Qatar Islamic Bank SAQ

KEY DATA & STATISTICS

Particulars	Amt in AED
DSM Code	QIBK
Reuters Code	QISB.QA
CMP	QAR 122.00
Market Cap in Bn QAR/USD	14.62/4.02
Paid Up Cap in Bn QAR	1.19
Avg Volume (12 mths)	229,160
Average value (12 mths)	
QAR	25,992,452
52 week H-L	146.20 – 86.00
EPS*	9.14
BVPS	32.51
P/E	13.35
P/BV	3.75
Dividend Yield	5.74%

Source: QIB & Zawya
* Diluted trailing twelve months

STOCK PERFORMANCE (52 Week)



Price Movement %

	1 Month	3 month	6 month
Stock	7.73%	38.00%	(2.26%)
DSM	5.55%	29.66%	13.35%

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Sector	**Banking (Islamic)**
Report	**Initiating Coverage**
Price Target	**QAR 145.10**
Rating	**BUY**
Date	**July 09, 2007**

HIGHLIGHTS

Pioneer in Islamic Banking
Qatar Islamic Bank is the pioneer in Islamic financing in Qatar. Further, Islamic banking is a well-liked financing option in Qatar which makes the bank a preferred player.

Expansion in full-swing
The bank is working with a two pronged strategy of expanding globally as well as locally. The bank has already expanded operations in Malaysia and UK and plans are on the anvil to venture into Sudan and Pakistan.

Threat from local bank's
QIB is facing immense amount of competition from the conventional banks which have started Sharia compliant financing options. This is likely to create stiff competition and erosion of market share for the bank.

Rated as BUY
We are initiating coverage with a BUY rating on the stock at current prices.

KEY FINANCIAL DATA (Excluding extra-ordinary gains/losses)

(QAR Billion)	FY 2006	FY 2007E	FY 2008E
Total income from financing and investing activities	1.13	1.52	1.91
Net operating income	1.57	2.07	2.62
Net profit attributable to shareholders	1.01	1.27	1.61
Due from financing activities	7.16	8.95	10.73
Total assets	14.89	19.62	22.96
Customers' current accounts	2.36	2.93	3.57
Unrestricted investment accounts	6.37	7.94	9.31
Total shareholders' equity	4.25	4.71	6.34
ROE	23.79%	27.00%	25.39%
P/E*	13.50	10.74	8.49
P/BV	3.21	2.90	2.16

* Fully diluted
Source: QIB & VIS Research

Investment Thesis

The banking and the financial sector in general and the Islamic banking in particular would be among the key beneficiaries from the rapid growth witnessed by the gas centric Qatari economy.

Qatar Islamic Bank is the oldest and the pioneer in the Islamic financial sector in Qatar would be benefiting from this growth. QIB is a brand which is tattooed in the minds of people residing in Qatar as a bank providing Islamic finance.

The bank is following a two pronged strategy of expanding locally as well as globally. As an initiative towards its local expansion spree, the bank has planned to set up four new branches during 2007, which will bring the total number to 22. Further, it would work in the direction of diversifying the services offered at these branches. QIB is focusing more on the housing and consumer finance sector which are lucrative lending areas in the current scenario.

QIB in line with its five year plan ending 2007 has expanded globally and forayed into Malaysia and UK. The bank targets to make these locations as hubs for tapping the Asian as well as the European Markets. Further, it plans to foray into Sudan and Pakistan, which are lucrative markets and big players from neighboring countries have already setup operations.

Risks

The bank is facing competition from the large local banks which have opened Islamic banking window and enjoy large branch network and presence. Further, QIB's move of expanding operations to global markets could expose it to the risk associated with operating on foreign land and the currency risk coupled with rise in the administrative expenses.

Valuation

QIB is trading at 13.35x its trailing twelve month earnings and 3.75x its most recent book value. Considering the value arrived from the P/E multiple and the P/BV multiple we arrive at a fair value of QAR 145.10 per share. This value gives us an 18.93% upside from the current levels.

Investment Opinion

Considering the various methodologies and the bank's position among the largest banks in the region coupled with its enthusiastic expansion strategies, we initiate coverage on QIB with a BUY recommendation.

Industry Scenario

GDP growth of 24.16%

The gas centric economy of Qatar is moving on an upward trajectory with energy prices being at high levels. This has lead to a huge augment in the GDP of the country which has grown by 24.16% to QAR 191.9 billion for the year ended 2006. The huge influx of petrodollars has resulted in enormous development activities in the country. The banking sector has been among the top beneficiary and the total loans of the listed banks as on the first quarter ended 2007 reached QAR 103.21 billion a rise of 48.47% as compared to Q1 2006. Further, the deposits increased by 20.51% to QAR 96.71 billion during the period.

Islamic financing gaining popularity

Islamic banking has been among the most popular financing avenue in Qatar. It has been able to make rapid strides by offering a range of Sharia compliant products. This move has lead to bring in the strict followers of Islam under the banking net and tap an untapped market. The Islamic loans have been preferred for a variety of reasons and the loan book of Islamic banks have witnessed a huge expansion since its inception. The financing and investing assets of Islamic banks and the Sharia compliant financing offered by conventional banks increased by 63.75% to QAR 20.90 billion as compared to 45.03% to QAR 82.31 billion in the conventional loans. This indicates that the Sharia compliant financing is growing at a rapid pace though on a smaller base.

