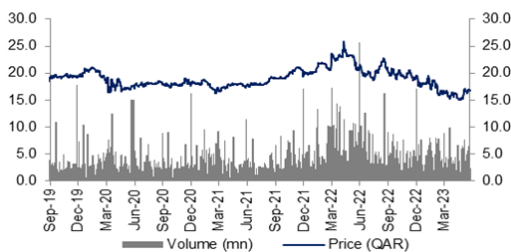


Banking

BUY: 12M TP @ 20.32

Valuation Summary (TTM)

Price (QAR)	15.520		
PER TTM (x)	10.4		
P/Book (x)	1.7		
Dividend Yield (%)	3.9		
Free Float (%)	45%		
Shares O/S (mn)	9,236		
YTD Return (%)	-14%		
Beta	1.0		
(bn)	QAR	USD	
Market Cap	143	39	
Total Assets	1,189	326	
Price performance (%)	1M	3M	12M
Qatar National Bank QPSC	-2%	-3%	-19%
Industry Index	0%	-1%	-16%
Trading liquidity (.000)	1M	3M	6M
Avg daily turnover (QAR)	52,319	59,953	60,867
Avg Daily Volume (.000)	3,675	3,724	3,693
52 week	High	Low	CTL*
Price (QAR)	23.00	14.31	8.5
* CTL is % change in CMP to 52wk low			
Major shareholders			
Qatar Investment Aut	52%		
Vanguard Group Inc/T	1.7%		
BlackRock Inc	1.5%		
Others	44.9%		
Other details			
Exchange	Qatar		
Sector	Banks		
Index weight (%)	14.5%		
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 1H23 operating income of QR 18.2mn (vs 16.0mn in 1H22, +13.8% YoY) and net income of QR 7.6mn (vs 7.0mn in 1H22 + 8.5% YoY) as against our net income estimates of QR 8.0mn. The bank's cost to income ratio in 1H23 was at 21.33%, among the lowest in the region. The reported net loan book of QR 818.5 bn continued to show robust growth of +6.8% YoY as compared to QR 766.1 bn in 1H22, while the NPL ratio reported a 51bps increase over 1H22 to stand at 2.92%. The deposits stood at QR 836.5bn, an increase of 5.2% YoY in 1H23. We had initiated a coverage on QNB in March 2023, with a basic premise that being a market leader QNB is in a sweet spot to capitalize on the growth in the economy as it has a balance sheet size to fund the large ticket size loans needed for the envisaged infrastructure spends on the back of expansion of LNG production in Qatar. The results of 1H23 makes us believe that the bank will continue to be perform well going forward on all key parameters and continue its industry leading growth. At current levels the shares trade at FY23e P/E of 8.7x, 1.5x book value, and offers a dividend yield of 3.8%. We maintain our BUY recommendation with target price of QR 20.32, offering potential return of 29%.

Growth Momentum to continue across all parameters: QNB's 1H23 loan book growth has been at 6.8% YoY, much above the expected GDP growth of 2.5% in 2023, aided by increased demand from private sector, despite higher repayment from government due to higher surplus. QNB balance sheet is well positioned to ride the wave of economic growth, given that the quality of loan book is top notch with NPL of 2.92% (adequately covered with a provision of 99%) and a provision coverage of 128% as of June 2023. These factors combined with ~79% of the loan book of the loan book is domestic insulates any adverse performance in its material subsidiaries -Turkey and Egypt. In dollar denominated terms, the loan book of Egypt subsidiary has de-grown by 26%, while the loan book of Turkey subsidiary has grown by 12%. The consolidated NPL ratio of 2.92% show divergence from the key subsidiary with Egypt reporting 4.7%, while Turkey reporting 1.3% in 1H2023. The performance is commendable given the inflationary pressure in these countries.

On the deposits front, QNB retains its pole position of government's banker, with about 27.8% of deposits from Government and GRE, followed by 54.9% from corporates. While the reliance on Term deposit continues at a high of 76.3%, the domestically sourced deposit was at 60.5%. We do not expect any material change in the mix of deposits going forward, given that QNB is a major bank with limited alternatives for government to place bulk deposits domestically.

