

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.030	Target Price	QR5.006
Implied Upside	24.2%		

Stock Remains Attractive; Maintain Outperform Rating & PT

We lower our 2019-24e earnings CAGR from 12.3% to 11.8%. Specifically, we revise down our 2020 estimates (maintain 2021/22 estimates). On a positive note, CBQK's heavy provisions & impairments days are behind them with the bulk of it taking place during 2016-2018. We forecast provisions and impairments to drop by a CAGR of 4.6% (2019-24) vs. an increase of 9.7% (2014-19). CBQK is trading at a 2020e/21e P/TB 0.9x, which we believe is unjustified given management's strong track record. The stock is trading at a PEG of 0.6x based on EPS CAGR (2019-24e) of 11.8%, which is attractive. Moreover, CBQK's 2021e P/E implies a 24% discount to its intrinsic P/E (10x). As such, we maintain our QR5.006 PT and Outperform.

Highlights

- 1H2020 bottom-line affected by weak non-funded income and losses from trading and associates; CBQK remains resilient given current market conditions.** Commercial Bank of Qatar (CBQK) reported a net income of QR901.2mn in 1H2020 vs. our estimate of QR925.5mn (variation: -2.6%). Net income declined by 4.1% YoY.
- Losses from investments and associates contributed negatively to total revenue and the bottom-line.** CBQK generated investment losses of QR65.9mn in 1H2020 vs. a gain of QR28.0mn in 1H2019 due to volatile market conditions. However, during 2Q2020, CBQK generated investment gains of QR50.6mn vs. losses of QR116.5mn in 1Q2020 (reversing 43% of losses). We expect the bank to further recoup losses in the coming quarters. Moreover, the bank reported losses from associates of QR320.7mn vs. a profit of QR90.3mn in 1H2019. The losses were attributed to 40%-owned UAB. UAB is expected to generate further losses in 2H2020.
- Further impairments on UAB in 2020.** Management will book further impairments on UAB, bringing the carrying value in-line with fair value. We expect impairments of ~400mn in 2020, in-line with 2019. 2020 is anticipated to be the final year for UAB-related impairments.
- Margins significantly improved on drop in cost of funds.** Net Interest Income expanded YoY by 19.6% in 1H2020 on the back of a large drop in interest expense. Hence, NIM moved up by ~50bps to 2.50% despite the pressure on asset yields given lower CoFs as CBQK repaid debt. We expect NIMs to hover around current levels.
- Asset quality remained broadly stable.** NPLs decreased QoQ by 1.4% (flat vs. FY2019) to QR4.5bn, while the NPL ratio remained flat at 5.0% vs. 4.9% in FY2019. Coverage of Stage 3 loans improved, increasing from 61% in FY2019 to 64% in 1H2020. We expect minor pressure on asset quality toward the end of 2020 with an improvement in 2021.
- Provisions for credit losses improved; CoR decreased driven by recoveries and continued de-risking of loan book.** 1H2020 provisions declined by 48.1% YoY to QR225.2mn while CoR dropped from ~97bps in 1H2019 (annualized) to 50bps in 1H2020. Guidance for 2020 CoR is higher-than-earlier guidance of 60bps (given in the beginning of the year) due to COVID-19. During CBQK's 1Q2020 call, management expressed that CoR could come in at 80bps and maintained this guidance in 2Q2020 as well. However, CoR could be lower than 80bps assuming further recoveries. We model in a CoR of 75bps for 2020 and 69bps in 2021, which seem reasonable in light of prevailing conditions.
- Management is guiding loan growth <4% for 2020 vs. 4-6% previously.** During 2Q2020, net loans receded by 2.0% sequentially (-1.1% vs. FY2019) to QR87.0bn due to the repayment of public sector facilities. On the other hand, deposits ticked up by 0.4% QoQ (+1.9% vs. FY2019) to QR77.7bn. We take a conservative approach and estimate loan growth of 1.9% vs. our previous forecast of 2.3% in 2020.
- Operating efficiency continued its positive trajectory.** CBQK's operating expenses dropped by 14.8% YoY from QR551.7mn in 1H2019 to QR469.9mn in 1H2020. On the other hand, the C/I ratio remained flat at 28%. Management continues to deliver on its efficiency objective.
- CET1 ratio came in at the higher end of management's guidance of 11-11.5%.** CBQK's CET1 ratio increased to 11.5% in 1H2020 vs. 11.1% in 1Q2020 and FY2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio of 11.7% in 2020 & 2021.