Islamic banks are presently concentrated in the Middle-East and Southeast Asian economies. However, it is developing rapidly in US and Europe where established banks are developing and launching Islamic products. Additionally, plans are on the anvil to establish a full-fledged Islamic bank on western soil. This move is to cater the local Muslim population as well as non-Muslims who are willing to borrow or lend on Sharia principles. However, as compared to the total banking assets in the world the Islamic banking assets are of a minuscule size. The main challenge faced by Islamic banks in these regions is the law, which needs to be modified to match with the Islamic Sharia. Once this is in place the popularity is expected to increase further. Additionally, a lot of regions with large amount of Muslim population remain untapped indicating good potential going ahead.

Background

The oldest Islamic bank in Qatar

Qatar Islamic Bank (QIB) also known as Al Masrif was established in the year 1982 as an Islamic bank in Qatar. It is the oldest Islamic bank in Qatar offering Sharia compliant personal and corporate banking through a network of 18 branches across Qatar. The bank apart from offering banking services QIB offers Islamic fund management, technical and engineering advisory and real estate management services to its clients.

The bank has 80% interest in Al Jazeera Islamic Company, an Islamic financial services company and 49% interest in Al Aqar Real Estate Development and Investment. Recently, QIB forayed into Malaysia establishing Asian Finance Bank. Additionally, it established European Finance House in London to collect investments from Europe, provide Islamic investment services and manage real estate assets there.

Financing top projects

QIB has been a co-financer of an Airbus plane for Qatar Airways for an Airbus A340-600. In addition to that, it would finance QAR 228 million Faisal Tower, an endowment project of QAR 145 million and Al Waab city project worth QAR 225 million. Further, plans on the anvil to establish a mega commercial and investment bank in Sudan and a bank in Pakistan. However, its expansions are not only in the international arena, but it even plans to increase its branches to 22 in Qatar by the end of 2007.

Year 2006 was a great year for QIB with net profit rising by 97.95% to QAR 1.01 billion and total assets seeing the augment of 55.88% to QAR 14.89 billion. Further, the unrestricted investment accounts and customers' current account saw an increase of 36.86% and 6.84% respectively.

Board of Directors

Chaired by a member of royal family

The board is chaired by HE Sheikh Jassim bin Hamad bin Jassim bin Jabor Al Thani. The CEO Mr. Salah Mohammed Jaidah has gained lot of experience by working in top positions in a host of Qatari Banks. The rest of the board consists of eminent persons from various backgrounds. Further, the Sharia advisory board consists of the following persons who have

Name	Position
Dr. Youssef Al Qaradawi	Chairman
Abdulqader Al Ammari	Director
Dr. Ali Al Mohannadi	Director
Walid Bin Hadi	Director

Shareholding Pattern

Fully owned by public

The shares of the bank are widely held with 100% of the equity freely held by public. Further, investors can own up to 1% of the bank and the foreign ownership is limited to 25% each for GCC and other foreign investors.

The bank in turn has interest in the following companies:

Name	Country	Holding
Al Jazeera Islamic Company	Qatar	80.00%
European Finance House	U.K.	51.00%
Al Aqar Real Estate Company	Qatar	49.00%
Arab Finance House	Lebanon	30.00%
Asian Finance Bank	Malaysia	20.00%
International Investment Bank	Qatar	NA
Islamic Development Company	Sudan	NA
Islamic Investment Bank of Qatar	Qatar	NA

Ratings and Awards

Fitch upgraded rating

Fitch upgraded the bank to an A- rating in December 2006. This was based on the bank's outstanding financial position and the fact that it holds a 10% share in the local market.

Awarded the best financing establishment in Qatar

Due to its outstanding performance, QIB has been selected among the 50 GCC best performing establishments as quoted by Arabian Business Magazine, besides being awarded the prize of the best Islamic property financier in Qatar at the beginning of this year. In addition to this QIB has been selected as 'The Best Financing Establishment in Qatar' by the London-based Islamic Conferences Group.

International assets growing at a rapid pace

Geographical Diversification

Amount in QAR billion

Particulars	2005	2006	Change
Due from financing activities & financial investments			
-Domestic	6.46	7.58	17.28%
-International	0.58	1.50	160.68%
Total Assets			
-Domestic	7.60	8.83	16.26%
-International	1.96	6.06	209.68%

Source: QIB

The bank still has a majority of its financing and investing activities concentrated in local market. However, year 2006 as compared to 2005 has seen an augment in the cross border lending. Further, this is expected to grow faster considering the bank's expansion move to various new destinations. Additionally, the total asset too would see a shift in concentration from domestic market to the international arena as the bank achieves its expansion targets.

Liquidity Risk

Amount in QAR million

Duration	Loans*	Deposits#	Gap
Up to 1 month	369.98	6316.66	-5946.67
1 to 3 months	711.13	718.11	-6.98
3 to 12 months	2031.50	748.40	1283.10
1 to 5 years	5682.03	919.62	4762.41
> 5 years	288.66	30.01	258.65
Total	**9083.31**	**8732.80**	**350.50**

* Includes due from financing activities and financial investments
# Includes customer current deposits and unrestricted investment accounts
Source: QIB

QIB has financed longer tenure loans with short term deposits. This could create problems for the bank in the long term. However, the bank's total equity of QAR 4.25 billion would act as a cushion and places it in a comfortable position.

