

Banking

BUY: 12M TP @ 6.71

Valuation Summary (TTM)

Price (QAR)	5.848
PER TTM (x)	8.9
P/Book (x)	1.3
Dividend Yield (%)	4.3
Free Float (%)	78%
Shares O/S (mn)	4,047
YTD Return (%)	17%
Beta	1.0

(mn)	QAR	USD
Market Cap	23,668	6,484
Total Assets	169,121	46,123

Price performance (%)	1M	3M	12M
Commercial Bank PSQC/Th	1%	-3%	-24%
Qatar Exchange Index	1%	-5%	-24%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (QAR ,000)	12,341	13,711	14,583
Avg Daily Volume (,000)	2,364	2,318	2,550

52 week	High	Low	CTL*
Price (QAR)	8.10	4.80	21.8

* CTL is % change in CMP to 52wk low

Major shareholders

Qatar Investment Aut	16.8%
Vanguard Group Inc/T	3.3%
Others	78.1%

Other details

Exchange	Qatar
Sector	Banks
Index weight (%)	7.96%

Key ratios	2020	2021	2022
EPS (QAR)	0.27	0.50	0.62
BVPS (QAR)	4.49	4.51	4.87
DPS (QAR)	0.10	0.16	0.25
Payout ratio (%)	37%	32%	40%



Commercial Bank of Qatar– Pivoting towards growth

Commercial Bank of Qatar (CBQ) is the third largest bank in Qatar offering conventional banking products, brokerage services and credit card services with presence through wholly owned subsidiary and investment in associates across 4 countries. CBQ is focused on corporate lending which constitutes around 89% of the loan book. The Bank had laid out strategic intent in 2017 and later again in 2022 to focus on key quantifiable parameters to be achieved by 2026 in terms of capital management (CAR ratio), risk management (NPL and COR), reshaping loan book (change in loan mix), cost to income ratio and return on equity. The bank has been able to pivot towards these targets and has demonstrated ability to meet these targets in the past. The key triggers in terms of expansion of ROE has been playing out and the bank has been using the loan book through reduced cost of credit and cost to income levers to accelerate towards its goal of 13-15% ROE by 2026E. We expect this catalyst to play out in near term as well and initiate coverage on CBQ with a BUY recommendation and 12M target price of QR 6.71, indicating an upside of 14.7% from current price.

Effective key catalyst changes: The bank has been focusing on few key parameters to bring about changes to improve the ROE, these include exposure to real estate, the cost of risk, NPL ratio and cost to income ratio. Real estate exposure in 2016 was at 28% (vs. 20% -2022 and target of 16% - 2026e) and the bank now intends to reduce the same, while improving exposure to lesser riskier Government and GRE segment (10% in 2016 vs 16% in 2022 vs target of 25% in 2026). Similarly, the bank is focused on reducing the cost of risk (164bps in 2016 vs. 122bps in 2022 vs stated target of 60-80bps), containing NPL to below 2.5% by 2026e (in the range of 5% over the last 5 years, though in our opinion, this is little ambitious). With a targeted focus on lending to Government/Public sector and reducing NPL, we expect the bank to bury its legacy of higher exposure to riskier real estate sector in a calibrated manner. The cost to income ratio, which stood at 45.7% in 2016, is now at 21.5% in 2022). The combined snowball effect of these changes over the years has made the bank improve upon the loan mix and quality of profits. We expect the bank to continue to carry forward these changes making it robust and prepare for next stage of growth.

At current price of QR 5.85/share, the stock is trading at a FY23E price to book value of 1.1x, PE of 9.7x FY23E earnings, and 4.3% FY23E dividend yield, which is attractive given the focus on changing the mix of loans, reducing NPL and the improvement in ROE. We estimate the bank to achieve a loan book CAGR of 4% during 2022-2025E. We have arrived at a blended DDM-Relative valuation target price of QR 6.71/share, which offers upside potential of 14.7% and assign BUY rating on the stock.

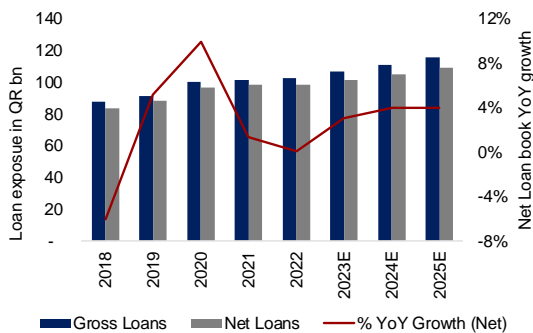
Valuation snapshot

Amt in QR bn	2020	2021	2022	2023E	2024E	2025E
Loan Book	96.7	98.0	98.0	101.0	105.0	109.2
Gross NPL (%)	4.3%	4.7%	4.9%	5.0%	4.5%	4.0%
Deposits	75.8	82.0	83.2	87.3	91.7	96.3
NII	3.1	3.7	4.1	4.1	4.0	4.2
PAT	1.3	2.3	2.8	2.7	2.9	3.2
P/E	18.0	8.5	9.3	9.7	9.1	8.1
P/B	1.1	1.0	1.2	1.1	1.0	1.0
Dividend Yield	2.1%	3.7%	4.3%	4.3%	4.3%	4.3%

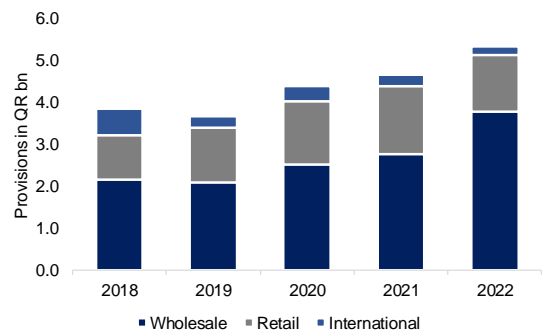
**Loans and advances to
revert to long term growth
from 2023E onwards.....**

CBQ had reported a gross/net loan book of QR 102.5bn/QR 98.0bn in 2022 (vs QR 101.5bn/98.0bn in 2021), a +1%/flat YoY growth. One of the major reasons for the flat growth was the YoY de-growth of about 13% in exposure to Government and Government related entities (GRE). Government and GREs witnessed higher repayment on account of surplus due to buoyant economy. The decrease in loan book pertaining to Government and GREs was offset by growth in private sector loans by 4% YoY. It is to be noted, over a five-year period between 2018-2022, both the gross/net loan book has grown at 4% CAGR. We expect the loan book growth to revert 5-year CAGR at 4.0% going forward in next three years.

Loan Book growth to revert to long term growth



Wholesale provisions have been growing



Source: Company reports, US Research

The provisions for 2022 were at QR 5.3bn, an increase of 14% YoY in 2022, much higher than 5-year CAGR (2018-2022) growth of 8.4%. The increase was driven largely by higher provisions for wholesale lending, which went up 36% YoY in 2022 as against 5-year CAGR of 15% between 2018-2022.

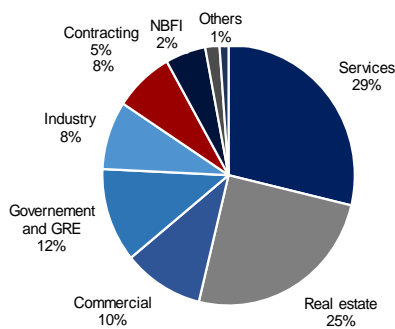
**Top three sectors
contribute 64% of the
exposure....**

From a sector-wise exposure point of view, the loan book is fairly concentrated, with the top three sectors comprising Services, Real Estate and Commercial accounting for 64% of the exposure in 2022, similar to 2018, however the mix among the them has changed in favor of commercial sector. Commercial sector which had an exposure of 10% in 2018, has gone up to 17% in 2022, reflecting the focus of the management on this specific sector. The services sector and real estate sector witnessed a degrowth in exposure by 200bps and 500bps over

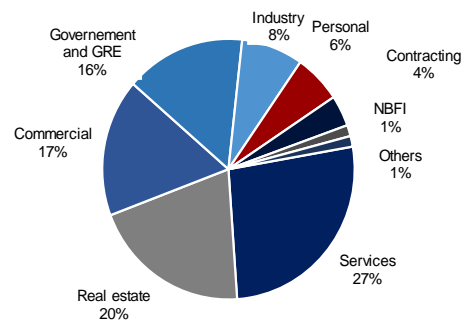
a five-year period. As of 2022, the exposure to these sectors stood at 27% and 20% respectively. The higher degrowth in real estate sector is on account of conscious choice of the management to reduce exposure to real estate sector, decreased spends by corporates

Government and Government related entities (GRE), has seen the exposure increase by 300bps from 12% in 2018 to 15% in 2022. The increase in exposure to this segment saw a five-year CAGR growth of 11.5% between 2018-2022. The exposure to personal loans is about 6% indicating that the bank's focus is more on corporate loans than personal loans.

