

Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR41.00	Target Price	QR35.00
Implied Upside	(14.6%)		

Efficiency & CoR on the Right Track; RoE Remains Key

CBQK posted decent results in 3Q2018, while continuously delivering on its objectives from its 5-year strategy. Stock price performance thus far has rewarded investors' optimism in the company's change in strategy and as a result rallied 40.2% YTD outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a P/B of 1.1x vs. 30% discount to book previously. While positive 2018, 2019 and 2020 results could fuel more momentum in the name, the reality of negative residual value derived from on-going operations cannot be minimized as RoE does not materialize beyond 11.5% in 2020 based on our model. **We increase our estimates for 2018, 2019 and 2020 (page 2).**

Highlights

- **CBQK's 3Q2018 bottom-line soared YoY (base effect) driven by a sharp drop in credit costs.** CBQK reported net profit of QR404.6mn, surging YoY (-10.2% YoY) mainly attributed to a material drop in provisions & impairments. Total revenue declined due to weak net interest income.
- **Margins compressed; we lower our estimates for NIMs due to funding pressure.** NIM contracted by 21bps YoY (-25bps QoQ) to 1.94% due to a CoFs outpacing growth in yield on assets. We lower our estimates for NIMs to 2.10% in 2018 (vs. 2.17%), 2.12% in 2019 (vs. 2.17%) and 2.10% in 2020 (vs. 2.16%).
- **NPLs stable; CoR improved.** NPLs remained stable at QR4.94bn QoQ (receded by 6.2% YTD), while the NPL ratio declined to 5.49% vs. 5.65% in 2017 (majority of NPLs are legacy). Net provisions and impairments dropped by 2.5% (more than halved YoY) to QR194.7mn vs. QR501.2mn in 3Q2017. 9M2018 CoR improved to 88bps vs. 108bps in FY2017. *Management has been de-risking its books and the legacy NPLs have been provisioned. As such, we significantly lower estimates for CoR.* We model in 87bps (2018), 73bps (2019) and 61bps in 2020 vs. 100bps previously.
- **Operating efficiency continued its positive trajectory, Generating Strong JAWs.** CBQK posted opex of QR271.9mn, dropping by 16.2% YoY (-12.0% QoQ). Hence the C/I ratio dropped to 31.2% vs. 35.8% in 3Q2017 (32.3% in 2Q2018). Moreover, the bank generated positive JAWs of 12.6% in 9M2018. *Improving efficiency is part of management's strategy by reducing C/I ratio to low-30% and they have been delivering. Our estimates for C/I ratio remain unchanged, in-line with management's guidance.*
- **Loans and deposits continued contracting; we lower our estimates for loans going forward.** Net loans contracted by 2.8% QoQ (-4.9% YTD) to QR84.8bn, while customer deposits remained flat QoQ (-3.5% YTD) at QR74.9bn. Given the tepid operating environment, we are lowering loan growth assumption: 2018 (-2.4% vs. +6.6% previously), 2019 (+6.2% vs. +10.1% previously) and 2020 (+8.3% vs. +10% previously).
- **CET1 remains weak in 9M2018, management is guiding to 11%-11.5%.** CBQK's CET1 ratio stood at 9.7% in 9M2018. Based on our estimates we expect the bank to generate a CET1 ratio of 11.0% in 2018, 2019 and 2020. This scenario is possible even with marginal increases in DPS.

Catalysts

- Delivering better profitability metrics than expected/estimated.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target to QR35/sh. and maintain our Market Perform rating.** CBQK is trading at a 2018e P/TB and P/E of 1.1x and 11.6x, respectively.
- **Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
EPS (QR)	0.90	3.53	4.19	4.88
EPS Growth (%)	0.2	292.8	18.7	16.4
P/E (x)	39.2	11.6	9.8	8.4
TBVPS (QR)	41.0	38.5	41.3	44.5
P/TB (x)	0.9	1.1	1.0	0.9
DPS (QR)	1.00	1.50	1.75	2.00
Dividend Yield (%)	2.8	3.7	4.3	4.9

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

Key Data

Current Market Price (QR)	41.00
Dividend Yield (%)	3.7
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	42.49/24.50
3-m Average Volume ('000)	178.6
Mkt. Cap. (\$ bn/QR bn)	4.6/16.6
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	14.7
1-Year Total Return (%)	+60.2
Fiscal Year End	December 31

Source: Bloomberg (as of November 4, 2018), *Qatar Exchange (as of November 1, 2018); Note: FO is foreign ownership

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Change in Estimates

	2018e			2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,702	2,534	-6.2	2,962	2,687	-9.3	3,241	2,885	-11.0
Non Interest Income	1,202	1,170	-2.7	1,290	1,285	-0.4	1,260	1,354	7.5
Net Operating Income	2,600	2,488	-4.3	2,917	2,730	-6.4	3,107	2,941	-5.3
Net Income (Headline/Reported)	1,404	1,387	-1.2	1,735	1,936	11.6	1,832	2,213	20.8
Net Income (Attributable)	1,128	1,387	22.9	1,452	1,647	13.5	1,546	1,918	24.1

Source: QNBFS Research

The significant increase in our bottom-line estimates is mainly due to a substantial decrease in CoR.