The profits of the bank in 1H23 grew by 8% YoY, driven by +13.8% YoY increase in operating income, low cost to income ratio of ~21%, and de-growth in tax YoY by 38.1%, the degrowth in tax was on account of one-time tax reversal of QR 21mn in 1Q23. The impairment charge grew by 26.7% YoY. The annualized ROE, adjusted for Tier 1 bond interest was at 17.34%. In terms of capital, the bank is comfortably placed with a capital adequacy ratio of 19.0% as against the regulatory requirement of 16%, allowing it to capture the increased demand for domestic loans. We have retained our earlier estimates and continue to maintain BUY rating with a target price of QR 20.32, with an implied upside of 29.3%.

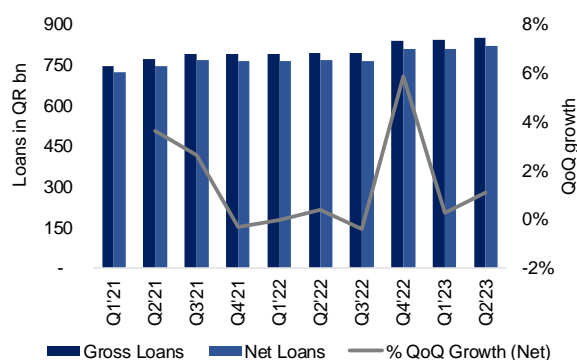
Summary of key numbers

in QAR mn	2Q23	1Q23	QoQ (%)	2Q22	YoY (%)	1H23	1H22	YoY (%)	2023E	2022A
Operating Income	9,040	9,164	-1.3%	8,467	6.8%	18,203	16,000	13.8%	36,801	34,560
Operating Expenses	-1,821	-2,062	-11.7%	-1,718	6.0%	-3,883	-3,352	15.8%	-7,360	-7,047
Operating Profit	7,219	7,101	1.7%	6,749	7.0%	14,321	12,647	13.2%	29,441	27,513
Provision Expenses	-2,556	-2,576	-0.8%	-2,060	24.1%	-5,132	-4,051	26.7%	-9,152	-9,144
Profit before tax	4,866	4,659	4.4%	4,824	0.9%	9,525	8,919	6.8%	20,833	18,914
Taxation	-705	21	-	-651	8.3%	-684	-1,105	-38.1%	-3,125	-2,719
Monetary loss due to hyperinflation*	-403	-764	-47.3%	-255	57.6%	-1,167	-744	56.8%	-	-1,745
Profit after tax	3,758	3,916	-4.0%	3,917	-4.1%	7,675	7,071	8.5%	17,708	14,449
Tier 1 Bond	-288	-288	0.0%	-258	11.5%	-575	-508	13.2%	-1,083	-1,083
Profit attributable to shareholders	3,471	3,629	-4.4%	3,659	-5.1%	7,100	6,563	8.2%	16,625	13,366
Loan Book	818,523	809,775	1.1%	766,131	6.8%	818,523	766,131	6.8%	848,567	807,601
Deposits	836,478	827,517	1.1%	794,800	5.2%	836,478	794,800	5.2%	884,393	842,279
Total Equity (Excl tier 1 bond)	82,981	81,698	1.6%	81,575	1.7%	82,981	81,575	1.7%	96,170	85,087
Cost to Income	20.14%	22.50%		20.29%		21.33%	20.95%		20.00%	20.39%
NPL ratio	2.92%	2.81%		2.41%		2.92%	2.41%		2.85%	2.83%
CAR	19.02%	19.32%		18.86%		19.02%	18.86%			
Net Loan to Deposit	97.85%	97.86%		96.39%		97.85%	96.39%		95.95%	95.88%
Reported ROE	18.12%	19.17%		19.21%		18.50%	17.34%		18.41%	16.98%
Adjusted Earnings Per Share									1.80	
Book Value Per Share									10.4	
PE									8.7	
PB									1.5	

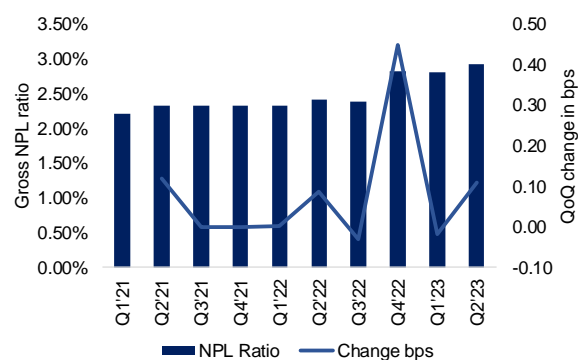
* Net Monetary loss due to hyperinflation cannot be estimated, hence it is assumed as zero

