

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR5.389	Target Price	QR6.681
Implied Upside	24.0%	Old Target Price	QR7.479

Stock Remains Inexpensive at 2024e P/B of 1.0x; Lowering PT; Stay Outperform

We forecast 2022-27e earnings CAGR of 10.6% (vs. 12.0% previously) because of higher CoR estimates (see page 3). Hence, our new sustainable RoE falls to 13.5% vs. 14.8% previously. As a result, we lower our PT from QR7.479/sh. to QR6.681/sh. but maintain our Outperform rating. The stock remains attractive with undemanding multiples. CBQK is trading at a 2023/24 P/TB of 1.1x/1.0x 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 10.6% (2022-27e). Moreover, the market is pricing in a sustainable RoE of 11.0%, which is lower than our forecast and management guidance.

Highlights

- **9M2023 bottom-line** was largely driven by strong non-funded income (+44.1% YoY; fees, f/x income, lower trading losses and income from associates) and a decrease in provisions & impairments (-3.2% YoY); however, hyperinflation accounting shaved off 9% from earnings, preventing earnings growth of 12.7%. Commercial Bank of Qatar (CBQK) reported a net profit of QR2.37bn in 9M2023, growing by 7.5% YoY.
- **RoE is estimated to increase from 13.5% in 2022 to 14.3%/15.1% in 2023e/24e (we were modeling 15.0% previously for 2023).** After 9M2023, we still model RoE to increase beyond 14%. Management is targeting 13-15% during 2022-26 (although we believe RoE could slightly increase above the upper end of guidance depending on CoR). Our new sustainable RoE is 13.5% vs. 14.8% previously, mainly due to our revised CoR levels.
- **NIMs are expected to be flat/in-line with 9M2023 in FY2023 on the back of CoFs.** We estimate flat margins at 2.70% in 2023 as CBQK effectively manages CoFs (interest-bearing deposits significantly dropped in 9M2023). We pencil NIMs of 2.72% (+2.3bps) in 2024 and 2.81% (+9.3bps) in 2025.
- **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 was stable at 5.30% in 3Q2023 vs. 5.46% in 2Q2023 (FY2022: 4.88%); NPL formation was negative sequentially, which is a positive. Coverage of Stage 3 loans remained flat at 74% vs. 2Q2023 (FY2022: 71%). ECLs for Stage 2 loans increased by 17.6% vs. FY2022, but coverage was a low of 10%. 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 2023 is expected at 120-135bps as per management's conservative guidance and should normalize at 120bps by 2026.** 9M2023 provisions for credit losses declined by 5.2% YoY to QR669.9mn, while CoR (annualized) remained flat at 93bps. It should be noted that quarterly annualized CoR is not an indicator for full year CoR. Having said this, management continues on being prudent/conservative by booking large provisions. We model in a CoR of 113bps for 2023, 115bps in 2024 and 120bps in 2025. We estimate CoR to remain at 120bps by 2027 vs. our previous lower estimates. As such, we remain on the conservative side.
- **Diversification of loan book remains on track; management is guiding for 25/16% public sector/real estate mix; Net loans reversed its negative trajectory QoQ after several quarters of government repayment of credit facilities.** During 3Q2023, net loans reversed their negative trajectory; net loans increased by 2.4% sequentially to QR91.5bn, driven by the private sector. However, net loans decreased by 6.6% vs. FY2022. We estimate net loan growth of -7.3%/+3.5% vs. 2.9%/5.7% in 2023/24e previously. We revise our loan growth assumptions; we pencil in a 2022-27e CAGR of 2.1% vs. 5.3% previously.
- **CET1 ratio is expected at 13.0%-14.0% (2023-26) as per management's guidance.** CBQK's CET1 ratio dropped from 11.7% in 1Q2023 to 11.2% in 3Q2023 due to derivatives related-adjustments/charges of QR1.32bn to retained earnings.

