Government Support and Robust Fundamentals Should Help Soften Weakness in Qatari Stocks

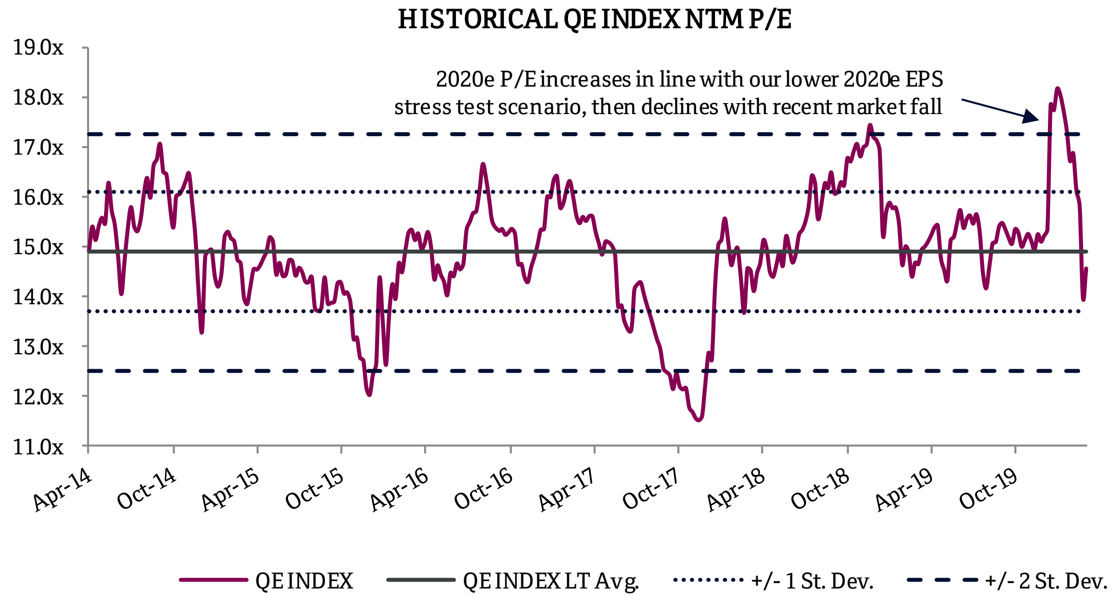
While the dual headwinds of Coronavirus and oil price malaise continue to dampen the Qatari equity market, we think Qatar's underlying solid macro fundamentals that existed before these shocks, along with its robust corporate fundamentals, should help soften the blow. *Moreover, the recently announced significant* ***QR10bn government backstop for Qatari equities*** *along with myriad investment and support programs targeted at the Qatari real sector****, especially the QR75bn support package to the private sector****, should go a long way in shoring up business, consumer and investor sentiment, in our view. During the 2016 & 2018 global EM downtrends, Qatari stocks outperformed the MSCI EM Index, which is a pattern repeating once more during the ongoing Coronavirus & oil shock turbulence. So far, YTD, the drawdown for the QE Index has been 23.8% relative to the 30%-39% peak-to-trough declines seen in other major GCC stock markets. 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, low NPLs, strong provision coverage, and high profitability. MSCI Qatar has a beta of 0.67x vs the MSCI EM Index and 0.65x vs. the MSCI World Index, which is aligned with Qatari stocks' fundamental strengths and reinforces their defensive characteristics. Near-term, the aforementioned QR10bn stock purchase program (corresponding to 44 days' turnover of the QE Index's constituents based on their 2019 traded values) creates an important safety net for the Qatari stocks in 2020. On top of a net foreign investor inflow of $2.5bn in 2018 and $1.4bn in 2019, YTD foreign inflows are still in the positive territory at $130mn, which shows foreign investors' confidence in Qatari equities during turbulent times.* ***Even with our stress test analysis (assuming a hypothetical 20% decline in aggregate EPS of listed Qatari companies from our initial 2020 estimates), we think Qatari stocks are trading at 14.6x 2020e P/E, which is below their L/T average P/E of 14.9x.*** *It is noteworthy that when oil prices fell by 75% (or by $86) from $115/b in June 2014 to $29 in January 2016, Qatari-listed stocks faced an aggregate 14% EPS decline. Concurrently, the MSCI Qatar & the QE Indices fell 46.8% and 40.7%, respectively, from peak-to-trough, while the MSCI EM Index declined 37.5%. This time around, the oil price decline is relatively less severe (62%, $44) vs. 2014. While rapid infrastructure spending growth during 2014-2016 is now at a more subdued pace as most of the FIFA2022 related capex is about to be completed, the North Field Expansion project & the State's recently announced support package should help ease the burden on Qatari companies. The Coronavirus pandemic remains a significant wild card, and the disruption in supply chains as well as social lives of consumers it causes, are likely to weigh on the corporate earnings this year. However, as a base case, we do not expect its impact on corporate earnings to be meaningful in 2021 with pent-up demand likely to boost 2021 top- and bottom-lines positively for many sectors. Admittedly, banks face an additional challenge given the decline in interest rates (which was not the case in 2014-2016 given the Fed started raising rates late 2015). However, we note the impact of the rate decline is not overly significant for Qatari banks given their asset–liability structures, coupled by the QCB's expected backing as envisaged in the Government's stimulus plan. Under our hypothetical stress test scenario, as mentioned previously, Qatari stocks currently trade at reasonable P/Es of 14.6x for 2020, which is below their L/T average forward-looking P/E of 14.9x.* ***Among the Qatari names, QEWS, CBQK, QGTS, and WDAM are our preferred choices.***

