

## QSE Earnings Poised For A Strong 2024/2025 Recovery After Moderating In 2023

*With the base effects of higher oil prices and a hugely successful FIFA World Cup in 2022 soon to be in the rearview mirror, we see strong aggregate earnings pick-up for the QSE in 2024-5 driven primarily by the ramping up of the NFE project (and its downstream effects) and continued government efforts to grow/diversify the non-oil/gas economy as espoused in the NV2030. So far, aggregate QSE earnings are down 7.7% YoY in 9M2023 after declining 11.2% YoY in 1H2023 – we expect a similar trend to end-2023. However, we are encouraged by the sequential improvement in 3Q2023 earnings by 7.0% (2Q2023: -4.5% QoQ). Also, the YoY earnings decline in 3Q2023 decelerated to just 0.2% from 15.7% in 2Q2023 and 9.6% in 1Q2023. We note the non-oil/gas sector is recovering with PMIs showing a return to expansion, while construction, which had lagged behind, has finally started to recover. We believe the worst is over, assuming the regional conflict does not escalate further and the global economy is not tipped into a violent recession by tighter monetary policies. **The QSE Index is up 7.3% MTD – ahead of its regional peers (+4.7%) and a tad behind the ACWI (+7.7%) – and we note December is traditionally a strong month for the local market.** Favorable inflation trends have taken hold in the last few months with the latest prints, particularly in the US and Europe, supporting a decent end to the year for risky assets. The US futures markets is now signaling that the Fed Funds rate has peaked, with about two cuts priced-in by mid-2024.*

- **We expect domestic activity to pick-up with GDP expected to average a growth rate of 3.2% over the next three years, up from 2.4% expected this year, according to the IMF.** Qatar's economic outlook is supported by its huge LNG expansion, sustained domestic demand and various ongoing sporting, business and other tourism related events building from the successful hosting of the World Cup. Historically, LNG output and GDP growth have exhibited a strong positive correlation of 0.7, a trend expected to continue when we extrapolate various GDP forecasts (see page 5).
- **Just over half of Qatar's expected annual LNG capacity increase has already been signed-off in long-term supply contracts (see page 5), with an average contract length of 23.8 years.** 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.
- **The QSE remains attractive on strong fundamentals.** While we expect the market to remain volatile 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 in Qatari equities for long-term investors due to the following reasons:**
  1. **Favorable oil/gas supply-demand & price dynamics** on the back of sanctions by Western countries on Russia, coupled with extended oil production cuts by OPEC+ until year-end. While oil/gas prices have come off their multi-month highs, 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. On the balance, given geopolitical risks, the EIU forecast for oil prices are weighted to the upside in the near term.
  2. **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.** The ongoing Expo 2023 Doha, the MotoGP Qatar Airways Grand Prix 2023, the AFC Asian Cup Qatar 2023 and the World Aquatics Championships Doha 2024 should build on this success. Some of the impact has been immediate, with Qatar registering record visitor arrivals thus far this year.
  3. 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.
  4. **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.
  5. 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 is that Qatari valuations are looking cheaper historically and relative to peers. We stay bullish longer-term on Qatari equities given their defensive characteristics backed by their strong fundamentals.** The QSE's aggregate valuation metrics look attractive considering we do not see any marked medium-term earnings recession. We note the QSE and the Dubai index look more attractive than peers based a composite measure of their trailing (five-year monthly data) and forward (2023E and 2024E) P/E and DY metrics.

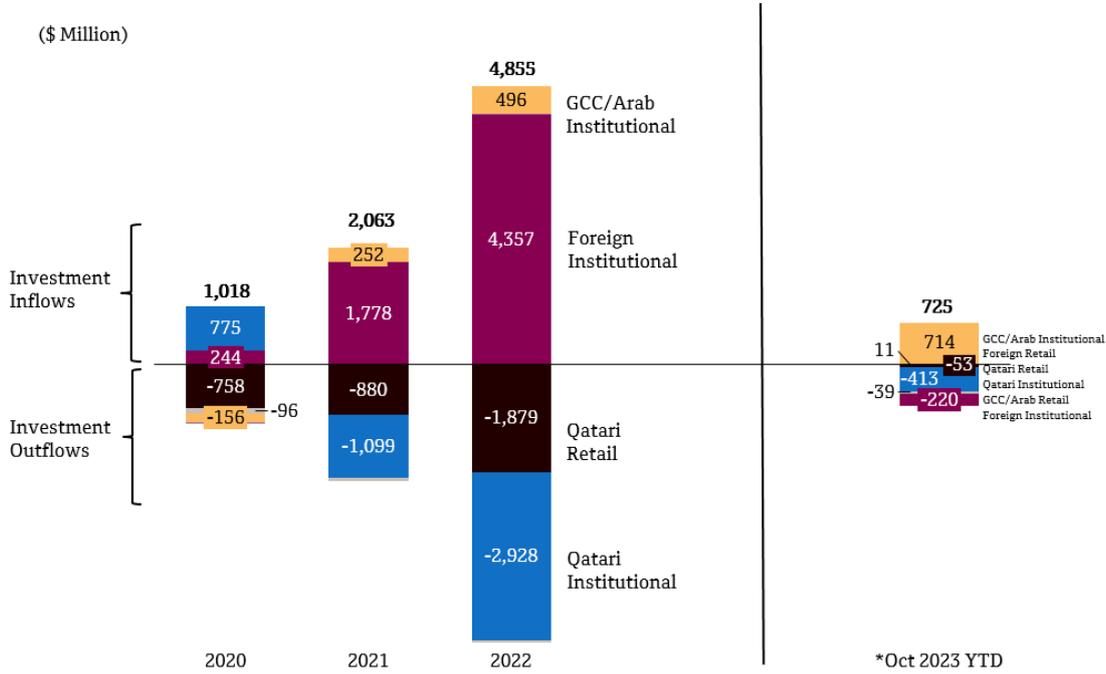
### Highlights

- **We highlight our thesis on the banking sector given its importance to the Qatari economy and the equity market:** We expect a challenging 2023 for stocks under coverage (ex-QNB Group) as banks tread through a competitive environment. However, margins are expected to modestly improve in the 4<sup>th</sup> quarter across the sector as the great majority of liabilities have been repriced and yields are picking up vs. CoFs. On the other hand, for 2024, we estimate the bottom-line growth to be driven by margin expansion, non-funded income and costs containment (to a certain degree) vs. 2023 performance. The sector's 2023 bottom-line is expected to increase mainly as a result of costs containment and flat- to slightly lower credit provisions. Loan growth so far (as of end-September)

has been flattish with total loans up 0.8%. Public sector loans are down by 4.6% as the government continued repaying its debt. However, private sector loans increased by 2.5%. We still expect low single-digit loan growth in 2023, but expect activity to pick up in 2024 accompanied with mid-single digit loan growth. From a valuation perspective, Qatar banks are relatively attractive to GCC peers on a P/B to RoE basis with UAE being the exception. Qatari banks are trading at a P/B of 1.4x with a RoE of 12.1% vs. Kuwait (P/B: 1.2x, RoE: 9.1%), KSA (P/B: 1.8x, RoE: 13.9%) and UAE (P/B: 1.2x, RoE: 15.8%).

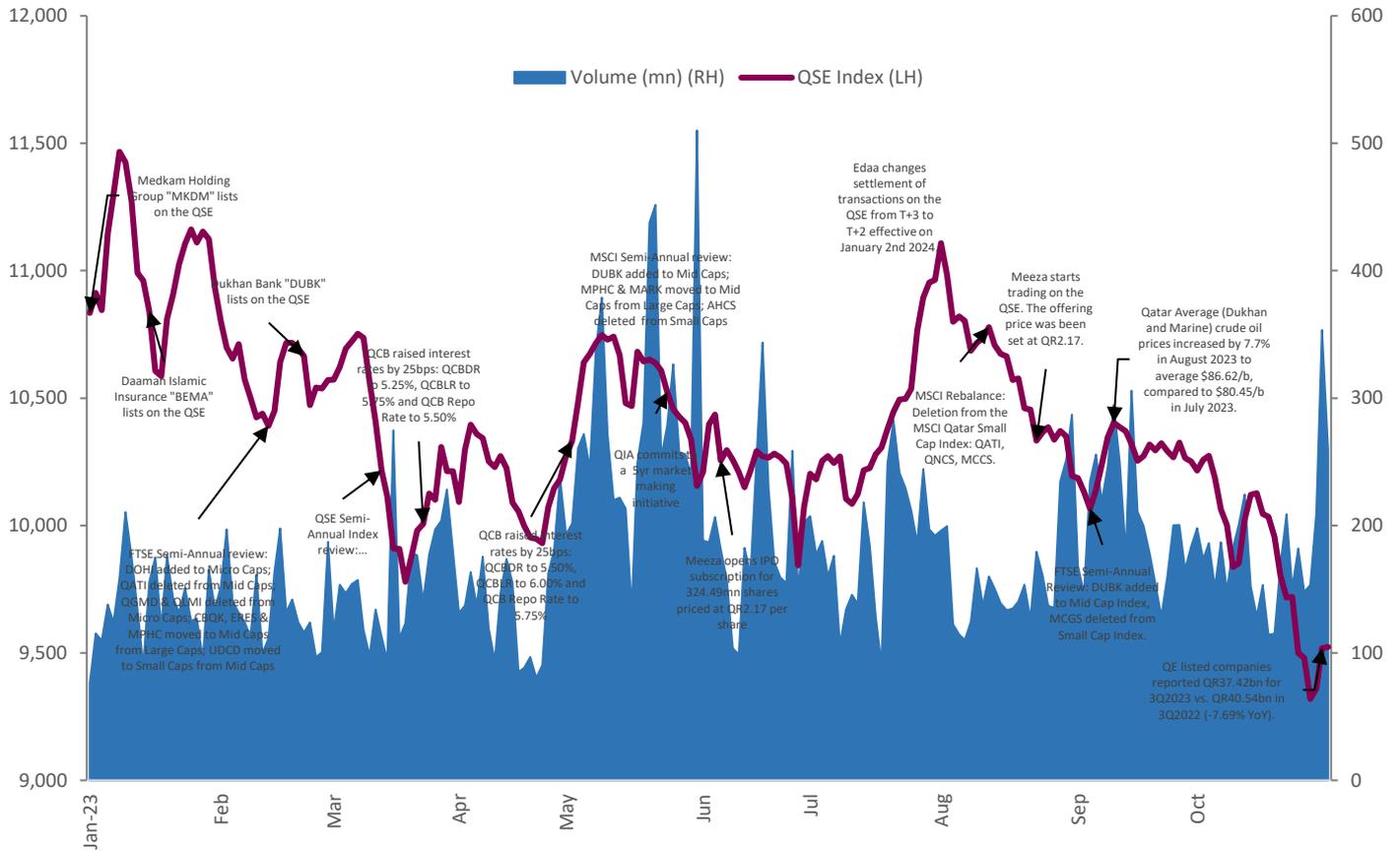
- **In the banking sector, excluding QNB Group, which we do not cover, we like QIBK (Rating: Outperform; TP: QR24.18) and CBQK (Rating: Outperform; TP: QR6.681)**
  - **We stay Outperform on QIBK given its solid outlook underpinned by attractive valuation.** We still maintain our expected 5-year earnings CAGR of 11.5% (2022-27e) for Qatar Islamic Bank (QIBK) after its 9M2023 results. We also retain our PT of QR24.18/share and Outperform rating. As such, we believe the stock is trading at attractive levels. QIBK is trading at a P/B of 1.5x on our 2024e estimates (53% discount to its 5-year median of 2.3x), which implies significant upside, in our view. We note that the stock's 5-year median P/B is 2.3x (5-year high P/B of 3.0x and 5-year low of 1.6x). **Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e/24e: 17.5% & 2025e: 17.6%); moreover, the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. Hence, we believe the stock warrants a premium.**
  - **CBQK remains inexpensive at 2024e P/B of 1.0x and we reiterate our Outperform rating.** We preserve our 2022-27e earnings CAGR of 10.6%, leading to a sustainable RoE of 13.5%. Moreover, we retain our QR6.681/sh. PT and Outperform rating. **The stock remains attractive with undemanding multiples.** CBQK is trading at a 2023/24 P/TB of 1.1x/1.0x based on our estimates. **The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 10.6% (2022-27e).** Moreover, the market is pricing in a sustainable RoE of 11.0%, which is lower than our forecast and management guidance.
- **In terms of our top-picks among the non-banks, we like QGTS (Rating: Accumulate; TP: QR4.10) and QNNS (Rating: Accumulate; TP: QR11.20).**
  - **Nakilat retains significant upside if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program.** We remind investors that QatarEnergy is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn at that time. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. **We note the first phase, consisting of 60 vessels, has been contracted to be built in South Korean/Chinese shipyards and phase 2 has already commenced with a QR14.2bn (\$3.9bn) 17-vessel award to Hyundai on September 27.** So far, newsflow/industry chatter indicate several ship charter agreements have been awarded. However, we do not have color on how many are remaining – with a total 100+ ships to be built to replace some existing fleet/cater to NF and Golden Pass -- we expect other awards to be forthcoming. **Considering Nakilat's strategic importance, (QGTS ships ~75-80% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a beneficiary and secure a share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to QGTS' target price and an award of 20-25 ships could markedly boost our price target and estimates.** Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections over the next few months. **We do expect QGTS shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts.**
  - **Our investment thesis on Milaha remains unchanged as it offers compelling long-term upside.** The stock, since we first started coverage in 2011, has usually traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. **This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up close to 100% of QNNS' market cap. This implies that investors continue to get Milaha's "core" or operating businesses for almost free.** However, what has changed is that Milaha is enjoying several catalysts, which could help in making progress toward the stock's re-rating. **We note the level of oil prices (despite volatility and recent weakness), recovery in sentiment and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help Milaha's earnings trajectory and highlight its growth story to investors. Moreover, if QGTS (Milaha's 36.3%-owned associate) is able to secure a meaningful share of around 20-25 new vessels for the massive North Field expansion program, it could lead to significant upside for Nakilat, and consequentially, Milaha investors. In the very near-term, given Milaha's FOL increase to 100%, we expect roughly \$50mn in total inflows from MSCI & FTSE over the next few weeks (MSCI trade date November 30 & FTSE trade date December 14).**
- **Risks:** Estimates can be impacted by one-off events, greater or lower provisions for banks and investment income/capital gains. Oil and gas price volatility remain a substantial risk to regional equity prices and have a direct detrimental impact on stocks under coverage. Regional instability could also lead to significant volatility.

**QSE Investment Flows**



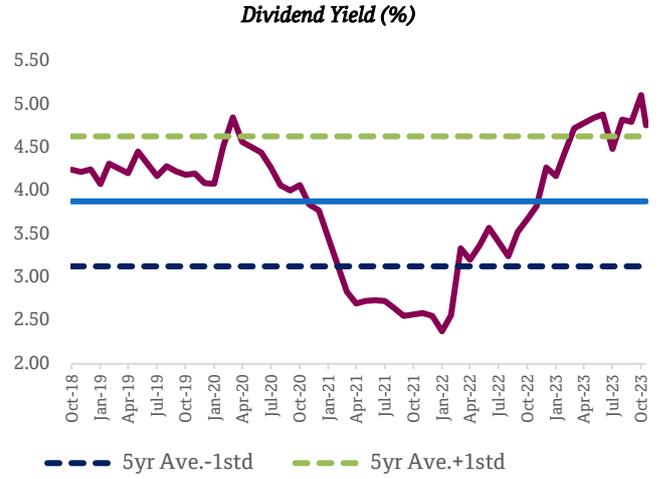
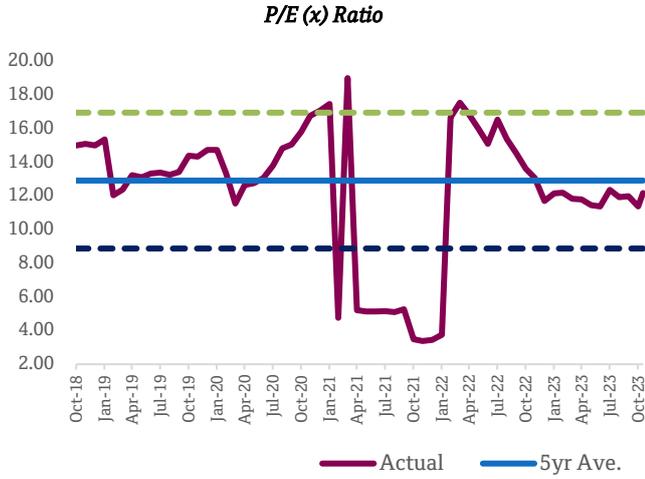
Source: QSE; QNBFS Research

**QSE Index Performance, Volume & Major Events**



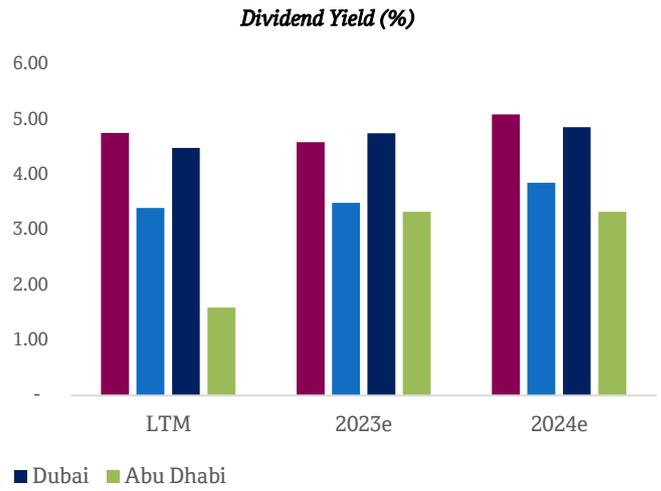
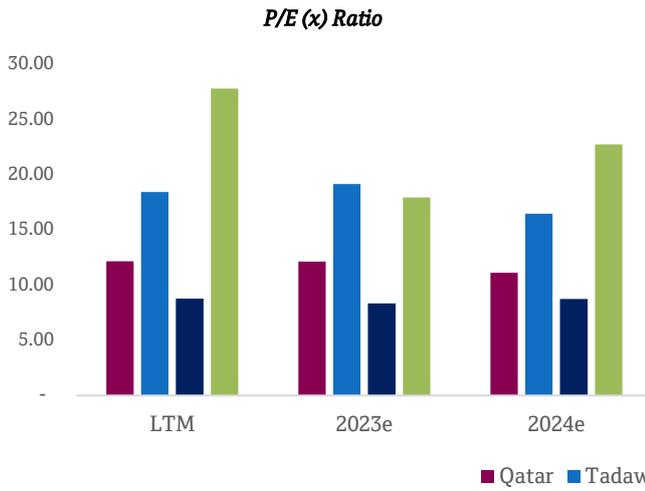
Source: QSE; QNBFS Research

**QE Index LTM P/E (x) and DY (%)**



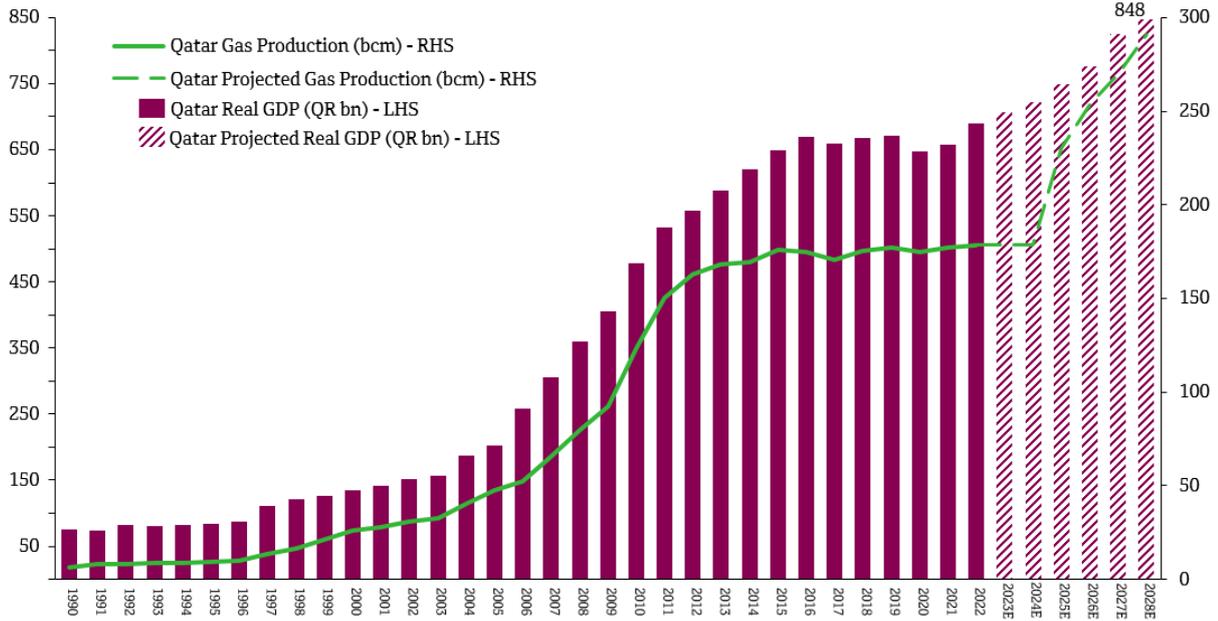
Source: Bloomberg, QNBFS Research

**QE vs. Peers: P/E (x) and DY (%)**



Source: Bloomberg, QNBFS Research

**Strong Correlation between LNG output and the Qatari Economy**



Source: BP, EI, IMF, QNBFS Research

**New LNG Supply Agreements between Qatar and Various Partners**

Partner	MTPA	Term
China Petroleum Corporation (Sinopec)	3.0	27 years
Eni - Italy	1.0	27 years
Shell - Netherlands	3.5	27 years
TotalEnergies - France	3.5	27 years
China National Petroleum Corporation (CNPC)	4.0	27 years
Bangladesh Oil, Gas and Mineral Corporation (Petrobangla)	1.8	15 years
Conocophillips - Germany	2.0	15 years
China Petroleum Corporation (Sinopec)	4.0	27 years
China Petroleum Corporation (Sinopec)	2.0	10 years
<b>Total/Average</b>	<b>24.8</b>	<b>23.8 years</b>

Source: QatarEnergy, QNBFS Research

## COMPANY UPDATES: BANKS

## Ahli Bank (ABQK)

Recommendation	Reduce	Risk Rating	R-4
Share Price	QR3.751	Target Price	QR3.283
Implied Upside	(12.5%)		

### 3Q2023 Earnings In-Line; Bottom-line Driven by a Drop in Provisions

- ABQK reports in-line 3Q2023 earnings.** Ahli Bank's (ABQK) net profit increased by 8.2% YoY (64.7% QoQ) to QR255.6mn, in-line with our estimate of QR256.3mn (variation of -0.3%). The sequential surge in earnings was also due to a large drop in provisions and impairments as growth in revenue was overshadowed by a large increase in operating expenses.
- The YoY increase in earnings was due to significant drop in provisions & impairments, in-line with expectations; however, core-banking income was weak.** Net interest income was flattish, while fee income was down 17.3% and f/x income declined by 35.1%, resulting in revenue falling by 4.6% YoY. Operating income dropped by 9.6% as a result of a 15.1% increase in operating expenses. Sequentially, revenue increased by 11.5%, which was driven by a 15.8% increase in net interest income.
- Cost-to-income elevated, but remains at an acceptable level.** The bank's C/I ratio increased from 20.2% in 3Q2022 to 24.4% in 3Q2023 (23.2% in 2Q2023). The YoY and QoQ increase in the C/I ratio was a result of growth in operating expenses outpacing growth in revenue.
- Asset quality remained healthy and manageable.** NPLs ticked up by 1.3% QoQ (1.2% YTD). At the same time, the NPL ratio increased from 2.46% in 2Q2023 to 2.52% in 3Q2023 (flat vs. FY2022) as a result of a decrease in loans. Coverage of Stage 3 loans is a healthy 87%. Moreover, ABQK increased its buffers for Stage 2 loans by 36.1% YTD, raising coverage of Stage 2 loans from 14% in FY2022 to 16% in 3Q2023.
- 9M2023 CoR came in in-line with 9M2022 (lower vs. FY2022).** ABQK's credit provisions in 3Q2023 decreased by 40.5% YoY (down 50.3% sequentially) to QR62.8mn. Moreover, CoR (annualized) slightly decreased from 99bps in 9M2022 to 94bps in 9M2023.
- Net loans and deposits remained sluggish sequentially.** Net loans declined by 1.4% sequentially (up 1.7% YTD) to QR34.6bn. Moreover, deposits followed suit and receded by 3.7% (up 1.5% YTD) to QR29.4bn.
- Capitalization remains strong and well above the QCB limits.** ABQK ended 3Q2023 with a CET1 & Tier-1 of 16.6%/19.4%, respectively.

### Catalysts

- 1) Improvement in the stock's trading liquidity.

### Recommendation, Valuation and Risks

- Recommendation and valuation: we maintain our target price of QR3.28/sh. and our Reduce rating.** ABQK trades at FY2023e P/B and P/E of 1.3x and 12.2x, respectively.
- Risks:** 1) Oil price volatility and 2) stale stock price due to lack of liquidity.

### Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.278	0.307	0.334	0.367
Growth (%)	5.2	10.4	8.8	10.1
P/E (x)	13.5	12.2	11.2	10.2
BVPS (QR)	2.7	2.8	2.9	3.1
P/B (x)	1.4	1.3	1.3	1.2
RoE (%)	10.8	11.4	11.9	12.5
DPS (QR)	0.200	0.200	0.225	0.250
Dividend Yield (%)	5.3	5.3	6.0	6.7

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	3.751
Dividend Yield (%)	5.3
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Svc
52wk High/52wk Low (QR)	4.42/3.50
3-m Average Volume ('000)	140.4
Mkt. Cap. (\$ bn/QR bn)	2.6/9.6
Shares Outstanding (mn)	2,551.15
FO Limit* (%)	49.0
Current FO* (%)	0.0
1-Year Total Return (%)	(4.8)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## Detailed Financial Statements

(In QR mn)	2022	2023	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>1,277</b>	<b>1,474</b>	<b>1,592</b>	<b>1,753</b>	<b>1,909</b>
Fees & Commissions	167	161	172	177	174
FX Income	60	48	55	60	73
Other Income	(5)	(5)	35	45	44
<b>Non-Interest Income</b>	<b>222</b>	<b>203</b>	<b>262</b>	<b>282</b>	<b>292</b>
<b>Total Revenue</b>	<b>1,498</b>	<b>1,677</b>	<b>1,854</b>	<b>2,035</b>	<b>2,201</b>
Operating Expenses	(336)	(336)	(356)	(368)	(395)
Net Operating Income	<b>1,162</b>	<b>1,341</b>	<b>1,498</b>	<b>1,667</b>	<b>1,806</b>
Net Provisions & Impairments	(390)	(493)	(581)	(661)	(753)
<b>Net Profit (Reported)</b>	<b>772</b>	<b>847</b>	<b>918</b>	<b>1,006</b>	<b>1,053</b>
Interest Expense on AT1 Perp. Security	(44)	(44)	(44)	(44)	(44)
Social & Sports Contribution Fund	(19)	(21)	(23)	(25)	(26)
<b>Net Profit (Attributable)</b>	<b>709</b>	<b>782</b>	<b>851</b>	<b>937</b>	<b>983</b>

Source: Company data, QNB FS Research

(In QR mn)	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	1,807	1,862	2,159	2,464	2,260
Interbank Loans	3,768	3,760	4,312	3,694	4,297
Net Investments	8,339	8,716	9,747	11,183	10,542
Net Loans	34,032	37,605	39,197	41,049	42,971
Other Assets	398	396	407	420	433
Net PP&E	230	222	213	203	193
<b>Total Assets</b>	<b>48,575</b>	<b>52,562</b>	<b>56,034</b>	<b>59,014</b>	<b>60,697</b>
<b>Liabilities</b>					
Interbank Deposits	3,988	5,687	6,184	5,821	5,104
Customer Deposits	28,954	31,038	33,211	35,204	37,668
Term Loans	6,941	6,906	7,320	8,052	7,650
Other Liabilities	718	683	731	986	979
AT1 Perpetual Securities	1,092	1,092	1,092	1,092	1,092
<b>Total Liabilities</b>	<b>41,693</b>	<b>45,407</b>	<b>48,538</b>	<b>51,155</b>	<b>52,493</b>
<b>Total Shareholders' Equity</b>	<b>6,883</b>	<b>7,155</b>	<b>7,496</b>	<b>7,859</b>	<b>8,204</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>48,575</b>	<b>52,562</b>	<b>56,034</b>	<b>59,014</b>	<b>60,697</b>

Source: Company data, QNB FS Research

Key Ratios	2022	2023	2024e	2025e	2026e
<b>Profitability (%)</b>					
RoE	10.8	11.4	11.9	12.5	12.5
NIM	2.8	3.1	3.1	3.2	3.4
RoRWA	1.9	2.0	2.1	2.2	2.1
<b>Efficiency (%)</b>					
Cost-to-Income (Headline)	22.4	20.1	19.2	18.1	17.9
Cost-to-Income (Core)	22.3	19.9	19.5	18.5	18.3
<b>Liquidity (%)</b>					
LDR	94.8	99.1	96.7	94.9	94.8
Loans/Assets	70.1	71.5	70.0	69.6	70.8
Cash & Interbank Loans-to-Total Assets	19.8	18.7	20.0	19.6	19.2
<b>Asset Quality (%)</b>					
NPL Ratio	2.55	2.61	2.65	2.70	2.60
Coverage Ratio	199	226	256	280	335
Cost of Risk	110	125	133	144	153
<b>Capitalization (%)</b>					
Tier-1 Ratio	18.8	18.8	18.6	18.2	18.2
CAR	20.0	20.0	19.8	19.4	19.4
<b>Growth (%)</b>					
Net Interest Income	18.3	15.4	8.0	10.1	8.9
Net Operating Income	15.0	15.4	11.8	11.2	8.4
Net Income	5.2	10.4	8.8	10.1	4.9
Loans	1.4	10.5	4.2	4.7	4.7
Deposits	3.7	7.2	7.0	6.0	7.0
RWAs	2.1	4.1	5.5	7.0	4.0

Source: Company data, QNB FS Research

## Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR5.389	Target Price	QR6.681
Implied Upside	24.0%		

### Stock Remains Inexpensive at 2024e P/B of 1.0x; Stay Outperform

We preserve our 2022-27e earnings CAGR of 10.6%, leading to a sustainable RoE of 13.5%. Moreover, we retain our QR6.681/sh. PT and Outperform rating. The stock remains attractive with undemanding multiples. CBQK is trading at a 2023/24 P/TB of 1.1x/1.0x based on our estimates. The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 10.6% (2022-27e). Moreover, the market is pricing in a sustainable RoE of 11.0%, which is lower than our forecast and management guidance.

### Highlights

- 9M2023 bottom-line was largely driven by strong non-funded income (+44.1% YoY; fees, f/x income, lower trading losses and income from associates) and a decrease in provisions & impairments (-3.2% YoY); however, hyperinflation accounting shaved off 9% from earnings, preventing earnings growth of 12.7%.** Commercial Bank of Qatar (CBQK) reported a net profit of QR2.37bn in 9M2023, growing by 7.5% YoY.
- RoE is estimated to increase from 13.5% in 2022 to 14.3%/15.1% in 2023e/24e.** After 9M2023, RoE is still slated to increase beyond 14%. Management is targeting 13-15% during 2022-26 (although we believe RoE could slightly increase above the upper end of guidance depending on CoR).
- NIMs are expected to be flat/in-line with 9M2023 in FY2023 on the back of CoFs.** We estimate flat margins at 2.70% in 2023 as CBQK effectively manages CoFs (interest-bearing deposits significantly dropped in 9M2023). We maintain NIMs of 2.72% (+2.3bps) in 2024 and 2.81% (+9.3bps) in 2025.
- Legacy NPLs remain and are mainly real estate in nature; management is guiding for the NPL ratio to decrease to 2.5% by 2026.** NPL ratio was stable at 5.30% in 3Q2023 vs. 5.46% in 2Q2023 (FY2022: 4.88%); NPL formation was negative sequentially, which is a positive. Coverage of Stage 3 loans remained flat at 74% vs. 2Q2023 (FY2022: 71%). ECLs for Stage 2 loans increased by 17.6% vs. FY2022, but coverage was a low of 10%. Asset quality is expected to improve, driven by conservative underwriting and recoveries. Management will also gradually raise the coverage of Stage 3 loans to 100%.
- CoR in 2023 is expected at 120-135bps as per management's conservative guidance and should normalize at 120bps by 2026.** 9M2023 provisions for credit losses declined by 5.2% YoY to QR669.9mn, while CoR (annualized) remained flat at 93bps. It should be noted that quarterly annualized CoR is not an indicator for full year CoR. Having said this, management continues on being prudent/conservative by booking large provisions. We retain our CoR of 113bps for 2023, 115bps in 2024 and 120bps in 2025. We keep CoR at 120bps by 2027 as we remain on the conservative side.
- Diversification of loan book remains on track; management is guiding for 25/16% public sector/real estate mix; Net loans reversed its negative trajectory QoQ after several quarters of government repayment of credit facilities.** During 3Q2023, net loans reversed their negative trajectory; net loans increased by 2.4% sequentially to QR91.5bn, driven by the private sector. However, net loans decreased by 6.6% vs. FY2022. We maintain net loan growth of -7.3%/+3.5% in 2023/24e and loan growth 2022-27e CAGR of 2.1%.
- CET1 ratio is expected at 13.0%-14.0% (2023-26) as per management's guidance.** CBQK's CET1 ratio dropped from 11.7% in 1Q2023 to 11.2% in 3Q2023 due to derivatives related-adjustments/charges of QR1.32bn to retained earnings.

### Catalysts

- Significant RoE expansion & robust bottom-line growth.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our PT to QR6.681 but retain our Outperform rating.** CBQK is trading at a 2023e/24e P/TB and P/E of 1.1x/1.0x and 8.3x/7.2x, respectively.
- Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR.

### Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS	0.607	0.651	0.744	0.841
EPS Growth (%)	23.9	7.3	14.2	13.1
P/E (x)	8.9	8.3	7.2	6.4
Tangible BVPS (QR)	4.9	4.9	5.4	6.0
P/TBV (x)	1.1	1.1	1.0	0.9
RoE (%)	13.5	13.4	15.1	15.5
DPS (QR)	0.250	0.250	0.275	0.300
Dividend Yield (%)	4.6	4.6	5.1	5.6

Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	5.389
Dividend Yield (%)	4.6
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	8.450/4.800
3-m Average Volume (mn)	2,705.2
Mkt. Cap. (\$ bn/QR bn)	6.0/21.8
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Current FO* (%)	26.6
1-Year Total Return (%)	(7.3)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign institutional ownership

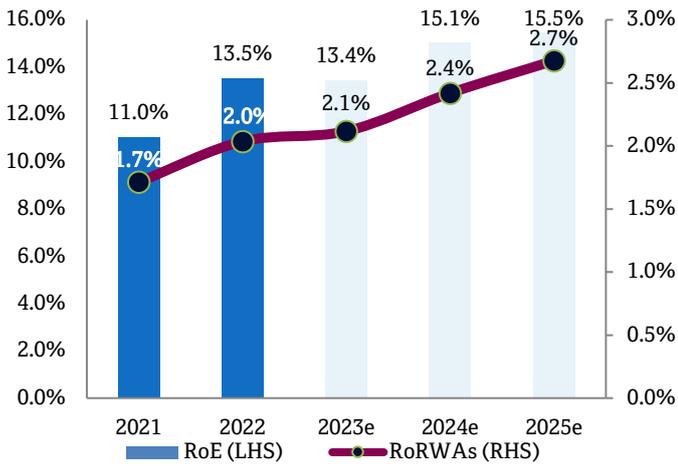
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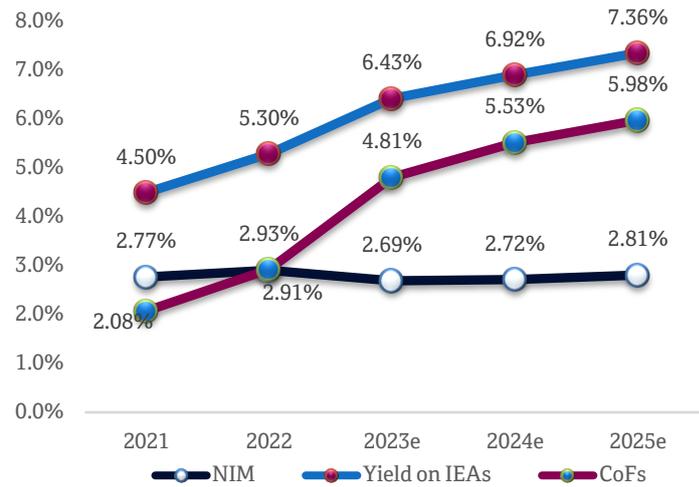
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### RoE & RoRWAs Modeled to Increase in a Healthy Manner

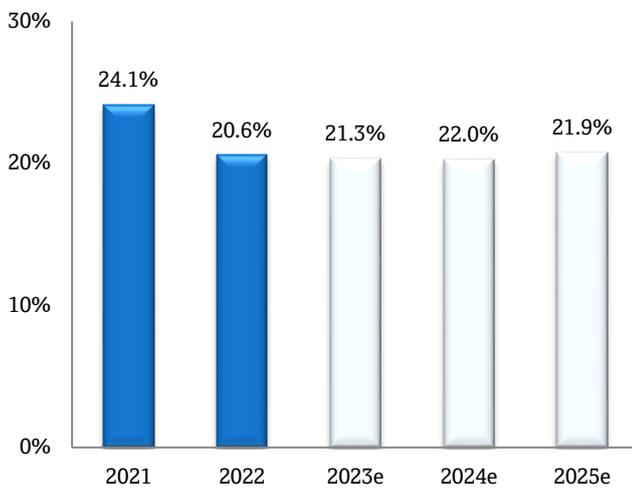


Source: Company data, QNB FS Research

### While Margins to Gradually Improve

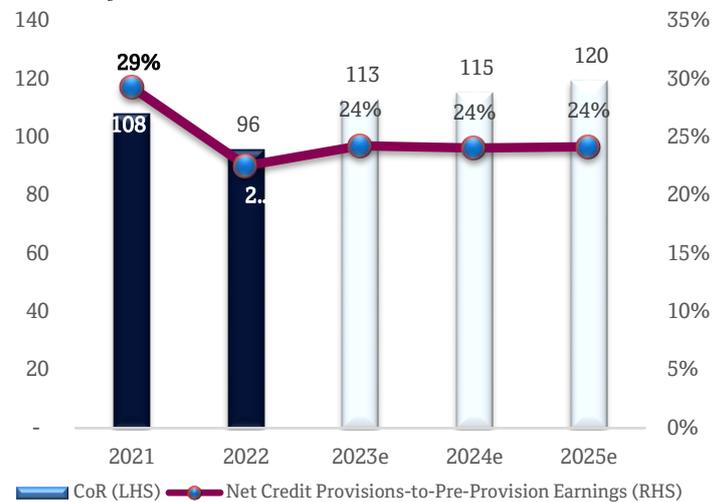


### C/I Ratio to Remain Superior

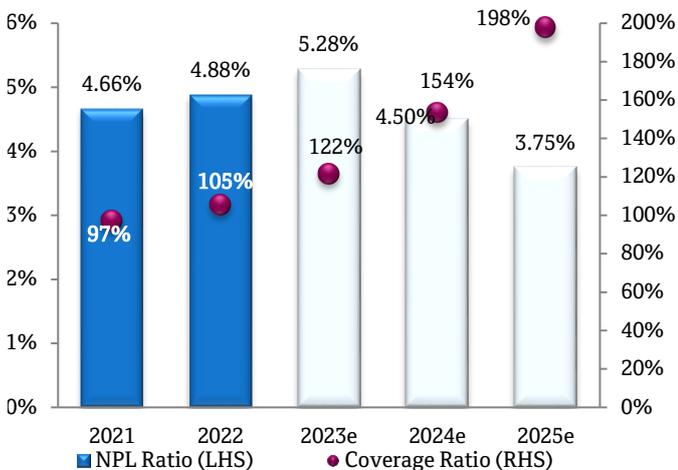


Source: Company data, QNB FS Research; C/I is on a normalized basis

### CoR is Expected to Remain Elevated in the Medium Term



### NPLs are Legacy and Mainly RE Loans



Source: Company data, QNB FS Research

### Coverage of Stage 3 Loans is Expected to Reach 100%

3Q 2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	73,157,278	18,204,770	5,113,371	96,475,419
ECLs	194,999	1,840,723	3,762,376	5,798,098
Stages % of Loans	76%	19%	5.30%	
Stages % of ECLS	3%	32%	65%	
Coverage Ratio	0%	10%	74%	

## Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	3,702	4,106	3,861	3,802	3,989	4,314
Fees & Commissions	928	790	1,010	1,071	1,221	1,367
FX Income	309	415	623	654	772	814
Other Income	291	205	430	558	572	621
<b>Non-Interest Income</b>	<b>1,528</b>	<b>1,410</b>	<b>2,063</b>	<b>2,283</b>	<b>2,565</b>	<b>2,802</b>
<b>Total Revenue</b>	<b>5,230</b>	<b>5,516</b>	<b>5,924</b>	<b>6,085</b>	<b>6,554</b>	<b>7,115</b>
Operating Expenses	(1,480)	(1,138)	(1,261)	(1,336)	(1,437)	(1,537)
<b>Net Operating Income</b>	<b>3,750</b>	<b>4,378</b>	<b>4,664</b>	<b>4,749</b>	<b>5,117</b>	<b>5,579</b>
Net Provisions & Impairments	(1,438)	(1,263)	(1,252)	(1,189)	(1,238)	(1,318)
<b>Net Profit Before Taxes</b>	<b>2,313</b>	<b>3,115</b>	<b>3,411</b>	<b>3,560</b>	<b>3,880</b>	<b>4,260</b>
Tax	(9)	(114)	(102)	(82)	(97)	(107)
<b>Net Profit Before Minority Interest</b>	<b>2,304</b>	<b>3,000</b>	<b>3,309</b>	<b>3,478</b>	<b>3,783</b>	<b>4,154</b>
Minority Interest	(0)	0	0	0	0	0
Non-Recurring Income/(Loss)		(189)	(315)	(100)	0	0
<b>Net Profit (Headline/Reported)</b>	<b>2,304</b>	<b>2,811</b>	<b>2,994</b>	<b>3,378</b>	<b>3,783</b>	<b>4,154</b>
Interest on Tier-1 Note	(264)	(284)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(58)	(70)	(75)	(84)	(95)	(104)
<b>Net Profit (Attributable)</b>	<b>1,983</b>	<b>2,457</b>	<b>2,635</b>	<b>3,010</b>	<b>3,404</b>	<b>3,766</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	17,915	8,030	9,281	8,524	9,114	7,994
Interbank Loans	10,942	20,844	19,885	15,908	12,726	15,653
Net Investments	26,723	29,835	29,880	31,748	33,549	32,467
Net Loans	98,003	98,016	90,886	94,041	98,209	103,354
Investment In Associates	2,961	3,102	3,254	3,420	3,599	3,791
Other Assets	2,567	2,613	2,727	2,445	2,750	3,101
Net PP&E	2,753	3,050	3,106	3,110	3,120	3,133
OREO	3,524	3,564	3,564	3,564	3,564	3,564
Goodwill & Intangible Assets	75	66	10	10	10	10
<b>Total Assets</b>	<b>165,464</b>	<b>169,121</b>	<b>162,593</b>	<b>162,770</b>	<b>166,641</b>	<b>173,067</b>
<b>Liabilities</b>						
Interbank Deposits	17,777	24,054	20,848	18,158	12,974	15,634
Customer Deposits	81,958	83,167	77,346	79,666	82,853	88,818
Term Loans	31,005	26,656	30,068	27,963	30,759	27,068
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820	5,820
Other Liabilities	10,651	9,724	8,508	9,162	9,942	8,882
<b>Total Liabilities</b>	<b>147,211</b>	<b>149,421</b>	<b>142,590</b>	<b>140,769</b>	<b>142,348</b>	<b>146,222</b>
<b>Total Shareholders' Equity</b>	<b>18,253</b>	<b>19,699</b>	<b>20,003</b>	<b>22,001</b>	<b>24,293</b>	<b>26,845</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>165,464</b>	<b>169,121</b>	<b>162,593</b>	<b>162,770</b>	<b>166,641</b>	<b>173,067</b>
<b>RWAs</b>	<b>115,914</b>	<b>125,475</b>	<b>123,571</b>	<b>125,333</b>	<b>129,147</b>	<b>134,992</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2021	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>						
RoTE (Attributable)	11.0	13.5	13.4	15.1	15.5	15.5
RoAA (Attributable)	1.2	1.5	1.6	1.9	2.1	2.2
RoRWA	1.7	2.0	2.1	2.4	2.7	2.9
NIM (% of IEAs)	2.77	2.91	2.69	2.72	2.81	2.94
NIM (% of RWAs)	3.20	3.40	3.10	3.06	3.13	3.27
NIM (% of AAs)	2.32	2.45	2.33	2.34	2.42	2.54
Spread	2.4	2.4	1.6	1.4	1.4	1.5
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	29.0	20.6	21.3	22.0	21.9	21.6
Cost-to-Income (Core)	30.0	21.4	22.9	24.2	24.0	23.7
<b>Liquidity (%)</b>						
LDR	120	118	118	118	119	116
LDR (Including Stable Source of Funding)	87	89	85	87	86	89
Loans/Assets	59	58	56	58	59	60
Cash & Interbank Loans-to-Total Assets	17.4	17.1	17.9	15.0	13.1	13.7
Deposits to Assets	50	49	48	49	50	51
Wholesale Funding to Loans	50	52	56	49	45	41
IEAs to IBLs (x)	1.18	1.27	1.31	1.33	1.30	1.27
<b>Asset Quality (%)</b>						
NPL Ratio	4.7	4.9	5.3	4.5	3.8	3.0
NPLs to Shareholders' Equity	26.2	25.6	25.6	20.7	16.4	12.6
NPL to Tier-1 Capital	25.7	25.9	27.3	23.1	19.1	15.4
Coverage Ratio	97	105	122	154	198	269
ALL/Average Loans	4.6	5.2	6.2	7.0	7.6	8.3
Cost of Risk (bps)	108	96	113	115	120	121
<b>Capitalization (%)</b>						
CET1 Ratio	11.7	11.6	11.2	11.7	12.2	12.5
Tier-1 Ratio	16.0	15.6	15.2	15.7	16.1	16.2
CAR	18.1	17.3	16.3	16.8	17.2	17.3
Leverage (x)	9.1	8.6	8.1	7.4	6.9	6.4
<b>Growth (%)</b>						
Net Interest Income	19.4	10.9	-6.0	-1.5	4.9	8.1
Non-Interest Income	64.9	-7.7	46.3	10.7	12.3	9.2
Total Revenue	29.9	5.5	7.4	2.7	7.7	8.6
Operating Expenses	35.0	-23.1	10.8	6.0	7.5	7.0
Net Operating Income	28.0	16.7	6.5	1.8	7.8	9.0
Net Provisions & Impairments	-11.0	-12.1	-0.9	-5.1	4.1	6.5
Net Income (Headline)	77.1	22.0	6.5	12.8	12.0	9.8
Net Income (Attributable)	89.6	23.9	7.3	14.2	13.1	10.6
Loans	1.3	0.0	-7.3	3.5	4.4	5.2
Deposits	8.1	1.5	-7.0	3.0	4.0	7.2
Assets	7.7	2.2	-3.9	0.1	2.4	3.9
RWAs	0.3	8.2	-1.5	1.4	3.0	4.5

Source: Company data, QNB FS Research

## Doha Bank (DHBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR1.717	Target Price	QR1.883
Implied Upside	9.7%		

### Long Road to Recovery; Stay Market Perform

We keep our 2023/24e net income figures at QR457.2mn/QR588.0mn. We preserve our earnings CAGR of 20.3% (2022-27e). We expect the bank to generate economic profits from 2028 and onward as RoE is still expected to be below CoE over 2023 to 2027. The stock trades at a 48% discount to its 2023e BV due to asset quality issues. We retain our Market Perform rating and QR1.883 PT. We note that DHBK's beginning BVPS (2023) contributes 173% to our price target (as the present value of interim economic profits is negative).