2018 - Loans - Top 3 sectors contribute 64%...



...the share continues with change in mix in 2022



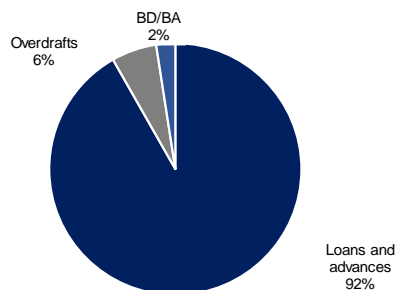
Source: Company reports, US Research

85% of the loan book comprises of exposure to Qatar...

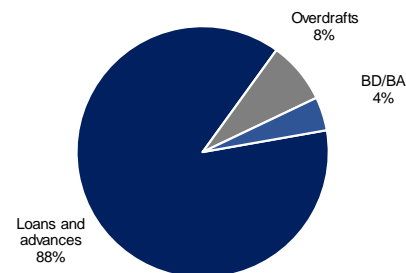
In terms of country wise exposure, Qatar's share in the net loan book stood at QR 83.6bn in 2022, a 3.6% growth YoY, followed by Other Middle East countries, which stood at QR 9.9bn, a degrowth of 8.5% YoY. Loans to other GCC countries has seen a 25% YoY growth, in line with the 5-year trend of 26% between 2018-2022, the share of other GCC countries however stood at minuscule 1.5% of overall book in 2022.

In terms classification by loan type, Loans and advances comprises of 88% of the gross loan book followed by overdrafts, which stood at 8% and bills accepted/delayed at 4%. Over a five-year period, share of loans and advances by loan type has declined by 403 bps, while overdrafts and bills have increased by 216 bps and 187 bps respectively.

2018 - Product - Loans, Adv contribute 92%...



...reduced to 88% in 2022, domination continues

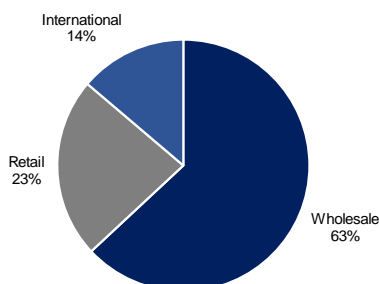


Source: Company reports, US Research

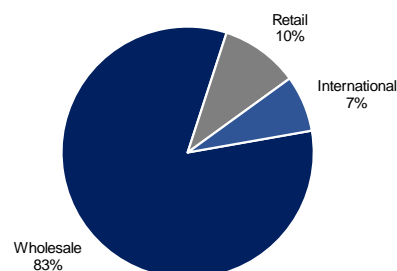
Wholesale banking exposure continues to grow....

CBQ since inception had focus on wholesale lending as a key growth area and this continues as can be witnessed over the last 5 years. The share of wholesale lending has increased significantly from 63% in 2018 to 83% in 2022. This is mainly on account of superior loan book growth of 11.4% CAGR over 2018-2022 in the wholesale segment as compared to the overall loan book growth of 4% over similar period. The retail loan book has declined from 23.2% in 2018 to 10% in 2022, a 15.7% degrowth between 2018-2022. International loan book too has seen a degrowth of 11.5% over the same period. We expect the bank to continue its focus on wholesale lending going forward.

2018 - Wholesale banking advances are at 63%...



...and continues to grow, stands at 83% in 2022



Source: Company reports, US Research

**NPL ratio below 5% in the
last 4 out of the 5 years...**

The Bank has been able to maintain a tight control over the NPLs over the last five-year period despite being hit by covid and as can be witnessed by the trend in the NPL ratio. In 2022, the NPL ratio stood at 4.92%, steady since 2019.

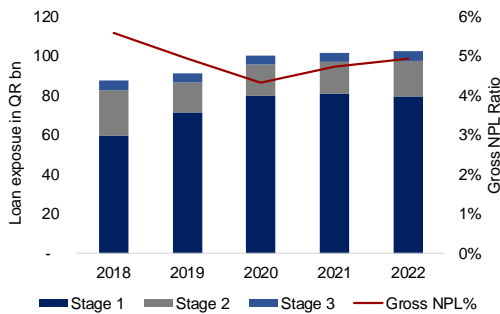
The quality of loan book can be gauged from the fact that over a five-year period, the stage 1 exposure has increased from 68% in 2018 to 78% in 2022. The improvement in stage 1 exposure augurs well for the bank, as the negative surprises in terms slippages appears reduced.

The increase in stage 1 loan book from 68% to 78%, coupled with reduction in stage 2 loan book from 27% to 18% between 2018-2022 indicates that the bank has been able to put in place a process for disciplined underwriting process, this despite stress and tailwinds in customers cash flows during this period. The stage 3 loan book has also declined from 5.6% in 2018 to 4.7% in 2022. The change in mix in the various of stages of loans has been favorable for the bank, despite the relatively lower growth in loan book, indicating that the bank has deftly handled the loan book exposure.

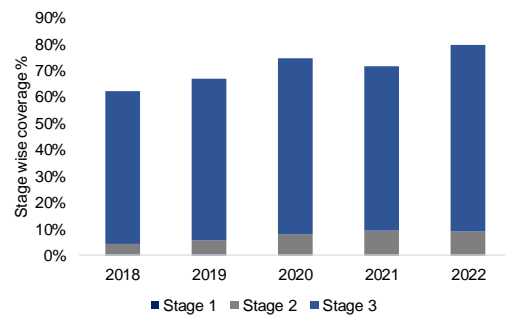
The bank has adequate provisions across the various buckets, with stage 1 having a coverage of 0.2%, stage 2 coverage of 8.7% and stage 3 coverage of 70.9%. This has been in line with the broad trend over last five years as far as stage 1 is concerned, however the coverage for stage 2 and stage 3 has been increasing over the years.

Though the stage 3 coverage is at a peak as compared to the last 5 years, the 70.9% coverage is lower than the largest bank in Qatar, which has a coverage of 98.5%. We expect the bank to maintain an aggressive stance on coverage in stage 3 by increasing the provisions going ahead.

Stage 1 exp up from 68% to 78% over 5 yr period



Stage 3 coverage improved from 58% to 71%



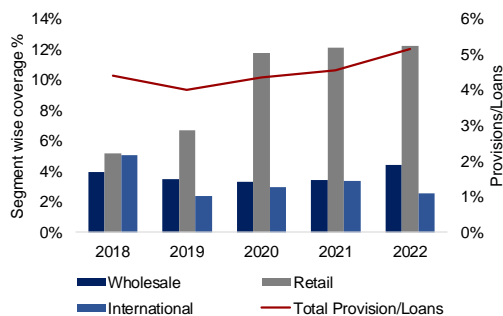
Source: Company reports, US Research

.... with provision coverage improving.

