

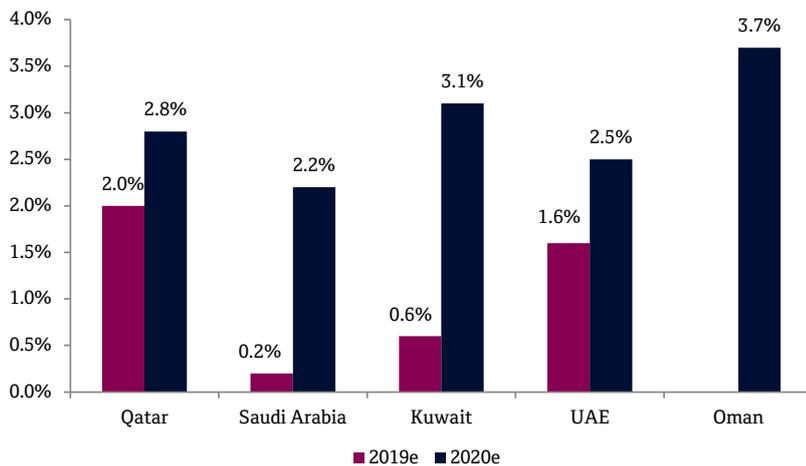
Qatar 2020: A Defensive Play Backed by Decent Dividends, Growth and Foreign Flows

Following a significant 27.0% rise in 2018 on a total-return (TR) basis, Qatari stocks so far have been flattish, with the QE Index rising 3.3% YTD. Going forward, we believe dividend expectations are likely to drive Qatari equities higher until the start of the dividend season, as has been the case in the past (2014-2019). Looking into 2020-2021, a resilient macro backdrop along with decent growth expectations on the micro level (QNB FS EPS growth forecasts for 2020/2021: 7.1%/7.5%) should mark Qatari stocks as safe havens for international investors, as the interest cut tailwind behind riskier asset classes/countries fades. Besides Qatar's macro strengths, the QE Index's beta of 0.65 vs the MSCI EM Index verifies its defensive characteristics. On top of net foreign investment inflows of \$2.5bn in 2018, QSE has attracted an additional \$1.3bn thus far this year.

- **We foresee Qatari stocks to re-initiate their upward trend in 2020.** Following its major run in 2018, when the QE Index emerged as the top-most performer among major equity markets, 2019 performance has been subdued thus far. The QE Index has trailed the MSCI EM Index, which is up 10.6% YTD. After posting a stellar 15.4% growth in aggregate earnings in 2018, Qatari stocks are projected to have a down year in 2019 in terms of earnings. In the absence of fundamental catalysts, passive flows triggered by the MSCI & FTSE Index rebalancing and inclusions (for example **QFLS** and **MPHC** were included in the MSCI EM Standard Index and **QAMC** was added to the Small-Cap Index in May'19) have helped turn the tide. We note that **QIHK** appears to be poised to enter the MSCI EM Index later this month. As a result, the QE Index has been able to retain a stable footing in 2019.
- **Going forward, we remain optimistic about the Qatari equity market in 2020.** As we approach the dividend season, we expect Qatari stocks to outperform their EM peers as they have done in the past. Qatari stocks enjoy stronger dividend yields (4.1% estimated for 2019 and 4.3% for 2020), which are notably above MSCI EM averages of 3.0% and 3.2%, respectively. Therefore, our market tends to outperform its EM peers as the dividend season approaches. Since 2014, the QE Index has beaten the MSCI EM Index by an average 3.8% (with an absolute average return of 4.8%) between the end of November until the beginning of March the following year when dividend payments start.
- **EPS growth to speed up in 2020.** Within our coverage universe, we forecast a (QE Index-weighted) CAGR of 7.3% in aggregate earnings during 2020-2021 (7.1% in 2020 and 7.5% in 2021). Our Qatari coverage list constituted a significant 87% of the overall total market capitalization (ex. QNB Group) of the Qatar Exchange. Factors that can negatively impact our thesis include further deterioration of global economic growth prospects, regional geo-political issues, significant decline in oil prices, increase in volatility, exit of hot money from emerging/frontier markets, etc. From our Qatari coverage universe, we favor **CBQK**, **QGTS** and **WDAM**:
 - **CBQK (Accumulate; QR4.95 TP).** CBQK's management continues to deliver on its 5-year strategy and we are impressed by the bank's YTD operating performance. As such, we recently increased our estimates, raised our PT from QR4.30 to QR4.95 and upgraded the stock from Market Perform to Accumulate. Given management's visible progress in improving the bank's RoE, we believe RoE generation above cost of equity is now attainable vs. previous estimates. CBQK is trading at a 2020e P/TB and P/E of 0.9x and 8.5x, respectively. The stock is trading at a PEG of 0.7x based on EPS CAGR (2018-23e) of 12.8%, which is attractive. Moreover, CBQK's 2020e P/E is trading at a 27% discount to its intrinsic P/E (11.4x).
 - **QGTS (Accumulate; QR2.60 TP).** The company's 3Q2019 results reflected positive momentum across key metrics. While adjusted revenue continued to improve, management remained on track in rationalizing costs and enhancing operational efficiencies. Moreover, Nakilat's acquisition of its remaining 49.9% stake in a JV (with OSG) consisting of four LNG ships, should provide a near-term boost to numbers. We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion.
 - **WDAM (Accumulate; QR8.20 TP).** The Strategic Food Security Projects disclosed by the Ministry of Municipality and Environment (MME) in March 2019 envisages that local production of red meat could go up from the current 18% to 30% by 2023. Widam, the leading livestock and red meat provider of Qatar and a key contributor to Qatar's National Food Security Program, is likely to be the top beneficiary of increasing local production, which should enjoy higher profitability vs. imports. Widam is also increasing its slaughterhouse capacity from 3,100 heads/day to 5,100 per day by 2020 while the government supports its new Mubadara program, which incentivizes local producers to breed & sell more livestock to Widam. We favor the Widam story given its 4.9% EBIT growth in 2019 followed by a 5.6% increase in 2020; EPS should also grow 18.0% in 2020. Moreover, the company sports attractive dividend yields of 7.0% for 2019 and 2020. Despite these positives, headline EPS will decline this year based on non-operating items providing investors an avenue to accumulate these shares ahead of dividend distribution and earnings recovery in 2020.

- A solid macro backdrop and accelerating growth continue to support Qatari equities:** In its October 2019 World Economic Outlook Report, the IMF forecasts GDP growth will accelerate from 1.5% in 2018 to 2.0% in 2019 and further to 2.8% as of 2020, which are above the MENA Region's 0.1% and 2.7%, respectively. Qatari GDP is expected to speed up by 0.8pps in 2020, which doubles the IMF's growth acceleration forecast of 0.4pps for the global economy.

IMF's Growth Forecasts for the GCC Countries



Source: IMF World Economic Outlook, October 2019

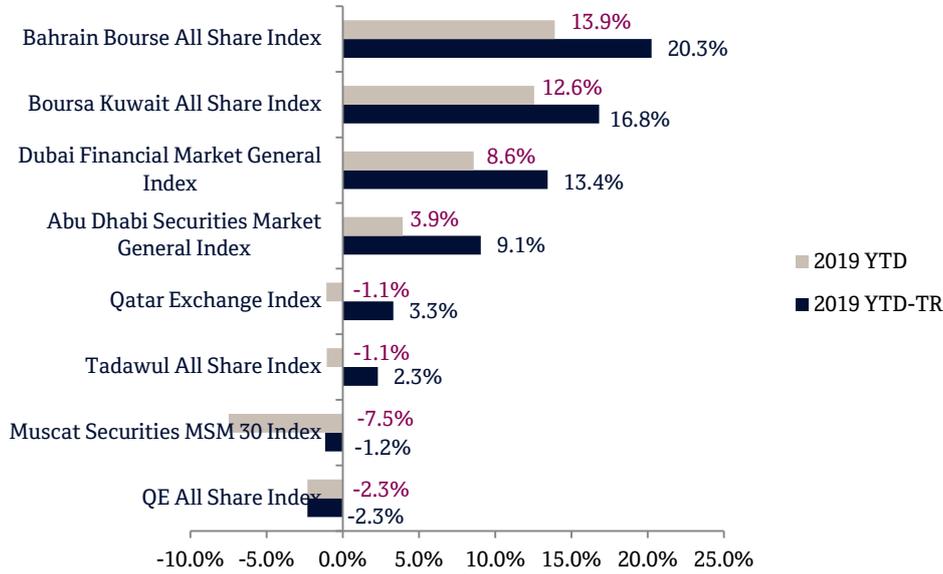
- Over the long-term, Qatar's economy should benefit from a number of recent measures.** Investments could be bolstered by new projects related to the expansion of LNG production and projects aimed at ensuring self-sufficiency and sustainability as well as an expected new law to open up more sectors to 100% foreign ownership. Therefore, we expect the underlying growth rate of both the hydrocarbon and non-hydrocarbon sectors to continue rising into the medium term.
- The QE Index's beta of 0.65 vs the MSCI EM Index verifies its defensive characteristics.** We observe Qatari equities tend to outperform during volatile times, yet when risk appetite increases, investor preferences tend toward recently oversold EM markets, as observed during Jan'18 and 2019 rallies. Global markets have had strong returns so far in 2019 with the MSCI EM Index rising 10.6% and the MSCI World Index surging by 21.2% YTD on a TR basis, thanks to the interest rate cuts led by the US Fed and followed by other global central banks. However, the Fed is signaling a pause after its recent October 2019 meeting, which may also indicate that the three rate cuts made by the agency in 2019 were a mere "mid-cycle correction" in interest rates rather than a consistent downtrend as it was the case during Sep'07 to Dec'08.
- Not cheap but well-deserved valuations.** The Qatar Stock Exchange Index currently trades at full valuations with its 2019e P/E of 16.4x, complemented by a dividend yield of 4.1%, which compares with the regional peer median 2019E P/E of 13.2x and a dividend yield of 5.0%. Qatari stocks trade at premium multiples to their EM and GCC peers, which we think is justified, given the country's strong macro backdrop that could create room for earnings upgrades on a micro level in the future. Strong fiscal balances should allow the government to fuel the economy with government spending, a noteworthy edge in a world where most countries suffer from anemic growth rates.

