

## Qatar 2019: An Outstanding 2018 Sets the Stage for a Positive 2019

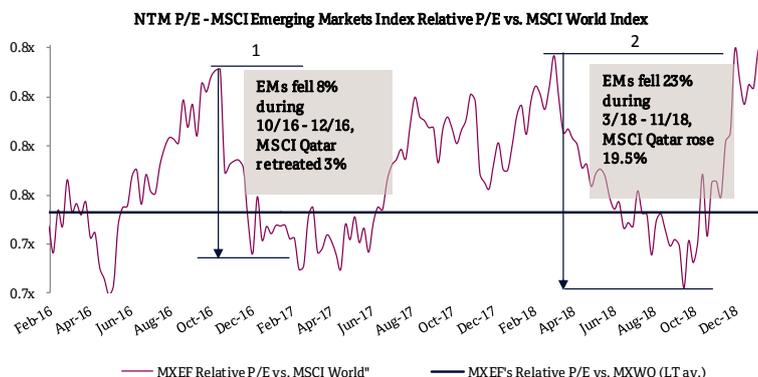
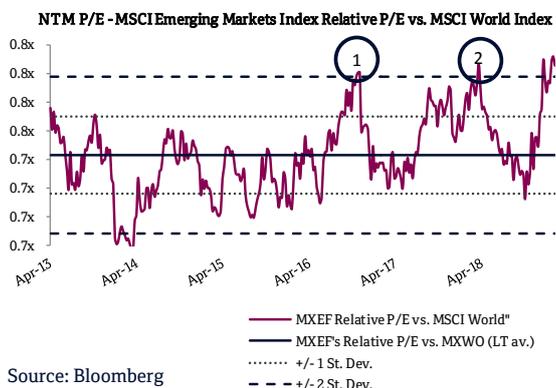
*Backed by 2018's robust earnings growth, we think dividend expectations/realizations could help Qatari equities stay in a positive trend during the early part of 2019. Throughout this year, a resilient macro backdrop and solid growth expectations both on the macro and the micro levels should mark Qatari stocks as relative safe havens for international investors, while many emerging countries (EM) struggle with decelerating growth and deteriorating current account and/or fiscal balances. Besides Qatar's macro strengths, DSM's beta of 0.67 vs the MSCI EM Index justifies its defensive characteristics. On top of the net foreign investor inflow of \$2.6bn in 2018, we anticipate the QSE to keep attracting foreign net flows in 2019 as already evidenced by net buying of \$328mn in the first six weeks of the year. MSCI Qatar's reasonable valuations – both on a historic basis and relative to other EMs – are important factors feeding foreign investor appetite. Qatari-listed companies' intention to reduce the nominal value of their shares to QAR1 from current QR10 via 10-for-1 split may become a long-term driver for the market by possibly expanding its investor base and increasing its daily trading turnover gradually in the coming years.*

- **The Qatari stock market exceeded expectations handily in 2018.** Following an 18.3% decline in 2017, the QE Index made a strong comeback in 2018 rising 25.9% on a total return (TR) basis and ranked as the top performing equity market in the GCC region as well as among the major stocks markets of the world. DSM's 2018 rise was particularly remarkable in a year when the MSCI EM Index and the MSCI World Index were down by 16.6% and 10.4%, respectively. The blockade's minimal impact on Qatar's economy and its listed companies, and robust dividends at the beginning of the year were followed by foreign ownership limit (FOL) increases to 49% for major QSE-listed equities (**QNBK, IQCD, QIBK, QEWS, BRES, MPHC, QFLS and GISS**). These factors, coupled with an estimated 13.9% EPS growth for 2018 (16% for our coverage), were the main drivers behind Qatari stocks' 2018 outperformance. Net foreign investors' flows of \$2.6bn attributable to MSCI and FTSE rebalancing of passive funds into the QSE-listed names were major tailwinds supporting the QSE in 2018.
- **Going forward, we remain optimistic on the Qatari equity market in 2019.** After an expected 10.0% rise in DPS for 2018 (only 1% excluding IQCD's DPS growth), we anticipate a 3.9% DPS increase for 2019 and a 5.9% growth for 2020. Within our coverage universe, we forecast a (DSM-weighted) 4.0% increase in aggregate earnings as of 2019 to be tracked by a more robust 2020 with 9.4%. We also foresee Qatari equities to post better ROE metrics for 2019 and 2020 than their GCC peers (13.9/14.3% vs. regional peer medians at 12.9/13.9%). We have compiled net income expectations of key Qatari equities that we cover. Our Qatari coverage list constituted a significant ~80% of the overall total market capitalization (ex. QNB Group) of the Qatar Exchange. Factors that can negatively impact our thesis include further deterioration of global economic growth prospects, regional geo-political issues, significant decline in oil prices, increase in volatility, exit of hot money from emerging/frontier markets, etc. From our Qatari coverage universe, we favor **QGTS, QEWS and GWCS**.
  - **QGTS (ACCUMULATE; QR21.00 TP).** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance & anticipated growth in the LNG market. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 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. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.
  - **QEWS (ACCUMULATE; QR209.00 TP).** We continue to like the company as a long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E, the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.
  - **GWCS (ACCUMULATE; QR51.00 TP).** We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.3% in 2018, reaching 19.1% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.7% by 2023. With major capex already done, there could be DPS upside medium-term.
- **Solid macro backdrop and accelerating growth continues to support Qatari equities: We anticipate Qatari assets to positively diverge especially from rest of the emerging markets,** which are likely to suffer from rising debt costs in 2019 and availability of new debt both on macro and micro levels. Our economics & strategy team forecasts Qatar's GDP growth to accelerate from 1.6% in 2017 to 2.6% as of 2018 and further to 3.2% as of 2019. The expected rise in growth is attributable to both hydrocarbon and non-hydrocarbon sectors. While hydrocarbon growth is anticipated to speed up from an expected 0.2% in 2018 to 0.7%, the non-hydrocarbon sector expansion is also anticipated to rise from 5% to 5.3% in 2019. Strength in construction, agriculture, manufacturing, transportation and storage sectors backed by strong consumer demand are likely to be the primary drivers of a higher growth in 2019. **Given the IMF's recent reduction in its 2019 global growth estimates for the second time over the last two months, global outlook continues to be subdued, regardless of the Fed's recent dovish statements. Nevertheless, Qatar is**

likely to be one of the few countries that promises a GDP acceleration in 2019. Apart from this growth, Qatar's other major macroeconomic metrics are quite strong for 2019 as well, with current account surplus estimated as 7% and fiscal surplus to reach 6.2% of the GDP, with the initiation of VAT.

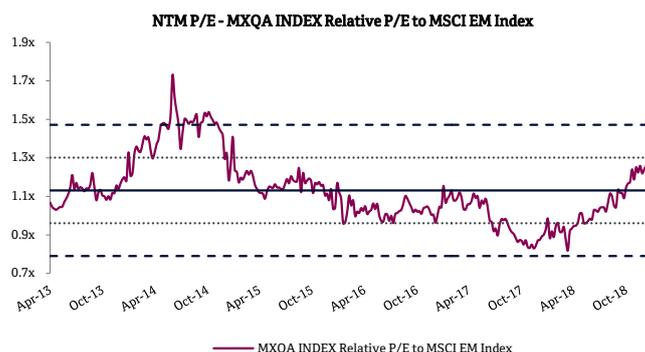
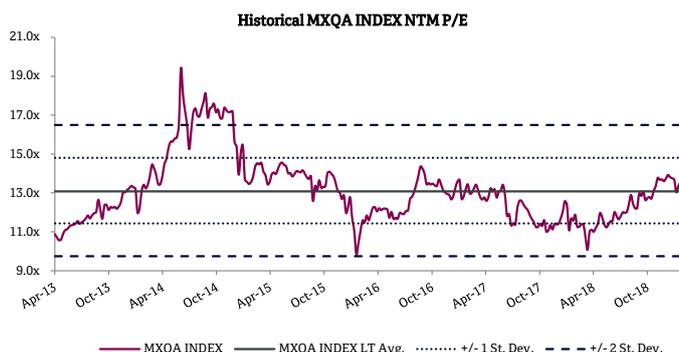
- In the longer term, Qatar's economy should benefit from a number of recent measures.** Investment should be bolstered by new projects related to the expansion of LNG production and projects aimed at ensuring self-sufficiency and sustainability as well as an expected new law to open up more sectors to 100% foreign ownership. Therefore, we expect underlying growth rate of both the hydrocarbon and non-hydrocarbon sectors to continue rising into the medium term.
- Flight to quality tends to be an important driver for Qatari equities.** We observe Qatari equities tend to outperform during volatile times, yet when the risk appetite increases, investor preferences tend toward recently oversold EM markets, as observed during Jan'18 and Jan'19 rallies. Following the Jan'19 rally, MSCI EM Index's relative P/E to MSCI World Index trades above its 2x standard deviation, indicating that EM valuations might be overstretched. Unless a substantial increase in EM corporate earnings takes place within 1H19, we expect another downward correction in EM markets in the coming months as was the case in Nov'16 and Apr-Nov'2018. Expectations for a more dovish Fed have driven global equities during Jan'19, leading the MSCI EM index to rise by 7.9% ytd, slightly surpassing the MSCI World Index's 7.6%. **After the Fed's January 31 FOMC statement declaring it would be patient for future rate hikes as well as hinting an adjustment to its ongoing balance sheet contraction if necessary, we think the MSCI EM Index, currently 0.8% below its January 31 close, is probably already baking in much of the good news.** While the Fed's neutral stance may prevent a faster-than-expected macroeconomic slowdown, we think as long as the Fed does not switch to accommodative policies, stock markets will continue to suffer from anemic growth in 2019. Besides, Jan'19 has been exceptionally calm in other points of concern such as global trade war fears, geopolitical risk factors or emerging market volatilities, etc. However, last couple of years' experience reminds us that such calm periods tend to be succeeded with potentially unfavorable news flow for global equities.

## Emerging Markets vs. MSCI World Index vs. MSCI Qatar



- Despite 2018's robust performance, MSCI Qatar still trades close to its averages vs. EMs.** MSCI Qatar 2019 P/E 13.2x is in-line its 5-year average of 13.1x. Furthermore, compared to MSCI EM Index's 2019E P/E of 11.9x, MSCI Qatar trades at a 10.6% premium, which is slightly above its 5-year average premium of 9.1%, but below its 1x standard deviation.

## MSCI Qatar's Forward-Looking PE



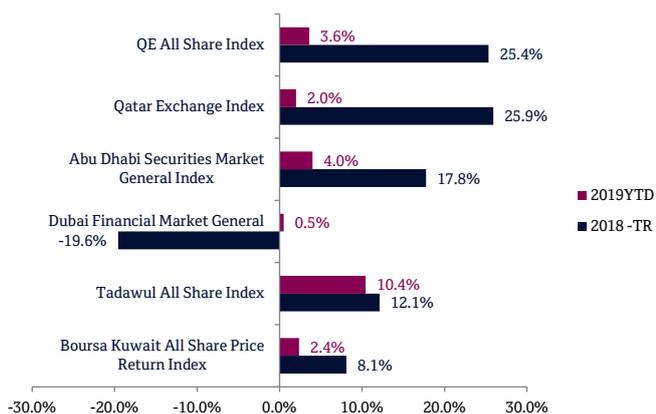
- Not inexpensive but well-deserved valuations.** Qatar Stock Exchange Index (DSM) currently trade at 13.2x of 2019e P/E (slightly surpassing its long-term average of 13.0x), complemented by a dividend yield of 4.3%, while regional peer median 2019E P/E is at 12.3x along with a dividend yield of 5.3%. Qatari stocks trade at premium multiples to their EM and GCC peers, which we think is justified, given the country's strong macro back drop, which could create room for earnings upgrades on a micro level in the coming quarters. Strong fiscal balances allow the government to fuel the economy with government spending, a noteworthy edge in a world where most of the countries suffer from declining growth rates and deteriorating macro dynamics.

### Forward Valuations and Profitability Metrics for Regional Indices

Index	P/E		Dividend Yield %			P/B			ROE (%)		
	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Qatar Exchange Index	13.2x	12.1x	4.2%	4.3%	4.6%	1.6x	1.6x	1.5x	13.9%	13.9%	14.3%
QE All Share Index	13.1x	12.0x	3.7%	3.7%	4.0%	1.5x	1.7x	1.6x	15.1%	15.1%	15.2%
Tadawul All Share Index	15.3x	13.9x	3.3%	3.5%	3.8%	1.9x	1.8x	1.7x	12.9%	12.9%	13.0%
Dubai Financial Market General Index	6.2x	6.1x	5.5%	6.1%	6.4%	0.9x	0.8x	0.8x	12.6%	12.6%	11.9%
Abu Dhabi Securities Market General Index	12.3x	11.6x	4.7%	5.3%	5.6%	1.5x	1.6x	1.6x	14.1%	14.1%	14.9%
Boursa Kuwait All Share Price Return Index	10.1x	8.7x	3.8%	5.8%	6.6%	1.2x	1.1x	1.0x	12.9%	12.9%	13.9%
<b>Average</b>	<b>11.4x</b>	<b>10.4x</b>	<b>4.2%</b>	<b>4.9%</b>	<b>5.3%</b>	<b>1.4x</b>	<b>1.4x</b>	<b>1.3x</b>	<b>13.5%</b>	<b>13.5%</b>	<b>13.8%</b>
<b>Median</b>	<b>12.3x</b>	<b>11.6x</b>	<b>3.8%</b>	<b>5.3%</b>	<b>5.6%</b>	<b>1.5x</b>	<b>1.6x</b>	<b>1.6x</b>	<b>12.9%</b>	<b>12.9%</b>	<b>13.9%</b>

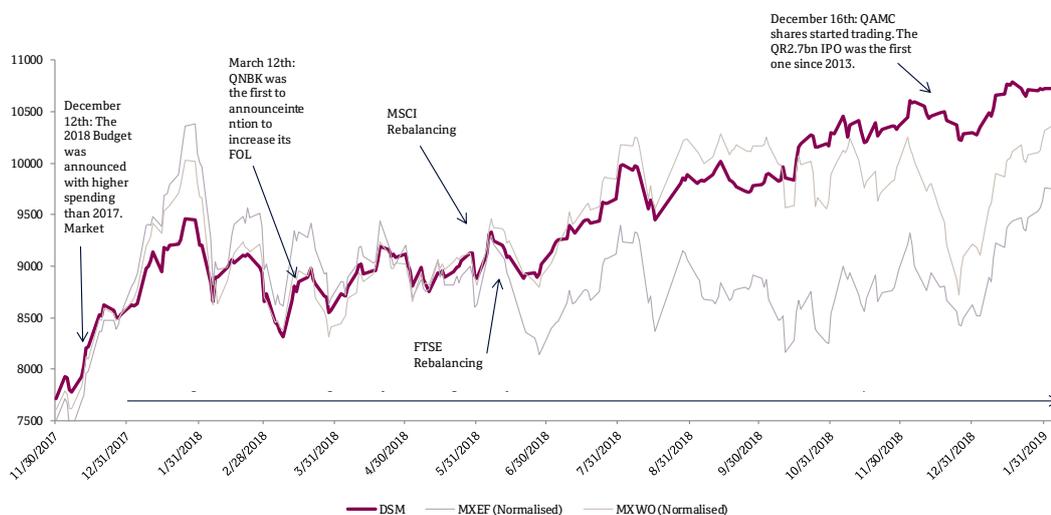
Source: Bloomberg, QNB FS Research

### Qatar & Reginal Markets 2018 Total Return Performance and 2019 YTD Price Performance



Source: Bloomberg

### QE Index Performance (2018 – YTD 2019)



Source: Bloomberg, QNB FS Research

## Key Qatari Stocks Under Coverage

Ticker	Analyst	Mkt. Cap. (QR mn)	Div. Yield	Prices (QR)		Recommendation	Implied Return	Investment Thesis
				Last	Target			
<b>Banks &amp; Financial Services</b>								
ABQK	Shahan Keushgerian	6,416	3.3%	30.50	33.00	MARKET PERFORM	8.2%	The only catalyst for the name is an increase in liquidity as the stock is closely held.
KCBK	Shahan Keushgerian	4,126	6.5%	11.46	15.00	MARKET PERFORM	30.9%	The name trades at a 30% discount to its book value. A significant catalyst for the stock is further progress in management's strategy: 1) an expansion of attributable RoE beyond 12% (2019e and 2020e RoE: 10.7% and 11.1%, respectively) vs. its cost of equity of 12.6%. We expect KCBK to generate a RoE of 12.6% by 2022, 2) The upcoming market-wide 10-for-1 stock split could inject some liquidity in to the name, which has historically faced thin trading volumes and 3) M&A activity.
CBQK	Shahan Keushgerian	16,472	3.7%	40.70	43.00	MARKET PERFORM	5.7%	CBQK posted encouraging results in 2018 making progress in meeting its objectives as set forth in its five-year strategy. Stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result rallied 48% on a 1-year TTR basis, outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a 2019e P/TB of 1.0x vs. 30% discount to book previously. We forecast double-digit growth in 2019 and 2020 net income and now have better visibility on enhanced RoE generation. We increase our PT to QR43.00 by lowering our cost of equity to reflect our sector wide view of improving risk premiums. Also for CBQK, we have upped our sustainable RoE from 11.1% to 11.5% over our forecast horizon.
DHBK	Shahan Keushgerian	6,713	4.6%	21.65	26.00	MARKET PERFORM	20.1%	DHBK has been the worst performing bank stock in Qatar due to concerns on asset quality emanating from the contracting segment loans and GCC operations. On a 1-year TTR basis, the stock is down 28%. Stock price improvement depends on a resumption of confidence in company performance. DHBK recommended cash DPS of QR1.00 (yielding 4.6%) vs. QR3.00 in 2017. In our view, the cut in DPS was necessary in order to prevent the CET1 ratio from dropping below 10%. Had the bank maintained a DPS of QR3.00, CET1 would have dropped to 9.5%. We expect marginal increases in the DPS going forward but not to the extent of its historical trend.
MARK	Shahan Keushgerian	30,008	5.0%	40.01	34.00	MARKET PERFORM	(15.0%)	MARK has the best asset quality among Qatari banks with a NPL ratio of 0.80%, one of the highest RoEs of ~16% and robust capitalization at 19%. However, valuations remain overstretched, with the name trading at 2.2x P/B. The market is pricing a fundamental P/B (2.2x) and a sustainable RoE (17.7%) vs. our estimates (P/B: 1.8x & RoE: 15.8%).
QIHK	Shahan Keushgerian	10,298	5.9%	68.03	63.00	MARKET PERFORM	(7.4%)	We view QIHK as a dividend play with an attractive yield of 5.9%. The stock remains expensive, trading at PEG of 1.4x based on a bottom-line CAGR of 7.8% (2018-2023e). Catalysts for the name include: 1) Increase in FoL to 49% from 25% and/or 2) Increase in traded volumes.
QIBK	Shahan Keushgerian	37,289	3.2%	157.81	129.00	MARKET PERFORM	(18.3%)	In our view, QIBK's turnaround/restructuring phase is already priced in the stock. Moreover, fundamentals continue to remain robust with attractive EPS growth forecast over the 2019-22e horizon. However, QIBK is trading at a steep premium to its historical P/B of 1.6x. As such, we believe the company will have to show accelerating performance to maintain momentum in its stock price. The name rallied on the back of an increase in FoL (49%), which resulted its weight increasing in both MSCI EM and FTSE EM Indices.
<b>Industrials</b>								
IQCD	Saugata Sarkar	85,971	3.5%	142.10	126.00	MARKET PERFORM	(11.3%)	Strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible. We continue to believe with the stock enjoying solid momentum, upside in earnings/dividends are key for charting the way forward. Given IQCD continues to operate above capacity and with no major capex on the horizon, earnings growth remains purely a function of commodity price forecasts. Considering its strong 2018 performance will soon be in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019. In this regard, early indications are positive and could lead to upside vs. our 1.3% EPS decline forecast for 2019. Strong FCF generation should support dividends going forward despite high payout ratio vs. historicals.
QEWS	Saugata Sarkar	20,372	4.0%	185.20	209.00	ACCUMULATE	12.9%	QEWS' stock did not keep pace with the overall growth in the stock market last year given tepid 2Q/3Q results; for 4Q2018, we expect a seasonally weak quarter. However, we continue to like the company as a long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E; the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.
<b>Transportation</b>								
QNNS	Shahan Keushgerian	7,909	5.1%	69.06	81.00	MARKET PERFORM	17.3%	We continue to believe that QNNS' business is levered to Qatar's economic growth through: 1) offshore oil & gas (18% of 2017 revenue); 2) the construction sector (14%); 3) import and export activities/logistics (33%); 4) the LNG and LPG shipping markets (15%); 5) the property market (6%) and 6) an investment portfolio invested in Qatari blue chip equities (11%).
GWCS	Saugata Sarkar	2,461	4.5%	42.00	51.00	ACCUMULATE	21.4%	We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.3% in 2018, reaching 19.1% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.7% by 2023. With major capex already done, there could be DPS upside medium-term.

Source: Bloomberg, QNB FS Research; Note: upside based on February 7, 2019 closing prices

## Key Qatari Stocks Under Coverage

Continued...

