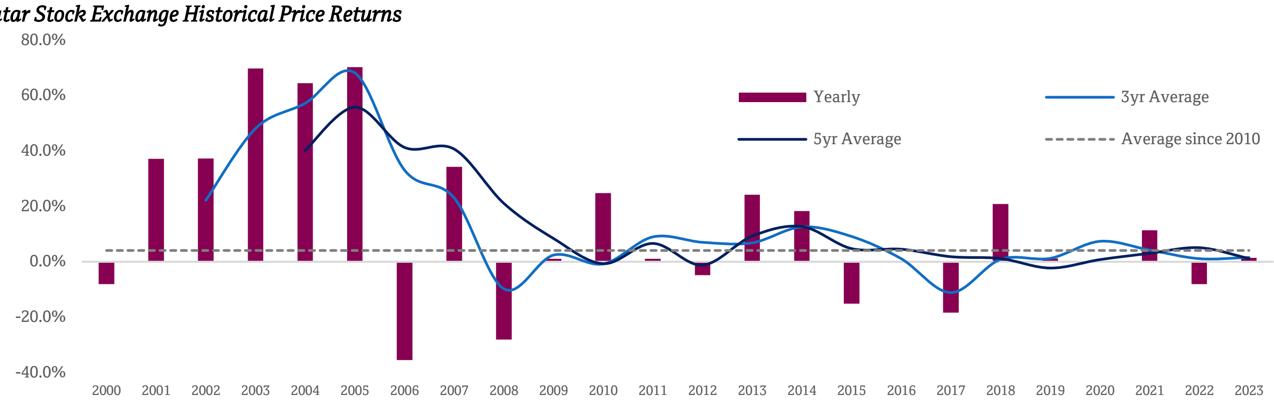
1Q2024 Earnings Preview: Earnings Set To Recover YoY/QoQ; 2024 Outlook Remains Constructive

Following a positive 4Q2023 for the QSE (aggregate earnings up 18.4% YoY), we expect 1Q2024 earnings to build on that momentum as we see stocks under coverage growing their bottom-lines 4.0%/11.5% YoY(ex. MEZA)/QoQ. The double-digit QoQ jump in earnings is driven by banks that are expected to book lower provisions. *We remain constructive on Qatari equities. The ramping up of the North Field project (plus the recently upgraded capacity expansion target and its downstream effects), with a significant portion of Qatar's expected annual LNG capacity increase already signed-off in long-term supply contracts and continued government efforts to grow/diversify the non-oil/gas economy, should provide a platform for broad-based earnings growth. In the near term, we note the non-oil/gas sector continues to expand with the PMIs during 1Q2024 averaging 50.7, similar to 4Q2023. The tourism sector remains a stand out as the country continues to attract record visitors.* ***While on the balance, probabilities have deteriorated, the market still expects a rate cut by the US Fed in June. That bodes well for global and local risk assets.*** *Meanwhile, the IMF sees global growth at 3.1% in 2024 (in-line with 3.1% in 2023) and 3.2% in 2025. Tight global monetary conditions, high indebtedness by governments, a persistently weak global manufacturing sector, China's property sector woes and heightened geopolitics weigh down on growth; this, however, is offset by continued disinflation, resilient labor markets, the rise of AI/tech and investments in energy transition. The global equity complex (ACWI) ended 1Q2024 on a strong note, rising 7.8% (vs +10.7% in 4Q2023), benefitting from currency dynamics/corporate reforms in Japan, the continuation of the AI/tech trade and expectations of synchronized global interest rate cuts.* ***Meanwhile, the QSE fell by 9.1% in 1Q2024 (vs 4Q2023: +5.6%; 1Q2023: -4.4%),*** *while the regional index increased by 1.0%, led by the DFM (+4.6%) and Tadawul (+3.6). Overall, international foreign institutions were $156mn net long Qatari equities in 1Q2024 vs. $17.5mn in 1Q2023; in 2023, foreign institutions were $72mn net long Qatari equities.* ***While we expect the market to remain volatile partly due to regional geopolitical conflicts, we continue to remain positive longer-term on the Qatari market.*** *We believe that near-term market dislocations should present attractive opportunities for long-term investors due to the following reasons:*

