

# QNBFS Alert – CBQK 3Q2017 Estimates In-Line on Operating Basis; Miss Due to Associates

- **CBQK 3Q2017 profitability on an operating basis in-line (ex-provisions); bottom-line drops on the account of weak income from associates.** *Commercial Bank of Qatar (CBQK) reported net operating income (ex-provisions and impairments) of QR906.3mn, inline with our estimate of QR893.8.4mn (+3.3% variation). Moreover, net interest income came in at QR607.5mn, in-line with our estimate of QR612.8mn (-0.9% variation). On the other hand, CBQK's headline net income came in at QR79.4mn in 3Q2017 vs. QR88.4mn in 2Q2017 (Loss of 1.0mn in 3Q2016). Earnings fell short of our QR90.5mn estimate (variation -12.2%) mainly due to income from associates and higher than expected provisions.*
- **Weakness in the bottom-line was attributed to associates as we had flagged earlier in our published Alert comment; non-funded income was strong.** *Non-funded income excluding associates gained by 10.8% QoQ (-17.3% YoY) to 279.3mn due to positive figures across the board. Fees grew by 2.4% QoQ (+6.8% YoY), f/x income grew by 22.1% QoQ (-36.2 YoY) and investment income surged to QR20.8mn (QR8.9mn in 2Q2017). Income from associates (UAB reported a loss of AED5mn while NBO's profit dropped by ~30%) declined by 57% QoQ and YoY to QR19.5mn. Net provisions & impairments was flat sequentially (declined by 4.2% YoY) at QR501.2mn. Net-Net, the bottom-line dropped by 10.2% QoQ due to associates; ex-associates, net profit would have surged by 39.7%.*
- **The bank's operating efficiency further improved.** *CBQK posted opex of QR324.7mn, dropping by 2.3% and 19.7% QoQ and YoY, respectively. Hence the C/I ratio remained at 36.0% vs. 2Q2017 (43% in 3Q2016). Enhancing the bank's C/I by bringing it down to the mid 30s% was a key objective of management, which they have been delivering on.*
- **Margins sequentially contracted but improved on a YoY basis.** *Net Interest Income slipped by 3.5% QoQ to QR607.5mn in 3Q2017 (+7.9% YoY). NIMs dipped by ~5bps QoQ to 2.15% while moving up by 5bps YoY.*
- **Asset quality remains under pressure.** *NPLs moved up by 1.0% QoQ (+23.1% YTD) to QR5.0bn, while the NPL ratio remained at 5.6% vs. 2Q2017 (5.0% in FY2016). On the other hand, coverage ratio jumped to 92% from 84% in 2Q2017 and 79% in 4Q2016. The bank continues on cleaning its books and heavily provisioning.*
- **Loan growth displayed continued improvement which we see as a positive; LDR remains elevated, however.** *Net loans climbed up by 1.1% QoQ (+8.7% YTD) to QR84.5bn, while deposits receded by 1.5% QoQ (+3.3% YTD) to QR73.3bn. As such, the bank's LDR was lifted to 115% vs. an already elevated LDR of 112% in 2Q2017. The bank had guided for 8-10% loan growth for 2017 and so far have met the lower end of their guidance which is a positive.*
- **Valuation and recommendation.** *CBQK trades at a P/B and P/E of 0.7x and 25.0x on our 2017 estimates, respectively. We maintain our market perform rating and PT of QR29.00/share for the time being .*

### 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

#### **Saugata Sarkar, CFA**

Head of Research

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

#### **Shahan Keushgerian**

Senior Research Analyst

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

#### **Mohamed Abo Daff**

Senior Research Analyst

+974 4476 6589

mohd.abodaff@qnbfs.com.qa

#### **Zaid Al Nafsoosi, CMT, CFTE**

Senior Research Analyst

+974 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

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