

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR36.35	Price Target	QR34.00
Implied Upside	(6.5%)		

In-Line 2Q2018; Spreads Continued to Contract

Masraf Al Rayan (MARK) is the second largest Shari'ah compliant bank among listed banks. Incorporated in 2006, MARK remains focused on the public sector, which dominates its loan portfolio. Public sector loans grew by a CAGR (2010-2017) of 22% and represents 56% (December 2017) of MARK's loan portfolio. Notably, MARK has the best asset quality among Qatari banks with a NPL ratio of 0.6%, one of the highest RoEs of ~16% and robust capitalization at 18%.

Highlights

- **MARK's 2Q2018 bottom-line increased due to a combination of net interest & investment income and non-funded income.** MARK reported net income of QR534.8mn (in-line with our estimate QR520.2mn; +2.8% variation), increasing by 4.9% YoY (+0.7% QoQ). The growth was due to a combination of net interest income & investment income (+4.4 YoY, +1.2% QoQ) and non-funded income (+25.2% YoY, -6.8% QoQ). Hence, total revenue increased by 7.4% YoY (flat QoQ) to QR712.1mn. On a QoQ basis, net income remained flattish due to a 70% drop in provisions.
- **Margins remained under pressure on a YoY basis, but improved sequentially.** Net interest margin decreased by 12bps YoY (+6bps QoQ) to 2.40%. NIMs tightened as the rise in cost of funds exceeded the increase in yield on assets. Cost of funds increased by 26bps YoY to 2.41% (-15bps QoQ), whereas yield on assets increased by 15bps to 4.41% (-6bps QoQ). *The drop in margins is in-line with our expectations.*
- **Operating efficiency remains good; generating JAWS would be a positive.** MARK ended 2Q2018 with C/I ratio of 24% vs. 22% in 2Q2017 (23% in 1Q2018)
- **Asset quality risks remain negligible.** NPL ratio remained moved to 0.63% vs. 0.50% in 1Q2018 while absolute NPLs jumped to QR493.9mn. Coverage ratio of stage 3 loans (impaired or non-performing) significantly improved to 123% vs. 44% at the end of 1Q2018. MARK's stage one loans (credit risk has not increased significantly since initial recognition) represent 91.5% of total loans while stage two loans (past due but not impaired; credit risk has increased significantly since initial recognition) represent 6.7%.
- **Net loans inched up while deposits experienced flat performance.** Net loans moved up by 0.6% QoQ (+0.9% YTD) QR72.7bn vs. QR72.3bn in 1Q2018, while deposits remained flat at QR62.7bn. Thus, MARK's LDR remained elevated and at 116% vs. 115% in 1Q2018 & FY2017. *We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile/lower LDR.*

Catalysts

- News flow and or strategy in growing the business

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR34/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.0x and 12.9x on our 2018 estimates, respectively. *The market is pricing a fundamental P/B (2.0x) and a sustainable RoE (18.5%) vs. our estimates (P/B: 1.8x & RoE: 17.0%).* The name trades at a PEG of 1.7x based on 7.8% CAGR (2017-23e)
- **Risks:** 1) Geopolitical factors, 2) More than expected increase in credit costs and 3) losing market share in the government segment.

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	2.70	2.82	3.25	3.48
EPS Growth (%)	-2.3	4.1	15.5	6.9
P/E (x)	13.4	12.9	11.2	10.5
Tangible BVPS (QR)	17.6	18.2	19.4	0.0
P/TB (x)	2.1	2.0	1.9	1.8
DPS (QR)	2.00	2.00	2.25	2.50
Dividend Yield (%)	5.5	5.5	6.2	6.9

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

Key Data

Current Market Price (QR)	36.35
Dividend Yield (%)	5.5
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	42.78/33.01
3-m Average Volume ('000)	541.1
Mkt. Cap. (\$ bn/QR bn)	7.5/27.3
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	12.3
1-Year Total Return (%)	(7.8)
Fiscal Year End	December 31

