

## Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR3.75	Price Target	QR3.40
Implied Upside	(9.3%)		

### Conservative Strategy to Drive Mid-Single Digit Growth Next 5-Years

**Masraf Al Rayan (MARK) remains a conservative and overly capitalized bank.** The stock has underperformed its peers on a 1-year TTR basis despite MARK being cost-efficient, a strong RoE generator (2<sup>nd</sup> highest in Qatar after QNB Group) and maintaining superior asset quality vs. its peers. The negative sentiment around the name is due to MARK's soft bottom-line growth vs. its peers. The stock remains fully valued, trading at 2020e P/B and P/E of 1.9x and 12.7x, respectively, especially in light of its estimated 5-year earnings CAGR of 5.6% (2018-2023e). **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

- Opex and provisions prevent meaningful growth.** MARK reported a net profit of QR575.3mn in 3Q2019, ticking up by 1.7% YoY (+7.7% QoQ) due to an increase in opex (12.7%) and net provisions of QR1.0mn (vs. net reversals of provisions of QR15.1mn in 3Q2019) as revenue gained by 6.3% (on the account of strong fees). The sequential gain in earnings was driven by core-banking income.
- Margins improved sequentially but remained stable YoY.** NIMs remained flat YoY but increased by 10bps QoQ to ~2.40%.
- C/I ratio remained healthy; however, MARK generated negative JAWS.** MARK generated a C/I ratio of 24.1% in 3Q2019 vs. 22.7% in 3Q2018 (24.2% in 2Q2019). On the other hand, the bank generated negative JAWS of 2.6% in 9M2019 as revenue inched up by 1.2% while opex increased by 3.8%.
- Asset quality remains a non-issue; majority of exposure is to Qatar sovereign.** The bank's NPL ratio decreased to 0.66% (0.74% in 2Q2019) vs. 0.83% at the end of 2018. Moreover, coverage of stage 3 loans was 55%. What is important to note here is that stage 2 loans sequentially decreased by 23% (flat YTD) and contributes 13% to total loans.
- Loans and deposits expanded but underperformed peers.** Net loans moved up by 1.0% QoQ (+4.2% YTD) to QR75.6bn, while deposits grew by 3.7% QoQ (+8.8% YTD) to QR67.0bn. Thus, MARK's LDR position improved but remains challenging at 113% vs. 116% in 2Q2019 and 118% (FY2018). Moreover, loans to stable sources of funds also remained on the high side at 107%. We previously noted that *we were of the opinion that the bank needed to increase its borrowings in order to enhance its liquidity profile and lower its LDR. Recently, MARK announced it would be issuing sukuk, which should help its liquidity position.*
- Capitalization remained robust and one of the highest among its peers.** MARK ended 3Q2019 with a CET1 and CAR of 19.1% and 19.7%, respectively. We expect CaR to remain elevated going forward due to the conservative nature of the bank.

#### 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 1.9x and 12.7x on our 2020 estimates, respectively. *The market is pricing a fundamental P/B (2.0x) and a sustainable RoE (17.2%) vs. our estimates (P/B: 1.7x & RoE: 15.6%).*
- 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

	2018	2019e	2020e	2021e
EPS (QR)	0.28	0.29	0.30	0.32
EPS Growth (%)	5.0	2.5	1.5	7.6
P/E (x)	13.2	12.9	12.7	11.8
Tangible BVPS (QR)	1.8	1.9	1.9	2.1
P/TBV (x)	2.1	2.0	1.9	1.8
DPS (QR)	0.20	0.20	0.20	0.23
Dividend Yield (%)	5.3	5.3	5.3	6.0

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

#### Key Data

Current Market Price (QR)	3.75
Dividend Yield (%)	5.3
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)	4.5
Mkt. Cap. (\$ bn/QR bn)	7.7/28.1
Shares Outstanding (mn)	750,000.0
FO Limit* (%)	49.0
Current FO* (%)	13.5
1-Year Total Return (%)	4.4
Fiscal Year End	December 31

