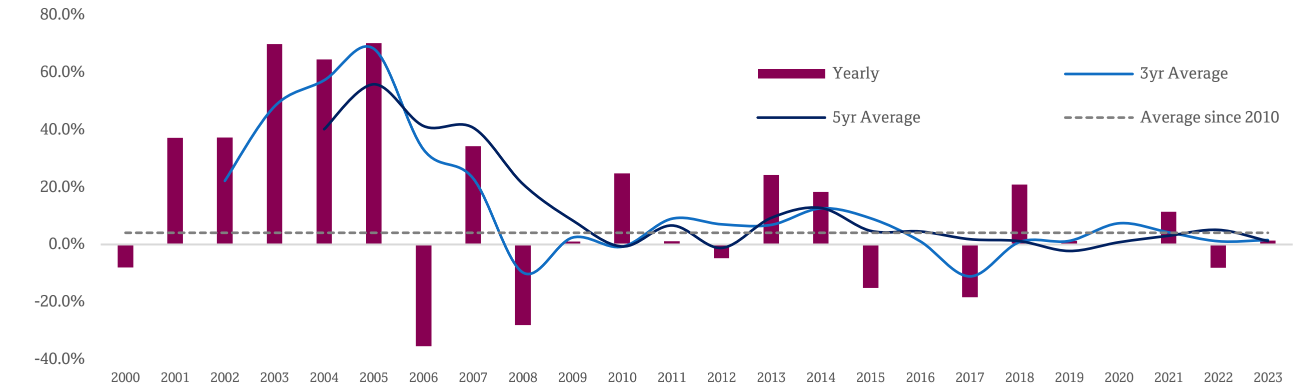
4Q2023 Earnings Preview: Expect Stable YoY Earnings Performance; 2024 Outlook Remains Constructive

We expect 4Q2023 earnings for Qatari stocks under coverage to edge up by 0.7% YoY and decline 15.9% QoQ, on the back of a moderating but strong economy characterized by some pockets of post-World Cup momentum. Based on our 2023 DPS estimates, our coverage universe yield is 4.4%. The QoQ decline in earnings stems primarily from banks expected to book larger provisions. *Meanwhile, we remain constructive on Qatari equities. The ramping up of the NFE project (and its downstream effects), with just over half of Qatar's expected annual LNG capacity increase already signed-off in long-term supply contracts and continued government efforts to grow/diversify the non-oil/gas economy should provide a platform for broad-based earnings growth. In the near term, we note the non-oil/gas sector is recovering with PMIs during 2023 showing, on average, a return to expansion, while construction, which had lagged behind, has finally started to recover. A special mention to the tourism sector, which likely blew even the most optimistic expectations in 2023 despite a high base set by the World Cup year, as Qatar registered more than 4mn arrivals to reach a five-year high.* ***Globally, favorable inflation trends have taken hold in the last few months with the latest prints, particularly in the US and Europe, supporting market's expectations of rate cuts this year. That bodes well for global and local risk assets.*** *The US futures markets is signaling about five cuts by the end of 2024. Bloomberg consensus has the QCB cutting rates by 1.56ppts this year. Meanwhile, the World Bank sees global growth softening further to 2.4% this year from 2.6% last year and 3.0% in 2022. Tight global monetary conditions, high indebtedness by governments, a persistently weak global manufacturing sector, China's flailing economy plus regulatory apprehensions and heightened geopolitics weigh down on growth; this, however, is offset by continued disinflation, resilient labor markets, the rise of AI/tech and investments in green transition. The global equity complex (ACWI) ended 2023 on a strong note, rising 20.1% for the full year – having risen 10.7% in 4Q (9M2023: +8.5%) – as the Fed's pivot towards rate cuts in 2024 drew out animal spirits.* ***Meanwhile, the QSE recovered all losses endured throughout a bumpy 2023 in the last quarter to close the full year a little above the line by 1.4% (4Q: 5.6%; 9M2023: -4.0%) as foreign institutions reversed course,*** *while the regional index rose by 6.2%, led by the DFM (+21.7%) and Tadawul (+14.2). Overall, international foreign institutions were $72mn net long Qatari equities in 2023 vs. $4.4bn in 2022; in 9M2023, foreign institutions were net short by $156mn.* ***While we expect the market to remain volatile partly due to regional geopolitical conflicts, we continue to 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:*

