

Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR40.70	New Target Price	QR43.00
Implied Upside	+5.7%	Old Target Price	QR35.00

Encouraging 2018; Upping PT to QR43.00/sh.

CBQK posted encouraging results in 2018 making progress in meeting its objectives as set forth in its five-year strategy. Stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result rallied 48% on a 1-year TTR basis, outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a 2019e P/TB of 1.0x vs. 30% discount to book previously. We forecast double-digit growth in 2019 and 2020 net income and now have better visibility on enhanced RoE generation. **We increase our PT to QR43.00 by lowering our cost of equity to reflect our sector wide view of improving risk premiums. Also for CBQK, we have upped our sustainable RoE from 11.1% to 11.5% over our forecast horizon. We make minor changes to our estimates for 2019 and 2020 (next page), while the bottom-line remains unchanged vs. our previous estimates.**

Highlights

- CBQK's 2018 bottom-line soared YoY (base effect) driven by a sharp drop in credit costs.** CBQK reported a net profit of QR1.7bn vs. QR603.6mn in 2017, surging YoY mainly attributed to a material drop in provisions & impairments. Total revenue was flat due to non-funded income mitigating weak net interest income.
- NIM marginally declined due to funding pressure.** NIM contracted by 6bps YoY to 2.13% due to CoFs outpacing growth in yield on assets. CoFs gained by 93bps, while yield on assets increased by 75bps.
- NPLs declined; CoR significantly improved, as expected.** NPLs dropped by 7.3% to QR4.89bn, while the NPL ratio declined to 5.59% vs. 5.65% in 2017 (majority of NPLs are legacy). Net provisions and impairments dropped by 52.1% to QR835.5mn vs. QR1.7bn in 2017. Moreover, CoR improved to 102bps vs. 195bps in FY2017. *Management has been de-risking its books provisioning legacy NPLs. As such, CoR is expected to further decline in 2019 (~80bps) and 2020 (~60bps).*
- Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK posted opex of QR1.2bn, down 11.5% YoY while total revenue was flat. Hence the C/I ratio fell to 31.9% vs. 36.0% in FY2017 (48.0% in 2016). Moreover, the bank generated positive JAWs of 11.5% in 2018 (+25.8%: 2017). *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering.*
- Loans and deposits continued contracting; loan portfolio diversification is a positive.** Net loans dropped by 6.1% YoY to QR83.7bn, while customer deposits declined by 8.1% YoY to QR71.3bn. The contraction in loans was partly due to the depreciation in Turkish Lira and due to the settlement of the temporary government overdraft in 2Q2018 (after the issuance of sovereign bonds). Management diversified the loan book as part of its strategy/objectives; real estate and contracting loans receded by 10.9% and 31.8% YoY, respectively. Hence, real estate and contracting loans currently make up 25.1% (26.4% in 2017) and 5.2% (7.1% in 2017) of the loan portfolio, respectively.
- CET1 weakened in FY2018 because of IFRS 9 one-time charge of QR1.3bn, management is guiding to 11%-11.5% CET1 ratio.** CBQK's CET1 ratio declined to 10.5% in 2018 vs. 11.2% in 2017. Excluding the dividends from CET1, the ratio would be lower by 50bps at 10%. Based on our estimates we expect the bank to generate a CET1 ratio of 11.0% in 2019, 2020 and 2021. 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 change our Price Target to QR43/sh. and maintain our Market Perform rating.** CBQK is trading at a 2019e P/TB and P/E of 1.0x and 9.8x, respectively. The market is pricing a sustainable RoE of 10.9% vs. our forecast of 11.5%.
- Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	3.52	4.14	4.90	5.36
EPS Growth (%)	286.4	17.8	18.4	9.2
P/E (x)	11.6	9.8	8.3	7.6
TBVPS (QR)	38.8	41.6	44.7	48.0
P/TB (x)	1.0	1.0	0.9	0.8
DPS (QR)	1.50	1.75	2.00	2.50
Dividend Yield (%)	3.7	4.3	4.9	6.1

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

Key Data

Current Market Price (QR)	40.70
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)	42.50/27.00
3-m Average Volume ('000)	159.4
Mkt. Cap. (\$ bn/QR bn)	4.5/16.5
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	15.4
1-Year Total Return (%)	+47.7
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), *Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Change in Estimates

	2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,687	2,620	-2.5	2,885	2,797	-3.0
Non Interest Income	1,285	1,318	2.6	1,354	1,407	3.9
Net Operating Income	2,730	2,743	0.5	2,941	2,958	0.6
Net Income (Headline/Reported)	1,936	1,916	-1.0	2,213	2,225	0.5
Net Income (Attributable)	1,647	1,628	-1.2	1,918	1,929	0.6