- **Despite some demand concerns due to the economic slowdown, oil/gas price dynamics remain reasonable** on the back of sanctions by Western countries on Russia, coupled with oil production cuts by OPEC+ and geopolitical developments. Oil prices have been improving over the past few weeks, which should translate to higher government revenue/surplus for Qatar, enabling flexibility in government spending and improving credit availability within the economy.
- **With the successful hosting of the World Cup, perceived as one of the best editions and putting Qatar in the global spotlight, we are of the view that pockets of the Qatari stock market should benefit from this success, specifically tourism. Qatar Tourism has since announced several unique events lined up this year;** notable events building on this success include the just-concluded Expo 2023 Doha, the AFC Asian Cup Qatar 2023 and the World Aquatics Championships Doha 2024; upcoming events include AFC U23 Asian Cup Qatar 2024. The impact has been immediate, with Qatar registering record visitor arrivals since the beginning of the year.
- Over the medium- to long-term, **the "upgraded" North Field Gas Expansion, a nascent but growing tourism/sporting sector and Qatar National Vision 2030 investments** will continue to be major growth drivers for local companies. The demand for Qatar's gas is expected to remain strong for the foreseeable future on the back of geopolitical developments, specifically in Europe, with demand for LNG expected to peak between mid-2030s and mid-2040s. Meanwhile, the government allocated $58.6bn (2023: $63.9bn) towards major projects in the Budget for the fiscal year 2024.
- On top of Qatar's macro strengths, **Qatari companies enjoy robust balance sheets backed by low leverage and decent RoEs, while Qatari banks stand out with their exceptional capital adequacy ratios, strong provision coverage and high profitability**. This should help as global monetary conditions remain tight.

Anchoring our overall convictions are Qatari valuations, looking cheaper historically and relative to peers, especially given that we see earnings recovering on the horizon. We stay bullish longer-term on Qatari equities given their defensive characteristics backed by their strong fundamentals. Moreover, from a technical viewpoint, with all three return measures (yearly, 3yr & 5yr) below trend, it is not unreasonable to expect the QSE is due a leg up in 2024. We note the market is already down 8.5% YTD so we would need to see a persistent recovery for the QSE to get back into the black for 2024.

Qatar Stock Exchange Historical Price Returns



Source: QSE, Bloomberg, QNB FS Research

1st Quarter 2024 Estimates

	EPS (QR)			Revenue (QR mn)		
	1Q2024e	YoY	QoQ	1Q2024e	YoY	QoQ
Ahli Bank (ABQK)	0.083	3.6%	-4.2%	377.09	5.4%	-17.4%
Baladna (BLDN)	0.025	139.5%	6.3%	304.63	19.7%	7.2%
Commercial Bank of Qatar (CBQK)	0.198	6.7%	24.3%	1,544.71	0.6%	15.8%
Doha Bank (DHBK)	0.079	17.8%	72.3%	697.53	9.3%	2.2%
Dukhan Bank (DUBK)	0.082	3.4%	119.7%	681.76	8.0%	-2.1%
Gulf International Services (GISS)	0.055	12.9%	N/M	925.09	10.6%	2.0%
Gulf Warehousing Co. (GWCS)	0.087	-17.5%	7.6%	375.02	-9.1%	0.6%
Industries Qatar (IQCD)	0.183	-5.1%	-22.4%	2,812.50	-18.9%	0.1%
Estithmar Holding (IGRD)	0.025	-14.7%	91.3%	729.77	-4.8%	5.8%
Masraf Al Rayan (MARK)	0.043	3.2%	85.5%	869.69	-1.2%	22.6%
Qatar Electricity & Water (QEWS)	0.405	11.3%	0.8%	705.76	7.3%	-3.8%
Qatar Gas & Transport (QGTS)	0.070	-1.3%	5.9%	1,092.36	2.7%	-1.7%
Qatar International Islamic Bank (QIIK)	0.222	6.5%	79.1%	483.66	2.0%	-0.9%
Qatar Islamic Bank (QIBK)	0.418	9.1%	-21.0%	1,631.64	7.7%	-6.9%
Qatar Navigation/Milaha (QNNS)	0.321	0.4%	127.4%	850.64	11.0%	0.0%
Vodafone Qatar (VFQS)	0.036	13.2%	2.1%	803.17	3.5%	-1.2%
Medicare Group (MCGS)	0.060	-9.5%	11.1%	125.90	-1.7%	-3.2%
Meeza (MEZA)	0.021	N/A	-3.0%	102.80	N/A	-8.0%
Total (Growth Ex. MEZA YoY)		4.0%	11.5%	15,113.7	-1.0%	1.2%

