

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR68.80	Target Price	QR63.00
Implied Upside	(8.4%)		

Revising Estimates, Gains from RE Could Surprise Positively

Qatar International Islamic Bank (QIIB) is the smallest Shari'ah compliant bank among listed banks. The bank has a market share of 3% and 14% among listed banks and Shari'ah compliant banks, respectively. QIIB is focused on the real estate and retail segments which collectively make up 66% of the bank's loan book. Currently, the bank is in the process of expanding into Morocco.

Highlights

- **QIIB reports in-line net profit for 2016.** QIIB generated a net profit of QR784.15mn (reported/headline), in-line with our estimate of QR792.59mn (-1.0% variation). Moreover, net operating income was also in-line at QR901.59mn vs. our estimate of QR910.55mn (-1% variation). QIIB's flat profitability was attributed to a decline in net provisions and impairments.
- **After a weak 2015 and 2016, we expect an improvement in 2017 and 2018.** We pencil in a growth of 5.2% in 2017, driven by a 5.4% growth in net interest income (flat NIM at 2.73%) vs. 3.8% in 2016, better fees generation (+8.0% vs. -7.2% in 2016) and *cost containment due to a soft operating environment*. We estimate opex to grow by 1.1% (flattish performance in 2016) accompanied by an improvement in the efficiency ratio (24.2% vs. 25.3% in 2016). As far as 2018 is concerned, we factor a growth of 8.6% in net income driven by positive performance across the board.
- **Asset quality to deteriorate further in 2017 and 2018 before improving in 2019.** We expect QIIB's NPLs ratio to increase to 1.95% in 2017 (1.85% in 2016). Moreover, we estimate the coverage ratio to move up to 86% vs. 72% in FY2016. For 2018, we model in NPL ratio of 2.00% (coverage ratio of 99%). In contrast, we expect the asset quality to improve in 2019 and estimate an NPL ratio 1.63%.
- **Net loans to exhibit healthy performance; we model a CAGR of 10.7% (2016-21) vs. 20.8% (2011-16); liquidity to remain an impediment in the short-term.** QIIB's loan book is modeled to grow by 7.0% to QR29.1bn in 2017 followed by 9.4% in 2018. We do not assume aggressive loan growth due to a soft operating environment coupled with concerns on liquidity. We envision the bank to raise expensive deposits to lower its LDR below 100%.

Catalysts

- **Limited catalysts; Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Clarity on Morocco expansion.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR63.00.** QIIB is trading at a 2017e P/B and P/E of 1.8x and 12.6x, respectively. The stock offers an attractive yield of 5.7% in 2017. *The market is currently factoring in a RoE of 16.8% (P/B of 1.8x) which is higher than our estimates. Moreover, the stock trades at a 2017e PEG of 1.6x (based on a 2016-2021e earnings CAGR of 8.6% vs. 3.1% in the previous 5 years.* This implies, the stock is expensive.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk which further results in impairments.

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Reported/Headline EPS (QR)	5.18	5.45	5.92	6.83
EPS Growth (%)	0.1	5.2	8.6	15.4
P/E (x)	13.3	12.6	11.6	10.1
Tangible BVPS (QR)	37.4	38.4	39.8	41.9
P/TB (x)	1.8	1.8	1.7	1.6
DPS (QR)	4.00	4.00	4.25	4.50
Dividend Yield (%)	5.8	5.8	6.2	6.5

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

Key Data

Current Market Price (QR)	68.80
Dividend Yield (%)	5.8
Bloomberg Ticker	QIIB.QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	73.30/58.50
3-m Average Volume ('000)	119.2
Mkt. Cap. (\$ bn/QR bn)	2.9/10.4
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	5.1
1-Year Total Return (%)	+13.0
Fiscal Year End	December 31

