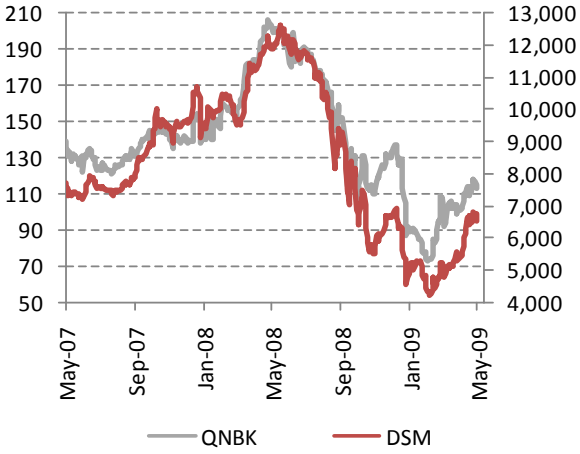
Qatar National Bank (QNB)

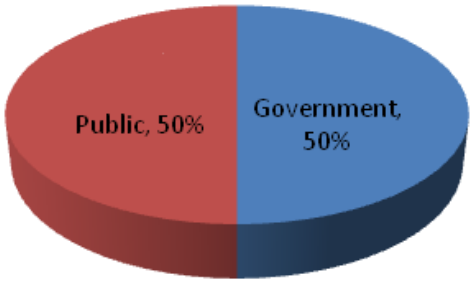
KEY DATA & STATISTICS

PARTICULARS	
Bloomberg Code	QNBK
CMP (QAR)	121.5
Market Cap in Bn QAR	36.59
Paid Up Cap in Bn QAR	3.01
52 week H-L (QAR)	205.60-69.00
Diluted EPS*	12.13
BVPS(QAR) #	55.24
P/E'09	9.85x
P/BV'09	2.06x
*Last Financial Year #Last Financial Quarter	

STOCK PERFORMANCE (2 yrs)



OWNERSHIP



RESEARCH

Raj Shekhar **+968 24708088 Extn. 122**
Email: raj.shekhar@investvis.com
Adnan Bagasrawala **Extn. 216**
Email: adnan.b@investvis.com

Sector	**Banking (Conventional & Islamic)**
Country	**Qatar**
Report	**Initiating Coverage**
Price Target	**QAR 143.93**
Up/down-side	**18.46%**
Rating	**BUY**
Date	**June 2, 2009**

HIGHLIGHTS

- **QNB -the market leader- with share of 42% & 46% in loan books & deposits, respectively of the listed local banks (2008)**
- **Inorganic growth with a spate of recent acquisitions across the MENA region**
- **In Q1'09, net income grew by 45.5%, q-o-q, to QAR 746.2 mn while the assets rose by 8.2%, q-o-q, to QAR 140.6 bn**
- **S&P affirmed QNB's long-term ratings to A+ & short-term ratings to A1**
- **Government of Qatar's financial support to QNB to the tune of QAR 6.5 bn to buy their investment portfolio**
- **Government of Qatar recently announced QAR 15.0 bn buyout of Real Estate Portfolio of the local banks to further fortify their asset base**
- **Presence of a well-disposed regime in Qatar for the banking sector as well as QNB's expected expansion in product lines & geographies to boost performance in 2009**

Rated as BUY

We are initiating coverage with a BUY rating on the stock at current prices.

KEY FINANCIAL DATA

(QAR mn)	2008A	2009E	2010E	2011E
Total Net Interest Income	2,856	3,296	3,796	4,365
Operating profit	4,051	3,932	4,494	5,197
Net profit	3,653	3,713	4,270	4,984
Due from banks & other financial institutions	27,044	28,397	31,804	36,575
Loans and advances	100,053	104,856	120,388	144,285
Total assets	151,974	160,976	182,230	213,632
Total deposits	104,253	110,500	128,266	154,663
Due to banks & financial institutions	19,721	20,707	23,192	26,671
Total liabilities	135,330	143,181	163,176	192,908
Total shareholders' funds	16,643	17,795	19,054	20,724
ROAE	24.0%	21.6%	23.2%	25.1%
P/E	10.02x	9.85x	8.57x	7.34x
P/BV	2.20x	2.06x	1.92x	1.77x

