

## Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.19	Target Price	QR10.44
Implied Upside	2.4%		

### Trading at a Premium to Peers; Maintain MP & QR10.44 PT

We still maintain our expected 5-year earnings CAGR of 10.8% (2023-28e) for Qatar International Islamic Bank (QIIB) after its FY2023/1Q2024 results despite slightly tweaking estimates for 2024, 2025 and 2026 (see page 3). We also retain our Market Perform rating and our TP of QR10.44 as growth in earnings is already priced-in. The stock is now trading at 2024 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 40% premium to QIBK (2024e P/TB 1.4x) and it should be noted that QIBK has better profitability and asset quality indicators. Further, the market is pricing in a sustainable RoE of 18%, above our estimate of 16% (18% sustainable RoE is very challenging to achieve, in our view).

#### Highlights

- **QIIB's 1Q2024 comes in-line with our estimates. For the time being, our estimates broadly remain unchanged.** Qatar International Islamic Bank reported a net income of QR335.2mn in 1Q2024 vs. our estimate of QR336.4mn (-0.3% variation), increasing by 6.1% YoY (+78.5% QoQ). Reversals in other impairments mainly drove the YoY increase in profitability as net operating income decreased by 2.5% as a result of margin pressure. Sequentially, earnings followed historical trends and surged on the back of a significant drop in provisions and impairments.
- **Healthy RoE generator (>CoE); strong RoRWAs:** QIIB generated an annualized 1Q2024 RoE of 18.2%, flat with 1Q2023 (annualized RoE is not indicative of fiscal year end-RoE). We forecast RoE to reach 16.2% by 2025e from 14.9% in 2023 (FY2022: 14.3%). Moreover, we estimate RoRWAs to increase from 2.0% in 2023 (1.9% in 2022) to a strong 2.3% by 2026e.
- **We model margins to moderately increase on strong competition.** We expect NIMs to increase from 2.90% in 2023 to 2.99% (2024), 3.02% (2025) and 3.14% (2026).
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC, consistently generating positive JAWs.** QIIB posted a cost-to-income ratio of 19.2% in 1Q2024 vs. 18.0% in 1Q2023 (4Q2023: 18.5%) and 17.9% in FY2023. We still expect the C/I ratio to hover around ~17/18.0% levels.
- **Net loans are expected to grow by a 5-year CAGR (2023-28e) of 6.1% (unchanged vs. our previous estimate).** Net loans increased by 2.6% sequentially to QR37.5bn. The QoQ growth in loans was driven by the public sector. Deposits increased by 2.0% QoQ to QR39.7bn in 1Q2024. Thus, QIIB's LDR (excluding wholesale stable sources of funds) was a healthy 94%. We still expect the LDR to hover around these levels.
- **1Q2024 CoR was flattish vs. 1Q2023.** QIIB booked net credit provisions of QR52.2mn in 1Q2024 vs. QR53.7mn in 1Q2023 (4Q2023: QR179.0mn). 1Q2024 CoR decreased to 53bps from 59bps in 1Q2023. We tweak our 2024 CoR estimate from 107bps to 109bps, but continue to expect CoR to improve to 80bps by 2027/2028e; management plans to increase coverage of Stage 2 and Stage 3 loans.
- **Asset quality remains manageable for now; NPLs on the rise.** NPL ratio increased from 2.88% in FY2023 to 3.20% in 1Q2024 (3Q2023: 3.16%; FY2021: 2.56%). At the same time, NPLs increased by 14.4% QoQ. On the other hand, coverage of Stage 3 loans remained 87% (still strong). It seems management allocated the majority of ECLS to stage 3 loans. Stage 2 loans comprise 10% of total loans, which is relatively healthy. Going forward, we forecast coverage ratio to continue to increase as management books provisions to raise coverage of Stage 3 loans to 100% and further enhance coverage of Stage 2 loans.
- **Capitalization remains healthy and above QCB minimum.** QIIB ended 1Q2024 with a CET1/Tier-1 ratio of 13.4%/17.4%.

#### Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 5.2%).

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform rating and price target of QR10.44.** QIIB is trading at a 2024/25e P/TB and P/E of 2.0x/1.8x and 13.6x/12.1x, 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

	2023	2024e	2025e	2026e
Attributable EPS (QR)	0.685	0.748	0.841	0.940
EPS Growth (%)	10.2	9.3	12.3	11.8
P/E (x)	14.9	13.6	12.1	10.8
Tangible BVPS (QR)	4.9	5.2	5.6	6.0
P/TBV (x)	2.1	2.0	1.8	1.7
RoE (%)	14.9	15.3	16.2	16.9
DPS (QR)	0.450	0.475	0.500	0.550
Dividend Yield (%)	4.4	4.7	4.9	5.4

