Analyst Comment

September 23, 2010

QATAR NATIONAL BANK (QNBK.QA)

12-Month Fair Value: QR 157.50
Last Close (23 September 2010): QR 152.86
Recommendation: Hold - Risk Level: 2

- The Qatar Central Bank (QCB) issued a directive, at the end of August 2010, to all commercial banks operating in Qatar. The directive relates to implementing some regulatory limits regarding the Islamic banking businesses of conventional Qatari banks. We believe the most important limits introduced, which apply for every conventional bank, are the following:
  - The assets of the Islamic business should be capped at 15% of the total assets of the bank
  - Capital funding for the Islamic business should not exceed 10% of the bank's total shareholders' equity
- The QCB also announced that it will currently not grant permission for the opening of new Islamic branches. This directive comes into effect immediately and banks which violate any of the directive's terms have until the end of 2011 to become compliant.
- Of the two banks under coverage in Qatar, namely, Qatar National Bank (QNB) and the Commercial Bank of Qatar (CBQ), we believe that QNB will be more affected by the introduction of this new directive. Most importantly, QNB's Islamic banking business had assets worth QR 29.2 billion at the end of June 2010, representing 15.7% of the bank's total assets. This is slightly higher than the 15% cap introduced, and effectively forces QNB to grow its Islamic banking assets in tandem with the growth in its conventional banking assets. It is important to note that the share of the Islamic banking business only surpassed 15% of total assets during 2010 as most of the growth in 1H2010 came from the Islamic business. In comparison, the share of the Islamic business in total assets stood at 8.8% and 12.3% at the end of 2008 and 2009, respectively. Going forward, we believe that, unless QNB succeeds in diverting the faster growth being witnessed in its Islamic banking business to its conventional arm, the growth of the bank will be negatively affected.
- As for CBQ, we think the bank will be much less affected than QNB due to the small share of its Islamic business as compared to the conventional one. As of June 2010, Islamic banking assets represented only 5.9% of total assets, even slightly lower than the 6.2% share as of December 2009, indicating faster growth for the bank's conventional business. This gives much more leeway for CBQ to grow its Islamic business before hitting the 15% cap. However, since introduced, Islamic banking was never really a driver for growth for that bank which, in effect makes the bank not so much affected by the recent directive.
- It is clear that this directive is very much in favor of the pure Islamic banks in Qatar. As for the Qatari banking sector as a whole, we believe the directive will limit the rate of increase of the share of the Islamic banking sub-sector in the overall Qatari banking sector.
- We will issue an update report on QNB and CBQ following the release of the 3Q2010 results, taking into account any implications of this directive. For now, we maintain our fair value for QNB at QR 157.50 per share, which is 3% above the bank's latest closing price, and hence our "Hold" recommendation. For CBQ, we maintain our fair value at QR 92.80 per share, which is 12% above the bank's latest closing price, and hence our "Accumulate" recommendation.

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Related Research

- QNB Update - 05 May 2010
- Analyst Comment - 07 July 2010

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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