

## Masraf Al Rayan (MARK)

|                       |                   |                     |                |
|-----------------------|-------------------|---------------------|----------------|
| <b>Recommendation</b> | <b>ACCUMULATE</b> | <b>Risk Rating</b>  | <b>R-3</b>     |
| <b>Share Price</b>    | <b>QR4.479</b>    | <b>Price Target</b> | <b>QR5.113</b> |
| <b>Implied Upside</b> | <b>15.1%</b>      |                     |                |

### Accumulate on Impending Merger & 100% FOL Implementation

We incorporate MARK's reported 1H2021 financials in our model and tweak our estimates for various accounts. However, our earnings CAGR of 10.0% (2020-25e) remains intact. Hence, we maintain our PT of QR5.113 and Accumulate rating. MARK boasts one of the highest dividend yields (2021e: 4.2%), is cost-efficient, a strong RoE generator (2019: 16.0%, 2020: 15.2%, 2021e: 16.0% & 2022e: 18.0%) and maintains superior asset quality vs. its peers. Hence, we maintain our thesis that considering MARK's significant exposure to the public sector, the stock deserves to trade at a premium to the market. Moreover, the impending merger with KCBK and the FOL increase to 100% (which the BoD has already recommended), 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. MARK trades at 2021e/22e P/B of 2.2x/2.0x. Moreover, MARK is trading at a 2021e P/E of 14.6x, which is lower than its intrinsic P/E (17.1x).

#### Highlights

- MARK reported strong revenue & net operating income in 1H2021; provisions offset strong growth in net operating income.** Masraf Al Rayan (MARK) reported a net profit of QR1.14bn in 1H2021, bang in-line with our estimate of QR1.14bn. Net profit grew by 5.5% YoY. Net operating income increased by 24.6% YoY to QR1.51bn because of strong revenue (margin expansion & robust fee income) and cost containment. On the other hand, a surge in provisions outweighed the growth in net operating income, resulting in a 5.5% growth in earnings YoY (still a decent growth).
- MARK enjoys one of the highest RoEs among its peers, domestically and regionally.** The bank generated a RoE of 16.0% in 1H2021 (annualized). We expect a RoE of 16.0% and 18.0% in 2021 and 2022, respectively.
- MARK remained cost-efficient and generated positive JAWs; C/I ratio of 20%-19% is expected for the next couple of years.** MARK generated a C/I ratio of 19.1% in 1H2021 vs. 22.7% in 1H2020 (21.5% in FY2020). Moreover, the bank generated JAWs of 19.8% in 1H2021 as revenue grew by 24.6%, while opex climbed up by 4.8%.
- Asset quality remains 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 1H2020.** The bank's NPL ratio improved sequentially from 1.13% in FY2020 to 1.03% in 1H2021. Moreover, coverage of stage 3 loans remained flat at 55% vs. 56% in FY2020 (management indicated that NPLs are strongly collateralized). MARK generated a CoR (annualized) of 39bps in 1H2021 more or less in-line with FY2020's 35bps (1H2020: 23bps). We take a conservative stance and estimate CoR to increase to 42bps in 2021e vs. 35bps in 2020. However, there could be upside to our estimates if management books a CoR of 35bps, in-line with 2020.
- Loans are estimated to expand by 8.6% in 2021 vs. 12.2% previously estimated.** Net loans increased by 6.1% to QR91.20bn at the end of 1H2021 vs. FY2020 (most likely driven by the government and real estate sectors). Deposits gained by 10.2% to QR75.93bn. We now expect loans to grow by a CAGR (2020-25e) of 7.6% vs. 6.6% (2015-20).
- Capitalization remained robust and one of the highest among its peers.** MARK ended 1H2021 with a CET1 ratio of 19.3% and CAR of 20.3%. We expect CET1 and CAR to remain elevated at current levels going forward due to the conservative nature of the bank.

