

QNBFS Alert – MARK Posts Weak 4Q2016 Net Profit; DPS Surprises

- **4Q2016 earnings broadly in-line with estimates.** Masraf Al Rayan (MARK) reported a net profit of QR515.6mn in 4Q2016, broadly in-line with our expectation of QR549.7mn with a variation of -6.2% (BBG: QR556mn, Reuters: QR514mn). Net income inched up by 1.4% QoQ but was down by 7.8% YoY. FY2016 net profit was flat at QR2.075bn.
- **Dividends was surprised positively.** MARK announced DPS of QR2.00/share vs. our estimate of QR1.75/share which translates to a current yield of 5.0%.
- **Provisions prevented further growth in the bottom-line.** Net interest and investment income grew by 5.9% QoQ (+5.3% YoY) while non-interest income grew by 12.5% QoQ (down 13.9% YoY) driven by fees and f/x income. Opex was flat QoQ (significantly dropped YoY), resulting in a cost-to-income ratio of 16.0% vs. 16.9% in 3Q2016 (25.8% in 4Q2015). MARK reported net provisions of QR27.1mn vs. a reversal of QR14.0mn in 3Q2016 (net provisions & impairments of QR9.2mn in 4Q2016).
- **Net loans & deposits grew.** Net loans displayed decent performance, growing by 1.0% QoQ (+8.1% YoY) to QR67.6bn. Moreover, deposits followed suit and gained by 2.4% QoQ (+4.3% YTD). Hence, the LDR remained elevated at 117% vs. 118% in 3Q2016 (112% in 2015).
- **Asset quality deteriorated but remains insignificant.** MARK's NPL ratio moved up to 0.16% (0.09% in 2015) while the coverage ratio halved to 45% vs. 90% in 2015.
- **MARK remains more than adequately capitalized.** Capital adequacy ratio stood at 18.85%.
- **Recommendation and valuation:** MARK trades at a P/E and P/B of 14.5x and 2.4x on 2016 figures, respectively. For now we maintain our Market Perform rating.

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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

Saugata Sarkar
 Head of Research
 +974 4476 6534
 saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
 +974 4476 6509
 shahan.keushgerian@qnbfs.com.qa

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