

Ahli Bank (ABQK)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR3.830	Target Price	QR3.356
Implied Upside	(12.4%)	Old Target Price	QR2.857

Moving to Market Perform and Upping TP to QR3.356/sh.

We raise our 2020-25e earnings CAGR from 4.6% to 7.0% on better earnings visibility. Hence, we raise our target price from QR2.857/sh. to QR3.356/sh. and revise our rating from Reduce to Market Perform ABQK trades at a 1.4x P/B and a 13.9x P/E based on our 2021 estimates. Moreover, the stock trades at PEG of 2.0x (which is still expensive) based on our 5-year earnings CAGR of 7.0%.

Highlights

- **ABQK reported a net profit of QR308.5mn in 1H2021, growing by 4.7% YoY.** Growth in revenue (+23.1% YoY) and net operating income (+26.9% YoY) was primarily driven by margin expansion (+31bps) as net interest income increased by 23.0% YoY. On the other hand, a surge in credit provisions and impairments (86.5% YoY), restricted further growth in earnings. We pencil in flattish growth in attributable income for 2021 as interest expense on AT1 perpetual bonds is estimated to shave off 5.5% of reported earnings. However, we expect the bottom-line to increase by 11.2% and 8.8% in 2022e/2023e.
- **We estimate a DPS of QR0.150/share for 2021, in-line with 2019 and 2020.** This translates to a dividend yield of 3.9% and a payout ratio of 55%.
- **Efficiency ratio continues to remain healthy; ABQK is successfully generating positive JAWs.** C/I ratio improved in 1H2021 to 25.5% vs. 27.7% in 1H2020 (27.3% and 25.6% in 2019 & 2020, respectively). We foresee a further improvement in the efficiency ratio, penciling in 25.1% (2021e), 24.9% (2022e) and 24.5% (2023e).
- **Asset quality improved in 1H2021 and we do not expect further pressure going forward.** NPL ratio declined from 2.46% in FY2020 to 2.25% in 1H2021 (1.00% in FY2017). Moreover, NPLs retreated by 3.9% from FY2020 to QR818.7mn at the end of 1H2021. The coverage ratio of Stage 3 loans also improved from 84% (FY2020) to 88% at the end of 1H2021 (FY2019: 79%). 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.** ABQK generated a CoR (annualized) of 111bps in 1H2021 vs. 30bps in 1H2020 (44bps in 2018/2019 and 70bps in 2020).
- **Net loans are estimated to grow by a CAGR of 6.9% (2020-25e).** ABQK's net loans gained by 4.7% at the end of 1H2021 to QR35.1bn, while deposits followed suit and increased by 5.1% during the same period. LDR (based on stable source of funds) remained on the high side at 99%. We expect the LDR to steadily decrease to 96% by 2025e.
- **Capitalization is strong and we expect it to remain as such.** ABQK ended 1H2021 with CET1, Tier-1 and CAR ratios of 16.3%, 19.3% and 20.5%, respectively. We expect capitalization to remain at these levels in 2021 and the coming three-to-five years.

Catalysts

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

Recommendation, Valuation and Risks

- **Recommendation and valuation: we raise our target price from QR2.857/sh. to QR3.356/sh. and revise our rating from Reduce to Market Perform.** ABQK trades at a FY2021e P/B and P/E of 1.4x and 13.9x, respectively.
- **Risks:** 1) Oil price shock and 2) stale stock price due to lack of liquidity.

Key Financial Data and Estimates

(In QR mn)	2020	2021e	2022e	2023e
EPS (QR)	0.27	0.27	0.31	0.33
Growth (%)	0.7	0.6	11.2	8.8
P/E (x)	14.0	13.9	12.5	11.5
BVPS (QR)	2.6	2.7	2.9	3.0
P/B (x)	1.5	1.4	1.3	1.3
RoE (%)	11.1	10.6	11.3	11.6
DPS (QR)	0.15	0.15	0.15	0.15
Dividend Yield (%)	3.9	3.9	3.9	3.9

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

Key Data

Current Market Price (QR)	3.830
Dividend Yield (%)	3.9
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Serv
52wk High/52wk Low (QR)	4.320/3.151
3-m Average Volume ('000)	N/M
Mkt. Cap. (\$ bn/QR bn)	2.6/9.3
Shares Outstanding (mn)	2,429.7
FO Limit* (%)	49.0
Current FO* (%)	0.2
1-Year Total Return (%)	20.6
Fiscal Year End	December 31

