# QATAR NATIONAL BANK (QNB)

## 1Q2010 Results: A Strong Set of Numbers; Upside Risk to Our Forecasts

07 APRIL 2010

QATAR | BANKING

**Current Price* : QAR 138.7** **Rating: Neutral**
**Fair Value (FV): QAR 130.3**

• **QNB Reports a Strong Set of 1Q2010 Results, 17% Ahead of Our Forecasts:** Qatar National Bank (QNB) has reported 1Q2010 net attributable profit of QAR1,266 million, up 17% Q-o-Q and 25% Y-o-Y. Earnings growth was primarily driven by strong revenue growth, both on a Y-o-Y and Q-o-Q basis. The actual 1Q2010 net profit was 17% ahead of our forecast thanks to higher-than-expected revenue and despite loan loss provisioning charges being ahead of our estimate for the quarter.

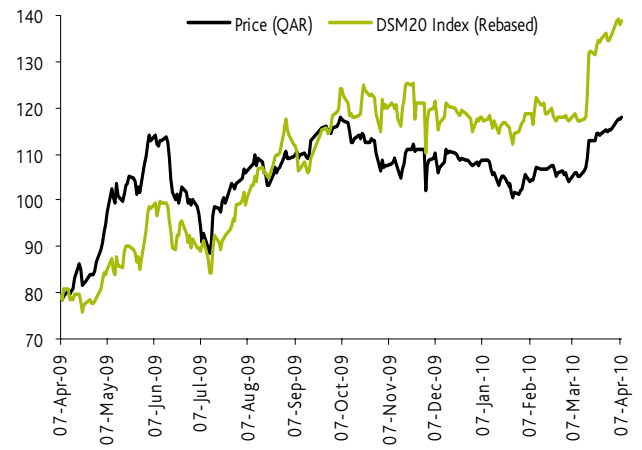
• **Loan Growth Momentum Remained Strong in 1Q2010 at 8% Q-o-Q:** The loan book expanded by 44% Y-o-Y and 8% Q-o-Q against a favourable macroeconomic backdrop in Qatar and mainly driven by lending to the large corporate sector. Management's guidance is for 15% Y-o-Y loan growth in FY2010. Customer deposit growth (including both conventional and Islamic deposits) grew by 44% Y-o-Y and 5% Q-o-Q. QNB's balance sheet liquidity has remained roughly unchanged, both Y-o-Y and Q-o-Q, with the net loan-to-deposit ratio at 89% in March 2010 (versus 86% in December 2009 and 89% in March 2009).

• **Revenue Growth Driven by Higher Quality Revenue Lines:** Revenue expanded by 26% Y-o-Y and 24% Q-o-Q, 16% ahead of our expectation. Revenue growth was driven by strong net interest income growth of 43% Y-o-Y and 26% Q-o-Q. The net interest spread saw some Y-o-Y expansion in 1Q2010, although we should expect volume growth rather than spread expansion to drive net interest income growth for the rest of 2010. Fee income growth has recovered, but less strongly, at 19% Y-o-Y (almost flat Q-o-Q).

• **Costs Efficiency Improves; Credit Quality Stable**: Operating expenses increased by 15% Y-o-Y compared to revenue growth of 26% Y-o-Y, leading to a reduction in the cost-to-income ratio by 2 percentage points to 18%, despite 1Q2010 including operating expenses for the commercial banking operations in Syria and the private banking operation in Geneva, both launched at the end of 2009. Provisioning charges rose Y-o-Y in 1Q2010, but remained contained at 29bps of average gross loans (on an annualised basis). The NPL ratio remained flat Y-o-Y at 0.7%, with NPLs in absolute terms increasing by just 5% Q-o-Q.

