

## Ahli Bank (ABQK)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR3.848	Target Price	QR3.573
Implied Upside	(7.1%)	Old Price Target	QR3.283

### Raising Price Target and Rating on Better RoE & CoR Outlook

Following 9M2023 results, we increase our earnings CAGR to 10.5% during 2022-2027e (vs. 9.8% previously) on margin expansion and lower CoR. As such, our long-term sustainable RoE increases from 12.5% to 14.0%. As a result, we increase our target price from QR3.283/sh. to QR3.573 and upgrade our rating from Reduce to Market Perform. ABQK trades at a 1.3x P/B and an 11.8x P/E based on our 2024 estimates. Moreover, the stock trades at a PEG of 1.1x (which is relatively expensive) based on our 5-year earnings CAGR of 10.5%.

### Highlights

- **ABQK reported a net profit of QR615.3mn in 9M2023 (in-line with our estimate of QR616.0mn), growing by 8.5% YoY.** The increase in earnings was due to a ~10bps expansion in NIMs from 2.64% in 9M2022 to 2.74% in 9M2023. Hence, net interest income increased by 11.6% YoY. Moreover, an 8.1% drop in credit provisions & impairments helped growth in the bottom-line. Our 10.5% 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.** C/I ratio moved to 24.0% in 9M2023 vs. 23.3% in 9M2022 (25.6%/25.0% in FY2020 & 2021 and 22.4% in 2022). We foresee a further improvement in the efficiency ratio, penciling in 22.5% (2023e), 21.4% (2024e) and 20.7% (2025e). This is aided by an uptick in revenue growth while opex remains contained.
- **Asset quality remained healthy and manageable.** NPLs ticked up by 1.3% QoQ (1.2% YTD). At the same time, the NPL ratio increased from 2.46% in 2Q2023 to 2.52% in 3Q2023 (flat vs. FY2022) as a result of a decrease in loans. Coverage of Stage 3 loans is a healthy 87%. Moreover, ABQK increased its buffers for Stage 2 loans by 36.1% YTD, raising coverage of Stage 2 loans from 14% in FY2022 to 16% in 3Q2023. 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 99bps in 9M2023 vs. 94bps in 9M2022 (44bps in 2018/2019, 70bps in 2020, 87bps in 2021 and 110bps in 2022). We expect CoR to normalize around the ~90bps level vs. ~130bps previously.
- **Net loans are estimated to grow by a CAGR of 4.5% (2022-27e) vs. 5.6% previously; loan growth is expected from the corporate segment.** Net loans declined by 1.4% sequentially (up 1.7% vs. FY2022) to QR34.6bn. Moreover, deposits followed suit and receded by 3.7% (up 1.5% YTD) to QR29.4bn.
- **Capitalization is strong and we expect it to remain as such.** ABQK ended 9M2023 with CET1 & Tier-1 ratios of 16.6%/19.4%, respectively. We expect capitalization to remain at these levels in the coming three-to-five years.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: we increase our target price to QR3.573/sh. and our rating to Market Perform.** ABQK trades at FY2023/24e P/B and P/E of 1.4x/1.3x and 12.6/11.8x, 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	0.305	0.327	0.362
Growth (%)	5.2	9.6	7.3	10.9
P/E (x)	13.8	12.6	11.8	10.6
BVPS (QR)	2.7	2.8	2.9	3.1
P/B (x)	1.4	1.4	1.3	1.3
RoE (%)	10.8	11.3	11.7	12.4
DPS (QR)	0.200	0.200	0.225	0.250
Dividend Yield (%)	5.2	5.2	5.8	6.5

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

### Key Data

Current Market Price (QR)	3.848
Dividend Yield (%)	5.2
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Svc
52wk High/52wk Low (QR)	4.42/3.50
3-m Average Volume ('000)	109.8
Mkt. Cap. (\$ bn/QR bn)	2.7/9.8
Shares Outstanding (mn)	2,551.15
FO Limit* (%)	49.0
Current FO* (%)	0.0
1-Year Total Return (%)	0.9
Fiscal Year End	December 31

Source: Bloomberg (as of December 04, 2023), \*Qatar Exchange (as of December 04, 2023); Note: FO is foreign ownership

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## Valuation

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

We add Qatar's 10-year CDS rate of 0.71% to the 10-year US government bond yield (4.8%) to arrive at a risk free rate of 5.5%. We factor in an adjusted beta of 1.0x. Finally, we add a local equity risk premium of 8.0% (high equity risk premium due to the illiquid nature of the stock) to arrive at a Ke of 13.53%. However, we use a Ke of 11.0% for the terminal year.