Ticker	Analyst	Mkt. Cap. (QR mn)	Div. Yield	Prices (QR) Last Target	Recommendation	Implied Return	Investment Thesis
<b>Transportation - cont.</b>							
GISS	Saugata Sarkar	3,057	-	16.45 19.00	MARKET PERFORM	15.5%	While 2018 impairments could bite, investors should focus on 2019 turnaround and beyond. GISS stock has drifted down 10% since we changed our rating to Market Perform vs. a 5% increase in the QSE Index. Our view on the upcoming results remains unchanged – results should show growth YoY/QoQ, on an operating basis, but net income could get impacted if we see any rig impairments. We continue to model in a resumption of dividends with QR1 in DPS (6.1% yield) expected for 2018. However, a loss could easily eliminate the dividend and further pressure the stock. While 2018 results are important, we continue to look beyond and point to our expectation of solid earnings growth in 2019 primarily driven by drilling, albeit from a modest base. We do expect the drilling segment to pull itself out of losses suffered during 2016-2018 by 2H2019 in light of increasing demand due to the proposed North Field expansion and given our assumption of high utilization of existing rigs, startup of rig utilization contracts for additional rigs (similar to the Seadrill deal announced in July) and modest cost savings.
QGTS	Saugata Sarkar	10,997	5.0%	19.85 21.00	ACCUMULATE	5.8%	Nakilat's results remain fairly predictable, which is a testament to the company's solid and stable business especially when it comes to its wholly-owned ship segment. We do not expect 2018 results to be any different. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 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. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.
<b>Telecom</b>							
VFQS	Saugata Sarkar	6,958	-	8.23 8.50	MARKET PERFORM	3.3%	We expect VFQS to report an overall strong 4Q2018; possible resumption of dividends could be a positive. We continue to like the company's momentum in postpaid (3Q2018 revenue up 36% YoY driven by subs increasing 24% and ARPU growing 8%) fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast a resumption in dividends in 2018 after an almost 4-year hiatus; indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 10.4x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is markedly more expensive than peers.
<b>Overall Average</b>			<b>3.9%</b>				<b>6.4%</b>
<b>Overall Median</b>			<b>4.3%</b>				<b>7.0%</b>

Source: Bloomberg, QNB FS Research; Note: upside based on February 7, 2019 closing prices

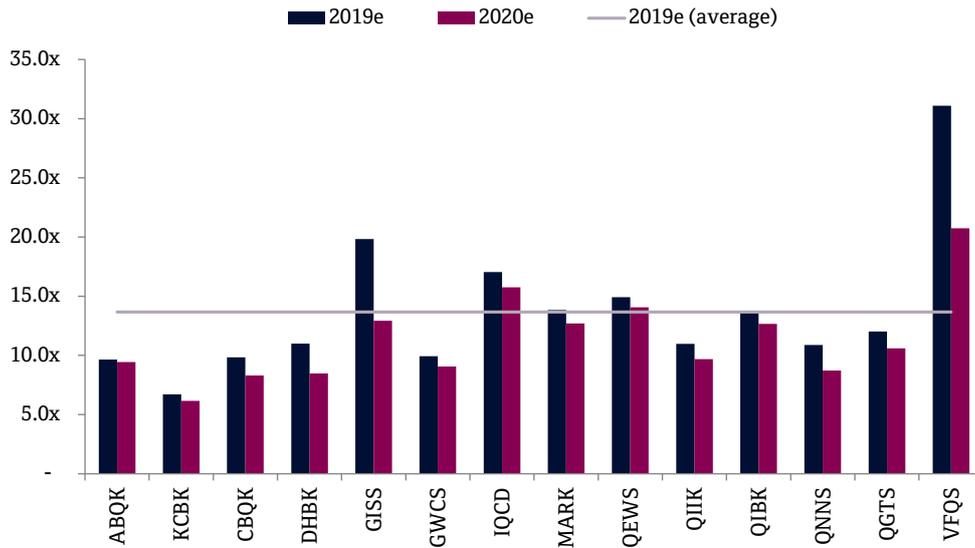
## Key Financial Data and Estimates

Ticker	Company	Share Price (QR)	Div. Yield	EPS				Growth			
				2017a	2018e/a	2019e	2020e	2018e/a	2019e	2020e	2019e (average)
ABQK	Ahli Bank QSC	30.5	3.3%	3.04	3.17	3.16	3.23	4.3%	(0.3%)	2.2%	5.8%
KCBK	Al Khalij Commercial Bank PQSC	11.46	6.5%	1.38	1.54	1.71	1.86	11.6%	11.0%	8.8%	5.8%
CBQK	Commercial Bank PQSC/The	40.7	3.7%	0.90	3.52	4.14	4.90	290.7%	17.8%	18.4%	5.8%
DHBK	Doha Bank QPSC	21.65	4.6%	3.02	1.97	1.97	2.56	(34.8%)	0.1%	29.9%	5.8%
GISS	Gulf International Services	16.45	-	0.46	0.35	0.83	1.27	(24.8%)	139.8%	53.4%	5.8%
GWCS	Gulf Warehousing Co	42	4.5%	3.68	4.04	4.23	4.64	9.8%	4.6%	9.7%	5.8%
IQCD	Industries Qatar QSC	142.1	3.5%	5.48	8.44	8.34	9.02	54.1%	(1.3%)	8.2%	5.8%
MARK	Masraf Al Rayan QSC	40.01	5.0%	2.70	2.84	2.89	3.15	5.2%	1.8%	9.0%	5.8%
QEWS	Qatar Electricity & Water Co QSC	185.2	4.0%	14.69	13.29	12.42	13.17	(9.6%)	(6.5%)	6.0%	5.8%
QIIB	Qatar International Islamic Bank QSC	68.03	5.9%	5.50	5.46	6.20	7.02	(0.7%)	13.6%	13.2%	5.8%
QIBK	Qatar Islamic Bank SAQ	157.81	3.2%	9.31	10.79	11.51	12.46	15.9%	6.7%	8.3%	5.8%
QNNS	Qatar Navigation QSC	69.06	5.1%	5.48	4.40	6.35	7.92	(19.7%)	44.2%	24.7%	5.8%
QGTS	Qatar Gas Transport Co Ltd	19.85	5.0%	1.53	1.57	1.65	1.87	2.9%	4.9%	13.4%	5.8%
VFQS	Vodafone Qatar	8.23	-	(0.30)	0.14	0.26	0.40	nmf	95.9%	50.0%	5.8%
<b>Average</b>			<b>3.9%</b>					<b>23.5%</b>	<b>23.7%</b>	<b>18.2%</b>	
<b>Median</b>			<b>4.3%</b>					<b>4.3%</b>	<b>5.8%</b>	<b>11.5%</b>	
<b>DSM-Weighted Coverage</b>								<b>16.0%</b>	<b>4.0%</b>	<b>9.4%</b>	

nmf: Not Meaningful, NA: Not Applicable

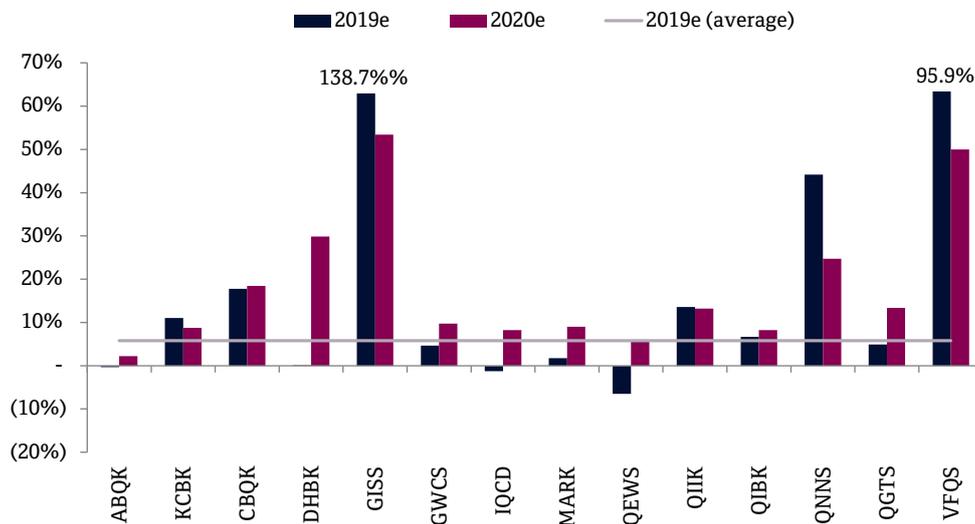
Source: Bloomberg, QNB FS Research

### Forward P/E Multiples for our Qatari Coverage Universe



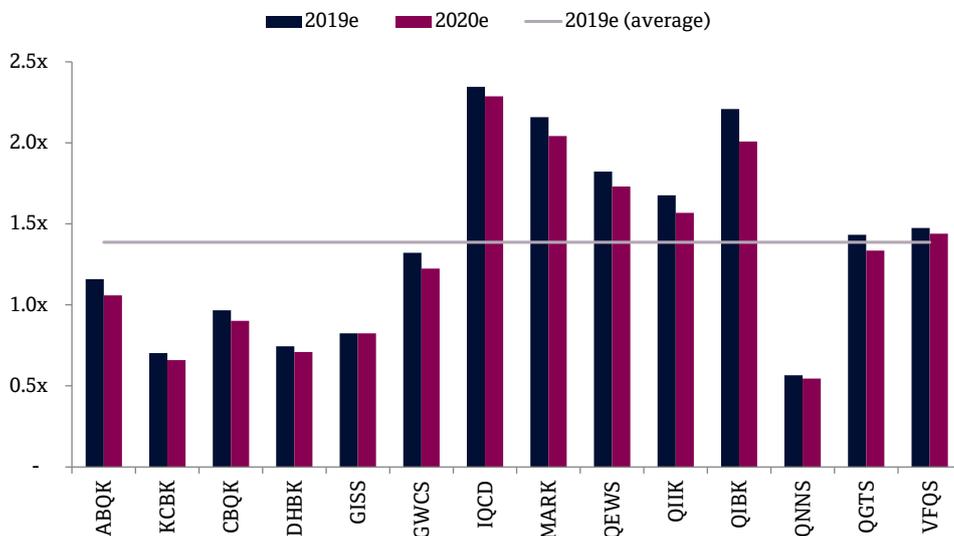
Source: Bloomberg, QNB FS Research

### EPS Growth for our Qatari Coverage Universe



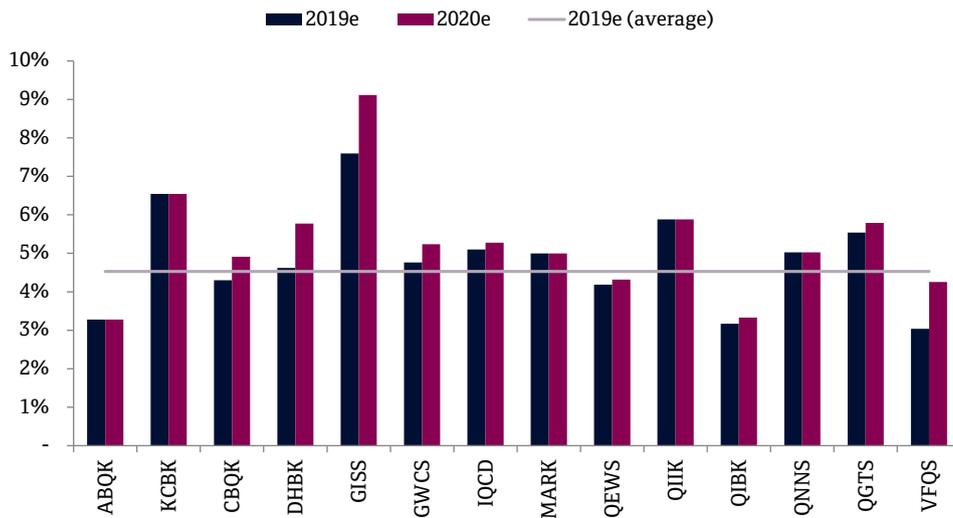
Source: Bloomberg, QNB FS Research

### Forward P/B Multiples for our Qatari Coverage Universe



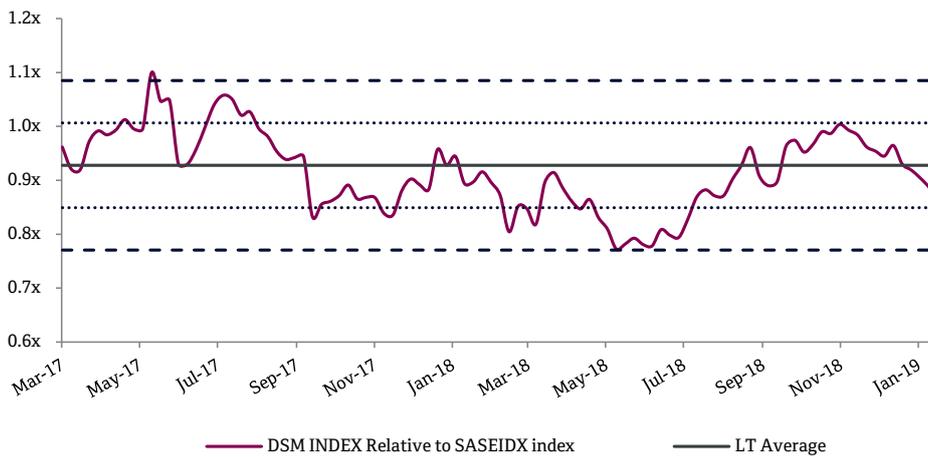
Source: Bloomberg, QNB FS Research

### Dividend Yield for our Qatari Coverage Universe



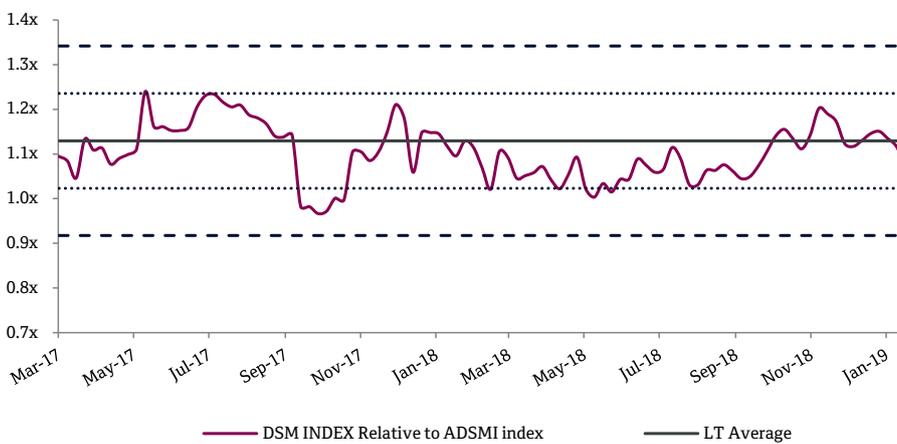
Source: Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Saudi Index



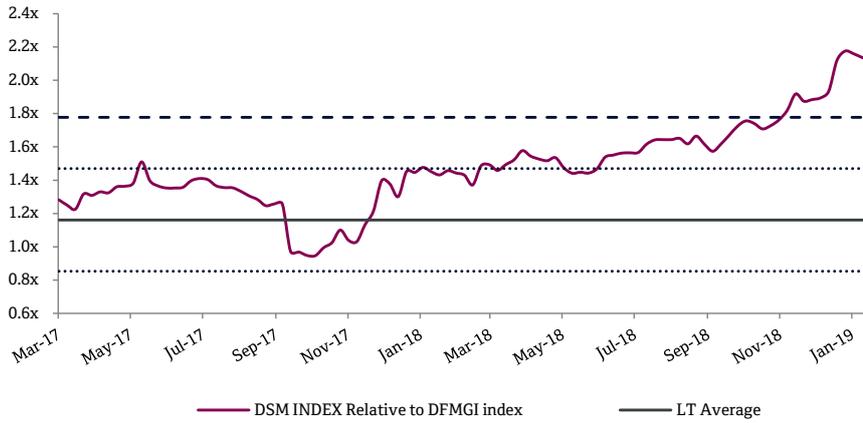
Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Abu Dhabi Index



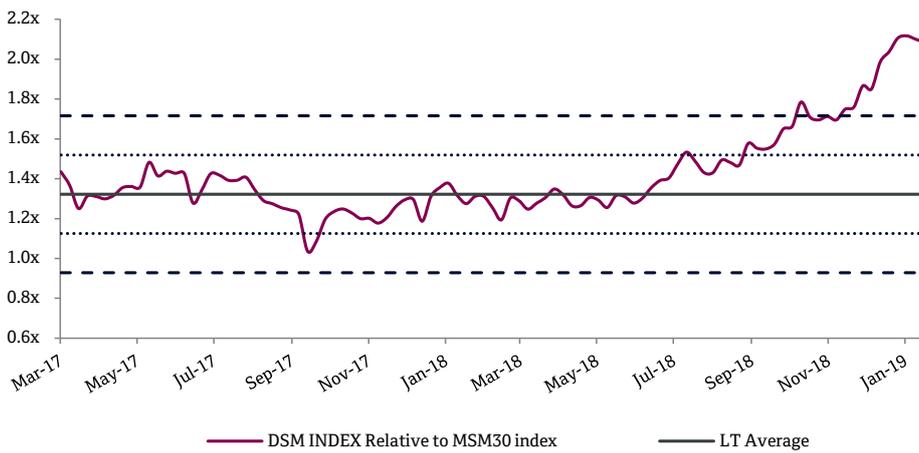
Source: Bloomberg, QNB FS Research

**QE Index Forward P/E Relative to Dubai Index**



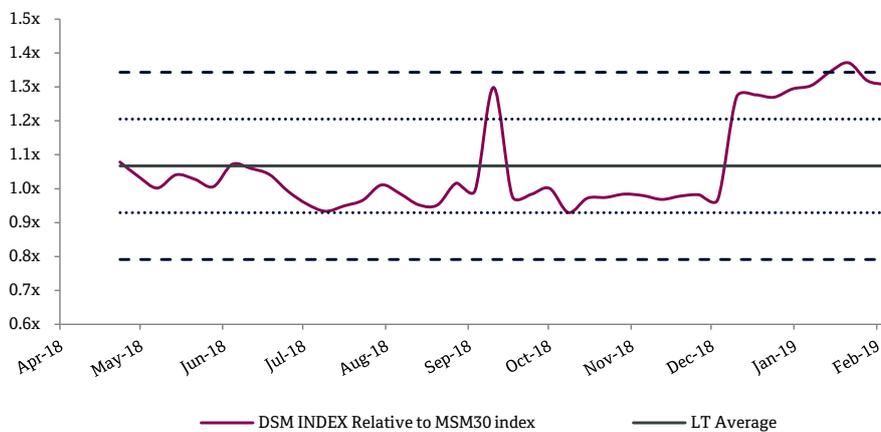
Source: Bloomberg, QNB FS Research

**QE Index Forward P/E Relative to Muscat Index**



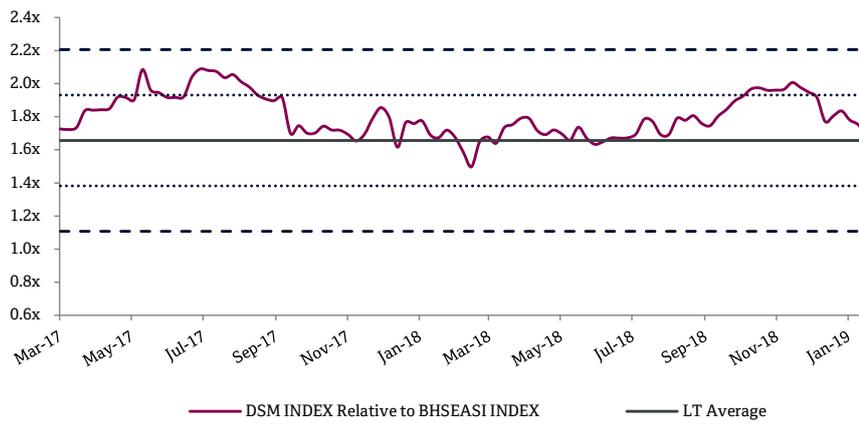
Source: Bloomberg, QNB FS Research

**QE Index Forward P/E Relative to Boursa Kuwait Index**



Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Bahrain Index



Source: Bloomberg, QNB FS Research

## COMPANY UPDATES

# Ahli Bank (ABQK)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR30.50	Target Price	QR33.00
Implied Upside	+8.2%		

## Investment Income & Lower Opex Drives 2018 YoY Bottom-Line Growth

**Ahli Bank is one of Qatar's smallest lenders with a focus on the corporate and retail sectors.** ABQK has a ~3% market share of loans and deposits (among listed banks). Focused on Qatar, along with a strategic shareholder (Qatar Foundation), ABQK's management has set forth a strategy targeting a 5% to 7% market share in loans and deposits.

### Highlights

- **ABQK's 4Q2018 YoY growth in bottom-line driven by investment income & lower opex.** ABQK posted a net profit of QR127.7mn (in-line with our estimate of QR127.9mn), gaining by 5.1% YoY (-30.8% sequentially).
- **DPS in-line with estimates.** The company announced DPS of QR1.00/sh. (yielding 3.3%), unchanged vs. 2017 and 10% in bonus shares.
- **Margins continued to compress.** Net interest income dropped by 3.4% YoY (-0.6% QoQ) to QR204.4mn. NIM compressed by 8bps YoY and sequentially to 2.23%. The contraction was attributed to CoFs rising more than yield on assets. CoFs surged by 76bps YoY (+7bps QoQ) to 3.34%, while yield on assets increased by only 33bps YoY (-12bps QoQ) to 4.83%. ABQK ended 2018 with a NIM of 2.23% (down by 7bps).
- **Efficiency ratio remained at acceptable levels, generated positive JAWS.** In 2018, total revenue increased by 5.4% while opex decreased by 3.1%, resulting in positive JAWS (8.5%). Core C/I ratio (excluding investment income) improved YoY at 29.5% vs. 30.8%.
- **Asset quality deteriorated.** NPL ratio moved to 1.69% vs. 1.18% in 3Q2018 (1.00% in FY2017), while the coverage ratio of stage 3 loans was 70%.
- **CoR almost doubled.** ABQK's CoR jumped to 44bps in 2018 vs. 24bps in 2017.
- **Capitalization remains strong.** ABQK's CET1 ratio remained unchanged at 15.8% at the end of 2018 vs. 2017.
- **Net loans and deposits contracted YoY and sequentially.** ABQK's net loans dropped by 5.7% YoY (-4.7% QoQ), while deposits contracted by 7.9% YoY (-8.2% QoQ). As such, the LDR moved up to 124% vs. 119% in 3Q2018 (121% in end-2017). However, LDR (based on stable source of funds) was at an optimal level of 97%. The drop in loans and deposits was mainly attributable to the public sector.

### Catalysts

- 1) Improvement in the stock's trading liquidity.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain ABQK's price target at QR33.00 and Market Perform Rating.** ABQK trades at a FY2019e P/B and P/E of 1.2x and 9.4x, respectively.
- **Risks:** 1) Ahli Bank's market share gains do not materialize and 3) concentration risk and general risks rising from regional socio-political issues.

### Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (QR)	3.16	3.23	3.55	3.97
Growth (%)	-0.2	2.2	9.7	12.0
P/E (x)	9.6	9.4	8.6	7.7
BVPS (QR)	26.1	26.3	28.8	31.6
P/B (x)	1.3	1.2	1.1	1.0
DPS (QR)	1.00	1.00	1.00	1.50
Dividend Yield (%)	3.3	3.3	3.3	4.9

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

### Key Data

Current Market Price (QR)	30.50
Dividend Yield (%)	3.3%
Bloomberg Ticker	ABQK QD EQUITY
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	35.71 / 27.30
3-m Average Volume ('000)	3.7
Mkt. Cap. (\$ bn/QR bn)	1.8 / 6.4
Shares Outstanding (mn)	210.4
FO Limit* (%)	25.0
Current FO* (%)	0.2
1-Year Total Return (%)	(1.8)
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

Key Ratios	2018	2019e	2020e	2021e
<b>Profitability (%)</b>				
RoAE (Attributable)	12.3	12.3	12.9	13.2
NIM	2.2	2.3	2.4	2.5
RoRWA (Attributable)	2.1	2.1	2.2	2.3
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	28.1	29.0	28.1	27.3
Cost-to-Income (Core)	29.5	29.6	28.5	27.7
<b>Liquidity (%)</b>				
LDR	123.6	123.0	122.5	118.9
Loans/Assets	67.6	71.9	70.2	71.7
Cash & Interbank Loans-to-Total Assets	23.1	17.8	19.4	17.8
<b>Asset Quality (%)</b>				
NPL Ratio	1.69	1.82	1.73	1.51
Coverage Ratio	133.5	123.6	142.4	175.3
Cost of Risk	44	33	30	24
<b>Capitalization (%)</b>				
Tier 1 Ratio	15.8	16.7	17.1	17.1
CAR	16.9	17.7	18.1	18.1
<b>Growth (%)</b>				
Net Interest Income	-0.6	2.5	10.4	9.9
Net Operating Income	9.2	-0.8	9.3	10.2
Net Income	4.0	2.2	9.7	12.0
Loans	-5.7	4.5	6.6	8.7
Deposits	-7.9	5.0	7.0	12.0

Source: Company data, QNB FS Research

Income Statement (In QR mn)	2018	2019e	2020e	2021e
Net Interest Income	829	850	938	1,031
Fees & Commissions	185	197	203	211
FX Income	25	27	28	31
Other Income	62	32	24	30
<b>Non-Interest Income</b>	<b>272</b>	<b>256</b>	<b>255</b>	<b>271</b>
<b>Total Revenue</b>	<b>1,101</b>	<b>1,106</b>	<b>1,193</b>	<b>1,302</b>
Operating Expenses	(309)	(321)	(335)	(356)
<b>Net Operating Income</b>	<b>792</b>	<b>785</b>	<b>858</b>	<b>946</b>
Net Provisions & Investment Impairment	(126)	(105)	(112)	(110)
<b>Net Profit (Headline/Reported)</b>	<b>666</b>	<b>680</b>	<b>746</b>	<b>836</b>
Social & Sports Contribution Fund	(17)	(17)	(19)	(21)
<b>Net Profit (Attributable)</b>	<b>649</b>	<b>663</b>	<b>728</b>	<b>815</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019e	2020e	2021e
<b>Assets</b>				
Cash & Balances with Central Bank	2,405	1,740	1,985	2,224
Interbank Loans	4,100	2,282	3,040	2,313
Net Investments	5,862	6,328	7,067	7,628
Net Loans	27,301	28,529	30,403	33,046
Other Assets	486	571	578	661
Net PP&E	248	239	225	243
<b>Total Assets</b>	<b>40,403</b>	<b>39,689</b>	<b>43,298</b>	<b>46,116</b>
<b>Liabilities</b>				
Interbank Deposits	5,729	3,602	4,679	3,466
Customer Deposits	22,090	23,194	24,818	27,796
Term Loans & Other Borrowings	6,126	6,432	6,883	7,227
Other Liabilities	957	928	869	973
<b>Total Liabilities</b>	<b>34,902</b>	<b>34,156</b>	<b>37,248</b>	<b>39,461</b>
<b>Shareholder's Equity</b>				
<b>Total Shareholders' Equity</b>	<b>5,501</b>	<b>5,533</b>	<b>6,050</b>	<b>6,655</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>40,403</b>	<b>39,689</b>	<b>43,298</b>	<b>46,116</b>

Source: Company data, QNB FS Research

# Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR40.70	New Target Price	QR43.00
Implied Upside	+5.7%	Old Target Price	QR35.00

## Encouraging 2018; Upping PT to QR43.00/sh.

**CBQK posted encouraging results in 2018 making progress in meeting its objectives as set forth in its five-year strategy.** Stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result rallied aggressively, outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a 2019e P/TB of 1.0x vs. 30% discount to book previously. We forecast double-digit growth in 2019 and 2020 net income and now have better visibility on enhanced RoE generation. **We increase our PT to QR43.00 by lowering our cost of equity to reflect our sector wide view of improving risk premiums. Also for CBQK, we have upped our sustainable RoE from 11.1% to 11.5% over our forecast horizon.** We make minor changes to our estimates for 2019 and 2020 (next page), while the bottom-line remains unchanged vs. our previous estimates.

