

Commercial Bank of Qatar (CBQK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR4.53	Target Price	QR5.22
Implied Upside	15.2%	Old Price Target	QR4.95

Strong 2019; Momentum to Continue; Raising PT to QR5.22

CBQK's management continued to deliver on the bank's 5-year strategy and we were impressed by the company's stellar 2019 operating performance. Consequently, we increase our estimates, raise our PT from QR4.95 to QR5.22 and maintain our Accumulate rating. Given management's visible progress in improving the bank's RoE, we believe RoE generation above cost of equity is now attainable vs. previous estimates. CBQK is trading at a 2020e P/TB and P/E of 1.0x and 8.6x, respectively. The stock is trading at a PEG of 0.6x based on EPS CAGR (2019-24e) of 14.5%, which is attractive. Moreover, CBQK's 2020e P/E implies a 20% discount to its intrinsic P/E (10.8x).

Highlights

- Strong core-banking income and cost efficiency drives bottom-line.** Commercial Bank of Qatar (CBQK) reported attributable net income of QR1.73bn in FY2019 (in-line with our estimate of QR1.80bn; -3.8% variation), rising by 25.3% YoY. Total revenue increased by 18.0% YoY driven by net interest income (+19.4% YoY), fees (+20.8%) and f/x (+39.0%).
- CBQK upped dividends.** The bank announced DPS of QR0.20 (vs. QR0.15 in 2018; our estimate was also QR0.15) which translates to a yield of 4.4%. We now expect measured increases in estimated DPS while managing the CET 1 ratio at 11-11.5% levels.
- CBQK impaired UAB, which put a lid on further bottom-line growth in 2019.** The bank booked an impairment of QR413.9mn in 4Q2019 against its UAE based associate, United Arab Bank bringing its YE book value to QR1.85bn. This impairment erased ~19% of CBQK's 2019 earnings. UAB has been reclassified from assets held for sale to investment in associates. *We expect more impairments in 4Q2020 if current conditions prevail.*
- NIM significantly improved.** NIM increased by 33bps YoY to 2.45% driven by growth in yield on assets outpacing CoFs as CBQK repaid debt.
- Asset quality improved; Stage 2 & 3 loans continued to drop, which is a positive.** NPLs dropped by 8.3% YoY to QR4.85bn, while the NPL ratio improved to 4.94% vs. 5.59% in FY2018. Net provisions for credit losses decreased by 35.9% YoY to QR594.4mn. Moreover, CoR dropped from 102bps to 67bps in FY2019. CBQK's Stage 2 loans contracted by 34.2% YoY and contributes 16.9% to total loans vs. 26.6% in FY2018. *Management has completed provisioning its legacy NPLs. As such, CoR is expected to normalize at 50bps.*
- Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK's C/I ratio declined to 28.3% vs. 31.8% in 2018 as growth in revenue (+17.6% YoY) outpaced that of opex (+4.7% YoY). Moreover, CBQK generated positive JAWs of 13.3% in FY2019 (+11.5% in 2018). *Considering management's objective of low 30s C/I ratio, its 2019 performance was a nice positive. We forecast C/I ratio to further decrease in 2020 and 2021.*
- CBQK continued to de-risk and diversify its loan portfolio.** Net loans increased by 4.0% YoY to QR88.0bn, while customer deposits expanded by 6.3% YoY to QR76.3bn. Management continued to diversify the loan book as part of its strategy/objectives; real estate loans receded by 13.4% YoY. Hence, real estate loans currently make up 21% (25% in 2018) of the loan portfolio. Growth in the loan book was mainly driven by the public sector (47.2% YoY), which remains a key focus for the bank.
- CET1 stays stable; management is guiding to 11-11.5% CET1 ratio.** CBQK's CET1 ratio was stable at 11.1% in FY2019 vs. 4Q2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio at current levels in 2020, 2021 & 2022.

Catalysts

- Delivering better profitability metrics than expected. With its treasury shares sale program coming to a conclusion, we expect any lingering technical pressure on the stock to dissipate.

