3Q2019 Earnings: Non-Banks' Earnings Growth to Speed Up; Banks' Growth to Remain Healthy

We expect Qatari stocks under coverage to exhibit strong YoY & QoQ earnings growth on a normalized (excluding outliers such as IQCD) basis in 3Q2019. ***Normalized earnings should grow 6.1% YoY and 7.5% QoQ in aggregate. CBQK, QIBK and QGTS*** *should contribute positively to the YoY net income growth of stocks under our coverage. On an overall basis, the Qatar Stock Exchange Index trades at a 2019 P/E of 14.1x, complemented by a dividend yield of 4.2%, in-line to modestly above the MSCI EM Index which trades at a 12.9x P/E along with a dividend yield of 3.1%. After dividends season came to an end (end of 1Q2019), the QSE Index has increased by 1.2% beating the MSCI EM Index (down 6.0%) aided by FTSE & MSCI Emerging Markets Index inclusions for some names.* ***Our 3Q2019 estimates indicate that banks' YoY net earnings trajectory (excluding QNB Group, which we do not cover) remains healthy at 5.8% YoY growth,*** *albeit slower than the 10.3% growth witnessed in 2Q2019.* ***On the other hand, we expect normalized non-bank net income growth (excluding IQCD, QEWS and GISS) to speed up to 11.5% YoY in 3Q2019,*** *surpassing 2Q2019's 6.4%, primarily driven by the contributions of QGTS and VFQS. However, 3Q2019's growth acceleration for non-banks is still noteworthy given the continuous deceleration between 1Q2018-2Q2019.*

Highlights

- **We estimate banks under coverage (ex-QNBK) to experience a YoY earnings growth of 5.8% largely attributed to Commercial Bank of Qatar (CBQK) and Qatar Islamic Bank (QIBK), while the sequential low single digit growth (+1.6%) is aided by Doha Bank (DHBK).** ***Lower provisions, countering margin pressure and weak net operating income, drive the YoY aggregate growth in profitability.*** **CBQK** is expected to contribute positively to the YoY profitability performance based on our figures. We expect **margins to remain under pressure YoY (flat QoQ) while strong growth in the bottom-line is attributed to healthy banking figures across the board, in our view.** We estimate +23.8% YoY growth in the bottom-line, driven by net operating income and a significant drop in provisions as the bank fully provisioned for its legacy portfolio in 2017 and 2018. Lower provisions mitigate the sequential flat earnings performance. We expect **QIBK** to continue its positive performance. Our model pencils in a 7.6% YoY growth in its bottom-line driven by flat opex and lower provisions (recent trend). We foresee further margin pressure facing QIBK as yields on assets continue to drop while cost of funds remain rigid. On the other hand, we foresee continued weak figures from **DHBK** due to margin pressure and higher provisions (arising from GCC operations). The estimated YoY drop in profitability is due to weak banking income and higher provisions. Sequentially, we expect profitability to increase on the back of lower provisions as the bank booked heavy provisions in 2Q2019. DHBK is estimated to book more provisions in 2019 vs. 2018.
- **We estimate a YoY drop of 18.4% in the bottom-line of diversified non-financials under coverage due to IQCD (excluding IQCD, growth would be 6.8%), while forecasting a jump of 13.8% QoQ.** Based on our assumptions, **Industries Qatar (IQCD)** leads the significant decline in net income on a YoY basis. **IQCD's 3Q2019 earnings story remains consistent with its overall 2019 performance witnessed thus far.** We predict a flattish 3Q2019 QoQ but YoY comparisons will continue to look difficult. We model in revenue (steel)/group net income of QR1.24bn/QR801.04mn, which implies earnings decline of 39.1% YoY, but flattish performance (+2.0%) QoQ. By segment: (1) steel prices are subdued YoY/QoQ but iron ore prices have eased off significantly from their highs seen in mid-July (prices had bounced +60% YTD or to their highest levels since 2014 due to Vale supply issues but are now up around 30% YTD). Steel GMs surprised to the upside in 2Q2019 with cash gross margins jumping to 13.8% vs. 9.2% in 1Q2019. While 2Q2019 GMs likely benefited from better pricing, reduced sales of lower-margin products and/or utilization of lower-cost inventory, we do not expect this trend to continue to that extent. For 3Q2019, we are forecasting steel GMs of 11.0% and revenue growth off a depressed 2QQ19 top-line. (2) Petchem prices remain lower YoY/QoQ but IQCD could continue to benefit from lower operating costs. (3) Urea prices have been, on an average, stable sequentially but have been receding throughout 3Q2019 driven partly by Chinese Yuan devaluation.
- **Risks:** Estimates can be impacted by one-offs, greater or lower provisions for banks and investment income/capital gains (losses). Volatile oil prices and geo-political tensions remains a substantial risk to regional equities and have a direct impact on stocks under coverage.