### Highlights

- **CBQK's 2018 bottom-line soared YoY (base effect) driven by a sharp drop in credit costs.** CBQK reported a net profit of QR1.7bn vs. QR603.6mn in 2017, surging YoY mainly attributed to a material drop in provisions & impairments. Total revenue was flat due to non-funded income mitigating weak net interest income.
- **NIM marginally declined due to funding pressure.** NIM contracted by 6bps YoY to 2.13% due to CoFs outpacing growth in yield on assets. CoFs gained by 93bps, while yield on assets increased by 75bps.
- **NPLs declined; CoR significantly improved, as expected.** NPLs dropped by 7.3% to QR4.89bn, while the NPL ratio declined to 5.59% vs. 5.65% in 2017 (majority of NPLs are legacy). Net provisions and impairments dropped by 52.1% to QR835.5mn vs. QR1.7bn in 2017. Moreover, CoR improved to 102bps vs. 195bps in FY2017. *Management has been de-risking its books provisioning legacy NPLs. As such, CoR is expected to further decline in 2019 (~80bps) and 2020 (~60bps).*
- **Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK posted opex of QR1.2bn, down 11.5% YoY while total revenue was flat. Hence the C/I ratio fell to 31.9% vs. 36.0% in FY2017 (48.0% in 2016). Moreover, the bank generated positive JAWs of 11.5% in 2018 (+25.8%: 2017). *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering.*
- **Loans and deposits continued contracting; loan portfolio diversification is a positive.** Net loans dropped by 6.1% YoY to QR83.7bn, while customer deposits declined by 8.1% YoY to QR71.3bn. The contraction in loans was partly due to the depreciation in Turkish Lira and due to the settlement of the temporary government overdraft in 2Q2018 (after the issuance of sovereign bonds). Management diversified the loan book as part of its strategy/objectives; real estate and contracting loans receded by 10.9% and 31.8% YoY, respectively. Hence, real estate and contracting loans currently make up 25.1% (26.4% in 2017) and 5.2% (7.1% in 2017) of the loan portfolio, respectively.
- **CET1 weakened in FY2018 because of IFRS 9 one-time charge of QR1.3bn, management is guiding to 11%-11.5% CET1 ratio.** CBQK's CET1 ratio declined to 10.5% in 2018 vs. 11.2% in 2017. Excluding the dividends from CET1, the ratio would be lower by 50bps at 10%. Based on our estimates we expect the bank to generate a CET1 ratio of 11.0% in 2019, 2020 and 2021. This scenario is possible even with marginal increases in DPS.

### Catalysts

- Delivering better profitability metrics than expected/estimated.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We change our Price Target to QR43/sh. and maintain our Market Perform rating.** CBQK is trading at a 2019e P/TB and P/E of 1.0x and 9.8x, respectively. The market is pricing a sustainable RoE of 10.9% vs. our forecast of 11.5%.
- **Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	3.52	4.14	4.90	5.36
EPS Growth (%)	286.4	17.8	18.4	9.2
P/E (x)	11.6	9.8	8.3	7.6
TBVPS (QR)	38.8	41.6	44.7	48.0
P/TB (x)	1.0	1.0	0.9	0.8
DPS (QR)	1.50	1.75	2.00	2.50
Dividend Yield (%)	3.7	4.3	4.9	6.1

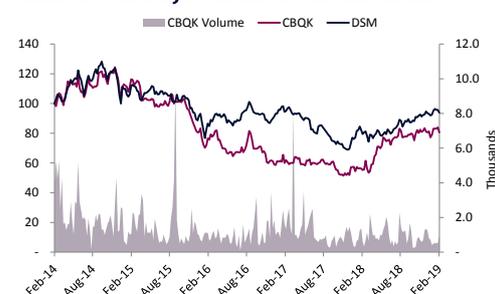
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

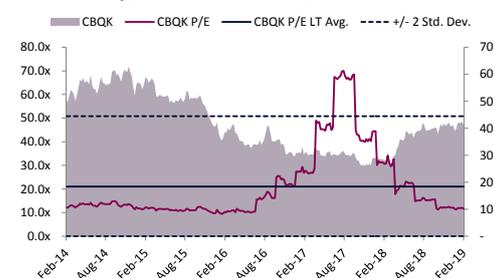
Current Market Price (QR)	40.70
Dividend Yield (%)	3.7%
Bloomberg Ticker	CBQK QD EQUITY
Reuters Ticker	CBQK.QA
ISIN	QA0007227752
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	42.50 / 27.00
3-m Average Volume ('000)	159.4
Mkt. Cap. (\$ bn/QR bn)	4.5 / 16.5
Shares Outstanding (mn)	404.7
FO Limit* (%)	49.0
Current FO* (%)	15.4
1-Year Total Return (%)	50.6
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

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

Source: Company data, QNB FS Research

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

Source: Company data, QNB FS Research

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

Source: Company data, QNB FS Research

# Al Khalij Commercial Bank (KCBK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR11.46</b>	<b>Target Price</b>	<b>QR15.00</b>
<b>Implied Upside</b>	<b>+30.9%</b>		

## Expect CoR to Consistently Drop Going Forward

KCBK posted 2018 net income of QR608.4m, in-line with our estimate of QR609.0mn. The result was +11.7% Y-o-Y, mostly due to a material decline in provisions. Total revenue declined as a result of the current operating environment. However, NIM improvement was visible. Loans & deposits contracted YoY, but liquidity remained strong with LDR at 92%. Cost of Risk improved to 60bps and we predict further improvement in 2019 and beyond. DPS came in-line with our forecast at QR0.75, offering an above market average yield of 6.5% at current levels. The upcoming market-wide 10-for-1 stock split could inject some liquidity into the name, which has historically faced thin trading volumes. We retain our Market Perform rating and QR15.00 Price Target on KCBK.

### Highlights

- KCBK's 2018 attributable net income increased by 11.7% on the back of a 40.3% drop in provisions & impairments, while total revenue exhibited weak performance.** KCBK reported net income of QR608.4mn, in-line with our estimate of QR609.0mn. The bank's revenue declined by 5.9% as a result of net interest income. Given the current operating environment, we are of the view that growth in 2019's bottom-line could also be driven by an improvement in CoR.
- Opex containment persisted but drop in revenue led to an uptick in C/I ratio.** Revenue declined by 5.9%, while opex receded by 1.6%. As a result, KCBK generated negative JAWS. Moreover, C/I ratio moved up to 28.8% in FY2018 vs. 27.6% in FY2017. We do note the current efficiency ratio is acceptable and still in-line with management's target of less than 30%.
- Margins inched up as the bank shed expensive deposits.** NIMs marginally moved up by 2bps YoY to 1.81%. Yields expanded by 58bps YoY to 4.22%, outpacing CoFs. CoFs increased by 50bps YoY to 2.71%, leading to the gains in margins. It is worth mentioning that interest bearing deposits declined by 13.8% YoY.
- Gross loans and deposits declined.** Gross loans contracted by 8.9% YoY to QR32.7bn while deposits dropped by 12.5% to QR28.6bn. Nevertheless, the liquidity position remained strong with LDR (based on stable sources of funds) amounting to 92%. The bank divested non-core loans in order to sharpen focus on preferred segments.
- Asset quality improved, CoR dropped.** The bank's NPLs dropped by 11.9%. As such, the NPL ratio declined to 1.88% vs. 1.94% at the end of 2017. Moreover, the coverage ratio (coverage of stage 3 loans/NPLs) moved up to 83% vs. 79% in 3Q2018. We expect the coverage ratio to continuously increase as management exercises prudent risk control. CoR also improved, receding to 60bps vs. 84bps in 2017. We foresee further improvement in CoR, penciling in 46bps in 2019.
- Tier-1 remained strong, although slightly lower.** The bank's CET-1 and Tier-1 ratios declined to 13.0% (14.2% in 2017) and 15.6% (16.7% in 2017), respectively. Moreover, KCBK ended 2018 with a CAR of 16.7% (15.8% in 2017). We expect capitalization to remain robust in 2019 and the coming years.

### Catalysts

- Visible progress in management's strategy:** 1) an expansion of attributable RoE beyond 12% (2019e and 2020e RoE: 10.7% and 11.1%, respectively), 2) improvement in the liquidity of the stock and 3) M&A activity.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target at QR15.00.** KCBK trades at P/TB and P/E of 0.7x and 6.7x on our 2019 estimates, respectively.
- Risks:** 1) Geopolitical factors/issues, 2) KCBK's market share gains do not materialize, 3) possible asset quality concerns and 4) concentration risk.

### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	1.54	1.71	1.86	2.09
EPS Growth (%)	11.7	11.0	8.8	12.7
P/E (x)	7.5	6.7	6.2	5.5
Tangible BVPS (QR)	15.1	15.9	17.0	18.3
P/TB (x)	0.8	0.7	0.7	0.6
DPS (QR)	0.75	0.75	0.75	1.00
Dividend Yield (%)	6.5	6.5	6.5	8.7

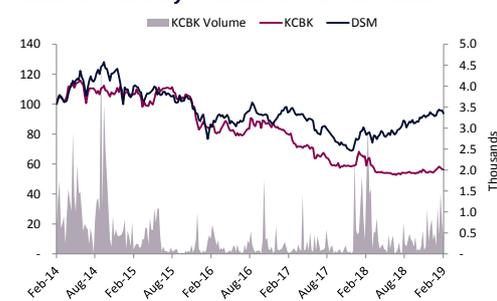
Source: Company financials, QNB FS Research; Note: All data based on current number of shares

### Key Data

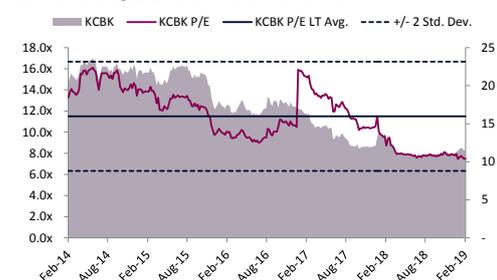
Current Market Price (QR)	11.46
Dividend Yield (%)	6.5%
Bloomberg Ticker	KCBK QD EQUITY
Reuters Ticker	KCBK.QA
ISIN	QA000A0M6MD5
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	13.25 / 10.70
3-m Average Volume ('000)	125.8
Mkt. Cap. (\$ bn/QR bn)	1.1 / 4.1
Shares Outstanding (mn)	360.0
FO Limit* (%)	49.0
Current FO* (%)	10.9
1-Year Total Return (%)	1.5
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	915	943	1,026	1,129
Fees & Commissions	190	182	166	186
FX Income	38	40	42	40
Other Income	0	12	23	25
<b>Non-Interest Income</b>	<b>228</b>	<b>234</b>	<b>231</b>	<b>250</b>
<b>Total Revenue</b>	<b>1,143</b>	<b>1,177</b>	<b>1,257</b>	<b>1,379</b>
Operating Expenses	(329)	(335)	(343)	(363)
<b>Net Operating Income</b>	<b>814</b>	<b>842</b>	<b>915</b>	<b>1,017</b>
Net Provisions & Impairments	(190)	(155)	(173)	(188)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>624</b>	<b>687</b>	<b>742</b>	<b>829</b>
Non-Recurring Income	-	-	-	-
<b>Net Profit Before Tax</b>	<b>624</b>	<b>687</b>	<b>742</b>	<b>829</b>
Tax	(16)	(17)	(19)	(21)
<b>Net Profit (Headline/Reported)</b>	<b>608</b>	<b>669</b>	<b>724</b>	<b>808</b>
Interest Payment on AT1 Note	(55)	(55)	(55)	(55)
Social & Sports Contribution Fund	(15)	(17)	(18)	(20)
<b>Net Profit (Attributable)</b>	<b>538</b>	<b>598</b>	<b>650</b>	<b>733</b>

Source: Company financials, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	2,881	3,782	3,404	3,932
Interbank Loans	6,085	6,619	4,425	5,617
Net Investments	10,663	11,537	10,349	9,867
Net Loans	31,309	33,112	35,935	39,743
Other Assets	687	662	683	795
Net PP&E	335	355	375	397
Goodwill & Other Intangibles	143	133	119	119
<b>Total Assets</b>	<b>52,102</b>	<b>56,200</b>	<b>55,290</b>	<b>60,469</b>
<b>Liabilities</b>				
Interbank Deposits	9,495	10,097	6,725	7,867
Customer Deposits	28,601	31,519	34,040	37,444
Term Loans & Borrowings	5,568	5,568	5,568	5,568
Other Liabilities	1,861	2,143	1,702	1,872
AT1 Perpetual Bonds	1,000	1,000	1,000	1,000
<b>Total Liabilities</b>	<b>46,526</b>	<b>50,326</b>	<b>49,036</b>	<b>53,752</b>
<b>Total Shareholders' Equity</b>	<b>5,577</b>	<b>5,874</b>	<b>6,254</b>	<b>6,717</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>52,102</b>	<b>56,200</b>	<b>55,290</b>	<b>60,469</b>

Source: Company financials, QNB FS Research

## Doha Bank (DHBK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR21.65</b>	<b>New Target Price</b>	<b>QR26.00</b>
<b>Implied Upside</b>	<b>+20.1%</b>		

### 2019 CoR & Bottom-line Expected to be In-Line with 2018

DHBK has been the worst performing bank stock in Qatar due to concerns on asset quality emanating from the contracting segment loans and GCC operations. On a 1-year TTR basis, the stock is down 28.5%.

#### Highlights

- DHBK's 2018 bottom-line drops on the back of margin pressure, weak non-funded income and a sharp increase in CoR.** DHBK reported a headline net profit of QR830.2mn vs. QR1.1bn in 2017, dropping by 25.2% YoY. This was attributed to a drop in net interest income (7.7%), weak non-funded income (drop in fees and investment losses) and a surge in provisions for credit losses.
- Provisions for credit losses remained elevated and are expected to continue to do so in 2019.** DHBK booked credit provisions of QR951.7mn vs. QR592.5mn in 2017, which translates into CoR of 149bps & 95bps (81bps in 2016), respectively. Provisions in 2019 are expected to hover around the 2018 level, as DHBK will book more provisions on its GCC (Kuwait & UAE) operations. As such, 60% of total provisions are allocated to GCC. We pencil in CoR of 147bps (2019), 129bps (2020) and 95bps (2021).
- Spreads and margins compressed in 2018.** Net interest income dropped by 7.7% to QR2.2bn. DHBK's net interest margin contracted by 26bps. The compression in the NIM was due to CoFs gaining by 53bps, while yield on assets increasing by only 26bps. We are of the opinion that CoFs aggressively increased as the bank needed to protect its funding and liquidity position.
- Operating efficiency improved.** DHBK's opex dropped by 10.3% while revenue declined by 8.8%. Hence, the C/I ratio improved to 35.5% vs. 36.2% in 2017 (39.2% in 2016). We estimate further cuts in opex for 2019.
- Asset quality continued to worsen, NPL ratio expected to reach 6% in 2019.** DHBK's asset quality deteriorated with the bank's NPLs gaining by 17.5% QoQ (+68.3% YoY) to QR3.8bn. Moreover, the NPL ratio moved to 5.85% from 5.05% in 3Q2018 (3.61% in FY2017). The coverage ratio for Stage 3 loans declined to 98% vs. 106% in the previous quarter and 119% in 2Q2018. The majority of Stage 2 loans (31% of total loans) are comprised of the contracting segment, which remains a challenge.
- Gross loans gained traction while deposits dropped on a YoY basis.** Gross loans grew by 3.8% YoY to QR65.0bn while deposits expanded by 6.9% QoQ (-6.7% YoY) to QR55.5bn. Hence, the bank's LDR improved to 108% from 114% in 3Q2018 (101%: end of 2017). However, LDR (based on stable sources of funds) remained healthy at 92% vs. 91% in 2017. The sequential 6.9% jump in deposits was driven by the public sector. We forecast mid-single digit growth for loans and flattish deposits in 2019.
- IFRS 9 negatively impacted CET1, wiping out QR1.37bn in risk reserves.** DHBK's CET1 ratio receded to 10.3% at the end of 2018 vs. 12.3% in 2017, still above the minimum limit of 9.0%. We forecast CET1 ratio of 10.0% in the coming few years as the bank manages its RWA's optimally.
- Cut in DPS is a positive.** DHBK recommended cash DPS of QR1.00 (yielding 4.6%) vs. QR3.00 in 2017. In our view, the cut in DPS was necessary in order to prevent the CET1 ratio from dropping below 10%. Had the bank maintained a DPS of QR3.00, CET1 would have dropped to 9.5%. We expect marginal increases in the DPS going forward but not to the extent of its historical trend.

#### Catalysts

- Stock price improvement depends on a resumption of confidence in company performance.

#### Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2019e P/B and P/E of 0.7x and 11.0x, respectively.
- Risks:** 1) Geopolitical factors and 2) Contracting segment

#### Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS	1.97	1.97	2.56	3.47
Growth	-34.8	0.1	29.9	35.7
P/E (x)	11.0	11.0	8.5	6.2
BVPS (QR)	28.2	29.1	30.5	32.7
P/B (x)	0.8	0.7	0.7	0.7
DPS (QR)	1.00	1.00	1.25	1.25
Dividend Yield (%)	4.6	4.6	5.8	5.8

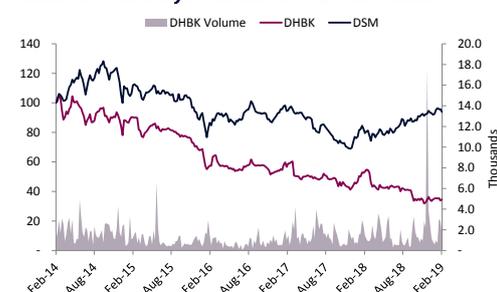
Source: Company data, QNB FS Research

#### Key Data

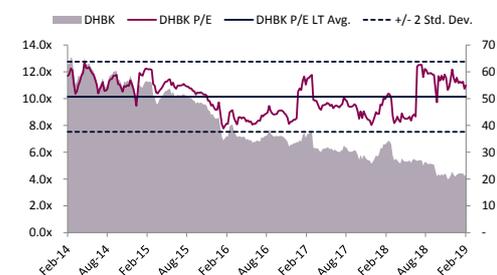
Current Market Price (QR)	21.65
Dividend Yield (%)	4.6%
Bloomberg Ticker	DHBK QD EQUITY
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	34.98 / 19.75
3-m Average Volume ('000)	636.4
Mkt. Cap. (\$ bn/QR bn)	1.8 / 6.7
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	10.9
1-Year Total Return (%)	(28.5)
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

#### Relative Price Performance vs. Market Indices



#### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Net Interest Income</b>	<b>2,081</b>	<b>2,171</b>	<b>2,368</b>	<b>2,581</b>
Fees & Commissions	388	376	389	369
FX Income	115	120	126	127
Other Income	51	97	90	85
<b>Non-Interest Income</b>	<b>554</b>	<b>593</b>	<b>605</b>	<b>581</b>
<b>Total Revenue</b>	<b>2,635</b>	<b>2,765</b>	<b>2,972</b>	<b>3,162</b>
Operating Expenses	(937)	(897)	(918)	(962)
<b>Net Operating Income</b>	<b>1,698</b>	<b>1,868</b>	<b>2,055</b>	<b>2,200</b>
Net Provisions & Impairments	(864)	(1,013)	(1,007)	(857)
<b>Net Profit Before Tax</b>	<b>834</b>	<b>855</b>	<b>1,048</b>	<b>1,343</b>
Tax	(4)	(4)	(5)	(6)
<b>Net Profit (Headline/Reported)</b>	<b>830</b>	<b>851</b>	<b>1,043</b>	<b>1,337</b>
Interest on Tier-1 Note	(220)	(240)	(250)	(260)
Social & Sports Contribution Fund	(21)	(21)	(26)	(33)
<b>Attributable Net Profit</b>	<b>589</b>	<b>589</b>	<b>767</b>	<b>1,043</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	7,586	6,788	7,869	6,658
Interbank Loans	6,230	7,550	8,135	6,632
Net Investments	20,552	24,447	27,931	32,757
Net Loans	59,798	62,921	67,796	73,689
Other Assets	1,345	1,584	1,028	1,117
Net PP&E	621	576	563	552
<b>Total Assets</b>	<b>96,132</b>	<b>103,866</b>	<b>113,322</b>	<b>121,405</b>
<b>Liabilities</b>				
Interbank Deposits	19,463	25,888	29,718	29,415
Customer Deposits	55,460	56,569	60,529	66,582
Term Loans	5,577	6,246	7,183	8,620
Other Liabilities	2,899	2,150	2,421	2,663
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>87,399</b>	<b>94,854</b>	<b>103,852</b>	<b>111,280</b>
<b>Total Shareholders' Equity</b>	<b>8,733</b>	<b>9,013</b>	<b>9,470</b>	<b>10,125</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>96,132</b>	<b>103,866</b>	<b>113,322</b>	<b>121,405</b>

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoAE (Attributable)	5.5	6.7	8.5	11.0
RoAA (Attributable)	0.9	0.9	1.0	1.1
RoRWA (Attributable)	0.8	0.7	0.9	1.2
NIM (% of IEAs)	2.46	2.41	2.40	2.39
NIM (% of RWAs)	2.67	2.75	2.83	2.87
NIM (% of AAs)	2.19	2.17	2.18	2.20
Spread	2.3	2.2	2.2	2.1
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	35.5	32.4	30.9	30.4
Cost-to-Income (Core)	35.4	33.0	31.2	30.7
<b>Liquidity (%)</b>				
LDR	107.8	111.2	112.0	110.7
Loans/Assets	62.2	60.6	59.8	60.7
Cash & Interbank Loans-to-Total Assets	14.4	13.8	14.1	10.9
Deposits to Assets	57.7	54.5	53.4	54.8
Wholesale Funding to Loans	41.9	51.1	54.4	51.6
IEAs to IBLs	1.1	1.1	1.1	1.1
<b>Asset Quality (%)</b>				
NPL Ratio	5.85	6.00	5.75	4.50
NPLs to Shareholder's Equity	43.5	45.9	45.2	35.9
NPLs to Tier 1 Capital	47.8	50.4	49.9	39.4
Coverage Ratio	137.6	145.4	155.4	195.0
ALL/Average Loans	8.2	9.0	9.3	9.1
Cost of Risk	149	147	129	95
<b>Capitalization (%)</b>				
Tier-1 Ratio	15.5	15.1	14.6	14.1
CAR	16.6	16.2	15.8	15.3
Tier 1 Capital to Assets	12.4	11.8	11.1	10.9
Tier 1 Capital to Loans	20.0	19.4	18.6	17.9
Tier 1 Capital to Deposits	21.5	21.6	20.8	19.9
Leverage (x)	11.0	11.5	12.0	12.0
<b>Growth (%)</b>				
Net Interest Income	-7.7	4.3	9.0	9.0
Non-Interest Income	-12.4	7.1	2.0	-3.9
Total Revenue	-8.8	4.9	7.5	6.4
Opex	-10.3	-4.3	2.3	4.8
Net Operating Income	-7.9	10.0	10.0	7.1
Net Income (Headline/Reported)	-25.2	2.5	22.6	28.1
Net Income (Attributable)	-31.6	0.0	30.1	36.0
Loans	0.0	5.2	7.7	8.7
Deposits	-6.7	2.0	7.0	10.0
Assets	2.8	8.0	9.1	7.1
RWAs	-2.2	5.0	6.3	8.5

Source: Company data, QNB FS Research

# Gulf International Services (GISS)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-4</b>
<b>Share Price</b>	<b>QR16.45</b>	<b>Current Target Price</b>	<b>QR19.00</b>
<b>Implied Upside</b>	<b>15.5%</b>		

## 2018 Impairments Could Bite; Focus on 2019; Market Perform

**Potential rig impairment (s) could mask sequential operating earnings growth in 4Q2018.** GISS stock has drifted down 10% since we changed our rating to [Market Perform](#) vs. a 5% increase in the QSE Index. Our view on the upcoming results remains unchanged – results should show growth YoY/QoQ, on an operating basis, but net income could get impacted if we see any rig impairments. We continue to model in a resumption of dividends with QR1 in DPS (6.1% yield) expected for 2018. However, a loss could easily eliminate the dividend and further pressure the stock. While 2018 results are important, we continue to look beyond and point to our expectation of solid earnings growth in 2019 primarily driven by drilling, albeit from a modest base. GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile. We do not expect this to change. However, we do expect the drilling segment to pull itself out of losses suffered during 2016-2018 by 2H2019 in light of increasing demand due to the proposed North Field expansion and given our assumption of high utilization of existing rigs, startup of rig utilization contracts for additional rigs (similar to the Seadrill deal announced in July) and modest cost savings. We stay Market Perform for now and could potentially revisit our rating after results announcement.