Source: QNB FS Research

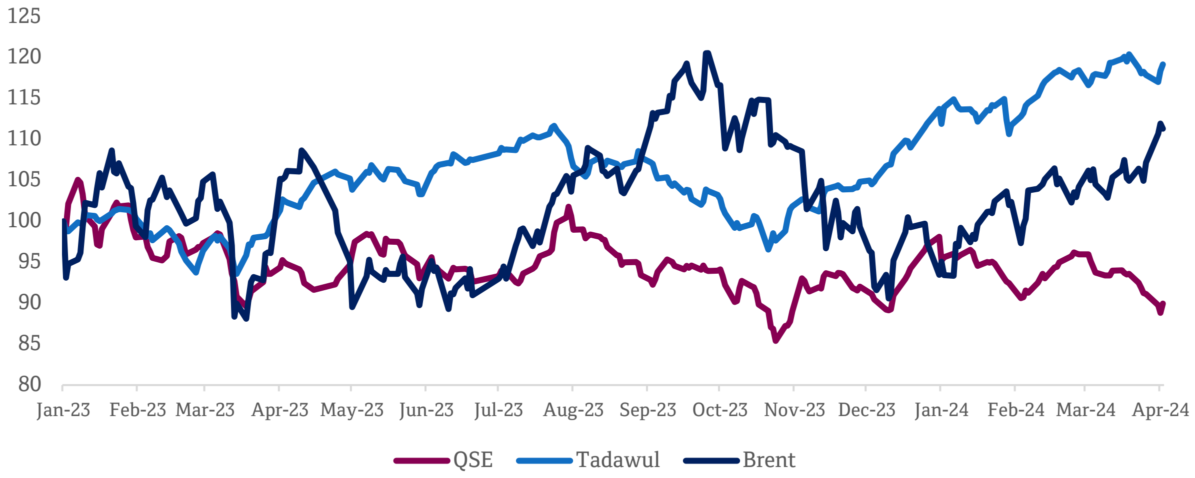
Highlights

- **Bank stocks' performance thus far has been lackluster due to the slowdown in the domestic economy post the FIFA World Cup, along with muted credit growth; credit growth for 2024 is expected to be around 6.0%.** We are of the view that booking lower CoR vs. 2023 should significantly aid the sector's bottom-line. We do not expect Qatari banks to significantly benefit from the North Field Expansion project, which we think is already priced in the market.
- **From a valuation perspective, Qatari banks are still relatively expensive to UAE and KSA peers on a P/B to RoE basis even after underperforming its regional peers; the banking index (QBNK) dropped by 10.5% YTD (5.5% 1-year return).** Qatari banks are trading at a P/B of 1.4x with a RoE of 12.2% vs. KSA (P/B: 1.5x, RoE: 13.5%), UAE (P/B: 1.2x, RoE: 15.5%) and Kuwait (P/B: 1.3x, RoE: 9.9%). ***We are of the view that a positive outlook on 2024 asset quality could serve as a catalyst as asset quality remains a concern for investors, especially for mid-sized banks as NPLs have spiked along with Stage 2 loans.***
- **We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience YoY earnings growth of 7.0%, mainly due to strong performance from Qatar Islamic Bank (QIBK) and base effect from Doha Bank (DHBK). Excluding DHBK, aggregate bottom-line is expected to rise by 6.3% YoY.** The YoY aggregate performance is due to a combination of costs containment, flat to lower provisions and modest changes in margins. Sequentially, earnings are estimated to surge by 19.4% (in-line with historical trends), mainly attributable to lower provisions & impairments.
  - **Aggregate growth in YoY earnings is attributed to QIBK,** which continues to enjoy robust fundamentals with strong double-digit RoE generation (1Q2024e annualized RoE: 16.0%), efficient cost management (1Q2024e C/I: 17.8%) and modest margin expansion.
  - **QIBK is modeled to grow its net profit by 9.1% YoY driven by some margin improvement, non-funded income and costs containment.** The name is trading at a 5-year low 2024e P/TB of 1.6x, which is attractive vs. its average of 2.2x and high of 3.3x.
  - **Commercial Bank of Qatar (CBQK)** is expected to grow its bottom-line by 6.7% on the back of flat margins, healthy non-funded income (we expect investment gains vs. investment losses in 1Q2023) and costs containment. **CBQK is trading at a discount to its 2024e book value due to investors' concerns on its CET-1 capital position (if the QCB implements changes to RWAs regarding open f/x positions as per enhanced Basel III, it would have a material impact on capital; CET1 ratio would decline by 264bps from 10.66% to 8.02% vs. QCB's minimum of 8.50%) and unresolved asset quality issues.** The stock is trading at 2024e P/TB of 0.8x.
  - **Sequentially, most banks under coverage will witness a surge in profitability due to lower provisions & impairments. Dukhan Bank (DUBK)** is expected to follow historical trends (booking significantly lower provisions in 1Q vs. 4Q); we pencil in flat NIMs and materially lower provisions & impairments in 1Q2024. **Masraf Al Rayan's (MARK)** earnings are estimated to significantly increase due to lower credit provisions & impairments along with some margin expansion.
