

Commercial Bank of Qatar (CBQK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR6.850	Target Price	QR7.995
Implied Upside	16.7%	Old Target Price	QR7.420

Stock Remains Attractive; Raising PT to QR7.995 & Maintain Accumulate

We forecast 2021-26e earnings CAGR of 15.8% and this double-digit growth and acceleration is due to healthy core banking income and a drop in CoR. Hence, our new sustainable RoE rises to 15.4% vs. 14.3% previously. The stock over the past 2 years has outperformed its peers by a wide margin due to improving fundamentals and management delivering on its strategy. We believe there is still room for more upside. The stock is trading at a 2022/23 P/TB 1.4/1.3x based on our estimates. CBQK is also trading at a PEG of 0.7x (which is cheap) based on our 5-year earnings CAGR of 15.8% (2021-26e). We increase our PT to QR7.995 and maintain our Accumulate rating.

Highlights

- FY2021 bottom-line** was driven by robust core banking income and lack of losses from trading & associates and lower impairments on UAB; CBQK remains resilient despite its international operations and associates being a drag. Commercial Bank of Qatar (CBQK) reported a record-high 2021 net profit of QR1.98bn, surging by 89.6% YoY.
- Goodwill impairments on UAB (40.0% stake) should come to end in 4Q2022. NBO (34.9% stake) could also face goodwill impairments over the coming 3-to-5 years as its market value is significantly below the book value on CBQK's balance sheet; however, management has not indicated that it will impair it.** Management will book further impairments on UAB in 4Q2022. CBQK carried goodwill attributed to UAB of QR1.4bn in 2018. In 2019 & 2020, CBQK impaired QR413.9mn and QR591.2mn, respectively. Moreover, it impaired QR291.0mn in 2021. Hence, ~QR100mn of goodwill remains. We model the remaining impairments of ~QR100mn in 4Q2022, ending this exercise. We do note ~QR574mn is being recorded as goodwill for NBO, which if impaired, could depress the bank's earnings going forward.
- RoE is expected to increase from 11.0% in 2021 to 13.3% in 2022e (we were modeling 11.9% previously for 2022).** After 2022, we model RoE to increase beyond 14%. Management is targeting 13-15% during 2022-26. Our new sustainable RoE is 15.4% vs. 14.3% previously.
- Margins expanded due to strong management of CoFs.** NIMs increased by ~37bps to 2.77% from 2.40% (FY2020), as yields increased vs. drop in CoFs. Moreover, 67% of assets are repriciable within 1 year vs. 57% of IBLs. Hence, we expect NIMs to increase to 2.94% in 2022.
- Majority of NPLs are real estate legacy loans.** NPL ratio in FY2021 increased to 4.71% on further downgrade of legacy RE book. Coverage of Stage 3 loans decreased from 66% in FY2020 to 62% in FY2021. Going forward, we expect asset quality to improve, driven by prudent underwriting and recoveries.
- CoR came in at 109bps ahead of management's initial guidance.** 2021 provisions for credit losses increased by 31.4% YoY to QR1.10bn, while CoR increased from 88bps in 2020 to 109bps. Moreover, management is being prudent/conservative by booking large provisions. Guidance for 2022 CoR is 100 to 110bps. We model in a CoR of 108bps for 2022 and 85bps in 2023, which is in-line with management's guidance. We estimate CoR to decline to 71bps by 2025.
- Diversification of loan book remains on track.** During FY2021, net loans inched up by 1.3% from FY2020 to QR98.0bn. Moreover, deposits expanded by 8.1% during the same period to QR82.0bn. Moreover, in-line with management's strategy, % of govt. loans to total loans increased from 2016's 10% to 18% in 2021, while real estate loans dropped from 28% to 19% during the same period. We estimate net loan growth of 6.8% in 2022. Our loan growth assumptions have not changed; we pencil in a 2021-26e CAGR of 6.2% vs. 4.7% (2016-21).
- CET1 ratio marginally decreased.** CBQK's CET1 ratio moved down from 12.2% in FY2020 to 11.7% in FY2021 due to loss on revaluation reserve, f/x losses (TRY lira) and loss on investments (OCI). Based on our estimates, we expect the bank to generate a CET1 ratio of 12.2% in 2022, 2023 & 2024.

Catalysts

- Increasing FOL to 100% could be a medium-term catalyst.

