

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR35.36	Price Target	QR34.00
Implied Upside	(3.8%)		

Increasing Estimates & Upgrading to Market Perform

Masraf Al Rayan (MARK) is the second largest Shari'ah compliant bank among listed banks. It is currently in the due diligence process of merging with 2 unlisted banks, Barwa Bank and International Bank of Qatar (IBQ). When the merger goes through, the new bank will be the 2nd largest bank in Qatar. Incorporated in 2006, MARK is focused on the public sector, which dominates its loan portfolio. Public sector loans grew by a CAGR (2010-2016) of 22% and represents 48% (December 2016) of MARK's loan portfolio. Notably, MARK has the best asset quality with an NPL ratio of 0.15%, one of the highest RoE of ~17% and robust capitalization at 19%.

Highlights

- MARK delivered strong 3Q2017 net profit; beating our estimates.** Masraf Al Rayan (MARK) reported a net profit of QR542.0mn in 3Q2017 vs. QR509.6mn in 2Q2017 (QR508.7mn in 3Q2016), exceeding our estimates by 6.6%. Net income grew by 6.4% QoQ (+6.5% YoY).
- MARK's net profit on a QoQ basis was driven by strong revenue and cost control.** Net interest & Investment income gained by 2.7% QoQ and +21.9% YoY to QR582.5mn (in-line with our estimate of QR569.5mn; +2.3% variation). Non-funded income increased by 16.2% QoQ (-6.5% YoY) driven by fees (+24.1% QoQ, down 17.8% YoY). Opex was flat at QR150.2mn with C/I ratio declining to 21.7% vs. 22.5% in 2Q2017.
- Margins improved.** Net interest margin increased by 7bps QoQ (+13bps YoY) to 2.23%. The QoQ and YoY improvement in NIM was led by a rise in asset yields exceeding rise in cost of funds. Yields on assets increased by 26bpsQoQ (+67bps YoY) to 4.69%, whereas Cost of funds increased by only 10bps (+38bps YoY) to 2.25%. *We expect MARK to generate a nim of 2.43% in 2017, 2.48% in 2018 and 2.58% in 2019.*
- Net Loans growth remained muted.** Net loans inched up by 0.8% QoQ (+1.3% YTD) to QR68.5bn, while deposits declined by 1.9% QoQ (+3.5% YTD) to QR60.0bn. Thus, MARK's LDR remained challenging at 114% vs. 111% in 2Q2017 (117% in FY2016). *We maintain our loan growth assumption of 2.4% (2017), 8.0% (2018) and 10% (2019). We expect the LDR to drop to 100% by 2019.*
- Fixed income portfolio surged.** In the absence of loan growth, it seems MARK is investing heavily in fixed income securities. Fixed income portfolio surged by 68.3% YTD to QR23.4bn.
- We increased our estimates for 2017, 2018 and 2019.** *Estimates Table on page 2.*

Catalysts

- Beyond a stabilization/recovery in oil prices, the following development could be perceived positively by the market: 1) materialization of the merger.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR34.00 but upgrade our recommendation to Market Perform from Reduce.** MARK is trading at P/B and P/E of 2.0x and 13.0x on our 2017 estimates, respectively. *The market is pricing a fundamental P/B (2.0x) and RoE (17.9%) vs. our estimates (P/B: 1.9x & RoE: 17.6%).* The name trades at a PEG of 1.7x based on 7.5% CAGR (2016-22e)
- Risks:** 1) Volatility in oil prices remains the biggest risk for regional equities, 2) Geopolitical factors, 3) Increase in credit costs and 4) losing market share in the government segment.

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Attributable EPS (QR)	2.70	2.76	3.01	3.35
EPS Growth (%)	0.1	2.2	9.3	11.3
P/E (x)	13.1	12.8	11.7	10.5
Tangible BVPS (QR)	16.9	17.7	18.7	20.1
P/TB (x)	2.1	2.0	1.9	1.8
DPS (QR)	2.00	2.00	2.00	2.25
Dividend Yield (%)	5.7	5.7	5.7	6.4

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

Key Data

Current Market Price (QR)	35.36
Dividend Yield (%)	5.7
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	45.40/33.05
3-m Average Volume ('000)	291.1
Mkt. Cap. (\$ bn/QR bn)	7.3/26.5
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	11.7
1-Year Total Return (%)	+6.5
Fiscal Year End	December 31

Source: Bloomberg (as of October 17, 2017), *Qatar Exchange (as of October 17, 2017); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Change in Estimates

