المجموعة المالية - هيرميس
EFG HERMES

QATAR ISLAMIC BANK (QIB)

3Q2008 - Plenty of Noise, But Moving Forward

28 OCTOBER 2008

QATAR | BANKING

ST Rec. : Neutral	Current Price*: QAR 88.3
LT Rec. : Neutral	LT Fair Value : QAR 129.5

• **Headline 3Q2008 Net Income Rises 11% Y-o-Y:** 3Q2008 net profit of QAR397 million rose 11% Y-o-Y, was flat Q-o-Q, but nevertheless exceeded our forecasts by 3%. This reflected weak revenue, hit by asset markdowns, falling 41% Q-o-Q and missing our forecasts by 32%. Cost control was however good, with costs falling 3% Y-o-Y and 12% Q-o-Q. However, the big positive item was provisioning, which had a substantial anomalous write back putting profits back on track.

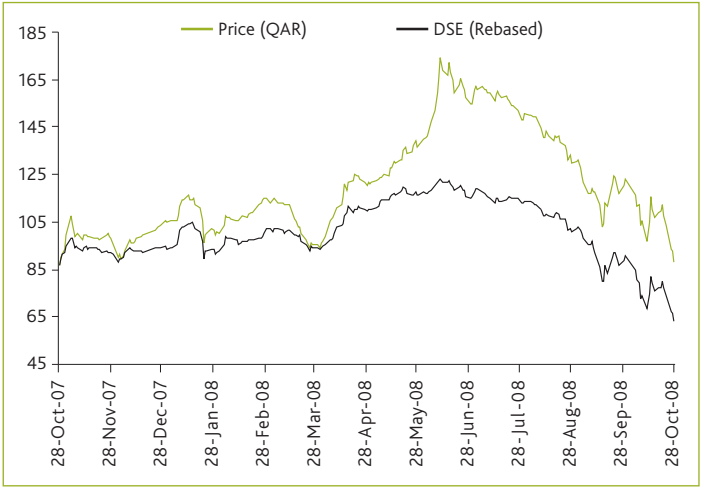
• **Surprising Strength in Spreads:** QIB's balance sheet seemed relatively untouched by global turmoil, with deposits rising 6% Q-o-Q to close just 1% below our pre-global crisis forecast, while loans jumped 17% Q-o-Q. This was funded primarily by a big rise in interbank liabilities, which jumped 57% Q-o-Q. Although this should have put pressure on spreads, these actually jumped from 5.1% in the previous quarter to 6.0% in 3Q2008, resulting in net interest income rising 14% Q-o-Q and beating expectations by 46%. However, we believe that some of this outperformance is driven by the inclusion of fee related income.

• **Non-Interest Income Drops Sharply:** By contrast, non-interest income was weak, falling 69% Y-o-Y and 73% Q-o-Q to QAR100 million. Fees & Commissions were surprisingly resilient, aided by strong growth in LCs. However, income from investing activities dropped 52% Q-o-Q, while returns from foreign exchange operations declined to a QAR113 million loss, reflecting realised and unrealised losses on equity, property and foreign exchange positions. While it is not immediately clear why FX losses should have taken place, the negative items are volatile in nature.

• **Costs Decline 3% Y-o-Y:** After bringing costs down 15% Q-o-Q in 2Q2008, QIB brought them down a further 12% Q-o-Q in 3Q2008. While lower bonus accruals, might be the obvious answer, the company highlights "a cost conscious approach and cost rationalisation". In spite of this impressive cost containment, the cost income ratio increased from 18.5% in 2Q2008 to 27.3% in 3Q2008, driven by the substantial decline in volatile sources of revenue. Provisions meanwhile were extremely positive, registering a net QAR138 million write back as progress was made on a long-standing specific provision..

• **Core Earnings Ahead, Volatile Earnings Mixed:** After excluding the losses on the equity, property and foreign exchange portfolios, and setting aside the write-back of provisions, core earnings are marginally ahead of expectations. Going forward, we will be adjusting our LTFV of QAR129.5 for higher global risk aversion and also for slower growth. However, after reducing our recommendation to ST Reduce LT Neutral in July, when the price peaked at QAR158.5, the stock has underperformed the market, dropping nearly 45% to QAR88.3. Consequently, we raise our recommendation to ST/LT Neutral, highlighting an overweight position on Qatari banks, but perhaps finding better value elsewhere.