3rd Quarter 2019 Estimates

	EPS (QR)			Revenue (QR mn)		
	3Q2019e	YoY	QoQ	3Q2019e	YoY	QoQ
Ahli Bank (ABQK)	0.080	0.9%	2.4%	264.0	2.3%	-0.1%
Al Khalij Commercial Bank (KCBK)	0.045	21.7%	-7.2%	287.2	6.6%	-5.3%
Commercial Bank of Qatar (CBQK)	0.124	23.8%	-0.4%	934.2	7.0%	-5.6%
Doha Bank (DHBK)	0.081	-6.2%	18.5%	656.3	-1.3%	0.0%
Gulf International Services (GISS)	0.012	N/M	N/M	688.3	-1.8%	-8.5%
Gulf Warehousing Co. (GWCS)	0.103	5.2%	-4.0%	288.5	-3.4%	-2.5%
Industries Qatar (IQCD)	0.132	-39.1%	2.0%	1,243.8	-18.9%	18.3%
Investment Holding Group (IGRD)	0.006	-43.3%	-61.5%	100.1	-3.5%	-13.3%
Masraf Al Rayan (MARK)	0.072	-4.7%	1.0%	701.4	-1.8%	0.6%
Medicare Group (MCGS)	0.024	42.5%	-49.6%	113.3	1.5%	-4.5%
Qatar Electricity & Water (QEWS)	0.291	-6.8%	3.2%	610.1	-9.1%	1.0%
Qatar Fuel (QFLS)	0.346	6.8%	55.4%	6,218	1.0%	0.0%
Qatar Gas & Transport (QGTS)	0.045	16.4%	4.1%	902.5	1.5%	1.4%
Qatar International Islamic Bank (QIIK)	0.172	3.8%	6.6%	348.9	3.0%	1.9%
Qatar Islamic Bank (QIBK)	0.310	7.6%	-1.1%	1,162.9	3.3%	-0.2%
Qatar Navigation (QNNS)	0.094	5.0%	N/M	560.0	0.6%	1.9%
Vodafone Qatar (VFQS)	0.010	61.1%	24.6%	538.6	11.4%	2.2%
Total (excl. IQCD)		**6.1%**	**7.5%**	**14,374.5**	**1.1%**	**-0.8%**
Total		**-6.1%**	**6.5%**	**15,618.3**	**-0.8%**	**0.50%**

Source: QNB FS Research; Note: EPS based on current number shares

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Diversified)