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

#### Key Data

Current Market Price (QR)	10.19
Dividend Yield (%)	4.4
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	11.44/8.66
3-m Average Volume (mn)	1.0
Mkt. Cap. (\$ bn/QR bn)	4.2/15.4
Shares Outstanding (000's)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.8
1-Year Total Return (%)	+7.8
Fiscal Year End	December 31

Source: Bloomberg (as of May 27, 2024), \*Qatar Exchange (as of May 27, 2024); Note: FO is foreign institutional ownership

#### Shahan Keushgerian

+974 4476 6509

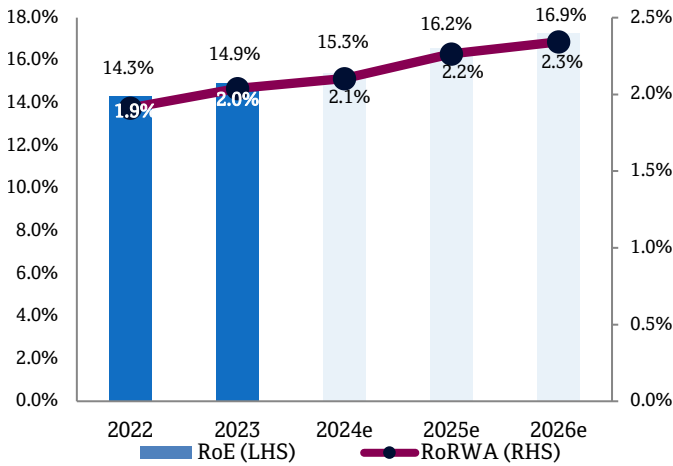
shahan.keushgerian@qnbfs.com.qa

#### Saugata Sarkar, CFA, CAIA

+974 4476 6534

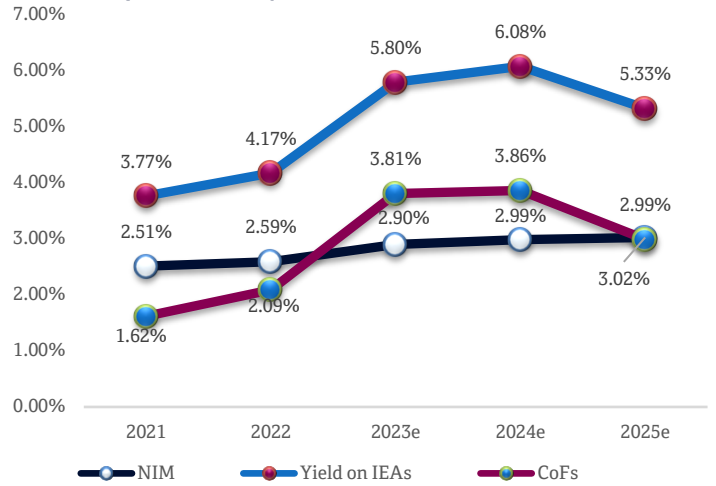
saugata.sarkar@qnbfs.com.qa

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

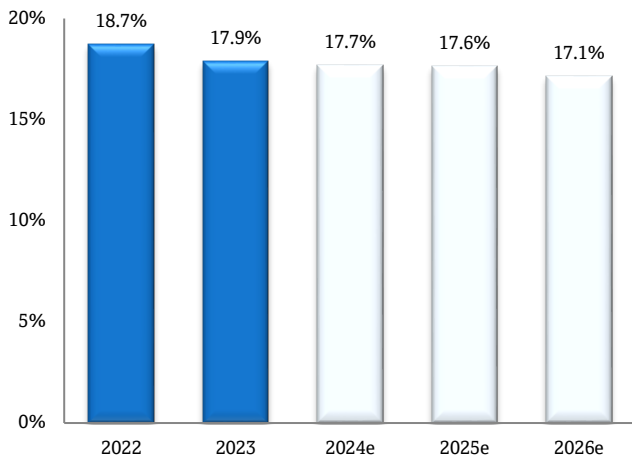


Source: Company data, QNB FS Research

**While Margins to Steadily Increase**

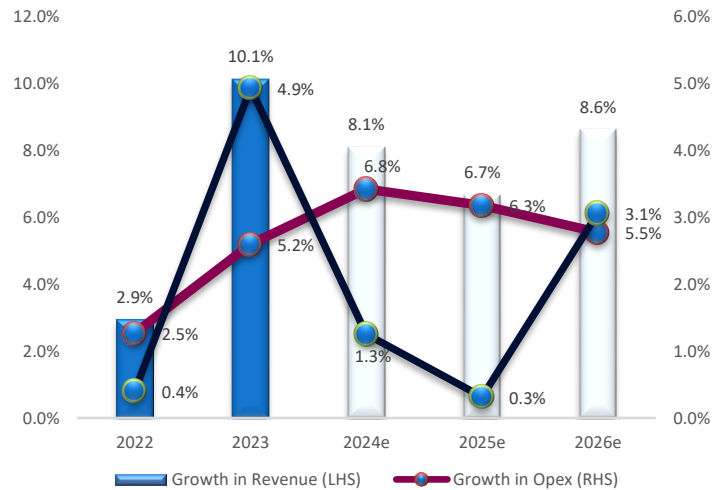


**C/I Ratio is One of The Lowest Domestically & Regionally**

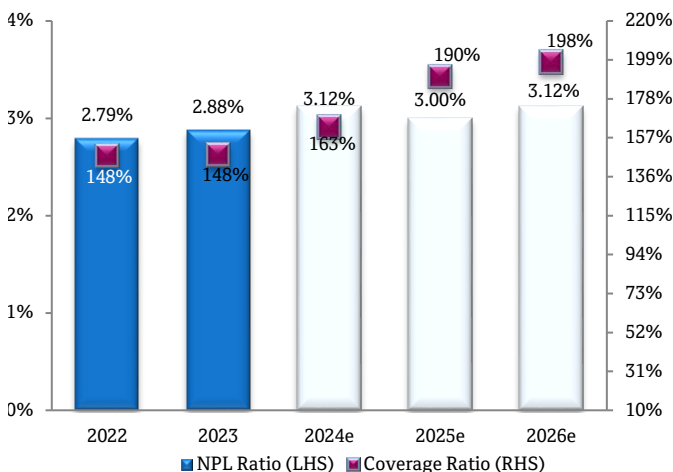


Source: Company data, QNB FS Research

**While Generating Positive JAWS**



**NPL Ratio Spiked Mainly on the Back of a Few SME Loans**



Source: Company data, QNB FS Research

**Coverage of Stage 3 Loans is 87%; >100% With Collateral**

1Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	34,109,064	3,876,625	1,256,330	39,242,019
ECLs	188,687	401,500	1,086,570	1,676,757
Stages % Loans	86.9%	9.9%	3.20%	
