

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR26.80</b>	<b>Target Price</b>	<b>QR28.10</b>
<b>Implied Upside</b>	<b>4.9%</b>		

## 2Q2012 Net Income up 5.1%; Maintain Market Perform Rating

**In-line results; Maintain Market Perform rating.** Masraf Al Rayan reported net profit of QR371.7mn for 2Q2012, up 5.1% QoQ from QR353.5mn in 1Q2012. The results were slightly below our forecast of QR379.8mn and consensus Bloomberg estimate of QR377.5mn. The improved QoQ performance was a combination of higher income from financing and investing activities and reversals of earlier provisions. On an YTD basis, the stock has underperformed the Banking & Financial Service Index; the stock is down 1.92% (total return) versus the sector, which is up 1.35%. On the valuation front, MARK is trading at a P/E ratio of 12.8x and P/B ratio of 2.1x on our 2012 estimates.

### Financial Results and Key Takeaways

- Income from financing activity increased to QR407.7mn; up 3.2% QoQ. Income from investing activities was QR157.7mn; up 0.6% QoQ. Hence, total income from financing and investing activities jumped to QR565.5mn; up 2.4% QoQ.
- Net fees and commission income was up 13.1% QoQ to QR29.8mn. Other income was down to QR2.7mn in 2Q2012 vs. QR26.1mn in 1Q2012 and QR172.8mn in 2Q2011. In 2Q2011, MARK sold half of its investment in Lusail Waterfront Real Estate, which led to a one-time gain of QR171.9mn.
- Payment to unrestricted investment account holders increased by 11.0% QoQ to QR172.9mn in 2Q2012. General and administrative expenses increased by 6.2% QoQ. The bank reported recovery from earlier provisions to the tune of QR15.5mn in 2Q2012.
- The loan book increased by 5.6% QoQ to QR38.0bn, while combined deposits (current accounts and equity of unrestricted investment account holders) grew by 5.0% QoQ to QR51.2bn. Hence, the loan to deposit ratio increased to 74.2% from 73.8% at the end of 1Q2012. MARK has 20.1% of its assets invested in financial investments.
- The capital adequacy ratio stood at 17.5% at the end of June 2012.

**We maintain our estimates and expect the bank to post EPS of QR2.10 and QR2.55 for 2012 and 2013, respectively.** However, we believe MARK's earnings growth potential is already priced in and the valuation for the stock appears fair. Hence, we maintain our Market Perform rating on MARK shares.

### Key Data:

Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	28.55/22.13
3-m Average Volume ('000)	631.04
Mkt. Cap. (\$ bn/QR bn)	5.5/20.1
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	15.2
1-Year Total Return (%)	15.3
Fiscal Year End	Dec. 31

Source: Bloomberg (as of July 23, 2012), \*Qatar Exchange\* (as of July 23, 2012); Note: FO is foreign ownership

### Broker Recommendations

Recommendation	Number
Buy	0
Hold	4
Sell	1

Source: Bloomberg

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MARK Key Stats (In QR mn)	2Q2011	1Q2012	2Q2012	Change YoY (%)	Change QoQ (%)
Income from Financing Activities	319	395	408	27.8	3.2
Income from Investing Activities	168	157	158	(6.0)	0.6
Total Income from Financing and Investing Activities	487	552	565	16.1	2.4
Net Fees and Commission Income	24	26	30	26.9	13.1
Total Operating Income	682	616	617	(9.6)	0.2
General and Administrative Expenses	(79)	(77)	(82)	3.1	6.2
Depreciation	(5)	(5)	(5)	0.9	7.3
Recovery (Impairment Losses) on Receivables from Financing & Investing Activities	(83)	(24)	15	N/A	N/A
Return on Equity of Investment Account Holders	(151)	(156)	(173)	14.5	11.0
Net Profit	363	353	372	2.3	5.1
	2011	1Q2012	2Q2012	Change YTD (%)	Change QoQ (%)
Loan Book	34,766	35,965	37,982	9.3	5.6
Financial Investments	12,046	12,045	12,196	1.2	1.3
Total assets	55,271	57,879	60,534	9.5	4.6
Customer Current Accounts	4,171	2,238	2,029	(51.4)	(9.3)
Equity of Investment Account Holders	42,092	46,507	49,162	16.8	5.7
Total Shareholders' Equity	8,504	8,483	8,853	4.1	4.4

Source: Company data

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

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