

## Qatar Islamic Bank (QIBK)

| Recommendation | MARKET PERFORM | Risk Rating      | R-3     |
|----------------|----------------|------------------|---------|
| Share Price    | QR16.52        | Target Price     | QR15.70 |
| Implied Upside | (5.0%)         | Old Target Price | QR12.90 |

### A Strong 2019; Upgrading to Market Perform and Raising PT

After 2019's solid results, we increase our estimates and raise our PT to QR15.70/share. The bank's financial performance was strong in 2017, 2018 and 2019 despite the blockade. While 2019 results were in-line with our forecast, we now believe QIBK's future growth to be sustainable medium-term. QIBK's fundamentals continue to remain robust with attractive EPS growth forecast over the 2019-24e horizon. We increase our forecasts for net attributable income by 8.2% over 2020-22e and raise our PT to QR15.70 by lowering QIBK's cost of equity to reflect our sector wide view of improving risk premiums. Furthermore, we have upped our estimate for QIBK's sustainable RoE from 15.7% to 16.4% over our forecast horizon (QIBK is expected to generate superior RoE vs. peers - >18% in the medium term).

#### Highlights

- 4Q2019 net profit jumped by 12.0% YoY (+6.3% QoQ) driven by interest & investment income, fees & commissions along with a drop in opex.** QIBK reported a net profit of QR840.1mn in 4Q2019, gaining by 12.0% YoY, beating our estimate (+17.1% variation). The beat was across the board. However, on a FY2019 basis, QIBK's bottom-line was in-line with our estimate - QIBK posted a net profit of QR2.77bn vs. our estimate of QR2.74bn (+1.3% variation). The company's FY2019 bottom-line was also driven by the same factors as 4Q.
- DPS comes slightly ahead of our estimate of QR0.500:** QIBK recommended a cash DPS of QR0.525 (QR0.500 in 2018), yielding a below-average 3.2%.
- Margins expand:** The bank generated net interest margin of 2.7% in FY2019, expanding YoY by 11bps. This was a result of growth in yield on assets outpacing growth in CoFs. Yield on assets increased by 41bps while CoFs gained by 34bps.
- Positive RoE trajectory continues:** QIBK boasts one of the highest RoEs among its peers. The bank's RoE jumped from 16.2% in FY2018 to 18.0% in FY2019. We expect a RoE of 18.2% and 18.7% in 2020 and 2021, respectively.
- QIBK remains cost-efficient & continues to generate positive JAWs.** The bank's C/I ratio receded to 22.8% vs. 25.7% in FY2018 (26.6% in FY2017). Moreover, QIBK generated robust JAWs of 12.1% (2017: 12.4%, 2018: 3.6%). We continue to model positive JAWs in our forecast horizon.
- Net loans & deposits grow in lockstep:** Net loans expanded by 11.3% YoY to QR113.7bn, while deposits grew by 11.0% YoY to QR111.6bn. Lending growth was driven by the public sector, increasing by 80%. However, real estate loans dropped 9.2%, which is a positive in our view. We pencil in ~11% loan growth over 2020-22e.
- Asset quality remains manageable.** NPL ratio increased to 1.3% (still a low percentage) in FY2019 vs. 1.2% in 2018. During the same period, NPLs grew 20.2% YoY. Moreover, coverage ratio of Stage 3 loans (NPLs) fell to 97% vs. 105% in 2018.
- Capitalization remains strong.** QIBK's CET1 and Tier-1 ratios remained robust at 14.7% and 18.3%, respectively.