- **On March 15, Qatar announced an extensive support package, which creates an extra layer of protection for the Qatari private sector as well as the stock market.** Qatar has been on the forefront among countries announcing extensive fiscal stimulus plans and we think this proactive initiative taken by the State helps reduce adverse repercussions due to the Coronavirus and oil shock-related-volatility on the Qatari real sector. Highlights of the package are: 1) QR75bn financial incentives announced for private sector 2) **Government funds to increase investments in the stock exchange by QR10bn** 3) Qatar Development Bank (QDB) to postpone borrower installments for six months 4) the Qatar Central Bank (QCB) is to establish appropriate mechanism to encourage banks to postpone loan installments & obligations of the private sector with a grace period of six months 5) Qatar Central Bank to provide additional liquidity to banks 6) Food, medical goods exempted from customs duties for 6 months provided this is reflected in the selling price to the consumer 7) Select sectors, including hospitality & tourism, retail, SMEs and commercial complexes, are exempted from paying electricity & water charges for 6 months provided they offer services and exemptions to tenants and logistical areas 8) Exempting logistical areas and SMEs from rentals for a period of six months. Besides the real sector support, **the announced investment package in Qatari equities corresponds to 44 days of the total turnover of the QE Index's shares based on 2019 traded values, which is likely to be a major safety net for the Qatari equity market if the global turbulence continues.** Qatar continues to announce other exemptions and support packages.
- **Qatar is well-positioned to withstand the ongoing oil price shock and Coronavirus-related volatility thanks to its strong macroeconomic fundamentals.** According to the IMF, Qatar's fiscal breakeven oil price is expected to be $45.7/b as of 2020, which is the lowest in the GCC compared to KSA's $83.6, UAE's $70, Oman's $87.6 and Kuwait's $54.7. Besides, according to the IMF's pre-Corona & oil price volatility estimates, Qatar's 2.8% GDP growth rate in 2020 is the second-highest in the GCC after Kuwait's 3.1% (KSA: 2.2%, UAE: 2.5%). While these numbers are subject to downward revision after Coronavirus & oil price shocks, it is reasonable to state that Qatar has entered the recent turmoil with a relatively stronger base compared to its GCC peers. Moreover, with its sovereign wealth fund assets approximately $320bn, Qatar has enough cushion to whether such exogenous shocks.
- **Once we move beyond the current uncertain period, we think growth drivers are intact for the Qatari economy over the medium- to-long-term.** Qatar's 2020 budget already foresees spending at a 5-year-high that should support GDP growth. For 2020, Qatar has already announced

an expansionary government budget, with expenditures reaching a 5-year-high for a 2% YoY growth along with a modest surplus. The 2020 budget considers allocations for water, electricity, sewerage networks, as well as roads, along with the development of 13 new housing areas. New infrastructure development projects (such as the Sharq Crossing) worth QR11.5bn are planned to be awarded in 2020. **Moreover, the recently initiated North Field Expansion Project targets to expand Qatar's LNG production capacity to 126mn tones per year by 2027 from the current 77mn.** Once this spending program is completed, Qatar should be able to increase its LNG exports substantially, which should accelerate its GDP growth. Furthermore, even during the investment phase, the Qatari economy should benefit from the multiplier effect of this mega-project's +$50bn capex (unofficial, according to industry sources) outlay.

