

Qatar International Islamic Bank (QIIB)

| Recommendation | MARKET PERFORM | Risk Rating | R-4 |
|----------------------------|----------------|--------------|---------|
| Share Price | QR70.30 | Target Price | QR63.00 |
| Implied Upside/ (Downside) | (0.10) | | |

1Q2019 Earnings Driven by a Drop in Opex and Net Reversals

Qatar International Islamic Bank (QIIB) reported a 1Q2019 net profit of QR266.0mn, in-line with our estimate of QR268.5mn (-0.9% variation). QIIB's net profit increased by 5.1% YoY aided by a drop in opex and net reversals (vs. net provisions in 1Q2018). The bank remained cost efficient with a C/I ratio of 22.2% and generated positive JAWS. Loans (+10.9% QoQ) and deposits (+13.4% QoQ) displayed strong performance vs. a weak 2018. The stock has rallied 37.8% on a 1-year TTR basis and we do not see any further upside. QIIB trades at a 2019e P/B of 1.7x with a PEG of 1.5x (7.8% earnings CAGR 2018-23e) implying rich valuation. Moreover, the market is pricing in a sustainable RoE of 17.2% vs. our estimate of 15.8%. **We maintain our PT QR63/sh. and Market Perform rating.**

Highlights

- **QIIB reports in-line 1Q2019 net profit:** QIIB generated net profit of QR266.0mn growing by 5.1% YoY (+81.0% QoQ), in-line with our estimate of QR268.5mn (-0.9% variation).
- **A drop in opex and net reversals YoY drove net income.** Although net interest & investment income had a decent growth of 5.6%, non-funded income dropped by 39.9% leading to flat revenue. Further, net operating income gained 2.9% because of a 6.5% drop in opex. QIIB reported net reversals of QR0.8mn vs. provisions of QR4.4mn in 1Q2018, resulting in bottom-line growth of 5.1%. The sequential surge (+81.0%) in profitability was due to net reversals of QR0.8mn vs. net provisions of QR46.2mn in 4Q2018. Most importantly, core-banking income was strong as net operating income jumped by 37.3% QoQ.
- **NIM compressed YoY but expanded sequentially.** NIM contracted by 15bps YoY to 2.60% due to CoFs rising by 24bps while yields remaining flat. On a QoQ basis, NIM gained 9bps as yields remained flat while CoFs declined by 6bps.
- **The bank remains efficient and continued to generate positive JAWS.** Revenue was flattish YoY while opex decreased by 6.5%, resulting in positive JAWS of 7.2%. Moreover, cost-to-income ratio improved to 22.2% vs. 23.9% in 1Q2018 (30.4% in 4Q2018).
- **Net loans and deposits expanded in 1Q2019 after a weak 2018.** QIIB's loan book expanded by 10.9% QoQ to QR31.0bn (vs. a 13.9% contraction in FY2018). Moreover, deposits followed suit and grew by 13.4% to QR35.3bn. Hence, LDR further improved, receding to 88% (90% at the end of 2018).
- **Asset quality under pressure so far in 1Q2019...** QIIB's NPL ratio remained flat at 1.97% vs. FY2018; NPLs increased by 9.7% QoQ to QR656mn.
- **...but capitalization remains strong.** QIIB ended 1Q2019 with a Tier-1 ratio of 15.5% vs. 15.7% in FY2018.

Catalysts

- **Catalysts include:** 1) Increase in FOL to 49% from 25%, which is yet to be implemented and thus has not met MSCI requirements/conditions for the upcoming rebalance. If it meets the conditions on the next round of rebalancing then we could expect a rally in the name. 2) Increase in traded volumes.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** *We maintain our Price Target of QR63.00.* QIIB is trading at a 2019e P/TB and P/E of 1.7x and 11.4x, respectively. The stock offers an attractive DY of 5.7%.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could further result in impairments.