Recommendation, Valuation and Risks

- Recommendation and valuation:** We raise our PT to QR7.995 and maintain our Accumulate rating. CBQK is trading at a 2022e P/TB and P/E of 1.4x and 11.4x, respectively.
- Risks:** 1) Weakness in Turkish Lira & 2) Goodwill impairments in NBO 3) Higher than expected CoR

Key Financial Data and Estimates

(In QR mn)	2021	2022e	2023e	2024e
EPS	0.490	0.599	0.720	0.843
EPS Growth (%)	89.6	22.2	20.2	17.1
P/E (x)	14.0	11.4	9.5	8.1
Tangible BVPS (QR)	4.5	4.9	5.4	6.0
P/TBV (x)	1.5	1.4	1.3	1.1
RoE (%)	11.0	13.3	14.6	15.5
DPS (QR)	0.160	0.200	0.250	0.300
Dividend Yield (%)	2.3	2.9	3.6	4.4

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

Key Data

Current Market Price (QR)	6.850
Dividend Yield (%)	2.3
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	7.451/4.201
3-m Average Volume (mn)	2.47
Mkt. Cap. (\$ bn/QR bn)	7.6/27.7
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	22.3
1-Year Total Return (%)	63.7
Fiscal Year End	December 31

Source: Bloomberg (as of February 20, 2022), *Qatar Exchange (as of February 20, 2022); Note: FO is foreign ownership

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Valuation

We value CBQK using the Residual Income Model (RI) based on a fundamental P/B:

We derive CBQK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model: $P/B = (RoE-g)/(Ke-g)$. This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 1.6x.**

We add Qatar's 10-year CDS rate of 0.84% to the 10-year US government bond yield (1.9%) to arrive at a risk free rate of 2.7%. We factor in an adjusted beta of 0.92x. Finally, we add an equity risk premium of 9.5% to arrive at a Ke of 11.45%.

Valuation Methodology

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	15.44	Beginning BVPS (2021) (QR)	4.510
Estimated Cost of Equity (%)	11.45	Present Value of Interim Residuals (QR)	0.889
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	2.615
Fundamental P/B	1.6x	Less: Intangibles & Goodwill	0.019
		Fundamental P/B	1.6x
		Intrinsic Value (QR)	7.995
		Current Market Price (QR)	6.850
		Upside/(Downside) Potential (%)	+16.7%

Source: QNB FS Research

Forecasts

	2022e	2023e	2024e	2025e	2026e	2027e	Terminal
Beginning BVPS	4.51	4.95	5.47	6.06	6.69	7.41	8.15
Attributable EPS	0.60	0.72	0.84	0.93	1.02	1.09	1.14
DPS	0.16	0.20	0.25	0.30	0.30	0.35	0.37
Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	4.95	5.47	6.06	6.69	7.41	8.15	8.93
Equity Charge	0.52	0.57	0.63	0.69	0.77	0.85	0.93
Residual Income	0.08	0.15	0.22	0.24	0.25	0.24	0.21
Terminal Value (Based on Fundamental P/B)							5.5
Discounted Interim Residuals	0.07	0.12	0.16	0.16	0.15	0.13	0.10
Discounted Terminal Value							2.62

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Net Interest Income	2,963	3,100	3,702	4,072	4,448	4,888
Fees & Commissions	915	811	928	988	1,038	1,094
FX Income	281	296	309	295	266	226
Other Income	181	(180)	291	236	249	267
Non-Interest Income	1,377	927	1,528	1,520	1,553	1,586
Total Revenue	4,340	4,027	5,230	5,592	6,001	6,474
Operating Expenses	(1,228)	(1,096)	(1,480)	(1,542)	(1,628)	(1,620)
Net Operating Income	3,112	2,931	3,750	4,050	4,373	4,854
Net Provisions & Impairments	(1,068)	(1,615)	(1,438)	(1,261)	(1,076)	(1,040)
Net Profit Before Taxes	2,044	1,316	2,313	2,789	3,298	3,814
Tax	(23)	(15)	(9)	(33)	(40)	(46)
Net Profit Before Minority Interest	2,021	1,301	2,304	2,755	3,258	3,768
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	2,021	1,301	2,304	2,755	3,258	3,768
Interest on Tier-1 Note	(240)	(223)	(264)	(264)	(264)	(264)
Social & Sports Contribution Fund	(50)	(33)	(58)	(69)	(81)	(94)
Net Profit (Attributable)	1,731	1,046	1,983	2,422	2,913	3,410