Catalysts

- Significant RoE expansion & robust bottom-line growth.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We lower our PT to QR6.681 but retain our Outperform rating.** CBQK is trading at a 2023e/24e P/TB and P/E of 1.1x/1.0x and 8.3x/7.2x, respectively.
- **Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS	0.607	0.651	0.744	0.841
EPS Growth (%)	23.9	7.3	14.2	13.1
P/E (x)	8.9	8.3	7.2	6.4
Tangible BVPS (QR)	4.9	4.9	5.4	6.0
P/TBV (x)	1.1	1.1	1.0	0.9
RoE (%)	13.5	13.4	15.1	15.5
DPS (QR)	0.250	0.250	0.275	0.300
Dividend Yield (%)	4.6	4.6	5.1	5.6

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

Key Data

Current Market Price (QR)	5.389
Dividend Yield (%)	4.6
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	8.450/4.800
3-m Average Volume (mn)	2,705.2
Mkt. Cap. (\$ bn/QR bn)	6.0/21.8
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Current FO* (%)	26.6
1-Year Total Return (%)	(7.3)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), *Qatar Exchange (as of November 15, 2023); Note: FO is foreign institutional ownership

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Valuation

We value CBQK using the Residual Income Model (RI) based on a fundamental P/B:

We add Qatar's 10-year CDS rate of 0.91% to the 10-year US government bond yield (4.8%) to arrive at a risk free rate of 5.7%. We factor in an adjusted beta of 0.93x. Finally, we add an equity risk premium of 8.00% to arrive at a Ke of 13.14%. However, we apply terminal CoE of 10.5%.

Valuation Methodology

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	13.50	Beginning BVPS (2022) (QR)	4.867
Estimated Cost of Equity (%)	10.50	Present Value of Interim Residuals (QR)	0.682
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	2.413
Fundamental P/B	1.5x	Less: Intangibles & Goodwill	0.002
		Less: 30% of NPLs & 20% of Stage 2 Loans	1.279
		Fundamental P/B	1.5x
		Intrinsic Value (QR)	6.681
		Current Market Price (QR)	5.389
		Upside/(Downside) Potential (%)	+24.0%

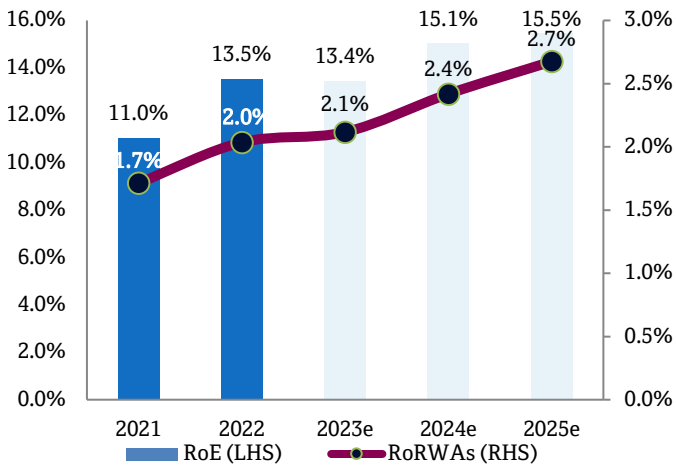
Source: QNB FS Research

Forecasts

	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Terminal
Beginning BVPS	4.87	4.94	5.44	6.00	6.63	7.29	7.97	8.71	9.49	10.32	11.22
Attributable EPS	0.65	0.74	0.84	0.93	1.01	1.08	1.16	1.25	1.33	1.42	1.51
DPS	0.250	0.250	0.275	0.300	0.350	0.400	0.425	0.475	0.500	0.525	0.575
Adjustment	-0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	4.94	5.44	6.00	6.63	7.29	7.97	8.71	9.49	10.32	11.22	12.16
Equity Charge	0.64	0.65	0.71	0.79	0.87	0.96	1.05	1.15	1.25	1.36	1.18
Residual Income	0.01	0.09	0.13	0.14	0.13	0.13	0.12	0.10	0.09	0.07	0.34
Terminal Value (Based on Fundamental P/B)											6.6
Discounted Interim Residuals	0.01	0.08	0.10	0.10	0.08	0.07	0.05	0.04	0.03	0.02	0.10
Discounted Terminal Value											2.41
<i>Growth(Net Income)</i>		14.2%	13.1%	10.6%	8.1%	7.9%	7.4%	7.2%	6.8%	6.6%	6.5%
<i>RoE</i>		13.4%	15.0%	15.5%	15.5%	15.2%	14.9%	14.6%	14.3%	14.1%	13.8%

