

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR17.80	Target Price	QR24.18
Implied Upside	35.8%		

Attractive Entry Point as Valuation Remains Compelling; Accumulate

After 1Q2023 results, we maintain our earnings CAGR of 11.5% (2022-27e). As such, we retain our PT of QR24.18/share on QIBK. We believe the stock has significantly rerated and is trading at attractive levels. QIBK is trading at a P/B of 1.6x on our 2023 estimates, which implies decent upside, in our view. We note that the stock's 5-year median P/B is 2.3x (5-year high P/B of 3.1x and 5-year low of 1.8x). Hence, we maintain our Accumulate rating on the name. Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e: 17.9%, 2024e: 18.0% & 2025e: 18.2%); moreover, the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium. QIBK is still expected to generate superior RoE/RoRWAs vs. peers (>17%/>2.0%) in the medium-term.

Highlights

- **QIBK reported 1Q2023 net profit of QR905.3mn.** Net profit climbed up 5.9% YoY (-21.6% QoQ).
- **Large drop in net provisions drove the bottom-line YoY.** Total 1Q2023 revenue receded by 5.6% YoY due to a drop in net interest & investment income (-5.8% YoY) and a decline in non-funded income (-4.2% YoY), while opex increased by 5.4% YoY. On the other hand, a sharp drop in provisions & impairments (-38.8%) led to a 5.9% YoY increase in the bottom-line. Sequentially, a surge in provisions & impairments (up 107.2%) and a 7.0% drop in net interest & investment income resulted in a 21.6% decrease in the bottom-line.
- **Robust RoE and RoRWA trajectory to continue; 1Q2023 RoE came in at 16%:** QIBK boasts one of the highest RoEs & RoRWAs among its domestic and regional peers. The bank's RoE jumped from 15.2% in FY2016 to 18.1% in FY2022, despite the large amounts of provisions booked during the COVID-19 pandemic era along with precautionary provisions due to QIBK's prudent risk approach. We maintain our RoE estimates of 17.9% in 2023, 18.0% in 2024 and 18.2% in 2025. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.8% in 2022 and we still expect this metric to increase to 3.2% by 2027.
- **QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 17.4% in 2022 (1Q2023: 18.8%). Moreover, QIBK generated robust JAWs of 8.7% on average (2017-2022). We maintain our C/I ratios of 16.8%/16.4% in 2023/2024.
- **Net loans receded by 1.4% given public sector repayments; however, gross loans, excluding the public sector, ticked up by ~1.7% vs. FY2022.** Net loans declined by 1.4% to QR117.6bn vs. FY2022. Deposits followed suit and moved down by 3.7% to QR117.9bn as QIBK shed expensive deposits. We still expect net loans to grow by 6.7% in 2023.
- **CoR to remain elevated given management's conservative risk management nature but we do not expect it to revert back to ~100bps levels (2020 & 2021).** Net credit provisions sharply dropped by 38.3% YoY in 1Q2023 (+296.6% sequentially) to QR317.2mn. CoR improved from 157bps in 1Q2022 to 102bps in 1Q2023. Moreover, CoR also declined from 104bps in 2021 to 92bps in 2022. We maintain our estimate of CoR 84bps for 2023e. We expect CoR to normalize at 70bps by 2025e. A decent chunk of CoR is coming from Stage 1 loans as management is upping its buffers. 57% of ECLs is attributed to Stage 1 loans.
- **Asset quality remains superior; we still do not expect any headwinds going forward.** NPL ratio remained flat at 1.5% in 1Q2023 vs. FY2022. During the same time, NPL formation was negative, which is a positive (dropping by 6.8% after dropping by 19.5% vs. FY2021). Coverage of Stage 3 loans was a strong 95%. We still expect the NPL ratio to further improve over the coming years.
- **Capitalization remains strong.** QIBK ended 1Q2023 with robust CET1 and Tier-1 ratios at 15.6% and 18.5%, respectively. We still expect management to maintain these levels going forward, while generating superior RoEs.

