

Masraf Al Rayan (MARK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.85	Price Target	QR6.100
Implied Upside	25.8%	Old Price Target	QR5.113

Increasing Price Target to QR6.100 on Merger Completion

Masraf Al Rayan's (MARK) and Al Khalij Commercial Bank's (KCBK) merger has been approved by all regulatory bodies. As of Wednesday December 01, the new entity will start trading and KCBK will be de-listed. Consequently, we are changing our estimates after accounting for expected cost synergies and one-time merger costs. We increase our 2021 EPS estimate from QR0.304 (pre-merger MARK standalone) to QR0.315 for the combined entity. We maintain our 2022 EPS estimate at QR0.351 accounting for one-time integration costs for the combined entity. On a positive note, our 2023 EPS estimate increases from QR0.366 to QR0.382. Our thesis remains unchanged – given MARK's significant exposure to the public sector, we believe the stock deserves to trade at a premium to the market. **We estimate an earnings CAGR of 10.2% (2020-25e) and raise MARK's price target from QR5.113/share to QR6.100/share and maintain our outperform rating.** MARK boasts a healthy dividend yield (2022e: 4.6%), is cost-efficient, a strong RoE generator (although this will be dampened in the short to medium-term due to KCBK's weak RoE but then pick up to 15/16% by 2024) and maintains superior asset quality vs. its peers. MARK's merger with KCBK and its FOL increase to 100% (which has been approved by the regulators), should help boost MARK's weight in major indices such as MSCI EM and FTSE EM and contribute to increased foreign institutional ownership in the company. Moreover, even at the existing 49% FOL limit, we expect imminent foreign flows from at least MSCI trackers, which could act as a near-term positive catalyst. MARK trades at 2021e/22e P/B of 2.0x/1.9x (lower than its historical average of 2.3x/2.4x). Moreover, MARK is trading at a 2022e P/E of 13.8x, which is lower than its intrinsic P/E (19.9x). **We will publish a more comprehensive report shortly.**

Highlights

- We expect earnings to grow by a CAGR of 10.2% (2020-2025e):** we estimate the bottom-line to grow from 2020's pro forma QR2.73bn to QR4.44bn by 2025e, driven by healthy growth in net operating income (resulting from cost synergies) and normalizing CoR.
- MARK is expected to remain cost efficient; cost synergies should further enhance its efficiency ratio.** We expect the C/I ratio to drop from 2020's 20.0% to 18.5% in 2025.
- Asset quality to remain superior as MARK's primary exposure is to the public sector; management has been booking large precautionary provisions (because of the COVID-19 pandemic) since 2Q2020; we expect CoR to drop from our 2021 estimate of 60bps to 41bps by 2023.** Asset quality to remain healthy as NPLs are strongly collateralized.
- Loans are estimated to increase by a CAGR of 5.3% in 2020-25e.** We estimate loans to increase from 2020's QR119.9bn (pro forma) to QR155.5bn by the end of 2025. We expect loan growth to be driven by the public sector.
- CET1 to decrease modestly but still remain highest among its peers.** We expect MARK to generate a CET1 of 17.8% in 2021 and 2022. Pre-merger, we were forecasting MARK's CET1 at 19.8% in 2021/22. **The decline in this ratio is due to interest cost on KCBK's Tier-1 perpetual notes.**

Catalysts

- 1) Implementation of FOL to 100%.

Recommendation, Valuation and Risks

- Recommendation and valuation: We raise our PT to QR6.100 and maintain our Outperform rating.** MARK is trading at P/TB and P/E of 1.9x and 13.8x on our 2022 estimates, respectively.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS Attributable (QR)	0.294	0.315	0.351	0.382
EPS Growth (%)	-0.1	7.3	11.3	8.8
P/E (x)	16.5	15.4	13.8	12.7
Tangible BVPS (QR)	2.2	2.4	2.6	2.8
P/TBV (x)	2.2	2.0	1.9	1.8
Tangible RoE (%)	13.1	14.1	14.5	14.6
DPS (QR)	0.170	0.151	0.225	0.250
Dividend Yield (%)	3.5	3.1	4.6	5.2

Source: Company data, QNB FS Research; 2020 figures are QNB FS pro forma estimates. Note: All data based on current number of shares

Key Data

Current Market Price (QR)	4.850
Dividend Yield (%)	3.5
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.998/4.112
3-m Average Volume (mn)	6.5
Mkt. Cap. (\$ bn/QR bn)	12.4/45.1
Shares Outstanding (mn)	930,000
FO Limit* (%)	49.0
Current FO* (%)	15.1
1-Year Total Return (%)	15.3

