

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR19.200	Target Price	QR24.176
Implied Upside	25.9%		

Solid Outlook Underpinned by Attractive Valuation, Stay Accumulate

After a solid FY2022, we maintain our earnings CAGR of 11.5% (2022-27e). As such, we maintain our PT of QR24.176/share on QIBK. We believe the stock has rerated and is trading at attractive levels. QIBK is trading at a P/B of 1.8x, which implies decent upside, in our view. We note that the stock's 5-year median P/B is 2.2x (5-year high P/B of 3.0x and 5-year low of 1.4x). Hence, we maintain our Accumulate rating on the name. Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e: 17.9% 2024e: 18.0% & 2025e: 18.2%); moreover, 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 still expected to generate superior RoE/RoRWAs vs. peers (>17%/>2.0%) in the medium-term.

Highlights

- **QIBK reported FY2022 net profit slightly ahead of our estimates.** QIBK reported a net profit of QR3.72bn in 2022, ahead of our estimate of QR3.52bn (+5.7% variation). Net profit gained by 13.7% YoY.
- **NIM expansion, strong non-funded income, costs containment and a drop in provisions & impairments led to the double-digit growth in FY2022 earnings.** Total revenue increased by 6.5% YoY due to strong non-funded income as net interest income gained by 4.7% YoY. However, cost containment led to a 7.4% growth in net operating income. Moreover, a 7.9% drop in provisions & impairments led to a 13.7% increase in the earnings.
- **Robust RoE and RoRWA 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 18.1% in FY2022, despite the large amounts of provisions booked during the COVID-19 pandemic era along with precautionary provisions due to QIBK's prudent risk approach. We expect RoEs of 17.9% in 2023, 18.0% in 2024 and 18.2% in 2025. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.8% in 2022 and we still expect this metric to increase to 3.2% by 2027.
- **QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 17.4% in 2022 (FY2021: 18.1%). Moreover, QIBK generated robust JAWs of 8.7% on average (2017-2022). We model C/I ratios of 16.8%/16.4% in 2023/2024.
- **Net loans contracted by 7.1% given public sector repayments; however, gross loans, excluding the public sector, expanded by 11.8% YoY.** Net loans dropped from FY2021's QR128.4bn to QR119.3bn in FY2022. Deposits dropped by 6.7% as QIBK shed expensive deposits. We expect net loans to grow by 6.7% in 2023 vs 7.4% previously.
- **CoR to remain elevated given management's conservative risk management nature but we do not expect it to revert back to ~100bps levels (2020 & 2021).** Net credit provisions declined by 9.9% in FY2022 vs. FY2021. Moreover, CoR declined from 104bps in 2021 to 92bps in 2022. We lower our estimate of CoR from 92bps in 2022 to 70bps in 2026. However, we maintain 84bps for 2023e. We expect CoR to normalize at 70bps by 2025e. A decent chunk of CoR is coming from Stage 1 loans as management is upping its buffers. 55% of allowance for loan losses is attributed to Stage 1 loans.
- **Asset quality remains healthy; we still do not expect any headwinds going forward.** NPL ratio improved from FY2021's 1.79% to 1.54% in FY2022. During the same time, NPL formation was negative, which is a positive (dropping by 19.5% vs. FY2021). Coverage of Stage 3 loans was a strong 91%. We expect the NPL ratio to further improve over the coming years.
- **Capitalization remains strong.** QIBK ended FY2022 with robust CET1 and Tier-1 ratios at 15.8% and 17.4%, respectively. We still expect management to maintain these levels going forward, while generating superior RoEs.

Catalysts

- **For QIBK shares to move up further, we need to see better-than-expected earnings performance and/or dividend upside.**

Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Price Target at QR24.176 and our Accumulate rating. QIBK is trading at a 2023e P/TB and P/E of 1.8x and 11.0x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS (QR)	1.57	1.75	1.96	2.21
EPS Growth (%)	13.7	11.0	12.0	13.1
P/E (x)	12.2	11.0	9.8	8.7
Tangible BVPS (QR)	9.8	10.9	12.2	13.6
P/TBV (x)	2.0	1.8	1.6	1.4
RoE (%)	18.1	17.9	18.0	18.2
DPS (QR)	0.625	0.675	0.725	0.800
Dividend Yield (%)	3.3	3.5	3.8	4.2

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

Key Data

Current Market Price (QR)	19.20
Dividend Yield (%)	3.3
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	27.50/18.40
3-m Average Volume ('000)	1,536.5
Mkt. Cap. (\$ bn/QR bn)	12.5/45.4
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	15.6
1-Year Total Return (%)	(1.8)
Fiscal Year End	December 31

Source: Bloomberg (as of February 02, 2023), *Qatar Exchange (as of February 02, 2023); Note: FO is foreign ownership

