

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.58	Target Price	QR10.44
Implied Upside	(1.3%)		

Trading at Fair Value; Maintain Market Perform & QR10.438 PT

We still maintain our expected 5-year earnings CAGR of 10.8% (2023-28e) for Qatar International Islamic Bank (QIIB) after its FY2023 results despite slightly tweaking estimates for 2024, 2025 and 2026 (see page 3). We also retain our Market Perform rating and our TP of QR10.438 as growth in earnings is already priced-in. The stock is now trading at 2024 P/B of 2.0x, close to its 5-year median of 2.2x. As a result, we see limited upside. At these levels, it would imply that QIIB is trading at a 20% premium to QIBK (2024e P/B 1.7x) and it should be noted that QIBK has better profitability and asset quality indicators. Further, the market is pricing in a sustainable RoE of 18%, above our estimate of 16% (18% sustainable RoE is very challenging to achieve, in our view).

Highlights

- **QIIB's FY2023 came in-line with our estimates; FY2023 attributable bottom-line increased by 10.2% YoY to QR1.04bn (highest profitability level reached in its operating history). For the time being, our estimates broadly remain unchanged.** Qatar International Islamic Bank reported a net income of QR1.04bn in FY2023 vs. our estimate of QR1.02bn (+1.3% variation). The YoY increase in profitability was driven by margin expansion (2.90% vs. 2.59% in FY2022).
- **Non-funded income was mixed.** Non-funded increased by 6.9% due to a tiny profit from associates vs. a loss in FY2022. Fees declined by 2.1%, while f/x income climbed up by 2.5%.
- **Healthy RoE generator (>CoE); strong RoRWAs:** QIIB reported RoE of 14.9% in FY2023 vs. 14.3% in FY2022. We still forecast RoE to reach 16.6% by 2025e from 14.3% in 2022. Moreover, we estimate RoRWAs to increase from 2.0% in 2023 (1.9% in 2022) to a strong 2.3% by 2026e.
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC, consistently generating positive JAWs.** QIIB's cost-to-income ratio remained at a very healthy level, declining from 18.7% in FY2022 to 17.9% in FY2023. We still expect the C/I ratio to hover around ~18.0%.
- **Net loans are expected to grow by a 5-year CAGR (2023-28e) of 6.1% vs. 6.4% previously.** Net loans declined by 0.8% sequentially (+4.2% YoY) to QR36.5bn. The YoY growth in loans was driven by the corporate sector (excluding real estate and contracting segments), while retail loans remained flat. Deposits increased by 2.5% QoQ (+2.6 YoY) to QR38.9bn in FY2023. Thus, QIIB's LDR (excluding wholesale stable sources of funds) was a healthy 94%. We still expect the LDR to hover around these levels.
- **FY2023 CoR increased vs. FY2022.** QIIB booked net credit provisions of QR423.8mn in FY2023 vs. QR302.3mn in FY2022, increasing by 40.2%. Hence, FY2023 CoR increased to 113bps from 81bps in FY2022. We increase our 2024 CoR estimate from 95bps to 107bps, but expect CoR to improve to 80bps by 2028e; management plans on increasing Coverage of Stage 2 and Stage 3 loans.
- **Asset quality remains manageable for now.** NPL ratio increased from 2.79% in FY2022 to 2.88% in FY2023 (3Q2023: 3.16%; FY2021: 2.56%), while NPLs decreased by 10.0% QoQ (+7.5% vs. FY2022). Moreover, coverage of Stage 3 loans declined to 87% (although still strong) vs. 90% in 3Q2023 (FY2022: 93%). It seems management reclassified some Stage 1 and 3 loans to Stage 2. Moreover, coverage of Stage 2 loans increased to 11% from 7%/8% in 3Q2023/FY2022. Stage 2 loans comprise 10% of total loans. Going forward, we forecast coverage ratio to continue to increase as management books provisions to raise coverage of Stage 3 loans to 100% and further enhance Coverage of Stage 2 loans.
- **Capitalization remains healthy and above QCB minimum.** QIIB ended FY2023 with a CET1/Tier-1 ratio of 11.9%/15.9%. We still expect management to maintain a healthy capital position in the near future.

Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 5.2%).

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform rating and price target of QR10.44.** QIIB is trading at a 2024/25e P/TB and P/E of 2.0x/1.9x and 14.1x/12.3x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in further impairments and 2) Geopolitical risks.

