

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR3.920	Target Price	QR5.244
Implied Upside	33.8%	Old Target Price	QR6.681

Undervalued at 26% Discount to 2024e BV; Lowering PT to QR5.244

We forecast 2023-28e earnings CAGR of 7.6% (vs. 10.6% previously) because of lower margin estimates and uncertainty regarding hyperinflation (see page 3). Hence, our new sustainable RoE falls to 13.0% vs. 13.5% previously. As a result, we lower our PT from QR6.681/sh. to QR5.244/sh. but maintain our Outperform rating. The stock remains attractive with undemanding multiples. CBQK is trading at a 2024/25e P/TB of 0.7x based on our estimates. The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 7.6%. Moreover, the market is pricing in a sustainable RoE of 11.0%, which is lower than our forecast and management guidance.

Highlights

- CBQK restated 1Q2023 figures.** Management lowered net profit from QR751.3mn to QR577.3mn due to the restatement of fee income (from QR299mn to QR125mn) related to the underlying derivative on the share option performance scheme. Commercial Bank of Qatar (CBQK) reported a net profit of QR801.6mn in 1Q2024, in-line with our estimate of QR801.3mn. The bottom-line surged by 38.9% YoY.
- RoE is estimated to increase from 14.5% in 2023 to 15.4% in 2024e, but then decline to 14.3% in 2025e.** After a strong 2024, we expect RoEs to steadily decline to 13/14% levels. Management is targeting 13-15% during 2022-26. Our new sustainable RoE is at the lower end of management's guidance of 13.0% vs. 13.5% previously, mainly due to a smaller pick-up in margins than our previous estimates.
- NIMs are expected to improve with upcoming rate cuts.** We estimate NIMs to increase by 12bps from 2.72% in 2023 to 2.83% in 2024, 2.86% in 2025 and 2.94% in 2026.
- Legacy NPLs remain and are mainly real estate in nature; management is guiding for the NPL ratio to decrease to 2.5% by 2026.** NPL ratio increased from 5.85% in FY2023 to 6.04% in 1Q2024 (FY2022: 4.9%); NPL formation was positive sequentially, which is a negative. Coverage of Stage 3 loans slightly improved from 70% in FY2023 to 72% in 1Q2024. ECLs for Stage 2 loans increased by 1.8% vs. FY2023. Coverage was a low of 9%. Stage 2 loans as a % of total loans remained at 20%. Going forward, we expect asset quality to improve, driven by conservative underwriting and recoveries. Management will also gradually raise the coverage of Stage 3 loans to 100%.
- CoR in 2023 is expected at 120-135bps as per management's conservative guidance and should normalize at 120bps by 2026.** 1Q2024 annualized CoR declined to 55bps from 65bps in 1Q2023. It should be noted that quarterly annualized CoR is not an indicator for full year CoR. Having said this, management continues on being prudent/conservative by booking large provisions. We model in a CoR of 101bps in 2024, 100bps in 2025 and 95bps in 2026. Our CoR estimates are lower than what management is guiding because we are of the view that they are being conservative.
- Diversification of loan book remains on track; management is guiding for 25%/16% public sector/real estate mix.** During 1Q2024, net loans sequentially decreased by 2.0% to QR89.7bn mainly due to a 14.3% decline in contracting loans (which is a positive) and other corporates (-4.9%). We estimate net loan growth of +1.5%/+2.7% vs. +3.5%/+4.4% in 2024/25e previously. We revise our loan growth assumptions; we pencil in a 2023-28e CAGR of 4.6% vs. 2.1% previously as loan growth picks up post 2025.
- CET1 ratio is expected at 13.0%-14.0% by 2026 as per management's guidance; if the QCB implements enhanced Basel III risk weights to net open \$ positions, the effect would be very material for CBQK.** CET1 would drop to 8.02%, below the QCB's minimum 8.50% requirement and the bank may have to withhold dividends and/or raise capital. CBQK generated a CET1/Tier-1 ratio of 11.7%/15.0% in 1Q2024. However, it is possible that enhanced Basel III reform would not be implemented as the QR is pegged to the \$.

