

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR75.00	Target Price	QR73.27
Implied Upside	(2.3%)		

Lower Provisions Boost 2013 Earnings Growth

After an eventful 2012, QIBK posted a subdued performance in 2013. QIBK increased its loan book by 9.3% YoY vs. a 13.3% increase by the banking sector. On the other hand, QIBK's deposits (including URIA) grew by 16.7% vs. 19.7% for the banking sector. Net income to shareholders grew by 7.6% YoY vs. a 9.1% YoY decline in 2012. The bank announced cash DPS of QR4.00 for 2013 (in line with our estimate) vs. QR3.75 for 2012. *Going forward, as project mobilizations pick up, we expect the bank's bottom-line to increase by 9.6% and 12.4% in 2014 and 2015, respectively. We also expect QIBK to increase cash DPS to QR4.50 and QR5.00 in 2014 and 2015, respectively.*

Highlights

- 2013 analysis:** Income from financing activities declined to QR2.00bn from QR2.08bn in 2012, a decline of 3.8% YoY. Unrestricted investment profit sharing (URIA) and expenses on sukuks combined increased to QR622.3mn vs. QR590.9mn, up 5.3% YoY. Hence, net financing income dropped by 7.4% YoY to QR1.38bn. However, after a big increase in combined provisions in 2012, provisions declined to QR360.1mn vs. QR490.6mn in 2012, allowing the bottom-line to improve to QR1.34bn vs. QR1.24bn in 2012, up 7.6% YoY.
- 4Q2013 analysis:** The bank posted a net profit (to equity) of QR360.3mn in 4Q2013 vs. our estimate of QR365.3mn (BBG consensus, ex-QNBFS: QR340mn). Net income increased by 4.4% QoQ. Profitability was driven by net financing income (+6.4% QoQ). However, income from investing activities (QR180.6mn) declined by 20.3% QoQ.
- Outlook for 2014 & 2015:** We expect QIBK to increase its loan book by 10.7% and 10.9% in 2014 and 2015, respectively. We expect the bank's loan-to-deposit ratio to increase to 95.9% in 2015 from 93.6% in 2013. This along with relatively stable NIMs should allow the bottom-line to improve by 9.6% and 12.4% in 2014 and 2015, respectively.

Catalysts

- Limited near-term catalysts.** QIBK has been trying to diversify away from real estate and newsflow regarding disposal (s) of real estate assets can act as catalyst (s). In 2013, the stock was down 3.22% (total return) vs. the QE All Share Banks & Financial Services Index, which was up 25.36%.

Recommendation, Valuation and Risks

- Recommendation and valuation:** *We rate QIBK a Market Perform with a price target of QR73.27.*
- Risks:** 1) Provisions and restructuring of loans remains a concern and 2) Exposure to the real estate segment creates concentration risk.

Key Financial Data and Estimates

	2012	2013e	2014e	2015e
EPS (QR)	5.25	5.65	6.19	6.96
EPS Growth	(9.1%)	7.6%	9.6%	12.4%
P/E (x)	14.3	13.3	12.1	10.8
BVS (QR)	48.56	50.19	53.94	56.40
P/B (x)	1.5	1.5	1.4	1.3
DPS (QR)	3.75	4.00	4.50	5.00
Dividend Yield	5.0%	5.3%	6.0%	6.7%

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

Key Data

Current Market Price (QR)	75.00
Dividend Yield (%)	6.0
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	77.10/66.10
3-m Average Volume ('000)	157.0
Mkt. Cap. (\$ bn/QR bn)	4.9/17.7
Shares Outstanding (mn)	236.3
FO Limit* (%)	20.6
Current FO* (%)	3.7
1-Year Total Return (%)	9.0
Fiscal Year End	December 31

Source: Bloomberg (as of January 22, 2014), *Qatar Exchange (as of January 22, 2014); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2012	2013	2014e	2015e
Income From Financing Activities	2,081	2,003	2,202	2,382
Unrestricted Investments Profit Sharing	461	449	494	553
Sukuk Holders' Share of Profit	130	174	176	151
Net Financing Income	1,490	1,381	1,532	1,678
Income from Investing Activities	585	801	819	860
Fees and Commission Income	473	364	401	441
Fees and Commission Expense	55	76	83	92
Net Fees and Commission Income	417	289	317	349
Gain/(Loss) on Foreign Exchange Activities	26	44	44	44
Other Operating Income	(5)	8	8	8
Total Operating Income	2,514	2,522	2,719	2,939
General and Administrative Expenses	782	785	832	882
Depreciation	61	63	66	70
Provision for Impairment - Due from Financing Activities	188	97	146	161
Provision for Impairment - Financial Investments	302	263	213	180
Profit Before Minority Interest	1,126	1,326	1,458	1,641
Minority Interest	(116)	(10)	(5)	(2)
Profit for Shareholders	1,241	1,335	1,463	1,644
EPS (QR)	5.25	5.65	6.19	6.96

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

Balance Sheet (In QR mn)	2012	2013	2014e	2015e
Assets				
Cash and Balances with Central bank	3,644	2,993	3,644	3,644
Due from Banks and Other Financial Institutions	8,758	6,348	8,758	8,758
Financial Investments	13,356	14,852	15,612	17,191
Due from Financing Activities	43,137	47,139	52,171	57,860
Investment in Associates	875	742	742	742
Assets of a Subsidiary Held for Sale	294	303	303	303
Other Investments	774	793	793	793
Property and Equipment (Net)	377	436	449	463
Other Assets	1,727	3,430	3,430	3,430
Intangible Assets	250	319	319	319
Total Assets	73,192	77,354	86,220	93,501
Equity				
Share Capital	2,363	2,363	2,363	2,363
Reserve	7,559	7,793	7,793	7,793
Retained Earnings	666	758	1,526	1,988
Proposed Cash Dividend	886	945	1,063	1,181
Total Equity Attributable to Equity Holders of the Parent	11,474	11,860	12,746	13,326
Minority Interests	1,577	1,813	1,813	1,813
Total Shareholders' Equity and Minority Interests	13,051	13,673	14,558	15,139
Liabilities				
Due to Banks and Other Financial Institutions	10,372	6,491	8,941	13,884
Customers' Deposits	9,082	12,470	13,918	14,614
Other Liabilities	6,622	6,828	6,827	4,114
Unrestricted Investment Depositors Accounts	34,065	37,893	41,975	45,750
Total Liabilities	60,141	63,682	71,661	78,362
Equity and Liabilities	73,192	77,354	86,220	93,501

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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