#### Catalysts

- QIBK stock significantly outperformed in 2018 and had a decent 2019.** For the stock to move up further, we need to see increasing momentum in reported results, in our view.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We raise our Price Target to QR15.70 from QR12.90 and we upgrade the stock's rating from Reduce to Market Perform.** QIBK is trading at a 2020e P/TB and P/E of 2.1x and 12.5x, respectively. Based on an earnings CAGR (2019-2024e) of 12.5%, the stock is trading at a PEG of 1.0x (indicating the stock is hovering around its fair value).
- Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

#### Key Financial Data and Estimates

| (In QR mn)         | 2019  | 2020e | 2021e | 2022e |
|--------------------|-------|-------|-------|-------|
| EPS (QR)           | 1.17  | 1.32  | 1.50  | 1.68  |
| EPS Growth (%)     | 11.8  | 12.7  | 13.5  | 12.1  |
| P/E (x)            | 14.1  | 12.5  | 11.0  | 9.8   |
| Tangible BVPS (QR) | 7.1   | 7.9   | 8.9   | 10.0  |
| P/TBV (x)          | 2.3   | 2.1   | 1.9   | 1.7   |
| DPS (QR)           | 0.525 | 0.550 | 0.575 | 0.600 |
| Dividend Yield (%) | 3.2   | 3.3   | 3.5   | 3.6   |

Source: Company data, QNB FS Research; Note: All data based on current number of shares

#### Key Data

|                           |                    |
|---------------------------|--------------------|
| Current Market Price (QR) | 16.52              |
| Dividend Yield (%)        | 3.2                |
| Bloomberg Ticker          | QIBK QD            |
| ADR/GDR Ticker            | N/A                |
| Reuters Ticker            | QISB.QA            |
| ISIN                      | QA0006929853       |
| Sector*                   | Banks & Fin. Svcs. |
| 52wk High/52wk Low (QR)   | 17.70/14.20        |
| 3-m Average Volume ('000) | 887.5              |
| Mkt. Cap. (\$ bn/QR bn)   | 10.7/39.0          |
| Shares Outstanding (mn)   | 2,362.93           |
| FO Limit* (%)             | 49.0               |
| Current FO* (%)           | 10.6               |
| 1-Year Total Return (%)   | +8.1               |
| Fiscal Year End           | December 31        |

Source: Bloomberg (as of January 20, 2020), \*Qatar Exchange (as of January 20, 2020); Note: FO is foreign ownership

#### Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

#### Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Change in Estimates

| (In QR mn)                     | 2020  |       |            | 2021  |       |            |
|--------------------------------|-------|-------|------------|-------|-------|------------|
|                                | Old   | New   | Change (%) | Old   | New   | Change (%) |
| Net Interest Income            | 4,154 | 4,249 | 2.3        | 4,612 | 4,701 | 1.9        |
| Non Interest Income            | 1,078 | 1,100 | 2.1        | 1,160 | 1,144 | -1.4       |
| Total Revenue                  | 5,232 | 5,349 | 2.2        | 5,772 | 5,845 | 1.3        |
| Opex                           | 1,212 | 1,126 | -7.1       | 1,302 | 1,158 | -11.0      |
| Net Operating Income           | 4,020 | 4,223 | 5.1        | 4,470 | 4,687 | 4.8        |
| Net Provisions & Impairments   | 765   | 773   | 1.1        | 973   | 798   | -17.9      |
| Net Income (Reported/Headline) | 3,216 | 3,417 | 6.2        | 3,454 | 3,851 | 11.5       |
| Net Income (Attributable)      | 2,931 | 3,126 | 6.7        | 3,163 | 3,549 | 12.2       |

