

QIBK Alert – 4Q2020 In-Line; Strong Revenue; Cut in DPS; Maintain Market Perform

- **QIBK reported in-line earnings in 4Q2020.** Qatar Islamic Bank (QIBK) reported a net profit of QR848.6mn in 4Q2020, in-line with our estimate of QR840.2mn (variation of +1.0%). Net income gained by 1.0% YoY and 7.4% sequentially.
- **Hefty provisions offset strong growth in net operating income.** Net operating income increased by 14.5% YoY (+2.6% sequentially) to QR1.16bn 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 only 1.0% growth in earnings YoY.
- **The bank cut dividends by 24%, which is a surprise.** QIBK announced DPS of QR0.400 (vs. QR0.525 for 2019), implying a yield of 2.3%. We were expecting the bank to maintain DPS in-line with 2019. We await further details regarding this DPS cut from management during the upcoming earnings conference call.
- **QIBK remains cost-efficient and generated positive JAWS.** The bank's C/I ratio improved to 18.9% vs 21.2% in 4Q2019 (19.9% in 3Q2020). Moreover, in FY2020, QIBK generated positive JAWS of 13.5% YoY.
- **Net loans and deposits improved sequentially and on a YoY basis.** Net loans expanded sequentially by 5.2% (+4.7% YoY) to QR119.1bn, while deposits expanded by 5.5% QoQ (+5.8% YoY) to QR118.1bn.
- **Asset quality came under some pressure, but remains at healthy levels.** NPL ratio increased from 1.30% in FY2019 to 1.42% in FY2020. During the same time, NPLs increased by 15.7% YoY to QR1.75bn. Moreover, the coverage ratio of Stage 3 loans (NPLs) remained strong at 92%.
- **Net provisions and impairments surged YoY as the bank continued to book precautionary measures against COVID-19.** Net provisions and impairments surged by 73.2% YoY (-11.0% QoQ) to QR306.9mn. Moreover, FY2020 CoR increased to 105bps vs. 56bps in FY2019.
- **Capitalization remains strong.** The bank's CET1 and Tier-1 ratios remained robust at 14.9% and 18.2%, respectively.
- **Recommendation & valuation:** QIBK trades at a 2021e P/E and P/TB of 13.3x and 2.1x. We maintain our PT of QR15.70 and Market Perform Rating for the time being.

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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