Source: Bloomberg (as of October 30, 2019), \*Qatar Exchange (as of October 29, 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	2,276	2,268	-0.3	2,509	2,386	-4.9	2,819	2,560	-9.2
Non Interest Income	528	596	13.0	577	532	-7.8	632	591	-6.4
Revenue	2,804	2,865	2.2	3,086	2,918	-5.5	3,451	3,151	-8.7
Opex	(667)	(728)	9.1	(704)	(781)	10.9	(762)	(1,014)	33.1
Net Operating Income	2,137	2,137	0.0	2,382	2,137	-10.3	2,689	2,137	-20.5
Net Income (Reported)	2,152	2,184	1.5	2,326	2,216	-4.7	2,626	2,385	-9.2
Net Income (Attributable)	2,098	2,129	1.5	2,268	2,161	-4.7	2,560	2,326	-9.2

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
<b>Net Interest Income</b>	<b>1,920</b>	<b>2,264</b>	<b>2,268</b>	<b>2,268</b>	<b>2,386</b>	<b>2,560</b>
Fees & Commissions	313	274	315	400	320	369
FX Income	134	143	152	149	160	172
Other Income	78	56	53	47	52	51
<b>Non-Interest Income</b>	<b>525</b>	<b>473</b>	<b>521</b>	<b>596</b>	<b>532</b>	<b>591</b>
<b>Total Revenue</b>	<b>2,445</b>	<b>2,736</b>	<b>2,788</b>	<b>2,865</b>	<b>2,918</b>	<b>3,151</b>
Operating Expenses	(463)	(577)	(668)	(694)	(720)	(751)
<b>Net Operating Income</b>	<b>1,982</b>	<b>2,159</b>	<b>2,120</b>	<b>2,171</b>	<b>2,198</b>	<b>2,400</b>
Net Provisions & Impairments	(3)	(113)	22	23	30	(2)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>1,979</b>	<b>2,045</b>	<b>2,142</b>	<b>2,194</b>	<b>2,227</b>	<b>2,397</b>
Non-Recurring/Unuals Gains/(Losses)	93	0	0	0	0	0
<b>Net Profit After Non-Recurring Income</b>	<b>2,072</b>	<b>2,045</b>	<b>2,142</b>	<b>2,194</b>	<b>2,227</b>	<b>2,397</b>
Tax	4	(5)	(2)	(2)	(3)	(3)
<b>Net Profit Before Minority Interest</b>	<b>2,076</b>	<b>2,041</b>	<b>2,140</b>	<b>2,192</b>	<b>2,225</b>	<b>2,395</b>
Minority Interest	(1)	(13)	(9)	(9)	(9)	(9)
<b>Net Profit (Reported)</b>	<b>2,075</b>	<b>2,028</b>	<b>2,130</b>	<b>2,184</b>	<b>2,216</b>	<b>2,385</b>
Social & Sports Contribution Fund	(52)	(51)	(53)	(55)	(55)	(60)
<b>Net Profit (Attributable)</b>	<b>2,023</b>	<b>1,977</b>	<b>2,077</b>	<b>2,129</b>	<b>2,161</b>	<b>2,326</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
<b>Assets</b>						
Cash & Balances with Central Bank	3,126	2,800	3,027	3,715	3,475	3,903
Interbank Loans	5,692	3,312	1,513	3,641	3,231	3,508
Net Investments	14,012	23,423	19,222	20,902	23,394	25,029
Net Loans	67,635	72,097	72,515	75,864	80,780	87,693
Investment In Associates	509	520	526	537	548	559
Other Assets	409	636	302	303	307	333
Net PP&E	148	160	189	213	241	248
<b>Total Assets</b>	<b>91,531</b>	<b>102,949</b>	<b>97,294</b>	<b>105,175</b>	<b>111,976</b>	<b>121,271</b>
<b>Liabilities</b>						
Interbank Deposits	19,060	25,123	16,546	17,574	18,479	19,600
Customer Deposits	58,024	62,531	61,569	67,541	72,404	79,644
Other Liabilities	1,574	1,905	5,706	5,950	6,313	6,412
<b>Total Liabilities</b>	<b>78,657</b>	<b>89,559</b>	<b>83,820</b>	<b>91,064</b>	<b>97,195</b>	<b>105,656</b>
<b>Minority Interest</b>	<b>169</b>	<b>199</b>	<b>196</b>	<b>205</b>	<b>214</b>	<b>223</b>
<b>Total Shareholders' Equity</b>	<b>12,705</b>	<b>13,191</b>	<b>13,277</b>	<b>13,906</b>	<b>14,567</b>	<b>15,393</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>91,531</b>	<b>102,949</b>	<b>97,294</b>	<b>105,175</b>	<b>111,976</b>	<b>121,271</b>

