

Qatar Islamic Bank (QIBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR103.50	Target Price	QR102.00
Implied Upside	(1.4%)		

Investment Income to Limit Bottom-Line Growth

In 2014, QIBK posted an impressive loan growth of 26.6% vs. 13.1% for the overall banking sector. While 2014 performance was exciting, we have adopted a more conservative approach with future loan growth for the bank (CAGR of 9.6% over 2014-18e). Furthermore, we expect investment income to restrict bottom-line growth in coming years (maturing government debt is being reinvested at lower rates). Hence, we estimate bottom-line to grow by a CAGR of 8.6% for 2014-2018e. As such, we maintain our Market Perform rating on the stock.

Highlights

- **Impressive performance in 2014:** QIBK increased its loan book by 26.6% YoY vs. a 13.1% increase by the banking sector (as per QCB figures). The strong loan growth propelled net financing income to improve by 23.6% YoY to QR1.71bn. However, income from investing activities dropped by 19.0% YoY restricting operating income growth to 14.8% YoY. Provisions for financing and investing activities (combined) declined by 27.4% YoY allowing the bottom-line to increase by 19.9% YoY to QR1.6bn. The bank announced cash DPS of QR4.25 for 2014 vs. QR4.00 for 2013.
- **We estimate a CAGR of 9.6% in terms of loans over 2014-18e.** Real estate/housing and consumer segments have been the historical niche segments for the bank. As of 2014, QIBK had 23.4% (27.9% in 2013) of its loan book in RE/housing and 22.4% (19.4% in 2013) in the consumer segment. Going forward, we have estimated a CAGR of 4.4% and 10.4% for 2014-18e in these two segments, respectively. Overall, we expect the loan book to grow to QR86.2bn in 2018e from QR59.7bn in 2014.
- **We estimate a CAGR of 8.6% in reported bottom-line for 2014-18e.** We expect net financing income to grow by a CAGR of 8.1% over 2014-2018e. However, we only expect a CAGR of 3.1% in investment income (2014-2018e) as the maturing portfolio of debt is reinvested at lower rates. Overall, we expect the bottom-line grow to QR2.2bn in 2018e from QR1.6bn in 2014.

Catalysts

- **Limited near-term catalysts:** QIBK has been trying to diversify away from real estate and newsflow regarding disposal (s) of real estate assets can act as catalyst (s).

Recommendation, Valuation and Risks

- **Recommendation and valuation:** *We rate QIBK a Market Perform with a price target of QR102.00.* Valuation appears to be fair vs. other Qatari banks.
- **Risks:** Declining oil prices remain a substantial risk to regional equity prices. For QIBK in particular, exposure to the real estate segment creates concentration risk.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	5.65	6.78	7.35	8.00
EPS Growth	7.6%	19.9%	8.5%	8.8%
P/E (x)	18.3	15.3	14.1	12.9
P/B (x)	2.1	2.0	1.9	1.8
DPS (QR)	4.00	4.25	4.50	5.00
Dividend Yield	3.9%	4.1%	4.3%	4.8%

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

Key Data

Dividend Yield (%)	4.3
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	126.00/71.80
3-m Average Volume ('000)	155.3
Mkt. Cap. (\$ bn/QR bn)	6.7/24.5
Shares Outstanding (mn)	236.3
FO Limit* (%)	25.0
Current FO* (%)	6.2
1-Year Total Return (%)	43.7
Fiscal Year End	December 31

Source: Bloomberg (as of January 22, 2015), *Qatar Exchange (as of January 22, 2015); Note: FO is foreign ownership