Key Financial Data and Estimates

| | FY2018 | FY2019e | FY2020e | FY2021e |
|--------------------|--------|---------|---------|---------|
| EPS (QR) | 5.46 | 6.20 | 7.02 | 7.65 |
| EPS Growth (%) | 2.1 | 13.5 | 13.1 | 9.1 |
| P/E (x) | 12.9 | 11.4 | 10.0 | 9.2 |
| Tangible BVPS (QR) | 38.4 | 40.4 | 43.3 | 46.8 |
| P/TB (x) | 1.8 | 1.7 | 1.6 | 1.5 |
| DPS (QR) | 4.00 | 4.00 | 4.00 | 4.00 |
| Dividend Yield (%) | 5.7 | 5.7 | 5.7 | 5.7 |

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

Key Data

| | |
|---------------------------|-------------------------|
| Current Market Price (QR) | 70.30 |
| Dividend Yield (%) | 5.7 |
| Bloomberg Ticker | QIIB QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | QIIB.QA |
| ISIN | QA0006929879 |
| Sector* | Banks & Financial Svcs. |
| 52wk High/52wk Low (QR) | 74.65/49.05 |
| 3-m Average Volume ('000) | 112.7 |
| Mkt. Cap. (\$ bn/QR bn) | 2.9/10.6 |
| Shares Outstanding (mn) | 151.4 |
| FO Limit* (%) | 25.0 |
| Current FO* (%) | 12.1 |
| 1-Year Total Return (%) | +37.8 |

Fiscal Year End December 31

Source: Bloomberg (as of April 22, 2019), *Qatar Exchange (as of April 21, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

| Income Statement (In QR mn) | FY2018 | FY2019e | FY2020e | FY2021e |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 1,164 | 1,265 | 1,385 | 1,504 |
| Fees & Commissions | 129 | 131 | 122 | 131 |
| FX Income | 11 | 41 | 42 | 37 |
| Other Income | 1 | 5 | 25 | 51 |
| Non-Interest Income | 141 | 177 | 189 | 219 |
| Total Revenue | 1,305 | 1,442 | 1,574 | 1,723 |
| Operating Expenses | (325) | (332) | (346) | (371) |
| Net Operating Income | 979 | 1,110 | 1,228 | 1,353 |
| Net Provisions & Impairments | (97) | (116) | (111) | (140) |
| Net Profit (Headline/Reported) | 882 | 994 | 1,117 | 1,213 |
| Payment on Tier-1 Sukuk | (55) | (55) | (55) | (55) |
| Social & Sports Contribution Fund | (22) | (25) | (28) | (30) |
| Net Profit (Attributable) | 805 | 914 | 1,034 | 1,128 |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn) | FY2018 | FY2019e | FY2020e | FY2021e |
|---|---------------|---------------|---------------|---------------|
| Assets | | | | |
| Cash & Balances with Central Bank | 2,736 | 2,928 | 2,811 | 3,007 |
| Interbank Loans | 12,839 | 9,356 | 6,373 | 6,295 |
| Net Investments | 4,929 | 5,458 | 6,529 | 6,976 |
| Net Loans | 27,991 | 29,237 | 31,864 | 34,973 |
| Investment In Associates | 388 | 378 | 373 | 368 |
| Other Assets | 216 | 690 | 806 | 877 |
| Net PP&E | 280 | 277 | 200 | 194 |
| Investment in Real Estate | 882 | 876 | 967 | 958 |
| Total Assets | 50,260 | 49,200 | 49,922 | 53,648 |
| Liabilities | | | | |
| Interbank Deposits | 11,578 | 8,717 | 6,343 | 7,026 |
| Customer Deposits | 31,130 | 32,531 | 35,133 | 37,593 |
| Other Borrowings | 0 | 0 | 0 | 0 |
| Tier-1 Sukuk | 1,000 | 1,000 | 1,000 | 1,000 |
| Other Liabilities | 722 | 813 | 878 | 940 |
| Total Liabilities | 44,430 | 43,061 | 43,354 | 46,558 |
| Total Shareholders' Equity | 5,830 | 6,139 | 6,567 | 7,090 |
| Total Liabilities & Shareholders' Equity | 50,260 | 49,200 | 49,922 | 53,648 |