Stock	3Q2018	2Q2019	3Q2019e	% Δ YoY	% Δ QoQ	Key Themes
GISS	5.22	4.03	**22.75**	**N/M**	**N/M**	**We forecast an earnings improvement in 3Q2019 after the slump seen in 2Q2019.** On back of its poor earnings performance in 2Q2019, we expect GISS to regain some momentum in 3Q. We do note GISS' quarterly net income remains volatile and difficult to predict given its four disparate segments and razor-thin margins. For 3Q2019, we expect revenue/net income of QR688.3mn/QR22.7mn. We model in top-line declines of 2% YoY and 8% QoQ, while earnings should improve significantly. Sequentially, the insurance segment should post a lower top-line given a refocusing on the reinsurance business in medical but margins should improve (insurance posted a ~QR5mn loss in 2Q2019). Drilling should also continue to improve sequentially in terms of a lower net loss. *Our overall thesis remains the same – GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile. We do not expect this to change. However, we do expect drilling to pull itself out of losses suffered during 2016-19 by 2020 in light of demand due to the proposed North Field expansion and given our assumption of high fleet utilization & modest cost savings.* ***We maintain our Outperform rating with a QR2.10 price target.***
GWCS	57.49	62.99	**6.047**	**5.2%**	**(4.0)%**	**We expect QR288.5mn/QR60.5mn in top-line/net income.** We expect revenue to decline 3.4% YoY and 2.5% QoQ, while net income should post a 5.2% growth YoY (down 4.0% QoQ). *We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (+90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.5% in 2017 to 9.5% in 2018, reaching 16.2% in 2023. Dividend yield of 3.8% for 2018 should grow to 5.6% by 2023. With major capex already done, there could be upside to dividends medium-term.* ***We maintain our Accumulate rating on GWCS with a QR5.10 price target.***
IGRD	8.25	12.16	**4.68**	**(43.3%)**	**(61.5%)**	**We anticipate IGRD to record lower revenue in 3Q2019 (3.5% YoY)** due to delays in the initiation of some new projects, which we believe will be partially compensated over 4Q2019 with the contribution of QR265mn of new orders received in April'19. As a result of these delays coupled with lower other income, higher depreciation expenses and rising interest expenses (due to debt received for CESCO's minority stake buy out), we anticipate IGRD's 3Q2019 net income to be at QR4.7mn vs. QR8.2mn as of 3Q2018. Nevertheless, we are of the view that the new management's hands-on approach is expected to bear fruit over the coming quarters with lower costs and higher revenue. ***We continue to rate IGRD as Outperform with a price target of QR0.75.***
IQCD	1,316.29	785.56	**801.04**	**(39.1%)**	**2.0%**	**IQCD's 3Q2019 earnings story remains consistent with its overall 2019 performance witnessed thus far.** We predict a flattish 3Q2019 QoQ but YoY comparisons will continue to look difficult. We model in revenue (steel)/group net income of QR1.24bn/QR801.04mn, which implies earnings decline of 39.1% YoY, but flattish performance (+2.0%) QoQ. By segment: (1) steel prices are subdued YoY/QoQ but iron ore prices have eased off significantly from their highs seen in mid-July (prices had bounced +60% YTD or to their highest levels since 2014 due to Vale supply issues but are now up around 30% YTD). Steel GMs surprised to the upside in 2Q2019 with cash gross margins jumping to 13.8% vs. 9.2% in 1Q2019. While 2Q2019 GMs likely benefited from better pricing, reduced sales of lower-margin products and/or utilization of lower-cost inventory, we do not expect this trend to continue to that