- **Despite some demand concerns due to economic slowdown, oil/gas price dynamics remain reasonable** on the back of sanctions by Western countries on Russia, coupled with oil production cuts by OPEC+, geopolitics and a weakening dollar. While oil/gas prices have come off in the last few weeks, they remain at attractive levels, 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. Qatar Tourism has since announced more than 80 unique events lined up this year;** notable events building on this success include the ongoing Expo 2023 Doha, the AFC Asian Cup Qatar 2023, the World Aquatics Championships Doha 2024, and exclusive art exhibitions previously only shown at The Met in New York. Some of the impact has been immediate, with Qatar registering record visitor arrivals in 2023.
- Over the medium- to long-term, **the 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 local companies. The demand for Qatar's gas is expected to 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. The IMF expects Qatar's GDP to grow above the regional average over the next five years, averaging 3.71% vs peer's 3.56%.
- **The proposal by the QIA and GRSIA (announced in June) to restructure their local equity portfolios**, worth up to $3bn under a separate entity in a bid to increase market liquidity, is a potential tailwind for the overall stock market. Such a move could lead to a minimum of $500mn in inflows according to market estimates. Additionally, in May, the QIA committed up to QR1bn over five years to establish a permanent market-making program. This program builds on the successful initial initiative launched in September 2022, and is set to run over the next five years covering about 90% of the QSE market capitalization.
- 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 tight.

Anchoring our overall convictions are Qatari valuations exhibiting some value attribute, looking cheaper historically and relative to peers, especially given that we do not see any marked earnings recession 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.

Qatar Stock Exchange Historical Price Returns



Source: QSE, Bloomberg, QNB FS Research

4th Quarter 2023 & FY2023 Estimates

	EPS (QR)			Revenue (QR mn)			DPS (QR)		
	4Q2023e	YoY	QoQ	4Q2023e	YoY	QoQ	FY2022	FY2023e	Yield
Ahli Bank (ABQK)	0.089	10.6%	-11.4%	441.38	7.7%	8.0%	0.200	0.200	4.8%
Baladna (BLDN)	0.015	14.2%	28.2%	298.93	7.9%	16.8%	0.000	0.037	3.1%
Commercial Bank of Qatar (CBQK)	0.155	3.1%	-22.5%	1,474.79	-2.5%	4.8%	0.250	0.250	4.4%
Doha Bank (DHBK)	0.012	N/M	-84.3%	687.13	8.9%	-13.4%	0.075	0.075	4.3%
Dukhan Bank (DUBK)	0.043	29.5%	-35.6%	645.44	1.0%	17.1%	0.160	0.170	4.3%
Gulf International Services (GISS)	0.079	531.4%	9.6%	914.66	5.3%	-0.5%	0.100	0.150	5.5%
Gulf Warehousing Co. (GWCS)	0.087	-22.1%	-4.0%	380.04	-7.1%	8.7%	0.100	0.110	3.4%
Industries Qatar (IQCD)	0.181	-37.9%	-8.9%	2,782.35	-33.3%	-1.8%	1.100	0.750	6.0%
Estithmar Holding (IGRD)	0.032	170.4%	7.0%	811.57	-32.7%	9.0%	0.000	0.061	3.0%
Masraf Al Rayan (MARK)	0.007	394.4%	-86.2%	938.58	-0.7%	-9.0%	0.100	0.100	4.0%
Qatar Electricity & Water (QEWS)	0.321	-23.3%	3.8%	670.47	-17.2%	-16.0%	0.950	1.000	5.7%
Qatar Gas & Transport (QGTS)	0.074	34.5%	-1.5%	1,127.68	3.1%	0.4%	0.130	0.140	3.9%
Qatar International Islamic Bank (QIIK)	0.121	6.1%	-49.2%	527.38	11.5%	-2.9%	0.400	0.425	4.0%
Qatar Islamic Bank (QIBK)	0.542	10.9%	16.5%	1,705.24	7.3%	2.7%	0.625	0.675	3.3%
Qatar Navigation/Milaha (QNNS)	0.194	35.9%	-0.8%	730.04	1.1%	1.9%	0.350	0.400	4.0%
Vodafone Qatar (VFQS)	0.035	-11.5%	12.4%	782.01	-12.1%	4.6%	0.100	0.120	6.3%
Medicare Group (MCGS)	0.092	11.4%	83.5%	129.61	1.7%	18.6%	0.263	0.248	4.6%
								Median DY	4.3%
Total		0.7%	-15.9%	15,047.3	-10.3%	0.4%		Mean DY	4.4%