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Key Indicators/KPIs	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Tangible)	16.6	18.2	18.1	17.9	18.0	18.2
RoAA	1.6	1.8	2.0	2.2	2.2	2.3
RoRWA	2.5	2.7	2.8	3.0	3.1	3.1
NIM (% of IEAs)	2.87	2.90	2.97	3.16	3.15	3.29
NIM (% of RWAs)	3.75	3.74	3.67	3.72	3.68	3.77
NIM (% of AAs)	2.57	2.59	2.65	2.82	2.83	2.96
Spread	2.52	2.66	2.67	2.77	2.77	2.89
Efficiency (%)						
Cost-to-Income (Headline)	20.1	18.1	17.4	16.8	16.4	15.5
Cost-to-Income (Core)	21.2	18.9	18.7	17.7	17.1	16.3
Liquidity (%)						
LDR	100.8	98.0	97.5	97.5	99.0	99.5
Loans/Assets	68.3	66.2	64.8	64.0	64.4	67.7
Cash & Interbank Loans-to-Total Assets	8.8	7.5	6.1	5.9	6.3	6.1
Deposits to Assets	67.8	67.6	66.5	65.6	65.1	68.1
Wholesale Funding to Loans	23.4	26.4	25.0	27.0	27.3	20.7
IEAs to IBLs	120.9	117.1	122.2	120.8	118.5	124.2
Asset Quality (%)						
NPL Ratio	1.4	1.8	1.5	1.4	1.4	1.6
NPL to Shareholder's Equity	9.6	11.5	8.3	7.3	6.9	7.9
NPL to Tier 1 Capital	7.9	10.1	7.4	6.8	6.8	8.0
Coverage Ratio	226.8	202.4	313.0	375.2	406.0	357.0
ALL/Average Loans	3.1	3.5	4.2	4.7	5.1	5.3
Cost of Risk	105	104	92	84	78	70
Capitalization (%)						
CET1 Ratio	14.9	14.7	15.8	15.5	15.0	15.3
Tier-1 Ratio	18.2	17.7	18.7	18.2	17.4	17.5
CAR	19.4	18.9	19.9	19.4	18.6	18.7
Leverage (x)	9.5	9.4	7.9	7.7	7.5	7.1
Growth (%)						
Net Interest Income	12.7	9.8	4.7	7.9	9.2	12.4
Non-Interest Income	12.3	11.5	13.8	-3.8	7.7	-2.2
Total Revenue	12.6	10.1	6.5	5.3	8.9	9.5
OPEX	-0.9	-0.6	2.5	1.6	5.9	4.0
Net Operating Income	16.6	12.8	7.4	6.1	9.5	10.6
Net Income (Attributable)	0.3	17.5	13.7	11.0	12.0	13.1
Loans	4.7	7.8	-7.1	6.7	9.7	11.5
Deposits	5.8	11.0	-6.7	6.7	8.0	11.0
Assets	6.6	11.2	-5.1	8.1	9.0	6.1
RWAs	10.1	10.3	3.4	9.1	11.8	7.4

Source: Company data, QNB FS Research

Change in Estimates

(In QR mn)	2023			2024		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	5,426	5,392	-0.6	5,949	5,887	-1.0
Non Interest Income	1,185	1,330	12.3	1,249	1,433	14.8
Total Revenue	6,611	6,723	1.7	7,198	7,321	1.7
Opex	1,161	1,130	-2.7	1,229	1,197	-2.6
Net Operating Income	5,450	5,593	2.6	5,969	6,124	2.6
Net Provisions & Impairments	1,203	1,128	-6.2	1,215	1,115	-8.2
Net Income (Reported/Headline)	4,196	4,425	5.5	4,682	4,934	5.4
Net Income (Attributable)	3,895	4,127	6.0	4,369	4,623	5.8

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	4,350	4,774	4,999	5,392	5,887	6,618
Fees & Commissions	661	726	810	855	942	904
FX Income	76	200	122	131	148	126
Other Income	353	289	451	345	343	371
Non-Interest Income	1,090	1,215	1,383	1,330	1,433	1,402
Total Revenue	5,439	5,990	6,382	6,723	7,321	8,020
Operating Expenses	(1,092)	(1,085)	(1,112)	(1,130)	(1,197)	(1,245)
Net Operating Income	4,348	4,904	5,270	5,593	6,124	6,775
Net Provisions & Impairments	(1,316)	(1,342)	(1,235)	(1,128)	(1,115)	(1,135)
Net Profit Before Taxes & Non-Recurring	3,032	3,563	4,034	4,465	5,008	5,640
Tax	(7)	(10)	(11)	(12)	(14)	(16)
Net Profit Before Minority Interest	3,024	3,553	4,023	4,452	4,994	5,625
Minority Interest	41	2	(18)	(27)	(60)	(67)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,065	3,555	4,005	4,425	4,934	5,557
Interest On Tier-1 Sukuk	(205)	(196)	(188)	(188)	(188)	(188)
Social & Sports Contribution Fund	(77)	(89)	(100)	(111)	(123)	(139)
Net Profit (Attributable)	2,783	3,270	3,717	4,127	4,623	5,230

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Assets						
Cash & Balances with Central Bank	8,357	7,177	7,951	7,834	8,038	9,392
Interbank Loans	6,913	7,461	3,188	3,819	5,585	4,672
Net Investments	33,248	44,380	45,774	52,210	55,592	52,491
Net Loans	119,072	128,409	119,285	127,304	139,625	155,735
Investment In Associates	1,134	1,140	1,130	1,170	1,211	1,250
Other Assets	1,937	1,709	2,576	2,481	2,561	2,230
Net PP&E	462	570	558	539	522	516
Investment In Real Estate	2,863	2,854	3,321	3,358	3,396	3,434
Goodwill & Intangible Assets	370	218	218	218	218	218
Total Assets	174,356	193,916	184,001	198,934	216,748	229,938
Liabilities						
Interbank Deposits	13,828	19,856	17,382	21,665	22,921	16,217
Customer Deposits	118,144	131,095	122,371	130,570	141,015	156,527
Sukuk Financing	14,059	14,063	12,453	12,702	15,243	16,005
Other Liabilities	5,120	3,491	3,868	3,395	3,878	3,913
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	155,150	172,504	160,075	172,331	187,057	196,662
Minority Interest	903	676	669	695	755	823
Total Shareholders' Equity	18,304	20,736	23,257	25,908	28,936	32,453
Total Liabilities & Shareholders' Equity	174,356	193,916	184,001	198,934	216,748	229,938
Risk Weighted Assets	121,582	134,045	138,570	151,190	169,063	181,651

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>	
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

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