Equity | Qatar | Banks

RASMALA

26 April 2011

Qatar National Bank

25% rights issue

We update our TP and per share numbers for the 25% rights issue. QNB went ex-rights on Sunday, 24 April, raising QR12.7bn through 127 million shares at QR100 per share. The rights issue itself was already in our numbers; hence, the adjustment merely reflects dilution.

Buy

Target price
QR147.24 (from QR161.14)

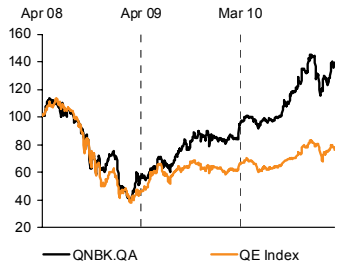
Price
QR137.00

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	124.8	143.7	100.5
Absolute (%)	9.8	-4.7	36.3
Rel market (%)	7.9	1.6	23.3
Rel sector (%)	10.7	4.6	19.8



Market capitalisation
QR87.15bn (€16.44bn)

Average (12M) daily turnover
QR22.04m (€7.53m)

Sector: QE Bank Index
RIC: QNBK.QA, QNBK QD
Priced QR137.00 at close 25 Apr 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	4,191	5,718	7,234	9,563	11,004
Reported net profit (QRm)	4,202	5,704	7,215	9,538	10,975
Reported EPS (QR)	7.53	10.30	12.00 ▼	14.70 ▼	16.90 ▼
Normalised EPS (QR)	7.51	10.30	12.00 ▼	14.70 ▼	16.90 ▼
Dividend per share (QR)	2.21	3.59	3.25 ▼	4.65 ▼	5.26 ▼
Normalised PE (x)	18.20	13.40	11.50	9.33	8.11
Price/book value (x)	4.04	3.35	2.19	1.88	1.62
Dividend yield (%)	1.61	2.62	2.37	3.39	3.84
Return on avg equity (%)	25.10	28.00	23.20	20.50	23.70

Use of ▲ ▼ indicates that the line item has changed by at least 5%. year to Dec, fully diluted
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

QNB went ex-rights on 24 April

As expected, QNB went ex-rights on 24 April, with 21 April being the final cum-rights trading day. The company raised QR12.7bn through the issuance of 127 million shares at QR100 per share, amounting to a 25% rights issue. The share capital raised amounted to a 53% increase in book value.

Rights issue at a 33% discount to the previous cum-rights price

The rights issue was priced at a 33% discount to the last cum-rights price of QR149.5. This implies a dilution factor of 1.07092. The impact on the target price differs from this only due to timing/modelling factors. Similarly, since the capital injection was well-flagged by management, our forecasts remain unchanged, apart from the per share historic and forecast data.

Rights not tradable

The rights are not tradable. We expect all shareholders to take up their rights. However, unsubscribed rights will still be taken up by transferring them to the Qatar General Retirement and Social Insurance Authority.

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Important disclosures can be found in the Disclosures Appendix.
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Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	3726	5675	7123	9504	11001
Non-interest income	1564	1655	1896	2445	2911
Total income	**5291**	**7330**	**9019**	**11948**	**13911**
Operating costs	-1107	-1292	-1511	-2345	-2869
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	0.00	0.00	0.00	0.00
Pre-prov operating profit	4184	6038	7509	9603	11042
Provisions charges	-285.1	-536.9	-505.9	-321.7	-347.0
Post-prov op prof	3899	5501	7003	9281	10695
Associates (pre-tax)	292.8	216.3	230.7	281.2	309.3
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**4191**	**5718**	**7234**	**9563**	**11004**
Taxation	-113.0	-133.5	-167.0	-220.7	-254.0
Minority interests	13.3	2.13	-1.74	-2.30	-2.64
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	110.0	118.0	149.7	197.8	227.7
Reported net profit	**4202**	**5704**	**7215**	**9538**	**10975**
Tot normalised items	14.2	0.00	0.00	0.00	0.00
Normalised PTP	4191	5718	7234	9563	11004
Normalised net profit	4188	5704	7215	9538	10975

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	108783	131696	158860	190312	228564
Other int earn assets	53514	48735	77841	89447	105140
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	7152	9039	9033	14374	14564
Total assets	**179329**	**223382**	**265751**	**316970**	**371124**
Total customer deposits	125872	165470	193809	234084	276563
Oth int-bearing liabs	29603	26481	23769	26185	28734
Non int-bearing liab	5182	8596	7494	9513	11090
Total liabilities	**160657**	**200547**	**225072**	**269783**	**316386**
Share capital	18481	22280	39882	46263	53665
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	**18481**	**22280**	**39882**	**46263**	**53665**
Minority interests	190.7	555.2	797.6	925.3	1073
Total liab & sh equity	**179329**	**223382**	**265751**	**316970**	**371124**
Risk weighted assets	105249	112003	135105	157959	198851
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-923.6	-1572	-2271	-2871	-3570
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	105249	112003	135105	157959	198851
Reported net profit	4202	5704	7215	9538	10975
Opening risk assets	96056	105249	112003	135105	157959
Closing risk assets	105249	112003	135105	157959	198851
Change in risk assets	9193	6755	23102	22854	40891
Capital required	919.3	675.5	2310	2285	4089
Free capital flow	3282	5029	4904	7252	6886
Ordinary dividend paid	-1204	-1957	-2067	-2959	-3346
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	0.00	0.00	12722	0.00	0.00
Cash flow from financing	-1204	-1957	10655	-2959	-3346
Net capital flow	2078	3072	15559	4293	3541
Tier 1 capital	13857	17119	30496	35376	41036
Tier 1 capital ratio (%)	13.2	15.3	22.6	22.4	20.6

