

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR19.61	Target Price	QR22.45
Implied Upside	14.5%		

In-Line 2Q2024; Earnings Driven by Lower CoR; Stay Accumulate

Qatar Islamic Bank (QIBK) reports broadly in-line 2Q2024 figures, growing net income by 5.7%/16.2% YoY/QoQ to QR1,110.0mn. Net-net, QIBK's bottom-line growth was mainly attributable to lower CoR. QIBK continues to generate robust RoE/RoRWAs, remains cost efficient, maintains healthy asset quality and retains a strong Tier-1 position. **We reiterate our Accumulate rating on QIBK.**

Highlights

- **QIBK reported in-line 2Q2024 net profit:** Qatar Islamic Bank (QIBK) reported earnings of QR1,110.0mn in 2Q2024, in-line with our estimate of QR1,093.8mn (variation of +1.5%). Bottom-line increased by 5.7% YoY (+16.2% sequentially).
- **The board announced an interim DPS of QR0.25.** This corresponds to an annualized yield of 2.6% and is in-line with our annual forecast.
- **2Q2024 bottom-line was driven by a drop in credit provisions & impairments, countering margin pressure.** Total revenue increased by 1.6% YoY to QR1,620.4mn (in-line with our estimate; variation of -2.8%), driven by flat net interest & investment income and a 9.0% increase in non-funded income; NIMs compressed by ~14bps YoY to ~2.54%. At the same time, fees gained by 5.3% YoY and f/x income jumped by 76.7%. Opex increased by 7.4%, resulting in flat net operating income at QR1,336.3mn. Finally, a 19.4% drop in provisions & impairments led to a 5.7% increase in the bottom-line. Sequentially, earnings jumped by 16.2% on the back of a 40.1% drop in provisions & impairments (in-line with historical trends) as net operating income was flattish.
- **Robust RoE trajectory continued; 1H2024 RoE (annualized) came in at 16.4%:** QIBK continues to boast one of the highest RoEs & RoRWAs among its domestic and regional peers. Moreover, RoRWA was an impressive 2.8%.
- **QIBK remained cost-efficient among banks in the GCC.** The bank reported a C/I ratio of 17.5% vs. 16.6% in 2Q2023 (1Q2024: 17.8%). Moreover, 1H2024 efficiency ratio was flat at 17.7% vs. 1H2023.
- **Net loans continued their positive trajectory.** Net loans increased by 1.8% sequentially (+3.7% YTD) to QR126.9bn. Deposits remained flat QoQ (+1.6% YTD) at QR122.7bn.
- **Net credit provisions dropped YoY & sequentially.** Net credit provisions declined by 29.1%/45.2% YoY/QoQ to QR200.0mn. Hence, 1H2024 annualized CoR moved down to 84bps from 95bps in 1H2023. *Drop in CoR was the main factor in moving the bottom-line both YoY and sequentially.*
- **Asset quality remains healthy.** NPL ratio decreased to 1.63% in 2Q2024 vs 1.64% in 1Q2024 (FY2023:1.67%). During the same time, NPL formation was negligible. Moreover, coverage of Stage 3 loans grew to 95% vs. 92% in 1Q2024 (FY2023: 88%). *Given management's conservative nature, Stage 1 ECLs contributed 55% to total ECLs.*
- **Capitalization remains strong.** QIBK ended 2Q2024 with robust CET1 and Tier-1 ratios at 16.9% and 19.6%, respectively.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target at QR22.45 and our Accumulate rating.** QIBK is trading at a 2024e P/TB and P/E of 1.7x and 10.7x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2023	2024e	2025e	2026e
EPS (QR)	1.68	1.83	2.03	2.18
EPS Growth (%)	7.0	8.9	10.8	7.4
P/E (x)	11.6	10.7	9.6	9.0
Tangible BVPS (QR)	10.7	11.8	13.0	14.4
P/TBV (x)	1.8	1.7	1.5	1.4
RoE (%)	17.3	17.2	17.3	16.7
DPS (QR)	0.725	0.750	0.800	0.925
Dividend Yield (%)	3.7	3.8	4.1	4.7

