

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR3.83	Price Target	QR3.40
Implied Upside	(9.9%)		

In-Line 2Q2019; Key Take-Away – Modest Margin Pressure/Soft Rev.

Masraf Al Rayan (MARK) reported 2Q2019 net income of QR534.0mn, in-line with our estimate of QR547.1mn. The bank's bottom-line remained flat YoY due to net reversals of provisions (reversals of QR6.3mn vs. provisions of QR4.9mn in 2Q2018) as net operating income declined 2.8% YoY on the back of weak revenue. However, cost-to-income ratio remained healthy despite increasing to 24.2% (due to flat opex along with a 2.1% fall in total revenue). Further, capitalization remained robust with CET1 at 18.9%. **We slightly tweak our estimates, which has no effect on our TP (see page 2) and retain our Market Perform rating and QR3.40 price target.**

Highlights

- MARK reports an in-line 2Q2019.** MARK reported a net profit of QR534.0mn in 2Q2019, in-line with our estimate of QR547.1mn (variation of -2.4%). The bottom-line remained flat YoY (-1.9% QoQ) aided by net reversal of provisions (QR6.3mn vs. provisions of QR4.9mn in 2Q2018) as net operating income declined by 2.8% (on the account of weak revenue). The sequential drop in earnings was due to weak non-funded income and growth in opex.
- Margins remained under modest pressure both YoY and sequentially.** NIMs compressed by 12bps YoY and 5bps QoQ to ~2.30%. This was mainly due to the CoFs outpacing yield on assets. CoFs jumped by 59bps YoY (+11bps QoQ) to 3.01%, while yields increased by only 32bps YoY (6bps QoQ) to 4.75%. *The moderate margin pressure is due to MARK's liquidity profile.*
- C/I ratio remained healthy; MARK generated neutral JAWS.** MARK generated a C/I ratio of 24.2% in 2Q2019 vs. 23.7% in 2Q2018 (22.5% in 1Q2019). On the other hand, the bank generated neutral JAWS of -0.8% in 1H2019 as revenue dropped by 1.4% while opex decreased by 0.5%.
- Asset quality remains a non-issue.** The bank's NPL ratio decreased to 0.74% (remained flat QoQ) vs. 0.83% at the end of 2018. Moreover, coverage of stage 3 loans was 54%. What is important to note here is that stage 2 loans increased by 27% sequentially and contribute 17% to total loans vs. 13% in 1Q2019.
- Loans dropped sequentially while deposits displayed flat performance.** Net loans contracted by 1.4% QoQ (+3.2% YTD) to QR74.8bn, while deposits remained flat (+4.9% YTD) at QR64.6bn. Thus, MARK's LDR position remained challenging at 116% vs. 118% in both 1Q2019 and FY2018. Moreover, loans to stable sources of funds also remained on the high side at 110%. Drop in loans is most likely due to the public sector's repayment of overdrafts. *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 2Q2019 with a CET1 and CAR of 18.9% and 19.4%, respectively.

Catalysts

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

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our price target of QR3.40/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.1x and 13.3x on our 2019 estimates, respectively. *The market is pricing a fundamental P/B (2.1x) and a sustainable RoE (17.5%) vs. our estimates (P/B: 1.8x & RoE: 15.9%).*
- 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

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	0.28	0.29	0.31	0.35
EPS Growth (%)	5.0	1.0	8.1	12.9
P/E (x)	13.5	13.3	12.3	10.9
Tangible BVPS (QR)	1.8	1.9	2.0	2.1
P/TB (x)	2.2	2.1	2.0	1.8
DPS (QR)	0.20	0.20	0.20	0.23
Dividend Yield (%)	5.2	5.2	5.2	5.9

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

Key Data

Current Market Price (QR)	3.83
Dividend Yield (%)	5.2
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	4.26/3.37
3-m Average Volume (mn)	4.2
Mkt. Cap. (\$ bn/QR bn)	7.9/28.7
Shares Outstanding (mn)	750,000.0
FO Limit* (%)	49.0
Current FO* (%)	14.1
1-Year Total Return (%)	+12.4
Fiscal Year End	December 31

Source: Bloomberg (as of July 16, 2019), *Qatar Exchange (as of July 15, 2019); Note: FO is foreign ownership

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Changes in Estimates

	2019e			2020e			2021e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,337	2,276	-2.6	2,553	2,509	-1.7	2,841	2,819	-0.8
Non Interest Income	544	528	-3.0	586	577	-1.6	642	632	-1.6
Revenue	2,881	2,803	-2.7	3,139	3,085	-1.7	3,483	3,451	-0.9
Opex	(686)	(667)	-2.8	(727)	(704)	-3.1	(788)	(762)	-3.3
Net Operating Income	2,195	2,137	-2.7	2,412	2,381	-1.3	2,695	2,689	-0.2
Net Income (Reported)	2,171	2,152	-0.9	2,359	2,326	-1.4	2,635	2,626	-0.4
Net Income (Attributable)	2,117	2,098	-0.9	2,300	2,268	-1.4	2,569	2,560	-0.4

