

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR4.338	Target Price	QR5.143
Implied Upside	18.6%	Old Price Target	QR5.006

International Operations a Drag but Valuation Still Attractive; Raising PT

We forecast 2020-25e earnings CAGR 23.7% vs. our previous CAGR estimate of 11.8%. (2019-2024). The double-digit growth and acceleration is partially attributable to a base effect as 2020 earnings were depressed. On a positive note, after heavy provisions & impairments during 2016-2020, we are of the view that CBQK will book lower provisions going forward and CoR will normalize, resulting in a surge in 2021 & 2022 earnings. We forecast provisions and impairments to drop by a CAGR of 13.3% (2020-25e) vs. +12.4% (2015-20). CBQK is trading at a 2020e/21e P/TB 0.9x/0.8x, which we believe is unjustified given management's strong track record. The stock is trading at a PEG of 0.4x based on an EPS CAGR (2020-25e) of 23.7%, which is attractive. We increase our PT from QR5.006 to QR5.143 and keep our Outperform.

Highlights

- FY2020 bottom-line affected by weak non-funded income, losses from trading and associates, impairment of UAB and an increase in CoR (precautionary provisions due to COVID-19); CBQK remains resilient given current market conditions.** Commercial Bank of Qatar (CBQK) reported a net income (attributable) of QR1,045.7mn, declining by 39.6% YoY.
- Goodwill impairments and losses from UAB (40.0% stake) was a drag on the bottom-line; NBO (34.9% stake) could also face goodwill impairments over the coming 3 to 5 years as its market value is significantly below the book value on CBQK's balance sheet.** Management will book further impairments on UAB in 2021. CBQK carried goodwill attributed to UAB of QR1.4mn in 2018. In 2019 & 2020, CBQK impaired QR413.9mn and QR591.2mn, respectively. Hence, ~QR394mn of goodwill remains. We model the remaining impairments of ~QR394mn in 2021, ending this exercise. We do note ~QR574mn is being recorded as goodwill for NBO, which if impaired, could depress the bank's earnings going forward.
- RoE is expected to increase from 6.0% in 2020 to 10.0% in 2021e.** After 2021, we model RoE to increase to the 12-13% range. Management is targeting 13-15% during 2022-26.
- Margins compressed.** NIM receded ~5bps to 2.40%, as drop on yields was greater than CoFs. We expect NIMs to hover around current levels, although management is guiding to 2.5% in 2021.
- Asset quality improved; majority of NPLs are legacy.** NPLs continued to decrease, declining by 3.6% in 2020 (declined by 7.3% and 8.3% in 2018 and 2019, respectively) to QR4.3bn, while the NPL ratio decreased to 4.3% vs. 4.9% in FY2019 (5.01% in 2016). Coverage of Stage 3 loans improved, increasing from 61% in FY2019 to 66% in 2020. Going forward, we expect asset quality to improve driven by prudent underwriting and recoveries.
- CoR increased because of precautionary provisions due to COVID-19; management continues to de-risk the loan book.** 2020 provisions for credit losses increased by 40.7% YoY to QR836.4mn while CoR increased from ~67bps in 2019 to 88bps in 2020. However, management has improved CoR from 2017's 195bps. Guidance for 2021 CoR is 70 to 80bps. We model in a CoR of 75bps for 2021 and 65bps in 2022, which is in-line with management's guidance. We estimate CoR to decline to 50bps by 2025, although management is targeting ≤40bps during the 2022-26 time-frame.
- Operating efficiency continued its positive trajectory, delivering on its 5-year strategy.** CBQK's C/I ratio significantly improved, falling from 2016's 48.0% to 27.2%. We model in C/I ratio of 25.2% (2021e), 24.2% in 2022e & 2023e, in-line with management's guidance.
- Management is guiding loan growth 5-6% for 2021; diversification of loan book remains on track.** During 2020, net loans expanded by 9.9% to QR96.7bn ahead of guidance of 4-6%. On the other hand, deposits remained flat at QR76bn. Moreover, in-line with management's strategy, % of govt. loans to total loans increased from 2016's 10% to 17% in 2020, while real estate loans dropped from 28% to 21% during the same period. We adopt a conservative approach and estimate loan growth of 4.3% in 2021. We pencil in a 2020-25e CAGR of 5.9% vs. 4.8% (2015-20)
- CET1 ratio came in higher than management's guidance of 11-11.5%; \$500mn AT1 to further bolster Tier-1 position.** CBQK's CET1 ratio increased to 12.2% in FY2020 vs. 11.1% in FY2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio of 12.5% in 2021 (Tier-1: 17.4%) & 12.7% in 2022 (Tier-1: 17.3%).

