QATAR NATIONAL BANK (QNB)

4Q2009 - Strong Loan Growth Momentum, Credit Quality Stable

17 JANUARY 2009

QATAR | BANKING

Current Price* : QAR 148.7 **Rating: Neutral**
Fair Value (FV): QAR 169.4

• **QNB's 4Q2009 Net Profit Exceeds Estimates by 6%:** QNB reported 4Q2009 net attributable profit of QAR1,082 million, up 3% Q-o-Q (+67% Y-o-Y) and 6% ahead of expectations. Revenues were in line although of better quality than forecast, with core banking income exceeding expectations on strong fee income. Provisioning declined Q-o-Q and was the strongest positive relative to forecasts. Costs in 4Q2009 were higher than expected, although this was due to pre-operating costs at its recently launched Syrian and Geneva operations; we had not factored these costs into our estimates. For FY2009, net attributable profit of QAR4,202 million rose by 15% Y-o-Y.

• **Loan and Deposit Growth Accelerates Q-o-Q:** Customer deposit growth was strong at 15% both Y-o-Y and Q-o-Q, primarily driven by corporate and government agencies' deposits. Loan growth accelerated to 16% Q-o-Q (+9% Y-o-Y), coming in well ahead of expectations and largely due to very strong growth in government-related business. Liquidity has improved during the year, with the reported (net) loan to deposit ratio falling to 100% in December 2009 from 105% in December 2008.

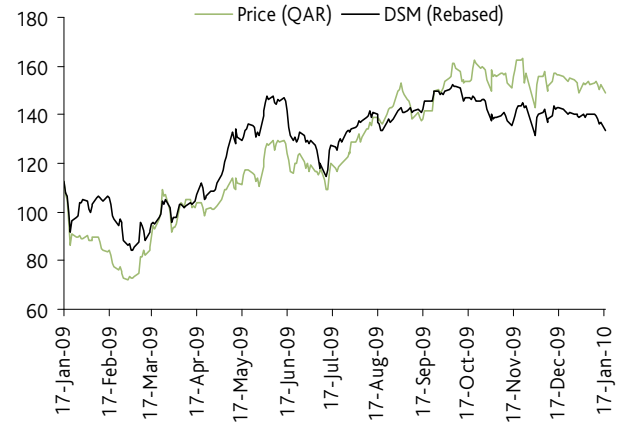
• **Core Banking Income Better than Expected on Strong Fee Income:** Net interest income rose by a strong 18% Y-o-Y, but slipped by 7% Q-o-Q in 4Q2009, 9% lower than expectations. The net interest spread narrowed slightly Q-o-Q, although this reflects timing effects of the very strong growth in lending volumes in 4Q2009. We therefore expect spreads to widen in the coming quarters. Fee and commission income was strong in 4Q2009 and grew by 38% Q-o-Q (+6% for the full year 2009), and was well ahead of expectations, owing to strong growth in lending volumes.

• **Loan Quality Much Better than Expected:** Gross NPLs rose by 16% Y-o-Y, with the gross NPL ratio at 0.7% remaining roughly unchanged in 2009 versus 2008. NPLs were 40% lower than forecast - we had estimated the NPL ratio would reach 1.35% by the end of 2009. In light of these results, we think our NPL and provisioning forecasts for 2010e-2011e now look conservative.

• **Cost-to-Income Ratio Improves:** Costs grew by 23% Q-o-Q, reflecting start-up costs at QNB's recently launched Syria (commercial banking) and Geneva (private banking) subsidiaries. The cost-to-income ratio has nevertheless improved Y-o-Y, to a very favourable 19.5% for FY2009 versus 20.4% in FY2008.

• **Overall a Very Positive Set of Numbers:** The main positive areas were the strength of the balance sheet growth, good cost control and low provisioning. With public-sector related lending expected to have a leading role in Qatar over the next two years, and with QNB's strong links to the public sector, we believe that loan growth momentum should be maintained over the coming period. Our loan growth forecasts of 6% Y-o-Y in 2010e and 15% Y-o-Y in 2011e, are on the conservative side, especially for 2010e. We leave our forecasts and Neutral rating unchanged for the time-being however (FV implies 14% upside potential), although we believe our estimates offer scope for positive surprises.

FLASH NOTE



	2010e	2011e	2012e
EPS	15.41	14.87	16.46
P/E* (x)	9.7	10.0	9.0
DPS	6.76	7.02	8.09
Div Yield (x)	4.5%	4.7%	5.4%
BVPS	68.26	76.11	84.48
P/BV* (x)	2.2	2.0	1.8

In QAR, unless otherwise stated

Stock Data	
Last Ex- Dividend Date	QAR6.0 on 9 Feb 09
Mkt. Cap / Shares (mn)	QAR 44,777 / 301
Av. Mthly Liqdty (mn)	QAR300.2
52-Week High / Low	QAR163.0 /72.2
Bloomberg / Reuters	QNB QD / QNBK.QA
Est. Free Float	50%

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** Price as at 17 January 2010*

Figure 1: QNB's 2009 Results, Main Highlights
in QAR million, unless otherwise stated

	2008 (rest)	2009a	2009e	Y-o-Y	3Q09	4Q09a	4Q09e	Q-o-Q	Vs Forecasts
Net Interest Income	**2,836**	**3,726**	**3,824**	**31%**	**1,011**	**944**	**1,042**	**-7%**	**-9%**
Fees & Commissions	917	968	900	6%	206	284	216	38%	31%
Dividend Income	138	205	185	49%	2	21	1	881%	1576%
Trading & Investment*	767	373	411	-51%	122	82	120	-33%	-32%
Other Operating Income	104	18	13	-82%	2	7	2	343%	327%
Non-Interest Income	**1,925**	**1,564**	**1,509**	**-19%**	**331**	**393**	**338**	**19%**	**16%**
Banking Income	**4,760**	**5,291**	**5,333**	**11%**	**1,342**	**1,338**	**1,380**	**0%**	**-3%**
Operating Expenses	(1,042)	(1,107)	(1,063)	6%	(269)	(330)	(286)	23%	15%
Loan Provisions	(248)	(281)	(368)	13%	(136)	(35)	(122)	-74%	-71%
Other provisions	(0)	(4)	(5)		0	1	0		
Other Items**	202	307	270	52%	119	96	59	-19%	63%
Profit before taxes	**3,672**	**4,206**	**4,166**	**15%**	**1,056**	**1,070**	**1,031**	**1%**	**4%**
Taxes	(20)	(17)	(21)	-13%	(5)	(1)	(5)	-88%	-88%
Net Profit	**3,653**	**4,189**	**4,145**	**15%**	**1,051**	**1,069**	**1,026**	**2%**	**3%**
Minorities	-	13	-	-	-	13	-	-	-
Net Attributable Profit	**3,653**	**4,202**	**4,145**	**15%**	**1,051**	**1,082**	**1,026**	**3%**	**6%**
Loans	100,053	108,783	94,862	9%					
Deposits	94,973	108,772	108,494	15%					
Assets	151,974	179,329	155,901	18%					

* Includes net impairment losses on investment securities
** Includes share in profit of associates
Source: QNB, EFG Hermes estimates

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