Recommendation, Valuation and Risks

- Recommendation and valuation:** CBQK is trading at a 2020e P/TB and P/E of 1.0x and 8.6x, respectively. We increase our PT from QR4.95 to QR5.22.
- Risks:** 1) Weakness in Turkish Lira & 2) Larger than anticipated impairments on UAB

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS	0.43	0.53	0.66	0.77
EPS Growth (%)	24.3	22.8	25.9	16.9
P/E (x)	10.6	8.6	6.9	5.9
Tangible BVPS (QR)	4.3	4.7	5.1	5.6
P/TBV (x)	1.0	1.0	0.9	0.8
DPS (QR)	0.200	0.250	0.300	0.350
Dividend Yield (%)	4.4	5.5	6.6	7.7

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

Key Data

Current Market Price (QR)	4.53
Dividend Yield (%)	4.4
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	5.10/3.96
3-m Average Volume (mn)	2.5
Mkt. Cap. (\$ bn/QR bn)	5.0/18.3
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	18.6
1-Year Total Return (%)	+10.8
Fiscal Year End	December 31

Source: Bloomberg (as of February 04, 2020), *Qatar Exchange (as of February 03, 2020); Note: FO is foreign ownership

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Change in Estimates

	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,873	3,339	16.2	2,873	3,634	26.5	3,464	3,948	14.0
Non Interest Income	1,385	1,279	-7.6	1,385	1,473	6.3	1,591	1,593	0.1
Total Revenue	4,258	4,618	8.5	4,258	5,107	19.9	5,055	5,540	9.6
Opex	1,128	1,242	10.1	1,128	1,267	12.3	1,247	1,325	6.3
Net Operating Income	3,130	3,376	7.9	3,130	3,841	22.7	3,808	4,215	10.7
Net Income (Headline/Reported)	2,335	2,426	3.9	2,335	3,011	28.9	2,897	3,496	20.7
Net Income (Attributable)	2,037	2,125	4.3	2,037	2,675	31.3	2,585	3,129	21.0

Source: QNB FS Research

The wide variation in our 2021 and 2022 new vs. old estimates is mainly due to lower provisions than previously anticipated and in net interest income due to recoveries (reversal interest in suspense) which we previously did not forecast.

Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	2,518	2,482	2,963	3,339	3,634	3,948
Fees & Commissions	720	757	915	886	954	1,035
FX Income	163	202	281	256	276	293
Other Income	276	248	181	138	243	265
Non-Interest Income	1,159	1,208	1,377	1,279	1,473	1,593
Total Revenue	3,677	3,690	4,340	4,618	5,107	5,540
Operating Expenses	(1,325)	(1,173)	(1,228)	(1,242)	(1,267)	(1,325)
Net Operating Income	2,352	2,517	3,112	3,376	3,841	4,215
Net Provisions & Impairments	(1,743)	(836)	(1,068)	(922)	(795)	(665)
Net Profit Before Taxes	609	1,681	2,044	2,454	3,046	3,549
Tax	(5)	(7)	(23)	(28)	(35)	(53)
Net Profit Before Minority Interest	604	1,674	2,021	2,426	3,011	3,496
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	604	1,674	2,021	2,426	3,011	3,496
Interest on Tier-1 Note	(240)	(240)	(240)	(240)	(260)	(280)
Social & Sports Contribution Fund	(15)	(42)	(50)	(61)	(75)	(87)
Net Profit (Attributable)	349	1,392	1,731	2,125	2,675	3,129

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Cash & Balances with Central Bank	7,374	6,730	6,075	6,694	7,813	8,046
Interbank Loans	10,499	9,475	12,396	11,281	10,491	13,638
Net Investments	19,629	22,206	26,844	30,058	33,053	35,392
Net Loans	89,122	84,642	88,009	93,580	101,916	111,109
Investment In Associates	2,088	4,513	4,021	4,020	4,080	4,142
Other Assets	4,576	1,754	2,569	2,807	3,057	3,333
Net PP&E	2,591	2,719	2,854	2,933	3,002	3,075
OREO	2,140	2,605	4,531	4,531	4,531	4,531
Goodwill & Intangible Assets	430	283	236	181	138	110
Total Assets	138,449	134,928	147,536	156,086	168,082	183,377
Liabilities						
Interbank Deposits	13,516	13,950	22,531	21,669	21,157	24,947
Customer Deposits	77,633	71,786	76,297	81,637	89,801	100,577
Term Loans	20,908	24,451	21,568	24,156	26,282	24,363
Tier 1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Other Liabilities	5,370	4,884	5,385	5,551	6,106	6,839
Total Liabilities	121,428	119,071	129,780	137,013	147,347	160,726
Total Shareholders' Equity	17,022	15,856	17,756	19,072	20,736	22,650
Total Liabilities & Shareholders' Equity	138,449	134,928	147,536	156,086	168,082	183,377

