

Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR35.20	Target Price	QR35.00
Implied Upside	(0.6%)	Old Target Price	QR29.00

1Q2018 Trumps Estimates; CoR Normalizes

CBQK posted good results in 1Q2018, while continuously delivering on its objectives from its 5-year strategy. Stock price performance thus far has rewarded investors' optimism in the company's change in strategy and positive stewardship shown by its new CEO. The stock has re-rated from a steep 30% discount to book to almost at par with book. While positive 1Q2018 results could fuel more momentum in the name, the reality of negative residual value derived from on-going operations cannot be minimized. We believe while recent gains are not entirely unjustified, we do think that the stock is fairly valued at present levels. We remain Market Perform on the name but raise our PT to QR35/sh. factoring better RoE generation in the outer years.

Highlights

- **CBQK's 1Q2018 bottom-line soars QoQ and YoY driven by normalization of credit costs and lower opex.** CBQK reported net profit of QR404.7mn, gaining by 17.4% QoQ (+343.6% YoY). Earnings beat our estimates by 11.6% on the back of lower provisions as net interest income (QR665.0mn, -0.9% variation) was in-line and net operating income was broadly in-line (QR622.0mn, +4.7% variation).
- **Margins sequentially compressed.** NIM contracted by 18bps QoQ (+7bps YoY) to 2.17% due to a decline in yield on assets coupled with an increase in CoFs. Yield on assets receded by 13bps QoQ (+55bps YoY) while CoFs moved up by 7bps (+54bps YoY).
- **NPLs stable; CoR normalized.** NPLs remained stable at QR5.2bn, while the NPL ratio declined to 5.30% vs. 5.65% in 2017 (majority of NPLs are legacy). On the other hand, coverage ratio improved to 86% from 81% in 2017. Net provisions and impairments dropped by 7.7% (halved by YoY) to QR235.9mn vs. QR255.6mn in 4Q2017 & QR484.8mn in 1Q2017. CoR improved to 92bps vs. 108bps in 4Q2017. *Management is guiding to a CoR of 100bps in 2018.* As per IFRS 9, stage 1 loans represents 80% of total loans while stage 2 is 15%.
- **Operating efficiency continued its positive trajectory, Generating Strong JAWs.** CBQK posted opex of QR311.5mn, dropping by 0.4% QoQ (-12.4% YoY). Hence the C/I ratio dropped to 32.4% vs. 34.5% in 4Q2017 (38% in 1Q2017). Moreover, the bank generated positive JAWs of 6.5% and 15.2% QoQ and YoY, respectively. *Improving efficiency is part of management's strategy by reducing C/I ratio to low-30% and they have been delivering.*
- **Loan growth outpaced deposit growth; LDR remains elevated, however.** Net loans expanded by 4.0% YTD to QR92.7bn, while customer deposits increased by 2.1% to QR79.3bn. As such, the bank's LDR remained at 117% vs. 115% at the end of 2017.
- **Tier-1 capital impacted by IFRS 9.** As a result of one time impairment charges to the bank's equity, CET-1 ratio declined to 9.4% (11.2% in FY2017). CBQK's CAR also declined to 14.8% vs. 16.1% in FY2017.

Catalysts

- Delivering better profitability metrics than expected/estimated.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We change our Price Target to QR35/sh. and maintain our Market Perform rating.** CBQK is trading at a 2018e P/TB and P/E of 0.9x and 12.2x, respectively.
- **Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Further deterioration in asset quality

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	0.90	2.87	3.69	3.93
EPS Growth (%)	0.2	220.0	28.5	6.5
P/E (x)	39.2	12.2	9.5	8.9
TBVPS (QR)	41.0	39.3	41.5	44.0
P/TB (x)	0.9	0.9	0.8	0.8
DPS (QR)	1.00	1.50	1.50	2.00
Dividend Yield (%)	2.8	4.3	4.3	5.7

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

Key Data

Current Market Price (QR)	35.20
Dividend Yield (%)	4.3
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	36.00/24.50
3-m Average Volume ('000)	209.7
Mkt. Cap. (\$ bn/QR bn)	3.9/14.2
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	13.4
1-Year Total Return (%)	+18.1
Fiscal Year End	December 31

