

## Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR5.845	Target Price	QR7.479
Implied Upside	27.9%	Old Target Price	QR8.904

### Valuation Undemanding vs. Potential Growth; Stay Outperform

We forecast 2022-27e earnings CAGR of 12.0% (vs. 17.6% previously) because of higher CoR estimates. Hence, our new sustainable RoE falls to 14.8% vs. 16.2% previously. As a result, we lower our PT from QR8.904/sh. to QR7.479/sh. but maintain our Outperform rating. The stock still remains attractive with undemanding multiples. CBQK is trading at a 2023/24 P/TB of 1.1x/1.0x based on our estimates. The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 12.0% (2022-27e). Moreover, the market is pricing in a sustainable RoE of 12.6%, which is lower than our forecast.

### Highlights

- 1Q2023 bottom-line was largely driven by non-funded income and flat provisions & impairments; however, hyperinflation accounting shaved off 5% from earnings.** Commercial Bank of Qatar (CBQK) reported a net profit of QR751.3mn in 1Q2023, growing by 17.9% YoY (23.2% sequentially).
- RoE is estimated to increase from 13.5% in 2022 to 14.3% in 2023e (we were modeling 15.0% previously for 2023).** After 2022, we model RoE to increase beyond 14%. Management is targeting 13-15% during 2022-26 (although we believe RoE could slightly increase above the upper end of guidance depending on CoR). Our new sustainable RoE is 14.8% vs. 16.2% previously, mainly due to our revised CoR levels.
- NIMs are expected contract in 2023 on the back of CoFs.** We forecast NIMs to contract by ~10bps to 2.82% in 2023 and then pick up to 2.90% in 2024. NIMs were flat YoY at 2.75% in 1Q2023. However, it contracted by ~21bps sequentially.
- Legacy NPLs remain and are mainly real estate in nature; management is guiding for the NPL ratio to decrease to 2.5% by 2026.** NPL ratio increased from 4.9% in FY2022 to 5.0% in 1Q2023 on the back of a decrease in loans; NPL formation was negative, which is a positive. Coverage of Stage 3 loans improved from 62% in FY2021 to 71% in FY2022/1Q2023. ECLs for Stage 2 loans increased by 10.8% vs. FY2022 and coverage remained at 9%. Going forward, we expect asset quality to improve, driven by conservative underwriting and recoveries. Management will also raise the coverage of Stage 3 loans to 100%.
- CoR in 2023 is expected at 120-135bps as per management's guidance and should normalize in the range of 60-80bps by 2026.** 1Q2023 provisions for credit losses dropped by 32.3% YoY (-43.1% sequentially) to QR160.0mn, while CoR (annualized) decreased from 92bps in 1Q2022 to 65bps. It should be noted that quarterly annualized CoR is not an indicator for full year CoR. Having said this, management continues on being prudent/conservative by booking large provisions. We model in a CoR of 112bps for 2023 and 99bps in 2024. We estimate CoR to decline to 88bps by 2025 and 83bps (2026) vs. our previous lower estimates. We remain on the conservative side and do not model CoR to reach 60bps.
- Diversification of loan book remains on track; management is guiding for 25/16% public sector/real estate mix.** During 1Q2023, net loans continued their negative trajectory with reduction in acceptances and loans from Abank. Net loans receded by 3.6% sequentially to QR94.4bn. Moreover, deposits continued to decline, contracting by 8.5% QoQ to QR76.1bn. Moreover, in-line with management's strategy, % of govt. loans to total loans increased from 2016's 10% to 16% in FY2022/1Q2023 (decreased from 2021's 18% due to govt. repayments), while real estate loans dropped from 28% to 20% during the same period. We estimate net loan growth of 2.9%/5.7% in 2023/24e. We revise our loan growth assumptions; we pencil in a 2022-27e CAGR of 5.3% vs. 6.2% previously.
- CET1 ratio is expected at 13.0%-14.0% (2022-26) as per management's guidance.** Based on our estimates, we expect the bank to generate a CET1 ratio of 11.6% in 2023 and steadily reach 13.0% by 2026.

