

## Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.400	Target Price	QR5.244
Implied Upside	19.2%		

### 3Q2024 Earnings Falls Short of Estimates on Overall Weak Results

**CBQK's 3Q2024 comes in short of our estimates as the miss was across the board.** Commercial Bank of Qatar (CBQK) reported a net profit of QR770.3mn in 3Q2024, lower than our estimate of QR813.4mn (variation of -5.3%). The bottom-line dropped by 16.7% YoY (flat QoQ) because of margin pressure and weak non-funded income. Key takeaways from the 3<sup>rd</sup> quarter results were margin compression, weak non-funded income with fees dropping by 26.3% and continued f/x losses. However, hyperinflation was significantly lower, which is a positive. **Net-net, operating results were weaker than anticipated on margin compression, f/x losses and lower investment income.**

#### Highlights

- Weak results across the board dented the bottom-line.** Net interest income declined by 6.4% YoY (-3.0% QoQ) and non-funded income dropped by 34.0% (-7.8% QoQ), resulting in a 16.9% decline in revenue. Moreover, an increase of 21.3% in opex led to a 26.1% decline in net operating income. On the other hand, reversals of other impairments led to a 16.7% drop in earnings. Sequentially, net profit was flat due to reversals of other impairments as net operating income dropped by 8.3%.
- 9M2024 annualized tangible RoE was strong.** The company generated a RoE of 16.9% vs. 16.6% in 9M2023.
- NIMs continued to compress YoY and QoQ.** CBQK's NIMS compressed from 2.73/2.56% in 3Q2023/2Q2024 to 2.52% because of pressure from CoFs.
- Legacy NPLs remain and are mainly real estate in nature; NPLs remained stable sequentially and YTD.** NPL ratio remained broadly stable at 5.98% in 3Q2024 vs. 5.89% in 2Q2024 (FY2023: 5.85%); NPL formation was negligible sequentially, which is a positive. Coverage of Stage 3 loans improved from 75% in 2Q2024 to 79% in 3Q2024. Coverage of Stage 2 loans remained a low of 9%. Stage 2 loans % of total loans remained at 21%.
- Credit provisions increased YoY, but remained flat sequentially.** 3Q2024 provisions for credit losses increased by 15.0% YoY (flat QoQ) to QR164.3mn. However, overall 9M2024 provisions remained lower than 9M2023. As such, 9M2024 annualized CoR declined to 63bps from 93bps in 9M2023, 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 receded sequentially and YTD.** Net loans sequentially decreased by 1.5% to QR90.7bn (-0.8% YTD). On the other hand, deposits increased by 0.5% QoQ (+1.3% YTD) to QR77.6bn. Hence, CBQK's LDR ratio moved down to 117% from 119% in 2Q2024.
- CET1/Tier-1 ratio strengthened, which was a positive surprise.** CBQK generated a CET1/Tier-1 ratio of 13.0/16.4%.

#### 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 2024/25e P/TB and P/E of 0.9/0.8x and 6.2/5.6x, 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)	6.7	6.2	5.6	5.0
Tangible BVPS (QR)	4.6	5.1	5.7	6.3
P/TBV (x)	1.0	0.9	0.8	0.7
RoE (%)	14.5	15.4	15.4	15.5
DPS (QR)	0.250	0.250	0.275	0.300
Dividend Yield (%)	5.7	5.7	6.3	6.8

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

#### Key Data

Current Market Price (QR)	4.400
Dividend Yield (%)	5.7
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	6.200/3.756
3-m Average Volume (mn)	3.4
Mkt. Cap. (\$ bn/QR bn)	4.9/17.8
Shares Outstanding (000)	4,047.25
FO Limit* (%)	100.0
Institutional FO* (%)	25.0
1-Year Total Return (%)	(12.4)
Fiscal Year End	December 31

