المجموعة المالية - هيرميس
EFG HERMES

QATAR ISLAMIC BANK

1Q2009 Results - Somewhat Weak

10 MAY 2009

QATAR | BANKING

Short-Term Rec.: Neutral	Current Price*: QAR 72.7
Long-Term Rec. : Accumulate	LT Fair Value : QAR 106.6

• **QIB Reported 1Q09 Net Attributable Income of QAR350 million, Down 23% Y-o-Y:** QIB's net income declined 23% Y-o-Y and 11% Q-o-Q to fall 19% short of our trend forecast rate. This primarily reflected falls in total banking income which declined 23% Y-o-Y and 14% Q-o-Q. This was offset by costs, which declined 11% Y-o-Y and 3% Q-o-Q. Meanwhile, provisioning has followed an erratic trend, so while the number is sharply worse than the quarterly average for last year (which actually had a *positive* contribution), the absolute number remained small.

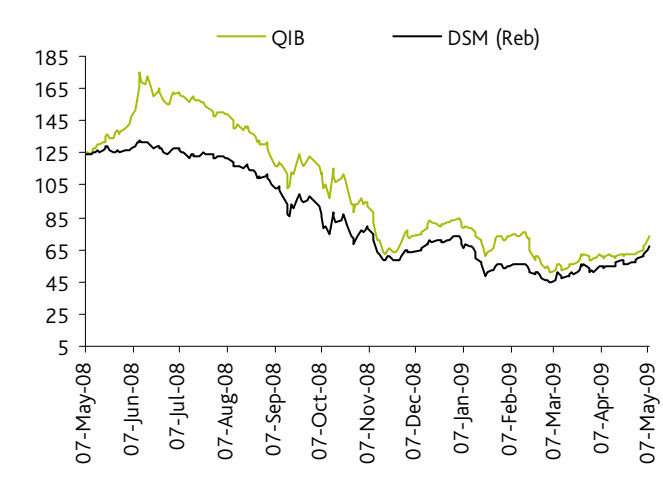
• **Within a Lower Revenue Figure, Net Islamic Returns Performed Strongly:** Although total assets declined, customer assets continued to show some growth, rising 33% Y-o-Y and 2.5% Q-o-Q, prompting similar quarterly growth in IEA equivalents. This was well-funded by strong growth of customer deposits, which increased 31% Y-o-Y and an impressive 15% Q-o-Q. Net Islamic returns (equivalent to net interest income) rose 105% Y-o-Y and 16% Q-o-Q, comfortably exceeding our forecasts, due to another comprehensive increase in measured spreads, driven by falling funding costs. We believe the current spreads are not wholly sustainable.

• **Non-interest Income Falls Back to Base Levels:** Non-interest income has been bouncing around between QAR100 million and QAR400 million over recent quarters, due mostly to volatility in the four items that constitute "trading & investment income". In 1Q2009, trading & investment income declined sharply to near its second worst quarter over the last two years, largely as a result of a collapse in income from investing activities, with gains from foreign exchange operations maintaining break-even levels, given the relative stability of the dollar. In addition, fees and commissions dropped 14% Y-o-Y and 10% Q-o-Q. We believe both these items may remain weak due to the absence of property income, and the disposal of the DSM-listed equity portfolio.

• **Deductions Well Controlled, But NPL impact Still to Come:** Costs have gradually been falling since 1Q2008 peak, decreasing 11% Y-o-Y and 3% Q-o-Q. The cost-income ratio therefore has remained at just 23.6%, in spite of the pressure on revenue, suggesting any revenue recovery will allow this ratio to fall going forwards. Provisioning, while increasing significantly from recent average levels, is still at an annualised rate of just 37 basis points, significantly undershooting our forecasts. QIB has the most exposure to the personal and housing sector, and we continue to expect this to rise.

• **Reducing LTFV to QAR106.6:** While net interest income was much stronger than forecast due to wider spreads, revenues have been substantially weaker, with all of the elements of non-interest income registering a short fall. We see downside risks to our forecasts and will likely be reducing forecasts shortly. In the meantime we reduce our LTFV by 18% as we align our discount rates with the rest of the sector. However, we upgrade our LT rating from Neutral to Accumulate given the upside to our LTFV.

FLASH NOTE



	2008a	2009e	2010e
EPS (adj)	8.36	8.73	11.01
P/E* (x)	8.7	8.3	6.6
DPS	7.00	1.60	2.45
Div. Yield*	9.6%	2.2%	3.4%
BVPS (adj)	29.3	42.8	51.4
P/BV* (x)	2.5	1.7	1.4

Figures in QAR unless otherwise stated
Forecasts not revised for flash note

Stock Data	
Last Div. and Its Date	QAR7.00 on 19 Feb 09
Mkt Cap. / Shares (mn)	QAR15,747 / 216.6
Av. Mthly Liqdty (mn)	QAR992.5
52-Week High / Low	QAR174.50 / 51.40
Bloomberg / Reuters	QIBK QD / QISB.QA
Est. Free Float	72%

** Prices as of 07 May 2009*

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Table 1: Qatari Banks Comparison

	QNB	CBQ	QIB
Loan Growth (Q-o-Q)	-18%	3%	2%
Deposit Growth (Q-o-Q)	-12%	-2%	15%
LDR (prior Quarter)	96%	103%	114%
LDR 1Q2009	89%	107%	101%
Total Interest Income (Q-o-Q)	4%	14%	16%
Non-Interest Income (Q-o-Q)	87%	990%	-51%
Revenues (Q-o-Q)	7%	18%	-23%
Cost Growth (Q-o-Q)	-10%	-27%	-3%
Cost Income Ratio 1Q2009	21%	28%	24%
Provisioning (Q-o-Q)	-93%	78%	-57%
Provs 1Q09 (bps)	1	67	37
Provs FY08 (bps)	37	24	(40)
Net Income (Q-o-Q)	56%	217%	-4%

Source: EFG-Hermes

We present above a quick summary of the Qatari banks results. In general, Loan and Deposit growth has been anaemic, although the numbers for QNB look worse due to a netting of a government deposit and the conversion of a loan to an investment. In spite of that, strong spreads have generally meant that total interest income has been growing strongly.

Non-interest income has been mixed, with both QNB and CBD recovering from weak 4Q2008 figures. For QIB, on the other hand, 4Q2008 was a surprisingly strong quarter, in spite of including a substantial impairment.

Cost control has generally been good, although the -27% Q-o-Q change for CBQ is flattered by the inclusion of a full year of Directors' Fees in 4Q2008, while QNB and QIB accrue on a quarterly basis. Nevertheless, the general absence of cost momentum suggests that cost control will be positive during the down turn. Costs are extremely low for Qatari banks in any case.

The quarterly picture on provisioning is fairly obscure. Nevertheless, the general trend is rising. QNB is the main outlier here, but this was more due to having an exceptionally conservative quarter in 4Q2008, and seeing some of that reversed in 1Q2009. We expect provisioning to continue to rise going forward.

Overall, it seems likely that spreads will not see the same level of pickup going forward, and non-interest income may not see a substantial bounce, given the disposal of the DSM-listed portfolios. Cost growth is unlikely to be significantly different from neutral, but increases in provisioning may well push net income growth into negative territory in the coming quarter. We will be updating our formal forecasts for these views shortly.

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