

QNBFS Alert – CBQK Generates Losses in 3Q2016 on the Back of Provisions

- **CBQK reports a net loss.** Commercial Bank of Qatar (CBQK) reported a net loss of QR1.04mn missing estimates. The miss was primarily due to a surge in net provisions and impairments. However, net operating income before provisions was in-line at QR542.3mn vs. our estimate of QR541.8mn. Moreover, total revenue was also in-line at QR946.7mn vs. our estimate of QR964.3mn (-1.8% variation). *We also put our 2016 and 2017 estimates for CBQK under review pending our conversation with CBQK's management.*
- **CBQK's net loss was solely driven by provisions and impairments; on a YoY basis growth (+11.5%) in net operating income before provisions was attributed to higher investment income, profitability from associates vs. a loss in 3Q2015 and lower opex.** CBQK reported a loss of QR1.0mn which was perpetuated by a surge in provisions and impairments. The bank booked provisions and impairment of QR523.1mn (vs. our estimate of QR257.0mn) vs. 373.3mn in 2Q2016 (QR180.9mn in 3Q2015). Moreover, net interest income (-8.2% QoQ & -13.5% YoY) and fees (-6.0% QoQ, -30.7% YoY) displayed weakness. On the other hand, investment income and f/x income drove growth in non-interest income.
- **Margins further contracted.** CBQK's net interest margin receded by 20bps (QoQ) and 46bps (YoY) to 2.10%.
- **Asset quality further deteriorated.** NPLs increased by 9.2% QoQ to QR4.2mn with the NPL ratio moving up to 5.3% from 4.81% in 2Q2016 (4.20% in FY2015). On the other hand, the coverage ratio remained flat QoQ at 78.9% but improved vs. 71.2% at the end of 2015.
- **OPEX improved QoQ and YoY, although still inefficient.** CBQK reported opex of QR404.3mn, retrenching by 1.4% QoQ (-6.5% YoY). Thus, cost-to-income climbed up to 42.7% vs. 41.6% in 2Q2016 (47.1% in 3Q2015).
- **Loans declined.** Net loans receded by 1.8% QoQ (-0.8% YTD) to QR76.0bn. Deposits followed suit and dropped by 7.4% QoQ (-4.4% YTD) to QR66.7bn. Consequently, the bank's LDR position deteriorated to 114% vs. 107% in 2Q2016 and 105% in 1Q2016 (110% in 4Q2015).

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 |

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