

## Qatar Islamic Bank (QIBK)

<b>Recommendation</b>	<b>OUTPERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR19.610</b>	<b>Target Price</b>	<b>QR24.176</b>
<b>Implied Upside</b>	<b>23.3%</b>	<b>Old Target Price</b>	<b>QR19.696</b>

### Strong RoE/RoRWAs Generation Capacity; Upgrade to Outperform

**QIBK has consistently reported strong results over the past couple of years and 4Q2021 reported results were no exception. We raise our estimates for 2022/23 (see page 2), increase our sustainable RoE from 16.5% to 17.3% and lower our CoE (as FOL increase to 100% is expected in 1H2022). As such, we raise our PT to QR24.176/share and upgrade the stock to an Outperform. The bank's financial performance was strong during 2017-2021 despite the blockade and the COVID-19 pandemic. QIBK's fundamentals continue to remain robust with strong RoE generation (2018: 16.7%, 2019: 18.5%, 2020: 16.6%, 2021: 18.2%, 2022e: 17.9% and 2023e: 17.6%); the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium. QIBK is expected to generate superior RoE/RoRWAs vs. peers (>17%/>2.0%) in the medium-term. Finally, the stock trades at a 2022e P/E of 12.7%, a 15% discount to its fundamental P/E of 14.9x. Moreover, the market is pricing a sustainable RoE of 16.8%, which is lower than our forecast of 17.3%.**

### Highlights

- **QIBK reported strong net operating income and earnings for FY2021; core banking income, cost containment and flat net provisions & impairments drove the bottom-line.** Qatar Islamic Bank (QIBK) reported a net profit of QR3.27bn in FY2021, gaining by 17.5% YoY, ahead of our estimate by 6.0%. Net operating income increased by 12.8% YoY to QR4.90bn because of strong revenue (strong management of CoFs, robust f/x and fee income) and cost containment.
- **Positive RoE and RoRWAs trajectory to continue:** QIBK boasts one of the highest RoEs & RoRWAs among its domestic and regional peers. The bank's RoE jumped from 15.2% in FY2016 to 18.2% in FY2021, despite the large amounts of provisions booked during the COVID-19 pandemic. We expect RoEs of 17.9% and 17.6% in 2022 and 2023, respectively. QIBK also has superior RoRWAs, well above 2.0%. QIBK generated RoRWAs of 2.6% in 2021 and we expect this metric to increase to 2.9% by 2026.
- **QIBK remains cost-efficient & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 18.1% in 2021. Moreover, QIBK generated robust JAWs of 10.7% on average (2015-2021). We model C/I ratios of 17.9% and 17.5% in 2022 and 2023, respectively.
- **Net loans & deposits continued its positive traction:** Net loans grew by 7.7% in FY2021 vs. FY2020 to QR128.4bn. The growth in loans was primarily driven by the public and retail sectors (strong Islamic franchise). Deposits grew by 11.0% to QR131.1bn. We still maintain our 7.8% loan growth forecast over 2021-26e.
- **CoR to remain elevated given management's conservative risk management nature.** Net credit provisions increased by only 5.0% YoY in FY2021 to QR1.33bn. On the other hand, CoR decreased from 105bps in 2020 to 103bps in 2021. We forecast CoR of 92bps and 81bps for 2022 & 2023e, respectively. We expect CoR to normalize at 60bps by 2026e.
- **Asset quality remains healthy; we still do not expect major impairments going forward.** NPL ratio dropped from FY2020's 1.34% to 1.28% in FY2021. During the same time, NPLs marginally increased by 2.6% to QR1.80bn vs. QR1.75bn in FY2020. However, the coverage ratio of Stage 3 loans (NPLs) slightly decreased from 95% in FY2020 to 89% in FY2021. Majority of net provisions were booked to the corporate segment, which we believe is mainly real estate.
- **Capitalization remains strong.** QIBK ended 2021 with robust CET1 and Tier-1 ratios at 14.7% and 17.7%, respectively. We expect management to maintain these levels going forward.

