المجموعة المالية - هيرميس
EFG HERMES

QATAR NATIONAL BANK

2Q Results Commentary: Strong Headline Good Quality

09 JULY 2009

QATAR | BANKING

Short-Term Rec.: Buy	Current Price*: QAR 116.9
Long-Term Rec. : Buy	LT Fair Value : QAR 167.8

• **QNB Reported 2Q2009 Net Profit 11% Ahead of Our Forecasts:** QNB reported net profit of QAR1,057 million, up 12% Y-o-Y, 5% Q-o-Q and beating our expectations by 11%. This also reflected profits at the operating level of QAR1,099 million, 21% ahead Y-o-Y and 7% ahead of our forecasts, reflecting strong revenues and good cost control The disposal of the Bahamas Wealth Management operation had some fractional impact on growth rates, but this was not material. Other strategic initiatives included obtaining a banking license for QNB Syria, in advance of its forthcoming IPO.

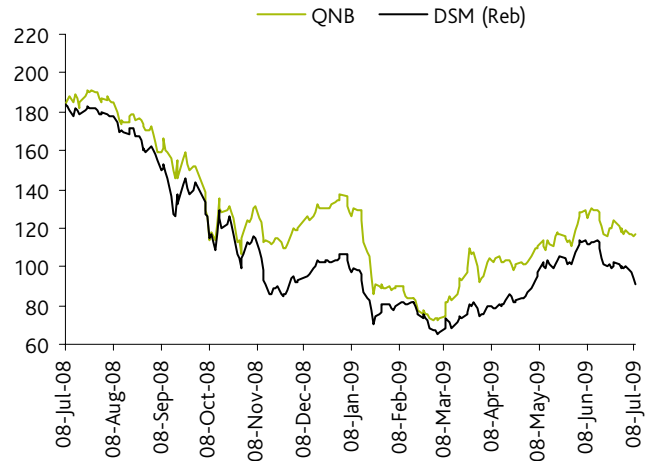
• **Net Customer Returns Boosted By Balance Sheet and Spreads:** Customer assets grew just 2% Q-o-Q, underperforming expectations by 4%, although this was due to the part-disposal of property related loans to a government scheme. Meanwhile, total customer deposits jumped 12% Q-o-Q, strongly exceeding forecasts, with most of the excess funding going to paying down interbank liabilities and acquiring HTM investments – probably as part of the swap of property-related assets. While we were expecting the pick-up in spreads to continue, the strong balance sheet would further have helped spreads. However, even allowing for this, spreads were strong in 2Q2009 leading to the 12% Q-o-Q jump in net customer returns.

• **Non-interest Income Down 4% Q-o-Q:** Non-interest income was boosted by a partial recovery in investment income, although this was significantly less than expected. Nevertheless, this was offset by strong fee & commission income boosted by investment banking (and perhaps bank charges), as well as better than expected dividend income, perhaps due to dividend payments arriving late this year. However, other operating income went into reverse knocking non-interest income 6% below expectations.

• **Good Cost Control, Higher Provisioning:** cost control continued to be impressive, with G&A expense declining 5% Q-o-Q, taking the already very impressive cost income ratio down to 18.4%. Costs have now declined in absolute terms every quarter since the 3Q2008 peak. Meanwhile, loan provisioning rose sharply from negligible levels in 1Q2009 to a level in line with our full year expectations of 38 basis points.

• **Overall We Believe These Results Are Good:** While the market may be spooked by the jump in provisions we do not think this was in any way a mould-breaker. In fact, the surprises for us were more on the strength of the balance sheet and the continued jump in spreads. Whilst these results ultimately point to a positive revision of forecasts, we believe it will be difficult to maintain the low cost-income ratio and high spreads, and would not necessarily expect this to transpose to a substantial revision of target value. We continue to be happy with our estimated LTFV of QAR167.8 and our ST/LT recommendation of BUY.

FLASH NOTE



* *Prices as of 08 July 2009*

	2009e	2010e	2011e
EPS (adj)	12.56	14.24	15.22
P/E* (x)	9.3	8.2	7.7
DPS	5.18	7.04	5.81
Div. Yield*	4.4%	6.0%	5.0%
BVPS (adj)	60.03	67.24	76.65
P/BV* (x)	1.9	1.7	1.5

Figures in QAR unless otherwise stated
Forecasts not revised for flash note

Stock Data	
Last Ex-Div Date	QAR6.0 on 9 Feb 2009
Mkt Cap / Shares (mn)	QAR35,201 / 301
Av. Mthly Liqdty (mn)	QAR332.1
52-Week High / Low	QAR191.12 / 72.2
Bloomberg / Reuters	QNBK QD / QNBK.QA
Est. Free Float	50%

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SUMMARY FINANCIALS

Figure 1: 2Q Results Review
QAR million (unless otherwise stated)

	2Q2008a	1Q2009a	2Q2009a	2Q2009e	Y-o-Y	Q-o-Q	v Est
Balance Sheet							
Loans & Islamic Financing	84,285	81,596	82,898	86,218	-2%	2%	-4%
Financial Instruments	15,304	17,184	23,144	17,121	51%	35%	35%
Total Assets	**152,640**	**140,618**	**147,115**	**145,820**	**-4%**	**5%**	**1%**
Customer Deposits & Islamic Funding	98,524	91,898	102,823	97,737	4%	12%	5%
Total Liabilities	**133,658**	**123,992**	**129,389**	**128,242**	**-3%**	**4%**	**1%**
Net Liquid Assets	16,819	6,293	10,973	6,783			
Shareholders' Equity	**18,982**	**16,627**	**17,725**	**17,579**	**-7%**	**7%**	**1%**
Income Statement							
Net Interest & Islamic Returns	655	833	937	850	43%	12%	10%
Fees & Commissions	250	237	241	213	-4%	2%	13%
Trading & Investments	226	72	98	172	-56%	37%	n.a.
Other Operating Income	7	16	(6)	3	-192%	-139%	-284%
Total Non-Interest Income	515	429	410	436	-20%	-4%	-6%
Total Banking Income	**1,170**	**1,263**	**1,348**	**1,286**	**15%**	**7%**	**5%**
Total Operating Expenses	(264)	(260)	(248)	(263)	-6%	-4%	-6%
Provisions	(14)	(14)	(101)	(95)	604%	638%	6%
Pretax Income	**944**	**1,017**	**1,062**	**957**	**12%**	**4%**	**11%**
Net Attributable Income	**940**	**1,011**	**1,057**	**951**	**12%**	**5%**	**11%**
Headline Attr. Income	**940**	**1,011**	**1,057**	**951**	**12%**	**5%**	**11%**

Source: QNB Quarterly Results Disclosure, EFG-Hermes

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