Financial Performance

Income rise by 37.81%

- The total income from financing and investing activities rose by 37.81% to QAR 1.13 billion on account of a 58.71% rise to QAR 0.50 billion in the income from investing assets.
- The net income from fees and commission augmented by 913.97% to QAR 0.42 billion due to higher income coupled with a relatively lower growth in the expenses.
- The net operating income increased by 83.06% to QAR 1.57 billion.
- The net operating profit swelled by 89.61% to QAR 1.30 billion and the total operating expenses increase by 57.66% to QAR 0.28 billion. This indicates that the bank is able to control its cost and improving its margins.

The expenses swelled by 57.66%

- On the expenses side the general and administrative expenses constituted the major part of the bank's expenses and rose by 41.89% to QAR 0.17 billion in 2006 as compared to the same period last year. This increase was chiefly on the back of rising payroll expenses and advertisement expenses.

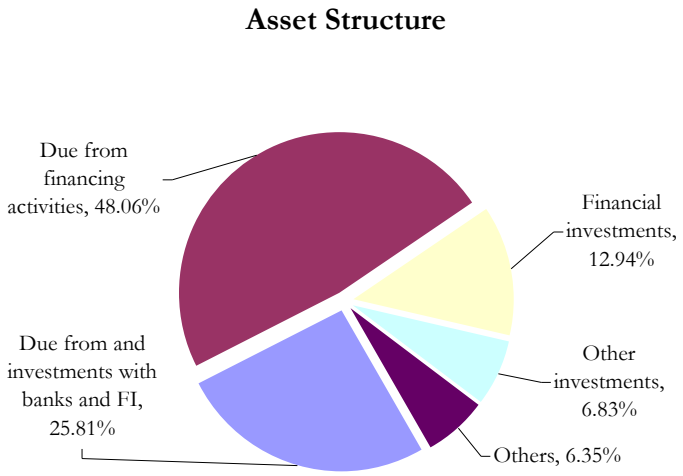
Net profit spiked by 97.95%

- The net profit attributable to shareholders saw an augment of 97.95% to QAR 1.01 billion on account of better profitability partially offset by an 84.91% rise to QAR 0.26 billion in the unrestricted investment account holders' share of profit.
- The EPS increased by 90.73% and stood at QAR 9.04 per share. The shares outstanding further augmented by 3.79% on account of the bonus and rights issue by the bank in 2006.

Distributed 70% cash dividend

- The bank declared and paid a 70% cash dividend amounting to QAR 7 per share to its shareholders for the year ended 2006.
- QIB during the year increased its share capital by coming out with a rights issue. The issue raised QAR 1.39 billon issuing 19.89 million additional shares. On account of rise in capital the ROE dipped by 61 basis points to 23.79% which was partially offset by high net profit growth.

Asset Structure



Source: QIB

Return on total assets improved by 144 basis points

QIB's total assets for the year ended December 2006 increased by 55.88% to QAR 14.89 billion on account of the overall rise in asset base. The due from financial activities had a lion's share in the total asset. The bank too has a significant amount parked with other banks and financial institutions. The return on total assets for the bank stood at 6.80% an improvement of 144 basis points as compared to same period last year.

Due from financing activities

Amount in QAR million

Type	2005	2006	Change
Musharaka	0.00	14.61	NA
Murabaha and Musawama	5227.35	5689.39	8.84%
Istisna contracts	886.28	1156.87	30.53%
Mudaraba	215.68	284.97	32.12%
Leased financing	577.62	1284.70	122.41%
Other	0.00	19.26	NA
Gross	**6906.92**	**8449.80**	**22.34%**
Unearned profit	-695.19	-997.87	43.54%
Specific provision	-219.32	-275.85	25.77%
Suspended profit	-19.51	-20.08	2.91%
Net receivables and due from financing activities	**5972.90**	**7156.01**	**19.81%**

Source: QIB

The due from financing activities swelled by 19.81% to QAR 7.16 billion by the end of December 2006 as compared to 2005. The bank is focusing more on the Murabaha, Istisna and lease financing options which are lucrative as compared to Mudaraba contracts.

Housing and consumer financing the top borrowers

Gross financing activities sector-wise breakup

Amount in QAR million

Sectors	2005	2006	Change	%2005	%2006
Government	570.39	674.96	18.33%	8.26%	7.99%
Semi-government	0.00	5.56	NA	0.00%	0.07%
Industry	42.94	60.77	41.55%	0.62%	0.72%
Trading	1340.85	1352.78	0.89%	19.41%	16.01%
Contracts	337.91	444.33	31.49%	4.89%	5.26%
Consumer financing	1805.43	2178.00	20.64%	26.14%	25.78%
Housing	2746.06	3625.28	32.02%	39.76%	42.90%
Others	63.34	108.13	70.71%	0.92%	1.28%
Gross financing activities	**6906.92**	**8449.80**	**22.34%**		

