

## Commercial Bank of Qatar (CBQK)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR4.30</b>	<b>Target Price</b>	<b>QR4.95</b>
<b>Implied Upside</b>	<b>15.2%</b>	<b>Old Price Target</b>	<b>QR4.30</b>

### Banking on a Turnaround; Raising PT to QR4.95

**CBQK's management continues to deliver on its 5-year strategy and we were impressed by the bank's YTD operating performance.** Consequently, we increase our estimates, raise our PT from QR4.30 to QR4.95 and upgrade the stock from Market Perform to Accumulate. Given management's visible progress in improving the bank's RoE, we believe RoE generation above cost of equity is now attainable vs. previous estimates. CBQK is trading at a 2020e P/TB and P/E of 0.9x and 8.5x, respectively. The stock is trading at a PEG of 0.7x based on EPS CAGR (2018-23e) of 12.8%, which is attractive. Moreover, CBQK's 2020e P/E is trading at a 27% discount to its intrinsic P/E (11.4x).

#### Highlights

- Strong core-banking income results in a surge in CBQK's 3Q2019 bottom-line.** CBQK reported a net profit of QR589.0mn in 3Q2019, increasing by 40.9% YoY (+13.3% QoQ). Total revenue increased by 20.3% on the back of strong net interest income (+24.3%), fees (+17.8%) and investment income (investment losses in 3Q2018). Moreover, flat opex and 1.0% growth in provisions & impairments led to the surge in the bottom-line.
- NIMs expanded YoY and sequentially.** NIMs increased by 42bps YoY (25bps QoQ) to 2.35% driven by growth in yield on assets outpacing CoFs. We expect NIMs of 2.20% in both 2019 and 2020 as management defends its margin.
- Asset quality improved; Stage 2 loans continued to drop, which is a positive.** NPLs dropped by 6.9% YTD to QR4.5bn, while the NPL ratio improved to 4.92% vs. 4.94% in 2Q2019 (5.59% in FY2018). Net provisions for credit losses decreased by 19.3% (dropped by 32.8% sequentially) to QR152.2mn. Moreover, 9M2019 annualized CoR dropped to 84bps vs. 91bps in 9M2018 (102bps in FY2018). CBQK's Stage 2 loans contracted by 24.8% YTD and contributes 18.9% to total loans vs. 26.6% in FY2018. *Management has more or less completed provisioning its legacy NPLs. As such, CoR is expected to further decline in 2019 and 2020. We expect CoR to drop to 80bps in 2019 and 77bps in 2020.*
- Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK's opex remained flat both YoY & sequentially while total revenue increased by 20.3% (+6.0% QoQ). Hence, the C/I ratio fell to 25.9% vs. 31.2% in 3Q2018 (27.6% in 2Q2019). Moreover, CBQK's efficiency ratio in 9M2019 improved to 27.6% vs. 32.0% in 9M2018. The bank generated positive JAWS of 14.4% YoY in 9M2019. *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering. We forecast C/I ratio to further decrease in 2019 (27.4%) and 26.5% (2020).*
- Loans expanded sequentially while deposits continued to contract; loan portfolio diversification is a positive.** Net loans increased by 5.3% QoQ (+5.0% YTD) to QR89.1bn, while customer deposits declined by 3.4% QoQ (+3.5% YTD) to QR74.3bn as the bank shed expensive deposits (NIB deposits constitute 74% of total deposits vs. 84% in FY2018). Management continued to diversify the loan book as part of its strategy/objectives; real estate loans receded by 7.3% YTD. Hence, real estate loans currently make up 22% (25% in 2018) of the loan portfolio. Growth in the loan book was mainly driven by the public sector (26.8% YTD), which is a segment management is strongly targeting.
- CET1 stays stable; management is guiding to 11-11.5% CET1 ratio.** CBQK's CET1 ratio was stable at 11.0% in 3Q2019 vs. 2Q2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio at current levels in 2019, 2020 & 2021.

#### Catalysts

- Delivering better profitability metrics than expected/estimated.

