

## QNBFS Alert – MARK Reports Flat 2Q2017, Mixed Set of Results; Estimates In-Line

- **MARK reports flat 2Q2017 net profit; in-line with our estimates.** Masraf Al Rayan (MARK) reported a net profit of QR509.6mn in 2Q2017 vs. QR510.2mn in 1Q2017 (QR505.4mn in 2Q2016), in-line our estimates of QR507.0mn (+0.5%% variation).
- **MARK's flat QoQ net profit was supported by strong investment income as non-funded income dropped while opex increased.** Investment income expanded by 28.3% (+54.6% YoY) to QR200.7mn whereas, non-funded income dropped by 18.2% QoQ (-23.2% YoY) to QR95.6mn. On the other hand opex climbed up by 5.6% QoQ (+6.4% YoY) to QR149.1mn. Having said this, MARK's efficiency is intact with its C/I ratio 22.5% vs. 21.6% in 1Q2017 (23.6% in 2Q2016).
- **Margins came under pressure QoQ.** Net interest and investment income moved up by 5.6% and 20.8% QoQ and YoY to QR567.4mn, respectively. This was driven by investment income rather than net interest income. Regarding margins, net interest margin contracted by 9bps QoQ (+7bps YoY) to 2.17%. The QoQ contraction was led by a rise in cost of funds exceeding rise in yields. Cost of funds increased by 9bps QoQ (+35bps YoY) to 2.17%, whereas yields increased by only 5bps (+46bps YoY) to 4.44%. *Thus, it appears that liquidity is beginning to take a toll on MARK. Hence, we still expect further margin pressure going forward.*
- **Net Loans growth remained muted.** Net loans remained flattish QoQ and YTD at QR68.0bn, while deposits declined by 3.0% QoQ (+5.5% YTD) to QR61.2bn. As such MARK's LDR remained elevated at 111% vs. 107% in 1Q2017 (1117% in FY2016). *In our view, the bank needs to address its liquidity position.*
- **Asset quality remains a non-issue and is immaterial.** The bank's NPL ratio dipped to 0.15% vs. 0.16% at the end of 2016.
- **Capitalization remained robust.** MARK ended 2Q2017 with a CAR of 19.4%.
- **Recommendation and valuation:** The stock remains over valued, trading at a P/TB of 2.4x (steep premium to its peers) on our 2017 estimates. For now we maintain our Reduce rating.

### 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

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

**Mohamed Abo Daff**  
Senior Research Analyst  
+974 4476 6589  
mohd.abodaff@qnbfs.com.qa

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

**Zaid Al Nafsoosi, CMT, CFTE**  
Senior Research Analyst  
+974 4476 6535  
zaid.alnafsoosi@qnbfs.com.qa

**DISCLAIMER:** This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNBFS.