

## Masraf Al Rayan (MARK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR4.453	Price Target	QR5.113
Implied Upside	14.8%	Old Price Target	QR3.766

### 100% FOL Along With KCBK Merger to Increase MARK's Weight in EM Indices; Upgrading the Stock to Accumulate & Raising PT to QR5.113

After FY2020 and 1Q2021 results, we estimate an earnings CAGR of 10.0% (2020-25e) and upgrade MARK's rating from a Market Perform to an Accumulate, while raising our price target to QR5.113/share. MARK boasts one of the highest dividend yields (2021e: 4.5%), is cost-efficient, a strong RoE generator (2019: 16.0%, 2020: 15.2%, 2021e: 15.9% & 2022e: 17.9%) and maintains superior asset quality vs. its peers. Having said this and given MARK's significant exposure to the public sector, we believe the stock deserves to trade at a premium to the market. Moreover, the impending merger with KCBK and the FOL increase to 100% (which the BoD has already recommended), should help boost MARK's weight in major indices such as MSCI EM and FTSE EM and contribute to increased foreign institutional ownership in the company. MARK trades at 2021e/22e P/B of 2.0x/2.2x. Moreover, MARK is trading at a 2021e P/E of 14.6x, which is lower than its intrinsic P/E (17.1x). Given, MARK's large exposure to the public sector and the anticipated weight increase in EM indices, we lower our cost of equity from MARK, leading to our new Accumulate rating and PT.

#### Highlights

- **We expect mid-single digit growth in the bottom-line in 2021e vs. FY2020, barring any negative surprises in 2Q2021 and beyond:** Masraf Al Rayan (MARK) reported a net profit of QR2.12bn in FY2020, in-line with our estimate of QR2.16bn. In 1Q2021, earnings came in at QR574.7mn, also in-line with our estimate of QR578.5mn (variation of -0.7%). The bottom-line increased by 5.1% YoY and 12.0% sequentially. We now expect MARK's profitability to grow by a CAGR of 10.0 (2020-25e) vs. 4.2% (2019-2024e) previously.
- **We pencil in stable NIMs in 2021e after a strong expansion in FY2020.** NIMs displayed strong performance in FY2020, increasing to 2.60% vs. 2.37% in FY2019 because of effective management of CoFs. However, we assume stable margins in 2021e, but expect pressure after 2021 as MARK's main exposure is the public sector, which is low-margin.
- **MARK remained cost-efficient; C/I ratio of 20% is expected for the next couple of years.** MARK generated a C/I ratio of 18.6% in 1Q2021 vs. 22.6% in 1Q2020 (21.5% in FY2020). We expect the bank to maintain a C/I ratio of ~20.5% in 2021-24e.
- **Asset quality remains superior as MARK's primary exposure is to the public sector; management has been booking large precautionary provisions (because of the COVID-19 pandemic) since 2Q2020; it expects CoR to remain largely in-line or lower than 2020's 35bps.** The bank's NPL ratio improved sequentially from 1.13% in FY2020 to 1.05% in 1Q2021. Moreover, coverage of stage 3 loans remained flat at 57% vs. 56% in FY2020 (management indicated that NPLs are strongly collateralized). MARK generated a CoR (annualized) of 36bps in 1Q2021 in-line with FY2020's 35bps. We expect CoR to slightly decrease to 33bps in 2021e as management does not expect provisions to be higher than 2020.
- **Loans are estimated to expand by 12.3% in 2021.** Net loans increased by 6.2% sequentially to QR91.30bn (most likely driven by the government and real estate sectors). Deposits gained by 12.4% to QR77.45bn. We expect loans to grow by a CAGR (2020-25e) of 8.5% vs. 6.6% (2015-20).
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 1Q2021 with a CET1 ratio of 19.3%. We expect CET1 to remain elevated at current levels going forward due to the conservative nature of the bank.

#### Catalysts

- 1) Further news on merger with KCBK, 2) Implementation of FOL to 100%.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We raise our PT to QR5.113 and upgrade the stock to an Accumulate.** MARK is trading at P/B and P/E of 2.0x and 14.6x on our 2021 estimates, respectively.
- **Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

#### Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS Attributable (QR)	0.28	0.30	0.37	0.39
EPS Growth (%)	-0.1	7.7	20.7	7.1
P/E (x)	15.7	14.6	12.1	11.3
Tangible BVPS (QR)	1.9	2.0	2.2	2.4
P/TBV (x)	2.3	2.2	2.0	1.9
RoE (%)	15.2	15.9	17.9	17.7
DPS (QR)	0.170	0.200	0.250	0.250
Dividend Yield (%)	3.8	4.5	5.6	5.6

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

#### Key Data

Current Market Price (QR)	4.453
Dividend Yield (%)	3.8
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.65/3.672
3-m Average Volume (mn)	6.33
Mkt. Cap. (\$ bn/QR bn)	9.2/33.4
Shares Outstanding (mn)	750,000.0
FO Limit* (%)	49.0
Current FO* (%)	15.1
1-Year Total Return (%)	25.2

Fiscal Year End December 31

Source: Bloomberg (as of April 26, 2021), \*Qatar Exchange (as of April 26, 2021); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021e	2022e	2023e
<b>Net Interest Income</b>	<b>2,268</b>	<b>2,300</b>	<b>2,773</b>	<b>3,024</b>	<b>3,298</b>	<b>3,545</b>
Fees & Commissions	315	388	261	292	330	365
FX Income	152	162	158	162	173	184
Other Income	53	42	37	32	34	35
<b>Non-Interest Income</b>	<b>521</b>	<b>593</b>	<b>456</b>	<b>486</b>	<b>537</b>	<b>584</b>
<b>Total Revenue</b>	<b>2,788</b>	<b>2,892</b>	<b>3,229</b>	<b>3,510</b>	<b>3,835</b>	<b>4,129</b>
Operating Expenses	(668)	(659)	(694)	(715)	(766)	(847)
<b>Net Operating Income</b>	<b>2,120</b>	<b>2,234</b>	<b>2,535</b>	<b>2,795</b>	<b>3,069</b>	<b>3,282</b>
Net Provisions & Impairments	22	(45)	(352)	(440)	(229)	(242)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>2,142</b>	<b>2,189</b>	<b>2,183</b>	<b>2,355</b>	<b>2,839</b>	<b>3,040</b>
Tax	(2)	(1)	(2)	(3)	(3)	(4)
<b>Net Profit Before Minority Interest</b>	<b>2,140</b>	<b>2,188</b>	<b>2,181</b>	<b>2,352</b>	<b>2,836</b>	<b>3,036</b>
Minority Interest	(9)	(10)	(5)	(9)	(10)	(11)
<b>Net Profit (Reported/Headline)</b>	<b>2,130</b>	<b>2,178</b>	<b>2,175</b>	<b>2,342</b>	<b>2,826</b>	<b>3,025</b>
Social & Sports Contribution Fund	(53)	(54)	(54)	(59)	(71)	(76)
<b>Net Profit (Attributable)</b>	<b>2,077</b>	<b>2,124</b>	<b>2,121</b>	<b>2,284</b>	<b>2,755</b>	<b>2,950</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019	2020	2021e	2022e	2023e
<b>Assets</b>						
Cash & Balances with Central Bank	3,027	3,123	7,071	6,872	6,659	5,394
Interbank Loans	1,513	6,035	6,308	5,792	6,525	6,981
Net Investments	19,222	21,379	20,586	21,422	23,550	25,430
Net Loans	72,515	74,837	85,983	96,532	106,969	116,343
Investment In Associates	526	527	534	542	550	560
Other Assets	302	267	362	290	321	349
Net PP&E	189	228	271	295	322	326
<b>Total Assets</b>	<b>97,294</b>	<b>106,397</b>	<b>121,115</b>	<b>131,745</b>	<b>144,896</b>	<b>155,383</b>
<b>Liabilities</b>						
Interbank Deposits	16,546	19,367	27,979	28,866	32,582	34,650
Customer Deposits	61,569	65,613	68,918	76,361	83,234	89,892
Other Liabilities	5,706	7,285	9,626	10,908	12,205	12,879
<b>Total Liabilities</b>	<b>83,820</b>	<b>92,265</b>	<b>106,523</b>	<b>116,135</b>	<b>128,020</b>	<b>137,422</b>
<b>Minority Interest</b>	<b>196</b>	<b>213</b>	<b>227</b>	<b>236</b>	<b>246</b>	<b>257</b>
<b>Total Shareholders' Equity</b>	<b>13,277</b>	<b>13,919</b>	<b>14,365</b>	<b>15,374</b>	<b>16,630</b>	<b>17,704</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>97,294</b>	<b>106,397</b>	<b>121,115</b>	<b>131,745</b>	<b>144,896</b>	<b>155,383</b>