Catalysts

- Delivering better-than-expected profitability metrics.

Recommendation, Valuation and Risks

- Recommendation and valuation: We raise our PT to QR5.143 and maintain Outperform rating.** CBQK is trading at a 2021e P/TB and P/E of 0.9x and 9.8x, respectively.
- Risks:** 1) Weakness in Turkish Lira & 2) Goodwill impairments in NBO.

Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS	0.258	0.445	0.596	0.635
EPS Growth (%)	-39.6	72.2	33.9	6.7
P/E (x)	16.8	9.8	7.3	6.8
Tangible BVPS (QR)	4.4	4.8	5.2	5.7
P/TBV (x)	1.0	0.9	0.8	0.8
RoE (%)	5.9	9.9	12.3	12.0
DPS (QR)	0.100	0.150	0.200	0.250
Dividend Yield (%)	2.3	3.5	4.6	5.8

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

Key Data

Current Market Price (QR)	4.338
Dividend Yield (%)	2.3
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	4.670/3.630
3-m Average Volume (mn)	2.5
Mkt. Cap. (\$ bn/QR bn)	4.8/17.6
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	20.9
1-Year Total Return (%)	0.3
Fiscal Year End	December 31

Source: Bloomberg (as of February 28, 2021), *Qatar Exchange (as of February 28, 2021); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021e	2022e	2023e	2024e
Net Interest Income	2,482	2,963	3,100	3,257	3,450	3,605	3,804
Fees & Commissions	757	915	811	864	937	985	963
FX Income	202	281	296	282	304	274	233
Other Income	248	181	(180)	95	176	193	249
Non-Interest Income	1,208	1,377	927	1,240	1,417	1,451	1,445
Total Revenue	3,690	4,340	4,027	4,497	4,866	5,056	5,248
Operating Expenses	(1,173)	(1,228)	(1,096)	(1,132)	(1,176)	(1,228)	(1,273)
Net Operating Income	2,517	3,112	2,931	3,365	3,690	3,828	3,975
Net Provisions & Impairments	(836)	(1,068)	(1,615)	(1,176)	(866)	(837)	(855)
Net Profit Before Taxes	1,681	2,044	1,316	2,189	2,824	2,991	3,120
Tax	(7)	(23)	(15)	(25)	(34)	(36)	(37)
Net Profit Before Minority Interest	1,674	2,021	1,301	2,164	2,790	2,955	3,082
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	1,674	2,021	1,301	2,164	2,790	2,955	3,082
Interest on Tier-1 Note	(240)	(240)	(223)	(309)	(309)	(309)	(290)
Social & Sports Contribution Fund	(42)	(50)	(33)	(54)	(70)	(74)	(77)
Net Profit (Attributable)	1,392	1,731	1,046	1,800	2,411	2,572	2,715

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019	2020e	2021e	2022e	2023e	2024e
Cash & Balances with Central Bank	6,730	6,075	8,279	8,284	6,458	6,252	7,034
Interbank Loans	9,475	12,396	10,401	11,961	10,885	9,992	7,994
Net Investments	22,206	26,844	25,778	27,775	30,753	33,734	29,939
Net Loans	84,642	88,009	96,698	99,726	107,247	114,630	120,936
Investment In Associates	4,513	4,021	3,117	3,112	3,149	3,203	3,287
Other Assets	1,754	2,569	3,005	2,992	3,217	3,439	3,628
Net PP&E	2,719	2,854	3,158	3,283	3,375	3,474	3,567
OREO	2,605	4,531	2,995	2,995	2,995	2,995	2,995
Goodwill & Intangible Assets	283	236	175	175	175	175	175
Total Assets	134,928	147,536	153,606	160,301	168,254	177,894	179,556
Liabilities							
Interbank Deposits	13,950	22,531	20,007	20,460	19,440	25,342	18,077
Customer Deposits	71,786	76,297	75,790	78,897	83,867	89,319	93,785
Term Loans	24,451	21,568	27,233	29,956	32,053	28,207	30,661
Tier-1 Perpetual Notes	4,000	4,000	4,000	5,821	5,821	5,821	5,821
Other Liabilities	4,884	5,385	8,406	5,602	5,703	6,074	6,377
Total Liabilities	119,071	129,780	135,435	140,735	146,884	154,762	154,721
Total Shareholders' Equity	15,856	17,756	18,170	19,566	21,370	23,132	24,836
Total Liabilities & Shareholders' Equity	134,928	147,536	153,606	160,301	168,254	177,894	179,556

