

## Commercial Bank of Qatar (CBQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR40.45	Current Target Price	QR43.00
Implied Upside	6.3%		

### Weak 2Q2016 Results; Abank Deal to Create Further Pressure

**CBQK reports weaker than expected results.** Commercial Bank of Qatar (CBQK) reported a net profit of QR212.3mn, falling short of expectations as well as consensus (our estimate of QR320.6mn vs. BBG average of QR321.3mn). The miss was primarily due to a sharp rise in net provisions and impairments. However, net interest income was in-line at QR613.3mn vs. our estimate of QR625.4mn (-1.9% variation). Moreover, total revenue was broadly in-line at QR986.3mn vs. our estimate of QR944.3mn (+4.4% variation). **We also put our 2016 and 2017 estimates for CBQK under review pending our conversation with CBQK's management.**

#### Highlights

- **Net profit decreased QoQ, mainly driven by provisions and impairments; on a YoY basis numbers were weak across the board.** CBQK reported a net profit of QR212.3mn, dropping by 26.3% QoQ (down 62.9% YoY). The drop in profitability was perpetuated by a 21.6% QoQ (+76.1% YoY) surge in provisions and impairments. Moreover, net interest income (-1.8% QoQ) and fees (-9.1% QoQ, -37.9% YoY) displayed weakness. On the other hand, income from associates markedly improved QoQ, increasing to QR83.0mn vs. QR30.0mn in 1Q2016.
- **Margins further contracted.** CBQK's net interest margin receded by 4bps (QoQ) and 21bps (YoY) to 2.31%.
- **Provisions remained elevated.** The bank booked net provisions and investment impairments of QR373.3mn vs. our estimate of QR200.0mn. Net provisions soared by 33.6% QoQ (+76.1% YoY).
- **Asset quality further deteriorated.** NPL ratio increased to 4.81% from 4.50% in 1Q2016 (4.20% in FY2015). On the other hand, the coverage ratio improved to 78.5% from 71.2% at the end of 2015.
- **OPEX improved QoQ, although still inefficient.** CBQK reported opex of QR410.1mn, receding by 2.6% QoQ (-3.0% YoY). Thus, cost-to-income improved to 41.6% vs. 43.9% in 1Q2016 (36.8% in 2Q2015).
- **Loan growth shows improvement.** Net loans increased by 2.5% QoQ (+1.0% YTD) to QR77.4bn while deposits were flat QoQ (+3.3% YTD) at QR72.1bn. Consequently, the bank's LDR climbed up to 107% in 2Q2016 vs. 105% in 1Q2016 (110% in 4Q2015).
- **Abank's minority shareholder is expected to exercise their put option.** After continued losses at 75% owned Turkish subsidiary Abank, the bank's minority shareholder AEH plans to exercise its put option as per the Shareholders' Agreement signed with CBQK on 18 July 2013. AEH will sell its 25% stake in Abank for \$222.5mn, which translates into 2.2x 2Q2016 book value. This is a further negative for CBQ given the premium multiple it could pay for an underperforming asset.
- **Catalysts**
- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Better performance from the Turkish subsidiary (Abank), 2) improvement in asset quality and 3) Significant improvement in RoE and NIMs.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR43.00 and maintain our Market Perform rating.** CBQK is trading at a 2016e P/TB and P/E of 0.9x and 12.2x, respectively. Moreover, the stock trades at a 2017e PEG of 1.0x, implying that it is fairly valued. The market is pricing in a sustainable RoE of 11.1% and P/B of 0.9x, in-line with our estimates. The stock offers a yield of 6.2% in both 2015 and 2016.
- **Risks:** 1) Depressed oil prices, 2) Exposure to the retail & contracting segments, 3) Fluctuations of Turkish Lira, 4) LDR requirement from the QCB could create short-term issues and 5) asset quality issues or impairments.

#### Key Financial Data and Estimates

	FY2015	FY2016e	FY2017e	FY2018e
Attributable EPS (QR)	3.88	3.32	3.78	4.96
EPS Growth (%)	-25.9	-14.5	13.9	31.1
P/E (x)	10.4	12.2	10.7	8.2
TBVPS (QR)	43.3	44.2	45.7	48.3
P/TB (x)	0.9	0.9	0.8	0.8
DPS (QR)	3.00	2.50	2.50	2.50
Dividend Yield (%)	7.4	6.2	6.2	6.2

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

#### Key Data

Current Market Price (QR)	40.45
Dividend Yield (%)	6.2
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	59.90/35.30
3-m Average Volume ('000)	145.2
Mkt. Cap. (\$ bn/QR bn)	3.6/13.2
Shares Outstanding (mn)	326.6
FO Limit* (%)	49.0
Current FO* (%)	12.7
1-Year Total Return (%)	(28.2)
Fiscal Year End	December 31

Source: Bloomberg (as of July 19, 2016), \*Qatar Exchange (as of July 19, 2016); Note: FO is foreign ownership

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## Detailed Financial Statements