• **Room for Revisions to Our Asset Growth and Earnings Forecasts:** Our current loan growth assumption is for high single-digit growth in 2010, but we will likely be revising this estimate upwards after we have incorporated QNB's results into our model. We also expect to make positive revisions to our core banking income forecasts and see upside risks to our net profit estimates. QNB currently trades at an estimated 2010 P/B multiple of 2.6x and an estimated 2010 P/E multiple of 11.7x. The stock has performed strongly over the last month, and we see room for further re-rating following this strong set of numbers. While QNB is currently one of the most expensive banks in MENA by P/B (ex-Al Rajhi), we believe that QNB's valuation premium to other MENA banks can be justified based on QNB's sound business model and the strong fundamentals in Qatar.

FLASH NOTE




| | 2010e | 2011e | 2012e |
|---|---|---|---|
| EPS | 11.85 | 11.44 | 12.66 |
| P/E* (x) | 11.7 | 12.1 | 10.9 |
| DPS | 5.20 | 5.40 | 6.22 |
| Div Yield (x) | 3.7% | 3.9% | 4.5% |
| BVPS | 52.51 | 58.55 | 64.99 |
| P/BV* (x) | 2.6 | 2.4 | 2.2 |

*In QAR, unless otherwise stated*

| Stock Data | |
|---|---|
| Last Dividend Date | QAR4.0 on 9 Feb 10 |
| Mkt. Cap / Shares (mn) | QAR 54,295 / 391.5 |
| Av. Mthly Liqdty (mn) | QAR330 |
| 52-Week High / Low | QAR139.3 / 77.5 |
| Bloomberg / Reuters | QNB QD / QNBK.QA |
| Est. Free Float | 50% |


Elena Sánchez-Cabezudo, CFA
+20 2 3332 1145
esanchez@efg-hermes.com



KINDLY REFER TO THE IMPORTANT DISCLOSURES AND DISCLAIMERS ON BACK PAGE


** Price as at 07 Apr 2010, QNB's FV adjusted to account for the 30% bonus shares issue own 09 Feb 2010*

**Figure 1: QNB's 1Q2010 Results, Main Highlights**
In QAR million, unless otherwise stated

| | 1Q2009 | 4Q2009 | 1Q2010a | 1Q2010e | Y-o-Y | Q-o-Q | Vs. Est. |
|---|---|---|---|---|---|---|---|
| **Net Interest Income** | **833** | **944** | **1,189** | **941** | **43%** | **26%** | **26%** |
| Fee Income | 237 | 284 | 282 | 275 | 19% | -1% | 2% |
| Other Non-interest Income | 247 | 110 | 188 | 217 | -24% | 71% | -14% |
| **Total Banking Income** | **1,317** | **1,338** | **1,659** | **1,433** | **26%** | **24%** | **16%** |
| Operating Expenses | (260) | (330) | (299) | (318) | 15% | -9% | -6% |
| **Operating Profit** | **1,057** | **1,008** | **1,359** | **1,115** | **29%** | **35%** | **22%** |
| Provisions | (39) | (34) | (93) | (60) | | | |
| Other | (2) | 96 | 0 | 30 | | | |
| **Pre-tax Profit** | **1,017** | **1,070** | **1,266** | **1,085** | **25%** | **18%** | **17%** |
| Taxes | (7) | (15) | (0) | (6) | | | |
| **Net Income** | **1,011** | **1,056** | **1,266** | **1,079** | **25%** | **20%** | **17%** |
| Minorities | - | 27 | (1) | - | | | |
| **Net Attributable Income** | **1,011** | **1,083** | **1,266** | **1,079** | **25%** | **17%** | **17%** |

