

### Qatar Islamic Bank (QIBK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR157.90</b>	<b>Target Price</b>	<b>QR129.00</b>
<b>Implied Upside</b>	<b>(18.3%)</b>	<b>Old Target Price</b>	<b>QR104.00</b>

### In-Line 2018 Results; Tweaking Estimates & Upping PT

After 2018's results, we tweak our estimates modestly and increase our PT to QR129/sh.. The bank's financial performance was strong in 2017 and 2018 despite the blockade. While 2018 results were in-line with our forecast, QIBK's fundamentals continue to remain robust with attractive EPS growth forecast over the 2019-22e horizon. We increase our PT to QR129.00 by lowering our cost of equity to reflect our sector wide view of improving risk premiums. Also for QIBK, we have upped our sustainable RoE from 15.0% to 15.7% over our forecast horizon.

#### Highlights

- **Attributable net profit jumped by 15.9% YoY driven by non-funded income, cost containment and lower provisions.** QIBK reported net profit of QR2.48bn in FY2018, gaining by 15.9% YoY, in-line with our estimate (+3.8% variation). Net operating income gained by 9.9% as a result of growth in revenue outpacing that of opex. Moreover, net income increased as a result of an 8.4% decline in provisions and impairments. Non-funded income grew by an aggressive 28.2% on the back of f/x income which soared by 86.4% to QR259.2mn (largest amount generated in its operating history due to one-off deals; this is not sustainable in our view).
- **DPS came in-line with our estimate.** QIBK recommended cash DPS of QAR5.00 (unchanged vs. 2017), yielding 3.2%.
- **Margins and spreads remained flat YoY.** The bank generated net interest margin of 2.6% in 2018, unchanged vs. 2017. This was a result of cost of funds and yields increasing by the same pace. Moreover, the spread was flat at 2.2%.
- **Positive RoE trajectory continues.** QIBK boasts one of the highest RoEs among its peers. The bank's RoE increased from 11.3% in 2013 to 16.2% in 2018.
- **QIBK's operating efficiency remained healthy, generating positive JAWs.** The bank's C/I ratio dipped to 25.7% vs. 26.6% in FY2017 (29.8% in FY2016). Moreover, QIBK generated JAWs of 3.6% as revenue grew by 8.6% YoY while opex went up by 5.0%.
- **Gross loans inched up while deposits receded.** Gross loans increased by 1.5% YoY to QR112.4bn. On the other hand, deposits declined by 1.2% YoY to QR100.6bn. Deposits dropped due to the public and corporate segments, while deposits from the retail segment expanded by 10.1%. QIBK's LDR (based on stable sources of funds) remained healthy at 93% vs. 94% in 2017.
- **Asset quality remains healthy.** NPL ratio marginally increased to 1.21% vs. 1.16% in FY2017. During the same time, NPLs increased insignificantly by 4.2% YoY to QR1.26bn. However, the coverage ratio of Stage 3 loans (NPLs) was a strong 105%. CoR remained unchanged at 45bps in 2018.
- **IFRS 9 impact negligible, capitalization remained robust.** QIBK's CET1 and Tier-1 ratios remained strong and increased to 13.9% (13.3% in 2017) and 17.8% (16.9% in 2017), respectively.

#### Catalysts

- Given that QIBK is trading at a premium to its historical P/B of 1.6x, we believe the company will have to show accelerating performance to maintain momentum in its stock price.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We change our Price Target to QR129.00 and maintain Market Perform rating.** QIBK is trading at a 2019e P/TB and P/E of 2.3x and 13.7x, respectively. Valuations remain rich at these levels.
- **Risks:** 1) Increase in credit costs and 2) Exposure to real estate segment.

#### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	10.79	11.51	12.46	13.05
EPS Growth (%)	15.9	6.7	8.3	4.7
P/E (x)	14.6	13.7	12.7	12.1
Tangible BVPS (QR)	63.6	70.0	77.3	85.0
P/TB (x)	2.5	2.3	2.0	1.9
DPS (QR)	5.00	5.00	5.25	5.75
Dividend Yield (%)	3.2	3.2	3.3	3.6

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

#### Key Data

Current Market Price (QR)	157.90
Dividend Yield (%)	3.2
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	160.40/92.00
3-m Average Volume ('000)	79.7
Mkt. Cap. (\$ bn/QR bn)	10.2/37.3
Shares Outstanding (mn)	236.3
FO Limit* (%)	49.0
Current FO* (%)	11.2
1-Year Total Return (%)	+63.0
Fiscal Year End	December 31

Source: Bloomberg (as of January 29, 2019), \*Qatar Exchange (as of January 28, 2019); Note: FO is foreign ownership

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## Change in Estimates

(In QR mn)	2019 Old	New	Change (%)	2020 Old	New	Change (%)
Net Interest Income	4,096	3,838	-6.3	4,572	4,139	-9.5
Non Interest Income	998	1,022	2.4	1,027	1,100	7.1
Net Operating Income	3,855	3,648	-5.4	4,230	3,949	-6.6
Net Income (Reported/Headline)	2,927	2,925	-0.1	3,101	3,150	1.6
Net Income (Attributable)	2,649	2,647	-0.1	2,818	2,866	1.7