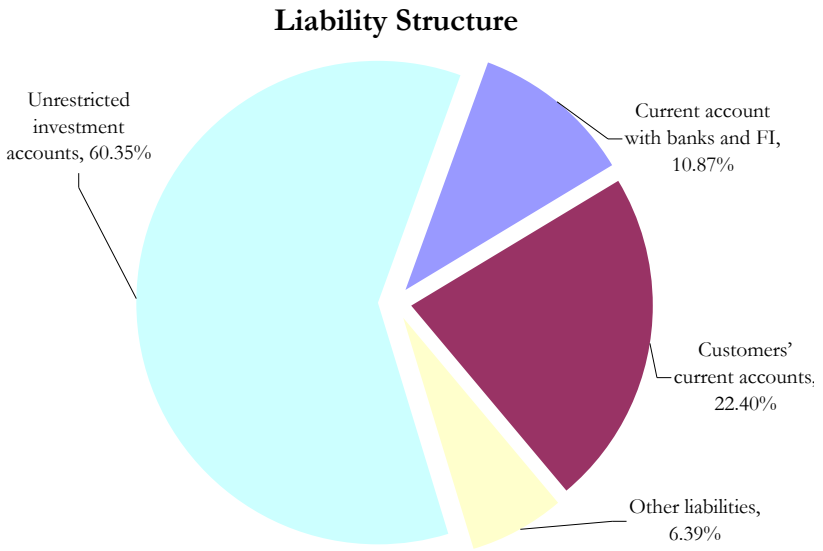
Source: QIB

QIB has increased its focus towards housing and consumer finance which is a lucrative sector with high profit margins. Further, 99% of the housing financing and 96% of the consumer financing is done through Murabaha, Istisna and lease financing.

The financial investments which make up 12.94% of the total assets, increased by 80.59% to QAR 1.93 billion during 2006 due to the rise in the investment in associate companies on account of fresh ownership. Further, the available for sale investments increased by 50.41% to QAR 1.51 billion during the year.

The investments followed the league and swelled by 109.99% to QAR 1.02 billion due to fresh purchases worth QAR 0.97 billion made during the year partially offset by disposal of QAR 0.44 billion. Further, the fixed assets augmented by 77.18% to QAR 0.11 billion chiefly on account of fresh purchases made to fuel the bank's expansion strategy.

Liability and Unrestricted investment account



Source: QIB

The customers' current account and the unrestricted investment accounts constitute 82.75% of the total liabilities of the bank. Majority of these deposits come from individuals. Additionally, the government also parks some of its funds with the bank. However, the size of these deposits as compared to individual deposits is very less.

Individual deposits, the major inputs

Deposits and unrestricted investment accounts

Amount in QAR billion

Sector	2005	2006	Change	% 2005	% 2006
Government	0.60	0.85	42.90%	8.87%	9.85%
Corporate	0.45	0.48	6.85%	6.66%	5.53%
Individual	5.50	7.30	32.76%	81.82%	84.41%
Banks	0.18	0.02	-89.78%	2.65%	0.21%
Gross deposits & unrestricted investment accounts	**6.72**	**8.65**	**28.69%**		

Source: QIB

Shareholders Equity

The bank during the early 2006 increased its capital by issuing right shares. The total shareholder equity increased by 103% to QAR 4.25 billion. This was on account of rising net profit. The return on equity declined by 61 basis points and stood at 23.79% due to rise in the equity base. However, the equity/ total assets improved by 663 basis points to 28.58%. The Tier I capital of the bank stands at QAR 3.13 billion and the Tier I and Tier II capital is QAR 3.24 billion. The total risk weighted assets are QAR 15.36 billion.

Capital adequacy high above the minimum

The Tier I capital adequacy ratio stands at 20.42% and the combined capital adequacy ratio stands at 21.11%. These ratios are well above the minimum ratio limit of 10% determined by QCB and 8% prescribed by Basel Committee. This indicates that the bank has a sound financial position and it will not be required to raise fresh capital.

Highlights first quarter 2007

- QIB reported a net profit of QAR 270.17 million as on first quarter 2007, an increase of 4.53% as compared to the same period last year.
- The total income from financing and investing activities increased by 49.84% to QAR 353.89 million.

Fees income seen a drop

- The net operating income was almost flat at QAR 374.19 million due to the drop in the fees and commission income of the bank.
- The general and administrative expenses swelled by 50.89% to QAR 52.89 million on account of the bank's expansion strategies.
- The net profit from operations increased by 3.26% to QAR 324.78 million, while the depositors' dividend amounted to QAR 49.62 million, dropping by 40 basis points as compared to the same period last year. This indicates that the bank was able to control its cost of financing and improving profitability.

Total assets witness a swell

- The total assets saw a rise of 20.69% to QAR 1.31 billion as compared to first quarter 2006 due to 37.09% rise to QAR 8.39 billion in due from financing assets and 98.10% rise to QAR 2.29 billion in financial investments.
- The return on assets taking into consideration the trailing twelve month net profit stood at 7.79%.
- The customers' current account and the unrestricted investment accounts rose by 6.09% and 16.46% to QAR 2.38 billion and QAR 6.57 billion respectively.

- The total shareholders' equity increased by 69.69% to QAR 3.64 billion primarily on the back of rise in share capital and retained earnings of the bank.
- The return on equity taking into consideration the trailing twelve month net profit stood at 28.12% which is the highest as compared to major banks operating on the Qatari bourse.

The management pointed that the results indicated a steady growth in assets going ahead. Further, the bank has successfully consolidated its banking, financing and investment activities inland and abroad and is targeting to maintain sustainable growth and maximized profitability.

