

7 July 2011

Qatar National Bank

No cracks

Buy

Target price
QR147.24

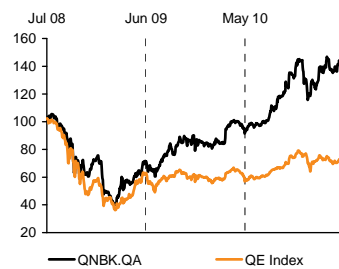
Price
QR144.00

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	136.2	128.9	96.39
Absolute (%)	5.7	11.7	49.4
Rel market (%)	2.5	11.7	19.9
Rel sector (%)	1.7	11.3	15.6



Market capitalisation
QR91.60bn (€17.57bn)

Average (12M) daily turnover
QR26.26m (€6.90m)

Sector: QE Bank Index
RIC: QNBK.QA, QNBK.QD
Priced QR144.00 at close 5 Jul 2011.
Source: Bloomberg

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QNB's 2Q11 results were exactly on track on a comprehensive income basis, but the results were actually stronger than that. Loan growth did not slow from impressive 1Q11 levels, and strong fee & commission income belied regulatory pressure. We believe our Buy rating was justified despite recent price increases.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	4,191	5,718	7,234	9,563	11,004
Reported net profit (QRm)	4,202	5,704	7,215	9,538	10,975
Reported EPS (QR)	7.53	10.25	11.96	14.68	16.90
Normalised EPS (QR)	7.51	10.25	11.96	14.68	16.90
Dividend per share (QR)	2.21	3.59	3.25	4.65	5.26
Normalised PE (x)	19.18	14.05	12.04	9.81	8.52
Price/book value (x)	4.25	3.52	2.30	1.98	1.71
Dividend yield (%)	1.53	2.49	2.26	3.23	3.65
Return on avg equity (%)	25.10	28.00	23.20	20.50	23.70

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Good set of results, but strategic issues of growing relevance for 2H11

The 2Q11 results were a good set of results, beating our forecasts on growth and on the quality of earnings. There was possible price pressure, but revenue quality was good, only offset by provisioning. Strategically, progress was made on the new QNB Financial Services operation, on the consolidation of PT Bank Kesawan, and on branch openings in Beirut and Oman. We remain concerned about the impact of Islamic banking regulations, but believe our conservative full-year growth rate of 20.9% takes this fully into account.

Good growth, rising liquidity

After somewhat cautious guidance on growth, we were positively surprised to see 2Q11 loan growth of 7.0%, exceeding our expectation by 2.0%. This was despite apparently weak credit growth in the public sector in April-May. This was over-funded by a 9.1% jump in deposits and a rights issue, which contributed to a 59% increase in equity. This inevitably led to a jump in liquidity, which was used to pay down interbank liabilities and raise cash.

Comprehensive income in line with our expectations, but strong operating income

Comprehensive income was 0.1% below our expectation for 2Q11. However, that was the result of strong revenues, offset by higher provisioning. Gains and impairment reversals on investment securities accounted for Dh98m of the 2Q11 revenue beat. However, core non-interest income (mostly fee income) was also Dh35m better. This was offset by provisioning, which partly reflected an increase in NPLs, but mostly an increase in the coverage ratio from 155% to 161%.

Taking all the growth

QNB is unquestionably the premium play in Qatar, priced at a P/BV of 2.3x even after the substantial capital raising. This is justified by its strong relations with the government and a resulting strong growth rate. With little Qatari credit growth (+2% Dec10-May11), the 14% growth at QNB was impressive to us. Nevertheless, today's conference call will have to demonstrate lower risk or improved prospects in order for us to maintain our Buy rating, following recent price momentum.

Important disclosures can be found in the Disclosures Appendix.