### Highlights

- DHBK reported attributable net profit of QR626.9mn in 9M2023 vs. QR932.9mn in 9M2022, dropping by 32.8%.** The drop, on a YoY basis was mainly attributed to margin compression (2.40%; 38bps decline) as net interest income declined by 13.6%. On the other hand, non-funded income gained by 27.1% on the back of investment income (income of QR63.6mn in 9M2023 vs. loss of QR2.3mn in 9M2022) and the insurance segment (income of QR82.2mn vs. QR13.4mn in 9M2022).
- CoR to remain on the high side; management is targeting 120-130bps by 2027; 9M2023 CoR increased to 169bps vs. 146bps in 9M2022 (FY2022: 153bps).** DHBK generated a 2022 CoR of 153bps vs. 211bps in 2021 (196bps in 2020). 2023 CoR to stay around ~170bps (above 160bps guidance), steadily dropping to 123bps by 2027 (still on the high side) as management needs to build further provisions in order to 1) raise coverage of Stage 3 loans from 72% in 3Q2023 to 85%/90% and 2) mitigate any unforeseen impairments.
- RoE will remain weak and significantly below CoE; 9M2023 annualized RoE came in at 8.3%.** RoE came in at 5.4% in FY2022, in-line with 2018-2021. We are of the view that RoE could increase ~1ppt every year to 13.2% by 2028. We retain our 2024/25 RoE of 5.5%/6.7%.
- C/I ratio is expected to remain around the 30% levels.** C/I ratio stood at 32.8%/30.0% in 9M2023/22 (30.7% in FY2022). Going forward, DHBK's C/I ratio is likely to hover around the 30% levels. However, management is guiding to <25% by 2027.
- Asset quality remains a concern as management may further downgrade Stage 2 loans; NPLs are legacy.** DHBK's NPLs declined (improved) -6.7%/-5.2% to QR3.7bn in 3Q2023 vs. 2Q2023/FY2022 partially due to write-offs of QR427mn. Moreover, the NPL ratio decreased from 6.43%/6.71% in FY2022/2Q2023 to 6.18% in 3Q2023. Further, the coverage ratio for Stage 3 loans increased from 61%/70% in FY2022/2Q2023 to 72% in 3Q2023 (vs. 51% in FY2021); DHBK is targeting 85% coverage of Stage 3 loans. Stage 2 loans contribute 31% to total loans, highest vs. its peers. On average (2019-2022), DHBK wrote-off 13.0% of loans (QR8.9bn). Management is guiding for an NPL ratio of 6.0% for 2022 and 4.5-5% in 2024-2027.
- Net loans increased sequentially after numerous quarterly declines; we still expect single digit growth going forward, in-line with management guidance.** Net loans increased by 1.6% QoQ to QR56.7bn in 3Q2023 (-2.4% vs. FY2022). Private sector loans gained by 3.7% vs. FY2022, while public sector loans declined on repayment of credit facilities. We maintain our loan book CAGR of 4.1% in 2022-27e as the bank's lending appetite picks up after completing its de-risking exercise.
- De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended 3Q2023 with a CET1 ratio of 12.8% and a Tier-1 ratio of 18.1%. CET1 ratio is expected to remain ~13% level in the near future.

### Catalysts

- Future stock price gains depend on a resumption of confidence in the bank's performance and realization of management's goals & objectives.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our QR1.883 price target and Market Perform rating.** DHBK is trading at a 2023e/24e P/B and P/E of 0.5x and 11.6x/9.1x, respectively.
- Risks:** 1) Asset quality. 2) Execution risks remain for management's new strategy.

### Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS (QR)	0.179	0.147	0.190	0.237
Growth	13.6	-17.8	28.6	25.2
P/E (x)	9.6	11.6	9.1	7.2
BVPS (QR)	3.25	3.32	3.44	3.55
P/B (x)	0.5	0.5	0.5	0.5
RoE (%)	5.4	4.5	5.7	6.9
DPS (QR)	0.075	0.075	0.125	0.175
Dividend Yield (%)	4.4	4.4	7.3	10.2

Source: Company data, QNB FS Research

### Key Data

Current Market Price (QR)	1.717
Dividend Yield (%)	4.4
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	2.230/1.407
3-m Average Volume (mn)	4,789.0
Mkt. Cap. (\$ bn/QR bn)	1.5/5.3
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	13.4
1-Year Total Return (%)	(18.1)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign institutional ownership

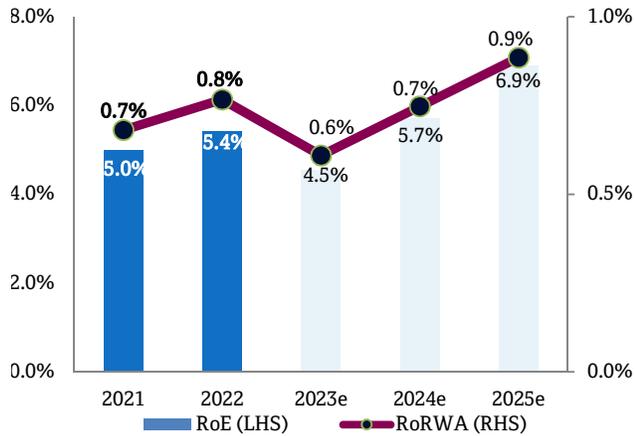
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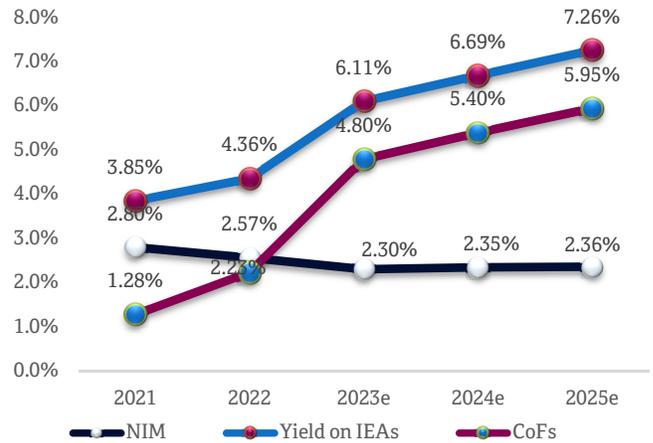
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**RoE Remains <CoE During Forecast Horizon; RoRWA is Weak**

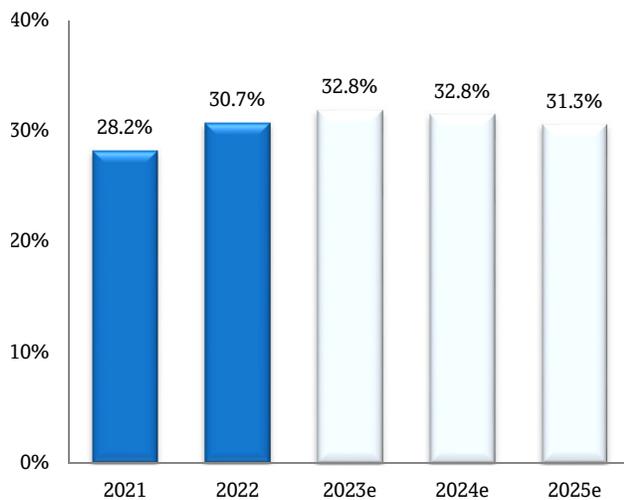


Source: Company data, QNB FS Research

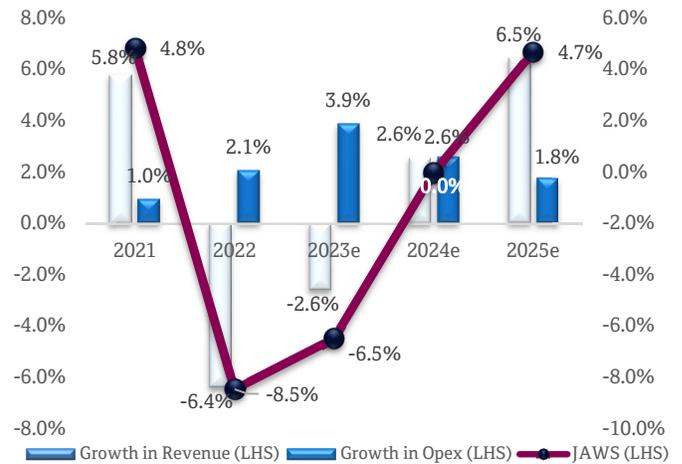
**While Margins to Gradually Improve**



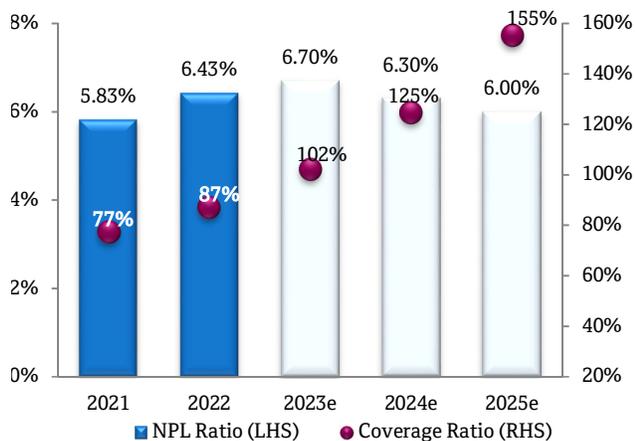
**C/I Ratio to Hover @ ~Current Levels as Revenue & Opex Move in Lock Step While Generating Marginal JAWS Post 2023**



Source: Company data, QNB FS Research



**NPL Ratio Spiked Mainly on Contracting & RE Loans**



Source: Company data, QNB FS Research

**Stage 2 Highest Domestically; Coverage of Stage 3 Improved**

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	37,038,140	19,956,351	3,751,249	60,745,740
ECLs	110,646	1,242,871	2,713,610	4,067,127
Stages % of Loans	61.0%	32.9%	6.18%	
Stages % ECLs	2.7%	30.6%	66.7%	
Coverage Ratio	0.3%	6.2%	72.3%	

## Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>2,320</b>	<b>2,585</b>	<b>2,322</b>	<b>2,083</b>	<b>2,213</b>	<b>2,361</b>	<b>2,581</b>
Fees & Commissions	304	303	371	378	394	403	402
FX Income	106	154	153	130	141	148	141
Other Income	207	65	63	242	158	182	170
<b>Non-Interest Income</b>	<b>617</b>	<b>522</b>	<b>587</b>	<b>751</b>	<b>693</b>	<b>733</b>	<b>712</b>
<b>Total Revenue</b>	<b>2,937</b>	<b>3,107</b>	<b>2,909</b>	<b>2,834</b>	<b>2,907</b>	<b>3,094</b>	<b>3,294</b>
Operating Expenses	(868)	(876)	(894)	(929)	(953)	(970)	(1,025)
<b>Net Operating Income</b>	<b>2,069</b>	<b>2,231</b>	<b>2,015</b>	<b>1,905</b>	<b>1,954</b>	<b>2,125</b>	<b>2,269</b>
Net Provisions	(1,365)	(1,485)	(1,201)	(1,151)	(1,110)	(1,120)	(1,002)
<b>Net Profit Before Tax</b>	<b>704</b>	<b>746</b>	<b>814</b>	<b>754</b>	<b>844</b>	<b>1,005</b>	<b>1,267</b>
Tax	(1)	(43)	(48)	(91)	(46)	(55)	(68)
<b>Net Profit (Reported/Headline)</b>	<b>703</b>	<b>704</b>	<b>765</b>	<b>664</b>	<b>798</b>	<b>950</b>	<b>1,198</b>
Interest on Tier-1 Note	(203)	(197)	(190)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(18)	(19)	(17)	(20)	(24)	(30)
<b>Attributable Net Profit</b>	<b>482</b>	<b>490</b>	<b>556</b>	<b>457</b>	<b>588</b>	<b>736</b>	<b>978</b>
<b>EPS</b>	<b>0.156</b>	<b>0.158</b>	<b>0.179</b>	<b>0.147</b>	<b>0.190</b>	<b>0.237</b>	<b>0.316</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	6,895	5,887	3,668	3,710	3,652	4,168	4,418
Interbank Loans	3,674	5,365	8,651	7,069	7,954	8,979	6,767
Net Investments	24,667	25,083	24,964	27,439	29,696	31,582	33,513
Net Loans	65,450	62,667	58,079	58,910	61,185	64,133	67,673
Other Assets	2,168	1,412	1,618	1,778	1,357	1,615	1,366
Net PP&E	686	689	665	664	664	662	658
<b>Total Assets</b>	<b>103,540</b>	<b>101,103</b>	<b>97,645</b>	<b>99,570</b>	<b>104,507</b>	<b>111,138</b>	<b>114,394</b>
<b>Liabilities</b>							
Interbank Deposits	23,037	22,511	19,239	25,722	27,867	28,531	26,075
Customer Deposits	55,054	50,356	50,130	46,370	48,689	52,097	55,223
Term Loans	8,545	11,629	11,408	9,696	11,248	13,497	15,522
Other Liabilities	3,110	2,351	2,790	3,478	2,045	2,084	2,209
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>93,746</b>	<b>90,847</b>	<b>87,566</b>	<b>89,266</b>	<b>93,849</b>	<b>100,209</b>	<b>103,029</b>
<b>Total Shareholders' Equity</b>	<b>9,795</b>	<b>10,256</b>	<b>10,079</b>	<b>10,303</b>	<b>10,659</b>	<b>10,930</b>	<b>11,366</b>
<b>Total Liabilities &amp; Shareholders' E</b>	<b>103,540</b>	<b>101,103</b>	<b>97,645</b>	<b>99,570</b>	<b>104,507</b>	<b>111,138</b>	<b>114,394</b>
Risk Weighted Assets	71,908	71,898	73,175	76,868	80,471	85,799	88,655

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2020	2021	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>							
RoE (Attributable)	5.2	5.0	5.4	4.5	5.7	6.9	9.0
RoAA (Attributable)	0.7	0.7	0.8	0.7	0.8	0.9	1.1
RoRWA (Attributable)	0.6	0.7	0.8	0.6	0.7	0.9	1.1
NIM (% of IEAs)	2.42	2.80	2.57	2.30	2.35	2.36	2.47
NIM (% of RWAs)	3.07	3.60	3.20	2.78	2.81	2.84	2.96
NIM (% of AAs)	2.19	2.53	2.34	2.11	2.17	2.19	2.29
Spread	2.1	2.6	2.1	1.3	1.3	1.3	1.4
<b>Efficiency (%)</b>							
Cost-to-Income (Headline)	29.5	28.2	30.7	32.8	32.8	31.3	31.1
Cost-to-Income (Core)	31.5	28.4	31.0	35.4	34.3	33.0	32.5
<b>Liquidity (%)</b>							
LDR (stable sources of funds)	103	101	94	105	102	98	96
Loans/Assets	63.2	62.0	59.5	59.2	58.5	57.7	59.2
Cash & Interbank Loans-to-Total Assets	10.2	11.1	12.6	10.8	11.1	11.8	9.8
Deposits to Assets	53.2	49.8	51.3	46.6	46.6	46.9	48.3
Wholesale Funding to Loans	48.3	54.5	52.8	60.1	63.9	65.5	61.5
IEAs to IBLs	1.2	1.2	1.3	1.3	1.2	1.2	1.2
<b>Asset Quality (%)</b>							
NPL Ratio	5.98	5.83	6.43	6.70	6.30	6.00	5.75
NPL to Shareholders' Equity	42.0	37.3	39.3	41.1	39.3	38.8	38.2
NPL to Tier 1 Capital	43.9	39.5	40.6	42.5	40.6	40.2	39.5
Coverage Ratio	81.4	77.5	87.0	102.3	124.9	155.3	181.0
ALL/Average Loans	4.8	4.4	5.4	7.0	8.1	9.6	10.8
Cost of Risk (%)	196	211	153	172	157	153	130
<b>Capitalization (%)</b>							
CET1 Ratio	13.0	13.5	13.3	13.0	12.8	12.3	12.4
Tier-1 Ratio	18.6	19.0	18.8	18.2	17.8	17.0	16.9
CAR	19.8	20.2	19.9	19.3	18.9	18.1	18.1
Tier-1 Leverage (x)	12.9	13.5	14.1	14.0	13.7	13.1	13.1
<b>Growth (%)</b>							
Net Interest Income	17.1	11.4	-10.2	-10.3	6.3	6.7	9.3
Non-Interest Income	-18.7	-15.4	12.4	28.0	-7.7	5.8	-2.8
Total Revenue	7.2	5.8	-6.4	-2.6	2.6	6.5	6.4
Opex	-7.2	1.0	2.1	3.9	2.6	1.8	5.7
Net Operating Income	14.7	7.8	-9.7	-5.5	2.6	8.7	6.8
Net Income (Headline/Reported)	-6.8	0.1	8.8	-13.3	20.2	19.0	26.2
Net Income (Attributable)	-6.3	1.5	13.6	-17.8	28.6	25.2	33.0
Loans	-0.5	-4.3	-7.3	1.4	3.9	4.8	5.5
Deposits	-5.8	-8.5	-0.4	-7.5	5.0	7.0	6.0
Assets	-4.3	-2.4	-3.4	2.0	5.0	6.3	2.9
RWAs	-9.3	0.0	1.8	5.0	4.7	6.6	3.3

Source: Company data, QNB FS Research

## Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.930	Target Price	QR3.810
Implied Upside/(Downside)	(3.1%)		

### 3Q2023 In-Line; Drop in Prov. & Impairments Offset Margin Pressure

**DUBK's 3Q2023 comes in-line with our estimates as lower-than-expected net provisions and impairments offset weak operating income.** Dukhan Bank (DUBK) reported a net profit of QR346.8mn in 3Q2023, in-line with our estimate of QR350.1mn (variation of -1.0%). The bottom-line increased by 3.4% YoY, while exhibited flat performance sequentially. Key takeaways from 3Q figures is margin pressure, strong fee income and significantly low/negligible net provisions and impairments. **Net-net, the bottom-line YoY and sequentially was aided by immaterial provisions and impairments offsetting weak revenue and margin pressure.**

- **Revenue declined by 7.6% YoY (-2.5% QoQ) as a result of margin pressure.** Net interest & investment income declined by 16.8%/9.2% YoY/QoQ to QR407.7mn. On the other hand, fees and commissions income was positive, surging by 97.9% YoY (+15.4% QoQ).
- **NIMs continued its negative trajectory in 3Q2023.** NIMs declined by 43/26bps to ~1.58% YoY/QoQ. The growth in CoFs was larger than the growth in yields on interest earning assets. Moreover, 9M2023 annualized NIMs came in at 1.73% vs. 2.29% in 9M2022, a compression of 56bps.
- **Loans were supported by the corporate segment.** Net loans inched up by 0.9% sequentially (flat YTD) to QR75.8bn. The support in loans was driven by the corporate sector (excluding real estate and contracting) as other segments declined or remained flat. On the other hand, deposits expanded by 7.3% QoQ (+3.3% YTD) to QR77.0bn in 3Q2023. Hence, DUBK's simple LDR improved to 98% vs. 105% in 2Q2023 (FY2022: 102%). Growth in deposits on an YTD basis was mainly attributable to the public and retail sectors, while the corporate segment contracted.
- **NPL ratio in 3Q2023 was flat at 5.0% vs. 2Q2023 and FY2022; on a positive note, NPL formation was negative.** The bank's NPLs were flat sequentially in 3Q2023 and down 2.2% vs. FY2022. However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 loans declined from 83% in FY2022 to 69% at the end of 3Q2023 and 2Q2023.
- **Recoveries were greater than credit provisions resulting in net recoveries that aided the bottom-line.** DUBK booked gross credit provisions of QR14.7mn vs. recoveries of QR19.1mn (resulting in net recoveries of QR4.4mn) in 3Q2023 vs. net credit provisions of QR68.4mn in 3Q2022 and QR47.1mn in 2Q2023. Hence, 9M2023 annualized CoR came in at only 8bps vs. 66bps in 9M2022. However, it should be noted that quarterly CoR is not indicative of fiscal year CoR.
- **The bank's efficiency ratio weakened due to weak revenue.** DUBK's C/I ratio moved up to 36.2% in 3Q2023 vs. 34.3% in 3Q2022 (2Q2023: 31.2%). Total revenue declined by 7.6%, while operating expenses only receded by 2.5%. Thus, the increase in the C/I ratio. As a result of weak revenue, the bank generated negative JAWs on a 9M basis YoY.
- **DUBK maintains healthy capitalization levels.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended 3Q2023 with CET1/Tier-1 ratios of 14.1%/16.5%.

### Catalysts

- **Progress in delivering on growth objectives and earnings acceleration beyond our estimates could drive stock price gains.**

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR3.810 and our Market Perform.** DUBK is trading at a 2023e P/TB and P/E of 1.7x and 16.8x, respectively.
- **Risks:** 1) Geo-political factors and 2) Unexpected asset quality deterioration.

### Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.227	0.235	0.276	0.316
EPS Growth (%)	1.8	3.3	17.3	14.7
P/E (x)	17.4	16.8	14.4	12.5
Tangible BVPS (QR)	2.2	2.3	2.4	2.6
P/TBV (x)	1.8	1.7	1.6	1.5
RoE (%)	10.6	10.5	11.9	12.9
DPS (QR)	0.160	0.170	0.180	0.190
Dividend Yield (%)	4.1	4.3	4.6	4.8

Source: QNB FS Research, Company data; EPS is based on current shares outstanding excluding treasury shares

### Key Data

Current Market Price (QR)	3.930
Dividend Yield (%)	4.1
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.35/2.70
3-Month Average Volume (mn)	11,056.1
Mkt. Cap. (\$ bn/QR bn)	5.7/20.6
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.1
Return Vs. Listing Price (%)	(9.7)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*QSE (as of November 15, 2023); Note: FO is foreign institutional ownership

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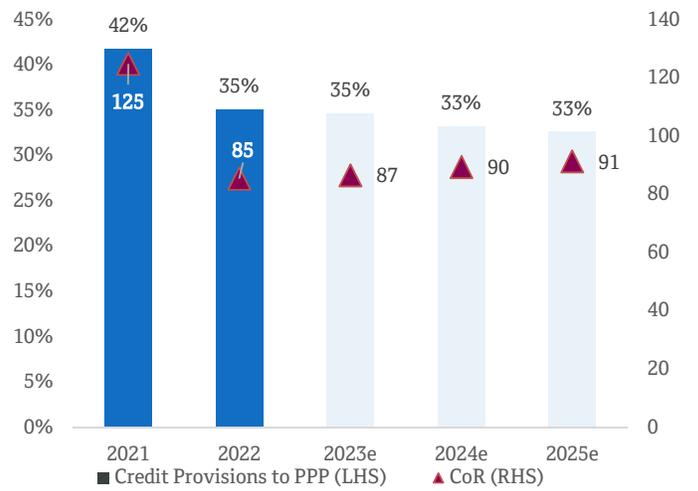
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**RoE/RoRWAs to Steadily Improve...**

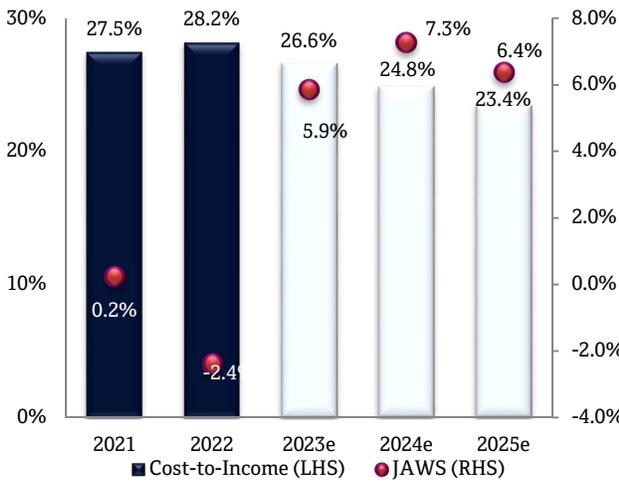


Source: Company data, QNB FS Research

**CoR Normalizes**

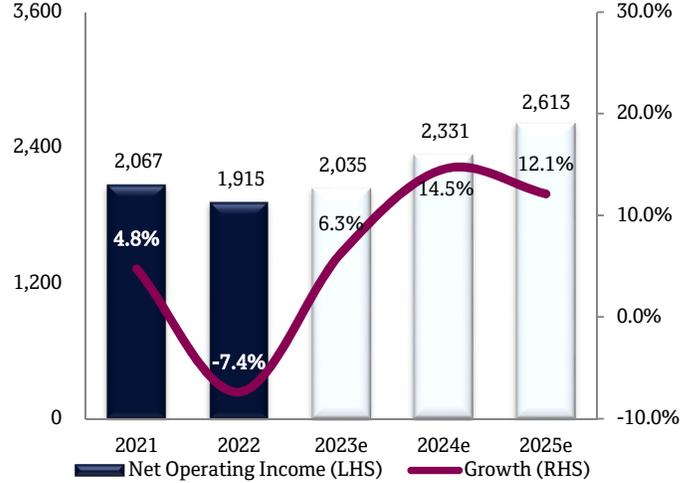


**Efficiency to Improve**

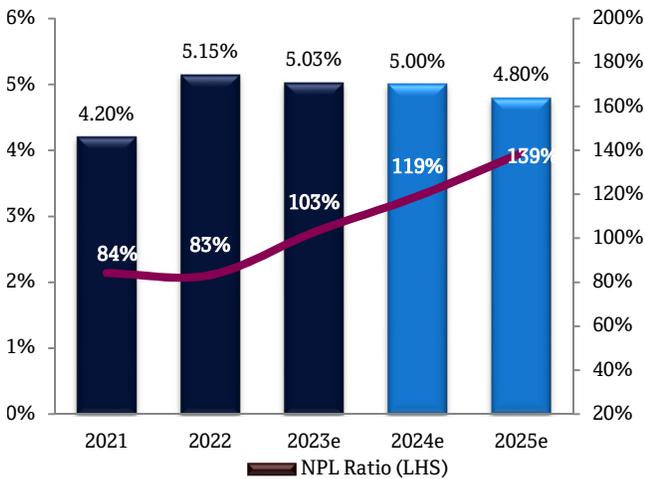


Source: Company data, QNB FS Research

**Leading to Strong Net Operating Income**



**Majority of NPLs are Legacy**



Source: Company data, QNB FS Research

**Stage 3 Loans Require More Provisions**

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	64,277,643	11,025,180	3,981,039	79,283,862
ECLs	101,553	617,314	2,744,747	3,463,614
Staging of Loans (%)	81.1%	13.9%	5.0%	
Staging of ECLs (%)	2.9%	17.8%	79.2%	
Coverage Ratio	0.2%	5.6%	68.9%	

## Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	2,358	2,345	2,143	2,182	2,486	2,739
Fees & Commissions	188	159	211	236	248	273
FX Income	143	170	223	235	251	271
Other Income	33	176	88	119	116	128
<b>Non-Interest Income</b>	<b>364</b>	<b>505</b>	<b>522</b>	<b>589</b>	<b>616</b>	<b>672</b>
<b>Total Revenue</b>	<b>2,723</b>	<b>2,850</b>	<b>2,665</b>	<b>2,772</b>	<b>3,102</b>	<b>3,412</b>
Operating Expenses	(749)	(782)	(750)	(736)	(770)	(798)
<b>Net Operating Income</b>	<b>1,974</b>	<b>2,067</b>	<b>1,915</b>	<b>2,035</b>	<b>2,331</b>	<b>2,613</b>
Net Provisions & Impairments	(955)	(872)	(660)	(708)	(787)	(853)
<b>Net Profit Before Taxes and Non-Recurri</b>	<b>1,018</b>	<b>1,195</b>	<b>1,255</b>	<b>1,327</b>	<b>1,544</b>	<b>1,760</b>
Taxes	(1)	(2)	(2)	(2)	(3)	(3)
Non-Recurring Items	(450)	-	-	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>567</b>	<b>1,193</b>	<b>1,253</b>	<b>1,325</b>	<b>1,542</b>	<b>1,757</b>
Payment on Tier-1 Sukuk	-	(33)	(71)	(71)	(71)	(71)
Social & Sports Contribution Fund				(33)	(39)	(44)
<b>Net Profit (Attributable)</b>	<b>567</b>	<b>1,160</b>	<b>1,182</b>	<b>1,221</b>	<b>1,432</b>	<b>1,642</b>
EPS (based on adjustment for treasury shares)	0.109	0.223	0.227	0.235	0.276	0.316

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	3,368	7,246	6,425	7,112	6,003	6,483
Interbank Loans	5,892	5,559	1,500	3,975	4,229	3,630
Net Investments	16,661	20,800	20,432	21,862	23,611	25,485
Net Loans	58,537	75,222	75,677	79,500	84,584	90,760
Investment In Associates	84	63	64	65	65	66
Other Assets	309	431	866	795	846	545
Net PP&E	372	280	264	235	206	175
Investments In Real Estate	3	135	135	135	135	135
Goodwill	443	443	443	443	443	443
Other Intangibles	628	549	471	392	314	235
<b>Total Assets</b>	<b>86,297</b>	<b>110,727</b>	<b>106,276</b>	<b>114,513</b>	<b>120,436</b>	<b>127,957</b>
<b>Liabilities</b>						
Interbank Deposits	18,948	16,755	14,871	18,162	18,076	18,563
Customer Deposits	53,882	77,426	74,545	79,018	84,549	91,313
Term Loans	0	0	0	0	0	0
Tier-1 Perpetual Sukuk	-	1,821	1,821	1,821	1,821	1,821
Other Liabilities	1,963	2,559	2,523	2,608	2,536	2,100
<b>Total Liabilities</b>	<b>74,793</b>	<b>98,561</b>	<b>93,761</b>	<b>101,608</b>	<b>106,982</b>	<b>113,797</b>
<b>Total Shareholders' Equity</b>	<b>11,504</b>	<b>12,166</b>	<b>12,515</b>	<b>12,905</b>	<b>13,453</b>	<b>14,161</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>86,297</b>	<b>110,727</b>	<b>106,276</b>	<b>114,513</b>	<b>120,436</b>	<b>127,957</b>
<b>Risk Weighted Assets</b>	<b>65,091</b>	<b>70,985</b>	<b>73,065</b>	<b>80,159</b>	<b>90,327</b>	<b>99,807</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
<b>Profitability (%)</b>						
RoE	5.7	11.1	10.6	10.5	11.9	12.9
RoAA	0.7	1.2	1.1	1.1	1.2	1.3
RoRWAs	0.9	1.7	1.6	1.6	1.7	1.7
NIM (% of IEAs)	3.13	2.64	2.21	2.19	2.33	2.40
NIM (% of RWAs)	3.85	3.45	2.97	2.85	2.92	2.88
NIM (% of AAs)	2.89	2.38	1.97	1.98	2.12	2.21
Spread	2.82	2.42	1.95	1.87	2.03	2.07
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	27.5	27.5	28.2	26.6	24.8	23.4
Cost-to-Income (Core)	27.7	28.1	28.6	27.3	25.4	23.9
<b>Liquidity (%)</b>						
LDR	109	97	102	101	100	99
Loans/Assets	67.8	67.9	71.2	69.4	70.2	70.9
Liquid Assets-to-Total Assets	30.0	30.3	26.7	28.8	28.1	27.8
Deposits to Assets	62.4	69.9	70.1	69.0	70.2	71.4
Wholesale Funding to Loans	32.4	22.3	19.7	22.8	21.4	20.5
IEAs to IBLs	119	110	116	113	114	114
<b>Asset Quality (%)</b>						
NPL Ratio	3.6	4.2	5.1	5.0	5.0	4.8
NPL's to Shareholders' Equity	18.9	26.9	32.5	32.6	33.3	32.9
NPL to Tier-1 Capital	22.0	26.7	32.3	30.4	29.4	27.6
Coverage Ratio	84.4	84.3	83.3	102.8	119.2	138.8
ALL/Average Loans	2.9	3.6	4.0	5.0	5.8	6.5
Cost of Risk (bps)	163	125	85	87	90	91
<b>Capitalization (%)</b>						
CET1 Ratio	15.2	14.7	14.7	15.0	14.9	15.1
Tier-1 Ratio	15.2	17.3	17.2	17.2	16.9	16.9
CAR	16.4	18.4	18.3	18.3	18.0	18.0
Leverage (x)	7.5	9.1	8.5	8.9	9.0	9.0
<b>Growth (%)</b>						
Net Interest Income	62.2	-0.6	-8.6	1.8	13.9	10.2
Non-Interest Income	-2.1	38.7	3.4	12.8	4.5	9.2
OPEX	4.9	4.4	-4.1	-1.9	4.6	3.6
Net Operating Income	77.4	4.8	-7.4	6.3	14.5	12.1
Net Income (Attributable)	-25.9	104.8	1.8	3.3	17.3	14.7
Loans	12.7	28.5	0.6	5.1	6.4	7.3
Deposits	12.5	43.7	-3.7	6.0	7.0	8.0
Assets	11.9	28.3	-4.0	7.8	5.2	6.2
RWAs	13.6	9.1	2.9	9.7	12.7	10.5

Source: Company data, QNB FS Research

## Masraf Al Rayan (MARK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.544	Price Target	QR2.771
Implied Upside	8.9%		

### CoR to Remain Elevated Before Normalizing in 2027

We maintain our estimates for 2023, 2024 & 2025; hence, we maintain our price target of QR2.771 and Accumulate rating. Given MARK's asset quality situation, the stock is trading at 2023e/24e P/B of 1.1x (lower than its 5-year median of 2.2x and its high of 2.5x). The stock has underperformed its peers on an YTD and 1-year TTR basis due to asset quality headwinds and RoE erosion.

#### Highlights

- We preserve our double-digit growth in earnings and maintain our 2022-27e earnings CAGR of 14.7%. MARK's bottom-line is still expected to grow from 2022's QR1.26bn to QR2.51bn by 2027e.
- MARK's 3Q2023 net profit beat our estimates on lower provisions (revenue was in-line; variation of -2.6%). Masraf Al Rayan reported a net profit of QR473.0mn in 3Q2023 (higher than our estimate of QR354.1mn), increasing by 42.8%/24.6% YoY/QoQ. A 35.5% drop in provisions & impairments drove YoY bottom-line. Core banking income was weak on margin compression and lower fees and f/x income.
- 9M2023 annualized RoE came in at 7.7% vs. 7.9% in 9M2022; RoE is significantly low vs. pre-merger and remains well below its CoE of 12.5%. RoE declined from 11.3% in 2021 to 5.8% in 2022 (pre-merger RoE hovered at the 16% level). It will take a long time for RoE to pick up despite double-digit growth in earnings. We maintain our RoE estimates for 2023/2024 at 5.7/6.5%.
- Although MARK's primary exposure is to the public sector (9M2023: 47%), asset quality has faced headwinds with NPLs spiking; the bulk/majority of NPLs is attributed to the construction and real estate segments. Pre-merger, the NPL ratio hovered around 1% but has increased to 6.47% by the end of 3Q2023 (partially due to a drop in loans). NPLs surged from QR1.92bn in FY2021 to QR7.43bn in 3Q2023. However, NPLs have been flat vs. FY2022. Moreover, Stage 2 loans as a % of total loans increased from 2021's 14% to 28% as of 3Q2023 (FY2022: 24%). At the same time, coverage of Stage 3 loans increased from 46% in FY2022 to 57% in 3Q2023.
- CoR to stay on the high side in the near-to-medium term as MARK builds buffers to reach a coverage ratio of 70% to 80% for Stage 3 loans; credit provisions moved down by 1.5% to QR927.8mn YoY in 9M2023. CoR increased from 103bps in 9M2022 to 108bps in 9M2023. We keep our estimates of CoR of 127bps for 2023 and 118bps in 2024 (2025: 95bps) as management increases coverage of Stage 3 loans. We expect CoR to normalize at ~86bps by 2027.
- Loans continued its negative trajectory as MARK is de-risking its loan book; we retain our gross loan growth estimates at a CAGR of 3.4% in 2022-27e as the bank's lending policy becomes more prudent, given its NPLs situation. Net loans decreased by 1.7% QoQ to QR109.9bn (-6.7% vs. FY2022). On the other hand, deposits increased by 4.1% sequentially to QR92.5bn (-4.9% vs. FY2022).
- CET1 to remain robust and highest among its peers. MARK ended 3Q2023 with CET1/Tier-1 ratios of 19.6%/20.6%. Going forward, capitalization is remain around current levels.

#### Catalysts

- 1) Normalizing CoR, which results in strong RoE ahead of expectations.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our PT at QR2.771/share and our Accumulate rating. MARK is trading at 2023e/24e P/TB of 1.1x and P/E 19.3x/16.8x.
- Risks: 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

#### Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.136	0.132	0.152	0.194
EPS Growth (%)	-22.4	-3.0	15.2	27.6
P/E (x)	18.7	19.3	16.8	13.1
Tangible BVPS (QR)	2.30	2.33	2.38	2.43
P/TBV (x)	1.1	1.1	1.1	1.0
RoE (%)	5.8	5.7	6.5	8.1
DPS (QR)	0.100	0.100	0.150	0.175
Dividend Yield (%)	3.9	3.9	5.9	6.9

Source: Company data, QNB FS Research; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	2.544
Dividend Yield (%)	3.9
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	3.774/1.890
3-m Average Volume (mn)	19,215.0
Mkt. Cap. (\$ bn/QR bn)	6.5/23.7
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.8
1-Year Total Return (%)	(29.3)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign institutional ownership

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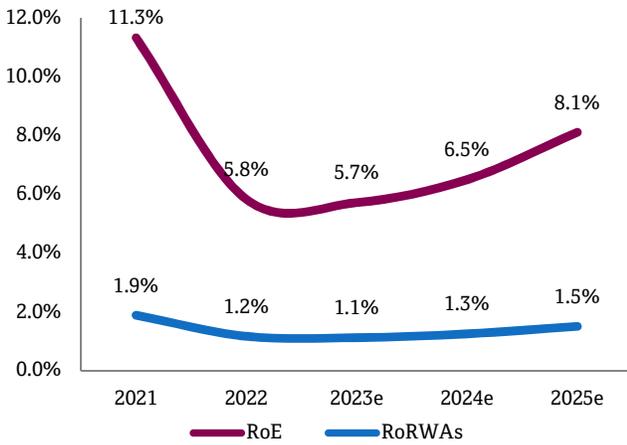
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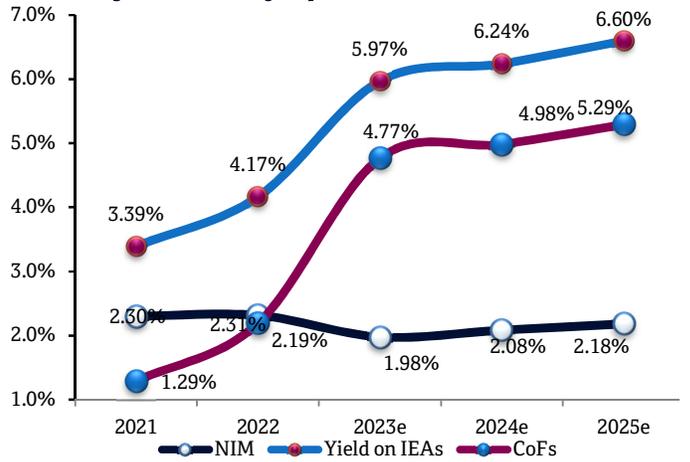
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**RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE**

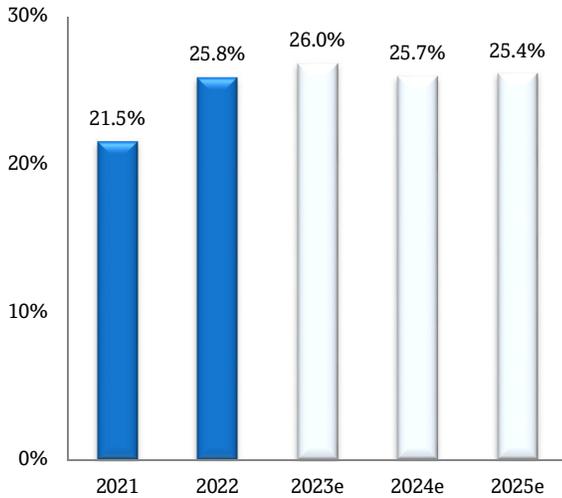


Source: Company data, QNB FS Research

**While Margins to Gradually Improve**

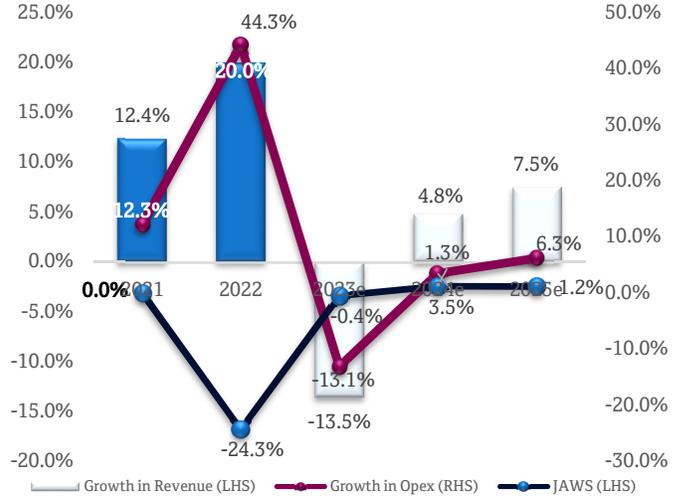


**C/I Ratio to Remain at Current Levels Due to Cost Containment**

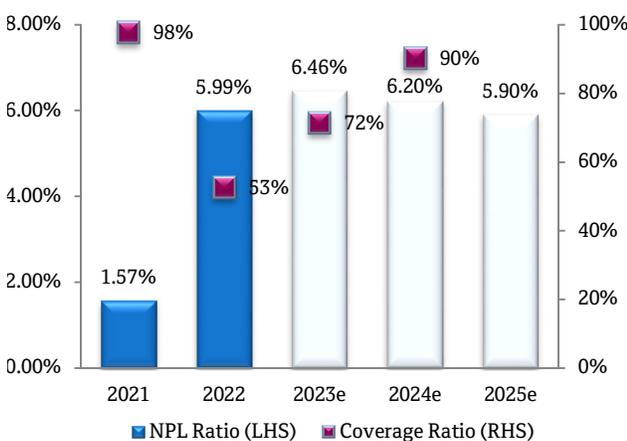


Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

**While Generating Negative-to-Neutral JAWS**



**NPL Ratio Spiked on The Back of Contracting & Real Estate Loans**



Source: Company data, QNB FS Research

**Coverage of Stage 3 Loans (NPLs) Improved to 57% from 46%**

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	74,874,549	32,495,814	7,433,032	114,803,395
ALLs	34,844	562,375	4,258,819	4,856,038
Stages % Loans	65.2%	28.3%	6.47%	
<b>Coverage Ratio</b>	<b>0.05%</b>	<b>1.73%</b>	<b>57%</b>	

## Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>3,113</b>	<b>3,607</b>	<b>3,001</b>	<b>3,217</b>	<b>3,452</b>	<b>3,811</b>
Fees & Commissions	324	432	423	467	523	487
FX Income	173	271	163	195	209	227
Other Income	19	46	181	69	60	58
<b>Non-Interest Income</b>	<b>516</b>	<b>748</b>	<b>766</b>	<b>732</b>	<b>792</b>	<b>772</b>
<b>Total Revenue</b>	<b>3,629</b>	<b>4,355</b>	<b>3,767</b>	<b>3,949</b>	<b>4,244</b>	<b>4,584</b>
Operating Expenses	(780)	(1,126)	(979)	(1,013)	(1,077)	(1,142)
<b>Net Operating Income</b>	<b>2,849</b>	<b>3,229</b>	<b>2,788</b>	<b>2,935</b>	<b>3,167</b>	<b>3,441</b>
Net Provisions & Impairments	(1,097)	(1,710)	(1,418)	(1,388)	(1,206)	(1,225)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>1,752</b>	<b>1,519</b>	<b>1,371</b>	<b>1,547</b>	<b>1,961</b>	<b>2,216</b>
Tax	(5)	(22)	(41)	(23)	(29)	(33)
<b>Net Profit Before Minority Interest</b>	<b>1,747</b>	<b>1,497</b>	<b>1,329</b>	<b>1,524</b>	<b>1,932</b>	<b>2,183</b>
Minority Interest	(13)	(19)	(27)	(30)	(39)	(44)
Non-Recurring Items	(16)	(134)	-	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>1,718</b>	<b>1,344</b>	<b>1,303</b>	<b>1,494</b>	<b>1,893</b>	<b>2,139</b>
Interest Expense on AT1 Bond	(48)	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(43)	(36)	(33)	(37)	(47)	(53)
<b>Net Profit (Attributable)</b>	<b>1,627</b>	<b>1,263</b>	<b>1,224</b>	<b>1,410</b>	<b>1,800</b>	<b>2,039</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
<b>Assets</b>						
Cash & Balances with Central Bank	5,221	5,088	5,110	5,572	6,072	6,436
Interbank Loans	9,156	6,109	6,370	5,652	6,478	6,203
Net Investments	32,753	31,477	36,899	41,115	34,979	36,568
Net Loans	120,880	117,859	109,821	113,037	117,779	124,053
Investment In Associates	349	346	369	380	390	397
Other Assets	3,280	4,074	4,057	4,076	3,945	4,020
Net PP&E	715	902	976	1,039	1,088	1,139
Goodwill & Intangibles	1,802	1,679	1,679	1,679	1,679	1,679
<b>Total Assets</b>	<b>174,155</b>	<b>167,533</b>	<b>165,280</b>	<b>172,550</b>	<b>172,409</b>	<b>180,494</b>
<b>Liabilities</b>						
Interbank Deposits	23,247	28,805	24,617	26,225	18,876	19,462
Customer Deposits	106,956	97,292	98,265	103,178	110,400	117,024
Sukuks & Borrowings	13,436	11,525	12,332	12,332	12,332	12,332
Other Liabilities	5,850	5,629	5,463	5,701	5,243	5,663
AT1 Notes	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Liabilities</b>	<b>150,488</b>	<b>144,251</b>	<b>141,677</b>	<b>148,436</b>	<b>147,852</b>	<b>155,482</b>
Minority Interest	200	198	225	255	294	338
<b>Total Shareholders' Equity</b>	<b>23,467</b>	<b>23,084</b>	<b>23,378</b>	<b>23,858</b>	<b>24,263</b>	<b>24,675</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>174,155</b>	<b>167,533</b>	<b>165,280</b>	<b>172,550</b>	<b>172,409</b>	<b>180,494</b>

Source: Company data, QNB FS Research

Ratios/KPIs	2021	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>						
RoE	11.3	5.8	5.7	6.5	8.1	9.0
RoAA	1.1	0.7	0.7	0.8	1.0	1.2
RoRWA	1.9	1.2	1.1	1.3	1.5	1.6
NIM (% of IEAs)	2.30	2.31	1.98	2.08	2.18	2.36
NIM (% of RWAs)	3.61	3.34	2.75	2.86	2.89	3.06
NIM (% of AAs)	2.11	2.11	1.80	1.90	2.00	2.16
Spread	2.1	2.0	1.2	1.3	1.3	1.4
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	21.5	25.8	26.0	25.7	25.4	24.9
Cost-to-Income (Core)	21.6	26.0	26.6	26.0	25.7	25.2
<b>Liquidity (%)</b>						
LDR (Loans to Stable Sources of Funds)	100	108	99	98	96	96
Loans/Assets	69.4	70.3	66.4	65.5	68.3	68.7
Cash & Interbank Loans-to-Total Assets	8.3	6.7	6.9	6.5	7.3	7.0
Deposits to Assets	61.4	58.1	59.5	59.8	64.0	64.8
Wholesale Funding to Loans	30.3	34.2	33.6	34.1	26.5	25.6
IEAs to IBLs	118.1	118.9	120.0	119.7	120.0	119.7
<b>Asset Quality (%)</b>						
NPL Ratio	1.57	5.99	6.46	6.20	5.90	5.50
NPL to Shareholders' Equity	8.19	31.60	31.98	31.28	30.72	29.84
NPL to Tier 1 Capital	9.04	33.70	32.66	31.29	29.87	28.25
Coverage Ratio	97.8	52.7	71.5	90.3	106.6	124.7
ALL/Average Loans	1.7	2.6	4.2	5.3	5.9	6.5
Cost of Risk (bps)	87	127	127	118	98	95
<b>Capitalization (%)</b>						
CET1 Ratio	19.4	18.6	20.5	19.3	19.9	19.6
Tier-1 Ratio	20.3	19.5	21.4	20.2	20.7	20.3
CAR	21.2	20.3	22.3	21.1	21.6	21.2
Leverage (x)	7.4	7.3	7.1	7.2	7.1	7.3
<b>Growth (%)</b>						
Net Interest Income	12.4	15.9	-16.8	7.2	7.3	10.4
Non-Interest Income	11.9	45.1	2.4	-4.5	8.3	-2.5
Opex	12.3	44.3	-13.1	3.5	6.3	6.1
Net Operating Income	12.4	13.4	-13.7	5.3	7.9	8.6
Net Income (Reported)	-21.0	-21.7	-3.1	14.6	26.8	13.0
Net Income (Attributable)						
Loans	40.2	-2.5	-6.8	2.9	4.2	5.3
Deposits	55.2	-9.0	1.0	5.0	7.0	6.0
Assets	43.7	-3.8	-1.3	4.4	-0.1	4.7
RWAs	54.8	6.1	-3.7	10.5	2.1	6.2

Source: Company data, QNB FS Research

## Qatar Islamic Bank (QIBK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR18.59	Target Price	QR24.18
Implied Upside	30.0%		

### Valuation Remains Undemanding; Stay Outperform

We still maintain our expected 5-year earnings CAGR of 11.5% (2022-27e) for Qatar Islamic Bank (QIBK) after its 3Q2023 results. Hence, we also retain our PT of QR24.18/share and our Outperform rating. As such, we believe the stock is trading at attractive levels. QIBK is trading at a P/B of 1.5x on our 2024e estimates (53% discount to its 5-year median of 2.3x), which implies significant upside, in our view. We note that the stock's 5-year median P/B is 2.3x (5-year high P/B of 3.0x and 5-year low of 1.6x). Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e/24e: 17.5% & 2025e: 17.6%); moreover, the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium.

