

## MARK Alert – MARK Reports Weak 2Q2023 Profitability Due to Soft Revenue & Slightly Misses Estimates

- **MARK's 2Q2023 net profit slightly falls short of our estimates on the account of higher opex:** Masraf Al Rayan (MARK) reported a net profit of QR379.7mn in 2Q2023 (vs. our estimate of QR399.97mn; variation of only -5.1%), declining by 25.9% YoY (-1.4% QoQ).
- **The drop in profitability was attributable to weak revenue (margin pressure and non-funded income).** MARK's net interest and investment income declined by 24.2% YoY to QR744.7mn, driven by a ~51bps contraction in the NIM; NIM contracted from 2.49% in 2Q2022 to 1.98% in 2Q2023. Moreover, non-funded income declined by 21.7% YoY as a result of fees (-17.4%) and f/x income (-66.1%). As such, this led to revenue dropping by 23.7% to QR916.6mn (in-line with our estimate of QR912.1mn). Sequentially, the bottom-line only receded by 1.4% due to an 18bps improvement in margins and a marginal increase of 3.6% in provisions and impairments.
- **C/I ratio increased YoY and sequentially due to a drop in revenue and higher opex (we exclude one-time integration costs from 2Q2022 opex).** Expenses increased by 2.6%/11.5% YoY/QoQ. Hence, C/I increased to 26.9% in 2Q2023 vs. 20.0% in 2Q2022 (1Q2023: 25.1%).
- **Asset quality remains a headwind but was stable sequentially and on a YTD basis.** The bank's NPLs remained sequentially flat at QR7.5bn in 2Q2023. Moreover, MARK's NPL ratio slightly moved up from 6.2% in 1Q2023 to 6.4% in 2Q2023 due to a reduction in loans (6.0% in FY2022). Stage 2 loans as a percentage of total loans remains high, representing 26% of total loans. Coverage of Stage 3 loans improved to 54% vs. 50% in 1Q2023 (FY2022: 46%), however remains low.
- **Credit provision declined both YoY and sequentially.** MARK booked credit provisions of QR244.4mn vs. QR309.6mn in 2Q2022, dropping by 21.1%/25.6% YoY/QoQ. 1H2023 annualized CoR remained flat at 98bps vs. 96bps in 1H2022.
- **Loans and deposits both contracted sequentially and on a YTD basis.** Net loans decreased by 4.0% QoQ (-5.1% YTD) to QR111.8bn. Moreover, deposits declined by 5.1% sequentially (-8.7% YTD) to QR88.9bn.
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 2Q2023 with a CET1/Tier-1 of 19.6%/20.5%.
- **Recommendation and valuation:** MARK trades at P/TB of 1.1x based on our 2023 estimates. We maintain our TP of QR3.112/share and Accumulate rating.

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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