

### Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR36.59	Price Target	QR34.00
Implied Upside	(7.1%)		

#### In-Line 1Q2018; Spreads Continued to Contract

*Masraf Al Rayan (MARK) is the second largest Shari'ah compliant bank among listed banks. It is currently in negotiations (due diligence process is over) with Barwa Bank and International Bank of Qatar (IBQ) regarding the pricing of the three-way merger. Incorporated in 2006, MARK is focused on the public sector, which dominates its loan portfolio. Public sector loans grew by a CAGR (2010-2017) of 22% and represents 56% (December 2017) of MARK's loan portfolio. Notably, MARK has the best asset quality among Qatari banks with a NPL ratio of 0.50%, one of the highest RoEs of ~16% and robust capitalization at 18%.*

#### Highlights

- **MARK's 1Q2018 bottom-line increased due to a sharp drop in provisions & impairments.** MARK reported net income of QR531.1mn (in-line with our estimate QR517.7mn; +2.6% variation), increasing by 13.3% QoQ (+4.1% YoY). The growth was due to a sharp drop in provisions & impairments where the bank booked QR16.5mn vs. 115.8mn in 4Q2017. On the other hand total revenue receded by 1.2% QoQ (+9.1% YoY) to QR713.8mn due to a drop in investment income and fees while net interest income exhibited flattish performance. On a YoY basis, figures were generally positive across the board with net operating income growing by 7.7%. However, provisions vs. net reversals in 1Q2017 limited earnings growth to 4.1%.
- **Margins remained under pressure.** Net interest margin decreased by 10bps QoQ (-9bps YoY) to 2.34%. Tightening of the NIM was led by a rise in cost of funds exceeding the increase in yield on assets. Cost on funds increased by 30bps QoQ to 2.56% (+50bps YoY), whereas yield on assets increased by only 16bps to 4.47% (+38bps YoY). *The drop in margins is in-line with our expectations.*
- **Asset quality risks still remain negligible, IFRS 9 impact not material.** NPL ratio remained unchanged at 0.50% while absolute NPLs remained stable at QR386mn. Coverage ratio of stage 3 loans (impaired or non-performing) remained unchanged at 44% vs. 43% at the end of 2017. MARK's stage one loans (credit risk has not increased significantly since initial recognition) represent 93.4% of total loans while stage two loans (past due but not impaired; credit risk has increased significantly since initial recognition) represent 6.1%.
- **Net Loans and deposits experienced flat performance YTD.** Net loans came in QR72.3bn vs. QR72.1bn in FY2017, while deposits moved to QR62.7bn vs. QR62.5bn at the end of 2017. Thus, MARK's LDR remained elevated and unchanged at 115%. *We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile/lower LDR.*

#### Catalysts

- News flow about the upcoming merger could act as a catalyst.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR34 and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.0x and 13.0x on our 2018 estimates, respectively. *The market is pricing a fundamental P/B (2.0x) and a sustainable RoE (18.5%) vs. our estimates (P/B: 1.8x & RoE: 17.0%).* The name trades at a PEG of 1.7x based on 7.8% CAGR (2017-23e)
- **Risks:** 1) Geopolitical factors, 2) More than expected increase in credit costs and 3) losing market share in the government segment.

#### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	2.70	2.82	3.25	3.48
EPS Growth (%)	-2.3	4.1	15.5	6.9
P/E (x)	13.5	13.0	11.3	10.5
Tangible BVPS (QR)	17.6	18.2	19.4	0.0
P/TB (x)	2.1	2.0	1.9	1.8
DPS (QR)	2.00	2.00	2.25	2.50
Dividend Yield (%)	5.5	5.5	6.1	6.8

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

#### Key Data

Current Market Price (QR)	36.59
Dividend Yield (%)	5.5
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	45.40/33.32
3-m Average Volume ('000)	438.7
Mkt. Cap. (\$ bn/QR bn)	7.5/27.4
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	12.3
1-Year Total Return (%)	(9.5)
Fiscal Year End	December 31

Source: Bloomberg (as of April 16, 2018), \*Qatar Exchange (as of April 16, 2018); 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

## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,264	2,405	2,666	2,912
Fees & Commissions	274	291	326	349
FX Income	143	153	168	188
Other Income	56	60	75	99
<b>Non-Interest Income</b>	<b>473</b>	<b>504</b>	<b>569</b>	<b>637</b>
<b>Total Revenue</b>	<b>2,736</b>	<b>2,909</b>	<b>3,235</b>	<b>3,549</b>
Operating Expenses	(577)	(636)	(695)	(754)
<b>Net Operating Income</b>	<b>2,159</b>	<b>2,274</b>	<b>2,541</b>	<b>2,795</b>
Net Provisions	(113)	(146)	(84)	(170)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>2,045</b>	<b>2,128</b>	<b>2,456</b>	<b>2,626</b>
Non-Recurring Income	0	0	0	0
<b>Net Profit After Non-Recurring Income</b>	<b>2,045</b>	<b>2,128</b>	<b>2,456</b>	<b>2,626</b>
Tax	(5)	(3)	(3)	(3)
<b>Net Profit Before Minority Interest</b>	<b>2,041</b>	<b>2,125</b>	<b>2,454</b>	<b>2,622</b>
Minority Interest	(13)	(13)	(15)	(16)
<b>Net Profit (Headline/Reported)</b>	<b>2,028</b>	<b>2,112</b>	<b>2,438</b>	<b>2,606</b>
Social & Sports Contribution Fund	(51)	(53)	(61)	(65)
<b>Net Profit (Attributable)</b>	<b>1,977</b>	<b>2,059</b>	<b>2,377</b>	<b>2,541</b>

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Assets</b>				
Cash & Balances with Central Bank	2,800	3,188	3,719	4,106
Interbank Loans	3,312	3,427	3,331	4,660
Net Investments	23,423	24,466	23,830	25,044
Net Loans	72,097	76,156	83,280	93,203
Investment In Associates	520	536	558	578
Other Assets	636	685	541	559
Net PP&E	160	168	167	167
<b>Total Assets</b>	<b>102,949</b>	<b>108,626</b>	<b>115,426</b>	<b>128,316</b>
<b>Liabilities</b>				
Interbank Deposits	25,123	24,092	21,541	21,564
Customer Deposits	62,531	66,408	74,377	85,534
Other Liabilities	1,905	4,232	4,723	5,563
<b>Total Liabilities</b>	<b>89,559</b>	<b>94,733</b>	<b>100,640</b>	<b>112,661</b>
<b>Total Shareholders' Equity</b>	<b>13,191</b>	<b>13,683</b>	<b>14,561</b>	<b>15,414</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>102,949</b>	<b>108,626</b>	<b>115,426</b>	<b>128,316</b>

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
<b>Profitability (%)</b>				
RoAE (Attributable)	15.9	15.3	16.8	17.0
RoAA (Attributable)	2.1	1.9	2.1	2.1
RoRWA (Attributable)	3.4	3.2	3.4	3.1
NIM (% of IEAs)	2.43	2.39	2.50	2.51
NIM (% of RWAs)	3.58	3.75	3.79	3.60
NIM (% of AAs)	2.27	2.27	2.38	2.39
Spread	2.0	2.0	2.0	2.0
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	21.1	21.8	21.5	21.2
Cost-to-Income (Core)	21.9	22.2	22.0	21.8
<b>Liquidity (%)</b>				
LDR	113.7	114.7	112.0	109.0
Loans/Assets	68.3	70.1	72.1	72.6
Cash & Interbank Loans-to-Total Assets	6.7	6.1	6.1	6.8
Deposits to Assets	60.1	61.1	64.4	66.7
Wholesale Funding to Loans	36.4	34.5	29.0	26.5
IEAs to IBLs	124.3	119.3	116.6	116.3
<b>Asset Quality (%)</b>				
NPL Ratio	0.14	0.56	0.80	1.00
NPLs to Shareholder's Equity	0.77	3.37	4.92	6.50
NPLs to Tier 1 Capital	0.91	3.95	5.79	7.70
Coverage Ratio	50.5	159.0	114.1	98.3
ALL/Average Loans	0.1	0.9	0.9	1.0
Cost of Risk	0.00	0.18	0.10	0.18
<b>Capitalization (%)</b>				
Tier 1 Ratio	18.2	17.6	16.7	14.9
CAR	18.2	17.6	16.7	14.9
Tier 1 Capital to Assets	11.1	10.8	10.7	10.1
Tier 1 Capital to Loans	16.2	15.4	14.8	14.0
Tier 1 Capital to Deposits	18.5	17.6	16.6	15.2
Leverage (x)	7.6	7.9	7.9	8.3
<b>Growth (%)</b>				
Net Interest Income	14.0	6.3	10.9	9.2
Non-Interest Income	-0.2	6.7	12.8	11.9
OPEX	23.5	10.1	9.3	8.5
Net Operating Income	8.0	5.3	11.7	10.0
Net Income (Attributable)	2.2	4.1	15.5	6.9
Loans	2.4	5.6	9.4	11.9
Deposits	5.0	6.2	12.0	15.0
Assets	10.8	5.5	6.3	11.2
RWAs	2.4	7.7	11.7	17.7

Source: Company data, QNBFS 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)

#### **Mohamed Abo Daff**

Senior Research Analyst

Tel: (+974) 4476 6589

[mohamed.abodaff@qnbfs.com.qa](mailto:mohamed.abodaff@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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