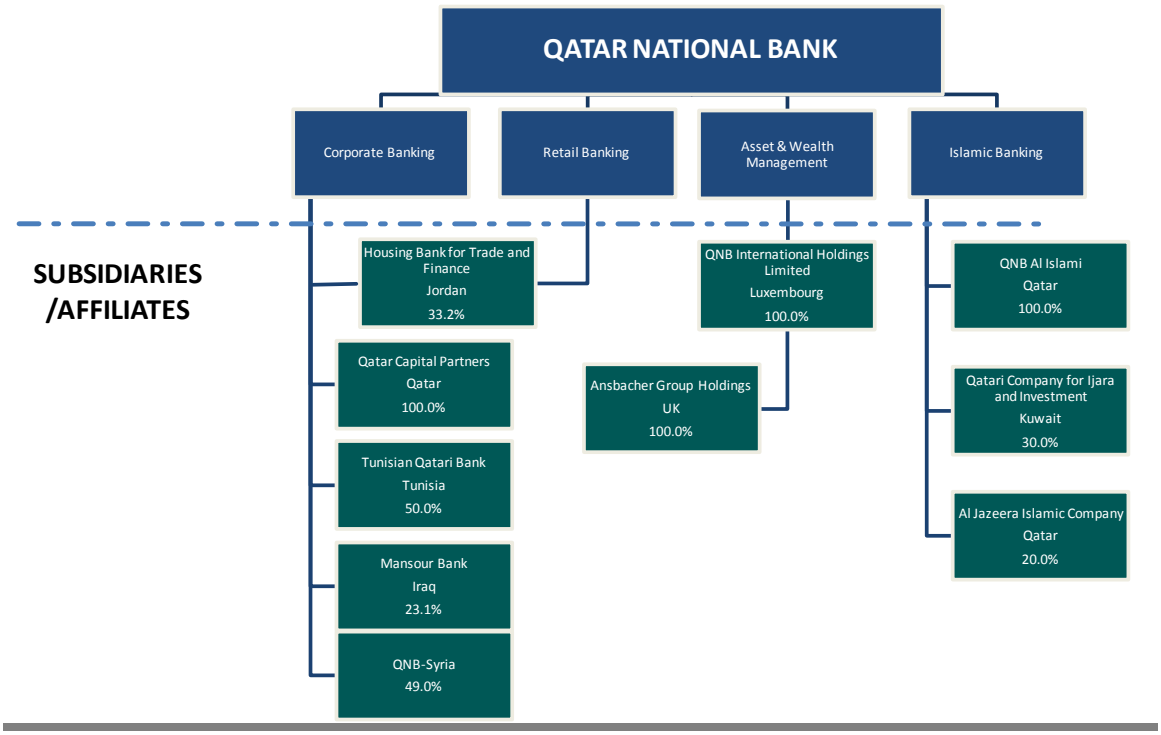
Source: VIS Research, Company Filings

Background

A Trans-MENA bank backed by the Qatari Government offering conventional & Islamic banking solutions

Qatar National Bank SAQ (QNB) is a Qatar-based financial institution that offers commercial and Islamic banking services. It was established in 1964 as the country's first Qatari-owned commercial bank, with an ownership structure split between the Qatar Investment Authority (50%) and the private sector (50%). The Bank's principal activities are to provide commercial and Islamic banking products and services. The Group operates in four segments: Corporate Banking, Retail Banking, Islamic Banking and Asset & Wealth Management. The Bank's division offers financial services and solutions in compliance with Islamic Sharia'a for the public and private business community.

Business Model



Source: Company Filings, Zawya, VIS Research

A gamut of banking activities offered by QNB & its subsidiaries/affiliates across the globe

QNB was the first conventional bank in Qatar to offer Islamic Banking products and services through QNB Al Islami and the first Qatari bank to launch equity funds for companies listed in the Doha Securities Market.

The London-based Ansbacher, QNB's Wealth Management and Private Banking subsidiary, operates in Switzerland, Channel Islands, the Bahamas, Dubai International Financial Center and Qatar Financial Center. Ansbacher was the first financial institution to be granted a license to operate at Qatar Financial Centre providing a wide range of wealth management services in Qatar and the region.

As of December 31, 2008, the bank operated 52 branches and offices in Qatar, the United Kingdom, France, Singapore, Yemen, Kuwait, Sultanate of Oman, and Sudan, as well as representative offices in Iran and Libya.

Inorganic growth with a spate of acquisitions across the MENA region

Propelled by inorganic growth, QNB is aggressively expanding in the MENA region, evident from its recent transactions in 2008.

- Established a new investment company, QNB Capital, to provide investment banking services to its clients.
- Entered the Tunisian market through acquiring stake in the Tunisian-Qatari bank.
- Expanded its operations to UAE by acquiring a stake in Commercial Bank International (CBI).
- Established the Qatar National Bank-Syria jointly with other Syrian private and public sectors institutions with a 49% stake.
- Acquired a large stake in the Kuwaiti-Qatari Company for Ijara and Investment, which shall offer Islamic financing services within the GCC countries.
- Acquired a 20% stake in the Doha-based Al Jazeera Islamic Company.

S&P affirmed QNB's long-term ratings to A+ & short-term ratings to A1

In February 2009, Standard & Poor's (S&P) affirmed QNB's ratings, long-term at 'A+' and 'A1' for short-term, with a 'Stable' outlook. Earlier in December 2008, Fitch Ratings assigned QNB a long-term issuer default rating of 'A+' and a short-term rating of 'F1', with an individual rating of 'B/C' and a support rating of '1'.

