SHUAACAPITAL PSC

Qatar National Bank (QNBK.QA)

Equity Research

Q1 2009 First Reaction

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Lower provisioning behind 10.2% YoY surge in net profit: Qatar National Bank (QNB. QA) the first Qatari bank to disclose Q1 09 results, reported net profit of QAR 1,011mn, crossing the QAR 1bn mark. This result represents a 10.2% increase from QAR 917mn in Q1 08, and a 55.5% QoQ increase from QAR 650mn in Q4 08. An obvious cautiousness on the lending side explain the sequential balance sheet contraction from QAR 151.9bn as of December 2008 to QAR 140.6bn as of March 31st 2009. Although the bank currently enjoys a healthy asset quality, Q1 09 results revealed a flat operating performance while the bottom line benefited from a notably lower cost of risk compared to the previous quarter.

QAR 12bn deposits' decline …matched by QAR 18bn loan book reduction: Customer deposits (including Islamic deposits) stood at QAR 91.9bn as of March 31st 2009, a 12% decline year-to-date (or QAR 12.4bn). This reflects the concentration of the bank's customer funding base, making it more volatile and sensitive to sequential client account movements. As a matter of fact, the repayment of nearly QAR 10bn government agencies' loans from their own funds mainly explains the sequential drop in deposits. This, in addition to the transfer of QAR 7bn government agency loans into bonds, also justifies the 18% QoQ drop in total loans (or QAR 18.5bn) to QAR 81.6bn. At these levels, QNB's loans to deposits ratio improved to 89% from 96% in the previous quarter.

Loan book quality still strong: Non Performing Loans (NPLs) fell 4% QoQ to QAR 701.2mn in Q1 09, and remained limited to 0.9% of QNB's gross loan portfolio. In the same vein, provision cover improved to 91% vs. 85% as of December, 2008.

Investment portfolio cleaned up: During the quarter, Government of Qatar purchased part of QNB's Available For Sale (AFS) local equity portfolio at a sale price of QAR 4.0bn. The bank effectively received QAR 1.8bn in cash (45% of the total amount) and the remainder (QAR 2.2bn) as a five-year term bond yielding 5.5% per annum. While these transactions did not have any impact on the bank's income statement, QAR 917mn related to this sale were transferred to equity, boosting QNB's fair value reserve to QAR 539mn in Q1 09 up from a net QAR 274mn deficit as of December 08.

Operating performance almost flat on lower non funded revenues: Income from operations was reported at QAR 1,317mn, almost flat QoQ yet up 8.6% YoY. This performance resulted from the combination of (1) a 4.0% QoQ rise in net interest income, as net interest margin improved and funding costs dropped considerably, and (2) a 6% QoQ decline in non interest revenues to QAR 483.6mn. This decline in non interest income is mainly a result of a 87% fall in investment gains and partially offset by the 20.8% QoQ increase in fees and commission (QAR 237mn in Q1 09) and the strong boost in dividend income. It is worth noting that the bank's Q2 09 revenues are expected to be inflated by one off item as a result of the completion of the sale of one of the subsidiaries' business lines (the Bahamas business within QNB International Holdings Limited). As of March 09, the latter comprised assets of QAR 569mn and liabilities of QAR 1,228mn and classified as held for sale, the difference being the equity and interbranch funding.

More relaxed provisioning policy in Q1 09: Total G&A expenses stood at QAR 259.6mn, down 9.6% QoQ. This translated into a cost to income ratio of 19.7%, down from 21.8% in Q4 08. On the provisioning front, a mere QAR 3.4mn were recognized as loan provisions vs. QAR 198mn in Q4 08. In other terms, the bank reaped the benefits of a conservative provisioning policy in Q4 08 to restrict expenses in the following period. In addition to that, QAR 24.8mn impairment losses were booked during the quarter, down 85% from QAR 170mn in Q4 08.

Positive long term outlook maintained: Although QNB's Q1 09 performance reflected a healthy balance sheet with limited market exposure, it is clear that the bank's profitability was affected by the slowdown in its core banking business, as economic uncertainties called for cautiousness across the board. While this cautious outlook might prevail in the short-term, we reiterate that QNB remains one of our preferred top-down plays in Qatar, making it a relatively low-risk and long term investment. Based on today's closing price, the bank trades at an annualized 2009 PE of 7.6x and a 2009 PB of 1.8x.

Current stock price (QAR)	102
52-week range (QAR)	69.0 - 211.9
Number of shares ('000)	301,121
Free Float (%)	50
Market Cap (QAR '000)	30,714,322
Market Cap (QAR '000)	8,438,232
Annualized PE 2009	7.6x
PB 2009	1.8x
Div. Yld 2008 (%)	5.9

	Q1 08	Q4 08	Q1 09	FY 08
Net interest income	577	801	833	2,856
Non interest income	636	514	484	2,321
Operating income	1,213	1,316	1,317	5,177
G&A expenses	-278	-287	-260	-1,126
Provisions	-12	-364	-39	-378
Minorities, taxes, and other	-6	-15	-8	-20
Net profit	917	650	1,011	3,653

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