Analyst Comment

January 11, 2011

QATAR NATIONAL BANK (QNBK.QA)

12-Month Fair Value: QR 184.60
Recommendation: Hold - Risk Level: 2
Last Close (10 January, 2011): QR 195.80

- Qatar National Bank (QNB) continued to post very good results with net profit in 4Q2010 reaching a record high of around QR 1.5 billion, 44% above 4Q2009. This resulted in a net profit of QR 5.7 billion for FY2010, 36% above FY2009. Operating income also reached a record high of around QR 2.1 billion in 4Q2010, 44% above 4Q2009. This resulted in an operating income of QR 7.6 billion for FY2010, 34% above FY2009 and 2% ahead of our forecast.

- Net interest income reached a record high of QR 1.7 billion in 4Q2010, 62% above 4Q2009, and resulting in a 52% growth in FY2010. Net fee and commission income stood at QR 272 million in 4Q2010, 1% below 4Q2009, and resulting in a 16% increase in FY2010. Gains from foreign exchange stood at QR 95 million in 4Q2010, 19% above 4Q2009, and resulting in an 18% increase in FY2010. Despite QNB's aggressive expansion strategy, cost efficiency showed an improvement in FY2010 with the bank's cost-to-income ratio decreasing to 17% in FY2010 from 19.6% in FY2009.

- Balance sheet growth was strong in 4Q2010. Loans expanded by 6% in 4Q2010 resulting in a 21% growth in FY2010, 2% ahead of our forecast. Deposit growth was even stronger, registering 11% in 4Q2010 resulting in a 31% growth in FY2010, 5% ahead of our forecast. The loans-to-deposits ratio dropped to 80% as of December 2010 compared with 86% in December 2009 and 83% in September 2010. Non performing loans continued to increase in 4Q2010 but represented only 0.9% of gross loans as of December 2010 compared with 0.8% as of September 2010.

- QNB's Board of Directors recommended the distribution of a cash dividend of QR 5 per share for FY2010, translating into a dividend payout ratio of 34% and a dividend yield of 2.55%. The Board also recommended the distribution of a 30% bonus share for FY2010. Finally, the board also recommended increasing capital via a 25% rights issue in 2Q2011 (after the increase in shares due to the bonus share distribution) at a price of QR 100 per share representing QR 10 nominal value and QR 90 premium.

- Overall, we believe this is a very good set of results for QNB. Since our last update on QNB in November 2010 with an "Accumulate" recommendation, the share price increased by 12%. Our fair value for QNB (QR 184.6) is now 6% below the bank's latest closing price; hence our current recommendation on the stock is "Hold."

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Related Research

- QNB Update - 23 November 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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