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
Attributable EPS (QR)	0.685	0.751	0.859	0.963
EPS Growth (%)	10.2	9.7	14.4	12.1
P/E (x)	15.5	14.1	12.3	11.0
Tangible BVPS (QR)	4.9	5.2	5.6	6.0
P/TBV (x)	2.2	2.0	1.9	1.8
RoE (%)	14.9	15.4	16.6	17.3
DPS (QR)	0.450	0.475	0.500	0.550
Dividend Yield (%)	4.3	4.5	4.7	5.2

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

Key Data

Current Market Price (QR)	10.58
Dividend Yield (%)	4.3
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	11.06/8.66
3-m Average Volume (mn)	1.1
Mkt. Cap. (\$ bn/QR bn)	4.4/16.0
Shares Outstanding (000's)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.9
1-Year Total Return (%)	+7.2
Fiscal Year End	December 31

Source: Bloomberg (as of February 11, 2024), *Qatar Exchange (as of February 11, 2024); Note: FO is foreign institutional ownership

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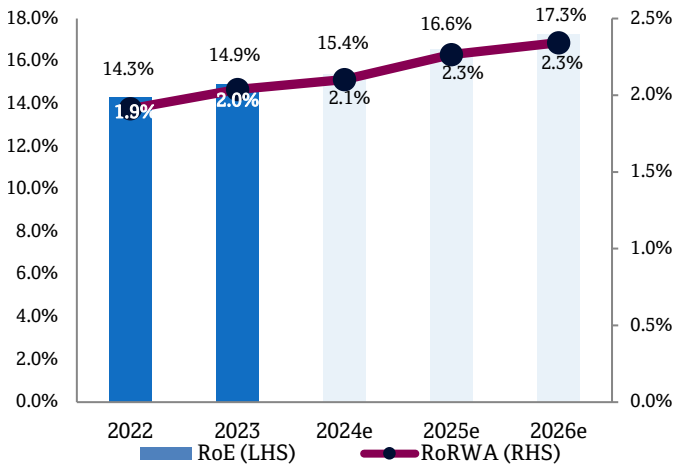
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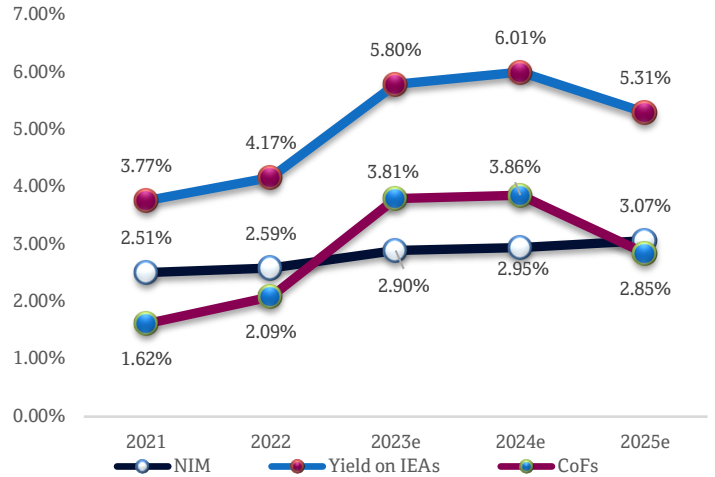
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RoE & RoRWAs to Steadily Improve & Remain Healthy; RoE > CoE

