

QNBFS Alert – MARK 3Q2014 Net Income In-Line on a Recurring Basis

- **3Q2014 net income impacted by an one-off gain.** Masraf Al Rayan (MARK) posted a net profit of QR522.5mn in 3Q2014 vs. QR471.4mn in 2Q2014, up 10.8% QoQ. The results were below our estimate of QR614.8mn and Bloomberg consensus estimate of QR536.2mn. The miss is due to the fact that MARK partially booked an investment gain of QR74.5mn vs. our estimate QR186.4mn (40% of the total gain expected to be booked in the first year, more details below). Hence, we expect another ~QR112mn in gains to be booked over the next three quarters (the timing of booking this gain is at management discretion).
- **Details of the above mentioned sale of investment:** In 3Q2014, MARK sold its 50% stake in Seef Lusail Real Estate Development Co. to the real estate arm of the Gulf state's sovereign wealth fund. The sale price was around QR1.53bn, which would generate a gain of QR466mn for the bank spread over three years. As of the 2013 annual report, the total assets of Seef Lusail Real Estate Development Co. were worth QR2.13bn (50% share: QR1.06bn) with liabilities of QR44.59mn (50% share: QR22.48mn), revenue of only QR41,000 and net loss of QR6.4mn (50% share: QR3.2mn loss). Thus, the net book value was QR2.08bn (QR1.04bn to MARK). Furthermore, the payment will be made in three installments: 40% within a year from the signing the contract, 40% after 1-year of signing the contract and 20% after 2-years of signing the contract.
- **MARK's loan book increased by 17.0% QoQ.** MARK's loan book grew by 17.0% QoQ (+32.5% YTD), while total deposits (URIA & current accounts) declined by 0.6% QoQ (+16.3% YTD). However, income from financing activities declined by 2.0% QoQ. Similarly, cost of unrestricted investment account holders (URIA) and finance expense together decreased by 2.0% QoQ. Hence, net financing income declined by 2.0% QoQ.
- **We maintain our price target of QR46.30; change recommendation to Market Perform.** In the recent sell-off, MARK's stock price has corrected by 9.9% MTD. Hence, we change our recommendation from Reduce to Market Perform.

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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