Outlook 2007

Growth to continue

- The year 2007 is likely be a growth oriented year for QIB. The due from financing activities is expected to increase by 25% to QAR 8.95 billion. This is anticipated taking into consideration the bank's expansion strategy coupled with the high growth prevailing in the domestic market.
- The fixed assets and investments are likely to swell by 35% and 30% to QAR 0.15 billion and 1.32 billion respectively and the total assets are likely to increase by 31.80% to QAR 19.62 billion on the back of overall rise in the assets primarily due to expansion plans.
- QIB is expected to source deposits from it newly opened branches and the customers' current account as well as unrestricted investment accounts are likely to augment by 23.95% and 24.62% to QAR 2.93 billion and QAR 7.94 billion respectively, during the year.
- The total shareholders' equity is likely to rise by 10.70% to QAR 4.71 billion on account of rising retained earnings of the bank. However, the bank's legal reserves and general reserves are unlikely to change during the year. This is anticipated taking into consideration the bank's policy and it past allocations.
- The bank is likely to maintain a healthy equity/ total asset ratio of 24% which is well above the industry standards.

ROE to improve to 27%

- The return on equity is expected to improve by 321 basis points to 27% on the back of the expected rise in the net profit of the bank. However, the return on assets is expected to drop by 32 basis points to 6.48% as the asset growth is likely to be steeper as compared to the returns considering the expansion in new locations which will require time to generate returns.

- The total income from financing and investing activities is likely to rise 34.10% to QAR 1.52 billion which is likely to be on the back of rise in the financing and investing assets of the bank.
- The fees and commission income is likely to rise by 25% to QAR 0.54 billion. This is anticipated taking into consideration the bank's new product and services particularly, the launch of a QAR one billion new fund investing in Qatari stock market.

Expenses to rise steeply

- The expenses are likely to rise by 39.46% to QAR 0.39 billion during the year. The chief contributor would be the general and administrative expenses which is expected to augment by 45% to QAR 0.24 billion. This is on the back of the bank's expansion strategies which is likely to swell its expenses and taking a cue from the first quarter numbers, the growth seems justifiable.
- The depositors' share of profit is likely to rise by 46.14% to QAR 0.38 billion.
- The net profit attributable to shareholders' is expected to increase by 25.65% to QAR 1.27 billion.
- The earning per share is estimated to be QAR 11.35 per share a rise of 25.65% from 2006. Further, the book value per share would reach QAR 42.06 per share an increase of 10.70% from 2006 levels.

Asset Management and Investment Banking Operations

Amount in QAR million

Investment Portfolios	2005	2006	Change
Bader Fund 2	20.82	4.74	-77.21%
Bader Fund 3	14.16	14.16	0.00%
Bader Fund 4	32.17	0.00	-100.00%
Bader Fund 5	51.73	57.33	10.83%
Bader Fund 6	125.00	0.00	-100.00%
Al Rayyan Fund 2	415.24	460.97	11.01%
Solidarity Fund	60.22	66.70	10.76%
Al - Basha'er GCC Equity Fund	16.59	0.00	-100.00%
Deutsche Telecom	0.00	76.43	NA
Total	**735.93**	**680.34**	**-7.55%**

Source: QIB

Successfully redeemed Bader-5

QIB has been a prominent player in the Qatari investment sector. It manages a host of funds amounting to QAR 680.34 million as on December 2006. Recently, it successfully redeemed the 'Bader-5' property portfolio in France leaving its total funds managed to QAR 623.01 million.

A new fund launch

Further, the bank has received the license to set up an Islamic fund with a capital of QAR one billion, which will invest in the stocks on Qatari bourse. QIB will take care of the fund's management services in co-ordination with Global Investment House – Kuwait and would be targeting to generating returns over and above the market index.

Quarterly Performance
Amount in QAR million

Particulars	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	YOY Growth
Total income from financing and investing activities	236.17	310.20	354.44	228.92	353.89	*49.84%*
Growth Q-o-Q	*-0.59%*	*31.35%*	*14.26%*	*-35.41%*	*54.59%*	
Net operating income	371.83	327.36	448.61	425.18	374.19	*0.64%*
Growth Q-o-Q	*43.15%*	*-11.96%*	*37.04%*	*-5.22%*	*-11.99%*	
Net profit attributable to shareholders	**258.47**	**212.78**	**257.09**	**283.705**	**270.170**	***4.53%***
Growth Q-o-Q	*84.09%*	*-17.68%*	*20.83%*	*10.35%*	*-4.77%*	
Due from financing activities	6120.20	6138.82	6468.59	7156.01	8390.30	*37.09%*
Growth Q-o-Q	*2.47%*	*0.30%*	*5.37%*	*10.63%*	*17.25%*	
Total assets	**10890.51**	**11018.86**	**12765.95**	**14888.52**	**13143.66**	***20.69%***
Growth Q-o-Q	*14.02%*	*1.18%*	*15.86%*	*16.63%*	*-11.72%*	
Customers' current accounts	2241.826	2251.38	2252.374	2363.719	2378.368	*6.09%*
Growth Q-o-Q	*1.33%*	*0.43%*	*0.04%*	*4.94%*	*0.62%*	
Unrestricted investment accounts	5638.76	5743.35	5717.56	6369.08	6566.97	*16.46%*
Growth Q-o-Q	*21.16%*	*1.85%*	*-0.45%*	*11.40%*	*3.11%*	
Total shareholders' equity	**2145.74**	**2286.47**	**3978.26**	**4254.54**	**3641.06**	***69.69%***
Growth Q-o-Q	*2.38%*	*6.56%*	*73.99%*	*6.94%*	*-14.42%*	
ROE*	48.18%	37.22%	25.85%	26.67%	29.68%	*-18.50%*
Change Q-o-Q		*-10.96%*	*-11.37%*	*0.82%*	*3.01%*	
ROA*	9.49%	7.72%	8.06%	7.62%	8.22%	*-1.27%*
Change Q-o-Q		*-1.77%*	*0.33%*	*-0.43%*	*0.60%*	
Equity/Total Assets	19.70%	20.75%	31.16%	28.58%	27.70%	*8.00%*
Change Q-o-Q		*1.05%*	*10.41%*	*-2.59%*	*-0.87%*	
Net Margins*	10.25%	13.71%	14.52%	6.41%	11.40%	*1.15%*
Change Q-o-Q		*3.46%*	*0.81%*	*-8.11%*	*4.99%*	