Source: QNB FS Research

## Detailed Financial Statements

| (In QR mn)   | 2017         | 2018         | 2019         | 2020e        | 2021e        | 2022e        |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Interest Income</b>                         | <b>3,400</b> | <b>3,542</b> | <b>3,859</b> | <b>4,249</b> | <b>4,701</b> | <b>5,147</b> |
| Fees & Commissions                                 | 518          | 576          | 693          | 804          | 802          | 892          |
| FX Income  | 139          | 259          | 59           | 105          | 137          | 145          |
| Other Income                                       | 106          | 142          | 219          | 191          | 205          | 234          |
| <b>Non-Interest Income</b>                         | <b>763</b>   | <b>978</b>   | <b>971</b>   | <b>1,100</b> | <b>1,144</b> | <b>1,272</b> |
| <b>Total Revenue</b>                               | <b>4,162</b> | <b>4,519</b> | <b>4,830</b> | <b>5,349</b> | <b>5,845</b> | <b>6,418</b> |
| Operating Expenses                                 | (1,106)      | (1,161)      | (1,101)      | (1,126)      | (1,158)      | (1,213)      |
| <b>Net Operating Income</b>                        | <b>3,057</b> | <b>3,358</b> | <b>3,729</b> | <b>4,223</b> | <b>4,687</b> | <b>5,205</b> |
| Net Provisions & Impairments                       | (785)        | (720)        | (733)        | (773)        | (798)        | (872)        |
| <b>Net Profit Before Taxes &amp; Non-Recurring</b> | <b>2,271</b> | <b>2,638</b> | <b>2,996</b> | <b>3,450</b> | <b>3,888</b> | <b>4,334</b> |
| Tax  | (18)         | 2            | (11)         | (13)         | (14)         | (16)         |
| <b>Net Profit Before Minority Interest</b>         | <b>2,253</b> | <b>2,641</b> | <b>2,985</b> | <b>3,437</b> | <b>3,874</b> | <b>4,318</b> |
| Minority Interest                                  | 155          | 115          | 71           | (21)         | (23)         | (26)         |
| <b>Non-Recurring/Unusual Gains/(Losses)</b>        | <b>(2)</b>   | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>0</b>     |
| <b>Net Profit (Headline)</b>                       | <b>2,405</b> | <b>2,755</b> | <b>3,055</b> | <b>3,417</b> | <b>3,851</b> | <b>4,292</b> |
| Interest On Tier-1 Sukuk                           | (205)        | (205)        | (205)        | (205)        | (205)        | (205)        |
| Social & Sports Contribution Fund                  | (60)         | (69)         | (76)         | (85)         | (96)         | (107)        |
| <b>Net Profit (Attributable)</b>                   | <b>2,140</b> | <b>2,481</b> | <b>2,774</b> | <b>3,126</b> | <b>3,549</b> | <b>3,979</b> |

Source: Company data, QNB FS Research

| (In QR mn)  | 2017           | 2018           | 2019           | 2020e          | 2021e          | 2022e          |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |                |                |                |                |                |                |
| Cash & Balances with Central Bank                   | 5,546          | 7,299          | 7,403          | 7,751          | 8,401          | 8,859          |
| Interbank Loans                                     | 4,876          | 6,424          | 3,552          | 4,507          | 4,863          | 3,087          |
| Net Investments                                     | 30,402         | 31,474         | 33,272         | 35,773         | 39,232         | 42,522         |
| Net Loans   | 102,613        | 102,210        | 113,754        | 125,207        | 138,937        | 154,331        |
| Investment In Associates                            | 669            | 568            | 545            | 544            | 543            | 551            |
| Other Assets  | 3,156          | 3,161          | 1,966          | 2,024          | 2,114          | 2,212          |
| Net PP&E  | 511            | 479            | 452            | 416            | 381            | 344            |
| Investment In Real Estate                           | 1,944          | 1,231          | 2,175          | 2,259          | 2,347          | 2,322          |
| Assets of a Subsidiary Held for Sale                | 246            | 0              | 0              | 0              | 0              | 0              |
| Goodwill & Intangible Assets                        | 411            | 386            | 400            | 360            | 319            | 240            |
| <b>Total Assets</b>                                 | <b>150,375</b> | <b>153,232</b> | <b>163,519</b> | <b>178,842</b> | <b>197,137</b> | <b>214,467</b> |
| <b>Liabilities</b>                                  |                |                |                |                |                |                |
| Interbank Deposits                                  | 17,191         | 17,234         | 14,355         | 11,593         | 11,846         | 8,434          |
| Customer Deposits                                   | 101,815        | 100,598        | 111,621        | 125,015        | 140,017        | 155,419        |
| Sukuk Financing                                     | 7,057          | 9,189          | 10,934         | 12,793         | 14,456         | 16,190         |
| Other Liabilities                                   | 3,432          | 5,472          | 4,450          | 5,376          | 4,481          | 5,440          |
| Tier-1 Sukuk  | 4,000          | 4,000          | 4,000          | 4,000          | 4,000          | 4,000          |
| <b>Total Liabilities</b>                            | <b>133,495</b> | <b>136,493</b> | <b>145,360</b> | <b>158,776</b> | <b>174,799</b> | <b>189,482</b> |
| <b>Minority Interest</b>                            | <b>1,591</b>   | <b>1,319</b>   | <b>1,026</b>   | <b>1,047</b>   | <b>1,070</b>   | <b>1,096</b>   |
| Total Shareholders' Equity                          | 15,289         | 15,420         | 17,133         | 19,019         | 21,268         | 23,889         |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>150,375</b> | <b>153,232</b> | <b>163,519</b> | <b>178,842</b> | <b>197,137</b> | <b>214,467</b> |

