

CBQK Alert – Core Revenue In-Line but 3Q2020 EPS Falls Short of Estimates on Higher Provisions

- **CBQK's 3Q2020 profitability misses our estimates on higher-than-expected provisions & losses from associates; core revenue in-line.** Commercial Bank of Qatar (CBQK) reported net income of QR253.2mn (EPS: QR0.06) in 3Q2020 (short of our estimate of QR417.0mn/QR0.10), dropping by 55.6% YoY (-49.3% sequentially). However, core revenue was in-line with our estimate of QR1.06bn vs. QR1.05bn reported.
- **Margins continued to improve.** Net interest income increased by 4.4% YoY (-1.2% sequentially) to QR752.8mn on the back of a large drop in CoFs. Hence, NIMs moved up by ~10bps to 2.44%. Sequentially, NIMs were flat.
- **Non-funded income (excluding results from associates) exhibited strong performance.** Surprisingly, Net fees & commissions increased by 4.8% YoY (-5.7% QoQ) while f/x income surged YoY and sequentially. Non-funded income (excluding results from associates) increased by 13.7% YoY.
- **Losses from associates continued to contribute negatively to total revenue and the bottom-line.** CBQK generated losses from associates (attributed to 40%-owned UAB) of QR229.0mn vs. a profit of QR43.3mn in 3Q2019 (loss of QR320.7mn in 1H2020).
- **Provisions for credit losses surged sequentially and YoY; 9M CoR remains lower than 2019.** Provisions surged to QR261.9mn vs. QR152.2mn in 3Q2019 (QR37.0mn in 2Q2019). On the other hand, CoR dropped from ~84bps in 9M2019 (annualized) to ~69bps in 9M2020 (67bps in FY2019).
- **Asset quality remained stable.** NPLs remained flattish QoQ & YTD at QR4.5bn, while the NPL ratio decreased to 4.78% vs. 4.94% in FY2019. Coverage of Stage 3 loans slightly improved from 61% in FY2019 to 66% in 3Q2020. *It should be noted that 70% of ECLs are Stage 3.*
- **Loans gained traction, while deposits declined both sequentially & YTD.** Net loans increased by 4.0% QoQ (+2.8% YTD) to QR90.5bn, while deposits decreased by 5.9% QoQ (-4.2% YTD) to QR73.1bn.
- **Valuation and recommendation.** CBQK trades at a P/B and P/E of 0.9x and 7.8x on our 2021 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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