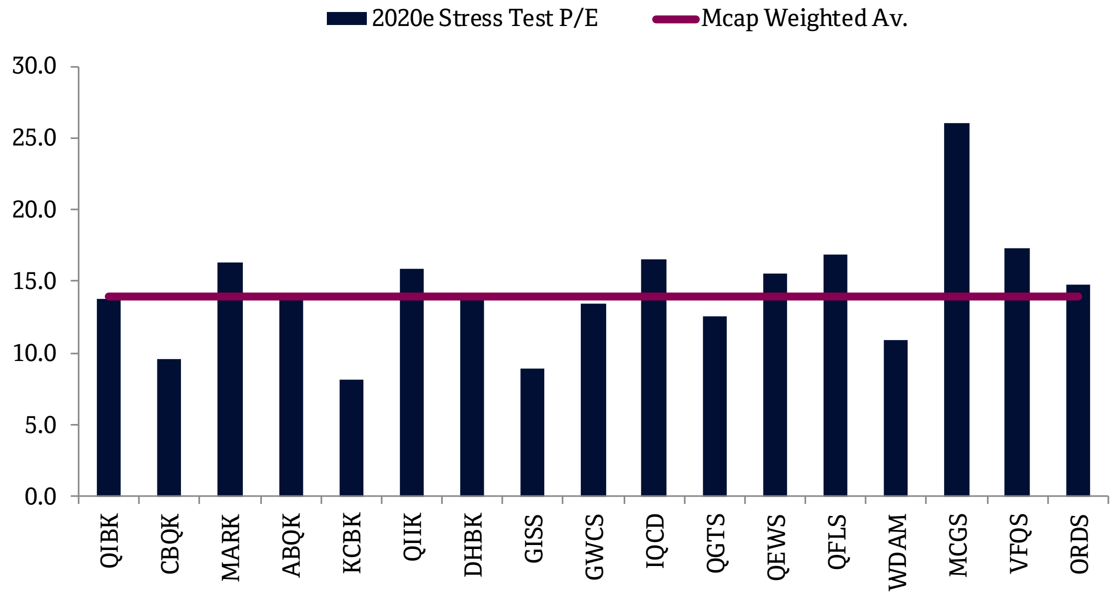
- **Even with our stress test analysis (assuming a hypothetical 20% decline in aggregate EPS of listed-Qatari companies from our initial 2020 estimates), we think Qatari stocks are trading below their L/T average.** We think our assumption for a 20% EPS decline from our 2020 estimates (translating into a 14% YoY EPS decline for 2020 vs. an 8.8% YoY EPS growth previously) for our sensitivity analysis is reasonable given: 1) During 2014-2016, when oil prices fell by 75% (or by $86) from $115/b as of June 2014 to $29 as of January 2016, listed stocks faced an aggregate 14% EPS decline (with index-heavyweight QNBK helping mitigate IQCD's 53% EPS decline with a stellar 16% EPS increase). Concurrently, the MSCI Qatar & the QE Indices fell 46.8% and 40.7%, respectively, from peak-to-trough, while the MSCI EM Index declined 37.5%. This time around, the oil price decline is relatively less severe (62%, $44) vs. 2014. While rapid infrastructure spending growth during 2014-2016 is now at a more subdued pace as most of the FIFA2022 related capex is about to be completed, the North Field Expansion project & the State's recently announced support package should help ease the burden on Qatari companies. 2) The Coronavirus pandemic remains a significant wild card, and the disruption in supply chains as well as social lives of consumers it causes, are likely to weigh on the corporate earnings this year. However, as a base case, we do not expect its impact on corporate earnings to be meaningful in 2021 with pent-up demand likely to boost 2021 top- and bottom-lines positively for many sectors. 3) Admittedly, banks face an additional challenge given the decline in interest rates (which was not the case in 2014-2016 given the Fed started raising rates late 2015). However, we note the impact of the rate decline is not overly significant for Qatari banks given their asset–liability structures coupled by the QCB's expected backing as envisaged in the Government's stimulus plan. Under our hypothetical stress test scenario, Qatari stocks currently trade at reasonable P/Es of 14.6x for 2020, which is below their L/T average forward-looking P/E of 14.9x.

Forward P/E Multiple for the QE Index under Stress Test Scenario



Source: Bloomberg, QNB FS Research

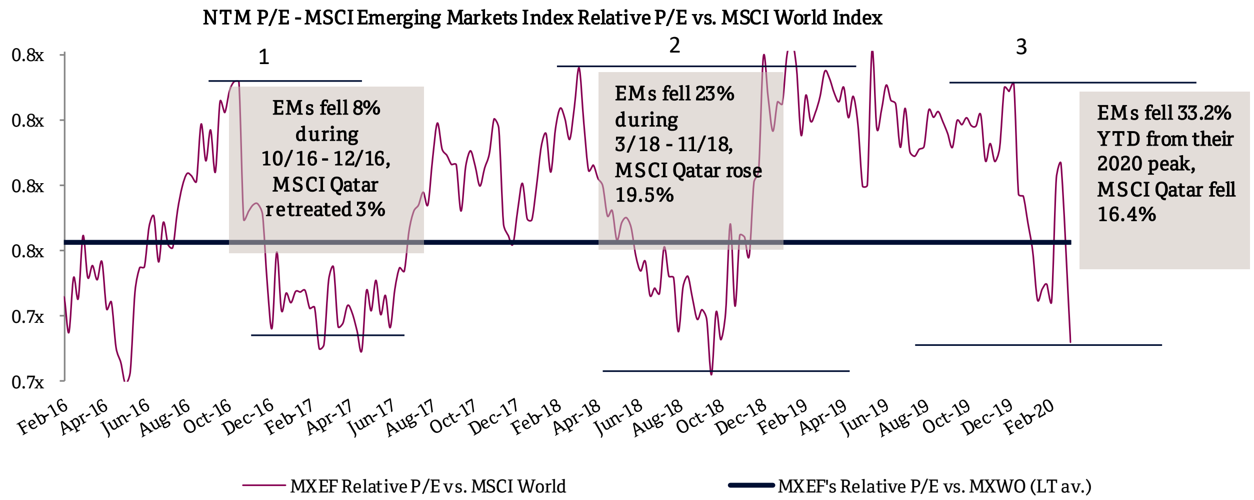
Forward P/E Multiples for our Qatari Coverage Universe Under Our Stress Test Scenario



