QSE 2Q2020 Earnings Preview

Sunday, 12 July 2020

2Q2020 Earnings: COVID-19 to Weigh on 2Q Earnings; Qatar Remains Resilient Relative to the GCC

We expect Qatari stocks under coverage to exhibit a moderate decline YoY in earnings on a normalized (excluding outliers such as IQCD) basis in 2Q2020. Normalized earnings should recede by 6.7% YoY (decline by 3.6% QoQ excluding QNNS, which recorded a hefty dividend income in the 1st quarter) in aggregate. IQCD & QFLS *should contribute negatively to the YoY net income performance of stocks under our coverage.* ***However, we continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals, reasonable valuation and the government's support packages.*** *We continue to believe the dual headwinds of coronavirus malaise and oil price volatility will impact Qatari equities, albeit at a lesser extent vs. their regional peers, as has been the case since the beginning of 2020. So far, YTD, the decline for the QE Index has been 10.6%, outperforming the 11.9%-24.7% declines seen in other major GCC stock markets. Moreover, the significant QR10bn government backstop for Qatari equities along with myriad investment and support programs targeted at the Qatari real sector,* ***especially the QR75bn support package for the private sector****, should go a long way in shoring up business, consumer and investor sentiment, in our view. 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, low NPLs, strong provision coverage, and high profitability.* ***Although we expect Qatari banks under coverage to report a 7.8% YoY decline in 2Q2020 profits, the sector remains resilient vs. other GCC banks, which are expected to post significantly higher aggregate earnings decline according to consensus expectations.*** *MSCI Qatar has a beta of 0.62x vs. the MSCI EM Index and 0.58x vs. the MSCI World Index, which is aligned with Qatari stocks' fundamental strengths and reinforce their defensive characteristics. Near-term, the aforementioned QR10bn stock purchase program (corresponding to 39 days' turnover of the QE Index's constituents based on their 1H2020 traded values) creates an important safety net for Qatari stocks in 2020. Moreover, the recent proposed merger announcement between* ***MARK*** *and* ***KCBK*** *should create a positive catalyst for Qatari banks and fuel investor interest in the sector, irrespective of the near-term drop in earnings.* ***While Qatari equities could remain volatile, we continue to think this market will outperform on a relative basis, as it has thus far this year. We do note that the COVID-19 pandemic and the global oil price weakness/volatility remain as major risk factors to our estimates and will likely impact directly on the financial results of the stocks under our coverage.***

Highlights

- **We estimate banks under coverage, ex-QNB Group (QNBK), to experience a YoY earnings decline of 7.8% largely attributed to Qatar Islamic Bank (QIBK) and Commercial Bank of Qatar (CBQK), while a sequential decrease of 7.6% is expected as banks book higher provisions in the 2nd quarter vs. 1Q2020 due to COVID-19 restrictions/complications.** ***Higher provisions, subdued non-funded income and margin compression to pressure aggregate profitability on a YoY & QoQ basis.*** **QIBK** is expected to contribute negatively to the YoY profitability performance based on our figures. **Having said this, given QIBK's conservative nature, we expect the bank to book larger-than-usual provisions.** We expect QIBK's bottom-line to drop due to margin compression, weak non-funded income and large provisions resulting from COVID-19. Regarding **CBQK**, **weak revenue coupled with hefty provisions, is expected to dent earnings on a YoY basis.** We estimate a 9.3% YoY drop in CBQK's bottom-line, resulting from overall weak revenue and excessive provisioning (impact from COVID-19). Moreover, we foresee possible losses from associates, mainly from CBQK's UAE-based associate UAB. ***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 QR5.006.***
- **We estimate a YoY drop of 27.4% in the bottom-line of diversified non-financials under coverage due to Industries Qatar or IQCD (excluding IQCD, on a normalized basis, the decline would be 4.3%), while forecasting a growth of 4.4% QoQ (excluding QNNS, which recorded a hefty dividend income in the 1st quarter).** Based on our assumptions, **IQCD** leads the significant decline in net income on a YoY basis. **IQCD's 2Q2020 earnings set to improve sequentially but should continue to remain weak YoY.** Our quarterly net income estimate implies a 61.0% decline YoY but a 50.5% increase QoQ. (1) Steel should be the primary driver of the QoQ growth in earnings. Given losses in international markets, IQCD has decided to temporarily mothball part of its steel operations from 2Q2020 cutting its domestic rebar capacity to 0.8 MT (from 1.5 MT previously). Steel revenue should decline 40.6% and 52.0% YoY and QoQ, respectively, given the aforementioned cut in capacity. (2) Fertilizers should exhibit modestly lower revenue/earnings relative to 1Q2020 given the roughly 7% QoQ decline seen in urea prices. We note fertilizer revenue should decline significantly YoY as we expect the interim QAFCO 1-4 gas processing agreement to remain in place in 2Q2020 (as was the case in 1Q2020). (3) In Petrochemicals, we expect the sequential decline in PE prices to impact revenue and net income. On the other hand, **QGTS' 2Q2020 to show YoY growth driven by its October 2019 acquisition of its remaining 49.9% stake in 4 LNG ships previously held under its OSG joint venture.** ***We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. For now, we maintain our Accumulate rating and price target of QR2.60.***
- **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.

