

# QSE 4Q2021 Earnings Preview

Monday, 10 January 2022

## 4Q2021 Earnings Preview: YoY Earnings to Grow; 2022 Outlook Remains Encouraging

We expect 4Q2021 earnings for Qatari stocks under coverage to grow 31.2% YoY on a normalized basis (excluding outliers IQCD, QNNS and GISS). However, on a QoQ basis, earnings should recede 24.8%. The YoY growth in normalized earnings is attributable to a continuously improving operating environment in 4Q2021 vs. 4Q2020 (the fourth quarter of 2020 had relatively stricter counter-COVID-19 measures in place). On the other hand, higher provisions & impairments by banks (but generally in-line with historical trends) contribute to the expected QoQ decrease in aggregate earnings. For FY2021, we forecast an 83.0% growth in earnings (normalized: 22.7%). In 2021, the QE Index appreciated 11.4% but underperformed all other GCC markets. However, we believe 2022 should benefit from several major catalysts: (1) We are currently forecasting DPS, for our companies under coverage, to come in flat-to-up for FY2021. (2) Moreover, we expect the market to benefit from inflows when foreign ownership limits are increased in four major banks (QNBK, QIBK, CBQK and MARK). While any actual MSCI-related flow increase will take place in May at the earliest (and FTSE in June), we expect the market to move in anticipation of this ~\$1bn event. (3) Furthermore, with the FIFA World Cup Qatar 2022 finally around the corner, we believe the Qatari stock market will benefit from the sheen of this unprecedented success enjoyed by Qatar on the global stage. (4) Over the medium-to-long-term, the North Field Expansion Project and 2030 Qatar National Vision investments continue to be major growth drivers for local companies. On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, whereas Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. With coronavirus continuing to affect the real economy, global emerging market equities as well as Qatari stocks could stay volatile. So far, the impact of the Omicron variant seems limited but risks persist. We continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals and reasonable valuations, coupled with Qatar's effectively-handled vaccination program, which reduces COVID-19 variant risks substantially.

### Highlights

- QSE equities offer attractive dividend yields. IQCD offers one of the best yields at 6.3%, followed by QEWS (4.6%), QNNS (4.5%), ABQK (3.9%) and MARK (3.7%).
- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience strong earnings YoY, growing by 24.5% largely attributed to Doha Bank (DHBK, which reported a loss in 4Q2020), Masraf Al Rayan (MARK, which benefits from its merger with KCBK) and Commercial Bank of Qatar or CBQK. Excluding DHBK, aggregate bank earnings could still exhibit an increase of 12.3% YoY. Mainly cost containment and flat-to-lower provisions & impairments drive the increase in the combined bottom-line. On the other hand, we expect earnings to drop by 28.7% sequentially because of weak non-funded income and higher provisions & impairments. DHBK should contribute heavily to the YoY profitability performance based on our figures as it reported losses of QR68.5mn in 4Q2020. MARK remains our favorite name for the time being. MARK's merger with KCBK and its FOL increase to 100% (which has been approved by the regulators), should help boost MARK's weight in major indices such as MSCI EM and FTSE EM and contribute to increased foreign institutional ownership in the company. We estimate MARK's 4Q2021 earnings (includes contribution from KCBK for the month of December) to increase by 21.4% driven by healthy non-funded income and lower provisions.
- We estimate a YoY rise of 506.9% in the bottom-line of diversified non-financials under coverage mainly due to higher commodity prices driven by Industries Qatar (IQCD) and significant impairments at Qatar Navigation or Milaha (QNNS), Gulf International Services (GISS) and provisions at Qatar Electricity & Water (QEWS) during 4Q2020. Excluding IQCD, earnings growth remains robust, recovering from an aggregate loss of QR184.4mn in 4Q2020 to positive earnings of QR1.1bn in 4Q2021. If we exclude IQCD, QNNS and GISS, aggregate non-banks' earnings increase 54.3% YoY. On a sequential basis, combined earnings of diversified non-financials could increase by 23.6%, supported by the positive trajectory of commodity prices, especially urea. Based on our assumptions, IQCD should be a significant performer, YoY and QoQ, in 4Q2021. Middle East urea prices reached a high of \$959/MT during the months of November and December given strong demand and tight supply; for reference, IQCD's reported urea realizations were \$446/MT in 3Q2021 and \$249/MT in 4Q2020. Petrochemical prices remain strong YoY, while continuing to improve sequentially. However, as noted previously, there was a major planned maintenance-shutdown in QAPCO's LDPE facilities during the fourth quarter of 2021. Steel prices have softened sequentially and margins could be impacted as higher-priced iron-ore inventory, purchased in 1H2021, flows through; moreover, the FIFA Arab Cup 2021 held during 4Q2021 could affect construction activities during the quarter. For FY2021, we expect QR1.42 in EPS, up from QR0.33 in 2020. We also expect IQCD to declare QR1.00 in DPS, which translates into a yield of 6.3%. However, investors should consider these following scenarios as well: IQCD reported a DPS of QR0.33, paying out 100% of its earnings in 2020. If the company decided to do the same for 2021, DY should jump significantly to 8.9%. A doubling of DPS from 2020 (DPS of QR0.66) translates into a DY of 4.1%. Using an average dividend payout of ~85% recorded over the past five years, DPS for 2021 jumps to QR1.21, which is a yield of 7.6%. In any event, we foresee a significant increase in DPS for 2021, which is a positive catalyst for this stock.
- Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks & investment income/capital gains (losses). Volatile oil prices, the economic fallout of the global pandemic & geo-political tensions remain as substantial risk factors to regional equities and may have a direct impact on stocks under coverage.