### Highlights

- **We still expect QoQ earnings improvement in 4Q2018 barring any impairments.** We expect 4Q2018 revenue/net income of QR686.0mn/QR24.8mn. Our detailed forecasts are on the next page. We note we do not forecast any impairment; two offshore rigs, Al-Doha and Msheireb, are old and are currently not being used with GDI looking to deploy them outside of Qatar (in Asia). Success of this strategy is yet to be seen and a year-end 2018 impairment cannot be ruled out. We continue to model in a resumption of dividends with QR1 in DPS expected for 2018. However, a loss could easily eliminate the dividend. Given its razor-thin margins, GISS is subject to significant quarterly earnings volatility.
- **Looking beyond 2018, drilling is emerging from choppy waters and we expect a resumption of profitability from 2H2019 despite higher interest costs.** We continue to model 7 offshore rigs to be deployed, in-line with current trend. As we have pointed out previously, in July, GDI signed a contract with Seadrill for the utilization of Seadrill's offshore drilling rig, West Tucana; GDI will use this jackup in a rig utilization contract lasting 440 days (with options for further extensions), in which GDI will manage the rig/crew provided by Seadrill and earn a service fee. We continue to model in an additional rig under a similar arrangement in 2H2019, increasing this fleet to 3 rigs in 2020, 4 rigs in 2021 and 5 rigs in 2H2022 before gradually reducing the size of this fleet. Such contracts allow GISS to address demand growth in drilling without additional debt-driven capex. However, it is possible some of these rigs are deployed under a JV and/or are brought in-house. On the costs front, GISS is taking steps to streamline GDI's operations and we expect 10% savings in cash direct costs and SG&A by 2021. Net-net, we expect GDI's loss to narrow from QR125.0mn (2018) to QR51.5mn in 2019 and turn into a QR7.3mn net profit in 2020.
- **Group NI should grow from QR64.3mn (EPS: QR0.35) in 2018 to QR154.1mn (QR0.83) in 2019.** 82% of this growth is to be driven by drilling. Insurance and aviation contribute 6% and 4%, respectively, while catering is flattish. Again, there are no impairment charges in our model.

### Catalysts

- **Stock price improvement depends on a resumption of confidence in company performance.** GISS stock continues to remain in a "show me" mode.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate GISS a Market Perform with a TP of QR19.** GISS trades at 2019 & 2020 EV/EBITDA multiples of 7.5x and 6.7x, respectively.
- **Risks: Geopolitical risks** cannot be modeled. Given the low level of absolute earnings along with paper-thin net margins (9M2018: 2.0%), **quarterly earnings could be subject to significant volatility.** **Debt levels are relatively high** (9M2018: QR5.1bn/5.2x 2018 net-debt-to-EBITDA) but manageable in light of 1.3x interest coverage and expected reduction in leverage going forward, in our view. Further **decline in rig rates/ utilizations** could pressure shares. GISS also faces **concentration risk** given its exposure to QP/affiliates.

### Key Financial Data and Estimates

	2017	2018e	2019e	2020e
EPS (QR)	0.46	0.35	0.83	1.27
P/E (x)	36.0	47.6	19.8	12.9
EV/EBITDA (x)	9.3	8.7	7.5	6.7
DPS (QR)	0.00	1.00	1.25	1.50
DY	0.0%	6.1%	7.6%	9.1%

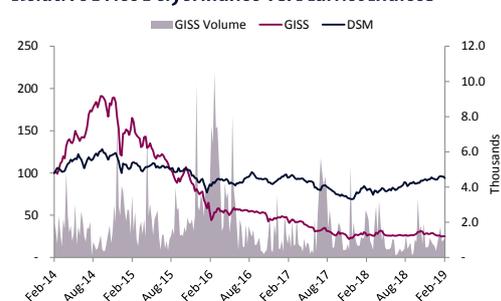
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

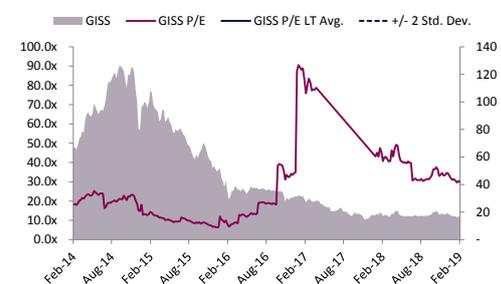
Current Market Price (QR)	16.45
Dividend Yield (%)	0%
Bloomberg Ticker	GISS QD EQUITY
Reuters Ticker	GISS.QA
ISIN	QA000A0Q6LH4
Sector	Industrials
52wk High/52wk Low (QR)	21.50 / 16.10
3-m Average Volume ('000)	184.6
Mkt. Cap. (\$ bn/QR bn)	0.8 / 3.1
Shares Outstanding (mn)	185.8
FO Limit* (%)	49.0
Current FO* (%)	8.5
1-Year Total Return (%)	(3.1)
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017A	3Q2018A	YoY	QoQ	2018e	2017	YoY
Revenue	686.0	609.9	650.7	12.5%	5.4%	2,647.1	2,485.9	6.5%
Gross Profit	124.5	159.0	90.2	-21.7%	38.0%	436.3	450.8	-3.2%
EBITDA	211.9	193.8	184.4	9.3%	14.9%	774.2	756.7	2.3%
EBIT	91.7	110.6	67.3	-17.1%	36.3%	298.5	257.4	16.0%
Net Income	24.8	62.8	5.2	-60.5%	375.3%	64.3	85.0	-24.4%
EPS (QR)	0.13	0.34	0.03	-60.5%	375.3%	0.35	0.46	-24.4%
DPS (in QR)						1.00	0.00	
Gross Margin	18.2%	26.1%	13.9%			16.5%	18.1%	
EBITDA Margin	30.9%	31.8%	28.3%			29.2%	30.4%	
EBIT Margin	13.4%	18.1%	10.3%			11.3%	10.4%	

Source: Company data, QNB FS Research

## Key Metrics

### Key Growth Rates/CAGRs

Particulars	2015	2016	2017	2018	2019	2020	2021	2022	2023	CAGR ('18-'23)
<b>Growth Rates</b>										
Revenue	6.6%	(28.2%)	(16.8%)	6.5%	4.5%	1.5%	1.6%	1.7%	1.5%	2.1%
Gross Profit	1.2%	(56.2%)	(14.9%)	(3.2%)	22.9%	12.6%	5.2%	5.7%	4.6%	10.0%
EBITDA	(24.1%)	(44.2%)	(1.7%)	2.3%	13.7%	7.6%	3.2%	3.6%	3.0%	6.2%
EBIT	(39.7%)	(78.2%)	34.0%	16.0%	36.0%	16.5%	6.4%	7.1%	5.6%	13.8%
PAT/EPS	(43.2%)	(91.6%)	26.9%	(24.4%)	139.8%	53.4%	18.5%	17.8%	14.1%	42.4%
DPS	(81.8%)	0.0%	(100.0%)	N/M	25.0%	20.0%	16.7%	14.3%	12.5%	17.6%
CFPS	25.3%	(35.1%)	(23.0%)	(13.1%)	37.4%	5.4%	4.0%	3.5%	3.1%	9.9%
FCFPS	N/M	(59.3%)	37.0%	9.4%	58.8%	6.0%	3.9%	3.3%	2.7%	13.2%

Source: Bloomberg, QNB FS Research

### Valuation Metrics

Particulars	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Valuation</b>									
EV/Sales	1.7	2.4	2.8	2.6	2.4	2.3	2.2	1.9	1.7
EV/EBITDA	5.1	9.2	9.3	8.7	7.5	6.7	6.3	5.6	4.9
EV/EBIT	8.0	36.8	27.4	22.7	16.2	13.5	12.2	10.5	9.0
P/E	3.8	45.7	36.0	47.6	19.8	12.9	10.9	9.3	8.1
P/CF	2.1	3.2	4.2	4.8	3.5	3.3	3.2	3.1	3.0
P/BV	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Dividend Yield	6.1%	6.1%	0.0%	6.1%	7.6%	9.1%	10.6%	12.2%	13.7%
FCF Yield	20.5%	8.4%	11.5%	12.5%	19.9%	21.1%	21.9%	22.6%	23.2%

Source: Bloomberg, QNB FS Research

## Segment Details

### Key Segment Details

In QR mn		2017	2018e	2019e	2020e	2021e
<b>Revenue</b>		<b>2,486</b>	<b>2,647</b>	<b>2,766</b>	<b>2,808</b>	<b>2,852</b>
<i>Gulf Drilling International (GDI)</i>		1,175	1,215	1,273	1,276	1,279
<i>Gulf Helicopters Company (GHC)</i>		532	531	544	558	572
<i>Amwaj Catering Company (AHC)</i>		453	447	459	472	486
<i>Al Koot Insurance &amp; Reinsurance (AKIR)</i>		326	454	490	502	515
<b>Net Income</b>		<b>85</b>	<b>64</b>	<b>154</b>	<b>236</b>	<b>280</b>
	<b>Net Margin</b>	<b>3%</b>	<b>2%</b>	<b>6%</b>	<b>8%</b>	<b>10%</b>
<b>Drilling</b>		<b>(102)</b>	<b>(125)</b>	<b>(51)</b>	<b>7</b>	<b>29</b>
	<i>Net Margin</i>	-9%	-10%	-4%	1%	2%
<b>Helicopters</b>		<b>145</b>	<b>120</b>	<b>124</b>	<b>134</b>	<b>144</b>
	<i>Net Margin</i>	27%	23%	23%	24%	25%
<b>Catering</b>		<b>17</b>	<b>20</b>	<b>20</b>	<b>30</b>	<b>36</b>
	<i>Net Margin</i>	4%	4%	4%	6%	7%
<b>Insurance</b>		<b>71</b>	<b>85</b>	<b>90</b>	<b>94</b>	<b>101</b>
	<i>Net Margin</i>	22%	19%	18%	19%	20%
<b>EBITDA</b>		<b>757</b>	<b>774</b>	<b>881</b>	<b>948</b>	<b>978</b>
	<b>EBITDA Margin</b>	<b>30%</b>	<b>29%</b>	<b>32%</b>	<b>34%</b>	<b>34%</b>
<b>Drilling</b>		<b>426</b>	<b>419</b>	<b>510</b>	<b>554</b>	<b>562</b>
	<i>EBITDA Margin</i>	36%	34%	40%	43%	44%
<b>Helicopters</b>		<b>241</b>	<b>219</b>	<b>221</b>	<b>231</b>	<b>241</b>
	<i>EBITDA Margin</i>	45%	41%	41%	41%	42%
<b>Catering</b>		<b>33</b>	<b>36</b>	<b>36</b>	<b>46</b>	<b>51</b>
	<i>EBITDA Margin</i>	7%	8%	8%	10%	11%
<b>Insurance</b>		<b>73</b>	<b>86</b>	<b>92</b>	<b>96</b>	<b>102</b>
	<i>EBITDA Margin</i>	22%	19%	19%	19%	20%

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Ratios

Particulars	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Growth Rates</b>									
Revenue	6.6%	(28.2%)	(16.8%)	6.5%	4.5%	1.5%	1.6%	1.7%	1.5%
Gross Profit	1.2%	(56.2%)	(14.9%)	(3.2%)	22.9%	12.6%	5.2%	5.7%	4.6%
EBITDA	(24.1%)	(44.2%)	(1.7%)	2.3%	13.7%	7.6%	3.2%	3.6%	3.0%
EBIT	(39.7%)	(78.2%)	34.0%	16.0%	36.0%	16.5%	6.4%	7.1%	5.6%
PAT/EPS	(43.2%)	(91.6%)	26.9%	(24.4%)	139.8%	53.4%	18.5%	17.8%	14.1%
DPS	(81.8%)	0.0%	(100.0%)	N/M	25.0%	20.0%	16.7%	14.3%	12.5%
CFPS	25.3%	(35.1%)	(23.0%)	(13.1%)	37.4%	5.4%	4.0%	3.5%	3.1%
FCFPS	N/M	(59.3%)	37.0%	9.4%	58.8%	6.0%	3.9%	3.3%	2.7%
<b>Operating Ratios</b>									
Gross Margin	29.1%	17.7%	18.1%	16.5%	19.4%	21.5%	22.3%	23.2%	23.9%
Gross Margin, Excluding Depreciation & Amortization	40.7%	36.7%	37.9%	34.2%	36.3%	38.2%	38.7%	39.3%	39.7%
EBITDA Margin	33.1%	25.8%	30.4%	29.2%	31.8%	33.8%	34.3%	35.0%	35.5%
EBIT Margin	21.1%	6.4%	10.4%	11.3%	14.7%	16.8%	17.7%	18.6%	19.3%
Net Margin	19.2%	2.2%	3.4%	2.4%	5.6%	8.4%	9.8%	11.4%	12.8%
<b>Finance Ratios</b>									
Debt-Equity Ratio	1.3	1.5	1.4	1.3	1.3	1.2	1.1	0.9	0.8
Net Debt-Equity Ratio	1.1	1.1	1.1	1.1	1.0	1.0	0.9	0.7	0.5
Net Debt-to-Capital	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3
Net Debt-to-EBITDA	3.0	5.5	5.6	5.2	4.4	3.8	3.5	2.9	2.3
Interest Coverage	11.2	1.5	1.5	1.3	1.6	2.0	2.3	2.6	3.0
<b>Return Ratios</b>									
ROIC	9.7%	2.1%	2.9%	3.4%	4.9%	5.9%	6.5%	6.9%	7.3%
ROE	20.4%	1.8%	2.3%	1.7%	4.2%	6.4%	7.6%	8.2%	8.5%
ROA	7.1%	0.6%	0.8%	0.6%	1.5%	2.4%	2.9%	3.4%	3.9%
FCF Yield	20.5%	8.4%	11.5%	12.5%	19.9%	21.1%	21.9%	22.6%	23.2%
<b>Liquidity Ratios</b>									
Current Ratio	0.9	1.2	1.0	1.4	1.3	1.3	1.3	0.7	1.1
Quick Ratio	0.9	1.1	1.0	1.2	1.2	1.2	1.1	0.7	1.0
<b>Valuation</b>									
EV/Sales	1.7	2.4	2.8	2.6	2.4	2.3	2.2	1.9	1.7
EV/EBITDA	5.1	9.2	9.3	8.7	7.5	6.7	6.3	5.6	4.9
EV/EBIT	8.0	36.8	27.4	22.7	16.2	13.5	12.2	10.5	9.0
P/E	3.8	45.7	36.0	47.6	19.8	12.9	10.9	9.3	8.1
P/CF	2.1	3.2	4.2	4.8	3.5	3.3	3.2	3.1	3.0
P/BV	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Dividend Yield	6.1%	6.1%	0.0%	6.1%	7.6%	9.1%	10.6%	12.2%	13.7%
FCF Yield	20.5%	8.4%	11.5%	12.5%	19.9%	21.1%	21.9%	22.6%	23.2%

Source: Company data, QNB FS Research

## Detailed Financial Statements

### Income Statement

In QR mn	2017	2018e	2019e	2020e	2021e
<b>Revenue</b>	<b>2,486</b>	<b>2,647</b>	<b>2,766</b>	<b>2,808</b>	<b>2,852</b>
COGS	2,035	2,211	2,229	2,204	2,217
<b>Gross Profit</b>	<b>451</b>	<b>436</b>	<b>536</b>	<b>604</b>	<b>635</b>
SG&A	244	225	228	229	230
Total Other Income	23	57	66	66	66
Net Finance Income(Expense)	(145)	(205)	(220)	(204)	(190)
<b>Net Income</b>	<b>85</b>	<b>64</b>	<b>154</b>	<b>236</b>	<b>280</b>
<b>EBITDA</b>	<b>757</b>	<b>774</b>	<b>881</b>	<b>948</b>	<b>978</b>
<b>EPS</b>	<b>0.46</b>	<b>0.35</b>	<b>0.83</b>	<b>1.27</b>	<b>1.51</b>
<b>DPS</b>	<b>0.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.50</b>	<b>1.75</b>

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

### Balance Sheet

In QR mn	2017	2018e	2019e	2020e	2021e
<b>Current Assets</b>					
Cash & Cash Equivalents	931	964	803	730	651
HFT Investments/ST Investments	221	323	323	323	323
Insurance & Accounts Receivables/Prepayments	695	813	859	873	891
Due From Related Parties	463	457	457	457	457
Inventories	202	229	230	227	229
<b>Total Current Assets</b>	<b>2,513</b>	<b>2,786</b>	<b>2,672</b>	<b>2,611</b>	<b>2,551</b>
<b>Non-Current Assets</b>					
Investment Properties	-	-	-	-	-
Goodwill & Intangibles	305	304	304	304	304
Property, Plant & Equipment	7,220	6,998	6,788	6,589	6,401
<b>Non-Current Assets</b>	<b>7,915</b>	<b>7,589</b>	<b>7,379</b>	<b>7,180</b>	<b>6,992</b>
<b>Total Assets</b>	<b>10,428</b>	<b>10,375</b>	<b>10,052</b>	<b>9,791</b>	<b>9,543</b>
<b>Current Liabilities</b>					
Short-Term Debt	898	563	480	480	419
Insurance Payables, Accounts Payable & Accruals	1,493	1,461	1,533	1,548	1,579
Due to Related Parties	8	29	29	29	29
<b>Current Liabilities</b>	<b>2,400</b>	<b>2,054</b>	<b>2,043</b>	<b>2,058</b>	<b>2,028</b>
<b>Non-Current Liabilities</b>					
Employees End of Service Benefits	103	143	143	143	143
Long-Term Debt	4,248	4,440	4,159	3,879	3,659
<b>Non-Current Liabilities</b>	<b>4,350</b>	<b>4,583</b>	<b>4,302</b>	<b>4,022</b>	<b>3,803</b>
<b>Total Liabilities</b>	<b>6,750</b>	<b>6,637</b>	<b>6,345</b>	<b>6,080</b>	<b>5,831</b>
<b>Shareholders' Equity</b>					
<b>Total Shareholder's Equity</b>	<b>3,679</b>	<b>3,738</b>	<b>3,707</b>	<b>3,711</b>	<b>3,712</b>
<b>Liabilities &amp; Shareholder's Equity</b>	<b>10,428</b>	<b>10,375</b>	<b>10,052</b>	<b>9,791</b>	<b>9,543</b>

Source: Company data, QNB FS Research

# Gulf Warehousing Company (GWCS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-4</b>
<b>Share Price</b>	<b>QR42.00</b>	<b>Current Target Price</b>	<b>QR51.00</b>
<b>Implied Upside</b>	<b>21.4%</b>		

## Solid 2018; Changing to Accumulate W/ Unchanged QR51 PT

We have tweaked our estimates after GWCS' strong 4Q2018 results – our overall estimate changes were modest and we retain our price target of QR51. GWCS stock had appreciated around 4% since our [preview report](#) driven by the company's [results announcement](#) and proposed dividend increase. Given the stock's rise, we changed our rating from Outperform to Accumulate on January 29<sup>th</sup>. We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.3% in 2018, reaching 19.1% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.7% by 2023. With major capex already done, there could be DPS upside medium-term.

### Highlights

- 2018 performance:** GWCS posted 4Q2018 revenue/EBITDA/EPS of QR311.4mn/QR126.2mn/QR1.09 vs. our estimates of QR295.1mn/QR115.7mn/QR1.00: Revenue grew 8.8% YoY/4.2% QoQ (+5.5% vs. QNB FS est.); EBITDA increased 20.8% YoY/9.0% QoQ (+9.1% vs. QNB FS est.); EPS rose 9.3% YoY/10.6% QoQ (+8.3% vs. QNB FS est.). The company's gross revenue reached QR1.23bn in end-2018 in comparison with QR981.4mn in FY2017, while EPS increased to QR4.04 in FY2018 from QR3.68 in FY2017. In FY2018, GWCS posted net profit of QR236.8mn, up 9.9% YoY. The revenue beat, along with higher margins as the mix shifted away from freight forwarding to the higher margin logistics segment, helped drive the growth in the bottom-line. Overall, GWCS reported modest upside to our estimates, something we had anticipated in our [preview alert](#). GWCS' board also recommended a 12% increase to QR1.90 DPS for 2018 vs. QR1.70 in 2017. While we were modeling QR1.80 DPS for 2018, we had alluded to the fact that QR1.90 was also possible. *For more details, please see next page.*
- For 2019, we see modest top-line growth along with a 5% rise in earnings.** We have lowered our 2019 revenue/EPS estimates by 1% from QR1.27bn/QR4.26 to QR1.26bn/QR4.23. This implies a change of our 2019 EPS growth estimate from 8% previously to 5%. Given the better-than-expected earnings performance in 2018, we have chosen to be somewhat conservative in our future projections. We note our EPS growth estimate is below management guidance of high-single digits. *For a comparison of our previous vs. new estimates, please see next page.*

### Catalysts

- Newsflow on new projects:** (1) The Al Asmakh logistics park management agreement could add to LT revenue; moreover, Ras Abu Fontas could add 8k SQM to warehouse space by 2020. (2) Corporate restructurings could create boost outsourced logistics solutions. (3) 4PL remains a growth area. (4) International/regional expansion could diversify operations.

