

Masraf Al Rayan (MARK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.475	Price Target	QR2.623
Implied Upside	6.0%		

1Q2024 Earnings In-Line; Profitability Driven by Margin Expansion

Masraf Al Rayan reports QR406.1mn profit in 1Q2024 vs. QR385.0mn in 1Q2023, in-line with our estimates. The YoY growth in earnings is based on margin expansion and lower provisions & impairments as opex increased significantly. Net-net, despite an improvement in the top-line, loans remain weak. **We maintain our Market Perform rating.**

Highlights

- Masraf Al Rayan (MARK) reports in-line earnings.** MARK reported 1Q2024 bottom-line of QR406.1mn vs. our estimate of QR397.2mn (variation of +2.2%). Net income grew by 5.5% YoY (surged by 89.7% sequentially).
- Margin expansion and a drop in provisions & impairments drove 1Q2024 net profit.** Revenue increased by 6.8% YoY to QR914.2mn due to margin expansion. NIMs in 1Q2024 increased by 15bps (+28bps sequentially) to ~1.95%. On the other hand, a drop in net credit provisions & impairments offset a 17.1%/29.1% YoY/QoQ rise in opex. Sequentially, earnings surged on the back of strong revenue (margin expansion & non-funded income) and a 22.0% drop in provisions & impairments.
- RoE continues to be weak and below its CoE.** 1Q2024 annualized RoE came in at 7.4% vs. 7.2% in 1Q2023. We estimate it will take another 4 years for RoE to exceed the 10% level despite expected double-digit growth in earnings over 2025-2028.
- Although MARK's primary exposure is to the public sector (FY2023: 49%), asset quality remains under pressure; the bulk/majority of NPLs is attributed to the construction and real estate segments.** NPLs decreased by 12.2% (+1.8% sequentially) from QR7.5bn in 1Q2023 to QR6.5bn in 1Q2024 mainly due to write-offs. As such, the NPL ratio declined from 6.17% in 1Q2023 to 5.86% in 1Q2024 (FY2023: 5.71%) due to a combination of write-offs and loan book contraction. Moreover, Stage 2 loans as a % of total loans remains one of the highest domestically at 30% with negligible coverage. At the same time, coverage of Stage 3 loans is a low of 59%.
- 1Q2024 annualized CoR improved.** CoR receded from 109bps in 1Q2023 to 93bps in 1Q2024. Net credit provisions dropped by 21.1% YoY and 24.4% sequentially, which supported the bottom-line.
- Loans continued its negative trajectory as MARK continued to de-risk its loan book.** Net loans decreased by 1.1% sequentially to QR107.0bn (-8.2% YoY). On the other hand, deposits improved significantly, growing by 13.6% QoQ to QR105.3bn. As such, MARK's LDR improved to 102% vs. 117% in 4Q2023 (1Q2023: 124%).
- CET1 position remained robust.** MARK ended 1Q2024 with CET1/Tier-1 ratios of 21.6%/22.6%.

Catalysts

- 1) Normalizing CoR, which results in strong RoE ahead of expectations.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our PT at QR2.623/share and our Market Perform rating for now.** MARK is trading at 2024e/25e P/TB of 1.0x and P/E 16.1x/14.2x.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs and 3) write-offs

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
EPS Attributable (QR)	0.147	0.153	0.174	0.198
EPS Growth (%)	8.5	4.2	13.2	13.7
P/E (x)	16.8	16.1	14.2	12.5
Tangible BVPS (QR)	2.37	2.43	2.52	2.60
P/TBV (x)	1.0	1.0	1.0	1.0
RoE (%)	6.4	6.5	7.1	7.8
DPS (QR)	0.100	0.100	0.125	0.150
Dividend Yield (%)	4.0	4.0	5.1	6.1

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

Key Data

Current Market Price (QR)	2.475
Dividend Yield (%)	4.0
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.88/1.89
3-m Average Volume (mn)	13.0
Mkt. Cap. (\$ bn/QR bn)	6.3/23.0
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.3
1-Year Total Return (%)	+1.1
Fiscal Year End	December 31

