

## QIIK Alert – Broadly In-Line 2Q2020; Surge in Provisions Dampened Strong Revenue Growth

- **QIIK reports broadly in-line 2Q2020.** Qatar International Islamic Bank (QIIK) reported net income of QR254.3mn in 2Q2020 (in-line with our estimate of QR242.9mn; +4.7% variation). Net income climbed up by 4.0% YoY, but declined by 4.8% sequentially.
- **QIIK generated strong revenue and net operating income YoY; surge in provisions prevented further growth in the bottom-line .** Total revenue grew by 8.0% YoY (-13.2% QoQ), driven by strong net interest & investment income coupled with non-funded income. Moreover, net operating income expanded by 12.7% YoY (-15.1% sequentially), aided by a reduction in costs. On the other hand, sequential decline in earnings was due to weak revenue.
- **The bank remains cost-efficient, generating positive JAWS.** QIIK's C/I ratio declined to 22.3% vs. 25.5% in 2Q2019 (20.5% in 1Q2020). QIIK generated positive JAWS of 13.6% YoY.
- **Asset quality remained healthy.** NPL ratio remained flat sequentially at 2.0% in 2Q2020. Coverage ratio of stage 3 loans improved to 57% vs 51% in FY2019, although it remains low.
- **QIIK booked large provisions as a precautionary measure due to COVID-19 disruptions.** QIIK booked net provisions and impairments of QR33.0mn vs. QR10.4mn in 2Q2019 (QR71.5mn in 1Q2020)
- **Net loans dropped; deposits exhibited weak performance.** Net loans contracted by 8.9% QoQ (-5.3% YTD) to QR35.0bn, while deposits declined by 4.2% (+11.4% YTD) to QR34.8bn. Hence, LDR dropped from 106% in 1Q2020 to 101% in 2Q2020 (119% in FY2019).
- **QIIK maintains a healthy capital position.** Tier-1 ratio was a strong 16.5% vs. 17.6% in 1Q2020.
- **Valuation and recommendation.** QIIK trades at a P/B and P/E of 2.0x and 14.5x on our 2020 estimates, respectively. We maintain our Market Perform rating and PT of QR7.95/share 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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