

## CBQK Alert – 2Q2020 Beats Estimates on Significantly Lower Provisions; Revenue In-Line

- **CBQK 2Q2020 profitability beats our estimates on lower-than-expected provisions; bottom-line impacted by losses from associates.** Commercial Bank of Qatar (CBQK) reported net income of QR499.0mn in 2Q2020 (ahead of our estimate of QR456.2mn; +9.4% variation), declining by 1.9% YoY (+24.1% sequentially).
- **Margins significantly improved on drop in cost of funds.** Net Interest Income expanded by 19.6% YoY (-5.8% sequentially) to QR762.1mn on the back of a large drop in CoFs. Hence, NIMs moved up by ~33bps to 2.42%.
- **Non-funded income (excluding results from associates) exhibited strong performance.** Surprisingly, Net fees & commissions increased by 3.5% YoY (+67.4% QoQ) while f/x income gained by 3.4% YoY (+1.6% sequentially). Moreover, CBQK generated gains from investment securities of QR50.6mn vs. QR23.5mn in 2Q2019 (losses of QR116.5mn in 1Q2020).
- **Losses from associates contributed negatively to total revenue and the bottom-line.** CBQK generated losses from associates (attributed to 40%-owned UAB) of QR187.0mn vs. a profit of QR48.8mn in 2Q2019 (loss of QR133.6mn in 1Q2020).
- **Provisions for credit losses improved on the back of strong recoveries, CoR decreased.** Provisions declined by 83.6% YoY (-80.3% QoQ) to QR37.0mn, while CoR dropped from ~97bps in 1H2019 (annualized) to ~50bps in 1H2020 (67bps in FY2019).
- **Asset quality remained stable.** NPLs decreased by 1.5% QoQ (+0.5% YTD) to QR4.5bn, while the NPL ratio remained flat at 5.0% vs. 4.9% in FY2019. Coverage of Stage 3 loans slightly improved from 61% in FY2019 to 64% in 2Q2020.
- **Net loans receded, while deposits exhibited flat performance sequentially.** Net loans decreased by 2.0% QoQ (-1.1% YTD) to QR87.0bn, while deposits remained flat at QR77.7bn (+1.9% YTD).
- **Valuation and recommendation.** CBQK trades at a P/B and P/E of 0.9x and 9.6x on our 2020 estimates, respectively. We maintain our Outperform rating and PT of QR5.006/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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