Forward Valuations and Profitability Metrics for Regional Indices

Index	P/E			Dividend Yield %			P/BV		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Qatar Exchange Index	16.4x	15.3x	14.2x	4.1%	4.3%	4.3%	1.5x	1.5x	1.5x
QE All Share Index	17.5x	16.3x	15.2x	4.0%	4.2%	4.2%	1.6x	1.5x	1.5x
Tadawul All Share Index	16.5x	14.6x	13.5x	3.8%	4.0%	4.0%	1.7x	1.6x	1.6x
Dubai Financial Market General Index	7.7x	7.2x	6.8x	5.0%	5.3%	5.3%	1.0x	0.9x	0.9x
Abu Dhabi Securities Market General Index	13.2x	12.1x	11.6x	5.0%	5.4%	5.4%	1.6x	1.5x	1.5x
Boursa Kuwait All Share Price Return Index	9.9x	8.8x	7.7x	5.5%	5.7%	5.7%	0.2x	0.1x	0.1x
Average	13.0x	11.8x	11.0x	4.7%	4.9%	4.9%	1.2x	1.2x	1.2x
Median	13.2x	12.1x	11.6x	5.0%	5.3%	5.3%	1.6x	1.5x	1.5x

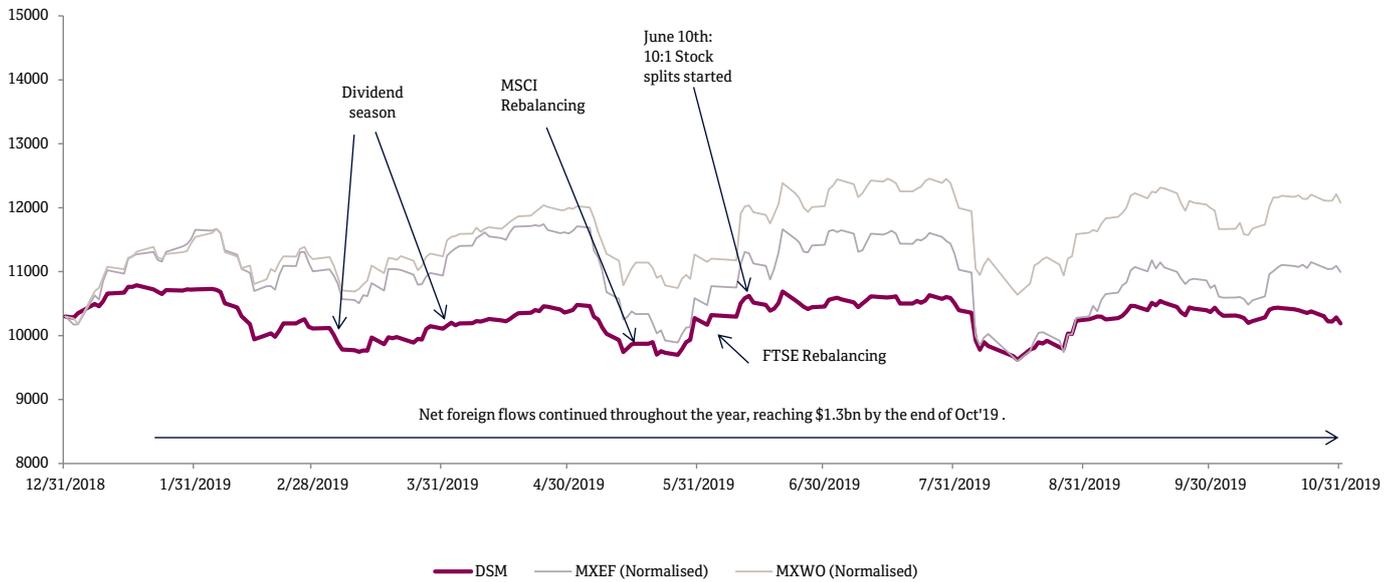
Source: Bloomberg, QNB FS Research

Qatar & Regional Markets 2019 YTD Price Performance



Source: Bloomberg

QE Index Performance (YTD 2019)



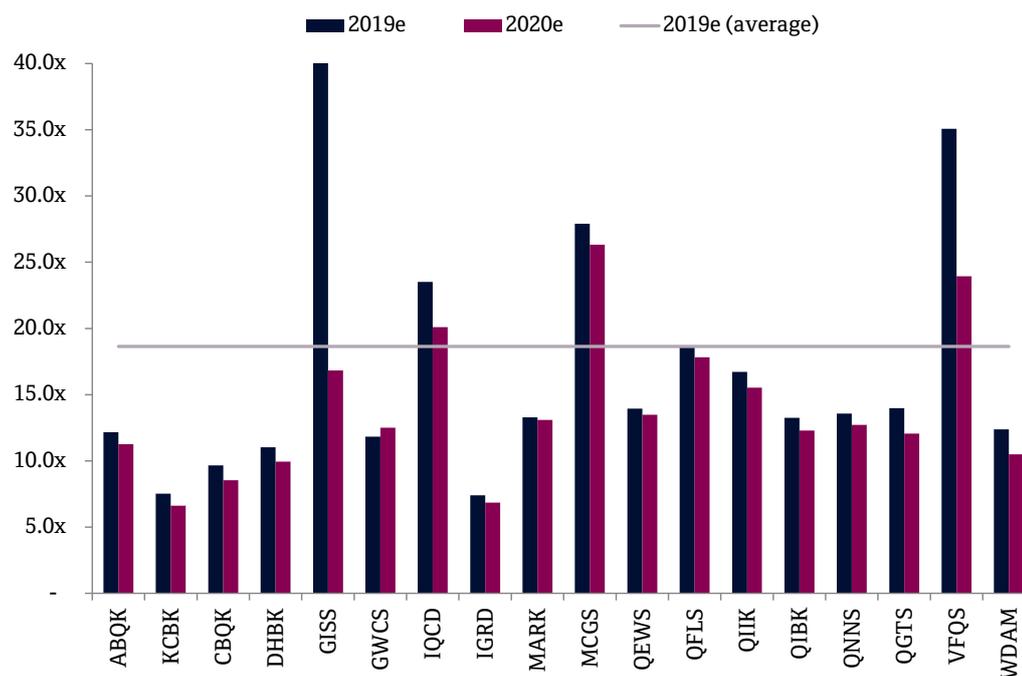
Source: Bloomberg, QNB FS Research

Key Financial Data and Estimates

Ticker	Company	Share Price (QR)	Div. Yield	EPS			Growth			2019e (average)
				2019e	2020e	2021e	2019e	2020e	2021e	
ABQK	Ahli Bank QSC	3.6	2.5%	0.30	0.32	0.36	5.5%	8.1%	13.5%	4.0%
KCBK	Al Khalij Commercial Bank PQSC	1.2	6.3%	0.16	0.18	0.21	6.8%	13.7%	14.1%	4.0%
CBQK	Commercial Bank PQSC/The	4.3	3.5%	0.44	0.50	0.57	30.3%	13.1%	13.4%	4.0%
DHBK	Doha Bank QPSC	2.53	4.0%	0.23	0.25	0.29	20.6%	11.0%	14.0%	4.0%
GISS	Gulf International Services	1.69	-	0.02	0.10	0.12	N/M	337.0%	23.1%	4.0%
GWCS	Gulf Warehousing Co	4.95	3.8%	0.42	0.40	0.41	3.5%	(5.3%)	2.9%	4.0%
IQCD	Industries Qatar QSC	10.6	5.7%	0.45	0.53	0.58	(45.8%)	17.0%	10.7%	4.0%
IGRD	Investment Holding Group	0.528	4.7%	0.07	0.08	0.09	1.6%	7.9%	15.0%	4.0%
MARK	Masraf Al Rayan QSC	3.77	5.3%	0.28	0.29	0.31	2.5%	1.5%	7.6%	4.0%
MCGS	Medicare	8.72	3.4%	0.31	0.33	0.42	4.0%	6.0%	26.6%	4.0%
QEWS	Qatar Electricity & Water Co QSC	16	4.8%	1.15	1.19	1.26	(17.9%)	3.5%	6.4%	4.0%
QFLS	Qatar Fuel	22.39	3.6%	1.20	1.26	1.29	3.1%	4.5%	3.0%	4.0%
QIIK	Qatar International Islamic Bank QSC	9.5	4.2%	0.57	0.61	0.66	6.8%	7.7%	8.4%	4.0%
QIBK	Qatar Islamic Bank SAQ	15.25	3.3%	1.15	1.24	1.34	9.6%	7.8%	7.9%	4.0%
QNNS	Qatar Navigation QSC	6.36	4.7%	0.47	0.50	0.56	4.0%	6.7%	12.3%	4.0%
QGTS	Qatar Gas Transport Co Ltd	2.47	4.0%	0.18	0.20	0.24	9.8%	15.9%	19.1%	4.0%
VFQS	Vodafone Qatar	1.2	20.8%	0.03	0.05	0.07	22.8%	46.5%	30.6%	4.0%
WDAM	Widam Food	6.39	7.0%	0.52	0.61	0.63	(14.2%)	18.0%	3.4%	4.0%
Index Weighted Average			5.0%				(4.6%)	7.1%	7.5%	
Median			4.0%				4.0%	8.0%	12.9%	