### Highlights

- **QIBK reported in-line 3Q2023 net profit:** Qatar Islamic Bank (QIBK) reported earnings of QR1,099.9mn in 3Q2023, in-line with our estimate of QR1,119.4mn (variation of -1.7%).
- **Bottom-line was driven by core banking income and cost management.** Total revenue increased by 5.2% YoY to QR1,659.7mn (right in-line with our estimate of QR1,658.6mn), driven by net interest & investment income and fees. Net interest & investment income increased by 7.0% YoY to QR1,405.2mn, also in-line with our estimate of QR1,398.7mn (variation of +0.5%); NIMs expanded by 19bps YoY to -3.3%. At the same time, fees increased by 2.7% YoY. Opex dropped by 3.7%, resulting in net operating income increasing by 7.2% to QR1,384.1mn (in-line with our estimate of QR1,391.0mn; variation of -0.5%).
- **Robust RoE and RoRWA trajectory to continue; 9M2023 RoE came in at 17.5%:** QIBK boasts one of the highest RoEs & RoRWAs among its domestic and regional peers. Moreover, RoRWAs was an impressive 2.8%. The bank's RoE jumped from 15.2% in FY2016 to 18.1% in FY2022, despite the large amounts of provisions booked during the COVID-19 pandemic era along with precautionary provisions due to QIBK's prudent risk approach. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.8% in 2022/9M2023 and we still expect this metric to increase to 3.2% by 2027.
- **QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs; reported C/I of 17.3% and neutral JAWs in 9M2023.** The bank's C/I ratio dropped from 30.8% in 2015 to 17.4% in 2022 (1Q2023: 18.8%). Moreover, QIBK generated robust JAWs of 8.7% on average (2017-2022). We maintain our estimates for C/I ratios of 17.0%/16.6% in 2023/2024.
- **Net loans continued its positive trajectory but remains sluggish.** Net loans increased by 1.9% sequentially to QR121.8bn (+2.1% YTD). Deposits picked up pace and increased by 3.9% QoQ to QR121.5bn (-0.7% YTD). We retain our growth forecast for net loans of 2.3% in 2023 and maintain a CAGR of 6.1% (2022-2027e).
- **CoR to remain elevated given management's conservative risk management nature but we do not expect it to be > ~100bps levels (2020 & 2021).** Net credit provisions increased by 16.5% YoY in 3Q2023 (declined by 5.3% sequentially) to QR267.3mn. On a positive note, 9M2023 CoR improved from 118bps in 9M2022 to 90bps (FY2022: 92bps). We maintain our estimate for CoR at 79bps in 2023e. We still expect CoR to normalize ~70bps by 2026e/27e. A decent chunk of CoR is coming from Stage 1 loans as management is upping its buffers. 59% of ECLs (FY2022: 54%) is attributed to Stage 1 loans.
- **Asset quality remains superior; we still do not expect any headwinds going forward.** NPL ratio improved to 1.45% in 3Q2023 vs 1.51% in 2Q2023 and 1.53% in FY2022. During the same time, NPL formation was negative, which is a positive (dropping by 2.0% sequentially and 3.3% vs. FY2022; also dropping by 11.1% in FY2022 vs. FY2021). Coverage of Stage 3 loans was a strong 95%.

### Catalysts

- **For QIBK shares to regain momentum, we need to see dividend upside.** Investor sentiment also generally needs to become more constructive regarding the banking sector and Qatari equities.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target at QR24.18 our Outperform rating.** QIBK is trading at a 2023e/24e P/TB and P/E of 1.7x/1.5x and 10.9x/9.8x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

### Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS (QR)	1.57	1.71	1.89	2.12
EPS Growth (%)	13.7	8.7	10.6	12.0
P/E (x)	11.8	10.9	9.8	8.8
Tangible BVPS (QR)	9.8	10.8	12.1	13.4
P/TBV (x)	1.9	1.7	1.5	1.4
RoE (%)	18.1	17.5	17.5	17.6
DPS (QR)	0.625	0.675	0.725	0.800
Dividend Yield (%)	3.4	3.6	3.9	4.3

Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	18.59
Dividend Yield (%)	3.4
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	24.95/16.81
3-m Average Volume ('000)	1,259.3
Mkt. Cap. (\$ bn/QR bn)	12.1/43.9
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	15.2
1-Year Total Return (%)	(21.6)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign institutional ownership

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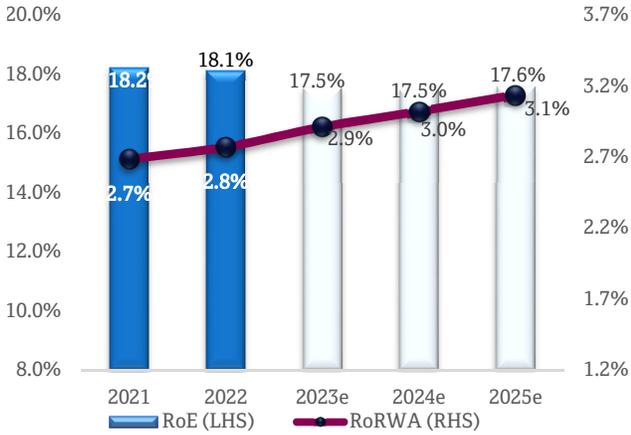
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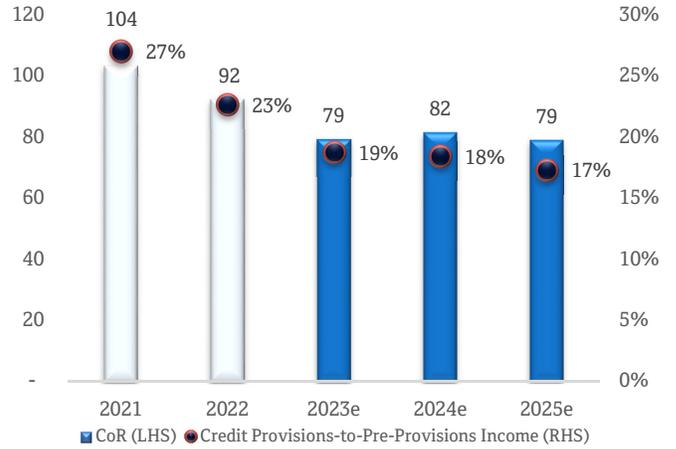
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### Robust RoE and RoRWAs Generator

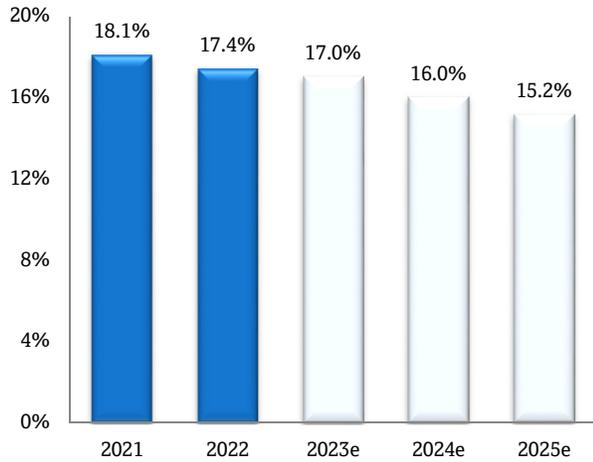


Source: Company data, QNB FS Research

### With Healthy CoR Levels

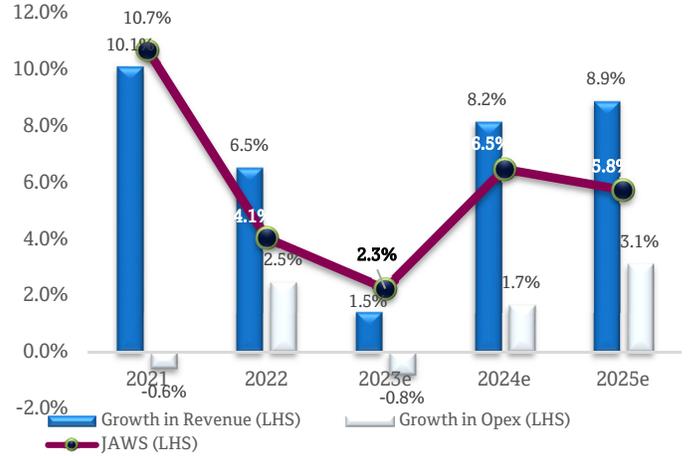


### Efficiently Managed Bank

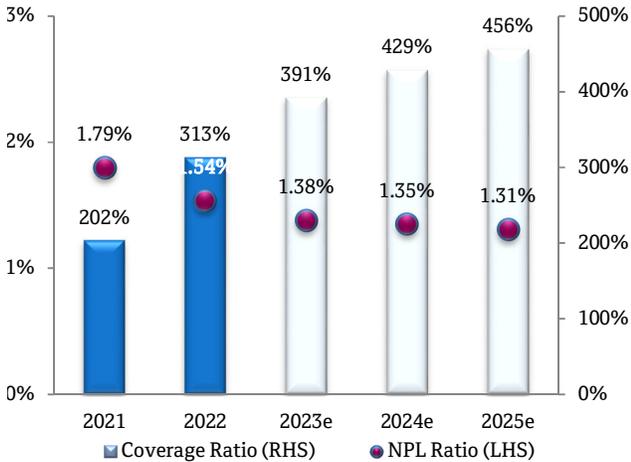


Source: Company data, QNB FS Research

### While Generating Strong Revenue Growth and Positive JAWs



### Superior Asset Quality



Source: Company data, QNB FS Research

### Strong Coverage of Stage 3 Loans

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	102,121,886	24,647,442	1,861,279	128,630,607
ECLs	4,025,276	1,038,662	1,764,290	6,828,228
Stages % of Loans	79.4%	19.2%	1.45%	
Stages % ECLS	59.0%	15.2%	25.8%	
Coverage Ratio	4%	4%	95%	

## Detailed Financial Statements

Income Statement (In QR m)	2020	2021	2022	2023e	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>4,350</b>	<b>4,774</b>	<b>4,999</b>	<b>5,175</b>	<b>5,621</b>	<b>6,241</b>	<b>6,964</b>
Fees & Commissions	661	726	810	836	922	932	1,011
FX Income	76	200	122	86	103	96	110
Other Income	353	289	451	377	358	358	387
<b>Non-Interest Income</b>	<b>1,090</b>	<b>1,215</b>	<b>1,383</b>	<b>1,299</b>	<b>1,382</b>	<b>1,385</b>	<b>1,508</b>
<b>Total Revenue</b>	<b>5,439</b>	<b>5,990</b>	<b>6,382</b>	<b>6,475</b>	<b>7,003</b>	<b>7,626</b>	<b>8,472</b>
Operating Expenses	(1,092)	(1,085)	(1,112)	(1,103)	(1,122)	(1,157)	(1,224)
<b>Net Operating Income</b>	<b>4,348</b>	<b>4,904</b>	<b>5,270</b>	<b>5,371</b>	<b>5,881</b>	<b>6,469</b>	<b>7,248</b>
Net Provisions & Impairments	(1,316)	(1,342)	(1,235)	(1,022)	(1,089)	(1,122)	(1,354)
<b>Net Profit Before Taxes &amp; N</b>	<b>3,032</b>	<b>3,563</b>	<b>4,034</b>	<b>4,350</b>	<b>4,793</b>	<b>5,346</b>	<b>5,894</b>
Tax	(7)	(10)	(11)	(12)	(13)	(15)	(16)
<b>Net Profit Before Minority I</b>	<b>3,024</b>	<b>3,553</b>	<b>4,023</b>	<b>4,338</b>	<b>4,779</b>	<b>5,332</b>	<b>5,877</b>
Minority Interest	41	2	(18)	(1)	(3)	(4)	(5)
<b>Non-Recurring/Unusual Gai</b>	<b>0</b>						
<b>Net Profit (Headline)</b>	<b>3,065</b>	<b>3,555</b>	<b>4,005</b>	<b>4,336</b>	<b>4,776</b>	<b>5,327</b>	<b>5,873</b>
Interest On Tier-1 Sukuk	(205)	(196)	(188)	(188)	(188)	(188)	(188)
Social & Sports Contribution Fur	(77)	(89)	(100)	(108)	(119)	(133)	(147)
<b>Net Profit (Attributable)</b>	<b>2,783</b>	<b>3,270</b>	<b>3,717</b>	<b>4,040</b>	<b>4,469</b>	<b>5,006</b>	<b>5,538</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
<b>Assets</b>							
Cash & Balances with Central Bank	8,357	7,177	7,951	7,239	7,983	8,056	9,451
Interbank Loans	6,913	7,461	3,188	3,907	3,473	4,160	3,002
Net Investments	33,248	44,380	45,774	48,321	49,956	49,318	52,796
Net Loans	119,072	128,409	119,285	122,085	128,635	138,661	150,099
Investment In Associates	1,134	1,140	1,130	1,163	1,196	1,232	1,270
Other Assets	1,937	1,709	2,576	2,655	2,618	2,763	2,674
Net PP&E	462	570	558	524	509	500	495
Investment In Real Estate	2,863	2,854	3,321	3,358	3,396	3,434	3,471
Goodwill & Intangible Assets	370	218	218	218	218	218	218
<b>Total Assets</b>	<b>174,356</b>	<b>193,916</b>	<b>184,001</b>	<b>189,470</b>	<b>197,985</b>	<b>208,341</b>	<b>223,476</b>
<b>Liabilities</b>							
Interbank Deposits	13,828	19,856	17,382	18,624	18,951	17,475	17,538
Customer Deposits	118,144	131,095	122,371	124,818	129,811	138,898	150,010
Sukuk Financing	14,059	14,063	12,453	11,830	11,830	11,830	11,830
Other Liabilities	5,120	3,491	3,868	3,707	4,024	3,472	3,780
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>155,150</b>	<b>172,504</b>	<b>160,075</b>	<b>162,979</b>	<b>168,617</b>	<b>175,676</b>	<b>187,158</b>
<b>Minority Interest</b>	<b>903</b>	<b>676</b>	<b>669</b>	<b>670</b>	<b>673</b>	<b>677</b>	<b>682</b>
Total Shareholders' Equity	18,304	20,736	23,257	25,821	28,695	31,988	35,636
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>174,356</b>	<b>193,916</b>	<b>184,001</b>	<b>189,470</b>	<b>197,985</b>	<b>208,341</b>	<b>223,476</b>
<b>Risk Weighted Assets</b>	<b>121,582</b>	<b>134,045</b>	<b>138,570</b>	<b>147,787</b>	<b>159,378</b>	<b>170,840</b>	<b>189,955</b>

Source: Company data, QNB FS Research

Key Indicators/KPIs	2020	2021	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>							
RoE (Tangible)	16.6	18.2	18.1	17.5	17.5	17.6	17.4
RoAA	1.6	1.8	2.0	2.2	2.3	2.5	2.6
RoRWA	2.5	2.7	2.8	2.9	3.0	3.1	3.2
NIM (% of IEAs)	2.87	2.90	2.97	3.13	3.25	3.43	3.60
NIM (% of RWAs)	3.75	3.74	3.67	3.61	3.66	3.78	3.86
NIM (% of AAs)	2.57	2.59	2.65	2.77	2.90	3.07	3.23
Spread	2.52	2.66	2.67	2.53	2.59	2.62	2.64
<b>Efficiency (%)</b>							
Cost-to-Income (Headline)	20.1	18.1	17.4	17.0	16.0	15.2	14.4
Cost-to-Income (Core)	21.2	18.9	18.7	18.1	16.9	15.9	15.1
<b>Liquidity (%)</b>							
LDR	100.8	98.0	97.5	97.8	99.1	99.8	100.1
Loans/Assets	68.3	66.2	64.8	64.4	65.0	66.6	67.2
Cash & Interbank Loans-to-Total Assets	8.8	7.5	6.1	5.9	5.8	5.9	5.6
Deposits to Assets	67.8	67.6	66.5	65.9	65.6	66.7	67.1
Wholesale Funding to Loans	23.4	26.4	25.0	24.9	23.9	21.1	19.6
IEAs to IBLs	120.9	117.1	122.2	120.1	121.1	122.2	122.8
<b>Asset Quality (%)</b>							
NPL Ratio	1.4	1.8	1.5	1.4	1.4	1.3	1.3
NPL to Shareholder's Equity	9.6	11.5	8.3	6.9	6.4	6.0	5.7
NPL to Tier 1 Capital	7.9	10.1	7.4	6.5	6.3	6.2	6.0
Coverage Ratio	226.8	202.4	313.0	391.2	428.9	455.7	473.8
ALL/Average Loans	3.1	3.5	4.2	4.7	5.0	5.2	5.3
Cost of Risk	105	104	92	79	82	79	74
<b>Capitalization (%)</b>							
CET1 Ratio	14.9	14.7	15.8	15.8	15.8	16.0	15.7
Tier-1 Ratio	18.2	17.7	18.7	18.5	18.3	18.3	17.8
CAR	19.4	18.9	19.9	19.7	19.5	19.5	19.0
Leverage (x)	9.5	9.4	7.9	7.3	6.9	6.5	6.3
<b>Growth (%)</b>							
Net Interest Income	12.7	9.8	4.7	3.5	8.6	11.0	11.6
Non-Interest Income	12.3	11.5	13.8	-6.1	6.4	0.2	8.9
Total Revenue	12.6	10.1	6.5	1.5	8.2	8.9	11.1
OPEX	-0.9	-0.6	2.5	-0.8	1.7	3.1	5.7
Net Operating Income	16.6	12.8	7.4	1.9	9.5	10.0	12.0
Net Income (Attributable)	0.3	17.5	13.7	8.7	10.6	12.0	10.6
Loans	4.7	7.8	-7.1	2.3	5.4	7.8	8.2
Deposits	5.8	11.0	-6.7	2.0	4.0	7.0	8.0
Assets	6.6	11.2	-5.1	3.0	4.5	5.2	7.3
RWAs	10.1	10.3	3.4	6.7	7.8	7.2	11.2

Source: Company data, QNB FS Research

## Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.06	Target Price	QR10.44
Implied Upside	3.8%		

### Limited Upside; Maintain Market Perform & QR10.438 PT

We maintain our expected 5-year earnings CAGR of 10.8% (2022-27e) for Qatar International Islamic Bank (QIIB) after its 3Q2023 results. We also retain our Market Perform rating and our TP of QR10.438 as growth in earnings is already priced-in. The stock is now trading at 2023 P/B of 2.1x, close to its 5-year median of 2.2x. As a result, we see limited upside. At these levels, it would imply that QIIB is trading at a 22% premium to QIBK (2023e P/B 1.6x) and it should be noted that QIBK has better profitability and asset quality indicators. Further, the market is pricing in a sustainable RoE of 20%, above our estimate of 16% (20% sustainable RoE is very challenging to achieve, in our view).

### Highlights

- **QIIB's 3Q2023 came in modestly ahead of our estimates; 3Q2023 bottom-line increased by 9.3% YoY (+20.9% QoQ) to QR361.8mn (highest profitability level reached in its operating history). For the time being, our estimates broadly remain unchanged.** Qatar International Islamic Bank reported a net income of QR361.8mn in 3Q2023 vs. our estimate of QR351.6mn (+2.9% variation). The YoY increase in profitability was driven by margin expansion (3.03% vs. 2.62% in 3Q2022), fee income and cost containment, despite a 67.6% surge in provisions and impairments. Sequentially, earnings increased on the back of margin expansion, flat opex and flat credit provisions.
- **Healthy RoE generator (>CoE):** QIIB reported annualized RoE of 18.7% in 9M2023 vs. 18.2% in 9M2022 (annualized RoE is not an indicator for year-end RoE). RoE is expected to reach 16.6% by 2026e from 14.3% in 2022. Moreover, RoRWAs is still expected to increase from 1.9% in 2022 (1.8% in 2021) to a strong 2.2% by 2026e.
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC, consistently generating positive JAWs.** QIIB's cost-to-income ratio remained at a very healthy level, declining from 18.4%/19.0% in 3Q2022/2Q2023 to 16.3% in 3Q2023 (9M2023: 17.8%).
- **Net loans are still expected to grow by a 5-year CAGR (2022-27e) of 6.4%.** Net loans expanded by 2.6% sequentially (+5.0% vs. FY2022) to QR36.8bn, driven by the private sector (excluding retail and contracting segments). Deposits followed suit and increased by 4.0% QoQ (flat vs. FY2022) to reach QR38.0bn in 3Q2023. Thus, QIIB's LDR (excluding wholesale stable sources of funds) was a healthy 97%.
- **9M2023 CoR (annualized) significantly increased vs. 9M2022.** QIIB booked net credit provisions of QR96.5mn in 3Q2023 (9M2023: QR244.8mn) vs. QR51.4mn in 3Q2022 (9M2022: QR171.4mn) and QR94.6mn in 2Q2023. 9M2023 CoR increased to 85bps from 62bps in 9M2022.
- **Asset quality continued to come under pressure, mainly attributed to some SMEs; QIIB downgraded some accounts from Stage 2 to Stage 3.** NPL ratio jumped from 2.79% in FY2022 to 3.16% in 3Q2023 (2Q2023: 2.82%; FY2021: 2.57%), while NPLs increased by 15.2% QoQ (+19.5% vs. FY2022). Moreover, coverage of Stage 3 loans declined to 90% (although still strong) vs. 95% in 2Q2023 (FY2022: 93%). Management continued building buffers for Stage 1 loans. As such, allowance for loan losses (Stage 1) increased by 40% vs. FY2022 and contributes 25% of allowance for loan losses. Going forward, management is expected to increase coverage of Stage 3 loans to 100%.
- **Capitalization remains healthy and above QCB minimum.** QIIB ended 3Q2023 with a robust CET1/Tier-1 ratio of 12.0%/16.0%.

### Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 4.4%).

### Recommendation, Valuation and Risks

- **Recommendation and valuation:** We maintain our Market Perform rating and price target of QR10.438. QIIB is trading at a 2023/24e P/TB and P/E of 2.1x/1.9x and 14.9x/13.7x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in further impairments and 2) Geopolitical risks.

### Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.621	0.676	0.736	0.849
EPS Growth (%)	8.1	8.9	8.9	15.3
P/E (x)	16.2	14.9	13.7	11.8
Tangible BVPS (QR)	4.6	4.9	5.2	5.5
P/TBV (x)	2.2	2.1	1.9	1.8
RoE (%)	14.3	14.7	15.1	16.4
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	4.0	4.2	4.7	5.0

Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	10.06
Dividend Yield (%)	4.0
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	12.28/8.66
3-m Average Volume (000)	777.5
Mkt. Cap. (\$ bn/QR bn)	4.2/15.2
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.7
1-Year Total Return (%)	(12.5)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign institutional ownership

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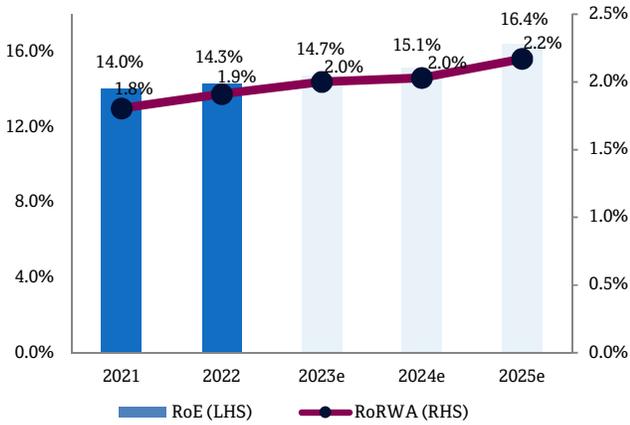
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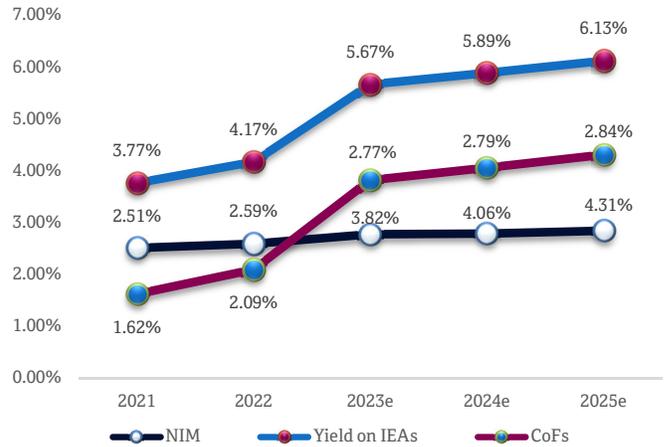
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**RoE & RoRWAs to Steadily Improve & Remain Healthy; RoE > CoE**

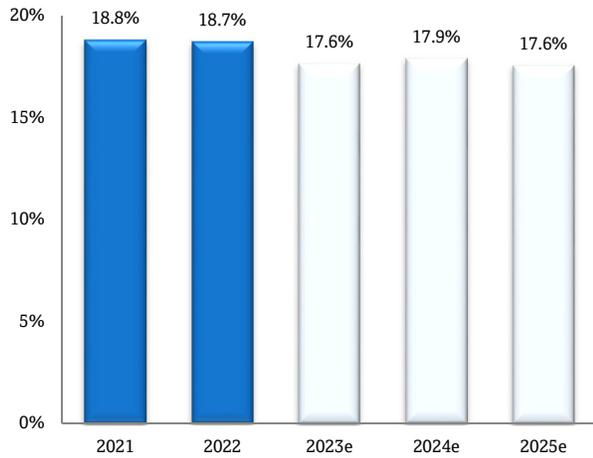


Source: Company data, QNB FS Research

**While Margins to Increase**

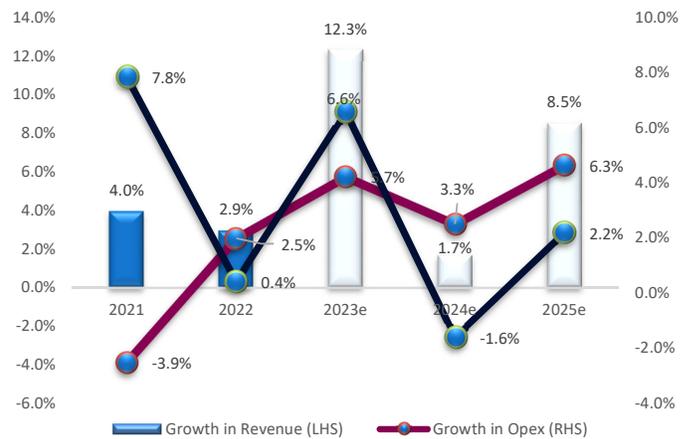


**C/I Ratio is One of The Lowest Domestically & Regionally**

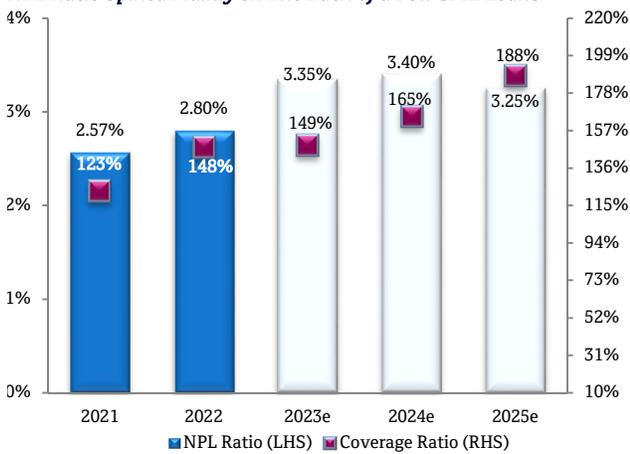


Source: Company data, QNB FS Research

**While Generating Neutral-to-Positive JAWS**



**NPL Ratio Spiked Mainly on The Back of a Few SME Loans**



Source: Company data, QNB FS Research

**Coverage of Stage 3 Loans (NPLs) is a Strong 90%**

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	34,136,485	3,256,359	1,221,591	38,614,435
ECLs	438,351	222,298	1,092,855	1,753,504
Stages % Loans	88.4%	8.4%	3.16%	
Stages % ECLs	25.0%	12.7%	62.3%	
<b>Coverage Ratio</b>	<b>1.3%</b>	<b>6.8%</b>	<b>89.5%</b>	

## Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	1,422	1,434	1,423	1,479	1,580	1,722	1,858
Fees & Commissions	203	250	298	311	349	376	349
FX Income	48	42	85	86	92	89	95
Other Income	3	16	(13)	137	27	34	44
<b>Non-Interest Income</b>	<b>253</b>	<b>308</b>	<b>370</b>	<b>535</b>	<b>467</b>	<b>500</b>	<b>489</b>
Total Revenue	1,675	1,742	1,793	2,014	2,047	2,222	2,347
Operating Expenses	(341)	(328)	(336)	(355)	(367)	(390)	(426)
Net Operating Income	1,335	1,414	1,457	1,658	1,681	1,832	1,921
Net Provisions & Impairments	(397)	(411)	(382)	(498)	(426)	(402)	(372)
<b>Net Profit (Headline/Reported)</b>	<b>938</b>	<b>1,003</b>	<b>1,075</b>	<b>1,161</b>	<b>1,254</b>	<b>1,429</b>	<b>1,548</b>
Payment on Tier-1 Sukuk	(108)	(108)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(25)	(27)	(29)	(31)	(36)	(39)
<b>Net Profit (Attributable)</b>	<b>806</b>	<b>870</b>	<b>940</b>	<b>1,023</b>	<b>1,114</b>	<b>1,285</b>	<b>1,402</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	2,776	2,670	2,491	2,509	2,693	2,710	3,017
Interbank Loans	10,508	13,426	9,760	11,734	11,654	13,216	11,060
Net Investments	5,852	7,220	7,752	8,135	8,705	9,317	9,973
Net Loans	40,514	37,031	35,022	36,669	38,846	41,301	44,241
Investment In Associates	345	264	192	184	179	175	173
Other Assets	351	252	275	239	271	244	294
Net PP&E	242	231	231	236	245	258	276
Investments In Real Estate	724	697	669	669	669	669	669
<b>Total Assets</b>	<b>61,314</b>	<b>61,792</b>	<b>56,393</b>	<b>60,376</b>	<b>63,261</b>	<b>67,891</b>	<b>69,704</b>
<b>Liabilities</b>							
Interbank Deposits	13,128	9,922	5,679	8,068	8,102	9,854	8,260
Customer Deposits	36,352	38,646	37,945	39,083	41,428	43,707	46,417
Term Loans	2,566	3,543	2,794	2,794	2,794	2,794	2,794
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	944	979	900	938	974	1,005	1,058
<b>Total Liabilities</b>	<b>55,082</b>	<b>55,182</b>	<b>49,411</b>	<b>52,975</b>	<b>55,390</b>	<b>59,453</b>	<b>60,621</b>
<b>Total Shareholders' Equity</b>	<b>6,231</b>	<b>6,610</b>	<b>6,983</b>	<b>7,401</b>	<b>7,872</b>	<b>8,438</b>	<b>9,083</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>61,314</b>	<b>61,792</b>	<b>56,393</b>	<b>60,376</b>	<b>63,261</b>	<b>67,891</b>	<b>69,704</b>
<b>Risk Weighted Assets</b>	<b>47,132</b>	<b>49,250</b>	<b>49,109</b>	<b>53,131</b>	<b>56,619</b>	<b>61,781</b>	<b>64,824</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e	2026e
<b>Profitability (%)</b>							
RoE	13.4	14.0	14.3	14.7	15.1	16.4	16.7
RoAA	1.4	1.4	1.6	1.8	1.8	2.0	2.0
RoRWA	1.8	1.8	1.9	2.0	2.0	2.2	2.2
NIM (% of IEAs)	2.60	2.51	2.59	2.77	2.79	2.84	2.88
NIM (% of RWAs)	3.24	2.97	2.89	2.89	2.88	2.91	2.94
NIM (% of AAs)	2.41	2.33	2.41	2.53	2.56	2.63	2.70
Spread	2.20	2.15	2.08	1.85	1.83	1.81	1.70
<b>Efficiency (%)</b>							
Cost-to-Income (Headline)	20.3	18.8	18.7	17.6	17.9	17.6	18.2
Cost-to-Income (Core)	20.5	19.1	18.7	19.0	18.2	17.9	18.6
<b>Liquidity (%)</b>							
LDR	104	88	86	88	88	89	90
Loans/Assets	66.1	59.9	62.1	60.7	61.4	60.8	63.5
Cash & Interbank Loans-to-Total Assets	21.7	26.0	21.7	23.6	22.7	23.5	20.2
Deposits to Assets	59.3	62.5	67.3	64.7	65.5	64.4	66.6
Wholesale Funding to Loans	38.7	36.4	24.2	29.6	28.0	30.6	25.0
IEAs to IBLs	129	129	136	128	133	130	139
<b>Asset Quality (%)</b>							
NPL Ratio	1.6	2.6	2.8	3.4	3.4	3.3	3.0
NPL to Shareholders' Equity	10.4	14.8	14.6	17.5	17.8	16.9	15.4
NPL to Tier-1 Capital	8.8	12.8	12.8	15.4	15.8	15.1	13.8
Coverage Ratio	128.9	123.1	147.7	149.1	164.9	188.0	218.4
ALL/Average Loans	2.0	2.9	3.9	4.9	5.5	6.0	6.4
Cost of Risk (bps)	59	95	81	112	95	89	79
<b>Capitalization (%)</b>							
CET1 Ratio	11.2	11.3	12.0	11.9	12.0	11.9	12.3
Tier-1 Ratio	15.6	15.6	16.3	15.8	15.7	15.3	15.6
CAR	16.5	16.7	17.7	17.2	17.1	16.7	17.0
Leverage (x)	9.8	9.3	8.1	8.2	8.0	8.0	7.7
<b>Growth (%)</b>							
Net Interest Income	13.3	0.8	-0.8	4.0	6.8	9.0	7.9
Non-Interest Income	57.7	21.5	20.2	44.4	-12.6	6.9	-2.2
OPEX	-0.2	-3.9	2.5	5.7	3.3	6.3	9.3
Net Operating Income	24.2	6.0	3.0	13.8	1.3	9.0	4.9
Net Income (Attributable)	-5.0	7.9	8.1	8.9	8.9	15.3	9.0
Loans	9.5	-8.6	-5.4	4.7	5.9	6.3	7.1
Deposits	16.4	6.3	-1.8	3.0	6.0	5.5	6.2
Assets	7.9	0.8	-8.7	7.1	4.8	7.3	2.7
RWAs	15.6	4.5	-0.3	8.2	6.6	9.1	4.9

Source: Company data, QNB FS Research

## COMPANY UPDATES: DIVERSIFIED

## Baladna (BLDN)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.270	Target Price	QR1.767
Implied Upside	39.2%		

### New Lower Finance Costs Terms Bolsters Thesis Further; Maintain Accumulate

We maintain our 2023 forecasts and PT following a marginally upbeat 9M/3Q 2023. This implies the stock is trading at a 2023E P/E of ~22.5x and DY of ~3.4%, which compares favorably to its median of 33.4x and 3.2% since listing, respectively. We continue to like BLDN's short- to medium-term story premised on considerable volume growth headway, which for the foreseeable future is also now being helped further by the renegotiation of financing arrangements on more favorable terms. However, BLDN is less attractive relative to its regional peers, who are trading at a median 2023E P/E of 18.1x. A more attractive 2023E DY relative to peers' 3.1% offsets that somewhat. Also, cross asset yields are much more appealing and this could keep the stock under pressure. We note BLDN skipped paying a FY2022 dividend and we remain confident that management will declare a dividend for FY2023.

- **Baladna's 3Q2023 attributable profit jumped 177.6% YoY but was almost flat QoQ to QR22.3mn, slightly beating our estimate of QR21.3mn by 4.4%.** Significantly lower finance costs than we had forecasted account for the beat even as the top-line came in behind our estimate and margins were slimmer than anticipated.
- **The big drop in finance charges especially QoQ by 38.8% to QR13.8mn (-11.2 YoY) without a corresponding decrease in debt levels as far as we can tell made a big difference at the bottom-line.** In fact, net debt levels edged up by ~5% QoQ to QR1.83bn. It is possible that management negotiated better terms with lenders. Unlike in previous quarters, debt cost details were not provided in the footnotes for the 3Q2023 under review. We will get more color on this. We note that there was a moratorium on costs that banks can pass on to certain customers as markets interest rates continued to rise.
- **BLDN's 3Q2023 revenue rose 13.9% YoY but declined 2.4% QoQ to QR255.9mn, below our expectations of QR270.9mn by 5.5%.** Dairy sales rose 15.9% YoY to QR231.1mn (-2.4% QoQ) vs. our estimate of QR241.8mn. Juice sales increased 7.2%/4.3% YoY/QoQ to QR18.7mn vs. QR19.2mn expected. Other sales (dairy by products +detergents) declined 21.5%/18.6% YoY/QoQ to 6.2mn vs. QR6.3mn modeled.
- **The GP margin came in lower at 20.1% compared with the 21.4% we had expected,** as well as lower sequentially but significantly higher compared with 3Q2022, which printed at 17.0%. The YoY improvement in GP margin is likely due to the benefit of declining feed costs that are beginning to accrue. Other income and G&A and S&D expenses were in-line.
- **In the medium term, we see margin expansion from increased capacity utilization, as volumes grow, coupled with the benefit of declining soft commodity prices.** In the near term, this benefit is largely offset by rising and high interest rates through high finance costs although 3Q2023 developments on this front are encouraging, if sustained. **In any case, we see a gradual decline in finance costs from FY2024 as the group gradually pays down its debt while capex normalization boosts FCF.** Increasing FCF should be used to reduce the debt burden and restart distributions to shareholders – we expect a resumption of dividends for FY2023. Baladna has been on a heavy investment cycle since it expanded operations in 2017, but we see capex requirements subsiding in the near term, which bodes well for its valuation and investor perception.

