

## Qatar International Islamic Bank (QIIK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR84.40	Target Price	QR89.70
Implied Upside	6.3%		

### Lowering Estimates & Target; Shifting to Market Perform

We are revising our recommendation to Market Perform from Accumulate on Qatar International Islamic Bank (QIIK). We have toned down the investment book as well as the average yield on debt investments. Furthermore, given the pressure on NIMs we revise our bottom-line estimates downward for 2014-16e. This has resulted in a revised target price of QR89.70 from QR93.00. Going forward, a pick-up in credit off take and expansion outside Qatar could act as a catalyst for the stock.

#### Highlights

- **QIIK reported net profit of QR197.9mn for 2Q2014, down 3.0% QoQ from QR204.1mn in 1Q2014.** The results were slightly below our forecast of QR202.6mn and Bloomberg consensus estimate of QR203.0mn. The decline was primarily due to a loss from associates (loss of QR9.7mn in 2Q2014 vs. a profit of QR10.6mn in 1Q2014).
- **We estimate a CAGR of 13.6% for the loan book over 2013-16e.** We maintain our loan book growth estimate for 2013-16. Overall, we expect QIIK's loan book to grow to QR27.9bn in 2016e from QR19.0bn in 2013. However, the increased competition in the domestic space will continue to keep NIMs under pressure.
- **QIIK to post net income of QR819.7mn in 2014 vs. QR750.3mn in 2013.** On the back of lower investment income and pressure on net interest margins, we have lowered our net profit estimate from QR878.1mn to QR819.7mn for 2014. We continue to expect QIIK to aggressively participate in infrastructure projects over the next three years and expect net income to increase by a CAGR of 9.5% (previously 17.6%) for 2013-2016e. We forecast net financing income to grow by a CAGR of 7.8% (previously 15.6%) over 2013-2016e. This along with a CAGR of 6.9% in 2013-16e (previously 18.4%) expected in investment income should help the bottom-line grow to QR984.3mn (previously QR1.2bn) in 2016e.

#### Catalysts

- **Limited near-term catalysts.** The bank is actively looking at international expansion. Any newsflow in this regard could act as a catalyst for the stock.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate QIIK a Market Perform with a price target of QR89.70.** While dividend yield is attractive, valuation appears to be fair vs. other Qatari banks.
- **Risks:** 1) QIIK loses market share and 2) Exposure to the real estate and consumer segments creates concentration risk.

#### Key Financial Data and Estimates

	FY2012	FY2013	FY2014e	FY2015e
EPS (QR)	4.49	4.96	5.42	5.96
EPS Growth	4.0%	10.5%	9.3%	10.1%
P/E (x)	18.8	17.0	15.6	14.2
BVPS (QR)	33.27	35.11	36.77	38.23
P/B (x)	2.5	2.4	2.3	2.2
DPS (QR)	3.50	3.75	4.50	5.00
Dividend Yield	4.1%	4.4%	5.3%	5.9%

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

#### Key Data

Current Market Price (QR)	84.40
Dividend Yield (%)	5.3
Bloomberg Ticker	QIIK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	90.50/54.00
3-m Average Volume ('000)	107.1
Mkt. Cap. (\$ bn/QR bn)	3.5/12.8
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	2.9
1-Year Total Return (%)	57.3
Fiscal Year End	December 31

Source: Bloomberg (as of August 19, 2014), \*Qatar Exchange (as of August 19, 2014); Note: FO is foreign ownership

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## Results Review

QIHK reported net profit of QR197.9mn for 2Q2014, down 3.0% QoQ from QR204.1mn in 1Q2014. The results were slightly below our forecast of QR202.6mn and Bloomberg consensus estimate of QR203.0mn. The decline was primarily due to the reversal of profits from associates earlier (reversal of QR9.7mn in 2Q2014 vs. a profit of QR10.6mn in 1Q2014) due to the publication of the final audited results of the relevant associates, which were lower than originally expected based on interim results and management accounts.

