Equity | Qatar | Banks

21 July 2011

Qatar Islamic Bank

Good profitability, no loan growth

2Q11 numbers indicated good profitability, but zero qoq loan growth. This headline outperformance was of low quality, however. The main positives were volatile investment income and low provisioning, while core financing and fee & commission income fell.

Hold

Target price
QR81.54

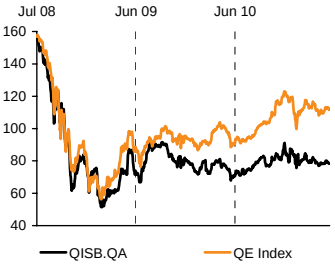
Price
QR78.60

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	78.00	79.90	72.00
Absolute (%)	0.8	-1.6	9.2
Rel market (%)	-1.3	1.2	-9.7
Rel sector (%)	-2.4	0.2	-13.3



Market capitalisation
QR18.57bn (€3.58bn)

Average (12M) daily turnover
QR18.67m (€3.13m)

Sector: QE Bank Index
RIC: QISB.QA, QIBK QD
Priced at close of business 20 Jul 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	1,284	1,362	1,533	1,997	2,284
Reported net profit (QRm)	1,322	1,335	1,378	1,851	2,118
Reported EPS (QR)	6.10	5.85	5.96	7.36	8.42
Normalised EPS (QR)	6.10	5.85	5.96	7.36	8.42
Dividend per share (QR)	5.45	5.00	4.01	4.17	5.12
Normalised PE (x)	12.88	13.43	13.19	10.68	9.33
Price/book value (x)	2.18	2.12	1.79	1.67	1.56
Dividend yield (%)	6.94	6.36	5.10	5.31	6.51
Return on avg equity (%)	19.50	16.80	14.90	16.60	19.00

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Headline net income ahead by 6%, but of low quality, in our view

Headline net income of QR382m for 2Q11 rose 27% yoy and 19% qoq, and was 6% ahead of our expectations. The primary drivers of this performance were strong investment income of QR215m (after adjustments), up 82% qoq and beating our estimate by 51%. Net clawbacks on provisioning provided a further positive variance. Both are likely to be volatile, with the former benefiting from a drawdown of the fair value reserve and the latter potentially helped by an earlier topping out of the NPL ratio.

Strong volatile earnings offset by weak core revenues and high costs

Despite strong investment income, 2Q11 revenues were no better than in line. This was due to weakness in financing income, which brought down net Islamic returns to QR277m, down 8% qoq and 17% below our expectations. In additions, fees & commissions slipped 6% qoq, undershooting our expectations by 28%. These could, in part, be related to the retail banking regulations, but with personal loans accounting for just 16.5% of the gross loan book as of 4Q10, there may be other features to this. The biggest surprise to us, though, was costs, which jumped 32% qoq, only partially attributable to the March consolidation of QInvest.

Lending volumes a source of speculation

Lending volumes fell sharply in 1Q11 and there was no recovery in 2Q11, suggesting a disappointing growth outlook. Nevertheless, we see two ways to look at this. Either QIB is a victim of circumstance, or it has allowed a portion of low-spread lending activity to walk, in expectation of creating space for more valuable business as the conventional banks surrender their Islamic operations – a far more positive spin on the same data.

Overall a dull set of results, but eyes turning towards regulatory changes

In the long run, the enduring features we see about these results are more likely to be the negatives – low spreads, and fee & commission income, with little in the way of loan growth. Nevertheless, incoming regulations may be the catalyst for QIB, explaining the sharp increase in costs and, we hope, services. We expect views on this issue to drive 2H11 performance, but don't update our valuation or recommendation here.

Important disclosures can be found in the Disclosures Appendix.
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Profitability; no qoq loan growth

Table 1 compares 2Q11 results with 2Q10.