Source: Bloomberg (as of September 15, 2021), *Qatar Exchange (as of September 14, 2021); Note: FO is foreign ownership

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Detailed Financial Statements

	2018	2019	2020	2021e	2022e	2023e	2024e
Profitability (%)							
RoE	12.3	12.0	11.1	10.6	11.3	11.6	11.6
NIM	2.2	2.1	2.3	2.5	2.5	2.6	2.6
RoRWA	2.1	2.1	1.9	1.8	1.9	2.0	2.0
Efficiency (%)							
Cost-to-Income (Headline)	28.1	27.3	25.6	25.1	24.9	24.5	24.1
Cost-to-Income (Core)	29.5	28.4	26.7	25.8	25.3	24.7	24.3
Liquidity (%)							
LDR	96.8	96.7	93.4	99.8	97.7	97.3	96.7
Loans/Assets	68.1	71.9	70.5	71.5	71.2	73.2	72.4
Cash & Interbank Loans-to-Total Assets	23.2	18.1	20.6	19.4	19.8	17.5	18.4
Asset Quality (%)							
NPL Ratio	1.67	2.15	2.46	2.11	2.00	2.07	2.10
Coverage Ratio	133	105	130	179	210	229	237
Cost of Risk	44	44	70	92	81	71	60
Capitalization (%)							
Tier-1 Ratio	17.2	16.2	15.7	18.9	18.5	18.9	18.8
CAR	18.2	17.1	16.9	20.1	19.7	20.1	20.0
Growth (%)							
Net Interest Income	-0.6	-0.4	17.8	17.8	7.7	7.6	6.3
Net Operating Income	9.2	2.0	14.9	14.5	5.7	5.6	6.9
Net Income	4.0	1.5	0.7	0.6	11.2	8.8	6.7
Loans	-4.9	14.8	6.1	7.1	7.8	6.6	6.1
Deposits	-7.2	14.6	5.6	6.9	7.7	5.7	7.0
RWAs	0.3	6.0	9.3	4.2	7.4	4.1	6.5

Source: Company data, QNB FS Research

(In QR mn)	2018	2019	2020	2021e	2022e	2023e	2024e
Net Interest Income	829	826	973	1,147	1,235	1,329	1,412
Fees & Commissions	185	203	178	181	193	185	197
FX Income	25	32	42	46	37	40	43
Other Income	62	49	54	43	30	17	17
Non-Interest Income	272	284	274	271	259	242	258
Total Revenue	1,101	1,111	1,247	1,418	1,495	1,571	1,670
Operating Expenses	(309)	(303)	(320)	(356)	(372)	(385)	(402)
Net Operating Income	792	807	928	1,062	1,123	1,186	1,267
Net Provisions & Impairments	(126)	(132)	(248)	(337)	(317)	(313)	(339)
Net Profit (Reported)	666	675	680	725	806	873	928
Interest Expense on AT1 Perp. Security	-	-	-	(40)	(44)	(44)	(44)
Social & Sports Contribution Fund	(17)	(17)	(17)	(18)	(20)	(22)	(23)
Net Profit (Attributable)	649	658	663	667	742	807	861

Source: Company data, QNB FS Research

(In QR mn)	2018	2019	2020	2021e	2022e	2023e	2024e
Cash & Balances with Central Bank	2,406	1,401	2,872	2,880	2,792	2,623	2,806
Interbank Loans	4,102	2,913	3,510	3,050	3,868	2,886	3,720
Net Investments	5,917	7,521	7,074	7,905	8,460	9,088	9,631
Net Loans	27,515	31,591	33,513	35,878	38,682	41,235	43,770
Other Assets	215	226	335	222	240	256	271
Net PP&E	248	264	252	246	259	273	274
Total Assets	40,403	43,915	47,555	50,181	54,300	56,360	60,474
Liabilities							
Interbank Deposits	5,735	4,443	4,621	5,737	5,769	4,539	5,218
Customer Deposits	22,261	25,520	26,941	28,799	31,017	32,785	35,080
Term Loans	6,173	7,134	8,924	7,139	8,567	9,595	10,171
Other Liabilities	733	859	795	835	899	951	1,017
AT1 Perpetual Securities	-	-	-	1,092	1,092	1,092	1,092
Total Liabilities	34,902	37,956	41,280	43,603	47,345	48,962	52,578
Total Shareholders' Equity	5,501	5,959	6,275	6,578	6,956	7,399	7,896
Total Liabilities & Shareholders' Equity	40,403	43,915	47,555	50,181	54,300	56,360	60,474

Source: Company data, 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

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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