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

Key Data

Current Market Price (QR)	19.61
DY 1H2024 Annualized (%)	2.6
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	22.09/16.81
3-m Average Volume (mn)	1.8
Mkt. Cap. (\$ bn/QR bn)	12.7/46.3
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Institutional FO* (%)	15.1
1-Year Total Return (%)	+14.0
Fiscal Year End	December 31

Source: Bloomberg (as of July 16, 2024), *Qatar Exchange (as of July 16, 2024); Note: FO is foreign ownership

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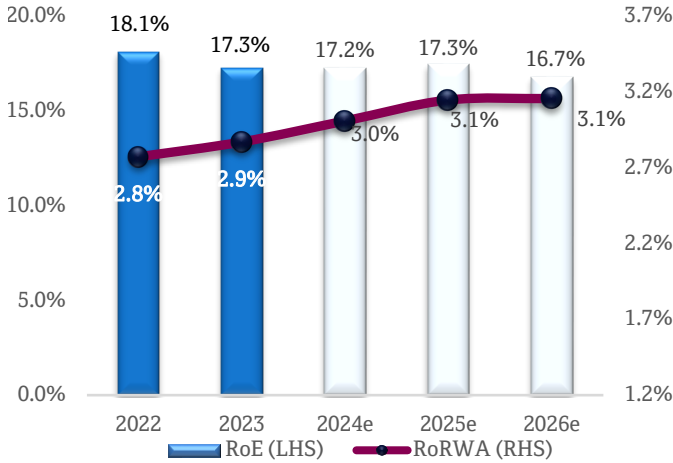
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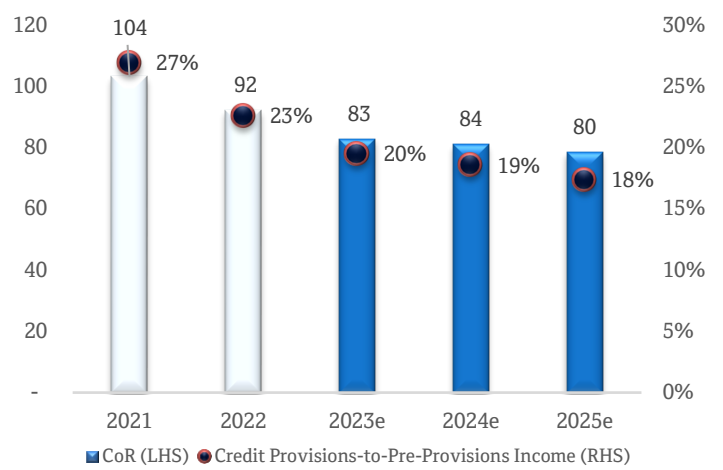
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Robust RoE and RoRWAs Generator