#### Catalysts

- 1) Further news on merger with KCBK – currently, MARK's EGM is scheduled to be held on Oct. 5<sup>th</sup> and KCBK's on Oct. 6<sup>th</sup>; 2) Implementation of FOL to 100%.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR5.113 and Accumulate rating.** MARK is trading at P/B and P/E of 2.2x and 14.6x on our 2021 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) | 0.28  | 0.31  | 0.37  | 0.40  |
| EPS Growth (%)        | -0.1  | 8.5   | 20.4  | 8.8   |
| P/E (x)               | 15.8  | 14.6  | 12.1  | 11.1  |
| Tangible BVPS (QR)    | 1.9   | 2.1   | 2.2   | 2.4   |
| P/TBV (x)             | 2.3   | 2.2   | 2.0   | 1.9   |
| RoE (%)               | 15.2  | 16.0  | 18.0  | 18.0  |
| DPS (QR)              | 0.170 | 0.187 | 0.250 | 0.250 |
| Dividend Yield (%)    | 3.8   | 4.2   | 5.6   | 5.6   |

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

#### Key Data

|                           |                    |
|---------------------------|--------------------|
| Current Market Price (QR) | 4.479              |
| Dividend Yield (%)        | 3.8                |
| Bloomberg Ticker          | MARK QD            |
| ADR/GDR Ticker            | N/A                |
| Reuters Ticker            | MARK.QA            |
| ISIN                      | QA000A0M8VM3       |
| Sector*                   | Banks & Fin. Svcs. |
| 52wk High/52wk Low (QR)   | 4.650/4.109        |
| 3-m Average Volume (mn)   | 5.0                |
| Mkt. Cap. (\$ bn/QR bn)   | 9.2/33.6           |
| Shares Outstanding (mn)   | 750,000.0          |
| FO Limit* (%)             | 49.0               |
| Current FO* (%)           | 16.0               |
| 1-Year Total Return (%)   | 12.6               |
| Fiscal Year End           | December 31        |

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

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## Detailed Financial Statements