Source: Company data, QNB FS Research

Ratios/Key Indicators	2017	2018	2019	2020e	2021e	2022e
Profitability (%)						
RoE (Tangible)	2.4	8.4	11.1	12.1	14.2	15.2
RoAA (Attributable)	0.3	1.0	1.2	1.4	1.7	1.8
RoRWA (Attributable)	3.3	3.1	1.9	1.8	1.2	0.2
NIM (% of IEAs)	2.18	2.12	2.45	2.55	2.60	2.59
NIM (% of RWAs)	2.18	2.15	2.56	2.78	2.81	2.73
NIM (% of AAs)	1.87	1.82	2.10	2.20	2.24	2.25
Spread	1.8	1.6	1.9	2.0	2.0	2.0
Efficiency (%)						
Cost-to-Income (Headline)	36.0	31.8	28.3	26.9	24.8	23.9
Cost-to-Income (Core)	38.1	33.3	28.7	27.2	25.6	24.7
Liquidity (%)						
LDR	115	118	115	115	113	110
LDR (Including Stable Source of Funding)	90	88	90	88	88	89
Loans/Assets	64	63	60	60	61	61
Cash & Interbank Loans-to-Total Assets	12.9	12.0	12.5	11.5	10.9	11.8
Deposits to Assets	56	53	52	52	53	55
Wholesale Funding to Loans	39	45	50	49	47	44
IEAs to IBLs	118	117	116	116	116	116
Asset Quality (%)						
NPL Ratio	5.6	5.6	4.9	4.4	4.0	3.7
NPL to Shareholders' Equity	31.0	30.8	25.3	22.5	20.5	19.0
NPL to Tier 1 Capital	31.0	30.8	26.4	23.8	21.8	20.2
Coverage Ratio	81	79	82	97	106	114
ALL/Average Loans	4.9	4.3	4.1	4.4	4.4	4.4
Cost of Risk (bps)	195	102	67	62	53	51
Capitalization (%)						
Tier 1 Ratio	14.5	14.0	14.4	14.7	14.3	13.9
CAR	16.1	15.5	16.4	16.7	16.3	15.9
Tier 1 Capital to Assets	12.3	11.8	11.5	11.6	11.6	11.6
Tier 1 Capital to Loans	19.1	18.7	19.3	19.3	19.2	19.1
Tier 1 Capital to Deposits	21.9	22.1	22.3	22.2	21.8	21.1
Leverage (x)	8.1	8.5	8.3	8.2	8.1	8.1
Growth (%)						
Net Interest Income	7.6	-1.4	19.4	12.7	8.9	8.6
Non-Interest Income	-4.0	4.2	14.0	-7.1	15.1	8.1
Total Revenue	3.6	0.4	17.6	6.4	10.6	8.5
Operating Expenses	-22.1	-11.5	4.7	1.2	2.0	4.6
Net Operating Income	27.4	7.0	23.6	8.5	13.8	9.7
Net Provisions & Impairments	29.7	-52.1	27.8	-13.7	-13.7	-16.3
Net Income (Headline)	20.5	177.3	20.7	20.0	24.1	16.1
Net Income (Attributable)	30.0	299.5	24.3	22.8	25.9	16.9
Loans	14.6	-5.0	4.0	6.3	8.9	9.0
Deposits	9.5	-7.5	6.3	7.0	10.0	12.0
Assets	6.2	-2.5	9.3	5.8	7.7	9.1
RWAs	2.7	-2.8	3.7	4.2	11.1	12.0

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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