

## QNBFS Alert – CBQK Beats Estimates on Strong Non-Interest Income & Gain on Property

- **2Q2015 earnings beats estimates.** Commercial Bank of Qatar (CBQK) reported a net profit of QR572.3mn in 2Q2015, exceeding our expectation of QR502.0mn (BBG: QR492.2mn, Reuters: QR495.2mn). Net income soared by 26.5% and 16.8% QoQ and YoY, respectively. The beat was mainly due to higher than expected non-interest income and a gain (~QR90mn) on disposal of property.
- **Fees & commissions, FX income, income from associates and disposal of property were the drivers of growth on QoQ and YoY basis.** CBQK generated robust fees and commissions of QR292.8mn, growing by 28.6% and 8.0% QoQ and YoY, respectively. FX income followed suit and grew by 46.6% QoQ (+129.8% YoY) to QR55.8mn. Moreover, income from associates displayed strong performance, growing by 17.8% QoQ (+15.0% YoY) to QR117.2mn. Furthermore, ~QR90mn gain on sale of property was a major driver of growth. Without this gain, net income would have increased by 7% QoQ but dipped by 1.5% YoY (as opposed to +16.8% YoY).
- **Net interest income remained flat sequentially (down 4.0% YoY) due to muted loan growth.** CBQK reported net interest income of 626.8mn in 2Q2015. NIMs remained stable sequentially at 2.52% vs. 2.53% in 1Q2015.
- **Provisions for loan losses remained elevated.** CBQK's credit costs soared sequentially by 21.0% (flat YoY) to QR206.0mn. **Loans continued to exhibit subdued performance.** Net loans inched up by 0.9% QoQ (flat YTD) to QR72.6bn. On the other hand, deposits gained by 3.9% QoQ and 4.2% YTD. Hence, the LDR dropped to 113% vs. 117% in 1Q2015 (118% at the end of 2014).
- **Asset quality improved after the settlement of real estate loan.** CBQK's NPL ratio decreased to 3.40 vs. 3.89% in 1Q2015 (3.79% at the end of 2014). Moreover, the coverage ratio increased to 86.7% vs. 76.8% in 1Q2015 (74.3% at the end of 2014)
- **Recommendation and valuation:** CBQK trades at a P/E and P/TB of 9.2x and 1.2x on our 2015 estimates respectively.

### 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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