

## Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.200	Target Price	QR5.244
Implied Upside	24.9%		

### Broadly Maintaining Estimates, Upping DPS For 2024/25

We forecast 2023-28e earnings CAGR of 8.9% (vs. 7.6% previously), an increase of 1.3ppt. However, our sustainable RoE remains unchanged at 13.0% primarily due to a smaller pick up in margins. As a result, we maintain our PT at QR5.244/sh. and our Outperform rating. The stock remains attractive with undemanding multiples. CBQK is trading at a 2024/25e P/TB of 0.8/0.7x based on our estimates. The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 8.9%. Moreover, the market is pricing in a sustainable RoE of 11.0%, which is lower than our forecast and management guidance.

### Highlights

- CBQK restated 2Q2023/1H2023 figures.** Management lowered net profit from QR803.0mn to QR775.2mn related to the underlying derivative on the share option performance scheme. Commercial Bank of Qatar (CBQK) reported a net profit of QR1.57bn in 1H2024. The bottom-line increased by 16.2% YoY due to a 25.8% drop in provisions & impairments and a 13.3% drop hyperinflation accounting adjustment, offsetting the marginal 1.2% increase in net operating income.
- Upping DPS in 2024/25 as it appears QCB suspended its decisions in implementing enhanced Basel III capital charges and risk weights on net open \$ positions; hence, CBQ's capital would not be impacted anymore.** As a result, we increase our DPS forecast for 2024 from QR0.200 to QR0.250 (in-line with FY2023). We also increase 2025 DPS from QR0.250 to QR0.275. This translates into an attractive yield of 6.0% in 2024/25.
- RoE is still estimated to increase from 14.5% in 2023 to 15.4% in 2024/2025e.** After a strong 2023/1H2024, we expect RoEs to steadily decline to 13/14% levels. Management is targeting 13-15% during 2022-26. Our new sustainable RoE is still at the lower end of management's guidance of 13.0%, mainly due to a smaller pick-up in margins than our previous estimates.
- NIMs are expected to improve post 2025.** We estimate flattish NIMs 2.70/2.71% in 2024/2025 before increasing by 8.2bps to 2.79% in 2026.
- Legacy NPLs remain and are mainly real estate in nature; management is guiding for the NPL ratio to decrease to 2.5% by 2026.** NPL ratio decreased from 6.04% in 1Q2024 to 5.89% in 2Q2024 (FY2023: 5.85%); NPL formation was negligible sequentially, which is a positive. Coverage of Stage 3 loans slightly improved from 72% in 1Q2024 to 75% in 2Q2024. ECLs for Stage 2 loans increased by 1.5/3.3% vs. 1Q2024/FY2023. Coverage remained a low of 9%. Stage 2 loans as a % of total loans remained at 21%. Going forward, we expect asset quality to improve, driven by conservative underwriting and recoveries. Management will also gradually raise the coverage of Stage 3 loans to 100%.
- CoR in 2024 is expected at 120-135bps as per management's conservative guidance and should normalize at 92bps by 2026.** 1H2024 annualized CoR declined to 60bps from 112bps in 1H2023, which we view positively. It should be noted that quarterly annualized CoR is not an indicator for full year CoR. We model in a CoR of 102bps in 2024/2025 and 92bps in 2026. Our CoR estimates are higher than what management is guiding as we are taking a conservative view.
- Diversification of loan book remains on track; management is guiding for 25%/16% public sector/real estate mix.** During 2Q2024, net loans sequentially increased by 2.7% (0.7% vs. FY2023) to QR92.1bn mainly due to a 9.2% increase in retail loans and real estate (+7.9% vs. FY2024). We estimate net loan growth of +4.0%/+4.7% vs. +1.5%/+2.7% in 2024/25e previously. We revise our loan growth assumptions; we pencil in a 2023-28e CAGR of 5.3% vs. 4.6% previously as loan growth picked up in 2024.
- CET1 ratio is expected at 13.0%-14.0% by 2026 as per management's guidance.** CBQK generated a CET1/Tier-1 ratio of 12.4%/15.8% in 2Q2024.

### Catalysts

- Significant RoE expansion & robust bottom-line growth.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our PT at QR5.244 but retain our Outperform rating.** CBQK is trading at a 2024/25e P/TB and P/E of 0.8/0.7x and 6.0/5.3x, respectively.
- Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR.

