المجموعة المالية - هيرميس
EFG HERMES

QATAR NATIONAL BANK (QNB)

2Q2008 Results – Steady Progress

10 JULY 2008

QATAR | BANKING

ST Rec. : Neutral	Current Price*: QAR 232.9
LT Rec. : Neutral	LT Fair Value : QAR 260.7

• **Headline Net Income Up 71% Y-o-Y:** 2Q2008 net profit of QAR945 million rose 71% Y-o-Y, exceeding our expectations by 18%. The largest contributing factor to this was revenues, which increased 49% Y-o-Y, but exceeded our expectations by 10%. Nevertheless, there was also a positive variance for costs, which rose just 17% Y-o-Y, beating our expectations by 11%, and resulting in a cost-income ratio of just 22.6%. Provisioning continued to be negligible as expected at just 12 basis points YTD, while income from associates continued to have a positive influence.

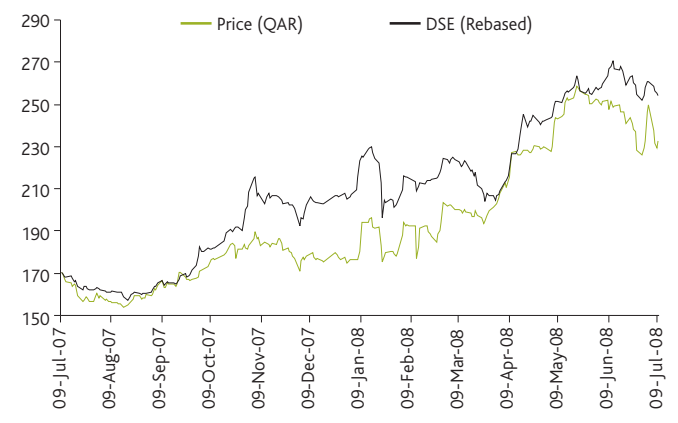
• **Slipping Spreads Counterbalance Balance Sheet Strength:** Total asset growth was 102% Y-o-Y, and 17% Q-o-Q, comfortably exceeding our growth expectation. Some of this reflected strong growth in customer items, with loans increasing 60% Y-o-Y, 9% Q-o-Q and deposits rising 86% Y-o-Y and 24% Q-o-Q, respectively beating our expectations by 6% and 18%, with the only negative point being weak Q-o-Q growth in Islamic loans. On a quarterly basis, the strong deposit growth combined with higher shareholders funds (swollen by movement in the fair value reserve) made for a sharp increase in liquidity. This increase in liquidity, mostly in the form of short term interbank deposits, had a negative impact on spreads, which decreased 3 basis points Q-o-Q to 143 basis points compared to our expectation of a 9 basis point increase, which had been based on lower competition at the top end of the market. Overall, the impact on revenues was modestly positive with net interest income up 32% Y-o-Y, 13% Q-o-Q, but only beating expectations by 2%.

• **Trading Boosts Non-Interest Income:** Non-interest income was stronger, jumping 80% Y-o-Y, and beating expectations by 24%, although it was 15% weaker on a Q-o-Q basis, in part due to the seasonality of dividend receipts. Fees & Commissions had another strong quarter, rising 53% Y-o-Y and slipping only 2% from a very strong 1Q2008 level, assisted particularly by further growth in trade finance, and so beating expectations by 5%. The big positive, however, was trading profits where FX dealing and net gains from financial assets continued to provide the backbone of a 110% Y-o-Y increase in revenue contribution, beating expectations by 50%.

• **Cost Inflation Abates:** Costs increased just 17% Y-o-Y, courtesy of a 5% fall Q-o-Q, comfortably bettering our expectations by 11%. Although we had anticipated an abatement in cost inflation, we were relatively modest in that assessment, due in substantial part to the expansion in 1Q2008 into Kuwait and Oman, although perhaps the bulk of those expenses was spread over 4Q2007/1Q2008. Provisions were negligible as expected. QNB has had three years of solid write-backs, and we expect this to be the final year to see that benefit.

• **Overall Strong but Some Items Thin on Quality:** Although the largest variance compared to our expectations was on lower quality trading profits, and half the remainder was a positive surprise on costs, we believe this was a strong set of results. Net interest income was driven by a strong balance sheet, fees & commissions were significantly ahead, and the higher level of trading profits seems to have become the norm over recent quarters. Overall, the evidence is for a modest increase in our recurring forecasts, although management clarifications may make us a little more positive still. For now, we maintain our LT Fair Value at QAR260.7, suggesting 12% upside. Our recommendation remains unchanged at ST/LT Neutral.

FLASH NOTE



	2008e	2009e	2010e
EPS	14.29	15.52	19.03
P/E* (x)	16.3	15.0	12.2
DPS	5.66	4.71	7.43
Div. Yield*	2.4%	2.0%	3.2%
BVPS	72.03	82.83	94.43
P/BV* (x)	3.2	2.8	2.5

Figures in QAR unless otherwise stated

Stock Data	
Last Ex-Div Date	*QAR5.0 on 11 February 2008*
Mkt. Val. (mn)	*QAR55,255*
Shares (mn)	*237.2*
Av. Mthly Liqd. (mn)	*QAR464.4*
52-Week High / Low	*QAR258.40 / 153.78*
Bloomberg / Reuters	*QNBK QD / QNBK.QA*
Est. Free Float	*50%*

*Prices as of 09 July 2008

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