

## Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.020	Target Price	QR10.438
Implied Upside	4.4%		

### Growth Priced In; Maintain Market Perform & QR10.438 PT

We maintain our expected 5-year earnings CAGR of 10.8% (2022-27e) for Qatar International Islamic Bank (QIIB) after its 1Q2023 results. 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 2023 P/B of 2.1x, in-line with its 5-year median. As a result, we see limited upside, as we believe QIIB is trading around its fair value. At these levels, it would imply that QIIB is trading at a 24% premium to QIBK (2023e 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 17%, above our estimate of 16.0% (17% sustainable RoE is very challenging to achieve, in our view).

#### Highlights

- **QIIB's 1Q2023 came in-line with estimates; 1Q2023 bottom-line increased by 7.1% YoY (82.4% QoQ) to QR315.9mn. For the time being, our estimates remain unchanged.** Qatar International Islamic Bank reported a net income of QR315.9mn in 1Q2023, in-line with our estimate of QR310.2mn. The YoY increase in profitability was mainly driven by margin expansion despite a 92.6% surge in provisions and impairments. Sequentially, earnings followed historical trends and surged on the back of a 65.7% drop in provisions and impairments.
- **Healthy RoE generator (>CoE):** QIIB reported annualized RoE of 18.1% in 1Q2023 vs. 17.8% in 1Q2022 (annualized RoE is not an indicator for year-end RoE). We still forecast RoE to reach 16.6% by 2026e from 14.3% in 2022. Moreover, we estimate RoRWAs to increase from 1.9% in 2022 (1.8% in 2021) to a strong 2.2% 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 19.3% in 1Q2022 to 17.2% in 1Q2023 (4Q2022: 18.7%). We still expect the C/I ratio to hover around ~18.0%.
- **Net loans are still expected to grow by a 5-year CAGR (2022-27e) of 6.4%.** Net loans remained flat at QR35.0bn QoQ. On the other hand, deposits contracted by 2.4% sequentially to reach QR35.8bn in 1Q2023. Thus, QIIB's LDR (excluding stable sources of funds) was a healthy 95%. We expect the LDR to hover around the 95% levels.
- **1Q2023 CoR significantly increased vs. 1Q2022.** QIIB booked net credit provisions of QR53.7mn in 1Q2023 vs. QR28.8mn in 1Q2022 and QR130.8mn in 4Q2022 (in-line with historical trends, provisions sharply drop sequentially in 1Q). 1Q2023 CoR increased to 59bps from 29bps in 1Q2022. We maintain our 2023 CoR estimate of 81bps and still expect CoR to steadily improve to 72bps by 2026e.
- **Asset quality continued to come under pressure, mainly attributed to some SMEs.** NPL ratio jumped from 2.79% in FY2022 to 3.02% in 1Q2023 (2.57% in FY2021), while NPLs increased by 8.0%. On a positive note, coverage of Stage 3 loans was a strong 91% vs. 93% in FY2022 (FY2021: 75%). Moreover, management continued building buffers for Stage 3 loans. As such, allowance for loan losses (Stage 3) increased by 5% vs. FY2022 and contributes 63% of allowance for loan losses. Going forward, we forecast coverage ratio to continue to increase as management books precautionary provisions.
- **Capitalization remains healthy.** QIIB ended 1Q2023 with a robust Tier-1 ratio of 17.2%. CET1 ratio also increased to 12.9% vs. 12.0% in 2022 and 11.3% in FY2021. 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 4.4%).

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform rating and price target of QR10.438.** QIIB is trading at a 2023e P/TB and P/E of 2.1x and 14.6x, 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

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.621	0.685	0.751	0.811
EPS Growth (%)	8.1	10.3	9.7	7.9
P/E (x)	16.1	14.6	13.3	12.4
Tangible BVPS (QR)	4.6	4.9	5.2	5.5
P/TBV (x)	2.2	2.1	1.9	1.8
RoE (%)	14.3	14.9	15.4	15.6
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	4.0	4.2	4.7	5.0

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

#### Key Data

Current Market Price (QR)	10.020
Dividend Yield (%)	4.0
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	12.940/9.000
3-m Average Volume (000)	821.6
Mkt. Cap. (\$ bn/QR bn)	4.2/15.2
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.7
1-Year Total Return (%)	(4.3)
Fiscal Year End	December 31