### Valuation Methodologies

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	14.0	Beginning Tangible BVPS (2023) (QR)	2.70
Terminal Cost of Equity (%)	11.00	Present Value of Interim Residuals (QR)	0.003
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	0.873
Fundamental P/B	1.5x	Current Market Price (QR)	3.848
		12-Month Target Price (QR)	3.573
		Upside/(Downside) Potential (%)	(7.1)

Source: QNB FS Research

### Forecast

	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Terminal
Beginning BVPS	2.698	2.803	2.929	3.067	3.225	3.432	3.665	3.901	4.165	4.437	4.715
EPS Forecast	0.305	0.327	0.362	0.408	0.457	0.508	0.536	0.565	0.596	0.628	0.660
DPS Forecast	0.200	0.200	0.225	0.250	0.250	0.275	0.300	0.300	0.325	0.350	0.375
Adjustment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Forecast BVPS	2.803	2.929	3.067	3.225	3.432	3.665	3.901	4.165	4.437	4.715	5.000
Equity Charge	0.365	0.379	0.396	0.415	0.436	0.464	0.496	0.528	0.564	0.600	0.519
<b>Residual Income</b>	<b>-0.060</b>	<b>-0.052</b>	<b>-0.034</b>	<b>-0.007</b>	<b>0.021</b>	<b>0.043</b>	<b>0.040</b>	<b>0.037</b>	<b>0.033</b>	<b>0.028</b>	<b>0.141</b>
Terminal Value (Based on Fundamental P/B)											2.50
<b>Discounted Interim Residuals</b>	<b>-0.060</b>	<b>-0.046</b>	<b>-0.026</b>	<b>-0.004</b>	<b>0.012</b>	<b>0.023</b>	<b>0.019</b>	<b>0.015</b>	<b>0.012</b>	<b>0.009</b>	<b>0.049</b>
<b>Discounted Terminal Value</b>											<b>0.873</b>

Source: QNB FS Research

## Detailed Financial Statements

(In QR mn)	2022	2023e	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>1,277</b>	<b>1,385</b>	<b>1,480</b>	<b>1,589</b>	<b>1,709</b>
Fees & Commissions	167	147	161	176	173
FX Income	60	39	47	51	58
Other Income	(5)	4	37	47	53
<b>Non-Interest Income</b>	<b>222</b>	<b>189</b>	<b>245</b>	<b>274</b>	<b>283</b>
<b>Total Revenue</b>	<b>1,498</b>	<b>1,574</b>	<b>1,725</b>	<b>1,864</b>	<b>1,993</b>
Operating Expenses	(336)	(354)	(370)	(386)	(410)
<b>Net Operating Income</b>	<b>1,162</b>	<b>1,220</b>	<b>1,355</b>	<b>1,478</b>	<b>1,583</b>
Net Provisions & Impairments	(390)	(378)	(455)	(485)	(470)
<b>Net Profit (Reported)</b>	<b>772</b>	<b>842</b>	<b>900</b>	<b>993</b>	<b>1,113</b>
Interest Expense on AT1 Perp. Security	(44)	(44)	(44)	(44)	(44)
Social & Sports Contribution Fund	(19)	(21)	(22)	(25)	(28)
<b>Net Profit (Attributable)</b>	<b>709</b>	<b>777</b>	<b>834</b>	<b>924</b>	<b>1,042</b>
EPS (Attributable)	0.278	0.305	0.327	0.362	0.408

