

Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR4.64	Target Price	QR4.30
Implied Upside	(7.3%)		

CBQK Delivers a Decent 2Q2019; Maintain Market Perform

CBQK delivered a good 2Q2019 fueled by non-funded income & cost cutting. A sharp drop in opex and a strong growth in non-funded income drove CBQK's 2Q2019 bottom-line. The bank generated a net profit of QR503.0mn, growing by 11.7% YoY. CBQK's stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result has rallied, outperforming its conventional banking peers on a 1-Year TTR basis. **We maintain our PT of QR4.30 and Market Perform rating.**

Highlights

- A sharp drop in opex drove CBQK's 2Q2019 bottom-line.** CBQK reported a net profit of QR503.0mn in 2Q2019, increasing by 11.7% YoY (+16.7% QoQ). Total revenue increased only by 3.5% due to weak net interest income (-4.8% YoY). However, non-funded income supported revenue by growing 22.8% (strong growth in fees, f/x income & investment income). Moreover, opex declined by 11.5% YoY, leading to a 10.6% growth in net operating income, while net provisions & impairments increased by only 4.0%. Hence, net income increased by 11.7% YoY.
- NIM remained under pressure YoY but improved sequentially.** NIM contracted by 9bps YoY to 2.10% due to CoFs outpacing growth in yield on assets. CoFs gained by 52bps, while yield on assets increased by 38bps.
- Asset quality improved; Stage 2 loans dropped which is a positive.** NPLs dropped by 12.4% sequentially (-10.0% YTD) to QR4.4bn, while the NPL ratio improved to 4.9% vs. 5.6% in 1Q2019 and FY2018. Net provisions and impairments increased by 4.0% (dropped by 5.8% QoQ) to QR207.7mn. Moreover, 1H2019 annualized CoR remained broadly stable at 97bps vs. 92bps in 1H2018 (102bps in FY2018). CBQK's Stage 2 loans contracted by 23.1% YTD and contributes 20% to total loans vs. 27% in FY2018. *Management has more or less completed provisioning its legacy NPLs. As such, CoR is expected to further decline in 2019 and 2020. We expect CoR to drop to 88bps in 2019 and 80bps in 2020.*
- Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK posted opex of QR273.6mn, down 11.5% YoY (-1.6% QoQ) while total revenue increased by 3.5%. Hence the C/I ratio fell to 27.6% vs. 29.5% in 1Q2019 (32.3% in 2Q2018). Moreover, CBQK's efficiency ratio in 1H2019 improved to 28.6% vs. 32.3% in 1H2018. The bank generated positive JAWS of 11.7% YoY in 1H2019. *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering.*
- Loans remained flat sequentially while deposits contracted; loan portfolio diversification is a positive.** Net loans remained flat QoQ (+1.4% YTD) at QR84.8bn, while customer deposits declined by 5.8% QoQ (+7.8% YTD) to QR76.9bn led by the public sector. Loan growth would have been higher if it were not for the weak Turkish Lira. Management continued to diversify the loan book as part of its strategy/objectives; real estate and contracting loans receded by 6.7% and 21.1% YTD, respectively. Hence, real estate and contracting loans currently make up 23% (25% in 2018) and 4% (5% in 2018) of the loan portfolio, respectively. Growth in the loan book was mainly driven by the public sector (30.8% YTD), which is a segment management is strongly targeting.
- CET1 improved; management is guiding to 11%-11.5% CET1 ratio.** CBQK's CET1 ratio inched up to 11.0% in 2Q2019 vs. 10.9% in 1Q2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio of 11.0% in 2019, 2020 and 2021.

Catalysts

- Delivering better profitability metrics than expected/estimated.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target at QR4.30/sh. and maintain our Market Perform rating.** CBQK is trading at a 2019e P/TB and P/E of 1.1x and 11.6x, respectively.
- Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS	0.35	0.40	0.46	0.55
EPS Growth (%)	291.4	13.5	15.0	19.5
P/E (x)	13.2	11.6	10.1	8.5
Tangible BVPS (QR)	3.9	4.1	4.4	4.8
P/TBV (x)	1.2	1.1	1.0	1.0
DPS (QR)	0.15	0.18	0.20	0.25
Dividend Yield (%)	3.2	3.8	4.3	5.4

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

Key Data

Current Market Price (QR)	4.64
Dividend Yield (%)	3.2
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	5.10/3.80
3-m Average Volume (mn)	1.2
Mkt. Cap. (\$ bn/QR bn)	5.2/18.8
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	16.1
1-Year Total Return (%)	+23.0
Fiscal Year End	December 31

Source: Bloomberg (as of July 23, 2019), *Qatar Exchange (as of July 22, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,341	2,518	2,482	2,479	2,734	2,967
Fees & Commissions	737	720	757	825	863	923
FX Income	245	163	202	241	205	221
Other Income	225	276	237	262	293	307
Non-Interest Income	1,207	1,159	1,197	1,328	1,360	1,451
Total Revenue	3,548	3,677	3,679	3,807	4,093	4,418
Operating Expenses	(1,702)	(1,325)	(1,173)	(1,168)	(1,190)	(1,266)
Net Operating Income	1,846	2,352	2,506	2,638	2,903	3,152
Net Provisions & Impairments	(1,344)	(1,743)	(836)	(773)	(794)	(679)
Net Profit Before Taxes	502	609	1,670	1,865	2,109	2,474
Tax	(0)	(5)	(7)	(9)	(11)	(12)
Net Profit Before Minority Interest	501	604	1,663	1,856	2,098	2,461
Minority Interest	(1)	(0)	(0)	0	0	0
Net Profit (Headline/Reported)	501	604	1,663	1,856	2,098	2,461
Interest on Tier-1 Note	(220)	(240)	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(13)	(15)	(42)	(46)	(52)	(62)
Net Profit (Attributable)	268	349	1,382	1,569	1,806	2,160

