

## Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR3.900	Price Target	QR3.766
Implied Upside	(3.4%)	Old Price Target	QR3.940

### Strong Profitability Metrics & Asset Quality Priced In; Market Perform

We lower our 2020-23e earnings estimates by an average of ~4% considering the ramifications of the COVID-19 pandemic. Consequently, we revise down our estimates and lower our PT from QR3.940 to QR3.766 but maintain our Market Perform rating. MARK boasts one of the highest dividend yields (5.8%), is cost-efficient, a strong RoE generator (2019: 16.0%, 2020e: 15.1% & 2021e: 15.8%) and maintains superior asset quality vs. its peers. Having said that, we believe the market has priced in MARK's positive attributes as the name trades at 2020e/21e P/B of 2.0x (in-line with its fundamental P/B). Moreover, the stock is trading at a 2021e P/E of 12.9x, which is in-line with its intrinsic P/E (12.6x).

### Highlights

- Surge in provisions cap earnings growth YoY in 1Q2020:** Masraf Al Rayan (MARK) reported a net profit of QR547.0mn in 1Q2020. The bottom-line remained flat YoY (+4.2% QoQ) solely due to a surge in net provisions as net operating income grew by 7.1%. Mark reported provisions of QR41.0mn vs. QR0.6mn in 1Q2019 (QR49.4mn in 4Q2019). The sequential gain in net income was due to a 17.0% drop in provisions. Given the COVID-19 pandemic, we lower our 2020-2023 earnings forecasts by an average of ~4%.
- Margins remained stable in 1Q2020 given MARK's asset/liability interest rate gap; on the other hand, we expect some margin pressure as the bank may raise funds to bolster its liquidity position.** 64% of the bank's assets are repriceable within 1-year vs. 67% of liabilities to total assets, thus leading to a stable net interest margin. NIMs remained flat YoY at 2.39% vs. 2.35% in 1Q2019 (2.37% in FY2019). However, we expect margin pressure in 2020-23e as MARK raises funds to improve its liquidity.
- MARK remained cost-efficient.** MARK generated a C/I ratio of 22.6% in 1Q2020 vs. 22.5% in 1Q2019 (FY2019: 22.8%). We expect the bank to maintain a C/I ratio of ~22% in 2020-23e.
- Asset quality remains a non-issue as MARK's primary exposure is the public sector.** The bank's NPL ratio decreased to 0.94% vs. 1.01% at the end of 2019. Moreover, coverage of stage 3 loans remained low at 45% vs. 43% in 2019 (management indicated that NPLs are strongly collateralized). Stage 2 loans remained flattish, while stage 3 loans decreased by 1.5% YTD in 1Q2020. Stage 2 loans contributes 15.8% to total loans vs. 16.6% in FY2019. What is important to note here is that management is being conservative/prudent and is hence increasing provisions. Going forward, we do not foresee any pressure in asset quality due to the nature of the bank (primary exposure is to the public sector).
- Loans are estimated to grow by 6.6% in 2020 vs. 5.9% YTD in 1Q2020.** Net loans increased by 5.9% YTD to QR79.3bn in 1Q2020, while deposits moved up by 3.2% to QR67.6bn. Thus, MARK's LDR position remained challenging at 117% vs. 114% in FY2019. Moreover, loans to stable sources of funds weakened from 105% in FY2019 to 122% in 1Q2020. We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile and lower its LDR.
- Capitalization remained robust and one of the highest among its peers.** MARK ended 1Q2020 with a CET1 and CAR of 19.3% and 19.9%, respectively. We expect CAR to remain elevated at current levels going forward due to the conservative nature of the bank.

### Catalysts

- News flow and/or strategy in growing the business.

### Recommendation, Valuation and Risks

- Recommendation and valuation:** We lower our PT from QR3.940 to QR3.766. On the other hand, we maintain our Market Perform rating. MARK is trading at P/B and P/E of 2.0x and 12.9x on our 2021 estimates, respectively.
- Risks:** 1) Geopolitical factors, 2) Greater-than-expected increase in credit costs and 3) Losing market share in the government segment.

### Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS Attributable (QR)	0.28	0.28	0.30	0.32
EPS Growth (%)	2.3	-0.9	7.5	6.7
P/E (x)	13.8	13.9	12.9	12.1
Tangible BVPS (QR)	1.9	1.9	2.0	2.1
P/TBV (x)	2.1	2.0	2.0	1.9
RoE (%)	16.0	15.1	15.8	16.2
DPS (QR)	0.225	0.225	0.250	0.250
Dividend Yield (%)	5.8	5.8	6.4	6.4

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

### Key Data

Current Market Price (QR)	3.90
Dividend Yield (%)	5.8
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.23/3.41
3-m Average Volume (mn)	6.05
Mkt. Cap. (\$ bn/QR bn)	8.0/29.2
Shares Outstanding (mn)	750,000.0
FO Limit* (%)	49.0
Current FO* (%)	13.6
1-Year Total Return (%)	11.6
Fiscal Year End	December 31

Source: Bloomberg (as of June 04, 2020), \*Qatar Exchange (as of June 03, 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

## Changes in Estimates

In QR mn	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,365	2,373	0.4	2,471	2,501	1.2	2,583	2,662	3.1
Non Interest Income	663	559	-15.6	746	624	-16.3	827	690	-16.5
Revenue	3,028	2,933	-3.1	3,217	3,126	-2.8	3,410	3,353	-1.7
Opex	(672)	(674)	0.3	(706)	(709)	0.4	(769)	(773)	0.5
Net Operating Income	2,356	2,259	-4.1	2,511	2,417	-3.8	2,641	2,580	-2.3
Net Income (Reported)	2,293	2,159	-5.9	2,413	2,320	-3.9	2,538	2,476	-2.4
Net Income (Attributable)	2,236	2,105	-5.9	2,353	2,262	-3.9	2,475	2,414	-2.5

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
<b>Net Interest Income</b>	<b>2,264</b>	<b>2,268</b>	<b>2,300</b>	<b>2,373</b>	<b>2,501</b>	<b>2,662</b>
Fees & Commissions	274	315	388	345	397	445
FX Income	143	152	162	173	185	201
Other Income	56	53	42	42	43	44
<b>Non-Interest Income</b>	<b>473</b>	<b>521</b>	<b>593</b>	<b>559</b>	<b>624</b>	<b>690</b>
<b>Total Revenue</b>	<b>2,736</b>	<b>2,788</b>	<b>2,892</b>	<b>2,933</b>	<b>3,126</b>	<b>3,353</b>
Operating Expenses	(577)	(668)	(659)	(674)	(709)	(773)
<b>Net Operating Income</b>	<b>2,159</b>	<b>2,120</b>	<b>2,234</b>	<b>2,259</b>	<b>2,417</b>	<b>2,580</b>
Net Provisions & Impairments	(113)	22	(45)	(88)	(83)	(92)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>2,045</b>	<b>2,142</b>	<b>2,189</b>	<b>2,171</b>	<b>2,333</b>	<b>2,488</b>
Tax	(5)	(2)	(1)	(3)	(3)	(3)
<b>Net Profit Before Minority Interest</b>	<b>2,041</b>	<b>2,140</b>	<b>2,188</b>	<b>2,168</b>	<b>2,330</b>	<b>2,485</b>
Minority Interest	(13)	(9)	(10)	(10)	(10)	(9)
<b>Net Profit (Reported/Headline)</b>	<b>2,028</b>	<b>2,130</b>	<b>2,178</b>	<b>2,159</b>	<b>2,320</b>	<b>2,476</b>
Social & Sports Contribution Fund	(51)	(53)	(54)	(54)	(58)	(62)
<b>Net Profit (Attributable)</b>	<b>1,977</b>	<b>2,077</b>	<b>2,124</b>	<b>2,105</b>	<b>2,262</b>	<b>2,414</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e
<b>Assets</b>						
Cash & Balances with Central Bank	2,800	3,027	3,123	3,458	3,602	3,846
Interbank Loans	3,312	1,513	6,035	5,583	5,142	3,913
Net Investments	23,423	19,222	21,379	22,554	24,129	26,440
Net Loans	72,097	72,515	74,837	79,763	85,694	93,164
Investment In Associates	520	526	527	537	548	558
Other Assets	636	302	267	399	274	279
Net PP&E	160	189	228	251	286	317
<b>Total Assets</b>	<b>102,949</b>	<b>97,294</b>	<b>106,397</b>	<b>112,545</b>	<b>119,676</b>	<b>128,518</b>
<b>Liabilities</b>						
Interbank Deposits	25,123	16,546	19,367	20,758	21,782	22,204
Customer Deposits	62,531	61,569	65,613	69,156	73,512	80,129
Other Liabilities	1,905	5,706	7,285	8,073	9,238	10,307
<b>Total Liabilities</b>	<b>89,559</b>	<b>83,820</b>	<b>92,265</b>	<b>97,986</b>	<b>104,532</b>	<b>112,639</b>
<b>Minority Interest</b>	<b>199</b>	<b>196</b>	<b>213</b>	<b>222</b>	<b>233</b>	<b>241</b>
<b>Total Shareholders' Equity</b>	<b>13,191</b>	<b>13,277</b>	<b>13,919</b>	<b>14,336</b>	<b>14,911</b>	<b>15,638</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>102,949</b>	<b>97,294</b>	<b>106,397</b>	<b>112,545</b>	<b>119,676</b>	<b>128,518</b>