- Income from financing activity increased to QR250.6mn, up 5.5% QoQ. Profit on unrestricted investment accounts (URIA) and other funds increased by only 0.4% QoQ to QR90.5mn. Hence, net interest income increased to QR160.1mn, up 8.5% QoQ. Net fees and commission income was up 4.8% QoQ to QR21.6mn. Income from investing activities stood at QR89.1mn in 2Q2014 vs. QR87.7mn in 1Q2014, up 1.6% QoQ. In our discussion with managements of various banks, we have learned that the maturing government debt is not fully reinvested. Furthermore, the rate of return is lower than earlier terms. Staff costs were down to QR27.6mn in 2Q2014 vs. QR34.1mn in 1Q2014. Historically, staff costs are usually higher in fourth quarter (adjustments) and first quarter of the calendar year. Provisions increased to QR7.8mn in 2Q2014 vs. QR4.7mn in 1Q2014. QIHK continues to maintain low provisions in the first three quarters of the calendar year with the fourth quarter usually feeling the brunt of provisions.
- The loan book increased by 5.1% QoQ to Q21.0bn, while combined deposits (current accounts and URIA) grew by 5.0% QoQ to QR26.1bn. Hence, the loans-to-deposits ratio (LDR) increased slightly to 80.3% vs. 79.9% at the end of 1Q2014.

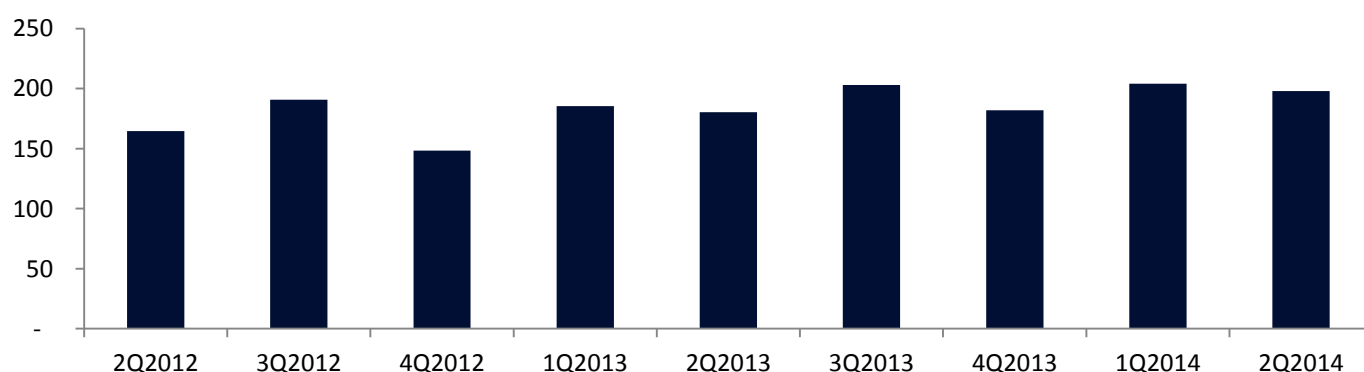
### Key Stats

Key Stats Income Statement (In QR mn)	1Q2014	2Q2014	Change
Income From Financing Activities	238	251	5.5%
Unrestricted Investments Profit Sharing	(90)	(91)	0.4%
Net Financing Income	148	160	8.5%
Income from Investing Activities	88	89	1.6%
Net Fees and Commission Income	21	22	4.8%
Total Operating Income	272	266	-2.2%
Profit for Shareholders	204	198	-3.0%
EPS (QR)	1.35	1.31	-3.0%

Key Stats Balance Sheet (In QR mn)	1Q2014	2Q2014	Change
Financial Investments	6,305	5,932	-5.9%
Due from Financing Activities	19,952	20,971	5.1%
Total Assets	34,023	36,094	6.1%
Total Equity Attributable to Equity Holders of the Parent	4,948	5,142	3.9%
Customers Current Accounts	5,934	5,947	0.2%
Unrestricted Investment Depositors Accounts	19,032	20,181	6.0%
Total Liabilities	29,075	30,952	6.5%
Equity and Liabilities	34,023	36,094	6.1%

