

3Q2022 Earnings Preview: All Eyes On The FIFA World Cup Qatar 2022

We expect 3Q2022 earnings for Qatari stocks to grow 6.9% YoY on a normalized basis (excluding IGRD). On the other hand, on a QoQ basis, normalized earnings should be flat (again excluding outlier IGRD). The YoY growth in normalized earnings stems from improved operating performance amid still strong (but volatile) oil and gas prices. 2022 remains an extraordinary year with global stock markets bearing the brunt of global central banks' hiking of interest rates and retrenchment of quantitative easing as they attempt to fight inflation without sending their economies into a recession/stagflation. Qatari equities have not been immune, as the QSE Index appreciated as much as 24.7% (April 11, 2022), but then declined to almost flattish territory in late June and is now again up by 12.1% YTD (October 06, 2022). The QSE Index remains a relative outperformer among most major regional and global markets. **While the 3Q2022 reporting season should generally be perceived positively, it is unlikely to drive near-term equity performance as the FIFA World Cup Qatar 2022 takes center stage.** Although we expect the market to remain volatile, we continue to remain positive longer-term on the Qatari market due to the following reasons: **(1) Robust (but volatile) oil and gas prices:** Sanctions by Western countries on Russia are still causing global oil and gas supply concerns, which in turn is having a major impact on global oil and gas prices. The recent agreement by OPEC+ to cut 2mm b/d of output should further aid prices. Moreover, the EU gas supply situation remains precarious as we approach winter. Overall, strong gas and oil prices should lead to higher government revenue for Qatar, enable flexibility in government expenditures, and improve overall money supply (liquidity). **(2) Furthermore,** with the FIFA World Cup Qatar 2022 on the horizon, we believe the Qatari stock market will benefit from the success enjoyed by Qatar on the global stage. We note that while markets tend to fall in the first three months immediately after the WC, returns 12 months after the event are positive, outperforming the MSCI World Index by an attractive 4.0 percentage points. For a deep-dive into the empirical evidence related to the previous seven (excluding outlier Brazil) FIFA World Cup host nations' equity markets performance, please refer to our [Strategy Alert](#). **(3) Over the medium-to-long-term,** the North Field Expansion Project and 2030 Qatar National Vision investments continue to be major growth drivers for local companies. On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, whereas Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. **While we cannot rule out near-term volatility, we remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals.**

Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience YoY earnings growth of 3.0%, mainly due to healthy net operating income being somewhat offset by elevated CoR. Aggregate growth in earnings is attributed to Qatar Islamic Bank (QIBK), which has been reporting robust earnings consistently and Commercial Bank of Qatar. CBQK continues to deliver as a turnaround story with management making good on its objectives and guidance thus far. **Further, on a QoQ basis, we expect a growth of 7.9% driven by Ahli Bank** (in-line with historical trends; ABQK delivers a surge in earnings QoQ). **Excluding ABQK, aggregate earnings could grow by 5.1%. On a YoY basis, QIBK's profitability should gain by 6.2%; strong net operating income (+8.8%) is affected by an increase in provisions (which is expected, given management's conservative nature).** QIBK is up an impressive ~42% YTD (outperforming its peers by a wide margin) and is now trading at a P/B of 2.6x, with limited upside remaining, in our view. Moreover, the name is trading close to its 5-year high P/B of 3.0x (5-year low of 1.4x & median 2.2x). **CBQK should grow its net operating income by 15.9% YoY, because of healthy revenue combined with cost control.** However, an increase in provisions and hyperinflation accounting is expected to impede bottom-line growth (+3.9%). Excluding this hyperinflation charge, earnings should grow by 7.6% and guidance on impairment from hyperinflation accounting for FY2022 is estimated as ~QR100mn-QR150mn. The stock remains attractive with undemanding multiples. CBQK is trading at a 2022/23 P/TB of 1.5x/1.3x based on our estimates but lacks short-term catalysts. **While we are of the view that 3Q2022 earnings for banks are unlikely to be significant drivers for their stock price performance, management commentary on expected provisioning for year-end 2022 and possible initial color on 2023 outlooks for their specific banks/the sector, could come into focus. As we move into 4Q2022, expectations concerning the upcoming dividend season usually help drive equity price performance.**
- We estimate a YoY rise of 10.5% in the bottom-line of diversified non-financials under coverage (excluding IGRD, as historical quarterly figures are not available) mainly due to higher commodity prices and earnings growth shown by Industries Qatar (IQCD) and a base effect stemming from Gulf International Services (GISS) and Vodafone Qatar (VFQS). Excluding GISS, VFQS and IGRD, earnings growth remains strong, rising by 7.1% YoY. **On a sequential basis, combined earnings of diversified non-financials (ex. IGRD) could recede by 5.9% due to IQCD; on a normalized basis, excluding IQCD and IGRD, earnings could jump by 16.1%. In 3Q2022, IQCD should continue to post YoY net income growth (5.7%) but we expect earnings to fall QoQ by 15.4%.** As we have previously pointed out, product prices continued to roll over showing signs of systemic weakening as recession fear looms and the US dollar soars. LDPE/LLDPE prices are down YoY and QoQ in the third quarter, while urea, although up YoY, is also down sequentially. Steel is also down YoY/QoQ and while iron ore costs have also declined, domestic demand is likely to remain soft ahead of the World Cup. So net-net, stable volumes in 3Q2022 should be more than offset by weaker price realizations. Going forward into 4Q2022, PE prices could regain some momentum on the back of OPEC+ cuts and possible reopening of China as COVID restrictions ease. However, the trajectory of urea prices could be more uncertain given strength in EU gas prices/Asia LNG prices, along with demand from India, offsetting an increase in Chinese exports amid \$ strength and weak domestic demand (supporting higher producer margins from export sales). Steel should continue to face weak domestic demand into December as the World Cup takes center stage. **As far IGRD is concerned, we estimate 3Q2022 revenue of QR875.8mn, while its net profit should print at QR76.6mn (note there are no YoY or QoQ comparables).** It implies a margin decline to 8.7% from 10.3% in 1H22, as the tourism segment subsidy was fully recognized at the beginning of the year/1H22. We reckon, however, for IGRD, 4Q2022 is the one to watch with The View -- its flagship hospital -- and Al Maha tourist resort slated to open their doors.
- Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks & investment income/capital gains (losses). Volatile o&g prices & geo-political tensions remain as risk factors to regional equities and have a direct impact on stocks under coverage.

3rd Quarter 2022 Estimates

	EPS (QR)			Revenue (QR mn)		
	3Q 2022e	YoY	QoQ	3Q 2022e	YoY	QoQ
Ahli Bank (ABQK)	0.089	5.2%	63.1%	339.49	-1.0%	1.8%
Commercial Bank of Qatar (CBQK)	0.206	3.9%	5.1%	1,385.60	4.4%	1.2%
Doha Bank (DHBK)	0.090	0.5%	5.8%	770.42	-1.1%	8.2%
Gulf International Services (GISS)	0.055	144.8%	21.7%	922.05	13.1%	2.1%
Gulf Warehousing Co. (GWCS)	0.103	7.2%	5.6%	397.88	22.9%	8.2%
Industries Qatar (IQCD)	0.381	5.7%	-15.4%	4,659.03	37.3%	-9.2%
Investment Holding Group (IGRD)	0.022	N/A	N/A	875.80	N/A	N/A
Masraf Al Rayan (MARK)	0.059	-3.6%	N/M	1,157.58	37.4%	-1.9%
Qatar Electricity & Water (QEWS)	0.378	6.2%	40.5%	826.85	29.4%	30.1%
Qatar Gas & Transport (QGTS)	0.069	4.2%	10.1%	1,066.52	3.5%	0.1%
Qatar International Islamic Bank (QIIB)	0.204	4.1%	11.5%	410.17	0.1%	-5.5%
Qatar Islamic Bank (QIBK)	0.418	6.2%	2.9%	1,594.97	7.5%	66.1%
Qatar Navigation/Milaha (QNNS)	0.244	28.2%	-1.1%	861.93	30.3%	0.1%
Vodafone Qatar (VFQS)	0.029	87.8%	14.3%	761.61	30.7%	8.0%
Total (Excluding IGRD)		6.9%	0.0%	15,154.1	20.0%	3.4%

Source: 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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