

Commercial Bank of Qatar (CBQK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR66.20	Target Price	QR76.00
Implied Upside	14.8%		

Changing Estimates; Reducing Target Price to QR76.00

Commercialbank is Qatar's 2nd largest lender with a focus on the corporate sector. As of FY2013, CBQK had a ~12% and a ~10% market share of loans and deposits (among listed banks), respectively. Focused on regional expansion, CBQK acquired 74.24% of Alternatifbank (ABank) & set forth a 5-year strategy that would improve ABank's efficiency and raise its market share.

Highlights

- We estimate CBQK to register a CAGR of 14.4% in net profit for 2013-17e.** We see Commercialbank growing its net income by deploying its funds in the corporate segment and infrastructure projects (CBQK is involved in a consortium financing a significant portion of Phase 1 of the railway project). Our growth assumption is based on net operating income CAGR of 10.4% (2013-17e) coupled with a 6.6% decline in net provisions. We expect net interest income along with net fees and commissions to drive future growth in profitability. We pencil in CAGRs (2013-2017e) of 12.6% and 14.0% for net interest income and fees & commissions, respectively. We base our assumptions on moderate expansion in NIMs in 2014 and beyond, supported by the Turkish operations. CBQK is expected to end 2014 with a net income of QR2.0bn, a whopping growth of 24.8%. This growth comes on the back of a 20.4% growth in net interest income, 29.0% growth in fees, 24.0% growth from income from associates and a 22.8% drop in net provisions and investment impairments. However, local market conditions remain highly competitive. Going forward (2015e), net interest income is set to grow by 7.8% only; we forecast a growth of 7.8% in 2015 earnings. For 2016, net income is modeled to grow by 13.4% given higher loan growth, expansion in NIMs and growth in fees. On the efficiency side, we maintain the cost-to-income, on average, in the high-30s. We foresee CBQK expanding its loans & deposits by CAGRs (2013-2017e) of 10.5% and 9.4%, respectively. *(More details on Page 2)*

Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Visible progress in the realization of management's strategy for ABank (efforts underway to up stake to 75%) and 2) Steady bottom-line growth without major asset quality issues.

Recommendation, Valuation and Risks

- Recommendation and valuation: We change CBQK to Accumulate from Market Perform with a price target of QR76.00 vs. QR81.00 previously.** CBQK trades at FY2015e P/TB and P/E of 1.2x and 9.1x, respectively.
- Risks:** 1) Declining oil prices remains the biggest risk to CBQK and the banking sector; 2) Exposure to the real estate and SME (Turkey) segments and 3) New LDR requirement from the QCB could create short-term issues.

Key Financial Data and Estimates

	2013	2014e	2015e	2016e
EPS (QR)	5.40	6.75	7.27	8.24
EPS Growth (%)	(20.27)	24.84	7.77	13.36
P/E (x)	12.3	9.8	9.1	8.0
TBVPS (QR)	43.67	48.51	53.44	59.08
P/TBV (x)	1.5	1.4	1.2	1.1
DPS (QR)	1.67	2.00	2.00	2.50
Dividend Yield (%)	2.5	3.0	3.0	3.8

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

Key Data

Current Market Price (QR)	66.20
Dividend Yield (%)	3.0
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	76.80/57.75
3-m Average Volume ('000)	294.4
Mkt. Cap. (\$ bn/QR bn)	5.4/19.7
Shares Outstanding (mn)	296.9
FO Limit* (%)	25.0
Current FO* (%)	15.9
1-Year Total Return (%)	15.4
Fiscal Year End	December 31

Source: Bloomberg (as of December 11, 2014), *Qatar Exchange (as of December 11, 2014); Note: FO is foreign ownership

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Asset quality issues still not a major concern, in our view. Asset quality issues resurfaced last year mainly from the impairment of a domestic real estate loan (QR1.1bn) in 2Q2013. Consequently, the NPL ratio spiked to 3.6% (2012: 1.1%) and the coverage ratio dropped to 63.0% (2012: 116.3%) as of 2013. Currently the bank's management is in remedial negotiations with the real estate company. Hence, management is confident that they will be able to recover the majority of the loan. We are also of the same view. As such, we carry the NPL in 2014 but we forecast a drop in 2015 to 2.5% (NPL ratio) as the bank recovers a significant chunk of the loan.

Capital raising to enhance Tier-1 position and propel loan growth. Commercialbank issued Tier-1 perpetual capital notes worth ~QR2bn in December 2013 in order to boost its Tier-1 capital. The bank ended 2013 with a Tier 1 ratio and CAR of 12.6% and 14.1% (9M2014: 12.5% and 14.7% Tier-1 ratio and CAR, respectively), respectively. Moreover, we are of the view that Commercialbank needs to raise further capital. If we assume another QR2bn in capital raising during 2015, CBQK's Tier-1 ratio and CAR could improve to 15.1% and 16.7%, respectively. However, we do not factor a second tranche of financing in our model currently. Moreover, strict adherence to the QCB's new LDR requirement could create short-term issues but we await a wait-and-see stance.

