

## Banking

**HOLD : 12M TP @ 5.80**

### Valuation Summary (TTM)

Price (QAR)	5.26
PER TTM (x)	7.9
P/Book (x)	1.1
Dividend Yield (%)	4.8
Free Float (%)	78%
Shares O/S (mn)	4,047
YTD Return (%)	-15%
Beta	1.0

(mn)	QAR	USD
Market Cap	21,293	5,840
Total Assets	164,376	45,145

Price performance (%)	1M	3M	12M
Commercial Bank	-12%	7%	-12%
Qatar Exchange Index	-4%	8%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (QAR)	13,571	14,456	14,021
Avg Daily Volume (,000)	2,915	2,635	2,528
52 week	High	Low	CTL*
Price (QAR)	6.45	4.88	7.8

\* CTL is % change in CMP to 52wk low

### Major shareholders

Qatar Investment Aut	16%
Vanguard Group Inc/T	3.4%
Norges Bank	1.9%
Others	78.4%

### Other details

Exchange	Qatar
Sector	Banks

Key ratios	2020	2021	2022
EPS (QAR)	0.27	0.50	0.62
BVPS (QAR)	4.49	4.51	4.59
DPS (QAR)	0.10	0.16	0.25
Payout ratio (%)	37%	32%	40%



## CBQK– all around decline

Commercial Bank of Qatar reported 2023 operating income of QAR 5.5bn (vs. 5.3bn in 2022, +3.7% YoY) and a net income of QAR 2.5bn (vs. 2.7bn, +7.9% YoY), much below our estimates of QAR 2.9bn. While the net interest income declined from QAR 3.96bn in 2022 to QAR 3.86bn (-2.4% YoY) in 2023. The restated non-interest income increased from QAR 1.3bn to QAR 1.6bn (+21.8% YoY), however the core net fee and commission income declined by 30% YoY, the decline was offset by increase in forex and investment income. The operating profits declined by 2.6% YoY, as the cost to income deteriorated to 26.2% in 2023 (from 21.5% in 2022) as there were one off expenses in Turkey and increase in costs due to hyper-inflationary environment in Turkey. The bank's loan book declined by 6.7% YoY as the net loan book declined in Turkey by 39% YoY and close to QAR 1.0 bn overdraft from Ministry of Finance were repaid. The silver lining is the growth in retail book which grew by +3% YoY as per the stated strategy of the bank. Deposits also declined by 8% YoY, as the share of deposits from corporates were lower from 34.3% to 28.5% in 2023. The CASA reduced from 38.4% to 35.2% in 2023, and time deposits declined by 3% YoY. The NPL ratio deteriorated from 4.9% in 2022 to 5.9% in 2023. Overall, the results have been below our expectations. Since our earlier recommendation the price has run up by about 7%, and in view of the recent performance, we reduce the rating from BUY to HOLD with a revised target price of QAR 5.8/share (vs. earlier TP of 6.0/share)

**Guidance missed:** The company gives a guidance on 9 parameters and it has met only 2 of them, specifically cost of risk and reshaping the loan book. In our earlier note, we were cautious about company missing the guidance and we had modeled our numbers based on a conservative approach. One of the key reason the performance declined was on account of hyperinflation situation in Turkey and consequent charge to profit and loss. Turkey operations on a stand-alone basis have done well with balance sheet expanding by 15%, profit before tax doubling to TL 3.3bn in 2023, however the company took a charge of TL 2.4bn (QAR 350mn) to the consolidated profits. At the consolidated level, the company's profitability was aided by lower impairment charge of QAR 917mn (vs. 1.2bn in 2022).

**Envisaged changes move gradually:** In our earlier note, we had mentioned that the changes envisaged in terms of changing the loan mix by increasing exposure to government and GREs and reducing exposure to real estate sector is a slow process, the current quarter's performance validates this even as the company tries to improve exposure to retail segment. The near-term headwinds in the form of inflationary pressure (11% of profits in 2023 hit due to charge on hyperinflation), one-off repayment of overdraft by government, increase in expenses due to investment in retail franchise will continue. The adverse effect of these were offset by improved performance by the key subsidiaries (UAB, NBO) whose contribution in the form of share of profits increased from QAR 222mn to QAR 294mn. We believe that the management is on the right path and is investing for long term growth with these strategies.

Our initial recommendation was a BUY, with a target price of QAR 6.0/share, however, the company's 2024 guidance indicates that the results of the strategic intent on key operational parameters will be delayed. Given, this we have reduced the target price to QAR 5.8/share, with a rating of HOLD.

