

# Banks

## Qatar preview: Still prefer CBQ

In 9M11, virtually all new lending went to the public sector as the economy prepared for the award of contracts. As these projects get under way in 2012, we expect broadbased growth. We believe CBQ will be a beneficiary of these trends, with the added attraction of being available at a discounted price.

### Key recommendations & forecasts

	Reuters	Year-end	Recom	Price	Target price	EPS 1fcst	PE 1fcst
Comm Bank of Qatar	COMB.QA	Dec 2011	Buy	QR83.60	QR97.32	8.20	10.20
Doha Bank	DOBK.QA	Dec 2011	Hold	QR66.10	QR70.49	6.27	10.50
QIB	QISB.QA	Dec 2011	Hold	QR83.20	QR81.67	5.66	14.70

Source: Company data, Rasmala forecasts

### CBQ remains our top pick in Qatar

We continue to expect CBQ to obtain better-than-average lending growth, with a better-than-average rate of incremental return. At the same time, we believe CBQ is trading at a discount given its 2012F P/TB of 1.50x and a P/CE of 9.6x, 21% and 10% below the unweighted sector averages, respectively. We believe the stock is being unjustly penalised as a result of its misleadingly low ROE: capital is overstated as a result of having associates at cost, while the associated regulatory deductions hamper CBQ's ability to achieve an efficient level of leverage.

### Growth differentials to narrow in 4Q11 and 2012

We expect growth for smaller banks to be stronger than it has been through the year, with CBQ maintaining its momentum (+3.3% qoq lending growth in 4Q11), QIB coming close to its strong 3Q growth levels (+9.7% qoq) and Doha Bank benefiting from the pick-up in consumer lending seen in November (+2.6% qoq). A key risk is the extent of the impact from the Islamic Banking regulations, which we expect to be negative for Doha Bank and CBQ and positive for QIB. These regulations seem to have had a limited impact on QNB loan volumes, which grew 15% qoq in 4Q11. However, we assume some impact on consumer lending portfolios for these banks.

### Earnings likely to shrink in 4Q11 qoq, but we expect them to grow yoy in 2012

We expect banks' headline net income to shrink in 4Q11 as a result of higher costs related to salary increases for Qatari nationals, and due to seasonally higher provisioning. In addition, there is usually some seasonality in directors' remuneration. We forecast this will lead to 4Q11 qoq declines in headline net income of 10% for CBQ, 14% for Doha Bank and 25% for QIB. The greater decline at QIB is due to: 1) normalisation of net Islamic returns, 2) normalisation of investment returns and 3) greater total cost seasonality. For the moment, we attribute no value to Doha Bank's Indian aspirations.

### Positive on the sector

The Qatari banking sector is likely to grow at a rate not much below 20% in 2012-14, with underlying ROTCE on its domestic business not far below 20%. Although eventually there could be concerns about where capital will be deployed, and at what price, we believe medium-term dynamics are solid. These stocks trade at multiples to tangible book of 1.5-2.1x, making them attractively priced. Our relatively limited upsides reflect an elevated discount rate of 10.4-11.4%, reflecting global risk aversion and, to a limited extent, very long-term potential capital allocation issues. However, in the long run, it is more likely that these would be revised downward than up.

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# Contents

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## **Executive summary** **3**

CBQ remains our preferred choice because we believe it has decent growth prospects, strong profitability on new business and trades at a discount to peers under our coverage.

QIB – valuation played out	4
Doha Bank – improving momentum, but too few positives	4

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## **For some banks, the best is yet to come** **6**

2011 was certainly a good year for lending growth, but banks are highlighting that this was despite little in the way of contract awards from 2022 projects. As these come through, we expect growth in 2012 to be broadbased.

Strong semi-government sector growth	6
Near-term forecasts	8

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## **Islamic banking regulations a damp squib?** **9**

Following the central bank decision to separate conventional and Islamic banks, the sub-sector has been plunged into uncertainty. We expect conventional banks to retain a large proportion of their business, especially public and corporate.

Impact of the regulations	9
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## **Falling leverage impacts profitability** **10**

Product profitability has been broadly stable, albeit with a boost from spreads in 3Q11. However, falling leverage has impacted ROTCE from 2011F onwards.

Scope for further revenue margin increases limited	10
Operating ratios also offer little room for improvement	11
Even provisioning has not been that much of a drag	11
Read-across from QNB's 4Q11 results	11

---

## **International ambitions weighing on returns** **13**

The generally high acquisition price and weak earnings of associates have visually impacted levels of return, even before taking into account the 100% regulatory deduction. We believe this over-penalises banks with high exposure, such as CBQ.

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## **Company profiles**

Comm Bank of Qatar	17
Doha Bank	20
Qatar Islamic Bank	23

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# Executive summary

**CBQ remains our preferred choice because we believe it has decent growth prospects, strong profitability on new business and trades at a discount to peers under our coverage.**

Overall, our recommendations remain unchanged. We continue to maintain a Buy recommendation on CBQ and Hold recommendations on Doha Bank and QIB. From a news-flow perspective, QIB has positive risk, benefitting both from the closure of the conventional banks' Islamic portfolios, and from upside related to the reorganisation of its corporate banking operation. We believe conventional banks have negative risks, mostly related to the closure of their Islamic portfolios.

## Sector weighting – shifting overweight

**Share price performance in 2011 did not match operational performance**

The performance of all the banks has been broadly similar since 30 September 2011, up 3-8%. However, the yoy performance has been weak, with CBQ falling 10% and QIB declining 6%. The best performer of the three, Doha Bank, has had flat performance. CBQ has rebounded 30% from its March lows, but remains the least preferred of the four Qatari banks under our coverage.

Despite the general weakness in stock prices, we believe banks have performed credibly during 2011F. Only QIB is expected to miss our original headline earnings expectations, partly due to uncertainty over growth in lending volumes resulting in weak fees and commissions, but also on account of foreign exchange losses. QNB has been generally ahead of our previous expectations, as has CBQ to a lesser extent, with Doha Bank being in line. As a result, we raise our 2011 customer asset forecast for CBQ by 10% and Doha Bank by 2%.

**2011 forecast revisions positive for CBQ and broadly neutral for Doha and QIB**

In terms of headline profit, we increase our 2011 forecasts for CBQ by 6%. While Doha Bank is expected to be in line with our earlier estimates, we reduce our estimate for QIB's lending by 15%, although our earnings forecast is broadly unchanged.

## CBQ – our preferred pick

**Impact of associates hides long-term value**

### Underappreciated value

CBQ is significantly cheaper than other Qatari Banks, which we do not believe is justified. Primarily, this weaker rating is driven by a consistently lower ROTCE, which, in turn, is led by outsized capital deduction for associates, and the relatively poor return on that capital. We adjust all the standard ratios accordingly.

- We value the associates at 10x 2012F associate income, which we conservatively do not adjust for goodwill.
- We adjust the market capitalisation for the value of associates.
- We adjust the tangible book value to exclude the book value of associates.
- We adjust the attributable income for the reported associate income (no need for tax adjustments!).

We can then recalculate the operating ratios, as follows:

- ROTCE of 19% in 2011F, rising to 20% in 2012F and 22% in 2013F;
- loan growth rate of 19% in 2011F and 2012F (unmodified); and
- total capital ratio of 17.6% in 2011F (unmodified).

We also get modified valuation ratios as follows:

- P/CE of 9.6x for 2012F; and
- P/TB of 1.91x for 2012F.

Given that this amounts to a cheaper valuation with faster growth rates and higher returns than the sector average, we see greater upside potential for CBQ.

## Downside risk

There is certainly enough food for the sceptics. There is no expectation that CBQ would realise value by disposing of any of its main associates in the near future, and little expectation it could consolidate them. CBQ could certainly improve its ratios by writing off goodwill associated with acquisitions or marking them to market. This ultimately will make existing ratios look inexpensive, in our view, but would result in a substantial one-period loss, which could in principle provide better buying opportunities.

### Operational risk if CBQ cannot gain market share

In addition, there are risks on the operating side. We assume that CBQ can gain market share in public sector lending. Until recently that forecast had been going well, with public sector lending growing 172% from 4Q09 to 2Q11, but it disappointed in 3Q11 – a quarter when QNB grew an impressive 12% qoq. Consumer and service sector lending also contracted, with a jump in property sector lending being the only real driver of growth.

We also assume contained risk from the Islamic banking regulations, but a worst-case scenario would have a material impact. Islamic loans constitute 8% of the loan book, and the outside possibility of the loss of a good part of this, we cannot wholly ignore.

## Positive conclusion

We continue to see CBQ as our preferred stock in Qatar, despite the 30% rebound since March lows. It is the cheapest stock in the sector on both a P/CE and P/TB basis, with a return on new business in line with its peers.

## QIB – valuation played out

### QIB expensive, but upside comes from Islamic banking regulations

We believe momentum is improving for QIB with loan volumes looking up after trending downward in 1H11, and the bank likely to benefit from the Islamic banking regulations in 4Q11 and possibly also 1Q12. Nevertheless, we believe QIB's numbers have underperformed its peers sharply in FY11F, and don't see a justification for it stretching its premium valuation. News flow is certainly more likely to be positive in 2012F, but we believe this is already reflected in its multiples of 13.3x 2012F P/CE and 1.9x 2012F PTB.