2nd Quarter 2020 Estimates

	EPS (QR)			Revenue (QR mn)		
	2Q2020e	YoY	QoQ	2Q2020e	YoY	QoQ
Aamal (AHCS)	0.008	-42.8%	-40.5%	302.0	-3.9%	-19.2%
Ahli Bank (ABQK)	0.073	-3.0%	-2.2%	275.0	4.1%	-0.3%
Al Khalij Commercial Bank (KCBK)	0.046	-6.2%	-6.8%	304.7	0.5%	-3.3%
Baladna (BLDN)	0.021	N/A	N/A	204.3	N/A	N/A
Commercial Bank of Qatar (CBQK)	0.113	-9.3%	13.4%	930.4	-6.0%	20.3%
Doha Bank (DHBK)	0.070	3.3%	-32.7%	632.7	-3.6%	-15.6%
Gulf International Services (GISS)	0.047	N/M	N/M	841.2	11.9%	1.1%
Gulf Warehousing Co. (GWCS)	0.097	-9.6%	12.9%	322.0	8.8%	8.7%
Industries Qatar (IQCD)	0.051	-61.0%	50.5%	624.9	-40.6%	-52.0%
Investment Holding Group (IGRD)	0.009	-37.6%	-21.7%	81.5	-29.4%	7.1%
Masraf Al Rayan (MARK)	0.069	-3.1%	-5.4%	715.0	2.5%	-6.0%
Medicare Group (MCGS)	0.041	-14.7%	-44.4%	108.7	-8.5%	-16.6%
Qatar Aluminium Manufacturing Co. (QAMC)	0.001	N/M	-55.8%	N/A	N/M	N/M
Qatar Electricity & Water (QEWS)	0.298	5.7%	2.6%	636.2	5.3%	6.1%
Qatar Fuel (QFLS)	0.128	-61.2%	-43.9%	2,919	-74.6%	-41.4%
Qatar Gas & Transport (QGTS)	0.051	19.0%	2.1%	996.7	12.0%	0.0%
Qatar International Islamic Bank (QIIK)	0.160	-0.7%	-9.0%	346.2	1.2%	-18.7%
Qatar Islamic Bank (QIBK)	0.260	-17.1%	-10.7%	1,119.2	-3.9%	-6.2%
Qatar Navigation (QNNS)	0.049	49.9%	-80.1%	550.1	0.1%	-20.3%
Vodafone Qatar (VFQS)	0.012	48.7%	7.2%	566.4	7.5%	4.8%
Widam Food (WDAM)	0.159	22.2%	8.0%	196.5	12.8%	33.8%
Total (excl. IQCD)		-6.7%	-11.9%	12,047.4	-40.5%	-14.9%
Total		-16.1%	-8.8%	12,672.4	-40.5%	-18.0%

