

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR22.410	Target Price	QR24.176
Implied Upside	7.9%		

Limited Upside; Moving to Accumulate & Maintain Target of QR24.176

After 1Q2022, we maintain our earnings estimates (2022/2023) for QIBK and earnings CAGR of 11.5% (2021-26e). As such, we maintain our PT of QR24.176/share. Since our last upgrade (Wednesday, 02 February 2022) the stock rallied 43% to its 52 week high of QR28.0/share (April 11 2022), trading at a P/B of 2.9x. The move was driven by the 100% FOL increase. The stock has recently corrected to 2.3x P/B and there is limited upside remaining, in our view. Hence, we lower our rating on the name from Outperform to Accumulate. Our thesis remains unchanged; 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: 17.9%); 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 1Q2022 net profit in-line with estimates.** Qatar Islamic Bank (QIBK) reported a net profit of QR855.1mn in 1Q2022, in-line with our estimate of QR881.5mn (variation of -3.0%). Net profit gained by 14.0% YoY (-17.0% sequentially).
- **Drop in provisions & impairments led to double-digit growth in 1Q2022 earnings.** Total revenue increased by only 1.5% YoY due to weak non-funded income as net interest & investment income gained by 8.6% YoY. On the other hand, flat opex YoY led to only +1.5% growth in net operating income. As such, a 14.3% drop in provisions & impairments led to a 14.0% increase in the bottom-line. Sequentially, strong net operating income (+15.1%) was offset by a surge in provisions (+260.5%), resulting in a 17.0% drop in the bottom-line.
- **Robust RoE (1Q2022: 16.5%) 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 18.2% in FY2021, despite the large amounts of provisions booked during the COVID-19 pandemic era. We expect RoEs of 17.9% in 2022 and 2023. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.6% in 2021 and we still expect this metric to increase to 2.9% by 2026.
- **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 18.1% in 2021 (1Q2022: 16.8%). Moreover, QIBK generated robust JAWs of 10.7% on average (2015-2021). We model C/I ratios of 17.0% and 16.7% in 2022 and 2023, respectively.
- **We still maintain our 7.8% loan growth forecast over 2021-26e:** Net loans receded 1.0% in 1Q2022 vs. FY2021 to QR127.1bn. Moreover, deposits dropped by 6.1% to QR123.2bn as QIBK shed expensive deposits.
- **CoR to remain elevated given management's conservative risk management nature.** Net credit provisions declined by 7.0% in 1Q2022 vs. 1Q2021 to QR518.5mn. On the other hand, annualized CoR decreased from 173bps in 1Q2021 to 157bps in 1Q2022. We increase our estimate of CoR from 92bps to 97bps for 2022. However, we maintain 81bps for 2023e. 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 FY2021's 1.8% to 1.5% in 1Q2022. During the same time, NPL formation was negative, which is a positive.
- **Capitalization remains strong.** QIBK ended 1Q2022 with robust CET1 and Tier-1 ratios at 14.6% and 17.7%, respectively. We still expect management to maintain these levels going forward.

Catalysts

- In light of the stock's impressive YTD rally, 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 but lower the stock's rating from Outperform to Accumulate. QIBK is trading at a 2022e P/TB and P/E of 2.3x and 14.5x, 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	1.72	1.91
EPS Growth (%)	17.5	11.4	11.3	11.3
P/E (x)	16.2	14.5	13.1	11.7
Tangible BVPS (QR)	8.6	9.6	10.7	12.0
P/TBV (x)	2.6	2.3	2.1	1.9
RoE (%)	18.2	17.9	17.9	17.8
DPS (QR)	0.575	0.600	0.625	0.650
Dividend Yield (%)	2.6	2.7	2.8	2.9

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

Key Data

Current Market Price (QR)	22.410
Dividend Yield (%)	2.6
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	28.00/16.79
3-m Average Volume ('000)	3,930.8
Mkt. Cap. (\$ bn/QR bn)	14.5/52.9
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	14.8
1-Year Total Return (%)	34.1
Fiscal Year End	December 31

Source: Bloomberg (as of June 09, 2022), *Qatar Exchange (as of June 09, 2022); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2022			2023		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	5,170	5,161	-0.2	5,628	5,626	0.0
Non Interest Income	1,271	1,275	0.3	1,187	1,188	0.1
Total Revenue	6,441	6,437	-0.1	6,815	6,814	0.0
Opex	1,156	1,092	-5.5	1,195	1,138	-4.7
Net Operating Income	5,285	5,344	1.1	5,620	5,676	1.0
Net Provisions & Impairments	1,298	1,361	4.8	1,276	1,263	-1.0
Net Income (Reported/Headline)	3,939	3,936	-0.1	4,292	4,360	1.6
Net Income (Attributable)	3,644	3,641	-0.1	3,988	4,055	1.7

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Net Interest Income	3,859	4,350	4,774	5,161	5,626	6,170
Fees & Commissions	693	661	726	781	824	894
FX Income	59	76	200	150	120	96
Other Income	219	353	289	344	244	263
Non-Interest Income	971	1,090	1,215	1,275	1,188	1,253
Total Revenue	4,830	5,439	5,990	6,437	6,814	7,423
Operating Expenses	(1,101)	(1,092)	(1,085)	(1,092)	(1,138)	(1,227)
Net Operating Income	3,729	4,348	4,904	5,344	5,676	6,196
Net Provisions & Impairments	(733)	(1,316)	(1,342)	(1,361)	(1,263)	(1,293)
Net Profit Before Taxes & Non-Recurring	2,996	3,032	3,563	3,984	4,413	4,903
Tax	(11)	(7)	(10)	(12)	(13)	(15)
Net Profit Before Minority Interest	2,985	3,024	3,553	3,972	4,399	4,888
Minority Interest	71	41	2	(36)	(40)	(59)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,055	3,065	3,555	3,936	4,360	4,830
Interest On Tier-1 Sukuk	(205)	(205)	(196)	(196)	(196)	(196)
Social & Sports Contribution Fund	(76)	(77)	(89)	(98)	(109)	(121)
Net Profit (Attributable)	2,774	2,783	3,270	3,641	4,055	4,513