#### Catalysts

- **Catalysts: (1) Market share gains (2) New product launches (3) Moderating feed costs (4) Advanced manufacturing capabilities (5) Fruition of international expansion plans including exporting the "Baladna Model."**

#### Recommendation, Valuation and Risks

- **Recommendation and Valuation: We maintain an Accumulate rating and a 12-month TP of QR1.767, implying a 39.2% upside potential.** Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies. Our primary thesis is that, internally, the headway for volume growth is supported by ample manufacturing capacity and low market shares in select product lines. Inorganically, the scope to export its model creates PE-like payoff optionality. We note that last year or FY2022 was a particularly difficult year for Baladna due to imported costs of inputs which culminated in BLDN skipping declaring a dividend. We believe, however, that Baladna's finances will shore up in FY2023, which gives it the ability to resume paying dividends. We also note that while Baladna's capital return ratios are relatively low, they should gradually improve as plant utilization increases and capex normalizes.
- **Key risks: (1) Price controls (2) Volatile soft commodity prices (3) Cessation of government support (4) Rising interest rates on elevated debt burden (5) Animal disease outbreak (6) Dairy alternatives, i.e., plant-based substitutes.**

#### Key Financial Data and Estimates

Group	2022a	2023e	2024e	2025e
EPS (QR)	0.042	0.047	0.093	0.111
P/E (x)	29.95	26.87	13.70	11.42
EV/EBITDA (x)	14.55	12.21	10.31	9.95
DPS (QR)	-	0.04	0.07	0.08
DY (%)	0.0%	2.8%	5.5%	6.6%

Source: Company data, QNBFS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

#### Key Data

Current Market Price	QR1.270
Dividend Yield (%)	0.0
Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector*	Consumer Goods
52wk High/Low (QR)	1.780/1.050
3-m Average Vol. (mn)	8.3
Mkt. Cap. (\$ bn/QR bn)	0.7/2.4
EV (\$ bn/QR bn)	1.1/4.0
Shares O/S (mn)	1,901.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	2.9
1-Year Total Return (%)	-24.4
Fiscal Year-End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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**Condensed Financial Statements & Forecasts**
**Income Statement (QR)**

Group	2022a	2023e	2024e	2025e	2026e
<b>REVENUE</b>	<b>985,620,392</b>	<b>1,071,573,861</b>	<b>1,296,763,810</b>	<b>1,510,405,633</b>	<b>1,626,226,658</b>
GROSS PROFIT	209,901,661	261,012,605	337,860,140	393,627,014	439,029,860
OTHER INCOME	117,447,276	116,643,395	111,497,709	90,316,593	69,939,562
EBITDA	294,348,293	341,180,441	403,204,288	413,679,059	430,458,938
OPERATING PROFIT	153,688,832	198,281,650	270,486,458	296,355,906	314,029,675
<b>NET PROFIT</b>	<b>80,611,726</b>	<b>89,850,739</b>	<b>176,275,354</b>	<b>211,467,598</b>	<b>232,994,065</b>

Source: Bloomberg, QNBFS Research

**Balance Sheet (QR)**

Group	2022a	2023e	2024e	2025e	2026e
<b>Non-current asset</b>					
Property and equipment	3,128,084,820	3,056,185,052	3,046,557,000	2,982,162,782	2,894,427,730
Right of use assets	21,056,526	8,155,085	8,155,085	8,155,085	8,155,085
Intangible assets	6,411,217	4,108,766	1,801,123	1,801,123	1,801,123
FVTPL assets	218,124,952	218,124,952	218,124,952	218,124,952	218,124,952
Biological assets	219,941,340	255,438,277	289,485,543	321,310,309	351,057,652
<b>Total non-current assets</b>	<b>3,593,618,855</b>	<b>3,542,012,132</b>	<b>3,564,123,703</b>	<b>3,531,554,250</b>	<b>3,473,566,542</b>
<b>Current assets</b>					
Biological assets	813,800	945,141	1,071,119	1,188,873	1,298,941
Inventories	442,974,185	462,871,009	547,581,945	637,736,436	677,948,737
Accounts receivable and prepayments	307,970,755	316,952,544	337,410,895	340,533,687	333,419,732
Due from related parties	30,709,498	30,709,498	30,709,498	30,709,498	30,709,498
Cash and bank balances	62,367,530	69,429,362	16,074,329	19,446,945	26,159,411
<b>Total Current assets</b>	<b>844,835,768</b>	<b>880,907,554</b>	<b>932,847,786</b>	<b>1,029,615,438</b>	<b>1,069,536,319</b>
<b>Total assets</b>	<b>4,438,454,623</b>	<b>4,422,919,686</b>	<b>4,496,971,489</b>	<b>4,561,169,689</b>	<b>4,543,102,860</b>
<b>EQUITY AND LIABILITIES</b>					
Equity	1,901,000,000	1,901,000,000	1,901,000,000	1,901,000,000	1,901,000,000
Legal reserve	37,157,664	46,142,737	63,770,273	84,917,033	108,216,439
Acquisition reserve	201,123,011	201,123,011	201,123,011	201,123,011	201,123,011
Retained earnings	109,594,477	188,213,874	274,424,964	325,993,486	369,752,112
<b>Total equity</b>	<b>2,248,875,152</b>	<b>2,336,479,622</b>	<b>2,440,318,248</b>	<b>2,513,033,530</b>	<b>2,580,091,562</b>
<b>Non-current liability</b>					
Islamic financing: Interest bearing loans and borrowings	1,634,196,123	1,543,835,560	1,498,655,278	1,462,511,053	1,372,150,489
Lease liabilities	8,805,361	4,902,785	1,014,318	1,014,318	1,014,318
Employees' end of service benefits	13,589,562	14,351,146	15,318,434	16,462,473	17,659,594
<b>Total non-current liability</b>	<b>1,656,591,046</b>	<b>1,563,089,490</b>	<b>1,514,988,030</b>	<b>1,479,987,843</b>	<b>1,390,824,401</b>
<b>Current liability</b>					
Lease liabilities	15,186,935	8,456,016	1,749,432	1,749,432	1,749,432
Due to related parties	4,283,283	4,283,283	4,283,283	4,283,283	4,283,283
Accounts payable and accruals	239,693,454	246,425,958	276,266,898	306,605,777	320,283,796
Islamic: Interest bearing loans and borrowings	86,125,000	81,362,840	78,981,760	77,076,896	72,314,736
Short term borrowings	88,206,914	83,329,637	80,890,999	78,940,089	74,062,812
Bank overdraft	99,492,839	99,492,839	99,492,839	99,492,839	99,492,839
<b>Total current liability</b>	<b>532,988,425</b>	<b>523,350,574</b>	<b>541,665,212</b>	<b>568,148,316</b>	<b>572,186,897</b>
<b>Total liabilities</b>	<b>2,189,579,471</b>	<b>2,086,440,064</b>	<b>2,056,653,242</b>	<b>2,048,136,159</b>	<b>1,963,011,299</b>
<b>Total equity and liabilities</b>	<b>4,438,454,623</b>	<b>4,422,919,686</b>	<b>4,496,971,489</b>	<b>4,561,169,689</b>	<b>4,543,102,860</b>

Source: Bloomberg, QNBFS Research

**Cash Flow Statement (QR)**

Group	2022a	2023e	2024e	2025e	2026e
<b>Cash Flow from Operating Activities</b>	<b>8,367,485</b>	<b>150,440,102</b>	<b>172,600,566</b>	<b>206,315,743</b>	<b>272,066,426</b>
<b>Cash Flow from Investing Activities</b>	<b>(406,730,134)</b>	<b>(32,744,775)</b>	<b>(97,330,703)</b>	<b>(29,477,502)</b>	<b>(5,242,778)</b>
<b>Cash Flow from Financing Activities</b>	<b>394,361,080</b>	<b>(110,633,495)</b>	<b>(128,624,896)</b>	<b>(173,465,625)</b>	<b>(260,111,181)</b>
Change in Cash	(4,001,569)	7,061,832	(53,355,033)	3,372,616	6,712,467
Cash Beginning of Period	(52,624,771)	(37,125,309)	(30,063,477)	(83,418,510)	(80,045,894)
Restricted bank balance	19,501,031	-	-	-	-
<b>Cash End of Period</b>	<b>(37,125,309)</b>	<b>(30,063,477)</b>	<b>(83,418,510)</b>	<b>(80,045,894)</b>	<b>(73,333,428)</b>

Source: Bloomberg, QNBFS Research

**Key Ratios**

Group	2022a	2023e	2024e	2025e	2026e
<b>Growth Rates</b>					
Revenue	27.5%	8.7%	21.0%	16.5%	7.7%
Gross Profit	6.7%	24.3%	29.4%	16.5%	11.5%
EBITDA	2.8%	15.9%	18.2%	2.6%	4.1%
EBIT	-4.0%	29.0%	36.4%	9.6%	6.0%
NP	-39.8%	11.5%	96.2%	20.0%	10.2%
EPS	-39.4%	11.5%	96.2%	20.0%	10.2%
DPS	-100.0%	N.M.	96.2%	20.0%	10.2%
CFPS					
<b>Operating Ratios</b>					
Gross Margin	21.3%	24.4%	26.1%	26.1%	27.0%
EBITDA Margin	29.9%	31.8%	31.1%	27.4%	26.5%
EBIT Margin	15.6%	18.5%	20.9%	19.6%	19.3%
Net Margin	8.2%	8.4%	13.6%	14.0%	14.3%
<b>Working Capital Ratios</b>					
Inventory Days	210.2	206.5	208.5	208.5	208.5
Average Collection Period	41.7	41.7	41.7	41.7	41.7
Payable Days	68.1	68.1	68.1	68.1	68.1
NWC days	183.8	180.2	182.1	182.1	182.1
<b>Finance Ratios</b>					
Debt-Equity Ratio	86%	78%	72%	68%	63%
Net Debt -Equity Ratio	83%	75%	71%	68%	62%
Net Debt -to-Capital	45%	43%	42%	40%	38%
Net Debt -to-EBITDA	6.35	5.13	4.33	4.11	3.70
Interest Coverage	2.55	1.85	2.94	3.60	4.02
<b>Return Ratios</b>					
ROIC	3.7%	4.8%	6.4%	7.0%	7.5%
ROE	3.6%	3.8%	7.2%	8.4%	9.0%
ROA	1.8%	2.0%	3.9%	4.6%	5.1%
FCF Yield	-12.9%	4.9%	3.1%	7.3%	11.1%
<b>Liquidity Ratios</b>					
Current Ratio	1.59	1.68	1.72	1.81	1.87
Quick Ratio	0.75	0.80	0.71	0.69	0.68
<b>Valuation</b>					
EV/Sales	4.35	3.89	3.21	2.72	2.47
EV/EBITDA	14.55	12.21	10.31	9.95	9.31
EV/EBIT	27.87	21.01	15.38	13.89	12.77
P/E	29.95	26.87	13.70	11.42	10.36
P/CF	288.53	16.05	13.99	11.70	8.87
P/BV	1.07	1.03	0.99	0.96	0.94
Dividend Yield	0.00%	2.82%	5.53%	6.63%	7.31%

Source: Bloomberg, QNBFS Research

## Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.120	Target Price	QR4.855
Implied Upside	55.6%		

### Compelling Valuation But Lack Of Liquidity & Modest DY Remain Challenges

**For GWCS to rerate, we need a pickup in newsflow catalysts along with liquidity.** We note several potential projects not in our model: (1) **Al Wukair phase 3** – GWCS could move forward, assuming favorable demand for phase 2 (expecting ~90% occupancy by 1Q2024 but phase 2 demand has been below phase 1), which could lead to ~6% EPS acceleration. (2) **Newly-formed subsidiary, GWC Energy**, is targeting the offshore/onshore-integrated shipping, logistics & marine services market in Qatar/GCC and could benefit from increased NF activity as Qatar expands its LNG capacity from 77 MTPA to 126 MTPA by 2026. Management is expecting a pickup from 4Q/1Q given some vessel delays. GWCS has also bid on a tender with a decision expected 1Q2024. (3) **Expansion outside of Qatar**, for e.g., freight forwarding in the KSA (with potential to expand into warehousing longer term). **The stock continues to suffer from a lack of liquidity, which needs to be addressed. An uptick in DPS could also be catalyst given the below-market yield but a significant increase is unlikely. We retain our Accumulate rating on GWCS shares.**

#### Highlights

- In-line 3Q2023 earnings as freight forwarding revenue shortfall made up by higher margins** – Gulf Warehousing Company's (GWCS) 3Q2023 net profit came in at QR53.1mn (-10.7% YoY, -0.5% QoQ), which was in-line with our estimate of QR54.2mn (-2.2% divergence).
- Given 9M2023 earnings of QR167.9mn, we expect to increase our 2023 earnings of QR217.3mn by ~2-3% implying 2023 earnings decline of ~7%.** Start-up of new projects, such as Al Wukair phase 2 (July handover, with 65% signed & 56% occupied), LVQ phase 6 (chemicals warehouse facility that began operations in September; 10,000 pallet positions) and Flag Oman (moving to owned-warehouse by end-November; currently IKEA is the only customer with 20% occupancy but pipeline remains solid), add to the revenue momentum in 2023 (offsetting weakness post the WC) and in 2024. However, significantly higher finance charges, along with higher depreciation expenses, should take a bite out of earnings in 2023. Earnings acceleration in 2024 (increasing 25.9% to QR273.4mn) and details on medium-term growth prospects could act as positive catalysts.

#### Catalysts

- Shares of GWCS have been a long-term laggard and we need liquidity/dividend yield to pick up.** GWCS continues to face a challenge of low trading liquidity that management needs to address. Moreover, as we have pointed out previously, the 50% cut in DPS from QR0.20 in 2019 to QR0.10 in 2020-2022, and the resultant near-halving of the payout ratio from 47% in 2019 to an average of 25% over 2020-2022, has depressed stock price performance. However, it seems unlikely that we will see a meaningful uptick in dividends in the near-term given high finance charges and project pipeline.

#### Recommendation, Valuation and Risks

- We rate GWCS as an Accumulate with a price target of QR4.855.** GWCS trades at P/E's of 8.4x and 6.7x for 2023 & 2024, respectively, which is attractive relative to its historical median of 11.7x.
- Risks:** LT growth in warehousing demand in Qatar remains uncertain. Receivable collections is subdued with GWCS collecting QR133mn in the month of September, which is the lowest level seen this year and the trend remained the same in October. Geopolitical risks cannot be modeled.

#### Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
Revenue (QR mn)	1,519	1,592	1,723	1,754
Growth	16%	5%	8%	2%
EPS (QR)	0.41	0.37	0.47	0.49
Growth	7%	-9%	26%	5%
P/E (x)	7.6x	8.4x	6.7x	6.4x
DPS (QR)	0.10	0.10	0.11	0.12

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	4.855
Dividend Yield (%)	3.2
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	4.285/2.890
3-m Average Volume (mn)	1.1
Mkt. Cap. (\$ bn/QR bn)	0.5/1.8
EV (\$ bn/QR bn)	1.1/4.0
Shares Outstanding (mn)	586.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	3.5
1-Year Total Return (%)	(24.5)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## 3Q2023 Review: In-Line 3Q2023 Earnings Despite Freight Forwarding Weakness

In-line 3Q2023 earnings as freight forwarding revenue shortfall made up by higher margins – Gulf Warehousing Company's (GWCS) 3Q2023 net profit came in at QR53.1mn (-10.7% YoY, -0.5% QoQ), which was in-line with our estimate of QR54.2mn (-2.2% divergence).

- **3Q2023 top-line came in at QR349.6mn, down 10.5% YoY/6.3% QoQ as lower-margin freight forwarding revenue misses by 20.1%.** Revenue was 8.6% shy of our model of QR382.5mn.
- **Logistics held the line with revenue of QR246.3mn (-5.9% YoY, 1.6% QoQ; 70% of total revenue), aided by growth in contract logistics thus far in 2023.** Segment revenue moderately missed our forecast of QR254.1mn by 3.1%. Logistics has benefited from clients, such as the Supreme Committee, Accor & Qatar Airways, along with 98% occupancy in logistics hubs (excluding Al Wukair with ~92%/56% occupancy in phases 1/2). This has helped offset moribund rental rates and a FIFA-related ~4% throughput fall in contract logistics from 1,336k in 9M2022 to 1,276k in 9M2023.
- **Freight forwarding top-line of QR99.9mn (-20.4% YoY, -21.6% QoQ; 29% of total revenue) missed our model significantly for the 2<sup>nd</sup> straight quarter,** coming in at 20.1% below our forecast of QR124.9mn. Sea freight volumes fell 43% YoY/13% QoQ and air freight volumes also declined 27% YoY/22% QoQ. **Given that the freight business is generally lower-margin, this explains the stronger-than-expected GMs for 3Q2023.**
- **3Q2023 gross margin came in 31.7% vs. 28.2% in 3Q2022 and 30.7% in 2Q2023.** The reported gross margin came in above our estimate of 30.8%. During the call, the company pointed to higher-margin break-bulk shipments/sea-charter business, along with some improvement in agent rates. GWCS also reported an EBITDA margin of 36.7% in 3Q2023 vs. 30.6% in 3Q2022 and 35.1% in 2Q2023.
- **Finance charges, while in-line with our estimate, continue to bite.** GWCS posted 3Q2023 finance charges of QR26.3mn (95.4% YoY/7.7% QoQ), in-line with our model of QR26.0mn (1.4% change).
- **Underlying business remains strong with GWCS posting 9M2023 operating income of QR247.2mn, up 11.3% YoY and 9M2023 EBITDA of QR398.9mn, up 14.5% YoY.** YTD net income, however, fell 3.6% YoY to QR167.9mn with finance charges doubling to QR76.4mn vs. QR38.2mn in 9M2022. Overall interest rate on debt has grown from 3.75% in 9M2022 to 6.75% in 9M2023.

### QNB FS 3Q2023 Estimates and Comparisons

Income Statement (QR 000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>390,598.328</b>	<b>373,255.191</b>	<b>349,555.215</b>	<b>382,474.594</b>	<b>-8.6%</b>	<b>-10.5%</b>	<b>-6.3%</b>
YoY	20.6%	1.5%	-10.5%	-2.1%			
QoQ	6.2%	-9.6%	-6.3%	2.5%			
Logistics	261,866.623	242,462.761	246,297.234	254,100.974	-3.1%	-5.9%	1.6%
Freight Forwarding	125,489.269	127,350.966	99,849.836	124,932.157	-20.1%	-20.4%	-21.6%
Rental Income From Investment Property	2,445.444	2,452.848	2,452.849	2,452.848	0.0%	0.3%	0.0%
Others	796.992	988.616	955.296	988.616	-3.4%	19.9%	-3.4%
<b>Direct Costs</b>	<b>(280,286.856)</b>	<b>(258,703.412)</b>	<b>(238,834.413)</b>	<b>(264,863.66)</b>	<b>-9.8%</b>	<b>-14.8%</b>	<b>-7.7%</b>
<b>Gross Profit</b>	<b>110,311.472</b>	<b>114,551.779</b>	<b>110,720.802</b>	<b>117,610.938</b>	<b>-5.9%</b>	<b>0.4%</b>	<b>-3.3%</b>
General & Administration expenses	(33,884.838)	(34,915.011)	(32,952.636)	(35,787.886)	-7.9%	-2.8%	-5.6%
<b>Operating Profit</b>	<b>76,426.634</b>	<b>79,636.768</b>	<b>77,768.166</b>	<b>81,823.051</b>	<b>-5.0%</b>	<b>1.8%</b>	<b>-2.3%</b>
Finance Income	14.187	136.630	1,043.795	186.158	460.7%	7257.4%	664.0%
Finance Costs	(13,500.760)	(24,462.556)	(26,341.865)	(25,974.342)	1.4%	95.1%	7.7%
Other Income	175.696	147.087	2,125.188	367.718	477.9%	1109.6%	1344.9%
Net Impairment Loss On Trade Receivables	(863.000)	(575.000)	(599.000)	(575.000)	4.2%	-30.6%	4.2%
<b>EBT</b>	<b>62,252.757</b>	<b>54,882.929</b>	<b>53,996.284</b>	<b>55,827.585</b>	<b>-3.3%</b>	<b>-13.3%</b>	<b>-1.6%</b>
Taxes	(553.314)	(303.090)	(171.441)	(348.810)	-50.8%	-69.0%	-43.4%
<b>Net Income</b>	<b>61,699.443</b>	<b>54,579.839</b>	<b>53,824.843</b>	<b>55,478.775</b>	<b>-3.0%</b>	<b>-12.8%</b>	<b>-1.4%</b>
YoY	6.1%	-8.5%	-12.8%	-10.1%			
QoQ	3.4%	-13.4%	-1.4%	1.6%			
Non-Controlling Interest	2,288.562	1,245.843	770.789	1,238.101	-37.7%	-66.3%	-38.1%
<b>Net Income to Equity</b>	<b>59,410.881</b>	<b>53,333.996</b>	<b>53,054.054</b>	<b>54,240.674</b>	<b>-2.2%</b>	<b>-10.7%</b>	<b>-0.5%</b>
YoY	5.8%	-6.4%	-10.7%	-8.7%			
QoQ	4.2%	-13.3%	-0.5%	1.7%			
NM	15.2%	14.3%	15.2%	14.2%			
<b>EPS (QR)</b>	<b>0.10</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>	<b>-2.2%</b>	<b>-10.7%</b>	<b>-0.5%</b>
Provision for Impairment of Trade Receivables	863.000	575.000	599.000	575.000			
Depreciation & Amortization	42,906.876	51,300.638	50,650.342	51,944.974			
<b>EBITDA</b>	<b>119,333.510</b>	<b>130,937.406</b>	<b>128,418.508</b>	<b>133,768.025</b>	<b>-4.0%</b>	<b>7.6%</b>	<b>-1.9%</b>
GM	28.2%	30.7%	31.7%	30.8%			
G&A	8.7%	9.4%	9.4%	9.4%			
EBIT	19.6%	21.3%	22.2%	21.4%			
EBITDA	30.6%	35.1%	36.7%	35.0%			

Source: Company data, QNB FS Research

# Valuation and Key Ratios

## Valuation Metrics

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Valuation</b>												
EV/EBITDA	9.9x	9.2x	6.9x	7.0x	7.3x	7.6x	7.5x	6.8x	5.6x	5.0x	4.4x	3.7x
P/E	8.9x	8.5x	8.1x	7.3x	7.7x	8.1x	7.6x	8.4x	6.7x	6.4x	6.2x	6.2x
P/CF	4.1x	5.5x	4.9x	5.3x	4.1x	5.2x	5.2x	3.9x	3.8x	3.5x	3.4x	3.4x
P/FCF	N/M	41.4x	6.4x	10.9x	43.7x	-47.5x	-22.0x	21.1x	4.7x	4.3x	4.1x	4.1x
P/BV	1.2x	1.2x	1.1x	1.0x	1.0x	0.9x	0.8x	0.8x	0.7x	0.7x	0.6x	0.6x
Dividend Yield	5.1%	5.4%	6.1%	6.4%	3.2%	3.2%	3.2%	3.2%	3.5%	3.8%	4.2%	4.5%
FCF Yield	-27.6%	2.4%	15.6%	9.2%	2.3%	-2.1%	-4.6%	4.7%	21.3%	23.5%	24.2%	24.5%

Source: Company data, QNB FS estimates

## Ratio Analysis

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Growth (%)</b>												
Revenue	7.8%	15.5%	25.6%	-0.8%	1.0%	5.7%	16.5%	4.8%	8.2%	1.8%	1.4%	1.4%
Cash Gross Profit	8.6%	19.4%	22.4%	-1.3%	-4.1%	1.1%	7.7%	7.6%	9.1%	0.5%	-0.1%	0.0%
EBITDA	11.5%	20.1%	26.5%	-2.7%	-3.4%	-1.7%	6.1%	9.2%	10.0%	-0.1%	-0.8%	-0.7%
EBIT	11.1%	20.3%	18.5%	-0.6%	-2.0%	-3.4%	6.5%	4.2%	14.4%	-1.3%	-2.3%	-2.3%
Net Profit	11.1%	4.8%	5.3%	10.0%	-5.4%	-4.7%	6.5%	-9.3%	25.9%	4.8%	2.2%	0.5%
Cash Flow Per Share	1033.7%	-25.6%	10.5%	-7.6%	30.1%	-21.2%	0.1%	33.8%	1.5%	8.5%	2.5%	1.0%
Free Cash Flow Per Share	N/M	N/M	544.8%	-41.1%	-75.1%	N/M	116.0%	N/M	348.5%	10.5%	3.0%	1.2%
Dividends Per Share	6.7%	6.2%	11.8%	5.3%	-50.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%
<b>Profitability (%)</b>												
Gross Margin	46.9%	48.4%	47.2%	47.0%	44.7%	42.7%	39.5%	40.5%	40.8%	40.3%	39.7%	39.1%
EBITDA Margin	38.0%	39.5%	39.8%	39.1%	37.4%	34.8%	31.7%	33.0%	33.5%	32.9%	32.2%	31.5%
EBIT Margin	25.4%	26.5%	25.0%	25.1%	24.3%	22.2%	20.3%	20.2%	21.4%	20.7%	20.0%	19.2%
Net Margin	24.2%	22.0%	18.4%	20.4%	19.1%	17.3%	15.8%	13.6%	15.9%	16.3%	16.5%	16.3%
RoAE	14.0%	13.9%	14.0%	14.4%	12.7%	11.3%	11.1%	9.4%	11.0%	10.6%	10.0%	9.4%
RoAA	6.2%	5.6%	5.7%	6.4%	5.9%	5.3%	5.3%	4.4%	5.5%	5.8%	6.0%	6.0%
BEP	6.5%	6.8%	7.8%	7.9%	7.6%	6.9%	6.8%	6.6%	7.4%	7.4%	7.3%	7.1%
RoAIC	6.0%	7.8%	10.0%	9.7%	8.9%	7.9%	7.8%	7.9%	9.7%	10.0%	10.0%	8.7%
RoACE	7.0%	7.7%	9.2%	9.2%	8.8%	8.0%	7.9%	7.8%	8.8%	9.0%	8.9%	8.7%
<b>Liquidity</b>												
Current Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.0x	1.3x	1.3x	1.5x	1.7x	2.3x
Quick Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.0x	1.2x	1.3x	1.4x	1.7x	2.3x
Cash Ratio	0.9x	0.6x	0.9x	0.6x	0.5x	0.3x	0.2x	0.3x	0.3x	0.4x	0.6x	1.0x
<b>Debt Ratios</b>												
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.8x	0.8x	0.8x	0.8x	0.6x	0.4x	0.3x	0.2x
Long-Term Debt-to-Equity	1.1x	1.0x	0.9x	0.7x	0.7x	0.6x	0.6x	0.6x	0.5x	0.3x	0.2x	0.2x
EBITDA Interest Coverage	8.4x	7.2x	5.8x	6.1x	8.7x	9.4x	10.0x	6.1x	7.7x	10.1x	13.4x	17.1x
Net Debt-to-EBITDA	4.3x	3.7x	2.6x	2.5x	2.8x	3.1x	3.2x	2.9x	2.1x	1.4x	0.8x	0.2x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x	0.3x	0.2x	0.2x
<b>Valuation</b>												
EV/EBITDA	9.9x	9.2x	6.9x	7.0x	7.3x	7.6x	7.5x	6.8x	5.6x	5.0x	4.4x	3.7x
P/E	8.9x	8.5x	8.1x	7.3x	7.7x	8.1x	7.6x	8.4x	6.7x	6.4x	6.2x	6.2x
P/CF	4.1x	5.5x	4.9x	5.3x	4.1x	5.2x	5.2x	3.9x	3.8x	3.5x	3.4x	3.4x
P/FCF	N/M	41.4x	6.4x	10.9x	43.7x	-47.5x	-22.0x	21.1x	4.7x	4.3x	4.1x	4.1x
P/BV	1.2x	1.2x	1.1x	1.0x	1.0x	0.9x	0.8x	0.8x	0.7x	0.7x	0.6x	0.6x
Dividend Yield	5.1%	5.4%	6.1%	6.4%	3.2%	3.2%	3.2%	3.2%	3.5%	3.8%	4.2%	4.5%
FCF Yield	-27.6%	2.4%	15.6%	9.2%	2.3%	-2.1%	-4.6%	4.7%	21.3%	23.5%	24.2%	24.5%

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	FY2022e	FY2023e	FY2024e	FY2025e	FY2026e	FY2027e
<b>Revenue</b>	<b>1,519</b>	<b>1,592</b>	<b>1,723</b>	<b>1,754</b>	<b>1,778</b>	<b>1,803</b>
<i>YoY Growth</i>	16%	5%	8%	2%	1%	1%
Direct Costs	(919)	(947)	(1,020)	(1,047)	(1,072)	(1,098)
<b>Gross Profit</b>	<b>600</b>	<b>645</b>	<b>704</b>	<b>707</b>	<b>706</b>	<b>706</b>
<i>Gross Margin</i>	39%	41%	41%	40%	40%	39%
General and Administrative Expenses	(119)	(120)	(126)	(130)	(133)	(137)
<b>EBITDA</b>	<b>481</b>	<b>525</b>	<b>578</b>	<b>577</b>	<b>573</b>	<b>569</b>
<i>YoY Growth</i>	6%	9%	10%	0%	-1%	-1%
<i>EBITDA Margin</i>	32%	33%	34%	33%	32%	32%
Depreciation and Amortization	(172)	(203)	(210)	(214)	(218)	(222)
<b>EBIT</b>	<b>309</b>	<b>322</b>	<b>368</b>	<b>363</b>	<b>355</b>	<b>347</b>
<i>YoY Growth</i>	7%	4%	14%	-1%	-2%	-2%
<i>EBIT Margin</i>	20%	20%	21%	21%	20%	19%
Net Finance Costs and Other Income	(57)	(97)	(86)	(67)	(53)	(43)
<b>PBT</b>	<b>252</b>	<b>224</b>	<b>282</b>	<b>296</b>	<b>302</b>	<b>304</b>
Taxes	(2)	(2)	(2)	(2)	(2)	(2)
<b>Net Income</b>	<b>249</b>	<b>223</b>	<b>280</b>	<b>294</b>	<b>300</b>	<b>302</b>
Minority Interest	10	6	7	7	7	8
<b>Net Income to Equity</b>	<b>240</b>	<b>217</b>	<b>273</b>	<b>286</b>	<b>293</b>	<b>294</b>
<i>YoY Growth</i>	7%	-9%	26%	5%	2%	1%
<i>Net Margin</i>	16%	14%	16%	16%	16%	16%
<b>EPS (QR)</b>	<b>0.41</b>	<b>0.37</b>	<b>0.47</b>	<b>0.49</b>	<b>0.50</b>	<b>0.50</b>
<b>DPS (QR)</b>	<b>0.10</b>	<b>0.10</b>	<b>0.11</b>	<b>0.12</b>	<b>0.13</b>	<b>0.14</b>
<i>Payout Ratio</i>	24%	27%	24%	25%	26%	28%

Source: Company data, QNB FS estimates

## Detailed Financial Statements

Balance Sheet (In QR mn)	FY2022e	FY2023e	FY2024e	FY2025e	FY2026e	FY2027e
<b>Non-Current Assets</b>						
PP&E, WIP & Right of Use Assets	3,596	3,776	3,654	3,529	3,399	3,265
Investment Properties	41	42	42	43	43	43
Intangible Assets & Goodwill	117	116	116	116	116	115
Available-for-Sale Investments/Other	18	18	18	18	18	18
<b>Total Non-Current Assets</b>	<b>3,772</b>	<b>3,952</b>	<b>3,831</b>	<b>3,705</b>	<b>3,576</b>	<b>3,442</b>
<b>Current Assets</b>						
Inventories	16	16	18	18	19	19
Trade and Other Receivables	748	742	800	817	828	840
Bank Balances and Cash	238	290	287	337	457	631
<b>Total Current Assets</b>	<b>1,002</b>	<b>1,048</b>	<b>1,105</b>	<b>1,172</b>	<b>1,303</b>	<b>1,490</b>
<b>Total Assets</b>	<b>4,774</b>	<b>5,000</b>	<b>4,936</b>	<b>4,877</b>	<b>4,879</b>	<b>4,932</b>
<b>Total Shareholders' Equity</b>	<b>2,232</b>	<b>2,385</b>	<b>2,592</b>	<b>2,807</b>	<b>3,022</b>	<b>3,233</b>
Non-Controlling interests	12	18	25	32	39	47
<b>Non-Current Liabilities</b>						
Lease Liabilities & Others	208	223	238	254	269	285
Loans and Borrowings	1,269	1,482	1,167	915	718	652
Employee Benefits & Others	58	62	67	71	76	80
<b>Total Non-Current Liabilities</b>	<b>1,535</b>	<b>1,767</b>	<b>1,473</b>	<b>1,240</b>	<b>1,063</b>	<b>1,017</b>
<b>Current Liabilities</b>						
Trade Payables	95	95	102	105	107	110
Loans and Borrowings	523	333	315	253	197	66
Accruals, Provisions & Other Payables	351	376	404	416	426	436
Lease Liabilities	11	11	10	10	10	9
Retention Payable	15	15	15	15	15	15
<b>Total Current Liabilities</b>	<b>996</b>	<b>830</b>	<b>846</b>	<b>799</b>	<b>755</b>	<b>636</b>
<b>Total Liabilities</b>	<b>2,531</b>	<b>2,598</b>	<b>2,319</b>	<b>2,039</b>	<b>1,818</b>	<b>1,653</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,774</b>	<b>5,000</b>	<b>4,936</b>	<b>4,877</b>	<b>4,879</b>	<b>4,932</b>

Source: Company data, QNB FS estimates

## Estithmar Holding (IGRD)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR2.022	Target Price	QR2.395
Implied Upside	18.4%	Old Target Price	

### Higher 2Q/3Q2023 Services Margins As Healthcare Turns Small 3Q Profit; Accumulate

We upgraded our assumptions for the services and healthcare units as well as our FY2023 group earnings estimates to incorporate better-than-expected results witnessed in the most recent two quarters. IGRD's share price had been battered in the last several weeks and we think it is due for a recovery. We continue to like IGRD as its new model with future growth geared towards higher-margin sectors is set to more than offset the slowdown in traditional secondary industries. We note there are several new projects that have been announced including Maldives and several healthcare projects. These projects are not in our base model, however.

- In 3Q2023, Estithmar Holding's (IGRD) bottom-line printed significantly ahead of our estimates even as the top-line came below estimates, thanks to cost recoveries within the services unit.** IGRD's 3Q2023 attributable profit edged lower by 4.3% YoY but was higher by 4.7% QoQ to QR103.0mn, comfortably ahead of our forecast of QR78.2mn. Meanwhile, revenue fell 36.8% YoY and inched up 3.8% QoQ to QR744.9mn, below our estimate of QR875.9mn. NP was driven primarily by the services division's margins – much like in 2Q2023 – which surprised markedly on the upside compared with both our model and historical/industry trends. While the overall group NP margin rose to 13.8% from 9.1% in 3Q2022 (2Q2023: 14.3%), the services segment's NP margin was much higher at 29.6% from 14.7% in 3Q2022 (2Q2023: 32.3%).
- The high GP and NP margins made by the services segment – which saw a reversal in expenses during 3Q2023 – emanated from a claim made in 1H by one of the companies within the services cluster (Elegancia Catering),** to recover cost overruns in prior periods on one of its long-term food contracts with a major client. We learned the claim saw the unit's expenses reversed by approximately QR84mn. While we still think the elevated services margins in the quarter under review as well as during 2Q2023 are not sustainable, we believe the ability to repeatedly recover cost overruns by the unit speaks to its stronger pricing power. For the services segment 3Q2023 GPM was 25.2% vs. 18.1% in 3Q2022; and 3Q2023 NPM was 29.6% vs. 14.7% in 3Q2022. We had penciled in an NPM of 16.7%, which was eclipsed by 12.8ppts.
- Another positive surprise from IGRD's 3Q2023 results is that the healthcare division turned in a profit during 3Q2023,** albeit small, it came ahead of our expectation. This means YTD losses actually decreased in 9M2023 compared with 6M2023, while we had expected the loss position to grow.
- Segment performance: (i) Services segment:** revenue declined 34.5%/12.6% YoY/QoQ to QR387.2mn; NP climbed 31.8% YoY but declined 19.9% QoQ to QR114.5mn. **(ii) Contracting & industries unit:** revenue fell 51.4% YoY and recovered by 2.2% QoQ to QR316.0mn; NP declined 29.4%/33.9% YoY/QoQ. **(iii) Healthcare businesses:** revenue climbed 11x/1.2x YoY/QoQ to QR108.3mn, albeit off a very low base. Moreover, we are encouraged that The View Hospital seems to have finally, belatedly and suddenly ahead of expectations, picked up in activity levels. We reckon the healthcare division is still in a loss position YTD but the quarter under review has surprisingly turned positive to small profit of QR4.0mn from a loss of QR33.8mn in 2Q2023. It also had a small profit of QR0.8mn in 3Q2022. **(iv) Ventures/tourism operations:** revenue came in at QR23.0mn from zero last year but decline 25.3% QoQ due to seasonality – the main Al Maha attraction, WinterWonderland, is closed during summer. The unit generated a net loss of QR30.3mn during 3Q2023 compared with a negligible net loss last year and a loss of QR24.4mn in 2Q2023.

### Catalysts

- Significant catalysts: (1) Positive sales & operation updates of The View (Hospital) and Al Maha (Tourism) (2) Opening of Korean Medical Center (KMC) expected later this year (3) New product launches/offshore expansion**

### Recommendation, Valuation and Risks

- Recommendation and Valuation: We have an Accumulate rating and 12-month TP of QR2.395 for IGRD implying 18.4% upside potential, using SoTP EBITDA Exit Multiple valuation.** We continue to like the new IGRD model with future growth geared towards higher-margin sectors of healthcare, tourism and services, which are set to more than offset the slowdown in construction and industries. These growth areas are supported by the macro backdrop where Qatar is striving to reach "advanced economy" status by 2030. This, along with the fact that IGRD's founders are very entrepreneurial, gives us confidence in the prospects of this emerging giant. We note, however, that near-term negative base effects and dilution impact could affect the share price adversely.
- Key risks: (1) Dilution risk (2) Execution risk and slow ramping up of new projects (3) High base set by World Cup-related activities in traditional segments of the business (4) Conglomerate discount.**

### Key Financial Data and Estimates

Group	2022	2023E	2024E	2025E	2026E
EPS (QR)	0.107	0.094	0.100	0.165	0.177
P/E (x)	18.98	21.51	20.29	12.27	11.45
EV/EBITDA (x)	15.10	12.39	12.49	9.41	9.18
DPS (QR)	-	-	0.04	0.10	0.15
DY (%)	0.0%	0.0%	2.0%	4.9%	7.4%

Source: Company data, QNB FS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

### Key Data

Current Market Price (QR)	2.022
Dividend Yield (%)	0.0
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector*	Industrials
52wk High/52wk Low (QR)	2.414/1.423
3-m Average Vol. ('mn)	5.3
Mkt. Cap. (\$'bn/QR'bn)	1.9/6.9
EV (\$'bn/QR'bn)	2.5/8.5
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.2
1-Year Total Return (%)	14.9
Fiscal Year-End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## Condensed Financial Statements & Forecasts

### Income Statement (QR'mn)

Group	2022	2023E	2024E	2025E	2026E	2027E
<b>Revenue</b>	<b>4,237.0</b>	<b>3,052.0</b>	<b>3,811.6</b>	<b>4,776.1</b>	<b>5,032.4</b>	<b>5,202.2</b>
Services	2,300.3	1,590.9	1,762.6	1,952.3	2,162.2	2,270.3
Contracting & Industries	2,386.4	1,451.0	1,510.5	1,572.4	1,636.9	1,704.0
Healthcare	37.1	233.7	656.6	1,266.6	1,278.8	1,291.1
Ventures/Tourism	103.9	159.7	294.4	429.0	433.3	437.6
Corporate/Eliminations	(590.6)	(383.3)	(412.5)	(444.2)	(478.7)	(500.8)
<b>Gross Profit</b>	<b>620.0</b>	<b>670.8</b>	<b>831.1</b>	<b>1,103.4</b>	<b>1,166.4</b>	<b>1,209.6</b>
<b>EBITDA</b>	<b>517.7</b>	<b>630.8</b>	<b>625.7</b>	<b>830.5</b>	<b>851.7</b>	<b>836.4</b>
<b>Operating Profit</b>	<b>395.9</b>	<b>416.5</b>	<b>435.0</b>	<b>660.8</b>	<b>700.5</b>	<b>701.7</b>
<b>Net Profit</b>	<b>325.0</b>	<b>323.9</b>	<b>343.4</b>	<b>568.0</b>	<b>608.6</b>	<b>611.1</b>
<b>EPS</b>	<b>0.107</b>	<b>0.094</b>	<b>0.100</b>	<b>0.165</b>	<b>0.177</b>	<b>0.177</b>
<b>DPS</b>	<b>-</b>	<b>-</b>	<b>0.040</b>	<b>0.099</b>	<b>0.150</b>	<b>0.151</b>

Source: Bloomberg, QNBFS Research

### Balance Sheet (QR'mn)

Group	2022	2023E	2024E	2025E	2026E	2027E
Property, Plant & Equipment	1,975.4	1,819.0	1,652.5	1,503.6	1,370.4	1,251.3
Investment properties	90.8	90.8	90.8	90.8	90.8	90.8
Intangibles	6.0	134.6	125.3	116.7	108.6	101.2
Goodwill	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0
Right-of-use assets	98.9	80.7	65.8	53.7	43.8	35.7
Financial assets @ FVTPL	31.0	31.0	31.0	31.0	31.0	31.0
Retention receivables	43.8	26.7	27.7	28.9	30.1	31.3
<b>Total Non-Current Assets</b>	<b>5,486.0</b>	<b>5,422.7</b>	<b>5,233.2</b>	<b>5,064.7</b>	<b>4,914.7</b>	<b>4,781.3</b>
Inventories	233.9	170.3	217.9	277.0	290.4	299.3
Accounts receivable and other debit balances	1,306.5	888.8	1,253.2	1,445.6	1,542.2	1,604.8
Due from related party	490.8	490.8	490.8	490.8	490.8	490.8
Contract assets	951.7	578.7	602.4	627.1	652.8	-
Retentions receivable	92.1	56.0	58.3	60.7	63.1	65.7
Cash and bank balances	167.5	537.2	725.1	1,135.3	1,439.9	2,305.0
<b>Total Current Assets</b>	<b>3,242.5</b>	<b>2,721.9</b>	<b>3,347.7</b>	<b>4,036.5</b>	<b>4,479.3</b>	<b>4,765.6</b>
<b>TOTAL ASSETS</b>	<b>8,728.5</b>	<b>8,144.6</b>	<b>8,580.9</b>	<b>9,101.2</b>	<b>9,394.1</b>	<b>9,546.9</b>
Capital	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0
Legal reserve	56.9	56.9	90.8	146.9	207.0	267.4
Other reserve	3.9	3.9	3.9	3.9	3.9	3.9
Reserve for renewal of FF&E	0.5	1.2	2.4	3.6	3.6	3.6
Retained earnings	1,003.4	1,315.4	1,476.5	1,630.8	1,645.8	1,660.9
<b>Equity attributable to equity holders of the parent</b>	<b>4,468.8</b>	<b>4,781.4</b>	<b>4,977.6</b>	<b>5,189.2</b>	<b>5,264.4</b>	<b>5,339.9</b>
Non-controlling interests	(9.1)	(5.2)	(1.0)	6.0	13.4	20.8
<b>Total Shareholders' Equity</b>	<b>4,459.6</b>	<b>4,776.2</b>	<b>4,976.6</b>	<b>5,195.2</b>	<b>5,277.8</b>	<b>5,360.7</b>
Provision or employees' end of service benefits	99.6	99.6	99.6	99.6	99.6	99.6
Interest bearing loans and borrowings	915.8	915.8	915.8	915.8	915.8	915.8
Loans from related parties	28.8	28.8	28.8	28.8	28.8	28.8
Retentions payable	1.3	1.3	1.3	1.3	1.3	1.3
Lease liabilities	69.4	54.0	37.8	20.7	2.7	0.0
<b>Total Non-Current Liabilities</b>	<b>1,114.9</b>	<b>1,099.5</b>	<b>1,083.3</b>	<b>1,066.2</b>	<b>1,048.2</b>	<b>1,045.5</b>
Due to related parties	110.1	110.1	110.1	110.1	110.1	110.1
Accounts payable and other credit balances	2,003.0	1,222.7	1,409.2	1,578.1	1,685.3	1,753.7
Contract liabilities	125.2	69.2	77.3	80.1	82.9	85.8
Interest bearing loans and borrowings	671.6	671.6	671.6	671.6	671.6	671.6
Lease liabilities	24.7	19.2	13.4	7.4	1.0	0.0
Income tax payable	3.5	3.4	3.6	5.9	6.3	6.3
Dividend payable	-	-	135.7	336.7	511.0	513.1
Bank overdraft	216.0	150.0	100.0	50.0	-	-
<b>Total Current Liabilities</b>	<b>3,154.1</b>	<b>2,246.2</b>	<b>2,521.0</b>	<b>2,839.8</b>	<b>3,068.1</b>	<b>3,140.7</b>
<b>Total Liabilities</b>	<b>4,268.9</b>	<b>3,345.7</b>	<b>3,604.3</b>	<b>3,906.0</b>	<b>4,116.3</b>	<b>4,186.2</b>
<b>TOTAL SHE &amp; LIABILITIES</b>	<b>8,728.5</b>	<b>8,121.9</b>	<b>8,580.9</b>	<b>9,101.2</b>	<b>9,394.1</b>	<b>9,546.9</b>

Source: Bloomberg, QNBFS Research

### Cash Flow Statement (QR'mn)

Group	2022	2023E	2024E	2025E	2026E	2027E
Cash generated from operating activities	534.5	497.7	271.7	636.5	736.7	1,401.1
Net cash generated from operating activities	425.8	486.2	259.9	619.0	715.8	1,379.7
Net cash used in investing activities	(1,133.0)	(29.6)	-	-	-	-
Net cash generated from financing activities	817.1	(20.8)	(22.0)	(158.8)	(361.1)	(514.6)
<b>Changes in cash</b>	<b>109.9</b>	<b>435.8</b>	<b>237.9</b>	<b>460.1</b>	<b>354.7</b>	<b>865.1</b>
Opening cash	(159.3)	(49.4)	386.3	624.2	1,084.4	1,439.0
<b>Closing cash</b>	<b>(49.4)</b>	<b>386.3</b>	<b>624.2</b>	<b>1,084.4</b>	<b>1,439.0</b>	<b>2,304.1</b>

Source: Bloomberg, QNBFS Research

### Key Ratios

Group	2022	2023E	2024E	2025E	2026E	2027E
<b>Growth Rates</b>						
Revenue	32.2%	-28.0%	24.9%	25.3%	5.4%	3.4%
Gross Profit	25.8%	8.2%	23.9%	32.8%	5.7%	3.7%
EBITDA	24.3%	21.8%	-0.8%	32.7%	2.6%	-1.8%
EBIT	9.4%	5.2%	4.4%	51.9%	6.0%	0.2%
NP	5.0%	-5.4%	6.0%	65.4%	7.1%	0.4%
EPS	-14.8%	-11.8%	6.0%	65.4%	7.1%	0.4%
DPS	N.A	N.A	N.M.	148.1%	51.8%	0.4%
<b>Operating Ratios</b>						
Gross Margin	14.6%	22.0%	21.8%	23.1%	23.2%	23.3%
EBITDA Margin	12.2%	20.7%	16.4%	17.4%	16.9%	16.1%
EBIT Margin	9.3%	13.6%	11.4%	13.8%	13.9%	13.5%
Net Margin	8.0%	10.5%	8.9%	11.7%	11.9%	11.6%
<b>Working Capital Ratios</b>						
Inventory Days	24	26	27	28	27	27
Average Collection Period	113	106	120	110	112	113
Payable Days	202	187	173	157	159	160
<b>Liquidity Ratios</b>						
Current Ratio	1.0	1.2	1.3	1.4	1.5	1.5
Quick Ratio	1.0	1.1	1.2	1.3	1.4	1.4
<b>Finance Ratios</b>						
Debt-Equity Ratio	43%	38%	36%	33%	31%	30%
Net Debt/Equity	38.7%	27%	20%	10%	3%	-13%
Net Debt-to-Capital	31.5%	22%	17%	9%	2%	-11%
Net Debt/EBITDA	3.3	2.0	1.6	0.6	0.2	(0.9)
Interest Coverage	5.9	4.7	4.9	7.6	8.2	8.3
<b>Return Ratios</b>						
ROIC	7.2%	7.7%	7.7%	12.0%	12.9%	15.4%
ROE	7.6%	6.7%	6.8%	10.8%	11.4%	11.3%
ROA	3.9%	3.9%	4.0%	6.2%	6.4%	6.3%
Dividend Yield	0.0%	0.0%	2.0%	4.9%	7.4%	7.5%
FCF Yield	-12.5%	6.3%	3.5%	8.7%	10.0%	20.0%
<b>Valuation</b>						
PE Ratio	19.0	21.5	20.3	12.3	11.4	11.4
PEG Ratio	(1.3)	(1.8)	3.4	0.2	1.6	27.6
P/CF	2.8	3.0	5.6	2.4	2.1	1.1
P/BV	0.34	0.32	0.30	0.29	0.29	0.28
EV/EBITDA	15.1	12.4	12.5	9.4	9.2	9.3
EV/Sales	1.8	2.6	2.1	1.6	1.6	1.5
EV/EBIT	19.7	18.8	18.0	11.8	11.2	11.1

Source: Bloomberg, QNBFS Research

## Industries Qatar (IQCD)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR13.16</b>	<b>Target Price</b>	<b>QR14.30</b>
<b>Implied Upside</b>	<b>8.7%</b>		

### Maintain Accumulate On Favorable Risk-Reward

We continue to have an Accumulate Rating on IQCD with a PT of QR14.30. With less than two months left in the year, urea prices remain relatively decent, albeit falling below the \$400/MT by late October. PE prices are stable despite tracking oil lower over the past few weeks, while steel has actually strengthened given improving demand outlook from China. We do note that higher urea prices will likely put pressure on fertilizer EBITDA margins in 4Q2023, which along with planned shutdowns in fertilizer/fuel additives facilities could crimp 4Q2023 earnings. Net-net, our sense is that our QR4.7bn earnings estimate for 2023 is probably a tad too high and an earnings haircut of around 8-10% to QR4.3bn is possible. This implies ~18x P/E for 2023, which is right around its historical median of ~18x, implying limited downside. We think LT investors could consider accumulating IQCD at these levels given its favorable risk-reward characteristics and decent dividend yield (5.7%/6.1% for 2023/2024).