Source: Bloomberg (as of April 18, 2018), *Qatar Exchange (as of April 18, 2018); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	2.2	6.8	8.7	8.8
RoAA (Attributable)	0.3	0.8	0.9	0.9
RoRWA (Attributable)	0.3	3.1	1.9	1.8
NIM (% of IEAs)	2.18	2.17	2.17	2.16
NIM (% of RWAs)	2.18	2.22	2.25	2.25
NIM (% of AAs)	1.87	1.88	1.91	1.91
Spread	1.8	1.7	1.7	1.7
Efficiency (%)				
Cost-to-Income (Headline)	36.0	33.4	31.4	31.0
Cost-to-Income (Core)	38.1	35.1	33.0	32.6
Liquidity (%)				
LDR	115	108	104	102
LDR (including CDs)	115	108	104	102
Loans/Assets	64	64	65	65
Cash & Interbank Loans-to-Total Assets	12.9	14.8	14.4	14.5
Deposits to Assets	56	59	62	63
Wholesale Funding to Loans	39	37	32	33
IEAs to IBLs	118	116	114	115
Asset Quality (%)				
NPL Ratio	5.6	5.8	5.9	5.0
NPLs to Shareholder's Equity	31.0	36.1	38.4	33.9
NPLs to Tier 1 Capital	31.0	33.6	35.9	32.2
Coverage Ratio	81.0	106.3	103.5	122.6
ALL/Average Loans	4.9	6.4	6.4	6.4
Cost of Risk	1.95	1.13	1.01	1.00
Capitalization (%)				
Tier 1 Ratio	14.5	13.9	13.3	12.6
CAR	16.1	15.6	15.0	14.3
Tier 1 Capital to Assets	12.3	11.8	11.3	10.7
Tier 1 Capital to Loans	19.1	18.4	17.5	16.5
Tier 1 Capital to Deposits	21.9	19.9	18.2	16.8
Leverage (x)	8.1	9.1	9.5	9.9
Growth (%)				
Net Interest Income	7.6	7.3	9.6	9.4
Non-Interest Income	-4.0	3.7	7.3	-2.3
Total Revenue	3.6	6.2	8.9	5.9
Operating Expenses	-22.1	-1.6	2.4	4.5
Net Operating Income	27.4	10.6	12.2	6.5
Net Provisions & Investment Impairments	29.7	-33.5	-2.1	8.0
Net Income (Headline/Reported)	20.5	132.5	23.6	5.6
Net Income (Attributable)	30.0	223.8	28.7	6.5
Loans	14.6	6.6	10.1	10.0
Deposits	9.5	13.0	15.0	12.0
Assets	6.2	7.4	8.9	10.0
RWAs	2.7	7.8	9.0	10.1

Source: Company data, QNBFS Research

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,518	2,702	2,962	3,241
Fees & Commissions	720	742	816	800
FX Income	163	187	209	178
Other Income	276	273	264	282
Non-Interest Income	1,159	1,202	1,290	1,260
Total Revenue	3,677	3,904	4,251	4,501
Operating Expenses	(1,325)	(1,303)	(1,335)	(1,395)
Net Operating Income	2,352	2,600	2,917	3,107
Net Provisions & Impairments	(1,743)	(1,160)	(1,136)	(1,227)
Net Profit Before Taxes & Non-Recurring Items	609	1,440	1,781	1,880
Non-Recurring Income	0	0	0	0
Net Profit After Non-Recurring Income	609	1,440	1,781	1,880
Tax	(5)	(37)	(45)	(48)
Net Profit Before Minority Interest	604	1,404	1,735	1,832
Minority Interest	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	604	1,404	1,735	1,832
Interest on Tier-1 Note	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(15)	(35)	(43)	(46)
Net Profit (Attributable)	349	1,128	1,452	1,546

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	7,374	8,422	9,382	10,169
Interbank Loans	10,499	13,649	13,949	15,623
Net Investments	19,629	21,942	24,061	26,906
Net Loans	89,122	94,997	104,566	114,995
Investment In Associates	2,088	2,166	2,248	2,337
Other Assets	6,715	4,560	4,810	5,175
Net PP&E	2,591	2,548	2,582	2,623
Goodwill & Other Intangibles	430	375	319	263
Total Assets	138,449	148,658	161,918	178,091
Liabilities				
Interbank Deposits	13,516	12,370	9,469	11,049
Certificate of Deposits	-	-	-	-
Customer Deposits	77,633	87,726	100,885	112,991
Term Loans	20,908	22,581	24,387	26,338
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000
Other Liabilities	5,370	5,702	6,053	5,650
Total Liabilities	121,428	132,379	144,794	160,027
Shareholders' Equity				
Total Shareholders' Equity	17,022	16,279	17,124	18,063
Total Liabilities & Shareholders' Equity	138,449	148,658	161,918	178,091

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

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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