

## Masraf Al Rayan (MARK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.320	Price Target	QR2.623
Implied Upside	13.1%		

### Improving Asset Quality A Positive; Retain Market Perform Rating

After 2024 results, we decrease our overall estimates for 2025, 2026 and 2027 by 17.0% on average (see page 3) as we apply the 15.0% GMT and lower margins; our revisions do not change our QR2.623 PT as 2025's beginning BV contributes 98% to the PT as per the EVA valuation model. Moreover, our 2024-29e earnings CAGR remains broadly unchanged at 11.0% as we still expect double-digit growth. MARK's asset quality improved in 2024 – Stage 2 Loans significantly improved from 30% to 20%, which is a positive – however, this is not being reflected in the stock price as MARK is still trading at 2025e/26e P/B of 0.9x. We believe investors would like to see further improvement in Stage 3 & 2 loans balanced by an improvement in MARK's earnings growth profile, for the stock to rerate. MARK shares have underperformed peers on an YTD basis given the bank's asset quality issues and RoE erosion. We note that that there is upside to our 2025 earnings and DPS estimates in the event that the 15% GMT is not implemented.

#### Highlights

- Masraf Al Rayan (MARK) FY2024 earnings comes below estimates.** MARK reported attributable FY2024 bottom-line of QR1.42bn vs. our estimate of QR1.48bn (variation of -3.6%). Net income grew by 3.9% YoY.
- FY2024 tangible RoE came in at 6.5%, flat with FY2023 (FY2022: 5.8%); RoE is significantly below pre-merger levels and remains well below its CoE of 12.1%.** RoE declined from 11.3% in 2021 to 6.5% in 2024. Pre-merger MARK's standalone RoEs hovered around the 16% level (2016-2020). It will be a long road to recovery for RoEs to pick up despite double-digit growth in earnings. We note that 2025 RoE is estimated to drop to 5.7% because of 15% GMT, but should pick up to 6.4% in 2026. Finally, we still expect RoE to reach 9.0% by 2029e. Having said this, we assume a 14.0% terminal RoE in our valuation, which we believe is attainable.
- NIMs in FY2024 remained flat as yield on IEAs and CoFs increased in lockstep.** We model NIMs at 1.75% for 2025 as interest rate cuts is uncertain before improving to 1.82% in 2026.
- MARK's asset quality improved.** NPLs decreased by 8.1% sequentially (-2.7% YoY) from QR6.8bn/QR6.4bn in 4Q2024/FY2023 to QR6.3bn in FY2024. Moreover, the NPL ratio declined to 5.45% vs. 5.91% 3Q2024 (FY2023: 5.71%). Moreover, the bank reclassified a decent chunk of its loans from Stage 2 to Stage 1, which is a positive in our view. As such, Stage 1 loans as a % of total loans increased from 65% in FY2023 to 74% in FY2024; Stage 2 loans decreased from 30% in FY2023 to 20% in FY2024. At the same time, coverage of Stage 3 loans slightly increased to 62% (FY2023: 57%) excluding eligible collateral.
- CoR to stay on the high side in the near-to-medium term as MARK builds buffers to reach a coverage ratio of 70% to 80% for Stage 3 loans.** We pencil in a CoR of 95bps/94bps in 2025e/26e before normalizing to 80bps 2028e/29e vs. 90bps previously. MARK's CoR dropped from 108bps in 2023 to 92bps in 2024.
- Loans inched up in FY2024 after declining in 2022 and 2023 as MARK was de-risking its loan book (management has adopted a prudent loans underwriting approach where it will focus on quality assets and not chase volume); we maintain our loan growth estimates in 2024-29e of 5.0% as the bank's lending appetite increases after further cleaning up its books.** Net loans increased by 1.7% YoY to QR110.0bn in FY2024. The growth in loans was attributable to the corporate (9.7% YoY) and retail (8.6%) segments.
- CET1 to remain robust and highest among its peers.** MARK ended FY2024 with CET1/Tier-1 ratios of 21.7%/22.7%.