Source: Bloomberg (as of July 17, 2018), *Qatar Exchange (as of July 17, 2018); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,264	2,405	2,666	2,912
Fees & Commissions	274	291	326	349
FX Income	143	153	168	188
Other Income	56	60	75	99
Non-Interest Income	473	504	569	637
Total Revenue	2,736	2,909	3,235	3,549
Operating Expenses	(577)	(636)	(695)	(754)
Net Operating Income	2,159	2,274	2,541	2,795
Net Provisions	(113)	(146)	(84)	(170)
Net Profit Before Taxes & Non-Recurring Items	2,045	2,128	2,456	2,626
Non-Recurring Income	0	0	0	0
Net Profit After Non-Recurring Income	2,045	2,128	2,456	2,626
Tax	(5)	(3)	(3)	(3)
Net Profit Before Minority Interest	2,041	2,125	2,454	2,622
Minority Interest	(13)	(13)	(15)	(16)
Net Profit (Headline/Reported)	2,028	2,112	2,438	2,606
Social & Sports Contribution Fund	(51)	(53)	(61)	(65)
Net Profit (Attributable)	1,977	2,059	2,377	2,541

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	2,800	3,188	3,719	4,106
Interbank Loans	3,312	3,427	3,331	4,660
Net Investments	23,423	24,466	23,830	25,044
Net Loans	72,097	76,156	83,280	93,203
Investment In Associates	520	536	558	578
Other Assets	636	685	541	559
Net PP&E	160	168	167	167
Total Assets	102,949	108,626	115,426	128,316
Liabilities				
Interbank Deposits	25,123	24,092	21,541	21,564
Customer Deposits	62,531	66,408	74,377	85,534
Other Liabilities	1,905	4,232	4,723	5,563
Total Liabilities	89,559	94,733	100,640	112,661
Total Shareholders' Equity	13,191	13,683	14,561	15,414
Total Liabilities & Shareholders' Equity	102,949	108,626	115,426	128,316

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	15.9	15.3	16.8	17.0
RoAA (Attributable)	2.1	1.9	2.1	2.1
RoRWA (Attributable)	3.4	3.2	3.4	3.1
NIM (% of IEAs)	2.43	2.39	2.50	2.51
NIM (% of RWAs)	3.58	3.75	3.79	3.60
NIM (% of AAs)	2.27	2.27	2.38	2.39
Spread	2.0	2.0	2.0	2.0
Efficiency (%)				
Cost-to-Income (Headline)	21.1	21.8	21.5	21.2
Cost-to-Income (Core)	21.9	22.2	22.0	21.8
Liquidity (%)				
LDR	113.7	114.7	112.0	109.0
Loans/Assets	68.3	70.1	72.1	72.6
Cash & Interbank Loans-to-Total Assets	6.7	6.1	6.1	6.8
Deposits to Assets	60.1	61.1	64.4	66.7
Wholesale Funding to Loans	36.4	34.5	29.0	26.5
IEAs to IBLs	124.3	119.3	116.6	116.3
Asset Quality (%)				
NPL Ratio	0.14	0.56	0.80	1.00
NPLs to Shareholder's Equity	0.77	3.37	4.92	6.50
NPLs to Tier 1 Capital	0.91	3.95	5.79	7.70
Coverage Ratio	50.5	159.0	114.1	98.3
ALL/Average Loans	0.1	0.9	0.9	1.0
Cost of Risk	0.00	0.18	0.10	0.18
Capitalization (%)				
Tier 1 Ratio	18.2	17.6	16.7	14.9
CAR	18.2	17.6	16.7	14.9
Tier 1 Capital to Assets	11.1	10.8	10.7	10.1
Tier 1 Capital to Loans	16.2	15.4	14.8	14.0
Tier 1 Capital to Deposits	18.5	17.6	16.6	15.2
Leverage (x)	7.6	7.9	7.9	8.3
Growth (%)				
Net Interest Income	14.0	6.3	10.9	9.2
Non-Interest Income	-0.2	6.7	12.8	11.9
OPEX	23.5	10.1	9.3	8.5
Net Operating Income	8.0	5.3	11.7	10.0
Net Income (Attributable)	2.2	4.1	15.5	6.9
Loans	2.4	5.6	9.4	11.9
Deposits	5.0	6.2	12.0	15.0
Assets	10.8	5.5	6.3	11.2
RWAs	2.4	7.7	11.7	17.7

Source: Company data, QNBFS 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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