There is an upside risk to our forecasts if QIB benefits from the Islamic banking regulations, or if Islamic banking begins to grow much faster than conventional banking. Lower levels of competition in Islamic banking may also allow QIB to benefit from more favourable pricing. In addition, if Q-Invest and/or property investments start to yield stronger revenues that may alter the long-term profitability picture.

## Doha Bank – improving momentum, but too few positives

### We are not yet attributing any value to divisional or geographic diversification

We expect Doha Bank to see improved growth momentum over coming quarters, benefiting from its greater consumer exposure. Nevertheless, we don't think the main beneficiary of lending growth will be the consumer sector, and we are yet to be convinced that Doha Bank's diversification story – product-wise in the corporate sector, geographically to India – yet has legs. Consequently, we believe it should trade at a discount to the sector average. Clearly, should either of these assumptions be wrong, we will need to revisit our numbers for Doha Bank. We estimate that Doha Bank trades at 10.2x 2012F P/CE and 2.1x 2012F PTB. Although this is not particularly high, we expect Doha Bank to have the tightest capital position in our coverage universe (2012F tier 1: 11.0%), which may put a strain on dividends or require further capital.

## More positive on the sector

Overall, we see valuations as being not particularly stretched for the Qatari Banking sector. In terms of our DDM valuation, these price targets are calculated assuming high discount rates of 10.4-11.4%. While these rates are low in relative terms (compared to the UAE or Qatar), these are quite punitive in absolute returns factoring in the higher visibility of earnings and growth in Qatar. In addition, although this suggests a tightening capital position for Doha Bank, the other

banks can maintain yields of 5-7% for the next three years as well as mid- to high-teen lending growth rates.

Consequently, despite only one Buy rating among three stocks, we recommend overweight on the sector.

# For some banks, the best is yet to come

2011 was certainly a good year for lending growth, but banks are highlighting that this was despite little in the way of contract awards from 2022 projects. As these come through, we expect growth in 2012 to be broadbased.

## Strong semi-government sector growth

**Key themes: semi-government, real estate and trickle down, plus international contribution**

The core scenario we have been forecasting for the sector is strong public sector growth, mostly in the semi-government (commercial) sector, which will gradually trickle down to the private corporate and then the consumer sector.

The key driver of public sector growth is infrastructure spending in part related to the 2022 World Cup, although the gradual expansion of the petrochemical industry and the development of Mesaieed Industrial City are further contributing elements of growth. Within the private sector, near-term growth has been forecast to be mainly in the real estate sector, with this trickling down to the contracting sector as projects get underway.

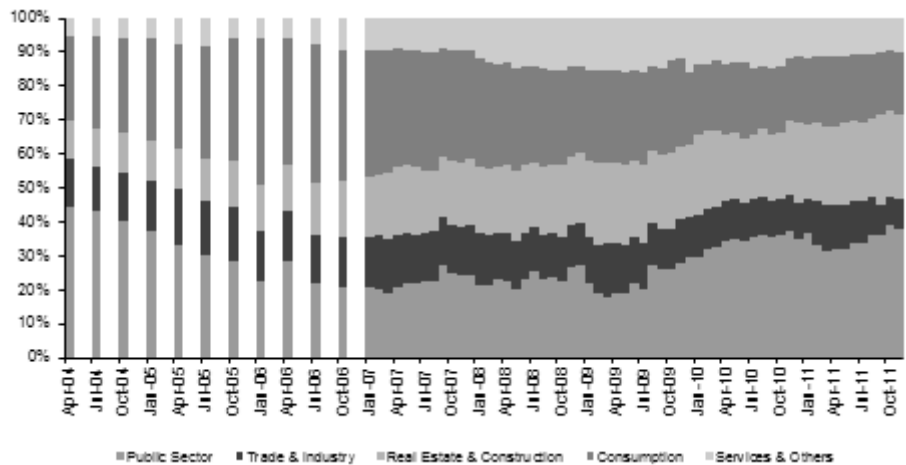
In addition, we have been expecting steady growth of credit outside Qatar. This has two main drivers: the internationalisation of Q-company businesses in regional countries; and the expansion of Qatari financial interests particularly in global financial hubs, such as the London property market.

Generally, we have been less keen on consumer lending, given a general perception of an oversupplied and over-priced property market, as well as the impact of the regulations announced in 1Q11 on consumer lending. However, the announcement in 3Q11 of a 60% increase in salaries for public sector employees – a figure matched by the banks, and presumably many other industries – has provided headroom for further consumer credit expansion.

**Actual growth has been strong**

Credit growth of 25% ytd (November 2011) and 24% yoy have both been impressive, and well ahead of our original late teens forecast for the full year. In addition, credit growth has been accelerating through the quarters after a slow start, and a FY2011F figure of 28% now appears readily attainable.

**Chart 1 : Domestic credit growth**



Source: Qatari central bank

In terms of sector contribution, it has turned out as we expected, with public sector growth being the primary driver, accounting for 49% of the QR78.0bn of lending growth in 11M11, with the bulk of this arising in just two months (August and October). Within the private sector, credit expansion has largely been driven by the real estate sector, which accounted for a further 29% of credit growth, with half of this arising in just September. Growth began to be broadbased in

November, when the September salary increases for nationals drove an 8% mom jump in consumer lending volumes.

Although growth has been good, the feedback from banks is that only a limited amount of contracts have been awarded. If so, lending volume growth so far might reflect a degree of financial preparation, but actually limited (relatively speaking) economic activity levels, resulting in an absence of trickle down to the rest of the economy. As contracting volumes pick up, we may see a further broadbased growth.

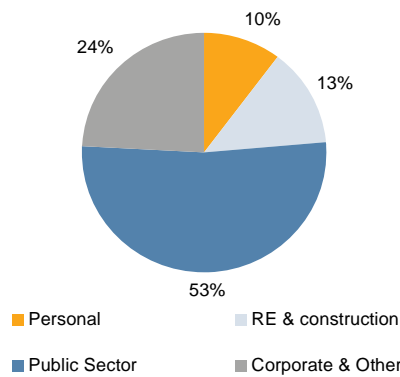
### Relative growth performance

#### Public sector growth and real estate exposure drive 9M11 relative performance

With this in mind, it is understandable that most of the lending growth in 9M11 has gone to those banks with strong public sector and real estate operations, with public sector exposure being the more important of the two. By far, the strongest 9M11 lending growth rates in the sector have been at QNB (+28% ytd) and CBQ (+24% ytd). By contrast, it has been a weak year-to-date at both Doha Bank (+7% ytd) and QIB (-8% ytd), with only Al Khaliji of the remaining banks continuing to grow market share, after a bump up in 1Q11.

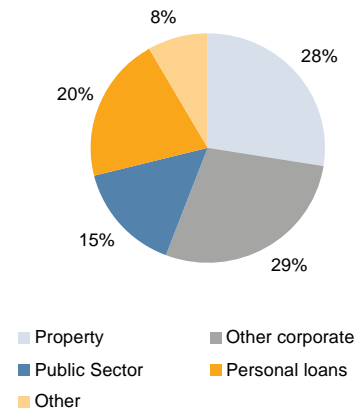
In QNB's case, although 2011 absolute loan growth was led by the public sector, in percentage terms important contributions were provided by personal and property lending, as QNB has sought to broaden its lending book. Similarly, CBQ continued to see success, as it built its public sector operation.

**Chart 2 : QNB +28% growth 9M11**



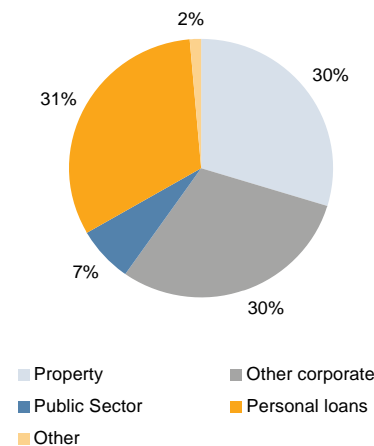
Source: Company reports

**Chart 3 : CBQ +24% growth 9M11**



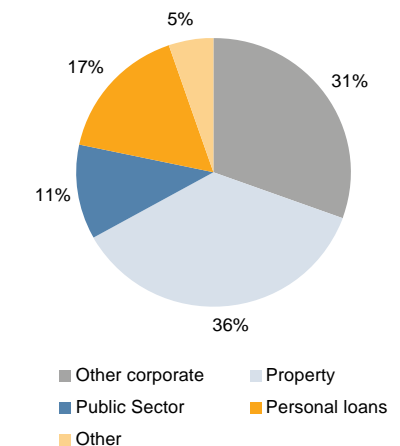
Source: Company reports

**Chart 4 : Doha Bank +7% growth 9M11**



Source: Company reports

**Chart 5 : QIB -8% growth 9M11**



Source: Company reports

## Doha Bank suffered from personal lending exposure in 9M11

The reasons for Doha Bank's substantial property division failing to drive much in the way of loan growth is less clear, with the absence of a quarterly breakdown adding to opacity. So far, we believe the property sector's expansion has mainly been in the areas of infrastructure and industrial development, as well as master developers gearing up for future expansion. This may have been a contributing factor as Doha Bank's exposure was more on the residential side. However, an alternative explanation could be that Doha Bank's growth in the property sector has not been weak, but rather that it has lost market share in personal lending to QNB and CBQ, which have been expanding in the segment.

