

Masraf Al Rayan (MARK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.372	Price Target	QR2.623
Implied Upside	10.6%		

3Q2024 Earnings Beats Estimates on Lower Provisions; Market Perform

Masraf Al Rayan reports QR499.2mn profit in 3Q2024 vs. QR473.0mn in 3Q2023, beating our estimate of QR472.0mn (variation of +5.7%). The beat was mainly attributable to a sharp drop in credit provisions as revenue was generally in-line with our estimate of QR968.4mn (MARK reported QR938.9mn; variation of -2.8%). The YoY growth in earnings is due to a 47.0% drop in credit provisions, offsetting margin pressure and weak non-funded income. Net-net, key takeaways from 3Q2024 results are margin pressure, weak non-funded income and improvement in loans. **We maintain our Market Perform rating.**

Highlights

- **Masraf Al Rayan's (MARK) bottom-line comes in ahead of estimates.** MARK's net income increased by 5.5% YoY (surged by 30.3% QoQ) to QR499.2mn in 3Q2024.
- **Significant drop in net credit provisions (YoY: -47.0%; QoQ: -35.4%) boosted the bottom-line as revenue was weak and opex increased.** Revenue dropped by 5.9% YoY to QR938.9mn due to a 9bps compression in NIM (2.02%) and a 15.7% drop in non-funded income. Sequentially, revenue was up by only 1.5%, supported by a 7bps increase in NIMs as non-funded income receded by 13.3%.
- **RoE continues to be weak and below its CoE.** 9M2024 annualized RoE came in at 8.4% vs. 7.7% in 9M2023. **We estimate it will take another 4 to 5 years for RoE to exceed the 10% level despite expected double-digit growth in earnings over 2025-2028.**
- **Although MARK's primary exposure is to the public sector (FY2023: 49%), asset quality continues to remain under pressure; the bulk/majority of NPLs is attributed to the construction and real estate segments.** NPLs increased by 2.5% sequentially (+5.9% YTD) from QR6.4bn in FY2023 to QR6.8bn in 3Q2024. However, the NPL ratio remained flattish at 5.91% vs. 2Q2024 (FY2023: 5.71%). **Moreover, Stage 2 loans, as a % of total loans remains one of the highest domestically at 32% with negligible coverage (2.0%).** At the same time, coverage of Stage 3 loans remained sequentially flat at 63% (FY2023: 57%) excluding eligible collateral.
- **9M2024 annualized CoR significantly improved vs. 9M2023.** CoR (annualized) came in at 86bps in 9M2024 vs. 108bps in 9M2023. Net credit provisions significantly dropped by 47.0% YoY and 35.4% sequentially. However, quarterly movements in provisioning is no indication for yearly CoR figure as the bank continues to build buffers for its impairments.
- **Loans increased sequentially and YTD.** Net loans increased by 1.5% sequentially to QR110.0bn (+1.7% YTD). On the other hand, deposits remained flat sequentially (+17.2% YTD) at QR108.6bn. As such, MARK's LDR improved to 101% vs. 119% in 3Q2024 (FY2023: 117%).
- **CET1 position remained robust.** MARK ended 3Q2024 with CET1/Tier-1 ratios of 21.2%/22.3%.

Catalysts

- 1) Normalizing CoR, which results in strong RoE ahead of expectations.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our PT at QR2.623/share and our Market Perform rating for now.** MARK is trading at 2024e/25e P/TB of 1.0/0.9x and P/E 14.8x/13.8x.
- **Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs and 3) write-offs

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
EPS Attributable (QR)	0.147	0.161	0.172	0.207
EPS Growth (%)	8.5	9.0	7.3	20.3
P/E (x)	16.1	14.8	13.8	11.4
Tangible BVPS (QR)	2.37	2.44	2.52	2.62
P/TBV (x)	1.0	1.0	0.9	0.9
RoE (%)	6.4	6.8	7.1	8.2
DPS (QR)	0.100	0.100	0.125	0.150
Dividend Yield (%)	4.2	4.2	5.3	6.3