Source: Company data, QNB FS Research

(In QR mn)	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	1,807	4,443	3,682	3,253	2,436
Interbank Loans	3,768	7,636	3,961	3,783	3,620
Net Investments	8,339	8,107	9,419	9,067	10,212
Net Loans	34,032	34,711	36,006	37,825	40,224
Other Assets	398	560	493	511	535
Net PP&E	230	219	211	202	197
<b>Total Assets</b>	<b>48,575</b>	<b>55,676</b>	<b>53,771</b>	<b>54,640</b>	<b>57,225</b>
<b>Liabilities</b>					
Interbank Deposits	3,988	10,275	6,574	4,669	4,882
Customer Deposits	28,954	29,620	30,686	32,527	34,804
Term Loans	6,941	6,917	7,333	7,846	7,454
Other Liabilities	718	622	614	683	766
AT1 Perpetual Securities	1,092	1,092	1,092	1,092	1,092
<b>Total Liabilities</b>	<b>41,693</b>	<b>48,526</b>	<b>46,298</b>	<b>46,817</b>	<b>48,998</b>
<b>Total Shareholders' Equity</b>	<b>6,883</b>	<b>7,150</b>	<b>7,473</b>	<b>7,824</b>	<b>8,227</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>48,575</b>	<b>55,676</b>	<b>53,771</b>	<b>54,640</b>	<b>57,225</b>
RWAs	38,337	39,296	41,260	43,736	47,235
BVPS	2.70	2.80	2.93	3.07	3.22

Source: Company data, QNB FS Research

Ratios	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>					
RoE	10.8	11.3	11.7	12.4	13.3
RoRWA	1.9	2.0	2.1	2.2	2.3
RoA	1.5	1.5	1.5	1.7	1.9
NIM (% of IEAs)	2.8	2.9	3.0	3.2	3.3
NIM (% of RWAs)	3.4	3.6	3.7	3.7	3.8
NIM (Risk-Adjusted)	1.7	1.8	1.9	2.1	2.3
Yield on IEAs	4.5	6.7	7.0	7.9	8.5
CoFs	2.1	4.6	4.7	5.7	6.3
Spread	2.4	2.2	2.3	2.3	2.1
NPM	31.1	22.7	22.4	21.9	22.1
JAWs	11.5	-0.2	5.0	3.8	0.6
<b>Efficiency (%)</b>					
Cost-to-Income (Headline)	22.4	22.5	21.4	20.7	20.6
Cost-to-Income (Core)	22.3	22.5	21.9	21.2	21.1
<b>Liquidity (%)</b>					
LDR (Headline)	118	117	117	116	116
LDR (Stable Sources of Funds)	95	95	95	94	95
Loans to Assets	70	62	67	69	70
Liquid Assets Ratio	20	29	23	21	19
Cash & Interbank Loans-to-Total Assets	11	22	14	13	11
Wholesale Funding to Loans	32	50	39	33	31
<b>Asset Quality (%)</b>					
NPL Ratio	2.55	2.57	2.55	2.48	2.45
Coverage Ratio	199	241	270	297	324
Cost of Risk	110	109	111	113	98
<b>Capitalization (%)</b>					
CET1 Ratio	16.0	16.3	16.3	16.2	15.8
AT1 Ratio	2.8	2.8	2.6	2.5	2.3
Tier-1 Ratio	18.8	19.1	18.9	18.7	18.1
CAR	20.0	20.2	20.1	19.8	19.3
<b>Growth (%)</b>					
Net Interest Income	18.3	8.5	6.8	7.4	7.6
Non-Interest Income	-17.4	-14.6	29.8	11.8	3.3
Revenue	11.2	5.1	9.6	8.0	6.9
OPEX	-0.3	5.2	4.6	4.2	6.3
Net Operating Income	15.0	5.0	11.1	9.1	7.1
Net Income (Attributable)	5.2	9.6	7.3	10.9	12.7
Loans	1.4	2.0	3.7	5.1	6.3
Deposits	3.7	2.3	3.6	6.0	7.0
Assets	1.0	14.6	-3.4	1.6	4.7
Net Investments	-3.2	-2.8	16.2	-3.7	12.6
RWAs	2.1	2.5	5.0	6.0	8.0

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>	
<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

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