## QIB was hit by a single large repayment in 1Q11

QIB's shortfall was even more pronounced, despite the benefit of regulatory pressure on the conventional banks Islamic portfolios. Certainly, a big chunk of this – perhaps as much as QR5bn-6bn (up to 20% of the loan book) - was the result of a drop in public sector lending during 1Q11, related to a single borrower. Nevertheless, apart from 3Q11 when property sector lending picked up, there was little evidence of growth.

## 2012F: better retail growth and corporate trickledown

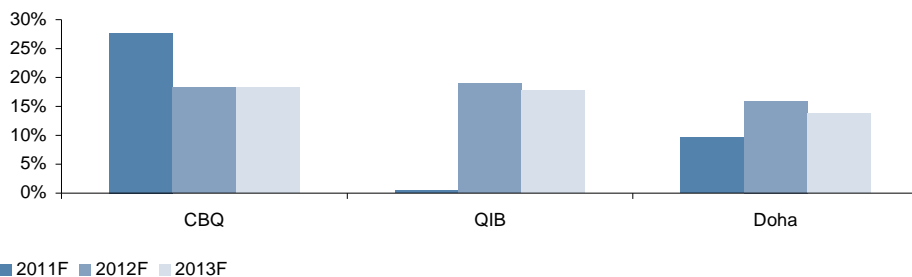
We expect loan growth to be broadbased in 2012 than it has been in 2011 primarily due to two reasons. First, we expect retail sector growth to pick up in response to wage increases for Qataris. There was little evidence of this in October, but it was seemingly a feature of November central bank data. Second, we expect government projects to actually be awarded in 2012 allowing for the public sector to start disbursing funding and contracts, and perhaps allowing the private corporate sector to feature more heavily in loan growth.

## This should mean narrowing growth differentials

With regard to banks, we believe the relative growth ranking will remain largely unchanged in 2012F from 9M11 levels, but certainly the differential will narrow. Any slowdown of public sector growth will inevitably impact QNB, bringing its growth rate down from recent stratospheric levels. CBQ had a weak quarter in terms of penetrating the public sector in 3Q11, but we believe it should get back on track, given the development of its dedicated team to the area.

Doha Bank will likely benefit from some acceleration in the personal sector, although with CBQ and QNB expanding in the space, the benefit may be limited. Finally, we expect QIB to register the sharpest improvement: no one-off declines and benefits from a reorganised corporate business and high property sector exposure, as well as the Islamic banking regulations. QIB did have one quarter of decent growth in 3Q11 (+9% qoq), and we believe that may be more representative than the absence of growth in 1H11.

**Chart 6 : Loan growth forecasts**



Source: Company reports, Rasmala forecasts

Overall, we assume 2012 net loan growth of 18% for CBQ, 19% for QIB and 16% for Doha Bank. This represents an upgrade for CBQ from our previous forecast of 15%. We also positively adjust our loan growth forecast for 2013 for CBQ, where we upgrade our loan growth expectations from 16% to 18%.

# Islamic banking regulations a damp squib?

Following the central bank decision to separate conventional and Islamic banks, the sub-sector has been plunged into uncertainty. We expect conventional banks to retain a large proportion of their business, especially public and corporate.

**The only transaction has been IBQ's disposal of the small Al Yusr operation**

The government announced what seemed like a dramatic plan in February 2011 to separate conventional and Islamic banking. At the time, this raised the possibility that all the conventional banks would sell off their Islamic businesses. Since conventional banks had a one-third share in the Islamic banking market, that would have implied a 50% average increase in business volumes for Islamic banks. However, the only transaction to date has been IBQ splitting its small Islamic operation, Al Yusr, with the retail business going to Barwa Bank and the corporate business going to QIB.

The main thing the other banks have been emphasising is that all options are still on the table, that is: sell, close, convert or transfer their Islamic relationships. For those banks that continued to report the split between Islamic and conventional (ie, all the banks bar QNB), they have been reducing their deposit portfolios, but we have seen little development on the asset side, with CBQ and Doha Bank both reporting growth. In practical terms, the action plan has been to convert as much business as possible, and then to review the options at the year-end. The result has been that the prohibition has had minimal impact on forecasts or results, till the 9M11 stage.

**Currently a confused picture**

Recent statements from the head of the central bank quoted on Bloomberg seem to suggest a harder line: all retail assets must be shut down by the year-end, and corporate assets must be segregated and put into run-off. In addition, the central bank seemed to suggest that Doha Bank is arranging the sale of its portfolio, although this was denied by Doha Bank. Since the year-end, most banks have said their Islamic branches have been shut or converted. We believe that for the most part accounts will be converted to conventional or put into run-off.

## Impact of the regulations

We assume that 95% of public sector loans, 80% of corporate and 50% of retail will remain with their existing bank. We don't have the breakdown of the individual Islamic lending portfolios of conventional banks, but we presume that they broadly match the rest of the portfolio, giving Doha Bank the most retail, CBQ the most corporate and QNB the most public sector exposure, although we adjust the exact ratios as per public statements the respective banks have made.

**Table 1 : Potential impact of Islamic banking regulations on customer lending**

	% Islamic	Assumed split			Potential Impact
	4Q10	Public	Corporate	Retail	as % loan book
QNB	21%	60%	30%	10%	2.9%
CBQ	8%	10%	50%	40%	2.4%
Doha	11%	5%	45%	50%	3.8%
customer attrition rate		5%	20%	50%	

Source: Company data, Rasmala estimates

Consequently, although QNB has the largest exposure to Islamic lending, we believe that Doha Bank has the most sensitivity to regulatory changes, and CBQ the least sensitivity. Since QNB has already disclosed no visible impact on its results, it is tempting to assume that the same will be true for CBQ and Doha Bank. However, we do assume growth has been partially affected in 4Q11, and believe some impact may also be felt in 1Q12.

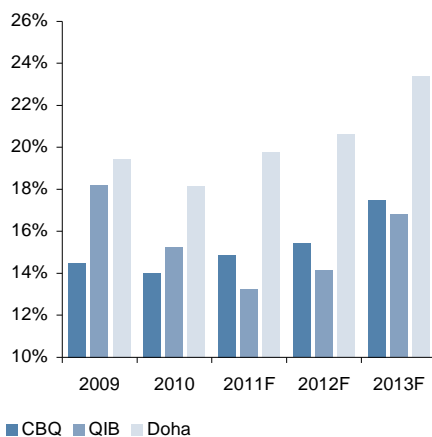
# Falling leverage impacts profitability

**Product profitability has been broadly stable, albeit with a boost from spreads in 3Q11. However, falling leverage has impacted ROTCE from 2011F onwards.**

## Increased capital has hit returns

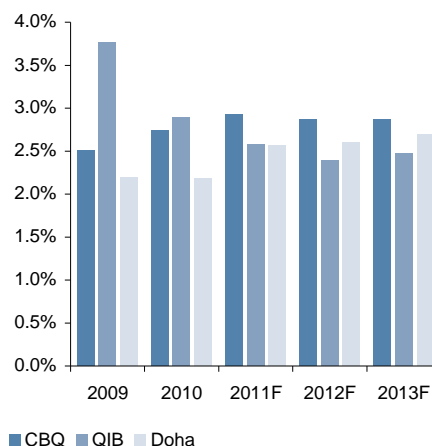
Profitability has actually declined yoy in 2011F for the banks we cover, but this is due to the substantial injections of QIA funding in 1Q11 for CBQ, Doha Bank and QIB and the 2Q11 rights issue at QNB. As a result, the capital ratios for QNB and QIB have increased sharply, driving down attributable ROTCE from 18.5% in 2010 to a forecast 17.4% in 2011. Nevertheless, we expect all the banks bar QIB to see record profits in 2011F.

**Chart 7 : ROTCE**



Source: Company reports, Rasmala forecasts

**Chart 8 : ROATA**



Source: Company reports, Rasmala forecasts

This record level of profits is primarily a reflection of the return to near peak levels of ROATA, combined with the still resilient growth that we have seen throughout the global crisis. Revenue margins have trended upwards since 2009, at least on average. In part, this is skewed by QIB's consolidation of Q-Invest, which dramatically raises revenue margins, but also costs, without substantially altering revenues. However, the main effect has been driven by increases in interest margins at all banks – particularly QNB and Doha Bank - as the cost of financing has decreased. By contrast fees, and commissions have come under pressure, partially due to lower growth rates, but also the retail regulatory changes, and less capital market activity.