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

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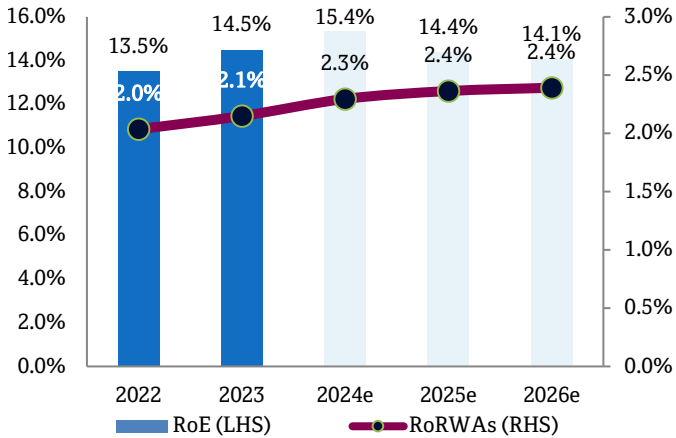
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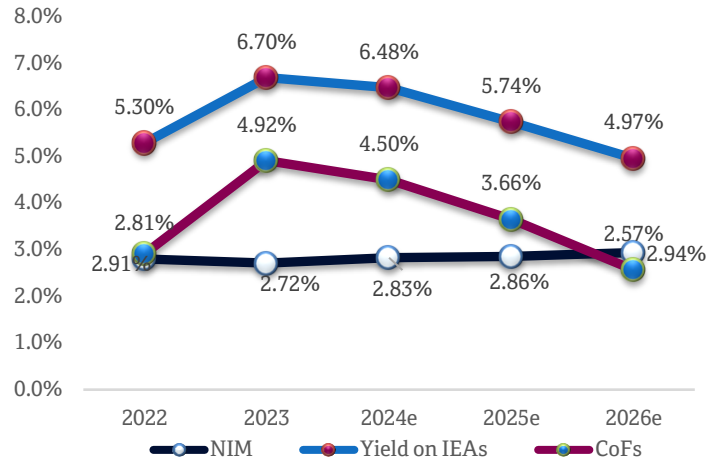
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### RoE & RoRWAs Modeled to Increase in a Healthy Manner

