Qatar National Bank

Flash Note 7 April 2010

Strong Underlying Trend

- **Higher-than-expected earnings on lower provisioning on investments and operating expenses**
- **Asset quality remains intact with stronger coverage**
- **Maintain our Hold recommendation and TP of QAR160.8/share**

Results highlight: Earnings were QAR1.3 billion, 14% higher than our estimates on lower investment provisioning and operating expenses. Core operating performance (net interest income + fee income) continued to improve, supported by credit expansion and strong margins. Loan book (gross) reached QAR126.6 billion, increasing 44% YoY and 11% QoQ. QNB's loan book benefits from government/semi-government agencies underpinned by its size and connections with the state.

Margins improved by 18 bps to 2.74% QoQ and compared favorably with the 1Q09 margin of 2.39%. We believe margins benefitted from the lower funding cost environment in the Qatari banking sector upon improvement in liquidity from last year. We would attribute the quarterly increase in margins partly due to the increase in loan-to-deposit ratio to 96% from 90% in the previous quarter.

NPL ratio remained unchanged at 0.7% supported by the sovereign tilt in its loan book and conservative lending practices. The bank increased its coverage ratio to 116% from 109% in 4Q09. We gather from management that bad loans have peaked last year and as such any increase in bad loans is a by-product of credit expansion.

What we think: QNB's earnings are driven by its strong underlying performance and benign asset quality. Being the biggest bank in Qatar (taking almost half the market share in the Qatari banking sector in terms of loans and deposits), QNB is well poised to benefit from the macro environment in the country. QNB's international presence (Singapore, Libya, and Syria) adds to its strong returns.

Action: We maintain our Hold rating and our TP of QAR160.8/share. We have not changed our estimates on 1Q numbers given the resumption of trading in equities quoted on the Qatar stock exchange is likely to increase provisioning on its investment portfolio. Also, we already have lower operating expenses for the remaining quarters. Our FY11f earnings are higher than the street on higher investment income assumptions.

Valuation and catalyst: The stock is trading at FY10f PB of 2.3x, a 9% premium to its implied PB. Despite the strong earnings of QNB, we find the stock fairly priced in and hence maintain our Hold recommendation.

KPIs (QAR mn)	New		Old		Consensus	
	FY10f	FY11f	FY10f	FY11f	FY10c	FY11c
Net Interest Income	4,799.0	5,452.2	4,799.0	5,452.2	-	-
Total Income	6,727.4	8,135.0	6,727.4	8,135.0	-	-
Net Income	5,435.3	6,873.2	5,435.3	6,873.2	4,830.8	5,633.9
Net Interest Margin	2.64%	2.68%	2.64%	2.68%	-	-
Gross Loans (bn)	130.7	146.5	130.7	146.5	-	-
Cost/Income	17.4%	17.6%	17.4%	17.6%	-	-
Gross LD	89.8%	86.7%	89.8%	86.7%	-	-
EPS	13.90	17.56	13.90	17.56	-	-
DPS	4.17	5.27	4.17	5.27	-	-
Dividend Yield	3.01%	3.81%	2.74%	3.46%	-	-
P/E (x)	10.0	7.9	10.9	8.7	-	-
P/B (x)	2.3	1.9	2.5	2.0	-	-
ROAE	24.9%	25.9%	24.9%	25.9%	-	-
ROAA	2.9%	3.2%	2.9%	3.2%	-	-

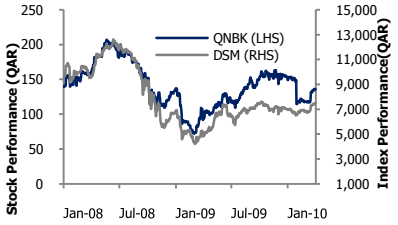
Hold

Target Price (QAR)	160.8
Market Price (QAR)	138.2
Upside	16.4%
Listed on	DSM
Bloomberg	QNBK QD
RIC	QNBK.QA
Market Cap. (QAR mn)	54,099
Market Cap. (USD mn)	14,862
No of Shares (mn)	391
Foreign Ownership Limit	25.00%
Foreign Ownership Level	4.06%