Source: Bloomberg, QNB FS Research

- **Flight-to -quality tends to be an important driver for Qatari equities during past EM volatilities, as is the case with the current Coronavirus & oil shocks.** We observe that Qatari equities tend to outperform during turbulent times as witnessed in two recent global downtrends in Nov'16 and Apr-Nov'2018. As a result, the MSCI Qatar Index enjoys betas of 0.67x vs. the MCSI EM Index (MXEF) and 0.65x vs. the MSCI World Index (MXWO). In 2020, the MSCI Qatar and the QE Index declined by 16.4% and 19.9% from their YTD peaks, respectively, outperforming MXEF's -33.2% and MXWO's -30.4%. We think Qatari stocks' defensive characteristics are particularly remarkable even at this "panic" stage of the global decline, as global investors reduce their positions with limited discretion, as can be observed from the approximately similar declines of MXWO vs. MXEF; normally, we would have expected MXEF to underperform MXWO notably during a downtrend due to the higher risk perception of EM assets. Once the "panic selling" stage is over and cautious re-positioning resumes, we think Qatari equities' outperformance could be extended further.

Emerging Markets vs. MSCI World Index vs. MSCI Qatar



Source: Bloomberg, QNB FS Research

- **Closely related to the above point, we can see Qatari markets faring better in terms of maximum drawdown thus far.** The market's relatively lower beta along with strong fundamentals and announced government support has helped stemmed the decline, in our view.

GCC & Global Market Performance During Oil Shocks

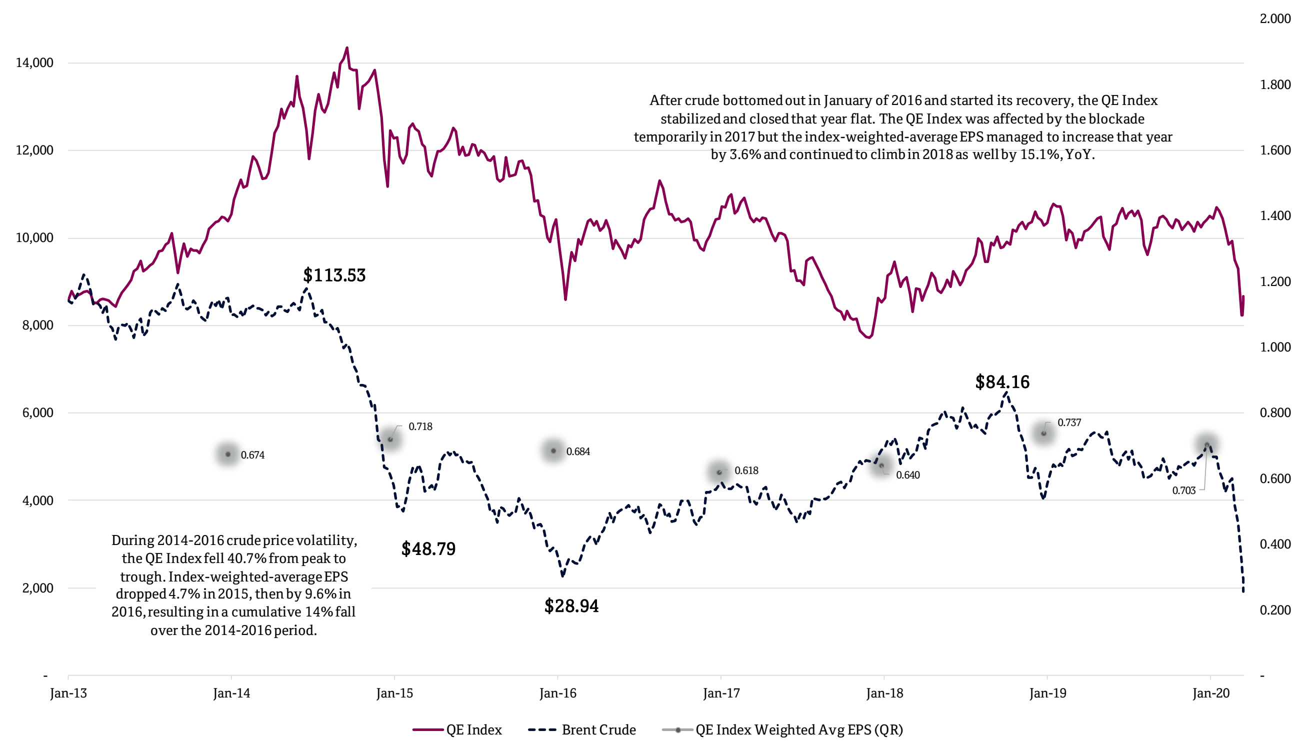
Major Index	2014-2016 Peak	2014-2016 Trough	%Δ	YTD Peak	YTD Trough	%Δ YTD Peak - Trough	%Δ From 2020 Peak
Qatar (QE Index)	14,351	8,517	-40.7%	10,713	8,160	-23.8%	-19.9%
MSCI Qatar	1,252	666	-46.8%	856	660	-22.9%	-16.4%
Saudi Arabia	11,149	5,416	-51.4%	8,475	5,960	-29.7%	-26.0%
UAE - Dubai	5,374	2,622	-51.2%	2,863	1,751	-38.9%	-36.5%
UAE - Abu Dhabi	5,253	3,737	-28.9%	5,245	3,322	-36.7%	-29.7%
Kuwait	N/A	N/A	n.m.	7,141	4,661	-34.7%	-31.3%
MSCI Emerging Markets	1,101	689	-37.5%	1,147	827	-27.9%	-33.2%
MSCI World Index	1,811	1,469	-18.9%	2,435	1,703	-30.1%	-30.4%

