

## Commercial Bank of Qatar (CBQK)

<b>Recommendation</b>	<b>OUTPERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR5.260</b>	<b>Target Price</b>	<b>QR5.143</b>
<b>Implied Upside</b>	<b>(2.2%)</b>		

### Upping Stake in NBOB by a Further 15.2%

**Commercial Bank of Qatar (CBQK) announced on Thursday, June 3 that it plans to increase its stake in National Bank of Oman (NBOB) by a further 15.2% via a cash offer.** CBQK currently owns 34.9% of NBOB and a further 15.2% increase will result in the bank owning 50.1% of NBOB. Following the completion of this transaction, NBOB will become a subsidiary of CBQ vs. an associate currently. If the transaction proves to be successful, consolidation will happen from 3Q2021. **Rationale behind investment:** 1) capture trade flows between Oman and Qatar given the strong relationship between the two nations, 2) exert control over the bank's operations and management & 3) help NBOB achieve its 5-year strategy/objectives. We maintain our Outperform rating for now – CBQK stock has increased 21.2% since we upgraded the stock on March 1, 2021.

### Highlights

- **CBQK announced on Thursday, June 3 that it will increase its stake in NBOB by a further 15.2% via a cash offer.** Commercial Bank of Qatar (CBQK) currently owns 34.9% of NBOB and a further 15.2% increase will result in the bank owning 50.1% of NBOB. Following the completion of this transaction, NBOB will become a subsidiary of CBQ vs. an associate currently. If the transaction proves to be successful, consolidation will happen from 3Q2021.
- **CBQK has the right to withdraw its tender if the 15.2% is not achieved since the bank wants to have a controlling/majority stake.**
- **Strategic shareholders of NBOB, in aggregate, hold 40%.** These stakeholders include Suhail Bahwan Group (14.7%), Civil Service Employees Pension Fund (10.8%), Ministry of Defense Pension Fund (7.7%) and Public Authority of Social Insurance (7.6%). Including CBQK's current 34.9%, the stock is tightly held (75.7%).
- **CBQK is paying QR490mn in cash for a further 15.2% stake, implying a premium.** CBQK will pay OMR 0.200/share, resulting in a P/B of 0.77x vs. NBOB's current P/B of 0.65x (18% premium based on June 2 closing price of OMR 0.169). OMR 0.200 per NBOB share represents a 36% premium versus the VWAP since 1 January 2021, a 28% premium versus the last three months' VWAP and an 18% premium versus 2 June 2021.
- **This investment will not result in impairments.** Once the transaction is completed and NBOB becomes a subsidiary of CBQK vs. an associate currently, CBQK will not realize any impairments. In the beginning of the year, management had guided ~QR400mn in impairments for NBOB and UAB combined. Impairments will only be applicable for UAB and should be significantly lower than ~QR400mn.
- **Rationale behind this investment:** 1) capture trade flows between Oman and Qatar given the strong relationship between the two nations, 2) exert control over the bank's operations and management & 3) help NBOB achieve its 5-year strategy/objectives.
- **NBOB's 5-year strategy:** Last year, NBOB formulated its 5-year strategy. The bank's strategy is to become cost-efficient (cost-to-income ratio has hovered between 49% to 55% during 2017-2020) and exercise stronger risk management. This should enable the bank to generate a healthy CoR (112bps in 2020) and, in return, improve its RoE (RoE has been very weak since 2016; significantly lower than cost of equity) & bolster its retail franchise.
- **CET1 ratio to decline following the transaction.** CBQK's CET1 ratio is expected to decline by 110bps to 11.1% in 2021 from 12.2% in FY2020 after the purchase is completed. However, management stated that CET1 should go back to the 2020 level within one financial calendar year.

### Catalysts

- Delivering better-than-expected profitability metrics.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our PT at QR5.143 and maintain Outperform rating.** CBQK is trading at a 2021e P/TB and P/E of 1.9x and 11.8x, respectively.
- **Risks:** 1) Weakness in Turkish Lira

### Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS	0.258	0.445	0.596	0.635
EPS Growth (%)	-39.6	72.2	33.9	6.7
P/E (x)	20.4	11.8	8.8	8.3
Tangible BVPS (QR)	4.4	4.8	5.2	5.7
P/TBV (x)	1.2	1.1	1.0	0.9
RoE (%)	5.9	9.9	12.3	12.0
DPS (QR)	0.100	0.150	0.200	0.250
Dividend Yield (%)	1.9	2.9	3.8	4.8