## Valuation snapshot

Amt in QAR bn	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Loan Book	96.7	98.0	98.0	91.5	92.9	94.8	98.1	101.5
Gross NPL (%)	4.3%	4.7%	4.9%	5.9%	5.6%	5.2%	5.0%	5.0%
Deposits	75.8	82.0	83.2	76.5	78.1	79.6	81.2	82.9
NII	3.1	3.7	4.0	3.9	3.8	3.5	3.6	3.9
PAT	1.3	2.3	2.8	3.0	2.8	2.9	3.2	3.4
P/E	18.0	8.5	7.9	9.2	8.5	8.7	7.8	7.2
P/B	1.1	1.0	1.1	1.4	1.1	1.1	1.0	0.9
Dividend Yield	2.1%	3.7%	5.1%	4.0%	5.7%	5.7%	6.3%	6.3%

## Summary of key numbers

in QAR mn	4Q23	3Q23	QoQ (%)	4Q22	YoY (%)	2023A	2022A	YoY (%)	2023A	2024E
Operating Income	1,267	1,325	-4.4%	1,346	-5.8%	5,489	5,294	3.7%	5,489	5,626
Operating Expenses	-363	-294	23.4%	-149	144.1%	-1,441	-1,138	26.6%	-1,441	-1,450
Operating Profit	905	1,031	-12.3%	1,197	-24.4%	4,049	4,156	-2.6%	4,049	4,176
Provision Expenses (Loans)	-321	-143	124.6%	-281	14.0%	-991	-988	0.3%	-991	-1,131
Provision Expenses (Others)	125	-3	nm	-236	nm	73	-275	-126.6%	73	-80
Profit before tax (Incl share of associates)	776	967	-19.8%	735	5.5%	3,425	3,115	10.0%	3,425	3,274
Taxation	-22	-23	-6.8%	-35	-38.2%	-80	-114	-29.8%	-80	-146
Monetary loss due to hyperinflation*	-109	-133	-17.6%	-91	20.5%	-335	-189	76.9%	-335	-350
Profit after tax	645	811	-20.5%	610	5.7%	3,010	2,811	7.1%	3,010	2,778
Tier 1 Bond	-202	-41	nm	-202	0.0%	-284	-284	0.0%	-284	-284
Profit attributable to shareholders	443	770	-42.5%	408	8.6%	2,727	2,527	7.9%	2,727	2,494
Loan Book	91,490	91,512	0.0%	98,016	-6.7%	91,490	98,016	-6.7%	91,490	92,937
Deposits	76,541	74,742	2.4%	83,167	-8.0%	76,541	83,167	-8.0%	76,541	78,072
Total Equity (Excl tier 1 bond)	18,586	19,240	-3.4%	18,584	0.0%	18,586	18,584	0.0%	18,586	19,866
Cost to Income	28.62%	22.18%		11.04%		26.25%	21.50%		26.25%	25.77%
NPL ratio	5.85%	-0.24%		4.92%		5.85%	4.92%		5.85%	5.60%
Net Loan to Deposit	119.53%	122.44%		117.85%		119.53%	117.85%		119.53%	119.04%

Income Statement (QAR Mn)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Interest Income	6,795	5,671	6,012	7,330	9,538	9,170	8,944	8,956	9,320
Interest Expense	-3,832	-2,571	-2,311	-3,367	-5,670	-5,396	-5,435	-5,331	-5,433
<b>Net Interest Income</b>	<b>2,963</b>	<b>3,100</b>	<b>3,702</b>	<b>3,963</b>	<b>3,867</b>	<b>3,774</b>	<b>3,509</b>	<b>3,625</b>	<b>3,886</b>
Non Interest Income	1,383	1,137	1,399	1,331	1,622	1,852	1,894	1,943	1,993
<b>Net Operating Income</b>	<b>4,347</b>	<b>4,237</b>	<b>5,101</b>	<b>5,294</b>	<b>5,489</b>	<b>5,626</b>	<b>5,404</b>	<b>5,568</b>	<b>5,879</b>
Operating Expenses	-1,228	-1,096	-1,480	-1,138	-1,441	-1,450	-1,229	-1,212	-1,252
Share of results from associates	-7	-210	129	222	294	309	324	341	358
<b>Profit Before Taxation</b>	<b>2,044</b>	<b>1,316</b>	<b>2,313</b>	<b>2,925</b>	<b>3,090</b>	<b>2,924</b>	<b>3,016</b>	<b>3,328</b>	<b>3,580</b>
Tax expense	-23	-15	-9	-114	-80	-146	-151	-166	-179
<b>Profit for the year</b>	<b>2,021</b>	<b>1,301</b>	<b>2,304</b>	<b>2,811</b>	<b>3,010</b>	<b>2,778</b>	<b>2,865</b>	<b>3,162</b>	<b>3,401</b>