### Highlights

- **IQCD reported QR1,205.2mn in 3Q2023 earnings (-25.3% YoY/30.7% QoQ), bang in-line with our estimate of QR1,202.7mn.** Modestly better-than-expected 3Q2023 urea price realization of \$354/MT (-33% YoY, 24% QoQ) vs. our model of \$343/MT, along with a significant downtick in direct costs (as higher-priced fertilizer inventory was consumed during 1H2023) and a moderate sequential uptick in volumes post 2Q2023's maintenance shutdowns, supercharged IQCD's 3Q2023 fertilizer EBITDA margin to ~48% (vs. 35%/31% in 3Q2022/2Q2023). This contributed almost entirely to the in-line overall earnings for 3Q2023 despite generally lower-than-expected sales volumes/pricing across the board.
- **We project a resumption of growth with 2024 net income increasing to QR5.5bn.** Group EBITDA (on a proportionate basis) was expected to decline 37.7% from QR11.0bn in 2022 to QR6.8bn in 2023, before gaining 10.5% to QR7.6bn (2024). However, we expect to adjust our EBITDA for 2023 downward by around 10% given 9M2023 EBITDA of QR4.8bn (3Q2023 EBITDA of QR1.7bn). Overall, after significant declines this year, we expect prices to stabilize/gain in 2024 unless there is significant recession-related demand destruction.
- **We continue to project DPS to decline to QR0.75 (5.7% yield) in 2023 before climbing to QR0.80 (6.1%) in 2024; LT payouts should remain high.** This translates to an average payout of ~92% vs. a historical payout average of ~79% (2018-2022). **While payouts are high, IQCD retains a very strong balance sheet with cash/share of QR2.6.** We note that IQCD has also paid more than 100% of its income in dividends back in 2020.
- **Bulletproof balance sheet with QR15.8bn in cash/bank balances & zero long-term debt.** We note that IQCD has sufficient cash to fund its entire capex outlay of QR11.0bn over 2023-2027. The company, on a proportionate basis, generated operating CF of QR4.0bn and FCF of QR2.3bn in 9M2023. Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions, while retaining sufficient dry powder to take advantage of potential acquisition opportunities in the future. IQCD's strong FCF generating ability (QR0.77/share on average over 2023-2027, with an average yield of 5.8%), along with its large cash balances, also provide investors with lower DPS volatility.

### Catalysts

- **In terms of longer-term catalysts, the QR4.4bn Ammonia-7 project, which is also the world's largest Blue ammonia train, is expected to add 400 KTPA of sellable ammonia by 2026.** The Ammonia-7 project should also boost the company's ESG credentials. Also, in a smaller deal (roughly QR455mn net cost), IQCD expects to increase its direct stake in Qatar Vinyl Co. (QVC) to 44.8% from May 2026 from its current indirect stake (via QAPCO) of 25.52% by funding its share of the construction of a new Polyvinyl Chloride (PVC) plant. Moreover, similar to the QAFAC deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could also be perceived positively by investors. Purchase of the remaining 50% of QAFAC could also be a possibility as mentioned previously by management.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD an Accumulate with a PT of QR14.30.** The stock trades at P/E of 16.9x/14.4x (2023/2024).
- **Risks:** Oil/urea prices influence IQCD's operations and investor sentiment. Geopolitical risks remain and cannot be modeled.

### Key Financial Data and Estimates

	2022	2023e	2024e	2025e	2026e
Revenue (QR mn)	18,794	11,989	12,270	12,581	13,582
EPS (QR)	1.46	0.78	0.91	0.97	1.02
P/E	9.0x	16.9x	14.4x	13.5x	12.9x
EV/EBITDA	9.1x	18.8x	17.3x	16.5x	14.7x
DPS (QR)	1.10	0.75	0.80	0.90	0.95
Dividend Yield	8.4%	5.7%	6.1%	6.8%	7.2%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

Current Market Price (QR)	13.16
Dividend Yield (%)	8.4
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	15.70/10.80
3-m Average Volume ('mn)	2.5
Mkt. Cap. (\$ bn/QR bn)	21.9/79.6
EV (\$ bn/QR bn)	18.0/65.6
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	100.0
Institutional FO* (%)	7.4
1-Year Total Return (%)	(7.7)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## 3Q2023 Review: In-Line 3Q2023 Driven By Uptick In Fertilizer Profitability

IQCD reported QR1,205.2mn in 3Q2023 earnings (-25.3% YoY/30.7% QoQ), bang in-line with our estimate of QR1,202.7mn. Modestly better-than-expected 3Q2023 urea price realization of \$354/MT (-33% YoY, 24% QoQ) vs. our model of \$343/MT, along with a significant downtick in segment direct costs (as higher-priced fertilizer inventory was consumed during 1H2023) and a moderate sequential uptick in volumes post 2Q2023's maintenance shutdowns, supercharged IQCD's fertilizer EBITDA margin to ~48% in 3Q2023 (vs. approximately 35%/31% in 3Q2022/2Q2023). This contributed almost entirely to the in-line overall earnings performance for the quarter despite generally lower-than-expected sales volumes/pricing across the board.

- **As expected, 3Q2023 price realizations continued to fall across the board YoY led by ~68%/33% drop in ammonia/urea but recovered sequentially for the fertilizer complex, led by urea; fertilizer sales volumes outperformed, gaining sequentially.** 3Q2023 overall sales volumes fell ~4% YoY and ~1% QoQ. Overall price realizations ratcheted down ~28% YoY but eked out a marginal ~2% QoQ due to fertilizer realizations. Production volumes also increased ~2% YoY from 12.4mn MT in 9M2022 to 12.7mn MT in 9M2023; sequentially, production volumes grew roughly 9% from 4.0mn MT in 2Q2023 to 4.3mn MT in 3Q2023 aided by a snapback in fertilizers following 2Q2023 shutdowns. Utilization rates climbed to 100% in 9M2023 vs. 99% in 9M2022 with 3Q2023 clocking in at a 103% rate vs. 95% for 2Q2023.
- **Petchems, underperformed in 3Q2023, with top-line and profitability falling short of our forecasts driven by lower-than-expected pricing/sales volumes.** 3Q2023 revenue of ~QR1.2bn (~-24% YoY, ~-13% QoQ) was ~14% lower than our model on broadly lower-than-expected volumes/pricing for both FA & PE. Earnings of QR322.6mn fell 43.2% YoY/27.1 QoQ, and was 31.3% below our model. EBITDA margins came in at ~39% for 3Q2023 vs. around 45% in 3Q2022 and 42% in 2Q2023. Product prices, while down significantly YoY across the board (except for MTBE), exhibited stability QoQ for MTBE/methanol on the back of better fundamentals. Sales volumes fell ~10% YoY/~6% QoQ, with decreases across the board, except for flattish LLDPE volumes YoY. Production volumes, however, fell roughly 2% YoY but grew 4% QoQ for 3Q2023.
- **Fertilizer EBITDA margin shot up to ~48% in 3Q2023, its highest level since 1Q2022, as IQCD benefited from a sequential uplift in pricing along with sales of lower-priced inventory.** Revenue and income of QR1.9bn and QR634.8mn decreased 38.8% and 26.1%, YoY, respectively. Sequentially, segment revenue was up 28.5% and earnings increased 198.2%. Segment top-line was 10.5% below our model but earnings were higher by 15.6%. IQCD's production volumes were down ~2% YoY but up ~10% QoQ; similarly sales volumes declined ~1% YoY but gained ~6% QoQ.
- **Steel top-line fell below our forecast but profitability was moderately better driven by a provision reversal of QR60mn related to Foulath.** Steel revenue came in at QR902.2mn (-14.5% YoY, -20.3% QoQ), which was 11.1% shy of our model. Income of QR130.0mn (-15.0% YoY, -10.0% QoQ) was 5.6% ahead of our forecast of QR123.2mn due to the previously mentioned one-off reversal. We note that income from associates, primarily from Foulath that produces/sell iron oxide pellets, came in at QR75.3mn (-34.1% YoY, -17.1% QoQ and 17.5% below our forecast of QR91.2mn). Steel also faced higher volume-related operating expenses and marginally lower other income in 9M2023. EBITDA margins fell to ~14% in 3Q2023 vs. ~19% in 3Q2022 and ~17% in 2Q2023. Management commentary indicated a subdued outlook, both globally and in Qatar, with sluggish construction activity given the high-interest rate environment and growing recessionary fears. According to the company, steel realizations dipped by ~8% YoY/~5% QoQ. Sales volumes for 9M2023 gained ~9% YoY but 3Q2023 volumes fell ~16% QoQ. 3Q2023 Production volumes were up roughly up 12% YoY/9% QoQ. Production volumes, since the beginning of 2022 for DRI/HBI, have been aided by the re-startup of the DR-2 facility in 1Q2022 that has 1,500 KTPA of capacity (as opposed to the 800 KTPA-DR-1 facility it replaced).

**QNB FS 3Q2023 Estimates and Comparisons**

<b>Income Statement (QR Million)</b>	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>	<b>A Vs. E</b>	<b>YoY</b>	<b>QoQ</b>
<b>Revenue</b>	<b>4,212.022</b>	<b>2,634.617</b>	<b>2,833.906</b>	<b>3,173.058</b>	<b>-10.7%</b>	<b>-32.7%</b>	<b>7.6%</b>
Cost of Sales (Ex. D &A)	(2,929.675)	(1,893.415)	(1,615.618)	(2,176.717)	-25.8%	-44.9%	-14.7%
<b>Gross Profit</b>	<b>1,282.347</b>	<b>741.202</b>	<b>1,218.288</b>	<b>996.340</b>	<b>22.3%</b>	<b>-5.0%</b>	<b>64.4%</b>
General & Admin. Expenses	(157.217)	(172.059)	(179.510)	(172.111)	4.3%	14.2%	4.3%
Selling & Distribution Costs	(12.344)	(26.803)	(16.590)	(26.924)	-38.4%	34.4%	-38.1%
<b>EBITDA</b>	<b>1,112.786</b>	<b>542.340</b>	<b>1,022.188</b>	<b>797.306</b>	<b>28.2%</b>	<b>-8.1%</b>	<b>88.5%</b>
Depreciation & Amortization	(328.763)	(358.154)	(436.737)	(357.760)	22.1%	32.8%	21.9%
<b>EBIT</b>	<b>784.023</b>	<b>184.186</b>	<b>585.451</b>	<b>439.546</b>	<b>33.2%</b>	<b>-25.3%</b>	<b>217.9%</b>
Finance Costs	(5.534)	(7.187)	(7.150)	(7.108)	0.6%	29.2%	-0.5%
Share of Results from Associates	114.266	90.834	75.287	91.243	-17.5%	-34.1%	-17.1%
Share of Results of JVs	430.215	193.987	176.660	328.496	-46.2%	-58.9%	-8.9%
Other Income	154.176	212.623	229.895	211.602	8.6%	49.1%	8.1%
<b>Profit Before Tax</b>	<b>1,477.146</b>	<b>674.443</b>	<b>1,060.143</b>	<b>1,063.779</b>	<b>-0.3%</b>	<b>-28.2%</b>	<b>57.2%</b>
Tax	(0.528)	(0.469)	(0.215)	(0.740)	-70.9%	-59.3%	-54.2%
<b>Profit After Tax - Continuing Operations</b>	<b>1,476.618</b>	<b>673.974</b>	<b>1,059.928</b>	<b>1,063.039</b>	<b>-0.3%</b>	<b>-28.2%</b>	<b>57.3%</b>
Profit From Discontinued Operations	138.121	249.028	145.620	140.784	3.4%	5.4%	-41.5%
<b>Profit</b>	<b>1,614.739</b>	<b>923.002</b>	<b>1,205.548</b>	<b>1,203.823</b>	<b>0.1%</b>	<b>-25.3%</b>	<b>30.6%</b>
Minority Interest	(0.951)	(0.840)	(0.343)	(1.096)	-68.7%	-63.9%	-59.2%
<b>Profit for Equity Holders</b>	<b>1,613.788</b>	<b>922.162</b>	<b>1,205.205</b>	<b>1,202.727</b>	<b>0.2%</b>	<b>-25.3%</b>	<b>30.7%</b>
<b>Net Margin</b>	<b>38.3%</b>	<b>35.0%</b>	<b>42.5%</b>	<b>37.9%</b>			
<b>EPS (in QR)</b>	<b>0.27</b>	<b>0.15</b>	<b>0.20</b>	<b>0.20</b>	<b>0.2%</b>	<b>-25.3%</b>	<b>30.7%</b>
Cost of Sales	69.6%	71.9%	57.0%	68.6%			
Gross Margin %	30.4%	28.1%	43.0%	31.4%			
G&A % Sales	3.7%	6.5%	6.3%	5.4%			
Selling Expenses % Sales	0.3%	1.0%	0.6%	0.8%			
EBITDA %	26.4%	20.6%	36.1%	25.1%			
D&A % Sales	7.8%	13.6%	15.4%	11.3%			
EBIT %	18.6%	7.0%	20.7%	13.9%			
Net Margin %	38.3%	35.0%	42.5%	37.9%			

Source: Company data, QNB FS Research

## Segment Details and Comparisons

### In QR Millions

<b>Steel</b>	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>
Revenue	1,054.591	1,131.537	902.184	1,014.434
Profit Before Tax	152.943	144.503	130.038	123.152
NM %	14.50%	12.77%	14.41%	12.14%
Revenue QoQ	-9%	-8%	-20%	-10%
Profit Before Tax QoQ	-57%	8%	-10%	-15%
Revenue YoY	50%	-2%	-14%	-4%
Profit Before Tax YoY	15%	-60%	-15%	-19%
<b>Petrochemicals</b>	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>
Revenue	1,639.000	1,423.000	1,241.000	1,449.288
Profit Before Tax	568.336	442.700	322.595	469.279
NM %	34.68%	31.11%	25.99%	32.38%
Revenue QoQ	-19%	4%	-13%	2%
Profit Before Tax QoQ	-32%	16%	-27%	6%
Revenue YoY	5%	-29%	-24%	-12%
Profit Before Tax YoY	-16%	-47%	-43%	-17%
<b>Fertilizers</b>	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>
Revenue	3,157.431	1,503.080	1,931.722	2,158.623
Profit Before Tax	858.375	212.893	634.760	548.938
NM %	27.19%	14.16%	32.86%	25.43%
Revenue QoQ	-21%	-33%	29%	44%
Profit Before Tax QoQ	-45%	-58%	198%	158%
Revenue YoY	17%	-62%	-39%	-32%
Profit Before Tax YoY	-33%	-86%	-26%	-36%
<b>Total Revenue</b>	<b>5,851.022</b>	<b>4,057.617</b>	<b>4,074.906</b>	<b>4,622.345</b>
<b>YoY Growth</b>	<b>18%</b>	<b>-43%</b>	<b>-30%</b>	<b>-21%</b>
<b>QoQ Growth</b>	<b>-18%</b>	<b>-16%</b>	<b>0%</b>	<b>14%</b>
Steel	18%	28%	22%	22%
Petrochemicals	28%	35%	30%	31%
Fertilizers	54%	37%	47%	47%
<b>Total Profit Before Tax (Ex. Unallocated)</b>	<b>1,579.654</b>	<b>800.096</b>	<b>1,087.393</b>	<b>1,141.370</b>
Steel	10%	18%	12%	11%
Petrochemicals	36%	55%	30%	41%
Fertilizers	54%	27%	58%	48%
Group Net Income	1,613.788	922.162	1,205.205	1,202.727
Segment Profit Before Tax/Group NI	98%	87%	90%	95%
Unallocated Net Income	34.134	122.066	117.812	61.357

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Ratios & Valuation Metrics

Particulars	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Growth Ratios (In %)</b>											
Revenue - Proportionate Group	3.6%	14.7%	(15.9%)	(17.4%)	77.4%	27.9%	(33.2%)	4.3%	1.9%	5.4%	5.7%
Revenue - Reported	(1.0%)	25.1%	(12.0%)	45.2%	91.5%	32.6%	(36.2%)	2.3%	2.5%	8.0%	3.6%
Gross Profit	(31.8%)	24.1%	(75.7%)	803.5%	193.1%	2.2%	(44.4%)	9.5%	4.8%	10.1%	4.2%
EBITDA - Proportionate Group	(4.1%)	31.5%	(41.3%)	3.3%	170.6%	8.1%	(37.7%)	10.5%	3.7%	6.2%	7.5%
EBITDA - Reported	(38.4%)	35.9%	(93.6%)	3326.4%	229.6%	2.8%	(49.2%)	11.3%	5.5%	11.8%	4.7%
EBIT	(48.3%)	51.1%	N/M	N/M	1152.9%	2.7%	(61.5%)	23.6%	11.7%	10.7%	14.5%
JV Income	51.9%	48.8%	(43.8%)	(51.1%)	132.7%	(0.8%)	(34.9%)	15.8%	0.7%	(1.0%)	20.8%
PBT	12.2%	51.7%	(48.8%)	(28.3%)	338.4%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
PAT	12.2%	51.7%	(48.8%)	(28.4%)	338.8%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
Net Income	12.2%	51.7%	(48.8%)	(29.7%)	346.8%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
EPS	12.2%	51.7%	(48.8%)	(29.7%)	346.8%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
DPS	25.0%	20.0%	(33.3%)	(17.5%)	203.0%	10.0%	(31.8%)	6.7%	12.5%	5.6%	10.5%
<b>Operating Ratios (In %)</b>											
Gross Margin	20.2%	20.0%	5.5%	34.4%	52.6%	40.5%	35.4%	37.8%	38.6%	39.4%	39.6%
EBITDA Margin - Proportionate Group	33.0%	37.8%	26.4%	33.0%	50.3%	42.5%	39.7%	42.1%	42.8%	43.1%	43.9%
EBITDA Margin - Reported	14.6%	15.9%	1.2%	27.4%	47.2%	36.6%	29.1%	31.6%	32.5%	33.7%	34.1%
EBIT Margin	9.8%	11.8%	(4.3%)	5.6%	36.9%	28.6%	17.3%	20.9%	22.7%	23.3%	25.7%
Net Margin	71.6%	86.9%	50.5%	24.5%	57.1%	46.9%	39.4%	45.0%	46.8%	45.6%	50.2%
<b>Working Capital Ratios (Days)</b>											
Inventory days	142.7	135.3	140.4	146.6	108.9	101.4	125.0	125.0	125.0	125.0	125.0
Average collection period	98.8	63.3	64.3	78.5	79.6	37.7	50.0	50.0	50.0	50.0	50.0
Payable days	115.2	104.6	93.9	105.7	108.2	69.7	90.0	90.0	90.0	90.0	90.0
<b>Finance Ratios</b>											
Net Debt-Equity Ratio	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage	45.1	351.1	-19.0	11.2	206.4	227.2	65.8	82.1	96.5	112.4	135.5
<b>Return Ratios (In %)</b>											
ROE	9.9%	14.2%	7.5%	5.4%	20.5%	21.0%	11.8%	13.5%	14.1%	14.6%	16.2%
ROA	9.4%	13.6%	7.2%	5.0%	19.1%	19.6%	11.1%	12.7%	13.3%	13.7%	15.2%
<b>Liquidity Ratios</b>											
Current Ratio	7.8	10.4	11.2	8.9	10.1	10.7	10.2	9.6	9.2	8.9	9.0
Quick Ratio	6.8	9.2	9.7	7.6	9.2	9.3	8.9	8.2	7.9	7.5	7.7
<b>Valuation</b>											
EV/Reported EBITDA	106.3	74.9	1,164.3	35.0	9.8	9.1	18.8	17.3	16.5	14.7	13.9
EV/EBIT	159.2	100.9	(315.9)	169.7	12.5	11.7	31.6	26.2	23.6	21.3	18.4
P/E	24.0	15.8	30.9	44.0	9.8	9.0	16.9	14.4	13.5	12.9	11.3
P/BV	2.4	2.2	2.3	2.4	2.0	1.9	2.0	2.0	1.9	1.9	1.8
Dividend Yield	3.8%	4.6%	3.0%	2.5%	7.6%	8.4%	5.7%	6.1%	6.8%	7.2%	8.0%
FCF Yield	3.4%	7.3%	4.7%	3.8%	9.3%	11.2%	4.9%	3.7%	5.5%	6.9%	8.1%

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Revenue</b>	<b>7,400</b>	<b>14,169</b>	<b>18,794</b>	<b>11,989</b>	<b>12,270</b>	<b>12,581</b>	<b>13,582</b>	<b>14,069</b>
Cost of Sales, Excluding D&A	(4,856)	(6,715)	(11,174)	(7,750)	(7,629)	(7,720)	(8,231)	(8,494)
<b>Gross Profit</b>	<b>2,543</b>	<b>7,454</b>	<b>7,620</b>	<b>4,239</b>	<b>4,640</b>	<b>4,861</b>	<b>5,352</b>	<b>5,575</b>
G&A Expenses	(481)	(712)	(680)	(681)	(687)	(693)	(699)	(705)
Selling Expenses	(35)	(59)	(68)	(70)	(72)	(74)	(76)	(77)
<b>EBITDA</b>	<b>2,028</b>	<b>6,683</b>	<b>6,872</b>	<b>3,488</b>	<b>3,882</b>	<b>4,094</b>	<b>4,577</b>	<b>4,793</b>
Depreciation & Amortization	(1,610)	(1,450)	(1,498)	(1,416)	(1,322)	(1,236)	(1,414)	(1,170)
<b>EBIT</b>	<b>418</b>	<b>5,233</b>	<b>5,374</b>	<b>2,071</b>	<b>2,560</b>	<b>2,858</b>	<b>3,163</b>	<b>3,622</b>
Finance Costs	(37)	(25)	(24)	(31)	(31)	(30)	(28)	(27)
<b>Share of Results of Joint Ventures</b>	<b>1,065</b>	<b>2,479</b>	<b>2,460</b>	<b>1,601</b>	<b>1,853</b>	<b>1,866</b>	<b>1,847</b>	<b>2,231</b>
Other Income, Expenses, Taxes & Minorities	365	402	1,004	1,083	1,139	1,193	1,211	1,230
<b>Profit for Shareholders</b>	<b>1,810</b>	<b>8,089</b>	<b>8,815</b>	<b>4,724</b>	<b>5,520</b>	<b>5,887</b>	<b>6,192</b>	<b>7,057</b>
<b>EPS (QR)</b>	<b>0.30</b>	<b>1.34</b>	<b>1.46</b>	<b>0.78</b>	<b>0.91</b>	<b>0.97</b>	<b>1.02</b>	<b>1.17</b>
<b>Group Revenue</b>	<b>11,361</b>	<b>20,150</b>	<b>25,770</b>	<b>17,223</b>	<b>17,961</b>	<b>18,305</b>	<b>19,289</b>	<b>20,387</b>
<b>Group EBITDA</b>	<b>3,748</b>	<b>10,140</b>	<b>10,960</b>	<b>6,833</b>	<b>7,553</b>	<b>7,836</b>	<b>8,322</b>	<b>8,945</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Non-Current Assets</b>								
PP&E & PUD	13,718	12,696	11,877	13,141	15,029	15,733	15,429	15,088
Investment Properties	-	-	-	-	-	-	-	-
Investment in Associates	1,475	1,577	1,890	2,162	2,472	2,827	3,192	3,568
Investment in Joint Ventures	6,916	6,823	7,097	7,286	7,505	7,725	7,944	8,207
Available-for-Sale Investments	-	-	-	-	-	-	-	-
Right-of Use Assets & Others	227	189	242	238	238	238	238	238
<b>Total Non-Current Assets</b>	<b>22,335</b>	<b>21,284</b>	<b>21,106</b>	<b>22,827</b>	<b>25,243</b>	<b>26,523</b>	<b>26,802</b>	<b>27,102</b>
<b>Current Assets</b>								
Inventories	1,945	2,004	3,105	2,654	2,606	2,644	2,819	2,909
Accounts Rec. & Prepayments	1,587	3,090	1,943	1,642	1,676	1,723	1,861	1,927
Due from Related Parties	869	1,494	1,535	979	1,002	1,027	1,109	1,149
Financial Assets at FVTPL	348	349	397	397	397	397	397	397
Cash and Bank Balances	8,801	14,086	16,919	14,175	12,560	12,097	12,142	12,844
<b>Total Current Assets</b>	<b>13,550</b>	<b>21,023</b>	<b>23,899</b>	<b>19,847</b>	<b>18,241</b>	<b>17,888</b>	<b>18,328</b>	<b>19,226</b>
<b>Total Assets</b>	<b>35,885</b>	<b>42,308</b>	<b>45,005</b>	<b>42,674</b>	<b>43,484</b>	<b>44,412</b>	<b>45,130</b>	<b>46,328</b>
<b>Equity</b>								
<b>Total Equity</b>	<b>33,613</b>	<b>39,510</b>	<b>42,020</b>	<b>39,977</b>	<b>40,822</b>	<b>41,722</b>	<b>42,315</b>	<b>43,448</b>
<b>Non-Current Liabilities</b>								
Loans and Borrowings	-	-	-	-	-	-	-	-
EOS Benefits & Lease Liabilities	745	724	761	754	754	754	754	754
<b>Total Non-Current Liabilities</b>	<b>745</b>	<b>724</b>	<b>761</b>	<b>754</b>	<b>754</b>	<b>754</b>	<b>754</b>	<b>754</b>
<b>Current Liabilities</b>								
Accounts Payables & Accruals	1,403	1,991	2,132	1,911	1,876	1,904	2,029	2,094
Due to Related Parties, Lease Liabilities & Others	88	83	92	32	32	32	32	32
Loans and Borrowings	37	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>1,527</b>	<b>2,073</b>	<b>2,224</b>	<b>1,943</b>	<b>1,908</b>	<b>1,935</b>	<b>2,061</b>	<b>2,126</b>
<b>Equity and Liabilities</b>	<b>35,885</b>	<b>42,308</b>	<b>45,005</b>	<b>42,674</b>	<b>43,484</b>	<b>44,412</b>	<b>45,130</b>	<b>46,328</b>

Source: Company data, QNB FS Research

## Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR5.541	Target Price	QR6.113
Implied Upside	10.3%		

### Curtailing Full-Year Estimates But Stock Remains Cheaper Than Peers; Maintain Market Perform

*The stock remains attractive relative to international sector peers but it looks pricey compared with the local market. Also, we trimmed our margins, after they came under pressure during 3Q2023 as staff costs rose more than modelled due to the global scarcity of nurses and the emerging competition locally. Our overall thesis remains, with growth drivers weak in the immediate horizon. The forecast period looks rather pedestrian due to competition dynamics and limited fruition of previously-announced expansion plans. In the medium- to longer-term, tailwinds due to positive demographics will likely become dominant. While Medicare has proven to be an attractive dividend play over the years, this yield allure is being weighed down by improving cross asset yields. Nonetheless, MCGS is a cash-cow, with a high cash conversion ratio. The board has been generous, with most of the bottom-line paid to shareholders as dividends. We estimate a 2023 dividend yield of 4.5% (vs. QSE's 4.7%; International sector peers: 2.6%). We also like Medicare's lower risk profile owing to its product offering and strong balance sheet, which in turn, supports a continued stable dividend flow.*

#### Highlights

- **Medicare Group 3Q2023 net profit fell 31.8%/19.9% YoY/QoQ to QR14.0mn, missing our estimate of QR20.5mn.** We attribute about 91% of the miss to lower-than-expected revenue and the other 9% to lower-than-modeled margins. **MCGS's 3Q2023 revenue declined 4.2%/8.1% YoY/QoQ to QR109.3mn, below our expectations of QR113.6mn.** While we adjudge the miss at the top-line of 3.8% to be within a reasonable forecast deviation range, it had an outsized impact on the bottom-line miss. We reckon Qatar's average population (per PSA data) during 3Q2023 actually increased by 1.7% YoY, and it is possible that the recent increase in bed supply by competitors is beginning to take a toll.
- **The GP margin came in lower at 36.3% compared with the 39.5% we had expected, and lower both sequentially (37.7%) and compared with 2Q2022, which printed at 39.6%.** While the biggest cost of sales line items came largely in-line, community doctor expenses were significantly above forecast. Other operating costs came in 4.7% above our estimates.
- **We have revised down our revenue projection for FY2023 to QR490.9mn from QR505.0mn and our net profit forecast is now lower at QR73.4mn from QR79.5mn.**
- **While we reiterate our Market Perform rating, we note that MCGS could get a boost once there is more clarity on when it will receive a cash windfall following the Court of Appeal judgement in its favor against the National Health Insurance Company (Seha) on 24 January.** MCGS was awarded a total of QR130.7mn (including additional QR16.6mn in damages/comprehensive compensation). It had written down QR76.2mn of the original QR114.1mn Seha receivable. We estimate a net positive impact of QR0.33/share but this is not in our base model. Recent newsflow where the Court of Cassation referred back the case to the Court of Appeal – following Seha's challenge of the January 24 Court of Appeal judgement – means the process will be drawn out and less certainty is now built in the quantum and timing of the payment. We estimate a net impact of QR0.13/share should MCGS decide to completely write-off the Seha receivable.

#### Catalysts

- **Catalysts: (1) Phased rollout of the "new" health insurance policy (2) Inpatient beds expansion plans, though drawn-out than initially planned (3) Contingent cash windfall from Medicare's court case (vs. the government on "old" Seha) (4) Initiative by the QIA to increase market liquidity (5) Increase in FOL to 100% from 49%.**

#### Recommendation, Valuation and Risks

- **Recommendation and Valuation: We have a Market Perform rating and weighted 12-month TP of QR6.113 on MCGS, which implies a 10.3% upside potential. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies.** Several macro and micro themes cancel out each other to render a relatively neutral prognosis on MCGS's near-term outlook. In the short- to medium-term, we see the following variables driving the outlook: bed capacity & occupancy levels, service level & product quality, public health policy, increased healthcare spend, low beta, tariff controls and competition from both the private and public players. In the medium- to longer-term, above-average population growth, disease burden and expected change in the composition of expats (to a more white-collar workforce), will become more dominant in shaping prospects.
- **Key risks: (1) Further delays to planned bed-expansion plans (2) Further write-downs/off of the Seha receivable (3) Escalating competitive pressure as both private and public bed-count increases (4) Low stock liquidity (5) Cross asset yields dynamics (6) Global disease outbreak.**

#### Key Financial Data and Estimates

Medicare Group	2022A	2023E	2024E	2025E	2026E
EPS (QR)	0.28	0.26	0.29	0.33	0.36
DPS (QR)	0.26	0.23	0.26	0.30	0.32
P/E (x)	19.7	21.3	19.4	16.7	15.4
EV/EBITDA (x)	16.0	17.1	15.4	13.8	12.5
DY (%)	4.7%	4.2%	4.6%	5.4%	5.8%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

#### Key Data

Current Market Price	QR5.541
Dividend Yield (%)	4.7
P/E Ratio	21.2
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Healthcare
52wk Share Price High	QR7.60
52wk Share Price Low	QR5.06
3-m Average Vol. (mn)	0.7
Mkt. Cap. (\$ bn/QR bn)	0.4/1.6
EV (\$ bn/QR bn)	0.5/1.7
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	17.8
1-Year Total Return (%)	-14.2
Fiscal Year-End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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**Condensed Financial Statements & Forecasts**
**Income Statement (QR)**

GROUP	2022A	2023E	2024E	2025E	2026E
<b>REVENUE</b>	<b>487,165,561</b>	<b>490,863,676</b>	<b>504,122,848</b>	<b>527,903,318</b>	<b>552,443,116</b>
GROSS PROFIT	185,409,085	181,621,114	191,560,492	204,432,613	217,867,256
EBITDA	102,150,287	96,351,900	104,927,579	114,067,827	123,680,107
OPERATING PROFIT	73,704,284	68,034,898	76,897,223	86,226,474	95,876,518
<b>PROFIT FOR THE PERIOD</b>	<b>79,164,805</b>	<b>73,365,405</b>	<b>80,449,526</b>	<b>93,419,569</b>	<b>101,295,539</b>

Source: Company data, QNB FS Research

**Balance Sheet (QR)**

GROUP	2022A	2023E	2024E	2025E	2026E
Property, Plant and Equipment	1,032,712,543	1,047,452,294	1,029,481,802	1,012,051,358	995,020,935
Right-of-Use Assets	37,592,055	34,974,044	32,356,033	29,738,022	27,120,011
Financial Investments at FVTOCI	69,730,395	69,730,395	69,730,395	69,730,395	69,730,395
Investment Properties	26,233,810	26,233,810	26,233,810	26,233,810	26,233,810
<b>Total Non-Current Assets</b>	<b>1,166,268,803</b>	<b>1,178,390,543</b>	<b>1,157,802,040</b>	<b>1,137,753,585</b>	<b>1,118,105,151</b>
Inventories	30,586,104	31,718,149	32,574,917	34,111,541	35,697,229
Accounts Receivable and Prepayments	118,063,533	118,599,837	120,522,695	123,971,361	127,530,146
Cash and Bank Balances	42,150,235	2,774,231	14,717,076	35,417,415	56,406,636
<b>Total Current Assets</b>	<b>190,799,872</b>	<b>153,092,217</b>	<b>167,814,689</b>	<b>193,500,317</b>	<b>219,634,011</b>
<b>Total Assets</b>	<b>1,357,068,675</b>	<b>1,331,482,760</b>	<b>1,325,616,728</b>	<b>1,331,253,902</b>	<b>1,337,739,162</b>
<b>EQUITY AND LIABILITIES</b>					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	116,010,669	123,347,209	131,392,162	140,734,118	150,863,672
Fair Value Reserve	18,365,451	18,365,451	18,365,451	18,365,451	18,365,451
Revaluations Surplus	549,025,726	549,025,726	549,025,726	549,025,726	549,025,726
Retained Earnings	75,356,136	63,280,939	67,645,410	76,982,959	81,538,944
<b>Total Equity</b>	<b>1,040,198,982</b>	<b>1,035,460,325</b>	<b>1,047,869,748</b>	<b>1,066,549,254</b>	<b>1,081,234,793</b>
Interest Bearing Loans	54,396,528	37,575,275	23,642,683	11,206,931	2,001,087
Lease Liabilities	40,692,837	39,407,796	38,163,336	36,958,175	35,791,071
Employees' End of Service Benefits	77,292,252	79,107,657	80,923,062	82,791,869	84,728,057
<b>Total Non-Current Liabilities</b>	<b>172,381,617</b>	<b>156,090,729</b>	<b>142,729,081</b>	<b>130,956,975</b>	<b>122,520,215</b>
Accounts Payables & Accruals	118,503,116	121,442,985	122,746,705	127,030,535	131,391,652
Interest Bearing Loans	24,043,006	16,608,093	10,449,953	4,953,410	884,471
Lease Liabilities	1,941,954	1,880,629	1,821,241	1,763,727	1,708,031
<b>Total Current Liabilities</b>	<b>144,488,076</b>	<b>139,931,707</b>	<b>135,017,899</b>	<b>133,747,672</b>	<b>133,984,154</b>
<b>Total Liabilities</b>	<b>316,869,693</b>	<b>296,022,435</b>	<b>277,746,980</b>	<b>264,704,648</b>	<b>256,504,369</b>
<b>Total Equity and Liabilities</b>	<b>1,357,068,675</b>	<b>1,331,482,760</b>	<b>1,325,616,728</b>	<b>1,331,253,902</b>	<b>1,337,739,162</b>

Source: Company data, QNB FS Research

**Cash Flow Statement (QR)**

GROUP	2022A	2023E	2024E	2025E	2026E
<b>Cash Flow from Operating Activities</b>	<b>102,928,555</b>	<b>83,780,582</b>	<b>106,116,103</b>	<b>116,645,276</b>	<b>126,782,635</b>
<b>Cash Flow from Investing Activities</b>	<b>(59,721,426)</b>	<b>(37,450,522)</b>	<b>(4,818,116)</b>	<b>(2,474,700)</b>	<b>(5,406,599)</b>
<b>Cash Flow from Financing Activities</b>	<b>(53,303,967)</b>	<b>(95,802,903)</b>	<b>(89,355,141)</b>	<b>(93,470,238)</b>	<b>(100,386,816)</b>
Change in Cash	(10,096,838)	(49,472,842)	11,942,846	20,700,339	20,989,221
Opening Cash	52,247,073	52,247,073	2,774,231	14,717,076	35,417,415
<b>Cash End of Period</b>	<b>42,150,235</b>	<b>2,774,231</b>	<b>14,717,076</b>	<b>35,417,415</b>	<b>56,406,636</b>

Source: Company data, QNB FS Research

**Key Ratios**

MCGS RATIOS	2022A	2023E	2024E	2025E	2026E
<b>GROWTH METRICS</b>					
Revenue	0.7%	0.8%	2.7%	4.7%	4.6%
Gross Profit	0.4%	-2.0%	5.5%	6.7%	6.6%
EBITDA	-2.0%	-5.7%	8.9%	8.7%	8.4%
Operating Profit	-3.2%	-7.7%	13.0%	12.1%	11.2%
Net Profit	0.1%	-7.3%	9.7%	16.1%	8.4%
<b>OPERATING RATIOS</b>					
Gross Margin	38.1%	37.0%	38.0%	38.7%	39.4%
EBITDA Margin	21.0%	19.6%	20.8%	21.6%	22.4%
EBIT Margin	15.1%	13.9%	15.3%	16.3%	17.4%
Net Profit Margin	16.3%	14.9%	16.0%	17.7%	18.3%
<b>RETURN RATIOS</b>					
RoE	7.6%	7.1%	7.7%	8.8%	9.4%
RoIC	6.6%	6.0%	6.9%	7.9%	9.0%
RoA	5.4%	5.1%	5.8%	6.5%	7.2%
<b>VALUATION RATIOS</b>					
EV/Sales	3.4	3.4	3.2	3.0	2.8
EV/EBITDA	16.0	17.1	15.4	13.8	12.5
EV/EBIT	22.2	24.3	21.1	18.3	16.1
PE Ratio	19.7	21.3	19.4	16.7	15.4
PEG Ratio	3.5	1.9	1.3	1.3	1.6
P/CF	15.2	18.6	14.7	13.4	12.3
P/B	1.5	1.5	1.5	1.5	1.4
Dividend Yield	4.7%	4.2%	4.6%	5.4%	5.8%
FCF Yield	3.7%	2.8%	6.3%	7.0%	7.6%
<b>LEVERAGE RATIOS</b>					
Debt/Equity Ratio	11.6%	9.2%	7.1%	5.1%	3.7%
Net Debt/Equity Ratio	7.6%	9.0%	5.7%	1.8%	-1.5%
Net Debt/Capital Ratio	7.9%	9.0%	5.7%	1.9%	-1.6%
Net Debt/EBITDA	77.3%	96.2%	56.6%	17.1%	-13.0%
Interest coverage	35.8	39.8	21.3	30.9	45.2
<b>LIQUIDITY RATIOS</b>					
Current Ratio	1.3	1.1	1.2	1.4	1.6
Quick Ratio	1.1	0.9	1.0	1.2	1.4
<b>WORKING CAPITAL DAYS</b>					
Inventory Days	157	157	157	157	157
Average Collection Period	110	110	110	110	110
Payables Days	143	143	143	143	143

Source: Company data, QNB FS Research

## Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR17.34	Target Price	QR22.00
Implied Upside	26.9%		

### Long-Term Play Awaiting a Growth Spark; Accumulate

We continue to like QEWS as a long-term play with a relatively defensive business model, especially in light of current market conditions. The company is the 2<sup>nd</sup> largest utilities player in the MENA region; in Qatar, QEWS holds a 55% market share in power generation and a 73% share in water desalination. LT catalysts (which are not in our model) abound – Facility E (55% stake; power: 2,600 MW & water: 100 MIGD) is currently in the bidding stage and should be operational around 2025, reaching full capacity in 2026. Nebras also has roughly 0.8 GW net capacity under construction/development that is not incorporated in our model. We recommend an Accumulate rating on QEWS.

#### Highlights

- QEWS posted 3Q2023 earnings of QR340.4mn (EPS: QR0.31), down 39.8% YoY/7.5% QoQ, which was 15.7% shy of our estimate of QR404.0mn (EPS: QR0.37). Higher-than-expected direct cash costs, a small impairment, increased net finance charges, along with lower-than-modeled JV income, more than offset a decent top-line beat.
- We will have to lower our 2023 estimate given 9M2023 results. Our current forecast envisages a 7.8% earnings decline in 2023 to QR1,578.1mn. However, given 9M2023 profit of QR1,109.0mn, we are possibly looking at a ~5% haircut to 2023 earnings.
- 2023 will continue to be impacted by the RAF B1 extension. The new PPA, valid until end-2029, for RAF B1 (376 MW) was agreed in principle in March. As newer PPAs usually exhibit lower tariff/higher gas costs, we will have to continue to factor in lower profitability for 2023.
- QEWS enjoys decent EBITDA margins & dividend/FCF yields. Despite modeled compression, QEWS retains solid EBITDA margins (2022-27 avg.: ~37%). Over 2022-27, we expect dividend yields to average 5.8%, while FCF yields should average 9.5% over the same period. ROEs average 10.3% for 2022-27.
- We continue to like QEWS as a solid long-term play with a relatively defensive business model. Essentially a capacity provider, QEWS takes on insignificant demand/costs/funding risks holding secure contracted assets with long-term (~25 years) fuel agreements/PWPAs and committed funding. This also leads to visible cash flows and a stable operating profile. The State of Qatar (through various entities) owns ~55% of the company.

#### Catalysts

- Upcoming projects and related newsflow should act as positive catalysts.

#### Recommendation, Valuation and Risks

- Recommendation & valuation: We continue to rate QEWS an Accumulate with a PT of QR22.00. Assuming a 5% cut to 2023 EPS, the stock is trading at a 2023 P/E of ~12.7x, which is attractive relative to its historical five-year average of 13.5x. Dividend yields are also decent at 5.5% for 2023/2024.
- Risks: Geopolitical risks cannot be modeled. Besides foreign expansion risks, domestic projects could also be delayed. Operational risks include availability of capacity below contracted levels, which could lead to penalties.

#### Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
Revenue (QR mn)	2,721	2,857	2,901	2,924
Revenue Growth	10.0%	5.0%	1.5%	0.8%
EPS (QR)	1.56	1.43	1.44	1.48
EPS Growth	16.6%	-7.8%	0.1%	3.2%
P/E (x)	11.1	12.1	12.1	11.7
DPS (QR)	0.95	0.95	0.95	1.00
ROE	11.3%	10.4%	10.1%	10.0%

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	17.34
Dividend Yield (%)	5.5
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	18.64/16.00
3-m Average Volume ('000)	460.5
Mkt. Cap. (\$ bn/QR bn)	5.2/19.1
EV (\$ bn/QR bn)	5.9/21.5
Shares Outstanding (bn)	1.10
FO Limit* (%)	100.0
Institutional FO* (%)	9.7
1-Year Total Return (%)	(0.2)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## 3Q2023 Review: 3Q2023 Miss On Lower Margins/JV Income/Impairment

QEWS posted 3Q2023 earnings of QR340.4mn (EPS: QR0.31), down 39.8% YoY/7.5% QoQ, which was 15.7% shy of our estimate of QR404.0mn (EPS: QR0.37). Higher-than-expected direct cash costs, a small impairment, increased net finance charges, along with lower-than-modeled JV income, more than offset a decent top-line beat.

