Islamic bank growth story continues

QATAR

By Amjad Hussein

With bank lending in Qatar set to grow around 20% by the end of 2014 (from the end of 2012) and the Qatari economy expected to grow by 6.5% in 2013, the government has taken steps to curb inflation and to avoid unsustainable debt levels. Government-related entities in Qatar will now be required to obtain approval from the Ministry of Finance prior to undertaking any borrowing activities.

The new government borrowing rule is expected to affect Qatari lenders, especially banks such as the Qatar National Bank (QNB) which extended around 66% of its loans to government-related institutions last year. Nonetheless, some analysts suggest that although Qatari lending will slow, it will remain one of the fastest rates of loan growth in the Middle East.

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Qatar's four Islamic banks, with a combined asset base of US$54.4 billion, now represent 25% of the country's banking system in terms of assets and are expected to continue to gain market share and become the third-largest in the Gulf region, after Saudi Arabia and the UAE. The boom in infrastructure projects and strong government backing, such as the Qatar Central Bank's ban on Islamic windows for conventional banks, have helped Qatar's Islamic banks outpace their conventional rivals in growth.

One such bank – Barwa Bank – posted an 85% leap in net profit for the first half of 2013 and is expected to continue see continued growth, driven by billions of dollars-worth of infrastructure projects in Qatar and healthy growth of its debt advisory and asset management business. The bank has invested heavily in fixed income, Sukuk origination in Islamic capital markets and foreign exchange and has seen its efforts pay off with major deals such its co-arrangement of a US$1 billion five-year Sukuk for multilateral financier IDB this year.

In anticipation of Basel III and the greater degree of state and Qatar Central Bank oversight, Qatari banks have also been raising funds. QNB sold US$1.5 billion in three and five-year bonds last month, while Doha Bank's shareholders have reportedly approved a perpetual redeemable bond offering (which may involve a Sukuk issuance) to raise QAR2 billion (US$548.86 million) in Tier I capital, possibly by the first quarter of 2014. The bond issue will reportedly be managed by an SPV and would be undertaken through private placements to Qatari institutions who will most likely be Qatar government-related entities or other institutional investors from Qatar.

Finally, Qatari telecommunications firm Ooredoo recently launched a US$1.25 billion, five-year Sukuk for general corporate purposes and re-financing its existing debts. This is Ooredoo's first Sukuk issue and will reportedly mature on the 3rd December 2018 with a profit rate of 3.04%. Investor roadshows cover Asia, the Middle East and Europe and the company has announced the hire of Singapore's DBS Bank, Deutsche Bank, HSBC, QInvest and QNB Capital to act as joint lead managers and book-runners.

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