المجموعة المالية - هيرميس
EFG HERMES

QATAR ISLAMIC BANK

3Q2009 Results - Not Immune to the Downturn

19 OCTOBER 2009

QATAR | BANKING

Short-Term Rec.: Neutral	Current Price*: QAR 84.70
Long-Term Rec. : Accumulate	LT Fair Value : QAR 108.8

• **QIB Reported 3Q2009 Headline Net Income 34% Below Our Forecast**: QIB reported headline and attributable net income of QAR189 million, down 53% Y-o-Y and 59% Q-o-Q, and falling 34% short of our expectations. Comprehensive income was significantly better at QAR230 million, boosted by the movement in the fair value reserve. Revenues were weak, declining 26% Q-o-Q to QAR393 million, but costs were also sharply up, rising 16% Q-o-Q, while provisioning jumped from zero basis points at the half-year stage to an annualised 60 basis points YTD, with all three items contributing to overall weak results.

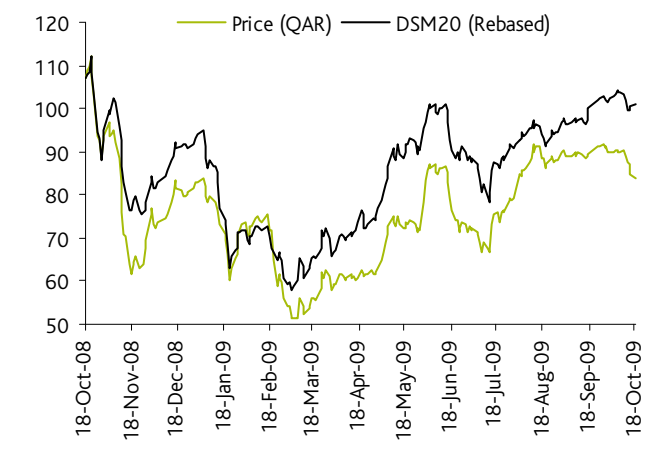
• **Net Financing Returns a Bright Spot**: Balance sheet growth was flat Q-o-Q, although on the liability side, capital accumulation allowed some interbank borrowing to be paid down. On the asset side, loan growth was an impressive 14% Q-o-Q, bettering expectations by 11%, leading to a draw-down of liquid assets. This better customer asset growth led directly to stronger Islamic returns, which rose 5% Q-o-Q, exceeding our expectations by 3% in spite of weaker-than-expected spreads, albeit at the expense of net returns on interbank assets/liabilities.

• **Income from Investing Activities Falls Sharply:** Non-financing income was, however, very weak, dropping 64% Q-o-Q and missing our forecast by 34%. Fees & Commissions dipped 9% Q-o-Q, but this was after a very strong 2Q2009. The main shortfall came from investment returns, which dropped 81% Q-o-Q, in spite of management guidance that the extraordinary levels of income from investing activities seen in 2Q2009 was largely sustainable. This will have been impacted by lower interbank amounts, weak income from property and a lack of equity gains following the 1Q2009 disposal of the DSM-listed equity portfolio.

• **Costs & Provisions Also Higher:** Costs jumped sharply in 3Q2009, rising 16% Q-o-Q, although we believe this must partially have been related to non-recurring items. In addition, provisioning, which has been a net positive for the last ten quarters, jumped to QAR86 million, equivalent to an annualised rate of 180 basis points. With QIB's high exposure to personal, housing and SME sectors, high provisioning should not come as too great a surprise, but write-backs and better credit worthiness of Islamic customers has given it some shelter in other quarters.

• **Overall Weak Results:** With income from investing activities even less sustainable than we had expected, higher costs and a provisioning number greater than we had forecast for the remainder of the year, these can only be described as a disappointing set of results. We have been sceptical of QIB's valuation on a relative basis, preferring both the security of Qatar National Bank's exposure and the valuation story of Commercial Bank of Qatar. We do not believe that provisioning will continue at this level, and we expect some recovery of income from investing activities, but overall this represents a weak set of results.

FLASH NOTE



	2009e	2010e	2011e
EPS	6.81	6.47	7.63
P/E* (x)	12.3	13.0	11.0
DPS	5.66	6.10	6.16
Div. Yield*	6.7%	7.3%	7.3%
BVPS	36.5	36.8	38.3
P/BV* (x)	2.3	2.3	2.2

Figures in QAR unless otherwise stated
Forecasts have not been revised

Stock Data	
Last Dividend Date	QAR7.00 on 19 Feb 09
Mkt. Cap/Shares (mn)	QAR18,195 / 216.6
Av. Mthly Liqdity (mn)	QAR881.7
52-Week High / Low	QAR112.00 / 51.40
Bloomberg / Reuters	QIBK QD / QISB.QA
Est. Free Float	72%

** Prices as of 18 October 2009*

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SUMMARY FINANCIALS

Figure 1: QIB 3Q Results Review
In QAR million, unless otherwise stated

	3Q2008a	2Q2009a	3Q2009a	3Q2009e	Y-o-Y	Q-o-Q	v Est
Balance Sheet							
Loans & Islamic Financing	17,926	19,711	22,415	20,236	25%	14%	11%
Financial Instruments	-	-	-	-			
Total Assets	**41,020**	**48,074**	**49,152**	**223,894**	**20%**	**2%**	**-78%**
Customer Deposits & Islamic Funding	16,412	20,202	20,196	21,125	23%	0%	-4%
Capital Market Liabilities	-	-	-	-			
Total Liabilities	**22,936**	**27,960**	**27,723**	**28,930**	**21%**	**-1%**	**-4%**
Net Liquid Assets	(4,870)	(4,243)	(5,360)	(4,919)			
Shareholders' Equity	**6,926**	**7,524**	**7,756**	**7,810**	**12%**	**3%**	**-1%**
Income Statement							
Net Interest & Islamic Returns	246	294	307	298	25%	5%	3%
Total Non-Interest Income	100	240	86	136	-14%	-64%	-37%
Total Banking Income	**346**	**533**	**393**	**434**	**14%**	**-26%**	**-9%**
Total Operating Expenses	(94)	(104)	(121)	(107)	29%	16%	14%
Provisions for Loans Losses	138	17	(86)	(36)	N/A	N/A	140%
Profit before Tax	**390**	**447**	**185**	**291**	**-52%**	**-58%**	**-36%**
Tax, Minorities & Appropriations	7	16	3	(5)	N/A	N/A	N/A
Attributable Income	**397**	**462**	**189**	**286**	**-53%**	**-59%**	**-34%**
Headline Net Income	397	462	189	286	-53%	-59%	-34%
Comprehensive Income	363	462	189	286	-48%	-59%	-34%

Source: Company reports, EFG-Hermes estimates

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