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Table 1 : 2Q11 results

QARm	2Q10A	1Q11A	2Q11A	2Q11F	yoy	qoq	Variation from forecast
Balance Sheet							
Loans & Islamic financing	117,610	140,701	150,526	147,523	28.0%	7.0%	2.0%
Interbank assets	16,966	32,174	38,310	30,242	125.8%	19.1%	26.7%
Financial instruments	22,957	44,081	45,951	47,207	100.2%	4.2%	-2.7%
Cash & CB deposits	20,017	17,680	20,424	18,588	2.0%	15.5%	9.9%
Other assets	8,498	8,023	8,393	8,923	-1.2%	4.6%	-5.9%
Total assets	186,049	242,659	263,604	252,484	41.7%	8.6%	4.4%
Customer deposits & Islamic funding	139,213	179,873	196,279	182,929	41.0%	9.1%	7.3%
Dues to banks	13,996	19,580	9,094	12,805	-35.0%	-53.6%	-29.0%
Capital market liabilities	6,726	12,140	12,144	12,140	80.6%	0.0%	0.0%
Other operating items	4,828	6,535	7,076	5,488	46.6%	8.3%	28.9%
Total liabilities	164,763	218,128	224,594	213,362	36.3%	3.0%	5.3%
Net liquid assets	22,987	30,273	49,640	36,025			
Shareholders' equity	21,285	24,531	39,010	39,122	83.3%	59.0%	-0.3%
NPL ratio	0.61%	0.79%	0.80%	0.80%			
Income Statement							
Net interest & Islamic returns	1,374	1,707	1,751	1,750	27.5%	2.6%	0.1%
Fees & commissions	286	285	316	292	10.4%	10.7%	8.1%
FX & derivative	90	96	107	101	18.0%	11.2%	5.0%
Other operating income	2	7	14	8	609.9%	98.7%	87.7%
Core non-interest	378	388	436	401	15.4%	12.4%	8.8%
Trading & investments	29	114	142	44	387.3%	25.0%	222.7%
Non-core non-interest	29	114	142	44	387.3%	25.0%	222.7%
Total non-interest income	407	502	579	445	42.0%	15.3%	30.0%
Total banking income	1,781	2,209	2,330	2,195	30.8%	5.4%	6.1%
Total operating expenses	(306)	(364)	(365)	(373)	19.1%	0.2%	-2.2%
Provisioning	(97)	(177)	(210)	(109)	117.1%	18.7%	92.7%
Other adjustments	67	45	55	60			
Profit before tax	1,445	1,713	1,809	1,773	25.3%	5.6%	2.1%
Tax, minorities & appropriations	(7)	(6)	0	(9)			
Attributable income	1,438	1,707	1,809	1,764	25.9%	6.0%	2.6%
Headline net income	1,438	1,707	1,809	1,764	25.9%	6.0%	2.6%
Comprehensive income	1,248	1,588	1,763	1,764	41.3%	11.0%	-0.1%

Source: Company data, Rasmala forecasts

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	3726	5675	7123	9504	11001
Non-interest income	1564	1655	1896	2445	2911
Total income	5291	7330	9019	11948	13911
Operating costs	-1107	-1292	-1511	-2345	-2869
Goodwill (amort/impaired)	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>	4184	6038	7509	9603	11042
Provisions charges	-285.1	-536.9	-505.9	-321.7	-347.0
<u>Post-prov op prof</u>	3899	5501	7003	9281	10695
Associates (pre-tax)	292.8	216.3	230.7	281.2	309.3
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	4191	5718	7234	9563	11004
Taxation	-113.0	-133.5	-167.0	-220.7	-254.0
Minority interests	13.3	2.13	-1.74	-2.30	-2.64
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	110.0	118.0	149.7	197.8	227.7
Reported net profit	4202	5704	7215	9538	10975
Tot normalised items	14.2	0.00	0.00	0.00	0.00
Normalised PTP	4191	5718	7234	9563	11004
Normalised net profit	4188	5704	7215	9538	10975

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	108783	131696	158860	190312	228564
Other int earn assets	53514	48735	77841	89447	105140
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	7152	9039	9033	14374	14564
Total assets	179329	223382	265751	316970	371124
Total customer deposits	125872	165470	193809	234084	276563
Oth int-bearing liabs	29603	26481	23769	26185	28734
Non int-bearing liab	5182	8596	7494	9513	11090
Total liabilities	160657	200547	225072	269783	316386
Share capital	18481	22280	39882	46263	53665
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	18481	22280	39882	46263	53665
Minority interests	190.7	555.2	797.6	925.3	1073
Total liab & sh equity	179329	223382	265751	316970	371124
Risk weighted assets	105249	112003	135105	157959	198851
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-923.6	-1572	-2271	-2871	-3570
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	105249	112003	135105	157959	198851
Reported net profit	4202	5704	7215	9538	10975
Opening risk assets	96056	105249	112003	135105	157959
Closing risk assets	105249	112003	135105	157959	198851
Change in risk assets	9193	6755	23102	22854	40891
Capital required	919.3	675.5	2310	2285	4089
Free capital flow	3282	5029	4904	7252	6886
Ordinary dividend paid	-1204	-1957	-2067	-2959	-3346
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	0.00	0.00	12722	0.00	0.00
Cash flow from financing	-1204	-1957	10655	-2959	-3346
Net capital flow	2078	3072	15559	4293	3541
Tier 1 capital	13857	17119	30496	35376	41036
Tier 1 capital ratio (%)	13.2	15.3	22.6	22.4	20.6

Source: Company data, Rasmala forecasts

year to Dec

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.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

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.

Valuation and risks to target price

Qatar National Bank (RIC: QNBK.QA, Rec: Buy, CP: QR144.00, TP: QR147.24): We base our valuation on a three-stage DDM: a three-year stage of explicit forecasts, a 10-year stage of trend forecasts and a terminal stage based on a GGM. Downside risks are increasing competition from new entrant banks resulting in a decline in market share, and falling pricing. Upside risks are better-than-expected growth from existing projects and increased contribution from international operations, although the latter is likely to return lower ROEs than the core business.

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