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	QNB					Comm Bank of Qatar			Doha Bank		
Performance	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**
Non-int inc/gr op inc (%)	29.6	22.6	21.0	20.5	20.9	31.3	32.7	33.4	24.0	23.8	24.9
Cost/income (%)	20.9	17.6	16.7	19.6	20.6	32.0	33.0	33.0	35.2	35.0	35.0
Costs/average assets (%)	0.67	0.64	0.62	0.74	0.91	1.36	1.33	1.51	1.73	1.62	1.77
Net income growth (%)	12.0	36.4	26.5	32.2	15.1	14.6	12.7	12.6	26.1	11.0	10.6
Net cust loan growth (%)	8.73	21.1	20.6	19.8	20.1	16.1	15.2	15.9	7.37	12.7	13.9
Cust deposit growth (%)	20.7	31.5	17.1	20.8	18.1	5.97	15.4	16.2	0.34	11.2	12.3
Net interest margin (%)	2.46	3.29	3.38	3.32	3.89	3.55	3.15	3.53	4.44	3.89	4.20
Return on avg assets (%)	2.52	2.83	2.95	3.00	3.46	2.91	2.83	3.21	2.66	2.63	2.92
Return on avg equity (%)	25.1	28.0	23.2	20.5	23.7	15.8	15.5	17.5	22.8	21.6	24.2
RORWA (%)	4.16	5.25	5.84	5.82	6.95	3.50	3.16	3.59	2.93	2.76	3.08
					year to Dec			year to Dec			year to Dec
Valuation											
Normalised EPS growth (%)	12.1	36.5	16.7	22.7	15.1	9.58	7.99	12.6	20.6	6.40	10.6
Reported PE (x)	18.2	13.4	11.5	9.33	8.11	9.26	8.57	7.61	8.12	7.63	6.90
Normalised PE (x)	18.2	13.4	11.5	9.33	8.11	9.26	8.57	7.61	8.12	7.63	6.90
Price/book value (x)	4.04	3.35	2.19	1.88	1.62	1.36	1.30	1.23	1.72	1.63	1.48
Price/adjusted BVPS (x)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	1.61	2.62	2.37	3.39	3.84	7.94	8.20	9.32	8.90	9.62	8.34
					year to Dec			year to Dec			year to Dec

Per share data	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tot adj dil sh, ave (m)	545.0	545.0	590.6	636.1	636.1
Pre-prov prof/share (QAR)	7.68	11.1	12.7	15.1	17.4
Reported EPS (QAR)	7.53	10.3	12.0	14.7	16.9
Normalised EPS (QAR)	7.51	10.3	12.0	14.7	16.9
Book value per sh (QAR)	33.9	40.9	62.7	72.7	84.4
Dividend per share (QAR)	2.21	3.59	3.25	4.65	5.26
Dividend cover (x)	3.48	2.91	3.49	3.22	3.28
					year to Dec

Solvency	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tier 1 capital ratio (%)	13.2	15.3	22.6	22.4	20.6
Total CAR (%)	13.2	15.3	22.6	22.4	20.6
Equity/assets (%)	10.3	9.97	15.0	14.6	14.5
Net cust loans/dep (%)	86.4	79.6	82.0	81.3	82.6
Rep NPL/gr cus adv (%)	0.00	0.00	0.00	0.00	0.00
Tot prov/rep NPLs (%)	0.00	0.00	0.00	0.00	0.00
Bad debts/advances (%)	0.26	0.40	0.31	0.17	0.15
					year to Dec

Priced as follows: QNBK.QA - QR137.00; COMB.QA - QR71.50; DOBK.QA - QR50.90
Source: Company data, Rasmala forecasts

Valuation methodology

Stage 1 (2010-2013)			**2010**	**2011**	**2012**	**2013**
Explicit Dividends	Net CF to shareholders		1,957	2,067	2,959	3,346
	NPV Stage 1	**6,798**	8,756	7,499	5,992	3,346

Stage 2 (2014-23)			**Model Numbers**			
Modelled Dividends	Excess Capital	23,616	ROTCE1	Growth	Capital Req'd	RWA
	Modelled Dividends	21,609	23%	17%	30,049	198,851
	NPV Stage 2	**33,692**				

