

### Commercial Bank of Qatar (CBQK)

| Recommendation | MARKET PERFORM | Risk Rating  | R-3     |
|----------------|----------------|--------------|---------|
| Share Price    | QR30.80        | Target Price | QR30.00 |
| Implied Upside | (2.6%)         |              |         |

### 1Q2017 Disappoints; Provisions Higher than Expected

**CBQK unveiled its ambitious 5-year turnaround plan/strategy on November 2016.** Commercial Bank of Qatar (CBQK) has been lagging its domestic peers consistently on an operating basis for a while. With the appointment of a new CEO, management has set forth a 5-year strategy with an aim to turn the bank around. Management has made some progress in achieving its goals.

#### Highlights

- **CBQK reports QR91.2mn net profit in 1Q2017, falling short of estimates on higher than expected provisions.** Commercial Bank of Qatar (CBQK) reported net profit of QR91.23mn in 1Q2017 vs. QR1.40mn in 4Q2016 (288.12mn) in 1Q2016). Earnings fell short of our estimates (QR223.5mn) and BBG consensus (QR252.33). On the other hand, CBQK's total Revenue clocked in at QR936.29mn (+42.8% QoQ, down 2.4% YoY), in-line with our estimate of QR906.53mn (+3.3% divergence). Pre-provision income surged by 207.0% QoQ (+7.9% YoY) to QR580.89mn. Growth in pre-provision income on a YoY basis was solely driven by lower opex. Non-funded income was due to base effect as CBQK reported income from associates of QR50.82mn vs. a loss of 205.02mn in 4Q2016.
- **Margins improved marginally QoQ but remains weak.** Net Interest Income rose by 10.9% QoQ to QR598.57mn in 1Q2017 (down 4.1% YoY). NIMs improved by 12bps QoQ to 2.10% while contracted by 25bps YoY. *Management is guiding towards stable NIMs for 2017*
- **Asset quality remained under pressure.** NPLs increased by 6.2% QoQ to QR4.32bn, while the NPL ratio remained at 5.0% (majority of NPLs are legacy). On the other hand, coverage ratio jumped to 86% from 79% in 4Q2016. Net provisions and impairments surged to QR484.76mn vs. QR168.55mn in 4Q2016 (QR279.41mn in 1Q2016). *We were expecting high provisions but not of this magnitude. Management is guiding for provisions in 2017 to remain more or less around the same levels as last year (QR1.27bn). We assume QR1.35bn for 2017.*
- **Operating efficiency improved.** CBQK posted opex of QR355.40mn, dropping by 23.8% and 15.6% QoQ and YoY, respectively. Hence the C/I ratio dropped to 38.0% vs. 71.1% in 4Q2016 (43.9% in 1Q2016). Moreover, the bank generated positive JAWs QoQ and YoY. *Improving efficiency is part of management's strategy by reducing C/I ratio to mid-30% Management has significantly slashed cost in 1Q2017.*
- **Loan growth improved which we see as a positive; LDR remains elevated, however.** Net loans climbed up by 5.4% QoQ to QR82.03bn, while customer deposits ticked up by 1.3% to QR71.88bn. As such, the bank's LDR was lifted to 114% vs. an already elevated LDR of 110% in 4Q2016.

#### Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments would be perceived positively by the market:** Visible progress in achieving and meeting goals and objectives outlined in 5-year strategy.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR30.00 and maintain our Market Perform rating.** CBQK is trading at a 2017e P/TB and P/E of 0.8x and 22.5x, respectively.
- **Risks:** 1) Failing to achieve goals & objectives from 5-year plan and 2) Prolonged depressed oil prices.

#### Key Financial Data and Estimates

|                       | FY2016 | FY2017e | FY2018e | FY2019e |
|-----------------------|--------|---------|---------|---------|
| Attributable EPS (QR) | 0.66   | 1.37    | 3.23    | 3.91    |
| EPS Growth (%)        | -78.5  | 106.2   | 136.5   | 21.0    |
| P/E (x)               | 46.5   | 22.5    | 9.5     | 7.9     |
| TBVPS (QR)            | 36.6   | 39.8    | 43.3    | 0.0     |
| P/TB (x)              | 0.8    | 0.8     | 0.7     | 0.7     |
| DPS (QR)              | 0.00   | 0.00    | 1.00    | 1.00    |
| Dividend Yield (%)    | 0.0    | 0.0     | 3.2     | 3.2     |