#### Catalysts

- 1) Normalizing CoR, which results in stronger RoE generation ahead of our expectations.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our QR2.623 PT and Market Perform rating.** MARK is trading at 2025e/26e P/TB of 0.9x and P/E of 16.8x/14.6x.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

#### Key Financial Data and Estimates

	2024	2025e	2026e	2027e
EPS Attributable (QR)	0.153	0.138	0.159	0.186
EPS Growth (%)	3.9	-10.0	15.2	17.5
P/E (x)	15.2	16.8	14.6	12.4
Tangible BVPS (QR)	2.43	2.48	2.55	2.63
P/TBV (x)	1.0	0.9	0.9	0.9
RoE (%)	6.5	5.7	6.4	7.3
DPS (QR)	0.100	0.100	0.125	0.150
Dividend Yield (%)	4.3	4.3	5.4	6.5

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

#### Key Data

Current Market Price (QR)	2.320
Dividend Yield (%)	4.3
Bloomberg Ticker	MARK QD
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.579/2.200
3-m Average Volume (mn)	7.8
Mkt. Cap. (\$ bn/QR bn)	5.9/21.6
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	13.9
1-Year Total Return (%)	(4.5)
Fiscal Year End	December 31

Source: Bloomberg (as of February 27, 2025), \*Qatar Exchange (as of February 26, 2025); Note: FO is foreign institutional ownership

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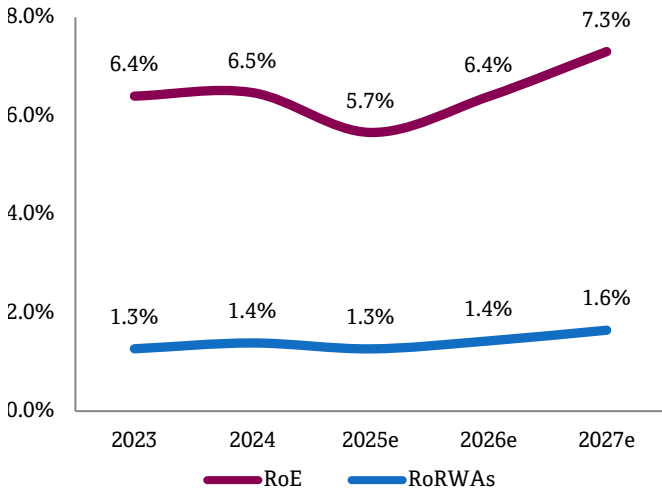
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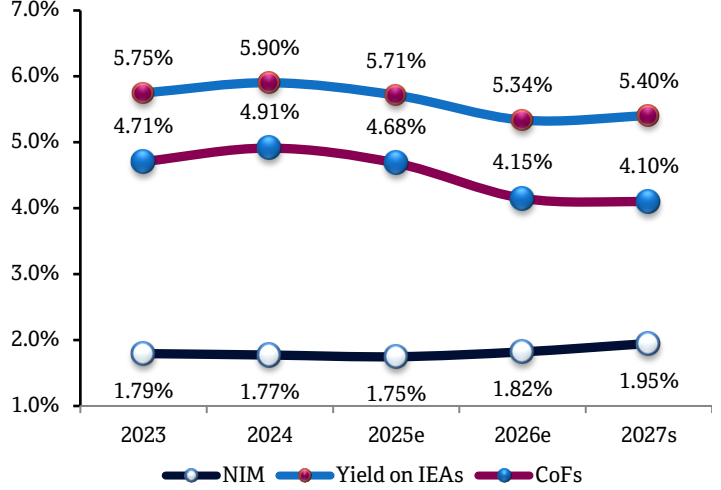
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**RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE**