Fiscal Year End December 31

Source: Bloomberg (as of November 30, 2021), *Qatar Exchange (as of November 30, 2021); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2020	2021e	2022e	2023e
Net Interest Income	4,045	4,498	4,741	5,008
Fees & Commissions	392	418	475	418
FX Income	177	181	194	203
Other Income	48	17	51	54
Non-Interest Income	617	615	719	676
Total Revenue	4,662	5,113	5,460	5,683
Operating Expenses	(1,025)	(1,089)	(1,079)	(1,115)
Net Operating Income	3,637	4,024	4,381	4,568
Net Provisions & Impairments	(716)	(924)	(772)	(854)
Net Profit Before Taxes & Minority Interest	2,921	3,100	3,609	3,714
Tax	(17)	(17)	(17)	(16)
Net Profit Before Minority Interest	2,904	3,083	3,593	3,698
Minority Interest	(5)	(12)	(10)	(10)
Net profit After Minority Interest	2,899	3,071	3,583	3,688
Non-Recurring Items	(40)	(9)	(180)	-
Net Profit (Reported/Headline)	2,859	3,062	3,403	3,688
Interest in Tier-1 Perpetual Securities	(55)	(55)	(55)	(45)
Social & Sports Contribution Fund	(71)	(75)	(84)	(91)
Net Profit (Attributable)	2,732	2,932	3,265	3,552

Source: Company data, QNB FS Research; 2020 figures are QNB FS pro forma estimates

Balance Sheet (In QR mn)	2020	2021e	2022e	2023e
Assets				
Cash & Balances with Central Bank	9,644	10,354	10,758	11,894
Interbank Loans	10,906	14,476	12,878	15,008
Net Investments	33,084	33,701	37,042	40,117
Net Loans	119,888	125,859	134,709	143,811
Investment In Associates	534	542	552	562
Other Assets	1,181	1,171	1,211	1,291
Goodwill & Intangibles	1,455	1,455	1,455	1,455
Total Assets	176,693	187,559	198,605	214,139
Liabilities				
Interbank Deposits	37,136	36,139	37,909	41,792
Customer Deposits	99,679	110,047	116,107	123,469
Borrowings & Sukuks	13,026	12,727	14,476	17,099
Other Liabilities	3,377	3,501	3,098	3,294
Tier-1 Perpetual Bonds	1,000	1,000	1,000	1,000
Total Liabilities	154,218	163,415	172,589	186,653
Minority Interest	227	239	248	258
Total Shareholders' Equity	22,248	23,905	25,767	27,227
Total Liabilities & Shareholders' Equity	176,693	187,559	198,605	214,139

Source: Company data, QNB FS Research; 2020 figures are QNB FS pro forma estimates

Ratios/KPIs	2020	2021e	2022e	2023e
Profitability (%)				
RoE (Tangible)	13.1	14.1	14.5	14.6
RoAA	1.6	1.6	1.7	1.7
RoRWA	2.6	2.7	3.0	3.0
NIM (% of IEAs)	2.57	2.68	2.66	2.63
NIM (% of RWAs)	3.92	4.21	4.35	4.30
NIM (% of AAs)	2.40	2.47	2.46	2.43
Spread	2.2	2.5	2.4	2.4
Efficiency (%)				
Cost-to-Income (Headline)	22.0	21.3	19.8	19.6
Cost-to-Income (Core)	22.2	21.4	19.9	19.8
Liquidity (%)				
LDR	120.3	114.4	116.0	116.5
Loans/Assets	67.9	67.1	67.8	67.2
Cash & Interbank Loans-to-Total Assets	11.6	13.2	11.9	12.6
Deposits to Assets	56.4	58.7	58.5	57.7
Wholesale Funding to Loans	32.5	29.9	30.4	31.6
IEAs to IBLs	118.0	116.8	117.0	116.3
Asset Quality (%)				
NPL Ratio	1.30	1.49	1.49	1.49
NPL to Shareholders' Equity	7.13	8.03	8.02	8.08
NPL to Tier 1 Capital	7.72	9.64	9.85	10.15
Coverage Ratio	142.6	156.1	175.1	189.5
ALL/Average Loans	1.9	2.3	2.6	2.8
Cost of Risk	0.55	0.60	0.49	0.41
Capitalization (%)				
Tier 1 Ratio	19.1	18.8	18.7	17.9
CAR	20.0	19.2	19.2	18.4
Tier 1 Capital to Assets	11.6	10.6	10.6	10.1
Tier 1 Capital to Loans	17.1	15.8	15.6	15.1
Tier 1 Capital to Deposits	20.6	18.1	18.1	17.6
Leverage (x)	7.9	7.8	7.7	7.9
Growth (%)				
Net Interest Income	23.4	11.2	5.4	5.6
Non-Interest Income	-22.0	-0.2	16.9	-6.1
Opex	3.7	6.3	-0.9	3.4
Net Operating Income	18.0	10.6	8.9	4.3
Net Income	1.2	7.1	11.1	8.4
Loans	13.2	5.0	7.0	6.8
Deposits	5.1	10.4	5.5	6.3
Assets	10.2	6.1	5.9	7.8
RWAs	8.5	-1.3	5.7	8.0

Source: Company data, QNB FS Research; 2020 figures are QNB FS pro forma estimates

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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