	1M	3M	12M
Qatar National Bank QPSC	4%	2%	-19%
Industry Index	-2%	-1%	-20%

Trading liquidity (000)	1M	3M	6M
Avg daily turnover (QAR)	48,970	48,918	54,310
Avg Daily Volume (,000)	3,253	3,092	3,402
52 week	High	Low	CTL*
Price (QAR)	20.97	14.31	11.5

* CTL is % change in CMP to 52wk low

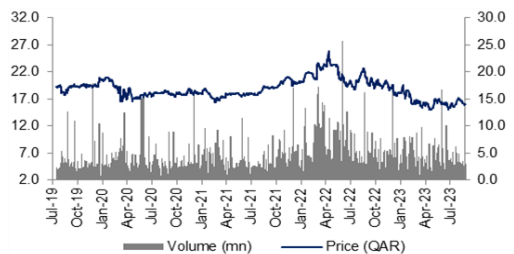
Major shareholders

Qatar Investment Aut	52%
Vanguard Group Inc/T	2.0%
BlackRock Inc	1.5%
Others	44.6%

Other details

Exchange	Qatar
Sector	Banks
Index weight (%)	15.6%

Key ratios	2020	2021	2022
EPS (QAR)	1.19	1.32	1.44
BVPS (QAR)	8.21	8.55	9.21
DPS (QAR)	0.45	0.55	0.60
Payout ratio (%)	38%	42%	42%



Qatar National Bank – Result Update

Qatar National Bank reported 9M23 operating income of QR 28.5bn (vs. QR 25.2bn, +13.2% YoY) and net income of QR 11.9bn (vs. 11.4bn, + 8.3% YoY) as against our net income estimates of QR13.2bn. The group's profit growth of 8.3% were was largely driven by higher growth in key subsidiaries in local currency terms (QNB Alahli – Egypt +72% YoY, QNB Finansbank – Turkey +26% YoY, and Enpara digital bank – Turkey +319% YoY), resulting in the increase in share of profits from international operations increasing from 18% in 2022 to 26% in 9M23. The profits from Turkey operations were impacted by non-cash net monetary loss arising out of hyperinflation, which increased by QR 2.7bn in 9M23 vs. QR 1.2bn in 9M22. The group level loans and deposits stood at QR 815.5bn and QR 822.5bn respectively, a growth by +6.9% and 3.5% YoY for 9M23, while the growth in the key markets like Egypt and Turkey were at higher pace.

Higher deployment towards interest yielding assets: For the 9M23, the bank has been able to grow its loan book and investment book by 6.9% and 14.5% respectively over 9M22, while moderating the cash balance by 9.7% YoY, as it seeks to deploy more funds in higher interest yielding assets, given the higher interest rate environment. The aggregate funds deployed in 9M23 towards loans (+154bps) and investments (+124bps) have increased by 278bps, while the relatively lower yielding cash balance have declined by 121bps. Investment's share of total assets has been at 14.5% (vs. 12.9% in 9M22), 69% of which are to AA+ rated or sovereign. Fixed interest rate investment portfolio was at 55% (of which 97% is in sovereign), while floating interest rate investment portfolio is largely invested in corporates (87%). Deposits grew at a relatively slower pace of 4% YoY, despite higher surplus at government level, the share of which stood at 26.6%. The divergence in growth of loans and deposits resulted in improving loan to deposit ratio from 96.1% to 99.2% in 9M23. Customer deposits at 76.3% continues to be a key source of funding and within this time deposits constituted 77.4%, while CASA remained at 22.6%. NPL at 2.99%, was up by a meagre 7bps on a QoQ basis, while the stage 3 coverage was at 100.5%.

Profitability set to improve driven by healthy NIMs and low-cost base: We expect the bank to continue to grow its profits at a healthy pace of 8.9% CAGR (2022-2025E) going forward vs. management guidance of 7-9%, as it focuses on capturing the growth in Egypt and Turkey. The bank is also better placed to achieve growth domestically as the country consolidates its leadership position in LNG production through the proposed expansion. The NIM at group level for 9M23 was at 2.57% (vs 2.54% for trailing six month), similar improvements were witnessed across key emerging markets portfolio. The cost to income ratio improved by 6 bps at 20.0%, one among the lowest in the region. In our model we have assumed net non-monetary loss due to hyperinflation for 2023E equal to 9M23 as the quantum cannot be estimated and depends on multiple factors. The normalized EPS (w/o net non-monetary loss due to hyperinflation) for 2023E stood at QR 1.79 vs. adjusted EPS of QR 1.50.

