

QIBK Alert – In-Line 2Q2019; Changing Rating to Reduce from MP Based on Valuation

- **QIBK reported an in-line 2Q2019.** Qatar Islamic Bank (QIBK) reported a net profit of QR740.08mn in 2Q2019, bang in-line with our estimate of QR740.15mn. Net income gained by 5.7% YoY and 8.0% sequentially. As in the recent past, QIBK continues to benefit from positive contribution of minority interest with net income before minority interest only increasing 1.0% YoY and 4.1% sequentially.
- **Total revenue (in-line with our estimate) was soft YoY.** Total revenue remained flat YoY (+1.3% QoQ) at QR1.2bn due to a significant drop in f/x income. On the other hand, net operating income increased by 1.7% to QR887.1mn as a result of a 3.1% drop in opex. Net operating income was also in line with QNB FS estimate.
- **Margins remain under pressure.** QIBK's net interest margin compressed by ~20bps and ~18bps YoY and QoQ to ~2.70%, respectively as CoFs outpaced growth in yield on assets. The bank reported net interest & investment income of QR986.3mn gaining by 2.3% YoY (+1.2% QoQ), in-line with our estimate of QR981.5mn (variation of +0.5%).
- **QIBK remains cost-efficient and generated positive JAWS.** The bank's C/I ratio improved to 23.8% vs. 24.7% in 2Q2018 (23.2% in 1Q2019). Moreover, QIBK generated positive JAWS of 8.3% in 1H2019 as revenue grew by 2.6% while opex declined by 5.6%.
- **Net loans ticked up QoQ; deposits remained flat.** Net loans inched up by 0.6% sequentially (+4.6% YTD) to QR107.0bn, while deposits remained flat QoQ (+6.9% YTD) at QR107.6bn. Thus, QIBK's LDR position remained flat at 99% vs. 1Q2019 but improved vs. FY2018 (102%).
- **Asset quality remained healthy.** NPL ratio remained flat at 1.21% vs. 1.17% in 1Q2019 (1.21% in FY2018). During the same time, NPLs increased modestly by 4.1% QoQ (4.5% YTD) to QR1.22bn. However, the coverage ratio of Stage 3 loans (NPLs) was a strong 95%. *Having said this, the coverage ratio including risk reserves was a robust 271%.*
- **CoR remained healthy as well.** QIBK reported an annualized CoR of 55bps for 1H2019 vs. 52bps (annualized 1H2018).
- **Capitalization remains strong.** The bank's CET-1 and Tier-1 ratios remained robust at 13.6% and 17.3%, respectively.
- **Recommendation & valuation:** QIBK trades at a 2019e P/E and P/TB of 14.8x and 2.4x. We maintain our PT of QR12.90. QIBK has outperformed its peers and Qatar related indices, increasing by 43.7% on 1-year TTR basis. We are of the view that the stock's valuation is rich and change our rating to Reduce from Market Perform. The market is pricing in a RoE of 19.0% (which is high) vs. our average sustainable RoE of 15.7%.

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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