** Annualized*
Source: QIB

The assets witnessed a progressive growth on a quarter on quarter basis. However, the March 2007 quarter saw a dip in the assets of the bank. This was chiefly on the back of the drop in the bank's other investments. Similar trend was witnessed in the shareholders' equity on the back of right issue and rising retained earnings. However, the March 2007 quarter saw a decline as the bank paid off dividends to its shareholders.

The equity/ total assets ratio was impressive for the bank as it stayed above the requirement. However, there were a few fluctuations in the last two quarters, but still the ratio was in the comfort zone.

The net margins improved on a quarter on quarter basis. However, there was a dip seen in the last quarter 2006 on account of rising depositors' share of profit. Further, the bank was able to control this and the first quarter saw an improvement of 499 basis points to 11.40%.

Peer Analysis

Bank	Country	Loan Growth	Deposits Growth	ROE	Equity/ TA	P/E*	P/BV #
Qatar Islamic Bank	Qatar	46.77%	13.51%	28.12%	27.70%	13.35	3.75
Qatar International Islamic Bank	Qatar	10.50%	-6.63%	26.22%	22.03%	14.17	3.71
Dubai Islamic Bank	UAE	-0.84%	46.01%	21.46%	11.34%	18.59	3.99
Emirates Islamic Bank	UAE	91.92%	153.09%	12.47%	8.94%	6.75	0.84
Abu Dhabi Islamic Bank	UAE	32.24%	33.86%	11.74%	12.21%	14.92	1.75
Sharjah Islamic Bank	UAE	29.84%	43.10%	9.53%	24.81%	16.19	1.54
Bahrain Islamic Bank	Bahrain	60.56%	57.33%	21.69%	13.43%	13.89	3.01
Al Rajhi Bank	KSA	18.23%	10.96%	42.75%	18.22%	11.26	4.81
Bank Al Jazira	KSA	7.86%	31.53%	36.00%	25.82%	6.96	2.51
Kuwait Finance House	Kuwait	41.30%	25.32%	30.44%	9.92%	24.92	7.59
Average						**14.10**	**3.35**

** t railing twelve months earnings*
 # most recent quarter
Source: Reuters & VIS Research

We have made a peer universe constituting of the major and best performing Islamic banks in the GCC region. We have included all the likely banking majors which could be compared with QIB.

QIB is among the fastest growing banks in terms of loan growth. Additionally, the equity/ total asset is the highest which indicates it has more cushion in the event of defaults from its loan portfolios. Further, the bank is cheaply valued as compared to most of its peer companies and the there lies a huge potential for the bank to grow going ahead.

Taking a look at the ROE of various banks in the GCC we conclude that QIB is only behind Saudi and Kuwaiti banks. As compared to the UAE which is considered the second largest banking sector in the Middle East, QIB's ROE is at a premium.

So taking a bird's eye view we can conclude that in the Islamic financing sector QIB is likely to shine bright considering the various ratios and multiples of the bank.

Market Share

Amount in QAR billion

Particulars	QIBK	QIIK	QNBK	CBQK	DHBK	QBQK	
Loans	10.68	4.43	47.15	19.20	14.81	6.94	**103.21**
Deposits	8.95	1.76	46.14	17.72	14.59	7.56	**96.71**
Loan Growth	46.77%	10.50%	41.47%	57.81%	67.84%	77.46%	**48.47%**
Deposits Growth	13.51%	-6.63%	12.91%	26.62%	33.62%	60.46%	**20.51%**
Market Share Loans	10.34%	4.30%	45.68%	18.60%	14.35%	6.72%	
Market Share Deposits	9.25%	1.82%	47.70%	18.32%	15.09%	7.81%	
ROE*	28.12%	26.22%	25.25%	20.54%	26.10%	19.25%	**24.51%**
Equity/TA	27.70%	22.03%	11.58%	16.68%	12.57%	11.48%	**14.69%**
P/E*	13.35	14.17	17.76	15.98	14.99	18.10	**15.72**
P/BV#	3.75	3.71	4.48	3.28	3.91	3.48	**3.77**

** t railing twelve months earnings*
 # most recent quarter
Source: Reuters and VIS Research

Islamic Assets and Liabilities

Amount in QAR billion

Particulars	QIB	QIIB	QNB	CBQ	DHBK	QBQK	Total
Islamic Loans	10.68	4.43	2.78	0.48	1.53	1.00	**20.90**
Islamic Deposits	8.95	1.76	6.56	0.48	1.44	0.98	**20.17**
Islamic Loan Growth	46.77%	10.50%	171.90%	100.82%	617.09%	NA	**63.75%**
Islamic Deposits Growth	13.51%	-6.63%	40.78%	2.65%	NA	NA	**35.39%**
Market Share Loans	51.08%	21.21%	13.31%	2.32%	7.30%	4.78%	
Market Share Deposits	44.35%	8.74%	32.51%	2.40%	7.14%	4.86%	
Income	0.35	0.16	0.10	0.01	0.03	0.01	**0.67**

Source: Reuters and VIS Research

QIB ranks fourth in terms of loans and deposits as on the first quarter ended March 2007. The bank ranks third in terms of deposits growth and fourth in terms on loan growth during the period. However, the bank's growth rate is below the industry growth rate for the same period.