### Catalysts

- **For the stock to move up further,** raising the FOL limit to 100% should help boost QIBK's weight in major indices such as MSCI EM & FTSE EM and contribute to increased foreign institutional ownership in the company.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We raise our Price Target to QR24.176 and upgrade the stock to Outperform.** QIBK is trading at a 2022e P/TB and P/E of 2.0x and 12.7x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

### Key Financial Data and Estimates

(In QR mn)	2021	2022e	2023e	2024e
EPS (QR)	1.38	1.54	1.69	1.88
EPS Growth (%)	17.5	11.4	9.4	11.4
P/E (x)	14.2	12.7	11.6	10.4
Tangible BVPS (QR)	8.6	9.6	10.7	11.9
P/TBV (x)	2.3	2.0	1.8	1.6
RoE (%)	18.2	17.9	17.6	17.6
DPS (QR)	0.575	0.600	0.625	0.650
Dividend Yield (%)	2.9	3.1	3.2	3.3

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

### Key Data

Current Market Price (QR)	19.610
Dividend Yield (%)	2.9
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	20.72/15.53
3-m Average Volume ('000)	1,475.4
Mkt. Cap. (\$ bn/QR bn)	12.7/46.3
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	49.0
Current FO* (%)	11.7
1-Year Total Return (%)	+19.0
Fiscal Year End	December 31

Source: Bloomberg (as of February 01, 2022), \*Qatar Exchange (as of February 01, 2022); Note: FO is foreign ownership

### Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Change in Estimates

(In QR mn)	2022			2023		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	5,214	5,170	-0.9	5,675	5,628	-0.8
Non Interest Income	1,228	1,271	3.5	1,204	1,187	-1.4
Total Revenue	6,442	6,440	0.0	6,879	6,815	-0.9
Opex	1,119	1,156	3.3	1,156	1,195	3.4
Net Operating Income	5,323	5,285	-0.7	5,723	5,620	-1.8
Net Provisions & Impairments	1,580	1,298	-17.8	1,526	1,276	-16.4
Net Income (Reported/Headline)	3,699	3,939	6.5	4,146	4,292	3.5
Net Income (Attributable)	3,401	3,644	7.1	3,838	3,988	3.9

Source: QNB FS Research

## Valuation

### We value QIBK using the Residual Income Model (RI) based on a fundamental P/B:

We derive QIBK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model:  $P/B = (RoE-g)/(Ke-g)$ . This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 2.2x.**

We add Qatar's 10-year CDS rate of 0.81% to the 10-year US government bond yield (1.77%) to arrive at a risk free rate of 2.6%. We factor in an adjusted beta of 1.03x. Finally, we add a local equity risk premium of 8.0% to arrive at a Ke of 10.8%. However, we use a Ke of 10.5% for the terminal year.

### Valuation Methodology

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	17.3	Beginning BVPS (2021) (QR)	8.78
Estimated Cost of Equity (%)	10.8	Present Value of Interim Residuals (QR)	3.81
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	11.65
Fundamental P/B	2.2x	Less: Intangibles & Goodwill	0.06
		Fundamental P/B	2.2x
		Intrinsic Value (QR)	24.176
		Current Market Price (QR)	19.610
		Upside/(Downside) Potential (%)	+23.3%

Source: QNB FS Research

### Forecasts

	2022e	2023e	2024e	2025e	2026e	2027e	2028e	Terminal
Beginning BVPS	8.78	9.74	10.83	12.09	13.52	15.17	16.92	18.79
Attributable EPS	1.54	1.69	1.88	2.09	2.34	2.48	2.61	2.74
DPS	0.58	0.60	0.63	0.65	0.70	0.73	0.75	0.75
Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	9.74	10.83	12.09	13.52	15.17	16.92	18.79	20.78
Equity Charge	0.95	1.06	1.17	1.31	1.47	1.64	1.83	1.97
<b>Residual Income</b>	<b>0.59</b>	<b>0.63</b>	<b>0.71</b>	<b>0.78</b>	<b>0.88</b>	<b>0.84</b>	<b>0.78</b>	<b>0.77</b>
Terminal Value (Based on Fundamental P/B)								25.69
<b>Discounted Interim Residuals</b>	<b>0.54</b>	<b>0.52</b>	<b>0.52</b>	<b>0.52</b>	<b>0.53</b>	<b>0.46</b>	<b>0.38</b>	<b>0.34</b>
<b>Discounted Terminal Value</b>								<b>11.65</b>

