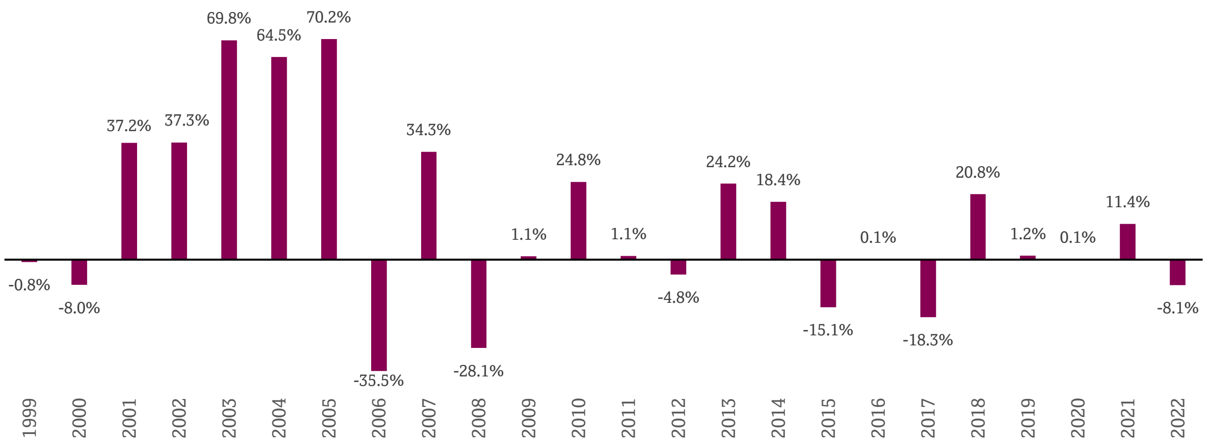
1Q2023 Earnings Preview: We Expect a Broad-Based Normalized Earnings Recovery

We expect 1Q2023 earnings for Qatari stocks under coverage to decline 14.9% YoY (ex. IGRD) but jump 22.1% QoQ. *The YoY decline in earnings mostly stems from IQCD's skewed base effects with its profit expected to almost halve;* ***otherwise, we see strong broad-based improved operating performance on the back of a moderating but strong economy, the ramping up of Qatar's massive LNG expansion project as well as some post-World Cup momentum. Overall, excluding IQCD from aggregate earnings computations, we expect normalized aggregate earnings for our coverage universe to grow 7% YoY/47% QoQ.*** *Despite a combination of several macro headwinds – including a continuation of the global monetary tightening that began early last year and an unfolding US banking crisis that started in March, which has now spread to Europe – the global equity complex (ACWI) surprisingly closed the first quarter of 2023 in the black, up 6.8%, mostly driven by large-cap tech. This is the only second positive quarterly performance by global stocks since the beginning of last year. Worth noting is that the market and the US Fed now have marked diverging views on the rates path as disinflation continues while recession and credit risks probabilities ratchet up: The Fed Fund Futures market is pricing in up to three rate cuts, equivalent to 50-75bps, by January 2024.* ***Meanwhile, the QSE (-4.4% in 1Q) and regional peers were weighed down by softening oil and gas prices, with the QSE hitting its two-year low although it has recovered somewhat. Overall, foreign institutions were $17.5mn net buyers of Qatari equities in 1Q2023 vs. $2.2bn in 1Q2022. While the 1Q2023 reporting season should generally be perceived positively, it is unlikely to drive near-term equity performance as global monetary conditions and recession fears play out and dominate sentiment.*** *While we expect the market to remain volatile, we continue to remain positive longer-term on the Qatari market due to the following reasons:* ***(1)*** *Sanctions by Western countries on Russia are still causing global oil and gas supply concerns, despite the Eurozone, most at risk, remaining fortuitously resilient than initially feared. While the recent banking crisis has increased recession fears with oil and gas prices teetering at their lows since late 2021 (although recent OPEC+ cuts have bolstered oil prices somewhat), China's reopening negates some of these negative effects. Overall, still decent gas and oil prices should lead to higher government revenue/surplus for Qatar, enable flexibility in government expenditures and improve overall money supply (liquidity).* ***(2)*** *Furthermore, with the recent successful hosting of the World Cup, perceived as one of the best editions and putting Qatar on the global business map, we opine that pockets of Qatari stock market should benefit from this success. Some of the impact has been immediate, with Qatar registering a record January & February visitor arrivals this year.* ***(3)*** *Over the medium- to long-term, the North Field Expansion, a nascent but growing tourism sector and 2030 Qatar National Vision investments will continue to be major growth drivers for local companies.* ***(4)*** *On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, while Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. This should help as global monetary conditions continue to tighten.* ***Qatari valuations are looking cheaper historically and we stay bullish longer-term on Qatari equities given their defensive characteristics backed by their strong fundamentals****. The QSE's aggregate valuation metrics look attractive considering we do not see any marked near-term earnings recession; even as the economy moderates, we note the QSE's current PE is lower than its historical median.* ***Moreover, from a technical viewpoint, the QSE has not experienced two consecutive down years since 2001 – it has, on average, returned 19.6% the year following a negative annual performance, though with a wide range of between 0.1% and 37.2%.***