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

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Diversified)

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
AHCS	85.31	82.12	**48.84**	**(42.8%)**	**(40.5%)**	**We think AHCS could record lower EPS in 2Q2020 YoY/QoQ** as we expect its industrial manufacturing and property segments may be prone to weaker income due to coronavirus-related disruptions, which we expect to be partially mitigated by the trading segment. *Aamal enjoys a well-diversified business portfolio across major sectors of the Qatari economy. AHCS also has Qatar's leading pharma & medical device distribution companies in its portfolio, which should increase its top- & bottom-line resilience. While 2020 results are likely to be affected by the coronavirus & oil shocks, we believe AHCS' 2021 prospects could be better with the completion of renovation works & expansion in CCD during 2020 and Senyar's new drum and copper factories becoming operational during 1H2021. In 2022, we believe Aamal will be one of the top beneficiaries of FIFA'22 given its property, retail and trading exposures.* ***We rate AHCS a Market Perform with a target price of QR0.686.***
BLDN	N/A	N/A	**39.3**	**N/M**	**N/M**	**We expect BLDN to maintain its strong top- & bottom-line performances in 2Q2020 as well, primarily due to its new products.** For reference, BLDN recorded QR39.7mn of net profits during the 4 months between Dec'19-Mar'20. Baladna recorded a 115.4% top-line growth in 2019, which should be followed by an expected 95.2% in 2020 and 16.8% in 2021, as BLDN plans to increase the number of Stock Keeping Units (SKUs) from c.167 at the end of 2019 to c.261 by the end of 2020. *While we have not yet incorporated its potential impact in our forecasts and valuation, Baladna expects to collaborate with the Federal Land Consolidation and Rehabilitation Authority of Malaysia (FELCRA) to implement the "Baladna model" in Malaysia. This is an attempt to increase Malaysia's self-sufficiency in dairy products by doubling the volume of local fresh milk production with an increase of 50-55mnLt/pa.* ***We rate BLDN as an Outperform with a price target of QR1.57.***
GISS	4.03	8.72	**86.79**	**N/M**	**N/M**	**We forecast a significant uptick in GISS' 2Q2020 earnings primarily driven by the insurance and drilling segments.** We do note GISS' quarterly net income remains volatile and difficult to predict given its four disparate segments and razor-thin margins. For 2Q2020, we expect revenue/net income of QR841.2mn/QR86.8mn. We model in top-line growth rates of 11.9% YoY and 1.1% QoQ. Net income, however, should grow substantially vs. QR4.0mn in 2Q2019 and QR8.7mn in 1Q2020. While insurance and drilling both contribute to the yearly and sequential net income growth, aviation and catering help out on a yearly basis. The insurance segment growth is driven by improved operating performance (higher net claims in medical/energy segments during 2Q2019) on a YoY basis and lack of significant mark-to-market investment losses (posted in 1Q2020) on a QoQ basis. The drilling segment posted a loss in 2Q2019 and a slight loss in 1Q2020 but we expect the segment to revert to profitability in 2Q2020 due to startup of the NFE contract from late 1Q2020 and lower finance charges. *We continue to expect significant growth in GISS' earnings this year. Newsflow-related catalysts remain positive as the GDI/Seadrill JV (GulfDrill) will begin to deploy six rigs into the NFE program in a phased manner in 2020. Moreover, on top its companywide costs optimization program, GISS is looking to restructure/ refinance GDI's $1.3bn debt pile in order to lower finance costs, extend repayments and enhance shareholder value. In terms of risks, besides the potential of an impairment for the Msheireb rig this year, we believe the company could face some delays or slowdown in its operations and debt-restructuring program due to the ongoing COVID-19 situation/oil price volatility. Net-net, we still believe GISS' financial performance in 2020 and beyond should please investors.* ***We rate GISS an Outperform with a QR2.10 PT.***