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						extent. For 3Q2019, we are forecasting steel GMs of 11.0% and revenue growth off a depressed 2QQ19 top-line. (2) Petchem prices remain lower YoY/QoQ but IQCD could continue to benefit from lower operating costs. (3) Urea prices have been, on an average, stable sequentially but have been receding throughout 3Q2019 driven partly by Chinese Yuan devaluation. ***We retain our QR10.50 price target and Market Perform rating****; we believe, while earnings are largely under pressure in 2019, investors will seek answers regarding deployment of IQCD's cash pile and the company's strategy. Expansion/acquisition-related newsflow and upside in earnings/dividends could be key for charting the way forward.*
MCGS	4.77	13.48	**6.80**	**42.5%**	**(49.6%)**	**We expect MCGS to record QR6.8mn in 3Q2019 net earnings with a 2.5% rise YoY primarily due to lower provisions.** We anticipate slightly higher revenue for MCGS in 3Q2019 (1.5%, YoY). However, due to a predicted rise of operating expenses with the contribution of new Al Wakrah Clinic, we forecast MCGS' gross profit to fall 2.5% YoY. On the other hand, the lack of impairment provisions for SEHA receivables in 3Q2019 (QR6.3mn as of 3Q2018) is partially mitigated by recent implementation of depreciation of right to use assets and higher financial expenses. Please note as the company reversed the bulk of the provisions for receivables in 4Q2018, 3Q2019's expected YoY growth in net earnings is not likely to be repeated in 4Q2019. We continue to forecast QR85.4mn of net earnings for FY2019, which implies a 1% rise YoY. The company is likely to benefit from an anticipated re-initiation of Qatar's National Health Insurance Scheme, which resulted in a substantial upsurge in MCGS' revenue and net profit during its first implementation in 2013-2015. Until details of the new National Health Insurance are clarified, we foresee MCGS shares remaining volatile. ***We maintain our Market Perform rating on the name with a price target of QR8.24.***
QEWS	343.83	310.45	**320.30**	**(6.8%)**	**3.2%**	**3Q2019 metrics to continue to show effects of lower tariffs/offtake forecasts on YoY basis but sequential trends could remain stable.** Revenue should fall 9.1% YoY but eke out a 1% QoQ increase. On a yearly basis, QEWS' top-line has already witnessed declines of 18.3% in 1Q2019 and 11.7% in 2Q2019. As we have noted previously, RAF B, which already witnessed lowered tariffs under a 12-year contract extension from July 2018, also faces lower offtake this year given Umm Al Houl (which is running at full capacity). Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates this year. Costs have also increased beyond modeled expectations given higher-than-expected gas costs for RAF B's renewal. *We continue to like the company as a long-term play with a relatively defensive business model. QEWS still enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E; Siraj solar, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.* ***We maintain our Market Perform rating on the shares with a price target of QR17.00.***

Stock	3Q2018	2Q2019	3Q2019e	% Δ YoY	% Δ QoQ	Key Themes
QFLS	322.28	221.38	**344.09**	**6.8%**	**55.4%**	**We expect Woqod to report QR344.1mn in net earnings in 3Q2019, a rise of 6.8% rise YoY driven by our 2% growth estimate for gross profits and lower minority interest.** QFLS, the exclusive fuel distributor in Qatar, is likely to benefit from the expected fleet expansion of its major client, Qatar Airways, in the coming years. Jet fuel is QFLS' prime product, accounting for half of total fuel sold as of 1H2019. Hence, Qatar Airways Group's planned expansion is likely to be the foremost long-term driver for Woqod's bottom line growth. Concurrently, the company's ongoing expansion of its retail fuel station network should support its fuel and non-fuel revenue growth gradually. Nevertheless, following a 38.6% rise in QFLS shares YTD (outperforming the DSM Index's 0.0%) ignited by the name's FTSE and MSCI EM Index inclusions, we believe the stock is now fairly valued. ***We maintain our Market Perform rating on QFLS shares with a QR23.40 price target.***
QGTS	214.11	239.59	**249.32**	**16.4%**	**4.1%**	**We expect a solid 3Q2019 with YoY earnings propelled by higher JV income and lower finance charges.** YoY, adjusted revenue/earnings of QR902.5mn/QR249.3mn should be up 1.5%/16.4%. On a sequential basis, adjusted revenue and net income should appreciate 1.4% and 4.1%, respectively. YoY earnings should benefit from higher JV income (2 conventional LNG vessels added at Maran in March 2018 and one FSRU added in June 2018, along with continued traction in the shipyard business) and lower interest charges. *We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion.* ***For now, we maintain our Accumulate rating and price target of QR2.50.***
QNNS	102.38	37.65	**107.45**	**5.0**	N/M	**We expect QNNS to follow recent trends.** We anticipate net income to increase YoY driven by QGTS and other JV income, which has been the driving force behind QNNS. The QoQ surge in the bottom-line is mainly driven by a significant drop in vessels impairments. The company reported impairments of QR113mn in 2Q2019. ***We are Market Perform on the name for now with a QR8.10 target price.***
VFQS	26.72	34.53	**43.04**	**61.1%**	**24.6%**	**VFQS should continue its trend of positive earnings in 3Q2019.** Revenue should grow 11.4% YoY and 2.2% QoQ, while the significant yearly growth in earnings is driven by revenue/costs improvement. *Our view on the stock remains unchanged – we continue to like the company's momentum in postpaid fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023.* ***We maintain our rating/price target of Market Perform/QR1.70.***

