SHUAACAPITAL PSC

Qatar National Bank (QNB.QA)

Equity Research

Q2 2009 Results Note

July 9th, 2009

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Strong set of figures on higher spreads and strong non funded income: Qatar National Bank reported Q2 09 bottom line of QAR 1,057mn (+4.6% QoQ; +12.5% YoY), 11% above consensus of QAR 952mn. Despite limited loan origination during the quarter and precautionary surge in loan loss provisions, the bank's positive performance came on the back of improved net interest spreads and strong non interest revenues.

Irregular funding stream over H1 09: Following the QAR 12.4bn sequential decline in customer deposits during Q1 09 (refer to our Q1 09 First Reaction Note published on 09/04/09), QNB managed to recapture QAR 10.9bn worth of deposits (including Islamic accounts). As a result, Q2 09 customer deposits reached QAR 102.8bn, a strong 11.9% QoQ increase. The Qatari Government, the bank's primary depositor, held the lion's share from this deposit uptake with a net contribution close to QAR 7bn. The bank's recovered comfortable liquidity position allowed it to decrease its reliance on interbank funds.

Cautious asset allocation strategy: In par with the bank's conservative lending policy, loan portfolio advanced only marginally during Q2 09 to QAR 82.9bn, up from QAR 81.6bn as of March-end 2009. As such, the bank's 'plain vanilla' loans-to-deposits ratio stood at a low 81% in Q2 09 compared to an average of 91% over the past four quarters. The bank's prudent strategy during the period was hence reflected through the boost of its Held-to-Maturity (HTM) investments by QAR 6.4bn (in our view, most probably government bonds) to a total of QAR 17.7bn. Although preliminary disclosure did not specify any figures regarding the government's purchase of a portion of the bank's real estate portfolio, we had confirmation that the first phase of the deal was completed before the end of the second quarter. On another front, and as pointed out in our previous Note (dated 09/04/09), QNB disposed of the Bahamas Business of its subsidiary - QNB International Holdings Limited - during the period, generating a net gain of QAR 16mn recognized in the P&L.

Insignificant pressure on asset quality: QNB continued to display a healthy loan book as evident through a limited 3.5% QoQ rise in NPLs to QAR 725.8mn as of June 2009, translating to a NPLs/ Gross Loans ratio of 0.87% vs. 0.85% in Q1 09. On the provisioning front, coverage significantly improved to 98%, up from 91% the previous quarter. In the Qatari banking universe, we believe QNB will prove to be the most resilient to the expected rise in NPLs, thanks to its low exposure to vulnerable business segments (namely real estate and personal loans) relative to its local peers.

Net interest income surged on better spreads – non interest income held up: Net interest income amounted to QAR 937mn in Q2 09, up 12.5% QoQ. This performance was achieved on the back of a notable 33bps sequential improvement in net interest spread following a decline in funding costs combined with the continuous re-pricing of the loan portfolio. We do not believe such a high net interest spread (2.68% annualized) can be sustained for the rest of 2009 as market conditions are expected to provide less flexibility to revisit yields upwards, and to add more pressure on the funding side. Non interest income came out strong at QAR 476mn, almost flat QoQ despite a Q1 09 figure inflated by seasonal dividend receipts. This performance was mainly driven by a healthy growth in fees and commissions as well as gains on sale of AFS investments. All in all, Q2 09 operating income stood at QAR 1,413mn, up 7.4% QoQ.

Continuous cost control –provisions on the rise: Overheads declined 4.3% QoQ, improving the cost to income ratio to a competitive 17.6% vs. FY 08 level of 21.8%. The improved NPL coverage required a hike in loan loss provisions to QAR 107mn for Q2 09 from QAR 3.4mn in Q1 09.

H1 09 performance seen supportive to the share price in the short-term: With an annualized RoAE north of 25% in H1 09 (vs. 22.7% in H1 08) , QNB is enjoying a de-risked balance sheet and a healthy and fast-growing government-backed business, reaffirming its strong capacity to cope with future challenges should they arise in the coming quarters. We reiterate our positive outlook on the bank and we believe the reported results will provide support to the shares in the coming sessions despite the bank trading at a premium to most GCC (ex Saudi) peers with a H1 09 PB of 2.0x.

Current stock price (QAR)	116.9
52-week range (QAR)	69.0 – 193.6
Number of shares ('000)	301,121
Free Float (%)	50
Market Cap (QAR '000)	35,201,022
Market Cap (QAR '000)	9,675,927
Annualized PE 2009	8.5x
H1 2009 PB	2.0x
Div. Yld 2008 (%)	5.1

	Q2 08	Q1 09	Q2 09	H1 08	H1 09
Net interest income	655	833	937	1,232	1,771
Non interest income	546	482	476	1,182	958
Operating income	1,201	1,315	1,413	2,414	2,728
G&A expenses	-264	-260	-248	-542	-508
Loan loss provisions	-10	-3	-107	-39	-110
Other provisions	17	-35	-11	34	-46
Taxes and net profit from discontinued operations	-4	-7	10	-10	4
Net profit	940	1,011	1,057	1,857	2,067

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