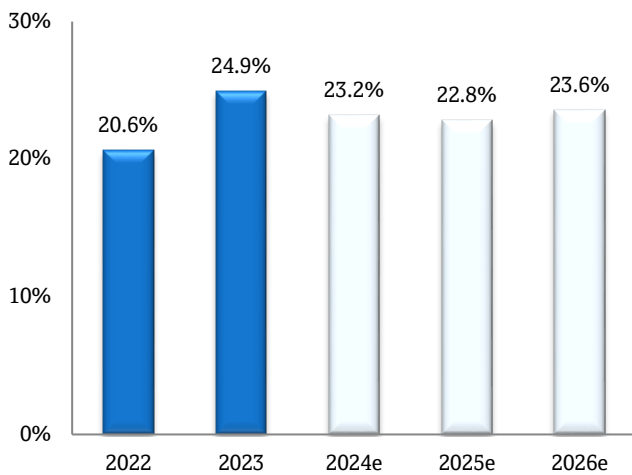


Source: Company data, QNB FS Research

### While Margins to Gradually Improve

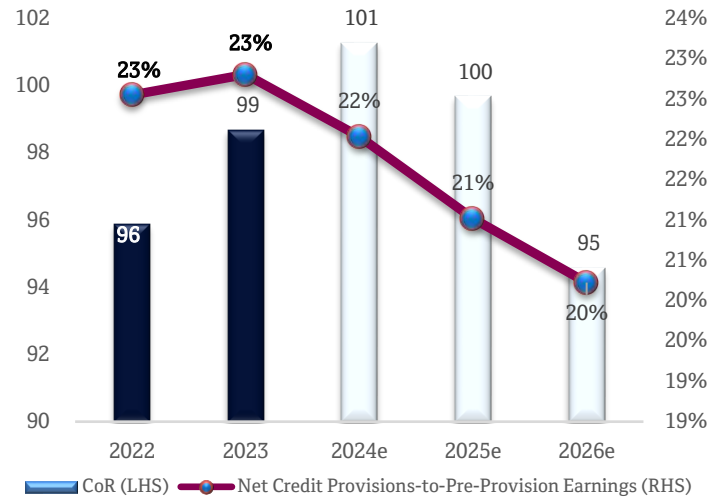


### C/I Ratio to Remain Superior

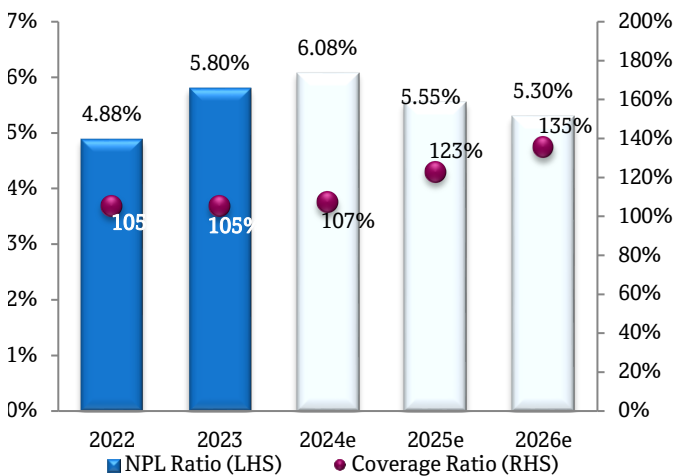


Source: Company data, QNB FS Research

### 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%

3Q 2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	70,238,837	20,428,920	5,764,379	96,432,136
ECLs	220,812	1,864,532	4,539,955	6,625,299
Stages % of Loans	73%	21%	5.98%	
Stages % of ECLS	3%	28%	69%	
Coverage Ratio	0%	9%	79%	

## 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
<b>Non-Interest Income</b>	<b>1,553</b>	<b>1,916</b>	<b>1,929</b>	<b>2,045</b>	<b>2,002</b>
<b>Total Revenue</b>	<b>5,516</b>	<b>5,784</b>	<b>5,886</b>	<b>6,196</b>	<b>6,450</b>
Operating Expenses	(1,138)	(1,441)	(1,363)	(1,413)	(1,521)
<b>Net Operating Income</b>	<b>4,378</b>	<b>4,343</b>	<b>4,523</b>	<b>4,783</b>	<b>4,929</b>
Net Provisions & Impairments	(1,263)	(917)	(917)	(1,026)	(1,032)
<b>Net Profit Before Taxes</b>	<b>3,115</b>	<b>3,425</b>	<b>3,606</b>	<b>3,758</b>	<b>3,897</b>
Tax	(114)	(80)	(83)	(94)	(97)
<b>Net Profit Before Minority Interest</b>	<b>3,000</b>	<b>3,345</b>	<b>3,523</b>	<b>3,664</b>	<b>3,800</b>
Minority Interest	0	0	0	0	0
Non-Recurring Income/(Loss)	(189)	(335)	(315)	(200)	(70)
<b>Net Profit (Headline/Reported)</b>	<b>2,811</b>	<b>3,010</b>	<b>3,208</b>	<b>3,464</b>	<b>3,730</b>
Interest on Tier-1 Note	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(70)	(75)	(80)	(87)	(93)
<b>Net Profit (Attributable)</b>	<b>2,457</b>	<b>2,651</b>	<b>2,844</b>	<b>3,093</b>	<b>3,353</b>
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
<b>Total Assets</b>	<b>168,902</b>	<b>164,376</b>	<b>166,405</b>	<b>172,340</b>	<b>179,058</b>
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	<b>150,551</b>	<b>145,790</b>	<b>144,848</b>	<b>148,499</b>	<b>152,876</b>
<b>Total Shareholders' Equity</b>	<b>18,351</b>	<b>18,586</b>	<b>21,557</b>	<b>23,841</b>	<b>26,182</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>168,902</b>	<b>164,376</b>	<b>166,405</b>	<b>172,340</b>	<b>179,058</b>
<b>RWAs</b>	<b>125,475</b>	<b>121,274</b>	<b>126,468</b>	<b>135,287</b>	<b>145,037</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	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
<b>Efficiency (%)</b>					
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
<b>Liquidity (%)</b>					
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
<b>Asset Quality (%)</b>					
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
<b>Capitalization (%)</b>					
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
<b>Growth (%)</b>					
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>	
<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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