

## Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR48.75	Target Price	QR49.00
Implied Upside	0.5%		

### Transferring Coverage & Revising Estimates

*We are maintaining our Market Perform recommendation on Masraf Al Rayan (MARK). However, we are revising our bottom-line estimate for 2015 and 2016 upward. This has resulted in a revised target price of QR49.00 from QR46.00.*

#### Highlights

- Masraf Al Rayan (MARK) posted a net profit of QR2.0bn in 2014 vs. QR1.7bn in 2013, up 17.6% YoY.** Masraf Al Rayan (MARK) posted a 17.6% rise in its FY2014 net profit to QR2.00bn vs. our estimate of QR1.98bn (Bloomberg consensus: QR1.93bn). EPS came in at QR2.67 vs. our estimate of QR2.64 and QR2.27 in 2013. Further, the bank's board recommended a cash DPS of QR1.75/share (Yield of 3.6%), in-line with our estimate.
- We estimate a CAGR of 11.3% in loans over 2014-18e.** Government and government-related agencies, the historical niche segments for the bank, will drive the growth. We note that management is focused on the government segment versus other players that are targeting corporate and retail segments. In 2014, MARK's loan book posted an impressive performance, up 39.7% YoY. Going forward, we estimate a relatively subdued performance and expect loan book to grow by 11.1% and 10.0% YoY in 2015 and 2016, respectively. Overall, we expect the loan book to grow to QR88.7bn in 2018e from QR57.9bn in 2014.
- MARK to post net income of QR2.2bn in 2015.** Post 2014 results, we have revised our 2015 and 2016 net profit estimates upward. We now expect net profit to reach QR2.20bn and QR2.41bn in 2015 and 2016, respectively (previously QR2.17bn and QR2.23bn). In 2014 and 2015, the sale of a 50% stake in Seef Lusail Real Estate Development will assist bottom-line growth. However, only 20% of the gain will be booked in 2016 vs. 40% in 2014 and 2015. In our view, this will result in a lower YoY growth in 2016e (9.3% in 2016 vs. 10.0% in 2015). On the DPS front, we expect the bank to pay cash DPS of QR2.00 (68.1% payout ratio) and QR2.25 (70.1% payout ratio) for 2015 and 2016, respectively.

#### Catalysts

- Expansion for long-term growth:** MARK recently acquired a majority stake in Islamic Bank of Britain (IBB) from QIIK (renamed as Al Rayan Bank). Al Rayan Bank has a high street presence with five branches (~50,000 customers). Any positive newsflow could act as a catalyst for MARK.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We rate MARK a Market Perform with a price target of QR49.00.** On the valuation front, MARK is trading at a P/E ratio of 16.6x and a P/B ratio of 3.0x on our 2015 estimates.
- Risks:** Declining oil prices remain a substantial risk to regional equity prices. Company-specific risks include: 1) MARK loses market share in the government segment and 2) International expansion is not value accretive.

#### Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	2.27	2.67	2.94	3.21
EPS Growth (%)	13.2	17.6	10.0	9.3
P/E (x)	21.5	18.3	16.6	15.2
P/B (x)	3.5	3.2	3.0	2.8
DPS (QR)	1.50	1.75	2.00	2.25
Dividend Yield (%)	3.1	3.6	4.1	4.6

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

#### Key Data

Dividend Yield (%)	4.1
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	67.00/35.50
3-m Average Volume ('000)	846.4
Mkt. Cap. (\$ bn/QR bn)	10.0/36.6
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	15.8
1-Year Total Return (%)	30.0
Fiscal Year End	December 31

Source: Bloomberg (as of February 23, 2015), \*Qatar Exchange (as of February 23, 2015); Note: FO is foreign ownership

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## Recent Results Review

**Masraf Al Rayan (MARK) posted a net profit of QR2.0bn in 2014 vs. QR1.7bn in 2013, up 17.6% YoY.** MARK) posted a 17.6% rise in its FY2014 net profit to QR2.00bn vs. our estimate of QR1.98bn (Bloomberg consensus: QR1.93bn). EPS came in at QR2.67 vs. our estimate of QR2.64 and QR2.27 in 2013. Further, the bank's board recommended a cash DPS of QR1.75/share (Yield of 3.6%), in-line with our estimate.