Source: Company data, QNB FS Research

Ratios/Key Indicators	2018	2019	2020	2021e	2022e	2023e	2024e
Profitability (%)							
RoE (Tangible)	8.2	10.9	5.9	9.9	12.3	12.0	11.7
RoAA (Attributable)	1.0	1.2	0.7	1.1	1.5	1.5	1.5
RoRWA (Attributable)	3.1	1.9	1.8	1.2	0.2	0.3	1.2
NIM (% of IEAs)	2.12	2.45	2.40	2.41	2.41	2.36	2.41
NIM (% of RWAs)	2.15	2.56	2.66	2.78	2.82	2.82	2.91
NIM (% of AAs)	1.82	2.10	2.06	2.07	2.10	2.08	2.13
Spread	1.6	1.9	2.0	2.0	1.9	1.8	1.8
Efficiency (%)							
Cost-to-Income (Headline)	31.8	28.3	27.2	25.2	24.2	24.3	24.3
Cost-to-Income (Core)	33.3	28.7	25.7	25.4	24.7	25.0	25.2
Liquidity (%)							
LDR	118	115	128	126	128	128	129
LDR (Including Stable Source of Funding)	88	90	94	92	93	98	97
Loans/Assets	63	60	63	62	64	64	67
Cash & Interbank Loans-to-Total Assets	12.0	12.5	12.2	12.6	10.3	9.1	8.4
Deposits to Assets	53	52	49	49	50	50	52
Wholesale Funding to Loans	45	50	49	51	48	47	40
IEAs to IBLs	117	116	122	122	121	122	123
Asset Quality (%)							
NPL Ratio	5.6	4.9	4.3	4.2	3.8	3.2	4.0
NPL to Shareholders' Equity	30.8	25.3	23.8	22.6	20.1	16.9	20.6
NPL to Tier 1 Capital	30.8	26.4	23.9	21.3	19.8	17.4	22.2
Coverage Ratio	79	82	102	119	141	163	132
ALL/Average Loans	4.3	4.1	4.6	5.1	5.5	5.4	5.4
Cost of Risk (bps)	102	67	88	75	65	61	56
Capitalization (%)							
Tier 1 Ratio	14.0	14.4	15.7	17.4	17.3	17.3	17.5
CAR	15.5	16.4	17.8	19.5	19.4	19.4	19.6
Tier 1 Capital to Assets	11.8	11.5	11.8	12.9	12.9	12.6	12.8
Tier 1 Capital to Loans	18.7	19.3	18.7	20.8	20.3	19.6	19.0
Tier 1 Capital to Deposits	22.1	22.3	23.9	26.3	25.9	25.2	24.5
Leverage (x)	8.5	8.3	8.5	8.2	7.9	7.7	7.2
Growth (%)							
Net Interest Income	-1.4	19.4	4.6	5.0	5.9	4.5	5.5
Non-Interest Income	4.2	14.0	-32.7	33.8	14.2	2.4	-0.4
Total Revenue	0.4	17.6	-7.2	11.7	8.2	3.9	3.8
Operating Expenses	-11.5	4.7	-10.7	3.3	3.9	4.4	3.7
Net Operating Income	7.0	23.6	-5.8	14.8	9.7	3.7	3.8
Net Provisions & Impairments	-52.1	27.8	51.3	-27.2	-26.3	-3.4	2.2
Net Income (Headline)	177.3	20.7	-35.6	66.3	28.9	5.9	4.3
Net Income (Attributable)	299.5	24.3	-39.6	72.2	33.9	6.7	5.6
Loans	-5.0	4.0	9.9	3.1	7.5	6.9	5.5
Deposits	-7.5	6.3	-0.7	4.1	6.3	6.5	5.0
Assets	-2.5	9.3	4.1	4.4	5.0	5.7	0.9
RWAs	-2.8	3.7	-1.9	3.1	5.4	3.5	1.2

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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