Economic Overview: Qatar

Qatar's economy to buck the global trend by continuing to grow rapidly with planned Gas capacity additions

Qatar's economic growth has accelerated impressively in recent years, driven by rising hydrocarbons output. The massive expansion of liquefied natural gas (LNG) production—from about 13m tonnes/year (t/y) in 2003 to 32m t/y in 2008 and eventually 77m t/y in 2011—together with other gas-related industrial projects have been drivers of growth in recent years.

Five more LNG "super-trains" (each with a capacity of 7.8m t/y) are expected to come on stream by 2010, driving remarkable rates of real economic growth, although technical delays in the first super-train, which delivered its first shipment in March 2009, may dampen growth in the short-term.

A range of Government initiatives to fortify the local banks

Government of Qatar's support to the local listed banks to combat the economic slowdown

With a slew of fiscal measures, the Government of Qatar has supported the local banks during extreme turbulence owing to the Global credit crisis and the resultant economic slowdown in the region.

This includes local government's intiatiative of capital infusion to the tune of 10% and 20% of listed banks' capital in Qatar. Additionally, the local Government initiated a process to buy listed shares within banks' investment

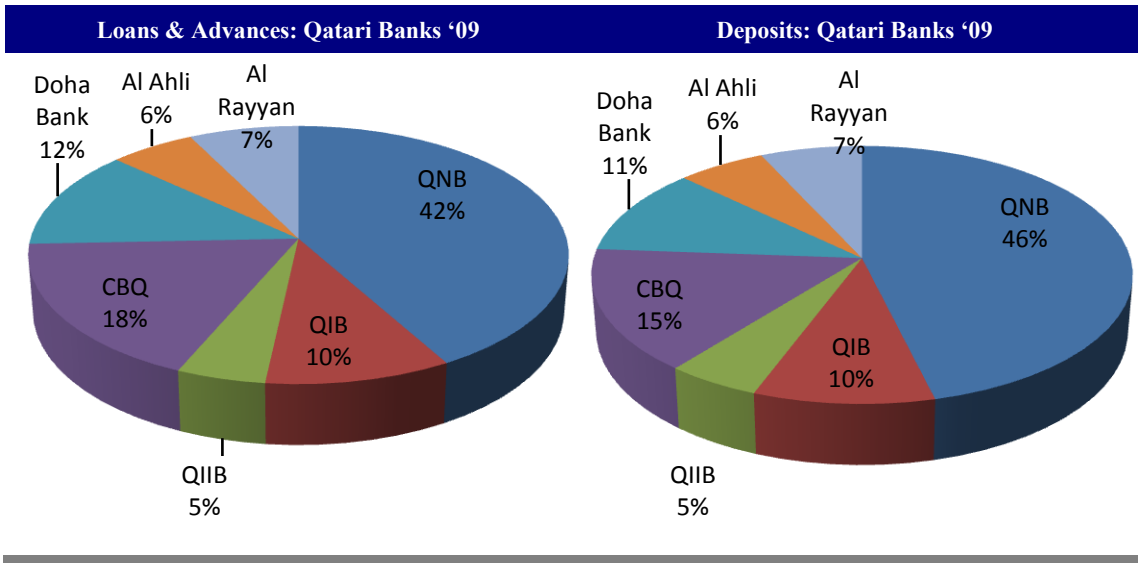
portfolios. In tandem with this policy, the Qatar Investment Authority recently bought QAR 6.5 bn worth investment portfolios of all the listed local banks.

LATEST UPDATE

Recently the local Government has also offered to buy real estate investments worth up to QAR 15.0 bn from local banks, as the government steps up efforts to support the domestic financial sector against the fallout from the credit crunch. The purchase process will include real estate assets of the following banks: Qatar National Bank, Qatar Commercial Bank, Doha Bank, Qatar International Bank, Qatar Islamic Bank, Qatar International Islamic Bank, Rayyan Bank, Qatari Al-Ahli Bank and the Al-Khaleeji Bank.

Banking Sector in Qatar

In terms of assets, Qatar's banking sector, with total assets of $110bn as of the end of March'09, is the fourth largest in the GCC.