### Key Financial Data and Estimates

(In QR mn)	2023	2024e	2025e	2026e
EPS	0.655	0.706	0.787	0.878
EPS Growth (%)	7.9	7.7	11.5	11.6
P/E(x)	6.4	6.0	5.3	4.8
Tangible BVPS (QR)	4.6	5.1	5.7	6.3
P/TBV (x)	0.9	0.8	0.7	0.7
RoE (%)	14.5	15.4	15.4	15.5
DPS (QR)	0.250	0.250	0.275	0.300
Dividend Yield (%)	6.0	6.0	6.5	7.1

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

### Key Data

Current Market Price (QR)	4.200
Dividend Yield (%)	6.0
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	6.250/3.756
3-m Average Volume (mn)	3.79
Mkt. Cap. (\$ bn/QR bn)	4.7/17.0
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Current FO* (%)	25.5
1-Year Total Return (%)	(28.5)
Fiscal Year End	December 31

Source: Bloomberg (as of August 05, 2024), \*Qatar Exchange (as of August 05, 2024); Note: FO is foreign institutional ownership

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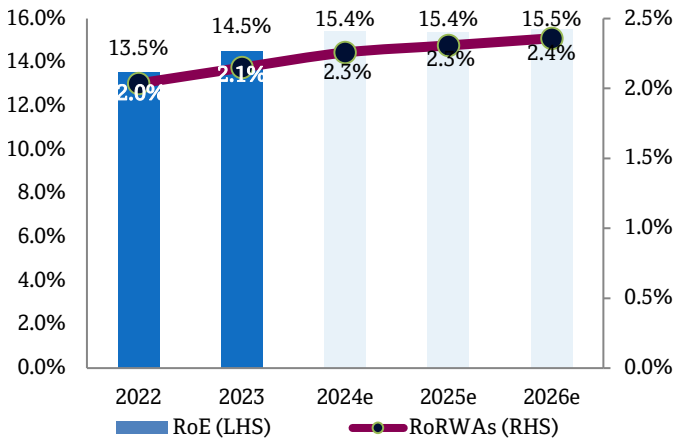
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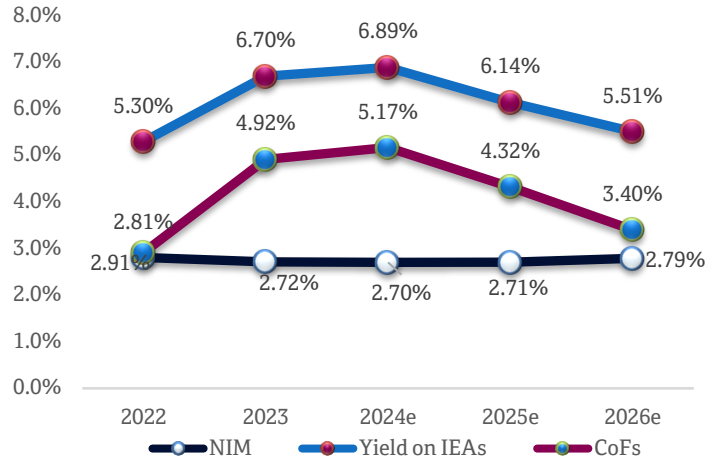
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**RoE & RoRWAs Modeled to Increase in a Healthy Manner**

