

## Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR8.95	Target Price	QR7.95
Implied Upside/(Downside) %	(11.20)	Old Target Price	QR6.23

### Raising PT & Upgrading to MP on Higher Trading Liquidity

We raise our PT on Qatar International Islamic Bank (QIIB) from QR6.23/sh. to QR7.95/sh. by removing our previously assigned liquidity discount from its cost of equity and we up our rating from Reduce to Market Perform. QIIB's trading liquidity has drastically improved with 2019's average traded value reaching ~\$4mn and ~\$2mn so far in 2020. The stock has rallied 39.9% on a 1-year TTR basis driven by anticipation of MSCI EM Index inclusion (QIIB is now a constituent in the index), besting its peers and we see limited upside as valuations remain rich. QIIB trades at a 2020e P/TB of 2.2x with a PEG of 2.2x (based on 7.3% earnings CAGR 2019-24e). Moreover, the stock is trading 2020e 15.8x, which is a 27% premium to its intrinsic P/E of 12.5x. Further, the market is pricing in a sustainable RoE of 17.7% (which is high) vs. our estimate of 16.1%.

#### Highlights

- **QIIB generates healthy core banking income in FY2019:** QIIB posted a net profit of QR848.87mn growing by 5.4% YoY, broadly in-line with our estimate of QR873.06 (-2.8% variation). Net operating income (before provisions & impairments) increased by 9.7% YoY. The 51.4% surge in provisions & impairments dented earnings growth.
- **Net operating income growth was driven by net interest income and strong fee income.** Net operating income increased by 9.7% YoY to QR1.07bn, mainly attributable to net interest income (+7.8%) and fees & commissions (+40.3%). Note that we do not believe that current fees are sustainable.
- **QIIB upped DPS for FY2019.** Management announced DPS of QR0.425/share after holding it constant at QR0.400/share (2014-2018), which translates into a yield and payout ratio of 4.7% and 76%, respectively.
- **NIM compressed on the back of CoFs.** NIM contracted by 12bps YoY to 2.56% due to CoFs rising by 23bps while yields only moved up by 7bps. We expect further margin pressure in 2020, resulting in a NIM of 2.45% (11bps contraction).
- **The bank remains efficient and continued to generate positive JAWS.** Revenue growth in 2019 (+8.5%) outpaced growth in opex (+4.9%), resulting in positive JAWS of 3.6%. Moreover, cost-to-income ratio remained at a very healthy level of 24.1% vs. 24.9% in FYQ2018 (26.7% in 2017).
- **Net loans surged while deposits remained flat.** QIIB's loan book expanded by 32.2% YoY to QR37.0bn, driven by the public sector. On the other hand, deposits remained flat at QR31.3bn. Hence, LDR (based on stable sources of funds) increased to 110% vs. 90% in 2018. Management aims to reduce this ratio below 100% in 1Q2020, indicating high double-digit growth, which could result in further margin pressure.
- **Asset quality remains manageable...** QIIB's NPL ratio inched up to 2.03% vs. 1.98% in FY2018; NPLs increased by 33.9% YoY to QR801mn.
- **...and capitalization remains strong.** QIIB ended 2019 with a Tier-1 ratio of 17.7% vs. 15.7% in FY2018.

#### Catalysts

- **Momentum in 2019 augurs more gains in 2020?** For the stock to move up further this year, we need to see increasing momentum in reported results, in our view.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We increase our price target from QR6.23 to QR7.95.** QIIB is trading at a 2020e P/TB and P/E of 2.2x and 15.8x, respectively. The stock offers an attractive DY of 4.7% for 2019 and 5.0% for 2020e.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in impairments and 2) Geopolitical risks.

#### Key Financial Data and Estimates

	2019	2020e	2021e	2022e
Attributable EPS (QR)	0.56	0.57	0.61	0.68
EPS Growth (%)	5.4	0.8	7.8	11.1
P/E (x)	16.0	15.8	14.7	13.2
Tangible BVPS (QR)	4.0	4.1	4.3	4.5
P/TBV (x)	2.2	2.2	2.1	2.0
DPS (QR)	0.425	0.450	0.475	0.500
Dividend Yield (%)	4.7	5.0	5.3	5.6

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

#### Key Data

Current Market Price (QR)	8.95
Dividend Yield (%)	4.7
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	9.98/6.30
3-m Average Volume (mn)	2.7
Mkt. Cap. (\$ bn/QR bn)	3.7/13.5
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	49.0
Current FO* (%)	17.6
1-Year Total Return (%)	+39.9
Fiscal Year End	December 31

Source: Bloomberg (as of February 09, 2020), \*Qatar Exchange (as of February 09, 2020); Note: FO is foreign ownership

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## Change in Estimates

	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,278	1,345	5.2	1,380	1,449	5.0	1,454	1,574	8.2
Non Interest Income	152	157	3.2	178	171	-4.2	241	216	-10.4
Total Revenue	1,430	1,502	5.0	1,558	1,619	3.9	1,695	1,790	5.6
Opex	343	354	3.3	351	372	6.1	367	390	6.1
Net Operating Income	1,087	1,147	5.5	1,207	1,247	3.3	1,328	1,400	5.4
Net Income (Attributable)	920	856	-7.0	992	922	-7.0	1,091	1,025	-6.0