Catalysts

- Significant RoE expansion & robust bottom-line growth.

Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our PT to QR5.244 but retain our Outperform rating.** CBQK is trading at a 2024/25e P/TB and P/E of 0.7x and 5.6x/5.1x, respectively.
- Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR.

Key Financial Data and Estimates

(In QR mn)	2023	2024e	2025e	2025e
EPS	0.655	0.703	0.764	0.828
EPS Growth (%)	7.9	7.3	8.8	8.4
P/E (x)	6.0	5.6	5.1	4.7
Tangible BVPS (QR)	4.6	5.3	5.9	6.5
P/TBV (x)	0.9	0.7	0.7	0.6
RoE (%)	14.5	15.4	14.4	14.1
DPS (QR)	0.250	0.200	0.250	0.275
Dividend Yield (%)	6.4	5.1	6.4	7.0

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

Key Data

Current Market Price (QR)	3.920
Dividend Yield (%)	6.4
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	6.350/3.756
3-m Average Volume (mn)	3.7
Mkt. Cap. (\$ bn/QR bn)	4.4/15.9
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Current FO* (%)	25.8
1-Year Total Return (%)	(27.2)
Fiscal Year End	December 31

Source: Bloomberg (as of June 03, 2024), *Qatar Exchange (as of June 03, 2023); Note: FO is foreign institutional ownership

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Valuation

We value CBQK using the Residual Income Model (RI) based on a fundamental P/B:

We add Qatar's 10-year CDS rate of 0.74% to the 10-year US government bond yield (4.3%) to arrive at a risk free rate of 5.0%. We factor in an adjusted beta of 1.0x. Finally, we add an equity risk premium of 8.50% to arrive at a Ke of 13.54%. However, we apply terminal CoE of 12.0%.

Valuation Methodology

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	13.0	Beginning BVPS (2024) (QR)	4.592
Estimated Cost of Equity (%)	12.00	Present Value of Interim Residuals (QR)	0.177
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	0.537
Fundamental P/B	1.1x	Less: Intangibles & Goodwill	0.002
		Fundamental P/B	1.2x
		Intrinsic Value (QR)	5.244
		Current Market Price (QR)	3.920
		Upside/(Downside) Potential (%)	+33.8%

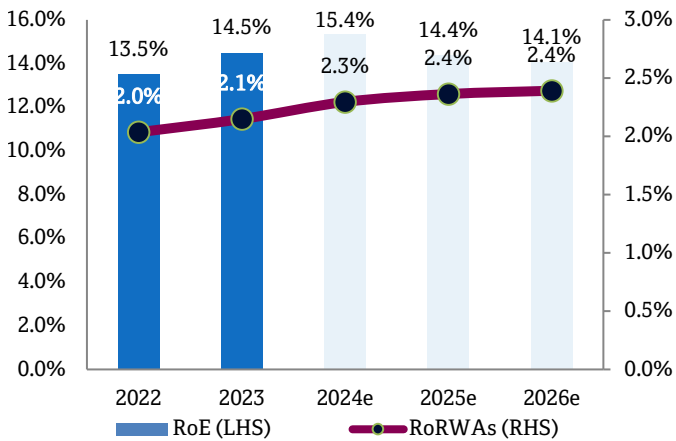
Source: QNB FS Research

Forecasts

	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Terminal
Beginning BVPS	4.59	5.33	5.89	6.47	7.08	7.72	8.33	8.95	9.63	10.36
Attributable EPS	0.70	0.76	0.83	0.88	0.95	1.03	1.10	1.18	1.26	1.35
DPS	0.250	0.200	0.250	0.275	0.300	0.425	0.475	0.500	0.525	0.575
Adjustment	0.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	5.33	5.89	6.47	7.08	7.72	8.33	8.95	9.63	10.36	11.13
Equity Charge	0.62	0.72	0.80	0.88	0.96	1.05	1.13	1.21	1.30	1.24
Residual Income	0.08	0.04	0.03	0.01	-0.01	-0.02	-0.03	-0.04	-0.04	0.10
Terminal Value (Based on Fundamental P/B)										1.6
Discounted Interim Residuals	0.08	0.04	0.02	0.01	-0.01	-0.01	-0.01	-0.01	-0.02	0.03
Discounted Terminal Value										0.54
Growth(Net Income)	7.1%	8.8%	8.4%	6.8%	6.9%	8.5%	7.2%	6.9%	7.0%	7.0%
RoE	15.3%	14.3%	14.1%	13.7%	13.4%	13.3%	13.2%	13.1%	13.1%	13.0%
Implied P/B	1.1x	1.0x	0.9x	0.8x	0.7x	0.7x	0.6x	0.6x	0.5x	0.5x