Catalysts

- **For QIBK shares to regain momentum, we need to see dividend upside.** Investor sentiment also generally needs to become more constructive regarding the banking sector and Qatari equities.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Price Target at QR24.18 and our Accumulate rating. QIBK is trading at a 2023e P/TB and P/E of 1.6x and 10.2x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS (QR)	1.57	1.75	1.96	2.21
EPS Growth (%)	13.7	11.0	12.0	13.1
P/E (x)	11.3	10.2	9.1	8.0
Tangible BVPS (QR)	9.8	10.9	12.2	13.6
P/TBV (x)	1.8	1.6	1.5	1.3
RoE (%)	18.1	17.9	18.0	18.2
DPS (QR)	0.625	0.675	0.725	0.800
Dividend Yield (%)	3.5	3.8	4.1	4.5

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

Key Data

Current Market Price (QR)	17.80
Dividend Yield (%)	3.5
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	27.98/17.26
3-m Average Volume ('000)	1,586.3
Mkt. Cap. (\$ bn/QR bn)	11.6/42.1
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	15.0
1-Year Total Return (%)	(17.5)
Fiscal Year End	December 31

Source: Bloomberg (as of June 06, 2023), *Qatar Exchange (as of June 06, 2023); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

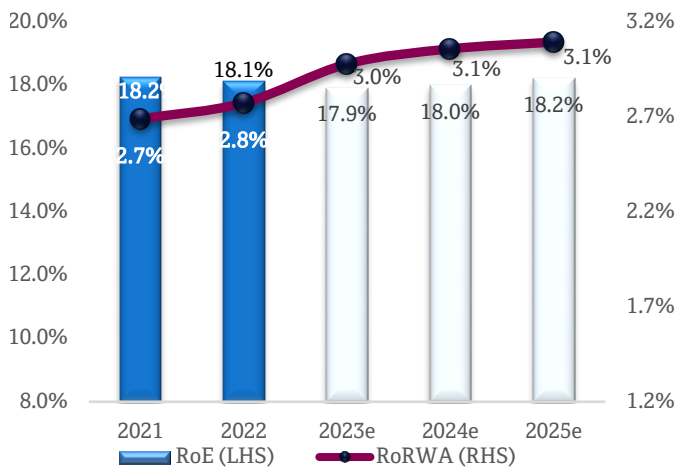
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

