

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.170	Target Price	QR5.244
Implied Upside	25.8%		

2Q2024 Earnings Misses Estimates; Weak Results Across The Board

CBQK's 2Q2024 comes in short of our estimates as the miss was across the board. Commercial Bank of Qatar (CBQK) reported a net profit of QR769.3mn in 2Q2024, lower than our estimate of QR843.6mn (variation of -8.8%). The bottom-line receded by only 0.8% YoY (-4.0% QoQ) as a 38.3% drop in provisions & impairments offset the 12.9% drop in net operating income. Key takeaways from the 2nd quarter results were margin compression, weak non-funded income with fees being the exception as CBQK continued to report f/x losses. However, provisions & impairments were lower, which is a positive. **Net-net, operating results were weaker than anticipated on margin compression, f/x losses and lower investment income, but lower provisions & impairments aided the bottom-line.**

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.
- **Sharp drop in provisions & impairments mitigated earnings from dropping sharply, whereas margins and f/x losses was an overhang.** Net interest income declined by 4.1% YoY (-5.1% QoQ) and non-funded income dropped by 22.1%, resulting in a 10.6% decline in revenue. Moreover, a small drop in opex led to a 12.9% decline in net operating income. On the other hand, net provisions & impairments dropped by 38.3% YoY (-22.5% QoQ), which lead to flattish net profit (-0.8%). Sequentially, net profit only decreased by 4.0% due to net provisions & impairments dropping by 22.5%, offsetting the 9.4% decline in net operating income.
- **1H2024 annualized tangible RoE was strong.** The company generated a RoE of 17.0% vs. 14.8% in 1H2023.
- **NIMs compressed YoY and QoQ.** CBQK's NIMs compressed from 2.73/2.72% in 2Q2023/1Q2024 to 2.56% because of pressure from CoFs.
- **Legacy NPLs remain and are mainly real estate in nature; NPLs remained stable sequentially and YTD.** 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 % of total loans remained at 21%.
- **Credit provisions significantly dropped YoY, but increased sequentially.** 2Q2024 provisions for credit losses decreased by 55.5% YoY (+25.3% sequentially) to QR163.4mn. As such, 1H2024 annualized CoR declined to 60bps from 112bps in 1H2023, which we view positively. Having said this, management continues on being prudent/conservative by booking provisions to reach 100% coverage of Stage 3 loans and allocate more ECLs for Stage 2 loans.
- **Net loans increased sequentially and YoY.** Net loans sequentially increased by 2.7% to QR92.1bn (+0.7% YTD). On the other hand, deposits declined by 2.7% QoQ (+0.9% YTD) to QR77.2bn. Hence, CBQK's LDR ratio extended to 119% from 113% in 1Q2024.
- **CET1/Tier-1 ratio strengthened, which was a positive surprise.** CBQK generated a CET1/Tier-1 ratio of 12.4/15.8%.

Catalysts

- Significant RoE expansion & robust bottom-line growth.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our PT of QR5.244 and Outperform rating.** CBQK is trading at a 2024e P/TB and P/E of 0.8x and 5.9x, respectively.
- **Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR.

Key Financial Data and Estimates

(In QR mn)	2023	2024e	2025e	2025e
EPS	0.655	0.703	0.764	0.828
EPS Growth (%)	7.9	7.3	8.8	8.4
P/E (x)	6.4	5.9	5.5	5.0
Tangible BVPS (QR)	4.6	5.3	5.9	6.5
P/TBV (x)	0.9	0.8	0.7	0.6
RoE (%)	14.5	15.4	14.4	14.1
DPS (QR)	0.250	0.200	0.250	0.275
Dividend Yield (%)	6.0	4.8	6.0	6.6

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

Key Data

Current Market Price (QR)	4.170
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)	6.350/3.756
3-m Average Volume (mn)	4.2
Mkt. Cap. (\$ bn/QR bn)	4.6/16.9
Shares Outstanding (000)	4,047.25
FO Limit* (%)	100.0
Institutional FO* (%)	25.5
1-Year Total Return (%)	(24.1)
Fiscal Year End	December 31

Source: Bloomberg (as of July 16, 2024), *Qatar Exchange (as of July 16, 2024); Note: FO is foreign ownership

