Qatar National Bank

Company Report 14 January 2010

4Q09 Review–Strong Credit Expansion

- **Earnings in line with expectations underpinned by macro environment**
- **A strong set of results amid a challenging global climate**
- **Maintain our "Hold" recommendation and target price of QAR160.8**

Results highlight

QNB's 4Q09/FY net income is in line with our estimates, but 7%/3% higher than street estimates. Earnings were mainly driven by strong credit expansion due to government spending. Given the expansionary budget implemented by the state, the sovereign loan book grew 23% YoY, representing half of its loan portfolio. Gross loan portfolio rose 18% QoQ. Underpinned by sovereign exposure and asset quality remained benign—a positive factor in the current context of heightened financial risk. NPL ratio slightly improved to 0.7% from the previous quarter.

Contribution from non-interest income dropped as investment income fell due to the change in its investment portfolio mix. The bank exited equity/mutual funds and significantly increased sovereign bond investments. Currently, sovereign bonds represent 74% of the investment portfolio vs. 22% in 2008. As such, it offers a more conservative and steady source of income and thus better earnings visibility.

Liquidity improved in 2009 as deposits rose 21% YoY, supported by corporate and Islamic segments. Despite attracting corporate deposits, the bank maintained its net interest margin at 2.62% in 4Q09 as it still derives c.54% of its deposits from government and also benefited from the interest rate mechanism of Islamic investment accounts.

What we think

In our view, QNB shows strong earnings resilience, posting positive results consecutively. Due to its size, government connections and diversified business model (product and geography), the bank is well placed to benefit from the economic growth and increased government spending expected in Qatar.

Action

We maintain our "Hold" recommendation on the stock as we find it fairly priced in. Our TP translates to an upside potential of only 6%.

Valuation and catalyst

We maintain our TP of QAR160.8. Upon issuance of the proposed bonus shares, our TP will decline to QAR124.0. Valuations do not appear compelling at a FY10f PB of 2.5x, trading at only a 5% discount to its implied PB. International expansion acts as a catalyst to the stock.

KPIs (QAR mn)	FY08a	FY09a	FY10f	FY11f	FY12f	FY13f
Net interest income	2,855	3,726.3	4,799.0	5,452.2	6,728.6	7,535.4
Total income	4,976	5,378.5	6,727.4	8,135.0	9,699.9	10,826.8
Net income	3,652	4,201.7	5,440.0	6,874.0	8,236.5	9,166.5
Net interest margin	2.24%	2.35%	2.64%	2.68%	2.95%	2.97%
Gross loans (bn)	101.9	113.7	127.4	142.7	159.8	179.0
Cost/Income	22.6%	20.6%	17.4%	17.6%	17.0%	17.6%
Gross LD	97.8%	90.4%	89.8%	86.7%	85.1%	82.8%
EPS	9.33	10.73	13.90	17.56	21.04	23.42
DPS	4.62	3.08	4.17	5.27	5.26	5.85
Dividend Yield	3.03%	2.02%	2.74%	3.46%	3.46%	3.85%
P/E (x)	16.3	14.2	10.9	8.7	7.2	6.5
P/B (x)	3.6	3.0	2.5	2.0	1.7	1.4
ROAE	24.0%	23.1%	24.9%	25.9%	25.4%	23.4%
ROAA	2.7%	2.5%	2.9%	3.2%	3.5%	3.4%

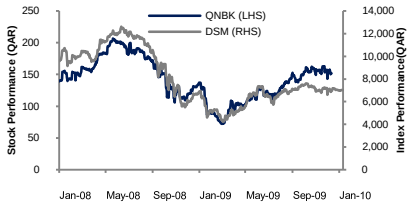
Hold

Target Price (QAR) Pre bonus issue	160.85
Target Price (QAR) Post bonus issue	124.00
Market Price (QAR)	152.1
Upside	6%
Listed on	DSM
Bloomberg	QNBK QD
RIC	QNBK.QA
Market Cap. (QARm)	45,198
Market Cap. (USDm)	12,417
No of Shares (m)	301
Foreign Ownership Limit	25.00%