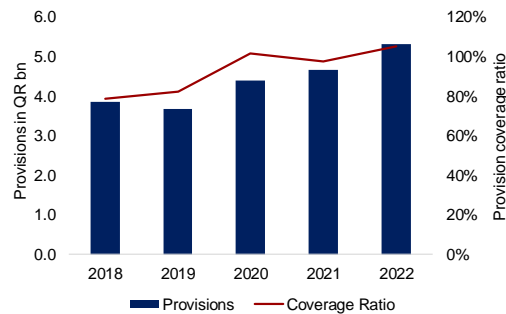
The provisions have seen an increase of 8.4% CAGR over 2018-2022, however the provisions grew by +14.1% YoY in 2022. The higher increase in YoY provisions can be attributed to higher stage 3 provisions growth of +19.7% in 2022. Since 2020, the bank has been providing aggressively as can be witnessed in YoY growth of 19.3%, 6.0% and 14.1% respectively in 2020, 2021 and 2022, mainly on account of pandemic driven stress.

Within various segments, retail lending portfolio has seen a higher provisions/loan book of above 12% since 2020, however the total provisions/loan over a period of five years has been range bound. The bank has been steadily growing the provision coverage ratio over the years from a low of 79% in 2018 to 105% in 2022. The increase in coverage ratio is a positive sign and we expect the bank to maintain this above 100% going forward.

Retail lending has higher provisions/loans



...however, overall coverage ratio going up

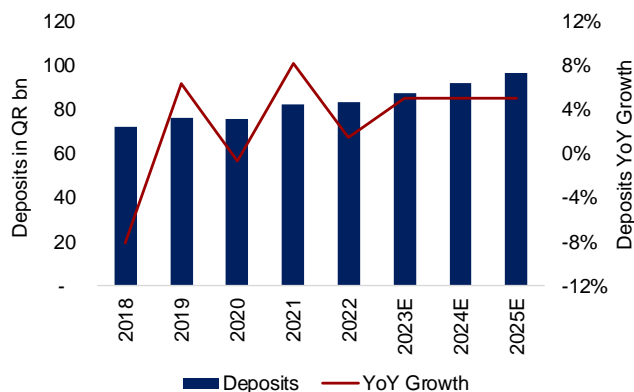


Source: Company reports, US Research

**Deposit growth similar to
 loan growth over a five-
 year period....**

The deposits for 2022 stood at QR 83.2bn, a growth of +1.5% YoY, this has been in line with the 5-year CAGR of 3.9%. CASA deposits increased by 6.4% due to the various cash management initiatives and increased business from digital products of the bank. In terms of sourcing, deposits from Qatar were at QR 65.6bn, which is at 78% of total deposits. Other Middle East countries had a share of 7% of the total deposits, rest of the 15% comes from other GCC countries (1.9%), Europe (4.0%) and balance from rest of the world. Over the five years, the share of deposits from Qatar has seen an increase of 667 bps, indicating that the efforts to diversify geographically has not achieved the intended results. Going forward forecast deposits to grow at 5.0% over each of the next three years a marginal increase of 110bps above the growth witnessed between 2018-2022 CAGR of 3.9%.

Deposit growth at 3.9% CAGR over 2018-22



Source: Company reports, US Research

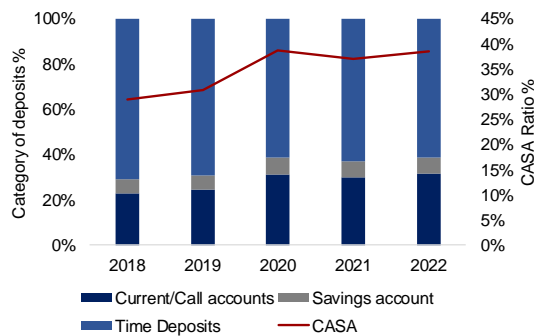
**Source of deposits well
 diversified...**

In terms of sector wise deposits in 2022, the share from corporates stood at 34.3% (QR 28.5bn), followed by Government and GREs, which stood at 27.9% (QR 23.2bn) and individuals was at 27.9% (QR 23.2bn). The corporates and individuals combined had a share of 63% in 2022 (vs. 68% in 2018). The deposit book is well diversified, with very little dependency on any one of the sources unlike QNB, where the majority of deposits is from corporates at 54%. Taking into account the amount due to Banks (QR 24.0bn), debt securities (QR 10.7bn) and from other borrowings (QR 15.9bn), the sourcing of funds is well diversified.

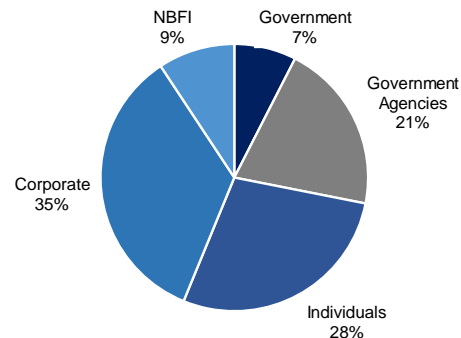
Commendable increase in CASA ratio over 5-year period....

CASA ratio, a critical component of deposits saw a 5-year CAGR growth in current account (CA) of 12.4% and savings account (SA) of 7.9% and stood at QR 26.0bn and QR 6.0bn respectively. This resulted in the CASA ratio increasing from 29.0% in 2018 to 38.4% in 2022. The significant increase in CASA over the period has helped the bank reduce the overall cost of funds. We expect the trend in CASA to improve going forward given the focus of management on improving this CASA ratio.

CASA up from 29% to 38% over 2018-2022



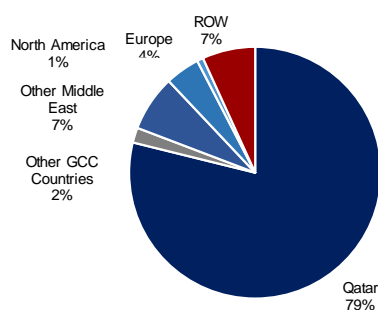
Non Govt/GREs contribute 72% combined in '22



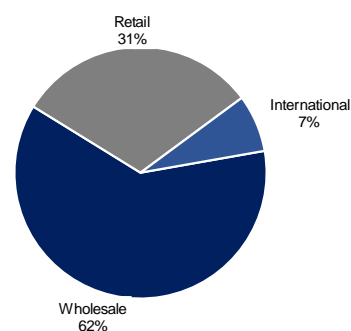
Source: Company reports, US Research

Despite best efforts the concentration has only increased both in terms of geographically and the type of deposits. The bank's share of deposits from Qatar has increased from 72% in 2018 to 79% in 2022. Similarly, the share of wholesale deposits has increased from 56% in 2018 to 62% in 2022. This higher sourcing from wholesale book is a key risk for the bank.

Deposits - 8 out of 10 Riyals is from Qatar



Deposits - 6 out of 10 Riyals is from wholesale

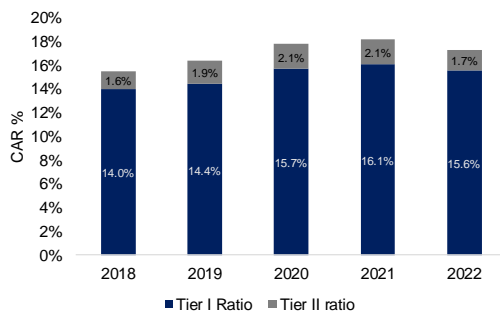


Source: Company reports, US Research

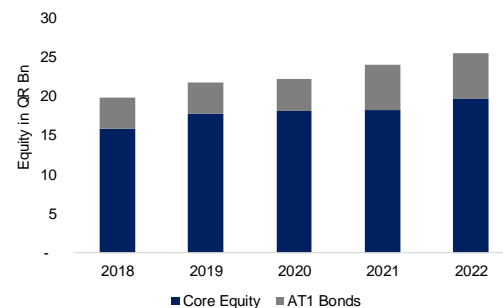
**Bank well capitalised
ahead of stipulated
requirements...**

CBQ has maintained a higher capital adequacy ratio of 17.3% as against the regulatory requirement of 14.0% providing enough headway for the bank to grow in line with its aspirations. The total CAR comprises of Tier I capital ratio of 15.6% and Tier II capital ratio of 1.7%. The Bank has not resorted to any equity-based fund raise in the last 5 years and neither we expect the bank to raise any equity in next three years. The bank though has raised for the first time AT1 USD denominated bonds equivalent of QR 1.8bn. These bonds are unsecured, perpetual and non-cumulative, carrying a coupon of 4.5%. With this bond issue, the total outstanding bonds stood at QR 5.8bn. We believe the Bank has an excess capital of QR 4.0bn, which is sufficient to fund its loan book growth at the rate of 4% over the next three years.