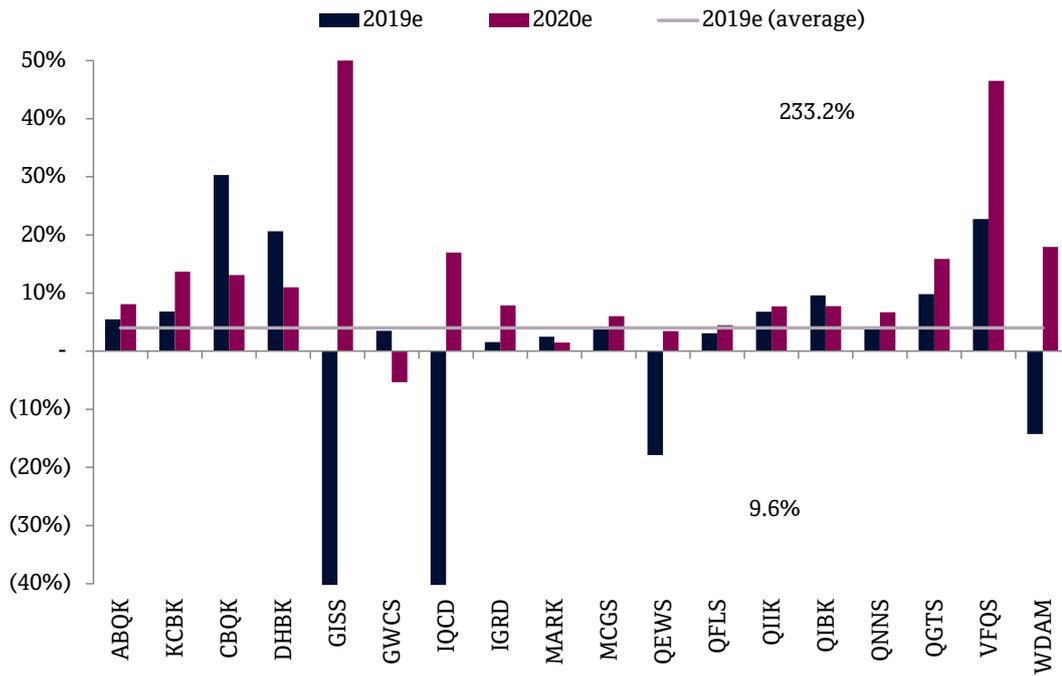
Source: Bloomberg, QNB FS Research

Forward P/E Multiples for our Qatari Coverage Universe



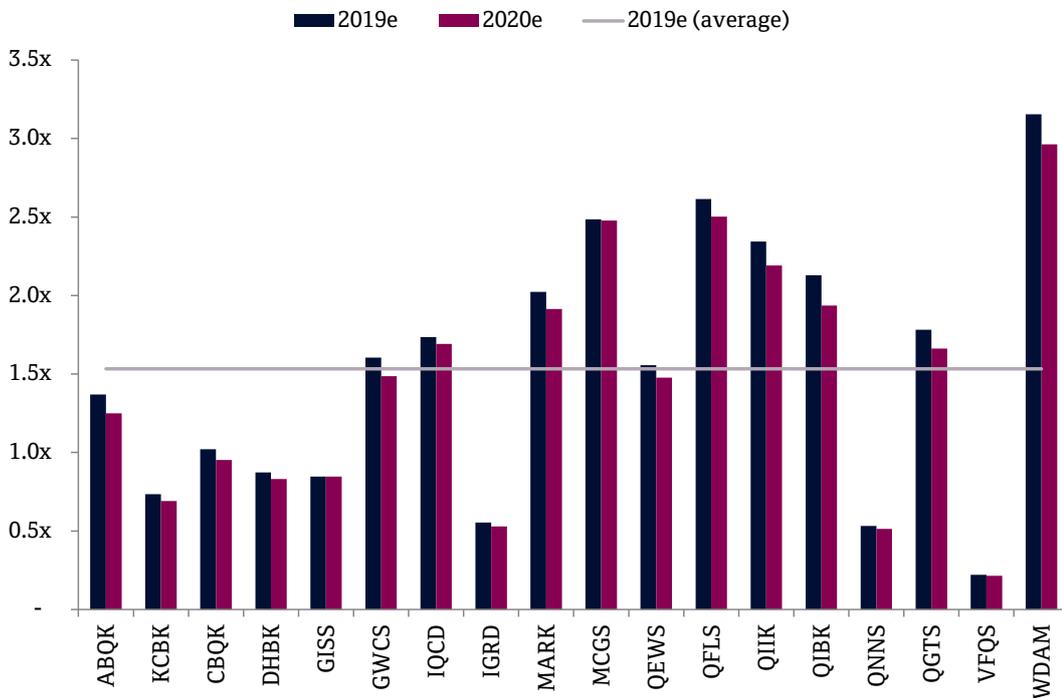
Source: Bloomberg, QNB FS Research

EPS Growth for our Qatari Coverage Universe



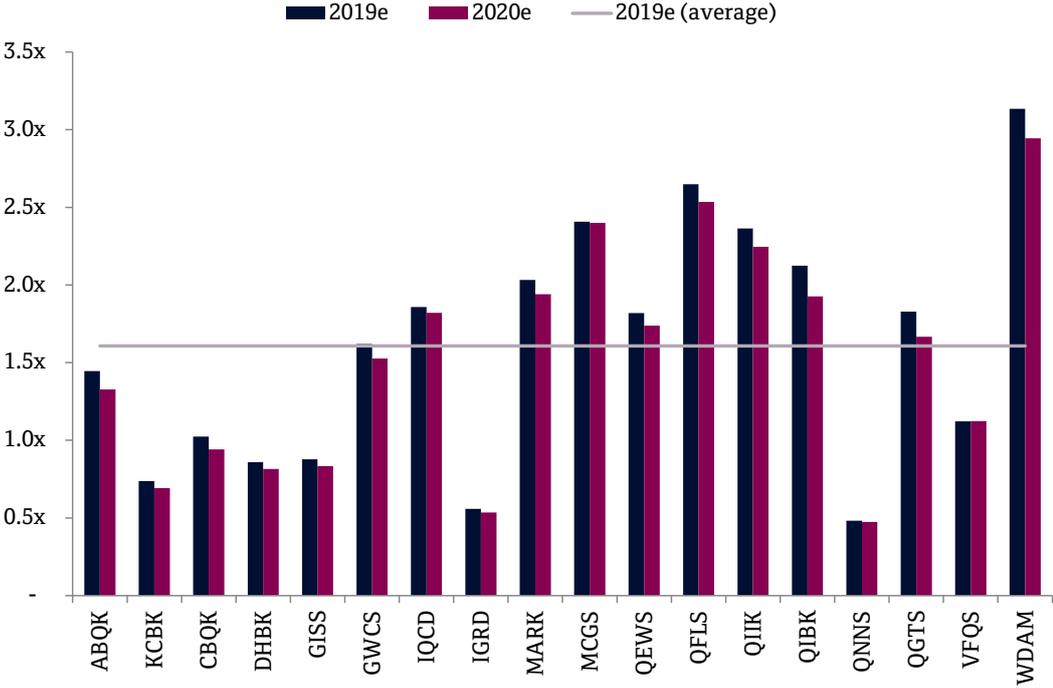
Source: Bloomberg, QNB FS Research

Forward P/B Multiples for our Qatari Coverage Universe



Source: Bloomberg, QNB FS Research

Dividend Yield for our Qatari Coverage Universe



Source: Bloomberg, QNB FS Research

COMPANY UPDATES

Commercial Bank of Qatar (CBQK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR4.30	Target Price	QR4.95
Implied Upside	15.2%		

Accumulate With QR4.95 Price Target

CBQK's management continues to deliver on its 5-year strategy and we were impressed by the bank's YTD operating performance. As such, we recently increased our estimates, raised our PT from QR4.30 to QR4.95 and upgraded the stock from Market Perform to Accumulate. Given management's visible progress in improving the bank's RoE, we believe RoE generation above cost of equity is now attainable vs. previous estimates. CBQK is trading at a 2020e P/TB and P/E of 0.9x and 8.5x, respectively. The stock is trading at a PEG of 0.7x based on EPS CAGR (2018-23e) of 12.8%, which is attractive. Moreover, CBQK's 2020e P/E is trading at a 27% discount to its intrinsic P/E (11.4x).

Highlights

- **Strong core-banking income results in a surge in CBQK's 3Q2019 bottom-line.** CBQK reported a net profit of QR589.0mn in 3Q2019, increasing by 40.9% YoY (+13.3% QoQ). Total revenue increased by 20.3% on the back of strong net interest income (+24.3%), fees (+17.8%) and investment income (investment losses in 3Q2018). Moreover, flat opex and 1.0% growth in provisions & impairments led to the surge in the bottom-line.
- **NIMs expanded YoY and sequentially.** NIMs increased by 42bps YoY (25bps QoQ) to 2.35% driven by growth in yield on assets outpacing CoFs. We expect NIMs of 2.20% in both 2019 and 2020 as management defends its margin.
- **Asset quality improved; Stage 2 loans continued to drop, which is a positive.** NPLs dropped by 6.9% YTD to QR4.5bn, while the NPL ratio improved to 4.92% vs. 4.94% in 2Q2019 (5.59% in FY2018). Net provisions for credit losses decreased by 19.3% (dropped by 32.8% sequentially) to QR152.2mn. Moreover, 9M2019 annualized CoR dropped to 84bps vs. 91bps in 9M2018 (102bps in FY2018). CBQK's Stage 2 loans contracted by 24.8% YTD and contributes 18.9% to total loans vs. 26.6% in FY2018. *Management has more or less completed provisioning its legacy NPLs. As such, CoR is expected to further decline in 2019 and 2020. We expect CoR to drop to 80bps in 2019 and 77bps in 2020.*
- **Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK's opex remained flat both YoY & sequentially while total revenue increased by 20.3% (+6.0% QoQ). Hence, the C/I ratio fell to 25.9% vs. 31.2% in 3Q2018 (27.6% in 2Q2019). Moreover, CBQK's efficiency ratio in 9M2019 improved to 27.6% vs. 32.0% in 9M2018. The bank generated positive JAWS of 14.4% YoY in 9M2019. *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering. We forecast C/I ratio to further decrease in 2019 (27.4%) and 26.5% (2020).*
- **Loans expanded sequentially while deposits continued to contract; loan portfolio diversification is a positive.** Net loans increased by 5.3% QoQ (+5.0% YTD) to QR89.1bn, while customer deposits declined by 3.4% QoQ (+3.5% YTD) to QR74.3bn as the bank shed expensive deposits (NIB deposits constitute 74% of total deposits vs. 84% in FY2018). Management continued to diversify the loan book as part of its strategy/objectives; real estate loans receded by 7.3% YTD. Hence, real estate loans currently make up 22% (25% in 2018) of the loan portfolio. Growth in the loan book was mainly driven by the public sector (26.8% YTD), which is a segment management is strongly targeting.
- **CET1 stays stable; management is guiding to 11-11.5% CET1 ratio.** CBQK's CET1 ratio was stable at 11.0% in 3Q2019 vs. 2Q2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio at current levels in 2019, 2020 & 2021.

Catalysts

- Delivering better profitability metrics than expected/estimated.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** CBQK is trading at a 2020e P/TB and P/E of 0.9x and 8.5x, respectively. The stock is trading at a PEG of 0.7x based on earnings CAGR (2018-23e) of 12.8%, which is inexpensive. Moreover, CBQK's 2020e P/E is trading at 27% discount to its intrinsic P/E (11.4x).
- **Risks:** 1) Weakness in Turkish Lira & 2) Failure to sell UAB.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS	0.34	0.44	0.50	0.57
EPS Growth (%)	296.4	30.3	13.1	13.4
P/E (x)	12.6	9.7	8.5	7.5
Tangible BVPS (QR)	3.9	4.2	4.6	5.0
P/TBV (x)	1.1	1.0	0.9	0.9
DPS (QR)	0.150	0.150	0.175	0.200
Dividend Yield (%)	3.5	3.5	4.1	4.7

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

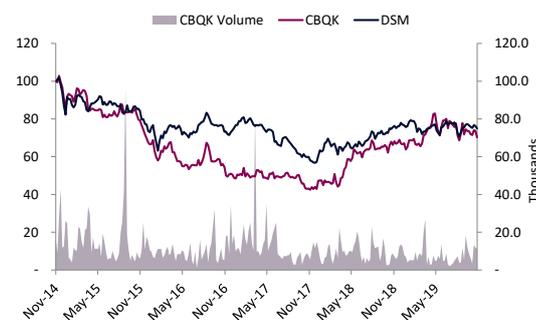
Key Data

Current Market Price (QR)	4.30
Dividend Yield (%)	3.5
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	GBB39RMD9.L
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	5.10/3.85
3-m Average Volume (mn)	1.88
Mkt. Cap. (\$ bn/QR bn)	4.8/17.4
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	17.4
1-Year Total Return (%)	+8.5

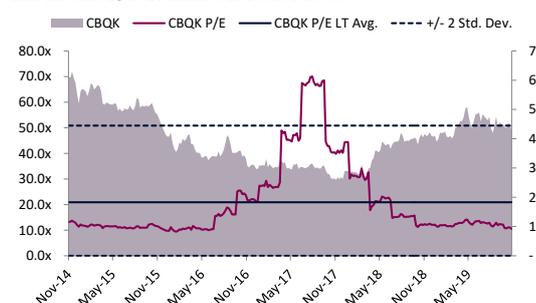
Fiscal Year End December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Detailed Financial Statements

Ratios/Key Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE (Tangible)	1.9	2.4	8.3	11.5	12.0	12.5
RoAA (Attributable)	0.2	0.3	1.0	1.3	1.3	1.4
RoRWA (Attributable)	3.2	3.3	3.1	1.9	1.8	1.2
NIM (% of IEAs)	2.14	2.18	2.12	2.20	2.20	2.25
NIM (% of RWAs)	2.13	2.18	2.15	2.30	2.36	2.42
NIM (% of AAs)	1.84	1.87	1.82	1.89	1.90	1.97
Spread	1.8	1.8	1.6	1.5	1.3	1.3
Efficiency (%)						
Cost-to-Income (Headline)	48.0	36.0	31.9	27.4	26.5	25.7
Cost-to-Income (Core)	49.6	38.1	33.3	29.0	28.0	27.1
Liquidity (%)						
LDR	110	115	118	118	118	115
LDR (Including Stable Source of Funding)	83	90	88	87	86	87
Loans/Assets	60	64	63	61	61	62
Cash & Interbank Loans-to-Total Assets	19.7	12.9	12.0	11.4	11.4	11.4
Deposits to Assets	54	56	53	51	51	54
Wholesale Funding to Loans	44	39	45	51	53	47
IEAs to IBLs	119	118	117	125	125	128
Asset Quality (%)						
NPL Ratio	5.0	5.6	5.6	4.9	4.7	4.3
NPL to Shareholders' Equity	26.5	31.0	30.6	26.2	24.9	23.2
NPL to Tier 1 Capital	27.1	31.0	30.8	26.5	25.2	23.6
Coverage Ratio	79	81	79	97	104	110
ALL/Average Loans	4.0	4.9	4.3	4.8	5.0	5.0
Cost of Risk (bps)	159	195	102	81	77	75
Capitalization (%)						
Tier 1 Ratio	13.1	14.5	14.0	14.6	14.5	14.5
CAR	15.2	16.1	15.5	16.1	16.1	16.0
Tier 1 Capital to Assets	11.5	12.3	11.7	11.7	11.7	11.9
Tier 1 Capital to Loans	19.2	19.1	18.7	19.3	19.4	19.2
Tier 1 Capital to Deposits	21.1	21.9	22.1	22.7	22.9	22.1
Leverage (x)	8.5	8.1	8.4	8.5	8.4	8.2
Growth (%)						
Net Interest Income	-7.6	7.6	-1.4	6.8	8.3	11.1
Non-Interest Income	-15.8	-4.0	3.3	14.0	1.5	6.6
Total Revenue	-10.6	3.6	0.1	9.2	6.0	9.6
Operating Expenses	0.7	-22.1	-11.5	-6.1	2.3	6.3
Net Operating Income	-19.0	27.4	6.5	16.3	7.4	10.8
Net Provisions & Impairments	49.7	29.7	-52.1	-5.7	-3.6	7.3
Net Income (Headline)	-64.3	20.5	175.5	25.8	11.6	12.0
Net Income (Attributable)	-78.5	30.0	296.4	30.3	13.1	13.4
Loans	1.6	14.6	-5.0	4.5	7.4	9.0
Deposits	1.6	9.5	-7.5	4.5	7.0	12.0
Assets	5.6	6.2	-2.4	8.2	7.4	6.2
RWAs	7.7	2.7	-2.8	3.0	8.0	8.7