**The results were driven by the fact that MARK booked a partial investment gain of QR186.1mn.** MARK agreed to sell its 50% stake in Seef Lusail Real Estate Development Company to the real estate arm of the Gulf state's sovereign wealth fund. MARK said the sale price would be QR1.53bn, which would generate a gain of QR466mn for the bank spread over three years. As of the 2013 annual report, total assets for Seef were worth QR2.13bn (50% share: QR1.06bn) with liabilities of QR44.59mn (50% share: QR22.48mn), and revenue of only QR41,000 and net loss of QR6.4mn (50% share: QR3.2mn loss). Therefore, the net book value was QR2.08bn (QR1.04bn to MARK). Furthermore, the payment will be made in three installments: 1) 40% on the day of signing the contract, 2) 40% after 1-year of signing the contract & 3) 20% after 2-years of signing the contract. This transaction impacted 3Q2014 and 4Q2014 results. Thus, another ~QR186.1mn in gains should be booked in 2015 followed by QR93.1mn in 2016. MARK's net interest income gained by 5.9% while the NIM receded by ~29bps to 2.90%. Moreover, fees & commissions exhibited robust performance, growing by 46.0% to QR215.6mn.

**MARK's loan book surged by 39.7% YoY:** MARK's loan book grew by 39.7% YoY vs. 13.1% for the Qatari banking sector (domestic loans) and 14.6% for the 8-listed banks (includes domestic and international loans). This impressive loan growth was based on two factors: 1) MARK acquired Islamic Bank of Britain (IBB) from Qatar International Islamic Bank (QIIB) in 2014. This acquisition allowed the overall loan book to grow by QR5.6bn (~34% of MARK's loan growth in 2014) and 2) MARK witnessed one-off repayment by a large local client at the end of 2013, which was re-borrowed in early 2014. On the other hand, total deposits (URIA & current accounts) increased by 29.5% YoY. Hence, the LDR was pulled up to 93% vs. 86% in 2013. The bank's total assets surged 20.4% YoY to QR80.1bn with its financing portfolio growing by 39.7% YoY to QR57.9bn. Investments decreased by 4.9% from QR15.0bn to QR14.3bn due to the maturity of government Sukuk (QR5bn) in 2014. The bank generated a RoAA of 2.70% and a RoAE of 18.3%.

## Key Forecasts

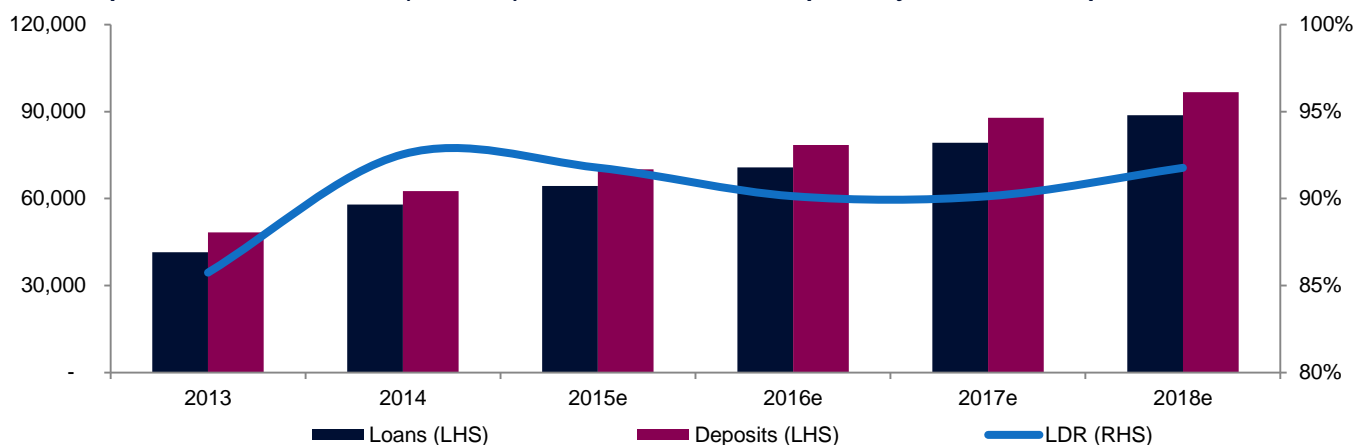
### Loan Book

**We estimate a CAGR of 11.3% in loans over 2014-18e.** Government and government-related agencies, the historical niche segments for the bank, will drive the growth. We note that management is focused on the government segment versus other players that are targeting corporate and retail segments. In 2014, MARK's loan book posted an impressive performance, up 39.7% YoY. Going forward, we estimate a relatively subdued performance and expect loan book to grow by 11.1% and 10.0% YoY in 2015 and 2016, respectively. Overall, we expect the loan book to grow to QR88.7bn in 2018e from QR57.9bn in 2014.

