

Ahli Bank (ABQK)

| | | | |
|-----------------------|----------------|---------------------|----------------|
| Recommendation | Reduce | Risk Rating | R-4 |
| Share Price | QR3.350 | Target Price | QR2.857 |
| Implied Upside | (14.7%) | | |

Valuation Remains Rich; Lowering to Reduce

We lower our 2019-24e earnings CAGR from 6.4% to 4.6% considering the ramifications of the Coronavirus pandemic. ABQK trades at a 1.3x P/B and a 12.3x P/E based on our 2020 estimates. Moreover, the stock trades at PEG of 2.7x (which is expensive) based on a 5-year earnings CAGR of 4.6%. We note there could be downside risks to our estimates. For the time being, we maintain our price target of QR2.857 but change our rating from Market Perform to Reduce based on valuation. We are going through what can be termed as an extraordinary period and we expect ABQK's stock to remain volatile along with rest of the market.

Highlights

- Given ABQK's asset/liability interest rate gap, we expect margins to further compress.** 77% of the bank's assets are repriceable within 1-year vs. 59% of liabilities to total assets, thus leading to margin compression in a low interest rate environment. Hence, we expect NIMs to decrease by 20bps from 2.09% in 2019 to 1.90% in 2020 and decline further by 5 bps in 2021.
- Efficiency ratio continues to improve on the back of cost containment.** C/I ratio improved YoY to 27.3% vs. 28.1% in 2018 (30.6% in 2017). We foresee a further improvement in the efficiency ratio, penciling in 26.7% (2020) and 26.1% (2021).
- Asset quality deteriorated and we expect further pressure going forward.** NPL ratio jumped from 1.67% in 2018 to 2.15% in FY2019 (1.00% in FY2017). However, the ratio remains at an acceptable/manageable level. What is important to note here is stage 2 and stage loans 3 surged by 82% and 47%, respectively, while the coverage ratio of stage 3 loans remained at 70% YoY.
- CoR remained flat at 44bps.** We are of the view that it will remain around that level for a couple of years.
- Net loans are estimated to experience low-single digit growth in 2020 resulting from the COVID-19 pandemic.** In 4Q2019, ABQK's net loans gained by 6.3% QoQ (+14.8% YoY) to QR31.6bn, while deposits receded by 0.9% (+14.6% YoY). LDR (based on stable sources of funds) remained on the high side at 97%. Growth in loans was largely driven by public sector loans.
- Strong capitalization levels could help it absorb any shocks arising from the Coronavirus.** ABQK ended 2019 with CET1 and CAR ratios of 16.2% and 17.1%, respectively. We expect capitalization to remain at these levels in 2020 and the coming years.

Catalysts

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

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain ABQK's price target at QR2.857 but lower our rating from Market Perform to Reduce.** ABQK trades at a FY2020e P/B and P/E of 1.3x and 12.3x, respectively.
- Risks:** 1) Oil price shock and 2) Global recession driven by the Coronavirus pandemic.

Key Financial Data and Estimates

| (In QR mn) | 2019 | 2020e | 2021e | 2022e |
|--------------------|------|-------|-------|-------|
| EPS (QR) | 0.27 | 0.27 | 0.29 | 0.31 |
| Growth (%) | 1.5 | 0.1 | 5.3 | 8.4 |
| P/E (x) | 12.4 | 12.3 | 11.7 | 10.8 |
| BVPS (QR) | 2.5 | 2.5 | 2.7 | 2.9 |
| P/B (x) | 1.4 | 1.3 | 1.2 | 1.2 |
| RoE (%) | 12.0 | 11.1 | 11.3 | 11.4 |
| DPS (QR) | 0.14 | 0.10 | 0.15 | 0.15 |
| Dividend Yield (%) | 4.3 | 3.0 | 4.5 | 4.5 |

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

Key Data

| | |
|---------------------------|-------------------|
| Current Market Price (QR) | 3.350 |
| Dividend Yield (%) | 4.3 |
| Bloomberg Ticker | ABQK QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | AABQ.QA |
| ISIN | QA0001200748 |
| Sector | Banks & Fin. Serv |
| 52wk High/52wk Low (QR) | 3.612/2.648 |
| 3-m Average Volume ('000) | N/M |
| Mkt. Cap. (\$ bn/QR bn) | 2.2/8.1 |
| Shares Outstanding (mn) | 2,429.7 |
| FO Limit* (%) | 49.0 |
| Current FO* (%) | 0.2 |
| 1-Year Total Return (%) | +29.6 |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of March 31, 2020), *Qatar Exchange (as of March 31, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

