

1Q2021 Earnings: Rising Commodity Prices Along with Lifting of the Blockade to Drive Near-Term Performance

We expect Qatari stocks under coverage to exhibit a sequential recovery in earnings on a normalized (excluding outliers such as DHBK, GISS, BLDN, IQCD) basis in 1Q2021. Normalized earnings should increase by 28.0% QoQ, in aggregate, mainly due to a recovery in non-financial stocks helped by the progressive lifting of coronavirus counter-measures from July, coupled with a further recovery in commodity prices. IQCD and CBQK should make notable positive contributions to the sequential net income performance of stocks under our coverage; DHBK also has a notable contribution to QoQ aggregate earnings growth as the company posted a loss in 4Q2020. On a YoY basis, normalized aggregate earnings should record a growth of 11.8%; IQCD should post a substantial jump in YoY earnings, while CBQK and QAMC also make handy contributions. We continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals and reasonable valuation. Moreover, lifting of the blockade is a positive for Qatar and the region. While Qatari equities faced declines initially in 2017 due to the blockade, in time it became clear that the blockade did not have a noteworthy impact on Qatar's economic life. Consequently, Qatari equities staged a strong comeback in 2018. Infrastructure projects related to the FIFA 2022 World Cup and the 2030 Qatar National Vision investments have continued to be major growth drivers for local companies during 2017-2020. 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. In case of any unforeseen volatility, the government's QR10bn stock purchase program creates an important safety net for Qatari stocks. With coronavirus continuing to affect the real economy (albeit to a lesser extent), global emerging market equities as well as Qatari stocks could stay volatile. On the other hand, we still believe this market should continue to outperform on a relative basis, despite being a laggard thus far this year, bolstered by its effectively handled vaccination program. We do note that renewed lockdowns due to the pandemic and global oil/commodity price volatility remain as major risk factors to our estimates and will likely impact directly on the financial results of stocks under our coverage.

Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience strong earnings YoY, growing by 10.9% largely attributed to CBQK as the bank is expected to report a large YoY growth in earnings. Excluding CBQK, aggregate bank earnings could increase by 6.0% YoY. The increase in the aggregate bottom-line is driven by stable margins (as NIMs expanded in FY2020), cost containment and lower provisions & impairments. Moreover, we expect a sequential surge in profits of 50.6% as banks typically book lower provisions & impairments in the 1st quarter. CBQK is expected to contribute positively to the YoY profitability performance based on our figures. Strong revenue, specifically non-funded income, should drive earnings on a YoY basis as CBQK reported large losses from associates & investment securities in 1Q2020. We estimate a 37.3% YoY jump in CBQK's bottom-line driven by healthy revenue. On the other hand, we foresee further impairments related to UAB in the coming quarters, albeit at a lower amount vs. 2020. Having said this, we are of the view that the impairment exercise of UAB will be completed in FY2021. The sequential surge in CBQK's earnings is due to significantly lower credit provisions. *CBQK's management has been delivering on its 5-year strategy objectives, which we think is positive. The stock remains inexpensive and we maintain our Outperform rating and target price of QR5.143.* Regarding QIBK, we expect the bank to post strong growth in net profit YoY (+10.3%), in-line with historical trends. Stronger margins are estimated to positively impact YoY performance. However, provisions are expected to remain elevated. Sequentially, we expect QIBK's 1Q2021 net income to drop by 10.6% to QR758.5mn as a result of large provisions & impairments (also in-line with historical trends) as QIBK remains a conservative bank. *We rate QIBK as a Market Perform with a target price of QR15.70.*
- We estimate a YoY rise of 12.0% in the normalized (ex. BLDN, IQCD, GISS) bottom-line of diversified non-financials under coverage. On a sequential basis, aggregate normalized earnings of diversified non-financials could increase 27.6%. Based on our assumptions, IQCD should be a standout performer in 1Q2021 benefiting from its 25%-acquisition of QAFCO, a significant uptick in commodity prices and a lack of major planned shutdowns across the company's operations. We note LDPE prices are up +60% YoY helped by the US winter storm in February and urea prices are up almost 40% over the same period helped by the storm, uptick in demand and lower operating rates in China. YoY comparisons are also boosted as the QAFCO acquisition was not included in reported financials in 1Q2020. Moreover, a major shutdown in QAPCO is not planned until 2H2021 further helping results. *We maintain our Accumulate rating on IQCD and will be increasing our 2021/2022 estimates and target price of QR11.50 shortly.*
- Risks: Estimates can be impacted by one-offs, provisions for banks & investment income/capital gains (losses). Volatile oil prices, the economic fallout of the global pandemic & geo-political tensions remain as substantial risk factors to regional equities and may have a direct impact on stocks under coverage.

1st Quarter 2021 Estimates

	EPS (QR)			Revenue (QR mn)		
	1Q2021e	YoY	QoQ	1Q2021e	YoY	QoQ
Aamal (AHCS)	0.011	-18.0%	113.2%	335.24	-10.4%	0.1%
Ahli Bank (ABQK)	0.074	0.0%	0.6%	335.62	21.7%	-9.2%
Al Khalij Commercial Bank (KCBK)	0.051	3.8%	31.8%	371.73	17.9%	-2.0%
Baladna (BLDN)	0.022	N/A	5.6%	199.27	N/A	4.6%
Commercial Bank of Qatar (CBQK)	0.136	37.3%	276.2%	1,076.73	39.2%	-28.3%
Doha Bank (DHBK)	0.110	4.9%	N/M	750.27	0.1%	4.2%
Gulf International Services (GISS)	(0.030)	N/M	-85.0%	733.72	-11.8%	0.2%
Gulf Warehousing Co. (GWCS)	0.092	6.0%	-17.2%	293.29	-1.0%	-4.7%
Industries Qatar (IQCD)	0.225	566.5%	32.7%	2,736.62	110.2%	31.1%
Investment Holding Group (IGRD)	0.010	-13.6%	N/M	70.55	-7.3%	-15.3%
Masraf Al Rayan (MARK)	0.077	5.7%	12.7%	854.14	12.3%	-2.7%
Medicare Group (MCGS)	0.096	31.0%	-24.4%	128.81	-1.2%	-0.6%
Qatar Aluminium Manufacturing Co. (QAMC)	0.018	847.5%	N/M	2,196.72	289.0%	271.9%
Qatar Electricity & Water (QEWS)	0.319	9.7%	184.5%	624.85	4.3%	-1.6%
Qatar Fuel (QFLS)	0.201	-11.4%	-28.1%	N/M	N/M	N/M
Qatar Gas & Transport (QGTS)	0.059	16.2%	24.5%	986.27	-1.1%	5.8%
Qatar International Islamic Bank (QIIK)	0.180	2.3%	89.1%	426.83	0.2%	-0.8%
Qatar Islamic Bank (QIBK)	0.321	10.3%	-10.6%	1,411.03	18.3%	-1.3%
Vodafone Qatar (VFQS)	0.013	15.4%	-5.3%	547.33	1.2%	-6.9%
Widam Food (WDAM)	0.074	-49.6%	20.2%	186.92	27.3%	-3.8%
Total (excl. DHBK, BLDN, IQCD and GISS from EPS and QFLS from Revenue)		11.8%	28.0%	14,265.9	34.7%	15.7%

* EPS adjusted for non-recurring or non-operating items

Source: QNB FS Research; Note: EPS based on current number of shares

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, Ph.D.

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.