QSE 1Q2019 Earnings Preview

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1Q2019 Earnings: Modest Growth, Barring Some Exceptions

We expect Qatari stocks under coverage to exhibit decent YoY earnings growth in 1Q2019 for the most part, barring some exceptions. Sequentially, earnings grow 9.5% in aggregate aided primarily by banks that bounce off lower provisions. QIBK, CBQK and VFQS *are estimated to contribute positively to the YoY net income growth of stocks under our coverage. On an overall basis, the Qatar Stock Exchange Index trades at a 2019 P/E of 13.1x, complemented by a dividend yield of 4.5%, in-line with the MSCI GCC Index which trades at a 13.3x P/E along with a dividend yield of 4.4%. The QSE Index has declined so far in 2019 as dividends season has come to an end.* Cash dividends for banks under coverage (excluding QNBK) dropped by 8.0% (excluding DHBK, dividends were up 5.1%), in-line with our expectations as banks shored up cash which was a positive in our view. However, dividends were short of what the street was expecting. This trend was persistent across the non-banks as well with companies such as Industries Qatar reporting lower-than-expected dividends. *Increased FOLs (and the resultant foreign flows) were the primary catalysts driving the index to be the top GCC performer in 2018. Going forward, an important catalyst is the up-coming stock split which should increase the overall liquidity of the market. Longer-term, we remain bullish on the Qatari stock market given attractive fundamental drivers and a significant spending program that should provide tailwinds for growth.*

Highlights

- **We estimate banks under coverage (ex-QNBK) to experience a YoY EPS increase of 2.1% largely due to healthy growth from QIBK and CBQK, while the sequential growth (+20.2%) is generally driven by lower provisions in the first quarter and a base effect stemming from DHBK (excluding DHBK, growth would amount to 8.0%). Qatar Islamic Bank (QIBK)** is expected to contribute positively to the YoY profitability performance based on our figures. We expect QIBK to continue its positive performance with its bottom-line gaining by 4.1% due to strong net interest & investment income (in-line with historical trends). Moreover, we expect **Commercial Bank of Qatar (CBQK)** to continue its positive performance as the bank has made a successful turnaround and significantly lowered provisions while trimming opex. We pencil in a net income of QR425.0mn vs. QR404.7mn in 1Q2018 (QR403.6mn in 4Q2018), driven by lower opex and lower provisions as CBQK has already provisioned for legacy NPLs. On a sequential basis, we estimate a surge in **Doha Bank's (DHBK)** profitability as a result of a sharp drop in provisions (in-line with historical trends). However, we expect provisions to increase by the end of 2019 as the bank continues to clean its books.
- **We estimate a YoY drop of 16.6% in the bottom-line of diversified non-financials under coverage due to IQCD (Excluding IQCD, growth would be 4.1%), while forecasting a marginal decline of 2.6% QoQ.** Based on our assumptions, **Industries Qatar (IQCD)** leads the significant decline in net income on a YoY basis followed by **Qatar Electricity & Water Co. (QEWS)**. Regarding **IQCD, 1Q2019 should be weak with declines across the board although urea could show relative stability.** We model in reported revenue (steel)/net income of QR1.15bn/QR866.2mn, which implies net income declines of 31.7% and 28.1% YoY and QoQ, respectively. By segment: (1) steel prices have declined YoY and QoQ, while iron-ore prices have increased (reaching their highest levels since 2014 due to supply issues at Vale) leading to both top-line softness and margin compression; steel GMs have continued to fall and came in 14.8% in 4Q2018 (vs. 28.2% in 1Q2018) and we expect this decline to continue in 1Q2019. (2) Petchem prices are down significantly, which should hurt margins and JV income. (3) Urea prices have continued their downward move that began early December although the lag in IQCD's price realizations could somewhat soften the blow considering prices have weakened significantly only since February. As far as **QEWS** is concerned, **1Q2019 should reflect normal seasonality with net income down 8.3% YoY and 4.9% QoQ.** Revenue should follow a similar trajectory, down 9.4% YoY but stable QoQ with a 2% increase. JV income was stronger-than-expected in 4Q2018 due to maintenance at Ras Laffan being pushed off, which leads to the more challenging earnings outlook on a sequential basis
- **Risks:** Estimates can be impacted by one-offs, greater or lower provisions for banks and investment income/capital gains (losses). Volatile oil prices and geo-political tensions remains a substantial risk to regional equities and have a direct impact on stocks under coverage.

