

Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR33.60	Target Price	UNDER REVIEW
Implied Upside	N/A		

2016 Analysts' Day; Ambitious 5-Year Turnaround Plan

CBQK unveiled its ambitious 5-year turnaround plan/strategy on November, 28 2016. Commercial Bank of Qatar (CBQK) has been lagging its domestic peers consistently on an operating basis for a while. With the appointment of a new CEO, management has set forth a 5-year strategy with an aim to turn the bank around. Below are key takeaways from management's presentation:

Highlights

- **Maintain a CET1 ratio between 11.0% and 11.5%.** CBQK's current CET1 ratio stands at 10% vs. its peers' 14.2%. Moreover, Tier-1 ratio is 13.6% as opposed to its peers' 15.1%. Hence, the bank will raise capital via rights issue of QR1.5bn in 1Q2017 in order to raise its CET1. *After this capital raise, management intends to adopt a dividend payout policy which would maintain CBQK's core ratios without further capital hikes.* CBQK's Turkish subsidiary Abank will be 100%-owned by the bank by the end of 2016 as the minority shareholders exercised their put option, which will result in a 30bps decline in CAR.
- **Diversify and reshape the loan book.** The bank intends to reduce its real estate exposure from 23% of its loan portfolio to 16%. On the other hand, it is approaching the public sector/govt. with a target of 16% (9.7% in 2015). Moreover, the bank plans to be selective in its lending activities, avoiding risky exposures. On the same note, CBQK plans on gradually exiting high risk exposures. *Management is guiding for loan book growth of 8% to 10% over the next couple of years.*
- **Focus on asset quality; clean up legacy assets.** NPLs are expected to increase throughout 2017 but stabilize in 2018 and normalize thereafter. As such, provisions and CoR are expected to stay elevated in 2016 and 2017. On the other hand, provisions are expected to normalize in 2018 and beyond. IFRS 9 (comes into affect in 2018) should have a minimal impact given the current and expected amount of provisioning.
- **Significantly improve operating efficiency.** CBQK's cost-to-income ratio stood at 42.7% in 9M2016 (43.0% in 2015 and 37.8% in 2014). Management plans on optimizing this ratio by bringing it down to the low 30% levels through reducing G&A and staff costs; company has already started this process). Other options management is considering is staff efficiency, branch reconfiguration and process re-engineering. *Thus, management is guiding to flat opex over the next 5 years. Based on this, total revenue would have to grow aggressively in order for the C/I ratio to drop to the 30% levels. We believe this is difficult to achieve given the sluggish operating environment.*
- **Profitability indicators/metrics need to materialize.** The bank has the lowest RoE among its peers and is below its cost of equity. We expect this to persist over the next few years, indicating economic losses vs. accounting profit. As such this would adversely impact CBQK's fair value. Management is targeting a sustainable RoE of 12% to 13%. As far as net interest margin is concerned, more compression is expected in 2017.
- **Achieving synergies by better integrating with Abank and regional associates.**

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments would be perceived positively by the market:** Visible progress in achieving and meeting goals and objectives outlined in 5-year strategy.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** *Our Price Target is Under Review but we expect to lower it from our previous target of QR43.00 pending changes to our 2016, 2017, 2018 and 2019 estimates and forecasts.*
- **Risks:** 1) Failing to achieve goals & objectives from 5-year plan and 2) Prolonged depressed oil prices.

Key Data

Current Market Price (QR)	33.60
Dividend Yield (%)	3.0
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	48.00/31.50
3-m Average Volume ('000)	211.0
Mkt. Cap. (\$ bn/QR bn)	3.0/11.0
Shares Outstanding (mn)	326.6
FO Limit* (%)	49.0
Current FO* (%)	13.4
1-Year Total Return (%)	(24.9)
Fiscal Year End	December 31

Source: Bloomberg (as of November 28, 2016), *Qatar Exchange (as of November 28, 2016); Note: FO is foreign ownership

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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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