Source: Bloomberg (as of April 25, 2024), *Qatar Exchange (as of April 25, 2024); Note: FO is foreign institutional ownership

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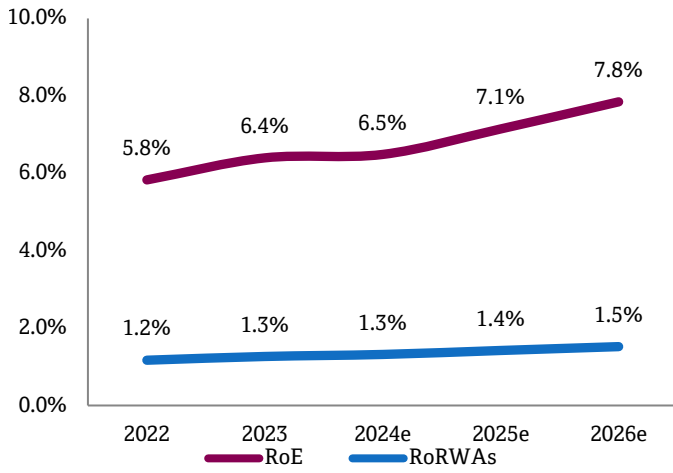
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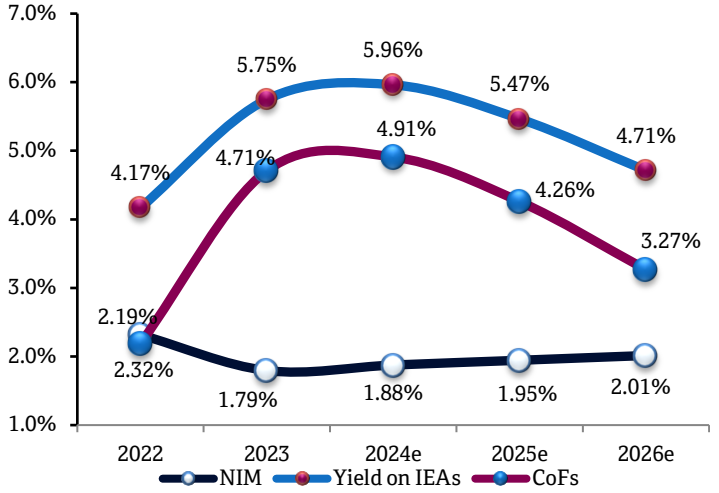
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RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE

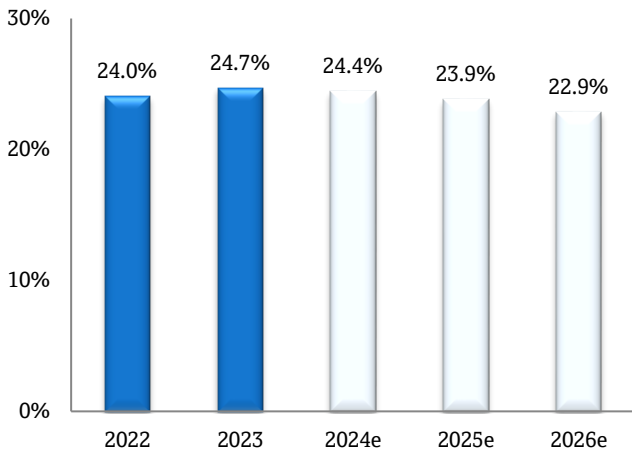


Source: Company data, QNB FS Research

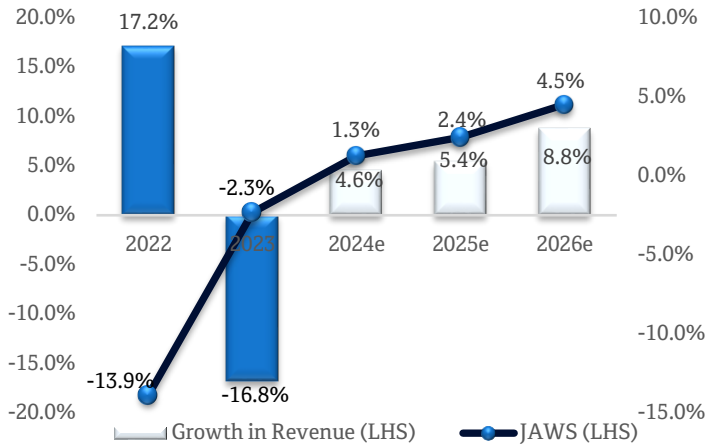
While Margins to Gradually Improve



C/I Ratio to improve Due to Cost Containment

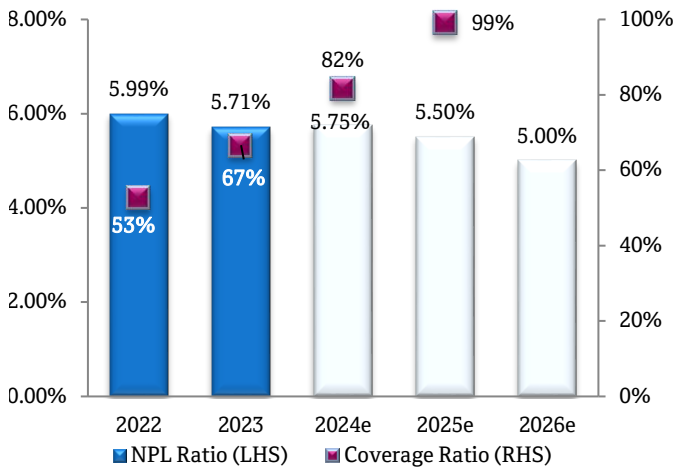


While Generating Single-Digit JAWS



Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

NPL Ratio Remains High on the Back of Contracting & Real Estate Loans Stage 2 Loans on the High Side, Contributing 30% to Total Loans



Source: Company data, QNB FS Research

1Q2024	Stage 1	Stage 2	Stage 3
Gross Loans	71,501,537	33,528,879	6,541,552
ALLs	40,743	666,004	3,868,247
Stages % Loans	64.1%	30.1%	5.86%
Coverage Ratio	0.06%	2.0%	59%

Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,607	2,727	2,895	3,101	3,353
Fees & Commissions	328	319	352	377	405
FX Income	271	197	256	307	338
Other Income	46	295	195	115	146
Non-Interest Income	645	810	803	799	889
Total Revenue	4,251	3,537	3,699	3,900	4,242
Operating Expenses	(1,022)	(874)	(903)	(930)	(970)
Net Operating Income	3,229	2,663	2,796	2,970	3,272
Net Provisions & Impairments	(1,710)	(1,165)	(1,220)	(1,203)	(1,270)
Net Profit Before Taxes & Minority Interest	1,519	1,498	1,576	1,767	2,002
Tax	(22)	(35)	(33)	(27)	(30)
Net Profit Before Minority Interest	1,497	1,463	1,543	1,740	1,972
Minority Interest	(19)	(28)	(32)	(36)	(40)
Non-Recurring Items	(134)	17	-	-	-
Net Profit (Reported/Headline)	1,344	1,452	1,511	1,705	1,931
Interest Expense on AT1 Bond	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(36)	(36)	(38)	(43)	(48)
Net Profit (Attributable)	1,263	1,369	1,427	1,616	1,837
EPS	0.140	0.151	0.158	0.178	0.203