Revising Estimates

We adjust some of our assumptions for 2014 and 2015 and reduce our price target. We increase our net interest income for 2014 on the back of a marginal pick up in NIMs. On the other hand, we lower our assumption on net loan growth from 11.6% to 8.0% in 2014. We estimate stable NIMs in 2015 along with lower-than-expected loan growth. Previously, we had assumed a 16.0% growth in loans for 2015. However, we revise the loan growth to 9.0%. Our change in estimates is based on our cautious outlook on 2015. The change in non-interest income is mainly attributed to better-than-expected fees and investment gains. We have significantly lowered our investment gains estimate for 2015, as we believe this is not a sustainable way of generating income. We also factor in a 5.0% dip in fees and commissions. We pencil in a CAGR of 14.4% (2013-2017e) for net income (low base affect) vs. 17.4% previously.

Based on our revised estimates, the WEV and Residual Income methods yield a price target of QR76.0 vs. QR81.00 previously. The only change we made to the assumptions in our valuation model is assuming a sustainable ROE of 14.0% vs. 15.0% previously. Despite falling oil prices, Qatar remains relatively insulated compared to its GCC neighbors. However, if oil prices remain depressed for an extended period, our estimates could be further revised downward.

Scenario Analysis

Scenario Analysis	Bear	Base	Bull
Sustainable RoAE	13%	14%	15%
G	3.0%	4.0%	5.0%
Ke	11.8%	10.8%	9.8%
P/B	1.14	1.47	2.08
Fair Value	58.94	76.28	108.06

Source: QNBFS estimates

Major Estimate Changes

	2014e			2015e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,586	2,635	1.9	2,910	2,840	-2.4
Non Interest Income	1,534	1,681	9.6	1,665	1,703	2.3
Net Operating Income	2,569	2,665	3.8	2,807	2,681	-4.5
Net Income	1,829	2,003	9.5	2,134	2,159	1.2

Source: QNBFS estimates

4Q2014 Estimates

	4Q2013	3Q2014	4Q2014	Change QoQ (%)	Change YoY (%)
Net Interest Income	632	682	679	(0.3)	7.5
Non Interest Income	466	381	385	1.1	(17.3)
Net Operating Income	568	654	651	(0.4)	14.6
Net Income	300	487	493	1.3	64.4

Source: Company data, QNBFS estimates

Detailed Financial Statements

Income Statement (In QR mn)	2013	2014e	2015e	2016e
Net Interest Income	2,188	2,635	2,840	3,157
Fees & Commissions	676	872	828	994
FX Income	179	117	131	138
Other Income	715	693	744	806
Non-Interest Income	1,570	1,681	1,703	1,938
Total Income	3,759	4,316	4,543	5,095
Operating Expenses	(1,437)	(1,650)	(1,862)	(2,023)
Net Provisions & Investment Impairment	(714)	(551)	(398)	(484)
Net Profit Before Taxes & Minority Interest	1,608	2,114	2,283	2,588
Tax	(2)	(53)	(57)	(65)
Net Profit Before Minority Interest	1,605	2,061	2,225	2,523
Minority Interest	(1)	(58)	(67)	(76)
Net Profit	1,604	2,003	2,159	2,447

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	2013	2014e	2015e	2016e
Assets				
Cash & Balances with Central Bank	6,903	6,697	5,650	4,873
Interbank Loans	15,178	15,165	15,749	16,904
Net Investments	14,706	13,896	15,499	16,565
Net Loans	66,863	72,213	78,745	88,967
Investment In Associates	4,198	4,400	4,632	4,891
Other Assets	2,984	2,889	3,150	3,559
Net PP&E	1,283	1,358	1,440	1,529
Goodwill & Other Intangibles	996	996	996	996
Total Assets	113,112	117,614	125,860	138,284
Liabilities				
Interbank Deposits	12,599	12,078	8,775	8,219
Customer Deposits	63,420	60,883	70,624	81,218
Term Loans	17,105	22,642	22,642	22,642
Tier 1 Perpetual Note	2,000	2,000	2,000	2,000
Other Liabilities	3,432	3,957	4,237	4,873
Total Liabilities	98,557	101,561	108,280	118,952
Shareholder's Equity				
Total Shareholder's Equity	13,963	15,402	16,864	18,539
Total Liabilities & Shareholder's Equity	113,112	117,614	125,860	138,284

Source: Company data, QNBFS estimates

Key Ratios

	2013	2014e	2015e	2016e
Profitability (%)				
NIM	2.7	2.7	2.7	2.8
Spread	2.3	2.4	2.4	2.4
RoAE	11.1	13.6	13.4	13.8
RoAA	1.7	1.7	1.8	1.9
RoRWA	1.9	1.9	1.8	1.9
Efficiency (%)				
Cost-to-Income (Headline)	38.2	38.2	41.0	39.7
Cost-to-Income (Core)	44.6	44.2	47.5	45.8
Liquidity (%)				
LDR	105.4	118.6	111.5	109.5
Loans/Assets	59.1	61.4	62.6	64.3
Cash & Interbank Loans-to-Total Assets	19.5	18.6	17.0	15.7
Asset Quality (%)				
NPL Ratio	3.65	3.66	2.50	2.60
Coverage Ratio	63.0	75.0	108.2	104.6
Cost of Risk	1.0	0.7	0.4	0.5
Capitalization (%)				
Tier 1 Ratio	12.6	13.6	13.3	12.8
CAR	14.1	15.2	14.9	14.4
Growth (%)				
Net Interest Income	17.3	20.4	7.8	11.2
Net Operating Income	4.9	14.8	0.6	14.6
Net Income	(20.3)	24.8	7.8	13.4
Loans	37.6	8.0	9.0	13.0
Deposits	53.2	-4.0	16.0	15.0

Source: Company data, QNBFS estimates

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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