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Assets						
Cash & Balances with Central Bank	7,185	8,357	7,177	8,449	7,155	8,101
Interbank Loans	3,552	6,913	7,461	6,230	9,380	8,759
Net Investments	33,490	33,248	44,380	45,267	50,713	57,518
Net Loans	113,754	119,072	128,409	138,440	144,306	159,248
Investment In Associates	545	1,134	1,140	1,162	1,180	1,197
Other Assets	1,966	1,937	1,709	1,854	1,762	1,857
Net PP&E	452	462	428	397	361	383
Investment In Real Estate	2,175	2,863	2,854	2,899	2,921	2,943
Assets of a Subsidiary Held for Sale	0	0	0	0	0	0
Goodwill & Intangible Assets	400	370	360	360	360	360
Total Assets	163,519	174,356	193,916	205,059	218,137	240,367
Liabilities						
Interbank Deposits	14,355	13,828	19,856	23,947	25,567	25,244
Customer Deposits	111,621	118,144	131,095	134,110	143,095	158,836
Sukuk Financing	10,934	14,059	14,063	15,047	15,348	18,418
Other Liabilities	4,450	5,120	3,491	4,224	3,720	4,368
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	145,360	155,150	172,504	181,328	191,731	210,865
Minority Interest	1,026	903	676	712	751	810
Total Shareholders' Equity	17,133	18,304	20,736	23,018	25,655	28,691
Total Liabilities & Shareholders' Equity	163,519	174,356	193,916	205,059	218,137	240,367

Source: Company data, QNB FS Research

Key Indicators/KPIs	2019	2020	2021	2022e	2023e	2024e
Profitability (%)						
RoE (Tangible)	18.5	16.6	18.2	17.9	17.9	17.8
RoAA	1.8	1.6	1.8	1.8	1.9	2.0
RoRWA	2.6	2.4	2.6	2.7	2.8	2.9
NIM (% of IEAs)	2.71	2.87	2.90	2.87	2.91	2.93
NIM (% of RWAs)	3.56	3.75	3.74	3.77	3.90	3.93
NIM (% of AAs)	2.44	2.57	2.59	2.59	2.66	2.69
Spread	2.26	2.52	2.66	2.64	2.66	2.68
Efficiency (%)						
Cost-to-Income (Headline)	22.8	20.1	18.1	17.0	16.7	16.5
Cost-to-Income (Core)	23.6	21.2	18.9	17.8	17.2	17.0
Liquidity (%)						
LDR	101.9	100.8	98.0	103.2	100.8	100.3
Loans/Assets	69.6	68.3	66.2	67.5	66.2	66.3
Cash & Interbank Loans-to-Total Assets	6.6	8.8	7.5	7.2	7.6	7.0
Deposits to Assets	68.3	67.8	67.6	65.4	65.6	66.1
Wholesale Funding to Loans	22.2	23.4	26.4	28.2	28.4	27.4
IEAs to IBLs	121.1	120.9	117.1	121.4	118.0	118.3
Asset Quality (%)						
NPL Ratio	1.3	1.4	1.8	1.7	1.4	1.4
NPL to Shareholder's Equity	8.8	9.6	11.5	10.5	8.3	8.0
NPL to Tier 1 Capital	7.5	7.9	10.1	9.7	8.1	8.2
Coverage Ratio	182.5	226.8	202.4	254.1	341.8	365.7
ALL/Average Loans	2.3	3.1	3.5	4.1	4.6	5.0
Cost of Risk	57	105	104	97	81	76
Capitalization (%)						
Tier-1 Ratio	18.3	18.2	17.7	17.7	17.6	17.0
CAR	19.5	19.4	18.9	18.9	18.8	18.2
Tier 1 Capital to Assets	12.4	12.7	12.3	12.1	12.0	11.7
Tier 1 Capital to Loans	17.8	18.6	18.5	17.9	18.2	17.6
Tier 1 Capital to Deposits	18.1	18.7	18.1	18.5	18.3	17.6
Leverage (x)	9.5	9.5	9.4	8.9	8.5	8.4
Growth (%)						
Net Interest Income	9.0	12.7	9.8	8.1	9.0	9.7
Non-Interest Income	-0.7	12.3	11.5	4.9	-6.8	5.5
Total Revenue	6.9	12.6	10.1	7.5	5.9	8.9
OPEX	-5.2	-0.9	-0.6	0.7	4.2	7.8
Net Operating Income	11.1	16.6	12.8	9.0	6.2	9.2
Net Income (Attributable)	11.8	0.3	17.5	11.4	11.3	11.3
Loans	11.3	4.7	7.8	7.8	4.2	10.4
Deposits	11.0	5.8	11.0	2.3	6.7	11.0
Assets	6.7	6.6	11.2	5.7	6.4	10.2
RWAs	3.8	10.1	10.3	4.3	6.5	10.5

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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