

## Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR47.63	Target Price	QR43.00
Implied Upside	(9.7%)		

### Decline in Opex & Provisions Drives an In-Line 1Q2019

**CBQK delivered an in-line 1Q2019 fueled by cost cutting and a reduction in provisions.** A sharp drop in opex and a decline in provisions drove CBQK's 1Q2019 bottom-line. The bank generated a net profit of QR431.1mn, growing by 6.5% YoY, which was in-line with our estimate. CBQK's stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result has rallied, outperforming its banking peers on 1-Year TTR and YTD TTR basis (QIBK being the exception). **We maintain our PT QR43.00 and Market Perform rating.**

#### Highlights

- A sharp drop in opex and a decline in provisions & impairments drove CBQK's 1Q2019 bottom-line.** CBQK reported a net profit of QR431.1mn in 1Q2019, increasing by 6.5% YoY (+6.8% QoQ), which was in-line with our estimate of QR425.3mn (+1.4% variation). Total revenue declined by 2.2% due to weak net interest income (-11.9% YoY). However, non-funded income prevented a further decline in revenue by growing 18.9%. Moreover, opex declined by 10.7% YoY, leading to a 1.9% growth in net operating income, while provisions dropped by 6.5%. As such, net income increased by 6.5% YoY.
- NIM remained under pressure YoY but flat sequentially.** NIM contracted by 20bps YoY to 1.96% due to CoFs outpacing growth in yield on assets. CoFs gained by 94bps, while yield on assets increased by 69bps.
- NPLs moderately increased; CoR remained flat YoY.** NPLs moved up by 2.8% to QR5.03bn, while the NPL ratio remained broadly stable at 5.64% vs. 5.59% in FY2018 (majority of NPLs are legacy). Net provisions and impairments dropped by 6.5% to QR220.5mn. Moreover, annualized CoR remained stable at 94bps vs. 92bps in 1Q2018 (102bps in FY2018). *Management has been de-risking its books provisioning legacy NPLs. As such, CoR is expected to further decline in 2019 and 2020.*
- Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK posted opex of QR278.1mn, down 10.7% YoY (-1.0% QoQ) while total revenue receded by 2.2%. Hence the C/I ratio fell to 29.5% vs. 32.4% in 1Q2018 (31.7% in 4Q2018). Moreover, the bank generated positive JAWS of 8.5% YoY in 1Q2019 (+7.1% sequentially). *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering.*
- Loans picked up modestly while deposits expanded; loan portfolio diversification is a positive.** Net loans ticked up by 1.7% QoQ to QR85.2bn, while customer deposits expanded by 14.4% QoQ to QR81.6bn. Loan growth would have been higher if it were not for the weak Turkish Lira. Management diversified the loan book as part of its strategy/objectives; real estate and contracting loans receded by 2.5% and 1.3% QoQ, respectively. Hence, real estate and contracting loans currently make up 24% (25.1% in 2018) and 5% (5.2% in 2018) of the loan portfolio, respectively. Growth in the loan book was driven mainly by the public sector (+13.4% QoQ), which is a segment management is strongly targeting.
- CET1 still weak but signs of improvement, management is guiding to 11%-11.5% CET1 ratio.** CBQK's CET1 ratio inched up to 10.9% in 1Q2019 vs. 10.5% in FY2018. Based on our estimates, we expect the bank to generate a CET1 ratio of 11.0% in 2019, 2020 and 2021.

#### Catalysts

- Delivering better profitability metrics than expected/estimated.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target to QR43/sh. and maintain our Market Perform rating.** CBQK is trading at a 2019e P/TB and P/E of 1.1x and 11.5x, respectively.
- Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

#### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	3.52	4.14	4.90	5.36
EPS Growth (%)	286.4	17.8	18.4	9.2
P/E (x)	13.5	11.5	9.7	8.9
TBVPS (QR)	38.8	41.6	44.7	48.0
P/TB (x)	1.2	1.1	1.1	1.0
DPS (QR)	1.50	1.75	2.00	2.50
Dividend Yield (%)	3.1	3.7	4.2	5.2

Source: Company data, QNB FS Research; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	47.63
Dividend Yield (%)	3.1
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	48.90/35.02
3-m Average Volume ('000)	175.9
Mkt. Cap. (\$ bn/QR bn)	5.3/19.3
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	15.8
1-Year Total Return (%)	+38.2
Fiscal Year End	December 31