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024e	2025e	2026e
Assets					
Cash & Balances with Central Bank	5,088	4,993	4,868	5,000	5,190
Interbank Loans	6,300	5,663	6,106	6,936	6,120
Net Investments	31,477	38,599	41,827	40,033	44,414
Net Loans	117,859	108,228	111,009	115,592	122,409
Investment In Associates	346	349	374	397	424
Other Assets	3,869	3,835	3,810	3,843	3,893
Net PP&E	915	969	999	1,047	1,098
Goodwill & Intangibles	1,679	1,565	1,451	1,337	1,223
Total Assets	167,533	164,200	170,443	174,185	184,772
Liabilities					
Interbank Deposits	29,316	32,204	32,834	28,835	32,268
Customer Deposits	97,292	92,724	97,360	104,175	110,426
Sukuks & Borrowings	11,525	9,821	9,821	9,821	9,821
Other Liabilities	5,118	4,644	5,092	5,296	5,484
AT1 Notes	1,000	1,000	1,000	1,000	1,000
Total Liabilities	144,251	140,393	146,107	149,128	158,999
Minority Interest	198	237	269	305	345
Total Shareholders' Equity	23,084	23,569	24,067	24,753	25,427
Total Liabilities & Shareholders' Equity	167,533	164,200	170,443	174,185	184,772
Risk Weighted Assets	111,079	105,187	111,299	116,007	125,645
TBVPS	2.30	2.37	2.43	2.52	2.60

Source: Company data, QNB FS Research

Ratios/KPIs	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoE	5.8	6.4	6.5	7.1	7.8
RoAA	0.7	0.8	0.9	0.9	1.0
RoRWA	1.2	1.3	1.3	1.4	1.5
NIM (% of IEAs)	2.32	1.79	1.88	1.95	2.01
NIM (% of RWAs)	3.34	2.52	2.67	2.73	2.77
NIM (% of AAs)	2.11	1.64	1.73	1.80	1.87
Spread	2.0	1.0	1.1	1.2	1.4
Efficiency (%)					
Cost-to-Income (Headline)	24.0	24.7	24.4	23.9	22.9
Cost-to-Income (Core)	24.2	26.3	25.3	24.4	23.4
Liquidity (%)					
LDR (Loans to Stable Sources of Funds)	108	106	104	101	102
Loans/Assets	70.3	65.9	65.1	66.4	66.2
Cash & Interbank Loans-to-Total Assets	6.8	6.5	6.4	6.9	6.1
Deposits to Assets	58.1	56.5	57.1	59.8	59.8
Wholesale Funding to Loans	34.7	38.8	38.4	33.4	34.4
IEAs to IBLs	118.6	119.6	120.7	121.3	120.9
Asset Quality (%)					
NPL Ratio	5.99	5.71	5.75	5.50	5.00
NPL to Shareholders' Equity	31.60	27.26	27.94	27.28	25.74
NPL to Tier 1 Capital	33.71	28.86	28.09	26.31	23.83
Coverage Ratio	52.7	66.6	81.8	99.3	121.9
ALL/Average Loans	2.6	3.0	4.4	5.1	5.8
Cost of Risk (bps)	127	108	106	100	100
Capitalization (%)					
CET1 Ratio	18.6	20.2	20.6	21.3	21.1
Tier-1 Ratio	19.5	21.2	21.5	22.1	21.9
CAR	20.3	22.1	22.4	23.0	22.7
Leverage (x)	7.3	7.0	7.1	7.0	7.3
Growth (%)					
Net Interest Income	15.9	-24.4	6.2	7.1	8.1
Non-Interest Income	25.0	25.7	-0.9	-0.6	11.3
Opex	31.0	-14.5	3.3	3.0	4.2
Net Operating Income	13.4	-17.5	5.0	6.2	10.2
Net Provisions & Impairments	55.9	-31.9	4.7	-1.4	5.6
Net Income (Reported)	-21.7	8.0	4.1	12.8	13.3
Net Income (Attributable)					
Loans	-2.5	-8.2	2.6	4.1	5.9
Deposits	-9.0	-4.7	5.0	7.0	6.0
Assets	-3.8	-2.0	3.8	2.2	6.1
RWAs	6.1	-5.3	5.8	4.2	8.3

Source: Company data, QNB FS Research

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>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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