

4Q2020 Earnings: Lifting of Blockade & Further Easing of COVID-19 Restrictions to Drive Near-Term Performance

We expect Qatari stocks under coverage to exhibit a sequential recovery in earnings on a normalized (excluding outliers such as DHBK, GISS & BLDN) basis in 4Q2020. Normalized earnings should increase by 7.1% QoQ in aggregate mainly due to recovery of non-financial stocks helped by the progressive lifting of coronavirus counter-measures since July, coupled with a further recovery in commodity prices. IQCD, CBQK and QAMCO should make notable positive contributions to the sequential net income performance of stocks under our coverage. We continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals and reasonable valuation. Moreover, the lifting of the blockade is a positive for Qatar and the region. While Qatari equities faced declines initially in 2017 due to the blockade, in time it became clear that the blockade did not have a noteworthy impact on Qatar's economic life. Consequently, Qatari equities staged a strong comeback in 2018. Infrastructure projects related to the FIFA 2022 World Cup and the 2030 Qatar National Vision investments have continued to be major growth drivers for local companies during 2017-2020. As of last night's close, the QE Index was trading at 10,842.99, 9.3% above its pre-blockade level. On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, whereas Qatari banks stand out with their exceptional capital adequacy ratios, low NPLs, strong provision coverage, and high profitability. In case of any unforeseen volatility, the government's QR10bn stock purchase program creates an important safety net for Qatari stocks. With coronavirus continuing to impact the real economy (but to a lesser extent), global emerging market equities as well as Qatari stocks could remain volatile. On the other hand, we still believe this market will continue to outperform on a relative basis. We do note that the COVID-19 pandemic and global oil/commodity price volatility remain as major risk factors to our estimates and will likely impact directly on the financial results of the stocks under our coverage.

Highlights

- QSE equities offer attractive dividend yields. MARK offers one of the best yields at 4.9%, followed by QIHK (4.5%), QEWS (4.2%) and VFQS (4.2%).
- We estimate banks under coverage, ex-QNB Group (QNBK), to experience flat earnings YoY largely attributed to CBQK as the bank is expected to report a large YoY decline in earnings. Excluding CBQK, aggregate bank earnings could increase by 8.9% YoY. Moreover, we expect a sequential decrease of 12.5% (-2.7% excluding DHBK, which is expected to book significant provisions) as banks book higher provisions in the 4th quarter. For banks under coverage, we expect lower provisions & impairments and softer revenue on a YoY basis. CBQK is expected to contribute negatively to the YoY profitability performance based on our figures. Weak revenue and loss from an associate are expected to dent earnings on a YoY basis. We estimate a 31.7% YoY drop in CBQK's bottom-line, resulting from overall weak revenue and loss from its UAE-based associate UAB. Moreover, we foresee further impairments related to UAB in 4Q2020. Having said this, we are of the view that the impairment exercise of UAB will be completed in FY2020. The sequential increase in CBQK's earnings is due to stronger revenue and lower credit provisions. CBQK's management has been delivering on its 5-year strategy objectives, which we think is positive. The stock remains inexpensive and we maintain our Outperform rating and target price of QR5.006. Regarding DHBK, stronger margins along with lower provisions & impairments is estimated to positively impact YoY performance as the bank posted a loss of QR64.6mn in 4Q2019. However, provisions are expected to remain elevated. Sequentially, we expect DHBK's 4Q2020 net income to drop to QR14.9mn as a result of large provisions & impairments. We are of the view that DHBK will start with a clean slate in 2021 after booking record high provisions in 2019 and 2020.
- We estimate a YoY drop of 8.1% (ex. BLDN) in the bottom-line of diversified non-financials under coverage due to GISS and Woqod or QFLS (excluding GISS, QFLS and BLDN on a normalized basis, earnings could increase 11.3% YoY). On a sequential basis, aggregate earnings (ex. BLDN) could increase 10.1% (excluding GISS & BLDN, earnings could grow 21.5% QoQ on a normalized basis). Based on our assumptions, IQCD is the primary driver behind the gains in aggregate net income on a YoY and sequential basis. IQCD's numbers benefit from the company's acquisition of its remaining 25% stake in QAFCO. IQCD should also record strong pricing across the board for PE, steel and fertilizers. Furthermore, we expect 2020 DPS of QR0.35 vs. QR0.40 in 2019. We maintain our Accumulate rating on IQCD with a QR11.50 price target. We think investors should perceive a moderate cut in dividends positively. Longer-term, similar to the QAFCO deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could act as positive catalyst. QAMCO also contributes nicely to YoY and QoQ growth. We expect QAMCO to benefit from higher average primary aluminum prices in 4Q2020, rising 12.2% QoQ and 9.4% YoY to \$1,925/ton. Furthermore, current primary aluminum prices are at \$2,003, above their 4Q average, which could imply that QAMCO's top- and bottom-line growth could persist into 1Q2021. We rate QAMCO a Market Perform with a QR0.98 price target.
- Risks: Estimates can be impacted by one-offs, provisions for banks & investment income/capital gains (losses). Volatile oil prices, the economic fallout of the global pandemic & geo-political tensions remain as substantial risk factors to regional equities and may have a direct impact on stocks under coverage.