Source: Bloomberg (as of April 21, 2019), \*Qatar Exchange (as of April 18, 2019); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	2,482	2,620	2,797	2,994
Fees & Commissions	757	810	891	954
FX Income	202	227	193	208
Other Income	237	281	323	337
<b>Non-Interest Income</b>	<b>1,197</b>	<b>1,318</b>	<b>1,407</b>	<b>1,499</b>
<b>Total Revenue</b>	<b>3,679</b>	<b>3,938</b>	<b>4,204</b>	<b>4,493</b>
Operating Expenses	(1,173)	(1,195)	(1,246)	(1,327)
<b>Net Operating Income</b>	<b>2,506</b>	<b>2,743</b>	<b>2,958</b>	<b>3,166</b>
Net Provisions & Impairments	(836)	(777)	(675)	(696)
<b>Net Profit Before Taxes</b>	<b>1,670</b>	<b>1,966</b>	<b>2,283</b>	<b>2,470</b>
Tax	(7)	(50)	(58)	(63)
<b>Net Profit Before Minority Interest</b>	<b>1,670</b>	<b>1,966</b>	<b>2,283</b>	<b>2,470</b>
Minority Interest	0	0	0	0
<b>Net Profit (Headline/Reported)</b>	<b>1,663</b>	<b>1,916</b>	<b>2,225</b>	<b>2,408</b>
Interest on Tier-1 Note	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(42)	(48)	(56)	(60)
<b>Net Profit (Attributable)</b>	<b>1,382</b>	<b>1,628</b>	<b>1,929</b>	<b>2,107</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	6,716	7,031	7,280	8,372
Interbank Loans	9,469	10,416	11,665	13,415
Net Investments	22,108	24,334	26,978	28,487
Net Loans	83,702	87,941	95,133	105,935
Investment In Associates	2,096	2,190	2,292	2,400
Other Assets	5,373	5,638	5,414	3,178
Net PP&E	2,719	2,667	2,736	2,815
OREO	2,605	2,605	2,605	2,605
Goodwill & Other Intangibles	283	228	174	130
<b>Total Assets</b>	<b>135,071</b>	<b>143,050</b>	<b>154,278</b>	<b>167,338</b>
<b>Liabilities</b>				
Interbank Deposits	13,821	15,134	18,201	15,100
Customer Deposits	71,321	75,601	80,893	93,027
Term Loans	24,300	26,730	28,869	31,178
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000
Other Liabilities	5,629	4,536	4,045	4,465
<b>Total Liabilities</b>	<b>119,071</b>	<b>126,001</b>	<b>136,007</b>	<b>147,770</b>
<b>Shareholders' Equity</b>				
Total Shareholders' Equity	15,999	17,049	18,270	19,568
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>135,071</b>	<b>143,050</b>	<b>154,278</b>	<b>167,338</b>

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoE (Tangible)	8.3	10.4	11.5	11.6
RoAA (Attributable)	1.0	1.2	1.3	1.3
RoRWA (Attributable)	3.1	1.9	1.8	1.2
NIM (% of IEAs)	2.13	2.22	2.19	2.14
NIM (% of RWAs)	2.15	2.27	2.29	2.24
NIM (% of AAs)	1.82	1.88	1.88	1.86
Spread	1.6	1.6	1.5	1.3
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	31.9	30.3	29.6	29.5
Cost-to-Income (Core)	33.3	32.1	31.6	31.4
<b>Liquidity (%)</b>				
LDR	117	116	118	114
LDR (stable sources of funds)	88	86	87	85
Loans/Assets	62	61	62	63
Cash & Interbank Loans-to-Total Assets	12.0	12.2	12.3	13.0
Deposits to Assets	53	53	52	56
Wholesale Funding to Loans	46	48	49	44
IEAs to IBLs	117	115	114	115
<b>Asset Quality (%)</b>				
NPL Ratio	5.6	5.0	4.5	4.0
NPLs to Shareholder's Equity	30.6	27.0	24.5	22.5
NPLs to Tier 1 Capital	30.8	27.4	25.0	23.2
Coverage Ratio	78.6	86.7	92.8	96.8
ALL/Average Loans	4.3	4.4	4.3	4.1
Cost of Risk	1.02	0.81	0.66	0.64
<b>Capitalization (%)</b>				
Tier 1 Ratio	14.0	14.3	14.1	13.6
CAR	15.5	15.8	15.7	15.2
Tier 1 Capital to Assets	11.7	11.7	11.6	11.4
Tier 1 Capital to Loans	19.0	19.1	18.8	17.9
Tier 1 Capital to Deposits	22.2	22.2	22.1	20.4
Leverage (x)	8.4	8.4	8.4	8.6
<b>Growth (%)</b>				
Net Interest Income	-1.4	5.5	6.8	7.1
Non-Interest Income	3.3	10.1	6.7	6.5
Total Revenue	0.1	7.0	6.8	6.9
Operating Expenses	-11.5	1.8	4.3	6.5
Net Operating Income	6.5	9.4	7.8	7.0
Net Provisions & Investment Impairments	-52.1	-7.0	-13.1	3.1
Net Income (Headline/Reported)	175.5	15.2	16.1	8.2
Net Income (Attributable)	296.4	17.8	18.5	9.2
Loans	-6.1	5.1	8.2	11.4
Deposits	-8.1	6.0	7.0	15.0
Assets	-2.4	5.9	7.8	8.5
RWAs	-2.8	3.5	8.0	10.0

Source: Company data, QNB FS Research

### Recommendations

*Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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