| Financial Indicators | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e | 2023e | 2024e |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Profitability (%) | | | | | | | | |
| RoE | 12.6 | 12.3 | 11.8 | 11.2 | 11.2 | 11.4 | 10.7 | 11.1 |
| NIM | 2.3 | 2.2 | 2.1 | 1.9 | 1.9 | 1.8 | 1.8 | 1.8 |
| RoRWA | 2.1 | 2.1 | 2.1 | 2.0 | 1.9 | 1.9 | 1.8 | 1.9 |
| Efficiency (%) | | | | | | | | |
| Cost-to-Income (Headline) | 30.6 | 28.1 | 27.3 | 26.7 | 26.1 | 25.5 | 26.0 | 25.4 |
| Cost-to-Income (Core) | 30.8 | 29.5 | 28.4 | 27.7 | 26.9 | 26.1 | 26.3 | 25.7 |
| Liquidity (%) | | | | | | | | |
| LDR | 120.6 | 123.6 | 123.8 | 124.6 | 122.5 | 119.9 | 117.3 | 116.5 |
| Loans/Assets | 72.6 | 68.1 | 71.9 | 69.4 | 70.0 | 69.7 | 67.8 | 68.8 |
| Cash & Interbank Loans-to-Total Assets | 17.8 | 23.2 | 18.1 | 20.4 | 19.4 | 20.0 | 21.6 | 20.5 |
| Asset Quality (%) | | | | | | | | |
| NPL Ratio | 1.00 | 1.67 | 2.15 | 2.42 | 2.50 | 2.07 | 2.20 | 2.01 |
| Coverage Ratio | 125 | 133 | 105 | 110 | 109 | 136 | 151 | 171 |
| Cost of Risk | 24 | 44 | 44 | 42 | 42 | 40 | 40 | 37 |
| Capitalization (%) | | | | | | | | |
| Tier-1 Ratio | 15.8 | 17.2 | 16.2 | 16.2 | 16.1 | 15.9 | 16.2 | 16.5 |
| CAR | 16.9 | 18.2 | 17.1 | 17.0 | 17.0 | 16.8 | 17.1 | 17.4 |
| Growth (%) | | | | | | | | |
| Net Interest Income | 13.5 | -0.6 | -0.4 | -0.3 | 5.6 | 8.2 | 4.8 | 6.4 |
| Net Operating Income | 9.1 | 9.2 | 2.0 | 1.0 | 5.5 | 7.8 | 0.7 | 7.7 |
| Net Income | 1.3 | 4.0 | 1.5 | 0.1 | 5.3 | 8.4 | -0.8 | 10.6 |
| Loans | 7.7 | -4.9 | 14.8 | 4.2 | 10.1 | 9.6 | 2.2 | 6.3 |
| Deposits | -12.0 | -7.2 | 14.6 | 3.5 | 12.0 | 12.0 | 4.4 | 7.0 |
| RWAs | 1.8 | 0.3 | 6.0 | 6.5 | 8.5 | 7.4 | 4.1 | 6.5 |

Source: Company data, QNB FS Research

| (In QR mn) | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e | 2023e | 2024e |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 834 | 829 | 826 | 824 | 870 | 942 | 987 | 1,051 |
| Fees & Commissions | 174 | 185 | 203 | 207 | 223 | 237 | 227 | 242 |
| FX Income | 23 | 25 | 32 | 35 | 29 | 32 | 27 | 35 |
| Other Income | 13 | 62 | 49 | 47 | 41 | 35 | 20 | 20 |
| Non-Interest Income | 210 | 272 | 284 | 288 | 293 | 303 | 275 | 297 |
| Total Revenue | 1,044 | 1,101 | 1,111 | 1,112 | 1,163 | 1,245 | 1,262 | 1,348 |
| Operating Expenses | (319) | (309) | (303) | (297) | (304) | (318) | (328) | (342) |
| Net Operating Income | 725 | 792 | 807 | 815 | 860 | 927 | 934 | 1,006 |
| Net Provisions & Impairments | (85) | (126) | (132) | (139) | (148) | (155) | (168) | (158) |
| Net Profit (Reported) | 640 | 666 | 675 | 676 | 712 | 772 | 766 | 848 |
| Social & Sports Contribution Fund | (16) | (17) | (17) | (17) | (18) | (19) | (19) | (21) |
| Net Profit (Attributable) | 624 | 649 | 658 | 659 | 694 | 753 | 747 | 826 |

Source: Company data, QNB FS Research

| (In QR mn) | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e | 2023e | 2024e |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Balances with Central Bank | 1,980 | 2,406 | 1,401 | 1,743 | 2,071 | 1,657 | 2,767 | 2,961 |
| Interbank Loans | 2,202 | 4,102 | 2,913 | 3,949 | 3,334 | 4,766 | 4,869 | 4,312 |
| Net Investments | 6,100 | 5,917 | 7,521 | 8,360 | 9,625 | 10,301 | 11,069 | 11,732 |
| Net Loans | 28,936 | 27,515 | 31,591 | 32,905 | 36,237 | 39,714 | 40,574 | 43,120 |
| Other Assets | 407 | 215 | 226 | 235 | 259 | 284 | 290 | 308 |
| Net PP&E | 259 | 248 | 264 | 251 | 251 | 263 | 278 | 280 |
| Total Assets | 39,883 | 40,403 | 43,915 | 47,444 | 51,777 | 56,984 | 59,847 | 62,712 |
| Liabilities | | | | | | | | |
| Interbank Deposits | 3,982 | 5,735 | 4,443 | 6,104 | 5,572 | 4,917 | 4,592 | 3,588 |
| Customer Deposits | 23,987 | 22,261 | 25,520 | 26,413 | 29,583 | 33,133 | 34,590 | 37,012 |
| Term Loans | 5,817 | 6,173 | 7,134 | 7,847 | 9,024 | 10,829 | 12,128 | 12,856 |
| Other Liabilities | 804 | 733 | 859 | 924 | 991 | 1,110 | 1,159 | 1,295 |
| Total Liabilities | 34,590 | 34,902 | 37,956 | 41,289 | 45,170 | 49,989 | 52,470 | 54,751 |
| Total Shareholders' Equity | 5,294 | 5,501 | 5,959 | 6,155 | 6,607 | 6,995 | 7,378 | 7,961 |
| Total Liabilities & Shareholders' Equity | 39,883 | 40,403 | 43,915 | 47,444 | 51,777 | 56,984 | 59,847 | 62,712 |

Source: Company data, QNB FS Research

Recommendations

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

| | |
|-----------------------|----------------------|
| OUTPERFORM | Greater than +20% |
| ACCUMULATE | Between +10% to +20% |
| MARKET PERFORM | Between -10% to +10% |
| REDUCE | Between -10% to -20% |
| UNDERPERFORM | Lower than -20% |

Risk Ratings

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

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

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