The bank has generated the highest ROE calculated on a trailing twelve month earnings. Further, the equity/ total assets stand at 27.70% which is well above the industry average of 14.69%. Considering the P/E multiple and the P/BV multiple the bank poses as a cheap investment opportunity as compared to the market average.

Further, the Islamic loans and deposits particularly of the conventional banks starting Islamic window have increased faster as compared to the full fledge Islamic banks. This indicates that the conventional banks are eating up the market share of the Islamic banks. Further, Qatar National Bank which is largest bank is Qatar is using its resources optimally and its Islamic assets are growing at a rapid pace.

Looking at the market share of Islamic loans in the country, the conventional banks have substantially increased it in the recent period. The conventional banks have grabbed a 27.71% market share in loans and an awesome 46.91% of the Islamic deposits. So taking a cue from this we conclude that, QIB needs to really work hard and smart to preserve its market share and further expand its business.

Positives

- An oldest and a market leader locally in offering Islamic products.
- Growing through expansion across borders as well as locally.
- It's proven past record makes it a likely contender to finance government as well as corporate projects.

Negatives

- The conventional banks which have wider branch coverage and stronger loan book have started an Islamic banking window. This would pose as a tough competition for QIB. The bank would need to struggle hard to preserve its market share and to grow further.
- Expanding in new countries can expose it to execution risk and country risk. Further, it is likely to face competition from the locally established players in the region.

Strategies and Outlook

Launch of an Islamic bank in Malaysia

- The launching of Asian Finance Bank (AFB) in which QIB with its associates has 70% of the stake would turn as a stepping stone for the bank. This is anticipated considering the fact that Islamic banking is preferred in the country with government giving full support by favorable policies, tax exemption to name a few.
- Further, expanding into markets such as Brunei, Singapore and Indonesia which are relatively untapped can be easily covered by making Malaysia as the hub.
- QIB plans to open five to seven branches within its first five years of inception and in addition to retail banking, AFB shall focus on large investments and corporate financing in Malaysia and neighboring countries that have investment links with the Gulf generating a lot of business for QIB as the money flows from Asia to Middle East.

Planning to march to Sudan

- Plans are on the anvil to setup a mega commercial and investment bank in Sudan which would act as a value addition to its network of banks globally coupled with tapping the untapped Sudanese economy, which is experiencing economic expansion.
- The European Finance House is expected to start its operations during the third quarter of this year and the Q-invest bank, which is the first investment bank of its kind in Qatar, is expected to be operative during the first semester of 2007.

- QIB is further planning to open an Islamic bank in Pakistan with a capital of USD 100 million and in London with an authorized capital of GBP 50 million. All this would act as a good source of attracting investment and would likely increase the profitability going ahead.
- The bank's five year plan ending 2011 is packed with a growth oriented strategies. The prime focus of the plan would be to consolidate the bank's position in the field of Islamic financing as a bank that has always maintained a leading rank at all levels coupled geographical expansion, issuing new products, customer and investor satisfaction, sustained growth in its activities and operations, among others.
- QIB plans to work hard in the current fiscal towards increasing growth rate and maximize profitability. This would be achieved pumping more capital in investment and funding activities. Additionally, it plans to focus more retail funding by adding new branches and diversifying the services offered at these branches.
- The bank would also target the corporate sector by ensuring proper financing opportunities and give more attention to offer privileged property portfolios in the 'Pearl' and 'Al Waseel' national projects.
- QIB does not want to miss the fast growing 'Sukuk' markets and plans to focus on the same.

Considering the bank's growth oriented strategies and fresh product offerings in pipeline through new onshore/offshore channels, we believe that the bank would prosper going ahead. Further, it is likely that it would attract huge amount of investments from its newly opened or yet to be opened destinations.

Valuation
P/EPS

The bank is currently trading at 13.50x its 2006 earnings and 13.35x its trailing twelve month earnings. The forward 2007 P/E multiple stands at 10.74x and the 2008 P/E multiple is 8.49x. Considering a forward estimated EPS of QAR 11.35 per share and the current trailing twelve month P/E with the forward EPS we arrive at a fair value of QAR 151.50 per share. This leaves us with an upside of 24.18% from current levels.

P/BVPS

Bank	P/BV
Qatar Islamic Bank	3.75
Qatar International Islamic Bank	3.71
Dubai Islamic Bank	3.99
Emirates Islamic Bank	0.84
Abu Dhabi Islamic Bank	1.75
Sharjah Islamic Bank	1.54
Bahrain Islamic Bank	3.01
Al Rajhi Bank	4.81
Bank Al Jazira	2.51
Kuwait Finance House	7.59
Average	**3.35**

QIB is trading at 3.21x its year ended December 2006 book value and 3.75x it's most recent quarter book value. Further, the average peer P/BVPS multiple stands at 3.35x. Considering the 2007 forecasted book value with the average peer P/BVPS multiple, we arrive at a fair value of QAR 140.90 per share. This leaves us with an upside of 15.49% from current levels.