Source: Bloomberg (as of May 22, 2023), \*Qatar Exchange (as of May 22, 2023); Note: FO is foreign ownership

#### Shahan Keushgerian

+974 4476 6509

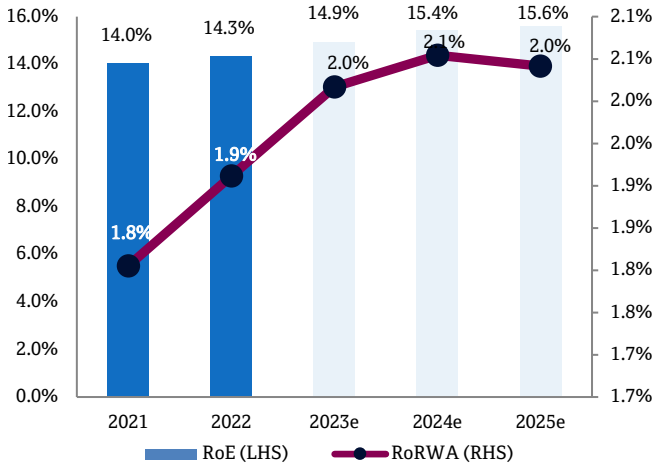
shahan.keushgerian@qnbfs.com.qa

#### Saugata Sarkar, CFA, CAIA

+974 4476 6534

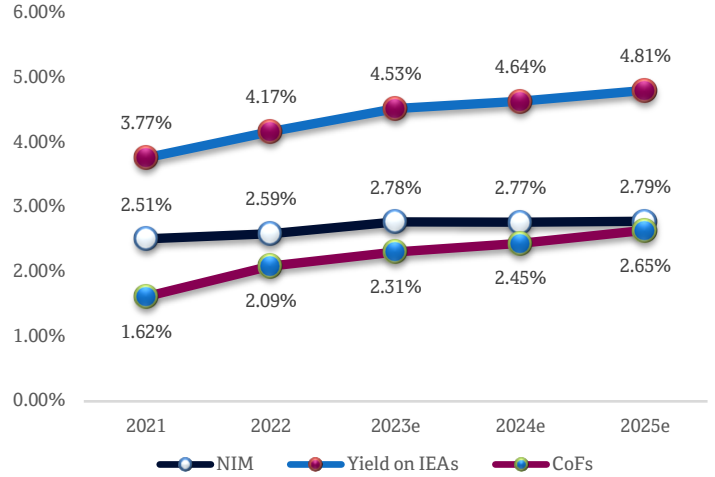
saugata.sarkar@qnbfs.com.qa

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

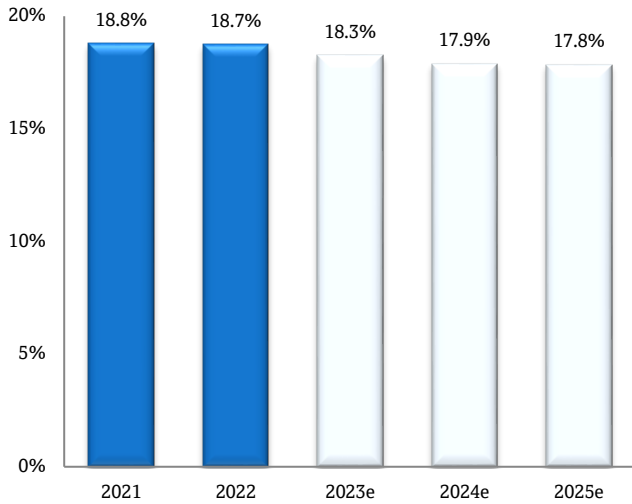


Source: Company data, QNB FS Research

**While Margins to Stabilize After 2023**

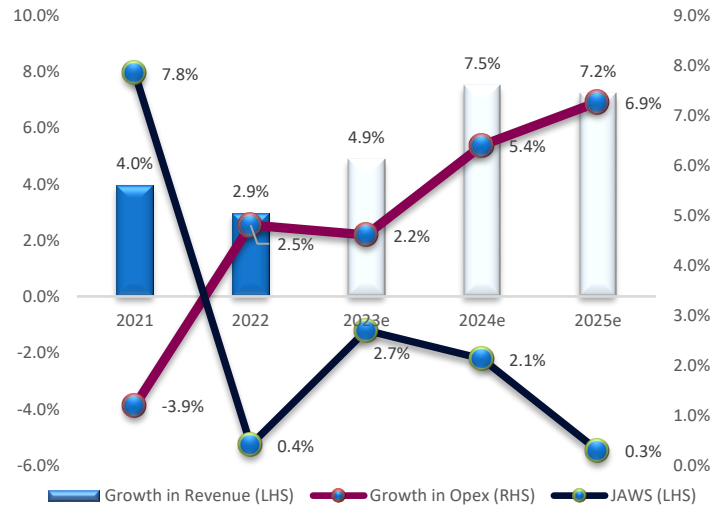


