BY Matein Khalid

Qatari banks   
on the go

Qatar’s fabulous LNG wealth banking and industrial assets and minimal exposure to political risk make Doha an ideal GCC stock market

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he Qatari economy can benefit from the spike in crude oil, natural gas and LNG prices since the escalation of the Libyan civil war, where the emirate’s air force helps NATO enforce the no fly zone. Qatar is the fastest growing economy in the Middle East and the world thanks to rapid bank loan growth and Doha’s QR100bn government stimulus programme. Even in 2009, when so many economies in the GCC were devastated by property crashes, corporate bankruptcies and the post-Lehman credit crunch, Qatar delivered 8 per cent GDP growth, a pipe dream for most Arab economies. The Doha Stock Exchange also delivered the strongest corporate profits growth in the Arab world, even though Qatar experienced a plunge in local property prices and rents. However, Qatari companies can and do enjoy access to the international capital markets and are thus able to expand capex and credit growth.

The Qatari banking system is among the most highly capitalised and profitable in the Middle East, with a 16 per cent capital adequacy ratio (QAR) and 25 per cent bank earnings growth, the highest in the GCC. More significantly, Qatari banking has the lowest non performing loan (NPL) ratios in the GCC, a mere 1.7 per cent. Qatar’s budget surplus will be QR22bn in 2011-13.

**Untouched by unrest**

The political unrest in the Arab world has left Qatar untouched, though the economy is vulnerable to another drop in property prices or an ice age in the global bond, syndicated loan or project finance markets. The Japanese nuclear disaster and the bloodbath in Libya has led to a significant rise in spot LNG prices, a windfall for Qatar, which owns 14 per cent of the world’s proven gas reserves. For an investor, Qatar’s fabulous LNG wealth banking and industrial assets and minimal exposure to political risk make Doha an ideal GCC stock market.

Qatar National Bank (QNB) is the largest flagship bank of the emirate, the de facto banker to the government with the highest economies of scale/net profits in the banking system. At a time when Middle East banks face funding constraints in the international capital markets, QNB benefits from its sovereign ownership, its clear dominance of public sector government and its 15 per cent Basle Tier One capital ratio. I expect both earnings growth and net interest rate margins to expand as QNB can well deliver 15-20 per cent loan growth in the next three years due to its role as a project financier to the Qatari government at a time of rising crude oil and LNG prices. After all, the QIA, one of the Arab world’s most successful sovereign wealth funds, has a 50 per cent stake in QNB. A collapse in LNG prices and the impact of unrest on its Arab subsidiaries are the major macro risks   
for QNB.

Qatar Islamic Bank (QIB) is the oldest leading Sharia-compliant bank in Qatar, with an unassailable market share of the one-third of all Islamic loans in the banking system. Sharia-compliant finance is the growth area of Qatari banking, with credit growth rates as high as 40-45 per cent per annum. The Central Bank has ordered conventional banks in Qatar to divest of their Islamic banking units. QIB, where the Qatari sovereign fund has a strategic stake, is not expensive at 11 times earnings and 2 times book value. Both QNB and QIB are excellent proxies for investing in Qatari economic growth and consumer spending in the emirate which boasts the world’s highest per capital income.

The three metrics that will be mission critical to successful investing in Qatari banking will be GDP growth, loan growth, NPL trends and EPS growth.

Qatar is the highest growth economy in MENA and benefits from capital inflows from Arab countries in the throes of civil war, revolution or sectarian schisms. Qatari government spending, 25-30 per cent of GDP, alone makes bank loan growth and EPS growth inevitable in an economy where credit penetration is still low, at two thirds of nominal GDP, far below the GCC average. Qatari banks offer the best risk reward calculus in MENA.

IN BOX

Why Qatar matters

Qatar owns 14 per cent of the world’s proven gas reserves

Its banks have 16 per cent capital adequacy ratio, 25 per cent bank earnings growth

Its budget surplus will be QR22bn in 2011-13

Qatari government spending amounts to 25-30 per cent of GDP