

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR9.700	Target Price	QR10.438
Implied Upside	7.6%		

Limited Upside; Maintain Market Perform & QR10.438 PT

We still maintain our expected 5-year earnings CAGR of 10.8% (2022-27e) for Qatar International Islamic Bank (QIIB) after its 3Q2023 results despite slightly tweaking estimates for 2023, 2024 and 2025 (see page 3). We also retain our Market Perform rating and our TP of QR10.438 as growth in earnings is already priced-in. The stock is now trading at 2023 P/B of 2.0x, close to its 5-year median of 2.2x. As a result, we see limited upside. At these levels, it would imply that QIIB is trading at a 25% premium to QIBK (2023e P/B 1.6x) and it should be noted that QIBK has better profitability and asset quality indicators. Further, the market is pricing in a sustainable RoE of 20%, above our estimate of 16% (20% sustainable RoE is very challenging to achieve, in our view).

Highlights

- **QIIB's 3Q2023 came in modestly ahead of our estimates; 3Q2023 bottom-line increased by 9.3% YoY (+20.9% QoQ) to QR361.8mn (highest profitability level reached in its operating history). For the time being, our estimates broadly remain unchanged.** Qatar International Islamic Bank reported a net income of QR361.8mn in 3Q2023 vs. our estimate of QR351.6mn (+2.9% variation). The YoY increase in profitability was driven by margin expansion (3.03% vs. 2.62% in 3Q2022), fee income and cost containment, despite a 67.6% surge in provisions and impairments. Sequentially, earnings increased on the back of margin expansion, flat opex and flat credit provisions.
- **Healthy RoE generator (>CoE):** QIIB reported annualized RoE of 18.7% in 9M2023 vs. 18.2% in 9M2022 (annualized RoE is not an indicator for year-end RoE). We still forecast RoE to reach 16.6% by 2026e from 14.3% in 2022. Moreover, we estimate RoRWAs to increase from 1.9% in 2022 (1.8% in 2021) to a strong 2.2% by 2026e.
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC, consistently generating positive JAWs.** QIIB's cost-to-income ratio remained at a very healthy level, declining from 18.4%/19.0% in 3Q2022/2Q2023 to 16.3% in 3Q2023 (9M2023: 17.8%). We still expect the C/I ratio to hover around ~18.0%.
- **Net loans are still expected to grow by a 5-year CAGR (2022-27e) of 6.4%.** Net loans expanded by 2.6% sequentially (+5.0% vs. FY2022) to QR36.8bn, driven by the private sector (excluding retail and contracting segments). Deposits followed suit and increased by 4.0% QoQ (flat vs. FY2022) to reach QR38.0bn in 3Q2023. Thus, QIIB's LDR (excluding wholesale stable sources of funds) was a healthy 97%. We still expect the LDR to hover around the 95% levels.
- **9M2023 CoR (annualized) significantly increased vs. 9M2022.** QIIB booked net credit provisions of QR96.5mn in 3Q2023 (9M2023: QR244.8mn) vs. QR51.4mn in 3Q2022 (9M2022: QR171.4mn) and QR94.6mn in 2Q2023. 9M2023 CoR increased to 85bps from 62bps in 9M2022. We increase our 2023 CoR estimate from 81bps to 112bps, but still expect CoR to improve to 72bps by 2027e.
- **Asset quality continued to come under pressure, mainly attributed to some SMEs; QIIB downgraded some accounts from Stage 2 to Stage 3.** NPL ratio jumped from 2.79% in FY2022 to 3.16% in 3Q2023 (2Q2023: 2.82%; FY2021: 2.57%), while NPLs increased by 15.2% QoQ (+19.5% vs. FY2022). Moreover, coverage of Stage 3 loans declined to 90% (although still strong) vs. 95% in 2Q2023 (FY2022: 93%). Management continued building buffers for Stage 1 loans. As such, allowance for loan losses (Stage 1) increased by 40% vs. FY2022 and contributes 25% of allowance for loan losses. Going forward, we forecast coverage ratio to continue to increase as management books provisions to raise coverage of Stage 3 loans to 100%.
- **Capitalization remains healthy and above QCB minimum.** QIIB ended 3Q2023 with a robust CET1/Tier-1 ratio of 12.0%/16.0%. We still expect management to maintain a healthy capital position in the near future.

Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 4.4%).