Source: Company data, QNB FS Research

<b>Ratios/Profitability Indicators</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
<b>Profitability (%)</b>						
RoE	16.8	15.6	15.7	16.0	15.5	16.0
RoAA	2.3	2.0	2.1	2.1	2.0	2.0
RoRWA	3.4	3.2	3.3	3.3	3.3	3.3
NIM (% of IEAs)	2.35	2.48	2.39	2.37	2.33	2.32
NIM (% of RWAs)	3.26	3.71	3.61	3.55	3.64	3.66
NIM (% of AAs)	2.20	2.33	2.27	2.24	2.20	2.19
Spread	1.9	2.1	1.9	1.8	1.7	1.6
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	18.9	21.1	24.0	24.2	24.7	23.8
Cost-to-Income (Core)	19.5	21.5	24.4	24.6	25.1	24.2
<b>Liquidity (%)</b>						
LDR	116.6	115.3	117.8	112.3	111.6	110.1
Loans/Assets	73.9	70.0	74.5	72.1	72.1	72.3
Cash & Interbank Loans-to-Total Assets	9.6	5.9	4.7	7.0	6.0	6.1
Deposits to Assets	63.4	60.7	63.3	64.2	64.7	65.7
Wholesale Funding to Loans	28.2	34.8	28.0	27.9	27.6	27.1
IEAs to IBLs	127.8	120.5	124.2	121.8	122.2	120.5
<b>Asset Quality (%)</b>						
NPL Ratio	0.17	0.47	0.83	0.64	0.57	0.55
NPL to Shareholders' Equity	0.89	2.58	4.55	3.52	3.18	3.15
NPL to Tier 1 Capital	0.99	2.86	5.05	4.06	3.81	3.91
Coverage Ratio	44.8	48.7	93.5	112.0	114.8	111.8
ALL/Average Loans	0.1	0.2	0.7	0.7	0.6	0.6
Cost of Risk	0.00	0.15	N/M	N/M	N/M	0.01
<b>Capitalization (%)</b>						
Tier 1 Ratio	18.8	19.3	18.7	18.8	18.2	17.0
CAR	18.9	19.3	19.2	19.4	18.7	17.5
Tier 1 Capital to Assets	12.4	11.6	12.3	11.5	10.9	10.2
Tier 1 Capital to Loans	16.8	16.5	16.5	15.9	15.1	14.2
Tier 1 Capital to Deposits	19.6	19.0	19.4	17.8	16.8	15.6
Leverage (x)	7.2	7.8	7.3	7.6	7.7	7.9
<b>Growth (%)</b>						
Net Interest Income	-5.1	17.9	0.2	0.0	5.2	7.3
Non-Interest Income	34.5	-9.9	10.1	14.6	-10.8	11.1
Opex	-16.2	24.7	15.8	3.8	3.8	4.4
Net Operating Income	6.5	8.9	-1.8	2.4	1.2	9.2
Net Income	0.1	-2.3	5.0	2.5	1.5	7.6
Loans	8.1	6.6	0.6	4.6	6.5	8.6
Deposits	4.3	7.8	-1.5	9.7	7.2	10.0
Assets	9.8	12.5	-5.5	8.1	6.5	8.3
RWAs	4.8	2.4	3.5	0.0	4.8	9.1

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*

<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

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