Quarterly trends of key parameters

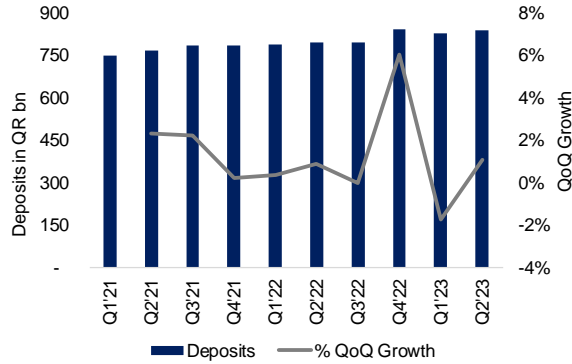
Peak QoQ growth in loan book in Q4'22 at 5.8%



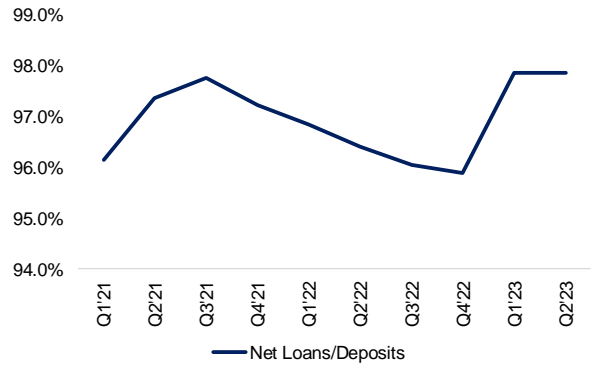
Gross NPL increased to 2.92% in Q2'23



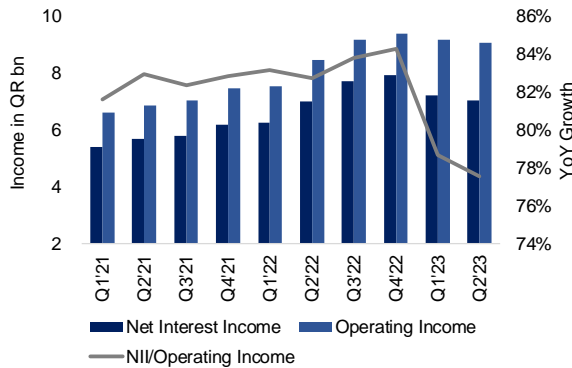
Movement in deposits QoQ in line with Loans



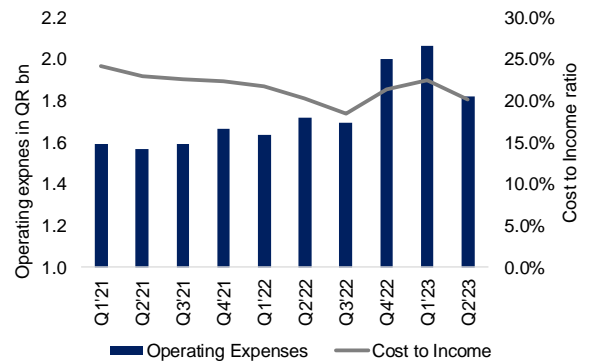
Net Loan to deposits between 96.9%-97.9%



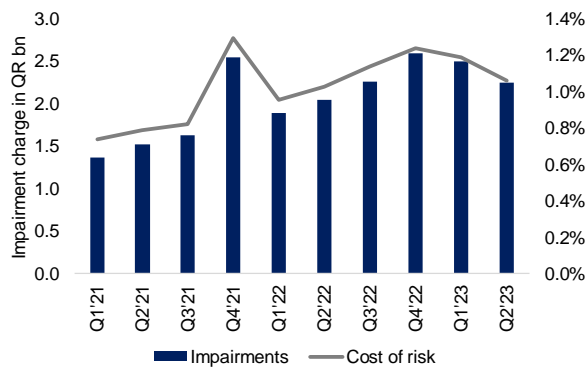
NII/Operating income declined in Q123 and Q223



