

QNBFS Alert – CBQK 4Q2015 Results Negative Across the Board

- **CBQK reports weaker than expected results.** Commercial Bank of Qatar reported a net income of QR124.8mn in 4Q2015, falling short of our estimate of QR198.7mn and Bloomberg consensus of QR334mn. Net income dropped by 54.8% QoQ and 66.3% YoY. We also put our future estimates for CBQK under review pending our conversation with CBQK's management.
- **Results were negative across the board.** Net interest income dipped by 3.2% QoQ (flat YoY) to QR630.7mn, in-line with our estimate of QR655.3mn (-3.7% variation). At the same time NIMs compressed by ~17bps to 2.40% vs. 2.57% in 3Q2015 (2.56% in 4Q2014). This was mainly attributed to cost of funding. Fees & commissions dropped by 17.2% QoQ (flat YoY) to QR204mn. F/X income followed suit and dropped by 61.4% QoQ (down 58.0% YoY). CBQK's 4Q2015 bottom-line was also adversely impacted by the bank's UAE-based associate United Arab Bank (UAB), which reported a net loss of AED166mn for 2015 and a net loss of AED238mn in 4Q2015. Thus loss from associates was QR42.5mn vs. a loss of QR65.0mn in 3Q2015 (profit of QR80.9mn in 4Q2014). Consequently, non-interest income retreated by 18.7% QoQ and 46.5% YoY.
- **OPEX edged up QoQ.** CBQK reported opex of QR449.1mn, up by 3.9% QoQ (+17.2% YoY). Cost-to-income remained elevated at 52.9% vs. 47.1% in 3Q2015 (37.1% in 4Q2014).
- **Provisions surged QoQ.** The bank reported provisions of QR270.0mn in 4Q2015, up by 61.1% QoQ (+9.9% YoY). Moreover CoR increased to 106bps in FY2015 vs. 87bps in 2014. CBQK's NPLs ratio deteriorated to 4.17% vs. 3.79% in 2014. At the same time the coverage ratio slipped to 70.9% vs. 74.3% in 2014.
- **Loans marginally increased.** Net loans increased by 4.5% QoQ (+5.6% YoY) to QR76.6bn. Moreover, deposits displayed strong performance, expanding by 8.8% QoQ (+13.4% YoY) to QR69.8bn. Hence, the bank's LDR improved to 110% in 4Q2015 vs. 114% in 3Q2015 (118% in 4Q2014).
- **CBQK announced cash DPS of QR3.00/share vs. QR3.18 in 2014.** This translates into a yield of 7.6%. Dividend payout ratio increased to 77% vs. 61% in 2014.
- **More capital needed.** CBQK ended 2015 with a Tier-1 ratio and CAR of 11.8% and 13.5%, respectively. The bank announced that it secured an investor for its AT1 QR2bn issuance.
- **Recommendation and valuation:** We put our 2016 and 2017 estimates under review.

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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