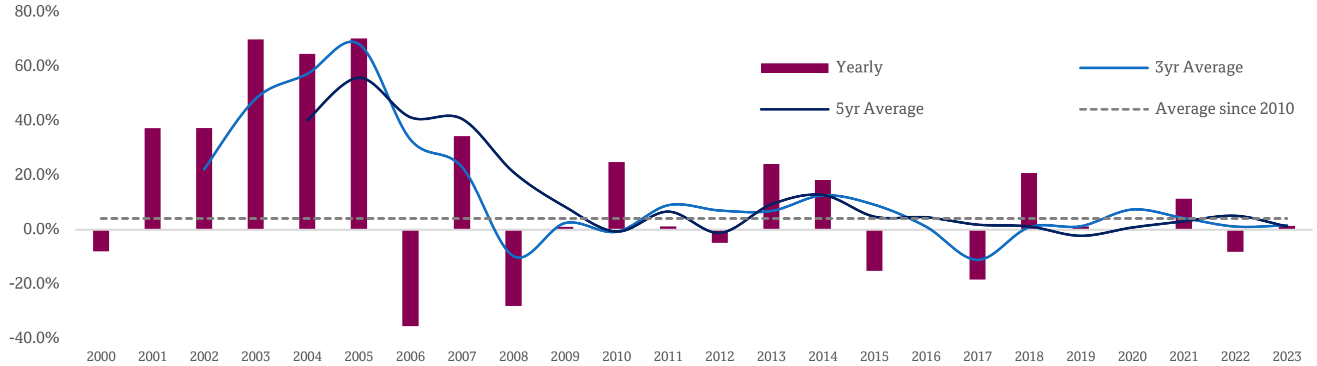
Earnings Momentum Set to Continue in 2Q2024 as Outlook Remains Constructive for 2024

We expect 2Q2024 earnings to continue building on the YoY positive momentum seen since 4Q2023 and project stocks under coverage growing the aggregate bottom-line by 6.0% YoY. Overall earnings, however, should decline 4.3% QoQ. This follows a positive 1Q2024 for the QSE where aggregate earnings rose 5.8%/30.7% YoY/QoQ. We see most of the YoY growth in 2Q2024 coming from banks, which are expected to book lower provisions along with some margin improvement, while Industries Qatar (IQCD) weighs down on earnings sequentially. We remain constructive on Qatari equities, which have seen a recovery in the past few weeks, including a 20-day winning streak (last seen in 2006), in-line with our hypothesis from our recent mid-year strategy report publication. Overall, the LNG/fundamental story anchors the Qatari economy/equities directly/indirectly, *augmented by ramping up of the North Field project and the recently upgraded capacity expansion target – a significant portion of Qatar's expected annual LNG capacity increase is already signed-off in long-term supply contracts. In addition,* ***continued government efforts to grow/diversify the non-oil/gas economy provide another platform for broad-based company earnings growth****. In the near term, we note the non-oil/gas sector continues to expand with the latest June PMI at 55.9, demonstrating a strong resurgence in activity as output rose to 61.8 vs 57.1 in May, the highest reading since December 2022 and the sixth consecutive month of expansion. The tourism sector stands out as the government's strategy to make it another pillar of the economy bears fruit with the country attracting record visitors since the beginning of the year. The latest announcement of a QR20bn theme park (Simaisma project) solidifies the tourism strategy. Other initiatives, such as the recent slashing of industrial plots rentals by 90% by the Ministry of Municipality could see growth filtering to more sectors of the economy. The global economy has been resilient despite generational-high interest rates. The IMF sees global growth at 3.2% in 2024-25, similar to 2023, as global inflation falls to 5.9% from 6.8%. Meanwhile,* ***the futures market predicts about a 3-in-4 chance of a rate cut by the US Fed in September, which bodes well for global and local risk assets****. The global equity complex (ACWI) ended 2Q2024 in the black, rising 2.4% (vs +7.8% in 1Q2024), benefitting from the continuation of the AI/tech trade and resumption/expectations of synchronized global interest rate cuts.* ***Meanwhile, the QSE recovered by 1.2% in 2Q2024 (vs -9.1% in 1Q2024; YTD: -6.5% as of July 7, 2024),*** *outperforming the regional index that fell by 5.0% in 2Q2024, weighed down by the Tadawul (-5.8%) and DFM (-5.1%). Overall, foreign institutions (excluding GCC/Arab investors) were $264mn net short Qatari equities in 2Q2024 (vs. $133mn net short in 2Q2023 and $156mn net long in 1Q2024); in 2023, foreign institutions were $72mn net long Qatari equities.* ***While the risk of market volatility remains partly due to regional geopolitical conflicts, we remain positive longer term on the Qatari market****. We believe that near-term market dislocations should present attractive opportunities for long-term investors due to the following reasons:*