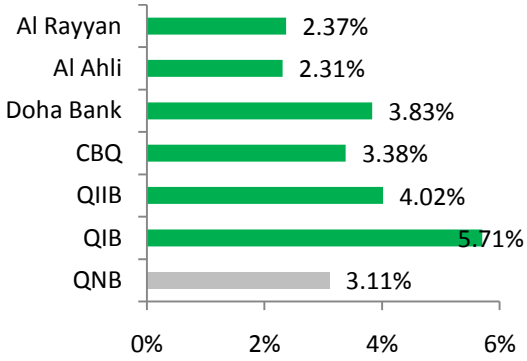
Source: Company Filings, VIS Research

QNB -the market leader- with share of 42% & 46%, respectively in loans & deposits

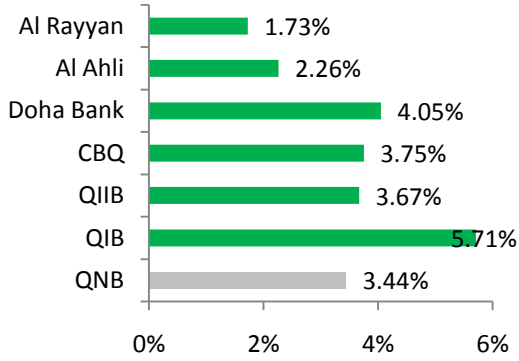
In Q1'09, Qatar National Bank continued having the highest market share in terms of both loans & deposits with a market share of 42% & 46%, respectively. Commercial Bank of Qatar remained the second largest contributor to local market share with 18% of the loans of the Qatari listed banks & 15% of their deposits.

Doha Bank's share was at 12% of loans and 11% of deposits. Three Islamic banks, namely Qatar Islamic Bank, Qatar International Islamic Bank and Al Rayan accounted for 10%, 5% and 7%, respectively, of the market share of loans & advances and in terms of deposits, their respective share was at 10%, 5% and 7% among listed banks.

Q1'09 Net Margins of Qatari Banks



Q1'09 Spreads of Qatari Banks

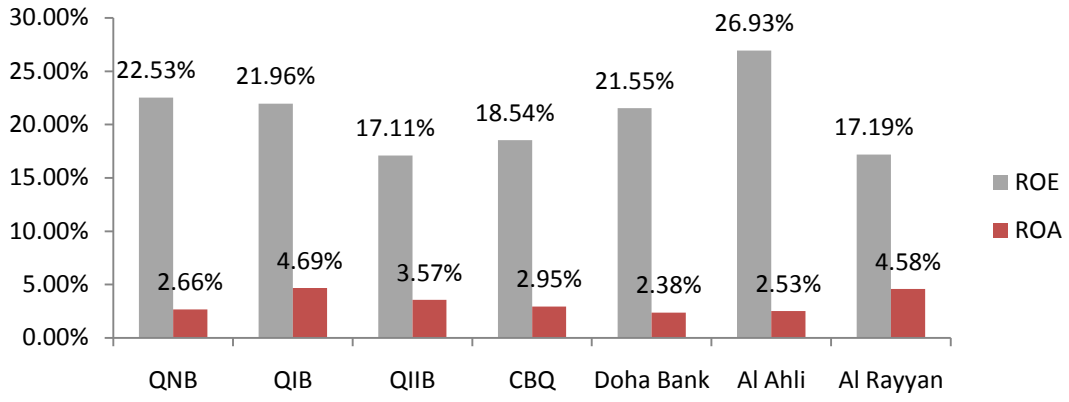


Source: Company Filings, VIS Research

In term of profitability, QNB, QIIB & Doha Bank stole the show with net margins of 5.7%, 4.0% & 3.8%, respectively in Q1'09. It should be noted that QIIB & QIB are engaged in only Islamic Banking activies which tend to attract higher margins. The worst performance in terms of profitability was witnessed by Al Ahli Bank with a Net Margin of 2.31%, in Q1'09.

In terms of Return on Assets, local Islamic Banks dominated the industry while in terms of Return to Equity, Al Ahli Bank and QNB outperformed the other players.

ROE vs. ROA of Qatari banks in Q1'09



Source: Company Filings, VIS Research

Islamic Banking gaining ground in Qatar

In the recent years, growth in the Sukuk market has led to a surge in Islamic Banking activities across GCC. Islamic banking remains a high growth area in the banking space with a market that holds half of the world's oil reserves and whose citizens have an estimated $1.5 trillion in private wealth, according to the International Monetary Fund. The factors leading to the growth in Islamic banking in the region include, a greater focus on Islamic identity, government backing for the development and promotion of Islamic banking, low penetration and competition among conventional banks and more favourable industry dynamics. With this backdrop, Islamic assets in the GCC are expected to grow to 18% of the banking assets by 2012 from their current 13% share.

Rising share of Islamic Banks contributing 17.5% to the total Banking assets of Qatar

The growth in this arena has also been witnessed in Qatar where higher penetration of Islamic banking products & services is evident from rising share of Islamic banking assets to the local Banking industry. As of September 2008, Islamic Banks contributed to 17.5% to the total banking assets in Qatar, amounting to QAR 56.1 billion.

Financial Analysis QNB

-Q1 '09 Performance

Unabated growth in margins with continued support of the local Government

Government of Qatar's aid to QNB to the tune of QAR 6.5 bn

In March' 09, QNB sold about 75% of its listed shares investment portfolio to the Qatar Investment Authority, the country's sovereign wealth fund. This sale was worth about QAR 4.0 bn, from a total QAR 6.5 bn sold to the Qatar Investment Authority by all the country's listed banks. The bank has received QAR 1.8 bn in cash and the remaining QAR 2.2 bn in bonds, with an interest of 5.5% per annum.