At current levels the shares trade at 2023e normalized P/E of 8.9x, 1.5x book value, and offers a dividend yield of 3.8%. We continue to maintain our BUY recommendation with a target price of QQR 20.32 per share, offering potential return of 29%.

Summary of key numbers

in QAR mn	3Q23	2Q23	QoQ (%)	3Q22	YoY (%)	9M'23	9M'22	YoY (%)	2023E	2022A
Operating Income	10,297	9,040	13.9%	9,180	12.2%	28,500	25,179	13.2%	36,801	34,560
Operating Expenses	-2,077	-1,821	14.1%	-1,694	22.6%	-5,960	-5,047	18.1%	-7,360	-7,047
Operating Profit	8,220	7,219	13.9%	7,486	9.8%	22,540	20,133	12.0%	29,441	27,513
Provision Expenses	-1,542	-2,556	-39.7%	-2,349	-34.4%	-6,674	-6,400	4.3%	-9,152	-9,144
Profit before tax	6,848	4,866	40.7%	5,280	29.7%	16,373	14,199	15.3%	20,833	18,914
Taxation	-1,025	-705	45.4%	-738	38.9%	-1,708	-1,843	-7.3%	-3,125	-2,719
Monetary loss due to hyperinflation*	-1,515	-403	276.4%	-551	174.9%	-2,682	-1,295	107.1%	-2,682	-1,745
Profit after tax	4,308	3,758	14.6%	3,991	8.0%	11,983	11,061	8.3%	15,026	14,449
Tier 1 Bond	-288	-288	0.0%	-288	0.0%	-863	-795	8.4%	-1,083	-1,083
Profit attributable to shareholders/MI	4,020	3,471	15.8%	3,703	8.6%	11,120	10,266	8.3%	13,943	13,366
Loan Book	815,472	818,523	-0.4%	763,021	6.9%	815,472	763,021	6.9%	848,567	807,601
Deposits	822,449	836,478	-1.7%	794,395	3.5%	822,449	794,395	3.5%	884,393	842,279
Total Equity (Excl tier 1 bond)	87,448	82,981	5.4%	84,940	3.0%	87,448	84,940	3.0%	96,170	85,087
Cost to Income	20.17%	20.14%		18.46%		20.91%	20.04%		20.00%	20.39%
NPL ratio	2.99%	2.92%		2.38%		2.99%	2.38%		2.85%	2.83%
CAR	19.02%	19.02%		18.97%		19.02%	18.97%			
Net Loan to Deposit	99.15%	97.85%		96.05%		99.15%	96.05%		95.95%	95.88%

* Net Monetary loss due to hyperinflation cannot be estimated, hence Q3 nos has been assumed for FY23E

Key take aways from earnings call

- QNB expect domestic activity to remain strong with a GDP growth of 2.2% in 2023 and 2.5% in 2024 according to consensus estimates. Elevated oil and gas prices fuel robust fiscal and external revenues in the GCC, resulting in large surpluses and the execution of large investment projects. Overall, the GDP growth in the GCC is expected to remain favorable, mainly based on stronger hydrocarbon output.
- Balance sheet guidance growth reduced, to be lower by 2%-4% and profits to grow by 7-9%. Our estimates for the profit growth is 8.9% CAGR (2022-2025E)
- Expect NIMs by year end to be between 255bps to 257bps. The increase in NIM across various geographies (Doha, Egypt and Turkey) is due to asset re-pricing which happens once in six months, on 1st January and 1st July. Repricing for loans does not happen month on month basis and repricing for deposits happens at a more frequent interval and it depends on the deposit mix and maturity.
- QNB has benefited from increased interest rates in the last two years. Over long term, normalized NIMs will be close to 245-260bps. We have modeled for a NIM of 260-270bps in our estimates.
- No major increase in cost of funds, since the market is quite liquid and there is no fierce competition for Qatari Riyal funding, so banks are relaxed when it comes to raising Qatari Royal deposits
- Cost of risk for nine months is at 96bps, by year end, expected to be between 95-98bps (our estimates of 100bps)
- NPL for Turkey currently is 1.3%, but over longer term, this would go back to 4%-4.5%, as this has been the normalized level in Turkey. Difficult to predict interest rate movements in Turkey due to various factors including inflation and impact due to devaluation. Hyperinflation losses impacted performance of the Turkey segment.
- There has been a decrease in government deposits over the last nine months, as no major demand from bank was made to the government to increase the deposits owing to the high liquidity level prevalent.
- Impact due to change in Basel norms from 1st January 2024 will not be material, will be between 10-25bps