- **New rules allowing the distribution of interim dividends by QSE-listed firms brings the local market in-line with global trends and could further enhance Qatar's appeal to foreign investors that have been selling down since the beginning of the year.** Several companies have indicated that they are considering distributing interim dividends related to the just-ended second quarter of 2024, including **QNB, QIBK, QIIK and QE-privatized companies (IQCD, MPHC, QAMC, QFLS, QEWS and QGTS).**
- **Supply-demand dynamics of oil/gas remain attractive** on the back of sanctions by Western countries on Russia, oil production cuts by OPEC+, regional geopolitical developments and seasonal global demand. Oil prices have been improving over the past few weeks to levels last seen in April, which should translate to higher government revenue/surplus for Qatar, enabling flexibility in government spending and improving credit availability within the economy.
- **With the successful hosting of the World Cup, perceived as one of the best editions and putting Qatar in the global spotlight, we are of the view that pockets of the Qatari stock market should benefit from this success, specifically tourism. Qatar has continued to grow its sports tourism brand:** It has since hosted other notable events building on this success, including the Expo 2023 Doha, the AFC Asian Cup Qatar 2023, the World Aquatics Championships Doha 2024, the AFC U23 Asian Cup Qatar 2024, etc. The impact has been immediate, with Qatar registering record visitor arrivals since the beginning of the year.
- Over the medium- to long-term, **the "upgraded" North Field Gas Expansion, a nascent but growing tourism/sporting sector and Qatar National Vision 2030 investments** will continue to be major growth drivers for our companies. The demand for Qatar's gas should remain strong for the foreseeable future on the back of geopolitical developments, specifically in Europe, with demand for LNG expected to peak between mid-2030s and mid-2040s. Meanwhile, the government allocated $58.6bn (2023: $63.9bn) towards major projects in the Budget for the fiscal year 2024.
- On top of Qatar's macro strengths, **Qatari companies enjoy robust balance sheets backed by low leverage and decent RoEs, while Qatari banks stand out with their exceptional capital adequacy ratios, strong provision coverage and high profitability**. This should help, as global monetary conditions remain tighter for longer than initially anticipated.

Anchoring our overall convictions are Qatari valuations, looking attractive historically and relative to peers, especially given that we see earnings recovering on the horizon. We stay bullish longer term on Qatari equities given their defensive characteristics backed by their strong fundamentals. Moreover, from a technical viewpoint, with all three return measures (yearly, 3yr & 5yr) below trend, it is not unreasonable to expect the QSE is due a leg up in 2024. Recent QSE outperformance is a step in the right direction.

