

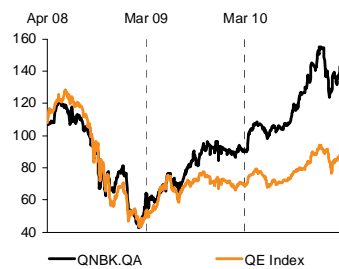
11 April 2011

Change of recommendation

Buy (from Hold)Target price
QR161.14 (from QR215.89)Price
QR144.00Short term (0-60 days)
n/aMarket view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	138.0	150.6	106.9
Absolute (%)	4.3	-4.4	34.7
Rel market (%)	-7.5	-0.5	18.5
Rel sector (%)	-6.9	-1.2	11.9

Market capitalisation
QR73.28bn (€13.92bn)Average (12M) daily turnover
QR20.84m (€7.36m)Sector: QE Bank Index
RIC: QNBK.QA, QNBK.QD
Priced QR144.00 at close 10 Apr 2011.
Source: Bloomberg

Analyst

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Qatar National Bank

No sign of weakness

QNB's results beat our expectations in terms of growth and profitability, in spite of regulations putting the Islamic Business into run-off. As a result, we upgrade both our forecasts and recommendation after recent price declines. In addition, we update our target price and per share data for the 1Q11 30% bonus issue.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	4,191	5,718	7,234 ▲	9,484 ▲	10,912 ▲
Reported net profit (QRm)	4,202	5,704	7,215 ▲	9,459 ▲	10,884 ▲
Reported EPS (QR)	8.07	11.00	13.90 ▼	18.20 ▼	20.90 ▼
Normalised EPS (QR)	8.04	11.00	13.90 ▼	18.20 ▼	20.90 ▼
Dividend per share (QR)	2.37	3.85	4.06 ▼	5.66 ▲	6.40 ▲
Normalised PE (x)	17.90	13.10	10.40	7.91	6.88
Price/book value (x)	3.97	3.29	1.84	1.58	1.37
Dividend yield (%)	1.64	2.67	2.82	3.93	4.44
Return on avg equity (%)	25.10	28.00	23.20 ▲	20.30 ▲	23.50 ▲

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Strong growth continues

We were concerned about the impact of Islamic lending restrictions, given 20.5% of year-end 2010 lending was Islamic. QNB itself has been guiding that it could absorb the impact of these regulations, converting some lending and growing in other areas, and the 1Q11 results back this up. Consequently, instead of downgrading our 2011F growth numbers, we upgrade our gross lending forecast to growth of 20.9% from 19.6%, which incorporates a buffer in case conversion becomes more challenging later in the year.

Operating profits 12% ahead of our forecast

Headline and attributable income of QR1,707m was up 10.1% qoq, handsomely beating our forecast by 4.2%. Net interest income was the main source of outperformance, with QNB holding on to more of its 2H10 spread increase than we had expected. Non-interest income was also strong, although declines in the revaluation reserve suggest this was only booking previously unrealised gains. With costs in line with our forecasts, the 10% revenue beat was increased to a 12% operating income outperformance.

Asset impairments minor, but slightly above the anticipated trend

This was partially offset by higher provisioning, albeit amounting to a still very low annualised rate of 53bp, but prompting us to revise our 2011F forecast to 38bp from 20bp. Asset quality has not quite levelled off, with NPLs rising to 79bp from 77bp a quarter earlier. However, with coverage rising to a new peak of 155%, this is not an area of concern.

Revisions mostly for bonus issue

We upgrade our net profit estimates slightly for 2011-13, but raise the discount rate slightly to reflect rising bond yields, the impact of regulations and the geopolitical risk to overseas expansion. In terms of impact, these net each other off, leaving our target price affected only by the bonus issue and cash dividend. Given recent price declines, we upgrade our recommendation to Buy. We calculate a cum-rights target price of QR161.1, equivalent to an ex-rights value of QR148.9, following the QR12bn rights issue scheduled for 24 April.

Important disclosures can be found in the Disclosures Appendix.

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Valuation

Table 1 : DCF valuation

Stage 1 (2010-2013F)		QRm	2010	2011F	2012F	2013F
Explicit dividends	Net CF to shareholders		1,957	(10,655)	2,882	3,256
	NPV Stage 1	(4,865)	(2,908)	(5,367)	5,833	3,256
Stage 2 (2014-23F)			Model numbers			
Modelled dividends	Excess capital	23,616	ROTCE1	Growth	Capital req'd	RWA
	Modelled dividends	21,609	23%	17%	30,049	198,851
	NPV Stage 2	33,692				
Stage 3 (2024F+)			Model numbers			
Terminal value	2023F	190,411	ROTCE2	Growth	Capital req'd	
	NPV Stage 3	53,174	12%	5%	144,440	
Total NPV			COE			
	Stage 1 (2010-2013F)	(4,865)	US RFR			3.31%
	Stage 2 (2014-23F)	33,692	Country risk spread			3.00%
	Stage 3 (2024F+)	53,174	Sector risk spread			2.50%
	NPV	82,001	Stock spread			1.50%
			Discount rate			10.31%
Shares (m)		509				
Target price (QR)		161.14				
Share price (QR)		144.00				
Upside/(downside)		12%				
XR target price		148.91				