Source: Company data, QNB FS Research

<b>Ratios/KPIs</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
<b>Profitability (%)</b>						
RoE	15.6	15.7	16.0	15.1	15.8	16.2
RoAA	2.0	2.1	2.1	1.9	1.9	1.9
RoRWA	3.2	3.3	3.4	3.3	3.5	3.6
NIM (% of IEAs)	2.48	2.39	2.37	2.29	2.28	2.26
NIM (% of RWAs)	3.71	3.61	3.65	3.77	3.88	3.99
NIM (% of AAs)	2.33	2.27	2.26	2.17	2.15	2.15
Spread	2.1	1.9	1.8	1.8	1.8	1.7
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	21.1	24.0	22.8	23.0	22.7	23.1
Cost-to-Income (Core)	21.5	24.4	23.1	23.2	22.9	23.3
<b>Liquidity (%)</b>						
LDR	115.3	117.8	114.1	115.3	116.6	116.3
Loans/Assets	70.0	74.5	70.3	70.9	71.6	72.5
Cash & Interbank Loans-to-Total Assets	5.9	4.7	8.6	8.0	7.3	6.0
Deposits to Assets	60.7	63.3	61.7	61.4	61.4	62.3
Wholesale Funding to Loans	34.8	28.0	33.0	33.7	34.0	32.7
IEAs to IBLs	120.5	124.2	122.2	120.3	118.8	119.3
<b>Asset Quality (%)</b>						
NPL Ratio	0.47	0.83	1.01	0.93	0.96	1.00
NPL to Shareholders' Equity	2.58	4.59	5.45	5.22	5.57	6.01
NPL to Tier 1 Capital	2.86	5.10	6.20	6.17	6.83	7.63
Coverage Ratio	48.7	92.6	84.0	94.7	94.8	92.5
ALL/Average Loans	0.2	0.7	0.8	0.8	0.9	0.9
Cost of Risk	0.15	N/M	0.07	0.08	0.09	0.09
<b>Capitalization (%)</b>						
Tier 1 Ratio	19.3	18.7	19.7	19.1	18.6	18.1
CAR	19.3	19.2	20.3	19.6	19.2	18.7
Tier 1 Capital to Assets	11.6	12.3	11.5	10.8	10.2	9.6
Tier 1 Capital to Loans	16.5	16.5	16.4	15.2	14.2	13.2
Tier 1 Capital to Deposits	19.0	19.4	18.7	17.5	16.5	15.4
Leverage (x)	7.8	7.3	7.6	7.9	8.0	8.2
<b>Growth (%)</b>						
Net Interest Income	17.9	0.2	1.4	3.2	5.4	6.4
Non-Interest Income	-9.9	10.1	13.9	-5.6	11.6	10.6
Opex	24.7	15.8	-1.5	2.3	5.2	9.0
Net Operating Income	8.9	-1.8	5.4	1.1	7.0	6.7
Net Income	-2.3	5.0	2.3	-0.9	7.5	6.7
Loans	6.6	0.6	3.2	6.6	7.4	8.7
Deposits	7.8	-1.5	6.6	5.4	6.3	9.0
Assets	12.5	-5.5	9.4	5.8	6.3	7.4
RWAs	2.4	3.5	-2.8	2.3	2.8	4.2

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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