Shareholders Structure

Free Float	50 %
Qatar Investment Authority	18.0%

Price Performance Chart



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* Disclaimer: See Page 5

Table 1: Comparison (quarterly) of Actual vs. Estimates

QAR million	4Q09a	4Q08a	YoY	3Q09a	QoQ	4Q09e	Surprise
Net interest income	1,017.9	801.5	27%	937.6	9%	996.5	2%
Non-interest income	400.8	476.0	-16%	357.2	12%	389.5	3%
Total income	1,418.7	1,277.5	11%	1,294.7	10%	1.385.9	2%
Operating expense	333.5	287.3	16%	265.2	26%	280.3	19%
Operating profit	1,085.2	990.2	10%	1,029.5	5%	1.105.7	-2%
Provision	100.6	363.9	-72%	102.0	-1%	121.4	-17%
Net income	1,070.9	649.8	65%	1,063.4	1%	1,092.5	-2%
Cost to income ratio	24%	22%		20%		20%	
in billion							
Net loans	108.8	100.0	9%	93.8	16%	103.6	5%
Deposit	125.9	104.2	21%	108.3	16%	115.1	9%
Shareholders' equity	19.8	16.6	19%	18.8	5%	19.5	1%

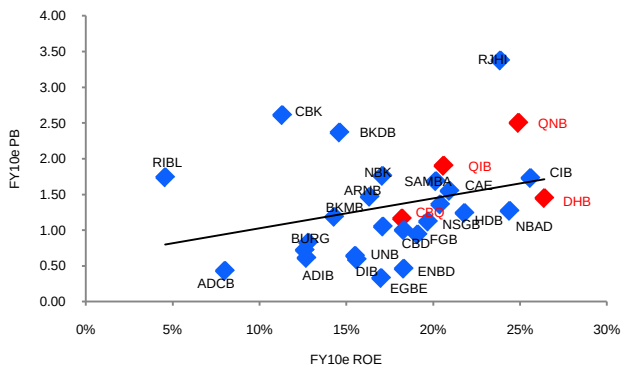
Table 2: Comparison (annual) of Actual vs. Estimates

QAR million	FY09a	FY08a	YoY	FY09e	Surprise
Net interest income	3,726.3	2,855.5	30%	3,704.8	1%
Non-interest income	1,652.3	2,121.1	-22%	1,641.0	1%
Total income	5,378.5	4,976.6	8%	5,345.9	1%
Operating expense	1,106.9	1,126.4	-2%	1,053.6	5%
Operating profit	4,271.7	3,850.3	11%	4,292.2	0%
Provision	358.9	378.2	-5%	379.6	-5%
Net income	4,201.7	3,652.5	15%	4,219.4	0%
Cost to income	21%	23%		20%	
in billion					
Net loans	108.8	100.0	9%	103.6	5%
Deposit	125.9	104.2	21%	115.1	9%
Shareholders' equity	19.8	16.6	19%	19.6	1%

