

QNBFS Alert – MARK Delivers Strong 3Q2017 Exceeding Estimates

- **MARK continues positive earnings trend established by QNB Group.** In-line with our overall thesis that 3Q earnings for important Qatari equities may please investors on the upside and establish a positive fundamental tone for the Qatari equity market, MARK reported encouraging 3Q2017 results.
- **MARK reports strong 3Q2017 net profit; beating our estimates.** Masraf Al Rayan (MARK) reported a net profit of QR542.0mn in 3Q2017 vs. QR509.6mn in 2Q2017 (QR508.7mn in 3Q2016), ahead of our estimates by 6.6%. Net profit grew by 6.4% QoQ (+6.5% YoY).
- **Net profit on a QoQ basis was driven by strong revenue and cost control.** Net interest & investment income gained by 2.7% QoQ and 21.9% YoY to QR582.5mn (in-line with our estimate of QR569.5mn; +2.3% variation). Non-funded income increased by 16.2% QoQ (-6.5% YoY) driven by fees (+24.1% QoQ, down 17.8% YoY). Opex was flat at QR150.2mn with C/I ratio declining to 21.7% vs. 22.5% in 2Q2017.
- **Margins improved.** Net interest margin increased by 7bps QoQ (+13bps YoY) to 2.23%. The QoQ and YoY improvement in NIM was led by a rise in asset yields exceeding rise in cost of funds. Yields on assets increased by 26bps QoQ (+67bps YoY) to 4.69%, whereas cost of funds increased by only 10bps (+38bps YoY) to 2.25%.
- **Net Loans growth remained muted.** Net loans inched up 0.8% QoQ (+1.3% YTD) to QR68.5bn, while deposits receded by 1.9% QoQ (+3.5% YTD) to QR60.0bn. As such MARK's LDR remained challenging at 114% vs. 111% in 2Q2017 (117% in FY2016).
- **Asset quality remains a non-issue and is immaterial.** The bank's NPL ratio remained at 0.15% vs. 2Q2017.
- **Capitalization remained robust.** MARK ended 3Q2017 with a CAR of 19.2%.
- **Recommendation and valuation:** The stock trades at a P/TB of 2.0x on our 2017 estimates. We change our rating to Market Perform from Reduce.

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

Saugata Sarkar
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff
Senior Research Analyst
+974 4476 6589
mohd.abodaff@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS 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 QNBFS 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. 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 QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS 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. QNBFS 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.

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