

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR40.45	Current Target Price	QR34.00
Implied Upside	(15.94%)		

FY2016 Net Profit In-Line; Dividends Surprise

Masraf Al Rayan (MARK) is the second largest Shari'ah compliant bank among listed banks. It is currently in the due diligence process of merging with 2 unlisted banks, Barwa Bank and International Bank of Qatar (IBQ). If the merger goes through, the new bank will be 2nd largest bank in Qatar. Incorporated in 2006, MARK is focused on the public sector, which dominates its loan portfolio. Public sector loans grew by a CAGR (2009-2015) of 22% and represents 48% (December 2016) of MARK's loan portfolio. Notably, MARK has the best asset quality with an NPL ratio of 0.16%, one of the highest RoAes of ~17% and robust capitalization at 18.0%.

Highlights

- **MARK reported in-line net profit.** MARK generated net profit of QR2.075bn in FY2016, in-line with our estimate of QR2.100bn (-1.2% variation). Moreover, Net interest income came in-line at QR1.92bn vs. our estimate of QR1.94bn. Furthermore, Net operating income also was in-line at QR1.98bn vs. our estimate of QR1.99bn.
- **DPS surprised positively.** MARK announced a DPS of QR2.00/share vs. our estimate of QR1.75/share which translates into a yield of 4.9%.
- **Flat profitability was driven by a sharp decline in opex, lower provisions & impairments and growth in non-interest income.** As expected during a challenging operating environment, opex dropped by 16.2% YoY to QR462.3mn. As such MARK's efficiency ratio further improved to 18.9% vs. 22.9% in 2015. Moreover, the bank booked net provisions & impairments of QR2.28mn vs. QR46.78mn in 2015. On the other hand, non-interest income surged by 34.5% to QR524.6mn driven by fees (+31.2% YoY), f/x income (+24.1% YoY) and investment income of QR12.3mn vs. a loss of QR42.3mn.
- **Margins remained under pressure.** Net interest income receded by 5.1% YoY to QR1.92bn. NIM compressed by ~29bps to 2.35%. The compression in the NIM was driven by cost of funds where it gained by 71bps, whereas the yield on interest earning assets increased by 24bps.
- **Growth in net loans outpaced deposits.** Net loans expanded by 8.1% to QR67.6bn, while deposits grew by 4.3% to QR58.0bn. Thus, MARK's LDR remained elevated at 117% vs. 113% in 2015. Notably, deposits from the public sector continued its negative trajectory declining by 12.6% in 2016 vs a drop of 25.5% in 2015.
- **Asset quality deteriorated but remains insignificant.** MARK's NPL ratio moved up to 0.16% (0.09% in 2015) while the coverage ratio halved to 45% vs. 90% in 2015.
- **MARK remains more than adequately capitalized.** Capital adequacy ratio stood at 18.85%.

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Improvement in NIMs and spreads and 2) materialization of the merger.

Recommendation, Valuation and Risks

- **Recommendation and valuation: For now, we maintain our Price Target of QR34.00.** We will update our estimates once we see more visibility leading up to the merger.
- **Risks:** 1) Depressed oil prices remains the biggest risk for MARK and the banking sector, 2) Increase in credit costs and 3) MARK loses market share in the government segment.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015	FY2016
Attributable EPS (QR)	2.21	2.60	2.70	2.70
EPS Growth (%)	13.2	17.6	3.6	0.1
P/E (x)	18.3	15.5	15.0	15.0
Tangible BVPS (QR)	14.0	15.1	16.1	16.9
P/TB (x)	2.9	2.7	2.5	2.4
DPS (QR)	1.50	1.75	1.75	2.00
Dividend Yield (%)	3.7	4.3	4.3	4.9

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

Key Data

Current Market Price (QR)	40.45
Dividend Yield (%)	4.9
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000AOM8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	40.70/28.60
3-m Average Volume ('000)	425.8
Mkt. Cap. (\$ bn/QR bn)	8.3/30.3
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	11.2
1-Year Total Return (%)	+43.4
Fiscal Year End	December 31