### Recommendation, Valuation and Risks

- Recommendation and valuation:** We rate GWCS as an Accumulate with a price target of QR51. Stock trades at P/E of 9.9x and 9.1x for 2019 & 2020, respectively.
- Risks:** include low occupancy in Bu Sulba and customer retention challenges in LVQ/Bu Sulba. Top-line growth after 2018 is potentially capped given the upcoming mega logistics project (only open to Qatari individuals/100%-Qatari owned companies) in south Qatar.

### Key Financial Data and Estimates

	FY2017	FY2018	FY2019e	FY2020e
<b>Revenue (QR mn)</b>	<b>981</b>	<b>1,232</b>	<b>1,263</b>	<b>1,306</b>
<i>Growth</i>	16%	26%	2%	3%
<b>EBITDA (QR mn)</b>	<b>388</b>	<b>471</b>	<b>477</b>	<b>496</b>
<i>Growth</i>	20%	21%	1%	4%
<b>Net Income (QR mn)</b>	<b>215</b>	<b>237</b>	<b>248</b>	<b>272</b>
<b>EPS (QR)</b>	<b>3.68</b>	<b>4.04</b>	<b>4.23</b>	<b>4.64</b>
<i>Growth</i>	5%	10%	5%	10%
<b>P/E (x)</b>	<b>11.4x</b>	<b>10.4x</b>	<b>9.9x</b>	<b>9.1x</b>
<b>DPS (QR)</b>	<b>1.70</b>	<b>1.90</b>	<b>2.00</b>	<b>2.20</b>
<i>Dividend Yield</i>	4.0%	4.5%	4.8%	5.2%
<b>ROE</b>	<b>13.7%</b>	<b>14.1%</b>	<b>13.8%</b>	<b>14.0%</b>

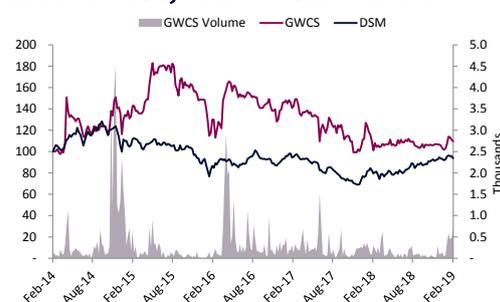
Source: Company data, QNB FS Research; Note: All per share data based on current number of shares

### Key Data

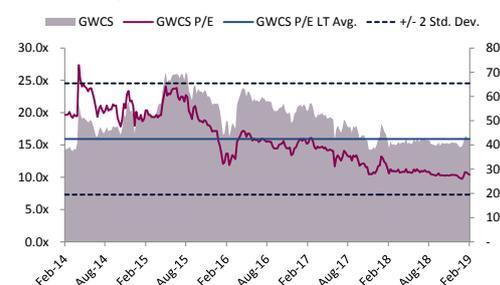
Current Market Price (QR)	42.00
Dividend Yield (%)	4.5%
Bloomberg Ticker	GWCS QD EQUITY
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector	Transport
52wk High/52wk Low (QR)	45.00 / 35.70
3-m Average Volume ('000)	51.6
Mkt. Cap. (\$ bn/QR bn)	0.7 / 2.5
Shares Outstanding (mn)	58.6
FO Limit* (%)	49.0
Current FO* (%)	26.9
1-Year Total Return (%)	13.2
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## 4Q2018/2018 Review & Estimate Changes

### 4Q2018/2018 Actual vs. Estimates

	4Q2018	4Q2018e	4Q2017	3Q2018	A Vs. E	YoY	QoQ	2018	2018e	2017	A Vs. E	YoY
Revenue	311.37	295.14	286.24	298.77	5.5%	8.8%	4.2%	1,232.20	1,215.98	981.36	1.3%	25.6%
Gross Profit	114.33	101.63	111.70	100.95	12.5%	2.4%	13.3%	417.96	405.27	364.36	3.1%	14.7%
EBITDA	126.21	115.68	104.50	115.84	9.1%	20.8%	9.0%	471.05	460.51	373.42	2.3%	26.1%
Net Income to Equity	63.60	58.74	58.20	57.49	8.3%	9.3%	10.6%	236.76	231.89	215.46	2.1%	9.9%
EPS	1.09	1.00	0.99	0.98	8.3%	9.3%	10.6%	4.04	3.96	3.68	2.1%	9.9%
DPS								1.90	1.80	1.70	5.6%	11.8%
Gross Margin	36.7%	34.4%	39.0%	33.8%				33.9%	33.3%	37.1%		
EBITDA Margin	40.5%	39.2%	36.5%	38.8%				38.2%	37.9%	38.1%		
Net Margin	20.4%	19.9%	20.3%	19.2%				19.2%	19.1%	22.0%		

Source: Company data, QNB FS Research

### Estimate Changes

	2019e	2020e	2021e	2022e	2023e
<b>Revenue</b>	<b>1,263</b>	<b>1,306</b>	<b>1,353</b>	<b>1,383</b>	<b>1,392</b>
Revenue - Previous	1,270	1,316	1,406	1,447	1,476
Change Vs. Previous	-1%	-1%	-4%	-4%	-6%
Growth	2%	3%	4%	2%	1%
<b>NI</b>	<b>248</b>	<b>272</b>	<b>296</b>	<b>316</b>	<b>331</b>
NI - Previous	250	269	298	317	334
Change Vs. Previous	-1%	1%	-1%	0%	-1%
Growth	5%	10%	9%	7%	5%
<b>EPS</b>	<b>4.23</b>	<b>4.64</b>	<b>5.06</b>	<b>5.40</b>	<b>5.65</b>
EPS - Previous	4.26	4.59	5.09	5.41	5.69
Change Vs. Previous	-1%	1%	-1%	0%	-1%
Growth	5%	10%	9%	7%	5%
<b>DPS</b>	<b>2.00</b>	<b>2.20</b>	<b>2.40</b>	<b>2.60</b>	<b>2.80</b>
DPS - Previous	2.00	2.10	2.30	2.45	2.60
Change Vs. Previous	0%	5%	4%	6%	8%
Growth	5%	10%	9%	8%	8%

Source: Company data, QNB FS Research

## Key Metrics

### Valuation Metrics

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
<b>Valuation</b>								
EV/EBITDA	11.9x	10.0x	7.9x	7.3x	6.5x	5.7x	4.9x	4.3x
P/E	12.0x	11.4x	10.4x	9.9x	9.1x	8.3x	7.8x	7.4x
P/CF	5.5x	7.3x	6.8x	6.0x	5.6x	5.2x	4.9x	4.7x
P/BV	1.6x	1.5x	1.4x	1.3x	1.2x	1.1x	1.1x	1.0x
Dividend Yield	3.8%	4.0%	4.5%	4.8%	5.2%	5.7%	6.2%	6.7%
FCF Yield	-20.5%	1.8%	11.3%	13.9%	16.0%	17.1%	18.4%	19.1%

Source: Bloomberg, QNB FS Research

## Ratio Analysis

### Ratio Analysis

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
<b>Growth (%)</b>								
Revenue	7.8%	15.5%	25.6%	2.5%	3.4%	3.5%	2.3%	0.7%
Cash Gross Profit	8.6%	17.2%	18.6%	1.3%	3.4%	3.3%	2.1%	0.6%
EBITDA	11.5%	20.1%	21.3%	1.4%	3.9%	3.7%	2.3%	0.6%
EBIT	11.1%	20.3%	17.3%	1.2%	3.7%	3.5%	1.9%	0.0%
Net Profit	11.1%	4.8%	9.9%	4.6%	9.7%	9.0%	6.8%	4.6%
Cash Flow Per Share	1033.7%	-25.6%	8.3%	12.5%	8.3%	6.4%	6.6%	3.5%
Free Cash Flow Per Share	nmf	nmf	527.5%	23.9%	14.5%	7.1%	7.4%	3.9%
<b>Profitability (%)</b>								
Gross Margin	46.9%	47.5%	44.9%	44.4%	44.4%	44.3%	44.2%	44.2%
EBITDA Margin	38.0%	39.5%	38.2%	37.8%	38.0%	38.0%	38.1%	38.0%
EBIT Margin	25.4%	26.5%	24.8%	24.4%	24.5%	24.5%	24.4%	24.2%
Net Margin	24.2%	22.0%	19.2%	19.6%	20.8%	21.9%	22.9%	23.8%
RoAE	14.0%	13.7%	14.1%	13.8%	14.0%	14.2%	14.0%	13.7%
RoAA	6.1%	5.7%	6.3%	6.8%	7.7%	8.6%	9.5%	10.3%
BEP	6.4%	6.9%	8.2%	8.5%	9.0%	9.6%	10.1%	10.4%
RoAIC	6.0%	7.7%	9.7%	10.2%	11.2%	12.2%	13.1%	13.8%
RoACE	7.0%	7.6%	8.9%	9.2%	9.8%	10.5%	11.1%	11.6%
<b>Liquidity</b>								
Current Ratio	2.0x	1.5x	1.8x	1.7x	1.7x	1.7x	1.7x	2.5x
Quick Ratio	2.0x	1.5x	1.8x	1.7x	1.7x	1.7x	1.7x	2.5x
Cash Ratio	0.9x	0.6x	0.9x	0.8x	0.8x	0.9x	0.9x	1.3x
<b>Debt Ratios</b>								
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.6x	0.4x	0.3x	0.1x
Long-Term Debt-to-Equity	1.1x	0.9x	0.8x	0.6x	0.5x	0.3x	0.1x	0.1x
EBITDA Interest Coverage	8.4x	7.2x	5.6x	6.1x	7.5x	9.8x	13.5x	21.7x
Net Debt-to-EBITDA	4.3x	3.7x	2.7x	2.1x	1.5x	0.9x	0.3x	-0.3x
Debt-to-Capital	0.6x	0.5x	0.5x	0.4x	0.4x	0.3x	0.2x	0.1x

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
<b>Revenue</b>	<b>981</b>	<b>1,232</b>	<b>1,263</b>	<b>1,306</b>	<b>1,353</b>	<b>1,383</b>
<i>YoY Growth</i>	16%	26%	2%	3%	4%	2%
Direct Costs	(515)	(679)	(702)	(727)	(754)	(772)
<b>Gross Profit</b>	<b>467</b>	<b>554</b>	<b>561</b>	<b>580</b>	<b>599</b>	<b>611</b>
<i>Gross Margin</i>	48%	45%	44%	44%	44%	44%
General and Administrative Expenses	(79)	(83)	(83)	(84)	(84)	(85)
<b>EBITDA</b>	<b>388</b>	<b>471</b>	<b>477</b>	<b>496</b>	<b>514</b>	<b>526</b>
<i>YoY Growth</i>	20%	21%	1%	4%	4%	2%
<i>EBITDA Margin</i>	40%	38%	38%	38%	38%	38%
Depreciation and Amortization	(128)	(166)	(169)	(176)	(183)	(189)
<b>EBIT</b>	<b>260</b>	<b>305</b>	<b>309</b>	<b>320</b>	<b>331</b>	<b>337</b>
<i>YoY Growth</i>	20%	17%	1%	4%	3%	2%
<i>EBIT Margin</i>	26%	25%	24%	25%	24%	24%
Net Finance Costs and Other Income	(45)	(67)	(61)	(48)	(35)	(21)
<b>Net Income to Equity</b>	<b>215</b>	<b>237</b>	<b>248</b>	<b>272</b>	<b>296</b>	<b>317</b>
<i>YoY Growth</i>	5%	10%	5%	10%	9%	7%
<i>Net Margin</i>	22%	19%	20%	21%	22%	23%
<b>EPS (QR)</b>	<b>3.68</b>	<b>4.04</b>	<b>4.23</b>	<b>4.64</b>	<b>5.06</b>	<b>5.40</b>
<b>DPS (QR)</b>	<b>1.70</b>	<b>1.90</b>	<b>2.00</b>	<b>2.20</b>	<b>2.40</b>	<b>2.60</b>
<i>Payout Ratio</i>	46%	47%	47%	47%	47%	48%

Balance Sheet (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
<b>Non-Current Assets</b>						
PP&E and Projects in Progress	2,729	2,647	2,552	2,433	2,306	2,174
Investment Properties	37	38	38	38	38	38
Leasehold Property & Associates	-	-	-	-	-	-
Intangible Assets & Goodwill	119	131	124	116	108	101
Available-for-Sale Investments	-	18	18	18	18	18
<b>Total Non-Current Assets</b>	<b>2,886</b>	<b>2,834</b>	<b>2,731</b>	<b>2,605</b>	<b>2,471</b>	<b>2,331</b>
<b>Current Assets</b>						
Inventories	11	11	11	12	12	12
Trade and Other Receivables	525	420	432	439	448	451
Bank Balances and Cash	352	427	417	438	462	492
<b>Total Current Assets</b>	<b>888</b>	<b>858</b>	<b>861</b>	<b>889</b>	<b>923</b>	<b>956</b>
<b>Total Assets</b>	<b>3,774</b>	<b>3,692</b>	<b>3,592</b>	<b>3,493</b>	<b>3,394</b>	<b>3,287</b>
<b>Equity &amp; Liabilities</b>						
<b>Total Shareholders' Equity</b>	<b>1,636</b>	<b>1,732</b>	<b>1,862</b>	<b>2,010</b>	<b>2,170</b>	<b>2,338</b>
Non-Controlling interests	(4)	(3)	(3)	(3)	(3)	(3)
<b>Non-Current Liabilities</b>						
Loans and Borrowings	1,525	1,462	1,187	919	637	341
Employee Benefits	31	37	43	49	55	61
<b>Total Non-Current Liabilities</b>	<b>1,556</b>	<b>1,499</b>	<b>1,230</b>	<b>968</b>	<b>692</b>	<b>402</b>
<b>Current Liabilities</b>						
Trade Payables	53	37	40	41	41	42
Loans and Borrowings	261	222	255	268	282	296
Accruals, Provisions & Other Payables	203	195	196	199	200	201
Retention Payable	68	11	11	11	11	11
<b>Total Current Liabilities</b>	<b>585</b>	<b>464</b>	<b>502</b>	<b>518</b>	<b>534</b>	<b>549</b>
<b>Total Liabilities</b>	<b>2,142</b>	<b>1,963</b>	<b>1,732</b>	<b>1,486</b>	<b>1,227</b>	<b>952</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,774</b>	<b>3,692</b>	<b>3,592</b>	<b>3,493</b>	<b>3,394</b>	<b>3,287</b>

Source: Company data, QNB FS Research

# Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR142.10	Current Target Price	QR126.00
Implied Upside	(11.3%)		

## Urea Drives A Strong Finish to 2018; Market Perform

**Strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible.** We continue to believe with IQCD stock enjoying solid momentum, upside in earnings/dividends are key for charting the way forward. Given IQCD continues to operate above capacity and with no major capex on the horizon, earnings growth remains purely a function of commodity price forecasts. Considering its strong 2018 performance will soon be in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019. **In this regard, early indications are positive and could lead to upside vs. our 1.3% EPS decline forecast for 2019.**

### Highlights

- **For 4Q2018, we estimate revenue/EPS of QR1.46bn/QR2.12, flattish and up 34% YoY, respectively.** (1) For **steel**, as we have mentioned previously, 3Q2018 gross margins came under pressure hitting their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 (21.5% in 2Q2018). Iron ore prices remain elevated, while selling prices could face headwinds due to regional oversupply/discounting and inventory dump in the fourth quarter. Going forward, electricity charges are also slated to go up. Consequently, we expect 4Q2018 steel gross margins at 15.0%, while prices are down moderately YoY/QuoQ. (2) In **petrochemicals**, PE realizations are also under pressure. (3) **Urea**, on the other hand, is up nicely YoY/sequentially and could drive results although prices have started to come down since early December. **We note our estimates do not include any potential impairment charges.** It is no secret that the company is facing challenges with its 31.03%-owned Saudi Steel Associate, SOLB. The BV of this associate is QR37.8mn as of June 2018 (IQCD recorded a QR101.3mn impairment charge related to this associate in 2017). The company also recorded a QR28mn ECL in 1H2018 and has a contingent liability of QR479.1mn. We note that management did not record any impairment charge for SOLB in 1H2018 as its "Value in Use" exceeded the BV of QR37.8mn. **While we are expecting QR7 in DPS for 2018, we are optimistic of a further hike in dividends to QR8 (60% YoY increase).**
- **Maintaining 2019 and 2020 estimates for now.** After a 54.1% EPS increase projected for 2018, we expect earnings to moderately decline by 1.3% in 2019 before resuming a growth rate of 8.2% in 2020. Our 2019 estimates reflect our more conservative stance on steel especially relative to strong fundamentals seen in 1H2018, further strength in urea realizations along with margin improvement and slightly muted YoY outlook on PE.
- **Strong FCF generation support dividends despite high payout ratio vs. historical.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), should come in at QR4.8bn in 2018 and should average QR5.1bn over 2017 to 2026 with an average dividend cover of 1.2x. Payouts could remain high at an avg. of ~83% in 2018-2026 (91% payout in 2017).
- **Balance sheet remains strong.** With minimal capex needs, strategic deployment of cash remains key; IQCD has 3Q2018 group cash/debt of QR12.1bn/QR0.2bn.

### Catalysts

- **With the stock enjoying solid momentum, upside in earnings/dividends could be key for charting the way forward.**

### Recommendation, Valuation and Risks

- **Recommendation & valuation: We rate IQCD a Market Perform with a PT of QR126.** IQCD is fully valued @ 17.0x and 15.8x P/E for 2019 and 2020, respectively.
- **Risks: Volatility in oil prices** remain a risk to equity prices and have a direct detrimental impact on IQCD's operations. **Geopolitical risks** remain and cannot be modeled.

### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
Group Revenue (QR mn)	14,345	16,466	16,588	16,984
EPS (QR)	5.48	8.44	8.34	9.02
DPS (QR)	5.00	7.00	7.25	7.50
RoE (%)	9.7	14.2	13.8	14.5
P/E (x)	25.9	16.8	17.0	15.8
EV/EBITDA (x)	21.7	14.4	14.6	13.5
Dividend Yield %	3.5	4.9	5.1	5.3

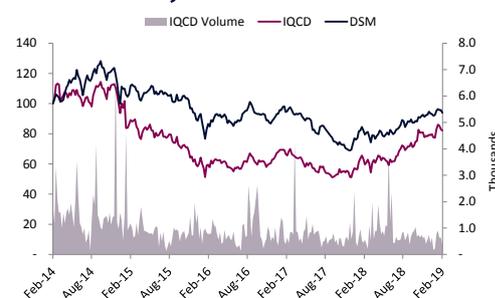
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

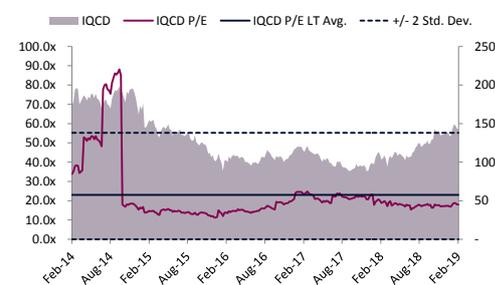
Current Market Price (QR)	142.10
Dividend Yield (%)	3.5%
Bloomberg Ticker	IQCD QD EQUITY
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector	Industrials
52wk High/52wk Low (QR)	149.00 / 92.10
3-m Average Volume ('000)	114.6
Mkt. Cap. (\$ bn/QR bn)	23.6 / 86.0
Shares Outstanding (mn)	605.0
FO Limit* (%)	49.0
Current FO* (%)	7.3
1-Year Total Return (%)	44.7
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017	3Q2018	YoY	QoQ	2018e	2017	YoY
Revenue	1,458.0	1,454.6	1,533.8	0.2%	-4.9%	6,015.0	4,628.5	30.0%
Gross Profit	218.7	281.3	235.3	-22.2%	-7.1%	1,196.6	935.0	28.0%
EBITDA	155.0	213.7	180.3	-27.5%	-14.0%	959.0	678.0	41.4%
EBIT	95.1	155.8	120.4	-39.0%	-21.0%	721.1	452.5	59.3%
Share of Results of JVs	1,154.2	818.5	1,073.4	41.0%	7.5%	4,079.9	2,606.6	56.5%
Profit for Equity Holders	1,282.7	957.7	1,316.3	33.9%	-2.6%	5,108.6	3,315.4	54.1%
EPS (in QR)	2.12	1.58	2.18	33.9%	-2.6%	8.44	5.48	54.1%
DPS (in QR)						7.00	5.00	40.0%
Gross Margin	15.0%	19.3%	15.3%			19.9%	20.2%	
EBITDA Margin	10.6%	14.7%	11.8%			15.9%	14.6%	
EBIT Margin	6.5%	10.7%	7.8%			12.0%	9.8%	

Source: Company data, QNB FS Research

### Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Revenue</b>	<b>4,674</b>	<b>4,628</b>	<b>6,015</b>	<b>5,962</b>
Cost of Sales, Excluding D&A	(3,304)	(3,694)	(4,818)	(4,918)
<b>Gross Profit</b>	<b>1,370</b>	<b>935</b>	<b>1,197</b>	<b>1,043</b>
G&A Expenses	(231)	(199)	(153)	(157)
Selling Expenses	(39)	(58)	(84)	(101)
<b>EBITDA</b>	<b>1,101</b>	<b>678</b>	<b>959</b>	<b>785</b>
Depreciation & Amortization	(225)	(225)	(238)	(238)
<b>EBIT</b>	<b>876</b>	<b>453</b>	<b>721</b>	<b>547</b>
Finance Costs	(13)	(10)	(2)	-
<b>Share of Results of Joint Ventures</b>	<b>1,716</b>	<b>2,607</b>	<b>4,080</b>	<b>4,201</b>
Other Income/Expenses	376	266	309	295
<b>Profit for Shareholders</b>	<b>2,955</b>	<b>3,315</b>	<b>5,109</b>	<b>5,043</b>
<b>EPS (QR)</b>	<b>4.88</b>	<b>5.48</b>	<b>8.44</b>	<b>8.34</b>
<b>Group Revenue</b>	<b>13,750</b>	<b>14,345</b>	<b>16,466</b>	<b>16,588</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2016	FY2017	FY2018e	FY2019e
<b>Non-Current Assets</b>				
PP&E and Projects Under Development	3,671	3,520	3,420	3,343
Investment Properties	-	-	-	-
Investment in Associates	1,451	1,439	1,403	1,353
Investment in Joint Ventures	18,343	18,848	18,948	19,048
Available-for-Sale Investments	674	534	-	-
Catalysts & Others	-	-	-	-
<b>Total Non-Current Assets</b>	<b>24,139</b>	<b>24,341</b>	<b>23,772</b>	<b>23,744</b>
<b>Current Assets</b>				
Inventories	1,244	1,444	1,452	1,482
Accounts Receivables & Prepayments	1,054	1,253	1,285	1,274
Due from Related Parties	674	650	662	656
Held for Trading Investments, Assets Held for Sale and Others	4	4	374	374
Cash and Bank Balances	8,072	7,789	9,412	10,124
<b>Total Current Assets</b>	<b>11,047</b>	<b>11,140</b>	<b>13,185</b>	<b>13,910</b>
<b>Total Assets</b>	<b>35,186</b>	<b>35,481</b>	<b>36,956</b>	<b>37,654</b>
<b>Equity</b>	<b>27,070</b>	<b>27,862</b>	<b>29,817</b>	<b>30,499</b>
<b>Total Equity</b>	<b>33,514</b>	<b>34,239</b>	<b>35,964</b>	<b>36,646</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	226	-	-	-
End of Service Benefits & Others	215	199	199	199
<b>Total Non-Current Liabilities</b>	<b>441</b>	<b>199</b>	<b>199</b>	<b>199</b>
<b>Current Liabilities</b>				
Accounts Payables & Accruals	674	776	752	768
Due to Related Parties & Others	106	41	41	41
Loans and Borrowings	451	226	-	-
<b>Total Current Liabilities</b>	<b>1,231</b>	<b>1,043</b>	<b>794</b>	<b>809</b>
<b>Equity and Liabilities</b>	<b>35,186</b>	<b>35,481</b>	<b>36,956</b>	<b>37,654</b>

Source: Company data, QNB FS Research

# Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR40.01	Price Target	QR34.00
Implied Upside	(15.0%)		

## Net Reversals Drive 2018 Bottom-Line; We Pencil in Single Digit Growth in 2019 Bottom-Line

**Masraf Al Rayan (MARK) reported net income of QR2.1bn, in-line with our estimate of QR2.1bn.** The company's bottom-line increased by 5.0% YoY due to net reversals of QR22.1mn (vs. net provisions & impairments of QR113.4mn in 2017, ahead of IFRS 9 implementation) as net operating income receded by 1.8%. Moreover, cost-to-income ratio moved up to 24.0% vs. 21.1% in 2017 due to revenue marginally increasing by 1.8%, while opex jumping by 15.8%. On the other hand, capitalization remained robust with CET1 at 18.7%. MARK announced cash DPS of QR2.00 (unchanged vs. 2017), yielding 5.0%. We retain our Market Perform rating and QR34.00 Price Target on MARK.

