

## CBQK Alert – 2Q2023 Profit In-Line; Headline Revenue Growth Was Offset by Large Impairments

- **CBQK's 2Q2023 comes in-line with our estimates:** Commercial Bank of Qatar (CBQK) reported a net income of QR803.0mn in 2Q2023 (in-line with our estimate of QR776.3mn; variation of +3.4%), increasing by 1.0% YoY (6.9% sequentially).
- **Non-cash net monetary loss from Turkish hyperinflation shaved off 6% from the bottom-line in 2Q2023.** CBQK booked a non-cash net monetary loss of QR50.6mn in 2Q2023, shaving off 5.9% from the bottom-line. In 2Q2022, the bank booked QR4.0mn (negligible effect on profitability).
- **Bottom-line was largely driven by non-funded income.** CBQK's headline revenue came in at QR1.51bn in 2Q2023 (up 10.0% YoY). Growth in headline revenue was attributed to f/x income (+70.7%), dividend income (+181.4%), negligible investment losses and profit from associates (+26.9%). On the other hand, net interest income declined by 2.4% YoY (-4.0% QoQ) and fees dropped by 10.1% (-13.3% QoQ). Sequentially, net income increased by 6.9% due to lower opex.
- **Credit provisions surged in 2Q2023.** Provisions grew YoY (38.2%) to QR367.1mn (+129.5% QoQ). 1H2023 CoR (annualized) increased to 111bps vs. 95bps in 1H2022.
- **Legacy NPLs remain; NPL formation in 1Q2023 was on the negative side.** NPLs increased QoQ/YTD by 4.4%/2.2% to QR5.2bn in 2Q2023. Moreover, the NPL ratio remained flattish at 5.5%. Coverage of Stage 3 loans improved from 71% in FY2022/1Q2023 to 74% in 2Q2023.
- **CBQK allocated a decent amount of provisions to Stage 2 and 3 loans.** ECLs for Stage 2 loans increased YTD by 15.2% and coverage of Stage 2 loans increased from 9% in FY2022 to 10% in 2Q2023.
- **Net loans continued its negative trajectory on government repayments of credit facilities.** Net loans contracted by 5.3% sequentially (-8.8% YTD) to QR89.4bn. On the other hand, deposits remained flat QoQ (-8.5% YTD) at QR76.1bn.
- **Valuation and recommendation.** CBQK trades at a P/TB and P/E of 1.1x/8.3x on our 2023 estimates. For now, we maintain our Outperform rating.

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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