Source: QNB FS Research; Note: *Revenue for GISS excludes its catering business, which is undergoing a merger

FY2023 Estimates

	EPS (QR)			Revenue (QR mn)			Net Income (QR mn)		
	FY2022	FY2023e	YoY	FY2022	FY2023e	YoY	FY2022	FY2023e	YoY
Ahli Bank (ABQK)	0.285	0.313	9.6%	1,498.03	1,574.02	5.1%	728.11	798.19	9.6%
Baladna (BLDN)	0.042	0.049	15.5%	985.62	1,071.57	8.7%	80.61	93.10	15.5%
Commercial Bank of Qatar (CBQK)	0.624	0.670	7.2%	5,516.30	5,924.10	7.4%	2,527.39	2,710.29	7.2%
Doha Bank (DHBK)	0.186	0.153	-17.7%	2,908.87	2,833.77	-2.6%	575.38	473.75	-17.7%
Dukhan Bank (DUBK)	0.227	0.242	6.6%	2,665.05	2,393.43	-10.2%	1,181.87	1,259.36	6.6%
Gulf International Services (GISS)	0.156	0.302	93.4%	3,097.93	3,546.19	14.5%	290.16	561.20	93.4%
Gulf Warehousing Co. (GWCS)	0.409	0.373	-8.7%	1,518.90	1,515.57	-0.2%	239.58	218.78	-8.7%
Industries Qatar (IQCD)	1.457	0.726	-50.2%	18,793.59	11,718.07	-37.6%	8,814.65	4,390.95	-50.2%
Estithmar Holding (IGRD)	0.107	0.121	13.8%	4,237.02	3,040.61	-28.2%	338.18	412.81	22.1%
Masraf Al Rayan (MARK)	0.140	0.135	-3.2%	4,354.66	3,766.66	-13.5%	1,298.34	1,256.83	-3.2%
Qatar Electricity & Water (QEWS)	1.555	1.329	-14.5%	2,721.41	2,848.24	4.7%	1,710.81	1,462.45	-14.5%
Qatar Gas & Transport (QGTS)	0.260	0.288	11.1%	4,294.90	4,427.34	3.1%	1,438.92	1,598.19	11.1%
Qatar International Islamic Bank (QIIK)	0.639	0.695	8.8%	1,792.96	2,013.64	12.3%	966.99	1,052.38	8.8%
Qatar Islamic Bank (QIBK)	1.616	1.756	8.7%	6,381.83	6,474.57	1.5%	3,817.53	4,148.70	8.7%
Qatar Navigation/Milaha (QNNS)	0.891	0.959	7.6%	3,285.26	2,957.42	-10.0%	1,012.74	1,090.06	7.6%
Vodafone Qatar (VFQS)	0.119	0.128	7.6%	3,065.86	3,080.19	0.5%	502.38	540.76	7.6%
Medicare Group (MCGS)	0.281	0.271	-3.8%	487.17	485.91	-0.3%	79.16	76.16	-3.8%
Total			-13.5%	67,605.4	59,671.3	-11.7%	25,602.8	22,144.0	-13.5%