### Highlights

- **MARK's 2018 bottom-line increased YoY on the back of net reversals.** MARK reported net income of QR2.1bn (in-line with our estimates), increasing by 5.0% YoY. The bank booked net reversals of QR22.1mn vs. net provisions and impairments of QR113.4mn in 2017. Net operating income (before provisions) receded by 1.8% YoY due to marginal growth in revenue being offset by aggressive opex.
- **DPS came in-line with our estimate.** The bank announced DPS of QR2.00 (unchanged vs. 2017), yielding 5.0% and payout ratio of 72%.
- **Margins remained under pressure.** Net interest margin decreased by 8bps YoY to 2.39%. Tightening of the NIM was led by a rise in cost of funds exceeding the increase in yield on assets. Cost of funds increased by 50bps YoY to 2.68%, whereas yield on assets increased by 35bps to 4.60%. *The drop in margins is in-line with our expectations.*
- **C/I ratio moved up on the back of higher opex growth relative to revenue increase.** MARK ended 2018 with a C/I ratio of 24.0% vs. 21.1% in 2017. This was due to revenue marginally increasing by 1.9%, while opex jumping by 15.8%. Moreover, the bank generated negative JAWS of 13.9% in 2018 (-12.8% in 2017).
- **Asset quality worsened, but remains negligible.** NPL ratio moved to 0.83% vs. 0.47% in 2017, while absolute NPLs almost doubled to QR604.0mn. Coverage ratio of stage 3 loans (impaired or non-performing) improved to 50% vs. 44% at the end of 3Q2018. One-time impairment charges because of IFRS 9 had minimal impact on MARK's CET1 ratio; CET1 ratio remained robust at 18.7% vs. 19.2% in 2017.
- **Net loans and deposits fared better vs. its peers.** Net loans displayed flat performance YoY at QR72.2bn, while deposits decreased by 1.5% YoY to QR61.6bn. Thus, MARK's LDR remained elevated and at 117% vs. 115% in FY2017. *We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile/lower LDR.*

### Catalysts

- News flow and or strategy in growing the business.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR34/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.2x and 14.3x on our 2019 estimates, respectively. *The market is pricing a fundamental P/B (2.2x) and a sustainable RoE (17.7%) vs. our estimates (P/B: 1.8x & RoE: 15.8%).* The name trades at a PEG of 2.6x based on 5.4% CAGR (2018-23e).
- **Risks:** 1) Geopolitical factors, 2) More than expected increase in credit costs and 3) Losing market share in the government segment.

### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	2.84	2.89	3.15	3.51
EPS Growth (%)	5.0	1.9	8.7	11.7
P/E (x)	14.1	13.8	12.7	11.4
Tangible BVPS (QR)	17.7	18.5	19.6	21.0
P/TB (x)	2.3	2.2	2.0	1.9
DPS (QR)	2.00	2.00	2.00	2.25
Dividend Yield (%)	5.0	5.0	5.0	5.6

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

### Key Data

Current Market Price (QR)	40.01
Dividend Yield (%)	5.0%
Bloomberg Ticker	MARK QD EQUITY
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	42.65 / 33.01
3-m Average Volume ('000)	389.8
Mkt. Cap. (\$ bn/QR bn)	8.2 / 30.0
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	13.3
1-Year Total Return (%)	6.2
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	2,268	2,337	2,553	2,841
Fees & Commissions	315	326	356	384
FX Income	152	162	173	190
Other Income	53	56	57	68
<b>Non-Interest Income</b>	<b>521</b>	<b>544</b>	<b>586</b>	<b>642</b>
<b>Total Revenue</b>	<b>2,788</b>	<b>2,881</b>	<b>3,139</b>	<b>3,483</b>
Operating Expenses	(668)	(686)	(727)	(787)
<b>Net Operating Income</b>	<b>2,120</b>	<b>2,195</b>	<b>2,412</b>	<b>2,695</b>
Net Provisions & Impairments	22	(8)	(36)	(42)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>2,142</b>	<b>2,187</b>	<b>2,376</b>	<b>2,654</b>
Tax	(2)	(3)	(3)	(3)
<b>Net Profit Before Minority Interest</b>	<b>2,140</b>	<b>2,184</b>	<b>2,373</b>	<b>2,650</b>
Minority Interest	(9)	(13)	(14)	(16)
<b>Net Profit (Headline/Reported)</b>	<b>2,130</b>	<b>2,171</b>	<b>2,359</b>	<b>2,635</b>
Social & Sports Contribution Fund	(53)	(54)	(59)	(65)
<b>Net Profit (Attributable)</b>	<b>2,077</b>	<b>2,117</b>	<b>2,300</b>	<b>2,569</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	3,027	3,232	3,280	3,007
Interbank Loans	1,496	3,003	3,982	3,481
Net Investments	19,005	20,920	23,323	24,976
Net Loans	72,164	75,076	79,639	87,015
Investment In Associates	526	539	553	569
Other Assets	887	751	733	801
Net PP&E	189	193	214	217
<b>Total Assets</b>	<b>97,294</b>	<b>103,715</b>	<b>111,724</b>	<b>120,064</b>
<b>Liabilities</b>				
Interbank Deposits	16,484	18,641	21,145	20,564
Customer Deposits	61,569	64,647	68,332	75,165
Other Liabilities	5,768	6,323	7,329	8,332
<b>Total Liabilities</b>	<b>83,820</b>	<b>89,611</b>	<b>96,806</b>	<b>104,062</b>
<b>Total Shareholders' Equity</b>	<b>13,277</b>	<b>13,894</b>	<b>14,694</b>	<b>15,763</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>97,294</b>	<b>103,715</b>	<b>111,724</b>	<b>120,064</b>

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoE Attributable (Based on Beginning Book Value)	15.7	15.9	16.6	17.5
RoAA (Attributable)	2.1	2.1	2.1	2.2
RoRWA (Attributable)	3.3	3.3	3.4	3.4
NIM (% of IEAs)	2.39	2.46	2.51	2.58
NIM (% of RWAs)	3.61	3.65	3.77	3.78
NIM (% of AAs)	2.27	2.33	2.37	2.45
Spread	1.9	1.8	1.7	1.6
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	24.0	23.8	23.2	22.6
Cost-to-Income (Core)	24.4	24.3	23.6	23.0
<b>Liquidity (%)</b>				
LDR	117.2	116.1	116.5	115.8
Loans/Assets	74.2	72.4	71.3	72.5
Cash & Interbank Loans-to-Total Assets	4.6	6.0	6.5	5.4
Deposits to Assets	63.3	62.3	61.2	62.6
Wholesale Funding to Loans	28.1	30.8	33.4	30.8
IEAs to IBLs	123.5	121.9	120.9	121.1
<b>Asset Quality (%)</b>				
NPL Ratio	0.83	0.88	0.90	1.00
NPLs to Shareholder's Equity	4.55	4.79	4.92	5.56
NPLs to Tier 1 Capital	5.05	5.62	5.71	6.49
Coverage Ratio	97.5	91.7	89.1	77.6
ALL/Average Loans	0.8	0.8	0.8	0.8
Cost of Risk	-0.02	0.03	0.04	0.04
<b>Capitalization (%)</b>				
Tier 1 Ratio	18.7	18.5	17.7	17.2
CAR	19.2	19.0	18.2	17.7
Tier 1 Capital to Assets	12.3	11.4	11.3	11.3
Tier 1 Capital to Loans	16.6	15.8	15.9	15.5
Tier 1 Capital to Deposits	19.4	18.3	18.5	18.0
Leverage (x)	7.3	7.5	7.6	7.6
<b>Growth (%)</b>				
Net Interest Income	0.2	3.0	9.3	11.3
Non-Interest Income	10.1	4.5	7.7	9.6
OPEX	15.8	2.7	6.0	8.3
Net Operating Income	-1.8	3.5	9.9	11.8
Net Income (Attributable)	5.0	1.9	8.7	11.7
Loans	0.1	4.0	6.1	9.3
Deposits	-1.5	5.0	5.7	10.0
Assets	-5.5	6.6	7.7	7.5
RWAs	3.5	0.2	11.6	10.1

Source: Company data, QNB FS Research

# Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR185.20	Current Target Price	QR209.00
Implied Upside	12.9%		

## A Seasonally Soft 4Q2018; LT Growth Leads to Accumulate Rating

We maintain our Accumulate rating on QEWS. 3Q2018 was weaker-than-expected and RAF B's extension (for 12 years) came at lower-than-anticipated rates. For 4Q2018, we expect a seasonally weak quarter. QEWS' stock did not keep pace with the overall growth in the stock market last year given tepid 2Q/3Q results but we continue to like the company as a solid long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. **LT catalysts abound, including additional expansions domestically (like Facility E, the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.**

### Highlights

- For 4Q2018, we estimate revenue/EPS of QR617.1m/QR2.77, down 13% and flattish YoY, respectively. We expect a seasonally weak quarter with YoY comparisons to be impacted for the last time by RAF A decommissioning. Yearly/QoQ comparisons are challenging (top-line down 13% YoY and -8% QoQ, while EPS flattish YoY but down 11% sequentially) given the decommissioning of RAF A in end-2017 and seasonality; RAF A made up 9%/16% of QEWS' net power/water capacity (2017). Moreover, some revenue reduction is due to RAF B given the lower revised tariff for this fully-depreciated plant. Some impact is also due to RAF A1 with Kahramaa imposing a lower base-line K-Factor for gas charges (vs. a higher estimate assumed by QEWS in 2017). On the EPS side, YoY flat performance is due to lower margins at the older RAF A plant and QR46mn in one-off expenses in 4Q2017. The QoQ fall in EPS is because of the aforementioned factors impacting revenue/GMs along with higher interest charges that are projected up 46% YoY/10% QoQ. **Finally, we expect flat 2018 DPS of QR7.75.**
- We continue to like QEWS as a solid long-term play with a defensive business model. Essentially a capacity provider, QEWS takes on insignificant demand/costs/funding risks holding secure contracted assets with long-term (~25 years) fuel agreements/PWPs and committed funding. This also leads to visible cash flows and a stable operating profile. The State of Qatar (through various entities) owns 60% of the company.
- Market leader in Qatar with international expansion gathering steam. Essentially a monopoly, QEWS owns stakes in all domestic IWPPs/IPP/ITWPs. Moreover, the company has diversified internationally with around 14% of its net income expected to be driven by 60%-owned international JV (Nebras) in 2018. Nebras has operations in Indonesia, Jordan and Oman and is actively seeking opportunities in MENA and SE Asia.
- Despite a subdued 2019, QEWS still enjoys a solid LT growth profile with attractive EBITDA margins and compelling dividend/FCF yields. After declining 2017-2019, we expect EBITDA CAGR of 4.2% over 2019-2023; FCF should grow 4.8% over the same period driven by Um Al Houl and inflation-driven capacity charge increases. Despite modeled compression, QEWS should still maintain solid EBITDA margins (2019-2023 avg.: ~46%). Over 2018-2023, we expect dividend yield to average 4.4% and FCF yield to average 7.3% (despite a dip in 2018 as QEWS invested \$252mn into the Facility D JV). ROEs average around 12.4% over 2019-2023.

### Catalysts

- New opportunities currently not in our model: Besides Um Al Houl, our model does not account for additional expansions domestically (like Facility E, a solar project called Siraj, etc.) which will lead to LT upside. Beyond Paiton in Indonesia, we do not have color on other Nebras projects, which could lead to growth relative to our model.

### Recommendation, Valuation and Risks

- Recommendation & valuation:** Our 1-year PT is QR209. Shares have generated 36% in 5-year total returns, outpacing the DSM Index (15%).
- Risks:** Geopolitical risks cannot be modeled. Besides risks in international expansion, there is always a chance domestic projects get delayed/shelved. It is possible Kahramaa substantially renegotiates the terms of existing contracts and recent discussions on K-Factors gives us pause; however, this is not an imminent risk. We note the recent lower-than-expected rates for RAF B involve a contract extension on a fully-depreciated plant. Operational risks include availability of capacity below contracted levels, which could lead to penalties.

### Key Financial Data and Estimates

	FY2017	FY2018e	FY2019e	FY2020e
Revenue (QR mn)	3,071	2,633	2,609	2,673
Revenue Growth	-1.0%	-14.3%	-0.9%	2.4%
EPS (QR)	14.69	13.29	12.42	13.17
EPS Growth	4.8%	-9.6%	-6.5%	6.0%
P/E (x)	12.6	13.9	14.9	14.1
DPS (QR)	7.75	7.75	7.75	8.00
ROE	18.0%	13.7%	12.2%	12.3%

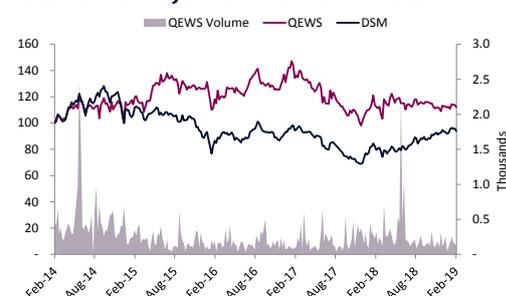
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

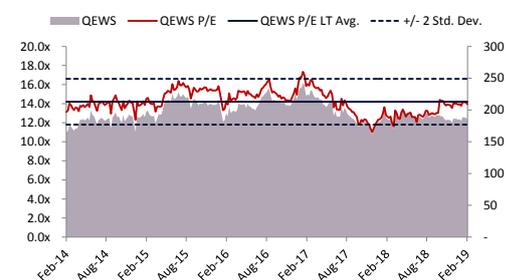
Current Market Price (QR)	185.20
Dividend Yield (%)	4.1%
Bloomberg Ticker	QEWS QD EQUITY
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector	Industrials
52wk High/52wk Low (QR)	205.25 / 170.01
3-m Average Volume ('000)	34.1
Mkt. Cap. (\$ bn/QR bn)	5.6 / 20.4
Shares Outstanding (mn)	110.0
FO Limit* (%)	49.0
Current FO* (%)	12.6
1-Year Total Return (%)	4.2
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017	3Q2018	YoY	QoQ	2018e	2017	YoY
Revenue	617.10	706.37	671.47	-12.6%	-8.1%	2,632.73	3,070.74	-14.3%
Gross Profit	307.92	339.43	355.74	-9.3%	-13.4%	1,495.39	1,759.17	-15.0%
EBITDA	243.67	267.26	309.28	-8.8%	-21.2%	1,292.63	1,549.05	-16.6%
JV Income	137.23	119.07	102.54	15.3%	33.8%	519.86	566.86	-8.3%
Net Income	305.03	304.79	343.83	0.1%	-11.3%	1,461.42	1,616.18	-9.6%
EPS (in QR)	2.77	2.77	3.13	0.1%	-11.3%	13.29	14.69	-9.6%
Gross Margin	49.9%	48.1%	53.0%			56.8%	57.3%	
EBITDA Margin	39.5%	37.8%	46.1%			49.1%	50.4%	
Net Margin	49.4%	43.1%	51.2%			55.5%	52.6%	

Source: Company data, QNB FS Research

## Valuation and Key Ratios

### Valuation Metrics

Particulars	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
<b>Valuation</b>										
EV/EBITDA - Consolidated	15.7	14.8	14.1	14.4	17.0	18.4	17.0	15.8	14.7	13.6
EV/EBIT	22.5	20.8	19.0	20.4	23.7	27.1	24.7	22.5	20.7	19.0
P/E	13.3	13.6	13.2	12.6	13.9	14.9	14.1	13.2	12.5	11.8
P/CF	9.2	11.0	9.9	12.2	10.4	12.7	11.9	11.7	11.2	10.7
P/BV	3.0	2.8	2.5	2.3	1.9	1.8	1.7	1.6	1.5	1.5
Dividend Yield	4.0%	4.0%	4.0%	4.2%	4.2%	4.2%	4.3%	4.5%	4.6%	4.7%
FCF Yield	(2.4%)	4.0%	6.0%	7.9%	4.8%	7.0%	7.6%	7.7%	8.1%	8.5%

Source: Bloomberg, QNB FS Research

### Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	CAGR ('19-'23)
<b>Growth Rates</b>											
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(14.3%)	(0.9%)	2.4%	2.5%	2.5%	2.5%	2.5%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.0%)	(8.4%)	4.4%	4.4%	3.4%	3.5%	3.9%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(16.6%)	(10.1%)	4.7%	4.7%	3.6%	3.6%	4.2%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(15.7%)	(14.6%)	6.4%	6.4%	4.7%	4.7%	5.5%
PBT	11.0%	(2.0%)	2.5%	4.2%	(9.1%)	(6.5%)	6.0%	6.8%	5.7%	5.5%	6.0%
PAT/EPS	10.5%	(1.9%)	2.8%	4.8%	(9.6%)	(6.5%)	6.0%	6.8%	5.7%	5.5%	6.0%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	3.2%	3.1%	3.0%	2.9%	3.1%
CFPS	30.7%	(16.6%)	11.7%	(19.0%)	16.7%	(17.5%)	6.9%	1.2%	4.7%	4.5%	4.3%
FCFPS	NM	NM	50.5%	31.1%	(39.1%)	45.7%	7.7%	1.4%	5.3%	5.0%	4.8%
<b>Operating Ratios</b>											
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.8%	52.5%	53.5%	54.5%	55.0%	55.5%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	49.1%	44.5%	45.5%	46.5%	47.0%	47.5%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	35.1%	30.3%	31.4%	32.6%	33.3%	34.0%	
Net Margin	52.8%	50.3%	49.7%	52.6%	55.5%	52.4%	54.2%	56.5%	58.2%	59.9%	
<b>Finance Ratios</b>											
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.5	0.5	0.4	0.4	0.3	0.3	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0	(0.0)	
Interest Coverage	9.7	9.4	8.1	6.1	4.1	3.4	3.7	4.1	4.6	5.1	
<b>Return Ratios</b>											
ROIC	8.8%	9.2%	8.5%	7.4%	5.6%	4.7%	5.0%	5.2%	5.3%	5.4%	
ROE	22.6%	20.4%	18.6%	18.0%	13.7%	12.2%	12.3%	12.4%	12.4%	12.4%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	7.8%	8.1%	8.5%	8.8%	9.1%	
FCF Yield	-2.4%	4.0%	6.0%	7.9%	4.8%	7.0%	7.6%	7.7%	8.1%	8.5%	
<b>Liquidity Ratios</b>											
Current Ratio	1.2	1.5	2.1	2.3	2.0	2.2	2.2	2.4	2.6	2.8	
Quick Ratio	1.1	1.4	1.9	2.2	1.9	2.0	2.1	2.3	2.5	2.7	

Source: Bloomberg, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Revenue</b>	<b>3,071</b>	<b>2,633</b>	<b>2,609</b>	<b>2,673</b>
Cost of Sales, Excluding Depreciation	(1,312)	(1,137)	(1,239)	(1,243)
<b>Gross Profit</b>	<b>1,759</b>	<b>1,495</b>	<b>1,370</b>	<b>1,430</b>
General & Administrative Expenses	(210)	(203)	(208)	(213)
<b>EBITDA</b>	<b>1,549</b>	<b>1,293</b>	<b>1,162</b>	<b>1,217</b>
Deferred Income	0	0	0	0
Depreciation & Amortization	(453)	(369)	(373)	(377)
<b>EBIT</b>	<b>1,096</b>	<b>924</b>	<b>789</b>	<b>840</b>
Finance Costs, Net	(164)	(114)	(152)	(146)
Dividend Income & Gain on Sale of AFS	95	111	122	134
Other & Miscellaneous Income/Expense & Share of Profits from JVs	613	570	635	649
Share of Associates	0	0	0	0
Profit Before Tax	1,639	1,490	1,393	1,477
Income Tax Expense	0	0	0	0
<b>Profit After Tax (Continuing Operations)</b>	<b>1,639</b>	<b>1,490</b>	<b>1,393</b>	<b>1,477</b>
Discontinued Operations				
Minority Interest	(23)	(29)	(27)	(29)
<b>Profit for Shareholders</b>	<b>1,616</b>	<b>1,461</b>	<b>1,366</b>	<b>1,449</b>
<b>EPS (QR)</b>	<b>14.69</b>	<b>13.29</b>	<b>12.42</b>	<b>13.17</b>

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	5,745	5,434	5,169	4,901
Available-for-Sale Investments	702	1,384	1,384	1,384
Finance Lease Receivables	1,249	1,141	1,043	954
JV Loans and Investments in JVs	3,136	5,021	5,367	5,719
Other Non-Current assets	330	340	332	324
<b>Total Non-Current Assets</b>	<b>11,161</b>	<b>13,321</b>	<b>13,296</b>	<b>13,282</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	120	135	135	135
Inventories	231	234	255	255
Accounts Receivables & Prepayments	849	577	572	586
Cash and Short-Term Deposits	3,436	3,040	3,369	3,611
<b>Total Current Assets</b>	<b>4,635</b>	<b>3,986</b>	<b>4,330</b>	<b>4,587</b>
<b>Total Assets</b>	<b>15,797</b>	<b>17,307</b>	<b>17,626</b>	<b>17,869</b>
<b>Equity</b>				
Equity to the Parent	8,978	10,658	11,172	11,768
Minority Interest	250	246	241	237
<b>Total Equity</b>	<b>9,228</b>	<b>10,903</b>	<b>11,413</b>	<b>12,005</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	4,442	4,327	4,110	3,699
Employees' End of Service Benefits	74	84	93	103
Derivatives	27	5	5	5
<b>Total Non-Current Liabilities</b>	<b>4,543</b>	<b>4,416</b>	<b>4,209</b>	<b>3,807</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	586	561	577	630
Loans and Borrowings	1,424	1,423	1,423	1,423
Derivatives	15	4	4	4
<b>Total Current Liabilities</b>	<b>2,026</b>	<b>1,988</b>	<b>2,004</b>	<b>2,057</b>
<b>Equity and Liabilities</b>	<b>15,797</b>	<b>17,307</b>	<b>17,626</b>	<b>17,869</b>

Source: Company data, QNB FS Research

## Qatar Gas Transport Co./Nakilat (QGTS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR19.85</b>	<b>Current Target Price</b>	<b>QR21.00</b>
<b>Implied Upside</b>	<b>5.8%</b>		

### Significant LT Upside Not In the Model; Accumulate

*Nakilat's results remain fairly predictable, which is a testament to the company's solid and stable business especially when it comes to its wholly-owned ship segment. We do not expect 2018 results to be any different. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 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. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.*

### Highlights

- **4Q2018 operating metrics should continue to show improvement.** On a YoY basis, adjusted revenue/adjusted EBITDA should post 5%/7% growth rates. However, 4Q2017 also included QR65mn in realized gains on investments, while 4Q2018 finance costs are expected up 5%. Net-net, this leads to an 11% YoY decline in net income. Sequentially, net income should be flattish with the QoQ increase in finance charges offset by operating items. Notwithstanding some quarterly variability, QGTS' wholly-owned business remains steady and predictable. For DPS, we continue to expect QR1.05, up modestly vs QR1.00 in 2017.
- **Our projections call for around 5% EPS growth in 2019.** Adjusted revenue should increase around 1% in 2019 with a very modest gain in adjusted-EBITDA margins to 76.9% from 76.6% in 2018. As we have pointed out previously, for 2019, we expect flattish interest charges despite a 6% decline in debt given our forecast of higher interest rates. However, if interest rates do not go up as originally envisioned, a scenario that looks increasingly likely given the Fed's recent statements and market forecasts, we see decent upside to our 2019 estimates.