4th Quarter 2020 Estimates

	EPS (QR)			Revenue (QR mn)			DPS	
	4Q2020e	YoY	QoQ	4Q2020e	YoY	QoQ	FY2020e	Yield
Aamal (AHCS)	0.012	20.7%	N/M	356.09	2.1%	0.0%	0.023	2.7%
Ahli Bank (ABQK)	0.055	1.8%	-35.0%	291.83	0.8%	-8.6%	0.100	2.9%
Al Khalij Commercial Bank (KCBK)	0.044	6.3%	-13.2%	343.37	22.1%	-11.9%	0.075	3.4%
Baladna (BLDN)	0.024	N/A	57.9%	200.31	N/A	9.9%	0.042	2.4%
Commercial Bank of Qatar (CBQK)	0.086	-31.7%	37.9%	926.21	-31.6%	9.2%	0.100	2.3%
Doha Bank (DHBK)	0.005	N/M	-94.5%	757.89	7.8%	-3.9%	0.000	0.0%
Gulf International Services (GISS)	(0.099)	N/M	N/M	702.93	-9.0%	-0.6%	0.000	0.0%
Gulf Warehousing Co. (GWCS)	0.113	-1.8%	8.0%	315.90	3.0%	-3.5%	0.200	3.8%
Industries Qatar (IQCD)	0.129	45.6%	68.1%	1,762.12	27.8%	10.8%	0.350	3.1%
Investment Holding Group (IGRD)	0.012	-50.4%	-10.2%	60.25	-50.0%	-30.9%	0.000	0.0%
Masraf Al Rayan (MARK)	0.074	5.4%	-4.4%	799.18	10.0%	-6.4%	0.225	4.9%
Medicare Group (MCGS)	0.097	-18.5%	40.5%	131.20	-2.5%	-1.0%	0.264	2.9%
Qatar Aluminium Manufacturing Co. (QAMC)	0.009	152.9%	N/M	566.05	-5.5%	16.6%	0.011	1.1%
Qatar Electricity & Water (QEWS)	0.290	-31.1%	-14.5%	616.47	2.1%	-11.4%	0.775	4.2%
Qatar Fuel (QFLS)	0.204	-41.1%	27.9%	Excluded	N/M	N/M	0.444	2.3%
Qatar Gas & Transport (QGTS)	0.055	10.7%	-13.3%	1,004.54	-10.9%	-2.2%	0.110	3.2%
Qatar International Islamic Bank (QIHK)	0.122	23.2%	-32.1%	370.70	0.9%	-17.5%	0.425	4.5%
Qatar Islamic Bank (QIBK)	0.356	0.0%	6.4%	1,342.00	4.3%	-4.3%	0.525	3.0%
Vodafone Qatar (VFQS)	0.012	39.2%	7.5%	604.12	5.7%	12.0%	0.060	4.2%
Widam Food (WDAM)	0.101	25.1%	23.1%	145.70	15.9%	-10.7%	0.314	5.0%
Total (excl. DHBK, BLDN and GISS from EPS and QFLS from Revenue)		-1.3%	7.1%	11,096.6	0.0%	-0.6%		3.1%
Dividend Yield (excl. DHBK and GISS)								3.0%

Source: QNB FS Research; Note: EPS based on current number of shares

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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