Capital ratio well above regulatory requirement



AT 1 bonds raised in 2021, and no equity raise

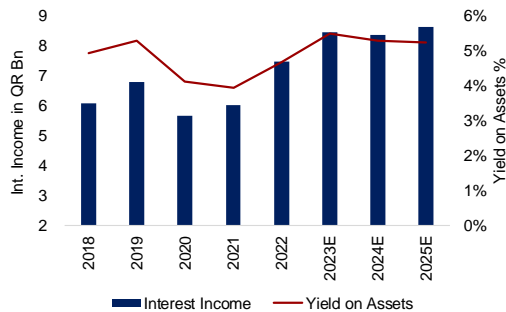


Source: Company reports, US Research

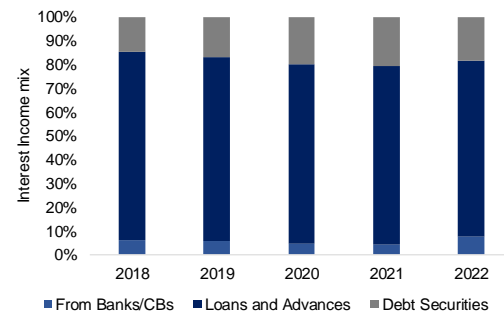
**Interest income grew by
24% YoY, on back of
increase in yield...**

CBQ has reported interest income of QR 7.5bn in 2022, a YoY growth of +24.3%, which is highest in last 5 years, on a timid gross loan book growth of 1% YoY, indicating that the main driver of increase in interest income in 2022 was the repricing of interest rates. In terms of interest income mix in 2022, 74% of the interest income was from interest on loans and advances, followed by 18% from debt securities, interest from banks and central banks had a share of 7%. In 2018, the share of interest from loans and advances stood at 79%, indicating that over a five-year period, the contribution from interest on debt securities has increased by 500 bps. The yield on assets inched up 3.95% in 2021 to 4.69% in 2022 and we expect the same to grow by 5.5% in 2023E

Interest income grew except during Covid years



Int on debt securities + Banks contribute 25%



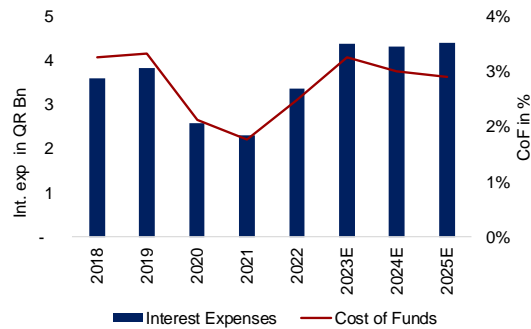
Source: Company reports, US Research

Interest expenses grew by 45% YoY, on back of growth in cost of funds...

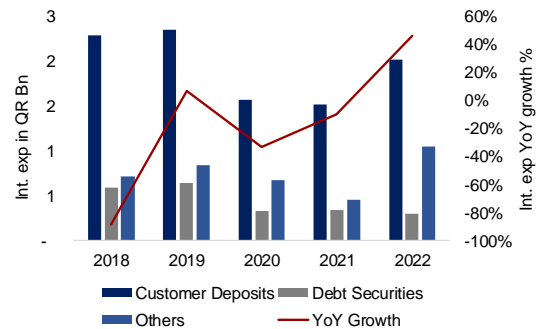
CBQ reported interest expenses of QR 3.4bn in 2022, a YoY increase of +45.7%, higher than the interest income growth of 24.3% YoY, the rise in interest expenses was on a lower base due to de-growth in the earlier years of 32.9% and 10.1% in 2020 and 2021 respectively. The deposit book grew by 1.48% YoY in 2022, indicating that the increase in interest expenses has been due to increase in cost of funds. The cost of funds which stood at 1.77% in 2021, was higher by 130 bps to 2.47%, the significant increase in cost of funds coupled with low growth in deposit book indicates challenges the bank faced in an environment, where the interest rates were going up. While QNB had also seen interest expenses increase by 42% YoY, it was largely on account of combination of both increase in cost of funds (76bps YoY) and increase in deposits (+7.2% YoY), whereas for CBQ, this was largely on account of increase in cost of funds.

In terms of mix, interest expenses attributable to customer deposits grew by 33.5% YoY and on other borrowings, it went increased by 127% YoY, albeit on a small base. The interest on debt securities however de-grew by 10.9% YoY.

Cost of Funds rise after a decline in 2021



Interest expenses on the rise since 2020

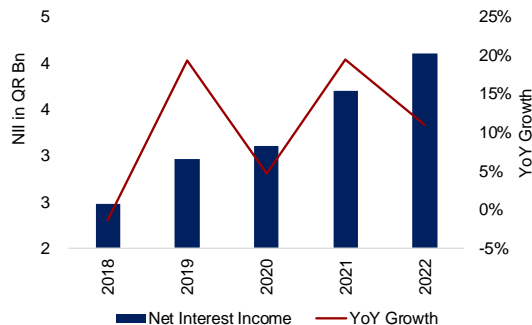


Source: Company reports, US Research

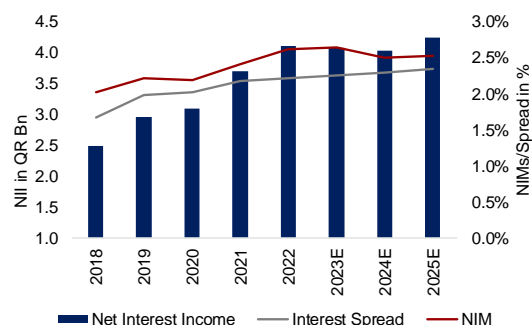
NIIIs grew by 13.4% CAGR over a 5yr period and 10.9% YoY

An increase in interest income by 24.3% YoY in 2022 as compared to relatively higher increase in interest expenses by 45.7% resulted in subdued growth of Net Interest income by 10.9% YoY, the interest spread is higher by 4bps in 2022 to 2.22%. However, over a five-year period the NIMs have increase by 13.4% CAGR between 2018 and 2022 and interest spread has risen by 54bps, indicating that the bank has been able to pass on any increase in cost of funds to the borrowers. We expect CBQ would maintain similar NIMs and flat NII growth over next two years before moving higher in 2025E, on account of proportional change in yield on assets and cost of funds. The bank has demonstrated its ability to pass on the increase in cost to borrowers in the past.

NII grew by 13.4% over 2018-2022 period



Growth in NII driven by spreads and NIMs



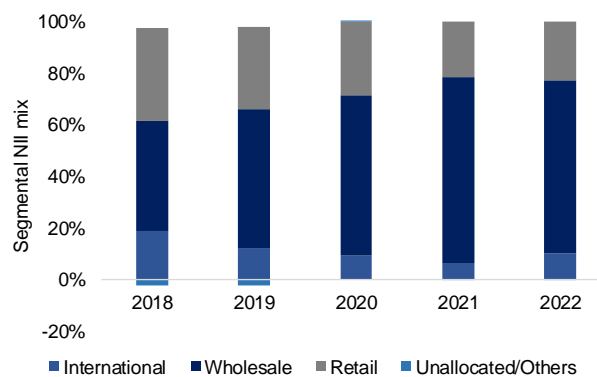
Source: Company reports, US Research

**Share of NII from
Wholesale lending is at
67%...**

Out of the total net interest income of QR 4.1bn, contribution from wholesale lending was at 67% in 2022, (vs. ~45% in 2018), indicating increased reliance on wholesale business. The 2018-2022 CAGR growth of NII from wholesale lending was up by about 25% compared to the total NII growth of 13% in the similar period. The wholesale lending and deposits book grew by 3.3% and 6.2% respectively, indicating the banks strength to increase interest rates for borrowers in this segment.

