

MARK Alert – In-Line 2Q2020; Margin Expansion Aided the Bottom-Line

- **MARK reports in-line 2Q2020:** Masraf Al Rayan (MARK) reported a net profit of QR536.5mn in 2Q2020, in-line with our estimate of QR517.3mn (variation of +3.7%). The bottom-line remained flat YoY (-1.9% QoQ). MARK's reported figures were generally in-line across the board with the exception of net interest & investment income exceeding our estimates by 5.3%.
- **Net interest & investment income and cost containment aided the bottom-line YoY offsetting weak non funded income.** MARK reported net interest & investment income of QR632.7mn, expanding by 12.7% YoY (+2.0% QoQ) on strong margin improvement. On the other hand, as expected, non-funded income dropped by 23.4% YoY (-25.8% QoQ) on the back of weak fees (as a result of subdued operating environment caused by COVID-19 disruptions). Fees & commissions dropped by 34.8% and 22.5% YoY and QoQ, respectively.
- **MARK booked net provisions & impairments vs. net reversals in 2Q2019, in-line with our estimate.** Net provisions & impairments came in at QR31.7mn vs our estimate of QR32.0mn. Although asset quality did not deteriorate, we believe the bank booked precautionary provisions as a result of COVID-19 disruptions.
- **Margins improved both YoY and sequentially.** NIMs increased by ~11bps YoY and ~3bps QoQ to ~2.42%. This was mainly due to the CoFs dropping more than yields.
- **C/I ratio remained healthy; MARK generated positive JAWS.** MARK generated a C/I ratio of 22.8% in 2Q2020 vs. 24.0% in 2Q2019 (22.6% in 1Q2020). Moreover, the bank generated positive JAWS of 5.3% YoY as revenue grew by 5.6% while opex remained flat.
- **Loans declined QoQ while deposits remained flat.** Net loans decreased by 1.5% sequentially to QR78.1bn (+4.4% YTD), while deposits remained flat at QR67.4bn. Thus, MARK's LDR position remained challenging at 116% vs. 114% in FY2019.
- **Asset quality remains superior as MARK's main exposure is to the public sector.** The bank's NPL ratio remained flat QoQ at 0.94% vs. 1.01% at the end of 2019.
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 2Q2020 with a CET1 and CAR of 19.1% and 19.7%, respectively.
- **Recommendation and valuation:** The stock trades at a P/B of 2.0x on our 2020 estimates. For now, we maintain our PT of QR3.766 and 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

OUTPERFORM Greater than +20%

ACCUMULATE Between +10% to +20%

MARKET PERFORM Between -10% to +10%

REDUCE Between -10% to -20%

UNDERPERFORM Lower than -20%

Risk Ratings

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

R-1 Significantly lower than average

R-2 Lower than average

R-3 Medium / In-line with the average

R-4 Above average

R-5 Significantly above average

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