

## QNBFS Alert – MARK Posts Weak 2Q2015 Bottom-Line

- **2Q2015 earnings fall short of expectations.** Masraf Al Rayan (MARK) reported a net profit of QR487.6mn in 2Q2015, short of our expectation of QR528.3mn (BBG: QR510mn, Reuters: QR513mn). Net income declined by 4.5% QoQ but was up by 3.4% YoY. The miss was due to higher than expected operating expenses. MARK reported opex of QR165.1mn vs. our estimate of QR129.0mn. On the other hand, net interest income & investment income (QR546.4mn) was in-line with our estimate of QR547.4mn (-0.2% variation).
- **Opex was the primary hindrance to earnings growth.** The bank's net interest income & investment income increased by 2.6% QoQ (+7.6% YoY) to QR546.4mn while, net fees & commissions were flat QoQ (-27.8% YoY) at QR49.5mn. Surprisingly, operating expenses surged by 36.8% QoQ and 39.1% YoY to QR165.1mn. Thus, MARK's cost-to-income ratio jumped to 26.2% vs. 19.7% in 1Q2015 (20.0% in 2Q2014). As expected, the YoY growth in the bottom-line was primarily driven by QR46.5mn, which is a partial gain from its sale of 50% stake in Seef Lusail Real Estate Development Co to the real estate arm of the country's sovereign wealth fund. Without this gain, net income would have dropped by 6.4% YoY.
- **Balance sheet exhibited weakness.** Net loans displayed weak performance, declining by 5.3% QoQ (+2.8% YTD) to QR59.5bn. Moreover, deposits followed suit and receded by 4.1% QoQ (down 6.7% YTD). Hence, the LDR remained flattish at 102% vs. 1Q2015 (93% in 2014).
- **Asset quality remains superior.** MARK's NPL ratio stood at 0.08% with a coverage ratio of 87.0%.
- **MARK remains more than adequately capitalized.** Capital adequacy ratio stood at 18.34%.
- **Recommendation and valuation:** MARK trades at a P/E and P/B of 16.1x and 2.8x on our 2015 estimates respectively. For now we maintain our Market Perform rating.

### 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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