

CBQK Alert – Core Revenue In-Line but 4Q2020 EPS Falls Short of Estimates on Record High Provisions

- **CBQK's 4Q2020 profitability misses our estimates on higher-than-expected provisions & impairments; core revenue in-line, however.** Commercial Bank of Qatar (CBQK) reported net income of QR146.8mn (EPS: QR0.04) in 4Q2020 (short of our estimate of QR349.2mn/QR0.09), dropping by 71.3% YoY (-42.0% sequentially). *However, core revenue was in-line with our estimate of QR1.10bn vs. QR1.11bn reported.*
- **Large cut in DPS but in-line with our estimate.** CBQK cut DPS by 50% from QR0.200 in 2019 to QR0.100 in 2020, offering a yield of 2.3%. We were also modeling in a DPS of QR0.10. This DPS cut is the largest thus far among major banks that have reported and is likely a negative near-term catalyst.
- **CBQK generated income from associates vs. losses in the prior quarters.** Income from associates amounted to QR339.7mn vs. loss of QR140.4mn in 4Q2019 and loss of QR229.0mn in 3Q2020.
- **Impairment of associate and other negligible provisions contributed negatively to the bottom-line.** CBQK generated impairment on associates (attributed to 40%-owned UAB) of QR669.8mn vs. impairment of QR439.9mn in 4Q2019.
- **Provisions for credit losses surged sequentially and YoY; 2020 CoR increased vs. 2019.** Provisions surged to QR349.3mn vs. QR8.5mn in 4Q2019 (QR261.9mn in 3Q2020). Moreover, CoR jumped from 67bps in 2019 to 88bps in 2020.
- **Asset quality remained stable.** NPLs dropped sequentially & YoY to QR4.3bn, while the NPL ratio decreased to 4.3% vs. 4.9% in FY2019. Coverage of Stage 3 loans slightly improved from 61% in FY2019 to 66% in FY2020. *It should be noted that 65% of ECLs are Stage 3 vs. 70% in 3Q2020.*
- **Loans expanded sequentially & YoY, while deposits gained sequentially (down 0.7% YoY).** Net loans increased by 6.9% QoQ (+9.9% YoY) to QR96.7bn, while deposits gained by 3.6% QoQ (-0.7% YoY) to QR75.8bn.
- **Capital position improved on optimization of RWAs.** CET1 improved to 12.2% vs. 11.1% in 2019, Tier-1 ratio moved up to 15.7% vs. 14.4% in 2019
- **Valuation and recommendation.** CBQK trades at a P/B of 0.9x on our 2021 estimates. 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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