## Scope for further revenue margin increases limited

We assume little in the way of further increases in revenue margins. The challenge as always is to increase cross sell away from balance sheet-led products. In general, it seems difficult to do so with public sector relationships, and rather easier with corporate and retail. CBQ and Doha Bank in particular would benefit from a sharp recovery in trade finance, with the latter having invested in rep offices across Asian financial centres. QIB may also benefit from improved revenues from Q-Invest, where the bank has been building up a cost base, but where the turgid market has so far limited fee revenues. Accelerating loan arrangement fees would, however, be the rising tide which floated all boats.

## Revenue returns may dip in 2012F

For 2012, we assume overall shrinkage of revenue returns, with this being based on spread tightening at CBQ, partially based on yield curve effects, but also tighter liquidity and stronger growth in public sector lending. In addition, falling bond yields have helped trading & investment income in 9M11, and these are unlikely to be repeated in 2012F, which we expect to be a risk for QIB, with its QR11.5bn fixed income portfolio, equivalent to 22% of all assets.

## Operating ratios also offer little room for improvement

Meanwhile the cost-income ratio has stayed steady at conventional banks and only deteriorated at QIB due to the integration of Q-Invest as discussed earlier. In the short term, cost-income ratios will be affected by the 60% hike in basic salary for Qatari Nationals, which we expect to amount to an overall increase in costs of about 10% for all banks on a quarterly basis from 4Q11.

**Cost income increases likely at most banks, although costs have led revenues at QIB**

As a result of this and the modest decrease in revenue margins, we forecast 2012 cost-income increases for all banks, amounting to approximately two percentage points. In the medium term, we continue to believe that if CBQ can penetrate the public sector, it can achieve fairly low-cost growth, which will help operating ratios. At QIB, we believe the cost base has run ahead of revenues on the investing banking side, which leaves scope for improvement. In addition, we have seen some reorganisation of its corporate banking operation in 2011F, and that is likely to derive some benefits, as revenues catch up with costs.

## Even provisioning has not been that much of a drag

Provisioning hasn't had a big impact on bank results in Qatar, with the provisioning margin peaking at an unweighted average of only 8.3% of revenues in 2009. Since then, the average has been declining to a forecast 7.3% in 2011. Doha Bank was a minor exception to this in 2010, with a surprisingly high 4Q10 number, which effectively halved profitability for the quarter.

**Already low provisioning levels leave little room for improvement**

For 9M11, provisioning has been on a declining trend. Although provisioning is often tail-end loaded into the fourth quarter, we don't expect there to be negative surprises in 4Q11. At CBQ NPLs have risen 7% due to a 15% ytd increase in retail lending NPLs. Meanwhile at Doha Bank, NPLs have declined 46% ytd due to a change in the write-off policy, but even adding those back, there has been a net decline.

**NPL trends are showing few consistent trends across banks**

In terms of individual segments, the picture is slightly confusing. CBQ has reported an increase in retail NPLs, but an overall improvement in corporate, while Doha Bank has not seen a worsening of NPLs despite its high retail exposure. Meanwhile QNB has seen an increase in NPLs as a result of its corporate exposure despite its large public sector book. The outlook for the system as a whole though is generally positive, with projects likely to drive corporate cash flows and in turn retail cash flows.

**Property sector likely to be the cause of recent and any future NPL increases**

There are of course areas of concern, notably the over-valued under-occupied property market. The office market is now the most expensive in the Middle East and Africa, with rising vacancy rates expected through 2012, according to property consultants. With less private sector development, and less reliance on a potentially unwilling consumer end-market for corporate cash-flow, the impact on NPLs is likely to be substantially more limited than in the UAE.

## Read-across from QNB's 4Q11 results

QNB's 4Q11 results were strong, but confused by the full-year consolidation of Bank Kesawan. Nevertheless, a number of key features stand out.

- Loan growth of 15.4% qoq was way ahead of the 3.7% we had pencilled in for 4Q11, with the Bank Kesawan contribution amounting to approximately 0.5% of the loan book, in our view. This strong growth was primarily due to lending to government agencies, which accounted for 75% of all lending growth this quarter. More interestingly though, in terms of read-across, consumer lending also increasing 14% qoq, which adds weight to expectations that it should be a good quarter for consumer lending.
- QNB's gross NPL ratio increased only eight basis points, slightly flattered by the strong growth in lending. Provisioning also picked up in 4Q11, rising to 78bp for the year from 64bp for 9M11. The breakdown of provisioning suggests this was entirely due to corporate lending, with the other segments actually having net write-backs. This is in stark contrast to the previous three years when consumer lending drove the bulk of loan provisioning. In principle, this suggests

negative read-across particularly for CBQ, but there has actually been a low level of correlation between the loan quality of CBQ and that of QNB, with net NPLs actually declining in 9M11.

- **Revenues:** QNB's revenues jumped 22% qoq, with the bulk of this coming from net interest income. Of course, the full year consolidation of Bank Kesawan is likely to be the primary driver, but volume growth and underlying spread increases may also have made a contribution. Without a detailed trading comment from QNB, a firm conclusion cannot be reached, but it does raise the prospect of outperformance on the revenue side.
- **Costs:** Until we get clarification from QNB, we assume the 38% qoq jump in expenses to have been primarily driven by: 1) salary increases for Qatari nationals (about QR50m); 2) consolidation of Bank Kesawan (about QR50m), and to a lesser extent 3) other costs, including acquisition costs (about QR35m). The salary increases for Qatari nationals is, of course, a factor we see across the banking sector.

Overall, we believe this provides a slight positive read-across for the sector. We believe the evidence is not sufficiently persuasive for us to take this into account in our numbers published today, as Qatari banks have rarely been highly correlated. It does, however, suggest a small amount of overall positive risk bias.

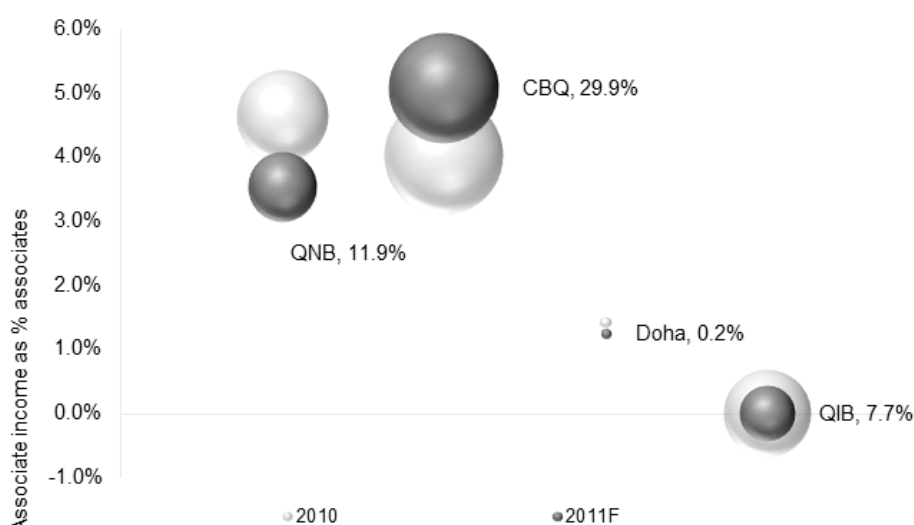
# International ambitions weighing on returns

The generally high acquisition price and weak earnings of associates have visually impacted levels of return, even before taking into account the 100% regulatory deduction. We believe this over-penalises banks with high exposure, such as CBQ.

Qatari banks have a range of international exposures which certainly suggest scope for mispricing. Doha Bank has interests in India through Select Brokerage and a pending Indian banking licence. QIB has 33% stakes in Arab Finance House of Lebanon and Asian Finance Bank of Malaysia, as well as a consolidated 70% stake in European Finance House. CBQ has two large associates, 35% in National Bank of Oman, and 40% in United Arab Bank of the UAE.

Meanwhile, QNB's interests range from Morocco to Turkey and well beyond with a 51% stake in QNB Syria, 50% in Tunisian Qatari Bank, 34% in Jordan's HBTF, 24% in the UAE's CBI, 23% in Iraq's Mansour Bank and most recently full ownership of Bank Kesawan of Indonesia.

**Chart 9 : Associate return on book value**



N.B. The area of the bubble (and labels) represents associates as a % of common equity. Source: Company data

There are three reasons why international exposures may result in undervalued stocks:

- 1) consolidated exposures may offer longer-term growth opportunities;
- 2) associate income may be below recurring levels;
- and 3) associates are fully deductible from regulatory capital, resulting in a strongly negative impact on capital efficiency.

## Commercial Bank of Qatar

CBQ, for whom the book value of associates amounts to 32.5% of equity, is the most affected by potential misrepresentation of the cash flows from associates. Given that they have a rate of return of just 5%, this is clearly seriously dilutive to ROTCE. Is there scope to change this? CBQ has five associates, of which the two public ones are by far the largest.