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2019	2020e	2021	2022e	2023e	2024e
Cash & Balances with Central Bank	6,075	8,279	17,915	13,056	14,832	16,704
Interbank Loans	12,396	10,401	10,942	9,957	8,464	10,156
Net Investments	26,844	25,778	26,723	28,931	31,818	33,729
Net Loans	88,009	96,698	98,003	103,386	110,161	116,056
Investment In Associates	4,021	3,117	2,961	2,929	3,007	3,091
Other Assets	2,569	3,005	2,567	3,102	3,305	3,482
Net PP&E	2,854	3,158	2,753	2,746	2,965	2,994
OREO	4,531	2,995	3,524	3,524	3,524	3,524
Goodwill & Intangible Assets	236	175	75	75	75	75
Total Assets	147,536	153,606	165,464	167,706	178,151	189,811
Liabilities						
Interbank Deposits	22,531	20,007	17,777	15,724	22,005	22,787
Customer Deposits	76,297	75,790	81,958	87,040	92,698	98,259
Term Loans	21,568	27,233	31,005	33,175	29,194	31,734
Tier-1 Perpetual Notes	4,000	4,000	5,820	5,820	5,820	5,820
Other Liabilities	5,385	8,406	10,651	5,919	6,303	6,682
Total Liabilities	129,780	135,435	147,211	147,678	156,019	165,281
Total Shareholders' Equity	17,756	18,170	18,253	20,028	22,131	24,530
Total Liabilities & Shareholders' Equity	147,536	153,606	165,464	167,706	178,151	189,811

Source: Company data, QNB FS Research

Ratios/Key Indicators	2019	2020	2021	2022e	2023e	2024e
Profitability (%)						
RoTE (Attributable)	11.1	6.0	11.0	13.3	14.6	15.5
RoAA (Attributable)	1.2	0.7	1.2	1.5	1.7	1.9
RoRWA	1.5	0.9	1.7	2.1	2.4	2.6
NIM (% of IEAs)	2.45	2.40	2.77	2.94	3.05	3.16
NIM (% of RWAs)	2.56	2.66	3.20	3.46	3.59	3.67
NIM (% of AAs)	2.10	2.06	2.32	2.44	2.57	2.66
Spread	1.9	2.0	2.4	2.6	2.7	2.8
Efficiency (%)						
Cost-to-Income (Headline)	28.3	27.2	28.3	27.6	27.1	25.0
Cost-to-Income (Core)	28.7	25.7	29.1	28.4	28.0	25.9
Liquidity (%)						
LDR	115	128	120	119	119	118
LDR (Including Stable Source of Funding)	90	94	87	86	90	89
Loans/Assets	60	63	59	62	62	61
Cash & Interbank Loans-to-Total Assets	12.5	12.2	17.4	13.7	13.1	14.2
Deposits to Assets	52	49	50	52	52	52
Wholesale Funding to Loans	50	49	50	47	46	47
IEAs to IBLs (x)	1.16	1.22	1.18	1.20	1.20	1.18
Asset Quality (%)						
NPL Ratio	4.9	4.3	4.7	4.2	3.2	3.0
NPLs to Shareholders' Equity	25.3	23.8	26.2	23.0	17.0	15.0
NPL to Tier 1 Capital	26.4	23.9	25.7	23.5	18.2	16.9
Coverage Ratio	82	102	97	124	164	181
ALL/Average Loans	4.1	4.6	4.6	5.4	5.5	5.6
Cost of Risk (bps)	67	88	109	108	85	80
Capitalization (%)						
CET1 Ratio	11.1	12.2	11.7	12.2	12.2	12.2
Tier-1 Ratio	14.4	15.7	16.0	16.4	16.1	15.8
CAR	16.4	17.8	18.1	18.5	18.2	17.9
Leverage (x)	8.3	8.5	9.1	8.4	8.0	7.7
Growth (%)						
Net Interest Income	19.4	4.6	19.4	10.0	9.2	9.9
Non-Interest Income	14.0	-32.7	64.9	-0.6	2.2	2.1
Total Revenue	17.6	-7.2	29.9	6.9	7.3	7.9
Operating Expenses	4.7	-10.7	35.0	4.2	5.6	-0.5
Net Operating Income	23.6	-5.8	28.0	8.0	8.0	11.0
Net Provisions & Impairments	27.8	51.3	-11.0	-12.3	-14.7	-3.4
Net Income (Headline)	20.7	-35.6	77.1	19.6	18.3	15.7
Net Income (Attributable)	24.3	-39.6	89.6	22.2	20.2	17.1
Loans	4.0	9.9	1.3	5.5	6.6	5.4
Deposits	6.3	-0.7	8.1	6.2	6.5	6.0
Assets	9.3	4.1	7.7	1.4	6.2	6.5
RWAs	3.7	-1.9	0.3	2.9	7.6	7.7

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>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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