

## MARK Alert – 2Q2021 In-Line; Strong Revenue, Provisions Remain Elevated

- **MARK's 2Q2021 earnings come bang in-line with estimates; good set of operating results:** Masraf Al Rayan (MARK) reported a net profit of QR568.62mn in 2Q2021, in-line with our estimate of QR564.25mn (variation of +0.8%). The bottom-line increased by 6.0% YoY but marginally declined by 1.1% sequentially.
- **Strong net interest & investment income along with fees and cost containment drove the bottom-line YoY in 2Q2021.** Net interest & investment income gained by 29.0% YoY (+2.3% QoQ), while fees surged by 63.0% YoY (+25.8% QoQ). However, provisions and impairments surged by 520.6% YoY (19.2% QoQ) to QR196.6mn, resulting in only 6.0% YoY growth (-1.1% QoQ decline) in the bottom-line.
- **Management remained prudent and conservative with CoR as it booked precautionary provisions.** Net credit provisions and impairments came in at QR196.6mn vs. QR31.7mn in 2Q2020 (QR164.9mn in 1Q2021). MARK booked a CoR of 39bps (annualized) in 1H2021 vs. 23bps in 1H2020 (35bps in FY2020).
- **MARK enjoys one of the highest RoEs among its peers.** The bank generated an RoE of 16.0% for 2Q2021.
- **C/I ratio remained healthy, generated positive JAWs.** MARK generated a C/I ratio of 19.5% in 2Q2021 vs. 22.8% in 2Q2020 (18.6% in 1Q2021). Revenue increased by 24.6% in 1H2021, outpacing the 4.8% growth in opex, resulting in JAWS of 19.8%. 2Q2021 revenue jumped by 29.2% YoY (+4.0% QoQ), while opex increased by 10.8% YoY (+9.4% sequentially). *The jump in opex YoY and sequentially is due to large depreciation and amortization charges in 2Q2021.*
- **Loans remained flat sequentially while deposits receded.** Net loans remained flat sequentially (+6.1% YTD) at QR91.20bn. On the other hand, deposits decreased by 2.0% QoQ (+10.2% YTD) to QR75.93bn.
- **Asset quality remains superior as MARK's main exposure is to the public sector.** The bank's NPL ratio improved remained flat QoQ at 1.07% in 2Q2020 (1.13% in FY2020).
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 1Q2021 with a CAR of 20.3%.
- **Recommendation and valuation:** The stock trades at a P/B of 2.2x on our 2021 estimates. We maintain our PT of QR5.113 and Accumulate 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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