The retail and international segmental NII grew by 18% and 77% in 2022 on a low base, this despite decrease in loan book and deposit book in the case of international segment indicating that inflationary pressure has contributed to increase in NII.

Wholesale banking contributes 67% of NII in '22



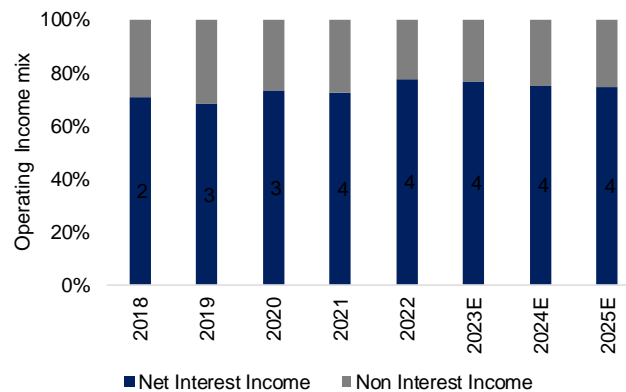
Source: Company reports, US Research

**Non-Interest income at
29% of operating income**

The Bank's non-interest income has grown at a relatively slower pace of 3.7% CAGR over 2018-2022 as compared to net interest income growth of 13.4% over similar period. The share of non-interest income in the total operating income has been declining; in 2018, it stood at 29% and in 2022 it was at 22%. The slower growth in non-interest income is on account of lower growth in Net fee income which grew by a minuscule 1.1% over the same period, however the net forex income has grown by 19.7% in the similar period, although on a low base.

The bank has been finding it difficult to increase the fee income s from its wholesale segment and this segment has seen a decrease of 13.3% over a five-year CAGR between 2018-2022, as compared to increase of 11.6% and 35.3% from the retail and international segment over the same period.

Contribution from NII has been going up

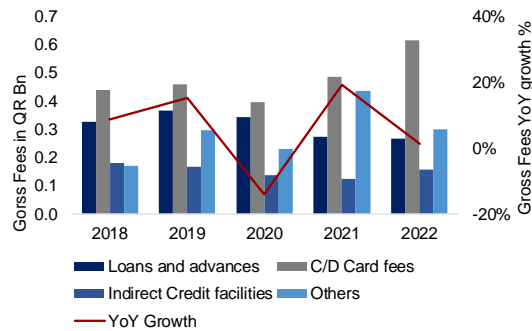


Source: Company reports, US Research

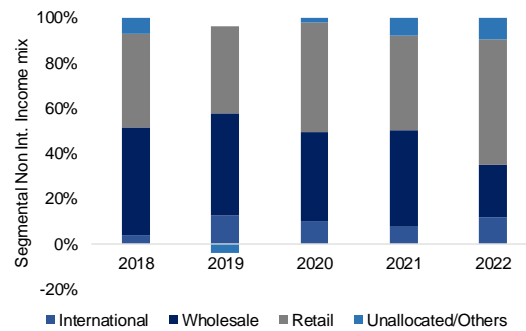
Fees from Retail segment anchoring non-interest income...

The bank has been good at granularizing the fees income as can be witnessed from the break-up of the gross fee income. Income from Credit/Debit card accounts for a lion's share of 45.9%, while fee income from loans and advances contributed only 19.9% despite it being a major income driver for interest income. The granularization is further evident if we look at the segmental non-interest contribution from retail, which stood at 55% of total non-interest income. The 5 Year CAGR growth (2018-2022) in the retail segment of non-interest income was at 11.6% as compared to de-growth in wholesale segment by 13.3% over similar period.

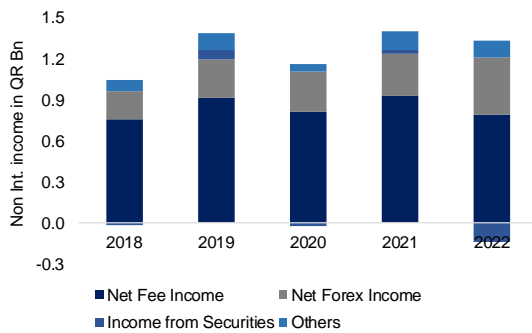
Gross fees has been granular over the years



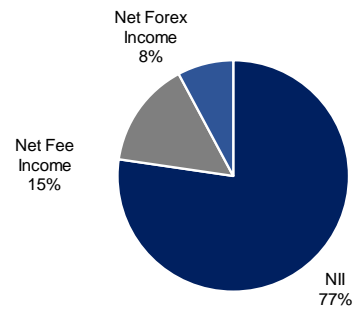
55% of Non Int. income comes from Retail in '22



Forex income has been growing at a faster pace



NII - 77% of total operating income in '22

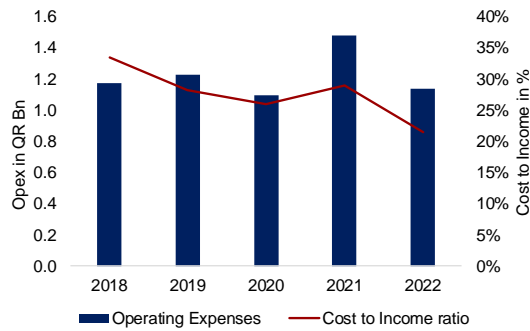


Source: Company reports, US Research

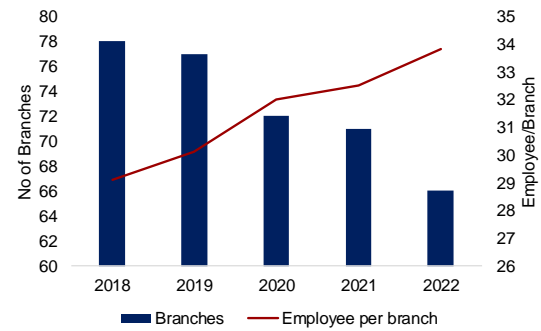
CBQ's Cost to Income on decline...

CBQ's operating costs have gone down from QR 1.1bn in 2022 to QR 1.5bn in 2021, a decline of 23.1% YoY. The decrease in operating costs has been mainly on account of reduction in staff expenses by about 37.2% YoY in 2022, coming off from a high base in 2021, when the staff expenses as a percentage of total operating income was at 18.5% (vs. 11.2% in 2021). The decrease in staff expenses is due to accounting of performance rights granted to staff in accordance with IFRS 2. IFRS 2 stipulates treatment of share-based payments, including issue of share-based option. Other expenses too decreased by 73% YoY from QR 260.0mn in 2021 to QR 69.0mn in 2022. The combined effect of the above two resulted in reduction of cost to income ratio from 29.0% to 21.5%. We expect the bank to continue to have a tight leash over the costs going forward.

Opex at 5yr CAGR 1.7%, Cost/Income on decline



No of branches down, Employees/branch up

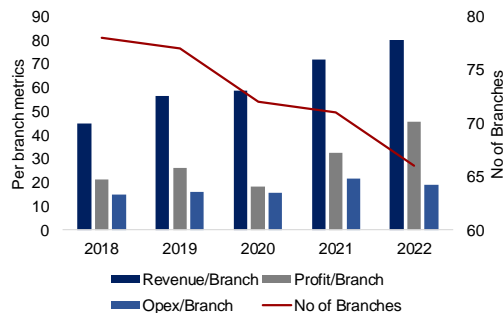


Source: Company reports, US Research

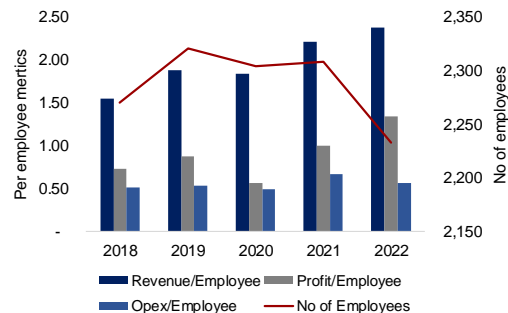
Reduction on branches and employees...