Source: Company data, QNB FS Research

| Key Indicators/KPIs                   | 2017  | 2018  | 2019  | 2020e | 2021e | 2022e |
|---------------------------------------|-------|-------|-------|-------|-------|-------|
| <b>Profitability (%)</b>              |       |       |       |       |       |       |
| RoE                                   | 15.0  | 16.2  | 18.0  | 18.2  | 18.7  | 18.7  |
| RoAA                                  | 1.5   | 1.6   | 1.8   | 1.8   | 1.9   | 1.9   |
| RoRWA                                 | 2.0   | 2.3   | 2.6   | 2.7   | 2.9   | 3.0   |
| NIM (% of IEAs)                       | 2.60  | 2.60  | 2.71  | 2.74  | 2.74  | 2.73  |
| NIM (% of RWAs)                       | 3.16  | 3.27  | 3.56  | 3.73  | 3.83  | 3.82  |
| NIM (% of AAs)                        | 2.34  | 2.33  | 2.44  | 2.48  | 2.50  | 2.50  |
| Spread                                | 2.23  | 2.19  | 2.26  | 2.29  | 2.27  | 2.19  |
| <b>Efficiency (%)</b>                 |       |       |       |       |       |       |
| Cost-to-Income (Headline)             | 26.6  | 25.7  | 22.8  | 21.0  | 19.8  | 18.9  |
| Cost-to-Income (Core)                 | 27.0  | 26.2  | 23.6  | 21.6  | 20.4  | 19.4  |
| <b>Liquidity (%)</b>                  |       |       |       |       |       |       |
| LDR                                   | 100.8 | 101.6 | 101.9 | 100.2 | 99.2  | 99.3  |
| Loans/Assets                          | 68.2  | 66.7  | 69.6  | 70.0  | 70.5  | 72.0  |
| Cash & Interbank Loans-to-Total Asset | 6.9   | 9.0   | 6.7   | 6.9   | 6.7   | 5.6   |
| Deposits to Assets                    | 67.7  | 65.7  | 68.3  | 69.9  | 71.0  | 72.5  |
| Wholesale Funding to Loans            | 23.6  | 25.9  | 22.2  | 19.5  | 18.9  | 16.0  |
| IEAs to IBLs                          | 123.8 | 123.1 | 121.1 | 120.1 | 119.6 | 121.1 |
| <b>Asset Quality (%)</b>              |       |       |       |       |       |       |
| NPL Ratio                             | 1.2   | 1.2   | 1.3   | 1.3   | 1.3   | 1.2   |
| NPL to Shareholder's Equity           | 7.9   | 8.2   | 8.8   | 8.9   | 8.5   | 8.2   |
| NPL to Tier 1 Capital                 | 6.5   | 6.7   | 7.5   | 7.9   | 7.8   | 7.7   |
| Coverage Ratio                        | 99.1  | 173.9 | 182.5 | 194.4 | 212.6 | 233.3 |
| ALL/Average Loans                     | 1.1   | 1.9   | 2.3   | 2.5   | 2.6   | 2.8   |
| Cost of Risk                          | 44    | 45    | 59    | 56    | 53    | 52    |
| <b>Capitalization (%)</b>             |       |       |       |       |       |       |
| Tier 1 Ratio                          | 16.9  | 17.8  | 18.3  | 18.3  | 18.1  | 17.9  |
| CAR                                   | 17.3  | 18.8  | 19.5  | 19.5  | 19.3  | 19.1  |
| Tier 1 Capital to Assets              | 12.4  | 12.3  | 12.4  | 12.0  | 11.8  | 11.8  |