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021e	2022e	2023e
<b>Net Interest Income</b>	<b>3,542</b>	<b>3,859</b>	<b>4,350</b>	<b>4,774</b>	<b>5,170</b>	<b>5,628</b>
Fees & Commissions	576	693	661	726	835	833
FX Income	259	59	76	200	116	93
Other Income	142	219	353	289	319	261
<b>Non-Interest Income</b>	<b>978</b>	<b>971</b>	<b>1,090</b>	<b>1,215</b>	<b>1,271</b>	<b>1,187</b>
<b>Total Revenue</b>	<b>4,519</b>	<b>4,830</b>	<b>5,439</b>	<b>5,990</b>	<b>6,440</b>	<b>6,815</b>
Operating Expenses	(1,161)	(1,101)	(1,092)	(1,085)	(1,156)	(1,195)
<b>Net Operating Income</b>	<b>3,358</b>	<b>3,729</b>	<b>4,348</b>	<b>4,904</b>	<b>5,285</b>	<b>5,620</b>
Net Provisions & Impairments	(720)	(733)	(1,316)	(1,342)	(1,298)	(1,276)
<b>Net Profit Before Taxes &amp; Non-Recurring</b>	<b>2,638</b>	<b>2,996</b>	<b>3,032</b>	<b>3,563</b>	<b>3,986</b>	<b>4,344</b>
Tax	2	(11)	(7)	(10)	(12)	(13)
<b>Net Profit Before Minority Interest</b>	<b>2,641</b>	<b>2,985</b>	<b>3,024</b>	<b>3,553</b>	<b>3,974</b>	<b>4,331</b>
Minority Interest	115	71	41	2	(36)	(39)
<b>Non-Recurring/Unusual Gains/(Losses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Profit (Headline)</b>	<b>2,755</b>	<b>3,055</b>	<b>3,065</b>	<b>3,555</b>	<b>3,939</b>	<b>4,292</b>
Interest On Tier-1 Sukuk	(205)	(205)	(205)	(196)	(196)	(196)
Social & Sports Contribution Fund	(69)	(76)	(77)	(89)	(98)	(107)
<b>Net Profit (Attributable)</b>	<b>2,481</b>	<b>2,774</b>	<b>2,783</b>	<b>3,270</b>	<b>3,644</b>	<b>3,988</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	7,299	7,185	8,357	7,177	8,220	7,693
Interbank Loans	6,424	3,552	6,913	7,461	8,390	9,473
Net Investments	31,474	33,490	33,248	44,380	49,002	54,639
Net Loans	102,210	113,754	119,072	128,409	139,829	145,735
Investment In Associates	568	545	1,134	1,140	1,162	1,180
Other Assets	3,161	1,966	1,937	1,709	1,859	1,766
Net PP&E	479	452	462	428	391	355
Investment In Real Estate	1,231	2,175	2,863	2,854	2,899	2,921
Assets of a Subsidiary Held for Sale	0	0	0	0	0	0
Goodwill & Intangible Assets	386	400	370	360	360	360
<b>Total Assets</b>	<b>153,232</b>	<b>163,519</b>	<b>174,356</b>	<b>193,916</b>	<b>212,112</b>	<b>224,123</b>
<b>Liabilities</b>						
Interbank Deposits	17,234	14,355	13,828	19,856	20,586	20,566
Customer Deposits	100,598	111,621	118,144	131,095	144,204	153,866
Sukuk Financing	9,189	10,934	14,059	14,063	15,047	15,348
Other Liabilities	5,472	4,450	5,120	3,491	4,542	4,001
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>136,493</b>	<b>145,360</b>	<b>155,150</b>	<b>172,504</b>	<b>188,379</b>	<b>197,781</b>
<b>Minority Interest</b>	<b>1,319</b>	<b>1,026</b>	<b>903</b>	<b>676</b>	<b>712</b>	<b>751</b>
Total Shareholders' Equity	15,420	17,133	18,304	20,736	23,021	25,591
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>153,232</b>	<b>163,519</b>	<b>174,356</b>	<b>193,916</b>	<b>212,112</b>	<b>224,123</b>