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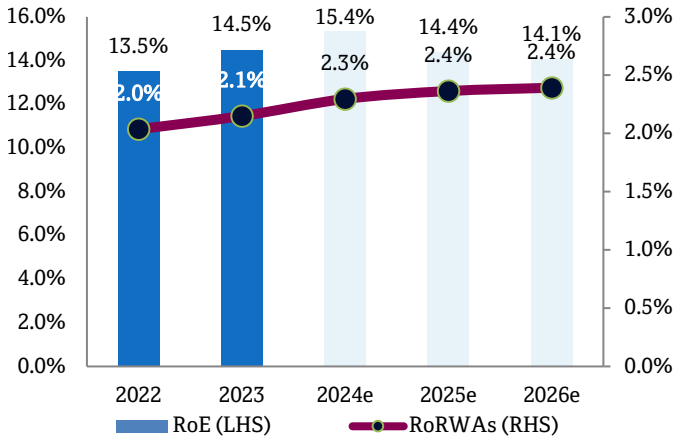
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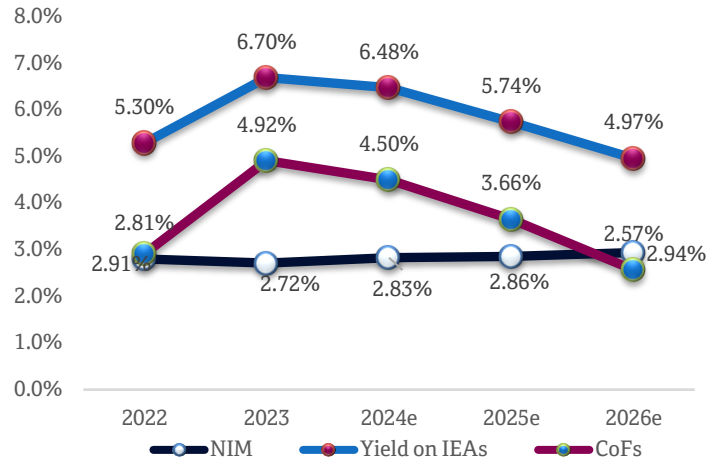
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RoE & RoRWAs Modeled to Increase in a Healthy Manner