The Bank has done well to rationalize the branches from a peak of 78 branches in 2018 (including parent and subsidiary) to 66 branches in 2022. The number of employees too have gone down from 2,308 in 2021 to 2,233 in 2022. These reductions along with increased business resulted in higher productivity on parameters like revenues, operating costs and profits. The employee/branch though has gone up over the years, indicating scope for further productivity improvements going forward.

Operating lever - Branch efficiency improved



Employees declined, productivity improved



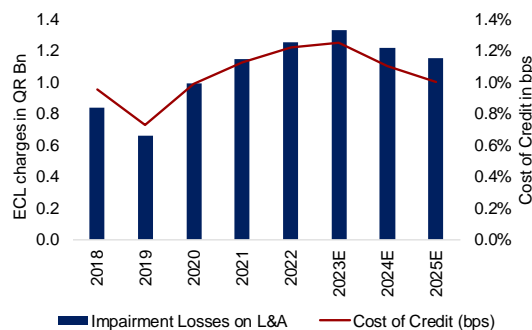
Source: Company reports, US Research

Cost of Credit range bound

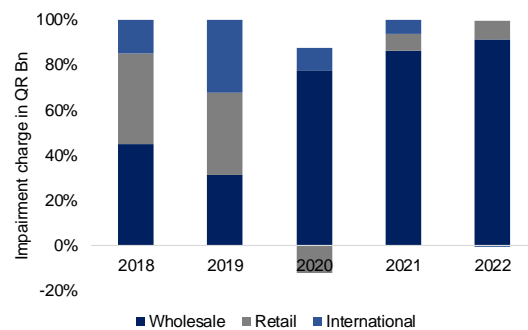
The bank has done well over the years in terms of maintaining the credit costs between 0.73% - 1.22%, despite higher exposure to wholesale banking. The net expected credit loss charge during 2022 was at QR 1.3bn, 9.5% YoY growth as compared to QR 1.1bn in 2021. The credit costs spiked in 2020 and 2021, where it had recorded a growth of +40.7% YoY and +31.5% YoY. The spike in credit costs in 2020 and 2021 was due to panic driven strain in cash flows of its corporate borrowers.

Given the relatively large size of wholesale loan book, the stress in this segment has been high. While the overall impairment on loans and advances and other financial assets has seen an increase by 8% CAGR over a 5-year period between 2018-2022, the increase in wholesale ECL charge has been around 29.4%, while retail ECL charge on the other hand has seen a degrowth of 27.2% over the same period. We do not see any significant spike in ECL charge beyond 1% in next two years, given that the Qatar economy has been growing at a faster pace and the cash flows of corporates are relatively better as compared to the past three years.

Cost of Credit hovers around 1%



Segment wise Impairment charge on L&A

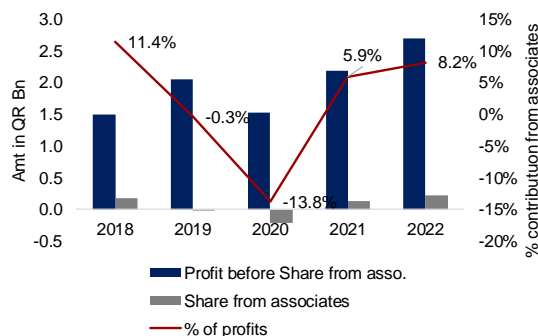


Source: Company reports, US Research

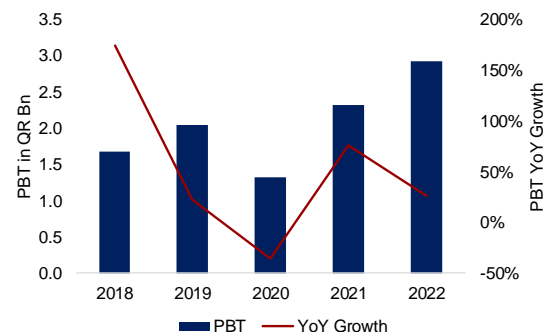
**PBT grew by 26% YoY
and Adjusted PAT by 30%
YoY**

The bank delivered a profit before tax of QR 2.9bn in 2022, an impressive YoY growth of 26%, after accounting for share of profit from associates – National Bank of Oman and United Arab Bank. The share of profit from associates for 2022, stood at QR 222.0mn, an 8.2% of bank's core profits. The increase in PBT has been largely on account of decrease in operating expense and decrease in impairment charge on loans and advances. In 2022, the bank also provided for QR 189mn towards charge on net monetary loss arising from hyperinflation, on account of its operations in Turkey. Turkey witnessed high inflation and as per international accounting standards 29, countries with hyperinflation need to reinstate non-monetary assets and liabilities to reflect change in the general purchasing power. The reported PAT was at QR 2.8bn, while the adjusted PAT stood at QR 3.0bn in 2022.

Share of profit from associates has been high...



...while PBT growth for 2022 has been at 26%

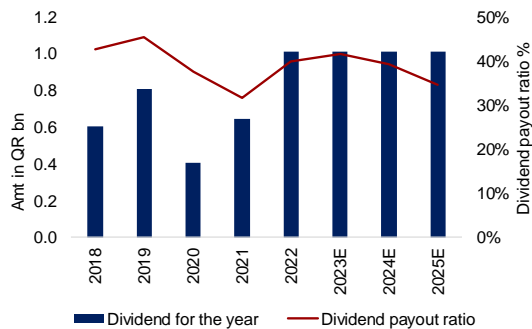


Source: Company reports, US Research

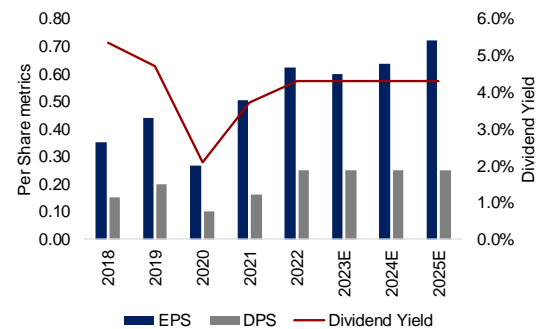
**Dividend pay-out in the
range of 30%-40%,
attractive dividend yield...**

The bank has maintained dividend pay-out in the range of 30%-40% over the last 5 years in tune with the profits. The minimum dividend per share was QR 0.10/share in 2020, when the profit growth had slowed. In 2022, the DPS was at QR 0.25/share, with a high dividend payout of 40%. We expect the bank to continue to maintain this policy of a dividend payout between 30-40% in the next three years as well, providing attractive opportunity from a dividend yield perspective.

Consistent dividend, payout between 30-40%



Steady dividend policy, yield > 4%



Source: Company reports, US Research

1Q23 result update

CBQ 1Q23's reported numbers were mixed, with interest income rising by 45.4% YoY and interest expenses higher by 118% YoY to stand at QR 2.2bn and QR 1.2bn respectively, resulting in the net interest income YoY growth of 3.5% in 1Q23. While the gross fee and commission grew by 16.3% YoY the fee and commission expenses grew by 70% YoY, resulting in de-growth in net fee and commission by 3.7%. Reported operating income was at QR 1.5bn, a +10.4% YoY growth.

The cost to income ratio stood at 30.4% in 1Q23 as compared to 34.8% in 1Q22. Staff expenses as a % of operating income in 2022 was at 11.2%, whereas for 1Q23 it stood at 18.8%.

Impairment charge on Loans and advances witnessed a decrease of 32.3% on a YoY basis, to stand at QR 160.0mn. This is lowest charge in last six quarters, indicating that the asset quality remains high. The share of profit from associates stood at QR 70.0mn a +48.9% growth on account of superior performance of both the associates. United Arab Bank reported PAT of AED 54.8mn, a YoY increase of 80%, and National Bank of Oman reported a PAT of RO 14.3mn, an increase of 40.1% YoY.

