

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR105.60	Current Target Price	QR104.00
Implied Upside	(1.5%)		

Provisions & Weak Non-Interest Income Impacts 3Q2016

QIBK is the largest Islamic bank with a market share of 11.7% and 11.9% in total loans and deposits, respectively. QIBK spent the past couple of years regaining lost market share. The bank's loan book grew by 26.6% and 46.1% in 2014 and 2015, respectively.

Highlights

- **QIBK reports in-line net profit.** QIBK generated net profit of QR550.08mn, in-line with our estimate of QR544.16mn (+1.1% variation) and Bloomberg consensus (QR547.8mn). Net interest & Investment income was also in-line at QR751.03mn vs. our estimate of QR779.36mn (-3.6% variation).
- **QIBK's QoQ drop in profitability was due to weak non-interest income (margin pressure) and higher provisions & impairments.** QIBK posted net profit of QR550.1mn, dropping by 2.3% QoQ (+6.8% YoY). Net Interest income (excluding income from fixed income) gained by 4.0% both QoQ & YoY to QR574.3mn. Hence, NIMs stabilized at ~2.38% vs. ~2.35% in 2Q2016 after dropping by ~31ps and ~60bps QoQ and YoY, respectively in 2Q2016. On the other hand, non-interest income displayed weak performance attributed to fees and associates. The Bank generated fees of QR128.9mn, declining by 4.8% QoQ and 4.9% YoY. Moreover, QIBK incurred losses from associates of QR6.4mn vs. profit of QR15.8mn 2Q2016. Provisions and impairments surged by 78.0% QoQ (+77.9% YoY) to QR157.2mn, signaling asset quality issues on the horizon.
- **Net Operating was flat QoQ due to cost containment.** Opex was flattish due to the weak operating environment. As such, QIBK posted opex of QR272.8mn. Thus, the bank's cost-to-income ratio (C/I) was contained at an optimal level of 29.5%. The bank's net operating income at the end of 3Q2016 was flat at QR650.5mn (+4.7% YoY) as a result of cost containment.
- **Asset quality worsened but remains acceptable for now.** QIBK's NPLs surged by 68.0% YTD to QR961.0mn. Thus, the NPLs ratio climbed up to 1.0% in 3Q2016 (0.7% in 4Q2015). Moreover, the coverage ratio dropped to 84% vs. 101% at the end of 2015. Although an NPL ratio of 1.0% is good, but the jump from 0.7% to 1.0% indicates pressure on asset quality, in our view.
- **Net loans remained flat QoQ.** QIBK's loan book remained flat QoQ (+10.4% YTD) at QR96.6bn. On The other hand, deposits increased by 1.1% QoQ (+5.3% YTD) to QR96.4bn. Hence, the bank's LDR remained unchanged at 100% vs. 101% in 2Q2016 (102% in FY2015).
- **2016 estimates remain broadly unchanged at QR1.97bn.** However, we revise down our 2017 net income estimate to QR1.97bn vs. QR2.22bn on the account of higher provisions.

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Improvement in NIMs and spreads.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR104.00.** QIBK is trading at a 2017e P/B and P/E of 1.6x and 12.6x, respectively.
- **Risks:** 1) Depressed oil prices remains the biggest risk for QIBK and the banking sector, 2) Increase in credit costs and 3) Exposure to real estate segment

Key Financial Data and Estimates

	FY2015	FY2016e	FY2017e	FY2018e
Attributable EPS (QR)	7.64	8.32	8.35	9.51
EPS Growth (%)	15.6	3.2	0.4	13.9
P/E (x)	12.5	11.5	11.2	10.0
Tangible BVPS (QR)	55.1	58.9	63.8	69.6
P/TB (x)	1.8	1.8	1.7	1.5
DPS (QR)	4.25	4.10	3.75	3.75
Dividend Yield (%)	4.0	3.9	3.6	3.6

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	105.60
Dividend Yield (%)	3.9
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	121.00/75.10
3-m Average Volume ('000)	177.3
Mkt. Cap. (\$ bn/QR bn)	6.9/25.0
Shares Outstanding (mn)	236.3
FO Limit* (%)	25.0
Current FO* (%)	6.0
1-Year Total Return (%)	(7.4)

