

# QNBFS Alert – CBQK 1Q2017 Disappoints; Provisions Higher than Expected

- **CBQK reports QR91.2mn net profit in 1Q2017, falling short of estimates on higher than expected provisions.** Commercial Bank of Qatar (CBQK) reported net profit of QR91.23mn in 1Q2017 vs. QR1.40mn in 4Q2016 (288.12mn) in 1Q2016). Earnings fell short of our estimates (QR223.5mn) and BBG consensus (QR252.33). On the other hand, CBQK's total Revenue clocked in at QR936.29mn (+42.8% QoQ, down 2.4% YoY), in-line with our estimate of QR906.53mn (+3.3% divergence). Pre-provision income surged by 207.0% QoQ (+7.9% YoY) to QR580.89mn. Growth in pre-provision income on a YoY basis was solely driven by lower opex. Non-funded income was due to base effect as CBQK reported income from associates of QR50.82mn vs. a loss of 205.02mn in 4Q2016.
- **Margins improved marginally QoQ but remains weak.** Net Interest Income rose by 10.9% QoQ to QR598.57mn in 1Q2017 (down 4.1% YoY). NIMs improved by 12bps QoQ to 2.10% while contracted by 25bps YoY.
- **Asset quality remained under pressure.** NPLs increased by 6.2% QoQ to QR4.32bn, while the NPL ratio remained at 5.0%. On the other hand, coverage ratio jumped to 86% from 79% in 4Q2016. Net provisions and impairments surged to QR484.76mn vs. QR168.55mn in 4Q2016 (QR279.41mn in 1Q2016). *We were expecting a high provisions but not of this magnitude.*
- **The bank's operating efficiency improved.** CBQK posted opex of QR355.40mn, dropping by 23.8% and 15.6% QoQ and YoY, respectively. Hence the C/I ratio dropped to 38.0% vs. 71.1% in 4Q2016 (43.9% in 1Q2016). Moreover, the bank generated positive JAWs QoQ and YoY.
- **Loan growth improved which we see as a positive; LDR remains elevated, however.** Net loans climbed up by 5.4% QoQ to QR82.03bn, while customer deposits ticked up by 1.3% to QR71.88bn. As such, the bank's LDR was lifted to 114% vs. an already elevated LDR of 110% in 4Q2016.
- **Valuation and recommendation.** CBQK trades at P/B and P/E of 0.8x and 29.3x on our 2017 estimates, respectively. We maintain our market perform rating

### 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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