

Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR38.44	Target Price	QR29.00
Implied Upside	+2.0%		

Encouraging 2017; Maintain PT QR29/sh.

CBQK posted encouraging results in 2017, while partially achieving its objectives from its 5-year strategy. Commercial Bank of Qatar (CBQK) is trading at a 30% discount to its book value (0.7x 2018 P/B) which we believe is due to the bank's low RoE (RoE is less than cost of equity). The market is factoring in a sustainable RoE of 9.7% vs. a cost of equity (11.6%). We believe that there is potential for higher re-rating should management be able to execute on improving the bottom-line profitability higher than our forecast.

Highlights

- CBQK's 2017 profitability was mainly driven by a sharp drop in opex; announced cash dividends.** CBQK reported attributable net profit of QR348.6mn, gaining by 30.0% YoY. Bottom-line was driven by a recovery in net interest income (+7.6%) and a 22.1% drop in opex (in-line with management's objectives). The bank announced a cash DPS of QR3.00/sh. (Nil in 2016, stock dividend of 5%).
- Margins improved marginally YoY but remains weak.** Net Interest Income rose by 7.6% YoY to QR2.5bn in 2017. NIMs improved by only 5bps to 2.18%. *Management is guiding towards some margin compression in 2018.*
- Asset quality remained under pressure; IFRS 9 to affect risk reserves.** NPLs increased by 29.8% YoY to QR5.3bn, while the NPL ratio jumped to 5.65% vs. 5.01% in 2016 (majority of NPLs are legacy). What is important to note here is that past due but not impaired loans (60-90 bucket) surged to QR3.4bn vs. 578.4mn in 2016 which could lead to a further increase in the NPL ratio. On the other hand, coverage ratio improved to 81% from 79% in 2016. Net provisions and impairments gained by 29.7% to QR1.76bn vs. QR1.3bn in 2016. CoR remained elevated at 195bps. *Management is guiding to a lower CoR (100bps) in 2018.* As per IFRS 9, CBQK disclosed net ECLs of QR1.4bn which would be netted out against equity. This should negatively impact equity by ~8%. Moreover, CAR should be impacted by 0.1%.
- Operating efficiency significantly improved; Generated Strong JAWs.** CBQK posted opex of QR1.3mn, dropping by 22.1% YoY. Hence the C/I ratio dropped to 36.0% vs. 48.0% in 2016. Moreover, the bank generated positive JAWs of 26%. *Improving efficiency is part of management's strategy by reducing C/I ratio to low-30% and they have been delivering. Management expects the C/I ratio to dip by 2% in 2018. We expect C/I at 33.4% in 2018, 31.4% (2019) and 31.0% (2020).*
- Loan growth outpaced deposit growth; LDR remains elevated, however.** Net loans expanded by 14.6% YoY to QR89.1bn, while customer deposits increased by 9.5% to QR77.6bn (driven by the public sector). As such, the bank's LDR remained at 115% vs. 3Q and 2Q (vs. an already elevated LDR of 110% in FY2016).

Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments would be perceived positively by the market:** Visible progress in achieving and meeting goals and objectives outlined in 5-year strategy.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR29.00 and Market Perform rating.** CBQK is trading at a 2018e P/TB and P/E of 0.7x and 8.2x, respectively.
- Risks:** 1) Failing to achieve goals & objectives from 5-year plan.

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
Attributable EPS (QR)	0.86	2.79	3.44	3.76
EPS Growth (%)	30.0	224.4	23.0	9.5
P/E (x)	19.1	8.2	6.9	6.4
TBVPS (QR)	41.0	39.9	42.0	44.4
P/TB (x)	0.7	0.7	0.7	0.6
DPS (QR)	1.00	1.50	1.50	2.00
Dividend Yield (%)	3.5	5.3	5.3	7.0

Source: Company data, QNBFS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	28.44
Dividend Yield (%)	3.5
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	33.40/24.50
3-m Average Volume ('000)	191.9
Mkt. Cap. (\$ bn/QR bn)	3.2/11.5
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	14.4
1-Year Total Return (%)	(6.6)
Fiscal Year End	December 31