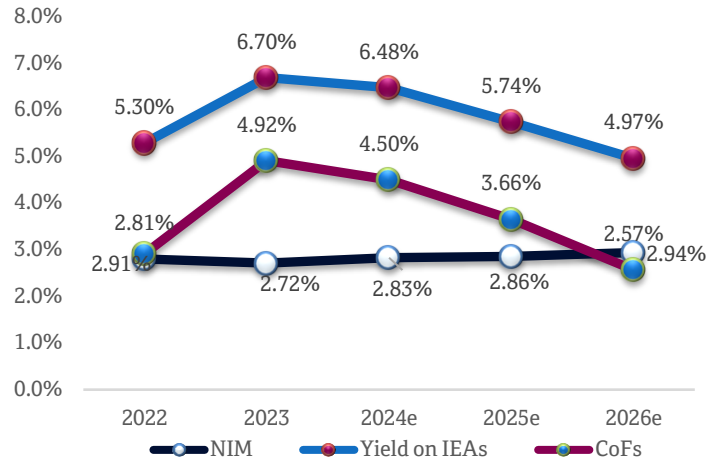
Source: QNB FS Research

RoE & RoRWAs Modeled to Increase in a Healthy Manner

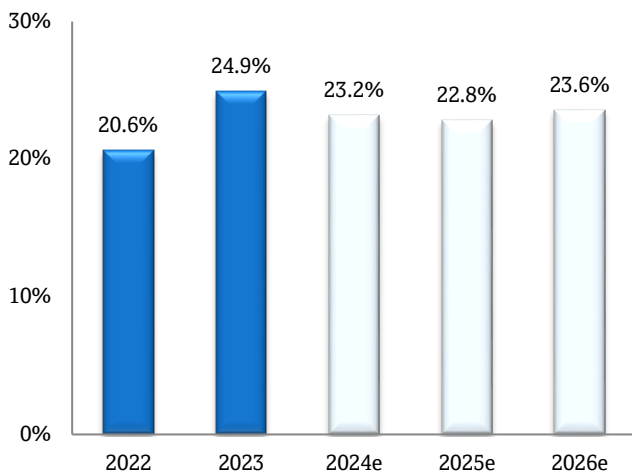


Source: Company data, QNB FS Research

While Margins to Gradually Improve

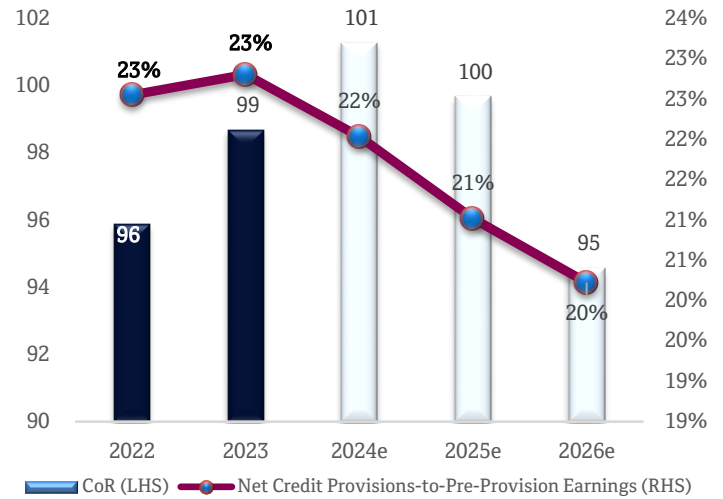


C/I Ratio to Remain Superior

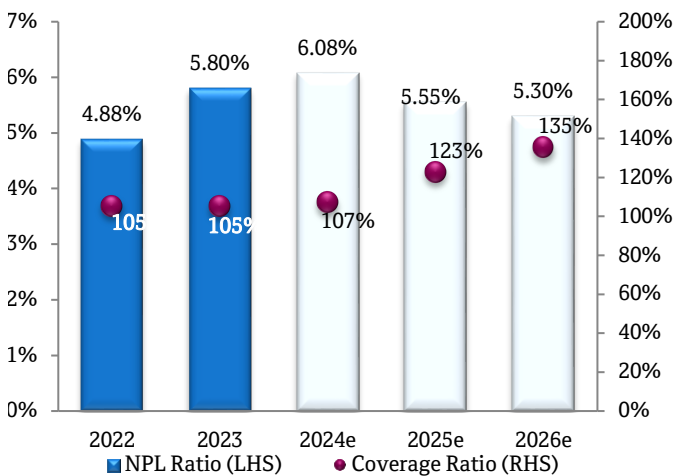


Source: Company data, QNB FS Research

CoR is Expected to Improve in the Medium-to-Long Term



NPLs are Legacy and Mainly RE Loans



Source: Company data, QNB FS Research

Coverage of Stage 3 Loans is Expected to Reach 100%

1Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	69,919,968	19,291,784	5,733,048	94,944,800
ECLs	223,971	1,811,079	4,101,568	6,136,618
Stages % of Loans	74%	20%	6.04%	
Stages % of ECLs	4%	30%	67%	
Coverage Ratio	0%	9%	72%	
Collateral	53,609,000	17,754,000	2,661,000	74,024,000

Change in Estimates

(In QR mn)	2024e			2025e			2026e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	3,802	3,957	4.1	3,989	4,151	4.1	4,314	4,448	3.1
Non Interest Income	2,283	1,929	-15.5	2,565	2,045	-20.3	2,802	2,002	-28.5
Total Revenue	6,085	5,886	-3.3	6,554	6,196	-5.5	7,116	6,450	-9.4
Opex	1,248	1,363	9.3	1,437	1,413	-1.7	1,537	1,521	-1.1