Abdullah Amin, CFA

+974 4476 6569

abdullah.amin@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

2014 Result Review

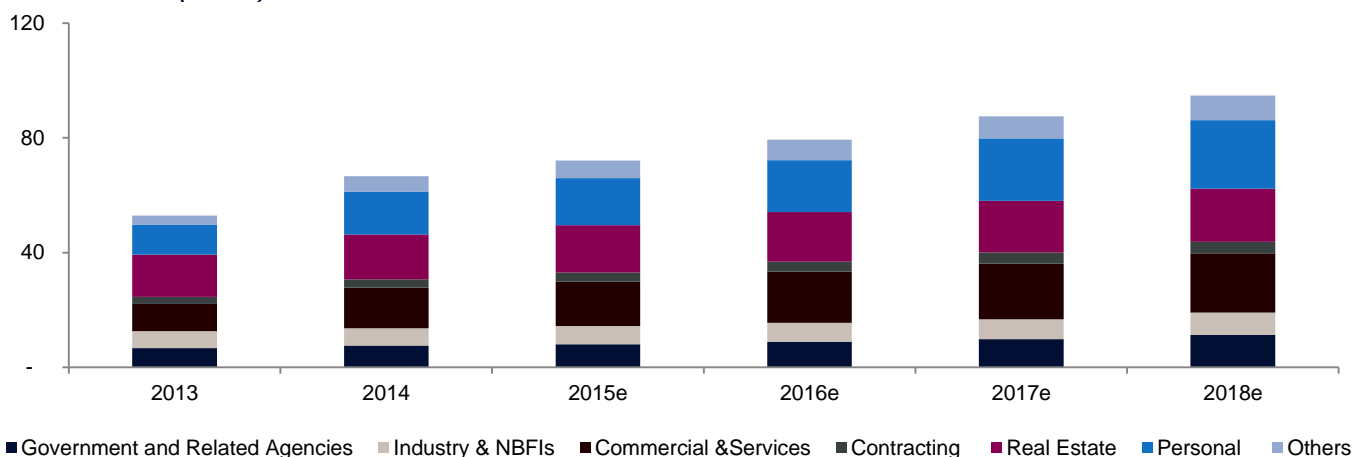
In 2014, QIBK increased its loan book by 26.6% YoY vs. a 13.1% increase by the banking sector (as per QCB figures). Hence, income from financing activities increased to QR2.4bn from QR2.0bn in 2013, a growth of 22.0% YoY. On the other hand, QIBK's deposits (including URIA) grew by 32.2% vs. 9.6% for the banking sector. Thus, unrestricted investment profit sharing (URIA) and expenses on sukuks, on a combined basis, increased to QR737.8mn vs. QR622.3mn, up 18.6% YoY. Overall, net financing income improved by 23.6% YoY to QR1.71bn. However, income from investing activities dropped by 19.0% YoY restricting operating income growth to 14.8% YoY. Provisions for financing and investing activities (combined) declined by 27.4% YoY allowing the bottom-line to increase by 19.9% YoY to QR1.6bn. The bank announced cash DPS of QR4.25 for 2014 vs. QR4.00 for 2013. For 4Q2014, the bank posted a net profit of QR471.4mn vs. QR413.7mn in 3Q2014, up by 16.4% QoQ. Profitability was driven by investment income up 22.4% QoQ to QR177.6mn. Net financing income also increased by 6.7% QoQ. On the balance sheet front, financing book increased by 1.7% QoQ while the investment book declined by 9.1% QoQ.

Key Forecasts

Loan Book

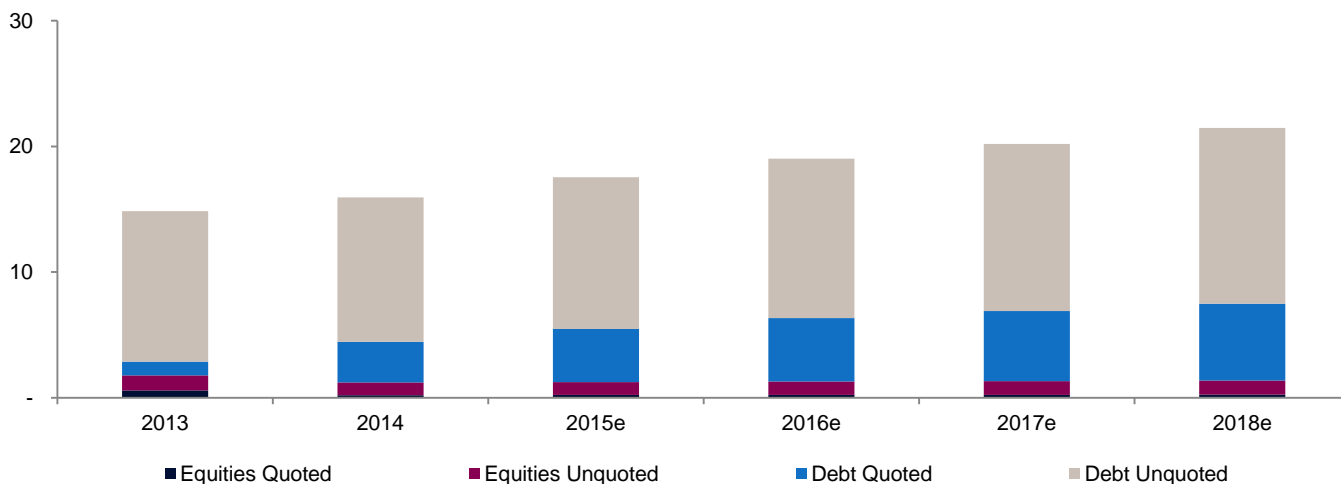
We estimate a CAGR of 9.6% in loans for 2014-18e. Real estate/housing and consumer segments have been the historical niche segments for the bank. In our view, QIBK's management has been diversifying away from the traditional housing segment. This is also evident from the 2014 performance, where Services and Personal (Consumer) were the biggest contributors to the loan book growth. The Services segment's gross loans increased by 190.8% YoY in 2014, while the Personal segment grew by 45.3% YoY. As of 2014, QIBK had 23.4% (27.9% in 2013) of its loan book in RE/housing and 22.4% (19.4% in 2013) in the consumer segment. Going forward, we have estimated a CAGR of 4.4% and 10.4% for 2014-18e in these two segments, respectively. Overall, we expect the loan book to grow to QR86.2bn in 2018e from QR59.7bn in 2014.

