

## 4Q2022 Earnings Preview: Strong Start Out of The Gate for Qatari Equities in 2023

We expect normalized 4Q2022 earnings for Qatari stocks to edge lower by 0.7% YoY (ex. IGRD) and decline 21.2% QoQ, while FY2022 weighted dividend per share should increase 7.5% YoY. The decline in normalized earnings mostly stems from IQCD's skewed base effects; otherwise we see strong broad-based improved operating performance buttressed by the expanding economy amid volatile (but still strong) oil & gas prices and World Cup-related activity. 2022 was an extraordinary year with global stock markets bearing the brunt of global central banks' hiking of interest rates and retrenchment of quantitative easing as they attempted to fight multi-decade high inflation levels. Like most markets, Qatari equities have not been spared: the QSE Index appreciated as much as 24.7% (April 11, 2022), but then gave up all gains in 2H as hydrocarbons prices softened and global central banks ratcheted up their hawkishness. The QSE Index finished 2022 down 8.1%, which was behind regional peers but considerably better relative to global equities. **However, the QSE has powered ahead of its regional peers in the first ten days of 2023, rising 7.0%.** Overall, foreign institutions were \$4.36bn net buyers of Qatari equities in 2022 despite December seeing sustained selling pressure, becoming the only month in 2022 to record net selling (~\$200mn) by foreign institutions. **While the 4Q2022 reporting season should generally be perceived positively, it is unlikely to drive near-term equity performance as global monetary conditions and recession fears play out and dominate sentiment.** Although we expect the market to remain volatile, we continue to remain positive longer-term on the Qatari market due to the following reasons: **(1) Robust (but volatile) oil and gas prices:** sanctions by Western countries on Russia are still causing global oil and gas supply concerns, despite the Eurozone, most at risk, remaining fortuitously resilient than initially feared. As China unwinds its zero-COVID strategy earlier than expected, demand for black gold looks well-anchored given limited investment in new supply. However, the recent EU price cap on gas prices remains an overhang on the commodity. Overall, strong gas and oil prices should lead to higher government revenue/surplus for Qatar, enable flexibility in government expenditures and improve overall money supply (liquidity). **(2) Furthermore, with the recent successful hosting of the World Cup, perceived as one of the best editions and putting Qatar on the global business map, we opine that the Qatari stock market should benefit from this success, a view also supported by empirical data.** We note that host nations' stock markets performance 12 months after the WC event are positive, outperforming the MSCI World Index by an attractive 4.0 percentage points. For a deep-dive into the empirical evidence related to the previous seven (excluding outlier Brazil) FIFA World Cup host nations' equity markets performance, please refer to our [Strategy Alert](#). **(3) Over the medium- to long-term, the North Field Expansion, a nascent but growing tourism sector and 2030 Qatar National Vision investments will continue to be major growth drivers for local companies.** **(4) On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, while Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. We cannot rule out near-term volatility but stay bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals. The QSE's aggregate valuation metrics look attractive considering we do not see any marked near-term earnings recession; even as the economy moderates, we note the QSE's current 12.7x PE is lower than its historical median of 13.4x. Moreover, from a technical viewpoint, the QSE has not experienced two consecutive down years since 2001 – it has, on average, returned 19.6% the year following a negative annual performance.**

### Qatar Stock Exchange Historical Price Returns



Source: Bloomberg, QNB FS Research

### Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience YoY earnings growth of 56.4%, mainly due to healthy revenue, cost containment, lower provisions and base effects attributed to Doha Bank (DHBK) and Masraf Al Rayan (MARK). Excluding DHBK and MARK, earnings are still expected to have robust growth of 23.1%. Aggregate growth in earnings is attributed to Commercial Bank of Qatar (which has been reporting strong earnings as management is delivering on its objectives and guidance), DHBK and MARK. Further, on a QoQ basis, we expect a decline of 27.9% driven by higher provisions & impairments in 4Q vs. 3Q (in-line with banking norms). On a YoY basis, CBQK should grow its net income by 143.9% YoY because of healthy revenue combined with a sharp drop in provisions & impairments. We estimate 4Q2022 provisions of QR694mn vs. QR850mn in 4Q2021. The stock remains attractive with undemanding multiples. CBQK is trading at a 2023 P/TB of 1.0x based on our estimates but lacks short-term catalysts. The stock offers a dividend yield of 3.6% and a payout ratio of 35%. DHBK should turn a profit in 4Q2022 vs. losses in both 4Q2021 and 4Q2020 as the bank reported the largest provisions & impairments in its operating history in 4Q2021. We pencil in lower provisions & impairments in 4Q2022 as we are of the view that provisions, going forward, should steadily normalize. The name is trading at a 58% discount to book value, which appears attractive. Moreover, DHBK offers a decent dividend yield of 4.9% (highest among our banks under coverage) and a payout ratio of 40%. **While we are of the view that 4Q2022 earnings for banks are unlikely to be significant drivers for their stock price performance, management commentary on expected provisioning for FY2023 and possible initial color on outlooks for their specific banks/the sector, could come into focus. Moreover, expectations concerning the upcoming dividend season usually help drive equity price performance.**