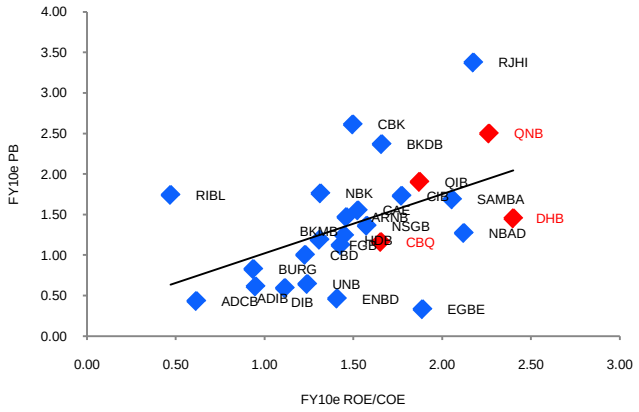
Source: Company reports, HC Brokerage

Valuation

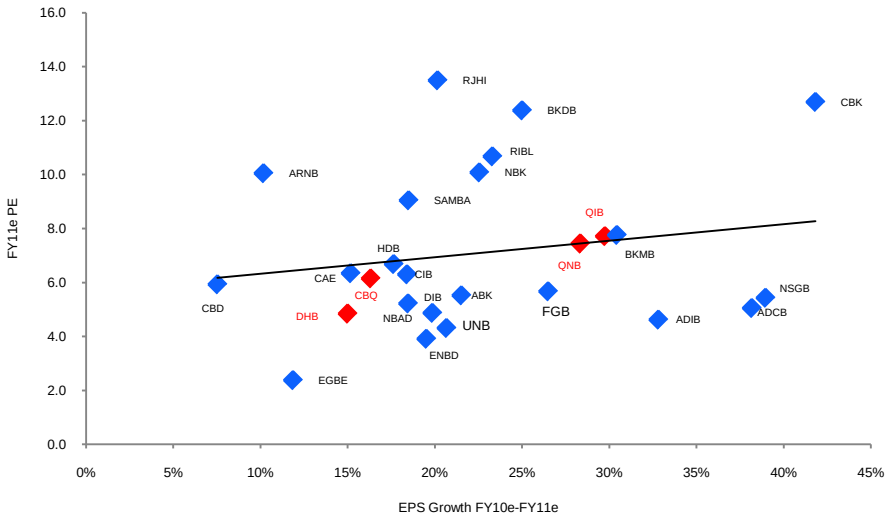
FY10e PB vs. ROE



FY10e PB vs. ROE/COE



FY11e PE vs. EPS growth



Source: Bloomberg, HC Brokerage

Financial Statements

QAR million	2008a	2009a	2010f	2011f	2012f	2013f
Income Statement						
Interest Income	6,853.0	7,295.7	10,179.4	11,451.5	12,772.7	14,230.5
Interest Expense	3,997.5	3,569.4	5,380.4	5,999.2	6,044.1	6,695.1
Net Interest Income	**2,855.5**	**3,726.3**	**4,799.0**	**5,452.2**	**6,728.6**	**7,535.4**
Fees and Commissions	975.9	967.7	1,064.5	1,171.0	1,288.1	1,416.9
FX Income	330.4	304.8	335.3	368.8	405.7	446.3
Investment Income	569.3	142.3	494.4	1,107.1	1,239.9	1,388.7
Other Income	245.6	237.5	34.1	35.8	37.6	39.5
Non-interest Income	**2,121.1**	**1,652.3**	**1,928.4**	**2,682.7**	**2,971.3**	**3,291.4**
Total Income	**4,976.6**	**5,378.5**	**6,727.4**	**8,135.0**	**9,699.9**	**10,826.8**
Total Operating Expenses	1,126.4	1,106.9	1,169.1	1,267.2	1,499.7	1,737.9
Pre-provision Income	3,850.3	4,271.7	5,558.3	6,867.8	8,200.2	9,088.9
Provisions	378.2	358.9	512.7	431.6	451.4	468.9
Associate and Other Income	200.3	292.8	421.8	472.4	529.1	592.6
Pre-tax Income	**3,672.3**	**4,205.6**	**5,467.4**	**6,908.6**	**8,277.9**	**9,212.6**
Income Taxes	19.8	17.1	27.3	34.5	41.4	46.1
Net Income After Tax	**3,652.5**	**4,188.5**	**5,440.0**	**6,874.0**	**8,236.5**	**9,166.5**
Minority Interest	-	(13.3)	-	-	-	-
Net Income	**3,652.5**	**4,201.7**	**5,440.0**	**6,874.0**	**8,236.5**	**9,166.5**
Balance Sheet						
Assets						
Cash Due from Central Bank	6,269.6	9,880.2	15,513.9	14,623.1	15,881.7	14,498.8
Due from Banks	27,044.5	30,181.0	26,110.3	33,742.5	37,791.6	42,326.6
Investments	11,814.9	23,332.8	26,110.3	29,243.5	32,752.7	36,683.1
Gross Loans	**101,931.7**	**113,736.9**	**127,385.4**	**142,671.6**	**159,792.2**	**178,967.3**
NPL Provisions	625.0	923.6	1,065.9	1,111.4	1,159.1	1,241.4
Net Loans	100,053.5	108,783.3	122,289.4	137,530.2	154,603.0	173,695.8
Other Assets	6,172.9	6,438.7	8,033.9	8,998.0	10,077.8	14,108.9
Net Fixed Assets	618.2	713.0	790.5	812.8	837.3	864.3
Total Assets	**151,973.6**	**179,328.9**	**200,848.4**	**224,950.2**	**251,944.2**	**282,177.5**
Liabilities						
Total Deposits	**104,252.6**	**125,872.2**	**141,839.1**	**164,497.7**	**187,758.4**	**216,233.0**
Due to Banks	21,988.7	20,794.0	24,107.8	19,644.4	17,542.3	11,308.4
Borrowings	6,719.1	6,723.5	6,750.0	6,750.0	6,750.0	6,750.0
Other Liabilities	2,369.9	5,967.3	4,321.9	4,834.0	4,324.4	5,018.7
Total Liabilities	**135,330.4**	**159,357.1**	**177,018.8**	**195,726.2**	**216,375.2**	**239,310.4**
Shareholders' Equity	**16,643.2**	**19,971.8**	**23,829.6**	**29,224.0**	**35,569.0**	**42,867.4**

Rating Scale

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

Disclaimer

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