QNB's net income grew by 45.5%, q-o-q to QAR 746.2 mn & assets rose to QAR 140.6 bn

In Q1'09, QNB's Net interest income after loan loss provision increased 45.5%, q-o-q, to QAR 746.2 mn. Net income increased 10%, q-o-q, to QAR 1.01 bn. Net income benefited from an increase in dividend income, as well as income from islamic and financing activities. Its total assets grew 8.2%, q-o-q, to QAR 140.6 bn, while loans, advances and financing activities rose by 5.4%, q-o-q, to QAR 81.6 bn.

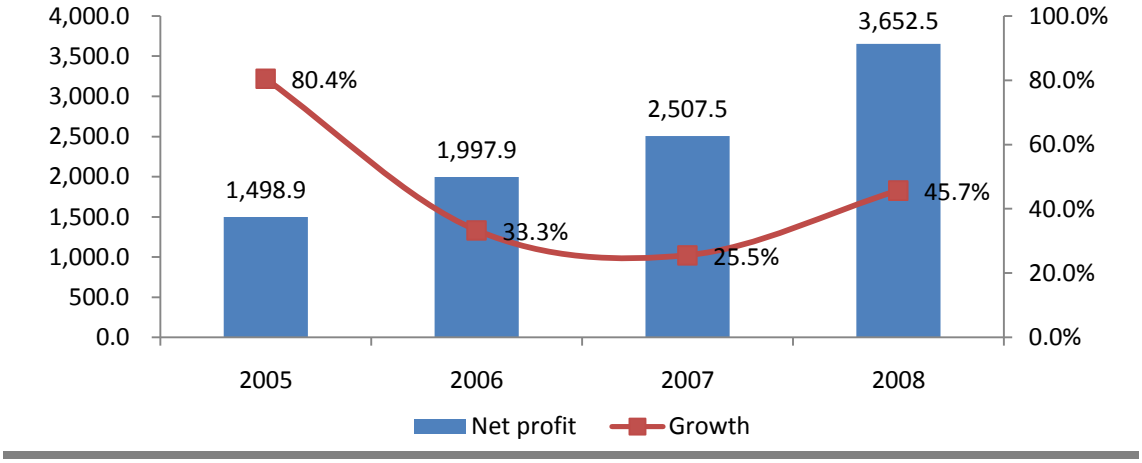
In the second Quarter of 2009, the bank is expected to complete the sale of its Bahamas business of its subsidiary, QNB International Holdings Ltd. engaged in wealth management. In Q1'09, the assets under this business which were classified as held-for-sale, were at QAR 569 mn and liabilities were at QAR 1,228 mn.

-2008 Performance

Strong historical performance with rising cost efficiencies

In 2008, Net profit rose by 45.7%, y-o-y, to QAR 3,653 mn, compared with the net profit of QAR 2,508 mn in 2007.

Profitability: Net Income (QAR mn) vs. growth (%) in 2005-08 period

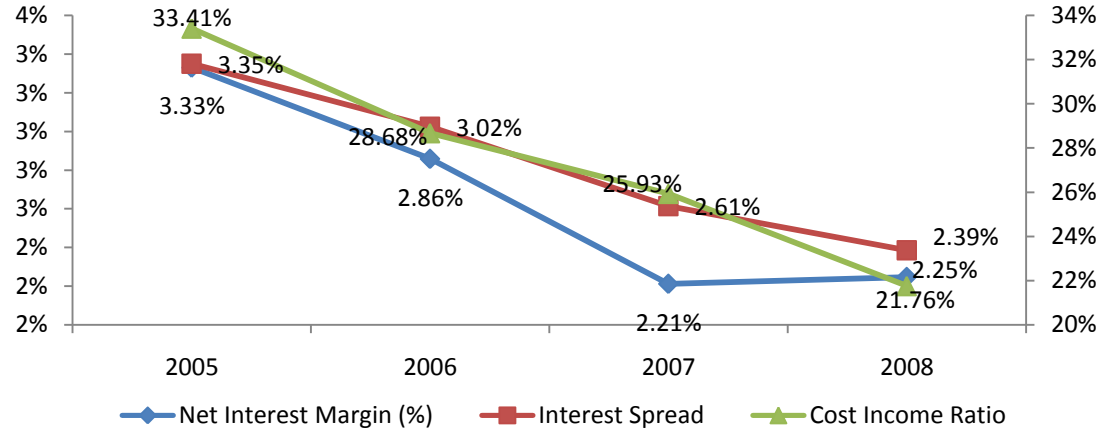


Source: Company Filings, VIS Research

In 2008, Total income grew by 49.2%, y-o-y, to QAR 5,177 mn. Net interest income and income from Islamic financing activities increased by 47.8%, y-o-y to QAR 2,856 mn, owing to the maintaining of interest margins & with a strong growth in loans and advances and financing activities of the bank. Other

operating income continued its strong growth reaching QAR 2,321 mn, representing an increase of 51%, y-o-y, with net fees and commissions growing by 34%, y-o-y, to QAR 975.9 mn.

