

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.264	Target Price	QR6.681
Implied Upside	56.7%		

1Q2024 In-Line; Lower Impairments & Opex Aided the Bottom-Line

CBQK's 1Q2024 comes in-line with our estimates as lower-than-anticipated provisions and opex offset weak revenue. 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. Key takeaways from the 1st quarter results were margin compression, healthy non-funded income with f/x being the exception as CBQK reported f/x losses. However, provisions and impairments were lower, which is a positive. **Net-net, operating results was weaker than anticipated on margin compression and f/x losses, but lower provisions and opex aided the bottom-line.**

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.
- **Sharp drop in provisions & impairments affected earnings positively, whereas margins and f/x losses was an overhang.** Net interest income declined by 3.0% YoY (-3.3% QoQ) and non-funded income slipped by 0.9%, resulting in a -2.4% decline in revenue. Moreover, a sharp drop in opex led to a 18.4% rise in net operating income. Moreover, net provisions & impairments dropped by 12.1% YoY (+22.7% QoQ), which lead to the prior-mentioned growth in net profit.
- **1Q2023 annualized tangible RoE improved.** The company generated an RoE of 17.3% vs. 12.6% in 1Q2023.
- **NIMs compressed YoY and QoQ.** CBQK's NIMS compressed from 2.76/2.87% in 1Q2023/4Q2023 to 2.72%.
- **Legacy NPLs remain and are mainly real estate in nature; NPLs increased after remaining stable.** 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 % of total loans remained at 20%.
- **Credit provisions significantly dropped both YoY and sequentially.** 1Q2024 provisions for credit losses decreased by 18.5% YoY (-59.4% sequentially) to QR130.4mn. As such, 1Q2024 annualized CoR declined to 55bps from 65bps in 1Q2023. Having said this, management continues on being prudent/conservative by booking provisions to reach 100% coverage of Stage 3 loans and allocate more ECLs for Stage 2 loans.
- **Net loans receded sequentially.** Net loans sequentially decreased by 2.0% to QR89.7bn. On the other hand, deposits increased by 3.7% QoQ to QR79.4bn. Hence, CBQK's LDR ratio improved to 113% from 120% in FY2023.
- **CET1/Tier-1 ratio strengthened which was a positive surprise.** CBQK generated a CET1/Tier-1 ratio of 11.7%/15.0%.

Catalysts

- Significant RoE expansion & robust bottom-line growth.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our PT of QR6.681 and Outperform rating.** CBQK is trading at a 2024e P/TB and P/E of 0.8x and 6.1x, 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	0.705	0.759	0.818
EPS Growth (%)	7.9	7.6	7.7	7.8
P/E (x)	6.5	6.1	5.6	5.2
Tangible BVPS (QR)	4.6	5.3	5.9	6.5
P/TBV (x)	0.9	0.8	0.7	0.7
RoE (%)	14.5	15.4	14.2	13.9
DPS (QR)	0.250	0.200	0.250	0.275
Dividend Yield (%)	5.9	4.7	5.9	6.4

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

Key Data

Current Market Price (QR)	4.264
Dividend Yield (%)	5.9
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	6.45/4.19
3-m Average Volume (mn)	3.2
Mkt. Cap. (\$ bn/QR bn)	4.7/17.3
Shares Outstanding (000)	4,047.25
FO Limit* (%)	100.0
Institutional FO* (%)	26.7
1-Year Total Return (%)	(21.8)
Fiscal Year End	December 31

Source: Bloomberg (as of April 24, 2024), *Qatar Exchange (as of April 24, 2024); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	3,963	3,867	3,910	4,097	4,306
Fees & Commissions	1,152	805	858	909	1,037
FX Income	415	528	581	613	640
Other Income	(14)	583	514	548	520
Non-Interest Income	1,553	1,916	1,953	2,069	2,197
Total Revenue	5,516	5,784	5,862	6,166	6,502
Operating Expenses	(1,138)	(1,441)	(1,488)	(1,510)	(1,613)
Net Operating Income	4,378	4,343	4,375	4,657	4,889
Net Provisions & Impairments	(1,263)	(917)	(930)	(1,025)	(1,036)
Net Profit Before Taxes	3,115	3,425	3,445	3,631	3,853
Tax	(114)	(80)	(79)	(91)	(96)
Net Profit Before Minority Interest	3,000	3,345	3,366	3,541	3,757
Minority Interest	0	0	0	0	0
Non-Recurring Income/(Loss)	(189)	(335)	(150)	(100)	(70)
Net Profit (Headline/Reported)	2,811	3,010	3,216	3,441	3,687
Interest on Tier-1 Note	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(70)	(75)	(80)	(86)	(92)
Net Profit (Attributable)	2,457	2,651	2,852	3,071	3,311
Attributable EPS	0.607	0.655	0.705	0.759	0.818