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform rating and price target of QR10.438.** QIIB is trading at a 2023/24e P/TB and P/E of 2.0x/1.9x and 14.3x/13.2x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in further impairments and 2) Geopolitical risks.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.621	0.676	0.736	0.849
EPS Growth (%)	8.1	8.9	8.9	15.3
P/E (x)	15.6	14.3	13.2	11.4
Tangible BVPS (QR)	4.6	4.9	5.2	5.5
P/TBV (x)	2.1	2.0	1.9	1.7
RoE (%)	14.3	14.7	15.1	16.4
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	4.1	4.4	4.9	5.2

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

Key Data

Current Market Price (QR)	9.700
Dividend Yield (%)	4.1
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	12.59/8.66
3-m Average Volume (000)	736.1
Mkt. Cap. (\$ bn/QR bn)	4.0/14.7
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.6
1-Year Total Return (%)	(16.0)
Fiscal Year End	December 31

Source: Bloomberg (as of November 2, 2023), *Qatar Exchange (as of November 2, 2023); Note: FO is foreign institutional ownership

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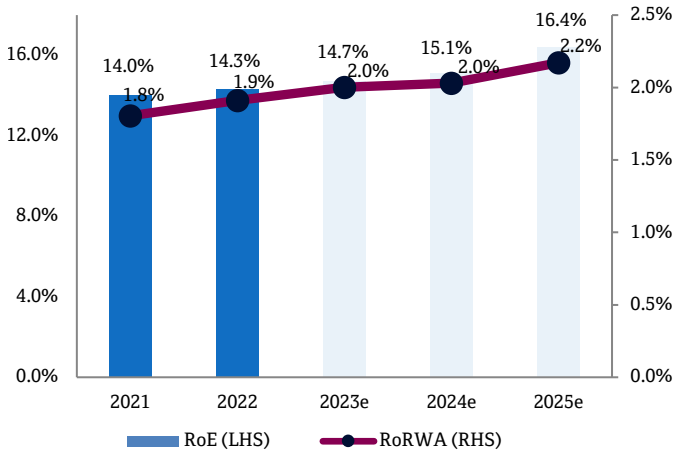
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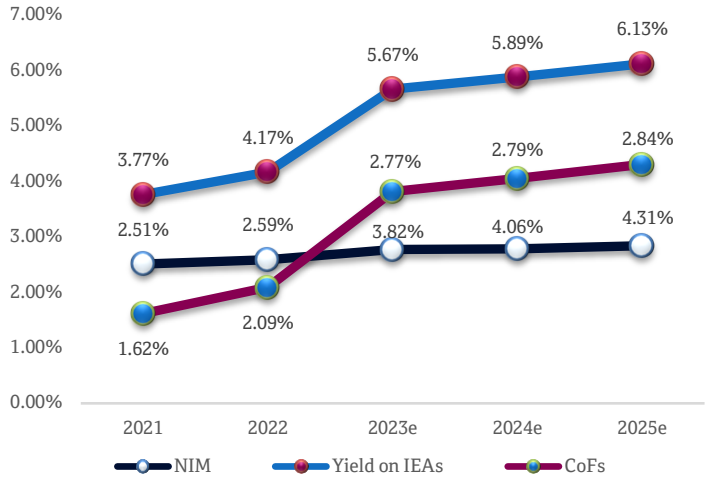
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RoE & RoRWAs to Steadily Improve & Remain Healthy; RoE > CoE