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
GWCS	62.99	50.45	**56.96**	**(9.6%)**	**12.9%**	**For 2Q2020, we expect QR322.0mn/QR57.0mn in top-line/net income.** We expect earnings to decline 9.6% YoY but increase 12.9% QoQ. We expect sequential earnings to benefit from growth in logistics services given that lockdown/travel restrictions have created additional demand for grocery/food-related logistics. We will await more color from management as to forward trends given ongoing COVID-19-related restrictions. *Longer-term, we retain our bullish investment thesis on GWCS but near-term challenges remain. GWCS has withstood the blockade well with its freight forwarding segment showing significant growth (up 39% in 2019 from 2017); GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (more than 95% occupancy) could decline, but as we had flagged previously, GWCS has started generating substantial FCF and management remains on the hunt for expansion avenues. The recent Al Wukair Logistics Park contract serves as an example of such a growth opportunity. We do note 2020 could be a challenging year given the dual headwinds of oil price weakness and economic softness due to the coronavirus but we remain optimistic longer-term.* ***We stay Market Perform on GWCS with a QR5.10 price target.***
IQCD	785.56	203.79	**306.65**	**(61.0%)**	**50.5%**	**IQCD's 2Q2020 earnings set to improve QoQ but remain weak YoY.** Our EPS estimate implies a 61.0% decline YoY but a 50.5% increase QoQ. (1) Steel should be the primary driver of the QoQ growth. Given losses in foreign markets, IQCD temporarily mothballed part of its steel operations from 2Q2020 cutting its domestic rebar capacity to 0.8 MT (from 1.5 MT previously). IQCD's strategy is now to avoid foreign markets (primarily low-cost EM producers) and cater to domestic demand exclusively. This should help drive segment earnings back into the green in 2Q2020, albeit only modestly. Steel revenue should decline 40.6%/52.0% YoY/QoQ given the aforementioned cut in capacity. (2) Fertilizers should exhibit modestly lower revenue/earnings relative to 1Q2020 given the ~7% QoQ decline seen in urea prices. We note fertilizer revenue should decline significantly YoY as we expect the interim QAFCO 1-4 gas processing agreement to remain in place in 2Q2020 (as was the case in 1Q2020). As a reminder, the prior gas sales and purchase agreement, which set feedstock pricing for trains 1-4, expired in December 2019 and while a new agreement is in discussion with QP, it was delayed given the QP/Yara deal. To ensure business continuity, we expect this interim agreement to remain in place until 3Q2020 and note this agreement only allows QAFCO to record processing fees plus a margin as QP recognizes sales and direct costs on its own books. We expect this interim agreement to be replaced with a permanent one during 3Q2020, which should allow QAFCO to resume recording QAFCO 1-4 sales revenue on its own books. (3) In Petrochemicals, we expect the QoQ decline in PE prices to impact revenue and EPS. *Overall near-to-medium term market conditions remain challenging. Impact of the coronavirus pandemic was not fully reflected in 1Q2020 results as commodity markets only started to come under pressure from February onward. On the positive front, steel margins should benefit given focus on domestic sales. Moreover, fertilizers, given increased emphasis on food security in the face of a global pandemic, could possibly remain stable. Overall, near-term, the dual pressure of volatile oil prices and the global pandemic create significant uncertainty.* ***We retain our Market Perform rating and QR10 PT.*** *With earnings under pressure in the medium-term, investors will seek answers about deployment of IQCD's cash pile (QR10.9bn) and its strategy.*

