

### 2Q2021 Earnings Preview: Rising Commodity Prices Along with 2Q2020's Low Base to Drive the EPS Growth

We expect Qatari stocks under coverage to exhibit a sequential recovery in earnings on a normalized basis in 2Q2021 (excluding outliers such as DHBK, AHCS and GISS). Normalized earnings should increase by 65.1% YoY and 1.9% QoQ, in aggregate; the YoY growth in normalized earnings is attributable to the low base of 2Q2020 as a result of the strict counter-COVID-19 measures taken in 2Q2020. On the other hand, the expected QoQ increase is supported by a further recovery in commodity prices. IQCD, QAMC and CBQK should make notable positive contributions to the sequential net income performance of stocks under our coverage. On a YoY basis, IQCD should post a substantial jump in earnings, while CBQK and QAMC should also make handy contributions. While lifting of the blockade is a positive for Qatar and the region, Northfield Expansion Project and 2030 Qatar National Vision investments continue to be major growth drivers for local companies in the coming periods. 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. In case of any unforeseen volatility, the government's QR10bn stock purchase program creates an important safety net for Qatari stocks. With coronavirus continuing to affect the real economy (albeit to a lesser extent), global emerging market equities as well as Qatari stocks could stay volatile. On the other hand, despite being a laggard thus far this year, we continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals and reasonable valuations, coupled with Qatar's effectively handled vaccination program, which reduces COVID-19 variant risks substantially. We do note that renewed lockdowns due to the pandemic and global oil/commodity price volatility remain as major risk factors to our estimates and will likely impact directly on the financial results of stocks under our coverage.

#### Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience strong earnings YoY, growing by 17.3% largely attributed to DHBK and CBQK as both banks are expected to report a large growth in earnings. Excluding DHBK, aggregate bank earnings could increase by 11.7% YoY. The increase in the aggregate bottom-line is driven by stable margins (as NIMs expanded in FY2020), cost containment and lower provisions & impairments. Moreover, we expect earnings to display flattish performance (-0.8%) sequentially due to precautionary provisions & impairments. CBQK is expected to contribute positively to the YoY profitability performance based on our figures. Strong revenue, specifically non-funded income, should drive earnings on a YoY basis as CBQK reported large losses from associates 2Q2020. We estimate a 25.9% YoY jump in CBQK's bottom-line driven by healthy revenue. On the other hand, we foresee further impairments related to UAB in the coming quarters, albeit at a lower amount vs. 2020. Having said this, we are of the view that the impairment exercise of UAB will be completed in FY2021. The sequential gain in CBQK's earnings is due to lower credit provisions. **CBQK's management has been delivering on its 5-year strategy objectives, which we think is positive. CBQK stock has increased 24% since we upgraded the stock on March 1, 2021.** Regarding DHBK, we expect the bank to post strong growth in net profit YoY (+90.8%), driven by net interest income and lower provisions & impairments as the majority of provisions were booked in 2020. Sequentially, we expect DHBK's 2Q2021 net income to drop by 11.4% (in-line with historical trends) to QR336.98mn as a result of margin compression which we believe peaked at -2.71% in 1Q2021.
- We estimate a YoY rise of 174.8% in the normalized (ex. AHCS and GISS) bottom-line of diversified non-financials under coverage mainly due to low base effect and higher commodity prices. On a sequential basis, aggregate normalized earnings of diversified non-financials could increase 2.8%, supported by the upward trend of commodity prices in 2Q2021. Based on our assumptions, IQCD should be a standout performer in 2Q2021, on a YoY basis, benefiting from its 25%-acquisition of QAFCO and improved pricing generally across the board. We note urea prices are up, on an average, ~10% sequentially in 2Q (-65% YoY) helped by the resumption of Indian demand, lower export availability from China and supply disruptions. YoY comparisons are also boosted as the QAFCO acquisition was not included in reported financials in 2Q2020. LDPE prices are up roughly 70% YoY but have softened since April as supply has improved. Improving steel prices should be somewhat offset by rising iron ore prices. We maintain our Accumulate rating on IQCD and our QR14.25 target price.
- Risks:** Estimates can be impacted by one-offs, provisions for banks & investment income/capital gains (losses). Volatile oil prices, the economic fallout of the global pandemic & geo-political tensions remain as substantial risk factors to regional equities and may have a direct impact on stocks under coverage.

#### 2<sup>nd</sup> Quarter 2021 Estimates

	EPS (QR)			Revenue (QR mn)		
	2Q2021e	YoY	QoQ	2Q2021e	YoY	QoQ
Aamal (AHCS)	0.010	N/M	-7.4%	320.47	23.3%	-4.4%
Ahli Bank (ABQK)	0.070	49.7%	-8.5%	302.78	7.0%	-5.6%
Al Khalij Commercial Bank (KCBK)	0.052	2.5%	2.0%	370.45	6.3%	-2.4%
Baladna (BLDN)	0.026	11.4%	12.0%	198.27	-3.3%	8.8%
Commercial Bank of Qatar (CBQK)	0.155	25.9%	4.2%	1,163.11	28.8%	-2.1%
Doha Bank (DHBK)	0.109	90.8%	-11.4%	779.64	14.7%	-5.3%
Gulf International Services (GISS)	0.000	N/M	N/M	714.97	-1.7%	1.4%
Gulf Warehousing Co. (GWCS)	0.103	1.9%	10.5%	305.93	1.2%	2.4%
Industries Qatar (IQCD)	0.253	444.8%	4.7%	3,013.34	24.5%	6.1%
Investment Holding Group (IGRD)	0.011	39.6%	14.3%	96.49	29.0%	15.8%
Masraf Al Rayan (MARK)	0.075	5.2%	-1.8%	832.47	13.0%	-9.0%
Medicare Group (MCGS)	0.051	51.7%	-33.7%	101.48	20.4%	-18.1%
Qatar Aluminium Manufacturing Co. (QAMC)	0.038	N/M	73.0%	726.37	30.6%	13.7%
Qatar Electricity & Water (QEWS)	0.353	13.9%	4.3%	666.51	1.7%	10.9%
Qatar Fuel (QFLS) *	0.266	501.0%	4.6%	272.63	N/M	11.6%
Qatar Gas & Transport (QGTS)	0.058	19.8%	1.0%	989.57	1.0%	0.4%
Qatar International Islamic Bank (QIIK)	0.175	3.9%	-5.9%	374.25	1.2%	-14.3%
Qatar Islamic Bank (QIBK)	0.332	6.0%	4.5%	1,453.23	2.8%	-8.0%
Qatar Navigation/Milaha (QNNS)	0.171	1062.6%	-34.5%	561.57	5.5%	-16.8%
Vodafone Qatar (VFQS)	0.014	79.9%	-9.6%	563.11	6.0%	-3.8%
Widam Food (WDAM)	0.003	-97.9%	-52.3%	129.61	-24.8%	29.1%
<b>Total (excl. DHBK, AHCS and GISS from EPS and QFLS from Revenue)</b>		<b>65.1%</b>	<b>1.9%</b>	<b>13,663.6</b>	<b>11.7%</b>	<b>-1.0%</b>

Source: QNB FS Research; Note: EPS based on current number of shares (\*) We use QFLS' gross profits as its top-line.

### 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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