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

#### Key Data

|                           |                         |
|---------------------------|-------------------------|
| Current Market Price (QR) | 30.80                   |
| Dividend Yield (%)        | 0.0                     |
| Bloomberg Ticker          | CBQK QD                 |
| ADR/GDR Ticker            | GBB39RMD9.L             |
| Reuters Ticker            | COMB.QA                 |
| ISIN                      | QA0007227752            |
| Sector*                   | Banks & Financial Svcs. |
| 52wk High/52wk Low (QR)   | 43.09/28.76             |
| 3-m Average Volume ('000) | 404.5                   |
| Mkt. Cap. (\$ bn/QR bn)   | 3.4/12.5                |
| Shares Outstanding (mn)   | 404.7                   |
| FO Limit* (%)             | 49.0                    |
| Current FO* (%)           | 14.4                    |
| 1-Year Total Return (%)   | (14.7)                  |
| Fiscal Year End           | December 31             |

Source: Bloomberg (as of April 18, 2017), \*Qatar Exchange (as of April 17, 2017); Note: FO is foreign ownership

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## Detailed Financial Statements

| Ratios                                  | FY2016 | FY2017e | FY2018e | FY2019e |
|---|--------|---------|---------|---------|
| <b>Profitability (%)</b>                |        |         |         |         |
| RoAE (Attributable)                     | 1.8    | 3.5     | 7.6     | 8.6     |
| RoAA (Attributable)                     | 0.2    | 0.4     | 0.9     | 1.0     |
| RoRWA (Attributable)                    | 3.2    | 3.3     | 3.1     | 1.9     |
| NIM (% of IEAs)                         | 2.14   | 2.16    | 2.17    | 2.22    |
| NIM (% of RWAs)                         | 2.13   | 2.14    | 2.18    | 2.27    |
| NIM (% of AAs)                          | 1.84   | 1.86    | 1.89    | 1.94    |
| Spread                                  | 1.8    | 1.8     | 1.8     | 1.8     |
| <b>Efficiency (%)</b>                   |        |         |         |         |
| Cost-to-Income (Headline)               | 48.0   | 43.3    | 39.8    | 37.9    |
| Cost-to-Income (Core)                   | 49.6   | 47.2    | 43.8    | 42.1    |
| <b>Liquidity (%)</b>                    |        |         |         |         |
| LDR                                     | 110    | 109     | 103     | 98      |
| LDR (including CDs)                     | 110    | 109     | 103     | 98      |
| Loans/Assets                            | 60     | 60      | 60      | 59      |
| Cash & Interbank Loans-to-Total Assets  | 19.7   | 19.5    | 19.0    | 20.4    |
| Deposits to Assets                      | 54     | 55      | 58      | 61      |
| Wholesale Funding to Loans              | 44     | 44      | 38      | 35      |
| IEAs to IBLs                            | 119    | 116     | 115     | 116     |
| <b>Asset Quality (%)</b>                |        |         |         |         |
| NPL Ratio                               | 5.0    | 5.2     | 5.5     | 5.0     |
| NPLs to Shareholder's Equity            | 26.5   | 27.7    | 29.7    | 27.5    |
| NPLs to Tier 1 Capital                  | 27.1   | 28.1    | 31.1    | 28.8    |
| Coverage Ratio                          | 78.9   | 89.5    | 94.4    | 101.7   |
| ALL/Average Loans                       | 4.0    | 4.8     | 5.4     | 5.3     |
| Cost of Risk                            | 1.59   | 1.62    | 1.04    | 0.95    |
| <b>Capitalization (%)</b>               |        |         |         |         |
| Tier 1 Ratio                            | 13.1   | 13.4    | 13.0    | 12.8    |
| CAR                                     | 15.2   | 15.1    | 14.7    | 14.5    |
| Tier 1 Capital to Assets                | 11.5   | 11.6    | 11.3    | 10.8    |
| Tier 1 Capital to Loans                 | 19.2   | 19.4    | 18.7    | 18.3    |
| Tier 1 Capital to Deposits              | 21.1   | 21.2    | 19.3    | 17.9    |
| Leverage (x)                            | 8.5    | 8.5     | 8.5     | 8.8     |
| <b>Growth (%)</b>                       |        |         |         |         |
| Net Interest Income                     | -7.6   | 7.8     | 9.0     | 12.0    |
| Non-Interest Income                     | -15.8  | 19.7    | 12.5    | -0.1    |
| Total Revenue                           | -10.6  | 11.9    | 10.3    | 7.5     |
| Operating Expenses                      | 0.7    | 1.0     | 1.3     | 2.5     |
| Net Operating Income                    | -19.0  | 21.9    | 17.2    | 10.8    |
| Net Provisions & Investment Impairments | 49.7   | 6.0     | -28.7   | -0.4    |
| Net Income (Headline/Reported)          | -64.3  | 60.4    | 96.4    | 17.9    |
| Net Income (Attributable)               | -78.5  | 106.2   | 136.5   | 21.0    |
| Loans                                   | 1.6    | 7.7     | 8.4     | 9.1     |
| Deposits                                | 1.6    | 8.0     | 15.0    | 15.0    |
| Assets                                  | 5.6    | 7.7     | 7.7     | 10.7    |
| RWAs                                    | 7.7    | 7.0     | 7.5     | 7.6     |