Source: QNB FS Research, company data

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Financials)

Stock	3Q2018	2Q2019	3Q2019e	% Δ YoY	% Δ QoQ	Key Themes
ABQK	184.61	181.82	**186.18**	**0.9%**	**2.4%**	**We expect flattish profitability YoY (+2.4% sequentially); margins to remain under pressure.** Based on our assumptions, we expect net profit to move up by 0.9% YoY due to higher non-funded income. On a QoQ basis, we estimate bottom-line growth of 2.4% due to lower provisions and opex vs. 2Q2019 (historical trend). ***We maintain our Market Perform rating and price target at QR3.00.***
KCBK	134.07	175.76	**163.12**	**21.7%**	**(7.2%)**	**We expect YoY growth in bottom-line to be driven by healthy core banking income and significantly lower provisions.** The YoY growth in profitability is a result of a 6.6% growth in revenue, 2.9% decline in opex and 22% drop in provisions. We note 2016 and 2017 was the peak of provisions for the bank and it started to normalize in 2018 and we expect a further decline in 2019. We note drop in the bottom-line QoQ is due to weak figures (in-line with historical trends). ***For the time being, we maintain our Market Perform rating and price target at QR1.40.***
CBQK	404.56	503.01	**500.98**	**23.8%**	**(0.4%)**	**Margins to remain under pressure YoY (flat QoQ) while strong growth in bottom-line is attributed to healthy banking figures across the board, in our view.** We estimate +23.8% YoY growth in the bottom-line, driven by net operating income and a significant drop in provisions as the bank fully provisioned for its legacy portfolio in 2017 and 2018. Margins are expected to remain under pressure, however. The sequential flat earnings performance is mitigated by lower provisions. ***We maintain our Market Perform rating and target price of QR4.30.***
DHBK	266.77	211.10	**250.17**	**(6.2%)**	**18.5%**	**We foresee continued weak figures from DHBK due to margin pressure and higher provisions (arising from GCC operations); QoQ rise is attributable to lower provisions.** The estimated YoY drop in profitability is due to weak banking income and higher provisions. Sequentially, we expect profitability to increase on the back of lower provisions as the bank booked heavy provisions in 2Q2019. DHBK is estimated to book more provisions in 2019 vs. 2018. ***For the time being, we maintain our Market Perform rating and target price at QR2.60.***
MARK	566.00	534.01	**539.13**	**(4.7%)**	**1.0%**	**We estimate a drop in profitability YoY.** On a YoY basis, MARK's performance is due to margin pressure and lower net reversals vs. 3Q2018. It should be noted that the bank reported a large unprecedented net income in 3Q2018 on the back of high net reversals. ***In terms of our recommendation, we maintain our Market Perform rating and price target at QR3.40.***
QIIK	251.16	244.54	**260.61**	**3.8%**	**6.6%**	**QIIK should follow historical trends.** We estimate a 3.8% increase in earnings YoY driven by healthy core banking income (in-line with historical trends) and a sharp drop in provisions, while the QoQ drop is due to lower opex and provisions vs. the 2nd quarter (in-line with historical trends). ***We maintain our Reduce rating and target price of QR6.30.***
QIBK	679.99	740.08	**731.89**	**7.6%**	**(1.1%)**	**We expect QIBK to continue its positive performance.** We pencil in a 7.6% YoY growth in its bottom-line driven by flat opex and lower provisions (recent trend). QIBK's sequential earnings decline is driven by lower positive minority interest. ***We maintain our Reduce rating and price target at QR12.90.***

Source: QNB FS Research, company data

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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