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	3,542	3,838	4,139	4,504
Fees & Commissions	576	625	681	679
FX Income	259	181	203	219
Other Income	142	215	216	280
<b>Non-Interest Income</b>	<b>978</b>	<b>1,022</b>	<b>1,100</b>	<b>1,179</b>
<b>Total Revenue</b>	<b>4,519</b>	<b>4,860</b>	<b>5,239</b>	<b>5,683</b>
Operating Expenses	(1,161)	(1,211)	(1,290)	(1,386)
<b>Net Operating Income</b>	<b>3,358</b>	<b>3,648</b>	<b>3,949</b>	<b>4,297</b>
Net Provisions	(720)	(702)	(761)	(969)
<b>Net Profit Before Taxes &amp; Minority</b>	<b>2,638</b>	<b>2,946</b>	<b>3,188</b>	<b>3,329</b>
Tax	2	(18)	(19)	(20)
<b>Net Profit Before Minority Interest</b>	<b>2,641</b>	<b>2,928</b>	<b>3,169</b>	<b>3,309</b>
Minority Interest	115	(3)	(19)	(20)
<b>Net Profit (Headline/Reported)</b>	<b>2,755</b>	<b>2,925</b>	<b>3,150</b>	<b>3,289</b>
Interest on Tier-1 Sukuk	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(69)	(73)	(79)	(82)
<b>Net Profit (Attributable)</b>	<b>2,481</b>	<b>2,647</b>	<b>2,866</b>	<b>3,002</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	7,299	8,547	9,054	6,761
Interbank Loans	6,424	6,906	5,695	5,049
Net Investments	31,146	33,641	37,064	41,381
Net Loans	102,210	106,243	113,909	126,217
Investment In Associates	568	574	587	598
Other Assets	3,489	3,716	4,021	4,594
Net PP&E	479	472	481	482
Investment in Real Estate	1,231	1,021	1,048	1,075
Goodwill & Other Intangibles	386	343	300	257
<b>Total Assets</b>	<b>153,232</b>	<b>161,462</b>	<b>172,160</b>	<b>186,413</b>
<b>Liabilities</b>				
Interbank Deposits	17,234	17,201	13,170	9,888
Customer Deposits	100,598	106,835	120,724	135,210
Sukuk Financing	9,145	9,877	10,371	10,889
Other Liabilities	5,516	5,342	3,984	4,732
Tier-1 Sukuk	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>136,493</b>	<b>143,254</b>	<b>152,248</b>	<b>164,720</b>
<b>Total Shareholders' Equity</b>	<b>15,420</b>	<b>16,886</b>	<b>18,571</b>	<b>20,332</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>153,232</b>	<b>161,462</b>	<b>172,160</b>	<b>186,413</b>

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoE Attributable (Based on Beginning Book Value)	16.2	17.2	17.0	16.2
RoAA (Attributable)	1.6	1.7	1.7	1.7
RoRWA (Attributable)	2.3	2.4	2.4	2.2
NIM (% of IEAs)	2.60	2.74	2.79	2.80
NIM (% of RWAs)	3.27	3.49	3.44	3.29
NIM (% of AAs)	2.33	2.44	2.48	2.51
Spread	2.19	2.20	2.23	2.11
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	25.7	24.9	24.6	24.4
Cost-to-Income (Core)	26.2	25.8	25.5	25.4
<b>Liquidity (%)</b>				
LDR	101.6	99.4	94.4	93.3
Loans/Assets	66.7	65.8	66.2	67.7
Cash & Interbank Loans-to-Total Assets	9.0	9.6	8.6	6.3
Deposits to Assets	65.7	66.2	70.1	72.5
Wholesale Funding to Loans	25.8	25.5	20.7	16.5
IEAs to IBLs	122.9	119.6	116.9	119.6
<b>Asset Quality (%)</b>				
NPL Ratio	1.2	1.3	1.2	1.2
NPLs to Shareholder's Equity	8.2	8.4	7.7	7.7
NPLs to Tier 1 Capital	6.7	7.4	6.9	7.0
Coverage Ratio	173.9	180.8	214.1	230.0
ALL/Average Loans	1.9	2.2	2.5	2.7
Cost of Risk (bps)	45	50	49	48
<b>Capitalization (%)</b>				
Tier 1 Ratio	17.8	16.8	16.3	15.2
CAR	18.8	17.8	17.3	16.2
Tier 1 Capital to Assets	12.3	11.8	12.0	12.0
Tier 1 Capital to Loans	18.5	17.9	18.2	17.7
Tier 1 Capital to Deposits	18.8	17.8	17.1	16.5
Leverage (x)	9.9	9.6	9.3	9.2
<b>Growth (%)</b>				
Net Interest Income	4.2	8.4	7.8	8.8
Non-Interest Income	28.2	4.5	7.7	7.1
OPEX	5.0	4.3	6.5	7.5
Net Operating Income	9.9	8.6	8.2	8.8
Net Income (Attributable)	15.9	6.7	8.3	4.7
Loans	-0.4	3.9	7.2	10.8
Deposits	-1.2	6.2	13.0	12.0
Assets	1.9	5.4	6.6	8.3
RWAs	-3.3	6.8	11.8	15.6

Source: Company data, QNB FS Research

### Recommendations

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

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

### Risk Ratings

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

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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