

QNBFS Alert – QIBK Reports In-Line 3Q2017; Maintain Market Perform with QR104 PT

- **QIBK reported in-line 3Q2017.** Qatar Islamic Bank (QIBK) reported a net profit of QR610.1mn in 3Q2017, flat QoQ (+10.9% YoY), bang in-line with our estimate and slightly ahead of BBG consensus of QR597mn. Moreover, net interest & investment income came in-line at QR893.6mn vs. our estimate of QR890.0mn.
- **Flat profitability QoQ was driven by a drop in credit provisions and other income, while YoY growth was attributed to robust net interest income.** As expected, total revenue declined by 6.5% QoQ to QR1.07bn (in-line with our estimate of QR1.05bn) due to a drop in net interest & investment income and non-funded income. Drop in credit provisions (-58.3%) supported the bottom-line. Profitability on a YoY basis was propelled by net interest & investment income which expanded by 19.0%, while non-funded income grew by 5.6%. Investment impairment provisions increased to QR119.2mn in 3Q2017 vs. QR57.5mn in 2Q2017 (QR25.3mn in 3Q2016). *In our view, management's prudent provisioning practice is to help it mitigate any risks that may arise in the future.*
- **Margins dipped QoQ.** QIBK's net interest margin receded by 2bps QoQ to 2.93% but expanded by 55bps YoY. This was a result of yield on loans dipping by 22bps QoQ (+46bps YoY) while cost of funds moved up by 5bps QoQ (+3bps YoY).
- **QIBK's operating efficiency remains intact.** Management continues to exercise prudent cost control as opex only climbed up 1.4% QoQ (+4.2% YoY). The bank's C/I ratio remains at a healthy level of 26%. During 9M2017, QIBK generated robust JAWs of 17.3% as revenue grew by 18.7% YoY while opex remained flat.
- **Net loans contracted, deposits increased marginally and fixed income investments surged.** Net loans contracted by 9.5% QoQ (+1.1% YTD) to QR99.3bn. On the other hand, deposits moved up by 1.8% QoQ (+3.4 YTD) to QR98.7bn. Thus, QIBK's LDR position significantly improved to 101% vs. 113% in 2Q2017. *QIBK's fixed income portfolio surged by 54.8% YTD to QR28.6bn. The bank offset the decline in loans with investing in fixed income securities. QIBK follows MARK's trend of growing its FI book in 3Q2017.*
- **Asset quality faced some pressure.** NPL ratio increased to 1.12% vs. 0.88%% in 2Q2017 (1.01% in FY2016). During the same time, NPLs increased by 15.9% QoQ (+12.9% YTD) to QR1.12bn. Moreover, the coverage ratio dropped to 102% vs. 110% in 2Q2017 (80% at the end of 2016). *Having said this, coverage ratio including risk reserves was a very strong 295%.*
- **Capitalization remains strong.** The bank's CAR remained strong at 16.6%.
- **Recommendation & valuation:** QIBK trades at 2017 P/E and P/TB of 10.3x and 1.5x. We retain our PT at QR104 and Market Perform rating. The stock has performed better than the QE Index and QEAS Index, down by 10.3% vs. QE (-22.0%) and QEAS Index (-20.5%). The name has performed better relative to its peers with MARK being an exception (down 6.0% YTD).

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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