

QNBFS Alert – QIBK Delivers Strong Set of 2Q2017 Results, Trumps Estimates

- **QIBK posted strong 2Q2017 results, besting our estimates and that of BBG consensus.** Qatar Islamic Bank (QIBK) reported a net profit of QR609.8mn in 2Q2017, rising by 9.8% QoQ (+8.9% YoY), exceeding our estimate of QR568.4mn (+7% variation) and BBG consensus QR580.2mn.
- **Results were strong across the board but higher provisioning prevented further bottom-line growth.** Net interest & investment income grew by 14.2% QoQ (31.9% YoY) to QR961.6mn driven by interest income. Moreover, non-funded income displayed strong performance, gaining by 9.8% QoQ (down 3.9% YoY) as a result of fees and f/x income. On the other hand, net provisions & investment impairments were on the high side, surging by 41.5% QoQ to QR249.1mn vs. QR88.3mn in 2Q2016. *In our view, management's prudent provisioning practice is to help it mitigate any risks that may arise in the future.*
- **Margins significantly improved.** QIBK's net interest margin expanded by 29bps QoQ and 59bps YoY to 2.94%, respectively. This was a result of yield on assets jumping by 25bps QoQ and 60bps YoY, cost of funds inched up by 5bps and 6bps QoQ and YoY, respectively.
- **QIBK's operating efficiency improved.** The bank's C/I ratio receded to 24% from 26% in 1Q2017 (30% in 2Q2016). During 1H2017 QIBK generated robust JAWs of 20% as revenue grew by 18.3% YoY while opex declined by 1.5%.
- **Net loans' performance was strong and impressive given current weak market conditions.** Net loans expanded by 10.2% QoQ (+11.7% YTD) to QR109.7bn in an environment with no appetite for credit and liquidity concerns; impressive performance. On the other hand, deposits contracted by 6.7% QoQ (+1.6 YTD) to QR96.9bn. As such, QIBK's LDR was lifted to 113% vs. 96% in 1Q2017 (103% in FY2016). *We are of the view that the bank shed expensive time deposits in order to improve its margins. Having said this, liquidity could become an issue in the near future as a result of this exercise.*
- **Asset quality further improved and remains strong; non-material.** The bank's NPL ratio receded to 0.88% vs. 1.01% at the end of 2016. During the same NPLs declined by 2.6% YTD to QR970mn. Moreover, the coverage ratio improved to 110% vs. 80% at the end of 2016.
- **Capitalization remains strong.** The banks CAR remained strong at 16.6%.
- **Recommendation and valuation:** QIBK trades at a P/E and P/TB of 11.2x and 1.5x on our 2017 estimates, respectively. *We will be updating our model soon.*

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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