

Masraf Al Rayan (MARK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR33.25	Current Target Price	QR40.00
Implied Upside	20.30%		

MARK Reports In-Line 4Q2015 Net Profit

Masraf Al Rayan (MARK) is the second largest Shari'ah compliant bank among listed banks. Incorporated in 2006, MARK is focused on the public sector, which dominates its loan portfolio. Public sector loans grew by a CAGR (2009-2015) of 28.2% and represents 50% (December 2015) of MARK's loan portfolio. On the other hand, retail loans make up an immaterial 8.3% of the loan book. Notably, MARK has the best asset quality with an NPL ratio of 0.09%, one of the highest RoAEs of ~17% and robust capitalization at 18.5%.

Highlights

- **MARK reported net income of QR559.5mn in 4Q2015, in-line with our estimate of QR553.0mn (+1.2% variation).** Net income grew by 8.5% QoQ (dipped by 2.9% YoY).
- **Net interest income & investment income along with fees & commissions were the primary drivers of the QoQ growth.** Net interest & investment income increased by 8.4% QoQ (+3.1% YoY) to QR483.4mn. Moreover, fees & commissions surged by 65.9% QoQ (+120.3% YoY) to 86.9mn. This surge could be due to some one-time deals that took place in 4Q2015. On a YoY basis, net income dropped mainly due to partial booking of gain in real estate of QR46.5mn vs. QR111.7mn in 4Q2014. For FY2015, NIMs and spreads compressed. Yield on interest earning assets contracted by 13bps to 3.61% while cost of funding went up by 18bps to 1.18%. Thus, MARK's NIM receded by 25bps to 2.65% and the spread contracted to 2.4% vs. 2.7% in 2014. As a result, net interest income was weak, growing by only 3.5% YoY to QR2.0bn.
- **OPEX jumped in 4Q2015.** MARK's OPEX gained by 60% QoQ (+52.5% YoY) to QR163.9mn. Cost-to-income deteriorated to 25.8% vs. 19.2% in 3Q2015 (20.1% in 4Q2014). On annual basis (FY2015), the efficiency ratio moved to 22.9% vs. 20.6% in 2014.
- **The bank announced cash DPS of QR1.75/share, unchanged from 2014.** A cash DPS of QR1.75/share implies a dividend payout ratio of 64.9% and a yield of 5.3%.
- **Net Loans and deposits displayed sequential growth.** Net loans grew by 3.8% QoQ (+7.5% YoY) to QR62.3bn vs. flattish performance in 3Q2015. Deposits followed suit and increased by 5.4% QoQ (down by 11.1% YoY) to QR55.6bn. The main driver of loan growth in 2015 was the real estate segment, which expanded by 26.8% YoY. The decrease in FY2015's deposits is attributed to the public sector (MARK heavily relies on public sector deposits), which contracted by 25.5% YoY. MARK's FY2015 LDR was steep at 112% vs. 114% in 3Q2015 (93% in 2014). MARK needs to bring down its LDR ratio below 100% by the end of 2017. As such we expect funding pressure for the bank.
- **Asset quality remains robust.** MARK's NPL ratio as of FY2015 stood at 0.09% (unchanged from 2014), while the coverage ratio remained unchanged at ~90%. The bank posted a net reversal of QR567k in FY2015 vs. net provisions of QR12.4mn in FY2014. This has been a recurring trend over the past with the bank reporting immaterial provisions or net reversals.
- **Capitalization remains strong.** MARK boasts strong capitalization levels at 18.5%.

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Growth in public sector loans after a weak 2015 and 2) Improvement in NIMs and spreads.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR40.00.** MARK is trading at a 2016e P/B and P/E of 2.0x and 12.1x, respectively.
- **Risks:** 1) Depressed oil prices remains the biggest risk for MARK and the banking sector, 2) Increase in credit costs, 3) MARK loses market share in the government segment and 4) LDR requirement from the QCB could create short-term issues.

Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
Attributable EPS (QR)	2.60	2.69	2.74	2.88
EPS Growth (%)	17.6	3.6	1.7	4.9
P/E (x)	12.8	12.3	12.1	11.6
BVPS (QR)	15.1	16.1	16.8	17.4
P/B (x)	2.2	2.1	2.0	1.9
DPS (QR)	1.75	1.75	1.75	2.00
Dividend Yield (%)	5.3	5.3	5.3	6.0

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	33.25
Dividend Yield (%)	5.3
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000AOM8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	51.70/28.60
3-m Average Volume ('000)	829.6
Mkt. Cap. (\$ bn/QR bn)	6.8/24.9
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	9.1
1-Year Total Return (%)	(23.4)

Fiscal Year End December 31

Source: Bloomberg (as of January 19, 2016), *Qatar Exchange (as of January 19, 2016); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	2,024	2,175	2,357	2,680
Fees & Commissions	238	206	237	265
FX Income	108	115	133	146
Other Income	44	98	114	124
Non-Interest Income	390	419	484	536
Total Income	2,414	2,594	2,840	3,216
Operating Expenses	(552)	(545)	(589)	(643)
Net Operating Income	1,862	2,049	2,252	2,573
Net Provisions	(47)	(14)	(19)	(23)
Net Profit Before Taxes & Non-Recurring Items	1,815	2,034	2,233	2,550
Non-Recurring Income	186	93	0	0
Net Profit After Non-Recurring Income	2,001	2,127	2,233	2,550
Tax	25	(2)	(3)	(3)
Net Profit Before Minority Interest	2,026	2,125	2,230	2,547
Minority Interest	47	(17)	(18)	(21)
Net Profit (Headline/Reported)	2,073	2,108	2,212	2,526
Social & Sports Contribution Fund	(52)	(53)	(55)	(63)
Net Profit (Attributable)	2,022	2,056	2,157	2,463

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Assets				
Cash & Balances with Central Bank	2,737	3,700	3,577	4,149
Interbank Loans	2,376	3,794	2,833	2,850
Net Investments	14,625	16,253	18,650	20,470
Net Loans	62,261	63,236	70,815	81,429
Investment In Associates	469	443	455	467
Other Assets	410	430	425	586
Net PP&E	147	190	188	185
Investment in Real Estate	0	91	91	91
Total Assets	83,026	88,138	97,033	110,227
Liabilities				
Interbank Deposits	13,345	12,537	11,074	11,712
Customer Deposits	55,623	61,665	71,532	82,977
Other Liabilities	1,700	925	930	1,245
Total Liabilities	70,668	75,128	83,535	95,933
Total Shareholders' Equity	12,044	12,611	13,080	13,855
Minority Interest	314	400	418	439
Total Liabilities & Shareholders' Equity	83,026	88,138	97,033	110,227

Source: Company data, QNBFS estimates

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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