Source: Company data, QNB FS Research

<b>Ratios/KPIs</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
<b>Profitability (%)</b>						
RoE	15.7	16.0	15.2	15.9	17.9	17.7
RoAA	2.1	2.1	1.9	1.8	2.0	2.0
RoRWA	3.3	3.4	3.3	3.3	3.7	3.6
NIM (% of IEAs)	2.39	2.37	2.60	2.57	2.54	2.50
NIM (% of RWAs)	3.61	3.65	4.27	4.33	4.38	4.33
NIM (% of AAs)	2.27	2.26	2.44	2.39	2.38	2.36
Spread	1.9	1.8	2.3	2.3	2.3	2.2
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	24.0	22.8	21.5	20.4	20.0	20.5
Cost-to-Income (Core)	24.4	23.1	21.7	20.5	20.1	20.7
<b>Liquidity (%)</b>						
LDR	117.8	114.1	124.8	126.4	128.5	129.4
Loans/Assets	74.5	70.3	71.0	73.3	73.8	74.9
Cash & Interbank Loans-to-Total Assets	4.7	8.6	11.0	9.6	9.1	8.0
Deposits to Assets	63.3	61.7	56.9	58.0	57.4	57.9
Wholesale Funding to Loans	28.0	33.0	41.0	38.6	39.9	38.9
IEAs to IBLs	124.2	122.2	117.3	117.9	115.9	117.3
<b>Asset Quality (%)</b>						
NPL Ratio	0.83	1.01	1.13	1.00	1.07	1.32
NPL to Shareholders' Equity	4.59	5.45	6.82	6.36	6.98	8.79
NPL to Tier 1 Capital	5.10	6.20	7.37	7.10	8.02	10.39
Coverage Ratio	92.6	84.0	93.8	126.5	124.2	101.7
ALL/Average Loans	0.7	0.8	1.1	1.3	1.3	1.3
Cost of Risk	N/M	0.07	0.35	0.33	0.19	0.12
<b>Capitalization (%)</b>						
Tier 1 Ratio	18.7	19.7	19.6	19.1	18.5	17.5
CAR	19.2	20.3	20.3	19.9	19.3	18.3
Tier 1 Capital to Assets	12.3	11.5	11.0	10.4	10.0	9.6
Tier 1 Capital to Loans	16.5	16.4	15.5	14.3	13.5	12.9
Tier 1 Capital to Deposits	19.4	18.7	19.3	18.0	17.4	16.7
Leverage (x)	7.3	7.6	8.4	8.6	8.7	8.8
<b>Growth (%)</b>						
Net Interest Income	0.2	1.4	20.6	9.0	9.1	7.5
Non-Interest Income	10.1	13.9	-23.1	6.5	10.4	8.9
Opex	15.8	-1.5	5.4	3.0	7.1	10.6
Net Operating Income	-1.8	5.4	13.5	10.3	9.8	6.9
Net Income	5.0	2.3	-0.1	7.7	20.7	7.1
Loans	0.6	3.2	14.9	12.3	10.8	8.8
Deposits	-1.5	6.6	5.0	10.8	9.0	8.0
Assets	-5.5	9.4	13.8	8.8	10.0	7.2
RWAs	3.5	-2.8	9.0	6.4	8.8	9.0

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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