Fiscal Year End December 31

Source: Bloomberg (as of Thursday 20, 2016), *Qatar Exchange (as of October 20, 2016); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2015	FY2016e	FY2017e	FY2018e
Profitability (%)				
RoAE (Attributable)	13.9	14.2	13.3	13.9
RoAA (Attributable)	1.6	1.5	1.4	1.5
RoRWA (Attributable)	2.0	1.8	1.7	1.8
NIM (% of IEAs)	2.60	2.29	2.30	2.34
NIM (% of RWAs)	2.81	2.53	2.56	2.60
NIM (% of AAs)	2.30	2.06	2.08	2.13
Spread	2.33	1.95	1.96	2.02
Efficiency (%)				
Cost-to-Income (Headline)	30.8	30.6	30.3	30.3
Cost-to-Income (Core)	33.1	32.9	32.2	31.7
Liquidity (%)				
LDR	95.3	100.1	98.9	97.0
Loans/Assets	68.7	71.3	71.6	71.8
Cash & Interbank Loans-to-Total Assets	11.5	9.6	9.4	9.5
Deposits to Assets	72.0	71.3	72.4	74.1
Wholesale Funding to Loans	19.1	15.5	16.0	14.6
IEAs to IBLs	121.2	123.2	120.6	119.6
Asset Quality (%)				
NPL Ratio	0.7	1.0	1.0	1.0
NPLs to Shareholder's Equity	4.3	6.6	6.9	7.1
NPLs to Tier 1 Capital	4.0	6.0	6.2	6.5
Coverage Ratio	101.4	84.8	98.8	101.6
ALL/Average Loans	0.7	0.8	0.9	1.0
Cost of Risk (bps)	14	28	28	20
Capitalization (%)				
Tier 1 Ratio	13.7	14.5	14.3	14.0
CAR	14.1	14.9	14.7	14.3
Tier 1 Capital to Assets	11.3	11.6	11.7	11.5
Tier 1 Capital to Loans	16.5	16.2	16.4	16.0
Tier 1 Capital to Deposits	15.7	16.3	16.2	15.5
Leverage (x)	9.5	9.6	9.5	9.6
Growth (%)				
Net Interest Income	16.4	6.0	8.3	11.3
Non-Interest Income	19.9	17.9	2.1	-0.1
OPEX	13.5	8.3	5.5	8.7
Net Operating Income	19.0	9.1	7.1	8.3
Net Income (Attributable)	15.6	3.2	0.4	13.9
Loans	46.1	12.4	6.7	10.7
Deposits	37.4	7.0	8.0	13.0
Assets	32.2	8.2	6.3	10.4
RWAs	34.2	4.8	9.2	10.4

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	2,567	2,721	2,946	3,280
Fees & Commissions	478	540	567	601
FX Income	82	152	171	183
Other Income	267	282	257	210
Non-Interest Income	827	975	995	994
Total Income	3,394	3,696	3,941	4,274
Operating Expenses	(1,044)	(1,131)	(1,193)	(1,297)
Net Operating Income	2,350	2,565	2,748	2,977
Net Provisions	(331)	(434)	(409)	(341)
Net Profit Before Taxes & Non-Recurring Items	2,019	2,131	2,340	2,636
Tax	(10)	(13)	(23)	(26)
Net Profit Before Minority Interest	2,009	2,118	2,316	2,610
Minority Interest	(76)	40	(93)	(104)
Non-Recurring/Unusual Gains/(Losses)	21	8	0	0
Net Profit (Headline/Reported)	1,954	2,166	2,224	2,505
Interest on Tier 1 Sukuk		(150)	(200)	(200)
Social & Sports Contribution Fund	(49)	(50)	(51)	(58)
Net Profit (Attributable)	1,905	1,966	1,973	2,248

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Assets				
Cash & Balances with Central Bank	5,086	5,386	5,288	5,976
Interbank Loans	9,494	7,842	8,371	9,270
Net Investments	18,840	19,296	20,750	23,929
Net Loans	87,222	98,028	104,637	115,876
Investment In Associates	1,048	1,057	1,068	1,088
Other Assets	3,295	3,921	4,185	3,476
Net PP&E	575	590	607	613
Investment in Real Estate	1,055	894	814	743
Assets of a Subsidiary Held for Sale	4	0	0	0
Goodwill & Other Intangibles	411	387	364	340
Total Assets	127,031	137,401	146,084	161,311
Liabilities				
Interbank Deposits	11,199	8,400	9,920	10,108
Customer Deposits	91,521	97,927	105,761	119,510
Sukuk Financing	5,451	6,790	6,790	6,790
Other Liabilities	1,632	4,211	2,327	2,151
Liabilities of a Subsidiary Held for Sale	3	0	0	0
Tier-1 Sukuk	2,000	4,000	4,000	4,000
Total Liabilities	111,806	121,328	128,798	142,560
Total Shareholders' Equity	13,426	14,391	15,645	17,205
Total Liabilities & Shareholders' Equity	127,031	137,401	146,084	161,311

Source: Company data, QNBFS estimates

Recommendations

Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price

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

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

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

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