Qatar Stock Exchange Historical Price Returns



Source: Bloomberg, QNB FS Research

Highlights

- **We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience YoY earnings growth of 9.3%, mainly due to a combination of cost containment and lower provisions; revenue is expected to be slightly lower to flattish. Sequentially, earnings are expected to grow by 60.9% as Doha Bank (DHBK) and Masraf Al Rayan (MARK) reported losses in 4Q2022. Excluding DHBK and MARK, earnings are expected to move up by 3.6%.**
    - Aggregate growth in earnings YoY is attributed to **Commercial Bank of Qatar (CBQK),** which has been reporting strong earnings as management is delivering on its objectives and guidance **and Qatar Islamic Bank (QIBK)** that continues to enjoy robust fundamentals with strong double-digit RoE generation and efficient cost management**.**
    - **CBQK's bottom-line is expected to increase by 15.8% YoY driven by flat revenue and costs containment (we do not model for hyperinflation).** The stock remains attractive with undemanding multiples. CBQK is trading at a 2023 P/TB of 1.0x based on our estimates but lacks short-term catalysts.
    - **QIBK is modeled to grow its net profit by 14.1% driven by net interest income, costs containment and a sharp drop in provisions** (QIBK booked large provisions in 1Q2022).

- **Sequentially, DHBK and MARK are the largest contributors to aggregate earnings. DHBK should book a profit vs. a loss in 4Q2022.** We pencil in significantly lower provisions & impairments in 1Q2023 (in-line with historical trends) as we are of the view that provisions, going forward, should steadily normalize. The name is trading at a 53% discount to book value, which appears attractive.
- **MARK is expected to follow in DHBK's footsteps; MARK is expected to also book a profit vs. a loss in 4Q2022, mainly attributable to a large drop in provisions and lower costs.** The stock trades at low P/TB of 1.2x due to asset quality headwinds.