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

Key Data

Current Market Price (QR)	2.372
Dividend Yield (%)	4.2
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.665/1.89
3-m Average Volume (mn)	9.6
Mkt. Cap. (\$ bn/QR bn)	6.1/20.1
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.1
1-Year Total Return (%)	17.5
Fiscal Year End	December 31

Source: Bloomberg (as of October 14, 2024), *Qatar Exchange (as of October 14, 2024); Note: FO is foreign institutional ownership

Shahan Keushgerian

+974 4476 6509

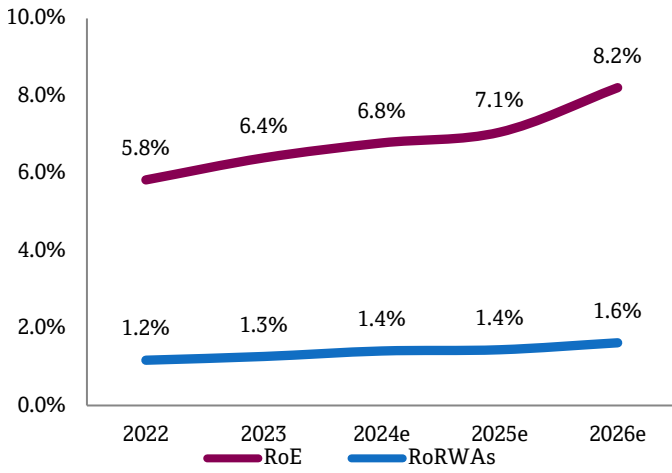
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