	2017e			2018e			2019e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,049	2,188	6.8	2,238	2,465	10.2	2,520	2,793	10.8
Non Interest Income	514	524	1.8	589	548	-6.9	570	555	-2.5
Net Operating Income	2,059	2,140	4.0	2,301	2,365	2.8	2,509	2,631	4.8
Net Income (Attributable)	1,992	2,068	3.8	2,203	2,260	2.6	2,402	2,515	4.7

Source: QNBFS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	1,920	2,188	2,465	2,793
Fees & Commissions	313	281	309	263
FX Income	134	127	146	161
Other Income	78	115	93	131
Non-Interest Income	525	524	548	555
Total Revenue	2,445	2,712	3,013	3,349
Operating Expenses	(463)	(572)	(649)	(718)
Net Operating Income	1,982	2,140	2,365	2,631
Net Provisions	(3)	(2)	(28)	(30)
Net Profit Before Taxes & Non-Recurring Items	1,979	2,139	2,337	2,601
Non-Recurring Income	93	0	0	0
Net Profit After Non-Recurring Income	2,072	2,139	2,337	2,601
Tax	4	(3)	(3)	(3)
Net Profit Before Minority Interest	2,076	2,136	2,334	2,598
Minority Interest	(1)	(15)	(16)	(18)
Net Profit (Headline/Reported)	2,075	2,121	2,318	2,579
Social & Sports Contribution Fund	(52)	(53)	(58)	(64)
Net Profit (Attributable)	2,023	2,068	2,260	2,515

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	3,126	3,351	3,412	4,094
Interbank Loans	5,692	3,464	2,619	3,291
Net Investments	14,012	24,128	26,657	28,608
Net Loans	67,635	69,281	74,819	82,280
Investment In Associates	509	529	545	573
Other Assets	409	533	494	477
Net PP&E	148	152	151	151
Total Assets	91,531	101,439	108,697	119,474
Liabilities				
Interbank Deposits	19,060	25,229	24,603	20,032
Customer Deposits	58,024	60,925	68,236	81,883
Other Liabilities	1,574	1,828	1,624	2,293
Total Liabilities	78,657	87,982	94,464	104,208
Total Shareholders' Equity	12,705	13,273	14,033	15,048
Total Liabilities & Shareholders' Equity	91,531	101,439	108,697	119,474

Source: Company data, QNBFS Research

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	15.9	16.6	17.3	15.9
RoAA (Attributable)	2.1	2.2	2.2	2.1
RoRWA (Attributable)	3.4	3.4	3.2	3.4
NIM (% of IEAs)	2.43	2.48	2.58	2.43
NIM (% of RWAs)	3.58	3.74	3.59	3.58
NIM (% of AAs)	2.27	2.35	2.45	2.27
Spread	2.0	2.0	2.0	2.0
Efficiency (%)				
Cost-to-Income (Headline)	21.1	21.5	21.4	21.1
Cost-to-Income (Core)	21.9	22.1	22.3	21.9
Liquidity (%)				
LDR	113.7	109.6	100.5	113.7
Loans/Assets	68.3	68.8	68.9	68.3
Cash & Interbank Loans-to-Total Assets	6.7	5.5	6.2	6.7
Deposits to Assets	60.1	62.8	68.5	60.1
Wholesale Funding to Loans	36.4	32.9	24.3	36.4
IEAs to IBLs	124.3	122.6	122.0	124.3
Asset Quality (%)				
NPL Ratio	0.14	0.17	0.18	0.14
NPLs to Shareholder's Equity	0.77	0.97	1.05	0.77
NPLs to Tier 1 Capital	0.91	1.13	1.23	0.91
Coverage Ratio	50.5	57.8	67.9	50.5
ALL/Average Loans	0.1	0.1	0.1	0.1
Cost of Risk	0.00	0.03	0.03	0.00
Capitalization (%)				
Tier 1 Ratio	18.2	17.1	15.0	18.2
CAR	18.2	17.1	15.0	18.2
Tier 1 Capital to Assets	11.1	11.0	10.7	11.1
Tier 1 Capital to Loans	16.2	16.0	15.6	16.2
Tier 1 Capital to Deposits	18.5	17.6	15.6	18.5
Leverage (x)	7.6	7.7	7.9	7.6
Growth (%)				
Net Interest Income	14.0	12.6	13.3	14.0
Non-Interest Income	-0.2	4.7	1.3	-0.2
OPEX	23.5	13.5	10.7	23.5
Net Operating Income	8.0	10.5	11.3	8.0
Net Income (Attributable)	2.2	9.3	11.3	2.2
Loans	2.4	8.0	10.0	2.4
Deposits	5.0	12.0	20.0	5.0
Assets	10.8	7.2	9.9	10.8
RWAs	2.4	13.4	22.1	2.4

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

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

Contacts

Saugata Sarkar, CFA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

mohamed.abodaff@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

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

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