Source: Company data, QNBFS estimates

### Quarterly Net Profit (QR mn)



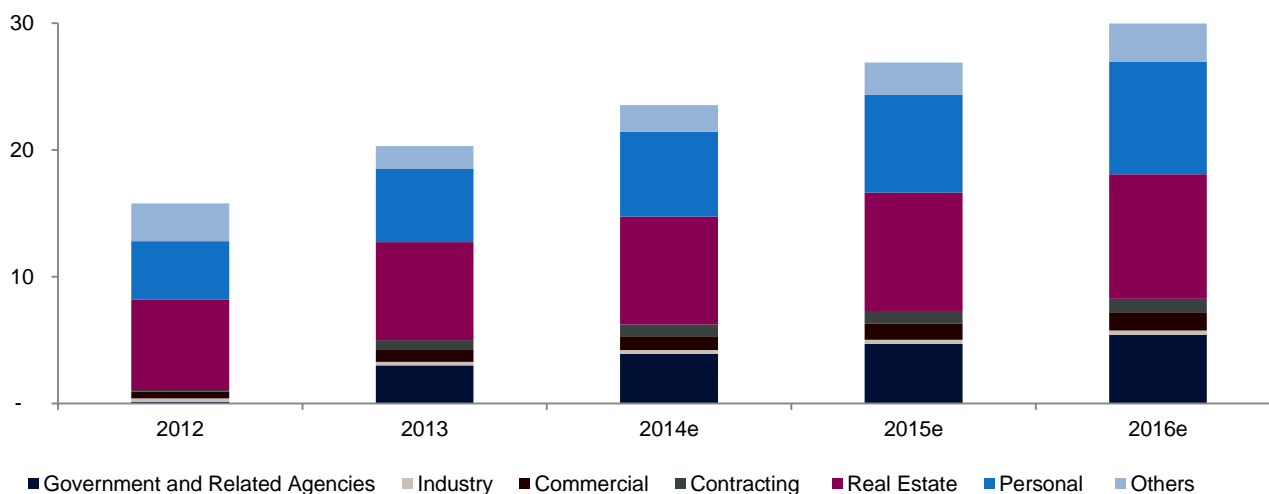
Source: Company data, QNBFS estimates

## Key Forecasts

### Loan Book

We estimate the loan book to grow by CAGR of 13.6% for 2013-16e. We maintain our loan assumption of QR21.9bn at the end of 2014 vs. QR21.0bn at the end of 1H2014. Given the 10.3% for QIIK vs. 6.1% increase in overall sector loan book YTD (1H2014), we don't see a reason for upward revision. However, if post the summer season the public sector loans pick-up we can expect an improved show close to year-end but the impact on the income statement will be visible in 2015. Post our discussion with the management, we remain convinced that bank is increasingly focused on winning business in the infrastructure segment, as opposed to traditional housing (The share of the government segment in gross loans has increased to 14.8% in 2013 versus 0.7% in 2012). We continue to expect strong performance in this segment as the bank aggressively targets QRail and other projects. On the other hand, real estate/housing and consumer segments, the historical niche segments for the bank, should also witness increased credit off-take. As of 2013, QIIK had 67% of its loan book in RE/housing (38%) and consumer (29%). Overall, we expect the loan book to grow to QR27.9bn in 2016e from QR19.0bn in 2013.