- **Seasonality helped boost 3Q2023 total revenue to QR798.1mn, up 12.2% YoY/10.6% QoQ, which came in 7.8% higher than our estimate of QR740.7mn.** Electricity revenue of QR432.2mn (11.6% YoY, 16.7% QoQ) exceeded our forecast by 13.7%. Water sales of QR347.2mn (14.0% YoY, 4.7% QoQ) was also modestly ahead by 1.8%.
- **Increased gas costs likely passed through higher power sales in 3Q2023 compressing margins.** Direct cash costs of QR480.7mn (23.2% YoY, 17.6% QoQ), grew faster than revenue YoY (as has been the case thus far in 2023 likely due to RAF B1's PPA renegotiation in early 2023 that boosted fuel costs) and exceeded our estimate of QR420.0mn by 14.5%. Consequently, cash gross margin fell to 39.8% from 45.1% in 3Q2022 and 43.4% in 2Q2023; we were modeling a GM of 43.3%. The increase in direct costs could be attributed to the 27.5% YoY/19.4% QoQ increase in cost of gas to QR366.2mn in 3Q2023. Most of this cost seems to have been passed through the top-line with cash gross profit flattish on both a YoY and a QoQ basis.
- **A small impairment (likely reported in the G&A line), higher-than-modeled net finance costs and lower-than-expected JV income, also crimped earnings.** Reported G&A expenses of QR85.4mn (22.4% YoY, 56.0% QoQ) came in significantly ahead of our forecast. On its cash flow statement, QEWS reported QR30.2mn in impairment and amortization expense for 9M2023, which is likely included in its G&A for 3Q2023. The company, during the earnings conference call, stated that this line item included a receivables charge (related to Nebras's Ukraine operations) of QR19.8mn. The G&A line continues to remain erratic on a quarterly basis and we will seek color from management about its run rate going forward. Net finance costs of QR51.4mn (3.7% YoY, -2.7% QoQ) was also 19.4% ahead of our estimate of QR43.1mn. JV income of QR209.2mn (-6.5% YoY, 1.8% QoQ) fell 5.9% below our model of QR222.2mn.

**QNB FS 3Q2023 Estimates and Comparisons**

Income Statement (QR mn)							
Particulars	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
<b>Revenue</b>	<b>711.129</b>	<b>721.599</b>	<b>798.123</b>	<b>740.712</b>	<b>7.8%</b>	<b>12.2%</b>	<b>10.6%</b>
Electricity	387.222	370.383	432.206	380.003	13.7%	11.6%	16.7%
Water	304.570	331.582	347.191	341.114	1.8%	14.0%	4.7%
Lease Income from JVs and Associates	19.337	19.634	18.726	19.595	-4.4%	-3.2%	-4.6%
<b>Cost of Sales (Ex. Depreciation)</b>	<b>(390.175)</b>	<b>(408.701)</b>	<b>(480.724)</b>	<b>(419.984)</b>	<b>14.5%</b>	<b>23.2%</b>	<b>17.6%</b>
<b>Gross Profit</b>	<b>320.954</b>	<b>312.898</b>	<b>317.399</b>	<b>320.728</b>	<b>-1.0%</b>	<b>-1.1%</b>	<b>1.4%</b>
General and Administrative Expenses	(52.770)	(28.010)	(79.855)	(28.032)	184.9%	51.3%	185.1%
<b>EBITDA</b>	<b>268.184</b>	<b>284.888</b>	<b>237.545</b>	<b>292.696</b>	<b>-18.8%</b>	<b>-11.4%</b>	<b>-16.6%</b>
Depreciation (CoS)	(70.903)	(83.539)	(87.801)	(83.623)	5.0%	23.8%	5.1%
Depreciation (G&A)	(15.041)	(21.425)	(1.931)	(21.436)	-91.0%	-87.2%	-91.0%
Amortization	(1.985)	(5.325)	(3.616)	(5.325)	-32.1%	82.1%	-32.1%
<b>Depreciation &amp; Amortization</b>	<b>(87.929)</b>	<b>(110.289)</b>	<b>(93.348)</b>	<b>(110.383)</b>	<b>-15.4%</b>	<b>6.2%</b>	<b>-15.4%</b>
<b>EBIT</b>	<b>180.255</b>	<b>174.599</b>	<b>144.197</b>	<b>182.313</b>	<b>-20.9%</b>	<b>-20.0%</b>	<b>-17.4%</b>
Finance Costs	(102.820)	(126.803)	(133.777)	(121.858)	9.8%	30.1%	5.5%
Interest income	53.246	73.960	82.345	78.767	4.5%	54.7%	11.3%
Finance Costs, Net	(49.574)	(52.843)	(51.432)	(43.090)	19.4%	3.7%	-2.7%
Dividend Income		22.701					-100.0%
Other & Misc. Income / Exp.	241.806	32.015	30.881	35.000	-11.8%	-87.2%	-3.5%
JV Income	223.843	205.424	209.213	222.228	-5.9%	-6.5%	1.8%
Profit from Discontinued Operations		(6.517)	(0.660)	15.725	N/M		-89.9%
<b>Profit Before Tax</b>	<b>596.330</b>	<b>375.379</b>	<b>332.199</b>	<b>412.175</b>	<b>-19.4%</b>	<b>-44.3%</b>	<b>-11.5%</b>
Tax	(3.019)	(2.020)	7.989	(2.218)	N/M	N/M	N/M
<b>Profit after Tax</b>	<b>593.311</b>	<b>373.359</b>	<b>340.188</b>	<b>409.957</b>	<b>-17.0%</b>	<b>-42.7%</b>	<b>-8.9%</b>
Minority Interest	(27.913)	(5.442)	0.243	(5.975)	N/M	N/M	N/M
<b>Net Income</b>	<b>565.398</b>	<b>367.917</b>	<b>340.431</b>	<b>403.982</b>	<b>-15.7%</b>	<b>-39.8%</b>	<b>-7.5%</b>
<i>Net Margin</i>	<i>79.5%</i>	<i>51.0%</i>	<i>42.7%</i>	<i>54.5%</i>			
<b>EPS (QR)</b>	<b>0.51</b>	<b>0.33</b>	<b>0.31</b>	<b>0.37</b>	<b>-15.7%</b>	<b>-39.8%</b>	<b>-7.5%</b>
	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>			
Cost of Sales	54.9%	56.6%	60.2%	56.7%			
SG&A	7.4%	3.9%	10.0%	3.8%			
Depreciation/Sales	10.0%	11.6%	11.0%	11.3%			
EBITDA margin	37.7%	39.5%	29.8%	39.5%			
Operating Margin	25.3%	24.2%	18.1%	24.6%			
Min Interest (as a % of NI)	4.9%	1.5%	-0.1%	1.5%			
Net Margin	79.5%	51.0%	42.7%	54.5%			
GM	45.1%	43.4%	39.8%	43.3%			

Source: Company data, QNB FS Research

## Valuation and Key Ratios

### Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>Valuation</b>														
EV/EBITDA - Consolidated	14.9	14.0	13.3	13.6	15.7	21.2	22.0	16.4	18.9	18.9	18.0	17.6	17.0	16.3
EV/EBIT	21.2	19.6	18.0	19.2	20.1	30.1	32.8	22.2	26.6	28.2	26.5	26.2	25.3	24.3
P/E	12.5	12.7	12.4	11.8	12.4	13.5	16.5	13.0	11.1	12.1	12.1	11.7	11.4	11.1
P/CF	8.6	10.3	9.2	11.4	9.2	15.0	10.7	11.7	11.1	12.5	9.8	9.5	9.3	9.1
P/BV	2.8	2.6	2.3	2.1	1.8	1.9	2.0	1.6	1.3	1.3	1.2	1.2	1.1	1.1
Dividend Yield	4.3%	4.3%	4.3%	4.5%	4.5%	4.5%	3.6%	4.6%	5.5%	5.5%	5.5%	5.8%	6.1%	6.3%
FCF Yield	(2.5%)	4.3%	6.4%	8.4%	5.5%	5.4%	8.9%	7.3%	10.4%	7.3%	9.4%	9.8%	10.0%	10.2%

Source: Bloomberg, QNB FS Research

### Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	CAGR ('22-'27)
<b>Growth Rates</b>															
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	10.0%	5.0%	1.5%	0.8%	1.1%	1.1%	1.9%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	7.6%	(3.6%)	1.5%	(1.4%)	(0.3%)	(0.1%)	(0.8%)
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(4.3%)	1.0%	1.5%	(1.9%)	(0.6%)	(0.4%)	(0.1%)
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(7.7%)	(5.0%)	2.4%	(2.7%)	(0.8%)	(0.5%)	(1.3%)
JV Income	3.6%	4.1%	(8.9%)	52.3%	(4.4%)	48.7%	(31.7%)	3.5%	17.4%	24.0%	3.9%	2.1%	2.3%	2.8%	6.7%
PBT	11.0%	(2.0%)	2.5%	4.2%	(4.5%)	(8.0%)	(17.9%)	26.0%	17.6%	(7.3%)	0.1%	3.2%	2.9%	2.8%	0.3%
Net Income/EPS	10.5%	(1.9%)	2.8%	4.8%	(4.9%)	(8.0%)	(18.1%)	26.8%	16.6%	(7.8%)	0.1%	3.2%	2.9%	2.8%	0.2%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	18.8%	0.0%	0.0%	5.3%	5.0%	4.8%	3.0%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	4.6%	(10.6%)	27.1%	3.4%	1.9%	2.1%	4.1%
FCFPS	N/M	N/M	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.2%)	42.9%	(29.9%)	29.9%	3.7%	2.0%	2.2%	(0.3%)
<b>Operating Ratios</b>															
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	49.0%	45.0%	45.0%	44.0%	43.4%	42.9%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	34.4%	44.6%	38.9%	37.4%	37.4%	36.4%	35.8%	35.3%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	27.7%	25.1%	25.3%	24.4%	24.0%	23.6%	
Net Margin	52.8%	50.3%	49.7%	52.6%	59.1%	59.2%	44.8%	59.3%	62.9%	55.2%	54.4%	55.8%	56.8%	57.8%	
<b>Finance Ratios</b>															
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.6	0.5	0.5	0.4	0.4	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.8	4.0	7.1	2.6	1.5	1.6	1.7	1.8	1.8	
<b>Return Ratios</b>															
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	2.9%	3.0%	3.1%	3.0%	2.9%	2.9%	
ROE	22.6%	20.4%	18.6%	18.0%	14.7%	14.1%	11.9%	12.4%	11.3%	10.4%	10.1%	10.0%	9.9%	9.9%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	8.1%	6.8%	7.9%	6.2%	6.2%	6.1%	6.3%	6.4%	6.5%	
FCF Yield	-2.5%	4.3%	6.4%	8.4%	5.5%	5.4%	8.9%	7.3%	10.4%	7.3%	9.4%	9.8%	10.0%	10.2%	
<b>Liquidity Ratios</b>															
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.8	1.5	1.6	1.7	1.8	1.9	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.8	1.5	1.6	1.6	1.8	1.9	
<b>Valuation</b>															
EV/EBITDA - Consolidated	14.9	14.0	13.3	13.6	15.7	21.2	22.0	16.4	18.9	18.9	18.0	17.6	17.0	16.3	
EV/EBIT	21.2	19.6	18.0	19.2	20.1	30.1	32.8	22.2	26.6	28.2	26.5	26.2	25.3	24.3	
P/E	12.5	12.7	12.4	11.8	12.4	13.5	16.5	13.0	11.1	12.1	12.1	11.7	11.4	11.1	
P/CF	8.6	10.3	9.2	11.4	9.2	15.0	10.7	11.7	11.1	12.5	9.8	9.5	9.3	9.1	
P/BV	2.8	2.6	2.3	2.1	1.8	1.9	2.0	1.6	1.3	1.3	1.2	1.2	1.1	1.1	
Dividend Yield	4.3%	4.3%	4.3%	4.5%	4.5%	4.5%	3.6%	4.6%	5.5%	5.5%	5.5%	5.8%	6.1%	6.3%	
FCF Yield	(2.5%)	4.3%	6.4%	8.4%	5.5%	5.4%	8.9%	7.3%	10.4%	7.3%	9.4%	9.8%	10.0%	10.2%	

Source: Bloomberg, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Revenue</b>	<b>2,721</b>	<b>2,857</b>	<b>2,901</b>	<b>2,924</b>
Cost of Sales, Excluding Depreciation	(1,387)	(1,571)	(1,595)	(1,637)
<b>Gross Profit</b>	<b>1,334</b>	<b>1,286</b>	<b>1,306</b>	<b>1,287</b>
General & Administrative Expenses, Excl. Depreciation & Amortization	(276)	(218)	(222)	(223)
<b>EBITDA</b>	<b>1,058</b>	<b>1,068</b>	<b>1,084</b>	<b>1,064</b>
Deferred Income	0	0	0	0
Depreciation & Amortization	(303)	(351)	(350)	(349)
<b>EBIT</b>	<b>754</b>	<b>717</b>	<b>734</b>	<b>715</b>
Finance Costs, Net	(111)	(181)	(152)	(108)
Dividend Income & Gain on Sale of AFS	161	118	117	125
Other & Miscellaneous Income/Expense & Income from JVs/Associates	945	952	928	948
<b>Profit Before Tax</b>	<b>1,750</b>	<b>1,606</b>	<b>1,626</b>	<b>1,679</b>
Income Tax Expense	(2)	(9)	(9)	(10)
<b>Profit After Tax (Continuing Operations)</b>	<b>1,747</b>	<b>1,597</b>	<b>1,617</b>	<b>1,669</b>
Discontinued Operations	3	19		
Minority Interest	(40)	(37)	(38)	(39)
<b>Profit for Shareholders</b>	<b>1,711</b>	<b>1,578</b>	<b>1,579</b>	<b>1,631</b>
<b>EPS (QR)</b>	<b>1.56</b>	<b>1.43</b>	<b>1.44</b>	<b>1.48</b>

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Non-Current Assets</b>				
Property, Plant & Equipment	6,084	5,816	5,549	5,282
Available-for-Sale Investments	2,323	2,189	2,299	2,368
Finance Lease Receivables	765	656	546	437
JV Loans and Investments in JVs/Associates	8,905	9,112	9,325	9,540
Other Non-Current assets	344	875	857	840
<b>Total Non-Current Assets</b>	<b>18,420</b>	<b>18,648</b>	<b>18,576</b>	<b>18,467</b>
<b>Current Assets</b>				
Finance Lease Receivables & Others	400	296	296	296
Inventories	94	106	108	111
Accounts Receivables & Prepayments	779	861	874	881
Cash and Short-Term Deposits	8,117	5,683	5,859	5,963
<b>Total Current Assets</b>	<b>9,389</b>	<b>6,947</b>	<b>7,138</b>	<b>7,251</b>
<b>Total Assets</b>	<b>27,809</b>	<b>25,595</b>	<b>25,714</b>	<b>25,718</b>
<b>Equity</b>				
<b>Total Equity</b>	<b>15,457</b>	<b>15,520</b>	<b>16,064</b>	<b>16,660</b>
<b>Non-Current Liabilities</b>				
Loans and Borrowings	6,921	5,268	4,979	4,481
Employees' End of Service Benefits	88	89	90	91
Lease Liabilities	55	54	53	51
Derivatives	63	67	67	67
<b>Total Non-Current Liabilities</b>	<b>7,126</b>	<b>5,478</b>	<b>5,188</b>	<b>4,691</b>
<b>Current Liabilities</b>				
Accounts Payables & Others	932	1,055	1,072	1,100
Loans and Borrowings	4,154	3,372	3,220	3,098
Derivatives & Lease Liabilities	140	170	170	170
<b>Total Current Liabilities</b>	<b>5,226</b>	<b>4,597</b>	<b>4,462</b>	<b>4,367</b>
<b>Equity and Liabilities</b>	<b>27,809</b>	<b>25,595</b>	<b>25,714</b>	<b>25,718</b>

Source: Company data, QNB FS estimates

## Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.390	Target Price	QR4.100
Implied Upside	20.9%		

### Still Awaiting NF Ship Awards; Stay Accumulate

**Nakilat retains significant upside if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program.** We remind investors that QatarEnergy is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn at that time. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. We note the first phase, consisting of 60 vessels, has been contracted to be built in South Korean/Chinese shipyards and phase 2 has already commenced with a QR14.2bn (\$3.9bn) 17-vessel award to Hyundai on September 27. So far, newflow/industry chatter indicate several ship charter agreements have been awarded. However, we do not have color on how many are remaining – with a total 100+ ships to be built to replace some existing fleet/cater to NF and Golden Pass – we expect other awards to be forthcoming. Considering Nakilat's strategic importance, (QGTS ships ~75-80% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a beneficiary and secure a share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to QGTS' target price and an award of 20-25 ships could markedly boost our price target and estimates. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections over the next few months. **We do expect QGTS shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts.**

#### Highlights

- **QGTS reports better-than-expected 3Q2023 earnings with modest upside in revenue along with margin improvement:** Nakilat's 3Q2023 net income of QR415.1mn increased 2.4% YoY and 9.6% QoQ, coming 4.9% ahead of our estimate of QR395.7mn.
- **We project an 8.6% growth with net income growing from QR1,438.9mn in 2022 to QR1,563.3mn in 2023.** During 9M2023, QGTS recorded earnings of QR1,189.5mn, up 4.8% YoY from QR1,135.1mn in 9M2022. This would imply 4Q2023 earnings of QR373.8mn, which could be slightly conservative.
- **Deleveraging, despite increased rates, and growth in JVs (especially the shipyard and the fabrication business) drive future earnings growth.** For 2024-2026, lower finance charges make up roughly 80% of overall earnings growth, while growth in JV income make up ~20%. Our current model assumes no further fleet additions.
- **High leverage but backed by watertight charter agreements; we do not foresee issues in debt servicing or repayments.** We model principal repayments + finance charges to average QR2.4bn over 2023-33, which is easily covered by OCF (average QR2.8bn over 2023-33) and FCF before finance charges (2023-33 average QR3.1bn); we continue to assume the entire debt is paid off by 2033. Nakilat's high leverage remains manageable as debt is mostly secured by watertight charter agreements for its existing fleet.
- **Potential fleet expansion of 20-25 vessels should not be a cause for concern in terms of debt servicing or dividend payments.** Considering the current \$260mn price tag for LNG ship new builds, if we assume an increase of 20-25 vessels related to the NF expansion, QGTS will have to take on new debt of ~QR15.1bn-QR18.9bn (at 80% D/E). This could potentially send Nakilat's 2025 net debt-to-equity ratio to 2.1x to 2.4x vs. an average of 1.8x over 2020-2022 and 0.7x by 2025. However, this debt would also be secured by LT charters and hence, not a cause for concern for either debt servicing or dividend payments. We could also see a portion of this fleet increase through JV structures, keeping the related debt ring-fenced/off the books.

#### Catalysts

- **We should find out whether QGTS wins a piece of the LNG expansion contract over the next few months.** We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector. Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. Nakilat's fleet continues to provide QGTS with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of Nakilat's vessels vs. maximum debt life of 25 years (last debt maturing 2033), could allow for value-enhancement.

#### Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR4.100 and we rate QGTS an Accumulate.**
- **Risks: (1) We expect QGTS shares to come under pressure if the company does not secure a meaningful portion of the new LNG shipping contracts. (2) There is a risk existing LNG contracts are renegotiated – we do not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept worse contract terms. However, the likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.**

#### Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
EPS (QR)	0.26	0.28	0.31	0.34
P/E (x)	13.1	12.0	10.8	9.9
DPS (QR)	0.13	0.14	0.15	0.16
Dividend Yield	3.8%	4.1%	4.4%	4.7%

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	3.390
Current Dividend Yield (%)	3.8
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.300/3.100
3-m Average Volume ('mn)	4.1
Mkt. Cap. (\$ bn/QR bn)	5.2/18.8
EV (\$ bn/QR bn)	8.9/32.3
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.5
1-Year Total Return (%)	(13.9)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## Our Analysis Shows ~1% Boost To TP For Every LNG Vessel Added Under The North Field Program

2023 could be a watershed year for Nakilat if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program. Considering Nakilat's strategic importance and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a major beneficiary of this expansion. We also estimate that every incremental vessel (@100%) adds ~1% to Nakilat's target price and an award of 20-25 ships could significantly affect our price target and estimates. We note we assume roughly \$90,000/day in charter rates, which is lower than the company's existing wholly-owned fleet's (the original 25 vessels) charter rates that exceed \$90,000/day. We forecast initial contract terms of 25 years after which we assume a 10-year extension at a 30% haircut in revenue. As usual, we do not forecast any terminal value. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections over the next few months.

We also note that QGTS could additionally benefit if it is selected for managing a portion of the expansion fleet. We point out that Nakilat possesses significant in-house ship management expertise and is already managing 25 LNG vessels (21 wholly-owned), a FSRU and four LPG carriers.

In terms of risks, we expect Nakilat's shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts. We do note our current price target of QR4.100 and estimates do not include any impact of this expansion program. Given the scale of this expansion program (100+ ships) and Nakilat's excellent track record, it would be surprising if QGTS was not able to secure 20+ vessels under the new program.

### Each Additional LNG Vessel Could Add ~1% to Nakilat's Target Price

# of Vessels	1
Capex/Ship (\$ mn)	260
Useful Life	40
Depreciation/Year (\$ mn)	7
Depreciation/Year (QR mn)	24
Residual Value of Vessel (s) in Year 35 (QR mn)	118
Debt %	80.0%
Debt (\$ mn)	208
Equity (\$ mn)	52

Periods	1	2	3	4	5	10	15	25	30	35
<b>Revenue (QR mn)</b>	120	120	120	120	120	121	121	123	86	87
<b>Revenue (\$ mn)</b>	33	33	33	33	33	33	34	34	24	24
Average Capacity in m <sup>3</sup>	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000
Daily Charter Rate/Vessel (in \$)	90,067	90,157	90,000	90,337	90,428	90,881	91,336	92,001	64,836	65,161
<b>EBITDA (QR mn)</b>	81	85	85	85	85	85	85	86	54	53
EBITDA Margin	67.5%	70.7%	70.7%	70.6%	70.6%	70.4%	70.3%	70.0%	62.1%	61.7%
Taxes (Social & Sports Fund Contribution)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)
Changes in Working Capital	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	(4)	(4)	(4)	(4)	(7)	(7)	(7)	(7)	(7)	(7)
<b>Free Cash Flow to Firm</b>	<b>76</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>76</b>	<b>76</b>	<b>77</b>	<b>77</b>	<b>46</b>	<b>45</b>
PV of FCF	71	69	64	60	53	37	26	13	5	4
<b>Cumulative PV of FCF</b>	<b>71</b>	<b>140</b>	<b>204</b>	<b>264</b>	<b>317</b>	<b>541</b>	<b>698</b>	<b>886</b>	<b>919</b>	<b>942</b>

PV of Cash Flows	942
<b>Add:</b>	
Cash Balances	0
PV of BV of Fleet (Fully-Owned)	10
<b>Less:</b>	
Debt Balances	757
<b>Fair Value of Equity</b>	<b>194</b>
<b>Incremental Target Price (Per Share)</b>	<b>0.03</b>
<b>Current Target Price (No Expansion)</b>	<b>4.100</b>
<b>% Upside/(Downside)</b>	<b>0.8%</b>
Shares O/S (Mn)	5,540

Source: QNB FS Research

## 3Q2023 Review: Moderate 3Q2023 Beat On Top-Line/Margin Upside

QGTS reports better-than-expected 3Q2023 earnings with modest upside in revenue along with margin improvement: Nakilat's 3Q2023 net income of QR415.1mn increased 2.4% YoY and 9.6% QoQ, coming 4.9% ahead of our estimate of QR395.7mn.

- **Wholly-owned ship revenue of QR896.2mn (0.5% YoY, 1.1% QoQ) was 1.0% better than our estimate of QR887.4mn.**
- **Adjusted revenue (wholly-owned ships + marine & agency services + JV income) of QR1.12bn (2.9% YoY, 0.9% QoQ) was in-line with our estimate of QR1.12bn (0.6% variance) with upside from wholly-owned vessel top-line partially offset by slightly weaker-than-modeled JV income.**
- **EBITDA of QR684.9mn (-1.1% YoY, 1.9% QoQ) was 2.8% above our forecast of QR666.2mn given lower-than-expected cash operating costs of the wholly-owned fleet (cash gross margins increased to 77.4% vs. our model of 76.4%; GMs declined vs. 78.6% in 3Q2022 but eked out a marginal gain relative to 2Q2023's 77.2%).** Moreover, G&A expenses of QR24.9mn (4.8% YoY, -10.4% QoQ) was 10.6% better than our estimate of QR27.8mn; 9M2023 G&A of QR74.1mn, however, increased 9.0% from QR67.9mn in 9M2022 and management attributed this to increase in planned activities this year. Income from marine & agency services of QR16.2mn (7.6% YoY, 7.0% QoQ) came in 2.3% ahead of our model of QR15.9mn. Adjusted EBITDA (EBITDA + JV income) of QR895.4mn (2.1% YoY, 1.3% QoQ) was 1.8% ahead of our estimate of QR879.2mn given the beat on the EBITDA line.
- **Depreciation of QR229.5mn (4.0% YoY, -8.1% QoQ) was right in-line with our forecast of QR229.8mn. Management continues to attribute YTD depreciation (QR679.4mn, up 2.9% vs. QR660.0mn in 9M2022) growth to higher depreciable value of the new dry-dock cycle and accounting of the initial dry-dock component.** We remind investors that QGTS completed a 5-year dry-dock cycle in 2022 and started a new one in 2023, which led 4Q2022 depreciation to shoot up to QR286.6mn, followed by a decline to QR200.2mn in 1Q2023 but a climb back up to QR249.8mn in 2Q2023. We were finally able to model depreciation correctly in 3Q2023 and continue to expect its quarterly run-rate to revert to the ~QR200mn level (as in 1Q2023) in 2024 per management guidance.
- **JV income of QR210.5mn (14.0% YoY, -0.4% QoQ) was 1.2% below our estimate of QR213.0mn.** Overall, JV income continues its buoyant trend due to improving shipyard performance (which posted a net profit of QR91.2mn in 2022 after posting net losses of QR36.2mn and QR25.5mn in 2021 and 2020, respectively), along with addition of the 3rd/4th LNG vessels in Nakilat's Global Shipping JV in Oct. 2021/Jan. 2022.
- **Finally, finance costs of QR311.6mn (11.8% YoY, -0.1% QoQ) was bang in-line with our estimate of QR311.3mn.** Interest costs increased due to gains in LIBOR rates on the unhedged portion (~ 30%) of QGTS' debt, offset by scheduled repayment of loans. Interest, dividend & other income of QR61.0mn (117.1% YoY, 6.3% QoQ) was 5.4% ahead of our model of QR57.9mn.

**QNB FS 3Q2023 Estimates and Comparisons**

<b>Income Statement</b>							
<b>In QR mn Except Otherwise Noted</b>	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>	<b>A Vs. E</b>	<b>YoY</b>	<b>QoQ</b>
Revenue from Wholly-Owned Vessels	891.595	886.621	896.213	887.400	1.0%	0.5%	1.1%
Operating Costs	(190.688)	(201.980)	(202.719)	(209.257)	-3.1%	6.3%	0.4%
<b>Gross Profit</b>	<b>700.907</b>	<b>684.641</b>	<b>693.494</b>	<b>678.144</b>	<b>2.3%</b>	<b>-1.1%</b>	<b>1.3%</b>
<i>Gross Margin</i>	<i>78.6%</i>	<i>77.2%</i>	<i>77.4%</i>	<i>76.4%</i>			
Income from Marine and Agency Services	15.086	15.172	16.228	15.864	2.3%	7.6%	7.0%
General and Administrative Expenses	(23.708)	(27.751)	(24.854)	(27.794)	-10.6%	4.8%	-10.4%
<b>EBITDA</b>	<b>692.285</b>	<b>672.062</b>	<b>684.868</b>	<b>666.214</b>	<b>2.8%</b>	<b>-1.1%</b>	<b>1.9%</b>
Depreciation of Property and Equipment	(220.559)	(249.770)	(229.479)	(229.778)	-0.1%	4.0%	-8.1%
<b>EBIT</b>	<b>471.726</b>	<b>422.292</b>	<b>455.389</b>	<b>436.435</b>	<b>4.3%</b>	<b>-3.5%</b>	<b>7.8%</b>
<i>EBIT Margin</i>	<i>52.9%</i>	<i>47.6%</i>	<i>50.8%</i>	<i>49.2%</i>			
Share of Operating Profits from Joint Ventures	184.688	211.405	210.485	212.969	-1.2%	14.0%	-0.4%
Finance Costs	(278.794)	(311.966)	(311.599)	(311.280)	0.1%	11.8%	-0.1%
Interest, Dividend income & Profit from Islamic Banks	28.100	57.409	61.005	57.874	5.4%	117.1%	6.3%
<b>Profit Before Tax</b>	<b>405.720</b>	<b>379.140</b>	<b>415.280</b>	<b>395.999</b>	<b>4.9%</b>	<b>2.4%</b>	<b>9.5%</b>
<b>Profit After Tax</b>	<b>405.720</b>	<b>379.140</b>	<b>415.280</b>	<b>395.999</b>	<b>4.9%</b>	<b>2.4%</b>	<b>9.5%</b>
Minority Interest	(0.244)	(0.244)	(0.179)	(0.255)	-29.8%	-26.6%	-26.6%
<b>Net Income to Equity</b>	<b>405.476</b>	<b>378.896</b>	<b>415.101</b>	<b>395.744</b>	<b>4.9%</b>	<b>2.4%</b>	<b>9.6%</b>
<i>Net Profit Margin</i>	<i>45.5%</i>	<i>42.7%</i>	<i>46.3%</i>	<i>44.6%</i>			
<b>EPS (QR)</b>	<b>0.07</b>	<b>0.07</b>	<b>0.07</b>	<b>0.07</b>	<b>4.9%</b>	<b>2.4%</b>	<b>9.6%</b>
<b>Adjusted EBITDA</b>	<b>876.973</b>	<b>883.467</b>	<b>895.353</b>	<b>879.183</b>	<b>1.8%</b>	<b>2.1%</b>	<b>1.3%</b>
<b>Adjusted Revenue</b>	<b>1,091.369</b>	<b>1,113.198</b>	<b>1,122.926</b>	<b>1,116.234</b>	<b>0.6%</b>	<b>2.9%</b>	<b>0.9%</b>

<b>Particulars</b>	<b>3Q2022</b>	<b>2Q2023</b>	<b>3Q2023</b>	<b>3Q2023e</b>
Adj. EBITDA Margin	80.4%	79.4%	79.7%	78.8%
Gross Margin	78.6%	77.2%	77.4%	76.4%
EBIT Margin	52.9%	47.6%	50.8%	49.2%
G & A % of Sales	2.7%	3.1%	2.8%	3.1%
Depreciation & Amortization % of Sales	24.7%	28.2%	25.6%	25.9%

Source: Bloomberg, QNB FS Research

## Valuation and Key Ratios

### Growth Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033	CAGR 21-'33
<b>Growth Ratios (In %)</b>													
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	(0.0%)	1.1%	1.1%	0.5%	1.2%	1.1%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	0.4%	0.0%	0.0%	0.1%	0.1%	0.0%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	(0.2%)	1.3%	1.2%	0.6%	1.4%	1.2%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	7.1%	(0.1%)	(0.1%)	(0.1%)	(0.1%)	0.2%
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	(2.6%)	6.2%	5.7%	2.1%	5.5%	5.7%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	6.0%	(11.4%)	(12.6%)	(13.9%)	(56.4%)	(16.0%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.6%	10.9%	9.1%	4.5%	8.6%	6.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(13.0%)	0.4%	7.6%	3.4%	6.7%	4.7%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(17.8%)	5.5%	8.1%	3.9%	2.8%	4.1%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	5.0%	4.3%	5.9%

Source: Bloomberg, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

### Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033
<b>Growth Ratios (In %)</b>												
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	(0.0%)	1.1%	1.1%	0.5%	1.2%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	0.4%	0.0%	0.0%	0.1%	0.1%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	(0.2%)	1.3%	1.2%	0.6%	1.4%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	7.1%	(0.1%)	(0.1%)	(0.1%)	(0.1%)
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	(2.6%)	6.2%	5.7%	2.1%	5.5%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	6.0%	(11.4%)	(12.6%)	(13.9%)	(56.4%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.6%	10.9%	9.1%	4.5%	8.6%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(13.0%)	0.4%	7.6%	3.4%	6.7%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(17.8%)	5.5%	8.1%	3.9%	2.8%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	5.0%	4.3%

<b>Operating Ratios (In %)</b>												
Gross Margin	76.6%	77.2%	77.8%	78.0%	79.1%	78.9%	78.5%	78.3%	78.2%	78.2%	78.2%	78.2%
EBITDA Margin	74.0%	74.6%	75.2%	75.6%	77.8%	77.6%	76.9%	76.9%	76.9%	76.8%	76.7%	76.6%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	78.1%	79.1%	79.3%	79.6%	79.5%	79.6%	79.7%	79.9%	80.2%
EBIT Margin	49.0%	49.5%	50.5%	47.7%	52.5%	52.3%	50.2%	53.6%	53.4%	53.3%	52.8%	52.5%
Net Margin	31.1%	27.7%	29.1%	31.6%	33.0%	38.2%	40.5%	43.9%	48.6%	52.9%	68.6%	81.3%

<b>Finance Ratios</b>												
Net Debt-to-EBITDA	8.3	7.8	7.5	7.9	6.6	6.0	5.2	4.8	4.3	3.8	0.9	-1.1
Debt-Equity Ratio	4.1	3.5	2.9	3.1	3.0	2.3	1.7	1.5	1.2	1.1	0.4	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.8	2.5	1.9	1.3	1.1	0.9	0.7	0.1	-0.1
Debt-to-Capital	80.3%	77.7%	74.1%	75.6%	74.7%	69.4%	62.6%	59.5%	55.3%	51.3%	28.6%	0.0%
Interest Coverage	1.3	1.3	1.3	1.3	1.6	1.8	1.6	1.6	1.8	2.0	3.9	14.6
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.4	2.6	2.4	2.3	2.6	2.9	5.7	21.2

<b>Return Ratios (In %)</b>												
ROIC	5.6%	5.7%	5.8%	5.4%	6.6%	6.5%	5.9%	6.4%	6.5%	6.5%	6.6%	7.5%
ROAE	19.7%	15.1%	13.9%	14.5%	16.6%	17.1%	14.4%	13.4%	13.7%	13.8%	12.3%	12.0%
ROAA	3.1%	2.8%	3.0%	3.2%	3.6%	4.2%	4.5%	4.9%	5.5%	6.0%	8.0%	10.2%

<b>Valuation</b>												
EV/EBITDA-Adjusted	13.3	13.9	13.3	12.7	11.7	10.8	9.6	9.3	8.8	8.3	5.8	4.2
EV/EBIT	25.0	24.1	23.3	24.8	19.9	18.9	18.5	16.7	16.0	15.3	11.1	8.3
P/E	19.7	22.2	21.1	18.7	16.2	13.9	13.1	12.0	10.8	9.9	7.6	6.4
P/CF	16.7	14.3	15.3	13.2	7.4	10.1	7.8	9.0	8.9	8.3	6.7	5.9
P/B	3.6	3.2	2.7	2.7	2.6	2.1	1.7	1.5	1.4	1.3	0.9	0.7
Dividend Yield	2.9%	2.9%	2.9%	2.9%	3.2%	3.5%	3.8%	4.1%	4.4%	4.7%	6.2%	7.1%
FCF Yield	5.7%	7.0%	5.4%	6.0%	13.0%	9.8%	12.3%	10.1%	10.7%	11.5%	14.4%	16.0%

Source: Bloomberg, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

## Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Revenue – Wholly-Owned Ships</b>	<b>3,550</b>	<b>3,564</b>	<b>3,568</b>	<b>3,572</b>
Direct Costs	(764)	(775)	(777)	(778)
<b>Gross Profit</b>	<b>2,786</b>	<b>2,790</b>	<b>2,792</b>	<b>2,794</b>
Income from Marine & Agency Services	55	57	59	61
General and Administrative Expenses	(112)	(106)	(108)	(111)
<b>EBITDA</b>	<b>2,729</b>	<b>2,741</b>	<b>2,742</b>	<b>2,744</b>
Depreciation	(947)	(832)	(835)	(839)
<b>EBIT</b>	<b>1,783</b>	<b>1,909</b>	<b>1,907</b>	<b>1,905</b>
Share of Profits from Joint Ventures	689	671	713	754
Finance Costs	(1,139)	(1,208)	(1,070)	(935)
Interest, Dividend & Profit from Islamic Banks	107	192	184	168
Vessels Sub-Chartering & Other Income	0	0	0	0
<b>Profit Before Tax</b>	<b>1,439</b>	<b>1,564</b>	<b>1,734</b>	<b>1,892</b>
Income Tax Expense	0	0	0	0
<b>Profit After Tax</b>	<b>1,439</b>	<b>1,564</b>	<b>1,734</b>	<b>1,892</b>
Minority Interest	(0)	(1)	(1)	(1)
<b>Profit for Equity Shareholders</b>	<b>1,439</b>	<b>1,563</b>	<b>1,733</b>	<b>1,891</b>
<b>EPS (QR)</b>	<b>0.26</b>	<b>0.28</b>	<b>0.31</b>	<b>0.34</b>
<b>Adjusted Revenue</b>	<b>4,295</b>	<b>4,293</b>	<b>4,340</b>	<b>4,387</b>
<b>Adjusted EBITDA</b>	<b>3,419</b>	<b>3,413</b>	<b>3,456</b>	<b>3,497</b>

Source: Bloomberg, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Non-Current Assets</b>				
Property, Plant and Equipment	21,327	20,691	19,956	19,216
Investment in Joint Venture Companies	5,290	5,668	6,009	6,365
Loans to Joint Venture Companies	68	68	68	68
Equity Investments	139	140	140	140
<b>Total Non-Current Assets</b>	<b>26,824</b>	<b>26,567</b>	<b>26,173</b>	<b>25,789</b>
<b>Current Assets</b>				
Receivables, Inventories and Due from Joint Ventures	812	799	800	801
Cash and Bank Balances	4,560	4,600	4,432	4,630
<b>Total Current Assets</b>	<b>5,372</b>	<b>5,399</b>	<b>5,233</b>	<b>5,431</b>
<b>Total Assets</b>	<b>32,196</b>	<b>31,967</b>	<b>31,405</b>	<b>31,220</b>
<b>Equity</b>				
Equity Attributable to the Parent	11,249	12,155	13,174	14,296
Minority Interest	6	7	8	9
<b>Total Equity</b>	<b>11,255</b>	<b>12,162</b>	<b>13,182</b>	<b>14,305</b>
<b>Non-Current Liabilities</b>				
Borrowings	17,722	16,328	15,080	13,691
Lease Liability, Provision for End of Service Benefits and Other Liabilities	480	415	352	288
<b>Total Non-Current Liabilities</b>	<b>18,202</b>	<b>16,743</b>	<b>15,431</b>	<b>13,979</b>
<b>Current Liabilities</b>				
Borrowings	1,085	1,499	1,249	1,389
Accounts Payables/Accruals, Due to Joint Ventures & Others	1,655	1,563	1,543	1,547
<b>Total Current Liabilities</b>	<b>2,740</b>	<b>3,062</b>	<b>2,792</b>	<b>2,936</b>
<b>Equity and Liabilities</b>	<b>32,196</b>	<b>31,967</b>	<b>31,405</b>	<b>31,220</b>

Source: Bloomberg, QNB FS Research

## Milaha/Qatar Navigation (QNNS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR9.445	Target Price	QR11.20
Implied Upside	18.6%		

### Remain Accumulate Given Compelling Sum-Of-The-Parts Valuation

We maintain our Accumulate rating and price target on Milaha. Our investment thesis on the stock remains unchanged with Milaha offering compelling long-term upside. The stock, since we first started coverage in 2011, has usually traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up close to 100% of QNNS' market cap. This implies that investors continue to get Milaha's "core" or operating businesses for almost free. However, what has changed is that Milaha is enjoying several catalysts, which could help in making progress toward the stock's rerating. We note the level of oil prices (despite volatility and recent weakness), recovery in sentiment and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help Milaha's earnings trajectory and highlight its growth story to investors. Moreover, if QGTS (Milaha's 36.3%-owned associate) is able to secure a meaningful share of around 20-25 new vessels for the massive North Field expansion program, it could lead to significant upside for Nakilat, and consequentially, Milaha investors.

#### Highlights

- Milaha posted 3Q2023 earnings of QR222.1mn, up 5.9% YoY but down 21.9% QoQ. Reported earnings/EPS of QR222.1mn/QR0.20 also fell short of our estimate of QR307.1mn/QR0.27 by 27.7%. We note that QNNS recorded an impairment of QR85.5mn (QR0.08/share) in its capital division in 3Q2022 and excluding this, normalized earnings fell 24.8% YoY. Relative to our model, Milaha Offshore, Milaha Maritime & Logistics, Milaha Trading and Milaha Capital posted weaker-than-expected earnings.
- Our 2023 earnings estimate of QR1.15bn (EPS of QR1.01) could be lowered by 5-7% given 9M2023 performance. YTD QNNS has posted QR869.7mn in earnings or QR0.77 in EPS, up 2.2% YoY. Given the weakness seen thus far in container shipping rates and logistics/freight forwarding, Milaha's Maritime & Logistics segment could see a subdued fourth quarter, somewhat offset by the offshore segment, strength in Nakilat and stable operations elsewhere.
- Earnings should grow at a 5.6% CAGR (2022-2028e) excluding impairments/one-offs vs. a CAGR of -0.2% over 2015-2022. Roughly, 24% of this six-year growth in "clean" earnings should be driven by Milaha's operating businesses or its "core", led by growth in offshore. MO, which makes up ~16% of the six-year growth in earnings should benefit due to the strong growth in O&G activities in Qatar and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations. Milaha's 49%-owned JV, QTerminals, should show a 4.3% CAGR (2022-2028e) and make up ~10% of the six-year growth in earnings given volume uptick/phase II expansion at the Hamad Port. The biggest drag on earnings growth could be the MM&L segment, excluding QTerminals, that is expected to post a close to 8% cumulative earnings decline over our forecast period. MM&L has faced significant headwinds with container shipping rates coming off their early 2022 highs and while rates declined significantly in 1H2023, management expects them to remain fairly stable for the rest of the year. A whopping 76% of the growth in future earnings is driven by "non-core" items, including Nakilat (7.2% CAGR), which propels almost 60% of Milaha's earnings growth. The remaining ~17% is driven by MC based on stable real estate income and improving yields on Milaha's investment portfolio.

#### Catalysts

- We stay bullish longer-term on QNNS despite lackluster 3Q2023 results. (1) The company's exposure to Qatar's oil and gas sector, primarily through its Offshore segment (MO), could boost momentum through earnings growth and newsflow. (2) An improvement in Maritime & Logistics (MM&L) segment's profitability, above their depressed levels, could also help. (3) Nakilat remains the biggest value driver, both through its earnings growth and through its potential to secure new NF expansion-related LNG shipping contracts. (4) QNNS also has the ability to boost its dividends given its strong balance sheet (net cash of QR808.6mn as of 3Q2023) and solid FCF profile (despite increased capex requirements in offshore); we currently expect a 14.3% increase in DPS from QR0.35 in 2022 to QR0.40 in 2023.

#### Recommendation, Valuation and Risks

- Recommendation & valuation:** We recommend an Accumulate rating QNNS. We value Milaha using a SOTP methodology, which comprises of these major parts: 1) Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT); 2) A DCF-based value for QNNS' 36.3% stake in Nakilat (QGTS: Accumulate/QR4.100 TP); 3) A P/E-based value for Milaha's 49.0%-owned JV QTerminals; 4) Investment (stocks & bonds) portfolio at its 3Q2023 value; and 5) Real estate investment properties at a 30% discount to 3Q2023 FV. We also apply a 30% conglomerate discount.
- Risks:** Milaha stock remains in a "show-me" mode – always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio. For the stock to rerate, investors need to continue to see earnings/EBITDA acceleration without significant impairments muddling up the story. Other risks remain, including: (1) Weakness/volatility in oil prices; (2) Execution/integration issues with major fleet additions/acquisitions; (3) Fall in local equity/RE prices; (3) A slowdown in Qatar's economy; and (4) Geopolitical crisis in the MENA region.