Qatar Stock Exchange Historical Price Returns



Source: QSE, Bloomberg, QNB FS Research

2nd Quarter 2024 Estimates

	EPS (QR)			Revenue (QR mn)		
	2Q2024e	YoY	QoQ	2Q2024e	YoY	QoQ
Ahli Bank (ABQK)	0.067	10.8%	-21.1%	403.62	10.2%	-13.2%
Baladna (BLDN)	0.024	102.3%	-6.6%	311.30	18.7%	-0.5%
Commercial Bank of Qatar (CBQK)	0.208	5.0%	5.2%	1,448.89	-3.9%	9.1%
Doha Bank (DHBK)	0.066	12.2%	-11.0%	685.15	-4.2%	3.9%
Dukhan Bank (DUBK)	0.076	14.6%	-6.1%	629.02	11.3%	-4.0%
Gulf International Services (GISS)	0.078	-23.4%	-10.0%	957.20	9.4%	1.9%
Gulf Warehousing Co. (GWCS)	0.083	-8.7%	-4.3%	380.43	1.9%	1.2%
Industries Qatar (IQCD)	0.167	9.3%	-21.3%	2,648.32	0.5%	-9.1%
Estithmar Holding (IGRD)	0.030	5.1%	-7.4%	801.43	11.7%	0.6%
Masraf Al Rayan (MARK)	0.045	9.1%	2.0%	931.74	1.6%	1.9%
Qatar Electricity & Water (QEWS)	0.320	-4.2%	10.6%	757.29	4.9%	10.2%
Qatar Gas & Transport (QGTS)	0.077	12.0%	1.1%	1,134.27	1.9%	5.7%
Qatar International Islamic Bank (QIIK)	0.208	5.3%	-6.0%	492.57	5.1%	4.9%
Qatar Islamic Bank (QIBK)	0.463	4.2%	14.5%	1,667.33	4.5%	3.4%
Qatar Navigation/Milaha (QNNS)	0.254	1.7%	-20.8%	676.90	-9.1%	-9.4%
Vodafone Qatar (VFQS)	0.034	15.1%	-3.1%	792.52	2.3%	-1.7%
Medicare Group (MCGS)	0.066	5.8%	-6.2%	122.05	2.7%	-6.2%
Meeza (MEZA)	0.022	-25.9%	19.7%	103.43	-19.3%	22.9%
Total		**6.0%**	**-4.3%**	**14,943.5**	**2.6%**	**-0.2%**

