

Ahli Bank (ABQK)

Recommendation	Reduce	Risk Rating	R-4
Share Price	QR4.000	Target Price	QR3.283
Implied Upside	(17.9%)	Old Price Target	QR3.196

Multiples Remain Elevated; Stay Reduce

After broadly in-line 1Q2023 results, we increase our earnings by a CAGR of 9.8% during 2022-2027e (vs. 7.0% previously) on margin expansion, cost containment and normalization of CoR. Moreover, we increase our target price from QR3.196/sh. to QR3.283, but maintain our Reduce rating. ABQK trades at a 1.4x P/B and a 13.0x P/E based on our 2023 estimates. Moreover, the stock trades at a PEG of 1.3x (which is relatively expensive) based on our 5-year earnings CAGR of 9.8%.

Highlights

- **ABQK reported a net profit of QR204.6mn in 1Q2023 (broadly in-line with our estimate of QR196.3mn; 4.3% variation), growing by 6.9% YoY (flat sequentially).** The YoY increase in earnings was due to a large expansion in NIMs. NIMs expanded by ~52bps to 2.74%. Hence, net interest income increased by 29.4% YoY (-17.1% QoQ). However, the surge in credit provisions capped further gains in the bottom-line. Our 9.8% earnings CAGR (2022-27e) is based on our assumption of net operating income picking up, along with a normalization in CoR.
- **Efficiency ratio continues to remain healthy, with positive JAWs.** C/I ratio improved to 24.3% in 1Q2023 vs. 26.1% in 1Q2022 (25.6%/25.0% in FY2020 & 2021 and 22.4% in 2022). We foresee a further improvement in the efficiency ratio, penciling in 20.1% (2023e), 19.2% (2024e) and 18.1% (2025e). This is supported by an uptick in revenue growth while opex remains contained.
- **Asset quality improved most likely due to reclassification of Stage 3 loans to Stage 2 and we do not expect further pressure going forward.** NPL ratio declined from 3.74% in FY2021 to 2.55% in 2022 and 2.40% in 1Q2023. Moreover, NPLs (QR927.9mn) remained stable at the end of 1Q2023. The coverage ratio of Stage 3 loans also improved from 60% in FY2021 to 87% at the end of 1Q2023 (2022: 87%). We are of the view that management will continue on increasing provisioning levels until the coverage of Stage 3 loans reaches 100%.
- **CoR is penciled to remain elevated and we do not foresee it at the historical 44bps levels again over our forecast period.** ABQK generated a CoR (annualized) of 71bps in 1Q2023 vs. 54bps in 1Q2022 (44bps in 2018/2019, 70bps in 2020, 87bps in 2021 and 110bps in 2022). We expect CoR to normalize around the 130bps level vs. 70bps previously.
- **Net loans are estimated to grow by a CAGR of 5.6% (2022-27e) vs. 6.0% previously; loan growth is expected from the corporate segment.** ABQK's net loans expanded by 7.9% at the end of 1Q2023 to QR36.7bn. Moreover, deposits followed suit and grew by 5.9% during the same period. LDR (based on stable source of funds) came in at 98%. We expect the LDR to steadily decrease to 94% by 2027e.
- **Capitalization is strong and we expect it to remain as such.** ABQK ended 1Q2023 with CET1 & Tier-1 ratios of 16.6%/19.4%, respectively. We expect capitalization to remain at these levels in 2023 and the coming three-to-five years.

Catalysts

- 1) Improvement in the stock's trading liquidity.

Recommendation, Valuation and Risks

- **Recommendation and valuation: we increase our target price to QR3.283/sh. but retain our Reduce rating.** ABQK trades at FY2023e P/B and P/E of 1.4x and 13.0x, respectively.
- **Risks:** 1) Oil price volatility and 2) stale stock price due to lack of liquidity.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.278	0.307	0.334	0.367
Growth (%)	5.2	10.4	8.8	10.1
P/E (x)	14.4	13.0	12.0	0.0
BVPS (QR)	2.7	2.8	2.9	3.1
P/B (x)	1.5	1.4	1.4	1.3
RoE (%)	10.8	11.4	11.9	12.5
DPS (QR)	0.200	0.200	0.225	0.250
Dividend Yield (%)	5.0	5.0	5.6	6.3

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	4.000
Dividend Yield (%)	5.0
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Svc
52wk High/52wk Low (QR)	4.42/3.85
3-m Average Volume ('000)	39.3
Mkt. Cap. (\$ bn/QR bn)	2.8/10.2
Shares Outstanding (mn)	2,551.15
FO Limit* (%)	49.0
Current FO* (%)	0.0
1-Year Total Return (%)	4.9
Fiscal Year End	December 31