Catalysts

- Delivering better-than-expected profitability metrics.

Recommendation, Valuation and Risks

- Recommendation and valuation:** We maintain our QR5.006 PT and Outperform rating. CBQK is trading at a 2021e P/TB and P/E of 0.9x and 7.6x, respectively.
- Risks:** 1) Weakness in Turkish Lira & 2) Larger-than-anticipated impairments in UAB.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS	0.428	0.326	0.533	0.641
EPS Growth (%)	24.3	-23.7	63.5	20.1
P/E (x)	9.4	12.4	7.6	6.3
Tangible BVPS (QR)	4.3	4.3	4.6	5.0
P/TBV (x)	0.9	0.9	0.9	0.8
RoE (%)	10.9	7.4	12.3	13.7
DPS (QR)	0.200	0.200	0.250	0.300
Dividend Yield (%)	5.0	5.0	6.2	7.4

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

Key Data

Current Market Price (QR)	4.030
Dividend Yield (%)	5.0
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	4.990/3.695
3-m Average Volume (mn)	2.4
Mkt. Cap. (\$ bn/QR bn)	4.5/16.3
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	18.9
1-Year Total Return (%)	(6.0)
Fiscal Year End	December 31

Source: Bloomberg (as of September 17, 2020), *Qatar Exchange (as of September 17, 2020); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Change in Estimates

	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,160	3,263	3.3	3,388	3,421	1.0	3,688	3,662	-0.7
Non Interest Income	1,234	605	-51.0	1,407	1,295	-8.0	1,520	1,340	-11.9
Total Revenue	4,394	3,868	-12.0	4,795	4,716	-1.7	5,208	5,002	-4.0
Opex	1,234	1,113	-9.8	1,287	1,185	-7.9	1,320	1,207	-8.6
Net Operating Income	3,160	2,755	-12.8	3,508	3,530	0.6	3,888	3,795	-2.4
Net Income (Reported)	1,897	1,600	-15.7	2,462	2,480	0.7	3,013	2,946	-2.2
Net Income (Attributable)	1,610	1,320	-18.0	2,141	2,158	0.8	2,658	2,592	-2.5

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	2,518	2,482	2,963	3,263	3,421	3,662
Fees & Commissions	720	757	915	805	845	917
FX Income	163	202	281	273	281	239
Other Income	276	248	181	(473)	169	184
Non-Interest Income	1,159	1,208	1,377	605	1,295	1,340
Total Revenue	3,677	3,690	4,340	3,868	4,716	5,002
Operating Expenses	(1,325)	(1,173)	(1,228)	(1,113)	(1,185)	(1,207)
Net Operating Income	2,352	2,517	3,112	2,755	3,530	3,795
Net Provisions & Impairments	(1,743)	(836)	(1,068)	(1,137)	(1,021)	(813)
Net Profit Before Taxes	609	1,681	2,044	1,618	2,509	2,982
Tax	(5)	(7)	(23)	(19)	(29)	(36)
Net Profit Before Minority Interest	604	1,674	2,021	1,600	2,480	2,946
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	604	1,674	2,021	1,600	2,480	2,946
Interest on Tier-1 Note	(240)	(240)	(240)	(240)	(260)	(280)
Social & Sports Contribution Fund	(15)	(42)	(50)	(40)	(62)	(74)
Net Profit (Attributable)	349	1,392	1,731	1,320	2,158	2,592

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Cash & Balances with Central Bank	7,374	6,730	6,075	6,092	6,890	6,838
Interbank Loans	10,499	9,475	12,396	11,653	11,909	14,410
Net Investments	19,629	22,206	26,844	27,581	30,382	29,604
Net Loans	89,122	84,642	88,009	88,888	94,746	102,187
Investment In Associates	2,088	4,513	4,021	3,727	3,753	3,784
Other Assets	4,576	1,754	2,569	2,667	2,842	3,066
Net PP&E	2,591	2,719	2,854	2,855	2,934	3,022
OREO	2,140	2,605	4,531	4,531	4,531	4,531
Goodwill & Intangible Assets	430	283	236	180	124	111
Total Assets	138,449	134,928	147,536	148,174	158,111	167,552
Liabilities						
Interbank Deposits	13,516	13,950	22,531	17,634	19,460	17,494
Customer Deposits	77,633	71,786	76,297	79,120	84,025	91,167
Term Loans	20,908	24,451	21,568	23,725	25,789	28,238
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Other Liabilities	5,370	4,884	5,385	6,171	5,966	6,199
Total Liabilities	121,428	119,071	129,780	130,650	139,239	147,099
Total Shareholders' Equity	17,022	15,856	17,756	17,524	18,872	20,453
Total Liabilities & Shareholders' Equity	138,449	134,928	147,536	148,174	158,111	167,552