#### Loan Book Profile (QR bn)

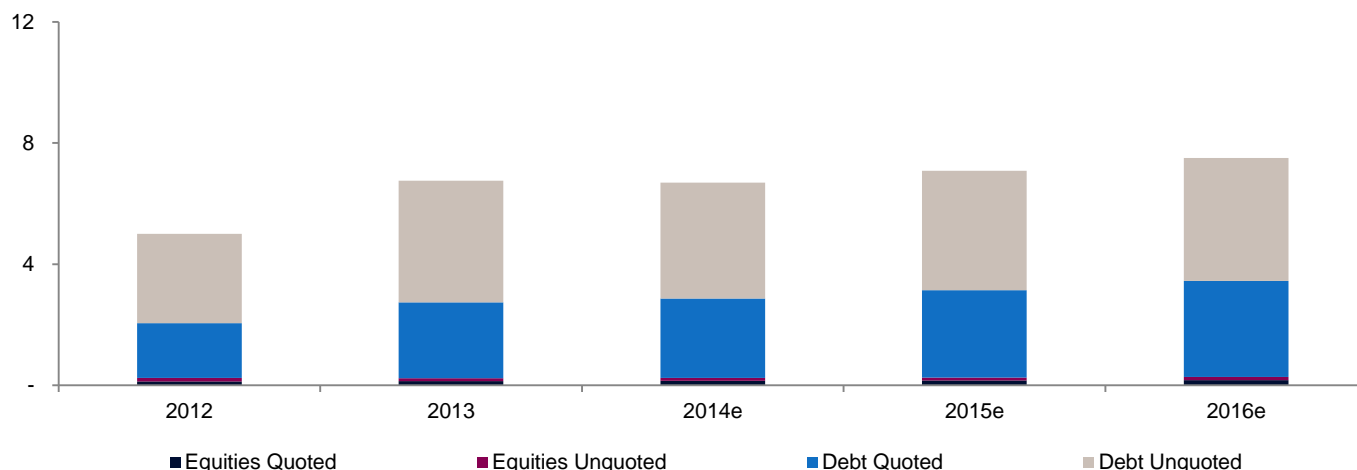


Source: Company data, QNBFS estimates

### Investment Book

We estimate a CAGR of 10.7% in the investment book for 2013-16e. We have revised our estimate down from our previous estimate (CAGR of 18.0%). This is due to less frequent t-bond auctions this year. Furthermore, the rate of return is lower than earlier terms. Overall, investment book is down to QR5.9bn at the end of 2Q2014 vs. QR6.8bn at the end of 2013. Currently, unquoted debt forms 54.3% (59.5% at the end of 2013) of the investment portfolio followed by 43.3% (36.9% at the end of 2013) in quoted debt and 3.5% (2.2% at the end of 2013) in equity type instruments. We believe management is focused on increasing the bank's exposure to government bonds as it is in line with its overall strategy. We do not see active participation in the equity markets by the bank.

#### Investment Book Profile (QR bn)



Source: Company data, QNBFS estimates

## Deposit Book

**QIIK's deposit book is dominated by Individuals and term deposits.** Holders of URIA have been in the range of 72% to 77%, while customer current accounts ranged within 22% to 28% over the last three years. Furthermore, individuals' deposits dominate URIA; this share has decreased from 74% in 2012 to 58% in 2013 as the government share increased from 9% in 2012 to 22% in 2013. In URIA, term accounts contribute 68% of the deposits followed by 31% in savings accounts and 1% in others. Going forward, we estimate government deposits to form a bigger slice of the deposit pie.

### URIA Book Profile (QR bn)



Source: Company data, QNBFS estimates

## Asset Quality and Capitalization

**QIIK has been diversifying its book.** At the end of 2013, QIIK had a non-performing loans ratio (NPL) of 1.08%. The company booked provisions to the tune of QR9.6mn in 2013 (no provisions in 2012). On the financial investments front, the bank booked impairments of QR56.5mn in 2013 versus QR24.5mn in 2012. QIIK's Tier-1 ratio stood at 17.82% at the end of 2013.

## Operating Performance

**QIIK to post net income of QR819.7mn in 2014 vs. QR750.3mn in 2013.** On the back of lower investment income and pressure on net interest margins, we have lowered our net profit estimate from QR878.1mn to QR819.7mn for 2014. We continue to expect QIIK to aggressively participate in infrastructure projects over the next three years and expect net income to increase by a CAGR of 9.5% (previously 17.6%) for 2013-2016e. We forecast net financing income to grow by a CAGR of 7.8% (previously 15.6%) over 2013-2016e. This along with a CAGR of 6.9% in 2013-2016e (previously 18.4%) from investment income should help the bottom-line grow to QR984.3mn (previously QR1.2bn) in 2016e.

## Recent Developments and Catalyst

**According to latest QCB circulars, Qatari banks will have to maintain 100% loans-to-deposits ratio without any adjustments.** This is likely to result in increased pressure on deposits as some banks exceed this limit. Furthermore, we also believe the bank has to look at growth opportunities outside Qatar. Any announcement in this regard could act as a catalyst for the stock in the near-term.