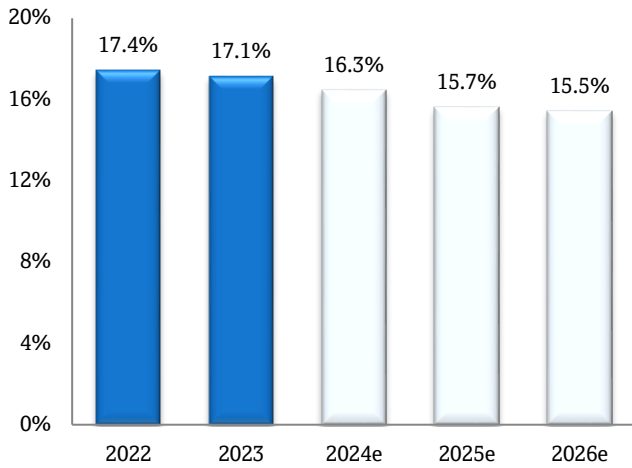


Source: Company data, QNB FS Research

With Healthy CoR Levels

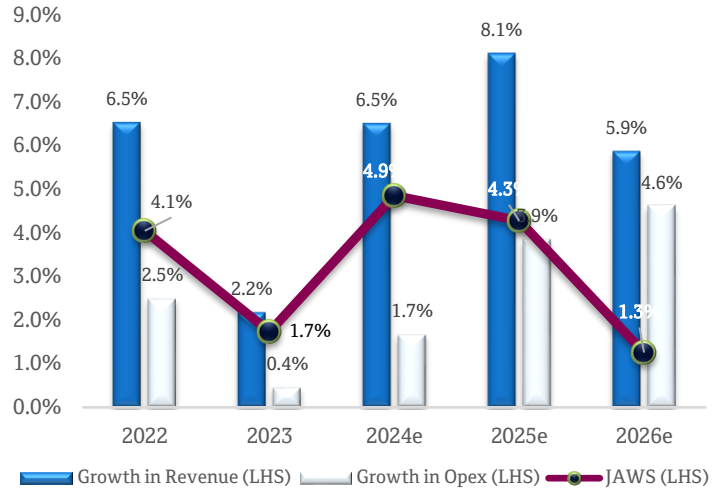


Efficiently Managed Bank

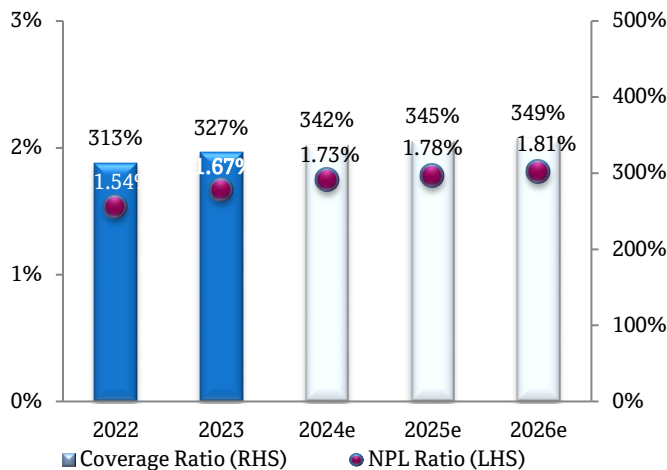


Source: Company data, QNB FS Research

While Generating Strong Revenue Growth and Healthy JAWs



Superior Asset Quality



Source: Company data, QNB FS Research

Strong Coverage of Stage 3 Loans & Manageable Stage 2 Loans

1Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	105,688,400	24,185,757	2,164,825	132,038,982
ECLs	4,088,563	1,310,578	1,984,652	7,383,793
Stages % of Loans	80.04%	18.32%	1.64%	
Stages % ECLS	55.4%	17.7%	26.9%	
Coverage Ratio	4%	5%	92%	

Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Net Interest Income	4,774	4,999	5,214	5,531	5,964	6,417
Fees & Commissions	726	810	889	978	1,073	1,024
FX Income	200	122	50	71	85	97
Other Income	289	451	367	368	391	417
Non-Interest Income	1,215	1,383	1,307	1,416	1,549	1,538
Total Revenue	5,990	6,382	6,521	6,947	7,513	7,955
Operating Expenses	(1,085)	(1,112)	(1,117)	(1,136)	(1,180)	(1,234)
Net Operating Income	4,904	5,270	5,404	5,811	6,333	6,721
Net Provisions & Impairments	(1,342)	(1,235)	(1,103)	(1,124)	(1,164)	(1,185)
Net Profit Before Taxes & Non-Recurring Items	3,563	4,034	4,301	4,687	5,169	5,536
Tax	(10)	(11)	(13)	(14)	(16)	(17)
Net Profit Before Minority Interest	3,553	4,023	4,288	4,673	5,154	5,519
Minority Interest	2	(18)	17	(3)	(4)	(4)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,555	4,005	4,305	4,670	5,150	5,515
Interest On Tier-1 Sukuk	(196)	(188)	(219)	(219)	(219)	(219)
Social & Sports Contribution Fund	(89)	(100)	(108)	(117)	(129)	(138)
Net Profit (Attributable)	3,270	3,717	3,979	4,335	4,802	5,158
EPS	1.38	1.57	1.68	1.83	2.03	2.18

