

## Commercial Bank of Qatar (CBQK)

Recommendation	<b>OUTPERFORM</b>	Risk Rating	<b>R-3</b>
Share Price	<b>QR3.695</b>	Target Price	<b>QR5.006</b>
Implied Upside	<b>35.5%</b>	Old Target Price	<b>QR5.220</b>

### Upgrade to Outperform on Attractive Valuation; Lowering Estimates & PT

We lower our 2019-24e earnings CAGR from 14.5% to 12.3% considering the ramifications of the COVID-19 pandemic. Consequently, we revise down our estimates and lower our PT from QR5.220 to QR5.006. On the other hand, we upgrade our rating from Accumulate to Outperform based primarily on valuation. CBQK is trading at a 2020e/21e P/TB 0.8x, which we believe is unjustified given management's strong track record. The stock is trading at a PEG of 0.8x based on EPS CAGR (2019-24e) of 12.3%, which is attractive. Moreover, CBQK's 2021e P/E implies a 27% discount to its intrinsic P/E (10x). We do note we are going through what can be termed as an extraordinary period and our estimates are subject to change as the situation becomes clearer.

#### Highlights

- 1Q2020 bottom-line impacted by weak non-funded income and losses from trading and associates; lowering estimates.** Commercial Bank of Qatar (CBQK) reported net income of QR402.1mn in 1Q2020, declining by 8.5% YoY and 20.9% sequentially. Given the COVID-19 pandemic, we lower our 2020-2023 earnings forecasts by an average of ~20%.
- Losses from investments and associates contributed negatively to total revenue and the bottom-line.** CBQK generated investment losses of QR116.5mn in 1Q2020 vs. a gain of QR4.4mn in 1Q2019 (gain of QR30.5mn in 4Q2019) due to volatile market conditions. However, management expects to reverse some of the losses throughout 2020 and has already done so in April. Moreover, the bank reported losses from associates of QR133.6mn vs. a profit of QR50.1mn in 1Q2019 (loss of QR143.4mn in 4Q2019). The losses were attributed to 40%-owned UAB as the bank booked provisions on its NMC exposure. We expect more impairments in 4Q2020 due to current conditions.
- Margins significantly improved on drop in cost of funds.** Net Interest Income expanded by 39.3% YoY on the back of a drop in interest expense. Hence, NIMs moved up by ~60bps to 2.55% 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 moved up by 2.0% to QR4.6bn, while the NPL ratio remained flat at 5.0% vs. 4.9% in FY2019. Coverage of Stage 3 loans also remained flat at 63% vs. 61% in FY2019.
- Provisions for credit losses improved; CoR decreased driven by recoveries and continued de-risking of loan book.** Provisions declined by 9.2% YoY to QR188.2mn while CoR dropped from ~93bps in 1Q2019 to 82bps in 1Q2020. Guidance for 2020 CoR is higher-than-earlier guidance of 60bps (given during 4Q2019 conference call) due to COVID-19. During CBQK's 1Q2020 call, management expressed that CoR could drop below 83bps assuming they achieve further recoveries. Moreover, management booked extra provisions of QR40mn in 1Q2020 on the account of COVID-19. However, we opt to be conservative and model in a CoR of 90bps for 2020, which seems reasonable in light of prevailing conditions.
- Management is guiding toward the lower end of 4%-6% loan growth.** During 1Q2020, net loans inched up by 0.9% YTD to QR88.8bn, while deposits ticked up by 1.4% to QR77.4bn. We take a conservative approach and estimate loan growth of 2.3% in 2020.
- Operating efficiency continued its positive trajectory, generating JAWS.** CBQK's operating expenses dropped by 36.5% YoY (-56.3% QoQ) from QR278.1mn in 1Q2019 to QR176.5mn in 1Q2020. This huge drop in opex was mainly due to the IFRS 2 impact of the performance rights scheme (for employees) resulting from the movement in CBQK's stock price. Hence, the C/I ratio declined to 22.8% vs. 29.3% in 1Q2019 (29.9% in 4Q2019).
- CET1 stays stable; management is guiding to 11-11.5% CET1 ratio.** CBQK's CET1 ratio was stable at 11.1% in 1Q2020 vs. FY2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio at current levels in 2020, 2021 & 2022.

#### Catalysts

- Delivering better-than-expected profitability metrics.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our PT from QR5.220 to QR5.006. On the other hand, we upgrade our rating from Accumulate to Outperform based on valuation.** CBQK is trading at a 2021e P/TB and P/E of 0.8x and 7.0x, respectively.
- Risks:** 1) Weakness in Turkish Lira & 2) Larger-than-anticipated impairments in UAB.

#### Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS	0.43	0.40	0.53	0.66
EPS Growth (%)	24.3	-7.0	33.0	24.1
P/E (x)	8.6	9.3	7.0	5.6
Tangible BVPS (QR)	4.3	4.4	4.7	5.1
P/TBV (x)	0.9	0.8	0.8	0.7
DPS (QR)	0.200	0.200	0.250	0.300
Dividend Yield (%)	5.4	5.4	6.8	8.1

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

#### Key Data

Current Market Price (QR)	3.695
Dividend Yield (%)	5.4
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	4.945/3.634
3-m Average Volume (mn)	2.8
Mkt. Cap. (\$ bn/QR bn)	4.1/14.9
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	18.6
1-Year Total Return (%)	(5.5)
Fiscal Year End	December 31

Source: Bloomberg (as of May 21, 2020), \*Qatar Exchange (as of May 21, 2020); Note: FO is foreign ownership

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## Change in Estimates

	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,339	3,160	-5.4	3,634	3,388	-6.8	3,948	3,688	-6.6
Non Interest Income	1,279	1,234	-3.5	1,473	1,407	-4.5	1,593	1,520	-4.6
Total Revenue	4,618	4,394	-4.8	5,107	4,794	-6.1	5,541	5,209	-6.0
Opex	1,242	1,249	0.6	1,267	1,287	1.6	1,325	1,320	-0.4
Net Operating Income	3,376	3,145	-6.8	3,840	3,507	-8.7	4,216	3,889	-7.8
Net Income (Reported)	2,426	1,897	-21.8	3,011	2,462	-18.2	3,496	3,013	-13.8
Net Income (Attributable)	2,125	1,610	-24.2	2,675	2,141	-20.0	3,129	2,658	-15.1

Source: QNB FS Research

The wide variation in our 2021, 2022 and 2023 new vs. old estimates is mainly due to higher provisions than previously anticipated. This is mainly due to the COVID-19 pandemic and the ensuing provisions that may arise from impairments.

## Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	2,518	2,482	2,963	3,160	3,388	3,688
Fees & Commissions	720	757	915	860	903	980
FX Income	163	202	281	259	279	296
Other Income	276	248	181	116	224	245
<b>Non-Interest Income</b>	<b>1,159</b>	<b>1,208</b>	<b>1,377</b>	<b>1,234</b>	<b>1,407</b>	<b>1,520</b>
<b>Total Revenue</b>	<b>3,677</b>	<b>3,690</b>	<b>4,340</b>	<b>4,394</b>	<b>4,794</b>	<b>5,209</b>
Operating Expenses	(1,325)	(1,173)	(1,228)	(1,249)	(1,287)	(1,320)
<b>Net Operating Income</b>	<b>2,352</b>	<b>2,517</b>	<b>3,112</b>	<b>3,145</b>	<b>3,507</b>	<b>3,889</b>
Net Provisions & Impairments	(1,743)	(836)	(1,068)	(1,226)	(1,016)	(830)
<b>Net Profit Before Taxes</b>	<b>609</b>	<b>1,681</b>	<b>2,044</b>	<b>1,919</b>	<b>2,491</b>	<b>3,059</b>
Tax	(5)	(7)	(23)	(22)	(29)	(46)
<b>Net Profit Before Minority Interest</b>	<b>604</b>	<b>1,674</b>	<b>2,021</b>	<b>1,897</b>	<b>2,462</b>	<b>3,013</b>
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)
<b>Net Profit (Headline/Reported)</b>	<b>604</b>	<b>1,674</b>	<b>2,021</b>	<b>1,897</b>	<b>2,462</b>	<b>3,013</b>
Interest on Tier-1 Note	(240)	(240)	(240)	(240)	(260)	(280)
Social & Sports Contribution Fund	(15)	(42)	(50)	(47)	(62)	(75)
<b>Net Profit (Attributable)</b>	<b>349</b>	<b>1,392</b>	<b>1,731</b>	<b>1,610</b>	<b>2,141</b>	<b>2,658</b>