First Quarter 2019 Estimates

	EPS (QR)			Revenue (QR mn)		
	1Q2019e	YoY	QoQ	1Q2019e	YoY	QoQ
Ahli Bank (ABQK)	0.77	1.0%	39.2%	259.7	-0.4%	-14.9%
Al Khalij Commercial Bank (KCBK)	0.49	3.4%	26.1%	300.2	-5.0%	17.0%
Commercial Bank of Qatar (CBQK)	1.05	5.0%	5.3%	882.5	-8.3%	-0.5%
Doha Bank (DHBK)	1.17	-5.0%	N/M	683.6	-3.4%	14.8%
Gulf International Services (GISS)	0.08	59.1%	N/M	663.6	5.7%	18.9%
Gulf Warehousing Co. (GWCS)	1.00	3.5%	-7.7%	280.2	-10.1%	-10.0%
Industries Qatar (IQCD)	1.43	-31.7%	-28.1%	1,147.6	-16.7%	-7.0%
Masraf Al Rayan (MARK)	0.71	0.6%	7.1%	708.3	-0.8%	9.3%
Qatar Electricity & Water (QEWS)	3.29	-8.3%	-4.9%	597.6	-9.4%	2.0%
Qatar Gas & Transport (QGTS)	0.41	4.7%	-2.7%	869.6	1.4%	-1.0%
Qatar International Islamic Bank (QIIK)	1.77	6.0%	82.6%	354.4	4.6%	27.7%
Qatar Islamic Bank (QIBK)	2.75	4.1%	-13.2%	1,148.2	4.8%	0.8%
Qatar Navigation (QNNS)	2.43	7.0%	138.0%	650.8	-6.7%	7.4%
Vodafone Qatar (VFQS)	0.06	166.8%	10.0%	554.9	4.3%	-2.0%
Total		**-6.6%**	**9.5%**	**9,101.1**	**-3.8%**	**2.8%**

Source: QNB FS Research; Note: EPS based on current number shares

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Diversified)

Stock	1Q2018	4Q2018	1Q2019e	% Δ YoY	% Δ QoQ	Key Themes
GISS	9.46	(137.73)	**15.05**	**59.1%**	**N/M**	**We are forecasting earnings improvement YoY and QoQ.** GISS' quarterly net income remains volatile and difficult to predict given its four disparate segments and razor-thin margins. For 1Q2019, we expect revenue/net income of QR663.6mn/QR15.0mn. YoY, we expect top-line improvement in insurance (major new medical insurance contracts start in 1Q2019), while other segments are expected to be flat-to-down. QoQ, insurance should again be a pocket of strength along with some recovery in drilling. GISS' stock price improvement depends on a resumption of confidence in company performance. GISS stock continues to remain in a "show me" mode. *Our overall thesis on the stock remains the same – GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile. We do not expect this to change. However, we do expect the drilling segment to pull itself out of losses suffered during 2016-2019 by 2020 in light of increasing demand due to the proposed North Field expansion and given our assumption of high utilization of existing rigs and modest cost savings.* ***GISS' stock is up 13% since our upgrade to Accumulate with a QR17 price target on March 24.***
GWCS	56.71	63.60	**58.69**	**3.5%**	**(7.7%)**	**We expect QR280.2mn/QR58.7mn in top-line/net income.** We expect revenue to decline around 10% both YoY and QoQ given some seasonal softness in freight forwarding which also benefited from strong momentum last year. Earnings should continue to improve YoY but are expected to decline sequentially. *We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.7% in 2017 to 10.4% in 2018, reaching 17.7% in 2023. Dividend yield of 4.2% for 2018 should grow to 6.2% by 2023. With major capex already done, there could be upside to dividends medium-term. We maintain our Accumulate rating on GWCS with a QR51 price target.*
IQCD	1,267.88	1,203.94	**866.23**	**(31.7%)**	**(28.1%)**	**1Q2019 should be weak with declines across the board although urea could show relative stability.** We model in reported revenue (steel)/net income of QR1.15bn/QR866.2mn, which implies net income declines of 31.7% and 28.1% YoY and QoQ, respectively. By segment: (1) steel prices have declined YoY and QoQ, while iron-ore prices have increased (reaching their highest levels since 2014 due to supply issues at Vale) leading to both top-line softness and margin compression; steel GMs have continued to fall and came in 14.8% in 4Q2018 (vs. 28.2% in 1Q2018) and we expect this decline to continue in 1Q2019. (2) Petchem prices are down significantly, which should hurt margins and JV income. (3) Urea prices have continued their downward move that began early December although the lag in IQCD's price realizations could somewhat soften the blow considering prices have weakened significantly only since February. *We maintain our QR119 PT and retain our Market Perform rating; we continue to believe that while earnings could come under pressure in 2019, investors will seek answers regarding deployment of IQCD's cash pile and the company's strategy. Expansion/acquisition-related newsflow and upside in earnings/dividends could be key for charting the way forward.*