| Tier 1 Capital to Loans               | 18.1  | 18.5  | 17.8  | 17.2  | 16.7  | 16.4  |
| Tier 1 Capital to Deposits            | 18.3  | 18.8  | 18.1  | 17.2  | 16.6  | 16.3  |
| Leverage (x)                          | 9.8   | 9.9   | 9.5   | 9.4   | 9.3   | 9.0   |
| <b>Growth (%)</b>                     |       |       |       |       |       |       |
| Net Interest Income                   | 27.5  | 4.2   | 9.0   | 10.1  | 10.6  | 9.5   |
| Non-Interest Income                   | -22.7 | 28.2  | -0.7  | 13.4  | 4.0   | 11.2  |
| Total Revenue                         | 14.0  | 8.6   | 6.9   | 10.8  | 9.3   | 9.8   |
| OPEX                                  | 1.5   | 5.0   | -5.2  | 2.3   | 2.9   | 4.7   |
| Net Operating Income                  | 19.2  | 9.9   | 11.1  | 13.3  | 11.0  | 11.1  |
| Net Income (Attributable)             | 8.9   | 15.9  | 11.8  | 12.7  | 13.5  | 12.1  |
| Loans                                 | 4.5   | -0.4  | 11.3  | 10.1  | 11.0  | 11.1  |
| Deposits                              | 6.7   | -1.2  | 11.0  | 12.0  | 12.0  | 11.0  |
| Assets                                | 7.5   | 1.9   | 6.7   | 9.4   | 10.2  | 8.8   |
| RWAs                                  | 4.7   | -3.3  | 3.8   | 6.4   | 9.1   | 10.4  |

Source: Company data, QNB FS Research

### Recommendations

*Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price*

|                       |                      |
|-----------------------|----------------------|
| <b>OUTPERFORM</b>     | Greater than +20%    |
| <b>ACCUMULATE</b>     | Between +10% to +20% |
| <b>MARKET PERFORM</b> | Between -10% to +10% |
| <b>REDUCE</b>         | Between -10% to -20% |
| <b>UNDERPERFORM</b>   | Lower than -20%      |

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

|            |                                   |
|------------|-----------------------------------|
| <b>R-1</b> | Significantly lower than average  |
| <b>R-2</b> | Lower than average                |
| <b>R-3</b> | Medium / In-line with the average |
| <b>R-4</b> | Above average                     |
| <b>R-5</b> | Significantly above average       |

### Contacts

#### **Saugata Sarkar, CFA, CAIA**

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### **Mehmet Aksoy, PhD**

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@qnbfs.com.qa](mailto:mehmet.aksoy@qnbfs.com.qa)

#### **Shahan Keushgerian**

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### **QNB Financial Services Co. WLL**

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

#### **Zaid Al Nafsoosi, CMT, CFTe**

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafsoosi@qnbfs.com.qa](mailto:zaid.alnafsoosi@qnbfs.com.qa)

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