Source: Company data, QNB FS Research

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,341	2,518	2,482	2,652	2,873	3,192
Fees & Commissions	737	720	757	820	862	923
FX Income	245	163	202	275	234	253
Other Income	225	276	237	270	289	302
Non-Interest Income	1,207	1,159	1,197	1,365	1,385	1,477
Total Revenue	3,548	3,677	3,679	4,017	4,258	4,669
Operating Expenses	(1,702)	(1,325)	(1,173)	(1,102)	(1,128)	(1,199)
Net Operating Income	1,846	2,352	2,506	2,915	3,130	3,470
Net Provisions & Impairments	(1,344)	(1,743)	(836)	(788)	(760)	(815)
Net Profit Before Taxes	502	609	1,670	2,127	2,371	2,655
Tax	(0)	(5)	(7)	(34)	(36)	(40)
Net Profit Before Minority Interest	501	604	1,663	2,093	2,335	2,615
Minority Interest	(1)	(0)	(0)	0	0	0
Net Profit (Headline/Reported)	501	604	1,663	2,093	2,335	2,615
Interest on Tier-1 Note	(220)	(240)	(240)	(240)	(240)	(240)
Social & Sports Contribution Fund	(13)	(15)	(42)	(52)	(58)	(65)
Net Profit (Attributable)	268	349	1,382	1,801	2,037	2,310

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Cash & Balances with Central Bank	6,421	7,374	6,730	6,751	7,224	7,192
Interbank Loans	19,302	10,499	9,475	9,968	10,665	11,732
Net Investments	15,378	19,629	22,206	27,095	30,454	32,878
Net Loans	77,798	89,122	84,642	88,437	94,954	103,460
Investment In Associates	4,301	2,088	2,096	2,182	2,273	2,371
Other Assets	1,942	4,576	4,314	5,920	5,408	3,104
Net PP&E	2,649	2,591	2,719	2,897	3,122	3,190
OREO	2,108	2,140	2,605	2,605	2,605	2,605
Goodwill & Intangible Assets	483	430	283	228	174	131
Total Assets	130,380	138,449	135,071	146,084	156,880	166,662
Liabilities						
Interbank Deposits	11,634	13,516	13,950	17,756	19,468	19,544
Customer Deposits	70,926	77,633	71,786	75,016	80,267	89,899
Term Loans	22,495	20,908	24,451	27,214	30,480	28,651
Tier 1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Other Liabilities	6,024	5,370	4,884	4,876	4,013	4,315
Total Liabilities	115,079	121,428	119,071	128,862	138,229	146,410
Total Shareholders' Equity	15,301	17,022	15,999	17,222	18,651	20,253
Total Liabilities & Shareholders' I	130,380	138,449	135,071	146,084	156,880	166,662

Source: Company data, QNB FS Research

Al Khalij Commercial Bank (KCBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR1.20	Target Price	QR1.40
Implied Upside	+16.7%		

YoY Earnings Driven by Strong Margins

KCBK posted 3Q2019 net income of QR145.2mn, falling short of our estimate of QR163.1mn. The bottom-line was up 8.3% YoY due to strong margin expansion. Total revenue grew by 12.8%, driven by net interest income (+19.4% YoY) as non-funded income exhibited weak performance (fx and fee income). **NIM improvement was visible along with cost containment.** Liquidity remained strong with LDR at 93%. Cost of Risk (annualized) increased to 57bps vs. 46bps (9M2018), however we predict improvement in 4Q2019 and beyond. **We retain our Market Perform rating and our price target of QR1.40.**

Highlights

- **KCBK's 3Q2019 net income increased by 8.3% YoY on the back of margin expansion despite higher opex and provisions.** KCBK reported net income of QR145.2mn, falling short of our estimate of QR163.1mn (-11.0% variation). The miss was mainly attributable to larger provisions vs. our estimate. Net operating income was broadly in-line with our estimate (+4.4% variation). The bank's revenue grew by 12.8%, driven by net interest income (+19.4% YoY) as non-funded income remained weak. The bottom-line sequentially declined by 17.4% as a result of weak fee income and a surge in provisions & impairments. *We are of the view that growth in 2019's bottom-line would be driven by an improvement in CoR and to an extent from net operating income (net interest income and cost efficiency).*
- **Opex containment persisted and an uptick in 9M2019 revenue led to a flat C/I ratio.** 9M2019 revenue inched up by 1.1%, while opex remained flat. As a result, KCBK remained JAWS neutral in 9M2019. Moreover, C/I ratio remained at 27.5% vs. 27.8% in 9M2018. We do note the current efficiency ratio is acceptable and still in-line with management's target of less than 30%.
- **Margins further improved due to yield on interest earning assets.** NIMs moved up by 27bps YoY and 25bps sequentially to 2.0%.
- **Net loans & deposits finally picked up; loans were on the decline in the previous quarters as management shed non-core low yielding assets, targeting more lucrative deals.** Net loans expanded by 3.2% QoQ to QR30.0bn (-5.1% YTD) while deposits increased by 6.5% QoQ (-5.2% YTD) to QR27.3bn. The sequential growth in loans was mainly attributed to the public & retail segments. Nevertheless, KCBK's liquidity position remained strong with LDR (based on stable sources of funds) amounting to 93%.
- **Asset quality remains a non-issue for now.** The bank's NPLs jumped by 8.0% QoQ (flat YTD). As such, the NPL ratio moved up to 1.93% vs. 1.84% in 2Q2019 (1.85% in FY2018). On the other hand, the coverage ratio (coverage of stage 3 loans/NPLs) remained flat at 83% vs. FY2018. We expect the coverage ratio to be adequately maintained as management exercises prudent risk control. 9M2019 CoR (annualized) increased to 57bps vs. 46bps (9M2018). *We expect lower provisions in the 4th quarter, leading to a CoR of 53bps in FY2019.*
- **Tier-1 remained robust as the bank continued on optimizing RWAs.** The bank's CET1 and Tier-1 ratios remained sequentially flat at 14.9% (13.0% in 2018) and 17.8% (15.6% in 2018), respectively. Moreover, KCBK ended 3Q2019 with a CAR of 18.9% (16.9% in 2018). We expect capitalization to remain robust in 2019 and the coming years.

Catalysts

- **Visible progress in management's strategy:** 1) an expansion of attributable RoE beyond 12% (2019e and 2020e RoE: 10.3% and 11.2%, respectively), 2) improvement in the liquidity of the stock and 3) M&A activity.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform rating and target price at QR1.40.** KCBK trades at P/TB and P/E of 0.7x and 6.6x on our 2020 estimates, respectively. We continue to think the name is in search of a catalyst to move the stock upward.
- **Risks:** 1) Geopolitical factors/issues, 2) KCBK's market share gains do not materialize, 3) Possible asset quality concerns and 4) Concentration risk.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (QR)	0.15	0.16	0.18	0.21
Growth (%)	11.7	6.8	13.7	14.1
P/E (x)	8.0	7.5	6.6	5.8
TBVPS (QR)	1.51	1.59	1.70	1.83
P/TB (x)	0.8	0.8	0.7	0.7
DPS (QR)	0.075	0.075	0.075	0.095
Dividend Yield (%)	6.3	6.3	6.3	7.9

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

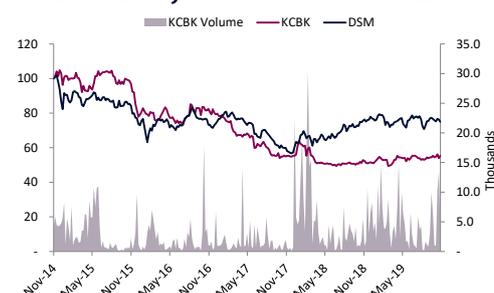
Key Data

Current Market Price (QR)	1.20
Dividend Yield (%)	6.3
Bloomberg Ticker	KCBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	KCBK.QA
ISIN	QA000A0M6MD5
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	1.29/1.055
3-m Average Volume (mn)	0.76
Mkt. Cap. (\$ bn/QR bn)	1.2/4.3
Shares Outstanding (mn)	3,600.00
FO Limit* (%)	49.0
Current FO* (%)	10.5
1-Year Total Return (%)	12.1

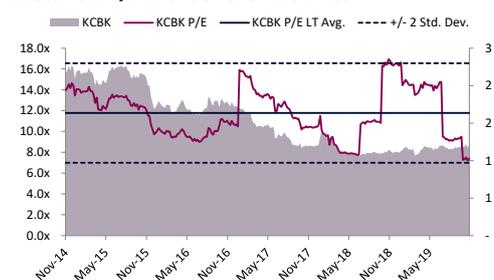
Fiscal Year End December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	913	984	915	967	1,051	1,153
Fees & Commissions	198	182	190	176	184	194
FX Income	31	39	38	21	28	26
Other Income	19	9	0	2	3	-5
Non-Interest Income	248	231	228	200	214	215
Total Revenue	1,160	1,215	1,143	1,167	1,265	1,368
Operating Expenses	-341	-335	-329	-330	-335	-346
Net Operating Income	819	880	814	837	930	1,022
Net Provisions & Investment Impairments	-403	-319	-190	-169	-178	-173
Net Profit Before Taxes & Non-Recurring Items	416	562	624	668	752	849
Non-Recurring Income/(Loss)	0	0	0	0	0	0
Net Profit Before Taxes	416	562	624	668	752	849
Tax	11	-11	-16	-22	-25	-28
Net Profit (Headline/Reported)	427	551	608	646	727	821
Interest Payment on Tier-1 Perpetual Note	-42	-55	-55	-55	-55	-55
Social & Sports Contribution Fund	-11	-14	-15	-16	-18	-21
Net Profit (Attributable)	374	482	538	575	654	746

Source: Company financials, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Cash & Balances with Central Bank	2,359	2,587	2,881	2,213	2,987	2,957
Interbank Loans	6,489	6,617	6,100	6,112	6,273	5,914
Net Investments	15,608	12,506	10,788	12,427	12,637	12,023
Net Loans	35,180	35,094	31,636	30,579	33,188	36,720
Other Assets	620	689	219	92	100	110
Net PP&E	191	235	335	427	446	467
Goodwill & Intangible Assets	150	156	143	133	124	119
Total Assets	60,597	57,885	52,102	51,982	55,754	58,311
Liabilities						
Interbank Deposits	12,899	10,597	9,563	11,607	12,719	11,727
Customer Deposits	32,195	32,683	28,845	27,657	29,870	32,857
Term Loans	6,137	5,743	5,608	5,064	5,064	5,064
Other Liabilities	2,333	1,570	1,510	802	866	953
AT1 Perpetual Bond	1,000	1,000	1,000	1,000	1,000	1,000
Total Liabilities	54,564	51,593	46,526	46,131	49,520	51,601
Total Shareholders' Equity	6,033	6,292	5,577	5,851	6,234	6,710
Total Liabilities & Shareholders' Equity	60,597	57,885	52,102	51,982	55,754	58,311

Source: Company financials, QNB FS Research

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR2.54	Target Price	QR2.60
Implied Upside	2.4%		

De-Risking Continues; EPS Growth via Investment Income Not Sustainable

DHBK has faced headwinds over the past couple of years due to concerns on asset quality emanating from its contracting segment loans and GCC operations. Hence, the bank has set forth a strategy of exercising prudent risk control, de-risking the balance sheet & cost cutting. Post 2021, we expect RoE to improve significantly. Having said this, the stock trades at a PEG of 0.9x (around fair value) based on an earnings CAGR of 14.3%. Moreover, the stock is trading in-line with its intrinsic/fundamental P/E of 9.5x. We maintain our PT at QR2.60 and our Market Perform rating.