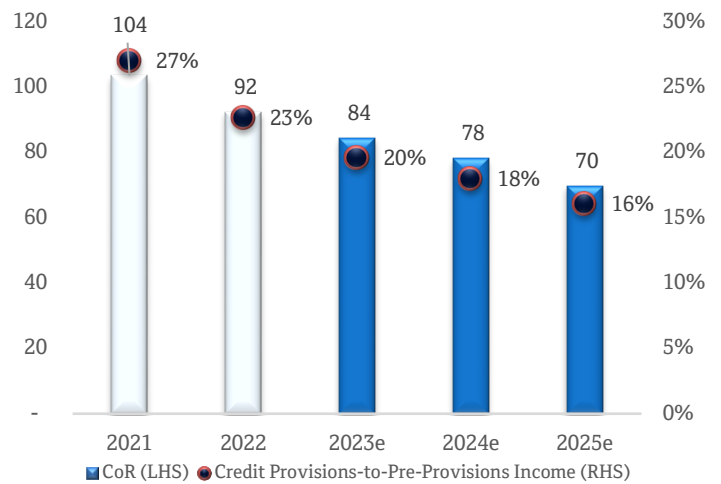
saugata.sarkar@qnbfs.com.qa

Robust RoE and RoRWAs Generator

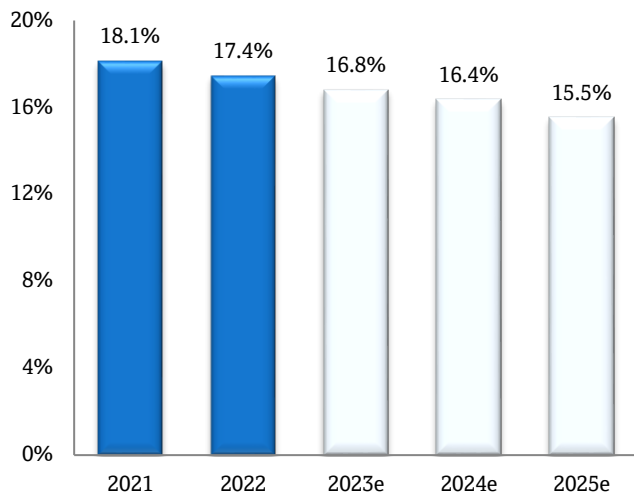


Source: Company data, QNB FS Research

With Healthy CoR Levels

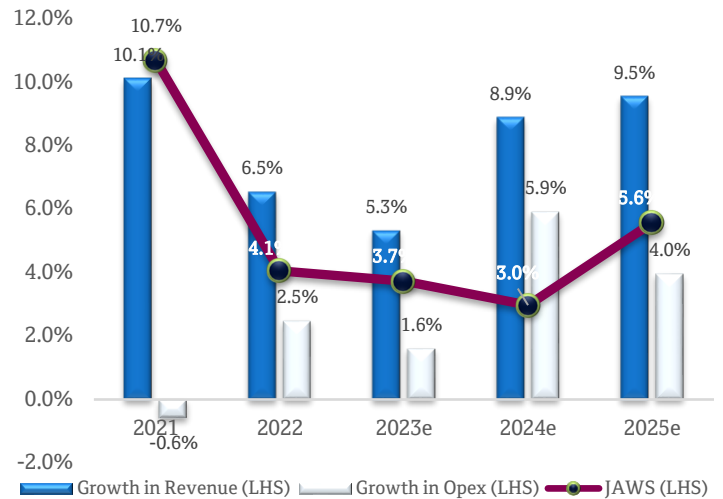


Efficiently Managed Bank

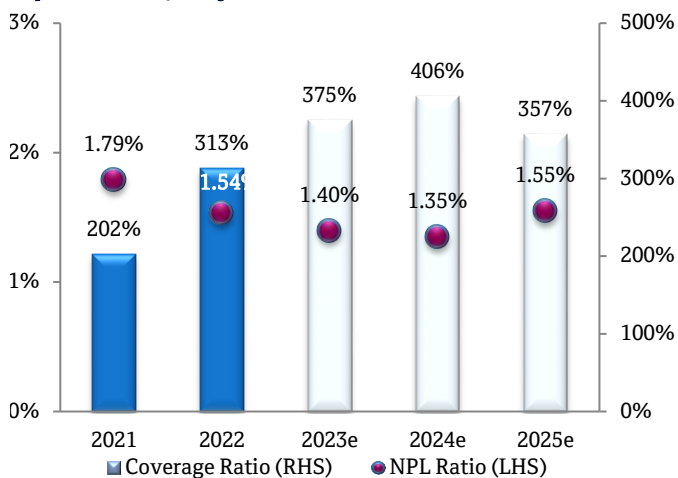


Source: Company data, QNB FS Research

While Generating Strong Revenue Growth and Positive JAWs



Superior Asset Quality



Source: Company data, QNB FS Research

Strong Coverage of Stage 3 Loans

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	98,612,878	23,361,056	1,883,407	123,857,341
ECLs	3,583,446	898,453	1,796,760	6,278,659
Stages % of Loans	79.6%	18.9%	1.5%	
Stages % ECLS	57.1%	14.3%	28.6%	
Coverage Ratio	4%	4%	95%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	4,350	4,774	4,999	5,392	5,887	6,618
Fees & Commissions	661	726	810	855	942	904
FX Income	76	200	122	131	148	126
Other Income	353	289	451	345	343	371
Non-Interest Income	1,090	1,215	1,383	1,330	1,433	1,402
Total Revenue	5,439	5,990	6,382	6,723	7,321	8,020
Operating Expenses	(1,092)	(1,085)	(1,112)	(1,130)	(1,197)	(1,245)
Net Operating Income	4,348	4,904	5,270	5,593	6,124	6,775
Net Provisions & Impairments	(1,316)	(1,342)	(1,235)	(1,128)	(1,115)	(1,135)
Net Profit Before Taxes & Non-Recurring	3,032	3,563	4,034	4,465	5,008	5,640
Tax	(7)	(10)	(11)	(12)	(14)	(16)
Net Profit Before Minority Interest	3,024	3,553	4,023	4,452	4,994	5,625
Minority Interest	41	2	(18)	(27)	(60)	(67)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,065	3,555	4,005	4,425	4,934	5,557
Interest On Tier-1 Sukuk	(205)	(196)	(188)	(188)	(188)	(188)
Social & Sports Contribution Fund	(77)	(89)	(100)	(111)	(123)	(139)
Net Profit (Attributable)	2,783	3,270	3,717	4,127	4,623	5,230

