

QIBK Alert – 2Q2020 Beats Estimates; Provisions Prevent Growth in Bottom-Line

- **QIBK reported flat earnings in 2Q2020.** Qatar Islamic Bank (QIBK) reported a net profit of QR739.0mn in 2Q2020, beating our estimate of QR613.8mn (variation of +20%) due to higher-than-expected revenue. Net income gained by 7.5% sequentially.
- **Hefty provisions offsets strong growth in net operating income.** Net operating income increased by 27.9% YoY (+23.1% sequentially) to QR1.13bn as a result of strong revenue and cost containment. On the other hand, a surge in provisions outweighed the growth in net operating income, resulting in flat earnings YoY.
- **Margins significantly improved.** QIBK's net interest margin expanded by ~35bps and ~39bps YoY and QoQ to ~3.05%. Net interest & investment income grew by 23.3% YoY (+24.6% sequentially) to QR1.22bn.
- **QIBK remains cost-efficient and generated positive JAWS.** The bank's C/I ratio improved to 19.8% vs 23.8% in 2Q2019 (22.7% in 1Q2020). Moreover, QIBK generated positive JAWS of 21% and 16% YoY and QoQ in 2Q2020, respectively.
- **Net loans and deposits declined sequentially and YTD.** Net loans declined sequentially by 1.5% (-1.3% YTD) to QR112.3bn, while deposits declined 3.3% QoQ (-4.5% YTD) to QR106.6bn.
- **Asset quality remained healthy.** NPL ratio remained flat at 1.35% vs 1.30 in 1Q2020 and FY2019. During the same time, NPLs increased modestly by 2.0% QoQ to QR1.55bn. However, the coverage ratio of Stage 3 loans (NPLs) remained strong at 100%.
- **Net provisions and impairments jumped YoY as the bank took precautionary measures against COVID-19.** Net provisions and impairments surged by 102.4% YoY (+40.7% QoQ) to QR388.7mn. Moreover, 1H2020 CoR increased to 52bps vs. 27bps in 1H2019 (56bps in FY2019).
- **Capitalization remains strong.** The bank's CET-1 and Tier-1 ratios remained robust at 13.9% and 17.4%, respectively.
- **Recommendation & valuation:** QIBK trades at a 2020e P/E and P/TB of 13.0x and 2.1x. We maintain our PT of QR15.70 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

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