#### Key Financial Data and Estimates

	2022	2023e	2024e	2025e	2026e	2027e
EPS (Excluding Impairments & One-Offs)	1.04	1.01	1.13	1.22	1.31	1.37
EPS Growth (%)	35.2	(2.5)	11.6	8.2	6.9	5.0
P/E (x)	9.1	9.3	8.4	7.7	7.2	6.9
EV/EBITDA (x)	12.0	11.9	11.0	10.3	9.6	9.0
FCF Yield (%)	7.4	7.9	9.0	9.5	10.1	10.4
DPS (QR)	0.35	0.40	0.45	0.50	0.55	0.60
RoE (%)	7.7	7.0	7.4	7.7	7.8	7.8

Source: Company data, QNB FS estimates; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

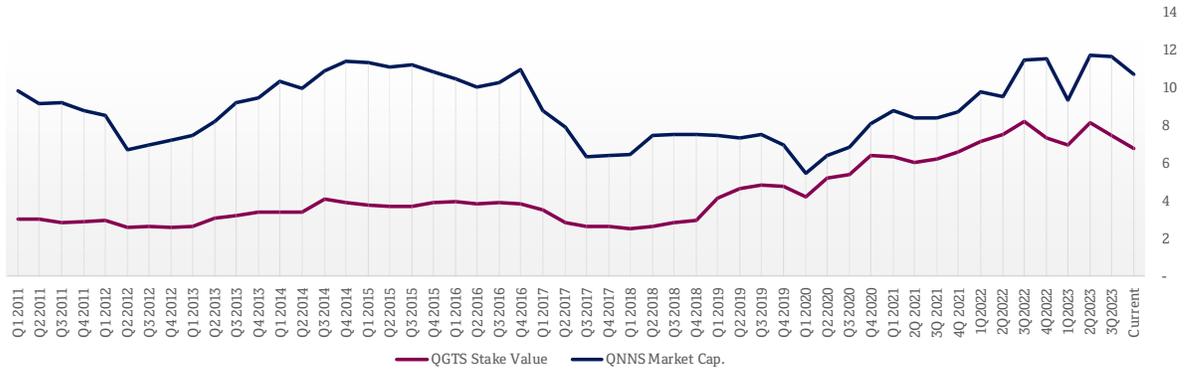
#### Key Data

Current Market Price (QR)	9.445
Current Dividend Yield (%)	3.7
Bloomberg Ticker	QNNS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	11.00/8.10
3-m Average Volume ('00)	943.0
Mkt. Cap. (\$ bn/QR bn)	2.9/10.7
EV (\$ bn/QR bn)	2.7/9.9
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.0
1-Year Total Return (%)	(3.6)
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

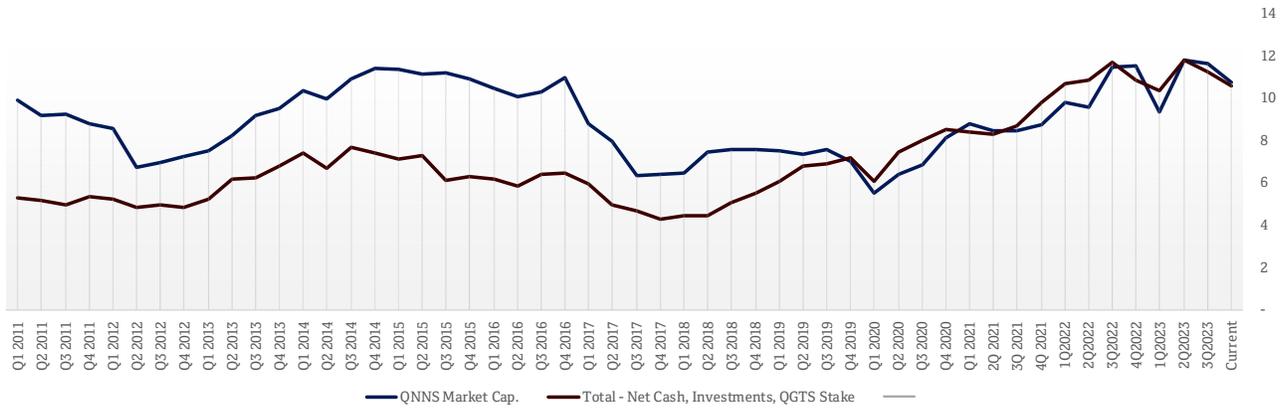
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**QGTS Stake Alone is ~63% of Milaha's Market Cap. (QR bn)**



Source: Bloomberg, QNB FS Research

**QGTS+Investments+Net Cash is ~98% of QNNS Market Cap. Implying Almost Zero Value for Remaining Assets (QR bn)**



Source: Bloomberg, QNB FS Research

### 3Q2023 Review: Weak 3Q2023 On Soft Core Performance

Milaha (QNNS or Qatar Navigation) posted 3Q2023 earnings of QR222.1mn, up 5.9% vs. QR209.7mn in 3Q2022 but down 21.9% QoQ as compared to QR284.4mn in 2Q2023. Reported earnings/EPS of QR222.1mn/QR0.20 also fell short of our estimate of QR307.1mn/QR0.27 by 27.7%. We note that QNNS recorded an impairment charge of QR85.5mn (QR0.08/share) in its capital division in 3Q2022 and excluding this, earnings fell 24.8% YoY on a normalized basis. *Relative to our model, Milaha Offshore, Milaha Maritime & Logistics, Milaha Trading and Milaha Capital posted weaker-than-expected earnings, while Milaha Gas & Petrochem came in modestly above our model.*

- **Weakness in margins hurt core results, especially from Milaha Offshore/Maritime & Logistics.**

- **(1) Milaha Offshore** – 3Q2023 revenue hit another record high at QR364.1mn (13.1% YoY, 6.9% QoQ, 3.4% higher vs. QNB FS estimate) on higher project income, increased utilization of diving assets and full employment of Milaha's liftboat. Margins, however, disappointed with operating margin falling to 10.0% in 3Q2023 from 11.0% in 3Q2022 and 21.3% in 2Q2023. Similarly, EBITDA margin came in at 25.7% in 3Q2023, flattish vs. 25.6% in 3Q2022 but down significantly from 37.8% in 2Q2023. 3Q2023 net income of QR25.6mn (-31.5% YoY, -61.4% QoQ) fell short of our forecast of QR69.4mn by 63.1%. We will have to seek color from management to determine the path forward for segment margins.
- **(2) Milaha Maritime & Logistics** – a drop in container shipping container shipping rates from near-record highs seen in 1Q2022, along with container volume declines, continue to impact this segment despite management guidance of stable shipping rates in 2H2023. Consequently, we witnessed a MM&L top-line miss this quarter. 3Q2023 segment earnings flipped to loss of QR20.7mn vs. profits of QR71.8mn in 3Q2022 and QR6.0mn in 2Q2023 (our estimate was a profit of QR17.7mn). EBITDA margins came in at -14.2% in 3Q2023 vs. 11.2% in 3Q2022 and -0.3% in 2Q2023.
- **(3) Milaha Trading** – quarterly earnings continued to remain in the red for the 2<sup>nd</sup> consecutive quarter. MT posed a loss of QR1.4mn vs. a loss of QR2.1mn in 3Q2022 and a loss of QR1.5mn in 2Q2023; we were expecting a profit of QR2.9mn in 3Q2023.
- **(4) Milaha Capital** – recorded QR38.0mn in 3Q2023 net income vs. a loss of QR58.9mn in 3Q2022 (QR26.7mn in profit, excluding impairment) and a profit of QR42.7mn in 2Q2023; segment earnings fell short of our estimate of QR41.5mn by 8.4%.
- **(5) Milaha Gas & Petrochem** – aided by a [better-than-expected quarter](#) from its 36.3%-associate Nakilat, MG&P posted earnings of QR179.9mn (10.9% YoY, 5.5% QoQ), which came in 2.0% above our estimate of QR176.4mn. QGTS helped carry the quarter despite a lower-than-expected top-line, along with weaker core profitability and softer performance from other associates vs. our model.

**QNB FS 3Q2023 Estimates and Comparisons**

Revenue (in QR '000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
MM&L	345,840	256,189	214,487	247,370	-13.3%	-38.0%	-16.3%
MO	322,066	340,760	364,140	352,022	3.4%	13.1%	6.9%
MG&P	58,960	62,760	59,331	63,587	-6.7%	0.6%	-5.5%
MC	111,792	93,568	91,191	87,946	3.7%	-18.4%	-2.5%
MT	69,378	68,719	60,865	69,791	-12.8%	-12.3%	-11.4%
Corporate Adjustments		(2)	0				N/M
<b>Total</b>	<b>908,036</b>	<b>821,994</b>	<b>790,014</b>	<b>820,716</b>	<b>-3.7%</b>	<b>-13.0%</b>	<b>-3.9%</b>
Eliminations	(118,948)	(77,424)	(73,449)	(73,864)	-0.6%	-38.3%	-5.1%
<b>Total Net</b>	<b>789,088</b>	<b>744,570</b>	<b>716,565</b>	<b>746,852</b>	<b>-4.1%</b>	<b>-9.2%</b>	<b>-3.8%</b>

Net Income (in QR '000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
MM&L	71,842	6,032	(20,701)	17,687	N/M	N/M	N/M
MO	37,351	66,210	25,589	69,408	-63.1%	-31.5%	-61.4%
MG&P	162,231	170,528	179,895	176,394	2.0%	10.9%	5.5%
MC	(58,872)	42,665	38,020	41,511	-8.4%	N/M	-10.9%
MT	(2,104)	(1,491)	(1,382)	2,875	N/M	-34.3%	-7.3%
<b>Total</b>	<b>210,448</b>	<b>283,944</b>	<b>221,421</b>	<b>307,875</b>	<b>-28.1%</b>	<b>5.2%</b>	<b>-22.0%</b>
Minorities	(739)	438	649	(786)	N/M	N/M	48.2%
<b>NI to Equity</b>	<b>209,709</b>	<b>284,382</b>	<b>222,070</b>	<b>307,088</b>	<b>-27.7%</b>	<b>5.9%</b>	<b>-21.9%</b>

Impairment of PP&E/Vessels/Intangibles	(85,522)					-100.0%	
<b>NI to Equity, Ex. Impairment</b>	<b>295,231</b>	<b>284,382</b>	<b>222,070</b>	<b>307,088</b>	<b>-27.7%</b>	<b>-24.8%</b>	<b>-21.9%</b>

<b>EPS</b>	<b>0.18</b>	<b>0.25</b>	<b>0.20</b>	<b>0.27</b>	<b>-27.7%</b>	<b>5.9%</b>	<b>-21.9%</b>
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Net Income (in QR '000)	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E	YoY	QoQ
MM&L Normalized	71,842	6,032	(20,701)	17,687	N/M	N/M	N/M
MO Normalized	37,351	66,210	25,589	69,408	-63.1%	-31.5%	-61.4%
MG&P Normalized	162,231	170,528	179,895	176,394	2.0%	10.9%	5.5%
MC Normalized	26,650	42,665	38,020	41,511	-8.4%	42.7%	-10.9%
MT Normalized	(2,104)	(1,491)	(1,382)	2,875	N/M	-34.3%	-7.3%

<b>NI to Equity, Ex. Impairment</b>	<b>295,231</b>	<b>284,382</b>	<b>222,070</b>	<b>307,088</b>	<b>-27.7%</b>	<b>-24.8%</b>	<b>-21.9%</b>
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Source: Company data, QNB FS Research

## Key Ratios & Valuation

### Growth Metrics

Key Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
<b>Growth (%)</b>									
Revenue	(6.49)	22.78	18.01	(12.22)	4.58	3.35	3.24	3.16	3.18
Gross Profit	(0.66)	(0.06)	21.59	(2.99)	4.24	3.37	3.69	3.39	3.55
EBITDA	0.20	(3.87)	38.05	(0.90)	5.38	3.88	4.44	3.77	3.94
EBIT	(1.35)	(9.26)	92.46	(4.82)	6.16	3.44	4.44	3.23	3.51
Net Profit	(89.19)	1,125.18	39.85	13.41	11.60	8.21	6.91	5.02	4.80
Net Profit (Excluding Impairments & One-Offs)	4.27	2.15	35.18	(2.54)	11.60	8.21	6.91	5.02	4.80
<b>Profitability (%)</b>									
Gross Margin	54.32	44.21	45.56	50.35	50.19	50.20	50.42	50.53	50.71
EBITDA Margin	28.48	22.29	26.08	29.44	29.67	29.82	30.17	30.35	30.57
EBIT Margin	12.30	9.09	14.82	16.07	16.31	16.33	16.52	16.53	16.58
Net Margin	2.61	26.01	30.83	39.83	42.50	44.51	46.09	46.92	47.66
RoE	0.42	5.10	6.58	7.00	7.45	7.68	7.82	7.83	7.84
RoE (Excluding Impairments & One-Offs)	6.04	6.13	7.66	7.00	7.45	7.68	7.82	7.83	7.84
RoAA	0.34	4.20	5.66	6.19	6.74	7.05	7.23	7.28	7.33
BEP	1.61	1.47	2.72	2.50	2.59	2.59	2.59	2.57	2.55
RoAIC	1.81	1.66	3.06	2.80	2.90	2.90	2.90	2.87	2.85
RoACE	1.72	1.58	2.92	2.66	2.74	2.74	2.74	2.71	2.69
<b>Efficiency</b>									
Fixed Asset Turnover	0.62	0.89	1.12	1.01	1.05	1.07	1.10	1.13	1.15
Total Asset Turnover	0.13	0.16	0.18	0.16	0.16	0.16	0.16	0.16	0.15
Sales-to-Net Working Capital	29.91	35.67	10.42	7.75	7.57	7.50	7.42	7.35	7.30
Receivables-to-Payables	1.00	0.97	1.24	1.58	1.59	1.59	1.60	1.60	1.61
Capex-to-Sales (%)	9.77	8.00	6.89	9.49	9.49	9.59	9.71	9.84	9.96
<b>Liquidity (x)</b>									
Current Ratio	1.16	1.54	1.96	2.96	3.94	4.12	4.31	4.46	4.60
Quick Ratio	1.11	1.47	1.89	2.86	3.81	3.99	4.18	4.33	4.47
Cash Ratio	0.25	0.47	0.92	1.47	1.84	2.01	2.18	2.30	2.42
<b>Leverage Ratios</b>									
Net Debt/Equity (%)	12.73	6.03	(2.56)	(3.92)	(5.21)	(6.35)	(7.36)	(8.14)	(8.82)
Net Debt-to-Capital (%)	11.34	5.82	(2.59)	(3.98)	(5.41)	(6.70)	(7.81)	(8.67)	(9.43)
Net Debt-to-EBITDA	2.70	1.43	(0.48)	(0.78)	(1.03)	(1.26)	(1.47)	(1.64)	(1.79)
Interest Coverage Ratio (x)	3.33	3.48	8.22	7.80	11.78	18.62	24.19	30.83	41.45

Source: Company data, QNB FS Research

### Relative Valuation

Valuation Multiples	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
P/E (x)	181.6	14.8	10.6	9.3	8.4	7.7	7.2	6.9	6.6
P/E Excluding Impairments & One-Offs (x)	12.6	12.3	9.1	9.3	8.4	7.7	7.2	6.9	6.6
P/B (x)	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	19.3	18.7	12.0	11.9	11.0	10.3	9.6	9.0	8.5
Dividend Yield (%)	3.2	3.2	3.7	4.2	4.8	5.3	5.8	6.4	6.9
FCFF Yield (%)	8.0	7.5	7.4	7.9	9.0	9.5	10.1	10.4	11.0

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Revenue</b>	<b>3,285</b>	<b>2,884</b>	<b>3,016</b>	<b>3,117</b>
COGS	(1,789)	(1,432)	(1,502)	(1,552)
<b>Gross Profit</b>	<b>1,497</b>	<b>1,452</b>	<b>1,513</b>	<b>1,564</b>
SG&A	(640)	(603)	(619)	(635)
<b>EBITDA</b>	<b>857</b>	<b>849</b>	<b>895</b>	<b>929</b>
Depreciation & Amortization	(370)	(386)	(403)	(421)
<b>EBIT</b>	<b>487</b>	<b>463</b>	<b>492</b>	<b>509</b>
Net Interest Income (Expense)	(44)	(33)	(9)	11
<b>Share of Results From JVs</b>	<b>179</b>	<b>171</b>	<b>193</b>	<b>207</b>
<b>Share of Results From Associates</b>	<b>542</b>	<b>558</b>	<b>618</b>	<b>674</b>
Impairments & Others	(146)	1	0	0
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>1,017</b>	<b>1,160</b>	<b>1,294</b>	<b>1,400</b>
Taxes	(1)	(9)	(10)	(10)
Net Profit Before Minority Interest	1,016	1,151	1,285	1,390
Minority Interest	(4)	(3)	(3)	(3)
<b>Net Profit</b>	<b>1,013</b>	<b>1,149</b>	<b>1,282</b>	<b>1,387</b>
<b>Net Profit Excluding Impairments &amp; One-Offs</b>	<b>1,178</b>	<b>1,149</b>	<b>1,282</b>	<b>1,387</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
<b>Current Assets</b>				
Cash & Cash Equivalents	1,467	1,577	1,461	1,640
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	528	549	571
Trade & Other Receivables	1,036	968	1,009	1,046
Inventories	115	100	105	108
<b>Total Current Assets</b>	<b>3,120</b>	<b>3,173</b>	<b>3,124</b>	<b>3,365</b>
<b>Non-Current Assets</b>				
Other Assets	312	313	312	308
Investment Securities at FVOCI	2,567	2,617	2,722	2,831
Investment In Associates	7,548	7,844	8,180	8,572
Investments in JVs	1,025	1,059	1,098	1,139
Intangible Assets	16	15	14	13
Investment Property	884	904	925	946
Property, Vessels & Equipment	2,841	2,865	2,890	2,914
<b>Total Non-Current Assets</b>	<b>15,193</b>	<b>15,618</b>	<b>16,140</b>	<b>16,723</b>
<b>Total Assets</b>	<b>18,313</b>	<b>18,791</b>	<b>19,264</b>	<b>20,088</b>
<b>Current Liabilities</b>				
Trade & Other Payables	755	614	634	658
Loans, Borrowings & Lease Liabilities	838	458	159	159
<b>Total Current Liabilities</b>	<b>1,593</b>	<b>1,073</b>	<b>793</b>	<b>816</b>
<b>Non-Current Liabilities</b>				
Loans & Borrowings	299	542	465	387
Others	337	339	339	339
Total Non-Current Liabilities	637	881	803	726
<b>Total Liabilities</b>	<b>2,229</b>	<b>1,954</b>	<b>1,596</b>	<b>1,542</b>
Minority Interest	42	45	48	51
<b>Shareholders' Equity</b>	<b>16,042</b>	<b>16,792</b>	<b>17,620</b>	<b>18,496</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>18,313</b>	<b>18,791</b>	<b>19,264</b>	<b>20,088</b>

Source: Company data, QNB FS Research

## Vodafone Qatar (VFQS)

<b>Recommendation</b>	<b>ACCUMULATE</b>	<b>Risk Rating</b>	<b>R-4</b>
<b>Share Price</b>	<b>QR1.800</b>	<b>Target Price</b>	<b>QR2.070</b>
<b>Implied Upside</b>	<b>15.0%</b>		

### Continues To Deliver On Profitable Growth; Accumulate

*We maintain our Accumulate rating on VFQS. The stock is trading at EV/EBITDA multiples of 6.0x/5.7x for 2023/2024. As we had expected in our report, the stock had broken out of its trading range (up as much as 23% YTD soon after reporting its 2Q2023 results) as its dividend yield finally became compelling – VFQS paid QR0.10 in DPS for 2022 (DY: 5.6%) – and we expect DPS to climb 20% YoY to QR0.12 (DY: 6.7%) this year. While the stock has sold off, much like rest of the market, since then, it is still up 13.3% YTD outperforming the QE Index (down 4.7%). The company's longer-term growth prospects as a 2nd operator in a market of Qatar's size and dynamics (population size of 3.1mn in October 2023, along with a mobile penetration of 154% as of September 2023; VFQS already has revenue market share of 30.1% and subscriber market share of 44.6% as of 3Q2023, with postpaid and prepaid market shares of 41.2% and 45.9%, respectively) is more of an open question. We believe there is room for improvement (as of 3Q2023, VFQS has an EBITDA margin of 42.3% vs. ORDS' 51.2%, an ARPU of QR70.3 vs. ORDS' QR104.2, along with 566K high-ARPU/margin postpaid customers relative to Ooredoo's 807K postpaid subscribers). As VFQS demonstrates progress in closing some of this gap beyond our modeled expectations, the stock could have more room to run. With FCF yields increasing from 4.6% in 2022 to 12.3% in 2027, we believe there could be upside to DPS, which could also act as a catalyst for the stock.*

#### Highlights

- **VFQS reported 3Q2023 net profit of QR132.3mn (12.0% YoY, 4.6% QoQ) that was right in-line with our estimate of QR133.0mn.** The beat this quarter primarily came higher-than-expected cash margins, which offset a 5.1% miss on the top-line. The lower-than-expected revenue was mostly due to weakness in lower-margin equipment sales and prepaid/postpaid mobile service revenue. Non-service revenue continued to impress, particularly on a YoY basis. Despite the revenue miss, we note that 3Q2023 was the 23<sup>rd</sup> consecutive quarter of YoY revenue growth.
- **Quarterly revenue of QR747.4mn (1.0% YoY, 3.5% QoQ) came in 5.1% below our top-line forecast of QR787.6mn. The non-mobile service segment** was a source of strength with VFQS continuing to benefit from traction in managed services from projects that commenced in 4Q2022, along with growth in IoT, wholesale, fixed and roaming revenue. **Mobile postpaid service** revenue was stagnant with flattish subs and modest ARPU declines YoY/QoQ. **Prepaid** revenue declined because of ARPU weakness amid a challenging competitive environment. Finally, **equipment** revenue softened due to the WC effect.
- **Overall, as far as the mobility segment is concerned, the company remains positive going forward** as VFQS expects project activity (especially related to O&G and the North Field, along with projects put on hold because of the World Cup) and population to bounce back helping boost the mobility segment. Moreover, the company expects major events, such as the AFC Asian Cup Qatar 2023, to help going forward.
- **Costs optimization remains evident with VFQS reporting a healthy 3Q2023 EBITDA margin of 42.3% vs. 39.0% in 3Q2022 and 40.5% in 2Q2023.** We were modeling an EBITDA margin of 40.9%. Quarterly EBITDA of QR316.0mn grew 9.5% YoY/0.6% QoQ and was modestly lower than our estimate of QR321.8mn given the top-line miss.
- **Management reiterated 2023 guidance of revenue growth, EBITDA margin growth of 1-1.5 ppts & capex intensity of 17-18%.** Our 2023 forecast implies QR144.0mn in 4Q2023 earnings, which could be a bit aggressive but VFQS remains optimistic about 4Q2023.

#### Catalysts

- **VFQS continues to deliver on its growth metrics.** Longer-term, postpaid (~72% of 3Q2023 mobile service revenue), 5G, managed services, fixed, broadband, IoT, enterprise and bundled ICT solutions should boost growth. While capex levels were elevated due to 5G and WC-related coverage/capacity expansion, dividend and FCF yields should improve.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate VFQS as an Accumulate with a PT of QR2.070.** The stock is trading at EV/EBITDA multiples of 6.0x for 2023 and 5.7x for 2024.
- **Risks:** 1) Increased competition leading to ARPU erosion and/or market share loss; 2) Weakening of postpaid, broadband, fixed-line and managed services traction/stickiness and 3) Fall in population/industry growth rates.

#### Key Financial Data and Estimates

	CY2022	CY2023e	CY2024e	CY2025e	CY2026e
EPS (QR)	0.12	0.13	0.13	0.14	0.15
EV/EBITDA	6.6x	6.0x	5.7x	5.4x	5.1x
Dividend Yield	5.6%	6.7%	7.2%	7.8%	8.3%

Source: Company data, QNB FS Research; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	1.800
Dividend Yield (%)	5.6
Bloomberg Ticker	VFQS QD
ADR/GDR Ticker	N/A
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector*	Telecoms
52wk High/52wk Low (QR)	1.950/1.539
3-m Average Volume ('000)	4.7
Mkt. Cap. (\$ bn/QR bn)	2.1/7.6
EV (\$ bn/QR bn)	2.2/8.1
Shares Outstanding (mn)	4,227.0
FO Limit* (%)	49.0
Institutional FO* (%)	7.8
1-Year Total Return (%)	9.8
Fiscal Year End	December 31

Source: Bloomberg (as of November 15, 2023), \*Qatar Exchange (as of November 15, 2023); Note: FO is foreign ownership

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## 3Q2023 Review: In-Line 3Q2023 As Boost in Margins Offsets Revenue Miss

VFQS reported 3Q2023 net profit of QR132.3mn (12.0% YoY, 4.6% QoQ) that was right in-line with our estimate of QR133.0mn. The beat this quarter primarily came higher-than-expected cash margins, which offset a 5.1% miss on the top-line. The lower-than-expected revenue was mostly due to weakness in lower-margin equipment sales and prepaid/postpaid mobile service revenue. Non-service revenue continued to impress, particularly on a YoY basis. Despite the revenue miss, we note that 3Q2023 was the 23<sup>rd</sup> consecutive quarter of YoY revenue growth.

- **Quarterly revenue of QR747.4mn (1.0% YoY, 3.5% QoQ) came in 5.1% below our top-line forecast of QR787.6mn. (1) The non-mobile service segment** continues to benefit from traction in managed services from projects that commenced in 4Q2022, along with growth in IoT, wholesale, fixed and roaming revenue. This segment continues to impress, posting in-line 3Q2023 revenue of ~QR235mn (45% YoY, 1% QoQ). **(2) Equipment revenue declined** to ~QR71mn (-34% YoY/-18% QoQ) vs. our estimate of QR90mn. While the decline in equipment revenue was expected, especially on a YoY basis, given the WC effect, the magnitude of the falloff was more than what we had anticipated. As equipment sales are typically lower-margin in nature, this did not have a significant impact on the company's profitability. **(3) We note that prepaid revenue also declined** roughly 16% YoY/5% QoQ to ~QR122mn, after falling ~10% YoY/~9% YoY in 2Q2023/1Q2023, driven by ARPU weakness. During the conference call, management pointed to a declining prepaid market in 9M2023 post the World Cup as certain sectors, mainly construction, came under pressure, along with persistent competitive pricing pressure. However, VFQS also noted that it was able to stem its prepaid revenue decline to 9.3% in 1H2023 vs. an overall market decline of 14.5%. **(4) Finally, the postpaid business also stagnated** with flattish subs and modest ARPU declines YoY/QoQ. Consequentially, postpaid revenue of ~QR319mn modestly softened ~2% YoY/QoQ. Overall, as far as the mobility segment is concerned, the company remains positive going forward as VFQS expects project activity (especially related to O&G and the North Field, along with projects put on hold because of the World Cup) and population to bounce back helping boost the mobility segment. Moreover, the company expects major events, such as the AFC Asian Cup Qatar 2023, to help going forward.
- **Costs optimization remains evident with VFQS reporting a healthy 3Q2023 EBITDA margin of 42.3% vs. 39.0% in 3Q2022 and 40.5% in 2Q2023.** We were modeling an EBITDA margin of 40.9%. Quarterly EBITDA of QR316.0mn grew 9.5% YoY/0.6% QoQ and was modestly lower than our estimate of QR321.8mn given the top-line miss.
- **Management reiterated 2023 guidance of revenue growth, EBITDA margin growth of 1-1.5 ppts & capex intensity of 17-18%.** Our 2023 forecast implies QR144.0mn in 4Q2023 earnings, which could be a bit aggressive but VFQS remains optimistic about 4Q2023.

### QNB FS 3Q2023 Estimates and Comparisons

INCOME STATEMENT		3QCY22 A	2QCY23 A	3QCY23 A	3QCY23 E	A Vs. E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>								
<b>Revenue</b>		<b>740.173</b>	<b>774.883</b>	<b>747.418</b>	<b>787.612</b>	<b>-5.1%</b>	<b>1.0%</b>	<b>-3.5%</b>
	<i>YoY Growth (%)</i>	27.0%	9.9%	1.0%	6.4%			
Direct Costs (Interconnection & Other Opex)		(262.725)	(267.706)	(253.050)	(271.316)	-6.7%	-3.7%	-5.5%
	<i>as a % of Total Revenue (%)</i>	35.5%	34.5%	33.9%	34.4%			
<b>Gross Profit (Loss)</b>		<b>477.448</b>	<b>507.177</b>	<b>494.368</b>	<b>516.296</b>	<b>-4.2%</b>	<b>3.5%</b>	<b>-2.5%</b>
	<i>Gross Margin (%)</i>	64.5%	65.5%	66.1%	65.6%			
Other Expenses (Employee and Other Expenses)		(188.996)	(193.011)	(178.420)	(194.540)	-8.3%	-5.6%	-7.6%
	<i>as a % of Total Revenue (%)</i>	25.5%	24.9%	23.9%	24.7%			
Depreciation and Amortization		(148.480)	(157.322)	(156.475)	(155.733)	0.5%	5.4%	-0.5%
<b>Total Operating Expenses</b>		<b>(337.476)</b>	<b>(350.333)</b>	<b>(334.895)</b>	<b>(350.273)</b>	<b>-4.4%</b>	<b>-0.8%</b>	<b>-4.4%</b>
<b>EBITDA</b>		<b>288.452</b>	<b>314.166</b>	<b>315.948</b>	<b>321.756</b>	<b>-1.8%</b>	<b>9.5%</b>	<b>0.6%</b>
	<i>EBITDA Margin (%)</i>	39.0%	40.5%	42.3%	40.9%			
<b>Operating Profit (Loss) - EBIT</b>		<b>139.972</b>	<b>156.844</b>	<b>159.473</b>	<b>166.023</b>	<b>-3.9%</b>	<b>13.9%</b>	<b>1.7%</b>
	<i>EBIT Margin (%)</i>	18.9%	20.2%	21.3%	21.1%			
Interest Income		1.575	2.665	2.639	2.745	-3.9%	67.6%	-1.0%
Interest Expense/Lease Interest Expense		(10.474)	(20.653)	(18.114)	(22.687)	-20.2%	72.9%	-12.3%
Other Income/Expense		(13.008)	(12.405)	(11.716)	(13.050)	-10.2%	-9.9%	-5.6%
<b>Profit (Loss) Before Tax</b>		<b>118.065</b>	<b>126.451</b>	<b>132.282</b>	<b>133.030</b>	<b>-0.6%</b>	<b>12.0%</b>	<b>4.6%</b>
<b>Net Profit (loss) - Adjusted</b>		<b>118.065</b>	<b>126.451</b>	<b>132.282</b>	<b>133.030</b>	<b>-0.6%</b>	<b>12.0%</b>	<b>4.6%</b>
	<i>Net Margin (%)</i>	16.0%	16.3%	17.7%	16.9%			
	<i>Net Profit YoY Growth</i>	78.0%	16.1%	12.0%	12.7%			
<b>EPS (QR)</b>		<b>0.03</b>	<b>0.03</b>	<b>0.03</b>	<b>0.03</b>	<b>-0.6%</b>	<b>12.0%</b>	<b>4.6%</b>

Source: Company data, QNB FS Research

**QNB FS 3Q2023 KPI Estimates and Comparisons**

	3Q2022	2Q2023	3Q2023	3Q2023e	A Vs. E
<b>Mobile Subscribers (000s)</b>					
Pre-Paid Subs	1,489	1,529	1,531	1,623	(6%)
YoY Growth	12%	5%	3%	9%	
QoQ Growth	2%	0%	0%	6%	
Post-Paid Subs	567	570	566	579	(2%)
YoY Growth	20%	2%	(0%)	2%	
QoQ Growth	2%	(1%)	(1%)	2%	
<b>Total Mobile Subs</b>	<b>2,056</b>	<b>2,099</b>	<b>2,097</b>	<b>2,202</b>	<b>(5%)</b>
YoY Growth	14%	4%	2%	7%	
QoQ Growth	2%	0%	(0%)	5%	
<b>Mobile ARPU (QR)</b>					
Pre-Paid ARPU	33.0	28.0	26.7	28.3	(6%)
YoY Growth	(3%)	(13%)	(19%)	(14%)	
QoQ Growth	3%	(5%)	(5%)	1%	
Post-Paid ARPU	194.2	189.9	187.8	190.0	(1%)
YoY Growth	(4%)	(3%)	(3%)	(2%)	
QoQ Growth	(0%)	(0%)	(1%)	0%	
<b>Blended Mobile ARPU</b>	<b>77.5</b>	<b>72.2</b>	<b>70.3</b>	<b>71.5</b>	<b>(2%)</b>
YoY Growth	(2%)	(6%)	(9%)	(8%)	
QoQ Growth	1%	(2%)	(3%)	(1%)	
<b>Mobile Service Revenue (QR mn)</b>					
Pre-Paid Service Revenue	145	128	122	134	(9%)
YoY Growth	10%	(10%)	(16%)	(7%)	
QoQ Growth	2%	(4%)	(5%)	4%	
Post-Paid Service Revenue	325	326	319	327	(3%)
YoY Growth	15%	1%	(2%)	1%	
QoQ Growth	1%	(0%)	(2%)	0%	
<b>Total Mobile Service Revenue</b>	<b>470</b>	<b>454</b>	<b>441</b>	<b>461</b>	<b>(4%)</b>
YoY Growth	14%	(2%)	(6%)	(2%)	
QoQ Growth	1%	(1%)	(3%)	2%	
<b>Other Service Revenue (Managed Services, Broadband, Roaming, Wholesale &amp; Others)</b>					
	<b>162</b>	<b>234</b>	<b>235</b>	<b>236</b>	<b>(0%)</b>
YoY Growth	17%	52%	45%	46%	
QoQ Growth	5%	3%	1%	1%	
<b>Total Service Revenue (QR mn)</b>					
	<b>632</b>	<b>688</b>	<b>676</b>	<b>697</b>	<b>(3%)</b>
YoY Growth	14%	11%	7%	10%	
QoQ Growth	2%	0%	(2%)	1%	
<b>Other Revenue (Incl. Equipment, Handsets &amp; Hardware Portion of Projects Revenue)</b>					
	<b>108</b>	<b>87</b>	<b>71</b>	<b>90</b>	<b>(21%)</b>
YoY Growth	252%	1%	(34%)	(17%)	
QoQ Growth	25%	(2%)	(18%)	4%	
<b>Total Revenue (QR mn)</b>					
	<b>740.2</b>	<b>774.9</b>	<b>747.4</b>	<b>787.6</b>	<b>(5.1%)</b>
YoY Growth	27.0%	9.9%	1.0%	6.4%	
QoQ Growth	4.9%	(0.1%)	(3.5%)	1.6%	

Source: Company data, QNB FS Research

# Ratio Analysis

## Key Ratios & Valuation Metrics

Growth Rates	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023E	CY2024E	CY2025E	CY2026E	CY2027E	CAGR	
												2018-22	2022-27
Revenue	-2.9%	5.1%	1.1%	3.5%	14.8%	21.4%	2.5%	2.9%	2.3%	2.2%	2.2%	9.9%	2.4%
Gross Profit	1.3%	2.9%	0.3%	9.1%	14.0%	21.7%	4.2%	3.1%	2.6%	2.5%	2.5%	11.0%	3.0%
EBIT	33.5%	N/M	38.6%	22.0%	49.7%	48.6%	9.2%	4.4%	4.1%	3.6%	3.7%	39.3%	5.0%
EBITDA	16.0%	8.5%	21.4%	14.0%	27.5%	19.7%	6.4%	3.5%	3.2%	3.1%	3.1%	20.5%	3.9%
Net Income	31.6%	N/M	22.0%	28.8%	76.9%	53.4%	6.7%	6.1%	6.4%	5.3%	4.9%	43.7%	5.9%
Distributable Profit		37.9%	12.8%	18.1%	53.0%	43.1%	5.3%	5.2%	5.6%	4.7%	4.3%	30.7%	5.0%
DPS			0.0%	0.0%	20.0%	66.7%	20.0%	8.3%	7.7%	7.1%	6.7%	18.9%	9.9%
CFPS	29.6%	43.7%	2.7%	-7.6%	28.9%	20.1%	24.2%	-6.7%	3.3%	3.0%	3.2%	10.1%	4.9%
FCPS	158.8%	80.7%	-19.3%	0.1%	138.7%	-19.8%	111.6%	-2.5%	13.7%	8.1%	5.6%	11.5%	21.8%
<b>Operating Ratios</b>													
Gross Margin	64.0%	62.6%	62.1%	65.5%	65.0%	65.2%	66.3%	66.5%	66.6%	66.8%	67.0%		
EBIT Margin	(11.2%)	7.6%	10.4%	12.2%	15.9%	19.5%	20.8%	21.1%	21.5%	21.8%	22.1%		
EBITDA Margin	26.9%	27.8%	33.4%	36.7%	40.8%	40.2%	41.8%	42.1%	42.4%	42.8%	43.2%		
Net Margin	(12.8%)	5.6%	6.8%	8.4%	13.0%	16.4%	17.1%	17.6%	18.3%	18.9%	19.3%		
Capex Intensity	18.4%	23.3%	30.0%	18.7%	16.1%	21.5%	17.6%	15.0%	12.9%	11.8%	11.3%		
<b>Finance Ratios</b>													
Debt - Equity Ratio	18.3%	17.9%	18.1%	18.3%	15.5%	14.9%	13.5%	9.9%	6.8%	4.8%	2.8%		
Net Debt - Equity Ratio	13.9%	9.1%	11.4%	14.4%	11.4%	11.0%	6.0%	3.2%	(1.0%)	(5.8%)	(10.8%)		
Net Debt-to-Capital	12.2%	8.4%	10.3%	12.6%	10.2%	9.9%	5.7%	3.1%	(1.0%)	(6.1%)	(12.1%)		
Cash Interest Coverage	18.1x	16.7x	11.4x	12.5x	28.1x	25.5x	18.1x	20.8x	26.2x	32.9x	40.5x		
Ave. Effective Borrowing rate %	3.6%	4.3%	7.6%	7.9%	5.1%	6.7%	10.9%	13.3%	15.7%	18.2%	26.0%		
<b>Return Ratios</b>													
ROIC	(4.2%)	2.9%	3.8%	4.7%	6.8%	9.8%	10.6%	11.3%	12.0%	12.6%	13.3%		
ROE	(5.7%)	2.6%	3.2%	4.1%	7.1%	10.4%	10.9%	11.4%	12.1%	12.6%	13.2%		
ROA	(4.1%)	1.8%	2.0%	2.7%	4.8%	6.8%	7.1%	7.7%	8.2%	8.7%	9.2%		
Dividend Payout %		179.4%	147.1%	114.2%	77.5%	84.1%	94.6%	96.6%	97.8%	99.5%	101.1%		
<b>Valuation</b>													
EV/Sales	4.1x	3.8x	3.8x	3.8x	3.2x	2.7x	2.5x	2.4x	2.3x	2.2x	2.0x		
EV/EBITDA	15.3x	13.7x	11.5x	10.2x	7.9x	6.6x	6.0x	5.7x	5.4x	5.1x	4.7x		
EV/EBIT	N/M	50.5x	36.8x	30.7x	20.2x	13.6x	12.1x	11.4x	10.6x	9.9x	9.3x		
P/E	N/M	64.6x	53.0x	41.1x	23.2x	15.1x	14.2x	13.4x	12.6x	11.9x	11.4x		
P/BV	1.7x	1.7x	1.7x	1.7x	1.7x	1.6x	1.5x	1.5x	1.5x	1.5x	1.5x		
Dividend Yield	0.0%	2.8%	2.8%	2.8%	3.3%	5.6%	6.7%	7.2%	7.8%	8.3%	8.9%		
FCF Yield	1.6%	3.0%	2.4%	2.4%	5.7%	4.6%	9.7%	9.5%	10.8%	11.6%	12.3%		
<b>Liquidity Ratios</b>													
Current Ratio	0.7x	0.4x	0.6x	0.4x	0.4x	0.5x	0.5x	0.5x	0.6x	0.6x	0.8x		
Quick Ratio	0.6x	0.4x	0.6x	0.4x	0.4x	0.4x	0.5x	0.5x	0.5x	0.6x	0.7x		

Source: Company data, QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	CY2020	CY2021	CY2022	CY2023e	CY2024e	CY2025e	CY2026e	CY2027e
<b>Revenue</b>	<b>2,200</b>	<b>2,526</b>	<b>3,066</b>	<b>3,141</b>	<b>3,232</b>	<b>3,307</b>	<b>3,381</b>	<b>3,457</b>
Direct Costs	(759)	(885)	(1,068)	(1,059)	(1,084)	(1,103)	(1,122)	(1,142)
<b>Gross Profit</b>	<b>1,440</b>	<b>1,641</b>	<b>1,998</b>	<b>2,083</b>	<b>2,148</b>	<b>2,204</b>	<b>2,259</b>	<b>2,315</b>
Operating Expenses, Excl. D&A	(632)	(611)	(764)	(770)	(789)	(800)	(811)	(823)
<b>EBITDA</b>	<b>808</b>	<b>1,031</b>	<b>1,234</b>	<b>1,313</b>	<b>1,360</b>	<b>1,403</b>	<b>1,447</b>	<b>1,492</b>
Depreciation & Amortization	(539)	(628)	(635)	(660)	(677)	(693)	(711)	(729)
<b>EBIT</b>	<b>269</b>	<b>403</b>	<b>599</b>	<b>653</b>	<b>682</b>	<b>710</b>	<b>736</b>	<b>763</b>
Interest Income	2	1	6	13	13	14	14	14
Interest Expense	(65)	(37)	(48)	(72)	(65)	(54)	(44)	(37)
Other Income/Expense	(21)	(40)	(54)	(58)	(61)	(65)	(69)	(72)
Profit Before Tax	185	327	502	536	569	605	637	669
Income Tax Expense								
<b>Profit for Shareholders</b>	<b>185</b>	<b>327</b>	<b>502</b>	<b>536</b>	<b>569</b>	<b>605</b>	<b>637</b>	<b>669</b>
<b>EPS (QR)</b>	<b>0.04</b>	<b>0.08</b>	<b>0.12</b>	<b>0.13</b>	<b>0.13</b>	<b>0.14</b>	<b>0.15</b>	<b>0.16</b>
<b>DPS (QR)</b>	<b>0.05</b>	<b>0.06</b>	<b>0.10</b>	<b>0.12</b>	<b>0.13</b>	<b>0.14</b>	<b>0.15</b>	<b>0.16</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	CY2020	CY2021	CY2022	CY2023e	CY2024e	CY2025e	CY2026e	CY2027e
<b>Non-Current Assets</b>								
Property, Plant and Equipment	1,647	1,638	1,885	2,023	2,088	2,093	2,066	2,027
Intangible Assets	4,280	4,169	4,050	3,917	3,771	3,611	3,438	3,249
Rights of Use Assets	372	291	430	415	415	415	415	415
Trade and Other Receivables	27	92	298	259	267	273	279	286
<b>Total Non-Current Assets</b>	<b>6,325</b>	<b>6,190</b>	<b>6,662</b>	<b>6,614</b>	<b>6,541</b>	<b>6,393</b>	<b>6,197</b>	<b>5,976</b>
<b>Current Assets</b>								
Inventory	22	35	38	48	50	51	52	53
Contract Assets & Costs	25	42	52	49	49	49	49	49
Trade and Other Receivables	279	347	483	435	447	458	469	479
Cash and Cash Equivalents	175	190	187	367	333	391	533	689
<b>Total Current Assets</b>	<b>501</b>	<b>613</b>	<b>760</b>	<b>899</b>	<b>879</b>	<b>950</b>	<b>1,103</b>	<b>1,270</b>
<b>Total Assets</b>	<b>6,826</b>	<b>6,803</b>	<b>7,422</b>	<b>7,514</b>	<b>7,420</b>	<b>7,342</b>	<b>7,300</b>	<b>7,246</b>
<b>Equity</b>								
<b>Total Equity</b>	<b>4,489</b>	<b>4,596</b>	<b>4,833</b>	<b>4,933</b>	<b>4,980</b>	<b>5,020</b>	<b>5,050</b>	<b>5,068</b>
<b>Non-Current Liabilities</b>								
Trade and Other Payables	29	0	0	0	0	0	0	0
Lease Liabilities	283	197	315	308	302	295	289	282
Provisions	72	83	102	105	108	110	113	115
Long-Term Borrowings	613	506	512	492	342	242	142	117
<b>Total Non-Current Liabilities</b>	<b>997</b>	<b>786</b>	<b>929</b>	<b>905</b>	<b>751</b>	<b>647</b>	<b>543</b>	<b>514</b>
<b>Current Liabilities</b>								
Trade and Other Payables	1,022	1,099	1,311	1,364	1,400	1,436	1,469	1,502
Lease Liabilities	113	115	141	140	140	139	138	137
Short-Term Borrowings	207	206	207	173	150	100	100	25
<b>Total Current Liabilities</b>	<b>1,341</b>	<b>1,420</b>	<b>1,660</b>	<b>1,676</b>	<b>1,690</b>	<b>1,675</b>	<b>1,707</b>	<b>1,664</b>
<b>Total Liabilities</b>	<b>2,338</b>	<b>2,207</b>	<b>2,589</b>	<b>2,581</b>	<b>2,441</b>	<b>2,322</b>	<b>2,250</b>	<b>2,178</b>
<b>Equity and Liabilities</b>	<b>6,826</b>	<b>6,803</b>	<b>7,422</b>	<b>7,514</b>	<b>7,420</b>	<b>7,342</b>	<b>7,300</b>	<b>7,246</b>

Source: Company data, QNB FS Research

## APPENDIX: 3Q2023 EARNINGS REVIEW

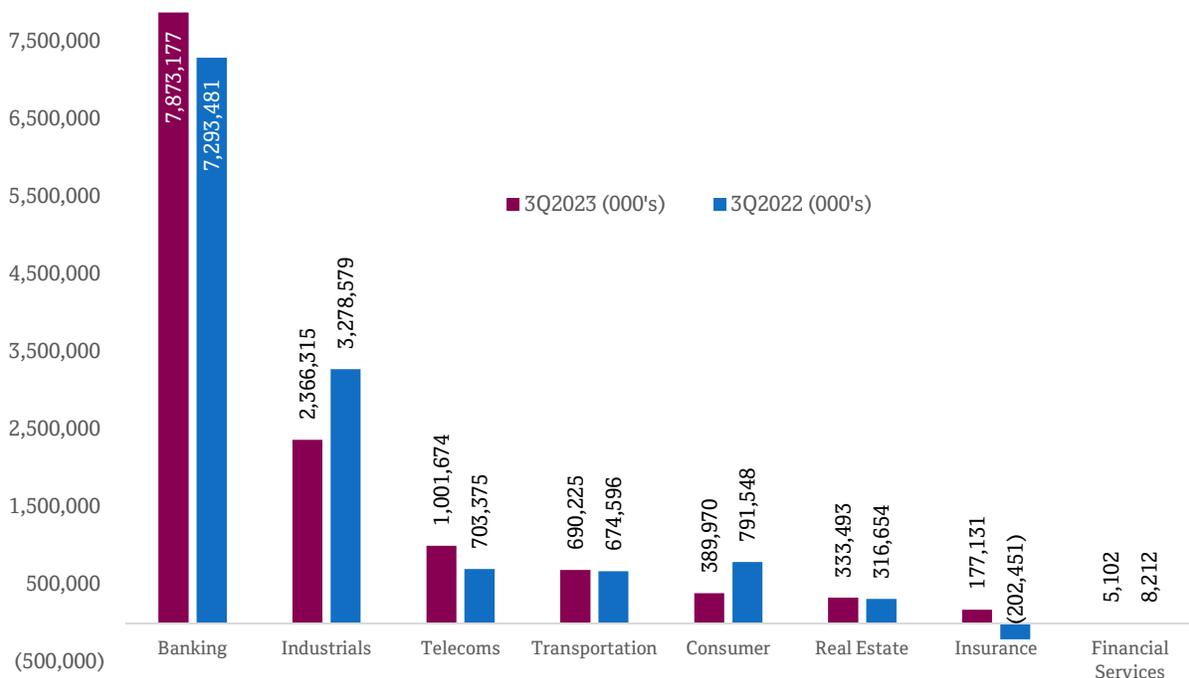
## 3Q2023 Profit Stagnates as Strength in Banks Offset Industrials' Weakness

Listed companies on the main board of the Qatar Stock Exchange reported a slight YoY drop of 0.2% in earnings to QR12.84bn during 3Q2023. The shining sector was the banking sector as it grew its earnings 7.9% with only one of the nine banks reporting a YoY fall in earnings (DHBK: -12.4%). Sequentially, aggregate net profit climbed 7.0% propelled by the banking sector, which registered a 13.1% jump. All sectors grew earnings QoQ with the exception of real estate, insurance and transportation, reporting declines of 32.2%, 19.2% and 3.7%, respectively. Aggregate QSE revenue slipped 12.5% YoY (+6.3% QoQ) with the consumer goods & services sector recording a substantial decrease of 34.1% (drop of QR5.63bn) followed by the industrials sector, which fell by 25.8%. The sequential growth in revenue was driven by the banking sector which expanded by 10.0%. Aggregate NP margin came in at 27.8% compared with 24.4% in 3Q2022. Banks increased their share of contribution to the QSE's aggregate earnings to 61.3% from 56.7% in 3Q2022, followed by industrials at 18.4% (3Q2022: 25.5%) and telecoms at 7.8% (3Q2022: 5.5%).