Source: Bloomberg (as of January 17, 2017), *Qatar Exchange (as of January 16, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2013	FY2014	FY2015	FY2016
Profitability (%)				
RoAE (Attributable)	16.5	17.8	17.3	16.4
RoAA (Attributable)	2.6	2.7	2.5	2.3
RoRWA (Attributable)	4.2	4.3	3.6	3.4
NIM (% of IEAs)	3.19	2.90	2.64	2.35
NIM (% of RWAs)	4.66	4.30	3.62	3.26
NIM (% of AAs)	2.88	2.67	2.48	2.20
Spread	3.0	2.7	2.4	1.9
Efficiency (%)				
Cost-to-Income (Headline)	18.8	20.6	22.9	18.9
Cost-to-Income (Core)	19.4	21.2	23.3	19.5
Liquidity (%)				
LDR	85.7	92.5	112.5	116.6
Loans/Assets	62.3	72.3	75.1	73.9
Cash & Interbank Loans-to-Total Assets	11.8	8.6	6.1	9.6
Deposits to Assets	72.6	78.1	66.7	63.4
Wholesale Funding to Loans	16.3	7.9	21.3	28.2
IEAs to IBLs	118.0	120.1	126.0	127.8
Asset Quality (%)				
NPL Ratio	0.10	0.09	0.09	0.16
NPLs to Shareholder's Equity	0.40	0.51	0.50	0.89
NPLs to Tier 1 Capital	0.56	0.58	0.56	0.99
Coverage Ratio	87.6	90.5	89.5	44.8
ALL/Average Loans	0.1	0.1	0.1	0.1
Cost of Risk	-0.03	0.02	0.00	0.00
Capitalization (%)				
Tier 1 Ratio	20.5	18.4	18.5	18.8
CAR	20.5	18.4	18.5	18.9
Tier 1 Capital to Assets	11.3	12.5	12.8	12.4
Tier 1 Capital to Loans	18.2	17.2	17.1	16.8
Tier 1 Capital to Deposits	15.6	15.9	19.2	19.6
Leverage (x)	6.3	7.1	6.9	7.2
Growth (%)				
Net Interest Income	15.8	5.9	3.5	-5.1
Non-Interest Income	17.0	31.0	5.6	34.5
OPEX	14.7	19.8	15.3	-16.2
Net Operating Income	16.3	6.8	0.8	6.5
Net Income (Attributable)	13.2	17.6	3.6	0.1
Loans	-0.7	39.7	8.0	8.1
Deposits	7.4	29.5	-11.1	4.3
Assets	8.0	20.4	4.0	9.8
RWAs	-13.8	48.2	5.9	4.8

Source: Company data

Income Statement (In QR mn)	FY2013	FY2014	FY2015	FY2016
Net Interest Income	1,847	1,956	2,024	1,920
Fees & Commissions	147	216	238	313
FX Income	60	87	108	134
Other Income	75	67	44	78
Non-Interest Income	282	369	390	525
Total Revenue	2,129	2,325	2,414	2,445
Operating Expenses	(400)	(479)	(552)	(463)
Net Operating Income	1,729	1,846	1,862	1,982
Net Provisions	10	(13)	(47)	(3)
Net Profit Before Taxes & Non-Recurring Items	1,739	1,833	1,815	1,979
Non-Recurring Income	0	186	186	93
Net Profit After Non-Recurring Income	1,739	2,019	2,001	2,072
Tax	0	(2)	25	4
Net Profit Before Minority Interest	1,739	2,017	2,026	2,076
Minority Interest	(37)	(15)	47	(1)
Net Profit (Headline/Reported)	1,702	2,002	2,073	2,075
Social & Sports Contribution Fund	(43)	(50)	(52)	(52)
Net Profit (Attributable)	1,660	1,952	2,022	2,023

Source: Company data

Balance Sheet (In QR mn)	FY2013	FY2014	FY2015	FY2016
Assets				
Cash & Balances with Central Bank	3,511	3,311	2,737	3,126
Interbank Loans	4,335	3,603	2,376	5,692
Net Investments	15,017	14,288	14,625	14,012
Net Loans	41,440	57,907	62,567	67,635
Investment In Associates	1,457	424	469	509
Other Assets	642	350	410	409
Net PP&E	55	119	147	148
Investment in Real Estate	91	91	-	-
Total Assets	66,548	80,094	83,331	91,531
Liabilities				
Interbank Deposits	6,765	4,560	13,345	19,060
Customer Deposits	48,331	62,571	55,623	58,024
Other Liabilities	747	1,243	2,005	1,574
Total Liabilities	55,843	68,374	70,973	78,657
Total Shareholders' Equity	10,523	11,353	12,044	12,705
Total Liabilities & Shareholders' Equity	66,548	80,094	83,331	91,531

Source: Company data

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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