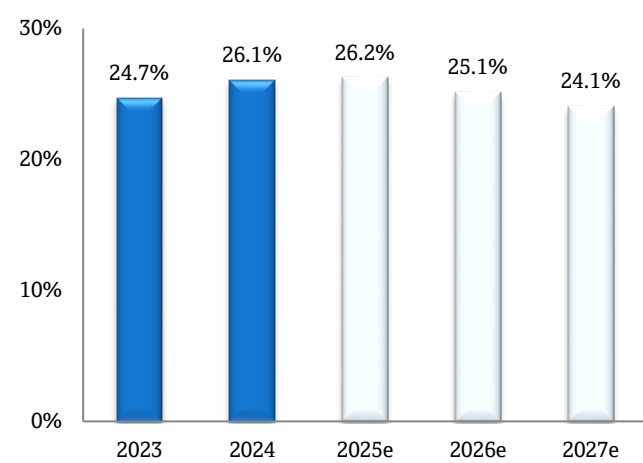


Source: Company data, QNB FS Research

**While Margins to Gradually Improve**

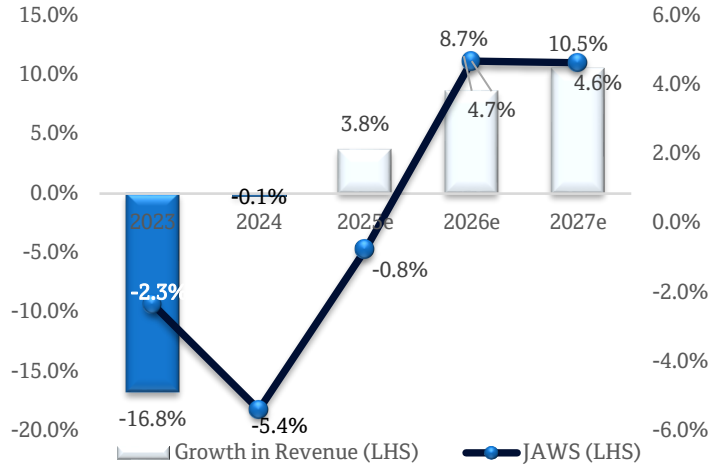


**C/I Ratio to Improve Due to Cost Containment**

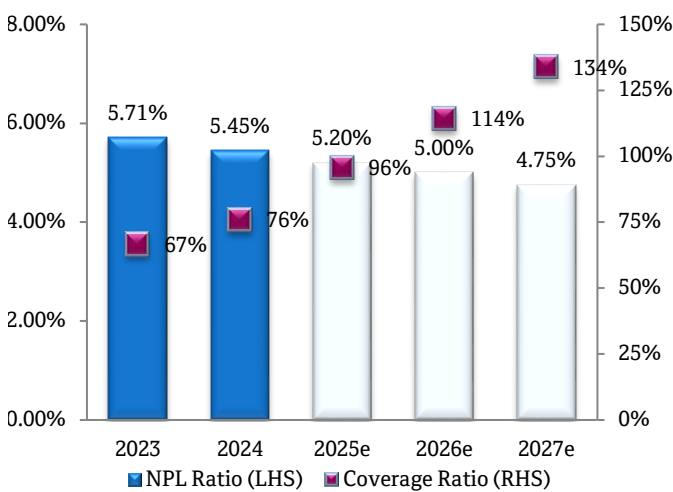


Source: Company data, QNB FS Research; 2022 C/I excludes one-time integration costs

**While Generating JAWS From 2026 and Onwards**



**NPL Ratio Remains High on the Back of Contracting & Real Estate Loans** **Stage 2 Loans Improved, Contributing 20% to Loans vs. 30%**



Source: Company data, QNB FS Research

FY2024	Stage 1	Stage 2	Stage 3
Gross Loans	85,086,222	23,454,372	6,252,519
ALLs	54,375	803,896	3,895,279
Stages % Loans	74.1%	20.4%	5.45%
<b>Coverage Ratio</b>	<b>0.06%</b>	<b>3.4%</b>	<b>62%</b>

## Change in Estimates

In QR mn	2025e			2026e			2027		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,009	2,838	-5.7	3,288	3,104	-5.6	3,563	3,479	-2.4
Non Interest Income	785	827	5.4	897	879	-2.0	938	923	-1.6
Revenue	3,794	3,665	-3.4	4,185	3,983	-4.8	4,501	4,401	-2.2
Opex	(956)	(962)	0.6	(996)	(1,000)	0.4	(1,033)	(1,059)	2.5
Net Operating Income	2,838	2,703	-4.7	3,189	2,983	-6.5	3,468	3,343	-3.6
Net Income (Reported)	1,587	1,327	-16.4	1,919	1,522	-20.7	2,192	1,780	-18.8
Net Income (Attributable)	1,502	1,281	-14.7	1,825	1,476	-19.1	2,091	1,734	-17.1