Source: QNB FS Research

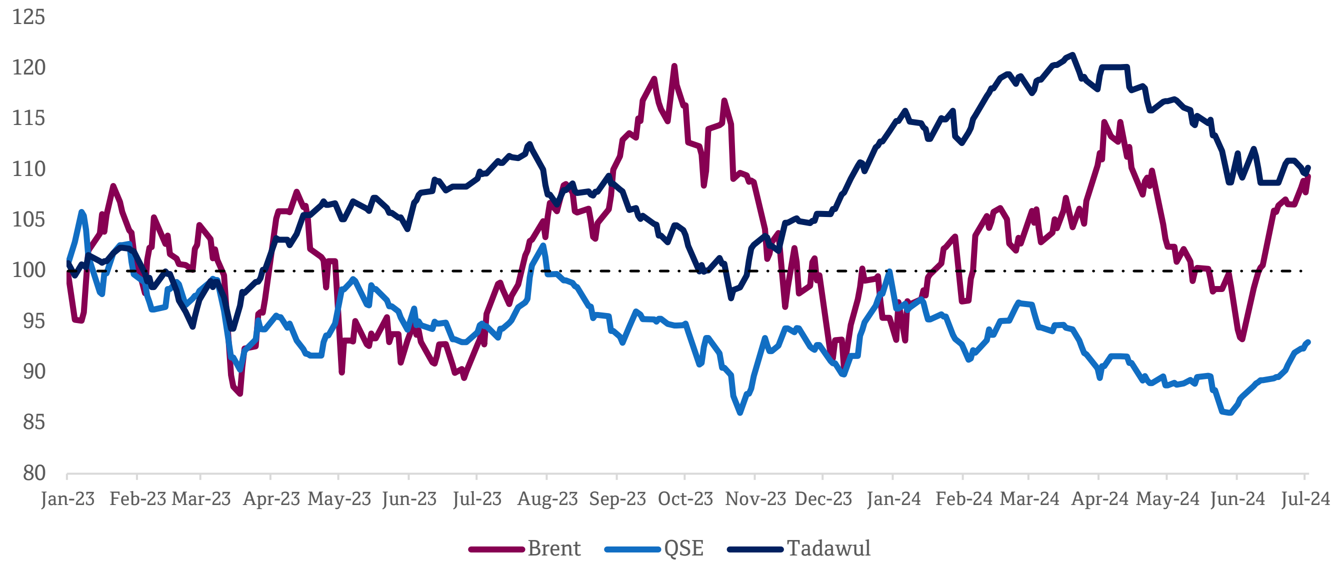
Highlights

- **Bank stocks' performance thus far has been lackluster due to the continued slowdown in the domestic economy post the FIFA World Cup, along with muted credit growth; credit growth for 2024 is still expected to be around 6.0%.** We are still of the view that booking lower CoR vs. 2023 should significantly aid the sector's bottom-line as we do not see material expansion in margins since the timing of rate cuts are not clear.
- **From a valuation perspective, Qatari banks are starting to look attractive vs. peers with significant upside to RoE vs. KSA and UAE.** Qatari banks are trading at a P/B of 1.2x with a RoE of 11.3% vs. KSA (P/B: 1.3x, RoE: 12.9%), UAE (P/B: 1.2x, RoE: 15.0%) and Kuwait (P/B: 1.3x, RoE: 8.8%). ***We are of the view that a positive outlook on 2024 asset quality could serve as a catalyst as asset quality remains a concern for investors, especially for mid-sized banks as NPLs have spiked along with Stage 2 loans. Moreover, concerns on enhanced Basel III pertaining to capital charges on open $ f/x positions, which was an overhang on the sector, has subsided; most likely the QCB would not implement this capital charge as the QR is pegged to the $.***
- **We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience YoY earnings growth of 7.0%, mainly due to strong performance from Dukhan Bank (DUBK), Qatar Islamic Bank (QIBK) and Commercial Bank of Qatar (CBQK).** The YoY aggregate performance is due to a combination of costs containment, flat to lower provisions and modest changes in margins. **Sequentially, earnings are estimated to move up by 2.1% (in-line with historical trends), mainly attributable to margin compression offset by lower provisions & impairments.**
  - **DUBK is estimated to experience double-digit growth in its bottom-line (in-line with historical trends)** driven by improvement in margins and non-funded income. As such, the bank is expected to generate a healthy RoE of 14.0%.
  - **Aggregate growth in YoY earnings is also attributed to QIBK,** which continues to enjoy robust fundamentals with strong double-digit RoE generation (1H2024e annualized RoE: 16.3%), efficient costs management (2Q2024e C/I: 15.5%) and modest margin expansion. **QIBK is modeled to grow its net profit by 4.2% YoY driven by some margin improvement, non-funded income and costs containment. However, we pencil in higher CoR due to the bank's conservative nature.** The name is trading at a 5-year low with a 2024e P/TB of 1.6x, which is attractive vs. its average of 2.2x and high of 3.3x.
  - **Commercial Bank of Qatar (CBQK)** is expected to grow its bottom-line by 5.0% on the back of some margin improvement, costs containment and lower provisions. **CBQK is still trading at a discount to its 2024e book value due to investors' concerns on its CET-1 capital position, although we are of the view that the QCB will not implement enhanced Basel III on open $ f/x positions.** The stock is trading at a 2024e P/TB of 0.8x.
  - **Sequentially, most banks under coverage will witness a drop in profitability due to lower non-funded income and margins.**
- **We estimate a YoY increase of 4.6% in the bottom-line of diversified non-financials under coverage driven by gains in IQCD, Qatar Gas Transport (QGTS) and Baladna (BLDN).**
  - **On a sequential basis, combined earnings of diversified non-financials could decline by 11.7% primarily driven by IQCD.** Excluding IQCD, overall QoQ earnings are still projected to fall 4.3% as **Qatar Navigation/Milaha (QNNS)** usually faces a sequentially down 2Q after recording hefty dividend income in 1Q.
  - **While we expect IQCD to post YoY growth, sequential earnings could come under pressure primarily due to weakness in urea prices.** We expect IQCD to post a YoY net income increase of 9.3%, along with a sequential 21.3% downtick in earnings. **The QoQ decline in urea prices could weigh on earnings although the timing of urea shipments could prove to be positive boost as urea prices did strengthen from late May onward.** Looking at results by segments, we expect fairly stable trends in petrochemicals with LDPE pricing up YoY/QoQ, while volumes should improve sequentially given 53 days of maintenance in 1Q2024. Overall, petrochemical earnings are projected to decline YoY but remain stable QoQ. For fertilizers, we expect a bit of a seasonal lull in sales volumes but YoY volumes should increase. Urea prices, on an average, have softened sequentially to $320/MT but should be up on a YoY basis. We expect 2Q2024 fertilizer EBITDA margins to jump to 41%, up from 31% in 2Q2023 (impacted by facilities' maintenance) but ease

from the 49% recorded in 1Q2024. As a result, we expect a significant yearly growth in fertilizer earnings but a decline sequentially. Finally, in the steel segment, rebar prices have declined roughly 10% YoY/QoQ and we model segment earnings to follow.

- **Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks and investment income/capital gains (losses). Volatile oil & gas prices & geo-political tensions remain major risk factors to regional equities and have a direct detrimental impact on stocks under coverage.

QSE Price Performance Vs. Brent and KSA [Rebased to 100]



Source: Bloomberg, 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*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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