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,518	2,534	2,687	2,885
Fees & Commissions	720	742	794	873
FX Income	163	187	209	178
Other Income	276	241	282	303
Non-Interest Income	1,159	1,170	1,285	1,354
Total Revenue	3,677	3,704	3,972	4,240
Operating Expenses	(1,325)	(1,216)	(1,242)	(1,298)
Net Operating Income	2,352	2,488	2,730	2,941
Net Provisions & Impairments	(1,743)	(807)	(744)	(670)
Net Profit Before Taxes	609	1,681	1,986	2,271
Tax	(5)	(13)	(50)	(58)
Net Profit Before Minority Interest	604	1,669	1,936	2,213
Minority Interest	(0)	(0)	0	0
Net Profit (Headline/Reported)	604	1,669	1,936	2,213
Interest on Tier-1 Note	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(15)	(42)	(48)	(55)
Net Profit (Attributable)	349	1,387	1,647	1,918

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	7,374	5,841	7,720	7,993
Interbank Loans	10,499	13,649	15,014	16,816
Net Investments	19,629	21,788	23,989	26,781
Net Loans	89,122	87,010	92,445	100,133
Investment In Associates	2,088	2,171	2,263	2,362
Other Assets	6,715	8,215	6,812	4,506
Net PP&E	2,591	2,684	2,744	2,807
Goodwill & Other Intangibles	430	334	238	142
Total Assets	138,449	141,693	151,224	161,539
Liabilities				
Interbank Deposits	13,516	11,325	14,280	15,874
Customer Deposits	77,633	76,857	83,006	88,816
Term Loans	20,908	25,926	28,000	30,240
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000
Other Liabilities	5,370	7,686	4,980	4,441
Total Liabilities	121,428	125,794	134,266	143,371
Shareholders' Equity				
Total Shareholders' Equity	17,022	15,899	16,958	18,168
Total Liabilities & Shareholders' Equity	138,449	141,693	151,224	161,539

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	2.4	8.4	10.6	11.5
RoAA (Attributable)	0.3	1.0	1.1	1.2
RoRWA (Attributable)	3.3	3.1	1.9	1.8
NIM (% of IEAs)	2.18	2.10	2.12	2.10
NIM (% of RWAs)	2.18	2.14	2.16	2.15
NIM (% of AAs)	1.87	1.81	1.83	1.84
Spread	1.8	1.6	1.6	1.5
Efficiency (%)				
Cost-to-Income (Headline)	36.0	32.8	31.3	30.6
Cost-to-Income (Core)	38.1	34.3	33.1	32.5
Liquidity (%)				
LDR	115	113	111	113
LDR (stable sources of funds)	90	85	83	84
Loans/Assets	64	61	61	62
Cash & Interbank Loans-to-Total Assets	12.9	13.8	15.0	15.4
Deposits to Assets	56	54	55	55
Wholesale Funding to Loans	39	43	46	46
IEAs to IBLs	118	117	112	115
Asset Quality (%)				
NPL Ratio	5.6	5.2	4.8	4.2
NPLs to Shareholder's Equity	31.0	30.2	27.5	24.5
NPLs to Tier 1 Capital	31.0	28.0	25.7	23.1
Coverage Ratio	81.0	113.4	119.5	128.6
ALL/Average Loans	4.9	5.9	5.8	5.6
Cost of Risk	1.95	0.87	0.73	0.61
Capitalization (%)				
Tier 1 Ratio	14.5	14.3	14.1	13.8
CAR	16.1	15.3	15.8	15.5
Tier 1 Capital to Assets	12.3	12.1	12.0	11.9
Tier 1 Capital to Loans	19.1	19.7	19.6	19.2
Tier 1 Capital to Deposits	21.9	22.3	21.8	21.7
Leverage (x)	8.1	8.9	8.9	8.9
Growth (%)				
Net Interest Income	7.6	0.6	6.0	7.4
Non-Interest Income	-4.0	0.9	9.9	5.4
Total Revenue	3.6	0.7	7.2	6.7
Operating Expenses	-22.1	-8.3	2.2	4.5
Net Operating Income	27.4	5.8	9.7	7.7
Net Provisions & Investment Impairments	29.7	-53.7	-7.8	-9.9
Net Income (Headline/Reported)	20.5	176.4	16.0	14.3
Net Income (Attributable)	30.0	297.9	18.8	16.4
Loans	14.6	-2.4	6.2	8.3
Deposits	9.5	-1.0	8.0	7.0
Assets	6.2	2.3	6.7	6.8
RWAs	2.7	2.5	7.5	8.0

Source: Company data, QNBFS 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

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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