

## QNBFS Alert – CBQK Results Adversely Impacted From UAB

- **3Q2015 earnings disappoints on the account of CBQK's Associate United Arab Bank (UAB).** Commercial Bank of Qatar (CBQK) reported a net profit of QR275.9mn in 3Q2015, falling short of our expectation of QR498.9mn (BBG: QR496.25mn). Net income dropped by 51.8% and 43.3% QoQ and YoY, respectively. The miss was mainly due to the loss generated by CBQK's UAE based associate, UAB. UAB incurred excessive provisions in 3Q2015, reporting a loss of AED273mn. As such, CBQK experienced a loss from associates of QR65.0mn vs. our estimate of QR121.0mn profit.
- **Non-interest income excluding income/(loss) from associates was weak QoQ but strong YoY.** CBQK's fees and commissions dropped by 15.9% QoQ (+26.8% YoY) to QR246.3mn, in-line with our estimate QR237.5mn (+3.7% variation). FX income followed suit and dropped by 38.4% QoQ (+59.0% YoY) to QR34.3mn. Moreover, gains from investment securities was also weak, declining by 68.0% and 67.8% QoQ and YoY, respectively.
- **Net interest income sequentially grew by 3.9% (down 4.5% YoY).** CBQK reported net interest income of 651.3mn in 3Q2015 in-line with our estimate of QR653.6mn. NIMs remained broadly stable sequentially at 2.57% vs. 2.52% in 2Q2015 and 2.53% in 1Q2015.
- **Provisions for loan losses improved QoQ but remained elevated on a YoY basis.** CBQK's credit costs declined sequentially by 18.6% (+39.9% YoY) to QR167.6mn. **Loans continued to exhibit subdued performance.** Net loans inched up by 1.0% QoQ (+1.1% YTD) to QR73.4bn. On the other hand, deposits were flat QoQ and +4.2% YTD. Hence, the LDR ticked up to 114% vs. 113% in 2Q2015 (118% at the end of 2014).
- **Asset quality deteriorated.** CBQK's NPL's increased by 7.8% QoQ to 2.7bn vs. 2.5bn in 2Q2015 (down 3.2% YTD). Thus, the NPL ratio jumped to 3.62% vs. 3.39% in 2Q2015 (3.79% at the end of 2014). Moreover, the coverage ratio decreased to 81% vs. 87% in 2Q2015 (74% at the end of 2014).
- **Recommendation and valuation:** Under review

### 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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