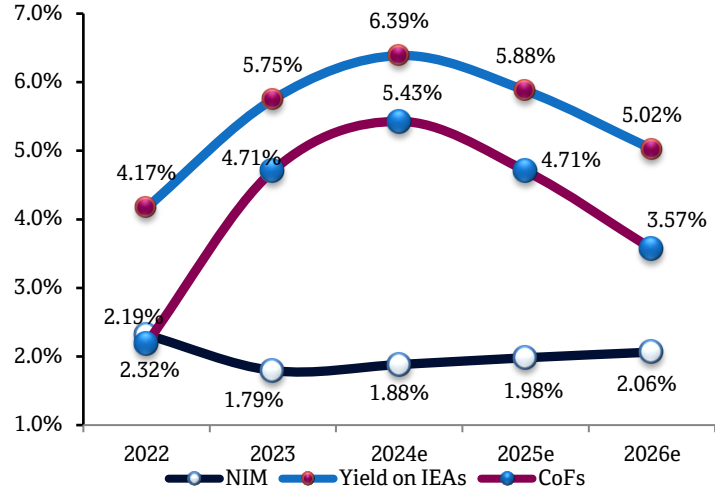
saugata.sarkar@qnbfs.com.qa

RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE

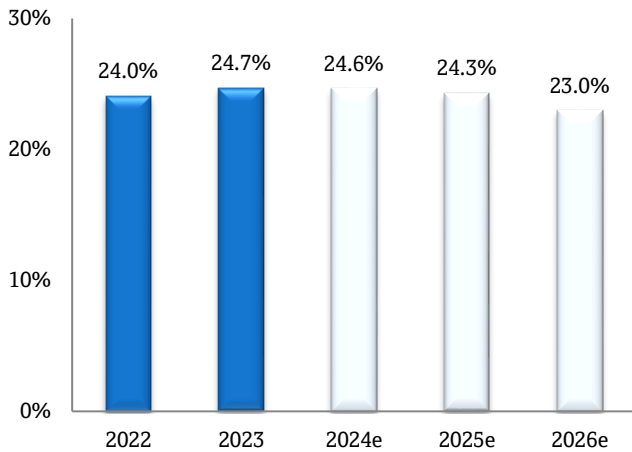


Source: Company data, QNB FS Research

While Margins to Gradually Improve

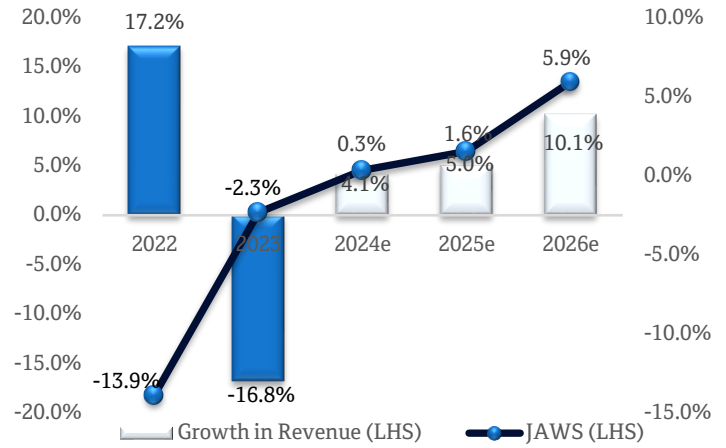


C/I Ratio to Improve Due to Cost Containment

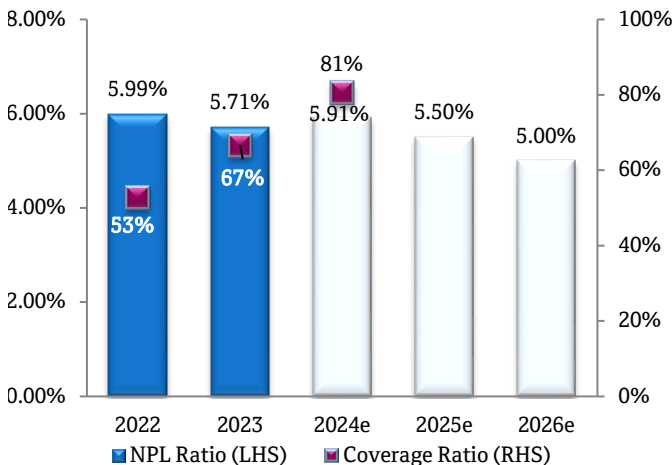


Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

While Generating Single-Digit JAWS



NPL Ratio Remains High on the Back of Contracting & Real Estate Loans Stage 2 Loans on the High Side, Contributing 32% to Total Loans



Source: Company data, QNB FS Research

3Q2024	Stage 1	Stage 2	Stage 3
Gross Loans	71,454,097	36,875,303	6,806,710
ALLs	42,691	743,609	4,312,868
Stages % Loans	62.1%	32.0%	5.91%
Coverage Ratio	0.06%	2.0%	63%

Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,607	2,727	2,836	3,073	3,369
Fees & Commissions	328	319	341	365	401
FX Income	271	197	248	271	298
Other Income	46	295	257	158	190
Non-Interest Income	645	810	846	794	889
Total Revenue	4,251	3,537	3,682	3,866	4,259
Operating Expenses	(1,022)	(874)	(907)	(938)	(978)
Net Operating Income	3,229	2,663	2,775	2,928	3,281
Net Provisions & Impairments	(1,710)	(1,165)	(1,129)	(1,177)	(1,184)
Net Profit Before Taxes & Minority Interest	1,519	1,498	1,646	1,751	2,097
Tax	(22)	(35)	(35)	(26)	(31)
Net Profit Before Minority Interest	1,497	1,463	1,611	1,725	2,066
Minority Interest	(19)	(28)	(33)	(35)	(42)
Non-Recurring Items	(134)	17	-	-	-
Net Profit (Reported/Headline)	1,344	1,452	1,578	1,690	2,023
Interest Expense on AT1 Bond	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(36)	(36)	(39)	(42)	(51)
Net Profit (Attributable)	1,263	1,369	1,493	1,601	1,927
EPS	0.140	0.151	0.165	0.177	0.213