Highlights

- DHBK's 3Q2019 YoY earnings growth was driven by investment income and cost containment.** Doha Bank (DHBK) reported a net income of QR299.9mn, moving up by 12.4% YoY. Growth was due to strong investment income (QR134.9mn vs. loss QR4.9mn in 3Q2018) coupled with a drop in opex. Net interest income increased by 2.5% YoY (+13.8% QoQ) to QR533.8mn, while non-funded income surged by 76.9% (+36.1% QoQ) on strong investment income (DHBK generated investment losses in 3Q2018). DHBK's bottom-line sequentially surged by 42.1% due to strong investment income along with net interest income. We do not think this investment income growth profile is sustainable and model in investment income of QR57.1 (down 66.4% YoY).
- Provisions to remain elevated in 2019 and 2020, but sharply drop in 2021.** DHBK reported provisions for credit losses of QR261.6mn in 3Q2019 vs. QR181.5mn in 3Q2018 (QR296.9mn in 2Q2019). However, 9M2019 CoR declined to 128bps vs. 131bps in 9M2018 (149bps in FY2018). We expect further provisions for 2019 & 2020 and a CoR of 144bps and 129bps, respectively. DHBK will book more provisions on its GCC (Kuwait & UAE) operations. As such, the bank has provisioned 85% and 55% of its UAE and Kuwait books, respectively.
- Spreads and margins continue to compress YoY.** DHBK's net interest margin contracted by 30bps YoY to 2.25%. The compression in the spread YoY was due to cost of funds increasing by ~10bps, while yield on assets decreased by ~20bps. Sequentially, the expansion in the NIM was a result of yields dropping less than that of CoFs; yields dropped ~10bps vs. ~20 drop in CoFs.
- Cost control is aiding the bank's operations and will continue to do so.** DHBK's opex receded by 0.9% YoY while total revenue grew by 18.6%, resulting in a 29.8% jump in net operating income. C/I ratio improved, declining to 30.5% vs. 36.5% in 3Q2018 (35.3% in 2Q2019). Operating efficiency was determined by a combination of cost containment and double-digit growth in revenue. Moreover, DHBK generated positive JAWs of 8.2% in 9M2019. Management is exercising cost-containment as it treads through a challenging period. Opex is modeled to drop further in 2019 and 2020 before flattening out 2021.
- Asset quality remains a major concern.** Asset quality deteriorated with the bank's NPLs gaining by 3.5% QoQ (+5.0% YTD) to QR4.0bn. On the other hand, the NPL ratio moved to 5.65% from 5.83% in 2Q2019 (5.85% FY2018 & 3.61% FY2017). The coverage ratio for Stage 3 loans improved to 100% vs. 95% in the previous quarter and 98% in FY2018. The bank's contracting portfolio & GCC exposure remains a challenge. GCC NPL ratio stands at 28.5%, while the domestic ratio is 2.4%. So far, in 3Q2019, DHBK has written off QR537.1mn in impaired loans, which represents 0.8% of loans and 14.1% of FY2018 NPLs. The majority of Stage 2 loans (28% of total loans) are comprised of the contracting segment, which remains a challenge. Stage 3 loans (impaired) are mainly GCC.
- Net loans and deposits gained traction sequentially.** Net loans expanded by 6.7% QoQ (+8.6% YTD) to QR65.0bn while deposits gained by 5.9% QoQ (+5.6% YTD) to QR58.9bn. Hence, the bank's LDR (based on stable sources of funds) increased to 98% vs. 96% in 2Q2019 (92% FY2018). We pencil in high single-digit growth in loans for 2019 and 2020.

Catalysts

- Stock price improvement depends on a resumption of confidence in company performance & realization of management's goals and objectives.

Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2020e P/B and P/E of 0.8x and 10.0x, respectively.
- Risks:** 1) Geopolitical factors, 2) Contracting segment & 3) GCC exposure.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (QR)	0.19	0.23	0.25	0.29
Growth	-31.6	20.6	11.0	14.0
P/E (x)	13.4	11.1	10.0	8.8
BVPS (QR)	2.8	2.9	3.1	3.3
P/B (x)	0.9	0.9	0.8	0.8
DPS (QR)	0.100	0.100	0.100	0.125
Dividend Yield (%)	4.6	4.6	5.7	5.7

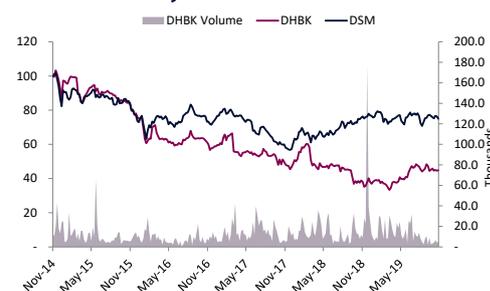
Source: Company data, QNB FS Research

Key Data

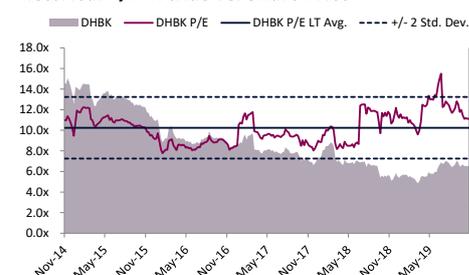
Current Market Price (QR)	2.54
Dividend Yield (%)	4.6
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.27/3.37
3-m Average Volume (mn)	4.51
Mkt. Cap. (\$ bn/QR bn)	2.2/7.9
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	11.9
1-Year Total Return (%)	21.5
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Detailed Financial Statements

Income Statement (In QR mn.)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,073	2,255	2,081	2,001	2,140	2,355
Fees & Commissions	460	420	388	410	438	416
FX Income	102	107	115	107	116	117
Other Income	115	106	51	207	130	171
Non-Interest Income	677	633	554	725	684	704
Total Revenue	2,750	2,888	2,635	2,725	2,823	3,059
Operating Expenses	(1,078)	(1,045)	(937)	(894)	(872)	(880)
Net Operating Income	1,672	1,843	1,698	1,832	1,951	2,179
Net Provisions	(620)	(735)	(864)	(904)	(912)	(1,016)
Net Profit Before Tax	1,052	1,109	834	928	1,039	1,163
Tax	2	1	(4)	27	(4)	(5)
Net Profit (Reported/Headline)	1,054	1,110	830	955	1,035	1,158
Interest on Tier-1 Note	(220)	(220)	(220)	(220)	(220)	(230)
Social & Sports Contribution Fund	(26)	(28)	(21)	(24)	(26)	(29)
Attributable Net Profit	807	862	589	711	789	899

Source: Company data, QNB FS Research

Balance Sheet (In QR mn.)	2016	2017	2018	2019e	2020e	2020e
Cash & Balances with Central Bank	4,260	6,670	7,586	7,121	6,793	7,755
Interbank Loans	10,505	7,822	6,239	7,183	7,175	7,938
Net Investments	14,706	17,513	20,727	27,781	29,282	29,985
Net Loans	59,186	59,804	59,844	65,298	71,752	77,819
Other Assets	936	978	1,115	2,100	1,446	1,179
Net PP&E	771	709	621	701	754	819
Total Assets	90,365	93,495	96,132	110,184	117,202	125,494
Liabilities						
Interbank Deposits	12,275	11,005	19,529	23,520	25,848	26,206
Customer Deposits	55,730	59,468	55,785	59,342	64,089	70,498
Term Loans	6,814	6,091	5,592	7,661	9,806	11,767
Other Liabilities	2,165	2,124	2,494	6,528	3,845	2,820
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	80,984	82,688	87,399	101,050	107,589	115,291
Total Shareholders' Equity	9,381	10,807	8,733	9,134	9,613	10,203
Total Liabilities & Shareholders' Equity	90,365	93,495	96,132	110,184	117,202	125,494

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE (Attributable) Based on Beg. Book Value	8.7	9.2	5.5	8.1	8.6	9.4
RoAA (Attributable)	1.2	1.2	0.9	0.9	0.9	1.0
RoRWA (Attributable)	1.0	1.1	0.8	0.9	1.0	1.0
NIM (% of IEAs)	2.60	2.71	2.45	2.16	2.07	2.12
NIM (% of RWAs)	2.60	2.85	2.67	2.54	2.60	2.68
NIM (% of AAs)	2.39	2.45	2.19	1.94	1.88	1.94
Spread	2.3	2.5	2.3	1.9	1.8	1.9
Efficiency (%)						
Cost-to-Income (Headline)	39.2	36.2	35.5	32.8	30.9	28.8
Cost-to-Income (Core)	39.8	36.8	35.4	35.4	31.9	29.6
Liquidity (%)						
LDR	106.2	100.6	107.3	110.0	112.0	110.4
Loans/Assets	65.5	64.0	62.3	59.3	61.2	62.0
Cash & Interbank Loans-to-Total Assets	16.3	15.5	14.4	13.0	11.9	12.5
Deposits to Assets	61.7	63.6	58.0	53.9	54.7	56.2
Wholesale Funding to Loans	32.3	28.6	42.0	47.8	49.7	48.8
IEAs to IBLs	1.1	1.1	1.1	1.1	1.1	1.1
Asset Quality (%)						
NPL Ratio	3.27	3.61	5.84	5.45	5.32	4.50
NPL to Shareholders' Equity	21.5	20.9	43.5	42.4	43.3	37.5
NPL to Tier 1 Capital	24.4	23.3	46.2	45.0	45.8	39.9
Coverage Ratio	119.7	124.8	137.6	150.4	155.9	185.2
ALL/Average Loans	4.0	4.5	8.2	8.6	8.7	8.7
Cost of Risk (%)	81	95	149	144	129	109
Capitalization (%)						
Tier 1 Ratio	15.4	17.4	15.8	15.7	15.5	14.8
CAR	15.6	17.5	17.0	16.8	16.7	16.0
Tier 1 Capital to Assets	13.6	14.7	12.7	11.4	11.2	10.8
Tier 1 Capital to Loans	20.7	22.9	20.4	19.3	18.2	17.5
Tier 1 Capital to Deposits	22.0	23.0	21.9	21.3	20.4	19.3
Leverage (x)	9.6	8.7	11.0	12.1	12.2	12.3
Growth (%)						
Net Interest Income	1.2	8.8	-7.7	-3.9	6.9	10.1
Non-Interest Income	-11.5	-6.5	-12.4	30.8	-5.7	2.9
Total Revenue	-2.2	5.0	-8.8	3.4	3.6	8.3
Opex	4.6	-3.1	-10.3	-4.6	-2.4	0.9
Net Operating Income	-6.1	10.3	-7.9	7.9	6.5	11.7
Net Income (Headline/Reported)	-23.3	5.3	-25.2	15.0	8.4	11.9
Net Income (Attributable)	-33.8	6.8	-31.6	20.6	11.0	14.0
Loans	6.4	1.0	0.1	9.1	9.9	8.5
Deposits	5.6	6.7	-6.2	6.4	8.0	10.0
Assets	8.5	3.5	2.8	14.6	6.4	7.1
RWAs	-0.8	-0.7	-2.2	4.2	4.9	8.6

Source: Company data, QNB FS Research

Gulf Warehousing Company (GWCS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR5.10	Target Price	QR5.10
Implied Upside	0.0%		

Key Data	
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
ISIN	QA000AOKD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	5.50/3.57
3-m Average Volume (*000)	165.3
Mkt. Cap. (\$ bn/QR bn)	0.8/3.0
EV (\$ bn/QR bn)	1.3/4.6
Shares Outstanding (mn)	586.0
FO Limit* (%)	49.0
Current FO* (%)	25.8
1-Year Total Return (%)	31.4
Fiscal Year End	Dec. 31

2020 Growth Uncertain; Remain Market Perform with QR5.1 Target

We recently changed our rating on GWCS from Accumulate to Market Perform while keeping our price target unchanged at QR5.10. While there are a lot of moving parts going into the 2020 forecast, we estimate a 5.3% EPS decline currently. We will update our model post release of YE2019 results and expect better visibility into 2020 forecasts at that time. We note GWCS management remains on the hunt for growth opportunities and announcements of new projects could provide some momentum to this stock. Despite being up 39% YTD on a total return basis, the stock has been trading water since mid-2019 and we believe expansion-related newsflow and/or anticipation of 2019 dividends (we expect 5.3% growth in DPS to QR0.20) to provide a lift to GWCS shares. Longer term, we retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth (expected up 36% in 2019 from 2017); GWCS' logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~92% occupancy) will decline, but as we had flagged previously, GWCS has started generating substantial FCF with FCF yield increasing from 1.5% in 2017 to 9.3% in 2018, reaching 13.9% in 2024. Dividend yield of 3.7% for 2018 should grow to 4.9% by 2024. With major capex already done, there could be upside to dividends medium-term.