The bank reported 1Q23 net loan book at QR 94.4bn, a YoY decrease of 3.99% mainly on account of repayments of overdrafts (~ QR 1.0bn) by government entities and decrease in bankers' acceptances by QR 3.6bn. The deposits were down by 10% YoY to stand at QR 76.1bn as against QR 84.5bn, mainly on account of reduction of time deposits, by about QR 6bn. The time deposits had a structured product linked to deposits, which was wound down, hence the decrease in deposits. We see this reduction in loans and deposits as one off and the bank would be back to its long terms growth rate 4%-5% going forward.

Valuation

We have valued CBQ based on blended DDM-Relative valuation method. From a high of QR 7.90 in March 2022, the share price of CBQ to current market price of QR 5.80, a significant decrease of 26.6%, with no significant changes in the underlying business. The investment in key associates – NBO and UAB have grown significantly in the recent past and the bank is also poised to revert to long term growth rate. The bank offers a dividend yield of ~4.3%. We arrived at target price of QR 6.71 per share, implying ~16% upside potential from the current market price. We have valued Commerical Bank of Qatar using the blended valuation approach, with 50% weight to intrinsic valuation based on DDM, 25% weight to relative valuation using P/E, and 25% weight to relative valuation using P/B.

Valuation parameters

Risk free rate	4.00%
Equity risk premium	6.50%
Beta	0.99
Cost of equity	10.5%
Terminal growth rate	3.0%

Residual valuation of CBQ	2022	2023E	2024E	2025E
Equity at beginning of year	18,253	19,699	21,116	22,685
Equity at end of year	19,699	21,116	22,685	24,588
Net income attributable to shareholders	2,304	2,712	2,865	3,199
Cost of equity	2,059	2,208	2,372	2,571
Residual income	245	505	493	628
PV of residual income	237	472	418	481
PV of Terminal value residual income				8,024
Current equity value				19,699
Fair value of equity				27,723
Shares outstanding				4,047
Fair value per share (QR)				6.85
CMP (QR)				5.85
Upside/downside (%)				17.1%

Valuation parameters

3 Year earnings CAGR	4.4%
Risk free rate	4.0%
Equity risk premium	6.5%
Beta	0.99
Cost of equity	10.5%
Terminal growth	3.0%
Terminal year ROE (%)	12.3%
Justified P/B	1.25x

Relative Valuation - Commerical Bank of Qatar

EPS 2023e (QR)	0.6
BVPS 2023e (QR)	5.2
Target Price/Earnings Multiple for 2023E (x)	11.0x
Target Price/Book multiple for 2023E (x)	1.25x

Fair value per share (QR) - P/E Multiple	6.60
Fair value per share (QR) - P/B Multiple	6.53

Blended Weighted Average Fair Value

Valuation Method	Fair Value per share (QR)	Weight	Upside/d
Relative Valuation - P/E	6.60	25.0%	12.9%
Relative Valuation - P/B	6.53	25.0%	11.7%
Intrinsic valuation - Excess ROE	6.85	50.0%	17.1%
Target Price (QR)		6.71	14.7%
CMP (QR)		5.85	0.0%
Forward Dividend Yield 2024E			4.3%
Total return Including dividend			19.0%

Key risks to our investment thesis:

- Significant global credit event
- Reduction in hydrocarbon prices over medium term
- Concentration risk, with top three sectors contributing 64% of the loan book, any significant downcycle in real estate sector is a risk. The Bank also has relatively lower exposure to retail segment limiting risk diversification.
- Delay in reshaping bank's aspiration to change the loan mix

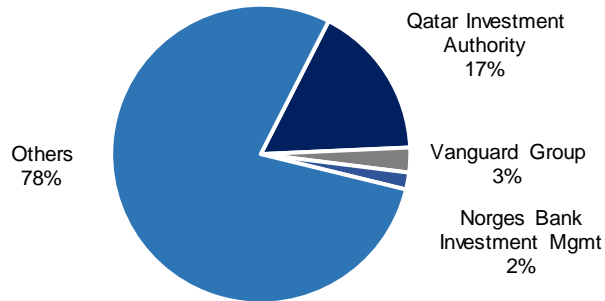
About Commercial Bank and CBQ group

CBQ Group, established in 1974 as the first private bank in Qatar, is now the third largest bank in the country, primarily engaged in conventional banking, brokerage services and the credit card business. It has presence in Qatar, Turkey (through a 100% owned subsidiary) and has strategic partnerships with National Bank of Oman (34.9% stake) in Oman and United Arab Bank (40.0% stake) in UAE. While the bank grew organically in Qatar, since 2005, it also focused on a strategy to expand regionally, initially by investing in NBO, which is now the second largest lender in Oman and then in 2007, it acquired 40% stake in UAB. As part of their expansion strategy, the bank acquired 74.24% stake in Alternatif Bank in Turkey in 2013, eventually increase the stake to 100%.

Its 100% owned subsidiary, Alternatif Bank in 2022, reported a net profit of TL 1,066 million mainly on account of impact by the hyperinflation accounting by TL 943 million. Alternatif Bank loan book as at Dec 2022 was at TL 36.4 billion. CBQ owns and operates exclusive “Diners Club” franchise in Qatar and Turkey. The Qatar operations has 33 branches, while in Turkey they have operations across 33 branches, its associate NBO operates through 59 conventional and 6 Islamic branches and UAB has 6 conventional branches. The stakes in NBO and UAB, helps the bank offer cross border services for corporate banking and capital markets, trade services for corporates, private banking services and syndicated loans. The Bank enjoys strong credit ratings of A2 from Moody’s and A- Fitch, and Standard & Poor’s.

The company is majority owned by Qatar Investment Authority, which has 17% stake, and the rest of the shares are held by various financial institutions and passive funds world-wide.

Shareholding pattern of CBQ



BOARD OF DIRECTORS

S.NO	NAME	POSITION
1	Sheikh Abdulla Bin Ali Bin Jabor Al Thani	Chairman
2	Hussain Ibrahim Alfardan	Vice Chairman
3	Omer Hussain Alfardan	Managing Director
4	HE Mr. Abdulrahman Bin Hamad Al Attiyah	Director
5	Sheikh Faisal Fahad Jassim Al Thani	Director
6	Sheikh Jabor Bin Abdulla Bin Ali Al Thani	Director
7	Ibrahim Al Osman Fakhro	Director
8	Salem Khalaf Al Mannai	Director
9	Mohd Ismail Mandani Al Emadi	Director
10	HE Mr. Bader Omar Al Dafa	Independent Director
11	Mr. Mohammed Yaser Al Mosallam	Independent Director
12	Mr. Tariq Ahmad Al Malki Al Jehani	Independent Director

Source: Company reports, Bloomberg, US Research

MANAGEMENT TEAM

S.NO	NAME	POSITION
1	Joseph Abraham	Group Chief Executive officer
2	Rehan Khan	Chief Financial officer
3	Leonie Lethbridge	EGM, Chief Operating Officer
4	Raju Buddhiraju	EGM, Wholesale banking
5	Fahad Badar	EGM, International banking
6	Shahnawaz Rashid	EGM, Consumer Banking
7	Parvez Khan	EGM, Treasury and Investments
8	Antonio	EGM, Chief Risk officer
9	Hussein M Ali Al-Abdulla	EGM, Chief Marketing officer
10	Jassim Al Thani	EGM, Chief Human Capital