Income Statement (QR Mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
Interest Income	43,773	44,736	59,672	62,724	66,590	67,387
Interest Expense	-22,778	-21,700	-30,807	-32,255	-34,073	-36,014
Net Interest Income	20,995	23,036	28,865	30,470	32,517	31,373
Non Interest Income	4,435	4,907	5,696	6,331	7,066	7,920
Net Operating Income	25,430	27,943	34,560	36,801	39,582	39,294
Operating Expenses	-12,356	-13,647	-16,191	-16,512	-17,508	-15,973
Share of results from associates	110	370	544	544	544	544
Profit Before Taxation	13,184	14,666	18,914	20,833	22,618	23,865
Tax expense	-1,102	-1,390	-2,719	-3,125	-3,393	-3,580
Profit for the year*	12,083	13,276	16,194	17,708	19,226	20,285

*before net monetary loss arising from hyperinflation

Balance sheet (QR Mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
Cash and balances with Central Bank	81,551	88,551	91,564	98,579	107,619	117,723
Due from banks	65,128	69,055	96,260	101,073	106,126	111,433
Loans & advances to customers	723,795	763,652	807,601	848,567	890,995	935,545
Investment securities/associates	130,448	150,288	167,815	184,202	202,207	221,992
Property and Equipment/Intangibles	9,352	9,044	10,120	10,933	11,803	12,666
Other Assets	14,741	12,447	15,859	17,445	19,189	21,108
Total Assets	1,025,015	1,093,038	1,189,219	1,260,799	1,337,940	1,420,467

LIABILITIES AND SHAREHOLDER'S EQUITY

Due to banks	87,954	111,442	142,815	157,096	172,806	190,086
Customers' deposits	738,738	785,512	842,279	884,393	928,612	975,043
Debt Securities	42,574	40,089	35,153	38,668	42,535	46,788
Other Borrowings	27,901	26,138	25,593	24,314	23,098	21,943
Other Liabilities	30,947	29,801	37,323	39,189	41,148	43,206
Total Liabilities	928,113	992,981	1,083,162	1,143,659	1,208,199	1,277,066
Paid-up Capital	9,236	9,236	9,236	9,236	9,236	9,236
Other Reserves	14,064	10,589	10,002	10,002	10,002	10,002
Retained earnings	52,510	59,118	65,849	76,932	89,532	103,193
Shareholder's Equity	75,810	78,943	85,087	96,170	108,771	122,431
Non - Controlling Interests	1,092	1,113	970	970	970	970
Tier 1 Perpetual subordinated bonds	20,000	20,000	20,000	20,000	20,000	20,000
Total Equity	96,902	100,057	106,057	117,140	129,740	143,401
Total Liabilities and Equity	1,025,015	1,093,038	1,189,219	1,260,799	1,337,940	1,420,467

Cash Flow Statement (QR Mn)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
Cash flow from operating activities	24,741	35,787	59,119	29,263	32,602	34,987
Cash flow from investing activities	-28,005	-24,233	-25,894	-17,858	-19,589	-21,357
Cash flow from financing activities	3,905	-6,570	-9,811	-4,389	-3,974	-3,526
Net change in cash	641	4,984	23,413	7,015	9,040	10,104
Cash at the end of period	102,483	106,660	127,314	98,579	107,619	117,723