Source: Bloomberg (as of April 18, 2017), *Qatar Exchange (as of April 17, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	2.2	6.7	8.2	8.6
RoAA (Attributable)	0.3	0.8	0.9	0.9
RoRWA (Attributable)	0.3	0.9	1.1	1.1
NIM (% of IEAs)	2.18	2.16	2.15	2.14
NIM (% of RWAs)	2.18	2.23	2.25	2.25
NIM (% of AAs)	1.87	1.87	1.89	1.89
Spread	1.8	1.7	1.7	1.6
Efficiency (%)				
Cost-to-Income (Headline)	36.0	33.4	31.4	31.0
Cost-to-Income (Core)	38.1	35.1	33.0	32.5
Liquidity (%)				
LDR	115	110	105	103
LDR (including CDs)	115	110	105	103
Loans/Assets	64	64	65	65
Cash & Interbank Loans-to-Total Assets	12.9	14.7	14.3	14.4
Deposits to Assets	56	58	62	63
Wholesale Funding to Loans	39	37	33	33
IEAs to IBLs	118	116	114	115
Asset Quality (%)				
NPL Ratio	5.6	5.8	5.9	5.0
NPLs to Shareholder's Equity	31.0	35.5	38.0	33.6
NPLs to Tier 1 Capital	31.0	33.1	35.5	31.9
Coverage Ratio	81.0	83.9	84.5	102.6
ALL/Average Loans	4.9	5.1	5.2	5.4
Cost of Risk	1.95	1.13	1.07	1.02
Capitalization (%)				
Tier 1 Ratio	14.5	14.1	13.5	12.7
CAR	16.1	15.8	15.2	14.4
Tier 1 Capital to Assets	12.3	11.8	11.3	10.7
Tier 1 Capital to Loans	19.1	18.4	17.5	16.5
Tier 1 Capital to Deposits	21.9	20.2	18.3	17.0
Leverage (x)	8.1	9.1	9.4	9.8
Growth (%)				
Net Interest Income	7.6	7.4	9.6	9.4
Non-Interest Income	-4.0	3.7	7.3	-2.3
Total Revenue	3.6	6.2	8.9	5.9
Operating Expenses	-22.1	-1.6	2.4	4.5
Net Operating Income	27.4	10.7	12.1	6.5
Net Provisions & Investment Impairments	29.7	-33.5	3.6	4.2
Net Income (Headline/Reported)	20.5	132.9	19.0	8.1
Net Income (Attributable)	30.0	224.4	23.0	9.5
Loans	14.6	8.1	9.9	9.8
Deposits	9.5	13.0	15.0	12.0
Assets	6.2	8.4	8.8	9.9
RWAs	2.7	7.8	9.0	10.1

Source: Company data, QNBFS Research

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,518	2,704	2,963	3,242
Fees & Commissions	720	742	816	800
FX Income	163	187	209	178
Other Income	276	273	264	282
Non-Interest Income	1,159	1,202	1,290	1,260
Total Revenue	3,677	3,906	4,253	4,502
Operating Expenses	(1,325)	(1,303)	(1,335)	(1,395)
Net Operating Income	2,352	2,603	2,918	3,108
Net Provisions & Impairments	(1,743)	(1,160)	(1,202)	(1,252)
Net Profit Before Taxes & Non-Recurring Items	609	1,442	1,716	1,856
Non-Recurring Income	0	0	0	0
Net Profit After Non-Recurring Income	609	1,442	1,716	1,856
Tax	(5)	(37)	(44)	(47)
Net Profit Before Minority Interest	604	1,406	1,673	1,808
Minority Interest	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	604	1,406	1,673	1,808
Interest on Tier-1 Note	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(15)	(35)	(42)	(45)
Net Profit (Attributable)	349	1,131	1,391	1,523

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	7,374	8,422	9,382	10,169
Interbank Loans	10,499	13,649	13,949	15,623
Net Investments	19,629	21,942	24,061	26,906
Net Loans	89,122	96,313	105,816	116,220
Investment In Associates	2,088	2,166	2,248	2,337
Other Assets	6,715	4,623	4,868	5,230
Net PP&E	2,591	2,548	2,582	2,623
Goodwill & Other Intangibles	430	375	319	263
Total Assets	138,449	150,037	163,226	179,371
Liabilities				
Interbank Deposits	13,516	13,504	10,592	12,168
Certificate of Deposits	-	-	-	-
Customer Deposits	77,633	87,726	100,885	112,991
Term Loans	20,908	22,581	24,387	26,338
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000
Other Liabilities	5,370	5,702	6,053	5,650
Total Liabilities	121,428	133,512	145,917	161,146
Shareholders' Equity				
Total Shareholders' Equity	17,022	16,525	17,309	18,225
Total Liabilities & Shareholders' Equity	138,449	150,037	163,226	179,371

Source: Company data, QNBFS 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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