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024	2025e	2026e	2027e
<b>Net Interest Income</b>	<b>3,607</b>	<b>2,727</b>	<b>2,738</b>	<b>2,838</b>	<b>3,104</b>	<b>3,479</b>
Fees & Commissions	328	319	299	311	330	363
FX Income	271	197	190	202	218	214
Other Income	46	295	306	314	331	346
<b>Non-Interest Income</b>	<b>645</b>	<b>810</b>	<b>794</b>	<b>827</b>	<b>879</b>	<b>923</b>
<b>Total Revenue</b>	<b>4,251</b>	<b>3,537</b>	<b>3,532</b>	<b>3,665</b>	<b>3,983</b>	<b>4,401</b>
Operating Expenses	(1,022)	(874)	(920)	(962)	(1,000)	(1,059)
<b>Net Operating Income</b>	<b>3,229</b>	<b>2,663</b>	<b>2,612</b>	<b>2,703</b>	<b>2,983</b>	<b>3,343</b>
Net Provisions & Impairments	(1,710)	(1,165)	(1,041)	(1,110)	(1,155)	(1,204)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>1,519</b>	<b>1,498</b>	<b>1,571</b>	<b>1,593</b>	<b>1,828</b>	<b>2,138</b>
Tax	(22)	(35)	(33)	(239)	(274)	(321)
<b>Net Profit Before Minority Interest</b>	<b>1,497</b>	<b>1,463</b>	<b>1,537</b>	<b>1,354</b>	<b>1,553</b>	<b>1,818</b>
Minority Interest	(19)	(28)	(20)	(28)	(32)	(37)
Non-Recurring Items	(134)	17	(11)	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>1,344</b>	<b>1,452</b>	<b>1,507</b>	<b>1,327</b>	<b>1,522</b>	<b>1,780</b>
Interest Expense on AT1 Bond	(46)	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(36)	(36)	(38)	0	0	0
<b>Net Profit (Attributable)</b>	<b>1,263</b>	<b>1,369</b>	<b>1,423</b>	<b>1,281</b>	<b>1,476</b>	<b>1,734</b>
<b>EPS</b>	<b>0.140</b>	<b>0.151</b>	<b>0.157</b>	<b>0.138</b>	<b>0.159</b>	<b>0.186</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024	2025e	2026e	2027e
<b>Assets</b>						
Cash & Balances with Central Bank	5,088	4,993	5,672	5,434	5,640	5,778
Interbank Loans	6,300	5,663	5,165	5,691	6,196	5,658
Net Investments	31,477	38,599	43,767	48,748	49,740	53,269
Net Loans	117,859	108,228	110,040	113,828	119,148	125,737
Investment In Associates	346	349	348	382	419	458
Other Assets	3,869	3,835	3,640	3,609	3,612	3,631
Net PP&E	915	969	1,011	1,019	1,052	1,085
Goodwill & Intangibles	1,679	1,565	1,451	1,337	1,223	1,110
<b>Total Assets</b>	<b>167,533</b>	<b>164,200</b>	<b>171,094</b>	<b>180,049</b>	<b>187,028</b>	<b>196,726</b>
<b>Liabilities</b>						
Interbank Deposits	29,316	32,204	23,757	26,690	25,707	25,624
Customer Deposits	97,292	92,724	107,610	113,206	119,998	128,398
Sukuks & Borrowings	11,525	9,821	9,672	9,672	10,349	10,970
Other Liabilities	5,118	4,644	4,724	4,771	4,688	4,838
AT1 Notes	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Liabilities</b>	<b>144,251</b>	<b>140,393</b>	<b>146,763</b>	<b>155,339</b>	<b>161,742</b>	<b>170,830</b>
Minority Interest	198	237	252	280	312	349
<b>Total Shareholders' Equity</b>	<b>23,084</b>	<b>23,569</b>	<b>24,078</b>	<b>24,429</b>	<b>24,975</b>	<b>25,547</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>167,533</b>	<b>164,200</b>	<b>171,094</b>	<b>180,049</b>	<b>187,028</b>	<b>196,726</b>
<b>Risk Weighted Assets</b>	<b>111,079</b>	<b>105,187</b>	<b>100,406</b>	<b>102,088</b>	<b>104,736</b>	<b>106,232</b>
<b>TBVPs</b>	<b>2.30</b>	<b>2.37</b>	<b>2.43</b>	<b>2.48</b>	<b>2.55</b>	<b>2.63</b>