Stages % ECLs	11.3%	23.9%	64.8%	
<b>Coverage Ratio</b>	<b>0.6%</b>	<b>10.4%</b>	<b>86.5%</b>	

## Change in Estimates

QRmn	2024			2025			2026		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,705	1,723	1.1	1,867	1,853	-0.8	2,018	1,999	-0.9
Non Interest Income	416	411	-1.3	433	424	-2.2	488	473	-3.0
Total Revenue	2,121	2,134	0.6	2,300	2,276	-1.0	2,506	2,472	-1.3
Opex	375	378	0.7	398	401	0.9	420	424	0.9
Net Operating Income	1,746	1,757	0.6	1,902	1,875	-1.4	2,086	2,048	-1.8
Net Income (Attributable)	1,137	1,133	-0.4	1,300	1,272	-2.1	1,458	1,422	-2.5

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Net Interest Income	1,434	1,423	1,578	1,723	1,853	1,999
Fees & Commissions	250	298	292	298	322	361
FX Income	42	85	87	90	87	94
Other Income	16	(13)	17	22	14	19
<b>Non-Interest Income</b>	<b>308</b>	<b>370</b>	<b>396</b>	<b>411</b>	<b>424</b>	<b>473</b>
Total Revenue	1,742	1,793	1,974	2,134	2,276	2,472
Operating Expenses	(328)	(336)	(353)	(378)	(401)	(424)
Net Operating Income	1,414	1,457	1,621	1,757	1,875	2,048
Net Provisions & Impairments	(411)	(382)	(456)	(493)	(468)	(488)
<b>Net Profit (Headline/Reported)</b>	<b>1,003</b>	<b>1,075</b>	<b>1,165</b>	<b>1,264</b>	<b>1,407</b>	<b>1,561</b>
Payment on Tier-1 Sukuk	(108)	(108)	(99)	(99)	(99)	(99)
Social & Sports Contribution Fund	(25)	(27)	(29)	(32)	(35)	(39)
<b>Net Profit (Attributable)</b>	<b>870</b>	<b>940</b>	<b>1,036</b>	<b>1,133</b>	<b>1,272</b>	<b>1,422</b>
EPS	0.575	0.621	0.685	0.748	0.841	0.940