Ratios	FY2015	FY2016e	FY2017e	FY2018e
<b>Profitability (%)</b>				
RoAE (Attributable)	8.5	7.3	8.1	10.2
RoAA (Attributable)	1.1	0.9	0.9	1.1
RoRWA (Attributable)	2.7	3.2	3.3	3.1
NIM (% of IEAs)	2.46	2.35	2.28	2.31
NIM (% of RWAs)	2.48	2.37	2.27	2.30
NIM (% of AAs)	2.12	2.04	1.98	2.01
Spread	2.2	2.0	2.0	2.0
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	43.0	42.6	42.4	40.7
Cost-to-Income (Core)	45.4	45.6	45.6	44.2
<b>Liquidity (%)</b>				
LDR	110	105	100	98
LDR (including CDs)	110	105	100	98
Loans/Assets	62	63	63	62
Cash & Interbank Loans-to-Total Assets	17.2	18.3	18.1	19.2
Deposits to Assets	57	60	63	64
Wholesale Funding to Loans	43	35	30	32
IEAs to IBLs	116	117	115	113
<b>Asset Quality (%)</b>				
NPL Ratio	4.2	4.5	4.5	3.5
NPLs to Shareholder's Equity	22.3	25.1	26.6	21.9
NPLs to Tier 1 Capital	26.3	26.5	28.2	23.2
Coverage Ratio	70.9	80.3	90.5	114.5
ALL/Average Loans	3.0	3.7	4.2	4.2
Cost of Risk	1.06	1.08	0.97	0.85
<b>Capitalization (%)</b>				
Tier 1 Ratio	11.8	12.7	11.8	11.2
CAR	13.5	14.5	13.5	12.9
Tier 1 Capital to Assets	10.1	11.0	10.4	9.8
Tier 1 Capital to Loans	16.3	17.4	16.5	15.7
Tier 1 Capital to Deposits	17.9	18.4	16.4	15.4
Leverage (x)	8.4	8.6	9.1	9.6
<b>Growth (%)</b>				
Net Interest Income	-1.8	1.6	3.6	12.0
Non-Interest Income	-15.8	8.5	8.7	11.5
Total Revenue	-7.4	4.1	5.5	11.8
Operating Expenses	5.2	3.2	5.1	7.3
Net Operating Income	-15.0	4.7	5.8	15.1
Net Provisions & Investment Impairments	27.9	9.9	-3.3	-4.1
Net Income (Headline/Reported)	-24.2	-5.1	11.5	26.1
Net Income (Attributable)	-25.9	-14.5	13.9	31.1
Loans	5.6	6.5	8.7	10.0
Deposits	13.4	11.0	15.0	12.0
Assets	6.7	4.7	8.7	11.3
RWAs	6.8	5.8	10.5	10.6

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	2,534	2,574	2,666	2,986
Fees & Commissions	971	1,019	1,101	1,211
FX Income	141	153	171	188
Other Income	322	384	420	487
<b>Non-Interest Income</b>	<b>1,434</b>	<b>1,556</b>	<b>1,691</b>	<b>1,886</b>
<b>Total Income</b>	<b>3,968</b>	<b>4,130</b>	<b>4,357</b>	<b>4,871</b>
Operating Expenses	(1,705)	(1,759)	(1,849)	(1,984)
<b>Net Operating Income</b>	<b>2,264</b>	<b>2,371</b>	<b>2,508</b>	<b>2,887</b>
Net Provisions & Impairments	(860)	(945)	(914)	(877)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>1,403</b>	<b>1,426</b>	<b>1,594</b>	<b>2,010</b>
Non-Recurring Income	90	0	0	0
<b>Net Profit After Non-Recurring Income</b>	<b>1,493</b>	<b>1,426</b>	<b>1,594</b>	<b>2,010</b>
Tax	(36)	(36)	(40)	(50)
<b>Net Profit Before Minority Interest</b>	<b>1,458</b>	<b>1,390</b>	<b>1,554</b>	<b>1,960</b>
Minority Interest	(32)	(38)	(47)	(59)
<b>Net Profit (Headline/Reported)</b>	<b>1,425</b>	<b>1,353</b>	<b>1,508</b>	<b>1,901</b>
Interest on Tier-1 Note	(120)	(240)	(240)	(240)
Social & Sports Contribution Fund	(36)	(28)	(32)	(42)
<b>Net Profit (Attributable)</b>	<b>1,269</b>	<b>1,085</b>	<b>1,236</b>	<b>1,620</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
<b>Assets</b>				
Cash & Balances with Central Bank	5,424	6,972	7,127	8,980
Interbank Loans	15,831	16,622	18,285	21,027
Net Investments	15,854	14,286	16,351	18,256
Net Loans	76,630	81,622	88,711	97,603
Investment In Associates	4,423	4,518	4,623	4,759
Other Assets	3,304	3,265	3,548	3,904
Net PP&E	1,345	1,334	1,323	1,311
Goodwill & Other Intangibles	638	586	533	481
<b>Total Assets</b>	<b>123,449</b>	<b>129,205</b>	<b>140,500</b>	<b>156,320</b>
<b>Liabilities</b>				
Interbank Deposits	12,456	8,095	4,478	6,918
Certificate of Deposits	-	-	-	-
Customer Deposits	69,788	77,464	89,084	99,774
Term Loans	20,524	20,154	22,400	24,192
Tier-1 Perpetual Notes	2,000	4,000	4,000	4,000
Other Liabilities	3,370	3,873	4,454	4,490
<b>Total Liabilities</b>	<b>108,137</b>	<b>113,587</b>	<b>124,416</b>	<b>139,374</b>
<b>Shareholders' Equity</b>				
Total Shareholders' Equity	14,767	15,035	15,455	16,258
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>123,449</b>	<b>129,205</b>	<b>140,500</b>	<b>156,320</b>

Source: Company data, QNBFS estimates

### Recommendations

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

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

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

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