Valuation Matrix

Fairly valued at QAR 145.10 per share

Multiple	Weight	Price
P/EPS	40%	151.50
P/BVPS	60%	140.90
Fair Value		**145.10**

We have assigned 40-60 weights to the fair value arrived from the P/EPS model and P/BVPS model respectively. This is done as we believe that for banks the book value is a good indicator of its future price. Taking into consideration the fair values arrived from the P/EPS and P/BVPS models we arrive at the weightage average fair value of QAR 145.10 per share. This value gives us an 18.93% upside from the current market price of QAR 122.00 per share.

Recommendation

Recommend a BUY at current prices

QIB is trading at 13.35x its trailing twelve month earnings and 3.75x its most recent book value. Further, the forecasted EPS and BVPS stand at QAR 11.35 per share and QAR 42.06 per share respectively. Additionally, witnessing QIB's past performance and its enthusiastic expansion strategies, we believe that the fair value of QAR 145.10 per share which leaves us with an upside of 18.93% from current levels is likely achievable by the bank. We initiate coverage on QIB with a **BUY** recommendation.

Annexure – I

Qatar Islamic Bank SAQ
Consolidated Balance Sheet
Amount in QAR million

Particulars	2005	2006	2007E	2008E
Assets				
Cash and balances with central banks	514.53	400.45	543.34	708.30
Due from and investments with banks and FI	1166.92	3843.40	5559.58	5823.94
Due from financing activities	5972.90	7156.01	8945.01	10734.01
Financial investments	1067.23	1927.30	2544.03	3158.34
Other investments	484.03	1016.42	1321.35	1651.69
Fixed assets	60.89	107.88	145.64	186.42
Other assets	285.06	437.06	563.80	701.94
Total assets	**9551.56**	**14888.52**	**19622.75**	**22964.64**
Liabilities				
Current account with banks and financial institutions	26.02	1147.24	3124.52	2651.89
Customers' current accounts	2212.42	2363.72	2929.93	3567.62
Payable to unrestricted investment accounts	51.85	52.97	55.62	57.28
Other liabilities	454.71	621.37	776.71	943.70
Total liabilities	**2745.01**	**4185.30**	**6886.77**	**7220.50**
Unrestricted investment accounts	**4653.81**	**6369.08**	**7936.87**	**9310.59**
Minority interest	**56.96**	**79.60**	**89.15**	**96.29**
Shareholders' equity				
Share capital	663.00	1193.40	1193.40	1193.40
Legal reserve	677.31	1870.71	1870.71	1870.71
General reserve	90.22	90.22	90.22	90.22
Risk reserve	33.36	51.07	62.31	73.52
Fair value reserve	126.81	52.17	60.16	67.37
Proposed bonus shares	331.50	0.00	0.00	0.00
Proposed cash dividend	165.75	835.38	0.00	0.00
Retained earnings	7.85	161.59	1433.18	3042.04
Total shareholders' equity	**2095.79**	**4254.54**	**4709.96**	**6337.27**
Total	**9551.56**	**14888.52**	**19622.75**	**22964.64**

Annexure – II

Qatar Islamic Bank SAQ
Consolidated Income Statement
Amount in QAR million, except per share data

Particulars	2005	2006	2007E	2008E
Income				
Income from financing activities	502.55	626.23	807.16	994.35
Profits on investing activities	317.26	503.51	707.84	915.80
Total income from financing and investing activities	**819.81**	**1129.73**	**1515.00**	**1910.16**
Commission and fees Income	50.98	433.47	541.84	704.39
Commission and fees expenses	-9.26	-10.43	-13.74	-18.27
Net income from commission and fees	**41.72**	**423.04**	**528.10**	**686.12**
Gain / (Loss) from foreign exchange operations	-2.68	2.21	2.43	2.55
Other operating income	0.43	17.99	20.69	22.34
Net operating income	**859.28**	**1572.97**	**2066.21**	**2621.16**
Expenses and provisions				
General and administrative expenses	-118.32	-167.89	-243.44	-328.64
Depreciation	-10.78	-11.11	-14.87	-19.48
Provision for impairment of receivables and financing activities	-47.13	-69.99	-87.49	-104.99
Other investment provision	-0.92	-0.60	-0.72	-0.80
Recovery from properties acquired against settlement of debt	11.48	0.00	0.00	0.00
Other provision	-6.08	0.00	0.00	0.00
Other operating expenses	-4.53	-28.34	-41.09	-52.80
Net operating profit	**683.00**	**1295.05**	**1678.61**	**2114.46**
Non operating income	1.68	1.54	1.63	1.66
Net profit for the year	**684.68**	**1296.59**	**1680.24**	**2116.12**
Less:				
Unrestricted investment account holders' share of profit	-139.51	-257.97	-377.00	-470.18
Minority interest	-33.92	-26.58	-31.65	-37.07
Net profit for the year attributable to shareholders	**511.25**	**1012.04**	**1271.59**	**1608.87**
Adjusted basic earnings per share (in Qatari Riyals per share)	4.74	9.04	11.35	14.37
BVPS	19.42	37.99	42.06	56.59
Shares Outstanding	**107.90**	**111.99**	**111.99**	**111.99**

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