Shareholder Structure

Free Float	50%
QIA	50%

Price Performance Chart



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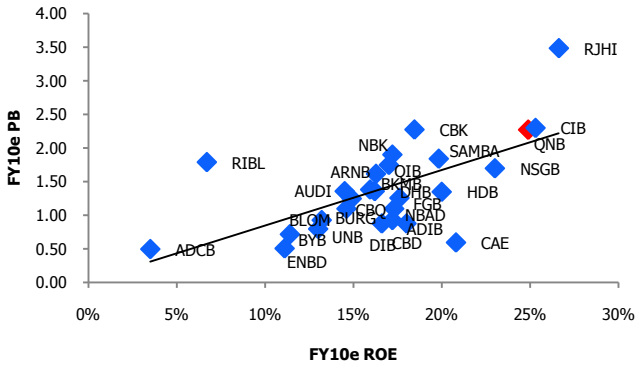
Table 1: Quarterly Comparison of Actual vs. Estimates

QAR million	1Q10a	1Q09a	YoY	4Q09a	QoQ	1Q10e	Surprise
Net Interest Income	1,189.3	833.4	43%	1,017.9	17%	1,138.3	4%
Non-Interest Income	410.7	452.6	-9%	400.8	2%	400.9	2%
Total Income	1,600.0	1,286.0	24%	1,418.7	13%	1,539.3	4%
Operating Expense	299.3	259.7	15%	333.5	-10%	325.9	-8%
Operating Profit	1,300.7	1,026.3	27%	1,085.2	20%	1,213.3	7%
Provision	92.8	38.5	141%	100.6	-8%	145.0	-36%
- Loan loss	92.3	3.4	2633%	66.0	40%	101.9	-9%
- Other	0.5	35.1	-99%	34.6	-99%	43.1	-99%
Net Income	1,265.8	1,010.6	25%	1,070.9	18%	1,113.3	14%
Cost to Income Ratio	19%	20%		24%		21%	
in billion							
Net Loans	117.7	81.6	44%	108.8	8%	122.3	-4%
Deposit	131.9	91.9	44%	125.9	5%	141.5	-7%
Shareholder equity	20.0	16.6	21%	19.8	1%	22.0	-9%