Net Operating Income	4,837	4,523	-6.5	5,117	4,783	-6.5	5,579	4,929	-11.6
Net Provisions & Impairments	1,189	917	-22.9	1,238	1,026	-17.2	1,318	1,032	-21.7
Net Income (Reported)	3,378	3,208	-5.0	3,783	3,464	-8.4	4,154	3,730	-10.2
Net Income (Attributable)	3,010	2,844	-5.5	3,404	3,093	-9.1	3,766	3,353	-11.0

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,963	3,867	3,957	4,151	4,448
Fees & Commissions	1,152	805	854	973	866
FX Income	415	528	394	429	453
Other Income	(14)	583	681	642	683
Non-Interest Income	1,553	1,916	1,929	2,045	2,002
Total Revenue	5,516	5,784	5,886	6,196	6,450
Operating Expenses	(1,138)	(1,441)	(1,363)	(1,413)	(1,521)
Net Operating Income	4,378	4,343	4,523	4,783	4,929
Net Provisions & Impairments	(1,263)	(917)	(917)	(1,026)	(1,032)
Net Profit Before Taxes	3,115	3,425	3,606	3,758	3,897
Tax	(114)	(80)	(83)	(94)	(97)
Net Profit Before Minority Interest	3,000	3,345	3,523	3,664	3,800
Minority Interest	0	0	0	0	0
Non-Recurring Income/(Loss)	(189)	(335)	(315)	(200)	(70)
Net Profit (Headline/Reported)	2,811	3,010	3,208	3,464	3,730
Interest on Tier-1 Note	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(70)	(75)	(80)	(87)	(93)
Net Profit (Attributable)	2,457	2,651	2,844	3,093	3,353
Attributable EPS	0.607	0.655	0.703	0.764	0.828