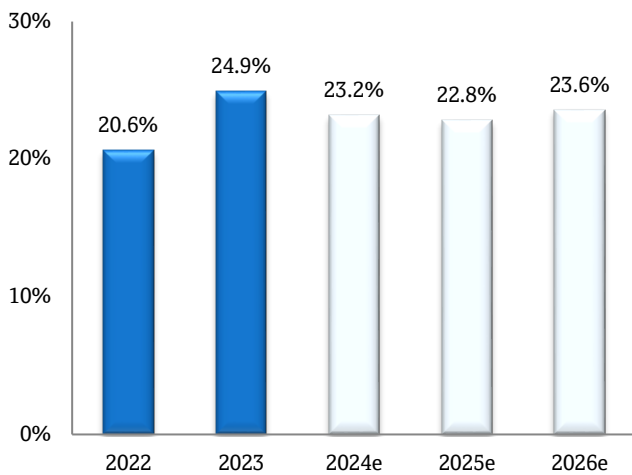


Source: Company data, QNB FS Research

While Margins to Gradually Improve

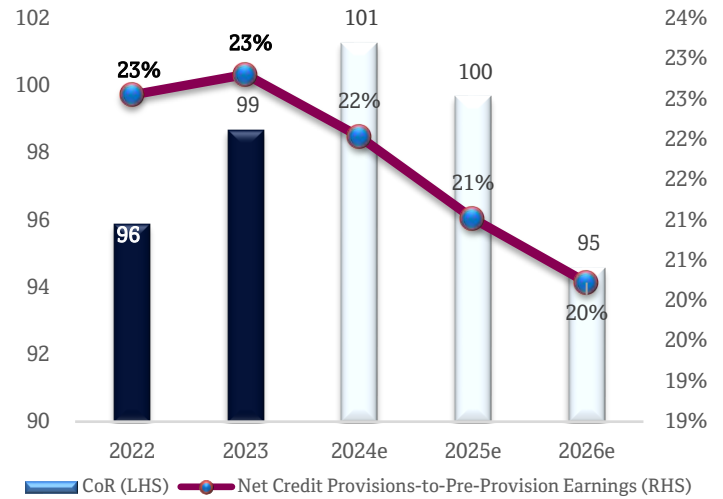


C/I Ratio to Remain Superior

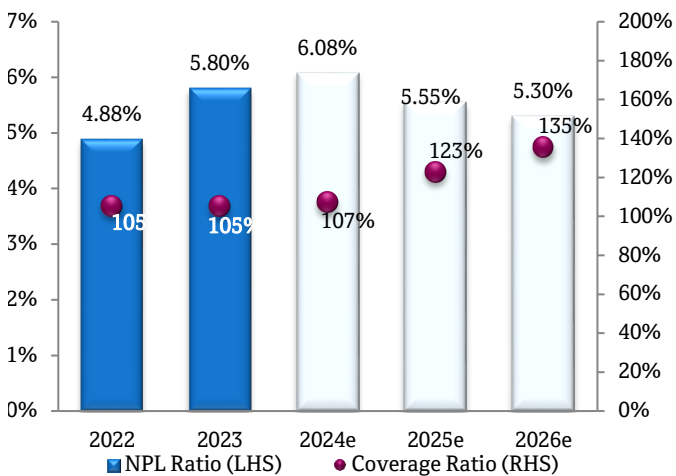


Source: Company data, QNB FS Research

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 is Expected to Reach 100%

2Q 2024	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%	

Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,963	3,867	3,957	4,151	4,448
Fees & Commissions	1,152	805	854	973	866
FX Income	415	528	394	429	453
Other Income	(14)	583	681	642	683
Non-Interest Income	1,553	1,916	1,929	2,045	2,002
Total Revenue	5,516	5,784	5,886	6,196	6,450
Operating Expenses	(1,138)	(1,441)	(1,363)	(1,413)	(1,521)
Net Operating Income	4,378	4,343	4,523	4,783	4,929
Net Provisions & Impairments	(1,263)	(917)	(917)	(1,026)	(1,032)
Net Profit Before Taxes	3,115	3,425	3,606	3,758	3,897
Tax	(114)	(80)	(83)	(94)	(97)
Net Profit Before Minority Interest	3,000	3,345	3,523	3,664	3,800
Minority Interest	0	0	0	0	0
Non-Recurring Income/(Loss)	(189)	(335)	(315)	(200)	(70)
Net Profit (Headline/Reported)	2,811	3,010	3,208	3,464	3,730
Interest on Tier-1 Note	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(70)	(75)	(80)	(87)	(93)
Net Profit (Attributable)	2,457	2,651	2,844	3,093	3,353
Attributable EPS	0.607	0.655	0.703	0.764	0.828

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	8,925	9,282	9,597
Interbank Loans	20,844	20,525	20,731	22,804	21,207
Net Investments	29,835	30,762	29,501	31,159	33,599
Net Loans	98,016	91,490	92,908	95,388	100,716
Investment In Associates	3,102	3,373	3,538	3,716	3,906
Other Assets	2,395	2,547	3,716	2,862	2,800
Net PP&E	3,050	3,063	3,109	3,207	3,309
OREO	3,564	3,921	3,921	3,921	3,921
Goodwill & Intangible Assets	66	62	57	3	3
Total Assets	168,902	164,376	166,405	172,340	179,058
Liabilities					
Interbank Deposits	24,054	18,805	15,272	17,117	19,509
Customer Deposits	83,167	76,541	81,134	84,379	89,695
Term Loans	27,786	34,166	34,508	31,057	28,883
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	9,724	10,458	8,113	10,125	8,969
Total Liabilities	150,551	145,790	144,848	148,499	152,876
Total Shareholders' Equity	18,351	18,586	21,557	23,841	26,182
Total Liabilities & Shareholders' Equity	168,902	164,376	166,405	172,340	179,058
RWAs	125,475	121,274	126,468	135,287	145,037

Source: Company data, QNB FS Research

Ratios/Key Indicators	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoTE (Attributable)	13.5	14.5	15.4	14.4	14.1
RoAA (Attributable)	1.5	1.6	1.7	1.8	1.9
RoRWA	2.0	2.1	2.3	2.4	2.4
NIM (% of IEAs)	2.81	2.72	2.83	2.86	2.94
NIM (% of RWAs)	3.28	3.13	3.19	3.17	3.17
NIM (% of AAs)	2.37	2.32	2.39	2.45	2.53
Spread	2.4	1.8	2.0	2.1	2.4
Efficiency (%)					
Cost-to-Income (Headline)	20.6	24.9	23.2	22.8	23.6
Cost-to-Income (Core)	20.6	27.7	26.2	25.4	26.4
Liquidity (%)					
LDR	118	120	115	113	112
LDR (Including Stable Source of Funding)	88	83	80	83	85
Loans/Assets	58	56	56	55	56
Cash & Interbank Loans-to-Total Assets	17.1	17.7	17.8	18.6	17.2
Deposits to Assets	49	47	49	49	50
Wholesale Funding to Loans	53	58	54	51	48
IEAs to IBLs (x)	1.26	1.21	1.25	1.28	1.26
Asset Quality (%)					
NPL Ratio	4.9	5.8	6.1	5.6	5.3
NPLs to Shareholders' Equity	27.5	30.4	28.0	23.8	22.0
NPL to Tier-1 Capital	25.9	33.1	33.4	29.3	27.9
Coverage Ratio	105	105	107	123	135
ALL/Average Loans	5.2	5.9	6.6	6.9	7.4
Cost of Risk (bps)	96	99	101	100	95
Capitalization (%)					
CET1 Ratio	11.6	10.7	11.0	11.2	11.3
Tier-1 Ratio	15.6	14.1	14.3	14.3	14.2
CAR	17.3	14.9	15.2	15.2	15.0
Leverage (x)	9.2	8.8	7.7	7.2	6.8
Growth (%)					
Net Interest Income	7.1	-2.4	2.3	4.9	7.1
Non-Interest Income	1.6	23.4	0.6	6.0	-2.1
Total Revenue	5.5	4.8	1.8	5.3	4.1
Operating Expenses	-23.1	26.6	-5.4	3.6	7.6
Net Operating Income	16.7	-0.8	4.1	5.8	3.1
Net Provisions & Impairments	-12.1	-27.4	-0.1	11.9	0.6
Net Income (Headline)	22.0	7.1	6.6	8.0	7.7
Net Income (Attributable)	23.9	7.9	7.3	8.8	8.4
Loans	0.0	-6.7	1.5	2.7	5.6
Deposits	1.5	-8.0	6.0	4.0	6.3
Assets	2.1	-2.7	1.2	3.6	3.9
RWAs	8.2	-3.3	4.3	7.0	7.2

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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