Source: Company data, QNB FS Research

| Ratios | FY2018 | FY2019e | FY2020e | FY2021e |
|--|--------|---------|---------|---------|
| Profitability (%) | | | | |
| RoE Attributable (Based on Beginning Equity) | 13.8 | 15.7 | 16.8 | 17.2 |
| RoAA (Attributable) | 1.7 | 1.8 | 2.1 | 2.2 |
| RoRWA (Attributable) | 2.2 | 2.4 | 2.7 | 2.6 |
| NIM (% of IEAs) | 2.7 | 2.7 | 2.9 | 3.2 |
| NIM (% of RWAs) | 3.3 | 3.4 | 3.6 | 3.5 |
| NIM (% of AAs) | 2.4 | 2.5 | 2.8 | 2.9 |
| Spread | 2.2 | 2.0 | 1.8 | 1.9 |
| Efficiency (%) | | | | |
| Cost-to-Income (Headline) | 24.9 | 23.1 | 22.0 | 21.5 |
| Cost-to-Income (Core) | 25.1 | 23.2 | 22.4 | 22.2 |
| Liquidity (%) | | | | |
| LDR | 88.2 | 89.9 | 90.7 | 93.0 |
| Loans/Assets | 54.6 | 59.4 | 63.8 | 65.2 |
| Cash & Interbank Loans-to-Total Assets | 30.9 | 25.0 | 18.4 | 17.3 |
| Deposits to Assets | 61.9 | 66.1 | 70.4 | 70.1 |
| Wholesale Funding to Loans | 42.1 | 29.8 | 19.9 | 20.1 |
| IEAs to IBLs | 126.3 | 139.7 | 142.5 | 132.9 |
| Asset Quality (%) | | | | |
| NPL Ratio | 2.1 | 2.3 | 2.4 | 2.2 |
| NPLs to Shareholder's Equity | 10.3 | 10.9 | 11.9 | 11.1 |
| NPLs to Tier 1 Capital | 8.6 | 9.0 | 9.6 | 8.9 |
| Coverage Ratio | 91.9 | 92.8 | 87.6 | 96.0 |
| ALL/Average Loans | 1.7 | 2.0 | 2.1 | 2.1 |
| Cost of Risk | 22 | 24 | 19 | 19 |
| Capitalization (%) | | | | |
| Tier 1 Ratio | 18.4 | 20.0 | 20.3 | 19.5 |
| CAR | 19.1 | 20.7 | 21.0 | 19.5 |
| Tier 1 Capital to Assets | 13.8 | 15.2 | 16.3 | 16.5 |
| Tier 1 Capital to Loans | 25.3 | 25.5 | 25.5 | 25.4 |
| Tier 1 Capital to Deposits | 22.3 | 22.9 | 23.1 | 23.6 |
| Leverage (x) | 8.6 | 8.0 | 7.6 | 7.6 |
| Growth (%) | | | | |
| Net Interest Income | 9.5 | 8.7 | 9.5 | 8.6 |
| Non-Interest Income | -16.7 | 25.5 | 6.8 | 16.0 |
| OPEX | -3.2 | 2.1 | 4.1 | 7.1 |
| Net Operating Income | 9.4 | 13.3 | 10.7 | 10.2 |
| Net Income (Attributable) | 6.4 | 13.6 | 13.1 | 9.1 |
| Loans | -15.5 | 6.5 | 9.0 | 9.8 |
| Deposits | -4.2 | 4.5 | 8.0 | 7.0 |
| Assets | 7.8 | -2.1 | 1.5 | 7.5 |
| RWAs | 11.8 | -1.1 | 6.8 | 14.2 |

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

| | |
|-----------------------|----------------------|
| 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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