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	8,672	9,019	9,587
Interbank Loans	20,844	20,525	18,473	20,320	18,898
Net Investments	29,835	30,762	33,060	34,977	37,619
Net Loans	98,016	91,490	92,905	95,354	101,396
Investment In Associates	3,102	3,373	3,550	3,739	3,918
Other Assets	2,395	2,547	2,601	2,384	2,819
Net PP&E	3,050	3,063	3,077	3,148	3,232
OREO	3,564	3,921	3,921	3,921	3,921
Goodwill & Intangible Assets	66	62	3	3	3
Total Assets	168,902	164,376	166,261	172,864	181,392
Liabilities					
Interbank Deposits	24,054	18,805	15,029	19,039	23,490
Customer Deposits	83,167	76,541	78,837	81,991	87,156
Term Loans	27,786	34,166	35,943	32,349	30,084
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	9,724	10,458	9,066	9,839	8,716
Total Liabilities	150,551	145,790	144,696	149,038	155,266
Total Shareholders' Equity	18,351	18,586	21,565	23,827	26,126
Total Liabilities & Shareholders' Equity	168,902	164,376	166,261	172,864	181,392
RWAs	125,475	121,274	137,997	150,392	165,067

Source: Company data, QNB FS Research

Ratios/Key Indicators	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoTE (Attributable)	13.5	14.5	15.4	14.2	13.9
RoAA (Attributable)	1.5	1.6	1.7	1.8	1.9
RoRWA	2.0	2.1	2.2	2.1	2.1
NIM (% of IEAs)	2.81	2.72	2.78	2.80	2.82
NIM (% of RWAs)	3.28	3.13	3.02	2.84	2.73
NIM (% of AAs)	2.37	2.32	2.37	2.42	2.43
Spread	2.4	1.8	1.9	2.0	2.0
Efficiency (%)					
Cost-to-Income (Headline)	20.6	24.9	25.4	24.5	24.8
Cost-to-Income (Core)	20.6	27.7	27.8	26.9	27.0
Liquidity (%)					
LDR	118	120	118	116	116
LDR (Including Stable Source of Funding)	88	83	81	83	86
Loans/Assets	58	56	56	55	56
Cash & Interbank Loans-to-Total Assets	17.1	17.7	16.3	17.0	15.7
Deposits to Assets	49	47	47	47	48
Wholesale Funding to Loans	53	58	55	54	53
IEAs to IBLs (x)	1.26	1.21	1.26	1.28	1.25
Asset Quality (%)					
NPL Ratio	4.9	5.8	5.8	5.6	5.3
NPLs to Shareholders' Equity	27.5	30.4	26.6	23.8	22.2
NPL to Tier-1 Capital	25.9	33.1	31.7	29.4	28.2
Coverage Ratio	105	105	113	123	135
ALL/Average Loans	5.2	5.9	6.6	6.9	7.4
Cost of Risk (bps)	96	99	102	100	95
Capitalization (%)					
CET1 Ratio	11.6	10.7	10.1	10.1	9.9
Tier-1 Ratio	15.6	14.1	13.1	12.9	12.4
CAR	17.3	14.9	14.0	13.7	13.3
Leverage (x)	9.2	8.8	7.7	7.3	6.9
Growth (%)					
Net Interest Income	7.1	-2.4	1.1	4.8	5.1
Non-Interest Income	1.6	23.4	1.9	6.0	6.2
Total Revenue	5.5	4.8	1.4	5.2	5.4
Operating Expenses	-23.1	26.6	3.2	1.5	6.9
Net Operating Income	16.7	-0.8	0.7	6.4	5.0
Net Provisions & Impairments	-12.1	-27.4	1.3	10.3	1.0
Net Income (Headline)	22.0	7.1	6.8	7.0	7.2
Net Income (Attributable)	23.9	7.9	7.6	7.7	7.8
Loans	0.0	-6.7	1.5	2.6	6.3
Deposits	1.5	-8.0	3.0	4.0	6.3
Assets	2.1	-2.7	1.1	4.0	4.9
RWAs	8.2	-3.3	13.8	9.0	9.8

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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