| Income Statement (In QR mn)                            | 2018         | 2019         | 2020         | 2021e        | 2022e        | 2023e        |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Interest Income</b>                             | <b>2,268</b> | <b>2,300</b> | <b>2,773</b> | <b>3,274</b> | <b>3,621</b> | <b>3,913</b> |
| Fees & Commissions                                     | 315          | 388          | 261          | 300          | 331          | 288          |
| FX Income  | 152          | 162          | 158          | 149          | 159          | 169          |
| Other Income   | 53           | 42           | 37           | 7            | 31           | 34           |
| <b>Non-Interest Income</b>                             | <b>521</b>   | <b>593</b>   | <b>456</b>   | <b>456</b>   | <b>520</b>   | <b>491</b>   |
| <b>Total Revenue</b>                                   | <b>2,788</b> | <b>2,892</b> | <b>3,229</b> | <b>3,731</b> | <b>4,141</b> | <b>4,404</b> |
| Operating Expenses                                     | (668)        | (659)        | (694)        | (725)        | (767)        | (845)        |
| <b>Net Operating Income</b>                            | <b>2,120</b> | <b>2,234</b> | <b>2,535</b> | <b>3,006</b> | <b>3,374</b> | <b>3,558</b> |
| Net Provisions & Impairments                           | 22           | (45)         | (352)        | (634)        | (519)        | (452)        |
| <b>Net Profit Before Taxes &amp; Minority Interest</b> | <b>2,142</b> | <b>2,189</b> | <b>2,183</b> | <b>2,372</b> | <b>2,855</b> | <b>3,106</b> |
| Tax  | (2)          | (1)          | (2)          | (3)          | (3)          | (4)          |
| <b>Net Profit Before Minority Interest</b>             | <b>2,140</b> | <b>2,188</b> | <b>2,181</b> | <b>2,369</b> | <b>2,851</b> | <b>3,103</b> |
| Minority Interest                                      | (9)          | (10)         | (5)          | (9)          | (10)         | (11)         |
| <b>Net Profit (Reported/Headline)</b>                  | <b>2,130</b> | <b>2,178</b> | <b>2,175</b> | <b>2,359</b> | <b>2,841</b> | <b>3,092</b> |
| Social & Sports Contribution Fund                      | (53)         | (54)         | (54)         | (59)         | (71)         | (77)         |
| <b>Net Profit (Attributable)</b>                       | <b>2,077</b> | <b>2,124</b> | <b>2,121</b> | <b>2,300</b> | <b>2,770</b> | <b>3,014</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | 2018          | 2019           | 2020           | 2021e          | 2022e          | 2023e          |
|---|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |               |                |                |                |                |                |
| Cash & Balances with Central Bank                   | 3,027         | 3,123          | 7,071          | 6,978          | 6,761          | 5,476          |
| Interbank Loans                                     | 1,513         | 6,035          | 6,308          | 7,660          | 6,305          | 6,733          |
| Net Investments                                     | 19,222        | 21,379         | 20,586         | 21,033         | 23,122         | 24,968         |
| Net Loans   | 72,515        | 74,837         | 85,983         | 93,413         | 103,353        | 112,221        |
| Investment In Associates                            | 526           | 527            | 534            | 541            | 548            | 558            |
| Other Assets  | 302           | 267            | 362            | 206            | 310            | 337            |
| Net PP&E  | 189           | 228            | 271            | 330            | 359            | 364            |
| <b>Total Assets</b>                                 | <b>97,294</b> | <b>106,397</b> | <b>121,115</b> | <b>130,160</b> | <b>140,759</b> | <b>150,658</b> |
| <b>Liabilities</b>                                  |               |                |                |                |                |                |
| Interbank Deposits                                  | 16,546        | 19,367         | 27,979         | 27,133         | 28,301         | 29,677         |
| Customer Deposits                                   | 61,569        | 65,613         | 68,918         | 77,533         | 84,511         | 91,271         |
| Other Liabilities                                   | 5,706         | 7,285          | 9,626          | 9,867          | 10,942         | 11,554         |
| <b>Total Liabilities</b>                            | <b>83,820</b> | <b>92,265</b>  | <b>106,523</b> | <b>114,533</b> | <b>123,754</b> | <b>132,503</b> |
| <b>Minority Interest</b>                            | <b>196</b>    | <b>213</b>     | <b>227</b>     | <b>236</b>     | <b>246</b>     | <b>257</b>     |
| <b>Total Shareholders' Equity</b>                   | <b>13,277</b> | <b>13,919</b>  | <b>14,365</b>  | <b>15,391</b>  | <b>16,758</b>  | <b>17,898</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>97,294</b> | <b>106,397</b> | <b>121,115</b> | <b>130,160</b> | <b>140,759</b> | <b>150,658</b> |