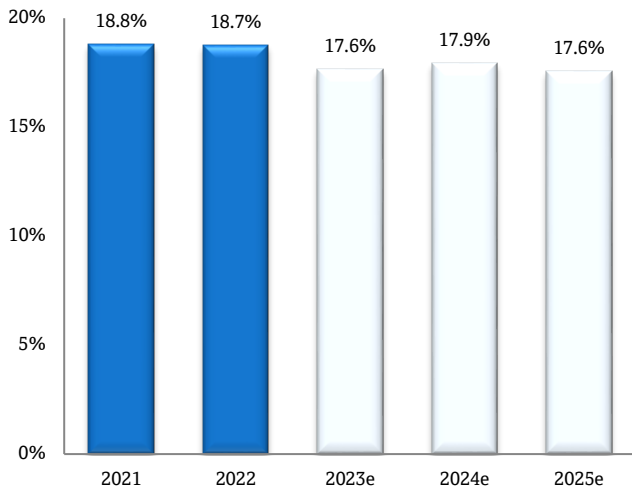


Source: Company data, QNB FS Research

While Margins to Increase

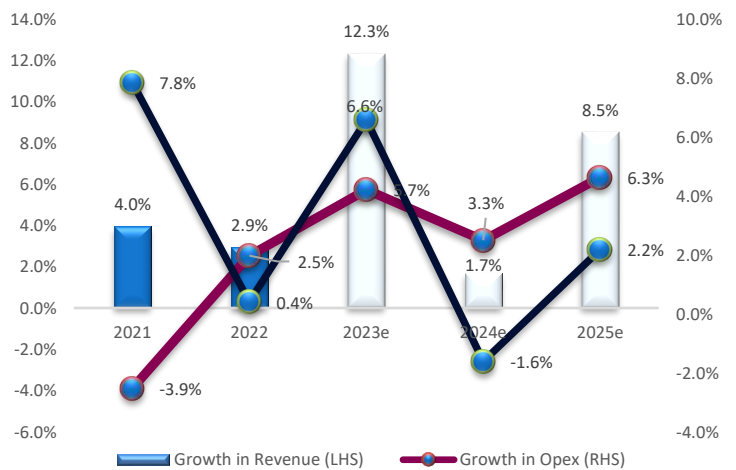


C/I Ratio is One of The Lowest Domestically & Regionally

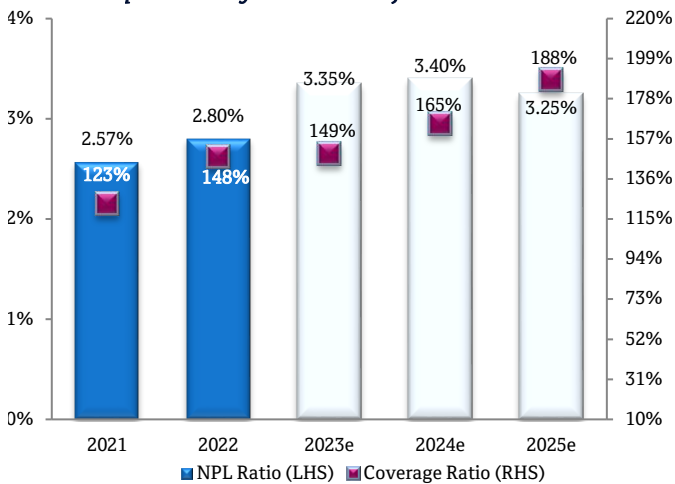


Source: Company data, QNB FS Research

While Generating Neutral-to-Positive JAWS



NPL Ratio Spiked Mainly on The Back of a Few SME Loans



Coverage of Stage 3 Loans (NPLs) is a Strong 90%

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	34,136,485	3,256,359	1,221,591	38,614,435
ECLs	438,351	222,298	1,092,855	1,753,504
Stages % Loans	88.4%	8.4%	3.16%	
Stages % ECLs	25.0%	12.7%	62.3%	
Coverage Ratio	1.3%	6.8%	89.5%	

Source: Company data, QNB FS Research

Change in Estimates

QRmn	2023			2024			2025		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,481	1,479	-0.1	1,580	1,580	0.0	1,703	1,722	1.1
Non-Interest Income	399	535	34.0	442	467	5.7	464	500	7.7
Total Revenue	1,880	2,014	7.1	2,022	2,047	1.3	2,167	2,222	2.5
Opex	343	355	3.5	362	367	1.3	387	390	0.8
Net Operating Income	1,529	1,658	8.5	1,660	1,681	1.2	1,780	1,832	2.9
Net Income (Attributable)	1,037	1,023	-1.3	1,137	1,114	-2.0	1,227	1,285	4.8

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	1,422	1,434	1,423	1,479	1,580	1,722	1,858
Fees & Commissions	203	250	298	311	349	376	349
FX Income	48	42	85	86	92	89	95
Other Income	3	16	(13)	137	27	34	44
Non-Interest Income	253	308	370	535	467	500	489
Total Revenue	1,675	1,742	1,793	2,014	2,047	2,222	2,347
Operating Expenses	(341)	(328)	(336)	(355)	(367)	(390)	(426)
Net Operating Income	1,335	1,414	1,457	1,658	1,681	1,832	1,921
Net Provisions & Impairments	(397)	(411)	(382)	(498)	(426)	(402)	(372)
Net Profit (Headline/Reported)	938	1,003	1,075	1,161	1,254	1,429	1,548
Payment on Tier-1 Sukuk	(108)	(108)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(25)	(27)	(29)	(31)	(36)	(39)
Net Profit (Attributable)	806	870	940	1,023	1,114	1,285	1,402

