

QNBFS Alert – CBQK 2Q2017 Disappoints Again

- **CBQK reports disappointing 2Q2017 results, falls short of estimates.** Commercial Bank of Qatar (CBQK) reported net profit of QR88.4mn in 2Q2017 vs. QR91.2mn in 1Q2017 (212.3mn in 2Q2016). Earnings fell short of our QR111.5mn estimate (variation -20.7%) and BBG consensus of QR126mn (variation of -30%). On the other hand, net interest income came in at QR629.4mn, in-line with our estimate of QR605.7mn (+3.9% variation). Moreover, net operating income also came in-line at QR595.0mn vs. our estimate of QR595.4mn. The miss was due to provisions & impairments. CBQK reported provisions & impairments of QR501.7mn vs. our estimate of QR478.0mn (provisions were immaterially higher than 5.0%).
- **Weak revenue coupled with elevated provisions prevented bottom-line growth sequentially and YoY.** Non-funded income dropped by 11.8% QoQ (-20.2% YoY) to QR297.7mn due to lackluster figures across the board. On the other hand the growth in net interest income was not significant enough compensate for the drop in non-funded income. Thus, revenue declined by 1.0% QoQ (-6.0% YoY). Net operating income moved up by 2.4% QoQ (+3.3% YoY) due to cost control as opex dropped by 6.5% and 19.0% QoQ and YoY, respectively. *Net provisions & impairments increased by 3.5% sequentially (surged by 34.4% YoY) to QR501.7mn, resulting net profit falling by 3.1% and 58.4% QoQ and YoY, respectively.*
- **The bank's operating efficiency further improved.** CBQK posted opex of QR332.15mn, dropping by 6.5% and 19.0% QoQ and YoY, respectively. Hence the C/I ratio dropped to 36.0% vs. 38% in 1Q2017 (42% in 2Q2016). *Enhancing the bank's C/I to by bringing it down to the mid 30s% was a key objective of management, which they have been delivering on.*
- **Margins sequentially improved marginally but still remains weak.** Net Interest Income rose by 5.2% QoQ to QR629.42mn in 2Q2017 (+2.6% YoY). NIMs improved by 11bps QoQ to 2.20% while contracted by 10bps YoY.
- **Asset quality remains under pressure.** NPLs increased by 14.7% QoQ (+21.8% YTD) to QR4.9bn, while the NPL ratio moved up to 5.6% from 5.0%. On the other hand, coverage ratio jumped to 84% from 79% in 4Q2016. The bank continued on cleaning its books; net provisions and impairments remained elevated at QR501.7mn vs QR484.8mn in 1Q2017 vs. QR373.32mn in 2Q2016. *High provisions are expected for the rest of the year.*
- **Loan growth displayed continued improvement which we see as a positive; LDR remains elevated, however.** Net loans climbed up by 1.9% QoQ (+7.5% YTD) to QR83.6bn, while deposits gained by 3.5% QoQ (4.9% YTD) to QR74.4bn. As such, the bank's LDR improved to 112% vs. an already elevated LDR of 114% in 1Q2017. *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 0.8x and 22.1x on our 2017 estimates, respectively. We maintain our market perform rating 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

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

Risk Ratings

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

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

Saugata Sarkar

Head of Research

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff

Senior Research Analyst

+974 4476 6589

mohd.abodaff@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE

Senior Research Analyst

+974 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

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