Source: Bloomberg

- **Apart from Qatar's strong macro cushions, Qatari companies' and banks' strong balance sheets bolster the QE Index' defensive characteristics: Qatari companies' strong net cash position provides a cushion during volatile business environments.** As of 2019, Qatari non-financial sector companies have an aggregate net debt position of QR72.6bn, accounting for 32.4% of their aggregate shareholders' equity. Qatari stocks' net debt to EBITDA (2019, excl. QAMC & BLDN) figure is also quite low, standing at 2.8x. In fact, out of 31 non-financial-listed companies, 12 of them sport net cash positions. Furthermore, Qatari non-financial stocks generated a reasonable ROE of 6.8% as of 2019.
- **Qatari banks benefit from strong NPL coverage north of 100%, low NPLs and liquid balance sheets.** As of 2019, Qatari banks enjoyed an average RoE of 13.4% (notably above their average cost of capital, except KCBK and DHBK), thanks to their healthy NIMs fluctuating between 1.98%-2.71% and averaging at 2.36%, coupled with cost-efficient operations enjoying low C/I ratios of 22.8%-33.6% (av. 26.6%). Furthermore, Qatari banks' asset quality metrics are also robust with:
  - Tier-1 capital ratios ranging between 14.4%-19.7% (av. 17.5%), CARs at 16.4%-20.3% (av. 18.6%) as of 2019.
  - NPL ratios varying between 1%-5.8%, averaging at 2.6%, coupled with strong coverage of 82%-251%, averaging at 130%.
  - Liquid balance sheets, with Loans-to-Stable Sources of Funds ratio of 88.5%-109.5%, averaging at 96.1%.
- **With c.90% of deposits being interest-bearing, we believe Qatari banks' NIMs could slightly decline by 9bps in 2020, while the impact on net earnings should be 3.2% based on our assumptions:** 1) A 2pps decline in asset yields 2) Coronavirus turbulence not getting carried into 2021 3) Qatari banks' interest earning assets with less than 1-year maturity is 73% as of 2019 and 4) Interest bearing liabilities with less than 1-year maturity comprises 70% of total. Meanwhile, the global easing cycle also speeds up liability repricing for Qatari banks. On Monday 3/16, the QCB reduced its deposit rate by 50 bps to 1.00%, lending rate by 100bps to 2.50%, and the QCB repurchase rate by 50 bps to 1.00%.
- **While it is possible that Qatari banks will delay loan repayments and fees & interest income, we are of the view that the impact will be quite limited on their P&Ls.** We believe the possible repayment delays should not affect revenue accruals and given the QCB's liquidity support and declining funding costs, we think an incremental increase in funding costs should not have a material impact on the banks' 2020 results.
- **From our Qatari coverage universe, we favor CBQK, QEWS, QGTS and WDAM.**
  - **QEWS (Market Perform, QR17.00 TP).** We continue to like the utilities monopoly of Qatar as a long-term play with a relatively defensive business model. QEWS still enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E starting by 2022-2023; Siraj solar project starting in 2021, etc.). Beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model. Dividends are secure with a roughly 5% yield.
  - **CBQK (Accumulate; QR4.95 TP).** CBQK's management continues to deliver successfully on its 5-year strategy and we remain impressed by the bank's YTD operating performance. As such, we recently increased our estimates, raised our PT from QR4.30 to QR4.95 and upgraded the stock from Market Perform to Accumulate. 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 0.9x and 7.9x, respectively. The stock is trading at a PEG of 0.5x based on EPS CAGR (2018-23e) of 14.5%, which is very attractive. Moreover, CBQK's 2020e P/E is trading at a 27% discount to its intrinsic P/E (11.0x).
  - **QGTS (Accumulate; QR2.60 TP).** We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 126 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. Shipping is ultimately the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Charterers will also bear any costs of potential rerouting. We maintain our Accumulate rating and price target of QR2.60.