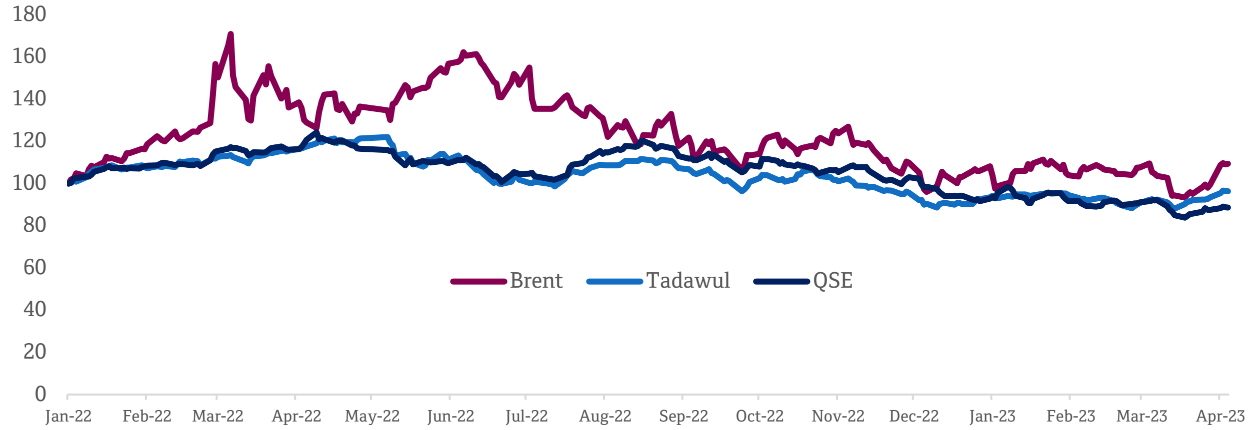
- **We estimate a YoY decline of 31.9% in the bottom-line of diversified non-financials under coverage (excluding Estithmar Holding or IGRD, as historical quarterly figures are not available) mainly due to lower commodity prices and earnings decline shown by Industries Qatar (IQCD).**
  - **On a sequential basis, combined earnings of diversified non-financials could recede by 3.2% due to IQCD.**
  - **On a normalized basis, if we exclude IQCD from the above growth computations, earnings of non-financials should grow 2.5%/25.0% on a YoY/QoQ basis.**
  - **The significant decline in urea prices should weigh down IQCD's earnings, which should post YoY and QoQ net income declines of 49.6% and 23.0%, respectively.** On a YoY basis, average prices are down across the board, with steel rebars down ~20%, LDPE declining ~30% and urea falling ~55%. While sequentially, PE prices have remained stable and rebar prices are up +20%, urea prices are down almost 40% QoQ. Considering that ~60% of IQCD's profitability is driven by fertilizers, we expect a weak 1Q2023 with a sequential increase in margins softening the QoQ earnings decline somewhat.
  - **While we expect Medicare Group's (MCGS) normalized 1Q2023 earnings at QR22.4mn, up 30.2% YoY, it is possible that management writes back provisions made on the long-outstanding Seha receivable following the Court of Appeal ruling on 24 January** that awarded QR130.7mn to MCGS. MCGS had written down QR76.2mn of the original QR114.1mn receivable but the court ruling implies that MCGS will receive an additional QR16.6mn in interest and damages. However, MCGS can only write back the amount originally written down as per IFRS principles. Additional interest and damages are realized in the income statement only when received. We have no color on when this will happen. **Consequently, MCGS could post a significantly higher 1Q2023.**
- **Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks and investment income/capital gains (losses). Volatile oil & gas prices & geo-political tensions remain major risk factors to regional equities and have a direct detrimental impact on stocks under coverage.

1st Quarter 2023 Estimates

	EPS (QR)			Revenue (QR mn)		
	1Q2023e	YoY	QoQ	1Q2023e	YoY	QoQ
Ahli Bank (ABQK)	0.077	2.5%	-4.2%	371.62	13.9%	-9.4%
Commercial Bank of Qatar (CBQK)	0.182	15.8%	21.0%	1,373.68	0.0%	-2.0%
Doha Bank (DHBK)	0.134	3.4%	N/M	753.15	-8.8%	19.3%
Gulf International Services (GISS)*	0.053	17.9%	309.9%	817.96	13.3%	-1.1%
Gulf Warehousing Co. (GWCS)	0.111	12.6%	-0.5%	399.16	13.6%	-2.5%
Industries Qatar (IQCD)	0.225	-49.6%	-23.0%	3,099.96	-41.3%	-25.7%
Estithmar Holding (IGRD)	0.037	N/A	284.4%	1,260.35	N/A	4.8%
Masraf Al Rayan (MARK)	0.056	2.3%	N/M	1,066.05	-0.9%	5.4%
Qatar Electricity & Water (QEWS)	0.362	2.6%	-13.5%	621.34	10.0%	-23.3%
Qatar Gas & Transport (QGTS)	0.068	-2.0%	23.2%	1,067.72	2.3%	-2.4%
Qatar International Islamic Bank (QIIK)	0.205	5.2%	79.1%	425.50	3.2%	145.6%
Qatar Islamic Bank (QIBK)	0.413	14.1%	-15.5%	1,623.47	1.2%	2.2%
Qatar Navigation/Milaha (QNNS)	0.293	-7.6%	105.5%	860.03	-5.8%	19.0%
Vodafone Qatar (VFQS)	0.033	30.0%	-16.9%	756.88	3.6%	-14.9%
Medicare Group (MCGS)	0.080	30.2%	-3.2%	126.33	7.6%	-0.9%
Total, Excluding IGRD YoY		-14.9%	22.1%	13,362.9	-12.9%	-5.5%

Source: QNB FS Research; Note: *Revenue for GISS excludes its catering business, which is undergoing a merger

