

## Ahli Bank (ABQK)

Recommendation	Reduce	Risk Rating	R-4
Share Price	QR4.002	Target Price	QR3.196
Implied Upside	(20.1%)		

### Moving to Reduce as Multiples Remain on the High Side; Retain PT

After reporting In-Line 1H2022 results, we maintain our earnings CAGR of 7.0% during 2021-2026e. Hence, we retain our target price of QR3.196/sh. but revise our rating from Market Perform to Reduce. ABQK trades at a 1.4x P/B and a 13.3x P/E based on our 2023 estimates. Moreover, the stock trades at PEG of 2.0x (which is still expensive) based on our 5-year earnings CAGR of 7.0%.

### Highlights

- **ABQK reported a net profit of QR330.8mn in 1H2022 (in-line with our estimates of QR342.5mn; -3.4% variation), growing by 7.2% YoY.** Growth in net income was primarily driven by a 20.6% YoY drop in provisions and impairments as net interest income declined by 4.0% YoY. This was a result of margin pressure where NIM contracted by 9bps to 2.37%. Moreover, non-funded income was subdued (-4.1% YoY) due to weakness in fees and investment income. Our 7.0% earnings CAGR (2021-26e) is based on our assumption of net operating income picking up, along with a normalization in CoR.
- **Efficiency ratio continues to remain healthy.** C/I ratio remained flat at 25.3% in 1H2022 vs. 25.5% in 1H2021 (25.6% and 25.0% in 2020 & 2021, respectively). We foresee a further improvement in the efficiency ratio, penciling in 24.6% (2022e), 23.3% (2023e) and 22.5% (2024e). This is supported by a pick in revenue growth while opex remains contained.
- **Asset quality improved most likely due to reclassification of Stage 3 loans to Stage 2 and we do not expect further pressure going forward.** NPL ratio declined from 3.74% in FY2021 to 2.55% in 1H2022. Moreover, NPLs dropped by 29.8% to QR911.7mn at the end of 1H2022. The coverage ratio of Stage 3 loans also improved from 61% in 1Q2022 to 83% at the end of 1H2022 (FY2021: 60%). We are of the view that management will continue on increasing provisioning levels until the coverage of Stage 3 loans reaches 100%.
- **CoR is penciled to remain elevated and we do not foresee it at the historical 44bps levels again.** ABQK generated a CoR (annualized) of 89bps in 1H2022 vs. 111bps in 1H2021 (44bps in 2018/2019, 70bps in 2020 & 87bps in 2021). We expect CoR to normalize around the 70bps level.
- **Net loans are estimated to grow by a CAGR of 6.0% (2021-26e).** ABQK's net loans gained by 2.3% at the end of 1H2022 to QR34.3bn. On the other hand, deposits contracted by 4.2% during the same period. LDR (based on stable source of funds) came in at 101%. We expect the LDR to steadily decrease to 96% by 2026e.
- **Capitalization is strong and we expect it to remain as such.** ABQK ended 1H2022 with CET1 & Tier-1 ratios of 16.1%/19.0%, respectively. We expect capitalization to remain at these levels in 2022 and the coming three-to-five years.

### Catalysts

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

### Recommendation, Valuation and Risks

- **Recommendation and valuation: we maintain our target price at QR3.196/sh. and revise our rating from Market Perform to Reduce.** ABQK trades at a FY2022e P/B and P/E of 1.5x and 15.0x, respectively.
- **Risks:** 1) Oil price volatility and 2) stale stock price due to lack of liquidity.

### Key Financial Data and Estimates

(In QR mn)	2021	2022e	2023e	2024e
EPS Attributable (QR)	0.26	0.27	0.30	0.33
Growth (%)	1.6	0.9	12.8	10.4
P/E (x)	15.2	15.0	13.3	12.0
BVPS (QR)	2.6	2.7	2.8	3.0
P/B (x)	1.5	1.5	1.4	1.3
RoE (%)	10.7	10.3	11.3	11.8
DPS (QR)	0.14	0.15	0.15	0.15
Dividend Yield (%)	3.6	3.7	3.7	3.7

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

### Key Data

Current Market Price (QR)	4.002
Dividend Yield (%)	3.6
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Svc
52wk High/52wk Low (QR)	4.662/3.459
3-m Average Volume ('000)	N/M
Mkt. Cap. (\$ bn/QR bn)	2.8/10.2
Shares Outstanding (mn)	2,551.15
FO Limit* (%)	49.0
Current FO* (%)	0.0
1-Year Total Return (%)	11.8
Fiscal Year End	December 31

Source: Bloomberg (as of October 13, 2022), \*Qatar Exchange (as of October 13, 2022); Note: FO is foreign ownership

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## Detailed Financial Statements