Source: Bloomberg (as of June 01, 2023), *Qatar Exchange (as of June 01, 2023); Note: FO is foreign ownership

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Change in Estimates

	2023e			2024e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,128	1,474	30.6	1,261	1,592	26.2
Non-interest income	312	203	-34.8	319	262	-17.7
Total Revenue	1,440	1,677	16.5	1,580	1,854	17.4
Opex	336	336	0.1	355	356	0.2
Net Operating Income	1,104	1,341	21.4	1,225	1,498	22.3
Provisions & Impairments	272	493	81.4	301	581	93.0
Net Income (Headline)	832	847	1.8	924	918	-0.7
Net Income (Attributable)	767	782	2.0	857	851	-0.7

Source: QNB FS Research

Valuation

We value ABQK using the Residual Income Model (RI) based on a fundamental P/B:

We derive ABQK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model: $P/B = (RoE-g)/(Ke-g)$. This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 1.3x.**

We add Qatar's 10-year CDS rate of 0.74% to the 10-year US government bond yield (3.5%) to arrive at a risk free rate of 4.2%. We factor in an adjusted beta of 1.0x. Finally, we add a local equity risk premium of 8.50% (high equity risk premium due to the illiquid nature of the stock) to arrive at a Ke of 12.74%. However, we use a Ke of 10.0% for the terminal year.

Valuation Methodologies

Fundamental P/B	
Sustainable RoE (%)	12.5
Terminal Cost of Equity (%)	10.00
Terminal Growth Rate (%)	5.0
Fundamental P/B	1.3x

RI Based on Fundamental P/B	
Beginning Tangible BVPS (2023) (QR)	2.698
Present Value of Interim Residuals (QR)	0.063
Present Value of Terminal Value (QR)	0.522
Current Market Price (QR)	4.000
12-Month Target Price (QR)	3.283
Upside/(Downside) Potential (%)	(17.9)

Source: QNB FS Research

Forecast

	2023e	2024e	2025e	2026e	2027e	2028e	Terminal
Beginning BVPS	2.698	2.805	2.938	3.081	3.216	3.410	3.649
EPS Forecast	0.307	0.334	0.367	0.385	0.444	0.489	0.513
DPS Forecast	0.200	0.200	0.225	0.250	0.250	0.250	0.250
Adjustment	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Forecast BVPS	2.805	2.938	3.081	3.216	3.410	3.649	3.912
Equity Charge	0.344	0.357	0.374	0.392	0.410	0.434	0.365
Residual Income	-0.037	-0.024	-0.007	-0.007	0.034	0.054	0.148
Terminal Value (Based on Fundamental P/B)							0.98
Discounted Interim Residuals	-0.035	-0.020	-0.005	-0.005	0.020	0.028	0.079
Discounted Terminal Value							0.522

Source: QNB FS Research

Detailed Financial Statements

(In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	1,277	1,474	1,592	1,753	1,909
Fees & Commissions	167	161	172	177	174
FX Income	60	48	55	60	73
Other Income	(5)	(5)	35	45	44
Non-Interest Income	222	203	262	282	292
Total Revenue	1,498	1,677	1,854	2,035	2,201
Operating Expenses	(336)	(336)	(356)	(368)	(395)
Net Operating Income	1,162	1,341	1,498	1,667	1,806
Net Provisions & Impairments	(390)	(493)	(581)	(661)	(753)
Net Profit (Reported)	772	847	918	1,006	1,053
Interest Expense on AT1 Perp. Security	(44)	(44)	(44)	(44)	(44)
Social & Sports Contribution Fund	(19)	(21)	(23)	(25)	(26)
Net Profit (Attributable)	709	782	851	937	983

Source: Company data, QNB FS Research

(In QR mn)	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	1,807	1,862	2,159	2,464	2,260
Interbank Loans	3,768	3,760	4,312	3,694	4,297
Net Investments	8,339	8,716	9,747	11,183	10,542
Net Loans	34,032	37,605	39,197	41,049	42,971
Other Assets	398	396	407	420	433
Net PP&E	230	222	213	203	193
Total Assets	48,575	52,562	56,034	59,014	60,697
Liabilities					
Interbank Deposits	3,988	5,687	6,184	5,821	5,104
Customer Deposits	28,954	31,038	33,211	35,204	37,668
Term Loans	6,941	6,906	7,320	8,052	7,650
Other Liabilities	718	683	731	986	979
AT1 Perpetual Securities	1,092	1,092	1,092	1,092	1,092
Total Liabilities	41,693	45,407	48,538	51,155	52,493
Total Shareholders' Equity	6,883	7,155	7,496	7,859	8,204
Total Liabilities & Shareholders' Equity	48,575	52,562	56,034	59,014	60,697

Source: Company data, QNB FS Research

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>	
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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