Loan Book Profile (QR bn)



Source: Company data, QNBFS estimates

Investment Book Profile (QR bn)



Source: Company data, QNBFS estimates

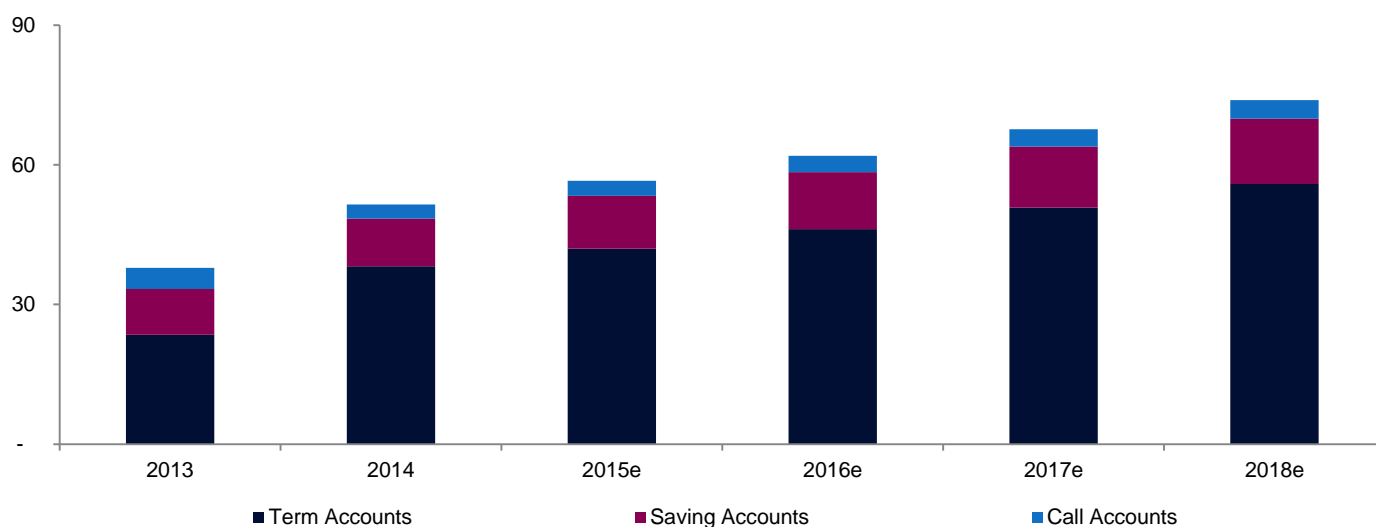
Investment Book

We estimate a CAGR of 7.7% in the investment book for 2014-18e. Currently unquoted debt forms ~72.0% of the investment portfolio followed by 20.3% in quoted debt and 7.7% in quoted and unquoted equity type instruments. Going forward, we expect the bank to participate in QCB's bond and T-bill auctions and maintain the bond portion of the investment portfolio above 93% until 2018e.

Deposit Book

Term-loans were the primary driver of deposit book growth. In 2014, the relatively high cost term loans increased to QR38.2bn from QR23.5bn in 2013, a growth of 62.3% YoY. The growth allowed URIA book to jump by 35.9% YoY. Hence, as of 2014, term accounts contribute 74.2% (62.1% in 2013) of the URIA book followed by saving accounts 20.0% (25.9% in 2013) and call accounts 5.8% (12.0% in 2013).

URIA Book Profile (QR bn)



Source: Company data, QNBFS estimates

Asset Quality and Capitalization

Capital raising to enhance Tier-1 position: Along with the results, QIBK announced plans to issue Tier-1 sukuk worth ~QR2bn in 2015 in order to boost its Tier-1 capital. The bank ended 2014 with a Tier 1 ratio and CAR of 13.86% and 13.90%, respectively. We are of the view that this Sukuk will allow it to meet Basel III requirements in the near to medium-term. We have modeled the sukuk from the second quarter of 2015 and have assumed a 6.0% profit rate on the instrument. However, the expense will be deducted from retained earnings and will not impact the reported bottom-line of the bank. On the asset quality front, QIBK's non-performing loans ratio (NPL) stood at 0.9% in 2014 versus 1.0% in 2013.