Balance sheet (QAR Mn)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Cash and balances with Central Bank	6,075	8,279	17,915	8,030	8,631	10,036	10,993	10,664	10,493
Due from banks	12,396	10,401	10,942	20,844	20,525	21,552	22,629	23,761	24,949
Loans & advances to customers	88,009	96,698	98,003	98,016	91,490	92,937	94,796	98,114	101,547
Investment securities/associates	30,865	28,895	29,684	32,937	34,136	35,842	37,635	39,516	41,492
Property and Equipment/Intangibles	3,090	3,333	2,829	3,116	3,125	3,200	3,353	3,545	3,741
Other Assets	7,100	6,000	6,091	6,192	6,468	6,792	7,131	7,488	7,862
<b>Total Assets</b>	<b>147,536</b>	<b>153,606</b>	<b>165,464</b>	<b>169,136</b>	<b>164,376</b>	<b>170,359</b>	<b>176,536</b>	<b>183,087</b>	<b>190,084</b>

#### LIABILITIES AND SHAREHOLDER'S EQUITY

Due to banks	22,531	20,007	17,777	24,054	18,805	19,746	20,733	21,769	22,858
Customers' deposits	76,297	75,790	81,958	83,167	76,541	78,072	79,633	81,226	82,851
Debt Securities	9,525	13,107	15,286	10,714	7,899	8,294	8,709	9,145	9,602
Other Borrowings	12,043	14,126	15,719	17,072	26,267	27,580	28,959	30,407	31,928
Other Liabilities	5,385	8,406	10,651	9,724	10,458	10,981	11,530	12,106	12,711
<b>Total Liabilities</b>	<b>125,780</b>	<b>131,435</b>	<b>141,391</b>	<b>144,731</b>	<b>139,970</b>	<b>144,673</b>	<b>149,564</b>	<b>154,653</b>	<b>159,949</b>

Paid-up Capital	4,047	4,047	4,047	4,047	4,047	4,047	4,047	4,047	4,047
Other Reserves	12,047	12,546	11,283	9,973	10,191	10,191	10,191	10,191	10,191
Retained earnings	1,662	1,577	2,923	4,564	4,347	5,628	6,914	8,375	10,076
<b>Shareholder's Equity</b>	<b>17,756</b>	<b>18,170</b>	<b>18,253</b>	<b>18,584</b>	<b>18,586</b>	<b>19,866</b>	<b>21,152</b>	<b>22,614</b>	<b>24,315</b>
Non - Controlling Interests	0	0	0	0	0	0	0	0	0
Tier 1 Perpetual subordinated bonds	4,000	4,000	5,820	5,820	5,820	5,820	5,820	5,820	5,820
<b>Total Equity</b>	<b>21,756</b>	<b>22,170</b>	<b>24,073</b>	<b>24,404</b>	<b>24,406</b>	<b>25,686</b>	<b>26,972</b>	<b>28,434</b>	<b>30,135</b>
<b>Total Liabilities and Equity</b>	<b>147,536</b>	<b>153,606</b>	<b>165,464</b>	<b>169,136</b>	<b>164,376</b>	<b>170,359</b>	<b>176,536</b>	<b>183,087</b>	<b>190,084</b>

Cash Flow Statement (QAR Mn)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Cash flow from operating activities	7,522	-5,619	5,865	4,773	-2,338	3,201	2,834	1,669	1,828
Cash flow from investing activities	-4,195	872	-3,901	-5,222	-1,573	-2,007	-2,092	-2,182	-2,276
Cash flow from financing activities	-3,275	5,077	5,702	-4,564	5,598	210	215	183	277
Net change in cash	52	330	7,665	-5,014	1,687	1,405	957	-329	-171
<b>Cash at the end of period</b>	<b>10,056</b>	<b>10,522</b>	<b>18,961</b>	<b>14,300</b>	<b>15,627</b>	<b>10,036</b>	<b>10,993</b>	<b>10,664</b>	<b>10,493</b>