- We estimate a YoY decline of 23.0% in the bottom-line of diversified non-financials under coverage (excluding Estithmar Holding or IGRD, as historical quarterly figures are not available) mainly due to lower commodity prices and earnings decline shown by Industries Qatar (IQCD). On a sequential basis, combined earnings of diversified non-financials could recede by 15.0% due to IQCD; on a normalized basis, excluding IQCD, earnings could fall 20.1% due to Qatar Electricity & Water (QEWS) and IGRD. In 4Q2022, IQCD should post both YoY and QoQ net income declines of 43.6% and 9.9%, respectively. The fourth quarter should be the weakest quarter of 2022 with largely flattish volumes (except in steel, which should face soft demand given the World Cup) being more than offset by sequentially declining prices, generally across the board; PE prices are down 5-10% QoQ, while urea prices have fallen in excess of 5% sequentially and steel rebar realizations should decline roughly 10% vs. 3Q2022. We estimate around 40% in 4Q2022 fertilizer EBITDA margin vs. 35% in 3Q2022 and 46% in 2Q2022. IQCD's gas feedstock costs for fertilizers (which are based on cumulative YTD urea prices) had ratcheted up in 3Q2022 but should decline in the fourth quarter as urea prices softened considerably in the months of November/December. **For FY2022, we expect QR1.41 in EPS, up 5.1% from QR1.34 in 2021. We also expect IQCD to declare QR1.10 in DPS for 2022 vs. QR1.00 in 2021, which translates into an attractive yield of 7.9%.**
- **Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks & investment income/capital gains (losses). Volatile o&g prices & geo-political tensions remain as risk factors to regional equities.

#### 4<sup>th</sup> Quarter 2022 Estimates

	EPS (QR)			Revenue (QR mn)		
	4Q2022e	YoY	QoQ	4Q2022e	YoY	QoQ
Ahli Bank (ABQK)	0.085	15.2%	-7.8%	339.38	7.1%	-20.8%
Commercial Bank of Qatar (CBQK)	0.104	143.9%	-45.3%	1,483.62	6.4%	8.2%
Doha Bank (DHBK)	0.022	N/M	-74.9%	802.08	5.0%	8.4%
Gulf International Services (GISS)	0.035	397.2%	-34.7%	950.20	12.5%	2.5%
Gulf Warehousing Co. (GWCS)	0.115	11.2%	13.1%	438.23	23.1%	12.2%
Industries Qatar (IQCD)	0.240	-43.6%	-9.9%	3,967.04	-16.0%	-5.8%
Estithmar Holding (IGRD)	0.003	N/A	-89.7%	874.45	1.0%	-26.0%
Masraf Al Rayan (MARK)	0.018	N/M	-51.1%	1,161.33	26.2%	6.8%
Qatar Electricity & Water (QEWS)	0.275	3.5%	-46.6%	628.37	-1.0%	-11.6%
Qatar Gas & Transport (QGTS)	0.071	11.9%	-3.2%	1,094.51	3.6%	0.3%
Qatar International Islamic Bank (QIIB)	0.114	5.8%	-47.7%	423.34	-1.1%	-10.6%
Qatar Islamic Bank (QIBK)	0.467	7.1%	6.6%	1,580.68	9.2%	0.2%
Qatar Navigation/Milaha (QNNS)	0.234	279.8%	26.5%	758.01	1.2%	-3.9%
Vodafone Qatar (VFQS)	0.032	7.4%	15.5%	823.26	5.5%	11.2%
Medicare Group (MCGS)	0.099	9.2%	35.1%	132.14	4.5%	15.8%
<b>Total (Excluding IGRD EPS on a YoY Basis)</b>		<b>-0.7%</b>	<b>-21.2%</b>	<b>15,456.6</b>	<b>0.3%</b>	<b>-4.0%</b>

