

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR77.6	Target Price	QR94.6
Implied Upside	21.9%		

Strong 1Q2012 Results; Upgrading to Outperform

- 1Q2012 results beats estimates; upgrading to Outperform rating.** Qatar Islamic Bank (QIBK) reported net profit of QR387.8mn for 1Q2012, up 20.9% YoY from QR320.8mn in 1Q2011. The results beat Bloomberg consensus net income of QR331mn by 17.2%. The improved performance was a combination of higher income from financing and investing activities, greater contribution from commission and fees and lower payments to unrestricted investment account holders. However, impairments on financial investment and other receivables continue to remain high. The acquisition of IBQ's corporate portfolio (around QR700mn) had a marginal impact on overall performance. On a YTD basis, the stock has underperformed the Banking & Financial Service Index; the stock is down 2.7% (total return) versus the sector, which is up 4.0%. Given that QIBK is trading at a 21.9% discount to our price target of QR94.6, we are upgrading the stock to an Outperform rating. On the valuation front, the stock is trading at a P/E ratio of 10.5x and P/B ratio of 1.3x on 2012 estimates.

Financial Results and Key Takeaways

- Income from financing activity increased by 7.2% YoY and 18.0% QoQ. The strong growth QoQ is a positive sign. Income from investing activity increased by 34.1% YoY and 26.6% QoQ. Net commission and fee income for the period was QR100mn up from QR 59mn in 1Q2011, an increase of 68.8% YoY.
- Payment to unrestricted investment account holders decreased by 29.1% YoY and 35.3% QoQ for 1Q2012.
- General and administrative expenses jumped by QR52mn (41.6%) YoY. However, they were down QR49mn (21.6%) QoQ.
- Impairment losses on financial investments and other receivables increased to QR71mn from QR21mn in the same period last year. However, they are down from QR170mn in 4Q2011.
- The loan to deposit ratio increased to 106% from 96% in 1Q2011 (107% FY2011). Due from financing activity increased by 7.8% QoQ, while combined deposits in customer accounts and unrestricted investment accounts increased by 8.4% QoQ.

Going forward, we feel deposit growth will be the key for improving the bottom-line. While current liquidity appears to be tight, we believe a gradual uptick in infrastructure spending in 2H2012 and beyond should enable deposits to flow to the banking sector allowing banks to increase their loan books.

Key Data:

Bloomberg ticker	QIBK QD
ADR/GDR ticker	N/A
Reuters ticker	QISB.QA
ISIN	QA0006929853
Sector	Banks & Financial Services
52wk high/52wk low (QR)	86.1/71.3
3-m average volume ('000)	104.5
Mkt. cap. (USD bn/QR bn)	5.0/18.3
Shares outstanding (mn)	236.3
FOL* (%)	4.5
FOL Limit* (mn)	48.7
1-year total return (%)	1.05
Fiscal year end	Dec. 31

Source: Bloomberg (as of April 12, 2012), *Qatar Exchange

Broker Recommendations

Recommendation	Number
Buy	4
Hold	7
Sell	1

Source: Bloomberg

Abdullah Amin

+974 4476 6569
abdullah.amin@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534
saugata.sarkar@qnbfs.com.qa

QIBK Key Stats (In QR mn)	1Q2011	1Q2012	Change YoY (%)	Change QoQ (%)
Total income from financing and investing activities, net	582	657	13.0	20.1
Income from commission and fees, net	59	100	68.8	(0.1)
Net operating income	648	777	19.9	22.1
General and administrative expenses	(126)	(178)	41.6	(21.6)
Impairment (losses) reversals on financial investments and other receivables	(21)	(71)	239.5	(58.0)
Equity of unrestricted investment account holders' share from net profit	(114)	(81)	(29.1)	(35.3)
Net profit for the year attributable to shareholders	321	388	20.9	52.2
Due from financing activities	24,744	31,898	28.9	7.8
Financial investments	14,262	14,560	2.1	(1.7)
Total assets	49,836	58,990	18.4	1.2
Customers' accounts	5,833	8,681	48.8	(3.6)
Equity of unrestricted investment account holders	19,841	21,300	7.4	14.2
Total shareholders' equity	10,315	10,601	2.8	(5.4)

Source: Company reports

Recommendations	
<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>	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

DISCLAIMER: This publication has been prepared by QNB Financial Services SPC (“QNBFS”) a wholly-owned subsidiary of Qatar National Bank (“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.

Contacts

Ahmed M. Shehada

Head of Trading

Tel: (+974) 4476 6535

ahmed.shehada@qnb.com.qa

Keith Whitney

Head of Sales

Tel: (+974) 4476 6533

keith.whitney@qnb.com.qa

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnb.com.qa

Sahbi Kasraoui

Manager – HNWI

Tel: (+974) 4476 6544

sahbi.alkasraoui@qnb.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar