

MARK Alert – 3Q2022 Falls Short of Estimates; Provisions & Impairments Surge While Margins Compress

- **MARK's 3Q2022 earnings misses our estimates due to larger-than-estimated provisions and margin pressure:** Masraf Al Rayan (MARK) reported a net profit of QR334.1mn in 3Q2022, short of our estimate of QR549.3mn. The bottom-line dropped by 41.4% YoY as a result of hefty provisions (earnings sequentially dropped by 35.7% due to margin pressure and large provisions & impairments).
- **Surge in net provisions and impairments adversely impacted the bottom-line.** MARK booked provisions and impairments of QR428.1mn vs. QR374.6mn in 2Q2022 (QR60.5mn in 3Q2021), which remains one of the highest in its operating history. 9M2022 annualized CoR increased to 104bps vs. 96bps in 1H2022.
- **Asset quality came under strong pressure.** The bank's NPLs further surged by 92.8% YTD (+37.9% sequentially to QR3.95bn vs. QR2.05bn in FY2021). Moreover, MARK's NPL ratio moved up to 3.30% from 2.36% in 2Q2022 (1Q2022: 2.25%) and 1.67% in FY2021. Stage 3 ECLs increased by 91.2% YTD (+28.0% QoQ). Coverage of Stage 3 loans decreased from 54% in 2Q2022 to 50% in 3Q2022 (FY2021: 50%). MARK has allocated significant allowances for loans losses to Stage 2 and Stage 3 loans.
- **Loans and deposits contracted both sequentially and YTD.** Net loans receded by 1.8% QoQ (-3.5% YTD) to QR116.6bn. Moreover, deposits dropped by 3.6% sequentially (-12.8% YTD) to QR93.3bn.
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 3Q2022 with a CET1/Tier-1 of 18.3%/19.2%.
- **Recommendation and valuation:** We maintain our PT of QR5.342/share and Outperform rating for the time being. We may have to revise our rating and PT on the stock due to the uncertainty around CoR. We will update our estimates post the company's earnings call.

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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

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

Phibion Makuwerere, CFA
 Senior Research Analyst
 +974 4476 6589
 phibion.makuwerere@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.