

MARK Alert – 1Q2021 In-Line; BoD Recommends Raising FOL to 100%

- **MARK's 1Q2021 earnings come bang in-line with estimates; good set of operating results:** Masraf Al Rayan (MARK) reported a net profit of QR574.7mn in 1Q2021, in-line with our estimate of QR578.5mn (variation of -0.7%). The bottom-line increased by 5.1% YoY and 12.0% sequentially.
- **MARK's board of directors recommends increasing FOL to 100%** – MARK's board of directors approved the amendment of the Articles of Association to increase the percentage of non-Qatari ownership to 100% subject to the approval of the concerned official authorities and the bank's EGM. Once approved and implemented, this increase should help boost MARK's weight in major indices such as MSCI EM and FTSE EM and contribute to increased foreign institutional ownership in the company.
- **Strong net interest & investment income along with cost containment drove the bottom-line YoY in 1Q2021.** Net interest & investment income gained by 28.6% YoY (+1.3% QoQ), while provisions and impairments surged by 301.8% YoY to QR164.9mn, resulting in only 5.1% YoY growth in the bottom-line.
- **Management remained prudent and conservative with CoR as it booked precautionary provisions.** Net credit provisions and impairments came in at QR164.9mn vs. QR41.0mn in 1Q2020 (177.7mn in 4Q2020).
- **MARK enjoys one of the highest RoEs among its peers.** The bank generated an RoE of 16.4% for 1Q2021.
- **C/I ratio remained healthy, generated positive JAWs.** MARK generated a C/I ratio of 18.6% in 1Q2021 vs. 22.6% in 1Q2020 (20.9% in 4Q2020). Revenue increased by 20.3% YoY (+4.2% QoQ), while opex receded by 1% (-7.3% sequentially), resulting in JAWS of 21.2% (+11.5% QoQ).
- **Loans and deposits expanded QoQ.** Net loans increased by 6.2% sequentially to QR91.30bn. Growth in loans was most likely driven by the government and real estate sectors. Deposits gained by 12.4% to QR77.45bn.
- **Asset quality remains superior as MARK's main exposure is to the public sector.** The bank's NPL ratio improved QoQ from 1.13% in FY2020 to 1.05% in 1Q2021.
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 1Q2021 with a CAR of 19.9%.
- **Recommendation and valuation:** The stock trades at a P/B of 2.2x on our 2021 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

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

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

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

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