FLASH NOTE



	2008e	2009e	2010e
EPS	8.77	8.73	11.01
P/E* (x)	10.1	10.1	8.0
DPS	1.55	1.60	2.45
Div. Yield*	1.76%	1.81%	2.77%
BVPS	35.7	42.8	51.4
P/BV* (x)	2.48	2.06	1.72

Figures in QAR unless otherwise stated
Figures are not revised

Stock Data	
Last Ex-Div Date	*QAR1.29 on 12 March 2008*
Mkt. Val. (mn)	*QAR17,387*
Shares (mn)	*196.9*
Av. Mthly Liqd. (mn)	*QAR1,172*
52-Week High / Low	*QAR174.5 / 86.80*
Bloomberg / Reuters	*QIBK QD / QISB.QA*
Est. Free Float	*100%*

Raj Madha, CFA
+971 4 363 4009
rmadha@efg-hermes.com

*prices as of 28 October 2008

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Table 1: Results in Summary

(AED mn)	3Q2007a	2Q2008a	3Q2008a	3Q2008e	Y-o-Y	Q-o-Q	v Estimate
Balance Sheet							
Loans & Islamic Financing	10,825	15,264	17,926	15,918	66%	17%	13%
Total Assets	**3,851**	**5,945**	**6,141**	**6,015**	**59%**	**3%**	**2%**
Customer deposits & Islamic Funding	10,593	15,509	16,412	16,537	55%	6%	-1%
Total Liabilities	**15,061**	**20,122**	**22,936**	**21,999**	**52%**	**14%**	**4%**
Net Liquid Assets	(3,015)	(2,862)	(4,870)	(2,812)			
Shareholders' Equity	**4,225**	**6,589**	**6,926**	**6,958**	**64%**	**5%**	**0%**
Income Statement							
Net Interest & Islamic Returns	134	217	246	168	84%	14%	46%
Fees & Commissions	21	67	64	34	202%	-5%	89%
Trading & Investments	219	298	37	194	-83%	-88%	-81%
Other Operating Income	2	1	(1)	3	-158%	-205%	-136%
Total Non-Interest Income	327	367	100	340	-69%	-73%	-71%
Total Banking Income	**461**	**583**	**346**	**509**	**-25%**	**-41%**	**-32%**
Total Operating Expenses	(97)	(108)	(94)	(118)	-3%	-12%	-20%
Provisions for Loans Losses	25	(52)	138	(6)	460%	-368%	-2412%
Pretax Income	**387**	**424**	**390**	**385**	**1%**	**-8%**	**1%**
Net Attributable Income	**357**	**398**	**397**	**385**	**11%**	**0%**	**3%**

Source: Company Reports, EFG-Hermes Forecasts

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EGYPT SALES TEAM
Local call center 16900
Int'l call center +20 2 33 33 94 00
cc-hsb@efg-hermes.com

Head of Western Institutional Sales
Mohamed Ebeid
+20 2 33 32 1054
mebeid@efg-hermes.com

Local Institutional Sales
Amr El Khamissy
+20 2 33 32 1045
amrk@efg-hermes.com

Gulf HNW Sales
Ahmed Salem
+20 2 33 32 1078
asalem@efg-hermes.com

UAE SALES TEAM
call center +971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM
call center +800 123 4566
ksa-callcenter@efg-hermes.com

Head of KSA Brokerage
Hesham Khalil
+9661 211 3040
hkhalil@efg-hermes.com

Head of KSA Sales
Mohsen Mansour
+9661 211 3008
mohsenm@efg-hermes.com

RESEARCH MANAGEMENT
Cairo General + 20 2 33 38 8864
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research
Eiji Aono
+971 4 363 4006
eaono@efg-hermes.com

Head of Egypt Research
Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

Head of Publ. and Distribution
Rasha Samir
+20 2 33 32 1142
rsamir@efg-hermes.com

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EFG-HERMES QATAR LLC, OFFICE 1103, 11TH FLOOR MINISTRY OF ECONOMY & COMMERCE BUILDING, WEST BAY, DOHA - QATAR
TEL +974 496 7944 | **FAX** +974 496 7950
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