

## 1Q2022 Earnings Preview: Safe-Haven Status, 100%-FOL Story & Strong Oil/Gas Prices Propels Rally

We expect 1Q2022 earnings for Qatari stocks under coverage to grow 13.6% YoY on a normalized basis (excluding outlier IQCD). Moreover, on a QoQ basis, normalized earnings should also increase by 11.2% (excluding outliers MARK, DHBK, CBQK & QNNS). The YoY growth in normalized earnings is attributable to a continuously improving operating environment in 1Q2022 vs. 1Q2021 as oil prices have surged and significant COVID-19 restrictions have been lifted. In 2021, the QE Index appreciated 11.4% but underperformed all other GCC markets. However, YTD, the QE Index has burst out of the gate rallying 27.2% (intra-day April 11, 2022) and becoming the third-best performing index globally with a total return of 31.9%. While initially, the market benefitted from an in-line-to-better-than-expected dividend season and strong earnings growth in 2021 (after a COVID-19 induced-lull in 2020), Qatar's position as a global safe haven along with its \$-pegged currency and global-powerhouse status in natural gas (LNG) really came into focus as the Russia-Ukraine conflict began in late-February. Since then, the market has rallied hard, up ~17%, while foreign institutional investors have already bought up net \$2.375bn overtaking the entire net foreign investment flows of \$2.063bn achieved during the full year 2021. While we expect the market to remain volatile, we continue to be positive longer-term on the Qatari market due to the following reasons: **(1) 100% FOL implementation:** Three banks (QIBK, QNBK and MARK) have fully implemented their 100% FOL requirements and the Qatar Central Securities Depository has modified their foreign ownership limit to be 100% of capital. Hence, these three banks have firmly beat the deadline for the MSCI and FTSE rebalance. **The MSCI and FTSE rebalance could see additional foreign institutional investment flows to the Qatar Exchange of roughly \$1.3-1.5bn with banks making up close to 90% of these inflows.** While it is not certain that all major companies will meet their MSCI cut-off (any last 10 business days of April starting from April 18<sup>th</sup>), we remain fairly confident that the market will continue to attract substantial foreign inflows. We note that while any actual MSCI-related flow increase will take place in May at the earliest (and FTSE in June), the market should continue to move in anticipation of this major event. **(2) Rising oil and gas prices:** Sanctions by Western countries on Russia are causing global oil and gas supply concerns, which in turn is having a major impact on global oil and gas prices. With Russia being a major global producer and exporter of gas and oil, the already uneven global supply-demand balance has been put under even further pressure, leading to record high oil and gas prices. Higher oil and gas prices should lead to higher government revenues for Qatar, enable flexibility in government expenditures, and improve overall money supply (liquidity). Moreover, higher commodity prices continue to heighten investor appetite for Qatari equities. **(3) Furthermore,** with the FIFA World Cup Qatar 2022 finally around the corner, we believe the Qatari stock market will benefit from the sheen of this unprecedented success enjoyed by Qatar on the global stage. **(4) Over the medium-to-long-term,** the North Field Expansion Project and 2030 Qatar National Vision investments continue to be major growth drivers for local companies. On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, whereas Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. **While we cannot rule out near-term volatility in the market, we continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals, coupled with Qatar's effectively-handled vaccination program, which reduces COVID-19 variant risks substantially.**

### Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience strong earnings YoY, growing by 12.0% largely attributed to Qatar Islamic Bank (QIBK, which has been reporting robust earnings), Commercial Bank of Qatar or CBQK and Masraf Al Rayan (MARK, which is a merged entity vs. standalone figures in 1Q2021). Healthy revenue growth, cost containment and flat-to-lower provisions & impairments drive the increase in the combined bottom-line. **Moreover, on a sequential basis, we expect flattish normalized earnings (-0.3%) because of lower provisions & impairments in 1Q2022.** Our normalized aggregate earnings estimate excludes MARK, which reported insignificant 4Q2021 profitability driven by large provisions, Doha Bank (DHBK), which reported a provision-driven loss in the fourth quarter of 2021 and CBQK that reported large provisions/impairments in 4Q2021. **However, we are of the view that 1Q2022 earnings will not be a major factor in determining performance, as the hiking of FOLs to 100% takes center stage.** So far, QNBK, QIBK and MARK have already increased their FOLs to 100% and CBQK, DHBK and Qatar International Islamic Bank (QIIBK) are expected to follow suit. Investors have been bidding up the aforementioned names ahead of their 100% FOL implementation. We note QNBK, QIBK and MARK have already met the cutoff for MSCI & FTSE.
- We estimate a YoY rise of 62.5% in the bottom-line of diversified non-financials under coverage mainly due to higher commodity prices and significant earnings acceleration shown by Industries Qatar (IQCD). Excluding IQCD, earnings growth remains robust, growing by 17.7% YoY. **On a sequential basis, combined earnings of diversified non-financials could increase by 16.0%,** on a normalized basis, excluding Qatar Navigation (QNNS) or Milaha, which reported impairments of its vessels in 4Q2021. **IQCD should continue to post impressive growth, especially on a YoY basis, in 1Q2022.** The company continues to benefit from the significant strength seen in urea prices, which currently stand at \$1,000/MT. We point out Middle East urea prices lost a third of their value during late February-early March after gaining to \$959/MT during the months of November and December 2021 given strong demand and tight supply. However, prices are back at record levels aided by the Russia-Ukraine war. We expect IQCD's realized urea prices to increase more than 150% YoY (1Q2021 realizations: \$316/MT) and gain slightly on a sequential basis (vs. \$773/MT in 4Q2021). On the volumes side, IQCD faced some operational issues in fulfilling some sales contracts in 4Q2021 (which served to reduce urea sales volumes/prices) but these volumes should be sold in 1Q2022. As far as petchems are concerned, while prices remained flattish QoQ (up YoY), segment net income should grow significantly QoQ given there was a major planned maintenance-shutdown in QAPCO's LDPE facilities during the fourth quarter of 2021. Finally, we could see improved steel profitability vs. 2H2021 (and especially 4Q2021) as higher-priced inventory should have been largely sold-off and demand should remain robust.
- Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks & investment income/capital gains (losses). Volatile oil prices & geo-political tensions remain as risk factors to regional equities and have a direct impact on stocks under coverage.

### 1<sup>st</sup> Quarter 2022 Estimates

	EPS (QR)			Revenue (QR mn)		
	1Q2022e	YoY	QoQ	1Q2022e	YoY	QoQ
Ahli Bank (ABQK)	0.078	7.2%	5.9%	332.57	3.7%	4.9%
Commercial Bank of Qatar (CBQK)	0.176	18.2%	313.4%	1,317.57	10.9%	-5.5%
Doha Bank (DHBK)	0.127	3.5%	N/M	834.91	1.4%	9.3%
Gulf International Services (GISS)	0.020	N/M	184%	841.15	19.3%	-0.4%
Gulf Warehousing Co. (GWCS)	0.097	4.2%	-6.3%	350.72	17.3%	-1.5%
Industries Qatar (IQCD)	0.475	96.2%	17.3%	5,119.67	80.3%	8.4%
Masraf Al Rayan (MARK)	0.067	8.6%	N/M	1,031.87	12.8%	12.2%
Qatar Electricity & Water (QEWS)	0.383	13.3%	44.3%	595.72	-0.8%	-6.1%
Qatar Gas & Transport (QGTS)	0.064	10.4%	0.9%	1,039.97	5.5%	-2.6%
Qatar International Islamic Bank (QIIBK)	0.196	5.5%	81.2%	452.22	3.6%	5.7%
Qatar Islamic Bank (QIBK)	0.373	17.5%	-14.4%	1,503.95	-4.8%	3.9%
Qatar Navigation/Milaha (QNNS)	0.310	18.5%	404.1%	875.14	29.6%	16.8%
Vodafone Qatar (VFQS)	0.019	19.4%	-37.9%	669.07	14.3%	-14.2%
<b>Growth (Excl. IQCD [YoY] &amp; MARK, DHBK, CBQK &amp; QNNS [QoQ])</b>		<b>13.6%</b>	<b>11.2%</b>			
<b>Total</b>		<b>36.3%</b>	<b>53.8%</b>	<b>14,964.5</b>	<b>25.2%</b>	<b>3.7%</b>

Source: QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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