

QNBFS Alert – CBQK Generates a Profit in 4Q2016 Due to a Drop in Provisions

- **CBQK 4Q2016 breakeven quarter beats our expectations.** Commercial Bank of Qatar (CBQK) reported a net profit of QR1.4mn beating our estimates. The miss was primarily due to significantly lower than expected net provisions and lower than anticipated net interest income. However, total revenue was broadly in-line at QR655.7mn vs. our estimate of QR671.1mn (-2.3% variation).
- **CBQK foregoes cash dividends.** The bank declared 5% bonus shares and no cash dividends for 2016. We believe this is a positive step as the bank needs to address its capital ratios.
- **CBQK's 4Q2016 marginal net profit on a QoQ and YoY basis was solely driven by a sharp drop in provisions and impairments.** CBQK reported a profit of QR1.4mn (loss of 1.0mn in 3Q2016) which was perpetuated by a drop in provisions and impairments (-67.8% QoQ and -48.8% YoY). The bank booked provisions and impairment of QR168.6mn vs. 523.1mn in 3Q2016 (QR328.9mn in 4Q2015). Moreover, fees (+8.0%) and FX income (+39.1%) were strong on QoQ basis. On the other hand, net interest income was weak, receding by 4.1% QoQ and 14.4% YoY to QR534.0mn. Investment income was also weak. CBQK's associates generated losses (specifically UAB) of QR205.0mn vs. profit in 3Q2016 (QR45.6) and losses of QR42.5mn in 4Q2015.
- **Margins further contracted.** CBQK's net interest margin receded by 13bps (QoQ) and 43bps (YoY) to 1.98%. For the full 2016, NIMs contracted by 32bps to 2.14% on the back of surge in cost of funds. Cost of funds increased by 40bps while yield on assets was flat.
- **Asset quality further deteriorated.** NPLs increased by 22.6% YoY to QR4.1mn in FY2016 with the NPL ratio moving up to 5.0% from 4.20% in FY2015. On the other hand, the coverage ratio improved to 79% vs. 71% at the end of 2015. CoR increased to 159bps vs. 110bps in 2015
- **OPEX increased QoQ and YoY, remains inefficient.** CBQK reported opex of QR466.5mn in 4Q2016, gaining by 7.2% QoQ (+15.4% YoY). Thus, cost-to-income (C/I) climbed up to 71.1% vs. 42.7% in 3Q2016 (51.3% in 4Q2015). However, FY2016 opex was flattish YoY. CBQK's C/I ratio jumped to 48.0% vs. 42.6% in 2015. A major contributing factor to this jump is due to total revenue declining by 10.6% YoY.
- **Loans and deposits displayed improvement.** Net loans and deposits moved up by 1.6% QoQ to QR77.8bn and QR70.9bn, respectively. On the other hand, deposit growth outpaced loan growth on a YoY basis; deposits grew by 6.3% while loans gained by 2.4%. Consequently, the bank's LDR position remained flat at 110% vs. 2015.
- **Capital position improved.** CBQK generated a CAR of 15.2% in 2016 vs. 13.5%. Tier-1 ratio increased to 13.1% vs. 11.8% in 2015.

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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