**C/I Ratio One of The Lowest Domestically & Regionally**

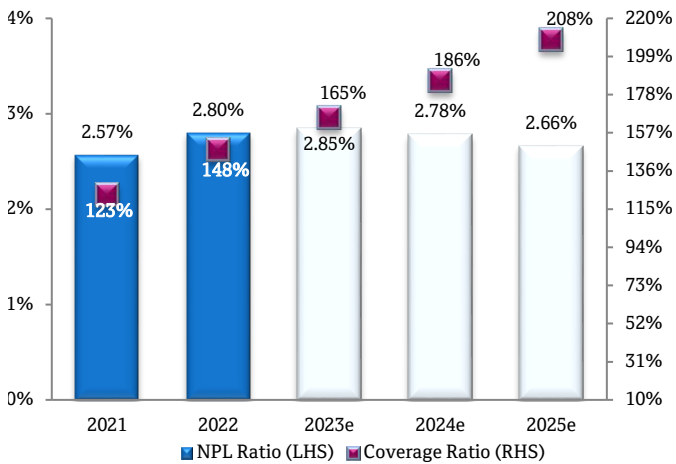


Source: Company data, QNB FS Research

**While Generating Neutral-to-Positive JAWS**



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



**Coverage of Stage 3 Loans (NPLs) is a Strong 91%**

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	32,393,813	3,105,005	1,104,310	36,603,128
ECLs	316,772	240,984	1,005,519	1,563,275
Stages % Loans	88.5%	8.5%	3.0%	
Stages % ECLs	20.3%	15.4%	64.3%	
<b>Coverage Ratio</b>	<b>1.0%</b>	<b>7.8%</b>	<b>91.1%</b>	

## Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	1,422	1,434	1,423	1,481	1,580	1,703
Fees & Commissions	203	250	298	321	360	369
FX Income	48	42	85	68	63	70
Other Income	3	16	(13)	10	18	26
<b>Non-Interest Income</b>	<b>253</b>	<b>308</b>	<b>370</b>	<b>399</b>	<b>442</b>	<b>464</b>
Total Revenue	1,675	1,742	1,793	1,880	2,021	2,167
Operating Expenses	(341)	(328)	(336)	(343)	(362)	(387)
Net Operating Income	1,335	1,414	1,457	1,537	1,660	1,780
Net Provisions & Impairments	(397)	(411)	(382)	(363)	(382)	(411)
<b>Net Profit (Headline/Reported)</b>	<b>938</b>	<b>1,003</b>	<b>1,075</b>	<b>1,174</b>	<b>1,277</b>	<b>1,370</b>
Payment on Tier-1 Sukuk	(108)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(25)	(27)	(29)	(32)	(34)
<b>Net Profit (Attributable)</b>	<b>806</b>	<b>870</b>	<b>940</b>	<b>1,037</b>	<b>1,137</b>	<b>1,227</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	2,776	2,670	2,491	2,702	2,865	2,978
Interbank Loans	10,508	13,426	9,760	12,064	11,683	13,368
Net Investments	5,852	7,220	7,752	8,372	8,833	9,456
Net Loans	40,514	37,031	35,022	36,557	38,943	41,777
Investment In Associates	345	264	192	182	173	167
Other Assets	351	252	275	239	271	247
Net PP&E	242	231	231	222	264	262
Investments In Real Estate	724	697	669	669	669	669
<b>Total Assets</b>	<b>61,314</b>	<b>61,792</b>	<b>56,393</b>	<b>61,008</b>	<b>63,702</b>	<b>68,924</b>
<b>Liabilities</b>						
Interbank Deposits	13,128	9,922	6,918	8,602	8,417	10,816
Customer Deposits	36,352	38,646	36,706	39,166	41,516	43,799
Term Loans	2,566	3,543	2,794	2,794	2,794	2,794
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	944	979	900	940	976	1,007
<b>Total Liabilities</b>	<b>55,082</b>	<b>55,182</b>	<b>49,411</b>	<b>53,594</b>	<b>55,795</b>	<b>60,508</b>
<b>Total Shareholders' Equity</b>	<b>6,231</b>	<b>6,610</b>	<b>6,983</b>	<b>7,414</b>	<b>7,908</b>	<b>8,416</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>61,314</b>	<b>61,792</b>	<b>56,393</b>	<b>61,008</b>	<b>63,702</b>	<b>68,924</b>
<b>Risk Weighted Assets</b>	<b>47,132</b>	<b>49,250</b>	<b>49,109</b>	<b>53,687</b>	<b>57,014</b>	<b>63,203</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
<b>Profitability (%)</b>						
RoE	13.4	14.0	14.3	14.9	15.4	15.6
RoAA	1.4	1.4	1.6	1.8	1.8	1.9
RoRWA	1.8	1.8	1.9	2.0	2.1	2.0
NIM (% of IEAs)	2.60	2.51	2.59	2.78	2.77	2.79
NIM (% of RWAs)	3.24	2.97	2.89	2.88	2.85	2.83
NIM (% of AAs)	2.41	2.33	2.41	2.52	2.53	2.57
Spread	2.20	2.15	2.08	2.22	2.20	2.16
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	20.3	18.8	18.7	18.3	17.9	17.8
Cost-to-Income (Core)	20.5	19.1	18.7	18.4	18.1	18.1
<b>Liquidity (%)</b>						
LDR	104	88	89	87	88	90
Loans/Assets	66.1	59.9	62.1	59.9	61.1	60.6
Cash & Interbank Loans-to-Total Assets	21.7	26.0	21.7	24.2	22.8	23.7
Deposits to Assets	59.3	62.5	65.1	64.2	65.2	63.5
Wholesale Funding to Loans	38.7	36.4	27.7	31.2	28.8	32.6
IEAs to IBLs	129	129	136	128	133	128
<b>Asset Quality (%)</b>						
NPL Ratio	1.6	2.6	2.8	2.9	2.8	2.7
NPL to Shareholders' Equity	10.4	14.8	14.6	14.7	14.4	14.0
NPL to Tier-1 Capital	8.8	12.8	12.8	13.0	12.8	12.5
Coverage Ratio	128.9	123.1	147.7	165.3	185.7	208.2
ALL/Average Loans	2.0	2.9	3.9	4.6	5.1	5.5
Cost of Risk (bps)	59	95	81	80	79	77
<b>Capitalization (%)</b>						
CET1 Ratio	11.2	11.3	12.0	11.8	12.0	11.6
Tier-1 Ratio	15.6	15.6	16.3	15.7	15.6	14.9
CAR	16.5	16.7	17.7	17.1	17.0	16.3
Leverage (x)	9.8	9.3	8.1	8.2	8.1	8.2
<b>Growth (%)</b>						
Net Interest Income	13.3	0.8	-0.8	4.1	6.7	7.8
Non-Interest Income	57.7	21.5	20.2	7.8	10.6	5.1
OPEX	-0.2	-3.9	2.5	2.2	5.4	6.9
Net Operating Income	24.2	6.0	3.0	5.5	8.0	7.3
Net Income (Attributable)	-5.0	7.9	8.1	10.3	9.7	7.9
Loans	9.5	-8.6	-5.4	4.4	6.5	7.3
Deposits	16.4	6.3	-5.0	6.7	6.0	5.5
Assets	7.9	0.8	-8.7	8.2	4.4	8.2
RWAs	15.6	4.5	-0.3	9.3	6.2	10.9

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

### Contacts

QNB Financial Services Co. W.L.L.  
 Contact Center: (+974) 4476 6666  
[info@qnbfs.com.qa](mailto:info@qnbfs.com.qa)  
 Doha, Qatar

Saugata Sarkar, CFA, CAIA  
 Head of Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
 Senior Research Analyst  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

Phibion Makuwerere, CFA  
 Senior Research Analyst  
[phibion.makuwerere@qnbfs.com.qa](mailto:phibion.makuwerere@qnbfs.com.qa)

**Disclaimer and Copyright Notice:** This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNB FS.