

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR36.40	Price Target	QR34.00
Implied Upside	(6.6%)		

Lower Provisions Drive In-Line 1Q2019; Market Perform

Masraf Al Rayan (MARK) reported 1Q2019 net income of QR544.2mn, in-line with our estimate of QR534.1mn. The company's bottom-line increased by 2.5% YoY due to significantly lower provisions (provisions of QR0.6mn vs. QR16.5mn) as net operating income remained flat. Moreover, cost-to-income ratio remained stable at 22.5% due to flattish revenue, with opex declining by 1.2%. On the other hand, capitalization remained robust with CET1 at 18.7%. We retain our Market Perform rating and QR34.00 Price Target on MARK.

Highlights

- MARK's 1Q2019 bottom-line increased YoY on the back of significantly lower provisions as net operating income was flat.** MARK reported net income of QR544.2mn (in-line with our estimates of QR534.1mn; +1.9% variation), increasing by 2.5% YoY. The bank booked provisions of QR0.6mn vs. net provisions and impairments of QR16.5mn in 1Q2018. Net operating income (before provisions) was flat. Sequentially, the bottom-line grew by 9.2%, driven by net interest & investment income, profit from associates, a sharp drop in opex and negligible provisions & impairments.
- NIM improved sequentially.** Net interest margin increased by 12bps QoQ to 2.36%. Expansion of the NIM was led by a rise in yields on assets, while cost of funds compressed. Yield on assets gained by 4bps to 4.70%, whereas cost of funds dropped by 7bps to 2.90%.
- C/I ratio remained stable YoY.** MARK ended 1Q2019 with a C/I ratio of 22.5% vs. 22.6% in 1Q2018 (27.2% in 4Q2018). This was due to flattish revenue, along with opex receding by 1.2%. Sequential improvement in the efficiency ratio was attributable to revenue growing by 9.4% vs. opex declining by 9.6%.
- Asset quality remains a non-issue.** MARK's NPL ratio improved to 0.74% vs. 0.83% in FY2018, while absolute NPLs dropped by 6.2% QoQ to QR566.5mn. Coverage ratio of stage 3 loans (impaired or non-performing) remained at 50% vs. FY2018.
- Net loans and deposits displayed positive performance after a tepid 2018.** Net loans expanded by 5.1% QoQ to QR75.9bn, while deposits followed suit and moved up by 4.7% QoQ to QR64.4bn. Thus, MARK's LDR remained elevated and at 118% vs. 117% in FY2018. Moreover, net loans to stable sources of funds was still on the high side at 111%. *We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile/lower LDR.*
- Capitalization remains robust.** MARK's CET1 ratio at the end of 1Q2019 remained at 18.7%.

Catalysts

- News flow and or strategy in growing the business.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR34/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.0x and 12.6x on our 2019 estimates, respectively. *The market is pricing a fundamental P/B (2.0x) and a sustainable RoE (17.0%) vs. our estimates (P/B: 1.8x & RoE: 15.8%).*
- Risks:** 1) Geopolitical factors, 2) Greater-than-expected increase in credit costs and 3) Losing market share in the government segment.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	2.84	2.89	3.15	3.51
EPS Growth (%)	5.0	1.9	8.7	11.7
P/E (x)	12.8	12.6	11.6	10.4
Tangible BVPS (QR)	17.7	18.5	19.6	21.0
P/TB (x)	2.1	2.0	1.9	1.7
DPS (QR)	2.00	2.00	2.00	2.25
Dividend Yield (%)	5.5	5.5	5.5	6.2

Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	36.40
Dividend Yield (%)	5.5
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	42.65/33.01
3-m Average Volume ('000)	314.0
Mkt. Cap. (\$ bn/QR bn)	7.5/27.3
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	13.4
1-Year Total Return (%)	5.0
Fiscal Year End	December 31