### Catalysts

- **Expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver.** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market.

### Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR21.** QGTS trades at attractive multiples vs. peers despite higher EBITDA margins & FCF yields.
- **Risks: (1)** Blockade is an overhang but business impact has been limited thus far. Shipping ultimately remains the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2)** There is a risk existing LNG contracts get renegotiated as they are at a premium to spot (for wholly-owned fleet). We note this premium has fallen markedly over the last 12 months. Overall, we do not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept worse contract terms. The likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

### Key Financial Data and Estimates

	FY2016	FY2017	FY2018e	FY2019e
EPS (QR)	1.72	1.53	1.57	1.65
P/E (x)	11.5	13.0	12.6	12.0
DPS (QR)	1.00	1.00	1.05	1.10
Dividend Yield	5.0%	5.0%	5.3%	5.5%

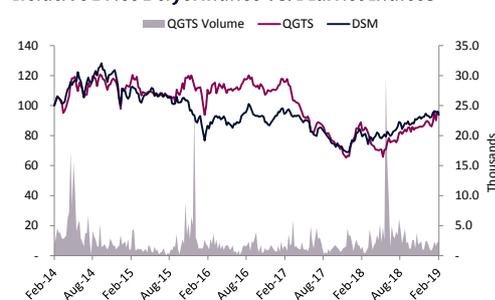
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	19.85
Dividend Yield (%)	5.1%
Bloomberg Ticker	QGTS QD EQUITY
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector	Transport
52wk High/52wk Low (QR)	21.10 / 13.55
3-m Average Volume ('000)	362.5
Mkt. Cap. (\$ bn/QR bn)	3.0 / 11.0
Shares Outstanding (mn)	554.0
FO Limit* (%)	49.0
Current FO* (%)	14.1
1-Year Total Return (%)	22.0
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4Q2018e	4Q2017	3Q2018	YoY	QoQ	2018e	2017	YoY
Revenue from Wholly-Owned Vessels	776.2	769.3	774.3	0.9%	0.2%	3,076.9	3,057.1	0.6%
Gross Profit	597.2	588.7	596.7	1.4%	0.1%	2,380.8	2,359.6	0.9%
EBITDA	579.5	573.8	579.4	1.0%	0.0%	2,307.8	2,281.4	1.2%
EBIT	389.5	381.2	389.4	2.2%	0.0%	1,551.1	1,513.4	2.5%
Share of Operating Profits from Joint Ventures	101.2	62.0	101.4	63.2%	-0.2%	394.3	339.0	16.3%
Net Income to Equity	214.1	239.8	214.1	-10.7%	0.0%	872.3	846.2	3.1%
EPS (QR)	0.39	0.43	0.39	-10.7%	0.0%	1.57	1.53	3.1%
DPS (QR)						1.05	1.00	5.0%
Adjusted Revenue	891.3	845.6	889.4	5.4%	0.2%	3,526.5	3,451.3	2.2%
Adjusted EBITDA	680.7	635.8	680.8	7.1%	0.0%	2,702.1	2,620.4	3.1%
Gross Margin	76.9%	76.5%	77.1%			77.4%	77.2%	
EBITDA Margin	74.7%	74.6%	74.8%			75.0%	74.6%	
EBIT Margin	50.2%	49.6%	50.3%			50.4%	49.5%	
Net Margin	27.6%	31.2%	27.7%			28.4%	27.7%	
Adjusted EBITDA Margin	76.4%	75.2%	76.5%			76.6%	75.9%	

Source: Company data, QNB FS estimates

## Key Metrics

	2016	2017	2018	2019	2020	2025	2030	2033	CAGR '17-'33
<b>Growth Ratios (In %)</b>									
Revenue - Wholly Owned	0.7%	(0.4%)	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	2.2%	1.2%	1.5%	1.4%	1.3%	1.3%	1.3%
Gross Profit	0.1%	0.4%	0.9%	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	0.0%
EBITDA	(1.1%)	0.5%	1.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	1.5%	1.8%	1.7%	1.5%	1.5%	1.5%
EBIT	(6.5%)	0.7%	2.5%	0.1%	0.1%	(0.0%)	(0.0%)	(0.0%)	0.1%
EPS	(2.9%)	(11.3%)	3.1%	4.9%	13.4%	9.3%	6.0%	5.2%	7.4%
CFPS	(9.9%)	16.7%	(18.5%)	33.1%	9.3%	6.4%	4.5%	4.1%	5.4%
FCFPS	(4.9%)	22.0%	(26.1%)	40.5%	9.7%	6.6%	4.6%	4.2%	5.3%
DPS	(20.0%)	0.0%	5.0%	4.8%	4.5%	29.6%	6.0%	5.2%	6.8%

Source: Company data, QNB FS estimates

## Ratio Analysis

### Key Metrics

	2016	2017	2018	2019	2020	2025	2030	2033
<b>Growth Ratios (In %)</b>								
Revenue - Wholly Owned	0.7%	(0.4%)	0.6%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	2.2%	1.2%	1.5%	1.4%	1.3%	1.3%
Gross Profit	0.1%	0.4%	0.9%	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
EBITDA	(1.1%)	0.5%	1.2%	0.1%	0.1%	0.0%	0.0%	0.0%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	1.5%	1.8%	1.7%	1.5%	1.5%
EBIT	(6.5%)	0.7%	2.5%	0.1%	0.1%	(0.0%)	(0.0%)	(0.0%)
EPS	(2.9%)	(11.3%)	3.1%	4.9%	13.4%	9.3%	6.0%	5.2%
CFPS	(9.9%)	16.7%	(18.5%)	33.1%	9.3%	6.4%	4.5%	4.1%
FCFPS	(4.9%)	22.0%	(26.1%)	40.5%	9.7%	6.6%	4.6%	4.2%
DPS	(20.0%)	0.0%	5.0%	4.8%	4.5%	29.6%	6.0%	5.2%
<b>Operating Ratios (In %)</b>								
Gross Margin	76.6%	77.2%	77.4%	77.3%	77.2%	76.7%	76.2%	75.9%
EBITDA Margin	74.0%	74.6%	75.0%	75.0%	75.0%	74.7%	74.4%	74.2%
Adj. EBITDA Margin	76.8%	75.9%	76.6%	76.9%	77.1%	77.8%	78.7%	79.2%
EBIT Margin	49.0%	49.5%	50.4%	50.4%	50.4%	50.1%	49.8%	49.6%
Net Margin	31.1%	27.7%	28.4%	29.7%	33.7%	52.2%	72.9%	85.2%
<b>Finance Ratios</b>								
Net Debt-to-EBITDA	8.3	7.8	7.5	7.1	6.6	4.0	0.9	-1.1
Debt-Equity Ratio	4.1	3.5	2.7	2.4	2.1	0.9	0.3	0.0
Net Debt-Equity Ratio	3.6	3.0	2.4	2.1	1.9	0.8	0.1	-0.1
Interest Coverage	1.3	1.3	1.3	1.3	1.4	2.2	5.4	36.3
EBITDA Interest Coverage	1.9	1.9	1.9	1.9	2.1	3.3	8.0	54.4
<b>Return Ratios (In %)</b>								
ROIC	5.6%	5.7%	5.7%	5.9%	6.1%	6.6%	7.2%	7.5%
ROAE	19.7%	15.1%	13.3%	12.3%	13.0%	13.9%	13.6%	13.2%
ROAA	3.1%	2.8%	2.9%	3.1%	3.6%	6.3%	9.9%	12.2%
<b>Liquidity Ratios</b>								
Current Ratio	2.0	2.0	1.7	1.5	1.5	1.3	1.2	3.7
Quick Ratio	2.0	2.0	1.6	1.5	1.5	1.3	1.2	3.7
<b>Valuation</b>								
EV/EBITDA-Adjusted	10.6	11.0	10.4	9.9	9.4	6.8	4.1	2.5
EV/EBIT	19.8	19.0	18.1	17.5	16.8	12.9	8.4	5.4
P/E	11.5	13.0	12.6	12.0	10.6	6.8	4.9	4.1
P/CF	9.8	8.4	10.3	7.7	7.1	5.2	4.1	3.6
P/B	2.1	1.9	1.5	1.4	1.3	0.9	0.6	0.5
Dividend Yield	5.0%	5.0%	5.3%	5.5%	5.8%	8.8%	12.4%	14.5%
FCF Yield	9.8%	11.9%	8.8%	12.4%	13.6%	18.5%	23.9%	27.1%

Source: Company data, QNB FS estimates

## Detailed Financial Statements

### Income Statement

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Revenue – Wholly-Owned Ships</b>	<b>3,057</b>	<b>3,077</b>	<b>3,080</b>	<b>3,083</b>
Direct Costs	(697)	(696)	(700)	(703)
<b>Gross Profit</b>	<b>2,360</b>	<b>2,381</b>	<b>2,380</b>	<b>2,380</b>
Income from Marine & Agency Services	55	55	56	57
General and Administrative Expenses	(133)	(128)	(126)	(125)
<b>EBITDA</b>	<b>2,281</b>	<b>2,308</b>	<b>2,311</b>	<b>2,312</b>
Depreciation	(768)	(757)	(757)	(758)
<b>EBIT</b>	<b>1,513</b>	<b>1,551</b>	<b>1,553</b>	<b>1,554</b>
Share of Profits from Joint Ventures	339	394	432	481
Finance Costs	(1,172)	(1,194)	(1,191)	(1,119)
Interest, Dividend & Profit from Islamic Banks	64	85	85	86
Vessels Sub-Chartering & Other Income	103	37	37	37
<b>Profit Before Tax</b>	<b>847</b>	<b>873</b>	<b>916</b>	<b>1,039</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>847</b>	<b>873</b>	<b>916</b>	<b>1,039</b>
Minority Interest	(1)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>846</b>	<b>872</b>	<b>915</b>	<b>1,037</b>
<b>EPS (QR)</b>	<b>1.53</b>	<b>1.57</b>	<b>1.65</b>	<b>1.87</b>
<b>Adjusted Net Revenue</b>	<b>3,451</b>	<b>3,526</b>	<b>3,568</b>	<b>3,621</b>
<b>Adjusted EBITDA</b>	<b>2,620</b>	<b>2,702</b>	<b>2,743</b>	<b>2,793</b>

Source: Company data, QNB FS estimates

### Balance Sheet

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	22,392	21,735	21,039	20,343
Investment in Joint Venture Companies	4,144	4,502	4,632	4,752
Loans to Joint Venture Companies	99	82	82	82
Available-for-Sale Investments	109	139	139	139
<b>Total Non-Current Assets</b>	<b>26,744</b>	<b>26,458</b>	<b>25,892</b>	<b>25,316</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	400	586	587	587
Cash and Bank Balances	2,775	2,590	2,342	2,169
<b>Total Current Assets</b>	<b>3,175</b>	<b>3,176</b>	<b>2,929</b>	<b>2,757</b>
<b>Total Assets</b>	<b>29,919</b>	<b>29,635</b>	<b>28,821</b>	<b>28,072</b>
<b>Equity</b>				
Equity Attributable to the Parent	5,922	7,210	7,674	8,232
Minority Interest	4	5	7	8
<b>Total Equity</b>	<b>5,926</b>	<b>7,216</b>	<b>7,681</b>	<b>8,241</b>
<b>Non-Current Liabilities</b>				
Borrowings	19,789	18,638	17,450	16,337
Fair Value of Interest Rate Swaps	2,478	1,738	1,614	1,490
Provision for End of Service Benefits	148	121	121	121
<b>Total Non-Current Liabilities</b>	<b>22,416</b>	<b>20,498</b>	<b>19,185</b>	<b>17,948</b>
<b>Current Liabilities</b>				
Borrowings	832	1,158	1,189	1,113
Accounts Payables/Accruals & Due to Related Parties	746	763	767	771
<b>Total Current Liabilities</b>	<b>1,578</b>	<b>1,921</b>	<b>1,956</b>	<b>1,884</b>
<b>Equity and Liabilities</b>	<b>29,919</b>	<b>29,635</b>	<b>28,821</b>	<b>28,072</b>

Source: Company data, QNB FS estimates

# Qatar International Islamic Bank (QIIK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-4</b>
<b>Share Price</b>	<b>QR68.03</b>	<b>Target Price</b>	<b>QR63.00</b>
<b>Implied Upside</b>	<b>(7.4%)</b>		

## Pure Dividend Play

**Qatar International Islamic Bank (QIIK) reported a 2018 net profit of QR805.1mn, in-line with our estimate of QR818.0mn (-1.6% variation).** QIIK's net profit increased by 6.4% YoY due to strong growth in net interest income along with flat opex, which resulted in a 9.4% rise in net operating income. However, the full benefit of this operating performance improvement did not flow through to the bottom-line given a 53.3% surge in net provisions and impairments. The board also announced a DPS of QR4.00, in-line with our estimate. The stock yields a strong 5.9% and payout of 75%. We maintain our Market Perform rating and PT of QR63.00/share.

### Highlights

- **QIIK reports in-line 2018 net profit.** QIIK generated attributable net profit of QR805.1mn growing by 6.4% YoY, in-line with our estimate of QR818mn (-1.6% variation).
- **Net income was driven by strong net interest income and flat opex; however, further earnings growth was impeded by a surge in net credit provisions and impairments.** Net interest income increased by 9.5% YoY and with opex remaining flat, led to a 9.4% growth in net operating income. On the other hand, net provisions & impairments surged by 53.3%, lowering the growth in net income to 6.4%.
- **No surprises on the dividends front with QIIK recommending QR4 in DPS, flat with 2017 and in line with our model.** Announced DPS implies a DY of 5.9% and a payout of 75%.
- **Margins remained stable in 2018.** NIM inched up by only 2bps YoY to 2.70% due to yield on assets and CoFs practically moving in-line. Yield on assets increased by 21bps YoY, while CoFs moved up by 20bps YoY.
- **The bank remains efficient and finally generated positive JAWS.** Revenue grew by 6.8% YoY while opex remained flat, resulting in positive JAWS of 6.9%. Moreover, cost-to-income ratio improved to 24.9% vs. 26.7% in 2017.
- **Net loans and deposits contracted in 2018 but liquidity improved.** QIIK's loan book declined by 15.1% YoY to QR27.5bn. Moreover, deposits dropped by 4.2% to QR31.1bn. Hence, LDR significantly improved, receding to 88% (100% at the end of 2017). The sharp drop in loans is attributable to the public sector, which took place in 2Q2018. Moreover, loans to the real estate segment decreased by 11.4%. Regarding deposits, the public sector contributed QR8.4bn vs. 2.7bn in 2017 as deposits from corporates dropped by 65.7%.
- **Asset quality has deteriorated vs. 2017...** QIIK's NPL ratio accelerated to 2.13% vs. 1.38% in 2017; NPLs gained by 32.1% YoY to QR598mn. Moreover, CoR jumped to 22bps vs. 9bps in 2017.
- **...but capitalization remains strong.** QIIK ended 2018 with a CET1 ratio of 15.7% (vs. 14.7% in 2017) and Tier-1 of 18.4% (vs. 17.9% in 2017).

### Catalysts

- **Catalysts include:** 1) Increase in FOL to 49% from 25% and/or 2) increase in traded volumes.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR63.00.** QIIK is trading at a 2019e P/TB and P/E of 1.7x and 11.1x, respectively. The stock offers an attractive DY of 5.8%.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could further result in impairments.

### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	5.46	6.20	7.02	7.65
EPS Growth (%)	2.1	13.5	13.1	9.1
P/E (x)	12.4	11.0	9.7	8.9
Tangible BVPS (QR)	38.4	40.4	43.3	46.8
P/TB (x)	1.8	1.7	1.6	1.5
DPS (QR)	4.00	4.00	4.00	4.00
Dividend Yield (%)	5.9	5.9	5.9	5.9

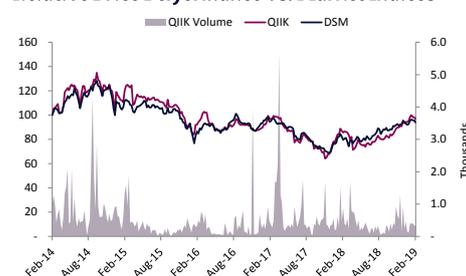
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	68.03
Dividend Yield (%)	5.9%
Bloomberg Ticker	QIIK QD EQUITY
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	70.98 / 49.05
3-m Average Volume ('000)	92.7
Mkt. Cap. (\$ bn/QR bn)	2.8 / 10.3
Shares Outstanding (mn)	151.4
FO Limit* (%)	25.0
Current FO* (%)	11.9
1-Year Total Return (%)	22.1
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	1,164	1,265	1,385	1,504
Fees & Commissions	129	131	122	131
FX Income	11	41	42	37
Other Income	1	5	25	51
<b>Non-Interest Income</b>	<b>141</b>	<b>177</b>	<b>189</b>	<b>219</b>
<b>Total Revenue</b>	<b>1,305</b>	<b>1,442</b>	<b>1,574</b>	<b>1,723</b>
Operating Expenses	(325)	(332)	(346)	(371)
<b>Net Operating Income</b>	<b>979</b>	<b>1,110</b>	<b>1,228</b>	<b>1,353</b>
Net Provisions & Impairments	(97)	(116)	(111)	(140)
<b>Net Profit (Headline/Reported)</b>	<b>882</b>	<b>994</b>	<b>1,117</b>	<b>1,213</b>
Payment on Tier-1 Sukuk	(55)	(55)	(55)	(55)
Social & Sports Contribution Fund	(22)	(25)	(28)	(30)
<b>Net Profit (Attributable)</b>	<b>805</b>	<b>914</b>	<b>1,034</b>	<b>1,128</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	2,736	2,928	2,811	3,007
Interbank Loans	12,801	9,356	6,373	6,295
Net Investments	4,890	5,458	6,529	6,976
Net Loans	27,463	29,237	31,864	34,973
Investment In Associates	388	378	373	368
Other Assets	821	690	806	877
Net PP&E	280	277	200	194
Investment in Real Estate	882	876	967	958
<b>Total Assets</b>	<b>50,260</b>	<b>49,200</b>	<b>49,922</b>	<b>53,648</b>
<b>Liabilities</b>				
Interbank Deposits	11,554	8,717	6,343	7,026
Customer Deposits	31,130	32,531	35,133	37,593
Other Borrowings	0	0	0	0
Tier-1 Sukuk	1,000	1,000	1,000	1,000
Other Liabilities	746	813	878	940
<b>Total Liabilities</b>	<b>44,430</b>	<b>43,061</b>	<b>43,354</b>	<b>46,558</b>
<b>Total Shareholders' Equity</b>	<b>5,830</b>	<b>6,139</b>	<b>6,567</b>	<b>7,090</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>50,260</b>	<b>49,200</b>	<b>49,922</b>	<b>53,648</b>

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoE Attributable (Based on Beginning Equity)	13.8	15.7	16.8	17.2
RoAA (Attributable)	1.7	1.8	2.1	2.2
RoRWA (Attributable)	2.2	2.4	2.7	2.6
NIM (% of IEAs)	2.7	2.7	2.9	3.2
NIM (% of RWAs)	3.3	3.4	3.6	3.5
NIM (% of AAs)	2.4	2.5	2.8	2.9
Spread	2.2	2.0	1.8	1.9
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	24.9	23.1	22.0	21.5
Cost-to-Income (Core)	25.1	23.2	22.4	22.2
<b>Liquidity (%)</b>				
LDR	88.2	89.9	90.7	93.0
Loans/Assets	54.6	59.4	63.8	65.2
Cash & Interbank Loans-to-Total Assets	30.9	25.0	18.4	17.3
Deposits to Assets	61.9	66.1	70.4	70.1
Wholesale Funding to Loans	42.1	29.8	19.9	20.1
IEAs to IBLs	126.3	139.7	142.5	132.9
<b>Asset Quality (%)</b>				
NPL Ratio	2.1	2.3	2.4	2.2
NPLs to Shareholder's Equity	10.3	10.9	11.9	11.1
NPLs to Tier 1 Capital	8.6	9.0	9.6	8.9
Coverage Ratio	91.9	92.8	87.6	96.0
ALL/Average Loans	1.7	2.0	2.1	2.1
Cost of Risk	22	24	19	19
<b>Capitalization (%)</b>				
Tier 1 Ratio	18.4	20.0	20.3	19.5
CAR	19.1	20.7	21.0	19.5
Tier 1 Capital to Assets	13.8	15.2	16.3	16.5
Tier 1 Capital to Loans	25.3	25.5	25.5	25.4
Tier 1 Capital to Deposits	22.3	22.9	23.1	23.6
Leverage (x)	8.6	8.0	7.6	7.6
<b>Growth (%)</b>				
Net Interest Income	9.5	8.7	9.5	8.6
Non-Interest Income	-16.7	25.5	6.8	16.0
OPEX	-3.2	2.1	4.1	7.1
Net Operating Income	9.4	13.3	10.7	10.2
Net Income (Attributable)	6.4	13.6	13.1	9.1
Loans	-15.5	6.5	9.0	9.8
Deposits	-4.2	4.5	8.0	7.0
Assets	7.8	-2.1	1.5	7.5
RWAs	11.8	-1.1	6.8	14.2

Source: Company data, QNB FS Research

# Qatar Islamic Bank (QIBK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR157.81</b>	<b>Target Price</b>	<b>QR129.00</b>
<b>Implied Upside</b>	<b>(18.3%)</b>		

## Strong Fundamentals; Valuations Remain Rich at Current Levels

After 2018's results, we tweak our estimates modestly and increase our PT to QR129/sh.. The bank's financial performance was strong in 2017 and 2018 despite the blockade. While 2018 results were in-line with our forecast, QIBK's fundamentals continue to remain robust with attractive EPS growth forecast over the 2019-22e horizon.