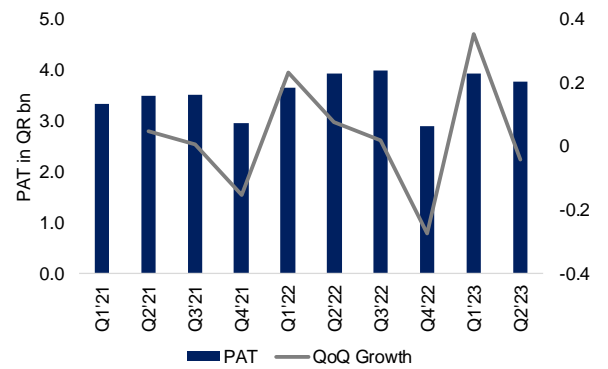
Cost to income ratio shows declining trend



Annualized cost of risk between 0.74% to 1.29%



QoQ PAT growth has been volatile



Income Statement (QR Mn)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
Interest Income	53,079	43,773	44,736	59,672	62,724	66,590	67,387
Interest Expense	-32,882	-22,778	-21,700	-30,807	-32,255	-34,073	-36,014
Net Interest Income	20,196	20,995	23,036	28,865	30,470	32,517	31,373
Non Interest Income	5,039	4,435	4,907	5,696	6,331	7,066	7,920
Net Operating Income	25,235	25,430	27,943	34,560	36,801	39,582	39,294
Operating Expenses	-9,993	-12,356	-13,647	-16,191	-16,512	-17,508	-15,973
Share of results from associates	401	110	370	544	544	544	544
Profit Before Taxation	15,643	13,184	14,666	18,914	20,833	22,618	23,865
Tax expense	-1,182	-1,102	-1,390	-2,719	-3,125	-3,393	-3,580
Profit for the year	14,461	12,083	13,276	16,194	17,708	19,226	20,285

Balance sheet (QR Mn)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
Cash and balances with Central Bank	62,155	81,551	88,551	91,564	98,579	107,619	117,723
Due from banks	79,316	65,128	69,055	96,260	101,073	106,126	111,433
Loans & advances to customers	678,682	723,795	763,652	807,601	848,567	890,995	935,545
Investment securities/associates	103,016	130,448	150,288	167,815	184,202	202,207	221,992
Property and Equipment/Intangibles	9,371	9,352	9,044	10,120	10,933	11,803	12,666
Other Assets	12,158	14,741	12,447	15,859	17,445	19,189	21,108
Total Assets	944,698	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	78,384	87,954	111,442	142,815	157,096	172,806	190,086
Customers' deposits	684,489	738,738	785,512	842,279	884,393	928,612	975,043
Debt Securities	33,778	42,574	40,089	35,153	38,668	42,535	46,788
Other Borrowings	25,267	27,901	26,138	25,593	24,314	23,098	21,943
Other Liabilities	28,061	30,947	29,801	37,323	39,189	41,148	43,206
Total Liabilities	849,979	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	9,236
Other Reserves	16,303	14,064	10,589	10,002	10,002	10,002	10,002
Retained earnings	48,059	52,510	59,118	65,849	76,932	89,532	103,193
Shareholder's Equity	73,599	75,810	78,943	85,087	96,170	108,771	122,431
Non - Controlling Interests	1,120	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	20,000
Total Equity	94,719	96,902	100,057	106,057	117,140	129,740	143,401
Total Liabilities and Equity	944,698	1,025,015	1,093,038	1,189,219	1,260,799	1,337,940	1,420,467

Cash Flow Statement (QR Mn)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
Cash flow from operating activities	14,811	24,741	35,787	59,119	29,263	32,602	34,987
Cash flow from investing activities	-4,748	-28,005	-24,233	-25,894	-17,858	-19,589	-21,357
Cash flow from financing activities	2,119	3,905	-6,570	-9,811	-4,389	-3,974	-3,526
Net change in cash	12,182	641	4,984	23,413	7,015	9,040	10,104
Cash at the end of period	102,728	102,483	106,660	127,314	98,579	107,619	117,723

