المجموعة المالية - هيرميس
EFG HERMES

QATAR ISLAMIC BANK

Little Sign of Stress

10 FEBRUARY 2009

QATAR | BANKING

Short-Term Rec.: Neutral	Current Price*: QAR 73.90
Long-Term Rec. : Neutral	LT Fair Value : QAR 129.5

- **Headline FY2008 Net Income Rises 46% Y-o-Y:** Headline net income for FY2008 rose 46% Y-o-Y, was just 3% short of forecasts. This reflected bottom line strength in 4Q2008, although this was offset by a negative movement in the fair value reserve. Revenues for 4Q2008 were up 124% Y-o-Y and 60% Q-o-Q, exactly in line with our pre-crisis forecast. Meanwhile, 4Q08 costs rose only 14% Y-o-Y and fell 15% Q-o-Q, resulting in operating profits being 16% ahead of expectations. This was offset slightly by the volatile provisioning number, which has oscillated on a quarterly basis but closed the year in positive territory.

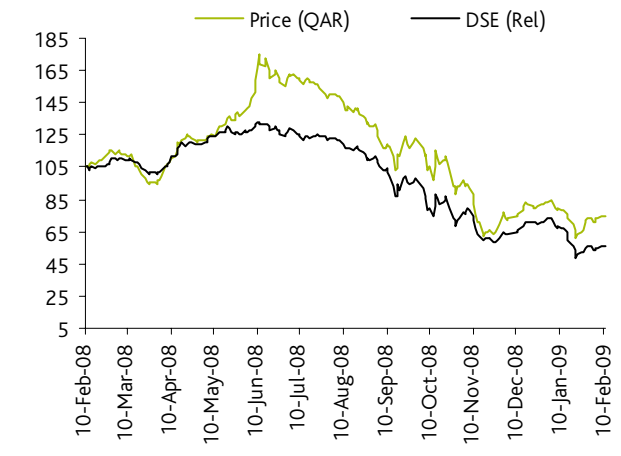
- **Balance Sheet Increasingly Short of Deposits:** 4Q 2008 total asset growth of 57% Y-o-Y and 11% Q-o-Q reflected continued strong customer asset growth of 62% Y-o-Y and 5% Q-o-Q, exceeding forecasts by 7%. This was not matched by deposit growth though, which increased 36% Y-o-Y, and just 1% Q-o-Q in 4Q08 to fall 9% short of forecast. This funding gap was bridged with a sharp increase in interbank liabilities, increasing the net shortfall in liquid assets to 3.9% of total assets from 1.9% in 3Q2008. There was a small increase in the funding costs (excluding interbank), but the main effect was a sharp rise in asset yields, resulting in total net interest income jumping to QAR305 million in 4Q2008, up 144% Y-o-Y and 24% Q-o-Q.

- **Non-Interest Surprisingly Resilient:** Non-interest income was also strong, rising 104% Y-o-Y and 151% Q-o-Q in 4Q08, although this was sharply down on previous quarters. The main reason has been volatility in investment income, which includes that from investing activities, and foreign exchange operations netted against the impairment of financial and other (property) investments. During 4Q2008, foreign exchange operations returned to break even, while the recovery in income from investing activities was offset by a provision for impairment of property assets. However, the limited breakdown on a quarterly basis makes the trend rather opaque.

- **4Q2008 Costs Rising 22% Q-o-Q:** After two quarters of good cost control, 4Q2008 saw costs again rising by 14% Y-o-Y and 22% Q-o-Q, although this was still significantly below our expectations. We believe 3Q2008 benefited from a degree of cost deferment, which was shifted therefore into 4Q2008, accounting for the increase. On a Y-o-Y basis, the primary cost driver was wage increases. Meanwhile, loan provisioning for 4Q2008, at QAR41 million, was below expectations, but brought the FY2008 figure up to a 40 basis point net write-back.

- **Core Earnings Steady, But Information Missing:** While net interest (equivalent) income was strong, the results benefited significantly from a recovery in non-interest income – a factor which may have been partially due to property disposals. Meanwhile, the picture for costs and provisioning remains positive, although our concerns for the wider environment suggest we have downgrades pending. In addition, we will be raising our discount rate in line with that for the region, and this will result in a reduction of our estimated LTFV. Following the QIA capital injection, we believe the capital position for QIB is stable.

FLASH NOTE



* *Prices as at 10 Feb 2009*

	2008a	2009e	2010e
EPS	8.36	8.73	11.01
P/E* (x)	8.8	8.5	6.7
DPS	7.00	1.60	2.45
Div. Yield*	9.5%	2.2%	3.3%
BVPS	29.3	42.8	51.4
P/BV* (x)	2.5	1.7	1.4

Figures in QAR unless otherwise stated
Forecasts not updated for latest results

Stock Data	
Last Ex-Div Date	QAR1.29 on 12 Mar 08
Mkt. Cap./ Shares (mn)	QAR16,007 / 216.6
Local Av. Monthly Liqd	QAR979.1
52-Week High / Low	QAR174.5 / 60.40
Bloomberg / Reuters	QIBK QD / QISB.QA
Est. Free Float	72%

Raj Madha
+971 4 363 4009
rmadha@efg-hermes.com

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EGYPT SALES TEAM

Local call center 16900
Int'l call center +20 2 33 33 94 00
cc-hsb@efg-hermes.com

Head of Western Institutional Sales
Mohamed Ebeid
+20 2 33 32 1054
mebeid@efg-hermes.com

Local Institutional Sales
Amr El Khamissy
+20 2 33 32 1045
amrk@efg-hermes.com

Head of GCC HNW Sales
Ahmed Salem
+20 2 33 32 1078
asalem@efg-hermes.com

UAE SALES TEAM

call center
+971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales
Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales
Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales
Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales
Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM

call center
+800 123 4566
ksa-callcenter@efg-hermes.com

Head of KSA Brokerage
Hesham Khalil
+9661 211 3040
hkhalil@efg-hermes.com

Head of KSA Sales
Mohsen Mansour
+9661 211 3008
mohsenm@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 33 38 8864
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research
Eiji Aono
+971 4 363 4006
eaono@efg-hermes.com

Head of Egypt Research
Wael Ziada
+20 2 33 32 1154
wziada@efg-hermes.com

Head of Publ. and Distribution
Rasha Samir
+20 2 33 32 1142
rsamir@efg-hermes.com

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CONTACTS AND STATEMENTS

Background research prepared by EFG-Hermes UAE Limited. Report prepared by EFG-Hermes Holding SAE (main office), 58 Tahrir Street, Dokki, Egypt 12311, Tel +20 2 33 32 1140 | Fax +20 2 33 36 1536 which has an issued capital of EGP 1,939,320,000.

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