Source: QNB FS Research; Note: *Revenue for GISS excludes its catering business, which is undergoing a merger

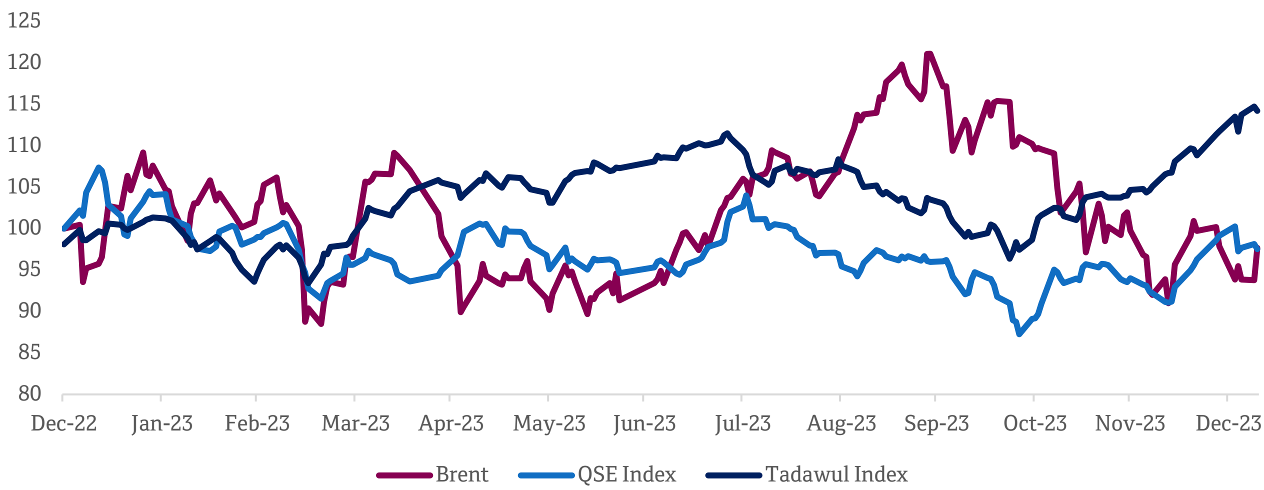
Highlights

- **The outlook for 2024 is critical for Qatar banks. Bank stocks' performance thus far has been lackluster due to the slowdown in the domestic economy post the FIFA World Cup, along with muted credit growth.** We are of the view that booking lower CoR vs. 2023 should significantly aide the bottom-line. Another important factor are NIMs; in 2023, domestic banks experienced low to flat NIMs. Given the expected rate cuts in 2024, we foresee Qatar banks' spreads expanding as CoFs reprice before yields on assets.
- **Qatari banks boast healthy to strong DYs.** Based on our estimates, Qatar banks on average are trading at a 2023 yield of 4.2%. The following banks exhibit healthy yields: CBQK (4.4%), DUBK (4.3%), DHBK (4.3%) and QIIK/MARK both exhibiting 4.0%. On the other hand, QIBK is only yielding 3.3%
- **From a valuation perspective, Qatar banks are relatively expensive to UAE and KSA peers on a P/B to RoE basis as the banking index (QBNK) rallied by 11.1% in the 4th quarter.** Qatari banks are trading at a P/B of 1.6x with a RoE of 12.8% vs. Kuwait (P/B: 1.3x, RoE: 8.2%), KSA (P/B: 1.6x, RoE: 13.5%) and UAE (P/B: 1.2x, RoE: 15.1%). **We are of the view that a positive *outlook on 2024 could serve as a catalyst as investors are concerned with the asset quality of mid-sized banks as NPLs have spiked and Stage 2 loans have climbed with limited clarity from management on how to tackle this issue.***
- **We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience YoY earnings growth of 22.4%, mainly due to base effect from Doha Bank (reported a loss in 4Q2022). Excluding Doha Bank (DHBK), aggregate bottom-line is expected to rise by 12.0% YoY.** 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 drop by 26.2%, mainly attributable to MARK and DHBK as we expect both banks to report large provisions. On a normalized basis (excl. MARK & DHBK), profitability is expected to recede by 11.5% on account of some weakness in revenue and higher provisions.