	2019	2020	2021	2022e	2023e	2024e
<b>Profitability (%)</b>						
RoE	12.0	11.1	10.7	10.3	11.3	12.0
NIM	2.1	2.3	2.4	2.3	2.4	2.5
RoRWA	2.1	1.9	1.8	1.8	1.9	2.0
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	27.3	25.6	25.0	24.6	23.3	22.5
Cost-to-Income (Core)	28.4	26.7	25.8	25.1	24.1	23.0
<b>Liquidity (%)</b>						
LDR	96.7	93.4	92.4	98.8	96.9	96.3
Loans/Assets	71.9	70.5	69.8	69.5	70.5	69.6
Cash & Interbank Loans-to-Total Assets	18.1	20.6	20.0	20.5	19.0	19.6
<b>Asset Quality (%)</b>						
NPL Ratio	2.15	2.46	3.71	2.50	2.25	2.10
Coverage Ratio	105	130	107	166	206	231
Cost of Risk	44	70	88	72	69	68
<b>Capitalization (%)</b>						
Tier-1 Ratio	16.2	15.7	19.4	19.3	19.5	18.9
CAR	17.1	16.9	20.6	20.5	20.7	20.2
<b>Growth (%)</b>						
Net Interest Income	-0.4	17.8	10.9	-2.7	7.4	11.8
Net Operating Income	2.0	14.9	8.9	-1.8	11.3	10.9
Net Income	1.5	0.7	1.6	0.9	12.8	11.7
Loans	14.8	6.1	0.2	4.0	4.9	6.2
Deposits	14.6	5.6	3.7	1.0	5.7	7.0
RWAs	6.0	9.3	5.3	5.0	4.1	9.0

Source: Company data, QNB FS Research

(In QR mn)	2019	2020	2021	2022e	2023e	2024e
<b>Net Interest Income</b>	<b>826</b>	<b>973</b>	<b>1,079</b>	<b>1,050</b>	<b>1,128</b>	<b>1,261</b>
Fees & Commissions	203	178	175	169	180	192
FX Income	32	42	51	66	81	88
Other Income	49	54	42	30	51	38
<b>Non-Interest Income</b>	<b>284</b>	<b>274</b>	<b>268</b>	<b>266</b>	<b>312</b>	<b>319</b>
<b>Total Revenue</b>	<b>1,111</b>	<b>1,247</b>	<b>1,347</b>	<b>1,316</b>	<b>1,440</b>	<b>1,580</b>
Operating Expenses	(303)	(320)	(337)	(324)	(336)	(355)
Net Operating Income	<b>807</b>	<b>928</b>	<b>1,010</b>	<b>992</b>	<b>1,104</b>	<b>1,224</b>
Net Provisions & Impairments	(132)	(248)	(297)	(250)	(272)	(301)
<b>Net Profit (Reported)</b>	<b>675</b>	<b>680</b>	<b>713</b>	<b>742</b>	<b>832</b>	<b>924</b>
Interest Expense on AT1 Perp. Security	-	-	(22)	(44)	(44)	(44)
Social & Sports Contribution Fund	(17)	(17)	(18)	(19)	(21)	(23)
<b>Net Profit (Attributable)</b>	<b>658</b>	<b>663</b>	<b>674</b>	<b>680</b>	<b>767</b>	<b>857</b>

Source: Company data, QNB FS Research

(In QR mn)	2019	2020	2021	2022e	2023e	2024e
Cash & Balances with Central Bank	1,401	2,872	2,443	2,820	2,385	2,552
Interbank Loans	2,913	3,510	3,001	3,317	2,932	3,307
Net Investments	7,521	7,074	8,613	8,645	9,421	10,535
Net Loans	31,591	33,513	33,570	34,918	36,645	38,902
Other Assets	226	335	230	272	279	288
Net PP&E	264	252	235	265	280	282
<b>Total Assets</b>	<b>43,915</b>	<b>47,555</b>	<b>48,093</b>	<b>50,238</b>	<b>51,942</b>	<b>55,865</b>
<b>Liabilities</b>						
Interbank Deposits	4,443	4,621	3,249	6,136	4,970	5,789
Customer Deposits	25,520	26,941	27,925	28,204	29,812	31,899
Term Loans	7,134	8,924	8,408	7,147	8,005	8,485
Other Liabilities	859	795	826	874	894	957
AT1 Perpetual Securities	-	-	1,092	1,092	1,092	1,092
<b>Total Liabilities</b>	<b>37,956</b>	<b>41,280</b>	<b>41,500</b>	<b>43,454</b>	<b>44,773</b>	<b>48,221</b>
<b>Total Shareholders' Equity</b>	<b>5,959</b>	<b>6,275</b>	<b>6,593</b>	<b>6,785</b>	<b>7,169</b>	<b>7,644</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>43,915</b>	<b>47,555</b>	<b>48,093</b>	<b>50,238</b>	<b>51,942</b>	<b>55,865</b>

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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