Source: Company data, QNB FS Research

Ratios/KPIs	2022	2023	2024	2025e	2026e	2027e
<b>Profitability (%)</b>						
RoE	5.8	6.4	6.5	5.7	6.4	7.3
RoAA	0.7	0.8	0.8	0.7	0.8	0.9
RoRWA	1.2	1.3	1.4	1.3	1.4	1.6
NIM (% of IEAs)	2.32	1.79	1.77	1.75	1.82	1.95
NIM (% of RWAs)	3.34	2.52	2.66	2.80	3.00	3.30
NIM (% of AAs)	2.11	1.64	1.63	1.62	1.69	1.81
Spread	2.0	1.0	1.0	1.0	1.2	1.3
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	24.0	24.7	26.1	26.2	25.1	24.1
Cost-to-Income (Core)	24.2	26.3	27.7	27.9	26.6	25.5
<b>Liquidity (%)</b>						
LDR (Loans to Stable Sources of Funds)	108	106	94	93	91	90
Loans/Assets	70.3	65.9	64.3	63.2	63.7	63.9
Cash & Interbank Loans-to-Total Assets	6.8	6.5	6.3	6.2	6.3	5.8
Deposits to Assets	58.1	56.5	62.9	62.9	64.2	65.3
Wholesale Funding to Loans	34.7	38.8	30.4	31.9	30.3	29.1
IEAs to IBLs	118.6	119.6	118.2	117.9	118.1	118.9
<b>Asset Quality (%)</b>						
NPL Ratio	5.99	5.71	5.45	5.20	5.00	4.75
NPL to Shareholders' Equity	31.60	27.26	25.97	25.59	25.39	25.06
NPL to Tier 1 Capital	33.71	28.86	27.39	29.13	31.50	33.87
Coverage Ratio	52.7	66.6	76.0	95.7	114.3	133.9
ALL/Average Loans	2.6	3.0	3.6	4.7	5.5	6.1
Cost of Risk (bps)	127	108	92	95	94	92
<b>Capitalization (%)</b>						
CET1 Ratio	18.6	20.2	21.7	20.0	18.3	16.9
Tier-1 Ratio	19.5	21.2	22.7	21.0	19.2	17.8
CAR	20.3	22.1	23.9	22.2	20.4	18.9
Leverage (x)	7.3	7.0	7.1	7.4	7.5	7.7
<b>Growth (%)</b>						
Net Interest Income	15.9	-24.4	0.4	3.7	9.4	12.1
Non-Interest Income	25.0	25.7	-2.0	4.1	6.3	5.0
Opex	31.0	-14.5	5.2	4.5	4.0	5.9
Net Operating Income	13.4	-17.5	-1.9	3.5	10.3	12.1
Net Provisions & Impairments	55.9	-31.9	-10.6	6.6	4.1	4.3
Net Income (Reported)	-21.7	8.0	3.8	-12.0	14.7	17.0
Net Income (Attributable)						
Loans	-2.5	-8.2	1.7	3.4	4.7	5.5
Deposits	-9.0	-4.7	16.1	5.2	6.0	7.0
Assets	-3.8	-2.0	4.2	5.2	3.9	5.2
RWAs	6.1	-5.3	-4.5	1.7	2.6	1.4

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

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