Operating Performance

We estimate a CAGR of 8.6% in reported bottom-line for 2014-18e. We expect net financing income to grow by a CAGR of 8.1% over 2014-2018e. However, we only expect a CAGR of 3.1% in investment income (2014-2018e) as the maturing portfolio of debt is reinvested at lower rates. Overall, we expect the bottom-line grow to QR2.22bn in 2018e from QR1.60bn in 2014. However, after adjusting for Tier I sukuk and others, the bottom-line CAGR would grow by only 7.1%. **For the near-term, we expect the back-end loaded nature of loan growth of 2014 to have positive implication in 2015. Hence, we expect QIBK to post net income of QR1.77bn vs. QR1.60bn in 2014, a growth of 8.5% YoY.**

Company Description

Established in 1982, the bank is primarily involved in corporate, retail and investment banking, and has 29 branches in Qatar and one branch in Sudan. In addition to its core banking activities, QIBK has a stake in a number of other Qatari Shari'a-compliant companies such as QInvest, Durat Al Doha Real Estate Investment and Aqar Real Estate. QIBK also has international presence through its affiliates: QIB UK in London and AFH in Lebanon.

Detailed Financial Statements

Income Statement (In QR mn)	2013	2014	2015e	2016e
Income From Financing Activities	2,003	2,444	2,696	2,907
Unrestricted Investments Profit Sharing	449	564	720	848
Sukuk Holders' Share of Profit	174	174	151	68
Net Financing Income	1,381	1,706	1,824	1,991
Income from Investing Activities	801	649	655	684
Fees and Commission Income	364	480	528	581
Fees and Commission Expense	76	88	97	106
Net Fees and Commission Income	289	392	431	474
Gain/(Loss) on Foreign Exchange Activities	44	73	73	73
Other Operating Income	8	75	75	75
Total Operating Income	2,522	2,895	3,059	3,298
General and Administrative Expenses	785	846	897	951
Depreciation	63	74	77	81
Provision for Impairment - Due from Financing Activities	97	90	101	111
Provision for Impairment - Financial Investments	263	171	175	190
Profit Before Minority Interest	1,326	1,669	1,808	1,965
Minority Interest	(10)	67	70	74
Profit for Shareholders	1,335	1,601	1,737	1,891

Source: Company data, QNBFS estimates;

Balance Sheet (In QR mn)	2013	2014	2015e	2016e
Assets				
Cash and Balances with Central bank	2,993	4,933	5,081	5,234
Due from Banks and Other Financial Institutions	6,348	8,931	9,199	9,475
Financial Investments	14,852	15,954	17,539	19,023
Due from Financing Activities	47,139	59,681.5	64,844	71,643
Investment in Associates	742	967	967	967
Assets of a Subsidiary Held for Sale	303	61	61	61
Other Investments	793	1,216	1,216	1,216
Property and Equipment (Net)	436	509	524	540
Other Assets	3,430	3,546	3,653	3,762
Intangible Assets	319	307	307	307
Total Assets	77,354	96,106	103,391	112,228
Equity				
Share Capital	2,363	2,363	2,363	2,363
Reserve	7,793	8,102	8,376	8,705
Retained Earnings	758	1,009	1,366	1,699
Proposed Cash Dividend	945	1,004	1,063	1,181
Sukuk – Tier I			2,000	2,000
Total Equity Attributable to Equity Holders of the Parent	11,860	12,478	15,168	15,948
Minority Interests	1,813	1,694	1,711	1,728
Total Shareholders' Equity and Minority Interests	13,673	14,172	16,878	17,676
Liabilities				
Due to Banks and Other Financial Institutions	6,491	8,104	6,862	8,555
Customers' Deposits	12,470	15,125	18,531	19,457
Other Liabilities	6,828	7,226	4,558	4,612
Unrestricted Investment Depositors Accounts	37,893	51,480	56,562	61,927
Total Liabilities	63,682	81,935	86,513	94,552
Equity and Liabilities	77,354	96,106	103,391	112,228

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

Abdullah Amin, CFA

Senior Research Analyst

Tel: (+974) 4476 6569

abdullah.amin@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Sahbi Kasraoui

Manager – HNWI

Tel: (+974) 4476 6544

sahbi.alkasraoui@qnbfs.com.qa

Ahmed Al-Khoudary

Head of Sales Trading – Institutional

Tel: (+974) 4476 6548

ahmed.alkhoudary@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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