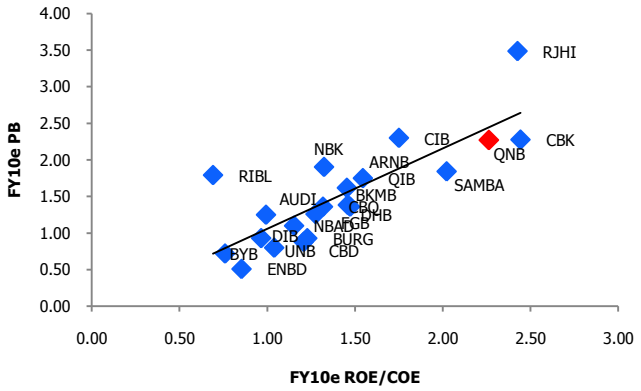
Source: Company reports, HC Research

Chart 1: Valuation

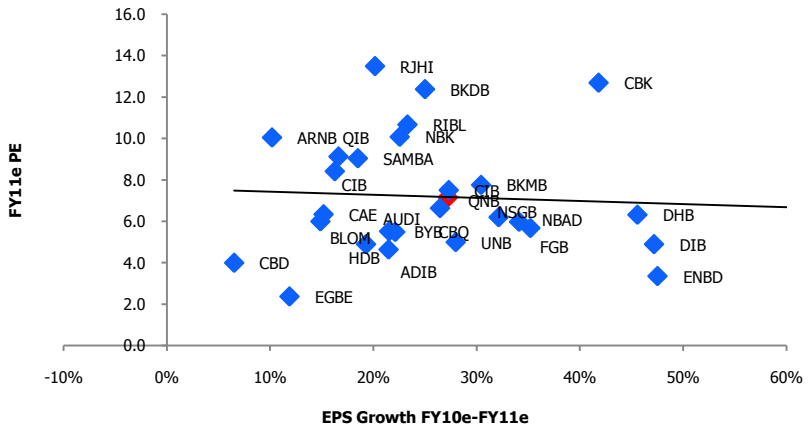
FY10f PB vs. ROE



FY10f PB vs. ROE/COE



FY11f PE vs. EPS growth



Source: Bloomberg, HC Research

Financial Statements

QAR million	2009a	2010f	2011f	2012f	2013f	2014f
Income Statement						
Interest Income	7,295.7	10,179.5	11,451.7	12,773.0	14,230.9	15,863.8
Interest Expense	3,569.4	5,380.0	5,998.2	6,043.1	6,693.9	7,405.9
Net Interest Income	**3,726.3**	**4,799.5**	**5,453.5**	**6,730.0**	**7,537.0**	**8,457.9**
Fees and Commissions	967.7	1,064.5	1,171.0	1,288.1	1,416.9	1,558.6
FX Income	304.8	335.3	368.8	405.7	446.3	490.9
Investment Income	142.3	494.4	1,107.1	1,239.9	1,388.7	1,555.4
Other Income	237.5	34.1	35.8	37.6	39.5	41.5
Non-interest Income	**1,652.3**	**1,928.4**	**2,682.7**	**2,971.3**	**3,291.4**	**3,646.3**
Total Income	**5,378.5**	**6,727.9**	**8,136.2**	**9,701.3**	**10,828.3**	**12,104.2**
Total Operating Expenses	1,106.9	1,164.1	1,261.6	1,493.6	1,731.1	2,010.1
Pre-provision Income	4,271.7	5,563.8	6,874.6	8,207.7	9,097.2	10,094.1
Provisions	358.9	522.9	439.2	459.1	477.5	534.8
Associate and Other Income	292.8	421.8	472.4	529.1	592.6	663.7
Pre-tax Income	**4,205.6**	**5,462.7**	**6,907.8**	**8,277.7**	**9,212.3**	**10,223.0**
Income Taxes	17.1	27.3	34.5	41.4	46.1	51.1
Net Income After Tax	**4,188.5**	**5,435.3**	**6,873.2**	**8,236.3**	**9,166.2**	**10,171.9**
Minority Interest	(13.3)	-	-	-	-	-
Net Income	**4,201.7**	**5,435.3**	**6,873.2**	**8,236.3**	**9,166.2**	**10,171.9**
Balance Sheet						
Assets						
Cash Due from Central Bank	9,880.2	14,115.7	10,824.2	11,633.0	9,746.4	10,484.5
Due from Banks	30,181.0	26,110.3	33,742.5	37,791.6	42,326.6	47,405.8
Investments	23,332.8	26,110.3	29,243.5	32,752.7	36,683.1	41,085.0
Gross Loans	**113,736.9**	**130,797.5**	**146,493.2**	**164,072.4**	**183,761.0**	**205,812.4**
NPL Provisions	923.6	1,076.1	1,129.2	1,184.7	1,275.6	1,406.2
Net Loans	**108,783.3**	**125,691.3**	**141,333.9**	**158,857.6**	**178,455.4**	**200,376.1**
Other Assets	6,438.7	8,033.9	8,998.0	10,077.8	14,108.9	15,801.9
Net Fixed Assets	713.0	786.8	808.1	831.4	857.1	885.3
Total Assets	**179,328.9**	**200,848.4**	**224,950.2**	**251,944.2**	**282,177.5**	**316,038.8**
Liabilities						
Total Deposits	**125,872.2**	**145,088.7**	**168,244.4**	**191,996.2**	**221,075.2**	**250,440.9**
Due to Banks	20,794.0	20,830.9	15,863.4	13,266.7	6,423.9	2,285.8
Borrowings	6,723.5	6,750.0	6,750.0	6,750.0	6,750.0	6,750.0
Other Liabilities	5,967.3	4,319.9	4,834.4	4,323.8	5,017.8	5,552.0
Total Liabilities	**159,357.1**	**176,989.5**	**195,692.2**	**216,336.7**	**239,266.9**	**265,028.6**
Shareholder Equity	**19,971.8**	**23,858.9**	**29,258.0**	**35,607.5**	**42,910.6**	**51,010.2**

Rating Scale

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

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