### Snapshot of 3Q2023 Earnings Season

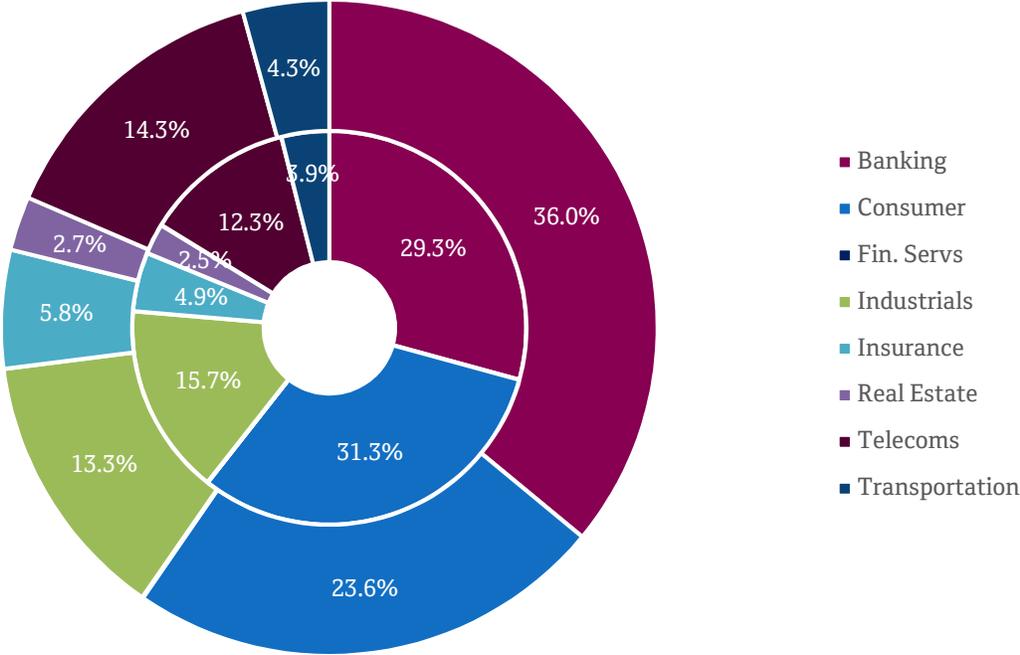
- Five of the eight sectors exhibited positive earnings growth YoY
- Insurance sector recorded a profit from losses in 3Q2022
- Transportation, real estate and insurance reported sequential drop in earnings
- Financial services recovered from a net loss in 2Q2023
- Nine out of the ten Industrial companies reported earnings YoY decline
- Only four companies out of the 51-listed recorded losses; four in 3Q2022
- 21 companies recorded YoY earnings decline

### QSE Sector Earnings (QR'000): 3Q2023 vs. 3Q2022



Source: QSE, QNBFS Research

**QSE Sector Revenue Contribution: 3Q2023 (Outer Core) vs. 3Q2022 (Inner Core)**



Source: QSE, QNBFS Research

### 3Q2023 Net Profit for QSE-listed Companies (QR'000)

Sector	Company	3Q2022	3Q2023
Banking	Qatar National Bank	3,966,540	4,268,094
	Qatar Islamic Bank	1,034,858	1,099,913
	The Commercial Bank	768,977	811,126
	Masraf Al Rayan	331,254	473,004
	Dukhan Bank	335,357	346,798
	Qatar International Islamic Bank	330,917	361,813
	Doha Bank	267,934	234,806
	Al Ahli Bank	236,141	255,580
	Qatar First Bank	21,503	22,043
<b>Banking Total</b>		<b>7,293,481</b>	<b>7,873,177</b>
Consumer Goods & Services	Qatar Fuel Co.	261,531	271,436
	Zad Holding Co.	35,238	42,180
	Al Meera Consumer Goods Co.	31,938	27,428
	Mannai Corp	421,732	4,748
	Baladna	8,019	22,258
	Medicare Group	20,586	14,045
	Mekdam Holding Group	6,563	7,259
	Qatari German Co. for Medical Devices	136	(1,388)
	Qatar Cinema & Film Distribution Co.	491	894
	Salam International Investment Co.	4,808	8,433
	Widam Food Company	(9,925)	(23,625)
	Meeza	10,431	16,301
<b>Consumer Total</b>		<b>791,548</b>	<b>389,970</b>
Financial Services	National Leasing	9,603	3,206
	Inma Holding	2,145	2,702
	Dlala Brokerage & Investment Holding	(3,107)	(1,704)
	Qatar Oman Investment Co.	(429)	898
<b>Financial Services Total</b>		<b>8,212</b>	<b>5,102</b>
Industrials	Industries Qatar	1,613,788	1,205,205
	Qatar Electricity & Water	565,398	340,431
	Mesaieed Petrochemical Holding Co.	432,858	263,985
	Gulf International Services	129,577	133,687
	Qatar Aluminium Manufacturing Co.	191,980	113,684
	Investment Holding Group (IGRD)	107,653	103,001
	Aamal Holding	99,601	98,668
	Qatar Industrial Manufacturing Co.	45,563	36,019
	Qatari Investors Group	32,625	21,279
		Qatar National Cement Co.	59,537
<b>Industrials Total</b>		<b>3,278,579</b>	<b>2,366,315</b>
Insurance	Qatar Insurance	(278,474)	72,620
	Qatar Islamic Insurance	26,543	39,052
	QLM Life & Medical Insurance	3,261	6,351
	Damaan Islamic Insurance	10,343	19,584
	Doha Insurance	22,817	52,119
	Alkhaleej Takaful Insurance	13,058	10,505
		Qatar General Insurance & Reinsurance	-
<b>Insurance Total</b>		<b>(202,451)</b>	<b>177,131</b>
Real Estate	Barwa Real Estate Co.	205,331	225,945
	United Development Co.	40,944	42,560
	Ezdan Holding Group Co.	58,632	58,329
		Mazaya Real Estate Development	11,747
<b>Real Estate Total</b>		<b>316,654</b>	<b>333,493</b>
Telecoms	Ooredoo (ORDS)	585,310	869,392
	Vodafone Qatar (VFQS)	118,065	132,282
<b>Telecoms Total</b>		<b>703,375</b>	<b>1,001,674</b>
Transportation	Nakilat	405,476	415,101
	Qatar Navigation/ Milaha	209,709	222,070
		Gulf Warehousing Co.	59,411
<b>Transportation Total</b>		<b>674,596</b>	<b>690,225</b>
<b>Grand Total</b>		<b>12,863,994</b>	<b>12,837,086</b>

Source: QSE, QNBFS Research

## Banking Sector

### 3Q2023 Earnings Driven by Core Income or Low-to-Flat Prov.

#### Highlights:

- The banking sector posted mixed results in 3Q2023. For 3Q2023, the banking sector posted a 7.9%/13.1% YoY/QoQ increase in aggregate headline net income. However, on a normalized basis sequentially (excluding ABQK), earnings were still up 11.9%.
- The Banks & Financial Services Index underperformed the QSE Index and declined by 1.4% (QSE Index: +1.8%) in 3Q2023. However, as of Nov. 8 vs. end of 3Q2023, the Banks & Financial Services Index outperformed (+1.3%) the DSM Index (-1.8%).
- The banking sector is currently trading at a P/B multiple of 1.5x with an average RoE of 12.3% vs. 1.4x KSA (RoE: 13.4%), 1.2x UAE (RoE: 16.3%) and 1.2x Kuwait (RoE: 8.8%); Qatar banks appear to be expensive based on a P/B-to-RoE of 12.3x. The sector offers a dividend yield of 4.3% vs. the QSE's DY of 5.0%.

#### Revenue:

- Aggregate revenue grew by 7.7% YoY in 3Q2023 to QR16.6bn, driven mainly by QNB Group (being the sector's largest contributor). Aggregate growth was mixed as the majority of banks grew their revenue by margin expansion and/or non-funded income (combination f/x income, fees & investment income) or a combination of both, while a few saw their revenue decline on the back of margin pressure. QNBK's revenue increased by 12.2%/13.9% YoY/QoQ on healthy margins and non-funded income, while QIHK's revenue increased by 14.7%/15.9% YoY/QoQ for the same factors as QNBK. On the other hand, DUBK and MARK witnessed their revenue drop by 7.6% and 7.3%, respectively.
- Aggregate revenue increased by 10.0% sequentially in 3Q2023. Aggregate gains were mainly attributable to a combination of core banking income.
- NIMs, on a YoY basis on average, were flat, while it expanded on a sequential basis. In aggregate, net interest margin remained flat at 2.50% YoY vs. +15bps sequentially. The YoY flat performance was due to the delayed repricing of yields as it caught up to the increase in CoFs (CoFs repriced faster than yields) following interest rate hikes that began early-2022. QIHK's margins were robust YoY/QoQ (2.9%). Moreover, QIBK's margins expanded by 25bps YoY to 3.04%.

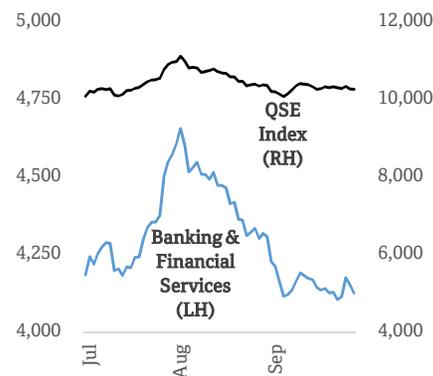
#### Earnings:

- Aggregate 3Q2023 net income increased by 7.9% YoY to QR7.9bn due to strong operating income/drop in provisions & impairments from QNBK (+7.6%) and large drop in provisions from MARK (+42.8%).
- Aggregate net income of banks also increased by 13.1% sequentially in 3Q2023. All commercial banks witnessed their earnings increase driven mainly QNBK and ABQK (earnings surged attributed to historical trends). The increase was due to Core banking income (NIMs expansion) and flat-to-lower provisions.

#### Balance Sheet:

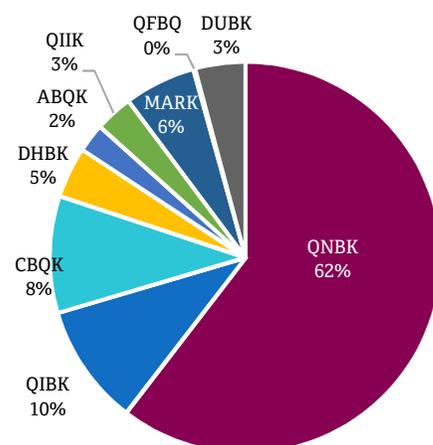
- Aggregate Loans experienced flat performance QoQ and YTD. The loan book remained flat at QR1.34trn in 3Q2023 vs. 2Q2023 (FY2022: QR1.35trn). Highest QoQ & YTD growth was seen from QIHK (+5.0%/+2.6%) and QIBK which witnessed its loan book climb up by 2.1%/1.9%, sequentially and YTD to QR121.8bn. The majority of the banks' loan books modestly increased or remained flat as the public sector credit facilities repayment slow down. Excluding credit to the public sector, loans to the private sector picked up pace. As of 3Q2023, QIBK's market share increased to 9.1% vs. 8.9% in FY2022, while QNBK maintained its market share at 61%.
- Majority of banks witnessed their deposits shrink YTD with DUBK (up 3.3%) being the exception. Aggregate deposits decreased by 2.7% YTD to reach QR1.30trn, driven by the majority of banks with DUBK being the exception. CBQK (-10.1%), DHBK (-9.6%) and

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

MARK (4.9%) incurred the largest drop. However, aggregate deposits remained flat sequentially.

- **Capitalization levels of Qatar banks remained robust.** Average CAR came in at a robust 18.8% with all banks generating strong CARs.

#### Net Income (000's)

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
QNBK	QNB Group	3,966,540	3,723,231	4,268,094	7.6%	14.6%
QIBK	Qatar Islamic Bank	1,034,858	1,049,992	1,099,913	6.3%	4.8%
CBQK	Commercial Bank of Qatar	768,977	803,019	811,126	5.5%	1.0%
DHBK	Doha Bank	267,934	183,413	234,806	-12.4%	28.0%
ABQK	Al Ahli Bank	236,141	155,142	255,580	8.2%	64.7%
QIIK	Qatar International Islamic Bank	330,917	299,167	361,813	9.3%	20.9%
MARK	Masraf Al Rayan	331,254	379,687	473,004	42.8%	24.6%
QFBQ	Lesha Bank	21,503	22,603	22,043	2.5%	-2.5%
DUBK	Dukhan Bank	335,357	346,596	346,798	3.4%	0.1%
	<b>Total</b>	<b>7,293,481</b>	<b>6,962,850</b>	<b>7,873,177</b>	<b>7.9%</b>	<b>13.1%</b>
	<b>Total (Excluding ABQK)</b>	<b>7,057,340</b>	<b>6,807,708</b>	<b>7,617,597</b>	<b>7.9%</b>	<b>11.9%</b>

Source: Company data; Note: Net Income is in QR'000 and are headline net income figures

## Industrials Sector

### Revenue/Profit Drop YoY But Recover Sequentially

#### Highlights:

- Sector top- and bottom-line were lower YoY in 3Q2023 but recovered QoQ. We see this trend continue into year-end for the diversified industrials complex primarily due to base effects created by hosting of the FIFA World Cup and commodity price dynamics. Meanwhile, credit markets continue to tighten, but the overall strength of balance sheets in the sector should help contain some of the potential risks.
- The Industrials Index rose by 12.2% (QE Index: +1.8%) in 3Q2023 after falling by 7.8% in 2Q2023.
- Total traded value of QR8.4bn in 3Q2023 is a 6.1% increase from QR7.9bn traded in 2Q2023.
- Sector's current P/E multiple is 14.7x vs. QSE Index's 11.2x, and its dividend yield is 7.2% vs. QSE's 5.0%.

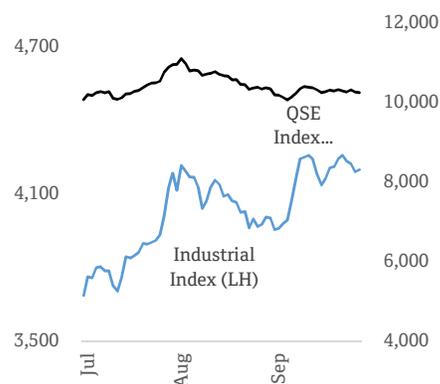
#### Revenue:

- Sector revenue dropped 25.8% YoY in 3Q2023 to QR6.2bn, weighed down by IQCD and IGRD, which fell 32.7% and 37%, respectively – together they accounted for ~85% of the sector's revenue decline.
- Sequentially, revenue rose 7.1% helped by GISS and IQCD. They registered QR286.8mn and QR199.3mn increase in revenue, respectively.

#### Earnings:

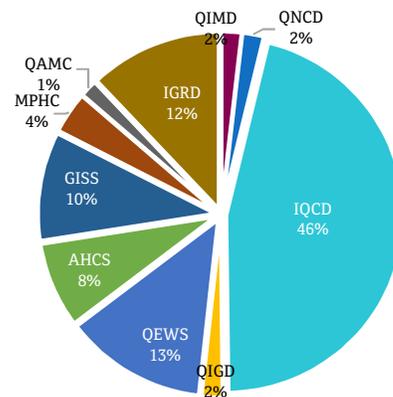
- The sector's 3Q2023 net profit fell 27.8% YoY dragged by IQCD, QEWS and MPHC. They account for ~88% of sectors NP decline. The YoY decline in IQCD and MPHC earnings stems from lower share of results from investments in joint ventures which fell 53.7% and 43.5%, respectively. Meanwhile, QEWS net profit declined primarily due to a higher 3Q2022 base of QR230mn in one-off gains attributed to the Nebras acquisition.
- On a QoQ basis, sectoral bottom-line rose 4.5% with IQCD providing bulk of the growth as it more than offset declines by most of its peers. IQCD's QoQ NP rose 30.7%. Better 3Q2023 urea price realization, along with a significant downtick in segment direct costs (as higher-priced fertilizer inventory was consumed during 1H2023) and a moderate sequential uptick in volumes post 2Q2023's maintenance shutdowns, supercharged IQCD's fertilizer EBITDA margin to ~48% in 3Q2023 (vs. approximately 31% in 2Q2023).

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

#### Net Income

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
QIMD	Qatar Industrial Manufacturing Co.	45,563	59,009	36,019	(20.9%)	(39.0%)
QNCD	Qatar National Cement Co.	59,537	37,171	50,355	(15.4%)	35.5%
IQCD	Industries Qatar	1,613,788	922,162	1,205,205	(25.3%)	30.7%
QIGD	Qatari Investors Holding	32,625	47,133	21,279	(34.8%)	(54.9%)
QEWS	Qatar Electricity & Water Co.	565,398	367,917	340,431	(39.8%)	(7.5%)
AHCS	Aamal Co.	99,601	79,273	98,668	(0.9%)	24.5%
GISS	Gulf International Services	129,577	190,735	133,687	3.2%	(29.9%)
MPHC	Mesaieed Petrochemical Holding Co.	432,858	316,228	263,985	(39.0%)	(16.5%)
QAMC	Qatar Aluminium Manufacturing Co.	191,980	147,220	113,684	(40.8%)	(22.8%)
IGRD	Estithmar Holding Group	107,653	98,410	103,001	(4.3%)	4.7%
<b>Total</b>		<b>3,278,579</b>	<b>2,265,257</b>	<b>2,366,315</b>	<b>(27.8%)</b>	<b>4.5%</b>

Source: Company data; Note: Net Income is in QR'000

# Consumer Goods & Services Sector

## Sector Bottom-line More Than Halved YoY

### Highlights:

- **The sector is set to benefit from the inclusion of Meeza to the main market and the boost in commodity prices.** With the successful listing of Meeza in the main market on August 23<sup>rd</sup>, the number of listed companies under Consumer Goods & Services went up to a total of 12; contributing to the diversification of the sector. MEZA provides end-to-end Managed IT Services, Data Centre Services, Cloud Services and IT Security Services. WTI Crude oil prices soared to more than \$90 per barrel at the end of September 2023 (+14.2% YoY/ +8.6% QoQ), mainly due to the continuing voluntary reduction in supply from Saudi Arabia and Russia.
- The consumer goods & services sector index slipped 3.3% (QSE Index: +1.8%) in 3Q2023. Sector traded value in 3Q2023 dropped 7.1% to QR4.0bn vs. QR4.3bn in 2Q2023.
- Consumer goods & services sector is currently trading at a P/E multiple of 20.4x (vs. QSE Index's P/E of 11.2x) with a dividend yield of 4.1% (vs. QSE's 5.0%).

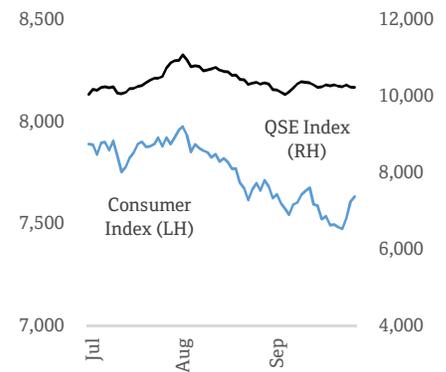
### Revenue:

- **Sector revenue shrunk 10.0% YoY to QR10.9bn from QR12.1bn, steered mainly by Qatar Fuel.** QFLS reported a 16.4% fall (drop of QR1.5bn) in revenue. On the other hand, ZHCD's top-line figure recovered from 3Q2022 to 3Q2023 by growing 42.4% followed by MCCS, which increased its revenues by 9.9%. However, since more than 50% of the companies reported a YoY fall, the sector experienced a drop.
- **Sequentially, revenue rose 7.5% from QR10.1bn swayed by Qatar Fuel and Zad Holding Company.** QFLS revenues climbed 14.1% from QR6.5bn in 2Q2023 followed by ZHCD growing 14.3% from QR427.8mn in 2Q2023. Despite the fact that 9 of the 12 sector companies recorded a quarterly fall in top-line, the sector giant (QFLS) was a part of the winning team.

### Earnings:

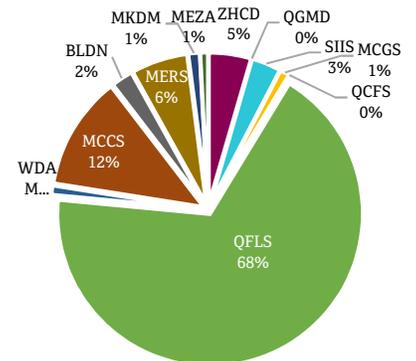
- **The sector's 3Q2023 bottom-line fell significantly by more than 50% (-50.7%) to QR390.0mn driven mainly by Mannai Corporation.** During 3Q2022, MCCS reported a one-off item (net profit from discontinued operations) that made the company profitable and boosted its earnings, but since this item was a one-off item, earnings dropped substantially (-98.9%). WDAM registered a net loss of QR23.6mn, falling a further QR13.7mn from a loss of QR9.9mn reported in 3Q2022. WDAM had a lower top line figure (-13.0% YoY) and higher general & administrative expenses (+44.8% YoY) sinking it deeper in losses. In contrast, the only companies in the sector to achieve gains were BLDN (+177.6%), QFLS (+3.8%), ZHCD (+19.7%), MKDM (+10.6%) and lastly QCFS (+81.9%).
- **Sequentially, net profit ticked up 1.8% from QR383.0mn at the hands of QFLS.** QFLS' 14.1% sequential growth in its revenue was the main constituent for its earnings for the quarter (+25.1%). SIIS recovered from a net loss of QR2.4mn in 2Q2023 to a net profit of QR8.4mn in 3Q2023, aided by a fall in cost of sales (-8.9%) and a fall in total other operating expenses (-15.3%). MKDM registered a 13.6% jump in earnings supported by an 11.8% increase in total revenues (from a 25.4% growth in technology services revenue, a 176.0% growth in other services revenue and a 22.2% rise in centralized alarm monitoring system services revenue).

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

## Net Income

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
ZHCD	Zad Holding	35,238	48,289	42,180	19.7%	(12.7%)
QGMD	Qatari German Co. for Medical Devices	136	1,293	(1,388)	N/M	N/M
SIIS	Salam International Investment	(4,808)	(2,399)	8,433	N/M	N/M
MCGS	Medicare Group	20,586	17,534	14,045	(31.8%)	(19.9%)
QCFS	Qatar Cinema & Film Distribution	491	1,165	894	81.9%	(23.3%)
QFLS	Qatar Fuel	261,531	216,963	271,436	3.8%	25.1%
WDAM	Widam Food Company	(9,925)	(18,306)	(23,625)	138.0%	29.1%
MCCS	Mannai Corporation	421,732	25,792	4,748	(98.9%)	(81.6%)
BLDN	Baladna	8,019	22,280	22,258	177.6%	(0.1%)
MERS	Al Meera Consumer Goods & Services	31,938	45,171	27,428	(14.1%)	(39.3%)
MKDM	Mekdam Holding Group	6,563	6,389	7,259	10.6%	13.6%
MEZA	Meeza	18,535	18,830	16,301	(12.1%)	(13.4%)
	<b>Total</b>	<b>791,548</b>	<b>383,000</b>	<b>389,970</b>	<b>(50.7%)</b>	<b>1.8%</b>

Source: Company data; Note: Net Income is in QR'000

## Insurance Sector

### QATI Recovery and DOHI Stellar Performance Supports Overall Growth in Profitability

#### Highlights:

- The ongoing recovery in industry heavyweight QATI and a stellar performance by DOHI drove the overall growth in profitability YoY for 3Q2023 for the insurance sector. Conventional Insurance companies continue to significantly outperform Islamic Insurance companies. Overall, conventional insurance companies (QATI, DOHI, QLMI and QGRI) net profit reversed from a net loss of QR252.4mn in 3Q2022 to a net profit of QR108.0mn in 3Q2023, while Islamic insurance companies (AKHI, QISI and BEMA) witnessed a YoY rise in net profit by 38.4% to reach QR69.1mn during 3Q2023.
- QATI international operations has reduced from 81% in previous years to 62% in 3Q2023, according to its Group strategy to have a balanced portfolio between the MENA and international business. QATI is making a recovery from a loss on discontinued operations (of Gibraltar-based subsidiaries underwriting UK motor insurance). DOHI insurance revenue increased by 14.9% YoY and benefitted from higher interest income from the higher bank interest rates, while paying lower finance costs due to reduction in overall debt.
- Higher interest rates have impacted insurance firms both in the form of higher borrowing costs and also increased investment income from corporate deposits.
- The Insurance Index increased 12.9% (QSE Index: 1.8%) in 3Q2023 after it rose by 25.9% in 2Q2023.
- Traded value in the sector shot up 95.1% to reach QR750.3mn in 3Q2023 from QR384.6mn in 2Q2023.

#### Revenue:

- The insurance sector's revenue in 3Q2023 went up 5.4% YoY to QR2.70bn from QR2.56bn, driven mainly by DOHI, QATI and QGRI. Conventional insurance companies accounted for 92.0% of overall insurance revenue during 2Q2023, while Islamic insurance companies accounted for only 8.0%.
- Conventional insurance companies' revenue increased 4.4% YoY to QR2.48bn from QR2.38bn, while Islamic insurance companies' revenue surged up by 17.5% (QISI up 24.7%) during 3Q2023 to reach QR211.1mn from QR195.3mn achieved during 3Q2022.

#### Earnings:

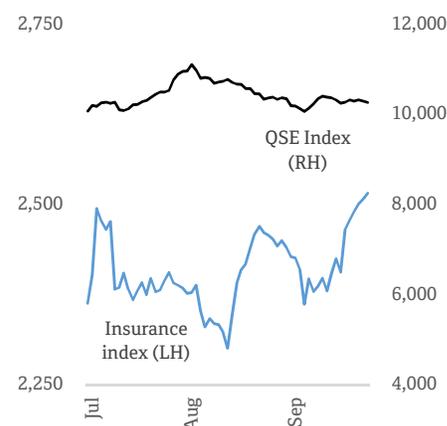
- The sector's 3Q2023 net profit reversed significantly YoY to reach QR177.1mn, compared to a net loss of QR202.4mn for 3Q2022.
- DOHI, QISI and QATI were the main contributors to the overall sector bottom-line. DOHI net profit shot up by 128.4% YoY contributing QR52.1mn in 3Q2023, while QISI net profit climbed up by 47.1% YoY adding QR39.0mn. However, even as QATI net profit dropped by 126.1% YoY, it still contributed QR72.6mn to the overall sector bottom-line in 3Q2023.

#### Net Income

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
QATI	Qatar Insurance	(278,474)	117,150	72,620	N/M	(38.0%)
DOHI	Doha Insurance	22,817	15,871	52,119	128.4%	228.4%
QGRI	Qatar General Insurance & Reinsurance	-	(9,875)	(23,101)	N/M	N/M
AKHI	Al Khaleej Takaful Group	13,058	14,802	10,505	(19.6%)	(29.0%)
QISI	Qatar Islamic Insurance	26,543	34,934	39,052	47.1%	11.8%
QLMI	Qatar Life & Medical Insurance	3,261	26,686	6,351	94.8%	(76.2%)
BEMA	Damaan Islamic Insurance Company	10,343	19,672	19,584	89.3%	(0.4%)
	<b>Total</b>	<b>(202,451)</b>	<b>219,240</b>	<b>177,131</b>	<b>N/M</b>	<b>(19.2%)</b>

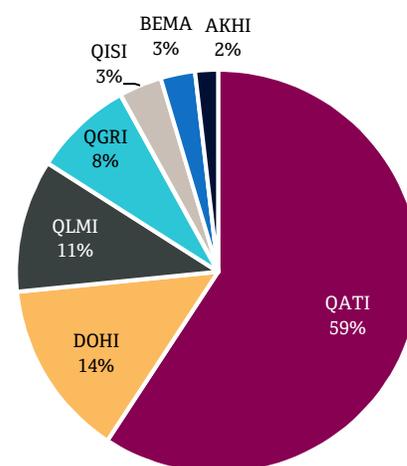
Source: Company data; Note: Net Income is in QR'000

#### Sector Index Performance for 3Q2023



Source: Bloomberg

#### 3Q2023 Sector Revenue Contribution



Source: QSE

## Telecoms Sector

### Outstanding YoY Bottom-Line Surge Despite Modest Top-Line Growth

#### Highlights:

- With the AFC Asian World Cup approaching, the sector boasts its state-of-the-art mobile services including near-universal 4G-population coverage, which include 96% 5G coverage, and 99% fiber coverage.
- The Telecoms Index contracted 2.3% from 2Q2023 to 3Q2023 vs. its 2Q2023 growth of 14.0% and underperforming the QSE Index that experienced a 1.8% rise.
- Total traded value dropped by 13.4% to QR1.10bn during 3Q2023 vs. QR1.27bn in 2Q2023.
- The telecoms sector is trading at a 2024 P/E multiple of 10.1x, which is at a discount to the QSE Index's P/E multiple of 11.2x. The sector sports a dividend yield of 5.4% vs. the QSE Index's DY of 5.0%.

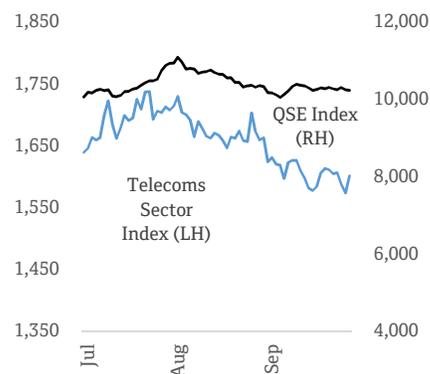
#### Revenue:

- During 3Q2023, aggregate sector top-line increased modestly 1.1% YoY to QR6.6bn as Ooredoo's (ORDS) revenue grew to QR5.8bn (+1.1%) and Vodafone Qatar's (VFQS) revenue was up 1.0% to QR747.4mn. Ooredoo's increase in total revenues is supported by its main source of revenue; revenue from rendering of services (+1.3%).
- Sequentially, sectoral revenue showed little growth of 0.5% with Ooredoo up 1.0% and Vodafone Qatar down 3.5%. The minute growth in ORDS's revenues stemmed from its revenue from rendering of services (+2.1%) and equipment rental revenue (+2.2%). While VFQS' revenue drop was attributed to its drop in equipment revenue (-18% QoQ), prepaid revenue (-5% QoQ) and a stagnated postpaid business revenue.

#### Earnings:

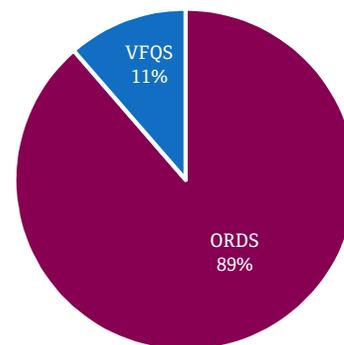
- The sector's 3Q2023 aggregate net profit rose 42.4% YoY to QR1.0bn as Ooredoo's earnings almost doubled (+48.5%) and Vodafone Qatar recorded a 12.0% growth. ORDS recorded contraction in its network, interconnect and other operating expenses of 2.0% as cost of equipment sold and other services was down 12.7% and rental and utilities were down 4.8%. Furthermore, the company registered other gains of QR69.0mn as opposed to other losses registered in 3Q2022 of QR158.9mn, further aiding its bottom-line. VFQS experienced an increase in earnings as its direct costs (-3.7%) and other expenses (-5.6%) were both down while its revenue (1.0%) and interest income (67.6%) were up.
- Sequentially, sectoral bottom-line moved up by 4.3% with both companies reporting similar growth of 4.2%/4.6% by ORDS/VFQS. ORDS recorded a 1.9% drop in its network, interconnect and other operating expenses as well as a 3.9% drop in employee, salaries and associated costs. Similarly, VFQS's expenses shrunk with direct costs down 5.5%, other expenses down 7.6% and other expenses down 5.6%, all of which contributed to the earnings growth for the quarter.

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

#### Net Income

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
ORDS	Ooredoo	585,310	834,286	869,392	48.5%	4.2%
VFQS	Vodafone Qatar	118,065	126,451	132,282	12.0%	4.6%
	<b>Total</b>	<b>703,375</b>	<b>960,737</b>	<b>1,001,674</b>	<b>42.4%</b>	<b>4.3%</b>

Source: Company data; Note: Net Income is in QR'000

## Real Estate Sector

### Real Estate Revenues Weaken as Rental Rates Drop

#### Highlights:

- The overall Real Estate revenues weakened in 3Q2023 as apartment rents continue to drop to pre-World Cup levels during the quarter, coupled along with rising interest rates putting pressure on the bottom-line. However, overall rental revenues continue to provide cash flow visibility, with sale of properties providing liquidity when needed.
- The Real Estate Index went down 2.5% (QSE Index: +1.8%) in 3Q2023 after it grew by 4.5% in 2Q2023.
- Trading activity in the sector dropped as traded value declined 11.1% to QR2.26bn from QR2.54bn.
- The Real Estate sector is currently trading at a P/E multiple of 9.0x (vs. the QSE Index's P/E of 11.2x) with a dividend yield of 5.1% (vs. the QSE's 5.0%).

#### Revenue:

- The real estate sector's 3Q2023 revenue declined 7.9% YoY to QR1.2bn from QR1.3bn, driven by drops from BRES and UDCD. BRES recorded a 11.9% contraction in revenue and UDCD's revenue dropped by 13.5%, both of which influenced a YoY decline in revenue.
- Sequentially, BRES and UDCD recorded an increase in their top-line figures leading to a sectoral top-line rise of 2.9% for 3Q2023. BRES moved up by 10.6% QoQ to reach QR430.6mn, while UDCD went up by 4.0% to reach QR331.0mn. However, ERES and MRDS witnessed drops for the quarter by 3.3% and 30.7% respectively.

#### Earnings:

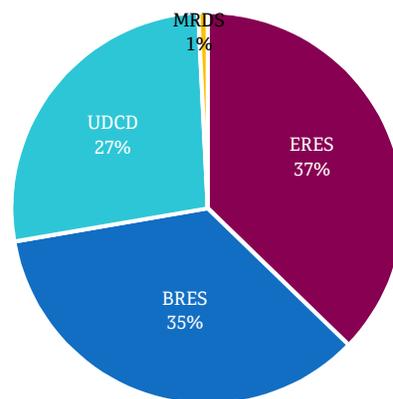
- During 3Q2023, sectoral bottom-line increased 5.3% YoY to reach QR333.5mn as compared to QR316.6mn in 3Q2022. BRES contributed QR225.9mn to sectoral earnings mainly due to net fair value gain on investment properties of QR245.4mn in 3Q2023. UDCD also contributed positively as its other operating income grew to reach QR71.5mn in 3Q2023, from QR8.6mn in 3Q2022. On the other hand, MRDS recorded a drop in earnings as its interest expenses rose to QR12.8mn, from QR9.4mn. ERES's earnings also shrunk as its finance costs rose to QR273.2mn from QR199.0mn in 3Q2022 (+37.3%).
- Sequentially, sectoral earnings declined by 32.2% in 3Q2023. BRES put in a restrained performance despite a rise seen in its revenue, as loss on sale of property and rising interest costs accumulated. Furthermore, UDCD also recorded a sectoral bottom line drop as cost of sales doubled to reach QR308mn in 3Q2023 and other operating income dipped by 66.4% to QR71.5mn, from QR212.5mn in 2Q2023.

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

#### Net Income

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
UDCD	United Development Co.	40,944	99,568	42,560	3.9%	(57.3%)
BRES	Barwa Real Estate Co.	205,331	317,444	225,945	10.0%	(28.8%)
ERES	Ezdan Real Estate Co.	58,632	70,301	58,329	(0.5%)	(17.0%)
MRDS	Mazaya Qatar Real Estate Dev.	11,747	4,686	6,659	(43.3%)	42.1%
	<b>Total</b>	<b>316,654</b>	<b>491,999</b>	<b>333,493</b>	<b>5.3%</b>	<b>(32.2%)</b>

Source: Company data; Note: Net income is in QR'000

## Transportation Sector

### LNG Expansion To Drive Significant Growth Potential

#### Highlights:

- **QatarEnergy is expanding Qatar's LNG capacity from 77MTPA to 110MTPA with the first production in 4Q2025 and further to 126 MTPA a couple of years later.** Accordingly, QatarEnergy is signing mega deals with Asian and European countries, with the most recent being a 27-year SPA with China's Sinopec. Qatar expects to account for roughly 40% of new global LNG output by 2029. QGTS ships ~75-80% of Qatar's current LNG exports and could be a beneficiary and secure a share of new vessel contracts initiated by QatarEnergy. GWCS has benefitted from new projects such as Al Wukair phase 2, LVQ phase 6 and Flag Oman and is looking to target the offshore/onshore-integrated shipping, logistics & marine services market in Qatar/GCC. Milaha's exposure to Qatar's oil and gas sector, primarily through its offshore segment (MO), could boost momentum, while its stake in Nakilat could lead to upside if QGTS is able to secure new LNG shipping charter agreements with QatarEnergy.
- **The Transportation Index dropped 5.2% (QSE Index: +1.8%) in 3Q2023** after it grew by 19.4% in 2Q2023.
- **Trading interest in the transportation sector shrunk the most among sectors** with a 20.3% fall in traded value from QR1.9bn to QR1.5bn.
- **The transportation sector is currently trading at a P/E multiple of 11.5x (vs. the QSE Index's P/E of 12.0x)** with a dividend yield of 3.8% (vs. the QSE's 4.8%).

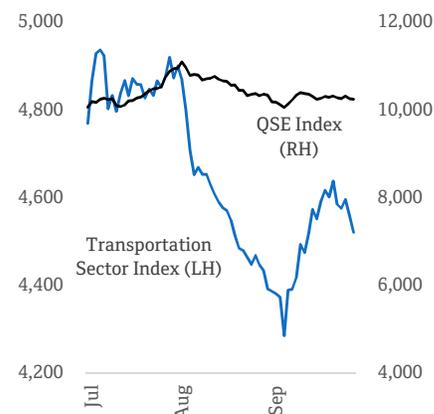
#### Revenue:

- **The transportation sector's 3Q2023 revenue slipped 5.3% YoY to QR2.0bn pulled down by a drop in Gulf Warehousing and Milaha's top-line.** Revenue reported by QNNS was mainly affected negatively by Milaha Maritime & Logistics (-38.0%), Milaha Capital (-18.4%) and Milaha Trading (-12.3%). GWCS revenue shrunk 10.5% because of contraction in freight forwarding of 20.4% and a 5.9% fall in logistics.
- **Sequentially, sectoral revenues tightened (-2.1%) as revenue from QNNS and GWCS declined by 3.8% and 6.3%, respectively.** For QNNS, the main drag on top-line was from Milaha Maritime & Logistics (-16.3%), Milaha Trading (-11.4%) and Milaha Gas and Petrochem (-5.5%). For GWCS, freight forwarding and other sources of revenue became the main constituents for the fall as they dropped by 21.6% and 3.4%, respectively.

#### Earnings:

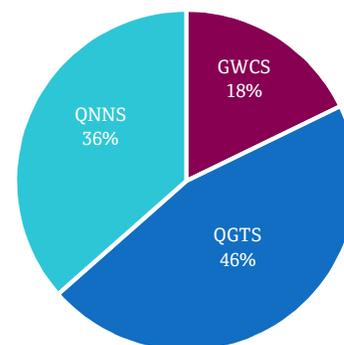
- **The sector's 3Q2023 bottom-line expanded 2.3% to QR690.2mn from QR674.6mn resulting from a 2.4% increase in Nakilat's earnings and a 5.9% growth in Milaha's earnings.** QGTS earnings improved as its share of operating profits from joint ventures was up 14.0% to QR210.5mn due to improving shipyard performance along with addition of the 3<sup>rd</sup>/4<sup>th</sup> LNG vessels in Nakilat's Global Shipping JV in Oct. 2021/ Jan 2022. Furthermore, interest, dividend income and profits from Islamic banks increased by 117.1% to QR61.0mn vs. QR28.1mn in 3Q2022. Milaha Gas & Petrochem segment earnings jumped 10.9% adding QR179.9mn to Milaha's overall earnings. Milaha Capital recorded QR38.0mn profits vs. a loss of QR58.9mn in 3Q2022.
- **Sequentially, 3Q2023 sectoral bottom-line shrunk 3.7%.** Milaha's earnings dropped 21.9% while GWCS's earnings were down 0.5%. Milaha Offshore's net income suffered a 61.4% drop and Milaha Maritime & Logistics flipped to a loss in 3Q2023. Milaha Capital dropped 10.9%. QGTS, once again, was the only company to report a 9.6% sequential growth.

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

### Net Income

Ticker	Company	2Q2022	2Q2023	3Q2023	YoY	QoQ
GWCS	Gulf Warehousing Co.	59,411	53,334	53,054	(10.7%)	(0.5%)
QGTS	Nakilat	405,476	378,896	415,101	2.4%	9.6%
QNNS	Qatar Navigation/ Milaha	209,709	284,382	222,070	5.9%	(21.9%)
	<b>Total</b>	<b>674,596</b>	<b>716,612</b>	<b>690,225</b>	<b>2.3%</b>	<b>(3.7%)</b>

Source: Company data; Note: Net Income is in QR'000

## Financial Services Sector

### Top-Line Drop Leads To Bottom-Line Drop YoY

#### Highlights:

- **The financial services sector's performance worsens YoY but improves QoQ in 3Q2023.** The drop in sectoral bottom-line on a YoY basis was initiated by NLCS, but DBIS also had an effect since it continues to report losses. Sequentially, NLCS' earnings declined while DBIS' losses materially widened. On the other hand, QOIS reported profits vs. losses in 3Q22/2Q23, IHGS' net income grew by 25.9% YoY /30.7% QoQ.
- **DBIS lawsuit issued in May 31<sup>st</sup> was ruled in favor of the company on September 12<sup>th</sup> and the company is set to receive QR7.75mn, which is expected to improve its financial situation.**
- **The Banks & Financial Services Index dropped 1.4% (QSE Index: +1.8%) in 3Q2023.**

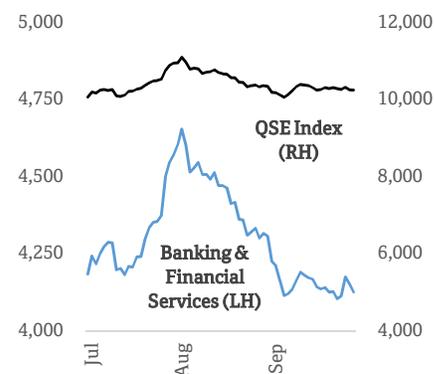
#### Revenue:

- **The financial services sector's revenue contracted by 11.1% YoY to QR20.0mn driven by a substantial drop from DBIS and IHGS.** DBIS top-line (net brokerage & commission income) fell by 41.2% to QR4.2mn from QR7.2mn in 3Q2022, registering the highest drop in the sector. IHGS followed with an 8.9% drop to QR4.3mn from QR4.8mn in 3Q2022 and NLCS recorded a slight fall of 0.8% in its revenues. The only company with a YoY growth is QOIS and it reported more than a 100% increase (+101.8%).
- **Sequentially, revenue jumped 83.1% pushed mainly by QOIS.** QOIS reported revenue of 1.9mn vs. a loss of QR6.1mn, while IHGS revenues more than doubled (+53.2%). DBIS top-line reported an increase of 11.4% to QR4.2mn from QR3.8mn in 2Q2023, which was immaterial on a sector level.

#### Earnings:

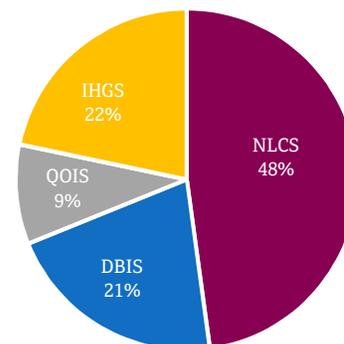
- **The sector reported a net profit of 5.1mn in 3Q2023 vs. a net profit of QR8.2mn in 3Q2022 (-37.9%).** NLCS was the only company to register a fall in its bottom-line (-66.6%), however, the drop was large of QR6.4mn. The company endured loss from investments of QR0.7mn vs. gain from investments of QR2.7mn in 3Q2022, dragging its bottom-line. DBIS continued to report losses, however; this loss is lower than the huge loss it reported in 3Q2022. The figure was supported by lower brokerage commission expense and other direct costs (-30.9%) and a lower general & administrative expense (-56.6%). QOIS recovered from a net loss of QR429.2mn in 3Q2022 to end up at a net profit of QR897.7mn in 3Q2023, backed by the 101.8% growth in its top-line.
- **Sequentially, sectoral earnings were revived as QOIS registered profits vs. losses and IHGS followed with a 30.7% growth in earnings.** QOIS net investment and interest losses turned to positive to QR1.9mn in 3Q2023 vs. losses of QR6.1mn in 2Q2023, subsequently pushing earnings up from a loss. IHGS revenue rose by 53.2%, other income by 9.4% while general and administrative expenses dropped by 2.6% and finance cost by 3.2% all of which led to a 30.7% increase in the company's bottom-line.

Sector Index Performance for 3Q2023



Source: Bloomberg

3Q2023 Sector Revenue Contribution



Source: QSE

### Net Income

Ticker	Company	3Q2022	2Q2023	3Q2023	YoY	QoQ
NLCS	National Leasing Holding	9,603	4,540	3,206	(66.6%)	(29.4%)
DBIS	Dlala Brokerage & Investment Holding	(3,175)	(521)	(1,704)	(45.2%)	227.1%
QOIS	Qatar & Oman Investment	(429)	(7,037)	898	N/M	N/M
IHGS	Inma Holding	2,145	2,068	2,702	25.9%	30.7%
	<b>Total</b>	<b>8,212</b>	<b>(950)</b>	<b>5,102</b>	<b>(37.9%)</b>	<b>N/M</b>

Source: Company data; Note: Net income is in QR'000

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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