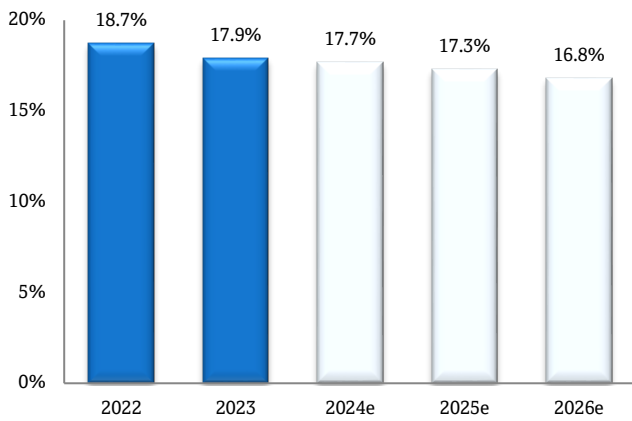


Source: Company data, QNB FS Research

While Margins to Steadily Increase

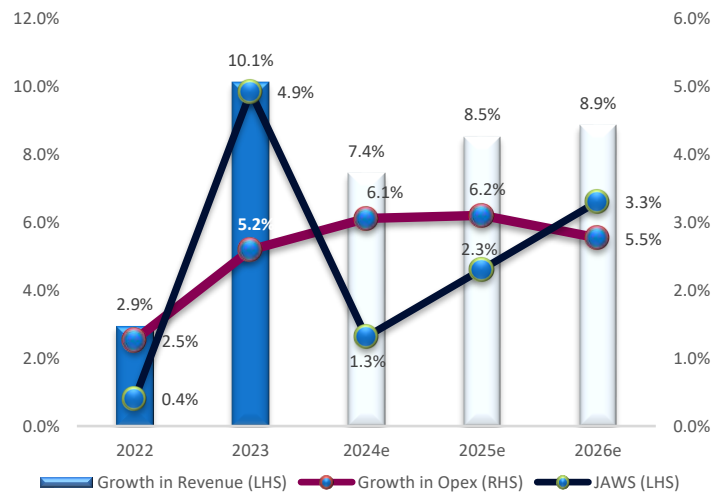


C/I Ratio is One of The Lowest Domestically & Regionally

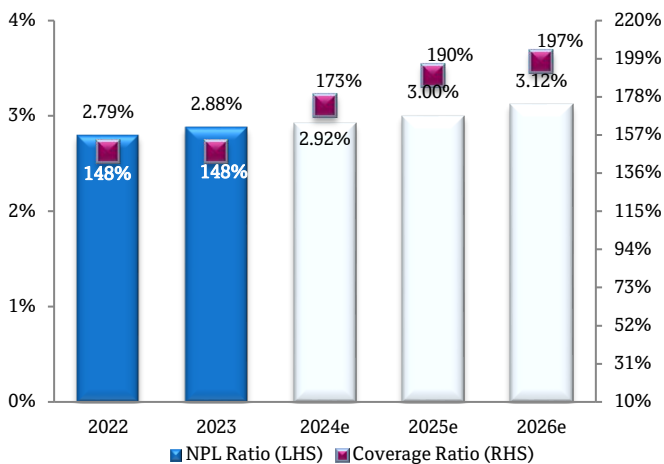


Source: Company data, QNB FS Research

While Generating Positive JAWS



NPL Ratio Spiked Mainly on The Back of a Few SME Loans



Source: Company data, QNB FS Research

Coverage of Stage 3 Loans is 87%; >100% With Collateral

FY2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	33,166,345	3,928,843	1,098,374	38,193,562
ECLs	238,548	434,299	950,932	1,623,779
Stages % Loans	86.8%	10.3%	2.88%	
Stages % ECLs	14.7%	26.7%	58.6%	
Coverage Ratio	0.7%	11.1%	86.6%	

Change in Estimates

QRmn	2024			2025			2026		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,580	1,705	7.9	1,722	1,868	8.5	1,858	2,018	8.6
Non Interest Income	467	416	-10.8	500	433	-13.3	489	488	-0.2
Total Revenue	2,047	2,121	3.6	2,222	2,302	3.6	2,347	2,506	6.8
Opex	367	375	2.2	390	398	2.1	426	420	-1.3
Net Operating Income	1,680	1,746	3.9	1,832	1,904	3.9	1,921	2,085	8.6
Net Income (Attributable)	1,114	1,137	2.0	1,285	1,300	1.1	1,402	1,458	4.0

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Net Interest Income	1,434	1,423	1,578	1,705	1,868	2,018
Fees & Commissions	250	298	292	300	324	363
FX Income	42	85	87	93	90	97
Other Income	16	(13)	17	23	19	28
Non-Interest Income	308	370	396	416	433	488
Total Revenue	1,742	1,793	1,974	2,121	2,302	2,506
Operating Expenses	(328)	(336)	(353)	(375)	(398)	(420)
Net Operating Income	1,414	1,457	1,621	1,746	1,904	2,085
Net Provisions & Impairments	(411)	(382)	(456)	(479)	(469)	(489)
Net Profit (Headline/Reported)	1,003	1,075	1,165	1,268	1,435	1,597
Payment on Tier-1 Sukuk	(108)	(108)	(99)	(99)	(99)	(99)
Social & Sports Contribution Fund	(25)	(27)	(29)	(32)	(36)	(40)
Net Profit (Attributable)	870	940	1,036	1,137	1,300	1,458
EPS	0.575	0.621	0.685	0.751	0.859	0.963