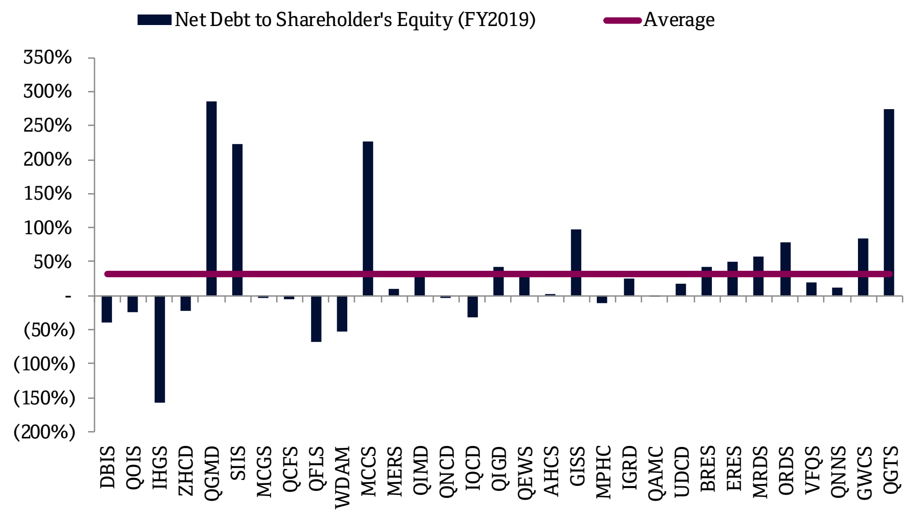
- **WDAM (Accumulate; QR8.20 TP).** The Strategic Food Security Projects disclosed by the Ministry of Municipality and Environment (MME) in March 2019 envisages that local production of red meat could go up from the current 18% to 30% by 2023. Widam, the leading livestock and red meat provider of Qatar and a key contributor to Qatar's National Food Security Program, is likely to be the top beneficiary of increasing local production, which should enjoy higher profitability vs. imports. Widam is also increasing its slaughterhouse capacity from 3,100 heads/day to 5,100 per day by 2020 and the company has announced a QR145mn new capex recently. Although details of the investment are yet to be disclosed, it is likely to include a new processed meat products plant, which will be a new & high margin product for WDAM. In FY2019, WDAM reported a 27.7% EPS decline YoY mainly due to the one-time losses from discontinued operations. In the lack of these extraordinary losses, we expect WDAM to record 18% EPS growth in 2020.