**CBQ has two large associates:  
National Bank of Oman and  
United Arab Bank (of Sharjah)**

**Table 2 : CBQ associates**

Entity	% owned	Stake	Stake	Description
		BV (QRm)	MV (QRm)	
National Bank of Oman	34.9%	1,519	1,107	#2 bank in Oman
United Arab Bank	40.0%	2,340	1,455	UAE smaller bank
Asteco	30.0%	2.3	n.a.	Property agents
Gekko	50.0%	0.6	n.a.	E-payment infrastructure
Massoun Insurance	50.0%	10.1	n.a.	Insurance Brokerage

Source: Company data, Rasmala estimates

**Book values include substantial goodwill, resulting in a bloated equity base**

The first point to note is that the book values in the accounts of CBQ reflect a substantial amount of goodwill on acquisition, amounting to 40% of the book value of NBO and 67% of that of UAB. Consequently, the 8.5% and 5.2% return on investment actually reflects a 14.2% and 15.7% return on underlying equity.

The second point of interest is that the returns on associate are actually significantly lower (typically 20-30%) than the figure calculated from the proportional allocation of profit. We believe this is because income from associates includes a goodwill deduction.

**UAB may offer scope for earnings improvements**

Finally, current earnings seem broadly reflective of short-term earnings potential, at least at NBO where Bloomberg consensus earnings suggest a two-year attributable income growth rate of just 1% from 2011-13F. The situation at UAB is better: although margin growth may be difficult in the near term, UAB has taken significant market share this year, growing the loan book 35% in 9M11 with that mostly in the last two quarters.

**Distorting impact of large associate holdings**

Overall, we believe the ownership of these stakes has three effects:

- overstating book value from a mark-to-market perspective;
- understating profits by a small margin (perhaps 2-4%); and
- it absorbs substantial regulatory capital, resulting in...
  - ... an underleveraged balance sheet, and an impaired capital ratio...
  - ... having a negative impact on ROE and ROTCE for the business as a whole.

**On adjusted ratios, CBQ's DDM valuation upside becomes clearer**

There is no sign that CBQ would relinquish these stakes, but if it were to do so at current market capitalisation, we believe that shareholders' funds would fall by QR1.3bn (10%), but regulatory capital would rise by QR2.6bn, raising the tier 1 ratio in 3Q11 from the actual 16.4% to a hypothetical 20.7%, and so freeing up considerable capital for growth or distribution. It would also raise the ROTCE/ROE from a forecast 15.0% in 2011 to a hypothetical 17.0%, which is certainly impressive for a company with a tier 1 ratio of 20.7%.

**Doha Bank**

Doha Bank has one small associate 49% owned Doha Brokerage and Financial Services, which provides brokerage services in India, and more recently "wealth management and investment solutions". Although DBFS itself is negligible in terms of capital absorption and contribution despite its 260 outlets, Doha Bank has a long-standing broader interest in India. Ambitions so far are for a non-bank financing company to be set up by mid-2012 and a branch in Mumbai if their current banking licence application is approved.

**Why an Indian banking licence now?**

Doha Bank first applied for an Indian banking licence in 2005, but until 2010, there was little sign from the Reserve Bank of India (RBI) that there was an appetite for issuing new banking licences. This changed in 2010, with a speech from the Finance Minister indicating that this would be re-evaluated with the primary objective of improving access for the local population. In August 2011, the draft guidelines for new bank licences were issued, with feedback sought by 31 October 2011. Legal sources suggest reform may be contingent on reform of the Banking Regulation Act 1949.

**New Indian full banking licences have not yet been issued to anyone**

There are two routes to licensing – obtaining a branch licence and a full banking licence. Although banks such as Rabobank have been successful in obtaining a branch licence, so far no new full operating licences have been granted, and it is not clear what restrictions will be in place.

For the moment, competition for banking licences comes from the major industrial groups in India. Property and broking companies are banned, with preference being given to non-bank financial corporations of good-standing. In addition, we understand many of the major international banks

have pre-registered their intents. The Wall Street Journal has suggested that only a limited number of banking licences will be issued, with speculation that this will initially be limited to four. If this turns out to be correct, Doha Bank may well not be in the first wave.

**Potential clearly exists**

Doha Bank is not alone in thinking that India may offer a significant opportunity this time around. Rabobank, for example, has as a target raising the proportion of its business coming from Asia from 5% currently to 25% within five years, with India and China being the growth engines, and India contributing perhaps US\$8bn-10bn of loans from 10-15 branches. If Doha Bank could gather US\$1bn over five years, that would add 13 percentage points to cumulative growth over five years.

**But too many hurdles to value this yet**

Despite the potential of Doha Bank entering a large, growing and under-banked market, with significant trade, FDI and remittance links with Qatar, we do not yet factor this into our valuation. This is because, despite recent moves to liberalise Indian financial services:

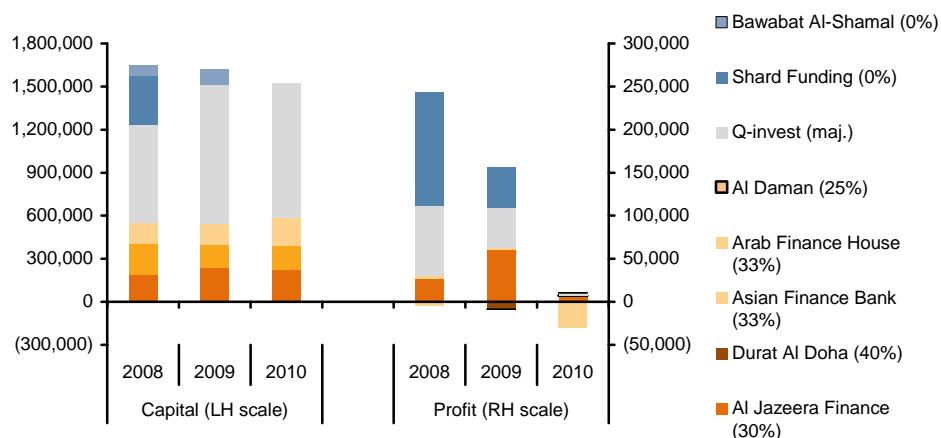
- there are a number of hurdles before any new licences are issued;
- it is unclear how many licences will be issued initially;
- priority may well be given to domestic industrial groups of established NBFEs;
- it is unclear whether Doha Bank is a priority international applicant; and
- Doha Bank has no prior banking experience in India, and its broking experience may not help.

**Qatar Islamic Bank**

**Low current contribution from associates**

QIB's contribution from associates has been declining steadily since 2008, when 89% of the profit contribution came from the subsequently disposed Shard Funding operation and the now consolidated Q-Invest. The only extant associate which has made any contribution of note is Al Jazeera Islamic, the consumer finance company, although the return dropped 87% in 2010. The contribution from other associates was either minimal (Al Daman Islamic Insurance) or significantly negative (Arab Finance House, Asian Finance Bank).

**Chart 10 : QIB associate contribution (current associates in colour), QRm**



Source: Company data

**Prospects for rebounding returns**

**Al Jazeera Finance's record is patchy**

Al Jazeera Finance has made the best historic returns. However, 2009 was profitable partially due to the QR110m gain from the sale of its head office to Qatar First Investment Bank. In 2010, we presume – on very limited information - that it was rising costs and impairments and the absence of any further source of exceptional profit that largely took the earnings down to break-even levels. From the very limited information available, 2008 levels of return may be achievable in a positive stage of the credit cycle, implying about QR100m of profit and a contribution of QR30m.

**Asian Finance Bank moving back into positive territory**

For Asian Finance Bank of Malaysia, rather more information is available. The two main problems in 2010 were very high costs and a high level of provisioning as the bank aimed to build its coverage ratio. During 2011 year to date, the impairment rate has declined from 5.0% in FY10 to 0.14% in 9M11. The cost-income ratio remains high at over 90% for 9M11, but has at least declined to 72% in 3Q11 thanks to rising revenue rather than falling costs.

The upshot is that earnings have moved back into the black at Asian Finance Bank. However, with a high cost-income ratio, a core capital ratio of 45.7% in 3Q11 and ytd loan growth of 8% in 9M11, it will be difficult to raise the ROE rapidly past the 1% annualised ROE seen in 9M11. We have really limited information on Arab Finance House, and Al Jazeera Finance, making further possibilities of a swift return to a decent rate of return only speculative.

**However, even a very positive forecast is unlikely to be material**

For now, we assume QR20m of earnings contribution in 2011F, gradually rising to QR50m in 2014F. Even at the top end of this range, this would contribute only 4% to earnings, making it largely non-material. In addition, since it is consolidated within income from financial investments, which has leapt more than three-fold yoy in FY11, it is not even the largest source of uncertainty in that line item.

# Buy

TP QR97.32 (from QR98.44)

## RBS Refiner

Price (close 15 Jan)	QR83.60
3M high/low	QR87.20/78.50
Market cap	QR20.69bn
Av (12M) turnover	QR17.16m
Freefloat	70.14%
Reuters	COMB.QA
Bloomberg	CBQK QD
Net debt (cash)	n/a
3yr EPS CAGR 11-13F	12.8%
Income (2012F div yield)	7.0%

Source: Rasmala forecasts, Bloomberg

## Rasmala vs consensus

Net inc. (QRm)	Rasmala	Cons	% Diff
2011F	2,0061,913		+5%
2012F	2,2232,177		+2%
2013F	2,5842,431		+6%

Source: Rasmala forecasts, Bloomberg

## Price performance

	(1M)	(3M)	(12M)
Price (QR)	84.10	79.90	93.80
Absolute (%)	-0.6	4.6	-10.9
Rel to mkt*(%)	0.7	1.7	-4.7

\*QE Index

Source: Bloomberg

## Key events

Date	Event
25-Jan-12	4Q11 results
20-Apr-12	1Q12 results
15-Jul-12	2Q12 results
19-Oct-12	3Q12 results

Source: Qatar Exchanges

# Comm Bank of Qatar

## Still performing

We expect 2011 yoy growth in gross lending to top 27%, but we believe CBQ's share price does not yet reflect this expectation. We believe this is due to the optically weak ROTCE, which is due to a slightly inflated equity base, and the punitive role of regulatory deductions. We still maintain a Buy recommendation.