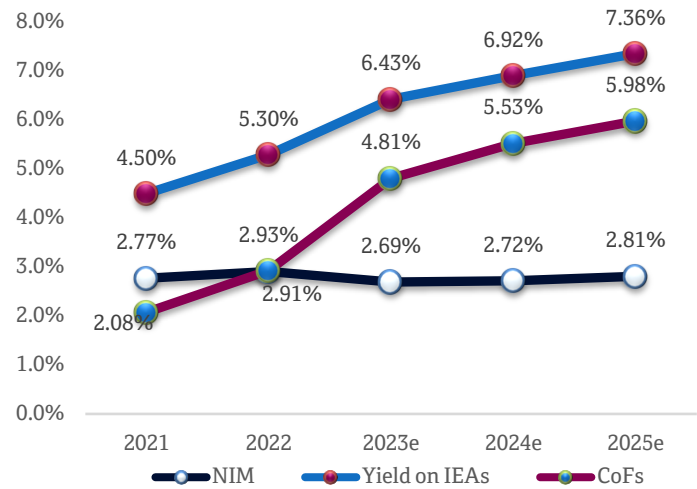
Source: QNB FS Research

RoE & RoRWAs Modeled to Increase in a Healthy Manner

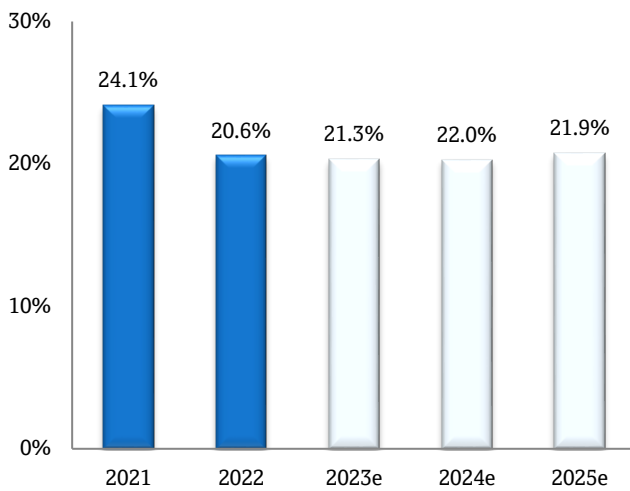


Source: Company data, QNB FS Research

While Margins to Gradually Improve

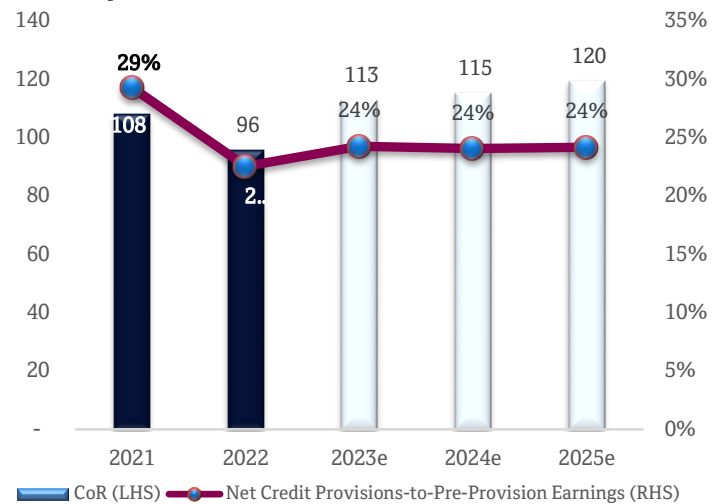


C/I Ratio to Remain Superior

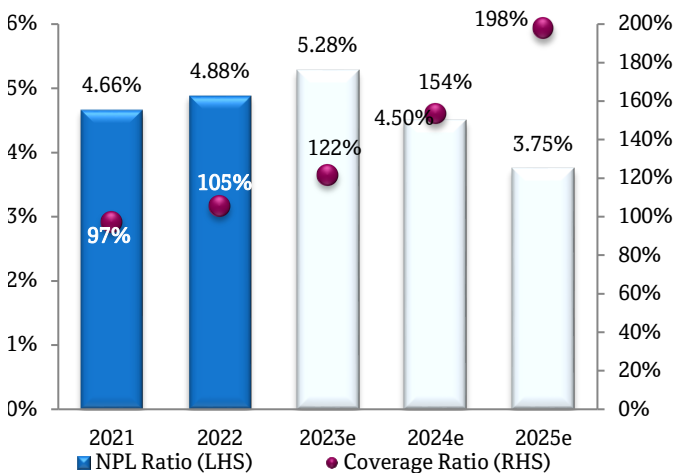


Source: Company data, QNB FS Research; C/I is on a normalized basis

CoR is Expected to Remain Elevated in the Medium Term



NPLs are Legacy and Mainly RE Loans



Source: Company data, QNB FS Research

Coverage of Stage 3 Loans is Expected to Reach 100%

3Q 2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	73,157,278	18,204,770	5,113,371	96,475,419
ECLs	194,999	1,840,723	3,762,376	5,798,098
Stages % of Loans	76%	19%	5.30%	
Stages % of ECLS	3%	32%	65%	
Coverage Ratio	0%	10%	74%	

Change in Estimates

(In QR mn)	2023e			2024e			2025e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	4,167	3,861	-7.4	4,370	3,802	-13.0	4,550	3,989	-12.3
Non Interest Income	1,734	2,063	19.0	1,784	2,283	28.0	1,747	2,565	46.8
Total Revenue	5,901	5,924	0.4	6,154	6,085	-1.1	6,297	6,554	4.1
Opex	1,198	1,261	5.2	1,248	1,336	7.1	1,307	1,437	9.9