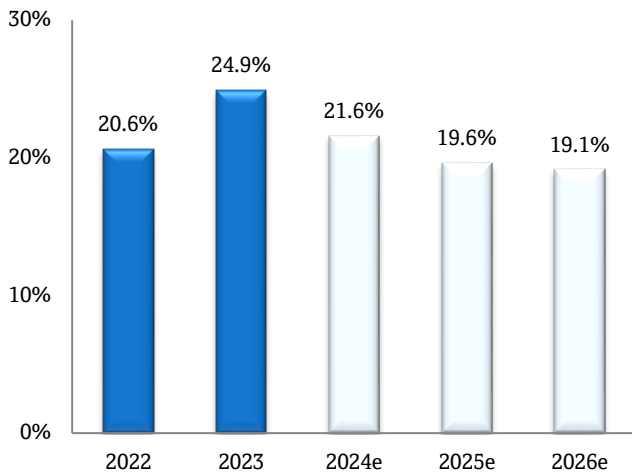


Source: Company data, QNB FS Research

**While Margins to Gradually Improve**

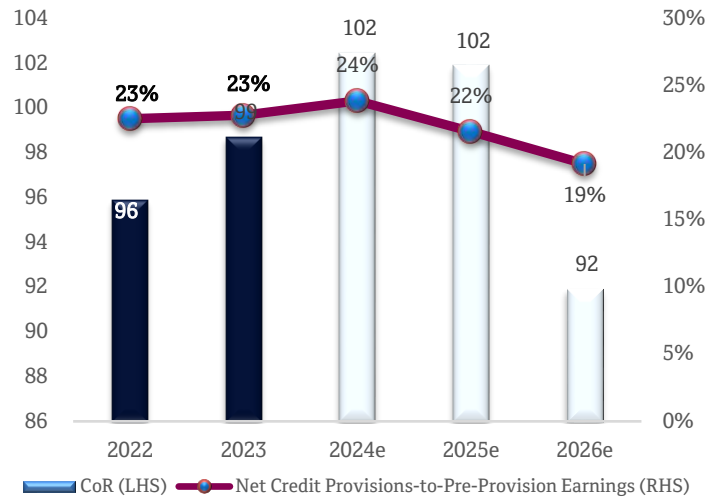


**C/I Ratio to Remain Superior**

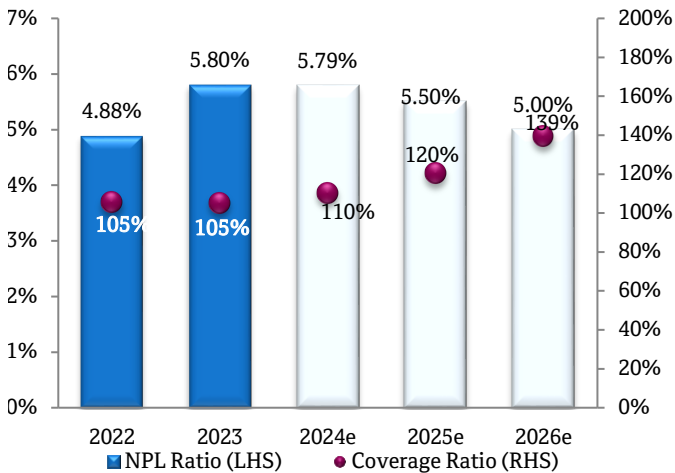


Source: Company data, QNB FS Research

**CoR is Expected to Improve in the Medium-to-Long Term**



**NPLs are Legacy and Mainly RE Loans**



Source: Company data, QNB FS Research

**Coverage of Stage 3 Loans Improving & Expected to Reach 100%**

2Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	71,457,958	20,408,426	5,752,894	97,619,278
ECLs	222,758	1,838,844	4,308,673	6,370,275
Stages % of Loans	73%	21%	5.89%	
Stages % of ECLS	3%	29%	68%	
Coverage Ratio	0%	9%	75%	

## Change in Estimates

(In QR mn)	2024e			2025e			2026e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,957	3,812	-3.7	4,151	3,988	-3.9	4,448	4,303	-3.3
Non Interest Income	1,929	1,634	-15.3	2,045	2,129	4.1	2,002	2,209	10.3
Total Revenue	5,886	5,446	-7.5	6,196	6,116	-1.3	6,450	6,512	1.0
Opex	1,363	1,176	-13.8	1,363	1,201	-11.9	1,521	1,245	-18.1
Net Operating Income	4,523	4,270	-5.6	4,833	4,916	1.7	4,929	5,266	6.8
Net Provisions & Impairments	917	860	-6.2	1,026	1,147	11.8	1,032	1,125	9.0
Net Income (Reported)	3,208	3,221	0.4	3,464	3,558	2.7	3,730	3,938	5.6
Net Income (Attributable)	2,844	2,856	0.4	3,093	3,185	3.0	3,353	3,555	6.0

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,963	3,867	3,812	3,988	4,303
Fees & Commissions	1,152	805	967	1,102	1,157
FX Income	415	528	(52)	309	346
Other Income	(14)	583	720	718	705
<b>Non-Interest Income</b>	<b>1,553</b>	<b>1,916</b>	<b>1,634</b>	<b>2,129</b>	<b>2,209</b>
<b>Total Revenue</b>	<b>5,516</b>	<b>5,784</b>	<b>5,446</b>	<b>6,116</b>	<b>6,512</b>
Operating Expenses	(1,138)	(1,441)	(1,176)	(1,201)	(1,245)
<b>Net Operating Income</b>	<b>4,378</b>	<b>4,343</b>	<b>4,270</b>	<b>4,916</b>	<b>5,266</b>
Net Provisions & Impairments	(1,263)	(917)	(860)	(1,147)	(1,125)
<b>Net Profit Before Taxes</b>	<b>3,115</b>	<b>3,425</b>	<b>3,411</b>	<b>3,768</b>	<b>4,141</b>
Tax	(114)	(80)	(10)	(90)	(104)
<b>Net Profit Before Minority Interest</b>	<b>3,000</b>	<b>3,345</b>	<b>3,401</b>	<b>3,678</b>	<b>4,038</b>
Minority Interest	0	0	0	0	0
Non-Recurring Income/(Loss)	(189)	(335)	(180)	(120)	(100)
<b>Net Profit (Headline/Reported)</b>	<b>2,811</b>	<b>3,010</b>	<b>3,221</b>	<b>3,558</b>	<b>3,938</b>
Interest on Tier-1 Note	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(70)	(75)	(81)	(89)	(98)
<b>Net Profit (Attributable)</b>	<b>2,457</b>	<b>2,651</b>	<b>2,856</b>	<b>3,185</b>	<b>3,555</b>
Attributable EPS	0.607	0.655	0.706	0.787	0.878