## Company Description

**QIIK is a full-service Shari'a compliant bank offering Shari'a compliant commercial banking services to retail and corporate customers in accordance with Shari'a principles.** Established in 1991, the bank offers commercial finance, foreign trade finance, Murabaha, Mudaraba, Musawama, Ijara and Istisna, current and savings accounts, time deposits, credit cards, consumer finance, electronic cards, safe deposit lockers, internet banking, mobile banking and phone banking services. As of June 2014, the bank had 17 branches and 83 ATMs in operation. The bank enjoys a solid shareholder base with QIA as one of its major shareholders.

## Detailed Financial Statements

Income Statement (In QR mn)	2012	2013	2014e	2015e
<b>Income from Financing Activities</b>	<b>783</b>	<b>950</b>	<b>1,027</b>	<b>1,123</b>
Income from Investing Activities	294	370	376	412
<b>Total Income from Financing and Investing Activities</b>	<b>1,077</b>	<b>1,320</b>	<b>1,403</b>	<b>1,535</b>
Commission and Fees Income	79	78	115	125
Commission and Fees Expense	(20)	(22)	(22)	(23)
Income from Commission and Fees	59	55	94	101
Gain from Foreign Exchange Operations & Share of Associates' Results	47	82	66	72
<b>Net Operating Income</b>	<b>1,183</b>	<b>1,458</b>	<b>1,562</b>	<b>1,708</b>
General and Administrative Expenses & Others	(175)	(223)	(257)	(288)
Depreciation and Amortization	(14)	(14)	(14)	(15)
Impairment of Financial Investments	(25)	(56)	(34)	(33)
Impairment of Receivables and Financing Activities	-	(10)	(11)	(12)
Others	(41)	(69)	(52)	(39)
Sub Total	(255)	(372)	(367)	(386)
Net Profit Before URIA	929	1,086	1,195	1,323
Share of Holders of Unrestricted Investment Account	(250)	(335)	(375)	(420)
<b>Net Profit Attributable to Shareholders</b>	<b>679</b>	<b>750</b>	<b>820</b>	<b>903</b>
<b>EPS (QR)</b>	<b>4.49</b>	<b>4.96</b>	<b>5.42</b>	<b>5.96</b>

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

Balance Sheet (In QR mn)	2012	2013	2014e	2015e
<b>Assets</b>				
Cash and Balances with Qatar Central Bank	1,354	1,669	1,836	2,020
Balances and Investments with Banks and Other Financial Institutions	5,450	4,849	6,647	8,885
Receivables and Balances from Financing Activities	14,675	19,021	21,907	25,021
Financial Investments	5,004	6,760	6,696	7,085
Investment in Associates	382	372	361	351
Investment Properties Held for Leasing	262	182	173	164
Investment properties Held for Trading	903	791	692	606
Property and Equipment (Net)	210	402	442	487
Other Assets	319	376	443	522
<b>Total Assets</b>	<b>28,559</b>	<b>34,421</b>	<b>39,198</b>	<b>45,140</b>
<b>Liabilities</b>				
Current Accounts from Banks and Financial Institutions	815	1,396	2,392	4,099
Customers' Current Accounts	5,639	5,671	6,238	6,862
Other Liabilities	2,897	3,022	3,151	3,286
Total Liabilities	9,351	10,088	11,781	14,247
Holdings of Unrestricted Investment Accounts	14,172	19,019	21,851	25,106
<b>Total Liabilities</b>	<b>23,523</b>	<b>29,108</b>	<b>2,392</b>	<b>4,099</b>
<b>Equity</b>				
Share Capital	1,514	1,514	1,514	1,514
Legal Reserves	2,452	2,452	2,452	2,452
Fair Value Reserves	107	183	183	183
Risk Reserves	273	413	434	434
Foreign Currency Translation Reserve	-	-	-	-
Other Reserve	67	126	126	126
Proposed Cash Dividends	530	568	681	757
Retained Earnings	93	58	176	322
<b>Total Shareholders' Equity</b>	<b>5,036</b>	<b>5,314</b>	<b>5,566</b>	<b>5,788</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>28,559</b>	<b>34,421</b>	<b>39,198</b>	<b>45,140</b>

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*

<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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