Source: Company reports, Bloomberg, US Research

Income Statement (QR Mn)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Interest Income	6,077	6,795	5,671	6,012	7,473	8,465	8,349	8,630
Interest Expense	-3,595	-3,832	-2,571	-2,311	-3,367	-4,384	-4,323	-4,387
Net Interest Income	2,482	2,963	3,100	3,702	4,106	4,081	4,026	4,242
Non Interest Income	1,026	1,383	1,137	1,399	1,188	1,248	1,332	1,461
Net Operating Income	3,509	4,347	4,237	5,101	5,294	5,329	5,358	5,704
Operating Expenses	-1,173	-1,228	-1,096	-1,480	-1,138	-1,110	-1,117	-1,196
Share of results from associates	171	-7	-210	129	222	245	269	288
Profit Before Taxation	1,670	2,044	1,316	2,313	2,925	2,855	3,016	3,367
Tax expense	-7	-23	-15	-9	-114	-143	-151	-168
Profit for the year	1,663	2,021	1,301	2,304	2,811	2,712	2,865	3,199

Balance sheet (QR Mn)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Cash and balances with Central Bank	6,730	6,075	8,279	17,915	8,030	10,618	12,481	14,768
Due from banks	9,475	12,396	10,401	10,942	20,844	21,886	22,980	24,129
Loans & advances to customers	84,642	88,009	96,698	98,003	98,016	100,966	105,005	109,205
Investment securities/associates	26,719	30,865	28,895	29,684	32,937	34,584	36,313	38,129
Property and Equipment/Intangibles	3,002	3,090	3,333	2,829	3,116	3,178	3,236	3,263
Other Assets	4,360	7,100	6,000	6,091	6,177	6,486	6,810	7,150
Total Assets	134,928	147,536	153,606	165,464	169,121	177,718	186,826	196,645

LIABILITIES AND SHAREHOLDER'S EQUITY

Due to banks	13,950	22,531	20,007	17,777	24,054	25,257	26,520	27,846
Customers' deposits	71,786	76,297	75,790	81,958	83,167	87,326	91,692	96,277
Debt Securities	16,072	9,525	13,107	15,286	10,714	11,250	11,813	12,403
Other Borrowings	8,380	12,043	14,126	15,719	15,942	16,739	17,576	18,454
Other Liabilities	4,884	5,385	8,406	10,651	9,724	10,210	10,721	11,257
Total Liabilities	115,071	125,780	131,435	141,391	143,601	150,781	158,320	166,236
Paid-up Capital	4,047	4,047	4,047	4,047	4,047	4,047	4,047	4,047
Other Reserves	10,809	12,047	12,546	11,283	11,088	11,088	11,088	11,088
Retained earnings	1,000	1,662	1,577	2,923	4,564	5,981	7,550	9,453
Shareholder's Equity	15,856	17,756	18,170	18,253	19,699	21,116	22,685	24,588
Non - Controlling Interests	0	0	0	0	0	0	0	0
Tier 1 Perpetual subordinated bonds	4,000	4,000	4,000	5,820	5,820	5,820	5,820	5,820
Total Equity	19,856	21,756	22,170	24,073	25,519	26,936	28,505	30,408
Total Liabilities and Equity	134,928	147,536	153,606	165,464	169,121	177,718	186,826	196,645

Cash Flow Statement (QR Mn)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	-694	7,522	-5,619	5,865	4,773	4,497	3,789	4,228
Cash flow from investing activities	-3,825	-4,195	872	-3,901	-5,222	-1,947	-2,029	-2,116
Cash flow from financing activities	3,757	-3,275	5,077	5,702	-4,564	37	104	174
Net change in cash	-762	52	330	7,665	-5,014	2,588	1,863	2,286
Cash at the end of period	9,985	10,056	10,522	18,961	14,300	10,618	12,481	14,768

Key ratios	2018	2019	2020	2021	2022	2023E	2024E	2025E
<u>Operating performance</u>								
Yield on average earning assets	4.9%	5.3%	4.1%	4.0%	4.7%	5.5%	5.3%	5.3%
Cost of funds	3.3%	3.3%	2.1%	1.8%	2.5%	3.3%	3.0%	2.9%
Interest spread	1.7%	2.0%	2.0%	2.2%	2.2%	2.3%	2.3%	2.4%
NIM	2.0%	2.2%	2.2%	2.4%	2.6%	2.6%	2.5%	2.5%
Interest income/operating income	173.2%	156.3%	133.8%	117.9%	141.2%	158.9%	155.8%	151.3%
Net interest income/operating income	70.8%	68.2%	73.2%	72.6%	77.6%	76.6%	75.1%	74.4%
Non interest income/operating income	29.2%	31.8%	26.8%	27.4%	22.4%	23.4%	24.9%	25.6%
Cost to income ratio	33.4%	28.3%	25.9%	29.0%	21.5%	23.0%	23.0%	23.0%
<u>Liquidity</u>								
Net Loan to Deposit Ratio	117.9%	115.4%	127.6%	119.6%	117.9%	115.6%	114.5%	113.4%
Customer deposits/total deposits	81.7%	88.9%	85.3%	84.3%	88.6%	88.6%	88.6%	88.6%
Net loans to customer deposits	117.9%	115.4%	127.6%	119.6%	117.9%	115.6%	114.5%	113.4%
Investments/total assets	16.5%	18.2%	16.8%	16.2%	17.6%	17.6%	17.6%	17.6%
<u>Asset quality</u>								
Stage 1 loan ratio	67.8%	78.2%	79.7%	79.3%	77.5%	91.0%	91.0%	91.0%
Stage 2 loan ratio	26.6%	16.8%	16.0%	15.9%	17.6%	4.0%	4.5%	5.0%
Gross NPL ratio	5.6%	4.9%	4.3%	4.7%	4.9%	5.0%	4.5%	4.0%
Provision as a % of gross loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NPL Coverage	78.6%	82.1%	101.6%	97.4%	105.4%	106.0%	117.8%	132.5%
Cost of credit	1.0%	0.7%	1.0%	1.1%	1.2%	1.3%	1.1%	1.0%
Stage 1 coverage	0.1%	0.1%	0.4%	0.3%	0.2%	0.3%	0.3%	0.3%
Stage 2 coverage	4.1%	5.7%	7.8%	9.0%	8.7%	3.2%	13.7%	22.1%
Stage 3 coverage	58.1%	61.3%	66.5%	62.5%	70.9%	98.0%	98.0%	98.0%
<u>Capital adequacy</u>								
Tier I ratio	14.0%	14.4%	15.7%	16.1%	15.6%	19.6%	19.7%	20.1%
Tier II ratio	1.6%	1.9%	2.1%	2.1%	1.7%	1.6%	1.5%	1.5%
CAR	15.5%	16.4%	17.8%	18.1%	17.3%	21.2%	21.3%	21.5%
Net Equity to Gross Loans	18.1%	19.5%	18.2%	18.0%	19.2%	19.8%	20.5%	21.3%
Net Equity to Total Assets	11.8%	12.0%	11.8%	11.0%	11.6%	11.9%	12.1%	12.5%
<u>Return ratios</u>								
Reported ROE	8.4%	9.7%	5.9%	10.0%	11.4%	10.7%	10.3%	10.9%
Adjusted ROE	9.0%	10.6%	6.0%	11.2%	13.3%	12.4%	11.8%	12.3%
ROA	1.1%	1.3%	0.7%	1.3%	1.5%	1.4%	1.4%	1.5%
RoRWA	1.3%	1.5%	0.9%	1.8%	2.1%	1.9%	1.9%	2.0%
<u>Per share ratios</u>								
EPS	0.35	0.44	0.27	0.50	0.62	0.60	0.64	0.72
BVPS	3.92	4.39	4.49	4.51	4.87	5.22	5.61	6.08
DPS	0.15	0.20	0.10	0.16	0.25	0.25	0.25	0.25
<u>Valuation</u>								
Price	2.8	4.2	4.8	4.3	5.8	5.8	5.8	5.8
P/E	8.0	9.6	18.0	8.5	9.3	9.7	9.1	8.1
P/B	0.7	1.0	1.1	1.0	1.2	1.1	1.0	1.0
Dividend Yield	5.4%	4.7%	2.1%	3.7%	4.3%	4.3%	4.3%	4.3%

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy 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%
	Buy 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%
	Hold 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%
	Neutral 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%
	Sell 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%
	Strong Sell 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%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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