Table 1 : QIB 2Q11 results comparison

	2Q10A	1Q11A	2Q11A	2Q11E	yoy	qoq	Vs Rasmala estimates
Balance sheet							
Loans & Islamic financing	28,633	24,744	24,727	31,100	-14%	0%	-20%
Interbank assets	7,353	4,560	4,427	7,775	-40%	-3%	-43%
Financial instruments	3,204	14,262	14,478	13,684	352%	2%	6%
Cash & CB deposits	1,413	1,966	2,089	2,022	48%	6%	3%
Other assets	4,631	4,304	4,423	3,347	-4%	3%	32%
Total assets	45,233	49,836	50,144	57,927	11%	1%	-13%
Customer deposits & Islamic funding	25,384	25,675	26,031	31,411	3%	1%	-17%
Dues to banks	10,031	7,799	7,502	9,423	-25%	-4%	-20%
Capital market liabilities	-	2,714	2,715	2,714			
Other operating items	1,210	1,532	1,535	1,874	27%	0%	-18%
Total liabilities	36,625	37,720	37,783	45,423	3%	0%	-17%
Net liquid assets	(1,265)	(1,274)	(986)	373			
Shareholders' equity	8,609	12,116	12,361	12,504	44%	2%	-1%
NPL ratio	0.00%	0.00%	0.00%	1.00%			
Income statement							
Net interest & Islamic returns	333	302	277	332	-17%	-8%	-17%
Fees & commissions	97	59	56	78	-43%	-6%	-28%
FX & derivative	8	8	6	7	-25%	-27%	-20%
Core non-interest	105	67	61	85	-41%	-8%	-28%
Trading & investments	53	118	215	143	309%	82%	n.a.
Total non-interest income	157	185	276	227	76%	49%	21%
Total banking income	490	487	553	559	13%	13%	-1%
Total operating expenses	(113)	(137)	(180)	(143)	60%	32%	26%
Provisioning	(72)	(28)	7	(31)	-110%	-127%	-124%
Other adjustments	-	-	3	-			
Profit before tax	306	322	384	385	25%	19%	0%
Tax, minorities & appropriations	(5)	(2)	(1)	(23)	-75%	-29%	-95%
Attributable income	301	321	382	362	27%	19%	6%
Headline net income	301	321	382	362	27%	19%	6%
Comprehensive income	277	311	361	362	30%	16%	0%

Source: Company data, Rasmala forecasts

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	1289	1339	1365	1666	1994
Non-interest income	513.7	552.1	887.3	1167	1258
Total income	**1802**	**1891**	**2253**	**2833**	**3252**
Operating costs	-487.4	-479.3	-615.7	-748.7	-875.7
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	0.00	0.00	0.00	0.00
Pre-prov operating profit	1315	1412	1637	2084	2376
Provisions charges	-31.1	-50.0	-103.8	-87.4	-91.6
Post-prov op prof	1284	1362	1533	1997	2284
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**1284**	**1362**	**1533**	**1997**	**2284**
Taxation	10.9	-66.4	-85.9	-111.8	-127.9
Minority interests	27.4	-27.4	-97.9	-145.2	-166.1
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	66.4	28.4	111.8	127.9
Reported net profit	**1322**	**1335**	**1378**	**1851**	**2118**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	1284	1362	1533	1997	2284
Normalised net profit	1322	1335	1378	1851	2118

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	22663	29352	34559	41129	48683
Other int earn assets	8903	12431	7603	9048	10710
Goodwill	0.00	0.00	216.1	216.1	216.1
Oth non-int earn assets	5165	7068	16917	17369	18533
Total assets	**39273**	**51840**	**62544**	**71510**	**82700**
Total customer deposits	20361	30258	34905	41540	49170
Oth int-bearing liabs	8691	11125	13185	14345	16481
Non int-bearing liab	2203	2207	2245	2529	3036
Total liabilities	**31255**	**43590**	**50334**	**58414**	**68687**
Share capital	7824	8041	10395	11149	11929
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	**7824**	**8041**	**10395**	**11149**	**11929**
Minority interests	193.7	209.2	1815	1947	2083
Total liab & sh equity	**39273**	**51840**	**62544**	**71510**	**82700**
Risk weighted assets	38314	37523	44027	51986	61048
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-248.2	-297.8	-401.1	-487.9	-578.6
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	38314	37523	44027	51986	61048
Reported net profit	1322	1335	1378	1851	2118
Opening risk assets	33591	38314	37523	44027	51986
Closing risk assets	38314	37523	44027	51986	61048
Change in risk assets	4723	-790.8	6504	7959	9061
Capital required	472.3	-79.1	650.4	795.9	906.1
Free capital flow	849.8	1414	727.6	1056	1212
Ordinary dividend paid	-1181	-1083	-948.1	-986.0	-1210
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	1912	0.00	1912	0.00	0.00
Cash flow from financing	730.5	-1083	963.9	-986.0	-1210
Net capital flow	1580	330.6	1691	69.6	2.21
Tier 1 capital	6639	6518	9849	10763	11687
Tier 1 capital ratio (%)	17.3	17.4	22.4	20.7	19.1

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Qatar Islamic Bank (RIC: QISB.QA, Rec: Hold, CP: QR78.60, TP: QR81.54): We base our valuation on a three-stage DDM: a three-year stage of explicit forecasts, a 10-year stage of trend forecasts and a terminal stage based on a GGM. Downside risks to our target price are: increased competition in Islamic Banking, and overinvesting in less productive areas. We are also concerned about the quality of disclosures. Upside risks are: better-than-expected global economic recovery, higher oil prices and increased participation in local government infrastructure plans.

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