### Deposit Book

**We estimate a CAGR of 11.5% in combined deposits over 2014-18e.** Government and term deposits dominate MARK's deposit book. Holders of unrestricted accounts (URIA) have been in the range of 87% to 94% over the last five years, while customer current accounts have been in the range of 6% to 13%. Furthermore, deposits are dominated by the public sector; the share has increased from 24.6% in 2010 to 54.0% in 2014. As of 2014, the public sector contributed 54.0% followed by the corporate segment (30.8%) and retail segment (15.2%). Going forward, we estimate the same trends to drive MARK's deposit book.

### Loans & Deposits to Grow at CAGRs (2014-18e) of 11.3% and 11.5%, Respectively; Stable LDR Expected



Source: Company data, QNBFS research

## Investment Book

**We estimate a CAGR of 11.3% for MARK's investment book over 2014-18e.** In 2014, the QCB reduced its exposure in T-bonds/Sukuks. In terms of the investment book, total investments decreased by 4.9% YoY. The decline was primarily due to debt securities, especially the State of Qatar debt, which declined by 14.7%. In our discussions with management of various banks, we have learnt that the recently matured government debt has not yet been fully reinvested. Furthermore, the rate of return is lower than earlier terms. We believe the bank will continue to increase its exposure, but the increased exposure will lead to lower yields. Despite an expected 11.3% CAGR, we pencil in a CAGR of 7.0% from interest generated from the fixed income portfolio (excluding any potential capital gains). We note the fixed income portfolio dominates (95.8%) the investment book with limited exposure on the equities side (4.2% as of 2014).

## Operating Performance

**MARK to post net income of QR2.2bn in 2015.** Post 2014 results, we have revised our 2015 and 2016 net profit estimates upward. We now expect net profit to reach QR2.20bn and QR2.41bn in 2015 and 2016, respectively (previously QR2.17bn and QR2.23bn). In 2014 and 2015, the sale of 50% stake in Seef Lusail Real Estate Development will assist bottom-line growth. However, only 20% of the gain will be booked in 2016 vs. 40% in 2014 and 2015. In our view, this will result in a lower YoY growth in 2016e (9.3% in 2016 vs. 10.0% in 2015). On the DPS front, we expect the bank to pay cash DPS of QR2.00 (68.1% payout ratio) and QR2.25 (70.1% payout ratio) for 2015 and 2016, respectively.

## Efficiency

**MARK's cost-to-income has been on the lower end relative to its domestic peers.** Historically, MARK has maintained a healthy efficiency ratio at an average of 19.7% (2009-14), which is much lower than that of its GCC peers. We estimate MARK's efficiency ratio at an average of 21.0% (2015e-18e).

## Asset Quality

**MARK maintains robust asset quality.** MARK ended 2014 with a NPL ratio and a coverage ratio of 0.09% and 90.5%, respectively. MARK's NPL ratio has generally been negligible averaging 0.11% (2009-2014). During the same period, the coverage ratio on average was 93.5%. Going forward, we do not expect the trend in asset quality to reverse as ~50% of the bank's loan portfolio is comprised of loans to the public sector. As such, we pencil in an average NPL ratio and coverage ratio of 0.11% and 91.4% during 2015-2018, respectively.

## Capitalization

**MARK is more than adequately capitalized.** The bank's CAR reached 18.4% under Basel III standards as compared to 20.5% in 2013 under Basel II standards. Historically, the bank's CAR has been on the high side averaging 20.3% (2009-14). Going forward, we are of the view that the bank will maintain a high level of CAR. Thus, we estimate an average CAR of 17.2% (2015e-18e).

## Company Description

**MARK is a full-service bank offering commercial banking services to retail and corporate customers in accordance with Shari'a principles.** Established in January 2006, the bank is structured into three main business divisions. These include: (1) Retail Banking, (2) Wholesale Banking and (3) Private Banking.