Source: Company data, QNB FS Research

| Ratios/KPIs                            | 2018  | 2019  | 2020  | 2021e | 2022e | 2023e |
|--|-------|-------|-------|-------|-------|-------|
| <b>Profitability (%)</b>               |       |       |       |       |       |       |
| RoE                                    | 15.7  | 16.0  | 15.2  | 16.0  | 18.0  | 18.0  |
| RoAA                                   | 2.1   | 2.1   | 1.9   | 1.8   | 2.0   | 2.1   |
| RoRWA                                  | 3.3   | 3.4   | 3.3   | 3.3   | 3.8   | 3.8   |
| NIM (% of IEAs)                        | 2.39  | 2.37  | 2.60  | 2.81  | 2.86  | 2.85  |
| NIM (% of RWAs)                        | 3.61  | 3.65  | 4.27  | 4.74  | 4.94  | 4.92  |
| NIM (% of AAs)                         | 2.27  | 2.26  | 2.44  | 2.61  | 2.67  | 2.69  |
| Spread                                 | 1.9   | 1.8   | 2.3   | 2.6   | 2.6   | 2.6   |
| <b>Efficiency (%)</b>                  |       |       |       |       |       |       |
| Cost-to-Income (Headline)              | 24.0  | 22.8  | 21.5  | 19.4  | 18.5  | 19.2  |
| Cost-to-Income (Core)                  | 24.4  | 23.1  | 21.7  | 19.5  | 18.7  | 19.3  |
| <b>Liquidity (%)</b>                   |       |       |       |       |       |       |
| LDR                                    | 117.8 | 114.1 | 124.8 | 120.5 | 122.3 | 123.0 |
| Loans/Assets                           | 74.5  | 70.3  | 71.0  | 71.8  | 73.4  | 74.5  |
| Cash & Interbank Loans-to-Total Assets | 4.7   | 8.6   | 11.0  | 11.2  | 9.3   | 8.1   |
| Deposits to Assets                     | 63.3  | 61.7  | 56.9  | 59.6  | 60.0  | 60.6  |
| Wholesale Funding to Loans             | 28.0  | 33.0  | 41.0  | 36.9  | 35.9  | 34.7  |
| IEAs to IBLs                           | 124.2 | 122.2 | 117.3 | 116.4 | 116.7 | 118.3 |
| <b>Asset Quality (%)</b>               |       |       |       |       |       |       |
| NPL Ratio                              | 0.83  | 1.01  | 1.13  | 1.09  | 1.07  | 1.32  |
| NPL to Shareholders' Equity            | 4.59  | 5.45  | 6.82  | 6.72  | 6.71  | 8.43  |
| NPL to Tier 1 Capital                  | 5.10  | 6.20  | 7.37  | 7.50  | 7.70  | 9.93  |
| Coverage Ratio                         | 92.6  | 84.0  | 93.8  | 127.1 | 149.8 | 135.0 |
| ALL/Average Loans                      | 0.7   | 0.8   | 1.1   | 1.4   | 1.6   | 1.8   |
| Cost of Risk                           | N/M   | 0.07  | 0.35  | 0.42  | 0.35  | 0.30  |
| <b>Capitalization (%)</b>              |       |       |       |       |       |       |
| Tier 1 Ratio                           | 18.7  | 19.7  | 19.6  | 19.6  | 19.2  | 18.3  |
| CAR                                    | 19.2  | 20.3  | 20.3  | 20.5  | 20.1  | 19.3  |
| Tier 1 Capital to Assets               | 12.3  | 11.5  | 11.0  | 10.6  | 10.4  | 10.1  |
| Tier 1 Capital to Loans                | 16.5  | 16.4  | 15.5  | 14.8  | 14.1  | 13.5  |
| Tier 1 Capital to Deposits             | 19.4  | 18.7  | 19.3  | 17.8  | 17.3  | 16.6  |
| Leverage (x)                           | 7.3   | 7.6   | 8.4   | 8.5   | 8.4   | 8.4   |
| <b>Growth (%)</b>                      |       |       |       |       |       |       |
| Net Interest Income                    | 0.2   | 1.4   | 20.6  | 18.1  | 10.6  | 8.1   |
| Non-Interest Income                    | 10.1  | 13.9  | -23.1 | 0.1   | 14.0  | -5.6  |
| Opex                                   | 15.8  | -1.5  | 5.4   | 4.4   | 5.9   | 10.1  |
| Net Operating Income                   | -1.8  | 5.4   | 13.5  | 18.6  | 12.2  | 5.5   |
| Net Income                             | 5.0   | 2.3   | -0.1  | 8.5   | 20.4  | 8.8   |
| Loans                                  | 0.6   | 3.2   | 14.9  | 8.6   | 10.6  | 8.6   |
| Deposits                               | -1.5  | 6.6   | 5.0   | 12.5  | 9.0   | 8.0   |
| Assets                                 | -5.5  | 9.4   | 13.8  | 7.5   | 8.1   | 7.0   |
| RWAs                                   | 3.5   | -2.8  | 9.0   | 3.9   | 8.1   | 8.8   |

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       |

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