### 4<sup>th</sup> Quarter 2021 Estimates

	EPS (QR)			Revenue (QR mn)			FY2021e	
	4Q2021e	YoY	QoQ	4Q2021e	YoY	QoQ	DPS (QR)	Yield
Ahli Bank (ABQK)	0.078	6.1%	-12.0%	387.19	4.8%	12.9%	0.150	3.9%
Commercial Bank of Qatar (CBQK)	0.059	62.9%	-70.3%	1,321.73	-12.0%	-0.4%	0.150	2.2%
Doha Bank (DHBK)	0.045	N/M	-49.3%	767.48	6.6%	-1.5%	0.100	3.3%
Gulf International Services (GISS)	0.032	N/M	42.2%	814.43	11.2%	-0.1%	0.000	0.0%
Gulf Warehousing Co. (GWCS)	0.099	-10.5%	3.5%	322.98	5.0%	-0.2%	0.100	2.2%
Industries Qatar (IQCD)	0.486	248.0%	39.9%	5,028.25	140.9%	48.2%	1.000	6.3%
Masraf Al Rayan (MARK) <sup>1</sup>	0.067	-2.1%	-11.8%	918.74	4.6%	9.1%	0.185	3.7%
Qatar Electricity & Water (QEWS)	0.283	152.1%	-20.5%	631.56	-0.6%	-1.2%	0.775	4.6%
Qatar Gas & Transport (QGTS)	0.062	32.1%	-6.3%	1,019.78	9.3%	-1.8%	0.120	3.6%
Qatar International Islamic Bank (QIIL)	0.105	3.8%	-46.3%	427.81	-0.5%	4.4%	0.325	3.3%
Qatar Islamic Bank (QIBK)	0.362	0.8%	-8.0%	1,461.06	2.2%	-1.5%	0.425	2.2%
Qatar Navigation/Milaha (QNNS)	0.196	N/M	3.1%	688.62	26.2%	4.1%	0.350	4.5%
Vodafone Qatar (VFQS)	0.016	18.9%	4.6%	637.25	8.4%	9.4%	0.060	3.6%
<b>Total (excl. IQCD, QNNS &amp; GISS from EPS)</b>		<b>31.2%</b>	<b>-24.8%</b>				<b>Median DPS</b>	<b>3.6%</b>
<b>Total</b>		<b>155.4%</b>	<b>-1.9%</b>	<b>14,426.9</b>	<b>29.3%</b>	<b>14.2%</b>	<b>Mean DPS</b>	<b>3.3%</b>

Source: QNB FS Research; Note: EPS growth rates are based on net income growth rates; <sup>1</sup> MARK prior-period numbers are standalone entity only causing discrepancy between net income and EPS growth rates

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## FY2021 Estimates

	EPS (QR)			Revenue (QR mn)			Net Income (QR mn)		
	FY2020	FY2021e	YoY	FY2020	FY2021e	YoY	FY2020	FY2021e	YoY
Ahli Bank (ABQK)	0.273	0.270	-1.0%	1,247.33	1,417.58	13.6%	663.06	656.74	-1.0%
Commercial Bank of Qatar (CBQK)	0.258	0.501	93.9%	4,027.13	5,157.82	28.1%	1,045.68	2,027.32	93.9%
Doha Bank (DHBK)	0.156	0.260	67.0%	2,937.06	3,111.12	5.9%	482.45	805.53	67.0%
Gulf International Services (GISS)	(0.171)	0.054	N/M	2,998.33	3,061.10	2.1%	(318.53)	101.02	N/M
Gulf Warehousing Co. (GWCS)	0.403	0.380	-5.7%	1,233.71	1,270.77	3.0%	235.99	222.65	-5.7%
Industries Qatar (IQCD)	0.326	1.418	334.3%	7,399.72	14,474.54	95.6%	1,974.87	8,576.14	334.3%
Masraf Al Rayan (MARK) <sup>1</sup>	0.283	0.245	-13.3%	3,229.10	3,662.51	13.4%	2,121.04	2,279.29	7.5%
Qatar Electricity & Water (QEWS)	1.052	1.352	28.5%	2,586.25	2,471.60	-4.4%	1,157.69	1,487.12	28.5%
Qatar Gas & Transport (QGTS)	0.209	0.243	16.1%	3,937.04	4,035.40	2.5%	1,160.21	1,347.35	16.1%
Qatar International Islamic Bank (QIIK)	0.532	0.572	7.4%	1,675.48	1,741.52	3.9%	806.01	865.56	7.4%
Qatar Islamic Bank (QIBK)	1.178	1.308	11.0%	5,439.33	6,003.41	10.4%	2,783.49	3,091.05	11.0%
Qatar Navigation/Milaha (QNNS)	0.052	0.772	1384.6%	2,267.33	2,723.37	20.1%	59.11	877.50	1384.6%
Vodafone Qatar (VFQS)	0.044	0.064	45.8%	2,199.62	2,382.92	8.3%	185.09	269.83	45.8%
<b>Total (excl. IQCD, QNNS &amp; GISS from EPS)</b>			<b>22.7%</b>				<b>10,640.7</b>	<b>13,052.4</b>	<b>22.7%</b>
<b>Total</b>			<b>83.0%</b>	<b>41,177.4</b>	<b>51,513.7</b>	<b>25.1%</b>	<b>12,356.2</b>	<b>22,607.1</b>	<b>83.0%</b>

Source: QNB FS Research; Note: EPS growth rates are based on net income growth rates; <sup>1</sup> MARK prior-period numbers are standalone entity only causing discrepancy between net income and EPS growth rates

### 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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