Net Operating Income	4,703	4,664	-0.8	4,906	4,749	-3.2	4,990	5,117	2.5
Net Income (Reported)	3,185	2,994	-6.0	3,667	3,378	-7.9	3,821	3,783	-1.0
Net Income (Attributable)	2,822	2,635	-6.6	3,194	3,010	-5.8	3,442	3,404	-1.1

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	3,702	4,106	3,861	3,802	3,989	4,314
Fees & Commissions	928	790	1,010	1,071	1,221	1,367
FX Income	309	415	623	654	772	814
Other Income	291	205	430	558	572	621
Non-Interest Income	1,528	1,410	2,063	2,283	2,565	2,802
Total Revenue	5,230	5,516	5,924	6,085	6,554	7,115
Operating Expenses	(1,480)	(1,138)	(1,261)	(1,336)	(1,437)	(1,537)
Net Operating Income	3,750	4,378	4,664	4,749	5,117	5,579
Net Provisions & Impairments	(1,438)	(1,263)	(1,252)	(1,189)	(1,238)	(1,318)
Net Profit Before Taxes	2,313	3,115	3,411	3,560	3,880	4,260
Tax	(9)	(114)	(102)	(82)	(97)	(107)
Net Profit Before Minority Interest	2,304	3,000	3,309	3,478	3,783	4,154
Minority Interest	(0)	0	0	0	0	0
Non-Recurring Income/(Loss)		(189)	(315)	(100)	0	0
Net Profit (Headline/Reported)	2,304	2,811	2,994	3,378	3,783	4,154
Interest on Tier-1 Note	(264)	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(58)	(70)	(75)	(84)	(95)	(104)
Net Profit (Attributable)	1,983	2,457	2,635	3,010	3,404	3,766