Profitability: Margins vs. Costs vs. Spreads



Source: Company Filings, VIS Research

After declining sharply for the last consecutive years, decline in QNB's Net Interest Margins slowed down in 2008 to reach 2.3% as can be ascertained from the figure above.

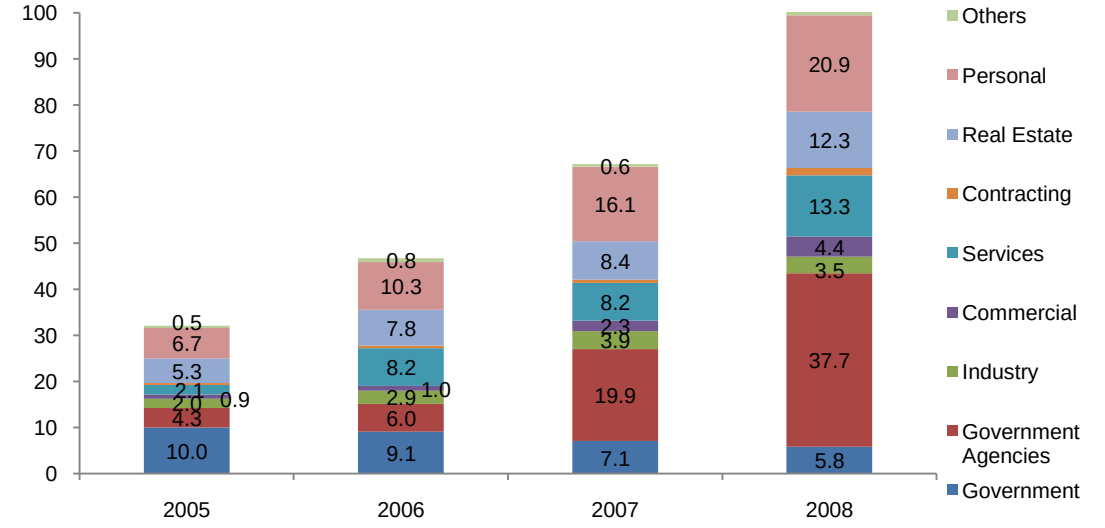
Cost reductions resulting in increased efficiency

Over the years, rising interest costs have squeezed spreads for the bank which further declined from 2.6% in 2007 to 2.4% in 2008.

The bank's efficiency has continued to improve with a downward trend in its cost to income ratio, which improved from 25.9% in 2007 to 21.8% in 2008.

A balanced exposure of Loans & Deposits with the major client being the Qatar Government

Loans & Advances by Sectors (bn QAR)



Source: Company Filings, VIS Research

Loan book dominated by the Government Sector

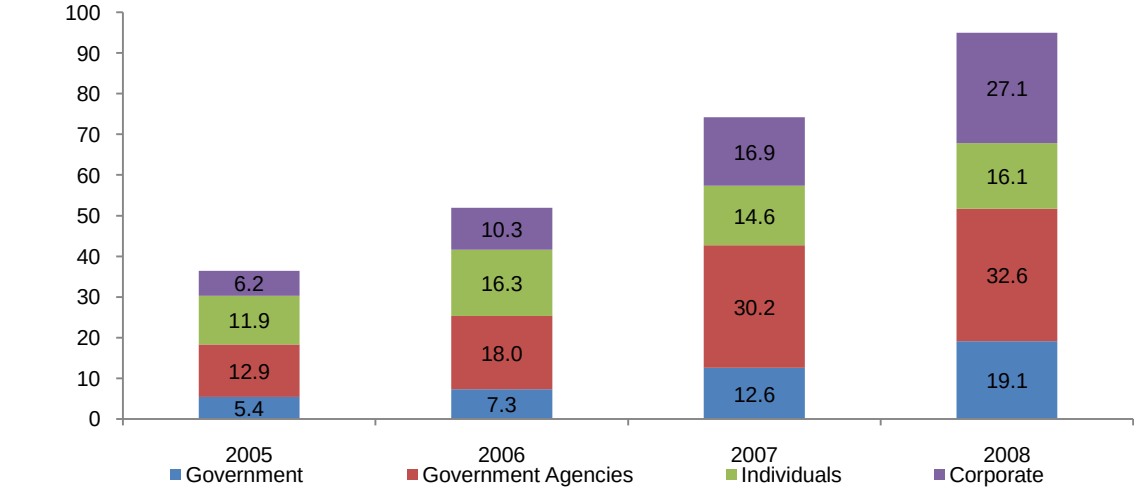
The economic boom in Qatar is reflected in the loan book of QNB, the largest local bank. QNB's loan book grew rapidly at a CAGR of 47.0%, y-o-y, in the

2005-08 period. Although the bank is diversifying its loan portfolio away from the Government, the Funding to Government Agencies has been increasing steadily in the 2005-08 period. In 2008, lending to Government declined by 17.3%, y-o-y, to QAR 5.8 bn while to Government Agencies increased by 89.0%, y-o-y, to QAR 37.7 bn.The contribution of both these sectors to the total loan book was high at 42.7%.