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	8,030	8,631	8,925	9,282	9,597
Interbank Loans	20,844	20,525	20,731	22,804	21,207
Net Investments	29,835	30,762	29,501	31,159	33,599
Net Loans	98,016	91,490	92,908	95,388	100,716
Investment In Associates	3,102	3,373	3,538	3,716	3,906
Other Assets	2,395	2,547	3,716	2,862	2,800
Net PP&E	3,050	3,063	3,109	3,207	3,309
OREO	3,564	3,921	3,921	3,921	3,921
Goodwill & Intangible Assets	66	62	57	3	3
Total Assets	168,902	164,376	166,405	172,340	179,058
Liabilities					
Interbank Deposits	24,054	18,805	15,272	17,117	19,509
Customer Deposits	83,167	76,541	81,134	84,379	89,695
Term Loans	27,786	34,166	34,508	31,057	28,883
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	9,724	10,458	8,113	10,125	8,969
Total Liabilities	150,551	145,790	144,848	148,499	152,876
Total Shareholders' Equity	18,351	18,586	21,557	23,841	26,182
Total Liabilities & Shareholders' Equity	168,902	164,376	166,405	172,340	179,058
RWAs	125,475	121,274	126,468	135,287	145,037

Source: Company data, QNB FS Research

Ratios/Key Indicators	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoTE (Attributable)	13.5	14.5	15.4	14.4	14.1
RoAA (Attributable)	1.5	1.6	1.7	1.8	1.9
RoRWA	2.0	2.1	2.3	2.4	2.4
NIM (% of IEAs)	2.81	2.72	2.83	2.86	2.94
NIM (% of RWAs)	3.28	3.13	3.19	3.17	3.17
NIM (% of AAs)	2.37	2.32	2.39	2.45	2.53
Spread	2.4	1.8	2.0	2.1	2.4
Efficiency (%)					
Cost-to-Income (Headline)	20.6	24.9	23.2	22.8	23.6
Cost-to-Income (Core)	20.6	27.7	26.2	25.4	26.4
Liquidity (%)					
LDR	118	120	115	113	112
LDR (Including Stable Source of Funding)	88	83	80	83	85
Loans/Assets	58	56	56	55	56
Cash & Interbank Loans-to-Total Assets	17.1	17.7	17.8	18.6	17.2
Deposits to Assets	49	47	49	49	50
Wholesale Funding to Loans	53	58	54	51	48
IEAs to IBLs (x)	1.26	1.21	1.25	1.28	1.26
Asset Quality (%)					
NPL Ratio	4.9	5.8	6.1	5.6	5.3
NPLs to Shareholders' Equity	27.5	30.4	28.0	23.8	22.0
NPL to Tier-1 Capital	25.9	33.1	33.4	29.3	27.9
Coverage Ratio	105	105	107	123	135
ALL/Average Loans	5.2	5.9	6.6	6.9	7.4
Cost of Risk (bps)	96	99	101	100	95
Capitalization (%)					
CET1 Ratio	11.6	10.7	11.0	11.2	11.3
Tier-1 Ratio	15.6	14.1	14.3	14.3	14.2
CAR	17.3	14.9	15.2	15.2	15.0
Leverage (x)	9.2	8.8	7.7	7.2	6.8
Growth (%)					
Net Interest Income	7.1	-2.4	2.3	4.9	7.1
Non-Interest Income	1.6	23.4	0.6	6.0	-2.1
Total Revenue	5.5	4.8	1.8	5.3	4.1
Operating Expenses	-23.1	26.6	-5.4	3.6	7.6
Net Operating Income	16.7	-0.8	4.1	5.8	3.1
Net Provisions & Impairments	-12.1	-27.4	-0.1	11.9	0.6
Net Income (Headline)	22.0	7.1	6.6	8.0	7.7
Net Income (Attributable)	23.9	7.9	7.3	8.8	8.4
Loans	0.0	-6.7	1.5	2.7	5.6
Deposits	1.5	-8.0	6.0	4.0	6.3
Assets	2.1	-2.7	1.2	3.6	3.9
RWAs	8.2	-3.3	4.3	7.0	7.2

Source: Company data, 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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