Key ratios	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
<b><u>Operating performance</u></b>									
Yield on average earning assets	5.3%	4.1%	4.0%	4.6%	6.4%	6.2%	6.0%	5.8%	5.8%
Cost of funds	3.3%	2.1%	1.8%	2.5%	4.4%	4.1%	4.0%	3.8%	3.8%
Interest spread	2.0%	2.0%	2.2%	2.1%	2.0%	2.1%	2.0%	2.0%	2.1%
NIM	2.2%	2.2%	2.4%	2.5%	2.6%	2.6%	2.3%	2.3%	2.4%
Interest income/operating income	156.3%	133.8%	117.9%	138.5%	173.7%	163.0%	165.5%	160.9%	158.5%
Net interest income/operating income	68.2%	73.2%	72.6%	74.9%	70.4%	67.1%	64.9%	65.1%	66.1%
Non interest income/operating income	31.8%	26.8%	27.4%	25.1%	29.6%	32.9%	35.1%	34.9%	33.9%
Cost to income ratio	28.3%	25.9%	29.0%	21.5%	26.2%	26.3%	23.3%	22.3%	21.8%
<b><u>Liquidity</u></b>									
Net Loan to Deposit Ratio	115.4%	127.6%	119.6%	117.9%	119.5%	119.0%	119.0%	120.8%	122.6%
Customer deposits/total deposits	88.9%	85.3%	84.3%	88.6%	90.6%	90.4%	90.1%	89.9%	89.6%
Net loans to customer deposits	115.4%	127.6%	119.6%	117.9%	119.5%	119.0%	119.0%	120.8%	122.6%
Investments/total assets	18.2%	16.8%	16.2%	17.6%	18.7%	19.0%	19.2%	19.5%	19.7%
<b><u>Asset quality</u></b>									
Stage 1 loan ratio	78.2%	79.7%	79.3%	77.5%	74.2%	91.0%	91.0%	91.0%	91.0%
Stage 2 loan ratio	16.8%	16.0%	15.9%	17.6%	19.9%	3.4%	3.8%	4.0%	4.0%
Gross NPL ratio	4.9%	4.3%	4.7%	4.9%	5.9%	5.6%	5.2%	5.0%	5.0%
Provision as a % of gross loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NPL Coverage	82.1%	101.6%	97.4%	105.4%	105.1%	98.2%	105.8%	110.0%	110.0%
Cost of credit	0.7%	1.0%	1.1%	1.2%	1.0%	1.2%	1.1%	1.0%	1.0%
Stage 1 coverage	0.1%	0.4%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%
Stage 2 coverage	5.7%	7.8%	9.0%	8.7%	9.2%	-7.7%	3.4%	8.2%	8.2%
Stage 3 coverage	61.3%	66.5%	62.5%	70.9%	70.4%	98.0%	98.0%	98.0%	98.0%
<b><u>Capital adequacy</u></b>									
Tier I ratio	14.4%	15.7%	16.1%	15.6%	14.1%	18.8%	19.1%	19.5%	20.0%
Tier II ratio	1.9%	2.1%	2.1%	1.7%	0.9%	0.8%	0.8%	0.8%	0.7%
CAR	16.4%	17.8%	18.1%	17.3%	14.9%	19.6%	19.9%	20.2%	20.7%
Net Equity to Gross Loans	19.5%	18.2%	18.0%	18.1%	19.2%	20.2%	21.1%	21.8%	22.6%
Net Equity to Total Assets	12.0%	11.8%	11.0%	11.0%	11.3%	11.7%	12.0%	12.4%	12.8%
<b><u>Return ratios</u></b>									
Reported ROE	9.7%	5.9%	10.0%	11.6%	12.3%	11.1%	10.9%	11.4%	11.6%
Adjusted ROE	10.6%	6.0%	11.2%	13.7%	14.7%	13.0%	12.6%	13.2%	13.3%
ROA	1.3%	0.7%	1.3%	1.5%	1.7%	1.5%	1.5%	1.6%	1.7%
RoRWA	1.5%	0.9%	1.8%	2.1%	2.2%	2.0%	2.0%	2.1%	2.2%
<b><u>Per share ratios</u></b>									
EPS	0.44	0.27	0.50	0.62	0.67	0.62	0.64	0.71	0.77
BVPS	4.39	4.49	4.51	4.59	4.59	4.91	5.23	5.59	6.01
DPS	0.20	0.10	0.16	0.25	0.25	0.30	0.32	0.35	0.35
<b><u>Valuation</u></b>									
Price	4.2	4.8	4.3	4.9	6.2	5.3	5.6	5.6	5.6
P/E	9.6	18.0	8.5	7.9	9.2	8.5	8.7	7.8	7.2
P/B	1.0	1.1	1.0	1.1	1.4	1.1	1.1	1.0	0.9
Dividend Yield	4.7%	2.1%	3.7%	5.1%	4.0%	5.7%	5.7%	6.3%	6.3%

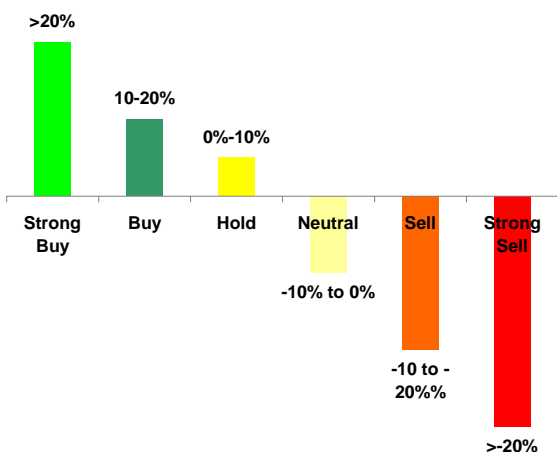
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## Rating Criteria and Definitions

Rating	Rating Definitions
<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe



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