Source: Bloomberg (as of January 29, 2017), *Qatar Exchange (as of January 29, 2017); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	13.2	13.0	13.8	15.4
RoAA (Attributable)	1.8	1.7	1.7	1.8
RoRWA (Attributable)	2.5	2.4	2.4	2.5
NIM (% of IEAs)	2.7	2.7	2.7	2.7
NIM (% of RWAs)	3.4	3.4	3.4	3.4
NIM (% of AAs)	2.4	2.4	2.4	2.4
Spread	2.3	2.3	2.2	2.1
Efficiency (%)				
Cost-to-Income (Headline)	25.3	24.2	23.6	23.4
Cost-to-Income (Core)	26.0	25.3	24.7	24.4
Liquidity (%)				
LDR	102.2	102.2	99.0	98.3
Loans/Assets	64.0	62.8	64.3	65.8
Cash & Interbank Loans-to-Total Assets	13.7	15.3	13.2	11.4
Deposits to Assets	62.6	61.5	64.9	66.9
Wholesale Funding to Loans	31.5	35.4	30.5	28.3
IEAs to IBLs	132.0	127.2	130.5	129.4
Asset Quality (%)				
NPL Ratio	1.8	2.0	2.0	1.6
NPLs to Shareholder's Equity	9.0	9.9	10.8	9.6
NPLs to Tier 1 Capital	8.6	9.9	10.8	9.7
Coverage Ratio	71.5	86.0	98.9	123.3
ALL/Average Loans	1.3	1.6	2.0	2.0
Cost of Risk	0.4	0.4	0.4	0.3
Capitalization (%)				
Tier 1 Ratio	19.5	17.7	16.9	16.1
CAR	19.5	17.7	16.9	16.1
Tier 1 Capital to Assets	13.9	12.7	12.2	11.3
Tier 1 Capital to Loans	21.7	20.1	18.9	17.2
Tier 1 Capital to Deposits	22.2	20.6	18.8	16.9
Leverage (x)	7.5	8.0	8.2	8.8
Growth (%)				
Net Interest Income	3.8	5.4	8.1	10.8
Non-Interest Income	-17.6	7.9	8.5	1.1
OPEX	-0.7	1.1	5.9	8.0
Net Operating Income	-0.2	7.4	8.9	9.6
Net Income (Attributable)	-2.9	1.0	9.3	16.4
Loans	9.0	7.0	9.4	15.2
Deposits	-0.1	7.0	13.0	16.0
Assets	5.0	9.0	7.0	12.5
RWAs	7.0	9.2	7.6	9.9

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	1,014	1,069	1,155	1,280
Fees & Commissions	118	127	140	131
FX Income	41	25	28	34
Other Income	34	56	58	64
Non-Interest Income	193	208	226	228
Total Revenue	1,207	1,277	1,381	1,509
Operating Expenses	(305)	(308)	(327)	(353)
Net Operating Income	902	968	1,055	1,156
Net Provisions	(117)	(143)	(158)	(121)
Net Profit Before Taxes, Non-Recurring Items & Minority Interest	785	825	897	1,035
Minority Interest	0	0	0	0
Net Profit (Headline/Reported)	785	825	897	1,035
Payment on Tier-1 Sukuk	(23)	(55)	(55)	(55)
Social & Sports Contribution Fund	(20)	(21)	(22)	(26)
Net Profit (Attributable)	742	750	819	954

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	2,038	2,138	2,094	1,943
Interbank Loans	3,771	4,953	4,464	4,408
Net Investments	7,375	7,954	8,905	10,311
Net Loans	27,233	29,135	31,882	36,731
Investment In Associates	337	338	339	340
Other Assets	686	626	679	776
Net PP&E	681	794	828	910
Investment in Real Estate	431	427	424	420
Total Assets	42,551	46,364	49,614	55,838
Liabilities				
Interbank Deposits	6,039	7,778	7,177	7,834
Customer Deposits	26,640	28,505	32,210	37,364
Other Borrowings	2,548	2,548	2,548	2,548
Tier-1 Sukuk	1,000	1,000	1,000	1,000
Other Liabilities	647	713	644	747
Total Liabilities	36,874	40,543	43,579	49,493
Total Shareholders' Equity	5,677	5,821	6,035	6,345
Total Liabilities & Shareholders' Equity	42,551	46,364	49,614	55,838

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

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

Risk Ratings

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

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

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of QNB SAQ ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB SAQ is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNBFS.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.