

CBQK Alert – 3Q2021 Beats on Net Interest Income Upside/Lower Provisions; Record High Profits

- **CBQK's 3Q2021 profitability beats our estimates by a wide margin; company posted a very strong set of results:** Commercial Bank of Qatar (CBQK) reported a net income of QR804.6mn in 3Q2021 (exceeding our estimate of QR631.3mn; variation of +27.5%), surging by 217.8% YoY (+11.1% sequentially).
- **Net interest income, lack of losses from associates and a large drop in provisions & impairments drove bottom-line growth YoY.** Net interest income increased by 26.4% (+3.1% QoQ), while non-funded income surged by 293.2% (-5.5% sequentially) to QR376.0mn (QR95.6mn in 3Q2020). Further, CBQK booked income from associates of QR49.7mn vs. a loss of QR229.0mn a year ago (income of QR39.6mn in 2Q2021). Fees were sluggish YoY but f/x income was decent.
- **Total revenue surged to QR1.33bn vs. QR848.5mn in 3Q2020.** Excluding losses from associates in 3Q2020, core income would have increased by 20.1% YoY to QR1.29bn.
- **Margins were aided by strong asset repricing and tight management of CoFs.** CBQK's net interest margin increased by 30bps YoY (6bps QoQ) to 2.76% as yields increased by 20bps vs. a 10bps drop in CoFs.
- **Provisions for credit losses significantly dropped both YoY and sequentially and came in well below our estimate; 9M2021 CoR (annualized) came in flat at 71bps vs. 69bps in 9M2020.** Provisions & impairments dropped YoY (51.3%) to QR143.1mn vs. QR293.6mn in 3Q2020 (dropped by 35.1% QoQ), well below our estimate of QR205.2mn (-30.3% variation).
- **Asset quality remained stable.** NPLs retreated sequentially to QR4.2bn, while the NPL ratio decreased to 3.98% vs. 4.12% in 2Q2021 (4.33% in FY2020). Coverage of Stage 3 loans improved from 66% in FY2020 to 75% in 3Q2021.
- **Loans and deposits exhibited tepid performance.** Net loans inched by 0.5% sequentially (+4.5% YTD) to QR101.1bn, while deposits receded by 2.0% QoQ (+6.5% YTD) to QR80.7bn.
- **Capital position improved on optimization of RWAs.** The bank's CAR came in at 18.3% at the end of 3Q2021.
- **Valuation and recommendation.** CBQK trades at a P/B of 1.3x on our 2021 estimates. We will revise our estimates/forecasts shortly. We believe these are strong set of results, which would be received well by investors.

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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