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	2,482	2,620	2,797	2,994
Fees & Commissions	757	810	891	954
FX Income	202	227	193	208
Other Income	237	281	323	337
Non-Interest Income	1,197	1,318	1,407	1,499
Total Revenue	3,679	3,938	4,204	4,493
Operating Expenses	(1,173)	(1,195)	(1,246)	(1,327)
Net Operating Income	2,506	2,743	2,958	3,166
Net Provisions & Impairments	(836)	(777)	(675)	(696)
Net Profit Before Taxes	1,670	1,966	2,283	2,470
Tax	0	0	0	0
Net Profit Before Minority Interest	1,670	1,966	2,283	2,470
Minority Interest	(7)	(50)	(58)	(63)
Net Profit (Headline/Reported)	1,663	1,916	2,225	2,408
Interest on Tier-1 Note	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(42)	(48)	(56)	(60)
Net Profit (Attributable)	1,382	1,628	1,929	2,107

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Assets				
Cash & Balances with Central Bank	6,716	7,031	7,280	8,372
Interbank Loans	9,469	10,416	11,665	13,415
Net Investments	22,108	24,334	26,978	28,487
Net Loans	83,702	87,941	95,133	105,935
Investment In Associates	2,096	2,190	2,292	2,400
Other Assets	5,373	5,638	5,414	3,178
Net PP&E	2,719	2,667	2,736	2,815
OREO	2,605	2,605	2,605	2,605
Goodwill & Other Intangibles	283	228	174	130
Total Assets	135,071	143,050	154,278	167,338
Liabilities				
Interbank Deposits	13,821	15,134	18,201	15,100
Customer Deposits	71,321	75,601	80,893	93,027
Term Loans	24,300	26,730	28,869	31,178
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000
Other Liabilities	5,629	4,536	4,045	4,465
Total Liabilities	119,071	126,001	136,007	147,770
Shareholders' Equity				
Total Shareholders' Equity	15,999	17,049	18,270	19,568
Total Liabilities & Shareholders' Equity	135,071	143,050	154,278	167,338

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
Profitability (%)				
RoE (Tangible)	8.3	10.4	11.5	11.6
RoAA (Attributable)	1.0	1.2	1.3	1.3
RoRWA (Attributable)	3.1	1.9	1.8	1.2
NIM (% of IEAs)	2.13	2.22	2.19	2.14
NIM (% of RWAs)	2.15	2.27	2.29	2.24
NIM (% of AAs)	1.82	1.88	1.88	1.86
Spread	1.6	1.6	1.5	1.3
Efficiency (%)				
Cost-to-Income (Headline)	31.9	30.3	29.6	29.5
Cost-to-Income (Core)	33.3	32.1	31.6	31.4
Liquidity (%)				
LDR	117	116	118	114
LDR (stable sources of funds)	88	86	87	85
Loans/Assets	62	61	62	63
Cash & Interbank Loans-to-Total Assets	12.0	12.2	12.3	13.0
Deposits to Assets	53	53	52	56
Wholesale Funding to Loans	46	48	49	44
IEAs to IBLs	117	115	114	115
Asset Quality (%)				
NPL Ratio	5.6	5.0	4.5	4.0
NPLs to Shareholder's Equity	30.6	27.0	24.5	22.5
NPLs to Tier 1 Capital	30.8	27.4	25.0	23.2
Coverage Ratio	78.6	86.7	92.8	96.8
ALL/Average Loans	4.3	4.4	4.3	4.1
Cost of Risk	1.02	0.81	0.66	0.64
Capitalization (%)				
Tier 1 Ratio	14.0	14.3	14.1	13.6
CAR	15.5	15.8	15.7	15.2
Tier 1 Capital to Assets	11.7	11.7	11.6	11.4
Tier 1 Capital to Loans	19.0	19.1	18.8	17.9
Tier 1 Capital to Deposits	22.2	22.2	22.1	20.4
Leverage (x)	8.4	8.4	8.4	8.6
Growth (%)				
Net Interest Income	-1.4	5.5	6.8	7.1
Non-Interest Income	3.3	10.1	6.7	6.5
Total Revenue	0.1	7.0	6.8	6.9
Operating Expenses	-11.5	1.8	4.3	6.5
Net Operating Income	6.5	9.4	7.8	7.0
Net Provisions & Investment Impairments	-52.1	-7.0	-13.1	3.1
Net Income (Headline/Reported)	175.5	15.2	16.1	8.2
Net Income (Attributable)	296.4	17.8	18.5	9.2
Loans	-6.1	5.1	8.2	11.4
Deposits	-8.1	6.0	7.0	15.0
Assets	-2.4	5.9	7.8	8.5
RWAs	-2.8	3.5	8.0	10.0

Source: Company data, QNB FS 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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Zaid Al Nafsoosi

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

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