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Assets						
Cash & Balances with Central Bank	7,177	7,951	8,037	8,628	7,874	8,797
Interbank Loans	7,461	3,188	3,262	3,588	4,104	3,665
Net Investments	44,380	45,774	48,013	50,536	52,185	55,831
Net Loans	128,409	119,285	122,381	128,151	136,787	146,582
Investment In Associates	1,140	1,130	1,128	1,160	1,195	1,232
Other Assets	1,709	2,576	2,297	2,455	2,589	2,491
Net PP&E	570	558	516	513	508	505
Investment In Real Estate	2,854	3,321	3,306	2,990	2,941	2,892
Goodwill & Intangible Assets	218	218	218	218	218	218
Total Assets	193,916	184,001	189,157	198,239	208,400	222,214
Liabilities						
Interbank Deposits	19,856	17,382	20,434	22,467	21,251	20,631
Customer Deposits	131,095	122,371	120,835	126,876	135,758	146,618
Sukuk Financing	14,063	12,453	14,668	12,321	12,321	12,321
Other Liabilities	3,491	3,868	3,203	3,933	3,394	3,695
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	172,504	160,075	163,140	169,597	176,724	187,265
Minority Interest	676	669	625	628	632	637
Total Shareholders' Equity	20,736	23,257	25,392	28,014	31,044	34,312
Total Liabilities & Shareholders' Equity	193,916	184,001	189,157	198,239	208,400	222,214
Risk Weighted Assets	134,045	138,570	144,463	156,212	165,678	179,993
BVPS	8.78	9.84	10.75	11.86	13.14	14.52

Source: Company data, QNB FS Research

Key Indicators/KPIs	2021	2022	2023	2024e	2025e	2026e
Profitability (%)						
RoE (Tangible)	18.2	18.1	17.3	17.2	17.3	16.7
RoAA	1.8	2.0	2.1	2.2	2.4	2.4
RoRWA	2.7	2.8	2.9	3.0	3.1	3.1
NIM (% of IEAs)	2.90	2.97	3.14	3.19	3.26	3.31
NIM (% of RWAs)	3.74	3.67	3.68	3.68	3.71	3.71
NIM (% of AAs)	2.59	2.65	2.79	2.86	2.93	2.98
Spread	2.66	2.67	2.56	2.54	2.46	2.31
Efficiency (%)						
Cost-to-Income (Headline)	18.1	17.4	17.1	16.3	15.7	15.5
Cost-to-Income (Core)	18.9	18.7	18.2	17.3	16.6	16.4
Liquidity (%)						
LDR	98.0	97.5	101.3	101.0	100.8	100.0
Loans/Assets	66.2	64.8	64.7	64.6	65.6	66.0
Cash & Interbank Loans-to-Total Assets	7.5	6.1	6.0	6.2	5.7	5.6
Deposits to Assets	67.6	66.5	63.9	64.0	65.1	66.0
Wholesale Funding to Loans	26.4	25.0	28.7	27.1	24.5	22.5
IEAs to IBLs	117.1	122.2	119.7	120.2	121.7	122.6
Asset Quality (%)						
NPL Ratio	1.8	1.5	1.7	1.7	1.8	1.8
NPL to Shareholder's Equity	11.5	8.3	8.5	8.4	8.4	8.3
NPL to Tier 1 Capital	10.1	7.4	7.8	8.0	8.3	8.5
Coverage Ratio	202	313	327	342	345	349
ALL/Average Loans	3.5	4.2	4.8	5.1	5.3	5.5
Cost of Risk	104	92	83	84	80	78
Capitalization (%)						
CET1 Ratio	14.7	15.8	16.4	16.2	16.5	16.4
Tier-1 Ratio	17.7	18.7	19.2	18.8	18.9	18.6
CAR	18.9	19.9	20.4	20.0	20.1	19.8
Leverage (x)	9.4	7.9	7.4	7.1	6.7	6.5
Growth (%)						
Net Interest Income	9.8	4.7	4.3	6.1	7.8	7.6
Non-Interest Income	11.5	13.8	-5.5	8.4	9.4	-0.7
Total Revenue	10.1	6.5	2.2	6.5	8.1	5.9
OPEX	-0.6	2.5	0.4	1.7	3.9	4.6
Net Operating Income	12.8	7.4	2.6	7.5	9.0	6.1
Net Income (Attributable)	17.5	13.7	7.0	8.9	10.8	7.4
Loans	7.8	-7.1	2.6	4.7	6.7	7.2
Deposits	11.0	-6.7	-1.3	5.0	7.0	8.0
Assets	11.2	-5.1	2.8	4.8	5.1	6.6
RWAs	10.3	3.4	4.3	8.1	6.1	8.6

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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