QATAR ISLAMIC BANK (QIB)

4Q2009 - Credit Quality Much Better than Expected

08 FEBRUARY 2010

QATAR | BANKING

Current Price* : QAR 75.20 **Rating: Buy**
Fair Value (FV): QAR 108.8

• **4Q2009 Net Income in Line:** QIB reported 4Q2009 net attributable income of QAR321 million, down 18% Y-o-Y but up a strong 70% Q-o-Q and in line with our QAR325 million forecast. Earnings were driven by provisioning, which although increasing sharply in 3Q2009 improved in the final quarter to end the year with a positive net provisioning figure. Revenues inched up by only 2% Q-o-Q, to QAR401 million. A 23% Q-o-Q jump in costs led to operating earnings declining by 7% Q-o-Q and falling 32% below our expectations on lower-than-expected revenue and higher-than-expected expenses. Earnings were in line due to provisioning being well below our forecast.

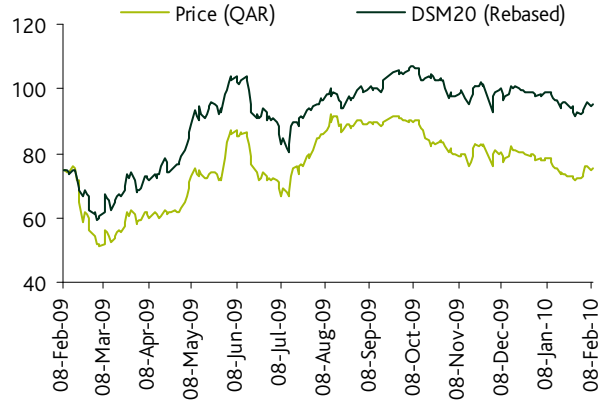
• **Strong Q-o-Q Growth in Net Financing Returns:** Loan growth was slow during 4Q2009 at 1% Q-o-Q, after a very strong 14% Q-o-Q growth in 3Q2009. On the liability side, customer deposit accounts were also almost flat at 1% Q-o-Q. Net customer returns increased by 18% Q-o-Q, 14% better than our expectations, on higher-than-expected spreads. Fee and commission income also recovered strongly Q-o-Q in 4Q2009 and was well ahead of our forecast.

• **Income from Investing Activities Falls Sharply Q-o-Q:** Despite stronger-than-expected core banking income, total revenue missed our forecast by 16% on very weak non-financing income (property and investment income), which dropped significantly Q-o-Q. For the FY2009, income from investment and property declined sharply Y-o-Y, by a total of 76%. This is the result of lower property gains as well as QIB (along with other Qatari banks) having disposed its DSM- equity portfolio in 1Q2009.

• **Provisioning Trend Improves Q-o-Q:** After high provisioning in 3Q2009, provisioning went back to a net positive figure in 4Q2009. For the FY2009, provisioning charges stood at a low 0.13% of average gross loans, compared to a net positive provisioning figure for FY2008. One of our key uncertainties for QIB has been its very low provisioning figures throughout 2009, despite QIB's loan portfolio being geared to the private corporate sector (around 55% of the book, including SMEs) and the retail sector (around 20% of the book), with only around 6% of lending related to government and GREs. While low net provisioning charges have been partly the result of loan recoveries, the NPL disclosure shows that NPLs for 2009 remained flat Y-o-Y, well below our expectation of a 60% Y-o-Y increase and partly resolving our earlier concerns. Past due loans (up to 90 days) have however increased sharply Y-o-Y.

• **Valuation and Recommendation:** While provisioning surprised positively in 2009, we are not expecting the same low net charges in 2010e, partly as we do not assume the same level of loan recoveries this year. Our 2010e earnings forecasts assume 6% Y-o-Y growth as property and investment income, which disappointed in 2H2009, should see some recovery. QIB now trades at a 2010e P/B of 2x, a c9% discount to QNB and a c50% premium to CBQ. On a relative valuation basis, our top pick in Qatar continues to be CBQ, for which we believe that the current valuation discount is excessive. Our FV for QIB implies 45% upside potential to the current share price, and therefore we retain our Buy rating.

FLASH NOTE



* Price as at 08 February 2010

	2010e	2011e	2012e
EPS	6.46	7.63	8.78
P/E* (x)	11.6	9.9	8.6
DPS	6.10	6.15	6.86
Div Yield (x)	8.1%	8.2%	9.1%
BVPS	36.82	38.3	40.21
P/BV* (x)	2.04	1.96	1.87

In QAR, unless otherwise stated

Stock Data	
Last Dividend Date	QAR7.00 on 19 Feb 09
Mkt. Cap / Shares (mn)	QAR15,548 / 216.6
Av. Mthly Liqdty (mn)	QAR586
52-Week High / Low	QAR91.70 / 51.40
Bloomberg / Reuters	QIBK QD / QISB.QA
Est. Free Float	72%

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Figure 1: QIB's 4Q2009 Results, Main Highlights
In QAR million, unless otherwise stated

	FY2008a	FY2009a	Y-o-Y	4Q2008	3Q2009	4Q2009a	Y-o-Y	Q-o-Q
Net Financing Returns	**939**	**1,316**	**40%**	**305**	**307**	**363**	**19%**	**18%**
Fee & Commission Income	223	259	16%	45	54	104	132%	91%
Trading, Investment & Property Income*	926	221	-76%	194	34	(65)		
Other Operating Income	13	6	-52%	12	(2)	(1)		
Non-Interest Income	**2,101**	**486**	**-77%**	**251**	**86**	**38**	**-85%**	**-56%**
Total Banking Income	**3,040**	**1,802**	**-41%**	**556**	**393**	**401**	**-28%**	**2%**
Operating Expenses	(444)	(487)	10%	(115)	(121)	(150)	30%	23%
Operating Profit	**2,596**	**1,315**	**-49%**	**440**	**272**	**251**	**-43%**	**-7%**
Provisions for Financing Investments	48	(31)		(41)	(86)	55		
Other Provisions	-	-		-	-	-		
Extraordinary & Other	-	-		-	-	-		
Profit before Tax	**1,705**	**1,284**	**-25%**	**399**	**185**	**306**	**-23%**	**65%**
Taxes	-	-		-	-	11		
Net Income	**1,705**	**1,284**	**-25%**	**399**	**185**	**317**	**-21%**	**71%**
Minorities	(62)	27		(7)	3	4		
Attributable Income	**1,643**	**1,311**	**-20%**	**392**	**189**	**321**	**-18%**	**70%**
Customer Assets	18,866	22,663	20%	18,866	22,415	22,663	20%	1%
Customer Deposits	16,592	20,361	23%	16,592	20,196	20,361	23%	1%
Total Assets	33,543	39,273	17%	33,543	35,675	39,273	17%	10%

*Including impairment losses on financial investments
Source: Qatar Islamic Bank, EFG Hermes estimates

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