Stock	1Q2018	4Q2018	1Q2019e	% Δ YoY	% Δ QoQ	Key Themes
QEWS	394.38	380.20	**361.54**	**(8.3%)**	**(4.9%)**	**1Q2019 should reflect normal seasonality with net income down 8.3% YoY and 4.9% QoQ.** Revenue should follow a similar trajectory, down 9.4% YoY but stable QoQ with a 2% increase. JV income was stronger-than-expected in 4Q2018 due to maintenance at Ras Laffan being pushed off, which leads to the more challenging earnings outlook on a sequential basis. *Our thesis on QEWS remains intact – we continue to like the company as a solid long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E; the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model. We continue to maintain our Accumulate rating on the shares with a price target of QR204.*
QGTS	216.38	232.94	**226.59**	**4.7%**	**(2.7%)**	**1Q2019 should continue to show stable trends.** Adjusted revenue/net income of QR869.6mn/QR226.6mn should show 1.4% and 4.7% growth YoY, respectively. However, on a sequential basis, adjusted revenue and net income should decline modestly by 1.0% and 2.7%, respectively. The decline QoQ is due to lower operating days in 1Q2019 affecting the wholly-owned business directly. *We continue to favor Nakilat and believe expansion of Qatar's LNG output from 77 MTPA to 110 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.* ***The stock is up 7% after we increased our price target from QR21 to QR24 on March 31.*** *We maintain our Accumulate rating.*
QNNS	259.78	116.82	**277.99**	**7.0%**	**138.0%**	**1Q2019 net income should be up significantly QoQ as the first quarter tends to be QNNS' strongest quarter.** We anticipate net income to grow by 7.0% YoY driven by income from associates and JVs and lack of impairments in 1Q2019 (we do not forecast impairments). QNNS reported vessels impairments of QR40.6mn in 1Q2018. The QoQ surge in the bottom-line is mainly driven by dividend income in the first quarter which is absent in the 4th quarter. It is also worth mentioning that there were impairments of QR60.2mn in 4Q2018. In essence the QoQ surge is attributable to a base effect
VFQS	17.46	42.37	**46.59**	**166.8%**	**10.0%**	**VFQS should continue its trend of positive earnings in 1Q2019.** Revenue should grow 4.3% YoY but decline 2.0% QoQ, with the sequential decline driven by lower handset sales and higher revenue recorded on the Msheireb Tetra project in 4Q2018. Net income should benefit, up 166.8% YoY due to base effect and revenue/costs improvement. QoQ increase of 10% in earnings is aided by margin improvement despite revenue decline. *We continue to like VFQS' momentum in postpaid fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. We stay Market Perform on VFQS with a price target of QR8.5.*

Source: QNB FS Research, company data

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Financials)

Stock	1Q2018	4Q2018	1Q2019e	% Δ YoY	% Δ QoQ	Key Themes
ABQK	176.09	127.72	**177.83**	**1.0%**	**39.2%**	**We expect profitability to move up moderately YoY.** Based on our assumptions, we expect net profit to move up by 1.0% due to lower provisions and lower opex. On a QoQ basis, we estimate a surge in the bottom-line due to lower provisions vs. 4Q2018 (historical trend). *We maintain our Market Perform rating and PT at QR30.*
KCBK	169.50	139.00	**175.24**	**3.4%**	**26.1%**	**We expect YoY growth in bottom-line to be driven by lower provisions.** The YoY growth in profitability is a result of a 34% drop in provisions as the bank booked provisions worth QR60.7mn vs. our estimate QR40.0mn for 1Q2019. We note 2016 and 2017 was the peak of provisions for the bank and this is expected to normalize in 2019. Moreover, gains in the bottom-line QoQ are primarily due to strong core banking income. *For the time being, we maintain our Market Perform rating and PT at QR15.*
CBQK	404.69	403.57	**425.03**	**5.0%**	**5.3%**	**Margins remain under pressure while bottom-line growth is driven by lower provisions.** We estimate the YoY increase in CBQK's bottom-line to be driven by a sharp drop in provisions as the bank fully provisioned for it legacy portfolio in 2017 and 2018. Margins are expected to remain under pressure. The QoQ increase is also due to lower provisions. *We maintain our Market Perform rating and PT of QR43.*
DHBK	381.35	92.76	**362.46**	**(5.0)**	**N/M**	**We foresee continued weak figures as a result of margin pressure, weak non-funded income and higher provisions; QoQ surge is attributable to a sharp drop in provisions (seasonal).** The estimated YoY decline in profitability is due to weak core banking income and higher provisions. We pencil in a sequential surge in profitability as a result of lower provisions (seasonal). *For the time being, we maintain our Market Perform rating and PT at QR28.*
MARK	531.07	498.52	**534.09**	**0.6%**	**7.1%**	**We estimate flattish profitability YoY.** On a YoY basis, MARK's flattish performance is due lower provisions mitigating weak net operating income. On the other hand, the sequential gain in profitability is attributed to net interest & investment income and lower opex. *We maintain our Market Perform rating and PT at QR34.*
QIIK	253.22	147.01	**268.46**	**6.0%**	**82.6%**	**QIIK should follow historical trends.** We estimate a 6.0% jump in earnings YoY driven by core banking income (in-line with historical trends), while the QoQ surge is due to a sharp drop in provisions vs. the 4th quarter (in the 4th quarter provisions elevate). *We maintain our Market Perform rating and PT of QR63.*
QIBK	625.25	749.99	**650.67**	**4.1%**	**(13.2%)**	**We expect QIBK to continue its positive performance.** We pencil in a 4.1% YoY growth in the bottom-line driven by net operating income (4.4%) and 7.9% drop in provisions. However, growth is restrained due to higher opex (in-line with historical trends). *For the time being, we maintain our Market Perform rating and PT at QR129.*

Source: QNB FS Research, company data

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. WLL
Contact Center: (+974) 4476 6666
PO Box 24025
Doha, Qatar