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
IGRD	12.15	9.68	**7.58**	**(37.6%)**	**(21.7%)**	**We anticipate IGRD could record lower EPS in 2Q2020 YoY due to coronavirus disruptions and 2Q2019's high base.** While coronavirus disruptions are likely to depress 2Q2020 operating profits, we anticipate IGRD's ongoing cost-cutting efforts should dampen the impact. Furthermore, nearly all of IGRD's contracting work is originally related to government projects. Thus, even if delays take place, cancellations are unlikely. It is noteworthy that IGRD's trading business include masks and outfits for laborers (sales of which have surged notably since the beginning of the pandemic). *We continue to like the company as a turnaround story as well as the new management's dedication in cost cutting and its efforts in expanding the trading segment's product range with high-margin products.* ***We rate IGRD as an Outperform with a price target of QR0.55.***
MCGS	13.48	20.69	**11.50**	**(14.7%)**	**(44.4%)**	**We expect MCGS to record lower YoY net income in 2Q2020 primarily due to COVID-19-related regulations and 2Q2019's high base (because of provision reversals).** We anticipate lower revenue and operating income for MCGS in 2Q2020 vs. 2Q2019 as coronavirus-related regulations came into effect at the beginning of 2Q2020. As such, these regulations limited the services that could be offered by private hospitals and clinics in Qatar, which were partially offset by stronger emergency service revenue. Moreover, the lack of provision reversals in 2Q2020 (vs. c.QR4mn in 2Q2019), is likely to depress MCGS' YoY bottom-line growth in 2Q2020. *The company is likely to benefit from an anticipated re-initiation of Qatar's National Health Insurance Scheme, which resulted in an upsurge in MCGS' revenue and net profit during its first implementation in 2013-2015. Until details of the new National Health Insurance are clarified, we foresee MCGS shares remaining volatile.* ***We maintain our Market Perform rating with a QR8.04 price target.***
QAMC	(8.14)	10.86	**4.80**	**N/M**	**(55.8%)**	**Lower aluminum prices to impact adversely on 2Q2020 results.** Coronavirus disruptions pushed aluminum prices to the bottom of their last 5-year-cycle by mid-May. Prices have been recovering since then, rising 14.7% from the bottom; however, elevated global primary aluminum supply-demand surplus (which may deteriorate further in 2020) could hamper this price recovery. On the positive front, as a result of a faster decline in feedstock prices vs. aluminum (normalizing alumina prices in particular), QAMCO is likely to witness an increase in its margins. ***We are Market Perform on the name with a QR0.79 target price.***

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
QEWS	310.45	320.11	**328.29**	**5.7%**	**2.6%**	**2Q2020 should benefit from seasonality while YoY comparisons should remain favorable.** 2Q2020 revenue of QR636.2mn should grow 5.3% YoY and 6.1% QoQ. This should mark the third consecutive quarter of YoY revenue increases, with QEWS' top-line registering gains of 3.0% and 11.1% in 4Q2019 and 1Q2020, respectively, after posting yearly declines through 1Q2019-3Q2019. As we have noted previously, RAF B, which already witnessed lowered tariffs under a 12-year contract extension from July 2018, also faces lower offtake in 2019/2020 given Umm Al Houl's ramp up. Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates. Costs have also increased beyond modeled expectations given higher-than-expected gas costs for RAF B's renewal. However, with these items already affecting 2019 performance, YoY comparisons should look better in 2020. This was also evident in 1Q2020 earnings and the trend should continue in 2Q2020 as well, with net income of QR328.3mn, up 5.7% YoY and 2.6% QoQ. *We continue to like the company as a long-term play with a relatively defensive business model, especially in light of current market conditions. The near-term impact of the COVID-19 pandemic could remain muted on QEWS' business model as the company is paid based on power and water availability and is not affected by the vagaries of end demand. QEWS still enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2022-2023; Siraj solar project in 2021-2022, etc.). Nebras remains on the hunt for growth with a goal of increasing its net capacity to 6 GW by 2023 from 1.7 GW in September 2019. However, beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.* ***We maintain our QR17.00 price target and our Accumulate rating.***
QFLS	326.89	226.09	**126.81**	**(61.2)**	**(43.9%)**	**We expect Woqod's top- and bottom-lines to be affected by lower fuel consumption in 2Q2020 as a result of COVID-19-related lockdowns, coupled with a drastic decline in the number of international flights.** Jet fuel is QFLS' prime product, accounting for half of the total fuel sold as of FY2019. We believe the company is experiencing lower demand from its major client, Qatar Airways, as flights are reduced because of coronavirus-related counter measures. We also think Woqod's local fuel distribution could be adversely impacted during 2Q2020 given stay-at-home directives. *In the medium-to-long-term, Qatar Airways Group's planned expansion is likely to be the foremost long-term driver for Woqod's bottom-line growth. Concurrently, the company's ongoing expansion of its retail fuel station network should support its fuel and non-fuel revenue growth gradually.* ***We stay Market Perform rating on QFLS with a QR21.40 price target.***

