

## QNBFS Alert – MARK 2Q2014 Net Income Beats Estimates

- **2Q2014 earnings growth driven by net financing income coupled with fees & commissions.** Masraf Al Rayan (MARK) reported a net income of QR471.4mn in 2Q2014, increasing by 9.0% QoQ and 12.1% YoY. Earnings beat our estimates (QR428.3mn) and Bloomberg consensus (QR434.8mn) by 10.1% and 8.4%, respectively. Net financing income and fees & commissions drove the bottom-line QoQ and YoY. Net financing income gained by 13.3% QoQ and 19.5% YoY reaching QR395.2mn. Moreover, net fees and commissions followed suit and climbed up by 9.2% QoQ (surged by 82.4% YoY) to QR68.9mn.
- **Deposit growth outpaced loans.** Mark's loan book grew a healthy 2.9% QoQ (13.3% YTD) to QR47.0bn while deposits (QR60.3bn) surged by 15.3% QoQ and 24.8% YoY. As such the bank's LDR fell to 78% vs. 87% in 1Q2014 (2013: 86%)
- **MARK continues to boast robust asset quality.** The bank ended 2Q2014 with NPL and coverage ratios of 0.09% (2013: 0.10%) and 94%, respectively.
- **Recent developments: MARK to sell 50% stake in Seef Lusail Real Estate Development Company.** MARK has agreed to sell its 50% stake in Seef Lusail Real Estate Development Company to the real estate arm of the Gulf state's sovereign wealth fund. MARK said the sale price would be QR1.53bn, which would generate a gain of QR466mn for the bank spread over three years. As of the 2013 annual report, total assets for Seef were worth QR2.13bn (50% share: QR1.06bn) with liabilities of QR44.59mn (50% share: QR22.48mn), and revenue of only QR41,000 and net loss of QR6.4mn (50% share: QR3.2mn loss). So the net book value was QR2.08bn (QR1.04bn to MARK). Furthermore, the payment will be made in three installments: 1) 40% on the day of signing the contract, 2) 40% after 1-year of signing the contract & 3) 20% after 2-years of signing the contract. This transaction will impact 3Q2014 results.
- **Valuation and price performance:** On YTD basis, the stock is up more than 75%. MARK is trading at P/B and P/E of 3.6x and 21.3x on our 2014 estimates, respectively. We maintain our price target of QR46.30 with a Reduce 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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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