

## Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR5.300	Target Price	QR7.479
Implied Upside	41.1%		

### 3Q2023 Bottom-Line In-Line; Hyperinflation Dented Earnings

**CBQK's 3Q2023 comes in-line with our estimates as lower than anticipated provisions offset weak operating income.** Commercial Bank of Qatar (CBQK) reported a net profit of QR811.1mn in 3Q2023, in-line with our estimate of QR819.1mn (variation of -1.0%). The bottom-line increased by 5.5% YoY and 1.0% sequentially. Key positives to take from the 3<sup>rd</sup> quarter results were strong non-funded (fees, f/x, share of profit from associates, investment income and lower provisions). However, net interest income was disappointing despite flat NIMs as loan book growth remains anemic. **Net-net, operating results was weaker than anticipated, but lower provisions aided the bottom-line.**

- **Significantly larger hyperinflation losses adversely affected profitability.** CBQK incurred hyperinflation losses of QR132.8mn in 3Q2023 vs. QR29.3mn in 3Q2022 (2Q2023: QR50.6mn), shaving off 14.1% from the bottom-line. Excluding hyperinflation losses, net profit would have increased by 18.2% YoY and 10.6% sequentially.
- **Non-funded income and a sharp drop in provisions & impairments impacted earnings positively, whereas net interest income was an overhang.** Fees grew by 68.0% YoY (26.5% QoQ), while f/x income gained by 35.1% (-44.6% QoQ). Moreover, CBQK generated investment income vs. investment losses in 3Q2022 and 2Q2023. Furthermore, share of profit from associates significantly increased by 36.9% YoY (+7.9% sequentially). Net provisions & impairments dropped materially by 32.6% YoY (-51.7% QoQ), which lead to a growth in net profit before hyperinflation of 18.2% (+10.6% sequentially). On the other hand, net interest income declined by 8.0% YoY (-0.6% QoQ).
- **NIMs remained flat in 3Q2023.** CBQK's NIMs remained flat at 2.72% vs. 2.76% in 3Q2022 (2Q2023: 2.73%). Having said this, the reason net interest income dropped was due to the general decline in loans.
- **Legacy NPLs remain and are mainly real estate in nature.** NPL ratio was stable at 5.3% in 3Q2023 vs. 5.5% in 2Q2023 (FY2022: 4.9%); NPL formation was negative sequentially, which is a positive. Coverage of Stage 3 loans remained flat at 74% vs. 2Q2023 (FY2022: 69%). ECLs for Stage 2 loans increased by 17.6% vs. FY2022, but coverage was a low of 10%.
- **Credit provisions materially dropped both YoY and sequentially.** 3Q2023 provisions for credit losses dropped by 30.2% YoY (-61.1% sequentially) to QR142.8mn, while CoR (annualized) remained flat at 92bps in 9M2023. 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 provisions to reach 100% coverage of Stage 3 loans and allocate more ECLs for Stage 2 loans.
- **Net loans reversed its negative trajectory QoQ after quarters of government repayment of credit facilities.** Net loans increased by 2.4% sequentially (-6.6% YTD). On the other hand, deposits receded by 1.8% QoQ (-10.1% YTD).
- **CET1 ratio is expected at 13.0%-14.0% (2022-26).** CBQK generated a CET1/Tier-1 ratio of 11.7%/15.3%.

#### Catalysts

- Significant RoE expansion & robust bottom-line growth.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our PT of QR7.479 and our Outperform rating.** CBQK is trading at a 2023e P/TB and P/E of 1.0x and 7.6x, respectively.
- **Risks:** 1) Weakness in Turkish Lira & H=hyperinflation & 2) Higher than expected CoR.

#### Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS	0.607	0.697	0.789	0.850
EPS Growth (%)	23.9	14.8	13.2	7.8
P/E (x)	8.7	7.6	6.7	6.2
Tangible BVPS (QR)	4.9	5.3	5.9	6.4
P/TBV (x)	1.1	1.0	0.9	0.8
RoE (%)	13.5	14.4	14.9	14.5
DPS (QR)	0.250	0.250	0.300	0.300
Dividend Yield (%)	4.7	4.7	5.7	5.7

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

#### Key Data

Current Market Price (QR)	5.300
Dividend Yield (%)	4.7
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	7.13/4.80
3-m Average Volume (mn)	2,481.6
Mkt. Cap. (\$ bn/QR bn)	5.9/21.5
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Institutional FO* (%)	26.8
1-Year Total Return (%)	(23.4)
Fiscal Year End	December 31

Source: Bloomberg (as of October 17, 2023), \*Qatar Exchange (as of October 17, 2023); Note: FO is foreign ownership

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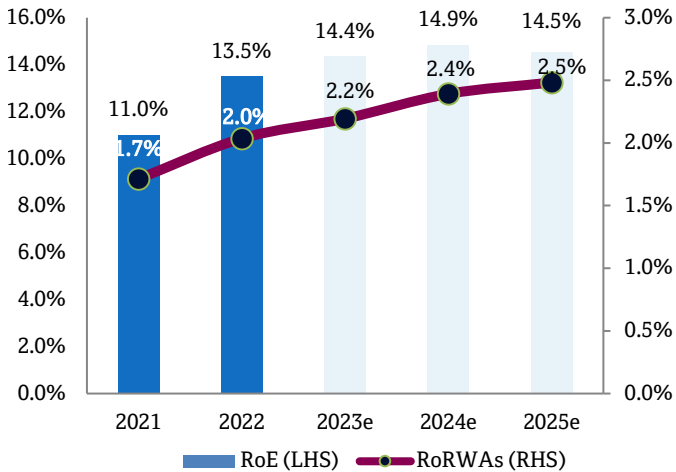
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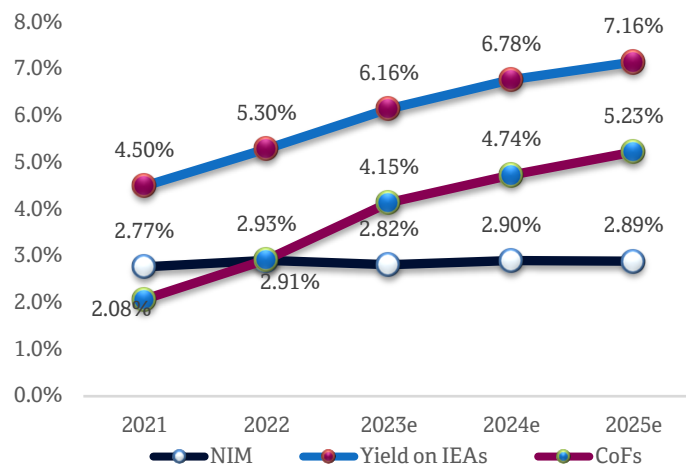
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### RoE & RoRWAs Modeled to Increase in a Healthy Manner