### Catalysts

- Significant RoE expansion & robust bottom-line growth

### Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our PT to QR7.479 but retain our Outperform rating.** CBQK is trading at a 2023e P/TB and P/E of 1.1x and 8.4x, respectively.
- Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR

### Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS	0.607	0.697	0.789	0.850
EPS Growth (%)	23.9	14.8	13.2	7.8
P/E (x)	9.6	8.4	7.4	6.9
Tangible BVPS (QR)	4.9	5.3	5.9	6.4
P/TBV (x)	1.2	1.1	1.0	0.9
RoE (%)	13.5	14.4	14.9	14.5
DPS (QR)	0.250	0.250	0.300	0.300
Dividend Yield (%)	4.3	4.3	5.1	5.1

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

### Key Data

Current Market Price (QR)	5.845
Dividend Yield (%)	4.3
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	8.099/4.800
3-m Average Volume (mn)	2,810.0
Mkt. Cap. (\$ bn/QR bn)	6.5/23.7
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Current FO* (%)	25.6
1-Year Total Return (%)	(12.8)
Fiscal Year End	December 31

Source: Bloomberg (as of June 05, 2023), \*Qatar Exchange (as of June 05, 2022); Note: FO is foreign ownership

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## Valuation

### We value CBQK using the Residual Income Model (RI) based on a fundamental P/B:

We derive CBQK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model:  $P/B = (RoE-g)/(Ke-g)$ . This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 1.4x.**

We add Qatar's 10-year CDS rate of 0.75% to the 10-year US government bond yield (3.5%) to arrive at a risk free rate of 4.3%. We factor in an adjusted beta of 0.93x. Finally, we add an equity risk premium of 8.30% to arrive at a Ke of 11.94%.

#### Valuation Methodology

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	14.83	Beginning BVPS (2022) (QR)	4.867
Estimated Cost of Equity (%)	11.94	Present Value of Interim Residuals (QR)	0.782
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	1.832
Fundamental P/B	1.4x	Less: Intangibles & Goodwill	0.002
		Fundamental P/B	1.4x
		Intrinsic Value (QR)	7.479
		Current Market Price (QR)	5.845
		Upside/(Downside) Potential (%)	+27.9%

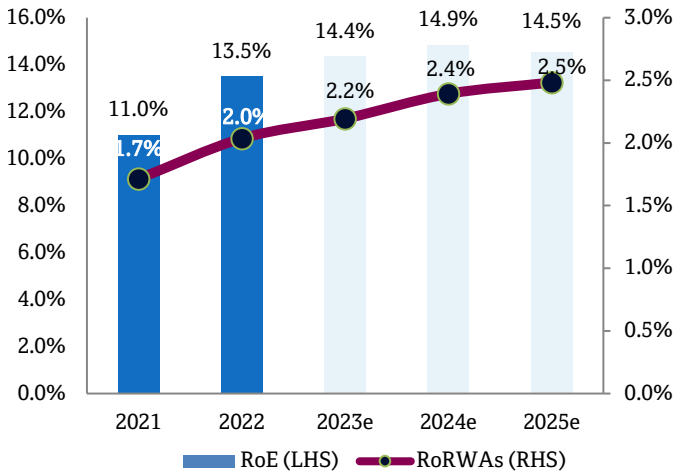
Source: QNB FS Research

#### Forecasts

	2023e	2024e	2025e	2026e	2027e	2028e	Terminal
Beginning BVPS	4.87	5.31	5.85	6.40	7.05	7.76	8.48
Attributable EPS	0.70	0.79	0.85	0.95	1.06	1.12	1.17
DPS	0.25	0.25	0.30	0.30	0.35	0.40	0.40
Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ending BVPS	5.31	5.85	6.40	7.05	7.76	8.48	9.25
Equity Charge	0.58	0.63	0.70	0.76	0.84	0.93	1.01
<b>Residual Income</b>	<b>0.12</b>	<b>0.15</b>	<b>0.15</b>	<b>0.18</b>	<b>0.22</b>	<b>0.19</b>	<b>0.16</b>
Terminal Value (Based on Fundamental P/B)							3.9
<b>Discounted Interim Residuals</b>	<b>0.11</b>	<b>0.13</b>	<b>0.11</b>	<b>0.12</b>	<b>0.13</b>	<b>0.10</b>	<b>0.08</b>
<b>Discounted Terminal Value</b>							<b>1.83</b>