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	17,915	8,030	9,281	8,524	9,114	7,994
Interbank Loans	10,942	20,844	19,885	15,908	12,726	15,653
Net Investments	26,723	29,835	29,880	31,748	33,549	32,467
Net Loans	98,003	98,016	90,886	94,041	98,209	103,354
Investment In Associates	2,961	3,102	3,254	3,420	3,599	3,791
Other Assets	2,567	2,613	2,727	2,445	2,750	3,101
Net PP&E	2,753	3,050	3,106	3,110	3,120	3,133
OREO	3,524	3,564	3,564	3,564	3,564	3,564
Goodwill & Intangible Assets	75	66	10	10	10	10
Total Assets	165,464	169,121	162,593	162,770	166,641	173,067
Liabilities						
Interbank Deposits	17,777	24,054	20,848	18,158	12,974	15,634
Customer Deposits	81,958	83,167	77,346	79,666	82,853	88,818
Term Loans	31,005	26,656	30,068	27,963	30,759	27,068
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820	5,820
Other Liabilities	10,651	9,724	8,508	9,162	9,942	8,882
Total Liabilities	147,211	149,421	142,590	140,769	142,348	146,222
Total Shareholders' Equity	18,253	19,699	20,003	22,001	24,293	26,845
Total Liabilities & Shareholders' Equity	165,464	169,121	162,593	162,770	166,641	173,067
RWAs	115,914	125,475	123,571	125,333	129,147	134,992

Source: Company data, QNB FS Research

Ratios/Key Indicators	2021	2022	2023e	2024e	2025e	2026e
Profitability (%)						
RoTE (Attributable)	11.0	13.5	13.4	15.1	15.5	15.5
RoAA (Attributable)	1.2	1.5	1.6	1.9	2.1	2.2
RoRWA	1.7	2.0	2.1	2.4	2.7	2.9
NIM (% of IEAs)	2.77	2.91	2.69	2.72	2.81	2.94
NIM (% of RWAs)	3.20	3.40	3.10	3.06	3.13	3.27
NIM (% of AAs)	2.32	2.45	2.33	2.34	2.42	2.54
Spread	2.4	2.4	1.6	1.4	1.4	1.5
Efficiency (%)						
Cost-to-Income (Headline)	29.0	20.6	21.3	22.0	21.9	21.6
Cost-to-Income (Core)	30.0	21.4	22.9	24.2	24.0	23.7
Liquidity (%)						
LDR	120	118	118	118	119	116
LDR (Including Stable Source of Funding)	87	89	85	87	86	89
Loans/Assets	59	58	56	58	59	60
Cash & Interbank Loans-to-Total Assets	17.4	17.1	17.9	15.0	13.1	13.7
Deposits to Assets	50	49	48	49	50	51
Wholesale Funding to Loans	50	52	56	49	45	41
IEAs to IBLs (x)	1.18	1.27	1.31	1.33	1.30	1.27
Asset Quality (%)						
NPL Ratio	4.7	4.9	5.3	4.5	3.8	3.0
NPLs to Shareholders' Equity	26.2	25.6	25.6	20.7	16.4	12.6
NPL to Tier-1 Capital	25.7	25.9	27.3	23.1	19.1	15.4
Coverage Ratio	97	105	122	154	198	269
ALL/Average Loans	4.6	5.2	6.2	7.0	7.6	8.3
Cost of Risk (bps)	108	96	113	115	120	121
Capitalization (%)						
CET1 Ratio	11.7	11.6	11.2	11.7	12.2	12.5
Tier-1 Ratio	16.0	15.6	15.2	15.7	16.1	16.2
CAR	18.1	17.3	16.3	16.8	17.2	17.3
Leverage (x)	9.1	8.6	8.1	7.4	6.9	6.4
Growth (%)						
Net Interest Income	19.4	10.9	-6.0	-1.5	4.9	8.1
Non-Interest Income	64.9	-7.7	46.3	10.7	12.3	9.2
Total Revenue	29.9	5.5	7.4	2.7	7.7	8.6
Operating Expenses	35.0	-23.1	10.8	6.0	7.5	7.0
Net Operating Income	28.0	16.7	6.5	1.8	7.8	9.0
Net Provisions & Impairments	-11.0	-12.1	-0.9	-5.1	4.1	6.5
Net Income (Headline)	77.1	22.0	6.5	12.8	12.0	9.8
Net Income (Attributable)	89.6	23.9	7.3	14.2	13.1	10.6
Loans	1.3	0.0	-7.3	3.5	4.4	5.2
Deposits	8.1	1.5	-7.0	3.0	4.0	7.2
Assets	7.7	2.2	-3.9	0.1	2.4	3.9
RWAs	0.3	8.2	-1.5	1.4	3.0	4.5

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>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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