Source: Company data, Rasmala forecasts

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	3726	5675	7123	9406	10885
Non-interest income	1564	1655	1896	2445	2911
Total income	5291	7330	9019	11850	13796
Operating costs	-1107	-1292	-1511	-2326	-2846
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>	4184	6038	7509	9524	10950
Provisions charges	-285.1	-536.9	-505.9	-321.7	-347.0
<u>Post-prov op prof</u>	3899	5501	7003	9203	10603
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	9484	10912
Taxation	-113.0	-133.5	-167.0	-218.9	-251.9
Minority interests	13.3	2.13	-1.74	-2.28	-2.62
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	110.0	118.0	149.7	196.2	225.8
Reported net profit	4202	5704	7215	9459	10884
Tot normalised items	14.2	0.00	0.00	0.00	0.00
Normalised PTP	4191	5718	7234	9484	10912
Normalised net profit	4188	5704	7215	9459	10884

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	14297	14474
Total assets	179329	223382	265751	316894	371034
Total customer deposits	125872	165470	193809	234084	276563
Oth int-bearing liabs	29603	26481	23769	26185	28734
Non int-bearing liab	5182	8596	7494	9436	11000
Total liabilities	160657	200547	225072	269706	316296
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	316894	371034
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	9459	10884
Opening risk assets	96056	105249	112003	135105	157959
Closing risk assets	105249	112003	135105	198851	0.00
Change in risk assets	9193	6755	23102	63745	-157959
Capital required	919.3	675.5	0.00	0.00	0.00
Free capital flow	3282	5029	7215	9459	10884
Ordinary dividend paid	-1204	-1957	-2067	-2882	-3256
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	-2882	-3256
Net capital flow	2078	3072	17870	6577	7628
Tier 1 capital	0.00	0.00	0.00	0.00	0.00
Tier 1 capital ratio (%)	0.00	0.00	0.00	0.00	0.00

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	QNB					Comm Bank of Qatar			Doha Bank		
Performance	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Non-int inc/gr op inc (%)	29.6	22.6	21.0	20.6	21.1	30.6	30.4	31.2	25.7	26.1	26.4
Cost/income (%)	20.9	17.6	16.7	19.6	20.6	32.0	33.0	33.0	35.5	35.0	35.0
Costs/average assets (%)	0.67	0.64	0.62	0.73	0.90	1.34	1.35	1.53	1.64	1.66	1.87
Net income growth (%)	12.0	36.4	26.5	31.1	15.1	19.6	16.1	12.0	18.7	20.5	14.3
Net cust loan growth (%)	8.73	21.1	20.6	19.8	20.1	16.2	15.2	15.8	9.28	13.8	14.5
Cust deposit growth (%)	20.7	31.5	17.1	20.8	18.1	15.2	15.4	16.1	2.12	12.2	12.9
Net interest margin (%)	2.46	3.29	3.38	3.29	3.85	3.67	3.50	3.89	4.25	4.04	4.52
Return on avg assets (%)	2.52	2.83	2.95	2.98	3.44	2.95	2.87	3.24	2.52	2.70	3.09
Return on avg equity (%)	25.1	28.0	23.2	20.3	23.5	16.4	16.6	18.7	21.5	22.1	25.6
RORWA (%)	4.16	5.25	5.84	5.77	6.89	3.64	3.38	3.82	2.73	2.75	3.17
				year to Dec			year to Dec			year to Dec	
Valuation											
Normalised EPS growth (%)	12.1	36.5	26.5	31.1	15.1	14.4	11.2	12.0	13.6	15.5	14.3
Reported PE (x)	17.8	13.1	10.4	7.91	6.88	9.43	8.48	7.57	9.82	8.51	7.44
Normalised PE (x)	17.9	13.1	10.4	7.91	6.88	9.43	8.48	7.57	9.82	8.51	7.44
Price/book value (x)	3.97	3.29	1.84	1.58	1.37	1.45	1.38	1.31	1.96	1.85	1.68
Price/adjusted BVPS (x)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	1.64	2.67	2.82	3.93	4.44	8.05	8.54	9.62	7.42	8.70	8.04
				year to Dec			year to Dec			year to Dec	
Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	508.9	508.9	508.9	508.9	508.9	Tier 1 capital ratio (%)	0.00	0.00	0.00	0.00	0.00
Pre-prov prof/share (QAR)	8.22	11.9	14.8	18.7	21.5	Total CAR (%)	0.00	0.00	0.00	0.00	0.00
Reported EPS (QAR)	8.07	11.0	13.9	18.2	20.9	Equity/assets (%)	10.3	9.97	15.0	14.6	14.5
Normalised EPS (QAR)	8.04	11.0	13.9	18.2	20.9	Net cust loans/dep (%)	86.4	79.6	82.0	81.3	82.6
Book value per sh (QAR)	36.3	43.8	78.4	90.9	105.5	Rep NPL/gr cus adv (%)	0.00	0.00	0.00	0.00	0.00
Dividend per share (QAR)	2.37	3.85	4.06	5.66	6.40	Tot prov/rep NPLs (%)	0.00	0.00	0.00	0.00	0.00
Dividend cover (x)	3.48	2.91	3.49	3.28	3.34	Bad debts/advances (%)	0.26	0.40	0.31	0.17	0.15
				year to Dec						year to Dec	

