

### Commercial Bank of Qatar (CBQK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR40.90</b>	<b>Target Price</b>	<b>QR35.00</b>
<b>Implied Upside</b>	<b>(14.4%)</b>		

#### 2018 Analyst Day: 5-Year Turnaround on the Right Path

CBQK held its 3<sup>rd</sup> investor day earlier this week in Istanbul and presented its 5-year strategy; no change in our view (management delivering) and estimates. Stock price performance thus far has rewarded investors' optimism CBQK's change in strategy and as a result rallied 41.5% YTD outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a tangible P/B of 1.1x vs. 30% discount to book previously. Below we highlight the company's objectives and guidance for 2018 and 2019. We maintain our estimates for now.

#### Highlights

- Guidance for margins remains unchanged for 2018.** NIM is expected to contract by 10 to 15bps in 2018. Our assumption of 2.10% (8bps drop) has not changed for 2018. 2019 guidance for margins is stable (in-line with our assumption) but with a downside risk of 5bps. The bank's NIM in 9M2018 (annualized) dropped to ~2.10%.
- Guidance for CoR remains unchanged.** Management is guiding for a CoR of 100bps in 2018 and 80bps for 2019 as legacy NPLS have been provisioned for. 9M2018 CoR improved to 88bps vs. 108bps in FY2017.
- Diversify and de-risk the loan book is still in focus.** The bank intends to reduce its real estate exposure in the loan book and so far in 9M2018 it stands at 26%. On the other hand, it is approaching the public sector/govt. reaching 10% of its loan book. Moreover, the bank has exited risky exposures to the tune of QR3.7bn vs. QR2.8bn in the previous period. Further exits are in the pipeline. Management has been de-risking its books and the legacy NPLs have been provisioned.
- Guidance for C/I ratio changed for the better.** The bank is guiding for a C/I ratio of 33.5% (2018) vs. 36% previously and 31.5% for 2019. CBQK posted 9M2018 C/I ratio of 33.5% (excluding investment income) vs. 37.1% in 9M2017. Moreover, the bank generated positive JAWs of 12.6% in 9M2018. Improving efficiency is part of management's strategy by reducing C/I ratio to low-30% and they have been delivering. Our estimates for C/I ratio remain unchanged, in-line with management's guidance.
- Management lowered guidance for loans.** Management is guiding for flat to 1% YoY growth for 2018 vs. 7% to 9% previously. Net loans contracted by 2.8% QoQ (-4.9% YTD) to QR84.8bn partially due to Turkish lira depreciation. We still maintain a 2.4% decrease in loans. For 2019, guidance is set at 5.0% (for now we maintain +6.2% estimate).
- Objective of management is maintaining CET1 ratio between 11.0% and 11.5% which has not changed.** Management is expected to achieve these levels by adopting a dividend payout policy which would maintain CBQK's core ratios without further capital hikes. CBQK's CET1 ratio dropped to 9.7% in 9M2018 vs. 11.2% in 2017, mainly due to IFRS9 one-time charge. Based on our estimates, we expect the bank to generate a CET1 ratio of 11.0% in 2018 and 2019. This scenario is possible even with marginal increases in DPS. We still maintain our DPS estimate of 1.50/sh. (dividend payout of 44%).
- Profitability indicators/metrics need to materialize.** The bank has the lowest RoE among its peers, which is below its cost of equity. We expect this to persist over the next few years, indicating economic losses vs. accounting profit. As such, this would adversely impact CBQK's fair value. Management is targeting a sustainable RoE of 14% by 2021 vs. our estimate of 11.1%. Average RoE in our forecast horizon is 11.0% vs CoE of 11.10%.

#### Catalysts

- Delivering better profitability metrics than expected/estimated.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target at QR35/sh. and maintain our Market Perform rating.** CBQK is trading at a 2018e P/TB and P/E of 1.1x and 11.6x, respectively.
- Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

#### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	0.90	3.53	4.19	4.88
EPS Growth (%)	0.2	292.8	18.7	16.4
P/E (x)	45.5	11.6	9.8	8.4
TBVPS (QR)	41.0	38.5	41.3	44.5
P/TB (x)	1.9	1.1	1.0	0.9
DPS (QR)	1.00	1.50	1.75	2.00
Dividend Yield (%)	2.4	3.7	4.3	4.9

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

#### Key Data

Current Market Price (QR)	40.90
Dividend Yield (%)	3.7
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	42.49/25.55
3-m Average Volume ('000)	173.8
Mkt. Cap. (\$ bn/QR bn)	4.5/16.6
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	14.8
1-Year Total Return (%)	+61.0

