MARK Alert – In-Line 2Q2019 Revenue/Earnings but Moderate Margin Pressure; Market Perform

- **MARK reports in-line 2Q2019:** Masraf Al Rayan (MARK) reported a net profit of QR534.0mn in 2Q2019, in-line with our estimate of QR547.1mn (variation of -2.4%). The bottom-line remained flat YoY (-1.9% QoQ) solely due to net reversal of provisions (QR6.3mn vs. provisions of QR4.9mn in 2Q2018) as net operating income declined by 2.8% (on the account of weak revenue. The sequential drop was due to weak non-funded income and growth in opex.

- **Margins remained under modest pressure both YoY and sequentially.** NIMs compressed by 12bps YoY and 5bps QoQ to ~2.30%. This was mainly due to the CoFs outpacing yield on assets. CoFs jumped by 59bps YoY (+11bps QoQ) to 3.01%, while yields increased by only 32bps YoY (6bps QoQ) to 4.75%. *The moderate margin pressure is due to MARK's liquidity profile.*

- **C/I ratio remained healthy; generated neutral JAWS.** MARK generated a C/I ratio of 24.2% in 2Q2019 vs. 23.7% in 2Q2018 (22.5% in 1Q2019). On the other hand, the bank generated neutral JAWS of -0.8% as revenue dropped by 1.4% while opex decreased by 0.5%.

- **Loans dropped sequentially while deposits displayed flat performance.** Net loans contracted by 1.4% QoQ (+3.2% YTD) to QR74.8bn, while deposits remained flat (+4.9% YTD) at QR64.6bn. Thus, MARK's LDR position remained challenging at 116% vs. 118% in both 1Q2019 and FY2018. Moreover, loans to stable sources of funds also remained on the high side at 110%. Drop in loans was most likely due to the public sector's repayment of overdrafts.

- **Asset quality remains a non-issue.** The bank's NPL ratio decreased to 0.74% (remained flat QoQ) vs. 0.83% at the end of 2018. Moreover, coverage of stage 3 loans was 54%.

- **Capitalization remained robust and one of the highest among its peers.** MARK ended 2Q2019 with a CET1 and CAR of 18.9% and 19.4%, respectively.

- **Recommendation and valuation:** The stock trades at a P/B of 2.1x on our 2019 estimates. For now, we maintain our PT QR3.40 and Market Perform rating.

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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