Priced as follows: QNBK.QA - QR144.00; COMB.QA - QR76.00; DOBK.QA - QR58.00
Source: Company data, Rasmala forecasts

Valuation methodology

Stage 1 (2010-2013F)		QRm	2010	2011F	2012F	2013F
Explicit dividends	Net CF to shareholders		1,957	(10,655)	2,882	3,256
	NPV Stage 1	(4,865)	(2,908)	(5,367)	5,833	3,256
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	NPV Stage 3	53,174	12%	5%	144,440	
Total NPV			COE			
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	Stage 3 (2024F+)	53,174	Sector risk spread			2.50%
	NPV	82,001	Stock spread			1.50%
			Discount rate			10.31%
Shares (m)		509				
Target price (QR)		161.14				
Share price (QR)		144.00				
Upside/(downside)		12%				
XR target price		148.91				

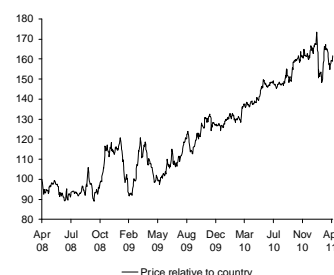
Source: Company data, Rasmala forecasts

Company description

Buy

Price relative to country

Qatar National Bank (QNB) was established in 1964 as the country's first bank and is 50% owned by the Government via the QIA. It continues to be the primary banker to the Government and the public sector, in addition to maintaining sector leadership with a lending market share of 41%. Over the past decade, the bank has been relatively successful in diversifying its concentrated revenue base, developing other business segments such as HNW retail, private banking, Islamic banking, fund management, investment banking, brokerage and international banking. The diversification is backed by a physical presence with 55 local branches (41 conventional, 11 Islamic and 3 mobile) and an international network (branches, representative offices and associates) spanning 22 countries.



Strategic analysis

Average SWOT company score: 4

4

Asset split, 2010A

Strengths

5

QNB has an entrenched position in the public sector, allowing it to maintain defensive market share. In addition, QNB has the most developed international franchise, with operations across the Arab World and beyond.

Weaknesses

4

Loan and deposit market share loss apart from a conservative and protective business strategy (even in the boom time) is considered as the biggest weakness of QNB.

Opportunities

3

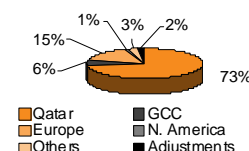
Capitalising on the US\$150bn worth of infrastructure projects being executed by the state. In addition, QNB has become the premier regional frontier market bank - a position it needs to turn into cash flow.

Threats

2

Geopolitical instability is an issue, but only at the margin. A greater concern is the renewed focus from competitors on its core public sector franchise.

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

Qatar National Bank Building, Al Corniche Street, P.O. Box 1000, Al Doha, Qatar

Website

<http://www.qnb.com.qa/english/>

Shares in issue

508.9m

Freefloat

50%

Majority shareholders

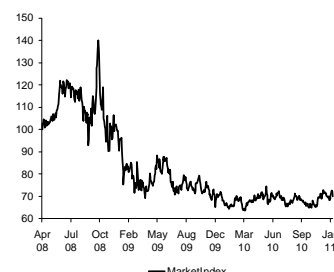
Qatar Investment Authority (50%)

Country view: Qatar

Country rel to M East & Africa

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 3+

3+

Broker recommendations

Supplier power

5+

The lack of significant regulator control allows the banks to change contract arrangements (such as the base rate). This substantially increases the supplier power for all banks in Qatar.

Barriers to entry

3+

Strong local government ownership in most banks coupled with branch limits for foreign banks keeps barriers to entry high for this sector.

Customer power

3+

Retail customer power is weak, but corporate and the public sectors can be more demanding if they were more price sensitive.

Substitute products

2+

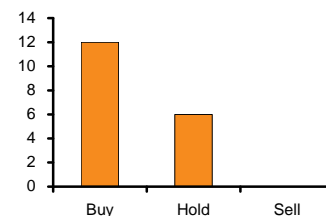
We believe the availability of substitute products (capital markets and wholesale lending) is on the rise, but it is currently unclear to what extent Qatar will favour its own banking system.

Rivalry

4+

Competition amongst local banks is low in Qatar. However, low growth rates have forced banks to look for growth wherever they can find it, and that may spark greater competition.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

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: QR161.14): 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 risk remains 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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