- **We estimate a YoY marginal increase of 0.4% in the bottom-line of diversified non-financials under coverage as gains by Qatar Electricity & Water (QEWS), Baladna (BLDN) and Vodafone Qatar (VFQS) are largely offset by IQCD due to lower commodity prices.**
  - **On a sequential basis, combined earnings of diversified non-financials could increase by 3.2% primarily driven by QNNS and Gulf International Services (GISS) but partly offset by IQCD.**
  - **Despite posting a moderate YoY decline in 1Q2024 earnings, IQCD could report solid sequential growth on a normalized basis.** We expect IQCD to post a YoY net income decline of 5.1%, along with a sequential 22.4% downtick in earnings. However, excluding a QR550mn reversal of impairment in the steel segment posted in 4Q2023, earnings in 1Q2024 (on a normalized basis) should increase 26.2% QoQ. While overall prices should be generally weaker across the board on a YoY basis, PE prices should strengthen sequentially offsetting a moderate QoQ decline in urea prices. Volumes should follow a similar trend, down YoY but up QoQ as 4Q2023 faced maintenance-related shutdowns in QAFCO-5 and in the fuel additives segment. Digging into segments, in fertilizers, urea prices have eased around 5% from the average prices seen during 4Q2023 despite strengthening as the first quarter progressed

(early indications are that prices declined in April, however); urea prices should also face moderate YoY weakness. Sales volumes, while modeled lower YoY should recover from 4Q2023's shutdown-related lows, in our view. We expect 1Q2024 fertilizer EBITDA margins to jump to almost 45% from 35% in 1Q2023 (which faced higher inventory costs) but soften modestly relative to 4Q2023's 46%. On the PE/FA front, while yearly comparisons should be weak, QoQ prices have shown decent improvement (led by LDPE and MTBE); sequential volume comparisons should look decent given maintenance-related shutdowns in QAFAC in 4Q2023 despite the 35-40 days in expected shutdowns in QAPCO in 1Q2024. Consequently, we expect segment earnings to decline YoY but improve sequentially. Finally in the steel segment, rebar prices while down YoY remain stable QoQ. Sales volumes should benefit from the October Al Qataria acquisition offset by an expected shutdown in January 2024. We expect segment earnings to decline YoY but improve sequentially on a normalized basis (excluding the previously mentioned provision reversal in 4Q2023).

- **Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks and investment income/capital gains (losses). Volatile oil & gas prices & geo-political tensions remain major risk factors to regional equities and have a direct detrimental impact on stocks under coverage.

QSE Price Performance Vs. Brent and KSA [Rebased to 100]



Source: Bloomberg, QNB FS Research

Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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