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	2,670	2,491	3,624	3,384	3,483	3,006
Interbank Loans	13,426	9,760	12,465	13,399	13,008	13,479
Net Investments	7,220	7,752	7,809	8,355	8,943	9,574
Net Loans	37,031	35,022	36,499	38,284	40,650	43,479
Investment In Associates	264	192	154	155	151	148
Other Assets	252	275	207	248	208	252
Net PP&E	231	231	226	237	254	276
Investments In Real Estate	697	669	642	642	642	642
Total Assets	61,792	56,393	61,626	64,704	67,339	70,856
Liabilities						
Interbank Deposits	9,922	5,679	9,468	9,731	9,483	9,547
Customer Deposits	38,646	37,945	38,934	41,270	43,540	46,239
Term Loans	3,543	2,794	2,772	2,772	2,772	2,772
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	979	900	947	970	1,001	1,054
Total Liabilities	55,182	49,411	54,213	56,835	58,889	61,705
Total Shareholders' Equity	6,610	6,983	7,414	7,869	8,450	9,151
Total Liabilities & Shareholders' Equity	61,792	56,393	61,626	64,704	67,339	70,856
Risk Weighted Assets	49,250	49,109	52,598	55,516	59,258	65,187
TBVPS	4.34	4.59	4.88	5.19	5.58	6.05

Source: Company data, QNB FS Research

Ratios/Indicators	2021	2022	2023	2024e	2025e	2026e
Profitability (%)						
RoE	14.0	14.3	14.9	15.4	16.6	17.3
RoAA	1.4	1.6	1.8	1.8	2.0	2.1
RoRWA	1.8	1.9	2.0	2.1	2.3	2.3
NIM (% of IEAs)	2.51	2.59	2.90	2.95	3.07	3.14
NIM (% of RWAs)	2.97	2.89	3.10	3.15	3.26	3.24
NIM (% of AAs)	2.33	2.41	2.67	2.70	2.83	2.92
Spread	2.15	2.08	1.99	2.15	2.46	2.44
Efficiency (%)						
Cost-to-Income (Headline)	18.8	18.7	17.9	17.7	17.3	16.8
Cost-to-Income (Core)	19.1	18.7	18.1	17.9	17.5	17.0
Liquidity (%)						
LDR	88	86	88	87	88	89
Loans/Assets	59.9	62.1	59.2	59.2	60.4	61.4
Cash & Interbank Loans-to-Total Assets	26.0	21.7	26.1	25.9	24.5	23.3
Deposits to Assets	62.5	67.3	63.2	63.8	64.7	65.3
Wholesale Funding to Loans	36.4	24.2	33.5	32.7	30.1	28.3
IEAs to IBLs	129	136	127	125	129	129
Asset Quality (%)						
NPL Ratio	2.6	2.8	2.9	2.9	3.0	3.1
NPL to Shareholders' Equity	14.8	14.6	14.8	15.0	15.3	15.8
NPL to Tier-1 Capital	12.8	12.8	13.2	13.4	13.8	14.4
Coverage Ratio	123.1	147.7	147.8	173.3	189.6	197.4
ALL/Average Loans	2.9	3.9	4.2	5.0	5.6	6.1
Cost of Risk (bps)	95	81	113	107	98	90
Capitalization (%)						
CET1 Ratio	11.3	12.0	11.9	12.1	12.3	12.2
Tier-1 Ratio	15.6	16.3	15.9	15.8	15.8	15.5
CAR	16.7	17.7	17.0	17.0	17.0	16.6
Leverage (x)	9.3	8.1	8.3	8.2	8.0	7.7
Growth (%)						
Net Interest Income	0.8	-0.8	11.0	8.0	9.6	8.0
Non-Interest Income	21.5	20.2	6.9	5.2	4.1	12.6
OPEX	-3.9	2.5	5.2	6.1	6.2	5.5
Net Operating Income	6.0	3.0	11.3	7.7	9.0	9.5
Net Income (Attributable)	7.9	8.1	10.2	9.7	14.4	12.1
Loans	-8.6	-5.4	4.2	4.9	6.2	7.0
Deposits	6.3	-1.8	2.6	6.0	5.5	6.2
Assets	0.8	-8.7	9.3	5.0	4.1	5.2
RWAs	4.5	-0.3	7.1	5.5	6.7	10.0

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<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>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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