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
QGTS	239.59	279.19	**285.03**	**19.0%**	**2.1%**	**2Q2020 to show YoY growth driven by QGTS' October 2019 acquisition of its remaining 49.9% stake in 4 LNG ships previously held under the OSG joint venture.** YoY, adjusted revenue/earnings of QR996.7mn/QR285.0mn should be up 12.0%/19.0%. On a sequential basis, adjusted revenue should be flattish and net income should show a modest growth of 2.1%. YoY, top-line and earnings should benefit from the aforementioned acquisition, which boosts wholly-owned ship revenue. On a QoQ basis, adjusted revenue is driven by flattish wholly-owned ship revenue given similar number of operating days in 2Q2020 vs. 1Q2020. The moderate sequential growth in earnings is primarily based on lower finance charges. *We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. We do not envision significant risks to QGTS' business model due to the ongoing oil price volatility/COVID-9 pandemic.* ***For now, we maintain our Accumulate rating and price target of QR2.60.***
QNNS	37.65	283.19	**56.42**	**49.9%**	**(80.1%)**	**2Q2020 earnings to be driven by associates and JVs.** We anticipate net income to increase YoY driven by QGTS and other JV income, which has been the driving force behind QNNS. The QoQ drop in the bottom line is mainly due to the lack of dividend income, which is booked in the first quarter (in-line with historical trends). ***We are Market Perform on the name for now with a QR8.10 target price.***
VFQS	34.53	47.91	**51.36**	**48.7%**	**7.2%**	**VFQS should report a strong 2Q2020 given boost from broadband, data and postpaid.** We expect 2Q2020 EPS to increase 48.7% YoY and 7.2% QoQ. Given restrictions on travel and work-from-home trends, we do expect an uptick in data and broadband, along with continued traction in postpaid. This should offset decline in roaming revenue. *Our view on the stock remains unchanged – we continue to like VFQS' momentum in postpaid and higher value-added services. We also believe postpaid, 5G, home broadband, enterprise and bundled solutions should continue to drive future growth.* ***We rate VFQS an Accumulate with a QR1.40 price target.***
WDAM	23.39	26.47	**28.59**	**22.2%**	**(8.0%)**	**We expect WDAM to record a 22.2% EPS growth YoY in 2Q2020 due to limited impact from coronavirus disruptions on Widam's results, coupled with 2Q2019's low base arising from discontinued operation losses.** In 2Q2019, Widam recorded QR13.85mn of losses as a result of Al Rkiya Farm's closure. In FY2020, the lack of 2019's one-off items (QR20.1mn of one-time losses due to the closure of Al-Rkiya Farm and QR3-4mn of estimated expenses under G&A) should create a positive base for EPS growth in 2020 vs. 2019. The Strategic Food Security Projects disclosed by the Ministry of Municipality and Environment (MME) in March 2019 envisages that local production of red meat could go up from the current 18% to 30% by 2023. *Widam, the leading livestock and red meat provider of Qatar and a key contributor to Qatar's National Food Security Program, is likely to be the top beneficiary of increasing local production, which should enjoy higher profitability vs. imports. Widam is also increasing its slaughterhouse capacity from 3,100 heads/day to 5,100 per day.* ***We rate WDAM an Accumulate with a PT of QR8.***

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Financials)