Source: Company data, QNB FS Research

Key Indicators/KPIs	2019	2020	2021	2022e	2023e	2024e
<b>Profitability (%)</b>						
RoE (Tangible)	18.5	16.6	18.2	17.9	17.6	17.6
RoAA	1.8	1.6	1.8	1.8	1.8	1.9
RoRWA	2.6	2.4	2.6	2.6	2.7	2.8
NIM (% of IEAs)	2.71	2.87	2.90	2.85	2.85	2.86
NIM (% of RWAs)	3.56	3.75	3.74	3.71	3.78	3.82
NIM (% of AAs)	2.44	2.57	2.59	2.55	2.58	2.62
Spread	2.26	2.52	2.66	2.63	2.62	2.60
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	22.8	20.1	18.1	17.9	17.5	17.3
Cost-to-Income (Core)	23.6	21.2	18.9	18.8	18.1	17.9
<b>Liquidity (%)</b>						
LDR	101.9	100.8	98.0	97.0	94.7	94.2
Loans/Assets	69.6	68.3	66.2	65.9	65.0	65.1
Cash & Interbank Loans-to-Total Assets	6.6	8.8	7.5	7.8	7.7	7.1
Deposits to Assets	68.3	67.8	67.6	68.0	68.7	69.1
Wholesale Funding to Loans	22.2	23.4	26.4	25.5	24.6	23.8
IEAs to IBLs	121.1	120.9	117.1	115.7	117.5	117.7
<b>Asset Quality (%)</b>						
NPL Ratio	1.3	1.4	1.3	1.3	1.4	1.4
NPL to Shareholder's Equity	8.8	9.6	8.7	8.2	8.4	8.1
NPL to Tier 1 Capital	7.5	7.9	7.6	7.6	8.2	8.3
Coverage Ratio	182.5	226.8	269.2	320.9	337.5	361.8
ALL/Average Loans	2.3	3.1	3.5	4.1	4.6	4.9
Cost of Risk	56	105	103	92	81	76
<b>Capitalization (%)</b>						
Tier 1 Ratio	18.3	18.2	17.7	17.2	17.1	16.5
CAR	19.5	19.4	18.9	18.3	18.3	17.6
Tier 1 Capital to Assets	12.4	12.7	12.3	11.7	11.7	11.3
Tier 1 Capital to Loans	17.8	18.6	18.5	17.8	17.9	17.3
Tier 1 Capital to Deposits	18.1	18.7	18.1	17.2	17.0	16.3
Leverage (x)	9.5	9.5	9.4	9.2	8.8	8.7
<b>Growth (%)</b>						
Net Interest Income	9.0	12.7	9.8	8.3	8.9	9.5
Non-Interest Income	-0.7	12.3	11.5	4.6	-6.6	6.2
Total Revenue	6.9	12.6	10.1	7.5	5.8	8.9
OPEX	-5.2	-0.9	-0.6	6.5	3.4	7.7
Net Operating Income	11.1	16.6	12.8	7.8	6.3	9.2
Net Income (Attributable)	11.8	0.3	17.5	11.4	9.4	11.4
Loans	11.3	4.7	7.8	8.9	4.2	10.3
Deposits	11.0	5.8	11.0	10.0	6.7	11.0
Assets	6.7	6.6	11.2	9.4	5.7	10.3
RWAs	3.8	10.1	10.3	7.9	5.8	10.6

Source: Company data, QNB FS Research

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

### Contacts

QNB Financial Services Co. W.L.L.  
 Contact Center: (+974) 4476 6666  
[info@qnbfs.com.qa](mailto:info@qnbfs.com.qa)  
 Doha, Qatar

Saugata Sarkar, CFA, CAIA  
 Head of Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
 Senior Research Analyst  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

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