### Event: 4Q11 preview and numbers update

Loan growth peaked in 2Q11 when CBQ benefited from a short-term government loan, but overall it has been a steady year for loan growth. We do not believe 4Q11 will disappoint, unless Islamic banking exposure proves to be a greater drag than we expect. Nevertheless, we now forecast a 10% qoq decrease in headline net income in 4Q11. We think CBQ has addressed much of its seasonal cost issues, but pay rises for Qatari nationals will still weigh on operating profits. After a relatively quiescent 3Q11 for provisioning, we expect this to head higher in 4Q11, being mindful particularly of the central bank's end-of-year review and potential read-across from Qatar National Bank. Also, we expect attributable income to be hit by contributions to the sports and social fund.

### Forecasts: 2012-13F primarily driven by growth

Our new forecasts for 2012-13 largely reflect strong net loan growth of a steady 18.2%, with most of the funding coming from deposit growth. Despite tighter liquidity, we conservatively assume a similar spread tightening (8bp) to its peers. Similarly, despite a possible recovery in trade activity, we continue to assume some attrition of fee and commission margins. Costs will also be negatively affected by salary increases for nationals. We have taken a slightly more positive approach to provisioning, however, bringing the rate down from 55bp in 2011F to 45bp in the years ahead. We have raised our loan forecasts across 2011-14F, driving almost a 7% rise across the income statement, which has been offset by a higher discount rate.

### Valuation: Discount valuation, when you 'look through' inefficient capital structure

On simple multiples, CBQ is the cheapest Qatari bank we cover at 9.6x 2012F cash earnings, and 1.5x 2012F tangible book, on our new estimates. We believe the 2011F ROTCE is restricted to 15%, only due to an inflated equity base and under-leverage as a result of regulatory capital deductions for associates, and not because CBQ's business is intrinsically less valuable. Our net income forecasts exceed Bloomberg consensus (5%, 2% and 6% for 2011-13). However, we believe we have been adequately conservative in calculating the inputs to our three-stage DDM model, although there is near-term downside risk from Islamic banking regulations. The main remaining downside risk is likely to be higher provisioning.

## Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	1,359	1,635	2,006 ▲	2,223	2,584 ▲
Norm fully diluted EPS (QR)	5.84	7.05	8.20 ▲	8.71	10.13 ▲
Dividend per share (QR)	5.73	7.00	5.77	5.81	5.93 ▼
Normalised PE	14.30	11.90	10.20	9.60	8.26
Price/book value	1.78	1.74	1.59	1.50	1.39
Dividend yield (%)	6.85	8.37	6.90	6.95	7.09
Return on avg equity	14.10	15.20	16.80 ▲	16.00	18.80 ▲

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Source: Company data, Rasmala forecasts

Accounting standard: IFRS

## Analyst

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Important disclosures can be found in the Disclosures Appendix.  
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# RBS Equities Forecasts: Comm Bank of Qatar

## Income statement

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	1661	1778	1959	2220	2587
Non-interest income	770.1	656.4	925.0	1072	1264
<b>Total income</b>	<b>2431</b>	<b>2434</b>	<b>2884</b>	<b>3292</b>	<b>3851</b>
Operating costs	-759.5	-787.3	-886.5	-1086	-1271
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	-0.00	0.00	0.00	0.00
<u>Pre-prov operating profit</u>	1671	1647	1997	2206	2580
Provisions charges	-465.6	-166.5	-188.5	-196.3	-231.9
<u>Post-prov op prof</u>	1206	1480	1809	2009	2348
Associates (pre-tax)	152.9	155.2	197.2	213.3	236.2
Other pre-tax items	-0.00	0.00	0.00	0.00	-0.00
<b>Reported PTP</b>	<b>1359</b>	<b>1635</b>	<b>2006</b>	<b>2223</b>	<b>2584</b>
Taxation	-34.2	-36.7	-61.0	-67.6	-78.6
Minority interests	0.00	0.00	0.00	0.00	0.00
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	198.9	36.6	61.0	67.6	78.6
<b>Reported net profit</b>	<b>1524</b>	<b>1635</b>	<b>2006</b>	<b>2223</b>	<b>2584</b>
Tot normalised items	164.8	-0.20	0.00	0.00	0.00
Normalised PTP	1359	1635	2006	2223	2584
Normalised net profit	1359	1635	2006	2223	2584

## Balance sheet

QRm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	31929	33567	42852	50656	59875
Other int earn assets	15391	14261	18426	20009	22453
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	5623	5989	6641	6710	7143
<b>Total assets</b>	<b>57317</b>	<b>62520</b>	<b>70918</b>	<b>80922</b>	<b>93662</b>
Total customer deposits	26639	34188	38567	45591	53888
Oth int-bearing liab	17316	14547	16490	18305	21287
Non int-bearing liab	2685	2873	2877	3261	3622
<b>Total liabilities</b>	<b>46640</b>	<b>51608</b>	<b>57933</b>	<b>67157</b>	<b>78796</b>
Share capital	10677	10912	12985	13764	14866
Reserves	0.00	0.00	0.00	0.00	0.00
<b>Total equity (excl min)</b>	<b>10677</b>	<b>10912</b>	<b>12985</b>	<b>13764</b>	<b>14866</b>
Minority interests	0.00	0.00	0.00	0.00	0.00
<b>Total liab &amp; sh equity</b>	<b>57317</b>	<b>62520</b>	<b>70918</b>	<b>80922</b>	<b>93662</b>
Risk weighted assets	48240	49821	62880	74333	87860
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-549.4	-709.8	-765.1	-884.9	-1028
General provisions	n/a	n/a	n/a	n/a	n/a

## Capital

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	48240	49821	62880	74333	87860
Reported net profit	1524	1635	2006	2223	2584
Opening risk assets	63582	48240	49821	62880	74333
Closing risk assets	48240	49821	62880	74333	87860
Change in risk assets	-15342	1581	13060	11452	13528
Capital required	-1534	158.1	1306	1145	1353
Free capital flow	3058	1477	699.9	1077	1232
Ordinary dividend paid	-1299	-1588	-1427	-1438	-1467
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	1615	0.00	1615	0.00	0.00
Cash flow from financing	315.5	-1588	187.5	-1438	-1467
Net capital flow	3373	-110.6	887.5	-360.4	-234.9
Tier 1 capital	8299	8294	10328	10948	11824
Tier 1 capital ratio (%)	17.2	16.6	16.4	14.7	13.5

Source: Company data, Rasmala forecasts

**Table 1: Valuation**

<b>Stage 1 (2011-2014)</b>			<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Explicit dividends	Net CF to shareholders		1,427	1,438	1,467	1,429
	<b>NPV stage 1</b>	<b>4,931</b>	4,931	3,905	2,749	1,429
<b>Stage 2 (2015-24)</b>			<b>Model numbers</b>			
Modelled dividends	Excess capital	77	ROTCE1	Growth	Capital Req'd	RWA
	Modelled dividends	3,245	16%	14%	16,276	103,169
	<b>NPV stage 2</b>	<b>2,675</b>				
<b>Stage 3 (2025+)</b>			<b>Model numbers</b>			
Terminal value	2024	60,337	ROTCE2	Growth	Capital Req'd	
	<b>NPV stage 3</b>	<b>16,474</b>	11%	5%	60,337	
<b>Total NPV</b>			<b>COE</b>			
	Stage 1 (2011-2014)	4,931	US RFR			1.93%
	Stage 2 (2015-24)	2,675	Country risk spread			4.50%
	Stage 3 (2025+)	16,474	Sector risk spread			2.50%
	<b>NPV</b>	<b>24,080</b>	Stock spread			2.50%
	Shares	247	Discount rate			11.43%
	<b>Price target</b>	<b>97.32</b>				
	<b>Price</b>	<b>83.60</b>				
	<b>Upside/(Downside)</b>	<b>16%</b>				

Source: Rasmala forecasts

# Hold

TP QR70.49 (from QR57.58)

## RBS Refiner

Price (close 15 Jan)	QR66.10
3M high/low	QR67.20/61.00
Market cap	QR13.66bn
Av (12M) turnover	QR12.23m
Freefloat	84%
Reuters	DOBK.QA
Bloomberg	DHBK QD
Net debt (cash)	n/a
3yr EPS CAGR 11-13F	13.9%
Income (2012F div yield)	7.1%

Source: Rasmala forecasts, Bloomberg

## Rasmala vs consensus

Net inc (QRm)	Rasmala	Cons	% Diff
2011F	1,278	1,241	+3%
2012F	1,376	1,389	-1%
2013F	1,632	1,866	-13%

Source: Bloomberg, Rasmala forecasts

## Price performance

	(1M)	(3M)	(12M)
Price (QR)	64.20	61.80	65.50
Absolute (%)	3.0	7.0	0.9
Rel to mkt*(%)	4.3	3.9	7.9

\*QE Index

Source: Bloomberg

## Key events

Date	Event
18-Jan-12	4Q11 results
19-Apr-12	1Q12 results
19-Jul-12	2Q12 results
12-Oct-12	3Q12 results

Source: Qatar Exchange

# Doha Bank

## Qatar bound, still

Doha Bank should see growth accelerate near term reflecting consumer loan growth, we believe. However, international aspirations have yet to achieve visibility, and we are not convinced that Doha Bank has a premium domestic franchise either. Hold, with a new QR70.49 target price (from QR57.58).