Key ratios	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E
<u>Operating performance</u>							
Yield on average earning assets	6.1%	4.6%	4.3%	5.4%	5.5%	5.8%	5.5%
Cost of funds	4.2%	2.6%	2.3%	3.0%	3.0%	3.0%	3.0%
Interest spread	1.9%	1.9%	2.1%	2.3%	2.5%	2.8%	2.5%
NIM	2.2%	2.1%	2.2%	2.5%	2.7%	2.7%	2.5%
Interest income/operating income	210.3%	172.1%	160.1%	172.7%	170.4%	168.2%	171.5%
Net interest income/operating income	80.0%	82.6%	82.4%	83.5%	82.8%	82.1%	79.8%
Non interest income/operating income	20.0%	17.4%	17.6%	16.5%	17.2%	17.9%	20.2%
Cost to income ratio	26.6%	24.8%	23.0%	20.4%	20.0%	20.0%	20.0%
<u>Liquidity</u>							
Net Loan to Deposit Ratio	89.0%	87.6%	85.1%	82.0%	81.5%	80.9%	80.3%
Customer deposits/total deposits	89.7%	89.4%	87.6%	85.5%	84.9%	84.3%	83.7%
Net loans to customer deposits	99.2%	98.0%	97.2%	95.9%	95.9%	95.9%	95.9%
Investments/total assets	10.2%	12.0%	13.1%	13.4%	14.0%	14.5%	15.0%
<u>Asset quality</u>							
Stage 1 loan ratio	93.4%	92.1%	91.1%	91.2%	91.0%	91.0%	91.0%
Stage 2 loan ratio	4.7%	5.8%	6.6%	5.9%	6.2%	6.1%	6.1%
Gross NPL ratio	1.8%	2.1%	2.3%	2.8%	2.9%	2.9%	2.9%
Provision as a % of gross loans	2.4%	2.9%	3.3%	3.6%	3.5%	3.5%	3.5%
NPL Coverage	130.7%	136.4%	143.0%	126.1%	122.8%	120.7%	120.7%
Cost of credit	0.5%	0.8%	0.9%	1.0%	1.0%	1.0%	0.8%
Stage 1 coverage	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
Stage 2 coverage	8.2%	7.4%	6.5%	8.1%	7.1%	6.3%	6.3%
Stage 3 coverage	100.0%	107.2%	116.8%	98.5%	98.0%	98.0%	98.0%
<u>Capital adequacy</u>							
Tier I ratio	18.0%	18.1%	18.2%	18.5%	19.5%	20.5%	21.4%
Tier II ratio	0.9%	1.1%	1.1%	1.1%	1.0%	1.0%	0.9%
CAR	18.9%	19.1%	19.3%	19.6%	20.5%	21.5%	22.3%
Net Equity to Gross Loans	10.6%	10.2%	10.0%	10.2%	10.9%	11.8%	12.6%
Net Equity to Total Assets	7.8%	7.4%	7.2%	7.2%	7.6%	8.1%	8.6%
<u>Return ratios</u>							
Reported ROE	20.5%	16.2%	17.2%	19.7%	20.5%	18.8%	17.5%
Adjusted ROE	19.0%	14.7%	15.8%	16.2%	19.1%	17.6%	16.5%
ROA	1.6%	1.2%	1.3%	1.4%	1.5%	1.5%	1.5%
RoRWA	3.2%	2.5%	2.7%	3.2%	3.3%	3.3%	3.3%
<u>Per share ratios</u>							
EPS	1.45	1.19	1.32	1.44	1.79	1.95	2.07
BVPS	7.97	8.21	8.55	9.21	10.41	11.78	13.26
DPS	0.60	0.45	0.55	0.60	0.60	0.60	0.60
<u>Valuation</u>							
Price	20.59	17.83	20.19	16.20	15.71	15.71	15.71
P/E	14.2	15.0	15.3	11.3	8.8	8.0	7.6
P/B	2.6	2.2	2.4	1.8	1.5	1.3	1.2
Dividend Yield	2.9%	2.5%	2.7%	3.7%	3.8%	3.8%	3.8%

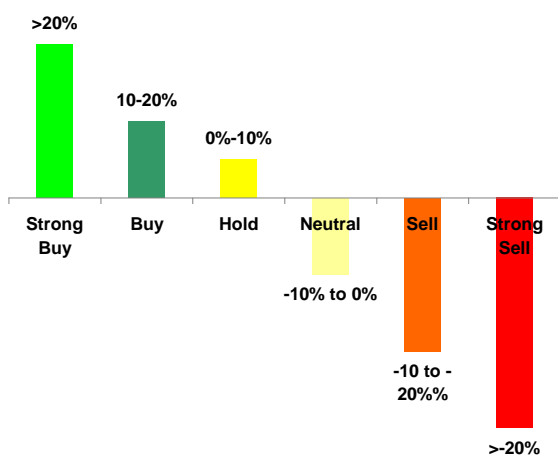
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Rating Criteria and Definitions

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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