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	8,030	8,631	8,672	9,019	9,326
Interbank Loans	20,844	20,525	20,731	20,420	20,869
Net Investments	29,835	30,762	29,650	30,865	33,299
Net Loans	98,016	91,490	95,125	99,633	105,219
Investment In Associates	3,102	3,373	3,534	3,711	3,901
Other Assets	2,395	2,547	3,805	2,989	2,925
Net PP&E	3,050	3,063	3,112	3,210	3,321
OREO	3,564	3,921	3,921	3,921	3,921
Goodwill & Intangible Assets	66	62	3	3	3
<b>Total Assets</b>	<b>168,902</b>	<b>164,376</b>	<b>168,552</b>	<b>173,770</b>	<b>182,784</b>
<b>Liabilities</b>					
Interbank Deposits	24,054	18,805	18,392	16,623	17,323
Customer Deposits	83,167	76,541	78,837	81,991	87,156
Term Loans	27,786	34,166	34,508	36,578	38,407
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	9,724	10,458	10,249	9,839	8,716
<b>Total Liabilities</b>	<b>150,551</b>	<b>145,790</b>	<b>147,806</b>	<b>150,852</b>	<b>157,423</b>
<b>Total Shareholders' Equity</b>	<b>18,351</b>	<b>18,586</b>	<b>20,745</b>	<b>22,918</b>	<b>25,361</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>168,902</b>	<b>164,376</b>	<b>168,552</b>	<b>173,770</b>	<b>182,784</b>
<b>RWAs</b>	<b>125,475</b>	<b>121,274</b>	<b>131,807</b>	<b>144,229</b>	<b>157,194</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2022	2023	2024e	2025e	2026e
<b>Profitability (%)</b>					
RoTE (Attributable)	13.5	14.5	15.4	15.4	15.5
RoAA (Attributable)	1.5	1.6	1.7	1.9	2.0
RoRWA	2.0	2.1	2.3	2.3	2.4
NIM (% of IEAs)	2.81	2.72	2.70	2.71	2.79
NIM (% of RWAs)	3.28	3.13	3.01	2.89	2.86
NIM (% of AAs)	2.37	2.32	2.29	2.33	2.41
Spread	2.4	1.8	1.7	1.8	2.1
<b>Efficiency (%)</b>					
Cost-to-Income (Headline)	20.6	24.9	21.6	19.6	19.1
Cost-to-Income (Core)	20.6	27.7	24.9	22.2	21.4
<b>Liquidity (%)</b>					
LDR	118	120	121	122	121
LDR (Including Stable Source of Funding)	88	83	84	84	84
Loans/Assets	58	56	56	57	58
Cash & Interbank Loans-to-Total Assets	17.1	17.7	17.4	16.9	16.5
Deposits to Assets	49	47	47	47	48
Wholesale Funding to Loans	53	58	56	53	53
IEAs to IBLs (x)	1.26	1.21	1.26	1.26	1.24
<b>Asset Quality (%)</b>					
NPL Ratio	4.9	5.8	5.8	5.5	5.0
NPLs to Shareholders' Equity	27.5	30.4	28.4	25.6	22.3
NPL to Tier-1 Capital	25.9	33.1	28.6	26.1	23.0
Coverage Ratio	105	105	110	120	139
ALL/Average Loans	5.2	5.9	6.5	6.8	7.2
Cost of Risk (bps)	96	99	102	102	92
<b>Capitalization (%)</b>					
CET1 Ratio	11.6	10.7	12.3	12.5	12.8
Tier-1 Ratio	15.6	14.1	15.6	15.6	15.7
CAR	17.3	14.9	17.0	17.0	17.1
Leverage (x)	9.2	8.8	8.1	7.6	7.2
<b>Growth (%)</b>					
Net Interest Income	7.1	-2.4	-1.4	4.6	7.9
Non-Interest Income	1.6	23.4	-14.7	30.3	3.7
Total Revenue	5.5	4.8	-5.8	12.3	6.5
Operating Expenses	-23.1	26.6	-18.4	2.2	3.7
Net Operating Income	16.7	-0.8	-1.7	15.1	7.1
Net Provisions & Impairments	-12.1	-27.4	-6.3	33.4	-1.9
Net Income (Headline)	22.0	7.1	7.0	10.5	10.7
Net Income (Attributable)	23.9	7.9	7.7	11.5	11.6
Loans	0.0	-6.7	4.0	4.7	5.6
Deposits	1.5	-8.0	3.0	4.0	6.3
Assets	2.1	-2.7	2.5	3.1	5.2
RWAs	8.2	-3.3	8.7	9.4	9.0

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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