## Major Shareholders

	Ownership %
Qatar Holding	11.9%
Military Pension Fund	9.3%
	21.2%

Source: QSE

## Detailed Financial Statements

Ratios	FY2013	FY2014	FY2015e	FY2016e
<b>Profitability (%)</b>				
RoAE	16.9	18.3	18.7	19.1
RoAA	2.7	2.7	2.6	2.6
RoRWA	4.2	4.3	3.8	3.9
NIM (% of IEAs)	3.2	2.9	2.8	2.9
NIM (% of RWAs)	4.7	4.3	3.9	4.2
NIM (% of AAs)	2.9	2.7	2.6	2.7
Spread	3.0	2.7	2.6	2.7
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	18.8	20.6	21.5	21.3
Cost-to-Income (Core)	19.4	21.2	22.1	21.9
<b>Liquidity (%)</b>				
LDR	85.7	92.5	91.8	90.1
Loans/Assets	62.3	72.3	73.0	71.3
Cash & Interbank Loans-to-Total Assets	11.8	8.6	7.6	9.0
Deposits to Assets	72.6	78.1	79.5	79.1
Wholesale Funding to Loans	16.3	7.9	6.9	8.7
IEAs to IBLs	118.0	120.1	120.3	116.5
<b>Asset Quality (%)</b>				
NPL Ratio	0.10	0.09	0.10	0.10
NPL to Shareholder's Equity	0.40	0.51	0.57	0.58
NPL to Tier 1 Capital	0.56	0.58	0.68	0.70
Coverage Ratio	87.6	90.5	95.5	95.3
ALL/Average Loans	0.1	0.1	0.1	0.1
Cost of Risk	0.0	0.0	0.0	0.0
<b>Capitalization (%)</b>				
Tier 1 Ratio	20.5	18.4	17.9	17.4
CAR	20.5	18.4	17.9	17.4
Tier 1 Capital to Assets	11.3	12.5	11.6	11.0
Tier 1 Capital to Loans	18.2	17.2	15.9	15.4
Tier 1 Capital to Deposits	15.6	15.9	14.6	13.9
Leverage (x)	6.3	7.1	7.2	7.6
<b>Growth (%)</b>				
Net Interest Income	15.8	5.9	11.4	14.3
Net Operating Income	16.3	6.8	11.1	14.4
Net Income	13.2	17.6	10.0	9.3
Loans	-0.7	39.7	11.1	10.0
Deposits	7.4	29.5	12.0	12.0

Source: Company data, QNBFS estimates

<b>Income Statement (In QR mn)</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015e</b>	<b>FY2016e</b>
<b>Net Interest Income</b>	<b>1,847</b>	<b>1,956</b>	<b>2,178</b>	<b>2,490</b>
Fees & Commissions	147	216	248	283
FX Income	60	87	104	120
Other Income	75	67	81	89
<b>Non-Interest Income</b>	<b>282</b>	<b>369</b>	<b>433</b>	<b>492</b>
<b>Total Income</b>	<b>2,129</b>	<b>2,325</b>	<b>2,611</b>	<b>2,981</b>
Operating Expenses	(400)	(479)	(561)	(636)
Net Provisions	10	(13)	(16)	(9)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>1,739</b>	<b>1,833</b>	<b>2,035</b>	<b>2,336</b>
Tax	-	(2)	(2)	(3)
<b>Net Profit Before Minority Interest</b>	<b>1,739</b>	<b>1,831</b>	<b>2,033</b>	<b>2,334</b>
Minority Interest	(37)	(15)	(17)	(19)
Non-Recurring/Unusual Gains/(Losses)	-	186	186	93
<b>Net Profit</b>	<b>1,702</b>	<b>2,002</b>	<b>2,202</b>	<b>2,408</b>

Source: Company data, QNBFS estimates

<b>Balance Sheet (In QR mn)</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015e</b>	<b>FY2016e</b>
<b>Assets</b>				
Cash & Balances with Central Bank	3,511	3,311	3,504	4,709
Interbank Loans	4,335	3,603	3,216	4,245
Net Investments	15,017	14,288	15,777	18,143
Net Loans	41,440	57,907	64,315	70,746
Investment In Associates	1,457	424	430	436
Other Assets	642	350	643	707
Net PP&E	55	119	157	189
Investment In Real Estate	91	91	91	91
<b>Total Assets</b>	<b>66,548</b>	<b>80,094</b>	<b>88,132</b>	<b>99,267</b>
<b>Liabilities</b>				
Interbank Deposits	6,765	4,560	4,431	6,163
Customer Deposits	48,331	62,571	70,079	78,489
Other Liabilities	747	1,243	1,051	1,177
<b>Total Liabilities</b>	<b>55,843</b>	<b>68,374</b>	<b>75,561</b>	<b>85,829</b>
<b>Shareholders' Equity</b>				
Share Capital	7,500	7,500	7,500	7,500
Statutory Reserve	633	1,033	1,474	1,955
Banking Risk Reserves	875	1,009	1,120	1,232
Fair Value Reserve	27	29	29	29
Foreign Currency Translation Reserve	-	-	-	-
Proposed Dividends	1,125	1,313	1,500	1,688
Proposed Bonus Shares	-	-	-	-
Other Reserves	27	41	41	41
Retained Earnings	336	428	523	589
<b>Total Shareholder's Equity</b>	<b>10,523</b>	<b>11,353</b>	<b>12,187</b>	<b>13,034</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>66,548</b>	<b>80,094</b>	<b>88,132</b>	<b>99,267</b>

Source: Company data, QNBFS estimates

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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