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024e	2025e	2026e
Assets					
Cash & Balances with Central Bank	5,088	4,993	5,308	5,786	5,338
Interbank Loans	6,300	5,663	4,894	5,654	6,161
Net Investments	31,477	38,599	37,902	42,390	43,268
Net Loans	117,859	108,228	108,745	113,077	118,477
Investment In Associates	346	349	372	397	417
Other Assets	3,869	3,835	3,852	3,896	3,960
Net PP&E	915	969	999	1,031	1,063
Goodwill & Intangibles	1,679	1,565	1,451	1,337	1,223
Total Assets	167,533	164,200	163,523	173,567	179,908
Liabilities					
Interbank Deposits	29,316	32,204	21,591	24,510	23,423
Customer Deposits	97,292	92,724	100,142	107,152	113,581
Sukuks & Borrowings	11,525	9,821	10,411	10,411	10,411
Other Liabilities	5,118	4,644	5,976	5,386	5,579
AT1 Notes	1,000	1,000	1,000	1,000	1,000
Total Liabilities	144,251	140,393	139,120	148,458	153,993
Minority Interest	198	237	270	306	348
Total Shareholders' Equity	23,084	23,569	24,132	24,803	25,568
Total Liabilities & Shareholders' Equity	167,533	164,200	163,523	173,567	179,908
Risk Weighted Assets	111,079	105,187	106,780	115,596	122,338
TBVPS	2.30	2.37	2.44	2.52	2.62

Source: Company data, QNB FS Research

Ratios/KPIs	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoE	5.8	6.4	6.8	7.1	8.2
RoAA	0.7	0.8	0.9	1.0	1.1
RoRWA	1.2	1.3	1.4	1.4	1.6
NIM (% of IEAs)	2.32	1.79	1.88	1.98	2.06
NIM (% of RWAs)	3.34	2.52	2.68	2.76	2.83
NIM (% of AAs)	2.11	1.64	1.73	1.82	1.91
Spread	2.0	1.0	1.0	1.2	1.5
Efficiency (%)					
Cost-to-Income (Headline)	24.0	24.7	24.6	24.3	23.0
Cost-to-Income (Core)	24.2	26.3	26.0	24.8	23.4
Liquidity (%)					
LDR (Loans to Stable Sources of Funds)	108	106	98	96	96
Loans/Assets	70.3	65.9	66.5	65.1	65.9
Cash & Interbank Loans-to-Total Assets	6.8	6.5	6.2	6.6	6.4
Deposits to Assets	58.1	56.5	61.2	61.7	63.1
Wholesale Funding to Loans	34.7	38.8	29.4	30.9	28.6
IEAs to IBLs	118.6	119.6	121.4	120.2	120.8
Asset Quality (%)					
NPL Ratio	5.99	5.71	5.91	5.50	5.00
NPL to Shareholders' Equity	31.60	27.26	28.08	26.65	24.79
NPL to Tier 1 Capital	33.71	28.86	28.17	25.62	22.85
Coverage Ratio	52.7	66.6	80.6	100.4	123.4
ALL/Average Loans	2.6	3.0	4.4	5.2	5.8
Cost of Risk (bps)	127	108	104	100	96
Capitalization (%)					
CET1 Ratio	18.6	20.2	21.6	21.5	21.9
Tier-1 Ratio	19.5	21.2	22.5	22.3	22.7
CAR	20.3	22.1	23.4	23.2	23.6
Leverage (x)	7.3	7.0	6.8	7.0	7.0
Growth (%)					
Net Interest Income	15.9	-24.4	4.0	8.3	9.7
Non-Interest Income	25.0	25.7	4.4	-6.2	12.1
Opex	31.0	-14.5	3.7	3.5	4.2
Net Operating Income	13.4	-17.5	4.2	5.5	12.1
Net Provisions & Impairments	55.9	-31.9	-3.1	4.2	0.6
Net Income (Reported)	-21.7	8.0	8.7	7.1	19.8
Net Income (Attributable)					
Loans	-2.5	-8.2	0.5	4.0	4.8
Deposits	-9.0	-4.7	8.0	7.0	6.0
Assets	-3.8	-2.0	-0.4	6.1	3.7
RWAs	6.1	-5.3	1.5	8.3	5.8

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

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