### Event: 4Q11 earnings preview and updating numbers

Doha Bank is likely to produce more positive numbers in 4Q11, we believe, aided by accelerating growth in consumer lending, although we don't know how much Islamic lending was still on its books at 3Q11. In spite of this, we expect earnings to decline 13% qoq on a headline basis. The decline would occur as a result of cost increases due to salary hikes for Qatari Nationals and seasonality, as well as higher provisioning in 4Q, when the central bank and auditors look over the books. In addition, we expect normalised earnings to decline 25% qoq from including the contribution to the social and sports fund, which we treat as taxation.

### Forecasts: We see low double-digit loan growth and margin stability going forward

We raise our 2012F loan growth expectations on the basis of stronger consumer loans and broader-based lending growth for the system. In addition, Doha Bank will benefit from the absence of drag from the Islamic banking issue, provided it has been resolved before the start of the year. However, beyond 2012, we maintain our growth forecast in the double digits, but we do not expect it to match Doha Bank's peers. In common with its peers, we assume some pressure on spreads, declining 9bp by 2014, and salary increases will continue to have a negative impact on costs. However, we expect provisioning to continue declining in absolute and relative terms in 2012-13, resulting in net profit margins rising from 54% to 56%.

### Valuation: Not yet ready to put a value on Indian aspirations

Given higher returns, Doha Bank trades at a premium 2012F PCE of 10.2x. We believe assessing Doha Bank's domestic franchise as more valuable than its peers is unjustified and that it is premature to attach value to its Indian banking license application. We base our valuation on a modified DDM model, with an estimated medium-term releveraged ROTCE of 20%, higher than both CBQ and QIB. We assume an elevated 11.4% discount rate to account for downside risk from Islamic banking regulations over the next two quarters. On these assumptions, Doha Bank looks fairly valued at QR66.2, with potential upside of 6%, although potential downside is limited given a 2011-14F dividend yield of 7%. Our 2013 forecast is 13% below Bloomberg consensus, which we put down to there being only a single available estimate. We raise our target price to QR70.49 (from QR57.58) due to single-digit earnings upgrades and roll forward of results.

## Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	974.5	1,013	1,278	1,376	1,632
Norm fully diluted EPS (QR)	5.01	5.20	6.27	6.48	7.68
Dividend per share (QR)	4.77	5.00	4.67	4.70	4.55 ▲
Normalised PE	13.20	12.70	10.50	10.20	8.61
Price/book value	2.54	2.46	2.24	2.11	1.92
Dividend yield (%)	7.22	7.56	7.07	7.12	6.88
Return on avg equity	21.70	21.10	22.80	21.00	25.20

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Source: Company data, Rasmala forecasts

Accounting standard: IFRS

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# RBS Equities Forecasts: Doha Bank

## Income statement

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	1241	1532	1748	1867	2150
Non-interest income	519.3	516.2	562.0	596.4	710.7
<b>Total income</b>	<b>1760</b>	<b>2048</b>	<b>2310</b>	<b>2464</b>	<b>2860</b>
Operating costs	-658.5	-723.2	-827.7	-911.6	-1058
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	-0.00	0.00	0.00	-0.00
<u>Pre-prov operating profit</u>	1102	1325	1482	1552	1802
Provisions charges	-126.3	-311.8	-204.6	-177.3	-171.3
<u>Post-prov op prof</u>	975.2	1013	1277	1375	1631
Associates (pre-tax)	-0.69	0.20	0.18	0.85	0.89
Other pre-tax items	0.00	0.00	0.00	-0.00	0.00
<b>Reported PTP</b>	<b>974.5</b>	<b>1013</b>	<b>1278</b>	<b>1376</b>	<b>1632</b>
Taxation	-25.3	-28.5	-34.7	-37.1	-44.1
Minority interests	0.00	0.00	0.00	0.00	0.00
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	24.3	69.4	34.7	37.1	44.1
<b>Reported net profit</b>	<b>973.6</b>	<b>1054</b>	<b>1278</b>	<b>1376</b>	<b>1632</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	974.5	1013	1278	1376	1632
Normalised net profit	973.6	1054	1278	1376	1632

## Balance sheet

QRm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	25896	26547	29085	33714	38354
Other int earn assets	8225	8851	15124	16183	17259
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	1121	1453	1479	1723	2066
<b>Total assets</b>	<b>45996</b>	<b>47230</b>	<b>49179</b>	<b>55665</b>	<b>62282</b>
Total customer deposits	27890	30822	29958	34388	38738
Oth int-bearing liabs	11314	9451	11254	12805	14327
Non int-bearing liab	1870	1869	1863	2001	2099
<b>Total liabilities</b>	<b>41074</b>	<b>42142</b>	<b>43075</b>	<b>49194</b>	<b>55165</b>
Share capital	4922	5087	6105	6471	7118
Reserves	0.00	0.00	0.00	0.00	0.00
<b>Total equity (excl min)</b>	<b>4922</b>	<b>5087</b>	<b>6105</b>	<b>6471</b>	<b>7118</b>
Minority interests	0.00	0.00	0.00	0.00	0.00
<b>Total liab &amp; sh equity</b>	<b>45996</b>	<b>47230</b>	<b>49179</b>	<b>55665</b>	<b>62282</b>
Risk weighted assets	36804	42074	46097	53433	60787
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-466.9	-739.0	-463.3	-547.9	-609.7
General provisions	n/a	n/a	n/a	n/a	n/a

## Capital

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	36804	42074	46097	53433	60787
Reported net profit	973.6	1054	1278	1376	1632
Opening risk assets	38461	36804	42074	46097	53433
Closing risk assets	36804	42074	46097	53433	60787
Change in risk assets	-1657	5270	4023	7336	7355
Capital required	-165.7	527.0	402.3	733.6	735.5
Free capital flow	1139	527.3	875.3	642.2	896.1
Ordinary dividend paid	-904.3	-947.4	-966.3	-972.3	-940.5
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	368.6	0.00	737.2	0.00	0.00
Cash flow from financing	-535.7	-947.4	-229.0	-972.3	-940.5
Net capital flow	603.6	-420.1	646.2	-330.1	-44.3
Tier 1 capital	4231	4618	5541	5874	6461
Tier 1 capital ratio (%)	11.5	11.0	12.0	11.0	10.6

Source: Company data, Rasmala forecasts

**Table 1 : Valuation (QRm)**

		2011	2012	2013	2014
<b>Stage 1 (2011-2014)</b>					
Explicit dividends	Net CF to shareholders	966	972	940	1,083
	<b>NPV stage 1</b>	3,379	2,689	1,912	1,083
<b>Stage 2 (2015-24)</b>					
Modelled dividends	Excess capital	(514)			
	Modelled dividends	7,071			
	<b>NPV stage 2</b>	5,282			
<b>Stage 3 (2025+)</b>					
Terminal value	2024	21,641			
	<b>NPV stage 3</b>	5,908			
<b>Total NPV</b>					
	Stage 1 (2011-2014)	3,379			
	Stage 2 (2015-24)	5,282			
	Stage 3 (2025+)	5,908			
	<b>NPV</b>	14,570			
	Shares	207			
	<b>Price target</b>	70.49			
	<b>Price</b>	66.10			
	<b>Upside/(downside)</b>	7%			
<b>Model numbers</b>					
	ROTCE1	20%	Growth	10%	Capital req'd
	ROTCE2	11%	Growth	5%	Capital req'd
					21,641
<b>COE</b>					
	US RFR				1.93%
	Country risk spread				4.50%
	Sector risk spread				2.50%
	Stock spread				2.50%
	<b>Discount rate</b>				11.43%

Source: Rasmala forecasts

# Hold

TP QR81.67 (from QR81.54)

## RBS Refiner

Price (close 15 Jan)	QR83.20
3M high/low	QR86.10/79.40
Market cap	QR19.66bn
Av (12M) turnover	QR14.08m
Freefloat	90.9%
Reuters	QISB.QA
Bloomberg	QIBK QD
Net debt (cash)	n/a
3yr EPS CAGR 11-13F	9.1%
Income (2012F div yield)	4.9%

Source: Rasmala forecasts, Bloomberg

## Rasmala vs consensus

Net Inc. (QRm)	Rasmala	Cons	% Diff
2011F	1,416	1,397	+1%
2012F	1,573	1,605	-2%
2013F	1,920	1,866	+3%

Source: Rasmala forecasts, Bloomberg

## Price performance

	(1M)	(3M)	(12M)
Price (QR)	83.50	80.00	91.10
Absolute (%)	-0.4	4.0	-8.7
Rel to mkt*(%)	0.9	1.1	-2.4

\*QE Index  
Source: Bloomberg

## Key events

Date	Event
18-Jan-12	4Q11 results
14-Apr-12	1Q12 results
14-Jul-12	2Q12 results
17-Oct-12	3Q12 results

Source: Qatar Exchange

# Qatar Islamic Bank

## Good momentum priced in

Balance sheet momentum turned positive in 3Q11, and we believe this is likely to be maintained through the year-end and into 2012. Earnings, however, may have peaked in 3Q11. We believe QIB already trades at a premium to its peers, and we maintain our Hold.