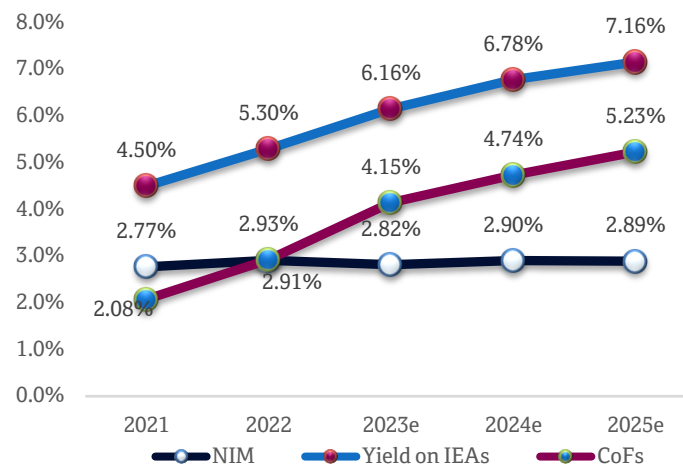
Source: QNB FS Research

### RoE & RoRWAs Modeled to Increase in a Healthy Manner

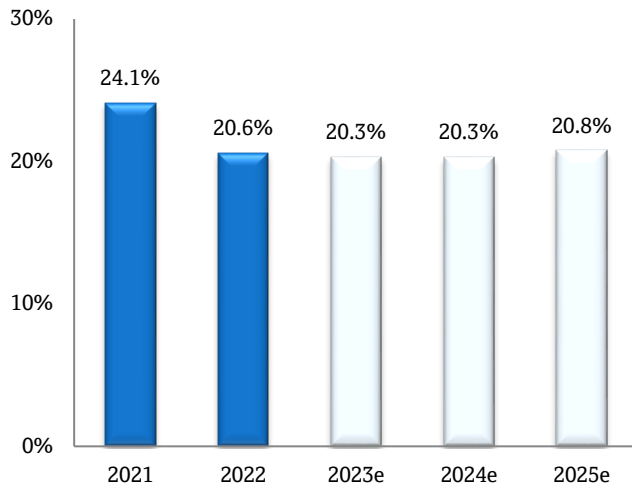


Source: Company data, QNB FS Research

### While 2023 Margins to Come Under Pressure on High CoFs

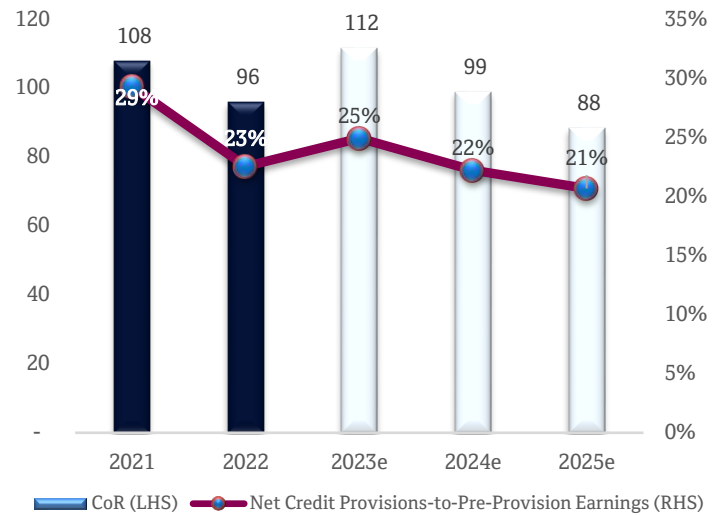


### C/I Ratio to Remain Superior

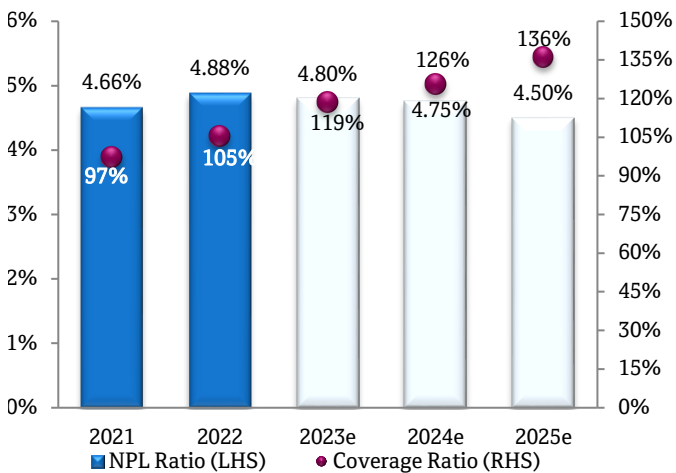


Source: Company data, QNB FS Research; C/I is on a normalized basis

### CoR is Expected to Remain Elevated in the Medium Term



### NPLs are Legacy and Mainly RE Loans



Source: Company data, QNB FS Research

### Coverage of Stage 3 Loans is Expected to Reach 100%

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	75,266,515	18,807,063	4,939,267	99,012,845
ECLs	155,126	1,735,138	3,488,111	5,378,375
Stages % of Loans	76%	19%	5%	
Stages % of ECLs	3%	32%	65%	
Coverage Ratio	0%	9%	71%	

## Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e
Net Interest Income	3,702	4,106	4,167	4,370	4,550
Fees & Commissions	928	790	830	880	783
FX Income	309	415	438	473	506
Other Income	(38)	201	466	431	458
<b>Non-Interest Income</b>	<b>1,199</b>	<b>1,406</b>	<b>1,734</b>	<b>1,784</b>	<b>1,747</b>
<b>Total Revenue</b>	<b>4,900</b>	<b>5,512</b>	<b>5,900</b>	<b>6,154</b>	<b>6,297</b>
Operating Expenses	(1,150)	(1,134)	(1,198)	(1,248)	(1,307)
<b>Net Operating Income</b>	<b>3,750</b>	<b>4,378</b>	<b>4,702</b>	<b>4,906</b>	<b>4,990</b>
Net Provisions & Impairments	(1,438)	(1,263)	(1,327)	(1,195)	(1,122)
<b>Net Profit Before Taxes</b>	<b>2,313</b>	<b>3,115</b>	<b>3,375</b>	<b>3,711</b>	<b>3,867</b>
Tax	(9)	(114)	(41)	(45)	(46)
<b>Net Profit Before Minority Interest</b>	<b>2,304</b>	<b>3,000</b>	<b>3,335</b>	<b>3,667</b>	<b>3,821</b>
Minority Interest	(0)	0	0	0	0
Non-Recurring Income/(Loss)		(189)	(150)	(100)	0
<b>Net Profit (Headline/Reported)</b>	<b>2,304</b>	<b>2,811</b>	<b>3,185</b>	<b>3,567</b>	<b>3,821</b>
Interest on Tier-1 Note	(264)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(58)	(70)	(80)	(89)	(96)
<b>Net Profit (Attributable)</b>	<b>1,983</b>	<b>2,457</b>	<b>2,822</b>	<b>3,194</b>	<b>3,442</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	17,915	8,030	10,180	8,822	9,528
Interbank Loans	10,942	20,844	18,759	15,008	16,808
Net Investments	26,723	29,835	30,346	31,865	34,219
Net Loans	98,003	98,016	100,864	106,605	112,813
Investment In Associates	2,961	3,102	3,246	3,397	3,554
Other Assets	2,567	2,613	3,026	2,772	2,933
Net PP&E	2,753	3,050	3,280	3,285	3,295
OREO	3,524	3,564	3,564	3,564	3,564
Goodwill & Intangible Assets	75	66	10	10	10
<b>Total Assets</b>	<b>165,464</b>	<b>169,121</b>	<b>173,275</b>	<b>175,326</b>	<b>186,725</b>
<b>Liabilities</b>					
Interbank Deposits	17,777	24,054	26,340	20,110	21,090
Customer Deposits	81,958	83,167	84,831	88,224	95,282
Term Loans	31,005	26,656	27,989	30,424	31,945
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	10,651	9,724	6,786	7,058	6,670
<b>Total Liabilities</b>	<b>147,211</b>	<b>149,421</b>	<b>151,766</b>	<b>151,635</b>	<b>160,806</b>