Highlights

- **GWCS posts 8.0% YoY growth but 5.7% QoQ decline in 3Q2019 earnings, in-line with our estimate.** GWCS' 3Q2019 profits of QR59.4mn was in line with our estimate of QR60.5mn (-1.8% variation). 3Q2019 revenue of QR315.6mn was up 4.8% YoY (+6.7% QoQ). GMs progressed from 34.5% in 3Q2018 to 35.5% in 3Q2019 but came off 2Q2019's 38.0%. So far, GMs are up from 33.9% (9M2018) to 36.4% YTD 2019. Besides costs efficiencies, higher mix of logistics (64.5% of 9M2019 revenue vs. 61.7% in 9M2018) drove GM growth.
- **For 2019, we see flattish top-line, along with 4% YoY growth (~8% growth including impact of IFRS 16) in EPS.** We expect the company to post a bottom-line figure of QR245.1mn in 2019. We also model in a DPS of QR0.20 (47.8% payout) which implies a growth of 5.3%.
- **For 2020, we expect revenue/EPS to decline 5% to QR1.2bn/QR0.40.** During its earnings call, management spoke of a challenging/competitive market environment leading to reduction in rates/space requirements. The company pointed to reduced rates in contract logistics, records management, freight and its container yard, along with reduction in storage space/early lease terminations in its logistics parks. Moreover, the impact of FIFA 2022 on the freight forwarding business seems to be tapering off. However, GWCS noted several bright spots of increased business and/or profitability in fine arts freight, its UPS business, marine freight and in transportation. Management reckons QR7mn was shaved off YTD 2019 top-line due to lower rates and QR14mn has been reduced due to occupancy. GWCS also pointed to challenges in collecting receivables, with 9M2019 cash collections down ~QR60mn but stressed payments, although delayed, were still coming in with little risk of nonpayment. Overall, while GWCS has been able to mitigate revenue/margin pressures to an extent and retain/grow customers, another up year in earnings in 2020 looks increasingly sanguine.

Catalysts

- **Newsflow on new projects: (1)** News on major domestic expansions. **(2)** Corporate restructurings could create boost outsourced logistics solutions. **(3)** 4PL remains a growth area. **(4)** International/regional expansion could diversify operations.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate GWCS as a Market Perform with a price target of QR5.10.** GWCS trades at P/E of 12.2x and 12.9x for 2019 & 2020, respectively.
- **Risks:** The overall environment seems challenging. Top-line growth after 2018 is potentially capped and margins could come under pressure. Payment delays/defaults could become an issue although management seems confident of normalizing collections in the medium-term

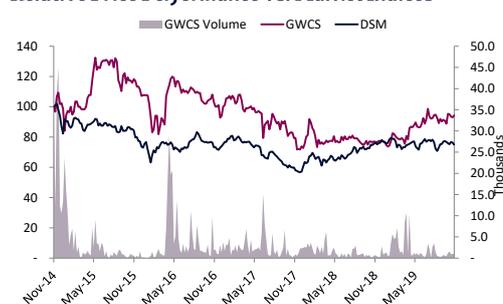
Key Financial Data and Estimates

	FY2017	FY2018	FY2019e	FY2020e
Revenue (QR mn)	981	1,232	1,263	1,306
Growth	16%	26%	2%	3%
EBITDA (QR mn)	388	471	477	496
Growth	20%	21%	1%	4%
Net Income (QR mn)	215	237	248	272
EPS (QR)	3.68	4.04	4.23	4.64

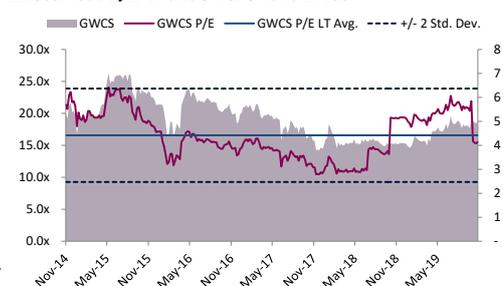
Source: Company, QNB FS Research; Note: All per share data based on current number of shares

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Valuation and Key Ratios

Valuation Metrics

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	2024e
Valuation									
EV/EBITDA	13.5x	11.4x	9.6x	8.9x	8.7x	8.2x	7.6x	6.9x	6.2x
P/E	14.5x	13.9x	12.6x	12.2x	12.9x	12.5x	11.9x	11.0x	10.5x
P/CF	6.6x	8.9x	8.2x	9.6x	6.3x	7.0x	7.0x	6.6x	6.4x
P/FCF	<i>nmf</i>	67.7x	10.8x	12.0x	7.5x	8.0x	7.9x	7.5x	7.2x
P/BV	2.0x	1.8x	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x	1.2x
Dividend Yield	3.1%	3.3%	3.7%	3.9%	4.1%	4.3%	4.5%	4.7%	4.9%
FCF Yield	-16.9%	1.5%	9.3%	8.3%	13.4%	12.5%	12.6%	13.4%	13.9%

Source: Bloomberg, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	2024e
Growth (%)									
Revenue	7.8%	15.5%	25.6%	0.0%	-4.7%	2.0%	1.8%	1.5%	1.3%
Cash Gross Profit	8.6%	17.2%	18.6%	5.6%	-3.9%	-0.8%	0.7%	2.6%	1.3%
EBITDA	11.5%	20.1%	21.3%	5.0%	-4.8%	-1.2%	0.5%	2.8%	1.3%
EBIT	11.1%	20.3%	17.3%	7.0%	-7.6%	-2.5%	0.0%	3.7%	1.4%
Net Profit	11.1%	4.8%	9.9%	3.5%	-5.3%	2.9%	5.2%	8.4%	4.9%
Cash Flow Per Share	1033.7%	-25.6%	8.3%	-14.3%	52.5%	-10.6%	0.8%	5.5%	3.2%
Free Cash Flow Per Share	<i>nmf</i>	<i>nmf</i>	527.5%	-10.3%	60.7%	-6.3%	0.9%	6.2%	3.6%
Dividends Per Share	6.7%	6.2%	11.8%	5.3%	5.0%	4.8%	4.5%	4.3%	4.2%
Profitability (%)									
Gross Margin	46.9%	47.5%	44.9%	47.4%	47.8%	46.5%	46.0%	46.5%	46.5%
EBITDA Margin	38.0%	39.5%	38.2%	40.1%	40.1%	38.8%	38.3%	38.8%	38.8%
EBIT Margin	25.4%	26.5%	24.8%	26.5%	25.7%	24.5%	24.1%	24.6%	24.7%
Net Margin	24.2%	22.0%	19.2%	19.9%	19.8%	19.9%	20.6%	22.0%	22.8%
RoAE	14.0%	13.7%	14.4%	14.2%	12.6%	12.2%	12.1%	12.4%	12.3%
RoAA	6.1%	5.7%	6.2%	6.2%	6.0%	6.4%	6.9%	7.6%	8.1%
BEP	6.4%	6.9%	7.9%	8.3%	7.8%	7.9%	8.1%	8.6%	8.7%
RoAIC	6.0%	7.7%	9.8%	10.6%	10.7%	10.9%	11.4%	12.3%	12.7%
RoACE	7.0%	7.6%	9.0%	9.8%	9.4%	9.6%	10.0%	10.6%	10.8%
Liquidity									
Current Ratio	2.0x	1.5x	1.8x	1.8x	1.7x	1.9x	2.1x	2.6x	2.9x
Quick Ratio	2.0x	1.5x	1.8x	1.8x	1.7x	1.9x	2.1x	2.6x	2.9x
Cash Ratio	0.9x	0.6x	0.9x	0.8x	0.8x	0.9x	1.1x	1.5x	1.8x
Debt Ratios									
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.7x	0.5x	0.4x	0.3x	0.2x
Long-Term Debt-to-Equity	1.1x	0.9x	0.9x	0.7x	0.5x	0.4x	0.3x	0.2x	0.1x
EBITDA Interest Coverage	8.4x	7.2x	5.6x	5.4x	5.8x	6.9x	8.5x	10.6x	13.3x
Net Debt-to-EBITDA	4.3x	3.7x	2.7x	2.3x	1.8x	1.3x	0.7x	0.1x	-0.4x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.4x	0.3x	0.3x	0.2x	0.2x

Source: Company data, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
Revenue	981	1,232	1,232	1,174	1,198	1,219
<i>YoY Growth</i>	16%	26%	0%	-5%	2%	2%
Direct Costs	(515)	(679)	(648)	(613)	(641)	(658)
Gross Profit	467	554	584	561	557	561
<i>Gross Margin</i>	48%	45%	47%	48%	47%	46%
General and Administrative Expenses	(79)	(83)	(90)	(91)	(92)	(94)
EBITDA	388	471	494	470	465	467
<i>YoY Growth</i>	20%	21%	5%	-5%	-1%	1%
<i>EBITDA Margin</i>	40%	38%	40%	40%	39%	38%
Depreciation and Amortization	(128)	(166)	(167)	(169)	(171)	(173)
EBIT	260	305	326	301	294	294
<i>YoY Growth</i>	20%	17%	7%	-8%	-2%	0%
<i>EBIT Margin</i>	26%	25%	26%	26%	25%	24%
Net Finance Costs and Other Income	(45)	(67)	(81)	(69)	(55)	(43)
Net Income to Equity	215	237	245	232	239	251
<i>YoY Growth</i>	5%	10%	4%	-5%	3%	5%
<i>Net Margin</i>	22%	19%	20%	20%	20%	21%
EPS (QR)	0.37	0.40	0.42	0.40	0.41	0.43
DPS (QR)	0.17	0.19	0.20	0.21	0.22	0.23
<i>Payout Ratio</i>	46%	47%	48%	53%	54%	54%