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Cash & Balances with Central Bank	6,421	7,374	6,716	7,230	7,486	8,609
Interbank Loans	19,302	10,499	9,469	10,416	11,665	13,415
Net Investments	15,378	19,629	22,108	23,945	26,804	28,406
Net Loans	77,798	89,122	83,702	87,527	94,565	105,383
Investment In Associates	4,301	2,088	2,096	2,182	2,275	2,374
Other Assets	1,942	4,576	5,373	5,623	5,397	3,161
Net PP&E	2,649	2,591	2,719	2,897	2,971	3,054
OREO	2,108	2,140	2,605	2,605	2,605	2,605
Goodwill & Intangible Assets	483	430	283	229	175	132
Total Assets	130,380	138,449	135,071	142,654	153,943	167,141
Liabilities						
Interbank Deposits	11,634	13,516	13,821	16,732	21,024	18,084
Customer Deposits	70,926	77,633	71,321	77,740	83,182	95,660
Term Loans	22,495	20,908	24,300	21,749	23,489	25,368
Tier 1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Other Liabilities	6,024	5,370	5,629	5,442	4,159	4,592
Total Liabilities	115,079	121,428	119,071	125,664	135,854	147,703
Total Shareholders' Equity	15,301	17,022	15,999	16,991	18,088	19,438
Total Liabilities & Shareholders' Equity	130,380	138,449	135,071	142,654	153,943	167,141

Source: Company data, QNB FS Research

Ratios/Key Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE (Tangible)	1.9	2.4	8.3	10.0	10.8	12.1
RoAA (Attributable)	0.2	0.3	1.0	1.1	1.2	1.3
RoRWA (Attributable)	3.2	3.3	3.1	1.9	1.8	1.2
NIM (% of IEAs)	2.14	2.18	2.13	2.10	2.15	2.12
NIM (% of RWAs)	2.13	2.18	2.15	2.16	2.27	2.26
NIM (% of AAs)	1.84	1.87	1.82	1.79	1.84	1.85
Spread	1.8	1.8	1.6	1.3	1.3	1.3
Efficiency (%)						
Cost-to-Income (Headline)	48.0	36.0	31.9	30.7	29.1	28.6
Cost-to-Income (Core)	49.6	38.1	33.3	32.4	30.8	30.3
Liquidity (%)						
LDR	110	115	117	113	114	110
LDR (Including Stable Source of Funding)	83	90	88	88	89	87
Loans/Assets	60	64	62	61	61	63
Cash & Interbank Loans-to-Total Assets	19.7	12.9	12.0	12.4	12.4	13.2
Deposits to Assets	54	56	53	54	54	57
Wholesale Funding to Loans	44	39	46	44	47	41
IEAs to IBLs	119	118	117	127	115	115
Asset Quality (%)						
NPL Ratio	5.0	5.6	5.6	4.7	4.5	4.0
NPL to Shareholders' Equity	26.5	31.0	30.6	25.4	24.7	22.7
NPL to Tier 1 Capital	27.1	31.0	30.8	25.8	25.2	23.4
Coverage Ratio	79	81	79	102	106	109
ALL/Average Loans	4.0	4.9	4.3	4.9	4.9	4.6
Cost of Risk (bps)	159	195	102	88	80	62
Capitalization (%)						
Tier 1 Ratio	13.1	14.5	14.0	14.4	14.2	13.7
CAR	15.2	16.1	15.5	16.0	15.7	15.3
Tier 1 Capital to Assets	11.5	12.3	11.7	11.7	11.5	11.3
Tier 1 Capital to Loans	19.2	19.1	19.0	19.1	18.7	17.9
Tier 1 Capital to Deposits	21.1	21.9	22.2	21.5	21.3	19.7
Leverage (x)	8.5	8.1	8.4	8.4	8.5	8.6
Growth (%)						
Net Interest Income	-7.6	7.6	-1.4	-0.1	10.3	8.5
Non-Interest Income	-15.8	-4.0	3.3	10.9	2.4	6.7
Total Revenue	-10.6	3.6	0.1	3.5	7.5	7.9
Operating Expenses	0.7	-22.1	-11.5	-0.4	1.9	6.3
Net Operating Income	-19.0	27.4	6.5	5.3	10.0	8.6
Net Provisions & Impairments	49.7	29.7	-52.1	-7.5	2.7	-14.5
Net Income (Headline)	-64.3	20.5	175.5	11.6	13.1	17.3
Net Income (Attributable)	-78.5	30.0	296.4	13.6	15.1	19.6
Loans	1.6	14.6	-6.1	4.6	8.0	11.4
Deposits	1.6	9.5	-8.1	9.0	7.0	15.0
Assets	5.6	6.2	-2.4	5.6	7.9	8.6
RWAs	7.7	2.7	-2.8	2.0	8.0	10.0

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

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