

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR76.20</b>	<b>Target Price</b>	<b>QR77.9</b>
<b>Implied Upside</b>	<b>2.23%</b>		

## 2Q2012 Results Miss Estimates; Maintain Market Perform

- 2Q2012 results miss estimates; Maintain Market Perform.** Qatar Islamic Bank (QIBK) reported net profit of QR349.2mn for 2Q2012, down 8.7% YoY from QR382.5mn in 2Q2011. The results were below Bloomberg consensus median net income of QR391.5mn and our estimate of QR389.2mn. On a QoQ basis, the net profit was down 10%. The main culprit was the impairment on financial investments and other receivables, where the bank booked a charge of QR116.8mn versus QR71.3mn in 1Q2012 (there were no impairment charges in 2Q2011). On an YTD basis, QIBK has underperformed the Banking & Financial Service Index; the stock is down 4.42% (total return) versus the sector, which is up 11.07%. Given that QIBK offers a 2.23% upside potential to our price target of QR77.9, we maintain our Market Perform rating on the stock. On the valuation front, the stock is trading at a P/E ratio of 12.0x and P/B ratio of 1.5x on our 2012 estimates.

### Financial Results and Key Takeaways

- Income from financing activity increased by 21.7% YoY and 0.8% QoQ. The negligible growth on a QoQ basis is surprising given the strong 12.1% QoQ growth in loan book. Income from investing activity decreased by 6.3% YoY but was up 5.1% on a QoQ basis. Net commission and fee income for the period was QR114mn, up from QR56mn in 2Q2011, an increase of 105.4% YoY. On a QoQ basis, the growth was 14.6%.
- Payments to unrestricted investment account holders increased by 25.6% YoY and 16.5% QoQ for 2Q2012. General and administrative expenses jumped by 7.1% YoY. However, G&A expenses were up only 1.0% QoQ. Impairment losses on financial investments and other receivables was the key factor in earnings coming below our expectations. The high provision charge in 2Q2012 came as a surprise as provisions usually peak in 4Q.
- The higher-than-expected loan growth has resulted in a loan to deposit ratio of 107% in 2Q2012 vs. 93.4% in 2Q2011 (106% at the end of 2011). Due from financing activities increased by 12.1% QoQ, while combined deposits in customer accounts and unrestricted investment accounts increased by 11.6% QoQ.

**The strong QoQ loan book growth is a positive for the bank.** However, we feel deposit growth at relatively low costs will be the key for improving the bottom-line in the coming quarters. We will update investors after discussing the results in detail with QIBK management.

### Key Data:

Bloomberg ticker	QIBK QD
ADR/GDR ticker	N/A
Reuters ticker	QISB.QA
ISIN	QA0006929853
Sector	Banks & Financial Services
52wk high/52wk low (QR)	86.1/71.3
3-m average volume ('000)	69.4
Mkt. cap. (US\$ bn/QR bn)	4.9/18.0
Shares outstanding (mn)	236.3
FOL* (%)	8.4
FOL Limit* (mn)	48.7
1-year total return (%)	0.84
Fiscal year end	Dec. 31

Source: Bloomberg (as of July 11, 2012), \*Qatar Exchange

### Broker Recommendations

Recommendation	Number
Buy	2
Hold	8
Sell	0

Source: Bloomberg

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QIBK Income Statement (In QR mn)	2Q2011	1Q2012	2Q2012	Change YoY	Change QoQ
Total income from financing and investing activities, net	593	657	669	12.9%	1.9%
Income from commission and fees, net	56	100	114	105.4%	14.6%
Net operating income	654	777	763	16.7%	-1.8%
General and administrative expenses	(168)	(178)	(180)	7.1%	1.0%
Impairment (losses) reversals on financial investments and other receivables	-	(71)	(117)	N/A	63.8%
Equity of unrestricted investment account holders' share from net profit	(75)	(81)	(94)	25.6%	16.5%
Net profit for the year attributable to shareholders	382	388	349	-8.7%	-10.0%
QIBK Balance Sheet (In QR mn)	2011	1Q2012	2Q2012	Change YTD	Change QoQ
Due from financing activities	29,596	31,898	35,771	20.9%	12.1%
Financial investments	14,810	14,560	15,323	3.5%	5.2%
Total assets	58,286	58,990	63,165	8.4%	7.1%
Customers' accounts	9,286	8,681	9,732	4.8%	12.1%
Equity of unrestricted investment account holders	18,654	21,300	23,713	27.1%	11.3%
Total shareholders' equity	11,202	10,601	10,931	-2.4%	3.1%

Source: Company reports

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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