Source: Company data, QNBFS Research

| <b>Income Statement (In QR mn)</b>                       | <b>FY2016</b> | <b>FY2017e</b> | <b>FY2018e</b> | <b>FY2019e</b> |
|--|---------------|----------------|----------------|----------------|
| Net Interest Income                                      | 2,341         | 2,524          | 2,751          | 3,081          |
| Fees & Commissions                                       | 737           | 796            | 891            | 802            |
| FX Income  | 245           | 226            | 248            | 258            |
| Other Income   | 225           | 424            | 487            | 564            |
| <b>Non-Interest Income</b>                               | <b>1,207</b>  | <b>1,445</b>   | <b>1,626</b>   | <b>1,624</b>   |
| <b>Total Revenue</b>                                     | <b>3,548</b>  | <b>3,969</b>   | <b>4,377</b>   | <b>4,705</b>   |
| Operating Expenses                                       | (1,702)       | (1,719)        | (1,742)        | (1,785)        |
| <b>Net Operating Income</b>                              | <b>1,846</b>  | <b>2,250</b>   | <b>2,635</b>   | <b>2,920</b>   |
| Net Provisions & Impairments                             | (1,344)       | (1,425)        | (1,016)        | (1,012)        |
| <b>Net Profit Before Taxes &amp; Non-Recurring Items</b> | <b>502</b>    | <b>824</b>     | <b>1,619</b>   | <b>1,909</b>   |
| Non-Recurring Income                                     | 0             | 0              | 0              | 0              |
| <b>Net Profit After Non-Recurring Income</b>             | <b>502</b>    | <b>824</b>     | <b>1,619</b>   | <b>1,909</b>   |
| Tax  | (0)           | (21)           | (41)           | (48)           |
| <b>Net Profit Before Minority Interest</b>               | <b>501</b>    | <b>803</b>     | <b>1,578</b>   | <b>1,860</b>   |
| Minority Interest  | (1)           | 0              | 0              | 0              |
| <b>Net Profit (Headline/Reported)</b>                    | <b>501</b>    | <b>803</b>     | <b>1,578</b>   | <b>1,860</b>   |
| Interest on Tier-1 Note                                  | (220)         | (230)          | (230)          | (230)          |
| Social & Sports Contribution Fund                        | (13)          | (20)           | (39)           | (47)           |
| <b>Net Profit (Attributable)</b>                         | <b>268</b>    | <b>553</b>     | <b>1,309</b>   | <b>1,584</b>   |

Source: Company data, QNBFS Research

| <b>Balance Sheet (In QR mn)</b>                     | <b>FY2016</b>  | <b>FY2017e</b> | <b>FY2018e</b> | <b>FY2019e</b> |
|---|----------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |                |                |                |                |
| Cash & Balances with Central Bank                   | 6,421          | 6,128          | 7,047          | 8,104          |
| Interbank Loans                                     | 19,302         | 21,232         | 21,657         | 25,988         |
| Net Investments                                     | 15,378         | 17,607         | 19,663         | 21,586         |
| Net Loans   | 77,798         | 83,798         | 90,805         | 99,111         |
| Investment In Associates                            | 4,301          | 4,383          | 4,490          | 4,651          |
| Other Assets  | 4,049          | 4,190          | 4,540          | 4,956          |
| Net PP&E  | 2,649          | 2,663          | 2,678          | 2,694          |
| Goodwill & Other Intangibles                        | 483            | 379            | 274            | 219            |
| <b>Total Assets</b>                                 | <b>130,380</b> | <b>140,380</b> | <b>151,155</b> | <b>167,310</b> |
| <b>Liabilities</b>                                  |                |                |                |                |
| Interbank Deposits                                  | 11,634         | 12,435         | 7,953          | 6,081          |
| Certificate of Deposits                             | -              | -              | -              | -              |
| Customer Deposits                                   | 70,926         | 76,601         | 88,091         | 101,304        |
| Term Loans  | 22,495         | 24,744         | 26,723         | 28,861         |
| Tier-1 Perpetual Notes                              | 4,000          | 4,000          | 4,000          | 4,000          |
| Other Liabilities                                   | 6,024          | 6,128          | 6,607          | 8,104          |
| <b>Total Liabilities</b>                            | <b>115,079</b> | <b>123,908</b> | <b>133,374</b> | <b>148,351</b> |
| <b>Shareholders' Equity</b>                         |                |                |                |                |
| Total Shareholders' Equity                          | 15,301         | 16,472         | 17,781         | 18,960         |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>130,380</b> | <b>140,380</b> | <b>151,155</b> | <b>167,310</b> |

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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