- Aggregate normalized growth in YoY earnings (excluding DHBK) is attributed to **Qatar Islamic Bank (QIBK),** which continues to enjoy robust fundamentals with strong double-digit RoE generation and efficient cost management **and MARK,** which is expected to experience a base effect.
- **QIBK is modeled to grow its net profit by 10.9% YoY driven by some margin improvement, non-funded income, costs containment and lower provisions and impairments**. The name is trading at a 5-year low 2024e P/TB of 1.7x, which is attractive vs. its average of 2.3x and high of 3.0x.
- **DHBK is expected to turn a profit in 4Q2023, albeit a small figure after reporting losses in every 4th quarter since 2019**. The stock trades at a deep discount of 48% to its 2023e BV as investors are concerned with the bank's asset quality issues. Having said this, the stock is a turnaround story, much as CBQK was, in the past. The name can garner interest from investors once it starts showing signs that it is delivering on its 5-year strategy and objectives.
- **Sequentially, QIBK is the only bank (under coverage) to report growth in earnings.** QIBK is expected to follow historical trends (booking lower provisions in 4Q vs. 3Q); we pencil in flat NIMs and lower provisions & impairments in 4Q2023. **MARK's and DHBK's** earnings are estimated to significantly drop due to heavy credit provisions.

- **We estimate a YoY decline of 14.7% in the bottom-line of diversified non-financials under coverage mainly due to lower commodity prices and earnings decline shown by Industries Qatar (IQCD).**
  - On a sequential basis, combined earnings of diversified non-financials could decrease by 1.9% driven lower by IQCD while most of its sector peers are expected to see sequential growth.
  - On a normalized basis, if we exclude IQCD from the above growth computations, earnings of non-financials should increase by 17.6%/4.0% YoY/QoQ.
  - **We think IQCD could post a subdued 4Q2023.** We expect IQCD to post a YoY net income decline of 37.9%, along with a sequential 8.9% downtick in earnings. Overall prices should be stable to modestly strong QoQ but sales volume likely to be down given maintenance-related shutdowns in QAFCO-5 and in the fuel additives segment. Urea, which started the quarter with a bang, exceeding the $400/MT mark, ended it with a whimper and fell back to the low $300/MT levels as demand faded and natgas prices eased. While the progressive decline in urea prices helps IQCD's feedstock costs (based on YTD prices), we reminded investors that IQCD benefited from inventory adjustments in 3Q2023 that sent fertilizer EBITDA margins to ~48% (highest levels since 1Q2022). This, along with the previously mentioned shutdowns, should crimp 4Q2023 revenue and margins vs. the 3rd quarter despite a modest QoQ uptick in average realized urea prices during 4Q2023. YoY comparisons continue to look ugly with realized prices down ~35% during the quarter. On the PE front, QoQ prices have shown modest improvement and sequential volume comparisons look decent. QAFAC earnings should be down sequentially given scheduled shutdowns. Overall PE/FA should continue to face YoY declines, compounded by the effect of the yearly fall in prices (LDPE down ~15%, LLDPE down ~5%). Steel volumes should benefit somewhat from the Al Qataria acquisition, while prices have improved YoY/QoQ leading to growth in segment revenue and earnings. ***We also expect IQCD to declare QR0.75 in DPS for 2023 vs. QR1.10 in 2022, which translates into an attractive yield of 6.0%.***
- **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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