Analyst Comment

July 20, 2011

QATAR ISLAMIC BANK (QISB.QA)

12-Month Fair Value: QR 91.90
Recommendation: Accumulate - Risk Level: 3
Last Close (20 July 2011): QR 78.60

- **Qatar Islamic Bank's (QIB) net profit soared to QR 382 million (+27% YoY) on higher investment gains and a sharp drop in provisioning charges.**

- **Total operating income slightly ahead of our forecast (a difference of 3%)** standing at QR 553 million. Total operating income increased 13% YoY on much higher investment gains.

- **Investment gains surged by 50% QoQ indicating additional investment earnings (over and above the earnings from Sukuks) were logged in 2Q2011, possibly one-offs.** Total investment earnings represented a significant 34% of total operating income in 2Q2011.

- **Net financing income and fee income under pressure**, dropping by 12% and 43%, respectively, YoY.

- **Financing portfolio and deposits nearly flat QoQ, weaker than expected.** The forthcoming closure of the Islamic windows of conventional banks is yet to have an effect on QIB's balance sheet growth.

- **NPLs not disclosed but the net recoveries on the income statement in 2Q2011 probably indicate no negative surprise in asset quality.**

- **High cost growth (+60% YoY and +32% QoQ) lessened net profit growth and increased the cost-to-income ratio to around 33% in 2Q2011.**

- **Overall, we believe this is a mixed set of results.** Muted balance sheet growth, pressure on net financing income and fee income, and soaring costs are the major negatives. On the other hand, the large dip in provisioning and soaring investment earnings led to the increase in net profit.

- **We maintain our "Accumulate" recommendation on QIB**, with a fair value of QR 91.90 per share reflecting a 17% upside potential.

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Related Research

- QIB Initiation of Coverage - 29 June 2011

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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