Source: QNB, EFG Hermes estimates


KINDLY REFER TO THE
IMPORTANT DISCLOSURES AND
DISCLAIMERS ON BACK PAGE

## EGYPT SALES TEAM

**Local call center 16900**
**Int'l call center +20 2 33 33 94 00**
cc-hsb@efg-hermes.com

**Head of Western Institutional Sales**
Mohamed Ebeid
+20 2 33 32 1054
mebeid@efg-hermes.com

**Local Institutional Sales**
Amr El Khamissy
+20 2 33 32 1045
amrk@efg-hermes.com

## UAE SALES TEAM

**call center**
**+971 4 306 9333**
**uaerequests@efg-hermes.com**

**Western Institutional Sales**
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

**Head of GCC Institutional Sales**
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

**Gulf HNW Sales**
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

**UAE Retail Sales**
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

## KSA SALES TEAM

**call center**
**+800 123 4566**
**RiyadhCallCenter@efg-hermes.com**
**RiyadhTraders@efg-hermes.com**

**Deputy Head of Gulf Sales**
Ahmed Sharawy
+9661 279 8677
asharawy@efg-hermes.com

## RESEARCH MANAGEMENT

**Cairo General + 20 2 33 38 8864**
**UAE General + 971 4 363 4000**
**efgresearch@efg-hermes.com**

**Head of Research**
Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

**Head of Publ. and Distribution**
Rasha Samir
+20 2 33 32 1142
rsamir@efg-hermes.com


## DISCLOSURES

I, Elena Sanchez-Cabezudo, hereby certify that the views expressed in this document accurately reflect my personal views about the securities and companies that are the subject of this report. I also certify that neither I nor my spouse or dependants (if relevant) hold a beneficial interest in the securities that are traded in Doha Stock Exchange. EFG Hermes Holding owns 5,000 shares in Qatar National Bank as at 07 April 2010, the security that is the subject of this report

Funds managed by EFG Hermes Holding and its subsidiaries for third parties may own the securities that are the subject of this report. EFG Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The authors of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which they have no discretion. The Investment Banking division of EFG Hermes may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this report or are mentioned in this report.

## DISCLAIMER


This Research has been sent to you as a client of one of the entities in the EFG Hermes group. This Research must not be considered as advice nor be acted upon by you unless you have considered it in conjunction with additional advice from an EFG Hermes entity with which you have a client agreement.

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimate on a fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that EFG Hermes believes to be reliable, we have not independently verified such information and it may not be accurate or complete. EFG Hermes does not represent or warrant, either expressly or implied, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by EFG Hermes or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation to the clients of EFG Hermes and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any security. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

## GUIDE TO ANALYSIS

EFG Hermes investment research is based on fundamental analysis of companies and stocks, the sectors that they are exposed to, as well as the country and regional economic environment.

Effective 16 December 2009, EFG Hermes changed its investment rating approach to a three-tier, long-term rating approach, taking total return potential together with any applicable dividend yield into consideration.

In special situations, EFG Hermes may assign a rating for a stock that is different from the one indicated by the 12-month expected return relative to the corresponding fair value.

For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

| Rating | Potential Upside (Downside)% |
|---|---|
| Buy | Above 15% |
| Neutral | (10%) and 15% |
| Sell | Below (10%) |

EFG Hermes policy is to update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a stock to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the stock immediately. However, if a stock has been outside of its longer-term investment rating range consistently for 30 days or more, the analyst will be encouraged to review the rating.


## COPYRIGHT AND CONFIDENTIALITY

No part of this document may be reproduced without the written permission of EFG Hermes. The information within this research report must not be disclosed to any other person if and until EFG Hermes has made the information publicly available.


## CONTACTS AND STATEMENTS


Background research prepared by EFG Hermes Holding SAE. Report prepared by EFG Hermes Holding SAE (main office), 58 Tahrir Street, Dokki, Egypt 12311, Tel +20 2 33 32 1140 | Fax +20 2 33 36 1536 which has an issued capital of EGP 1,939,320,000.

Reviewed and approved by EFG Hermes KSA (closed Joint Stock Company) which is commercially registered in Riyadh with Commercial Registration number 1010226534, and EFG Hermes UAE Limited, which is regulated by the DFSA and has its address at Level 6, The Gate, DIFC, Dubai, UAE. The information in this document is directed only at institutional investors. If you are not an institutional investor you must not act on it.

**efghermes.com**