

CBQK Alert – 1Q2020 Falls Short of Estimates; Losses from Investments & Associates Dented Earnings

- **CBQK 1Q2020 profitability falls short of estimates; bottom-line impacted by losses from investments and associates.** Commercial Bank of Qatar (CBQK) reported net income of QR402.1mn in 1Q2020 (below our estimate of QR469.3mn; -14.3% variation), declining by 8.5% YoY and 20.9% sequentially.
- **Margins significantly improved on drop in cost of funds.** Net Interest Income expanded by 39.3% YoY on the back of a drop in interest expense. Hence, NIMs moved up by ~60bps to 2.55%.
- **Non-funded income exhibited weak performance.** Net fees & commissions dropped by 42.3% YoY (56.3% QoQ) while f/x income declined by 15.2% YoY (-2.0% sequentially).
- **Losses from investments and associates contributed negatively to total revenue and the bottom-line.** CBQK generated investment losses of QR116.5mn in 1Q2020 vs. a gain of QR4.4mn in 1Q2019 (gain of QR30.5mn in 4Q2019). Moreover, the bank reported losses from associates (attributed to 40% owned UAB) of QR133.6mn vs. a profit of QR50.1mn in 1Q2019 (loss of QR143.4mn in 4Q2019).
- **Operating expenses drastically dropped both YoY and sequentially.** CBQK's operating expenses dropped by 36.5% YoY (-56.3% QoQ) from QR278.1mn in 1Q2019 to QR176.5mn in 1Q2020. This huge drop in opex was mainly due to the IFRS 2 impact of the performance rights scheme (for employees) resulting from the movement in CBQK's stock price. Hence, the C/I ratio declined to 22.8% vs. 29.3% in 1Q2019 (29.9% in 4Q2019).
- **Provisions for credit losses improved, CoR decreased.** Provisions declined by 9.2% YoY to QR188.2mn while CoR dropped from ~93bps in 1Q2019 to 82bps in 1Q2020.
- **Asset quality remained broadly stable.** NPLs moved up by 2.0% to QR4.6bn, while the NPL ratio remained flat at 5.0% vs. 4.9% in FY2019. Coverage of Stage 3 loans also remained flat at 63% vs. 61% in FY2019.
- **Net loans exhibited flattish performance, while deposits ticked up.** Net loans inched up by 0.9% YTD to QR88.8bn, while deposits ticked up by 1.4% to QR77.4bn.
- **Valuation and recommendation.** CBQK trades at a P/B and P/E of 0.8x and 9.2x on our 2020 estimates, respectively. We maintain our Accumulate rating and PT of QR5.22/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

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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