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

### Key Data

Current Market Price (QR)	5.260
Dividend Yield (%)	1.9
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	5.55/3.65
3-m Average Volume (mn)	3.0
Mkt. Cap. (\$ bn/QR bn)	5.8/21.3
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	22.1
1-Year Total Return (%)	36.2

Fiscal Year End December 31

Source: Bloomberg (as of June 03, 2021), \*Qatar Exchange (as of June 03, 2021); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021e	2022e	2023e	2024e
Net Interest Income	2,482	2,963	3,100	3,257	3,450	3,605	3,804
Fees & Commissions	757	915	811	864	937	985	963
FX Income	202	281	296	282	304	274	233
Other Income	248	181	(180)	95	176	193	249
<b>Non-Interest Income</b>	<b>1,208</b>	<b>1,377</b>	<b>927</b>	<b>1,240</b>	<b>1,417</b>	<b>1,451</b>	<b>1,445</b>
<b>Total Revenue</b>	<b>3,690</b>	<b>4,340</b>	<b>4,027</b>	<b>4,497</b>	<b>4,866</b>	<b>5,056</b>	<b>5,248</b>
Operating Expenses	(1,173)	(1,228)	(1,096)	(1,132)	(1,176)	(1,228)	(1,273)
<b>Net Operating Income</b>	<b>2,517</b>	<b>3,112</b>	<b>2,931</b>	<b>3,365</b>	<b>3,690</b>	<b>3,828</b>	<b>3,975</b>
Net Provisions & Impairments	(836)	(1,068)	(1,615)	(1,176)	(866)	(837)	(855)
<b>Net Profit Before Taxes</b>	<b>1,681</b>	<b>2,044</b>	<b>1,316</b>	<b>2,189</b>	<b>2,824</b>	<b>2,991</b>	<b>3,120</b>
Tax	(7)	(23)	(15)	(25)	(34)	(36)	(37)
<b>Net Profit Before Minority Interest</b>	<b>1,674</b>	<b>2,021</b>	<b>1,301</b>	<b>2,164</b>	<b>2,790</b>	<b>2,955</b>	<b>3,082</b>
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)	(0)
<b>Net Profit (Headline/Reported)</b>	<b>1,674</b>	<b>2,021</b>	<b>1,301</b>	<b>2,164</b>	<b>2,790</b>	<b>2,955</b>	<b>3,082</b>
Interest on Tier-1 Note	(240)	(240)	(223)	(309)	(309)	(309)	(290)
Social & Sports Contribution Fund	(42)	(50)	(33)	(54)	(70)	(74)	(77)
<b>Net Profit (Attributable)</b>	<b>1,392</b>	<b>1,731</b>	<b>1,046</b>	<b>1,800</b>	<b>2,411</b>	<b>2,572</b>	<b>2,715</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019	2020e	2021e	2022e	2023e	2024e
Cash & Balances with Central Bank	6,730	6,075	8,279	8,284	6,458	6,252	7,034
Interbank Loans	9,475	12,396	10,401	11,961	10,885	9,992	7,994
Net Investments	22,206	26,844	25,778	27,775	30,753	33,734	29,939
Net Loans	84,642	88,009	96,698	99,726	107,247	114,630	120,936
Investment In Associates	4,513	4,021	3,117	3,112	3,149	3,203	3,287
Other Assets	1,754	2,569	3,005	2,992	3,217	3,439	3,628
Net PP&E	2,719	2,854	3,158	3,283	3,375	3,474	3,567
OREO	2,605	4,531	2,995	2,995	2,995	2,995	2,995
Goodwill & Intangible Assets	283	236	175	175	175	175	175
<b>Total Assets</b>	<b>134,928</b>	<b>147,536</b>	<b>153,606</b>	<b>160,301</b>	<b>168,254</b>	<b>177,894</b>	<b>179,556</b>
<b>Liabilities</b>							
Interbank Deposits	13,950	22,531	20,007	20,460	19,440	25,342	18,077
Customer Deposits	71,786	76,297	75,790	78,897	83,867	89,319	93,785
Term Loans	24,451	21,568	27,233	29,956	32,053	28,207	30,661
Tier-1 Perpetual Notes	4,000	4,000	4,000	5,821	5,821	5,821	5,821