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
ABQK	181.82	180.40	**176.40**	**(3.0%)**	**(2.0%)**	**We expect a small drop in earnings YoY and sequentially due to weak non-funded income and a surge in provisions.** Based on our assumptions, we expect net profit to decline by 3.0% YoY due to a surge in net provisions resulting from COVID-19. On a QoQ basis, we estimate the drop in bottom line to be driven by provisions. *ABQK trades at a PEG of 2.5x (which is expensive) based on a 5-year earnings CAGR of 4.6%.* ***We maintain our Reduce rating and price target at QR2.587.***
KCBK	175.76	176.97	**164.88**	**(6.2%)**	**(6.8%)**	**We expect YoY and QoQ declines in the bottom-line to be driven by provisions and weak non-funded income.** The YoY drop in profitability is a result of a 50% growth in net provisions and a 28% drop in non-funded income (mainly fees) because of the COVID-19 pandemic. On the positive side, we expect margin expansion given KCBK's favorable asset/liability mix. *KCBK trades at a 0.9x P/B vs. 0.7x previously (valuation expanded due to the recent announcement of a possible merger with MARK) and a 9.6x P/E based on our 2020 estimates.* ***For the time being, we maintain our Market Perform rating and price target at QR1.400.***
CBQK	503.01	402.13	**456.17**	**(9.3%)**	**13.4%**	**Weak revenue, coupled with hefty provisions, is expected to dent earnings on a YoY basis.** We estimate a 9.3% YoY drop in CBQK's bottom-line, resulting from overall weak revenue and excessive provisioning (impact from COVID-19). Moreover, we foresee possible losses from associates, mainly from CBQK's UAE-based associate UAB. The sequential increase in earnings is due to recoveries from investment losses incurred in 1Q2020 and lower losses from UAB. *CBQK's management has been delivering on its 5-year strategy objectives, which we think is positive.* ***The stock remains inexpensive in our view and we maintain our Outperform rating and target price of QR5.006.***
DHBK	211.10	324.09	**218.01**	**3.3%**	**(32.7)**	**We expect some growth YoY as 2Q2019 was already a very weak quarter.** The estimated YoY gain in profitability is due to cost containment and slightly lower provisions (provisions were already significant in 2Q2019). We expect weak non-funded income (given the current operating environment) in 2Q2020. Sequentially, we expect DHBK to follow historical trends. As such, net profit is expected to drop because of subdued net operating income. *The bank has set forth a strategy of exercising prudent risk control, de-risking the balance sheet away from contracting & real estate, containing costs and maintaining CET 1 of min. 12% through internal growth.* ***We maintain our Accumulate rating & target price at QR2.425 for the time being.***
MARK	534.01	547.03	**517.35**	**(3.1%)**	**(5.4%)**	**We expect subdued performance both YoY and sequentially.** MARK's net income is expected to drop YoY mainly due to net provisions stemming from COVID-19 (vs. a net reversal in 2Q2019). Sequentially, net profit is expected to decline on the back of weak revenue (attributable to weak operating environment resulting from COVID-19). *MARK boasts one of the highest dividend yields (5.8%); the bank is cost-efficient, a strong RoE generator (2019: 16.0%) and maintains a superior asset quality vs. its peers.* ***In terms of our recommendation, we maintain our Market Perform rating and price target at QR3.766.***
QIIK	244.54	267.06	**242.94**	**(0.7%)**	**(9.0%)**	**Margin expansion and cost containment to aid the bottom-line.** We estimate flattish earnings YoY driven by margin expansion and cost containment, despite a surge in provisions. On the other hand, the QoQ drop (in-line with historical trends) is due to weak revenue resulting from COVID-19. ***We maintain our Market Perform rating and target price of QR7.95.***

Stock	2Q2019	1Q2020	2Q2020e	% Δ YoY	% Δ QoQ	Key Themes
QIBK	740.08	687.51	**613.78**	**(17.1%)**	**(10.7%)**	**Given QIBK's conservative nature, we expect the bank to book large provisions.** We expect QIBK's bottom-line to drop due to margin compression, weak non-funded income and large provisions resulting from COVID-19. ***We maintain our Market Perform rating and price target at QR15.70.***

Source: QNB FS Research, company data

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

Zaid al Nafoosi, CMT, CFTe
Senior Research Analyst
Tel: (+974) 4476 6535
zaid.alnafoosi@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