### Event: 4Q11 results preview – growth maintained, but earnings seasonally affected

After little progress in 1H11, QIB's 3Q11 results were solid, with 9% loan growth qoq providing a 6% qoq rise in headline earnings. We expect growth to remain strong in 4Q11, with the bank benefitting from consumer lending growth and transfer of some Islamic banking clients from conventional banks. As a result, we forecast 10% qoq loan growth. Despite strong loan growth, we forecast a 25% qoq decline in headline net income, driven by normalised income from investing activities, seasonal costs and cost increases from salary hikes for Qatari nationals. We expect attributable income to be further affected by social and sporting contributions, which we treat as tax.

### Forecasts: 2012-13F driven by strong growth and modest revenue improvements

Beyond immediate results, we expect QIB to continue to benefit from strong growth as a leading Islamic bank in Qatar. We expect the bank's broadening systemic growth and reorganisation of its corporate division to improve competitiveness, driving high-teen loan volume growth (2012F: 19%; 2013F: 18%). In addition, significant assets are allocated to property, which should eventually produce revenues, while we believe Q-Invest revenues will come closer to covering its costs. We expect this to be offset by modest spread declines (8bp), a near-term increase in the cost-to-income ratio due to salary increases and minority deductions as Q-Invest grows its revenues. Overall, we forecast a two-year net income CAGR of 16%.

### Valuation: Premium on simple multiples also reflected in three-stage DDM

At 13.3x 2012F PCE, QIB is the most expensive of the Qatari banks that we cover. It has maintained its relative performance through 2011, despite having a weaker performance. On a P/TB basis, QIB appears more neutrally valued (1.9x 2012F). However, this is because it carries excess capital (2011F tier-1 of 21.9%), resulting in lower ROTCE. Some pick-up in returns is likely due to positive trends in the property portfolio and Q-Invest, but we do not think it is sufficiently visible to provide a more positive rating at this stage. We base our target price on a DDM, with a slightly lower discount rate than peers, reflecting the positive regulatory risk for Islamic banks. Our forecasts are substantially in line with Bloomberg consensus in each of the next three years. These forecasts represent a downgrade based on weaker loan growth than previously expected.

## Key forecasts

year to Dec	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	1,284	1,362	1,404 ▼	1,620 ▼	1,969 ▼
Norm fully diluted EPS (QR)	6.10	5.85	5.66 ▼	6.23 ▼	7.61 ▼
Dividend per share (QR)	5.45	5.00	4.55 ▲	4.11	4.49 ▼
Normalised PE	13.60	14.20	14.70	13.30	10.90
Price/book value	2.30	2.24	1.96	1.86	1.74
Dividend yield (%)	6.56	6.01	5.47	4.93	5.39
Return on avg equity	19.50	16.80	15.60	14.80 ▼	18.20

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Source: Company data, Rasmala forecasts

Accounting standard: IFRS

## Analyst

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Important disclosures can be found in the Disclosures Appendix.  
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# RBS Equities Forecasts: Qatar Islamic Bank

## Income statement

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	1289	1339	1241	1440	1749
Non-interest income	513.7	552.1	1019	1144	1373
<b>Total income</b>	<b>1802</b>	<b>1891</b>	<b>2260</b>	<b>2584</b>	<b>3122</b>
Operating costs	-487.4	-479.3	-752.5	-889.7	-1075
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	0.00	-0.00	0.00	0.00
<u>Pre-prov operating profit</u>	1315	1412	1508	1694	2047
Provisions charges	-31.1	-50.0	-103.8	-74.7	-78.2
<u>Post-prov op prof</u>	1284	1362	1404	1620	1969
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported PTP</b>	<b>1284</b>	<b>1362</b>	<b>1404</b>	<b>1620</b>	<b>1969</b>
Taxation	10.9	-66.4	-86.9	-99.8	-121.3
Minority interests	27.4	-27.4	6.55	-47.0	-48.6
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	-0.00	66.4	86.9	99.8	121.3
<b>Reported net profit</b>	<b>1322</b>	<b>1335</b>	<b>1411</b>	<b>1573</b>	<b>1920</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	1284	1362	1404	1620	1969
Normalised net profit	1322	1335	1411	1573	1920

## Balance sheet

QRm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	22663	29352	29474	35085	41328
Other int earn assets	8903	12431	6484	7719	9092
Goodwill	0.00	0.00	216.1	216.1	216.1
Oth non-int earn assets	5165	7068	18452	20683	24326
<b>Total assets</b>	<b>39273</b>	<b>51840</b>	<b>57545</b>	<b>67057</b>	<b>78591</b>
Total customer deposits	20361	30258	29768	35436	41741
Oth int-bearing liabs	8691	11125	13432	16485	20420
Non int-bearing liab	2203	2207	2728	2938	3377
<b>Total liabilities</b>	<b>31255</b>	<b>43590</b>	<b>45928</b>	<b>54859</b>	<b>65538</b>
Share capital	7824	8041	10051	10554	11293
Reserves	0.00	0.00	0.00	0.00	0.00
<b>Total equity (excl min)</b>	<b>7824</b>	<b>8041</b>	<b>10051</b>	<b>10554</b>	<b>11293</b>
Minority interests	193.7	209.2	1566	1644	1759
<b>Total liab &amp; sh equity</b>	<b>39273</b>	<b>51840</b>	<b>57545</b>	<b>67057</b>	<b>78591</b>
Risk weighted assets	38314	37523	48598	57851	68145
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-248.2	-297.8	-401.1	-475.1	-552.6
General provisions	n/a	n/a	n/a	n/a	n/a

## Capital

QRm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	38314	37523	48598	57851	68145
Reported net profit	1322	1335	1411	1573	1920
Opening risk assets	33591	38314	37523	48598	57851
Closing risk assets	38314	37523	48598	57851	68145
Change in risk assets	4723	-790.8	11075	9253	10294
Capital required	472.3	-79.1	1107	925.3	1029
Free capital flow	849.8	1414	303.1	647.3	890.7
Ordinary dividend paid	-1181	-1083	-1075	-970.2	-1060
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	1912	0.00	1912	0.00	0.00
Cash flow from financing	730.5	-1083	837.0	-970.2	-1060
Net capital flow	1580	330.6	1140	-322.9	-169.2
Tier 1 capital	6639	6518	10631	11134	11903
Tier 1 capital ratio (%)	17.3	17.4	21.9	19.2	17.5

Source: Company data, Rasmala forecasts

**Table 1 : Valuation (QRm)**

<b>Stage 1 (2011-2014)</b>			<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Explicit dividends	Net CF to shareholders		1,075	970	1,060	1,274
	<b>NPV stage 1</b>	<b>3,769</b>	3,769	2,975	2,214	1,274
<b>Stage 2 (2015-24)</b>			<b>Model numbers</b>			
Modelled dividends	Excess capital	2,045	ROTCE1	Growth	Capital req'd	RWA
	Modelled dividends	2,150	17%	15%	9,822	79,968
	<b>NPV stage 2</b>	<b>3,440</b>				
<b>Stage 3 (2025+)</b>			<b>Model numbers</b>			
Terminal Value	2024	39,737	ROTCE2	Growth	Capital req'd	
	<b>NPV stage 3</b>	<b>12,089</b>	10%	5%	39,737	
<b>Total NPV</b>			<b>COE</b>			
	Stage 1 (2011-2014)	3,769	US RFR			1.93%
	Stage 2 (2015-24)	3,440	Country risk spread			4.50%
	Stage 3 (2025+)	12,089	Sector risk spread			2.50%
	<b>NPV</b>	<b>19,298</b>	Stock spread			1.50%
	Shares	236	<b>Discount rate</b>			<b>10.43%</b>
	<b>Price target</b>	<b>81.67</b>				
	<b>Price</b>	<b>83.20</b>				
	<b>Upside/(downside)</b>	<b>-2%</b>				

Source: Rasmala forecasts

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

**Relative views:** Our strategy teams and analysts may provide strategy views on sectors and/or markets. An Overweight, Underweight or Neutral view implies outperformance, underperformance or a neutral performance in an indicated relative context

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