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	1,920	2,264	2,268	2,276	2,509	2,819
Fees & Commissions	313	274	315	319	348	375
FX Income	134	143	152	162	173	190
Other Income	78	56	53	47	56	66
Non-Interest Income	525	473	521	528	577	632
Total Revenue	2,445	2,736	2,788	2,803	3,085	3,451
Operating Expenses	(463)	(577)	(668)	(667)	(704)	(762)
Net Operating Income	1,982	2,159	2,120	2,137	2,381	2,689
Net Provisions	(3)	(113)	22	31	(38)	(45)
Net Profit Before Taxes & Non-Recurring Item	1,979	2,045	2,142	2,167	2,343	2,645
Non-Recurring/Unuals Gains/(Losses)	93	0	0	0	0	0
Net Profit After Non-Recurring Income	2,072	2,045	2,142	2,167	2,343	2,645
Tax	4	(5)	(2)	(3)	(3)	(3)
Net Profit Before Minority Interest	2,076	2,041	2,140	2,165	2,340	2,641
Minority Interest	(1)	(13)	(9)	(13)	(14)	(16)
Net Profit (Reported)	2,075	2,028	2,130	2,152	2,326	2,626
Social & Sports Contribution Fund	(52)	(51)	(53)	(54)	(58)	(66)
Net Profit (Attributable)	2,023	1,977	2,077	2,098	2,268	2,560

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Assets						
Cash & Balances w ith Central Bank	3,126	2,800	3,027	3,263	3,311	3,035
Interbank Loans	5,692	3,312	1,513	2,807	3,229	2,643
Net Investments	14,012	23,423	19,222	20,446	22,808	24,422
Net Loans	67,635	72,097	72,515	75,864	80,728	88,099
Investment In Associates	509	520	526	535	549	565
Other Assets	409	636	302	341	363	396
Net PP&E	148	160	189	210	231	235
Total Assets	91,531	102,949	97,294	103,467	111,220	119,396
Liabilities						
Interbank Deposits	19,060	25,123	16,546	18,136	21,481	20,896
Customer Deposits	58,024	62,531	61,569	65,263	68,983	75,881
Other Liabilities	1,574	1,905	5,706	5,983	5,889	6,676
Total Liabilities	78,657	89,559	83,820	89,382	96,353	103,453
Minority Interest	169	199	196	209	223	239
Total Shareholders' Equity	12,705	13,191	13,277	13,875	14,643	15,703
Total Liabilities & Shareholders' Equity	91,531	102,949	97,294	103,467	111,220	119,396

Source: Company data, QNB FS Research

Ratios/Profitability Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE	16.8	15.6	15.7	15.8	16.3	17.5
RoAA	2.3	2.0	2.1	2.1	2.1	2.2
RoRWA	3.4	3.2	3.3	3.3	3.3	3.4
NIM (% of IEAs)	2.35	2.48	2.39	2.39	2.46	2.56
NIM (% of RWAs)	3.26	3.71	3.61	3.56	3.70	3.76
NIM (% of AAs)	2.20	2.33	2.27	2.27	2.34	2.45
Spread	1.9	2.1	1.9	1.8	1.7	1.6
Efficiency (%)						
Cost-to-Income (Headline)	18.9	21.1	24.0	23.8	22.8	22.1
Cost-to-Income (Core)	19.5	21.5	24.4	24.2	23.2	22.5
Liquidity (%)						
LDR	116.6	115.3	117.8	116.2	117.0	116.1
Loans/Assets	73.9	70.0	74.5	73.3	72.6	73.8
Cash & Interbank Loans-to-Total Assets	9.6	5.9	4.7	5.9	5.9	4.8
Deposits to Assets	63.4	60.7	63.3	63.1	62.0	63.6
Wholesale Funding to Loans	28.2	34.8	28.0	28.8	31.5	28.9
IEAs to IBLs	127.8	120.5	124.2	123.3	121.8	121.9
Asset Quality (%)						
NPL Ratio	0.17	0.47	0.83	0.76	0.82	0.90
NPL to Shareholders' Equity	0.89	2.58	4.55	4.19	4.55	5.09
NPL to Tier 1 Capital	0.99	2.86	5.05	4.90	5.29	5.93
Coverage Ratio	44.8	48.7	93.5	94.3	87.6	78.2
ALL/Average Loans	0.1	0.2	0.7	0.7	0.7	0.7
Cost of Risk	0.00	0.15	N/M	-0.02	0.04	0.04
Capitalization (%)						
Tier 1 Ratio	18.8	19.3	18.7	18.5	17.6	17.1
CAR	18.9	19.3	19.2	19.0	18.1	17.6
Tier 1 Capital to Assets	12.4	11.6	12.3	11.4	11.3	11.3
Tier 1 Capital to Loans	16.8	16.5	16.5	15.6	15.6	15.3
Tier 1 Capital to Deposits	19.6	19.0	19.4	18.1	18.3	17.7
Leverage (x)	7.2	7.8	7.3	7.5	7.6	7.6
Growth (%)						
Net Interest Income	-5.1	17.9	0.2	0.3	10.2	12.4
Non-Interest Income	34.5	-9.9	10.1	1.4	9.3	9.6
Opex	-16.2	24.7	15.8	-0.2	5.6	8.2
Net Operating Income	6.5	8.9	-1.8	0.8	11.5	12.9
Net Income	0.1	-2.3	5.0	1.0	8.1	12.9
Loans	8.1	6.6	0.6	4.6	6.4	9.1
Deposits	4.3	7.8	-1.5	6.0	5.7	10.0
Assets	9.8	12.5	-5.5	6.3	7.5	7.4
RWAs	4.8	2.4	3.5	0.1	11.7	9.9

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

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

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

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

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