المجموعة المالية - هيرميس
EFG HERMES

QATAR NATIONAL BANK

Solid Results in Spite of Shrinking Balance Sheet

09 APRIL 2009

QATAR | BANKING

Short-Term Rec.: Buy	Current Price*: QAR 104.9
Long-Term Rec. : Buy	LT Fair Value : QAR 208.6

• **QNB Reported 1Q2009 Net Profit 10% Ahead of Our Forecasts:** QNB reported net profit of QAR1,011 million, up 10% Y-o-Y, 56% Q-o-Q and 10% ahead of our expectations. At the operating level, profits were QAR1,003 million, 11% ahead Y-o-Y and 6% ahead of our forecasts, reflecting good cost control, but weaker revenues. Positive provisioning experience pushed this out-performance out a little further.

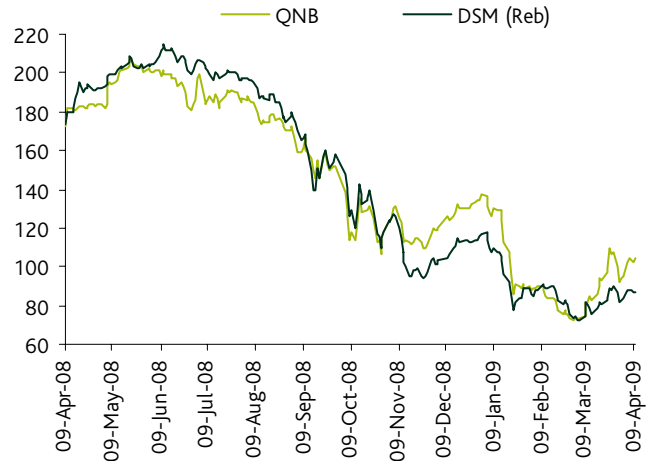
• **Balance Sheet Contraction Fails to Dent Strong Net Interest Income**: The balance sheet continued to shrink on a quarterly basis, driven by a particularly dramatic pull back in lending, which dropped 18% Q-o-Q to QAR81.6 billion, primarily due to the transfer of a QAR7 billion government loan to investments, and the repayment of a QAR10 billion government agency loan from deposits held with QNB. Excluding this, loans declined by a less sensational QAR1.4 billion, or 2% Q-o-Q, with a similar slip in deposits, in both cases driven by the weakness of European currencies. In spite of balance sheet turmoil, net interest income for 1Q2009 grew 44% Y-o-Y and 4% Q-o-Q. As expected, QNB also disposed of QAR4,013 million of equities, booking in the process a QAR785 million positive impact on the revaluation reserve.

• **Other Revenues Impacted by Lower Volumes, Helped by Seasonality:** While spread expansion helped net interest income, non-interest income declined 29% Y-o-Y on weaker capital gains, although bouncing 87% Q-o-Q, partially due to seasonal dividend receipts, and recovery from depressed 4Q2008 levels. Slightly disappointingly, the trend for fees & commissions was negative, dipping 7% Y-o-Y to QAR237 million, perhaps due to weaker loan volumes, but also lower AUM and weaker revenues from Ansbacher yacht financing, partially due to translation.

• **Deductions Were the Strongest Positive:** Cost control was impressive this quarter, with overall costs restricted to QAR260 million, down 6% Y-o-Y and 10% Q-o-Q, with the ongoing restructuring of yacht financing subsidiary Ansbacher and a winding down of branch expansion the main factors. In addition, after the jump in provisioning in 4Q2008, provisioning returned to a negligible level in 1Q2009, reflecting a degree of over-caution and pre-emption in 4Q2008 results – a suggestion born out by the decline in NPLs this quarter. Nevertheless, lack of immediate evidence notwithstanding, we continue to expect a rise in provisioning during 2009 and 2010.

• **Overall Results Positive:** Government agency de-leveraging has been somewhat surprising. However, in general the revenue side of the equation has been much as expected. On the cost side, QNB is the only bank so far to make significant progress in bringing costs down. Meanwhile the provisioning and NPL adjustments made in 4Q2008 seem to be more than sufficient to address immediate concerns over potential deterioration in loan quality. Our only concern is the 28% bounce in the price since we upgraded the stock on 10 March 2009 from ST/LT Accumulate to ST/LT Buy.

FLASH NOTE



	2008a	2009e	2010e
EPS (adj)	12.50	12.42	15.22
P/E* (x)	8.4	8.4	6.9
DPS	6.00	3.77	5.94
Div. Yield*	5.7%	3.6%	5.7%
BVPS (adj)	50.12	66.26	75.54
P/BV* (x)	2.1	1.6	1.4

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

Stock Data	
Last Ex-Div Date	QAR6.0 on 9 Feb 2009
Mkt Cap / Shares (mn)	31,109 / 297
Av. Mthly Liqdty (mn)	QAR314.8
52-Week High / Low	258.4 / 132.6
Bloomberg / Reuters	QNBK QD / QNBK.QA
Est. Free Float	50%

** Prices as of 09 April 2009*

Raj Madha
+971 4 363 4009
rmadha@efg-hermes.com

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

GCC Business Development
Ahmed Salem
+20 2 33 32 1078
asalem@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
ksa-callcenter@efg-hermes.com

Head of KSA Brokerage
Hesham Khalil
+9661 211 3040
hkhalil@efg-hermes.com

Head of KSA Sales
Mohsen Mansour
+9661 211 3008
mohsenm@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
Eiji Aono
+971 4 363 4006
eaono@efg-hermes.com

Head of Egypt 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, Raj Madha, 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[s] or dependants (if relevant) hold a beneficial interest in the securities that are traded in the Doha stock exchange. EFG-Hermes Holding SAE hereby certifies that neither it nor any of its subsidiaries owns any of the securities that are the subject of this report.

Funds managed by EFG-Hermes Holding SAE and its subsidiaries (together and separately, "EFG-Hermes") 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. Two investment ratings are offered for each stock, a Short-Term rating and a Long-term rating.

The Short-Term (ST) rating is based on the analyst's best expectations on the shorter-term price movements of the stock. Short-Term is defined as any time up to six months of the rating being applied to the stock. While shorter-term drivers could include quantifiable facts and figures, the analyst may also consider non-quantifiable issues such as the analyst's view on investor sentiment, potential news flow on the stock or the sector, or other issues which could impact share price movements.

The Long-Term (LT) rating is based on the percentage upside or percentage downside of the stock price to the analyst's Long Term Fair Value (LTFV). Long Term is defined as any time period beyond 1 year. The LTFV is based on the analyst's current expectations of the equity fair value of the company on a per share basis which is normally based on rigorous and fundamental long-term analysis of the company's financial potential. Of course, any such analysis is based on the analyst's expectations for the future and are always considered estimates.

For both the Short-Term and Long-Term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

Rating	% upside (downside)
Buy	25% and above
Accumulate	10 to 25%
Neutral	(10%) to 10%
Reduce	(10%) to (25%)
Sell	(25%) or more downside

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 UAE Limited. 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.

EFG-HERMES.COM