#### Recommendation, Valuation and Risks

- Recommendation and valuation:** CBQK is trading at a 2020e P/TB and P/E of 0.9x and 8.5x, respectively. The stock is trading at a PEG of 0.7x based on earnings CAGR (2018-23e) of 12.8%, which is inexpensive. Moreover, CBQK's 2020e P/E is trading at 27% discount to its intrinsic P/E (11.4x).
- Risks:** 1) Weakness in Turkish Lira & 2) Failure to sell UAB

#### Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS	0.34	0.44	0.50	0.57
EPS Growth (%)	296.4	30.3	13.1	13.4
P/E (x)	12.6	9.7	8.5	7.5
Tangible BVPS (QR)	3.9	4.2	4.6	5.0
P/TBV (x)	1.1	1.0	0.9	0.9
DPS (QR)	0.150	0.150	0.175	0.200
Dividend Yield (%)	3.5	3.5	4.1	4.7

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

#### Key Data

Current Market Price (QR)	4.30
Dividend Yield (%)	3.5
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	5.10/3.85
3-m Average Volume (mn)	1.88
Mkt. Cap. (\$ bn/QR bn)	4.8/17.4
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	17.4
1-Year Total Return (%)	+8.5
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), \*Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

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## Change in Estimates

	2019e			2020e			2021e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,479	2,652	7.0	2,734	2,873	5.1	2,967	2,873	-3.2
Non Interest Income	1,328	1,365	2.8	1,360	1,385	1.9	1,451	1,385	-4.5
Total Revenue	3,807	4,017	5.5	4,094	4,258	4.0	4,418	4,258	-3.6
Opex	1,169	1,102	-5.7	1,191	1,128	-5.3	1,266	1,128	-10.9
Net Operating Income	2,638	2,915	10.5	2,903	3,130	7.8	3,152	3,130	-0.7
Net Income (Headline/Reported)	1,856	2,093	12.8	2,225	2,335	4.9	2,461	2,335	-5.1
Net Income (Attributable)	1,569	1,801	14.8	1,929	2,037	5.6	2,160	2,037	-5.7