Fiscal Year End December 31

Source: Bloomberg (as of November 15, 2018), \*Qatar Exchange (as of November 14, 2018); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,518	2,534	2,687	2,885
Fees & Commissions	720	742	794	873
FX Income	163	187	209	178
Other Income	276	241	282	303
<b>Non-Interest Income</b>	<b>1,159</b>	<b>1,170</b>	<b>1,285</b>	<b>1,354</b>
<b>Total Revenue</b>	<b>3,677</b>	<b>3,704</b>	<b>3,972</b>	<b>4,240</b>
Operating Expenses	(1,325)	(1,216)	(1,242)	(1,298)
<b>Net Operating Income</b>	<b>2,352</b>	<b>2,488</b>	<b>2,730</b>	<b>2,941</b>
Net Provisions & Impairments	(1,743)	(807)	(744)	(670)
<b>Net Profit Before Taxes</b>	<b>609</b>	<b>1,681</b>	<b>1,986</b>	<b>2,271</b>
Tax	(5)	(13)	(50)	(58)
<b>Net Profit Before Minority Interest</b>	<b>604</b>	<b>1,669</b>	<b>1,936</b>	<b>2,213</b>
Minority Interest	(0)	(0)	0	0
<b>Net Profit (Headline/Reported)</b>	<b>604</b>	<b>1,669</b>	<b>1,936</b>	<b>2,213</b>
Interest on Tier-1 Note	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(15)	(42)	(48)	(55)
<b>Net Profit (Attributable)</b>	<b>349</b>	<b>1,387</b>	<b>1,647</b>	<b>1,918</b>

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Assets</b>				
Cash & Balances with Central Bank	7,374	5,841	7,720	7,993
Interbank Loans	10,499	13,649	15,014	16,816
Net Investments	19,629	21,788	23,989	26,781
Net Loans	89,122	87,010	92,445	100,133
Investment In Associates	2,088	2,171	2,263	2,362
Other Assets	6,715	8,215	6,812	4,506
Net PP&E	2,591	2,684	2,744	2,807
Goodwill & Other Intangibles	430	334	238	142
<b>Total Assets</b>	<b>138,449</b>	<b>141,693</b>	<b>151,224</b>	<b>161,539</b>
<b>Liabilities</b>				
Interbank Deposits	13,516	11,325	14,280	15,874
Customer Deposits	77,633	76,857	83,006	88,816
Term Loans	20,908	25,926	28,000	30,240
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000
Other Liabilities	5,370	7,686	4,980	4,441
<b>Total Liabilities</b>	<b>121,428</b>	<b>125,794</b>	<b>134,266</b>	<b>143,371</b>
<b>Shareholders' Equity</b>				
Total Shareholders' Equity	17,022	15,899	16,958	18,168
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>138,449</b>	<b>141,693</b>	<b>151,224</b>	<b>161,539</b>

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
<b>Profitability (%)</b>				
RoAE (Attributable)	2.4	8.4	10.6	11.5
RoAA (Attributable)	0.3	1.0	1.1	1.2
RoRWA (Attributable)	3.3	3.1	1.9	1.8
NIM (% of IEAs)	2.18	2.10	2.12	2.10
NIM (% of RWAs)	2.18	2.14	2.16	2.15
NIM (% of AAs)	1.87	1.81	1.83	1.84
Spread	1.8	1.6	1.6	1.5
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	36.0	32.8	31.3	30.6
Cost-to-Income (Core)	38.1	34.3	33.1	32.5
<b>Liquidity (%)</b>				
LDR	115	113	111	113
LDR (stable sources of funds)	90	85	83	84
Loans/Assets	64	61	61	62
Cash & Interbank Loans-to-Total Assets	12.9	13.8	15.0	15.4
Deposits to Assets	56	54	55	55
Wholesale Funding to Loans	39	43	46	46
IEAs to IBLs	118	117	112	115
<b>Asset Quality (%)</b>				
NPL Ratio	5.6	5.2	4.8	4.2
NPLs to Shareholder's Equity	31.0	30.2	27.5	24.5
NPLs to Tier 1 Capital	31.0	28.0	25.7	23.1
Coverage Ratio	81.0	113.4	119.5	128.6
ALL/Average Loans	4.9	5.9	5.8	5.6
Cost of Risk	1.95	0.87	0.73	0.61
<b>Capitalization (%)</b>				
Tier 1 Ratio	14.5	14.3	14.1	13.8
CAR	16.1	15.3	15.8	15.5
Tier 1 Capital to Assets	12.3	12.1	12.0	11.9
Tier 1 Capital to Loans	19.1	19.7	19.6	19.2
Tier 1 Capital to Deposits	21.9	22.3	21.8	21.7
Leverage (x)	8.1	8.9	8.9	8.9
<b>Growth (%)</b>				
Net Interest Income	7.6	0.6	6.0	7.4
Non-Interest Income	-4.0	0.9	9.9	5.4
Total Revenue	3.6	0.7	7.2	6.7
Operating Expenses	-22.1	-8.3	2.2	4.5
Net Operating Income	27.4	5.8	9.7	7.7
Net Provisions & Investment Impairments	29.7	-53.7	-7.8	-9.9
Net Income (Headline/Reported)	20.5	176.4	16.0	14.3
Net Income (Attributable)	30.0	297.9	18.8	16.4
Loans	14.6	-2.4	6.2	8.3
Deposits	9.5	-1.0	8.0	7.0
Assets	6.2	2.3	6.7	6.8
RWAs	2.7	2.5	7.5	8.0

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*

<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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