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	1,063	1,164	1,255	1,345	1,449	1,574
Fees & Commissions	119	129	181	166	173	191
FX Income	41	11	12	14	16	15
Other Income	(1)	1	(32)	(23)	(18)	10
<b>Non-Interest Income</b>	<b>159</b>	<b>141</b>	<b>161</b>	<b>157</b>	<b>171</b>	<b>216</b>
<b>Total Revenue</b>	<b>1,221</b>	<b>1,305</b>	<b>1,416</b>	<b>1,502</b>	<b>1,619</b>	<b>1,790</b>
Operating Expenses	(326)	(325)	(342)	(354)	(372)	(390)
<b>Net Operating Income</b>	<b>896</b>	<b>979</b>	<b>1,074</b>	<b>1,147</b>	<b>1,247</b>	<b>1,400</b>
Net Provisions & Impairments	(63)	(97)	(147)	(159)	(190)	(238)
<b>Net Profit (Headline/Reported)</b>	<b>832</b>	<b>882</b>	<b>927</b>	<b>989</b>	<b>1,057</b>	<b>1,162</b>
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(108)	(108)	(108)
Social & Sports Contribution Fund	(21)	(22)	(23)	(25)	(26)	(29)
<b>Net Profit (Attributable)</b>	<b>756</b>	<b>805</b>	<b>849</b>	<b>856</b>	<b>922</b>	<b>1,025</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019e	2020e	2021e	2022e
Cash & Balances with Central Bank	2,432	2,736	2,270	2,511	2,801	3,311
Interbank Loans	3,274	12,839	9,617	9,677	11,034	9,671
Net Investments	6,180	4,929	6,189	7,408	7,712	9,016
Net Loans	32,500	27,991	37,011	40,321	44,137	48,356
Investment In Associates	365	388	337	316	298	295
Other Assets	685	216	293	277	309	338
Net PP&E	757	280	261	243	229	215
Investments In Real Estate	427	882	854	854	854	854
<b>Total Assets</b>	<b>46,619</b>	<b>50,260</b>	<b>56,831</b>	<b>61,607</b>	<b>67,374</b>	<b>72,057</b>
<b>Liabilities</b>						
Interbank Deposits	6,606	11,578	14,010	12,223	11,973	10,902
Customer Deposits	32,479	31,130	31,229	37,474	43,095	48,698
Term Loans	0	0	2,563	2,563	2,563	2,563
Tier-1 Perpetual Sukuk	1,000	1,000	2,092	2,092	2,092	2,092
Other Liabilities	718	722	870	974	1,129	974
<b>Total Liabilities</b>	<b>40,802</b>	<b>44,430</b>	<b>50,764</b>	<b>55,327</b>	<b>60,853</b>	<b>65,229</b>
<b>Total Shareholders' Equity</b>	<b>5,817</b>	<b>5,830</b>	<b>6,068</b>	<b>6,280</b>	<b>6,521</b>	<b>6,827</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>46,619</b>	<b>50,260</b>	<b>56,831</b>	<b>61,607</b>	<b>67,374</b>	<b>72,057</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2017	2018	2019	2020e	2021e	2022e
<b>Profitability (%)</b>						
RoE	13.3	13.8	14.6	14.1	14.7	15.7
RoAA	1.7	1.7	1.6	1.4	1.4	1.5
RoRWA	2.4	2.2	2.2	2.0	2.0	2.0
NIM (% of IEAs)	2.7	2.7	2.6	2.5	2.4	2.4
NIM (% of RWAs)	3.3	3.3	3.2	3.2	3.1	3.1
NIM (% of AAs)	2.4	2.4	2.3	2.3	2.2	2.3
Spread	2.2	2.2	2.0	1.9	1.9	1.8
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	26.7	24.9	24.1	23.6	23.0	21.8
Cost-to-Income (Core)	26.8	25.1	23.7	23.3	22.8	22.0
<b>Liquidity (%)</b>						
LDR	100.1	89.9	118.5	107.6	102.4	99.3
Loans/Assets	69.7	55.7	65.1	65.4	65.5	67.1
Cash & Interbank Loans-to-Total Assets	12.2	31.0	20.9	19.8	20.5	18.0
Deposits to Assets	69.7	61.9	54.9	60.8	64.0	67.6
Wholesale Funding to Loans	20.3	41.4	44.8	36.7	32.9	27.8
IEAs to IBLs	129.5	127.9	128.0	128.3	125.7	130.6
<b>Asset Quality (%)</b>						
NPL Ratio	1.3	2.0	2.0	2.2	2.3	2.3
NPL to Shareholders' Equity	7.8	10.3	13.2	15.1	16.7	17.7
NPL to Tier 1 Capital	7.5	10.1	11.1	12.7	14.1	15.2
Coverage Ratio	58.3	91.9	83.8	84.5	86.2	89.9
ALL/Average Loans	0.8	1.7	1.9	1.9	2.1	2.2
Cost of Risk (bps)	9	22	35	31	31	31
<b>Capitalization (%)</b>						
Tier 1 Ratio	17.9	15.7	17.7	16.8	15.5	15.0
CAR	17.9	16.4	18.5	17.5	16.3	15.0
Tier 1 Capital to Assets	13.0	11.8	12.7	12.1	11.4	11.1
Tier 1 Capital to Loans	18.6	21.2	19.5	18.5	17.4	16.5
Tier 1 Capital to Deposits	18.6	19.1	23.2	19.9	17.8	16.4
Leverage (x)	8.0	8.6	9.4	9.8	10.3	10.6
<b>Growth (%)</b>						
Net Interest Income	4.8	9.5	7.8	7.1	7.7	8.6
Non-Interest Income	-17.7	-11.2	14.0	-2.4	8.7	26.6
OPEX	6.7	-0.1	4.9	3.8	5.1	4.6
Net Operating Income	-0.7	9.4	9.7	6.8	8.7	12.3
Net Income	1.9	6.4	5.4	0.8	7.8	11.1
Loans	19.3	-13.9	32.2	8.9	9.5	9.6
Deposits	21.9	-4.2	0.3	20.0	15.0	13.0
Assets	9.6	7.8	13.1	8.4	9.4	7.0
RWAs	11.2	11.8	7.8	8.8	11.5	7.4

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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