The second largest contribution to the loan book of 20.5% was from Personal segment which grew at 29.6%, y-o-y, in 2008 to QAR 20.9 bn.

In 2008, bank's loan book exposure of 12.0% to Real Estate remained close to the 2007 levels. Loans to the Real Estate Segment grew by 29.6%, y-o-y, to reach QAR 12.3 bn in 2008.

Customer Deposits by Sectors (bn QAR)



Source: Company Filings, VIS Research

In line with the loan book composition, Deposits largely held by the Government Sector

In lines with the loan book growth, QNB's deposit base has been growing at a CAGR of 37.6% in the 2005-08 period. In 2008, Qatar Government & its agencies remained the largest contributor to QNB's deposits with a combined share of 54.5%. The share of Government & Government Agencies to QNB's deposits was 20.1% & 34.3% , respectively in this period.

Growth in this combined segment was witnessed largely in the deposits to the Government which grew at 52.4%, y-o-y, to reach QAR 19.1 bn in 2008.The second largest contribution of 28.6% to the bank's deposits came from Corporate segment which grew at 60.9%, y-o-y, to reach QAR 27.1 bn in 2008. Deposits by individuals contributed 17.0% to the deposit base of the bank, growing at 10.6%, y-o-y, to reach QAR 16.1 bn in 2008.

Key Financials (2006A-11E)

(QAR mn)	2006A	2007A	2008A	2009E	2010E	2011E
INCOME STATEMENT						
Interest income	3,397	4,623	6,168	7,434	8,390	9,394
Interest expense	1,795	2,855	3,635	4,520	5,067	5,618
Net interest income	**1,602**	**1,768**	**2,533**	**2,914**	**3,323**	**3,775**
Total Islamic Financing Int. Income	**84**	**165**	**323**	**382**	**473**	**589**
Total Net Interest Income	**1,687**	**1,932**	**2,856**	**3,296**	**3,796**	**4,365**
Fee income	453	726	976	995	1,045	1,150
Other operating income	561	811	1,345	793	860	945
Operating Income	**2,701**	**3,469**	**5,177**	**5,085**	**5,702**	**6,460**
SG & A	720	842	1,024	1,044	1,096	1,151
Depreciation	53	57	103	109	111	112
Operating expenditure	**773**	**900**	**1,126**	**1,153**	**1,208**	**1,263**
Operating profit	**1,928**	**2,570**	**4,051**	**3,932**	**4,494**	**5,197**
Other Income/Losses	78	(44)	(378)	(200)	(197)	(181)
Net profit before tax	**2,006**	**2,525**	**3,672**	**3,732**	**4,298**	**5,016**
Tax	9	19	20	19	28	33
Net profit	**1,998**	**2,508**	**3,653**	**3,713**	**4,270**	**4,984**
Profit growth		*25.5%*	*45.7%*	*1.7%*	*15.0%*	*16.7%*
BALANCE SHEET						
Assets						
Cash and balances with central banks	2,481	10,949	6,270	4,149	4,982	5,721
Due from banks & other financial institutions	12,781	21,303	27,044	28,397	31,804	36,575
Loans and advances	46,227	66,064	100,053	104,856	120,388	144,285
Other assets	10,174	16,045	18,606	23,569	25,044	26,613
Total assets	**71,663**	**114,361**	**151,974**	**160,976**	**182,230**	**213,632**
Liabilities						
Total deposits	55,790	79,364	104,253	110,500	128,266	154,663
Due to banks & financial institutions	6,255	9,928	19,721	20,707	23,192	26,671
Other liabilities	1,177	11,210	11,356	11,973	11,718	11,573
Total liabilities	**63,222**	**100,502**	**135,330**	**143,181**	**163,176**	**192,908**
Shareholders' funds						
Share capital	1,298	1,825	2,409	3,011	3,011	3,011
Reserves/Surplus	7,143	12,033	14,234	14,784	16,043	17,713
Total shareholders' funds	**8,441**	**13,858**	**16,643**	**17,795**	**19,054**	**20,724**
Total liabilities and shareholders' funds	**71,663**	**114,361**	**151,974**	**160,976**	**182,230**	**213,632**

Source: Company Filings, VIS Research

Government aid to the banking sector & QNB's expected expansion in product lines & geographies to boost performance in 2009

Outlook

A resilient Qatari economy with Government's aid to various sectors is expected to stabilize growth in the Banking industry in Qatar. The presence of Government as a key shareholder to the banking space in Qatar is strengthening the banking system's funding and capitalization levels. This is also expected to boost the performance of the local banks, in particular QNB as it has a large share of Loans & Deposits by the Government or related entities.

In 2009, QNB is expected to record a strong performance with a planned induction of a plethora of Islamic Banking products and services across the corporate and retail functions. The implementation of various global initiatives including the launch of QNB Syria is expected to further strengthen QNB's presence in strategic Middle East and North African (MENA) markets. The bank also plans to open a new branch in Geneva during second half of 2009.

Valuation & Recommendation

Valuation of QNB has been performed by applying two prevalent Banking Valuation techniques:

- Residual Income Valuation (RIV)
- Justified P/BV using a variant of Gordon Growth model

Residual Income Valuation (RIV)

A residual income model values securities using a combination of book value of the company (NAV), and a present value of Residual Income of the company. Residual income is the amount by which profits are expected to exceed the required rate of return on equity.

The following assumptions have been taken in the RIV technique to arrive at the equity value of QNB:

Cost of Equity	10.36%
Terminal Growth rate	1.00%

The Valuation is based on a 3-year forecast (2009-11) of Residual Income for the Bank taking into account the incremental earnings for the shareholders after the required capital charge due to the cost of equity.

(mn QAR)	Book Value est.	Net Income est.	Residual Income est.	PV of est. Residual Income
Mar-09	16,627			
2009	17,795	3,732	2,009	1,866
2010	19,054	4,298	2,454	2,065
2011	20,724	5,016	3,042	2,320
Terminal Value est.			**32,830**	
PV of est. Terminal Value			**25,035**	
Value to shareholders			**47,912**	
Shares Outs. (mn)			**301.12**	
Fair Value per share (QAR)			**159.11**	

**All figures in mn QAR except per share data*

Based on our future earnings projections and the above assumptions, the RIV value of QNB is QAR 159.11 per share.

Sensitivity Analysis

A sensitivity analysis has been performed to assess the impact of changes in the long-term growth rates & Cost of Equity on the valuation.

Equity Value: Sensitivity Analysis					Step	0.5%
		Growth rate				
		0.0%	0.5%	1.0%	1.5%	2.0%
Cost of Equity	7.4%	215.89	226.39	238.53	252.75	269.63
	8.4%	188.82	196.33	204.87	214.66	225.98
	9.4%	167.53	173.06	179.26	186.24	194.18
	10.4%	150.34	154.51	159.11	164.24	169.98
	11.4%	136.19	139.37	142.85	146.69	150.94
	12.4%	124.31	126.77	129.45	132.37	135.57
	13.4%	114.22	116.14	118.21	120.46	122.90
	Step	1.0%				

Justified P/BV Valuation

For Justified P/BV approach, average ROE of similar banks in Qatar has been taken to ascertain the value of QNB.

Cost of Equity	10.36%
ROAE (Peer Average)	22.83%
Terminal Growth rate	1.00%

On the basis of this approach, the bank's stock value comes to QAR 128.75 per share.

P/B'09	2.33x
Fair Value per share (QAR)	128.75

Recommendation

Taking the current banking environment and macroeconomic scenario in GCC into account, particularly in Qatar, the weighted average share price has been calculated by assigning 50% weight to the Justified P/BV value and that of 50% to RIV.

	Weightage	Target Value (QAR per share)
Justified P/BV Valuation	50.0%	143.93
Residual Income Valuation (RIV)	50.0%	

RECOMMENDATION: BUY

QNB Target Value: QAR 143.93

Based on the above, the fair value of QNB per share is expected to be QAR 143.93 which is a 18.46% upside to the current market price (June 2, 2009).

We recommend a BUY on QNB at the current market price.

Important Disclaimer:

The above material has been prepared by Vision Investment Services Co. SAOC (Vision) for informational purposes only and should not be construed as an offer to sell or solicitation of an offer to buy any securities mentioned above (the "Securities"). The information and opinions contained in this document have been compiled or arrived at by Vision in good faith from sources believed to be reliable, but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. All opinions and estimates contained in this document constitute Vision's judgment as of the date of this document and are subject to change without notice. In receiving this material, each recipient represents, warrants and acknowledges that it has taken, or will take, appropriate steps to obtain such independent legal, tax, accounting and other professional advice as may be appropriate prior to taking any action in relation to the Securities; form its own independent judgment regarding the risks and rewards associated with any action or inaction relating to the Securities; determine that transaction in the Securities, or any related security, are suitable and appropriate, bearing in mind its objectives and experience in investments and instruments of the type mentioned herein and in light of its financial, operational and other resources act in relation to the Securities without reliance on or resource to Vision.