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2017	FY2018	FY2019e	FY2020e	FY2021e	FY2022e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	2,729	2,881	2,889	2,803	2,691	2,575
Investment Properties	37	38	38	38	38	38
Intangible Assets & Goodwill	119	131	124	116	108	101
Available-for-Sale Investments/Other	-	18	18	18	18	18
Total Non-Current Assets	2,886	3,068	3,069	2,975	2,855	2,732
Current Assets						
Inventories	11	11	11	10	11	11
Trade and Other Receivables	525	415	486	401	394	394
Bank Balances and Cash	352	427	379	406	390	443
Total Current Assets	888	853	876	817	794	848
Total Assets	3,774	3,920	3,945	3,793	3,649	3,581
Total Shareholders' Equity	1,636	1,663	1,791	1,900	2,010	2,126
Non-Controlling interests	(4)	(3)	(3)	(3)	(3)	(3)
Non-Current Liabilities						
Lease Liabilities & Others		281	388	389	389	390
Loans and Borrowings	1,525	1,462	1,244	976	781	601
Employee Benefits	31	37	44	49	54	60
Total Non-Current Liabilities	1,556	1,780	1,676	1,414	1,225	1,051
Current Liabilities						
Trade Payables	53	37	32	30	32	32
Loans and Borrowings	261	222	255	268	195	180
Accruals, Provisions & Other Payables	203	195	169	159	167	171
Lease Liabilities		16	15	14	13	12
Retention Payable	68	11	11	11	11	11
Total Current Liabilities	585	480	481	482	417	407
Total Liabilities	2,142	2,260	2,157	1,896	1,642	1,458
Total Equity & Liabilities	3,774	3,920	3,945	3,793	3,649	3,581

Source: Company data, QNB FS estimates

Industries Qatar (IQCD)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR10.51	Target Price	QR10.00
Implied Upside	(4.9%)		

Muted Outlook but 2020 Bounce Possible; Stay Market Perform

We recently reduced our estimates for IQCD given soft 3Q2019 results and further cuts to our price/margin forecasts. As we pointed out in IQCD's 3Q2019 Earnings Alert, our previous earnings estimate for 2019 was clearly not achievable in light of the company's 3Q/YTD 2019 results and thus we recently lowered our forecasts across the board. Our current 2019 EPS estimate of QR0.45 implies a decline of 45.8% YoY (-46.3% on a normalized basis excl. 2018 impairment) vs. our prior estimate of a 34.1% YoY EPS decline forecast for 2019. We continue to forecast 2019 DPS at QR0.40 (payout of 88.7%; down 33.3% YoY from QR0.60 in 2018), which could prove optimistic given our earnings forecast and IQCD's 3-year historical payout ratio of 80.3%. While IQCD's 2019 operating results have been weak and fairly volatile on a quarterly basis, we are hopeful of a more positive earnings growth trajectory 2020 onward. We are expecting net income to grow from QR2.7bn in 2019 to QR3.2bn in 2020 or a growth of QR463mn. Given roughly QR1bn has been shaved off IQCD's YTD 2019 earnings due to lower sales volume, of which shutdowns played a key role, we think a bounce-back of QR463mn next year driven by moderate price increase assumptions and lower level of shutdowns (one major capital turnaround planned in QAPCO) could be achievable. We note demand remains weak across all segments, which could lead to further estimates cuts. **We rate IQCD a Market Perform with a PT of QR10.00.**

Highlights

- We recently lowered 2019 forecasts to reflect 3Q2019/YTD trends:** So far, in 2019, according to the company, of the QR1.8bn in YTD group net income decline, pricing declines of 11% wiped out QR1.1bn in net income, while a 6% fall in sales volume took off another QR1bn. For 4Q2019, we are expecting a pick-up in net income to QR692.0mn. (1) For Fertilizers, urea prices have continued to drift lower since their late July peak of \$290/MT driven by, among other things, higher exports from China. We are hopeful for a slight bounce as we end the year but still expect average 4Q2019 prices to decline sequentially; our 2019 price assumption is \$278/MT, which is a bit higher than YTD average of \$267/MT. On the sales side, we expect a slight seasonal improvement in volumes. (2) In Petrochemicals, YTD prices have remained moribund and have not kept pace with oil's increase. We expect LDPE and LLDPE prices to fall 17% and 15% YoY, respectively. On the plus side, we do expect a modest YoY/sequential improvement in 4Q2019 sales volumes. (3) Finally, for Steel, we think the fall thus far in iron ore pricing in 4Q2019 bodes well for segment GMs, which dropped to a record low of 8.1% in 3Q2019. Steel revenue should however dip vs. both last year's 4Q2018 and 3Q2019; we note the significant 33.6% QoQ increase in steel revenue was on account of a large order from an Asian customer, which is unlikely to be repeated in 4Q2019.
- After 2019's decline, we expect a 17.0% uptick in 2020 EPS.** After a 51.7% EPS uptick for 2018, we expect 2019 profits to fall 45.8% before resuming a growth of 17.0% in 2020 off the lower base.
- Lots of cash and almost zero debt – expansion on the horizon?** IQCD retains a strong balance sheet with group cash at QR11.4bn (debt of just QR10.9mn). Proposed QR7.4bn group capex (2019-23, including QR2.5bn for Ammonia 7) could easily be funded by internal cash flows. Recently, IQCD has alluded to potential international expansion in petchems/fertilizers.

Catalysts

- With earnings under pressure in the medium-term, investors will seek answers regarding deployment of IQCD's cash pile and its strategy.** Expansion/acquisition-related newsflow & upside in EPS/dividends could be key for charting the way forward.

Recommendation, Valuation and Risks

- Recommendation & valuation:** We rate IQCD a Market Perform with a PT of QR10.00. IQCD is fully valued @ 23.3x and 19.9x P/E for 2019 and 2020, respectively.
- Risks:** Volatility in oil prices remain a risk to equity prices and have a direct detrimental impact on IQCD's operations. Geopolitical risks remain and cannot be modeled.

Key Financial Data and Estimates

	FY2017	FY2018	FY2019e	FY2020e
Group Revenue (QR mn)	14,250	16,349	13,531	14,067
EPS (QR)	0.55	0.83	0.45	0.53
DPS (QR)	0.50	0.60	0.40	0.43
RoE (%)	9.9	14.2	7.9	9.1
P/E (x)	19.2	12.6	23.3	19.9
EV/EBITDA (x)	15.6	9.9	17.7	15.3
Dividend Yield %	4.8	5.7	3.8	4.0

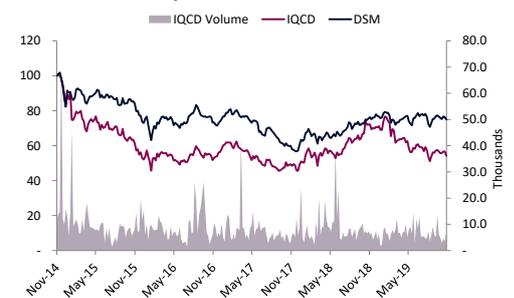
Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

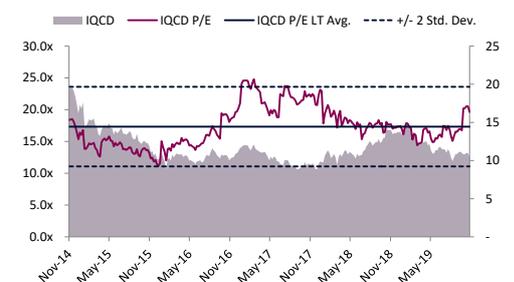
Current Market Price (QR)	10.51
Dividend Yield (%)	5.7
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	14.90/9.80
3-m Average Volume ('mn)	1.28
Mkt. Cap. (\$ bn/QR bn)	17.5/63.6
EV (\$ bn/QR bn)	14.9/54.3
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	49.0
Current FO* (%)	6.9
1-Year Total Return (%)	(22.3)
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Revenue (Steel)	5,791	4,790	4,685	4,537
Cost of Sales, Excluding D&A	(4,631)	(4,287)	(4,099)	(3,970)
Gross Profit	1,160	503	586	567
G&A Expenses	(157)	(151)	(155)	(156)
Selling Expenses	(82)	(79)	(79)	(79)
EBITDA	921	273	352	332
Depreciation & Amortization	(237)	(276)	(279)	(281)
EBIT	684	(3)	73	51
Finance Costs	(2)	(12)	(11)	(11)
Share of Results of Joint Ventures	3,878	2,194	2,580	2,943
Other Income/Expenses	470	548	548	548
Profit for Shareholders	5,030	2,728	3,191	3,532
EPS (QR)	0.83	0.45	0.53	0.58
Group Revenue	16,349	13,531	14,067	14,579

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Non-Current Assets				
PP&E and Projects Under Development	3,438	3,327	3,219	3,118
Investment Properties	-	-	-	-
Investment in Associates	1,407	1,495	1,584	1,672
Investment in Joint Ventures	17,886	17,205	18,205	19,705
Available-for-Sale Investments	-	-	-	-
Right-of-Use Assets	-	141	141	141
Total Non-Current Assets	22,731	22,169	23,148	24,635
Current Assets				
Inventories	1,717	2,114	2,021	1,958
Accounts Receivables & Prepayments	1,005	656	642	621
Due from Related Parties	665	671	656	635
Financial Assets at FV through P&L	364	364	364	364
Cash and Bank Balances	10,589	9,913	9,816	9,273
Total Current Assets	14,339	13,718	13,499	12,852
Total Assets	37,070	35,886	36,648	37,487
Equity				
Total Equity	35,490	34,518	35,209	36,082
Non-Current Liabilities				
Loans and Borrowings	-	-	-	-
End of Service Benefits & Lease Liabilities	205	381	381	381
Total Non-Current Liabilities	205	381	381	381
Current Liabilities				
Accounts Payables & Accruals	1,327	940	1,011	979
Due to Related Parties & Lease Liabilities	47	48	47	45
Loans and Borrowings	-	-	-	-
Total Current Liabilities	1,374	987	1,058	1,024
Equity and Liabilities	37,070	35,886	36,648	37,487

Source: Company data, QNB FS estimates

Masraf Al Rayan (MARK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR3.75	Price Target	QR3.40
Implied Upside	(9.3%)		

Conservative Strategy to Drive Mid-Single Digit Growth Next 5-Years

Masraf Al Rayan (MARK) remains a conservative and overly capitalized bank. The stock has underperformed its peers on a 1-year TTR basis despite MARK being cost-efficient, a strong RoE generator (2nd highest in Qatar after QNB Group) and maintaining superior asset quality vs. its peers. The negative sentiment around the name is due to MARK's soft bottom-line growth vs. its peers. The stock remains fully valued, trading at 2020e P/B and P/E of 1.9x and 12.7x, respectively, especially in light of its estimated 5-year earnings CAGR of 5.6% (2018-2023e). **We retain our Market Perform rating and QR3.40 price target.**

Highlights

- **Opex and provisions prevent meaningful growth.** MARK reported a net profit of QR575.3mn in 3Q2019, ticking up by 1.7% YoY (+7.7% QoQ) due to an increase in opex (12.7%) and net provisions of QR1.0mn (vs. net reversals of provisions of QR15.1mn in 3Q2019) as revenue gained by 6.3% (on the account of strong fees). The sequential gain in earnings was driven by core-banking income.
- **Margins improved sequentially but remained stable YoY.** NIMs remained flat YoY but increased by 10bps QoQ to ~2.40%.
- **C/I ratio remained healthy; however, MARK generated negative JAWS.** MARK generated a C/I ratio of 24.1% in 3Q2019 vs. 22.7% in 3Q2018 (24.2% in 2Q2019). On the other hand, the bank generated negative JAWS of 2.6% in 9M2019 as revenue inched up by 1.2% while opex increased by 3.8%.
- **Asset quality remains a non-issue; majority of exposure is to Qatar sovereign.** The bank's NPL ratio decreased to 0.66% (0.74% in 2Q2019) vs. 0.83% at the end of 2018. Moreover, coverage of stage 3 loans was 55%. What is important to note here is that stage 2 loans sequentially decreased by 23% (flat YTD) and contributes 13% to total loans.
- **Loans and deposits expanded but underperformed peers.** Net loans moved up by 1.0% QoQ (+4.2% YTD) to QR75.6bn, while deposits grew by 3.7% QoQ (+8.8% YTD) to QR67.0bn. Thus, MARK's LDR position improved but remains challenging at 113% vs. 116% in 2Q2019 and 118% (FY2018). Moreover, loans to stable sources of funds also remained on the high side at 107%. We previously noted that *we were of the opinion that the bank needed to increase its borrowings in order to enhance its liquidity profile and lower its LDR. Recently, MARK announced it would be issuing sukuk, which should help its liquidity position.*
- **Capitalization remained robust and one of the highest among its peers.** MARK ended 3Q2019 with a CET1 and CAR of 19.1% and 19.7%, respectively. We expect CaR to remain elevated going forward due to the conservative nature of the bank.