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Assets						
Cash & Balances with Central Bank	8,357	7,177	7,951	7,834	8,038	9,392
Interbank Loans	6,913	7,461	3,188	3,819	5,585	4,672
Net Investments	33,248	44,380	45,774	52,210	55,592	52,491
Net Loans	119,072	128,409	119,285	127,304	139,625	155,735
Investment In Associates	1,134	1,140	1,130	1,170	1,211	1,250
Other Assets	1,937	1,709	2,576	2,481	2,561	2,230
Net PP&E	462	570	558	539	522	516
Investment In Real Estate	2,863	2,854	3,321	3,358	3,396	3,434
Goodwill & Intangible Assets	370	218	218	218	218	218
Total Assets	174,356	193,916	184,001	198,934	216,748	229,938
Liabilities						
Interbank Deposits	13,828	19,856	17,382	21,665	22,921	16,217
Customer Deposits	118,144	131,095	122,371	130,570	141,015	156,527
Sukuk Financing	14,059	14,063	12,453	12,702	15,243	16,005
Other Liabilities	5,120	3,491	3,868	3,395	3,878	3,913
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	155,150	172,504	160,075	172,331	187,057	196,662
Minority Interest	903	676	669	695	755	823
Total Shareholders' Equity	18,304	20,736	23,257	25,908	28,936	32,453
Total Liabilities & Shareholders' Equity	174,356	193,916	184,001	198,934	216,748	229,938
Risk Weighted Assets	121,582	134,045	138,570	151,190	169,063	181,651

Source: Company data, QNB FS Research

Key Indicators/KPIs	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Tangible)	16.6	18.2	18.1	17.9	18.0	18.2
RoAA	1.6	1.8	2.0	2.2	2.2	2.3
RoRWA	2.5	2.7	2.8	3.0	3.1	3.1
NIM (% of IEAs)	2.87	2.90	2.97	3.16	3.15	3.29
NIM (% of RWAs)	3.75	3.74	3.67	3.72	3.68	3.77
NIM (% of AAs)	2.57	2.59	2.65	2.82	2.83	2.96
Spread	2.52	2.66	2.67	2.77	2.77	2.89
Efficiency (%)						
Cost-to-Income (Headline)	20.1	18.1	17.4	16.8	16.4	15.5
Cost-to-Income (Core)	21.2	18.9	18.7	17.7	17.1	16.3
Liquidity (%)						
LDR	100.8	98.0	97.5	97.5	99.0	99.5
Loans/Assets	68.3	66.2	64.8	64.0	64.4	67.7
Cash & Interbank Loans-to-Total Assets	8.8	7.5	6.1	5.9	6.3	6.1
Deposits to Assets	67.8	67.6	66.5	65.6	65.1	68.1
Wholesale Funding to Loans	23.4	26.4	25.0	27.0	27.3	20.7
IEAs to IBLs	120.9	117.1	122.2	120.8	118.5	124.2
Asset Quality (%)						
NPL Ratio	1.4	1.8	1.5	1.4	1.4	1.6
NPL to Shareholder's Equity	9.6	11.5	8.3	7.3	6.9	7.9
NPL to Tier 1 Capital	7.9	10.1	7.4	6.8	6.8	8.0
Coverage Ratio	226.8	202.4	313.0	375.2	406.0	357.0
ALL/Average Loans	3.1	3.5	4.2	4.7	5.1	5.3
Cost of Risk	105	104	92	84	78	70
Capitalization (%)						
CET1 Ratio	14.9	14.7	15.8	15.5	15.0	15.3
Tier-1 Ratio	18.2	17.7	18.7	18.2	17.4	17.5
CAR	19.4	18.9	19.9	19.4	18.6	18.7
Leverage (x)	9.5	9.4	7.9	7.7	7.5	7.1
Growth (%)						
Net Interest Income	12.7	9.8	4.7	7.9	9.2	12.4
Non-Interest Income	12.3	11.5	13.8	-3.8	7.7	-2.2
Total Revenue	12.6	10.1	6.5	5.3	8.9	9.5
OPEX	-0.9	-0.6	2.5	1.6	5.9	4.0
Net Operating Income	16.6	12.8	7.4	6.1	9.5	10.6
Net Income (Attributable)	0.3	17.5	13.7	11.0	12.0	13.1
Loans	4.7	7.8	-7.1	6.7	9.7	11.5
Deposits	5.8	11.0	-6.7	6.7	8.0	11.0
Assets	6.6	11.2	-5.1	8.1	9.0	6.1
RWAs	10.1	10.3	3.4	9.1	11.8	7.4

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
Doha, Qatar

Saugata Sarkar, CFA, CAIA
Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB") QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.