

QIIK Alert – 2Q2022 In-Line; Earnings Driven by a Large Drop in Provisions & Impairments Despite Muted Revenue

- **QIIK's 2Q2022 is in-line with estimates.** Qatar International Islamic Bank (QIIK) reported a net income of QR276.2mn in 2Q2022, in-line with our estimate of QR270.2mn (+2.2% variation). Net income increased by 5.0% YoY (-6.3% sequentially). As expected, the YoY increase in profitability was mainly driven by a large drop in credit provisions and impairments. Sequentially, earnings declined on higher provisions. YoY/QoQ earnings were in-line with historical trends.
- **Non-funded income remained robust.** Non-funded income (fees and f/x income) gained by 32.7% YoY. YoY, fees grew by 26.6% while f/x income surged by 65.8%. On a quarterly basis, non-funded income was up 10.5%.
- **Large drop in provisions offset margin pressure.** Net interest margin compressed by 47bps YoY (flat sequentially) as yields experienced a large drop while CoFs remained flat YoY.
- **The bank remains cost-efficient, but continued to generate negative JAWs due to margin compression.** QIIK's C/I ratio slightly moved to 18.6% vs. 17.7% in 2Q2021 (1Q2022: 19.3%). The slight uptick in the C/I ratio was due to weak revenue (mainly margin pressure) as management contained costs. Revenue receded by 7.2% YoY (+5.2% sequentially), while costs declined YoY by 2.7% (+1.2% QoQ).
- **Asset quality continued to come under pressure.** NPL ratio increased from 2.57% in FY2021 (2.64% in 1Q2022) to 2.73% in 2Q2022. However, coverage of Stage 3 loans improved from 75% in FY2021 to 82% in 2Q2022.
- **Significant drop in provisions and impairments aided the bottom-line.** QIIK booked net provisions of QR77.0mn vs. QR121.3mn in 2Q2021 and QR37.7mn in 1Q2022. 1H2022 (annualized) CoR dropped to 33bps from 67bps in 1H2021.
- **Net loans and deposits declined sequentially.** Net loans contracted by 6.3% sequentially (-4.3% YTD) to QR35.4bn, while deposits moved down by 1.3% to QR39.3bn. As such, the bank's LDR (excluding stable sources of funds) was a healthy 90%.
- **QIIK maintains a healthy capital position.** Tier-1 ratio is robust at 15.2%. CET1 ratio rested at 11.2%.
- **Valuation and recommendation.** QIIK trades at a P/B of 2.6x and a P/E of 20.8x on our 2022 estimates. We maintain our Market Perform rating and PT of QR10.438/share.

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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