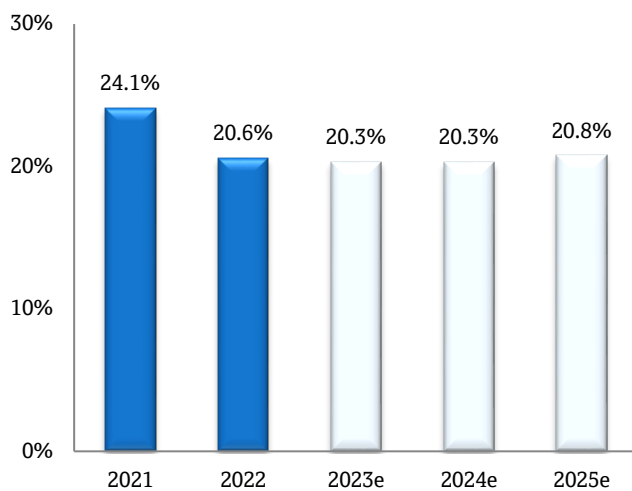


Source: Company data, QNB FS Research

### While 2023 Margins to Come Under Pressure on High CoFs

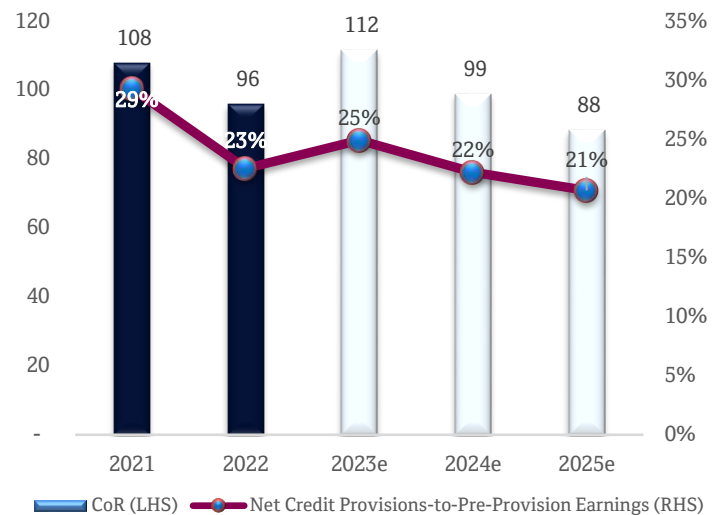


### C/I Ratio to Remain Superior

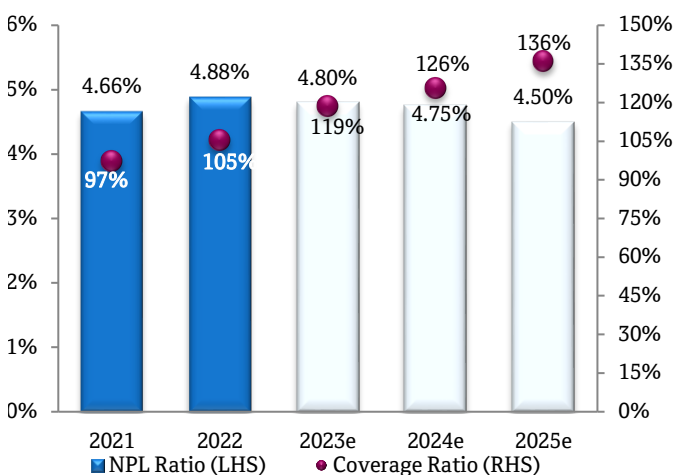


Source: Company data, QNB FS Research; C/I is on a normalized basis

### 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%

3Q2023	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%	5.3%	
Stages % of ECLS	3%	32%	65%	
Coverage Ratio	0%	10%	74%	

## Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e
Net Interest Income	3,702	4,106	4,167	4,370	4,550
Fees & Commissions	928	790	830	880	783
FX Income	309	415	438	473	506
Other Income	(38)	201	466	431	458
<b>Non-Interest Income</b>	<b>1,199</b>	<b>1,406</b>	<b>1,734</b>	<b>1,784</b>	<b>1,747</b>
<b>Total Revenue</b>	<b>4,900</b>	<b>5,512</b>	<b>5,900</b>	<b>6,154</b>	<b>6,297</b>
Operating Expenses	(1,150)	(1,134)	(1,198)	(1,248)	(1,307)
<b>Net Operating Income</b>	<b>3,750</b>	<b>4,378</b>	<b>4,702</b>	<b>4,906</b>	<b>4,990</b>
Net Provisions & Impairments	(1,438)	(1,263)	(1,327)	(1,195)	(1,122)
<b>Net Profit Before Taxes</b>	<b>2,313</b>	<b>3,115</b>	<b>3,375</b>	<b>3,711</b>	<b>3,867</b>
Tax	(9)	(114)	(41)	(45)	(46)
<b>Net Profit Before Minority Interest</b>	<b>2,304</b>	<b>3,000</b>	<b>3,335</b>	<b>3,667</b>	<b>3,821</b>
Minority Interest	(0)	0	0	0	0
Non-Recurring Income/(Loss)		(189)	(150)	(100)	0
<b>Net Profit (Headline/Reported)</b>	<b>2,304</b>	<b>2,811</b>	<b>3,185</b>	<b>3,567</b>	<b>3,821</b>
Interest on Tier-1 Note	(264)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(58)	(70)	(80)	(89)	(96)
<b>Net Profit (Attributable)</b>	<b>1,983</b>	<b>2,457</b>	<b>2,822</b>	<b>3,194</b>	<b>3,442</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	17,915	8,030	10,180	8,822	9,528
Interbank Loans	10,942	20,844	18,759	15,008	16,808
Net Investments	26,723	29,835	30,346	31,865	34,219
Net Loans	98,003	98,016	100,864	106,605	112,813
Investment In Associates	2,961	3,102	3,246	3,397	3,554
Other Assets	2,567	2,613	3,026	2,772	2,933
Net PP&E	2,753	3,050	3,280	3,285	3,295
OREO	3,524	3,564	3,564	3,564	3,564
Goodwill & Intangible Assets	75	66	10	10	10
<b>Total Assets</b>	<b>165,464</b>	<b>169,121</b>	<b>173,275</b>	<b>175,326</b>	<b>186,725</b>
<b>Liabilities</b>					
Interbank Deposits	17,777	24,054	26,340	20,110	21,090
Customer Deposits	81,958	83,167	84,831	88,224	95,282
Term Loans	31,005	26,656	27,989	30,424	31,945
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	10,651	9,724	6,786	7,058	6,670
<b>Total Liabilities</b>	<b>147,211</b>	<b>149,421</b>	<b>151,766</b>	<b>151,635</b>	<b>160,806</b>
<b>Total Shareholders' Equity</b>	<b>18,253</b>	<b>19,699</b>	<b>21,509</b>	<b>23,691</b>	<b>25,918</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>165,464</b>	<b>169,121</b>	<b>173,275</b>	<b>175,326</b>	<b>186,725</b>
<b>RWAs</b>	<b>115,914</b>	<b>125,475</b>	<b>131,689</b>	<b>135,352</b>	<b>145,645</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2021	2022	2023e	2024e	2025e
<b>Profitability (%)</b>					
RoTE (Attributable)	11.0	13.5	14.4	14.9	14.5
RoAA (Attributable)	1.2	1.5	1.6	1.8	1.9
RoRWA	1.7	2.0	2.2	2.4	2.5
NIM (% of IEAs)	2.77	2.91	2.82	2.90	2.89
NIM (% of RWAs)	3.20	3.40	3.24	3.27	3.28
NIM (% of AAs)	2.32	2.45	2.43	2.51	2.51
Spread	2.4	2.4	2.0	2.0	1.9
<b>Efficiency (%)</b>					
Cost-to-Income (Headline)	24.1	20.6	20.3	20.3	20.8
Cost-to-Income (Core)	24.2	20.9	21.5	21.5	22.0
<b>Liquidity (%)</b>					
LDR	120	118	119	121	118
LDR (Including Stable Source of Funding)	87	89	89	90	89
Loans/Assets	59	58	58	61	60
Cash & Interbank Loans-to-Total Assets	17.4	17.1	16.7	13.6	14.1
Deposits to Assets	50	49	49	50	51
Wholesale Funding to Loans	50	52	54	47	47
IEAs to IBLs (x)	1.18	1.27	1.22	1.23	1.22
<b>Asset Quality (%)</b>					
NPL Ratio	4.7	4.9	4.8	4.8	4.5
NPLs to Shareholders' Equity	26.2	25.6	23.9	22.7	20.9
NPL to Tier-1 Capital	25.7	25.9	25.3	25.3	24.3
Coverage Ratio	97	105	119	126	136
ALL/Average Loans	4.6	5.2	5.8	6.1	6.3
Cost of Risk (bps)	108	96	112	99	88
<b>Capitalization (%)</b>					
CET1 Ratio	11.7	11.6	11.6	12.0	12.2
Tier-1 Ratio	16.0	15.6	15.4	15.7	15.7
CAR	18.1	17.3	17.2	17.5	17.4
Leverage (x)	9.1	8.6	8.1	7.4	7.2
<b>Growth (%)</b>					
Net Interest Income	19.4	10.9	1.5	4.9	4.1
Non-Interest Income	30.3	17.3	23.3	2.9	-2.0
Total Revenue	21.9	12.5	7.0	4.3	2.3
Operating Expenses	5.5	-1.4	5.6	4.1	4.8
Net Operating Income	28.0	16.7	7.4	4.3	1.7
Net Provisions & Impairments	-11.0	-12.1	5.0	-9.9	-6.1
Net Income (Headline)	77.1	22.0	13.3	12.0	7.1
Net Income (Attributable)	89.6	23.9	14.8	13.2	7.8
Loans	1.3	0.0	2.9	5.7	5.8
Deposits	8.1	1.5	2.0	4.0	8.0
Assets	7.7	2.2	2.5	1.2	6.5
RWAs	0.3	8.2	5.0	2.8	4.8

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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