QE Index - Brent Crude - Index Weighted Average EPS



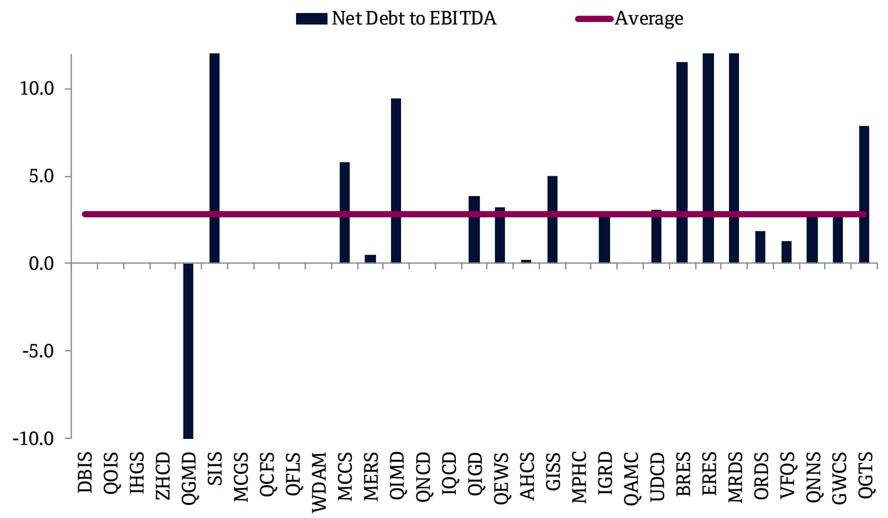
Source: Bloomberg, QNB FS Research

Non-Financial Companies' Net Debt to Shareholders' Equity: Low Leverage



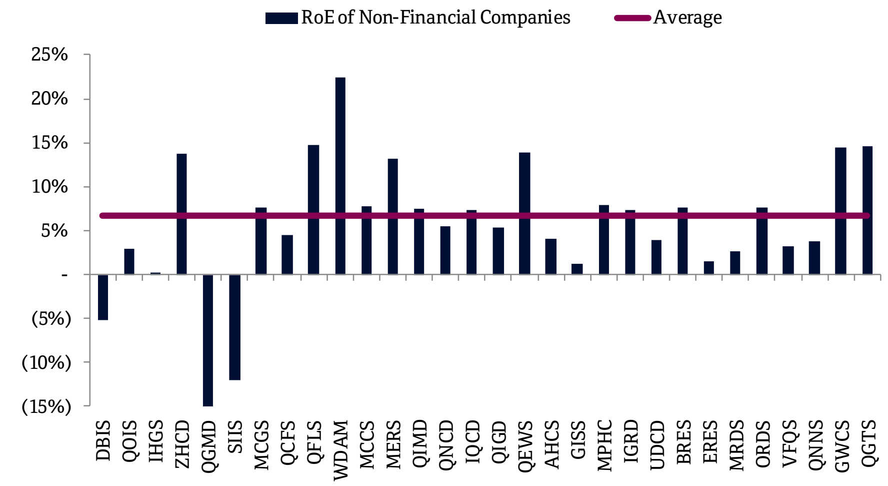
Source: Bloomberg, QNB FS Research

Non-Financial Companies' 2019 Net Debt to EBITDA (*) : +1/3 of Non-Financial Companies Have Net Cash Positions