Other Liabilities	4,884	5,385	8,406	5,602	5,703	6,074	6,377
<b>Total Liabilities</b>	<b>119,071</b>	<b>129,780</b>	<b>135,435</b>	<b>140,735</b>	<b>146,884</b>	<b>154,762</b>	<b>154,721</b>
<b>Total Shareholders' Equity</b>	<b>15,856</b>	<b>17,756</b>	<b>18,170</b>	<b>19,566</b>	<b>21,370</b>	<b>23,132</b>	<b>24,836</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>134,928</b>	<b>147,536</b>	<b>153,606</b>	<b>160,301</b>	<b>168,254</b>	<b>177,894</b>	<b>179,556</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2018	2019	2020	2021e	2022e	2023e	2024e
<b>Profitability (%)</b>							
RoE (Tangible)	8.2	10.9	5.9	9.9	12.3	12.0	11.7
RoAA (Attributable)	1.0	1.2	0.7	1.1	1.5	1.5	1.5
RoRWA (Attributable)	3.1	1.9	1.8	1.2	0.2	0.3	1.2
NIM (% of IEAs)	2.12	2.45	2.40	2.41	2.41	2.36	2.41
NIM (% of RWAs)	2.15	2.56	2.66	2.78	2.82	2.82	2.91
NIM (% of AAs)	1.82	2.10	2.06	2.07	2.10	2.08	2.13
Spread	1.6	1.9	2.0	2.0	1.9	1.8	1.8
<b>Efficiency (%)</b>							
Cost-to-Income (Headline)	31.8	28.3	27.2	25.2	24.2	24.3	24.3
Cost-to-Income (Core)	33.3	28.7	25.7	25.4	24.7	25.0	25.2
<b>Liquidity (%)</b>							
LDR	118	115	128	126	128	128	129
LDR (Including Stable Source of Funding)	88	90	94	92	93	98	97
Loans/Assets	63	60	63	62	64	64	67
Cash & Interbank Loans-to-Total Assets	12.0	12.5	12.2	12.6	10.3	9.1	8.4
Deposits to Assets	53	52	49	49	50	50	52
Wholesale Funding to Loans	45	50	49	51	48	47	40
IEAs to IBLs	117	116	122	122	121	122	123
<b>Asset Quality (%)</b>							
NPL Ratio	5.6	4.9	4.3	4.2	3.8	3.2	4.0
NPL to Shareholders' Equity	30.8	25.3	23.8	22.6	20.1	16.9	20.6
NPL to Tier 1 Capital	30.8	26.4	23.9	21.3	19.8	17.4	22.2
Coverage Ratio	79	82	102	119	141	163	132
ALL/Average Loans	4.3	4.1	4.6	5.1	5.5	5.4	5.4
Cost of Risk (bps)	102	67	88	75	65	61	56
<b>Capitalization (%)</b>							
Tier 1 Ratio	14.0	14.4	15.7	17.4	17.3	17.3	17.5
CAR	15.5	16.4	17.8	19.5	19.4	19.4	19.6
Tier 1 Capital to Assets	11.8	11.5	11.8	12.9	12.9	12.6	12.8
Tier 1 Capital to Loans	18.7	19.3	18.7	20.8	20.3	19.6	19.0
Tier 1 Capital to Deposits	22.1	22.3	23.9	26.3	25.9	25.2	24.5
Leverage (x)	8.5	8.3	8.5	8.2	7.9	7.7	7.2
<b>Growth (%)</b>							
Net Interest Income	-1.4	19.4	4.6	5.0	5.9	4.5	5.5
Non-Interest Income	4.2	14.0	-32.7	33.8	14.2	2.4	-0.4
Total Revenue	0.4	17.6	-7.2	11.7	8.2	3.9	3.8
Operating Expenses	-11.5	4.7	-10.7	3.3	3.9	4.4	3.7
Net Operating Income	7.0	23.6	-5.8	14.8	9.7	3.7	3.8
Net Provisions & Impairments	-52.1	27.8	51.3	-27.2	-26.3	-3.4	2.2
Net Income (Headline)	177.3	20.7	-35.6	66.3	28.9	5.9	4.3
Net Income (Attributable)	299.5	24.3	-39.6	72.2	33.9	6.7	5.6
Loans	-5.0	4.0	9.9	3.1	7.5	6.9	5.5
Deposits	-7.5	6.3	-0.7	4.1	6.3	6.5	5.0
Assets	-2.5	9.3	4.1	4.4	5.0	5.7	0.9
RWAs	-2.8	3.7	-1.9	3.1	5.4	3.5	1.2

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*

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

### Risk Ratings

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

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

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