### Highlights

- **Attributable net profit jumped by 15.9% YoY driven by non-funded income, cost containment and lower provisions.** QIBK reported net profit of QR2.48bn in FY2018, gaining by 15.9% YoY, in-line with our estimate (+3.8% variation). Net operating income gained by 9.9% as a result of growth in revenue outpacing that of opex. Moreover, net income increased as a result of an 8.4% decline in provisions and impairments. Non-funded income grew by an aggressive 28.2% on the back of f/x income which soared by 86.4% to QR259.2mn (largest amount generated in its operating history due to one-off deals; this is not sustainable in our view).
- **DPS came in-line with our estimate.** QIBK recommended cash DPS of QAR5.00 (unchanged vs. 2017), yielding 3.2%.
- **Margins and spreads remained flat YoY.** The bank generated net interest margin of 2.6% in 2018, unchanged vs. 2017. This was a result of cost of funds and yields increasing by the same pace. Moreover, the spread was flat at 2.2%.
- **Positive RoE trajectory continues.** QIBK boasts one of the highest RoEs among its peers. The bank's RoE increased from 11.3% in 2013 to 16.2% in 2018.
- **QIBK's operating efficiency remained healthy, generating positive JAWs.** The bank's C/I ratio dipped to 25.7% vs. 26.6% in FY2017 (29.8% in FY2016). Moreover, QIBK generated JAWs of 3.6% as revenue grew by 8.6% YoY while opex went up by 5.0%.
- **Gross loans inched up while deposits receded.** Gross loans increased by 1.5% YoY to QR112.4bn. On the other hand, deposits declined by 1.2% YoY to QR100.6bn. Deposits dropped due to the public and corporate segments, while deposits from the retail segment expanded by 10.1%. QIBK's LDR (based on stable sources of funds) remained healthy at 93% vs. 94% in 2017.
- **Asset quality remains healthy.** NPL ratio marginally increased to 1.21% vs. 1.16% in FY2017. During the same time, NPLs increased insignificantly by 4.2% YoY to QR1.26bn. However, the coverage ratio of Stage 3 loans (NPLs) was a strong 105%. CoR remained unchanged at 45bps in 2018.
- **IFRS 9 impact negligible, capitalization remained robust.** QIBK's CET1 and Tier-1 ratios remained strong and increased to 13.9% (13.3% in 2017) and 17.8% (16.9% in 2017), respectively.

### Catalysts

- Given that QIBK is trading at a premium to its historical P/B of 1.6x, we believe the company will have to show accelerating performance to maintain momentum in its stock price.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR129.00 and Market Perform rating.** QIBK is trading at a 2019e P/TB and P/E of 2.3x and 13.7x, respectively. Valuations remain rich at these levels.
- **Risks:** 1) Increase in credit costs and 2) Exposure to real estate segment.

### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	10.79	11.51	12.46	13.05
EPS Growth (%)	15.9	6.7	8.3	4.7
P/E (x)	14.6	13.7	12.7	12.1
Tangible BVPS (QR)	63.6	70.0	77.3	85.0
P/TB (x)	2.5	2.3	2.0	1.9
DPS (QR)	5.00	5.00	5.25	5.75
Dividend Yield (%)	3.2	3.2	3.3	3.6

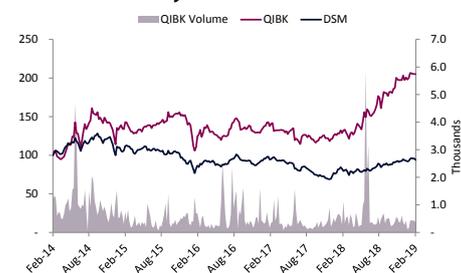
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	157.81
Dividend Yield (%)	3.2%
Bloomberg Ticker	QIBK QD EQUITY
Reuters Ticker	QIBK.QA
ISIN	QA0006929853
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	160.40 / 92.00
3-m Average Volume ('000)	76.9
Mkt. Cap. (\$ bn/QR bn)	10.2 / 37.3
Shares Outstanding (mn)	236.3
FO Limit* (%)	49.0
Current FO* (%)	11.2
1-Year Total Return (%)	62.8
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	3,542	3,838	4,139	4,504
Fees & Commissions	576	625	681	679
FX Income	259	181	203	219
Other Income	142	215	216	280
<b>Non-Interest Income</b>	<b>978</b>	<b>1,022</b>	<b>1,100</b>	<b>1,179</b>
<b>Total Revenue</b>	<b>4,519</b>	<b>4,860</b>	<b>5,239</b>	<b>5,683</b>
Operating Expenses	(1,161)	(1,211)	(1,290)	(1,386)
<b>Net Operating Income</b>	<b>3,358</b>	<b>3,648</b>	<b>3,949</b>	<b>4,297</b>
Net Provisions	(720)	(702)	(761)	(969)
<b>Net Profit Before Taxes &amp; Minority</b>	<b>2,638</b>	<b>2,946</b>	<b>3,188</b>	<b>3,329</b>
Tax	2	(18)	(19)	(20)
<b>Net Profit Before Minority Interest</b>	<b>2,641</b>	<b>2,928</b>	<b>3,169</b>	<b>3,309</b>
Minority Interest	115	(3)	(19)	(20)
<b>Net Profit (Headline/Reported)</b>	<b>2,755</b>	<b>2,925</b>	<b>3,150</b>	<b>3,289</b>
Interest on Tier-1 Sukuk	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(69)	(73)	(79)	(82)
<b>Net Profit (Attributable)</b>	<b>2,481</b>	<b>2,647</b>	<b>2,866</b>	<b>3,002</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	7,299	8,547	9,054	6,761
Interbank Loans	6,424	6,906	5,695	5,049
Net Investments	31,146	33,641	37,064	41,381
Net Loans	102,210	106,243	113,909	126,217
Investment In Associates	568	574	587	598
Other Assets	3,489	3,716	4,021	4,594
Net PP&E	479	472	481	482
Investment in Real Estate	1,231	1,021	1,048	1,075
Goodwill & Other Intangibles	386	343	300	257
<b>Total Assets</b>	<b>153,232</b>	<b>161,462</b>	<b>172,160</b>	<b>186,413</b>
<b>Liabilities</b>				
Interbank Deposits	17,234	17,201	13,170	9,888
Customer Deposits	100,598	106,835	120,724	135,210
Sukuk Financing	9,145	9,877	10,371	10,889
Other Liabilities	5,516	5,342	3,984	4,732
Tier-1 Sukuk	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>136,493</b>	<b>143,254</b>	<b>152,248</b>	<b>164,720</b>
<b>Total Shareholders' Equity</b>	<b>15,420</b>	<b>16,886</b>	<b>18,571</b>	<b>20,332</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>153,232</b>	<b>161,462</b>	<b>172,160</b>	<b>186,413</b>

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoE Attributable (Based on Beginning Book Value)	16.2	17.2	17.0	16.2
RoAA (Attributable)	1.6	1.7	1.7	1.7
RoRWA (Attributable)	2.3	2.4	2.4	2.2
NIM (% of IEAs)	2.60	2.74	2.79	2.80
NIM (% of RWAs)	3.27	3.49	3.44	3.29
NIM (% of AAs)	2.33	2.44	2.48	2.51
Spread	2.19	2.20	2.23	2.11
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	25.7	24.9	24.6	24.4
Cost-to-Income (Core)	26.2	25.8	25.5	25.4
<b>Liquidity (%)</b>				
LDR	101.6	99.4	94.4	93.3
Loans/Assets	66.7	65.8	66.2	67.7
Cash & Interbank Loans-to-Total Assets	9.0	9.6	8.6	6.3
Deposits to Assets	65.7	66.2	70.1	72.5
Wholesale Funding to Loans	25.8	25.5	20.7	16.5
IEAs to IBLs	122.9	119.6	116.9	119.6
<b>Asset Quality (%)</b>				
NPL Ratio	1.2	1.3	1.2	1.2
NPLs to Shareholder's Equity	8.2	8.4	7.7	7.7
NPLs to Tier 1 Capital	6.7	7.4	6.9	7.0
Coverage Ratio	173.9	180.8	214.1	230.0
ALL/Average Loans	1.9	2.2	2.5	2.7
Cost of Risk (bps)	45	50	49	48
<b>Capitalization (%)</b>				
Tier 1 Ratio	17.8	16.8	16.3	15.2
CAR	18.8	17.8	17.3	16.2
Tier 1 Capital to Assets	12.3	11.8	12.0	12.0
Tier 1 Capital to Loans	18.5	17.9	18.2	17.7
Tier 1 Capital to Deposits	18.8	17.8	17.1	16.5
Leverage (x)	9.9	9.6	9.3	9.2
<b>Growth (%)</b>				
Net Interest Income	4.2	8.4	7.8	8.8
Non-Interest Income	28.2	4.5	7.7	7.1
OPEX	5.0	4.3	6.5	7.5
Net Operating Income	9.9	8.6	8.2	8.8
Net Income (Attributable)	15.9	6.7	8.3	4.7
Loans	-0.4	3.9	7.2	10.8
Deposits	-1.2	6.2	13.0	12.0
Assets	1.9	5.4	6.6	8.3
RWAs	-3.3	6.8	11.8	15.6

Source: Company data, QNB FS Research

# Vodafone Qatar (VFQS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR8.23	Current Target Price	QR8.50
Implied Upside	3.3%		

## A Return to Profitability in 2018; Market Perform

We expect VFQS to report an overall strong 4Q2018; possible resumption of dividends could be positive. We continue to like the company's momentum in postpaid (3Q2018 revenue up 36% YoY driven by subs increasing 24% and ARPU growing 8%) fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast a resumption in dividends in 2018 after an almost 4-year hiatus; indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 10.4x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is markedly more expensive than peers. We maintain our rating/PT of Market Perform/QR8.50 given expensive valuation.

### Highlights

- **VFQS should continue its trend of positive earnings in 4Q2018.** Our forecasts are in-line with management's 2018 guidance. Revenue should grow 1% YoY and 12% QoQ, with the sequential boost driven by seasonality and handset sales. Profitability YoY continues to benefit from favorable license amortization costs comparison with VFQS' license extension for an additional 40 years (until 2068) helping reduce annual license amortization costs from QR403mn to QR84mn. Sequentially, earnings growth is helped by the top-line. In terms of dividends, we continue to forecast a resumption in dividends in 2018; our forecast of QR0.10 a share could prove to be conservative.
- **We project revenue/EBITDA/net income of QR2.1bn/QR582mn/QR114mn for 2018.** Our forecasts are in-line with management guidance.
- **For 2019, we expect earnings to almost double to QR224mn driven by revenue growth and margin expansion.** We also project revenue/EBITDA of QR2.3bn/QR707mn, which imply increases of 9% and 22%, respectively. We expect EBITDA margins to expand from 28.0% in 2018 to 31.1% in 2019. We also expect capex intensity to decrease from 22.0% in 2018 to 20.8% in 2019. Finally, we project DPS of QR0.25 in 2019.

### Catalysts

- **With QF assuming majority ownership of VFQS, we expect increased traction in higher-value mobile segments and fixed broadband.** However, this effect is hard to quantify. Moreover, we are not convinced if VFQS could ever reach the scale to sport EBITDA margins in the mid-40s range (In 3Q2018, ORDS reported 52% EBITDA margins at a QR2bn quarterly revenue run-rate).

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate VFQS a Market Perform with a PT of QR8.50.** VFQS trades at 10.4x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is significantly more expensive than its regional peers.
- **Risks: 1) Increased competition** leading to ARPU erosion and/or market share loss; **2) Weakening of postpaid and fixed-line** traction/stickiness and **3) Fall in population/industry** growth rates.

### Key Financial Data and Estimates

	CY2017	CY2018e	CY2019e	CY2020e
Revenue (QR mn)	1,998	2,076	2,271	2,464
EPS (QR)	(0.30)	0.14	0.26	0.40
EV/EBITDA	14.1x	12.9x	10.4x	8.7x
Dividend Yield		1.2%	3.0%	4.3%

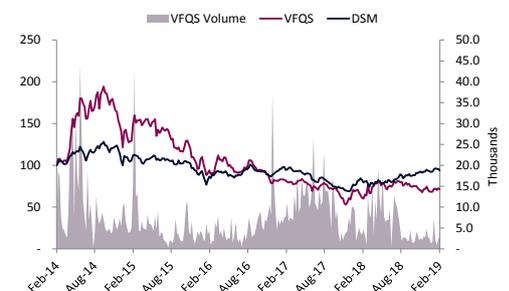
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	8.23
Dividend Yield (%)	0.0%
Bloomberg Ticker	VFQS QD EQUITY
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector	Telecommunication
52wk High/52wk Low (QR)	9.76 / 6.85
3-m Average Volume ('000)	572.5
Mkt. Cap. (\$ bn/QR bn)	1.9 / 7.0
Shares Outstanding (mn)	845.4
FO Limit* (%)	49.0
Current FO* (%)	6.3
1-Year Total Return (%)	18.4
Fiscal Year End	December 31

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



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## 4Q2018 Preview

### QNB FS Estimates and Comparisons

In QR mn	4QCY18 E	4QCY17	3QCY18	YoY	QoQ	CY2018 E	CY2017	YoY
Subscribers (000)	1,400	1,390	1,381	1%	1%	1,400	1,390	1%
ARPU (QR)	103	105	103	-2%	0%	104	100	4%
Revenue	541.1	535.8	483.6	1%	12%	2,075.9	1,998.4	4%
Gross Profit (Loss)	343.1	343.6	313.3	0%	10%	1,307.8	1,279.4	2%
EBITDA	156.4	171.0	141.8	-9%	10%	581.9	538.3	8%
Operating Profit (Loss) - EBIT	52.1	(18.4)	37.5	N/M	39%	158.4	(224.2)	N/M
Net Profit (Loss)	38.8	(28.6)	26.7	N/M	45%	114.2	(256.4)	N/M
EPS (QR)	0.05	(0.03)	0.03	N/M	45%	0.14	(0.30)	N/M
DPS (QR)						0.10	0.00	N/M
Gross Margin	63.4%	64.1%	64.8%			63.0%	64.0%	
EBITDA Margin	28.9%	31.9%	29.3%			28.0%	26.9%	
EBIT Margin	9.6%	-3.4%	7.8%			7.6%	-11.2%	
Net Margin	7.2%	-5.3%	5.5%			5.5%	-12.8%	
Depreciation and Amortization	104.3	189.4	104.3	-45%	0%	423.5	762.5	-44%

Source: Company data, QNB FS estimates

## Ratio Analysis

### Key Ratios and Valuation Metrics

Growth Rates	FY2017	CY2017	CY2018E	CY2019E	CY2020E	CY2021E	CY2022E	CY2023E
Revenue	-2.9%	-2.9%	3.9%	9.4%	8.5%	4.4%	2.9%	2.2%
Gross Profit	11.4%	1.3%	2.2%	12.0%	11.0%	6.0%	4.4%	3.0%
EBIT	41.4%	33.5%	N/M	83.1%	45.1%	20.9%	13.1%	8.5%
EBITDA	33.8%	16.0%	8.1%	21.5%	18.5%	10.5%	7.2%	4.9%
Net Income	42.2%	31.6%	N/M	95.9%	50.0%	23.4%	16.0%	11.7%
DPS				150.0%	40.0%	14.3%	12.5%	11.1%
CFPS	39.0%	29.6%	12.8%	34.4%	9.9%	10.0%	4.7%	3.4%
FCPS	165.9%	158.8%	-16.3%	163.3%	26.9%	29.2%	22.8%	9.4%
Operating Ratios								
Gross Margin	64.1%	64.0%	63.0%	64.5%	66.0%	67.0%	68.0%	68.5%
EBIT Margin	(11.8%)	(11.2%)	7.6%	12.8%	17.1%	19.8%	21.7%	23.1%
EBITDA Margin	26.1%	26.9%	28.0%	31.1%	34.0%	36.0%	37.5%	38.5%
Net Margin	(13.1%)	(12.8%)	5.5%	9.9%	13.6%	16.1%	18.1%	19.8%
Capex Intensity	15.1%	18.4%	22.0%	20.8%	19.2%	17.6%	14.8%	13.7%
Finance Ratios								
Debt - Equity Ratio	20.3%	18.3%	18.0%	15.0%	14.6%	14.3%	9.4%	3.1%
Net Debt - Equity Ratio	16.7%	13.9%	11.9%	8.4%	6.2%	3.8%	0.2%	(3.8%)
Net Debt-to-Capital	14.3%	12.2%	10.7%	7.8%	5.9%	3.7%	0.2%	(3.9%)
Cash Interest Coverage	19.0x	18.1x	16.8x	17.6x	19.6x	21.7x	27.9x	54.2x
Ave. Effective Borrowing rate %	3.0%	3.6%	4.2%	5.7%	6.0%	6.0%	7.5%	11.8%
Return Ratios								
ROIC	(4.3%)	(4.2%)	2.7%	4.8%	6.7%	8.0%	9.1%	10.2%
ROE	(5.8%)	(5.7%)	2.5%	4.7%	6.9%	8.4%	9.5%	10.3%
ROA	(4.1%)	(4.1%)	1.8%	3.4%	5.0%	6.1%	7.1%	8.1%
Dividend Payout %			74.0%	94.5%	88.2%	81.7%	79.2%	78.8%
Valuation								
EV/Sales	3.8x	3.8x	3.6x	3.2x	2.9x	2.8x	2.6x	2.5x
EV/EBITDA	14.4x	14.1x	12.9x	10.4x	8.7x	7.7x	7.0x	6.5x
EV/EBIT	N/M	N/M	47.4x	25.4x	17.3x	14.1x	12.1x	10.8x
P/E	N/M	N/M	60.9x	31.1x	20.7x	16.8x	14.5x	13.0x
P/BV	1.5x	1.6x	1.5x	1.5x	1.4x	1.4x	1.4x	1.3x
Dividend Yield	0.0%	0.0%	1.2%	3.0%	4.3%	4.9%	5.5%	6.1%
Liquidity Ratios								
Current Ratio	0.7x	0.7x	0.8x	0.8x	0.9x	1.0x	0.9x	0.8x
Quick Ratio	0.6x	0.6x	0.8x	0.8x	0.9x	1.0x	0.9x	0.8x

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017	CY2017	CY2018e	CY2019e	CY2020e	CY2021e	CY2022e
<b>Revenue</b>	<b>2,119</b>	<b>2,059</b>	<b>1,998</b>	<b>2,076</b>	<b>2,271</b>	<b>2,464</b>	<b>2,572</b>	<b>2,647</b>
Direct Costs	(935)	(740)	(719)	(768)	(806)	(838)	(849)	(847)
<b>Gross Profit</b>	<b>1,184</b>	<b>1,319</b>	<b>1,279</b>	<b>1,308</b>	<b>1,465</b>	<b>1,626</b>	<b>1,723</b>	<b>1,800</b>
Other Expenses, Excluding D&A	(784)	(782)	(741)	(726)	(758)	(789)	(797)	(807)
<b>EBITDA</b>	<b>401</b>	<b>537</b>	<b>538</b>	<b>582</b>	<b>707</b>	<b>838</b>	<b>926</b>	<b>993</b>
Depreciation & Amortization	(816)	(780)	(762)	(423)	(417)	(417)	(417)	(417)
<b>EBIT</b>	<b>(415)</b>	<b>(243)</b>	<b>(224)</b>	<b>158</b>	<b>290</b>	<b>421</b>	<b>509</b>	<b>575</b>
Interest Income	0	2	2	5	6	5	7	9
Interest Expense	(19)	(28)	(30)	(35)	(40)	(43)	(43)	(36)
Other Income/Expense	(32)	(0)	(4)	(14)	(32)	(48)	(59)	(69)
<b>Profit Before Tax</b>	<b>(466)</b>	<b>(269)</b>	<b>(256)</b>	<b>114</b>	<b>224</b>	<b>336</b>	<b>414</b>	<b>480</b>
Income Tax Expense								
<b>Profit for Shareholders</b>	<b>(466)</b>	<b>(269)</b>	<b>(256)</b>	<b>114</b>	<b>224</b>	<b>336</b>	<b>414</b>	<b>480</b>
<b>EPS (QR)</b>	<b>(0.55)</b>	<b>(0.32)</b>	<b>(0.30)</b>	<b>0.14</b>	<b>0.26</b>	<b>0.40</b>	<b>0.49</b>	<b>0.57</b>
<b>DPS (QR)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.10</b>	<b>0.25</b>	<b>0.35</b>	<b>0.40</b>	<b>0.45</b>

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Balance Sheet (In QR mn)	FY2016	FY2017	CY2017	CY2018e	CY2019e	CY2020e	CY2021e	CY2022e
<b>Non-Current Assets</b>								
Property, Plant and Equipment	1,249	1,233	1,202	1,331	1,481	1,631	1,761	1,831
Intangible Assets	5,235	4,782	4,461	4,366	4,270	4,175	4,079	3,984
Trade and Other Receivables	34	25	25	30	34	37	38	39
<b>Total Non-Current Assets</b>	<b>6,518</b>	<b>6,040</b>	<b>5,688</b>	<b>5,726</b>	<b>5,785</b>	<b>5,842</b>	<b>5,879</b>	<b>5,855</b>
<b>Current Assets</b>								
Inventory	13	13	36	15	17	17	18	19
Trade and Other Receivables	330	357	302	336	377	393	418	434
Cash and Cash Equivalents	130	169	199	280	311	406	518	464
<b>Total Current Assets</b>	<b>474</b>	<b>539</b>	<b>536</b>	<b>631</b>	<b>705</b>	<b>817</b>	<b>955</b>	<b>917</b>
<b>Total Assets</b>	<b>6,992</b>	<b>6,579</b>	<b>6,225</b>	<b>6,357</b>	<b>6,490</b>	<b>6,659</b>	<b>6,834</b>	<b>6,772</b>
<b>Equity</b>								
<b>Total Equity</b>	<b>4,923</b>	<b>4,654</b>	<b>4,472</b>	<b>4,586</b>	<b>4,719</b>	<b>4,835</b>	<b>4,943</b>	<b>5,073</b>
<b>Non-Current Liabilities</b>								
Trade and Other Payables	48	50	52	60	68	74	77	79
Provisions	62	114	105	108	123	134	139	143
Long-Term Borrowings	1,023	946	818	827	708	708	708	474
<b>Total Non-Current Liabilities</b>	<b>1,132</b>	<b>1,110</b>	<b>976</b>	<b>995</b>	<b>899</b>	<b>915</b>	<b>924</b>	<b>697</b>
<b>Current Liabilities</b>								
Trade and Other Payables	937	816	777	776	872	909	967	1,002
Short-Term Borrowings	0	0	0	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>937</b>	<b>816</b>	<b>777</b>	<b>776</b>	<b>872</b>	<b>909</b>	<b>967</b>	<b>1,002</b>
<b>Total Liabilities</b>	<b>2,069</b>	<b>1,925</b>	<b>1,753</b>	<b>1,771</b>	<b>1,770</b>	<b>1,824</b>	<b>1,891</b>	<b>1,699</b>
<b>Equity and Liabilities</b>	<b>6,992</b>	<b>6,579</b>	<b>6,225</b>	<b>6,357</b>	<b>6,490</b>	<b>6,659</b>	<b>6,834</b>	<b>6,772</b>

Source: Company data, QNB FS estimates

### Recommendations

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

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

### Risk Ratings

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

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

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