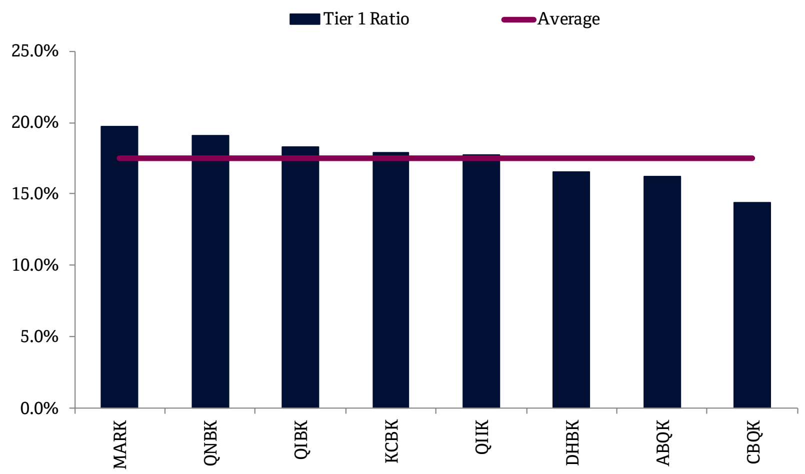


(*) The companies without any value have net cash positions

Non-Financial Companies' 2019 Return on Equity: Reasonable Profitability

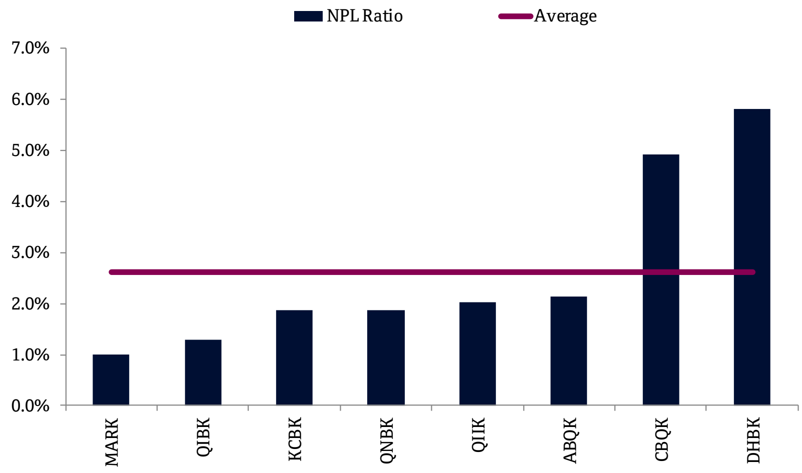


Qatari Banks' 2019 Tier-1 Capital Ratio: Robust Tier-1 Position

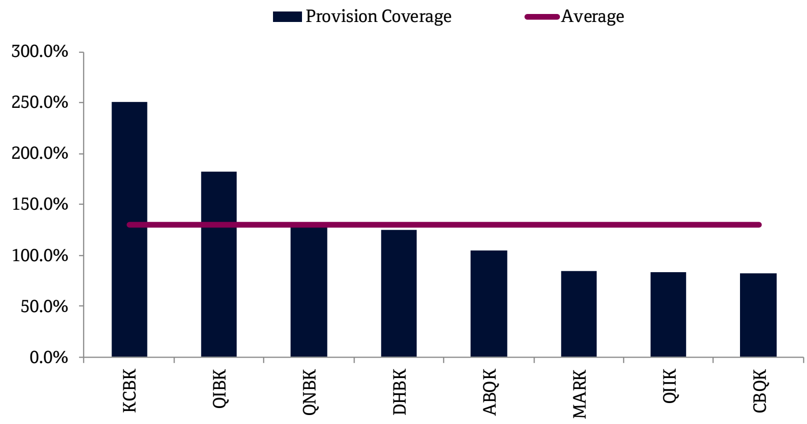


Source: Bloomberg, QNB FS Research

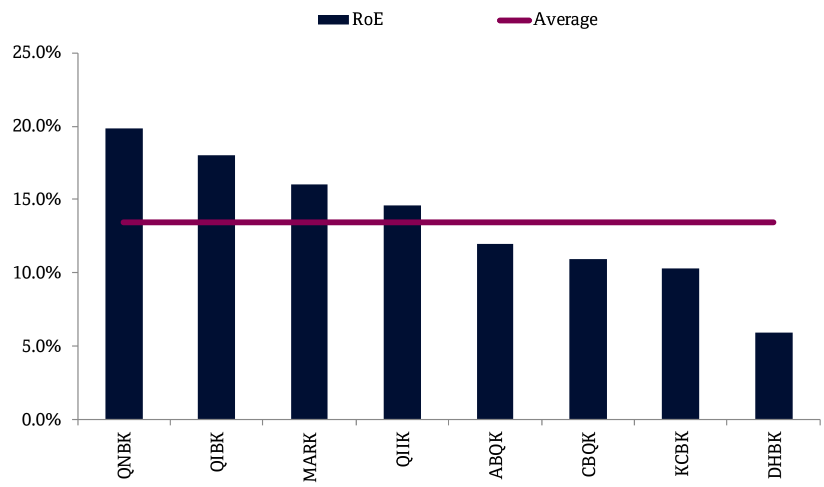
Qatari Banks' 2019 NPL Ratio: Healthy Asset Quality; CBQK Legacy NPLS



Qatari Banks' 2019 Provision Coverage: Ample NPL Coverage

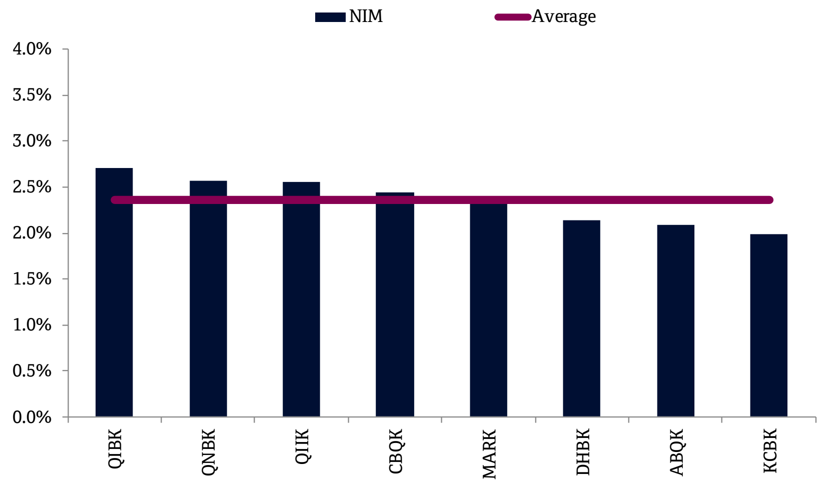


Qatari Banks' 2019 Return on Equity: Strong RoE Generation, KCBK & DHBK Require Improvement

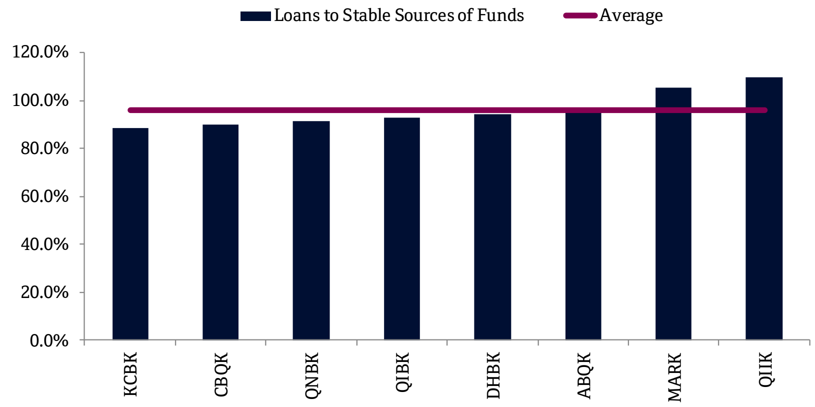


Source: Company Financials, QNB FS Research

***Qatari Banks' 2019 NIM:* Healthy NIMs, Expect Average Margin to Decline by 9bps in 2020e**



***Qatari Banks' 2019 Loans to Stable Sources of Funds:* Healthy Liquidity Levels**



Source: Company Financials, QNB FS Research

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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

Contacts

Saugata Sarkar, CFA, CAIA
Head of Research
Tel: (+974) 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
Tel: (+974) 4476 6509
shahan.keushgerian@qnbfs.com.qa

Zaid al-Nafoosi, CMT, CFTe
Senior Research Analyst
Tel: (+974) 4476 6535
zaid.alnafoosi@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
Tel: (+974) 4476 6589
mehmet.aksoy@qnbfs.com.qa

QNB Financial Services Co. W.L.L.
Contact Center: (+974) 4476 6666
PO Box 24025