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,341	2,518	2,482	2,652	2,873	3,192
Fees & Commissions	737	720	757	820	862	923
FX Income	245	163	202	275	234	253
Other Income	225	276	237	270	289	302
<b>Non-Interest Income</b>	<b>1,207</b>	<b>1,159</b>	<b>1,197</b>	<b>1,365</b>	<b>1,385</b>	<b>1,477</b>
<b>Total Revenue</b>	<b>3,548</b>	<b>3,677</b>	<b>3,679</b>	<b>4,017</b>	<b>4,258</b>	<b>4,669</b>
Operating Expenses	(1,702)	(1,325)	(1,173)	(1,102)	(1,128)	(1,199)
<b>Net Operating Income</b>	<b>1,846</b>	<b>2,352</b>	<b>2,506</b>	<b>2,915</b>	<b>3,130</b>	<b>3,470</b>
Net Provisions & Impairments	(1,344)	(1,743)	(836)	(788)	(760)	(815)
<b>Net Profit Before Taxes</b>	<b>502</b>	<b>609</b>	<b>1,670</b>	<b>2,127</b>	<b>2,371</b>	<b>2,655</b>
Tax	(0)	(5)	(7)	(34)	(36)	(40)
<b>Net Profit Before Minority Interest</b>	<b>501</b>	<b>604</b>	<b>1,663</b>	<b>2,093</b>	<b>2,335</b>	<b>2,615</b>
Minority Interest	(1)	(0)	(0)	0	0	0
<b>Net Profit (Headline/Reported)</b>	<b>501</b>	<b>604</b>	<b>1,663</b>	<b>2,093</b>	<b>2,335</b>	<b>2,615</b>
Interest on Tier-1 Note	(220)	(240)	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(13)	(15)	(42)	(52)	(58)	(65)
<b>Net Profit (Attributable)</b>	<b>268</b>	<b>349</b>	<b>1,382</b>	<b>1,801</b>	<b>2,037</b>	<b>2,310</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Cash & Balances with Central Bank	6,421	7,374	6,730	6,751	7,224	7,192
Interbank Loans	19,302	10,499	9,475	9,968	10,665	11,732
Net Investments	15,378	19,629	22,206	27,095	30,454	32,878
Net Loans	77,798	89,122	84,642	88,437	94,954	103,460
Investment In Associates	4,301	2,088	2,096	2,182	2,273	2,371
Other Assets	1,942	4,576	4,314	5,920	5,408	3,104
Net PP&E	2,649	2,591	2,719	2,897	3,122	3,190
OREO	2,108	2,140	2,605	2,605	2,605	2,605
Goodwill & Intangible Assets	483	430	283	228	174	131
<b>Total Assets</b>	<b>130,380</b>	<b>138,449</b>	<b>135,071</b>	<b>146,084</b>	<b>156,880</b>	<b>166,662</b>
<b>Liabilities</b>						
Interbank Deposits	11,634	13,516	13,950	17,756	19,468	19,544
Customer Deposits	70,926	77,633	71,786	75,016	80,267	89,899
Term Loans	22,495	20,908	24,451	27,214	30,480	28,651
Tier 1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Other Liabilities	6,024	5,370	4,884	4,876	4,013	4,315
<b>Total Liabilities</b>	<b>115,079</b>	<b>121,428</b>	<b>119,071</b>	<b>128,862</b>	<b>138,229</b>	<b>146,410</b>
<b>Total Shareholders' Equity</b>	<b>15,301</b>	<b>17,022</b>	<b>15,999</b>	<b>17,222</b>	<b>18,651</b>	<b>20,253</b>
<b>Total Liabilities &amp; Shareholders' I</b>	<b>130,380</b>	<b>138,449</b>	<b>135,071</b>	<b>146,084</b>	<b>156,880</b>	<b>166,662</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2016	2017	2018	2019e	2020e	2021e
<b>Profitability (%)</b>						
RoE (Tangible)	1.9	2.4	8.3	11.5	12.0	12.5
RoAA (Attributable)	0.2	0.3	1.0	1.3	1.3	1.4
RoRWA (Attributable)	3.2	3.3	3.1	1.9	1.8	1.2
NIM (% of IEAs)	2.14	2.18	2.12	2.20	2.20	2.25
NIM (% of RWAs)	2.13	2.18	2.15	2.30	2.36	2.42
NIM (% of AAs)	1.84	1.87	1.82	1.89	1.90	1.97
Spread	1.8	1.8	1.6	1.5	1.3	1.3
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	48.0	36.0	31.9	27.4	26.5	25.7
Cost-to-Income (Core)	49.6	38.1	33.3	29.0	28.0	27.1
<b>Liquidity (%)</b>						
LDR	110	115	118	118	118	115
LDR (Including Stable Source of Funding)	83	90	88	87	86	87
Loans/Assets	60	64	63	61	61	62
Cash & Interbank Loans-to-Total Assets	19.7	12.9	12.0	11.4	11.4	11.4
Deposits to Assets	54	56	53	51	51	54
Wholesale Funding to Loans	44	39	45	51	53	47
IEAs to IBLs	119	118	117	125	125	128
<b>Asset Quality (%)</b>						
NPL Ratio	5.0	5.6	5.6	4.9	4.7	4.3
NPL to Shareholders' Equity	26.5	31.0	30.6	26.2	24.9	23.2
NPL to Tier 1 Capital	27.1	31.0	30.8	26.5	25.2	23.6
Coverage Ratio	79	81	79	97	104	110
ALL/Average Loans	4.0	4.9	4.3	4.8	5.0	5.0
Cost of Risk (bps)	159	195	102	81	77	75
<b>Capitalization (%)</b>						
Tier 1 Ratio	13.1	14.5	14.0	14.6	14.5	14.5
CAR	15.2	16.1	15.5	16.1	16.1	16.0
Tier 1 Capital to Assets	11.5	12.3	11.7	11.7	11.7	11.9
Tier 1 Capital to Loans	19.2	19.1	18.7	19.3	19.4	19.2
Tier 1 Capital to Deposits	21.1	21.9	22.1	22.7	22.9	22.1
Leverage (x)	8.5	8.1	8.4	8.5	8.4	8.2
<b>Growth (%)</b>						
Net Interest Income	-7.6	7.6	-1.4	6.8	8.3	11.1
Non-Interest Income	-15.8	-4.0	3.3	14.0	1.5	6.6
Total Revenue	-10.6	3.6	0.1	9.2	6.0	9.6
Operating Expenses	0.7	-22.1	-11.5	-6.1	2.3	6.3
Net Operating Income	-19.0	27.4	6.5	16.3	7.4	10.8
Net Provisions & Impairments	49.7	29.7	-52.1	-5.7	-3.6	7.3
Net Income (Headline)	-64.3	20.5	175.5	25.8	11.6	12.0
Net Income (Attributable)	-78.5	30.0	296.4	30.3	13.1	13.4
Loans	1.6	14.6	-5.0	4.5	7.4	9.0
Deposits	1.6	9.5	-7.5	4.5	7.0	12.0
Assets	5.6	6.2	-2.4	8.2	7.4	6.2
RWAs	7.7	2.7	-2.8	3.0	8.0	8.7

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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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