Stage 3 (2024+)			**Model Numbers**		
Terminal Value	2023	190,411	ROTCE2	Growth	Capital Req'd
	NPV Stage 3	**53,174**	12%	5%	144,440

Total NPV			**COE**	
	Stage 1 (2010-2013)	6,798	US RFR	3.31%
	Stage 2 (2014-23)	33,692	Country Risk Spread	3.00%
	Stage 3 (2024+)	53,174	Sector Risk Spread	2.50%
	NPV	**93,664**	Stock Spread	1.50%
			Discount Rate	**10.31%**
Shares		**636**		
Price Target		**147.24**		
Price		**138.5**		
Upside/(Downside)		**6%**		

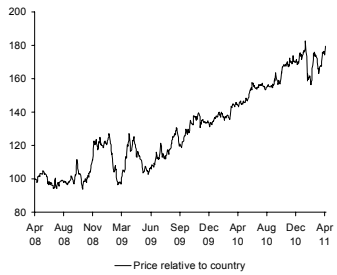
Source: Company data, Rasmala forecasts

Company description

Buy

Qatar National Bank (QNB) was established in 1964 as the country's first bank and is 50% owned by the Government via the QIA. It continues to be the primary banker to the Government and the public sector, in addition to maintaining sector leadership with a lending market share of 41%. Over the past decade, the bank has been relatively successful in diversifying its concentrated revenue base, developing other business segments such as HNW retail, private banking, Islamic banking, fund management, investment banking, brokerage and international banking. The diversification is backed by a physical presence with 55 local branches (41 conventional, 11 Islamic and 3 mobile) and an international network (branches, representative offices and associates) spanning 22 countries.

Price relative to country



Strategic analysis

Average SWOT company score: 4

Strengths 5

QNB has an entrenched position in the public sector, allowing it to maintain defensive market share. In addition, QNB has the most developed international franchise, with operations across the Arab World and beyond.

Weaknesses 4

Loan and deposit market share loss apart from a conservative and protective business strategy (even in the boom time) is considered as the biggest weakness of QNB.

Opportunities 3

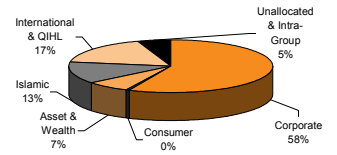
Capitalising on the US$150bn worth of infrastructure projects being executed by the state. In addition, QNB has become the premier regional frontier market bank - a position it needs to turn into cash flow.

Threats 2

Geopolitical instability is an issue, but only at the margin. A greater concern is the renewed focus from competitors on its core public sector franchise.

Scoring range is 1-5 (high score is good)

Divisional breakdown, by net profit



Source: Company reports

Market data

Headquarters
Qatar National Bank Building, Al Corniche Street, P.O. Box 1000, Al Doha, Qatar

Website
http://www.qnb.com.qa/english/

Shares in issue
636.1m

Freefloat
50%

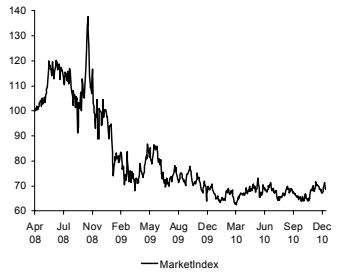
Majority shareholders
Qatar Investment Authority (50%)

Country view: Qatar

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation or RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to M East & Africa



Competitive position

Average competitive score: 3+

Supplier power 5+

The lack of significant regulator control allows the banks to change contract arrangements (such as the base rate). This substantially increases the supplier power for all banks in Qatar.

Barriers to entry 3+

Strong local government ownership in most banks coupled with branch limits for foreign banks keeps barriers to entry high for this sector.

Customer power 3+

Retail customer power is weak, but corporate and the public sectors can be more demanding if they were more price sensitive.

Substitute products 2+

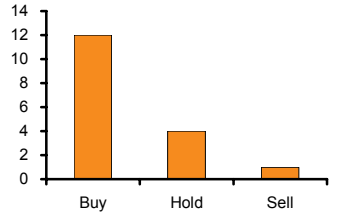
We believe the availability of substitute products (capital markets and wholesale lending) is on the rise, but it is currently unclear to what extent Qatar will favour its own banking system.

Rivalry 4+

Competition amongst local banks is low in Qatar. However, low growth rates have forced banks to look for growth wherever they can find it, and that may spark greater competition.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Qatar National Bank (RIC: QNBK.QA, Rec: Buy, CP: QR137.00, TP: QR147.24): We base our valuation on a three-stage DDM: a three-year stage of explicit forecasts, a 10-year stage of trend forecasts and a terminal stage based on a GGM. Downside risk remains increasing competition from new entrant banks resulting in a decline in market share, and falling pricing. Upside risks are better-than-expected growth from existing projects and increased contribution from international operations, although the latter is likely to return lower ROEs than the core business.

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