Source: Bloomberg (as of April 17, 2019), *Qatar Exchange (as of April 17, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	2,268	2,337	2,553	2,841
Fees & Commissions	315	326	356	384
FX Income	152	162	173	190
Other Income	53	56	57	68
Non-Interest Income	521	544	586	642
Total Revenue	2,788	2,881	3,139	3,483
Operating Expenses	(668)	(686)	(727)	(787)
Net Operating Income	2,120	2,195	2,412	2,695
Net Provisions & Impairments	22	(8)	(36)	(42)
Net Profit Before Taxes & Minority Interest	2,142	2,187	2,376	2,654
Tax	(2)	(3)	(3)	(3)
Net Profit Before Minority Interest	2,140	2,184	2,373	2,650
Minority Interest	(9)	(13)	(14)	(16)
Net Profit (Headline/Reported)	2,130	2,171	2,359	2,635
Social & Sports Contribution Fund	(53)	(54)	(59)	(65)
Net Profit (Attributable)	2,077	2,117	2,300	2,569

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Assets				
Cash & Balances with Central Bank	3,027	3,232	3,280	3,007
Interbank Loans	1,496	3,003	3,982	3,481
Net Investments	19,005	20,920	23,323	24,976
Net Loans	72,164	75,076	79,639	87,015
Investment In Associates	526	539	553	569
Other Assets	887	751	733	801
Net PP&E	189	193	214	217
Total Assets	97,294	103,715	111,724	120,064
Liabilities				
Interbank Deposits	16,484	18,641	21,145	20,564
Customer Deposits	61,569	64,647	68,332	75,165
Other Liabilities	5,768	6,323	7,329	8,332
Total Liabilities	83,820	89,611	96,806	104,062
Total Shareholders' Equity	13,277	13,894	14,694	15,763
Total Liabilities & Shareholders' Equity	97,294	103,715	111,724	120,064

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
Profitability (%)				
RoE Attributable (Based on Beginning Book Value)	15.7	15.9	16.6	17.5
RoAA (Attributable)	2.1	2.1	2.1	2.2
RoRWA (Attributable)	3.3	3.3	3.4	3.4
NIM (% of IEAs)	2.39	2.46	2.51	2.58
NIM (% of RWAs)	3.61	3.65	3.77	3.78
NIM (% of AAs)	2.27	2.33	2.37	2.45
Spread	1.9	1.8	1.7	1.6
Efficiency (%)				
Cost-to-Income (Headline)	24.0	23.8	23.2	22.6
Cost-to-Income (Core)	24.4	24.3	23.6	23.0
Liquidity (%)				
LDR	117.2	116.1	116.5	115.8
Loans/Assets	74.2	72.4	71.3	72.5
Cash & Interbank Loans-to-Total Assets	4.6	6.0	6.5	5.4
Deposits to Assets	63.3	62.3	61.2	62.6
Wholesale Funding to Loans	28.1	30.8	33.4	30.8
IEAs to IBLs	123.5	121.9	120.9	121.1
Asset Quality (%)				
NPL Ratio	0.83	0.88	0.90	1.00
NPLs to Shareholder's Equity	4.55	4.79	4.92	5.56
NPLs to Tier 1 Capital	5.05	5.62	5.71	6.49
Coverage Ratio	97.5	91.7	89.1	77.6
ALL/Average Loans	0.8	0.8	0.8	0.8
Cost of Risk	-0.02	0.03	0.04	0.04
Capitalization (%)				
Tier 1 Ratio	18.7	18.5	17.7	17.2
CAR	19.2	19.0	18.2	17.7
Tier 1 Capital to Assets	12.3	11.4	11.3	11.3
Tier 1 Capital to Loans	16.6	15.8	15.9	15.5
Tier 1 Capital to Deposits	19.4	18.3	18.5	18.0
Leverage (x)	7.3	7.5	7.6	7.6
Growth (%)				
Net Interest Income	0.2	3.0	9.3	11.3
Non-Interest Income	10.1	4.5	7.7	9.6
OPEX	15.8	2.7	6.0	8.3
Net Operating Income	-1.8	3.5	9.9	11.8
Net Income (Attributable)	5.0	1.9	8.7	11.7
Loans	0.1	4.0	6.1	9.3
Deposits	-1.5	5.0	5.7	10.0
Assets	-5.5	6.6	7.7	7.5
RWAs	3.5	0.2	11.6	10.1

Source: Company data, QNB FS Research

Recommendations

Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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