<b>Total Shareholders' Equity</b>	<b>18,253</b>	<b>19,699</b>	<b>21,509</b>	<b>23,691</b>	<b>25,918</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>165,464</b>	<b>169,121</b>	<b>173,275</b>	<b>175,326</b>	<b>186,725</b>
<b>RWAs</b>	<b>115,914</b>	<b>125,475</b>	<b>131,689</b>	<b>135,352</b>	<b>145,645</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2021	2022	2023e	2024e	2025e
<b>Profitability (%)</b>					
RoTE (Attributable)	11.0	13.5	14.4	14.9	14.5
RoAA (Attributable)	1.2	1.5	1.6	1.8	1.9
RoRWA	1.7	2.0	2.2	2.4	2.5
NIM (% of IEAs)	2.77	2.91	2.82	2.90	2.89
NIM (% of RWAs)	3.20	3.40	3.24	3.27	3.28
NIM (% of AAs)	2.32	2.45	2.43	2.51	2.51
Spread	2.4	2.4	2.0	2.0	1.9
<b>Efficiency (%)</b>					
Cost-to-Income (Headline)	24.1	20.6	20.3	20.3	20.8
Cost-to-Income (Core)	24.2	20.9	21.5	21.5	22.0
<b>Liquidity (%)</b>					
LDR	120	118	119	121	118
LDR (Including Stable Source of Funding)	87	89	89	90	89
Loans/Assets	59	58	58	61	60
Cash & Interbank Loans-to-Total Assets	17.4	17.1	16.7	13.6	14.1
Deposits to Assets	50	49	49	50	51
Wholesale Funding to Loans	50	52	54	47	47
IEAs to IBLs (x)	1.18	1.27	1.22	1.23	1.22
<b>Asset Quality (%)</b>					
NPL Ratio	4.7	4.9	4.8	4.8	4.5
NPLs to Shareholders' Equity	26.2	25.6	23.9	22.7	20.9
NPL to Tier-1 Capital	25.7	25.9	25.3	25.3	24.3
Coverage Ratio	97	105	119	126	136
ALL/Average Loans	4.6	5.2	5.8	6.1	6.3
Cost of Risk (bps)	108	96	112	99	88
<b>Capitalization (%)</b>					
CET1 Ratio	11.7	11.6	11.6	12.0	12.2
Tier-1 Ratio	16.0	15.6	15.4	15.7	15.7
CAR	18.1	17.3	17.2	17.5	17.4
Leverage (x)	9.1	8.6	8.1	7.4	7.2
<b>Growth (%)</b>					
Net Interest Income	19.4	10.9	1.5	4.9	4.1
Non-Interest Income	30.3	17.3	23.3	2.9	-2.0
Total Revenue	21.9	12.5	7.0	4.3	2.3
Operating Expenses	5.5	-1.4	5.6	4.1	4.8
Net Operating Income	28.0	16.7	7.4	4.3	1.7
Net Provisions & Impairments	-11.0	-12.1	5.0	-9.9	-6.1
Net Income (Headline)	77.1	22.0	13.3	12.0	7.1
Net Income (Attributable)	89.6	23.9	14.8	13.2	7.8
Loans	1.3	0.0	2.9	5.7	5.8
Deposits	8.1	1.5	2.0	4.0	8.0
Assets	7.7	2.2	2.5	1.2	6.5
RWAs	0.3	8.2	5.0	2.8	4.8

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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