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	2,776	2,670	2,491	2,509	2,693	2,710	3,017
Interbank Loans	10,508	13,426	9,760	11,734	11,654	13,216	11,060
Net Investments	5,852	7,220	7,752	8,135	8,705	9,317	9,973
Net Loans	40,514	37,031	35,022	36,669	38,846	41,301	44,241
Investment In Associates	345	264	192	184	179	175	173
Other Assets	351	252	275	239	271	244	294
Net PP&E	242	231	231	236	245	258	276
Investments In Real Estate	724	697	669	669	669	669	669
Total Assets	61,314	61,792	56,393	60,376	63,261	67,891	69,704
Liabilities							
Interbank Deposits	13,128	9,922	5,679	8,068	8,102	9,854	8,260
Customer Deposits	36,352	38,646	37,945	39,083	41,428	43,707	46,417
Term Loans	2,566	3,543	2,794	2,794	2,794	2,794	2,794
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	944	979	900	938	974	1,005	1,058
Total Liabilities	55,082	55,182	49,411	52,975	55,390	59,453	60,621
Total Shareholders' Equity	6,231	6,610	6,983	7,401	7,872	8,438	9,083
Total Liabilities & Shareholders' Equity	61,314	61,792	56,393	60,376	63,261	67,891	69,704
Risk Weighted Assets	47,132	49,250	49,109	53,131	56,619	61,781	64,824

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e	2026e
Profitability (%)							
RoE	13.4	14.0	14.3	14.7	15.1	16.4	16.7
RoAA	1.4	1.4	1.6	1.8	1.8	2.0	2.0
RoRWA	1.8	1.8	1.9	2.0	2.0	2.2	2.2
NIM (% of IEAs)	2.60	2.51	2.59	2.77	2.79	2.84	2.88
NIM (% of RWAs)	3.24	2.97	2.89	2.89	2.88	2.91	2.94
NIM (% of AAs)	2.41	2.33	2.41	2.53	2.56	2.63	2.70
Spread	2.20	2.15	2.08	1.85	1.83	1.81	1.70
Efficiency (%)							
Cost-to-Income (Headline)	20.3	18.8	18.7	17.6	17.9	17.6	18.2
Cost-to-Income (Core)	20.5	19.1	18.7	19.0	18.2	17.9	18.6
Liquidity (%)							
LDR	104	88	86	88	88	89	90
Loans/Assets	66.1	59.9	62.1	60.7	61.4	60.8	63.5
Cash & Interbank Loans-to-Total Assets	21.7	26.0	21.7	23.6	22.7	23.5	20.2
Deposits to Assets	59.3	62.5	67.3	64.7	65.5	64.4	66.6
Wholesale Funding to Loans	38.7	36.4	24.2	29.6	28.0	30.6	25.0
IEAs to IBLs	129	129	136	128	133	130	139
Asset Quality (%)							
NPL Ratio	1.6	2.6	2.8	3.4	3.4	3.3	3.0
NPL to Shareholders' Equity	10.4	14.8	14.6	17.5	17.8	16.9	15.4
NPL to Tier-1 Capital	8.8	12.8	12.8	15.4	15.8	15.1	13.8
Coverage Ratio	128.9	123.1	147.7	149.1	164.9	188.0	218.4
ALL/Average Loans	2.0	2.9	3.9	4.9	5.5	6.0	6.4
Cost of Risk (bps)	59	95	81	112	95	89	79
Capitalization (%)							
CET1 Ratio	11.2	11.3	12.0	11.9	12.0	11.9	12.3
Tier-1 Ratio	15.6	15.6	16.3	15.8	15.7	15.3	15.6
CAR	16.5	16.7	17.7	17.2	17.1	16.7	17.0
Leverage (x)	9.8	9.3	8.1	8.2	8.0	8.0	7.7
Growth (%)							
Net Interest Income	13.3	0.8	-0.8	4.0	6.8	9.0	7.9
Non-Interest Income	57.7	21.5	20.2	44.4	-12.6	6.9	-2.2
OPEX	-0.2	-3.9	2.5	5.7	3.3	6.3	9.3
Net Operating Income	24.2	6.0	3.0	13.8	1.3	9.0	4.9
Net Income (Attributable)	-5.0	7.9	8.1	8.9	8.9	15.3	9.0
Loans	9.5	-8.6	-5.4	4.7	5.9	6.3	7.1
Deposits	16.4	6.3	-1.8	3.0	6.0	5.5	6.2
Assets	7.9	0.8	-8.7	7.1	4.8	7.3	2.7
RWAs	15.6	4.5	-0.3	8.2	6.6	9.1	4.9

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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