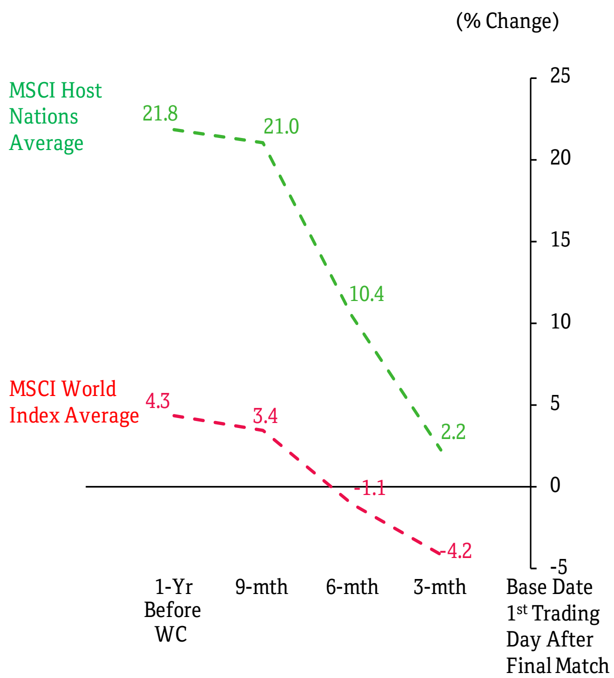
QSE Price Performance Vs. Brent and KSA [Rebased to 100]



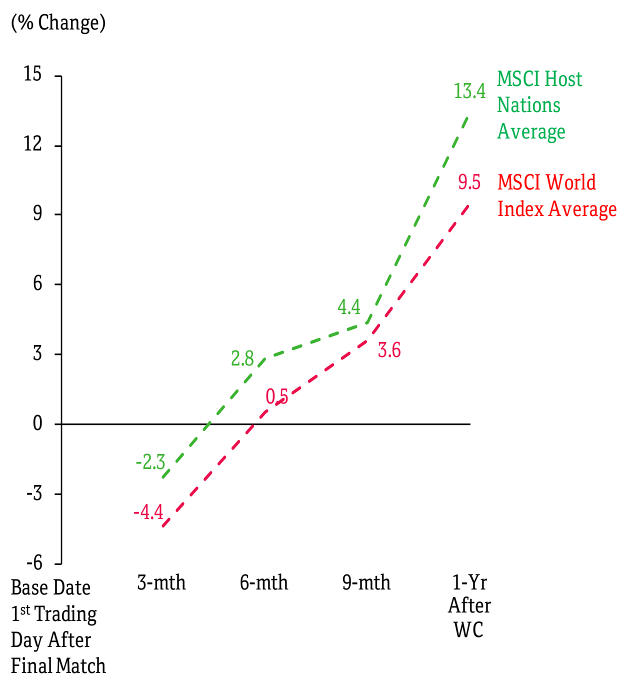
Source: Bloomberg, QNB FS Research

- **Empirical evidence suggests a positive spin-off on the Qatar Stock Exchange from the FIFA World Cup.** While markets tend to fall in the first three months immediately after the WC, returns 12 months after the event are positive, outperforming the MSCI World Index by an attractive 4.0 percentage points.

Host Nations Stock Markets Performance (Quarterly Leading Up to FIFA World Cup)



Host Nations Stock Markets Performance (Quarterly After FIFA World Cup)



Source: Bloomberg, Reuters Datastream, QNB FS Research

- **Historically, equity markets of FIFA World Cup host countries have, on average, outperformed peers**: Host nations' (previous seven FIFA World Cups, excluding outlier Brazil) average MSCI country stock market index grew by 21.8% in the year leading up to the World Cup and by 13.4% in the year after, compared to the MSCI World Index average growth of 4.3% and 9.5%, respectively. Further, a more short-term view of host nations' equity indices show a strong average growth of 10.6 percentage points (pp) and 8.2 pp between six-to-nine months and three-six months period, respectively, prior to the FIFA World Cup, while a robust average growth of 9.0 pp is seen during the nine-twelve-month period after the FIFA World Cup. In our case, the positive boost to Qatari equities by the FIFA World Cup, ceteris paribus, is primarily from construction, real estate, tourism and retail spending that trickles down to the exchange-listed companies and the broader economy as a whole. Specifically, Qatar's objective was to use the event as a springboard to showcase its offerings and hopefully boost international tourist arrivals from 2.1 million in 2019 to 6 million per year by 2030. Some of the impact has been immediate, with Qatar registering a record February and January visitor arrivals this year.

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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