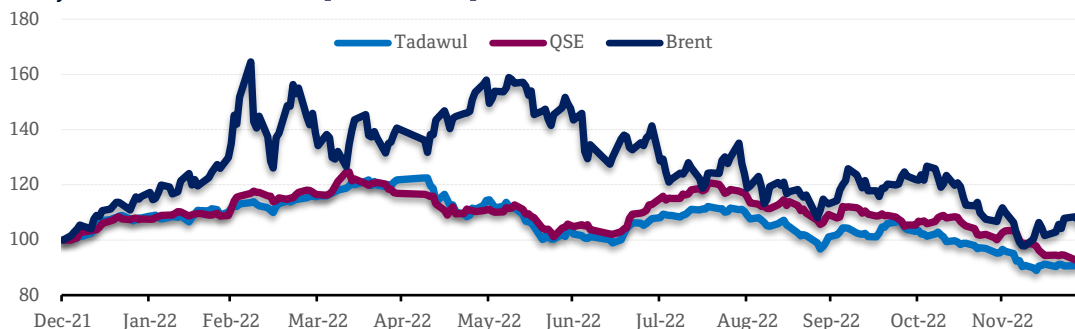
Source: QNB FS Research

#### 2022 Estimates

	DPS (QR)				EPS (QR)			Revenue (QR mn)			Net Income (QR mn)		
	FY2021	FY2022	YoY	Yield	FY2021	FY2022	YoY	FY2021	FY2022e	YoY	FY2021	FY2022e	YoY
Ahli Bank (ABQK)	0.150	0.150	0.0%	3.7%	0.264	0.283	7.0%	1,347.35	1,427.42	5.9%	673.79	721.22	7.0%
Commercial Bank of Qatar (CBQK)	0.160	0.200	25.0%	3.6%	0.490	0.566	15.6%	5,229.96	5,598.08	7.0%	1,982.70	2,292.22	15.6%
Doha Bank (DHBK)	0.075	0.100	33.3%	4.9%	0.158	0.251	59.0%	3,107.22	3,079.75	-0.9%	489.68	778.67	59.0%
Gulf International Services (GISS)	0.000	0.000	N/M	0.0%	0.029	0.178	N/M	3,091.05	3,615.61	17.0%	54.18	330.42	509.8%
Gulf Warehousing Co. (GWCS)	0.100	0.100	0.0%	2.5%	0.384	0.412	7.3%	1,303.84	1,547.93	18.7%	224.94	241.39	7.3%
Industries Qatar (IQCD)	1.000	1.100	10.0%	7.9%	1.337	1.405	5.1%	14,169.12	18,590.81	31.2%	8,088.98	8,500.43	5.1%
Estithmar Holding (IGRD)	0.000	0.000	N/M	0.0%	0.100	N/A	N/A	3,202.30	3,909.21	22.1%		310.36	N/A
Masraf Al Rayan (MARK)	0.170	0.150	-11.8%	4.4%	0.175	0.155	-11.6%	3,628.33	4,504.53	24.1%	1,626.53	1,437.11	-11.6%
Qatar Electricity & Water (QEWS)	0.800	0.800	0.0%	4.5%	1.334	1.411	5.7%	2,474.51	2,539.80	2.6%	1,467.87	1,552.142	5.7%
Qatar Gas & Transport (QGTS)	0.120	0.130	8.3%	3.4%	0.244	0.276	12.9%	4,083.68	4,295.39	5.2%	1,353.47	1,527.50	12.9%
Qatar International Islamic Bank (QIIB)	0.375	0.400	6.7%	3.8%	0.575	0.621	8.0%	1,741.72	1,743.21	0.1%	870.01	939.84	8.0%
Qatar Islamic Bank (QIBK)	0.575	0.600	4.3%	2.9%	1.384	1.548	11.9%	5,989.66	6,374.02	6.4%	3,270.08	3,658.22	11.9%
Qatar Navigation/Milaha (QNNS)	0.300	0.350	16.7%	3.5%	0.637	0.982	54.1%	2,783.87	3,320.85	19.3%	724.15	1,115.94	54.1%
Vodafone Qatar (VFQS)	0.060	0.080	33.3%	4.9%	0.077	0.111	43.8%	2,525.92	2,999.37	18.7%	327.40	470.80	43.8%
Medicare Group (MCGS)	0.250	0.263	5.2%	4.1%	0.281	0.292	4.0%	481.75	491.80	2.1%	79.06	82.21	4.0%
<b>Total (Excluding IGRD EPS on a YoY Basis)</b>	<b>4.135</b>	<b>4.423</b>	<b>7.5%</b>	<b>4.8%</b>			<b>11.4%</b>	<b>55,160.3</b>	<b>64,037.8</b>	<b>16.1%</b>	<b>21,232.8</b>	<b>23,648.1</b>	<b>11.4%</b>