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	2,670	2,491	3,624	3,384	3,483	3,006
Interbank Loans	13,426	9,760	12,465	14,545	10,973	11,955
Net Investments	7,220	7,752	7,809	8,256	8,845	9,477
Net Loans	37,031	35,022	36,499	38,276	40,642	43,473
Investment In Associates	264	192	154	154	150	148
Other Assets	252	275	207	248	208	252
Net PP&E	231	231	226	238	254	276
Investments In Real Estate	697	669	642	642	642	642
<b>Total Assets</b>	<b>61,792</b>	<b>56,393</b>	<b>61,626</b>	<b>65,742</b>	<b>65,198</b>	<b>69,228</b>
<b>Liabilities</b>						
Interbank Deposits	9,922	5,679	9,468	10,773	7,374	7,986
Customer Deposits	38,646	37,945	38,934	41,270	43,540	46,239
Term Loans	3,543	2,794	2,772	2,772	2,772	2,772
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	979	900	947	970	1,001	1,054
<b>Total Liabilities</b>	<b>55,182</b>	<b>49,411</b>	<b>54,213</b>	<b>57,877</b>	<b>56,779</b>	<b>60,144</b>
<b>Total Shareholders' Equity</b>	<b>6,610</b>	<b>6,983</b>	<b>7,414</b>	<b>7,865</b>	<b>8,419</b>	<b>9,084</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>61,792</b>	<b>56,393</b>	<b>61,626</b>	<b>65,742</b>	<b>65,198</b>	<b>69,228</b>
<b>Risk Weighted Assets</b>	<b>49,250</b>	<b>49,109</b>	<b>52,598</b>	<b>55,881</b>	<b>57,375</b>	<b>63,690</b>
TBVPS	4.34	4.59	4.88	5.18	5.56	6.00

Source: Company data, QNB FS Research

Ratios/Indicators	2021	2022	2023	2024e	2025e	2026e
<b>Profitability (%)</b>						
RoE	14.0	14.3	14.9	15.3	16.2	16.9
RoAA	1.4	1.6	1.8	1.8	1.9	2.1
RoRWA	1.8	1.9	2.0	2.1	2.2	2.3
NIM (% of IEAs)	2.51	2.59	2.90	2.99	3.02	3.14
NIM (% of RWAs)	2.97	2.89	3.10	3.18	3.27	3.30
NIM (% of AAs)	2.33	2.41	2.67	2.71	2.83	2.97
Spread	2.15	2.08	1.99	2.22	2.33	2.31
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	18.8	18.7	17.9	17.7	17.6	17.1
Cost-to-Income (Core)	19.1	18.7	18.1	17.9	17.8	17.3
<b>Liquidity (%)</b>						
LDR	88	86	88	87	88	89
Loans/Assets	59.9	62.1	59.2	58.2	62.3	62.8
Cash & Interbank Loans-to-Total Assets	26.0	21.7	26.1	27.3	22.2	21.6
Deposits to Assets	62.5	67.3	63.2	62.8	66.8	66.8
Wholesale Funding to Loans	36.4	24.2	33.5	35.4	25.0	24.7
IEAs to IBLs	129	136	127	123	137	129
<b>Asset Quality (%)</b>						
NPL Ratio	2.6	2.8	2.9	3.1	3.0	3.1
NPL to Shareholders' Equity	14.8	14.6	14.8	16.0	15.4	15.9
NPL to Tier-1 Capital	12.8	12.8	13.2	14.3	13.9	14.5
Coverage Ratio	123.1	147.7	147.8	162.9	190.2	197.9
ALL/Average Loans	2.9	3.9	4.2	5.0	5.6	6.1
Cost of Risk (bps)	95	81	113	109	98	90
<b>Capitalization (%)</b>						
CET1 Ratio	11.3	12.0	11.9	12.0	12.6	12.4
Tier-1 Ratio	15.6	16.3	15.9	15.7	16.3	15.7
CAR	16.7	17.7	17.0	16.9	17.4	16.9
Leverage (x)	9.3	8.1	8.3	8.4	7.7	7.6
<b>Growth (%)</b>						
Net Interest Income	0.8	-0.8	11.0	9.2	7.5	7.9
Non-Interest Income	21.5	20.2	6.9	3.7	3.2	11.7
OPEX	-3.9	2.5	5.2	6.8	6.3	5.5
Net Operating Income	6.0	3.0	11.3	8.4	6.7	9.3
Net Income (Attributable)	7.9	8.1	10.2	9.3	12.3	11.8
Loans	-8.6	-5.4	4.2	4.9	6.2	7.0
Deposits	6.3	-1.8	2.6	6.0	5.5	6.2
Assets	0.8	-8.7	9.3	6.7	-0.8	6.2
RWAs	4.5	-0.3	7.1	6.2	2.7	11.0

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>	
<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

### Contacts

QNB Financial Services Co. W.L.L.  
 Contact Center: (+974) 4476 6666  
[info@qnbfs.com.qa](mailto:info@qnbfs.com.qa)  
 Doha, Qatar

Saugata Sarkar, CFA, CAIA  
 Head of Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
 Senior Research Analyst  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

Phibion Makuwerere, CFA  
 Senior Research Analyst  
[phibion.makuwerere@qnbfs.com.qa](mailto:phibion.makuwerere@qnbfs.com.qa)

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