Source: Company data, QNB FS Research

Ratios/Key Indicators	2017	2018	2019	2020e	2021e	2022e
Profitability (%)						
RoE (Attributable)	2.3	8.2	10.9	7.4	12.3	13.7
RoAA (Attributable)	0.3	1.0	1.2	0.9	1.4	1.6
RoRWA (Attributable)	3.3	3.1	1.9	1.8	1.2	0.2
NIM (% of IEAs)	2.18	2.12	2.45	2.57	2.59	2.60
NIM (% of RWAs)	2.18	2.15	2.56	2.79	2.92	3.04
NIM (% of AAs)	1.87	1.82	2.10	2.21	2.23	2.25
Spread	1.8	1.6	1.9	2.1	2.0	2.0
Efficiency (%)						
Cost-to-Income (Headline)	36.0	31.8	28.3	28.8	25.1	24.1
Cost-to-Income (Core)	38.1	33.3	28.7	25.1	25.7	24.6
Liquidity (%)						
LDR	115	118	115	112	113	112
LDR (Including Stable Source of Funding)	90	88	90	86	86	86
Loans/Assets	64	63	60	60	60	61
Cash & Interbank Loans-to-Total Assets	12.9	12.0	12.5	12.0	11.9	12.7
Deposits to Assets	56	53	52	53	53	54
Wholesale Funding to Loans	39	45	50	47	48	45
IEAs to IBLs	118	117	116	124	121	118
Asset Quality (%)						
NPL Ratio	5.6	5.6	4.9	5.0	4.8	4.4
NPL to Shareholders' Equity	31.0	30.8	25.3	26.8	25.6	23.4
NPL to Tier 1 Capital	31.0	30.8	26.4	26.8	27.1	26.3
Coverage Ratio	81	79	82	97	111	126
ALL/Average Loans	4.9	4.3	4.1	5.0	5.5	5.8
Cost of Risk (bps)	195	102	67	74	69	59
Capitalization (%)						
Tier 1 Ratio	14.5	14.0	14.4	15.1	15.1	14.8
CAR	16.1	15.5	16.4	17.0	17.0	16.8
Tier 1 Capital to Assets	12.3	11.8	11.5	11.8	11.3	10.9
Tier 1 Capital to Loans	19.1	18.7	19.3	19.7	18.8	17.8
Tier 1 Capital to Deposits	21.9	22.1	22.3	22.1	21.2	20.0
Leverage (x)	8.1	8.5	8.3	8.5	8.4	8.2
Growth (%)						
Net Interest Income	7.6	-1.4	19.4	10.1	4.8	7.0
Non-Interest Income	-4.0	4.2	14.0	-56.0	114.0	3.5
Total Revenue	3.6	0.4	17.6	-10.9	21.9	6.1
Operating Expenses	-22.1	-11.5	4.7	-9.3	6.5	1.8
Net Operating Income	27.4	7.0	23.6	-11.5	28.1	7.5
Net Provisions & Impairments	29.7	-52.1	27.8	6.5	-10.1	-20.4
Net Income (Headline)	20.5	177.3	20.7	-20.8	55.0	18.8
Net Income (Attributable)	30.0	299.5	24.3	-23.7	63.5	20.1
Loans	14.6	-5.0	4.0	1.0	6.6	7.9
Deposits	9.5	-7.5	6.3	3.7	6.2	8.5
Assets	6.2	-2.5	9.3	0.4	6.7	6.0
RWAs	2.7	-2.8	3.7	-1.6	2.1	3.8

Source: Company data, QNB FS 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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid Al Nafsoosi

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafoosi@qnbfs.com.qa

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