Source: Bloomberg, QNB FS Research

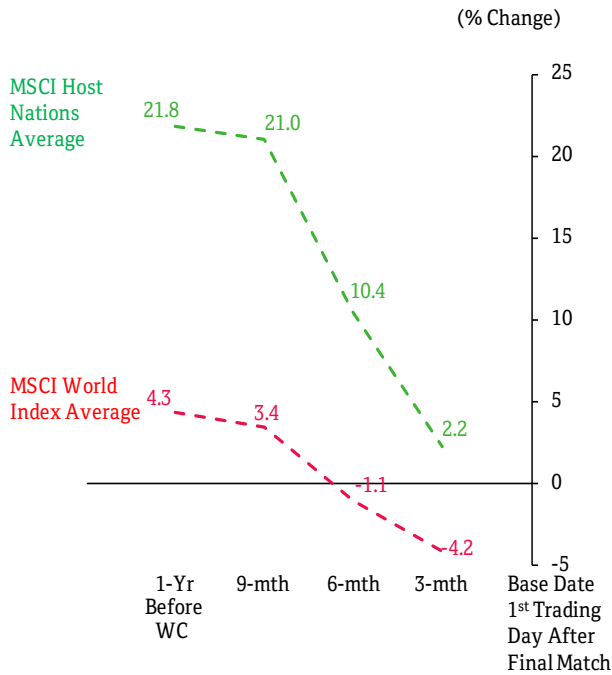
#### QSE Price Performance Vs. Brent and KSA [Rebased to 100]



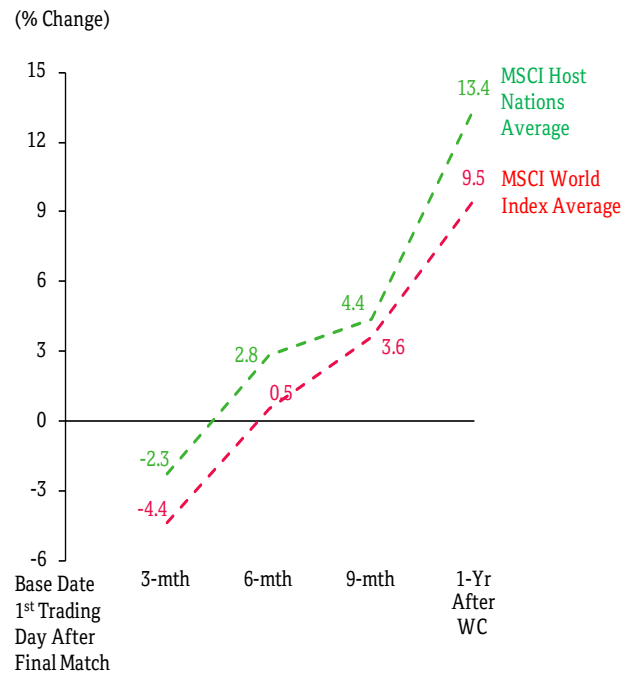
Source: Bloomberg, QNB FS Research

- **Empirical evidence suggests a positive spin-off on the Qatar Stock Exchange from the FIFA World Cup.** While markets tend to fall in the first three months immediately after the WC (which has not been the case thus far in Qatar), returns 12 months after the event are positive, outperforming the MSCI World Index by an attractive 4.0 percentage points.

**Host Nations Stock Markets Performance (Quarterly Leading Up to FIFA World Cup)**



**Host Nations Stock Markets Performance (Quarterly After FIFA World Cup)**



Source: Bloomberg, Reuters Datastream, QNB FS Research

- **Historically, equity markets of FIFA World Cup host countries have, on average, outperformed peers:** Host nations' (previous seven FIFA World Cups, excluding outlier Brazil) average MSCI country stock market index grew by 21.8% in the year leading up to the World Cup and by 13.4% in the year after, compared to the MSCI World Index average growth of 4.3% and 9.5%, respectively. Further, a more short-term view of host nations' equity indices show a strong average growth of 10.6 percentage points (pp) and 8.2 pp between six-to-nine months and three-six months period, respectively, prior to the FIFA World Cup, while a robust average growth of 9.0 pp is seen during the nine-twelve-month period after the FIFA World Cup. In our case, the positive boost to Qatari equities by the FIFA World Cup, ceteris paribus, is primarily from construction, real estate, tourism and retail spending that trickles down to the exchange-listed companies and the broader economy as a whole. Specifically, Qatar's objective was to use the event as a springboard to showcase its offerings and hopefully boost international tourist arrivals from 2.1 million in 2019 to 6 million per year by 2030.

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

### Contacts

QNB Financial Services Co. W.L.L.  
 Contact Center: (+974) 4476 6666  
[info@qnbfs.com.qa](mailto:info@qnbfs.com.qa)  
 Doha, Qatar

Saugata Sarkar, CFA, CAIA  
 Vice President - Research  
[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

Shahan Keushgerian  
 Assistant Vice President -  
 Research  
[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

Phibion Makuwerere, CFA  
 Assistant Vice President -  
 Research  
[phibion.makuwerere@qnbfs.com.qa](mailto:phibion.makuwerere@qnbfs.com.qa)

**Disclaimer and Copyright Notice:** This publication has been prepared by QNB Financial Services Co. WLL (“QNB FS”) a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. (“QNB”). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS.

**COPYRIGHT:** No part of this document may be reproduced without the explicit written permission of QNB FS.