Key ratios	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
<u>Operating performance</u>						
Yield on average earning assets	4.6%	4.3%	5.4%	5.5%	5.8%	5.5%
Cost of funds	2.6%	2.3%	3.0%	3.0%	3.0%	3.0%
Interest spread	1.9%	2.1%	2.3%	2.5%	2.8%	2.5%
NIM	2.1%	2.2%	2.5%	2.7%	2.7%	2.5%
Interest income/operating income	172.1%	160.1%	172.7%	170.4%	168.2%	171.5%
Net interest income/operating income	82.6%	82.4%	83.5%	82.8%	82.1%	79.8%
Non interest income/operating income	17.4%	17.6%	16.5%	17.2%	17.9%	20.2%
Cost to income ratio	24.8%	23.0%	20.4%	20.0%	20.0%	20.0%
<u>Liquidity</u>						
Net Loan to Deposit Ratio	87.6%	85.1%	82.0%	81.5%	80.9%	80.3%
Customer deposits/total deposits	89.4%	87.6%	85.5%	84.9%	84.3%	83.7%
Net loans to customer deposits	98.0%	97.2%	95.9%	95.9%	95.9%	95.9%
Investments/total assets	12.0%	13.1%	13.4%	14.0%	14.5%	15.0%
<u>Asset quality</u>						
Stage 1 loan ratio	92.1%	91.1%	91.2%	91.0%	91.0%	91.0%
Stage 2 loan ratio	5.8%	6.6%	5.9%	6.2%	6.1%	6.1%
Gross NPL ratio	2.1%	2.3%	2.8%	2.9%	2.9%	2.9%
Provision as a % of gross loans	2.9%	3.3%	3.6%	3.5%	3.5%	3.5%
NPL Coverage	136.4%	143.0%	126.1%	122.8%	120.7%	120.7%
Cost of credit	0.8%	0.9%	1.0%	1.0%	1.0%	0.8%
Stage 1 coverage	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
Stage 2 coverage	7.4%	6.5%	8.1%	7.1%	6.3%	6.3%
Stage 3 coverage	107.2%	116.8%	98.5%	98.0%	98.0%	98.0%
<u>Capital adequacy</u>						
Tier I ratio	18.1%	18.2%	18.5%	19.5%	20.5%	21.4%
Tier II ratio	1.1%	1.1%	1.1%	1.0%	1.0%	0.9%
CAR	19.1%	19.3%	19.6%	20.5%	21.5%	22.3%
Net Equity to Gross Loans	10.2%	10.0%	10.2%	10.9%	11.8%	12.6%
Net Equity to Total Assets	7.4%	7.2%	7.2%	7.6%	8.1%	8.6%
<u>Return ratios</u>						
Reported ROE	16.2%	17.2%	19.7%	20.4%	18.8%	17.5%
Adjusted ROE	14.7%	15.8%	16.2%	16.0%	17.6%	16.5%
ROA	1.2%	1.3%	1.4%	1.5%	1.5%	1.5%
RoRWA	2.5%	2.7%	3.2%	3.3%	3.3%	3.3%
<u>Per share ratios</u>						
EPS	1.19	1.32	1.44	1.50	1.95	2.07
BVPS	8.21	8.55	9.21	10.41	11.78	13.26
DPS	0.45	0.55	0.60	0.60	0.60	0.60
<u>Valuation</u>						
Price	17.83	20.19	16.20	15.96	15.96	15.96
P/E	15.0	15.3	11.3	10.6	8.2	7.7
P/E (w/o monetary loss on Hyper inflation)	15.0	15.3	10.0	8.9	8.2	7.7
P/B	2.2	2.4	1.8	1.5	1.4	1.2
Dividend Yield	2.5%	2.7%	3.7%	3.8%	3.8%	3.8%

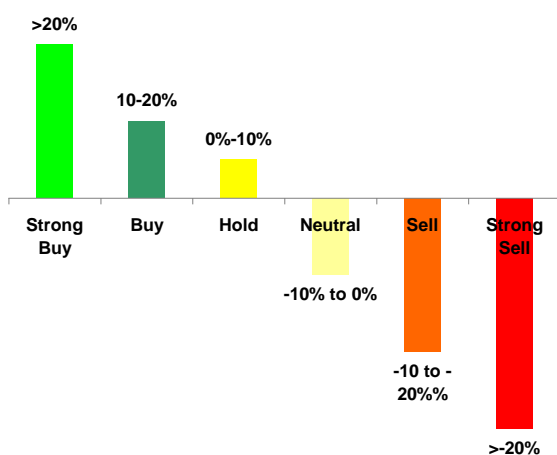
Key contacts

Research Team

Joice Mathew Sr. Manager - Research E-Mail: joyce@usoman.com Tel: +968 2476 3311	Manna Thomas ACCA Research Associate Email: manna.t@usoman.com Tel: +968 2476 3347	Contact Address P. O Box: 2566; P C 112 Sultanate of Oman Tel: +968 2476 3300
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Rating Criteria and Definitions

Rating



Rating Definitions

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

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