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	6,039	6,830	7,230
Interbank Loans	10,499	9,475	12,396	11,529	11,898	14,408
Net Investments	19,629	22,206	26,844	27,757	30,804	32,998
Net Loans	89,122	84,642	88,009	88,603	93,751	100,718
Investment In Associates	2,088	4,513	4,021	4,018	4,078	4,139
Other Assets	4,576	1,754	2,569	2,658	2,813	3,022
Net PP&E	2,591	2,719	2,854	2,861	2,945	3,033
OREO	2,140	2,605	4,531	4,531	4,531	4,531
Goodwill & Intangible Assets	430	283	236	180	123	110
<b>Total Assets</b>	<b>138,449</b>	<b>134,928</b>	<b>147,536</b>	<b>148,176</b>	<b>157,772</b>	<b>170,190</b>
<b>Liabilities</b>						
Interbank Deposits	13,516	13,950	22,531	19,949	20,802	21,848
Customer Deposits	77,633	71,786	76,297	78,433	83,296	90,376
Term Loans	20,908	24,451	21,568	22,646	24,865	27,029
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Other Liabilities	5,370	4,884	5,385	5,333	5,664	6,146
<b>Total Liabilities</b>	<b>121,428</b>	<b>119,071</b>	<b>129,780</b>	<b>130,362</b>	<b>138,627</b>	<b>149,399</b>
<b>Total Shareholders' Equity</b>	<b>17,022</b>	<b>15,856</b>	<b>17,756</b>	<b>17,814</b>	<b>19,145</b>	<b>20,791</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>138,449</b>	<b>134,928</b>	<b>147,536</b>	<b>148,176</b>	<b>157,772</b>	<b>170,190</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2017	2018	2019	2020e	2021e	2022e	2023e
<b>Profitability (%)</b>							
RoE (Tangible)	2.4	8.4	11.1	9.2	12.1	14.0	13.8
RoAA (Attributable)	0.3	1.0	1.2	1.1	1.4	1.6	1.6
RoRWA (Attributable)	3.3	3.1	1.9	1.8	1.2	0.2	0.3
NIM (% of IEAs)	2.18	2.12	2.45	2.48	2.57	2.60	2.63
NIM (% of RWAs)	2.18	2.15	2.56	2.70	2.84	2.89	2.87
NIM (% of AAs)	1.87	1.82	2.10	2.14	2.21	2.25	2.29
Spread	1.8	1.6	1.9	1.9	1.8	1.9	1.9
<b>Efficiency (%)</b>							
Cost-to-Income (Headline)	36.0	31.8	28.3	28.4	26.8	25.3	26.5
Cost-to-Income (Core)	38.1	33.3	28.7	28.6	27.7	26.1	27.1
<b>Liquidity (%)</b>							
LDR	115	118	115	113	113	111	109
LDR (Including Stable Source of Funding)	90	88	90	88	87	86	87
Loans/Assets	64	63	60	60	59	59	61
Cash & Interbank Loans-to-Total Assets	12.9	12.0	12.5	11.9	11.9	12.7	11.7
Deposits to Assets	56	53	52	53	53	53	56
Wholesale Funding to Loans	39	45	50	48	49	49	42
IEAs to IBLs	118	117	116	123	121	117	118
<b>Asset Quality (%)</b>							
NPL Ratio	5.6	5.6	4.9	5.2	4.5	3.9	3.2
NPL to Shareholders' Equity	31.0	30.8	25.3	27.4	23.2	20.0	16.3
NPL to Tier 1 Capital	31.0	30.8	26.4	27.4	23.5	20.4	16.7
Coverage Ratio	81	79	82	90	111	131	158
ALL/Average Loans	4.9	4.3	4.1	4.8	5.1	5.3	5.3
Cost of Risk (bps)	195	102	67	90	80	71	61
<b>Capitalization (%)</b>							
Tier 1 Ratio	14.5	14.0	14.4	15.2	15.6	15.2	15.4
CAR	16.1	15.5	16.4	17.2	17.5	17.2	17.3
Tier 1 Capital to Assets	12.3	11.8	11.5	12.0	12.0	12.0	12.3
Tier 1 Capital to Loans	19.1	18.7	19.3	20.1	20.2	20.2	20.3
Tier 1 Capital to Deposits	21.9	22.1	22.3	22.7	22.7	22.5	22.1
Leverage (x)	8.1	8.5	8.3	8.3	8.2	8.2	7.9
<b>Growth (%)</b>							
Net Interest Income	7.6	-1.4	19.4	6.6	7.2	8.9	7.4
Non-Interest Income	-4.0	4.2	14.0	-10.4	14.0	8.1	-15.9
Total Revenue	3.6	0.4	17.6	1.3	9.1	8.6	0.6
Operating Expenses	-22.1	-11.5	4.7	1.7	3.0	2.5	5.1
Net Operating Income	27.4	7.0	23.6	1.1	11.5	10.9	-1.0
Net Provisions & Impairments	29.7	-52.1	27.8	14.8	-17.1	-18.3	-29.3
Net Income (Headline)	20.5	177.3	20.7	-6.1	29.8	22.4	6.7
Net Income (Attributable)	30.0	299.5	24.3	-7.0	33.0	24.1	7.4
Loans	14.6	-5.0	4.0	0.7	5.8	7.4	6.3
Deposits	9.5	-7.5	6.3	2.8	6.2	8.5	9.0
Assets	6.2	-2.5	9.3	0.4	6.5	7.9	3.7
RWAs	2.7	-2.8	3.7	-1.0	4.2	10.1	6.0

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*

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

### Risk Ratings

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

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

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