Catalysts

- News flow and/or strategy in growing the business.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our price target of QR3.40/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 1.9x and 12.7x on our 2020 estimates, respectively. *The market is pricing a fundamental P/B (2.0x) and a sustainable RoE (17.2%) vs. our estimates (P/B: 1.7x & RoE: 15.6%).*
- **Risks:** 1) Geopolitical factors, 2) Greater-than-expected increase in credit costs and 3) Losing market share in the government segment.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (QR)	0.28	0.29	0.30	0.32
EPS Growth (%)	5.0	2.5	1.5	7.6
P/E (x)	13.2	12.9	12.7	11.8
Tangible BVPS (QR)	1.8	1.9	1.9	2.1
P/TBV (x)	2.1	2.0	1.9	1.8
DPS (QR)	0.20	0.20	0.20	0.23
Dividend Yield (%)	5.3	5.3	5.3	6.0

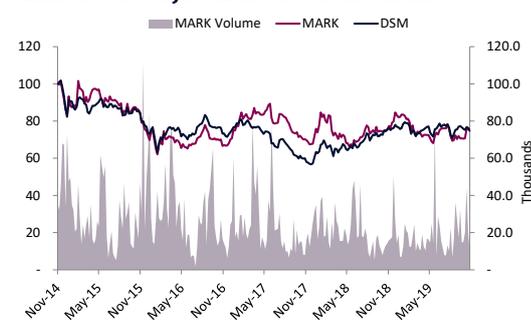
Source: Company data, QNBFS Research; Note: All data based on current number of shares

Key Data

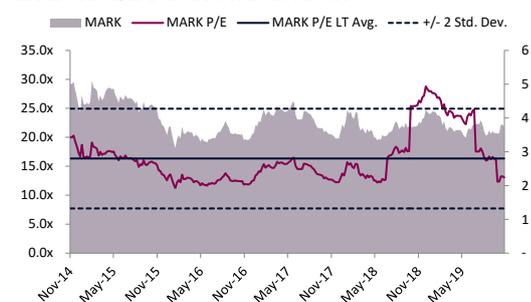
Current Market Price (QR)	3.75
Dividend Yield (%)	5.3
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.26/3.37
3-m Average Volume (mn)	4.5
Mkt. Cap. (\$ bn/QR bn)	7.7/28.1
Shares Outstanding (mn)	7,500.0
FO Limit* (%)	49.0
Current FO* (%)	13.5
1-Year Total Return (%)	4.4
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	1,920	2,264	2,268	2,268	2,386	2,560
Fees & Commissions	313	274	315	400	320	369
FX Income	134	143	152	149	160	172
Other Income	78	56	53	47	52	51
Non-Interest Income	525	473	521	596	532	591
Total Revenue	2,445	2,736	2,788	2,865	2,918	3,151
Operating Expenses	(463)	(577)	(668)	(694)	(720)	(751)
Net Operating Income	1,982	2,159	2,120	2,171	2,198	2,400
Net Provisions & Impairments	(3)	(113)	22	23	30	(2)
Net Profit Before Taxes & Non-Recurring Items	1,979	2,045	2,142	2,194	2,227	2,397
Non-Recurring/Unusual Gains/(Losses)	93	0	0	0	0	0
Net Profit After Non-Recurring Income	2,072	2,045	2,142	2,194	2,227	2,397
Tax	4	(5)	(2)	(2)	(3)	(3)
Net Profit Before Minority Interest	2,076	2,041	2,140	2,192	2,225	2,395
Minority Interest	(1)	(13)	(9)	(9)	(9)	(9)
Net Profit (Reported)	2,075	2,028	2,130	2,184	2,216	2,385
Social & Sports Contribution Fund	(52)	(51)	(53)	(55)	(55)	(60)
Net Profit (Attributable)	2,023	1,977	2,077	2,129	2,161	2,326

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Assets						
Cash & Balances with Central Bank	3,126	2,800	3,027	3,715	3,475	3,903
Interbank Loans	5,692	3,312	1,513	3,641	3,231	3,508
Net Investments	14,012	23,423	19,222	20,902	23,394	25,029
Net Loans	67,635	72,097	72,515	75,864	80,780	87,693
Investment In Associates	509	520	526	537	548	559
Other Assets	409	636	302	303	307	333
Net PP&E	148	160	189	213	241	248
Total Assets	91,531	102,949	97,294	105,175	111,976	121,271
Liabilities						
Interbank Deposits	19,060	25,123	16,546	17,574	18,479	19,600
Customer Deposits	58,024	62,531	61,569	67,541	72,404	79,644
Other Liabilities	1,574	1,905	5,706	5,950	6,313	6,412
Total Liabilities	78,657	89,559	83,820	91,064	97,195	105,656
Minority Interest	169	199	196	205	214	223
Total Shareholders' Equity	12,705	13,191	13,277	13,906	14,567	15,393
Total Liabilities & Shareholders' Equity	91,531	102,949	97,294	105,175	111,976	121,271

Source: Company data, QNB FS Research

Ratios/Profitability Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE	16.8	15.6	15.7	16.0	15.5	16.0
RoAA	2.3	2.0	2.1	2.1	2.0	2.0
RoRWA	3.4	3.2	3.3	3.3	3.3	3.3
NIM (% of IEAs)	2.35	2.48	2.39	2.37	2.33	2.32
NIM (% of RWAs)	3.26	3.71	3.61	3.55	3.64	3.66
NIM (% of AAs)	2.20	2.33	2.27	2.24	2.20	2.19
Spread	1.9	2.1	1.9	1.8	1.7	1.6
Efficiency (%)						
Cost-to-Income (Headline)	18.9	21.1	24.0	24.2	24.7	23.8
Cost-to-Income (Core)	19.5	21.5	24.4	24.6	25.1	24.2
Liquidity (%)						
LDR	116.6	115.3	117.8	112.3	111.6	110.1
Loans/Assets	73.9	70.0	74.5	72.1	72.1	72.3
Cash & Interbank Loans-to-Total Assets	9.6	5.9	4.7	7.0	6.0	6.1
Deposits to Assets	63.4	60.7	63.3	64.2	64.7	65.7
Wholesale Funding to Loans	28.2	34.8	28.0	27.9	27.6	27.1
IEAs to IBLs	127.8	120.5	124.2	121.8	122.2	120.5
Asset Quality (%)						
NPL Ratio	0.17	0.47	0.83	0.64	0.57	0.55
NPL to Shareholders' Equity	0.89	2.58	4.55	3.52	3.18	3.15
NPL to Tier 1 Capital	0.99	2.86	5.05	4.06	3.81	3.91
Coverage Ratio	44.8	48.7	93.5	112.0	114.8	111.8
ALL/Average Loans	0.1	0.2	0.7	0.7	0.6	0.6
Cost of Risk	0.00	0.15	N/M	N/M	N/M	0.01
Capitalization (%)						
Tier 1 Ratio	18.8	19.3	18.7	18.8	18.2	17.0
CAR	18.9	19.3	19.2	19.4	18.7	17.5
Tier 1 Capital to Assets	12.4	11.6	12.3	11.5	10.9	10.2
Tier 1 Capital to Loans	16.8	16.5	16.5	15.9	15.1	14.2
Tier 1 Capital to Deposits	19.6	19.0	19.4	17.8	16.8	15.6
Leverage (x)	7.2	7.8	7.3	7.6	7.7	7.9
Growth (%)						
Net Interest Income	-5.1	17.9	0.2	0.0	5.2	7.3
Non-Interest Income	34.5	-9.9	10.1	14.6	-10.8	11.1
Opex	-16.2	24.7	15.8	3.8	3.8	4.4
Net Operating Income	6.5	8.9	-1.8	2.4	1.2	9.2
Net Income	0.1	-2.3	5.0	2.5	1.5	7.6
Loans	8.1	6.6	0.6	4.6	6.5	8.6
Deposits	4.3	7.8	-1.5	9.7	7.2	10.0
Assets	9.8	12.5	-5.5	8.1	6.5	8.3
RWAs	4.8	2.4	3.5	0.0	4.8	9.1

Source: Company data, QNBFS Research

Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR8.72	Current Target Price	QR8.24
Implied Upside	-5.5%		

3Q2019 Results: EPS Beat With Lower G&A; Market Perform

MCGS's net income beat our 3Q2019 estimate driven by lower-than-expected G&A, while its top-line and gross profits were in line with our estimates. We maintain our revenue growth estimate at 2.3% YoY in 2019. On the other hand, we reduced our FY2019 G&A forecast by 2.5% factoring in 3Q2019's reported figure, leading to an increase of 3% for our 2019 EPS estimate. Following the announcement of draft law preparations for the new National Healthcare System on June 18 2019, MCGS shares rose by 36.0% outperforming the DSM Index' 1.9% decline and eroding the bulk of our upside potential. Our one-year TP for MCGS already incorporates foreseeable benefits of a favorable National Health Insurance structure to be up and running by the end of 2020. Until details of the new National Health Insurance are clarified, we anticipate MCGS shares to maintain their volatility.

Highlights

- MCGS posted 3Q2019 net income/EPS of QR10.1mn/QR0.036, up 35.0% YoY (down 24.8%, QoQ), beating our net income estimate of QR6.8mn. In 9M2019, MCGS reported net profit of QR44.0mn vs. QR40.8mn in 9M2018. EPS amounted to QR0.16 in 9M2019 as compared to QR0.14 in 9M2018 with a 14.3% increase YoY.
- Revenue and gross profits were in line with our estimates. The company recorded QR109.2mn revenue in 3Q2019 with a 2.2% decline YoY, in line with our QR113.3mn forecast (variation: -3.6%). Gross margin rose from 36.4% in 3Q2018 to 37.9% in 3Q2019 (also up sequentially vs. 2Q2019's 36.6%). Hence, MCGS posted QR41.4mn in gross profits (variation: +0.7%) with a 1.8% increase YoY.
- On the other hand, the decline in G&A (excluding the Board of Directors remuneration) was a surprise (10.2% QoQ) as of 3Q2019 (variation: -10.4%). It is noteworthy that MCGS' G&A was 5.5% higher YoY as of 1H2019 which may partially be attributable to the new Al Wakrah Clinic.
- We maintain our revenue growth rate estimate of 2.3% YoY in 2019, while we have reduced our G&A estimate slightly by 2.5% from QR90.8mn to QR88.4mn. As such, we have increased our FY2019 net earnings forecast for MCGS by 3% to QR87.9mn (previously QR85.4mn).

Catalysts

1) Collection of NHIC/Seha receivables, 2) Performance of the new Al Wakra clinic, 3) Normalization in MCGS' share price volatility, which should lead to a higher target price. MCGS' 5-year beta is 1.12x vs. international peer group's median of 0.74x; it is also the highest in the international peer group.

Recommendation, Valuation and Risks

- We continue to rate MCGS a Market Perform. We also maintain our 12-month target price of QR8.24, which implies a 5.5% downside potential. Our PT assumes that the new National Insurance Scheme will be fully operational by end-2020 and based on a weighted average combination of DCF, international peer comparison and local market P/E.
- Risks: 1) Geopolitical risks. 2) Collection risks. 3) Delays in the expected new National Health Insurance Scheme. 4) Volatility of provision expenses.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.28	0.30	0.31	0.33
P/E (x)	24.6	21.0	27.9	26.3
EV/EBITDA (x)	19.4	20.4	20.3	19.5
DPS (QR)	0.40	0.30	0.31	0.33
DY (%)	4.3%	3.3%	3.6%	3.8%

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

Key Data

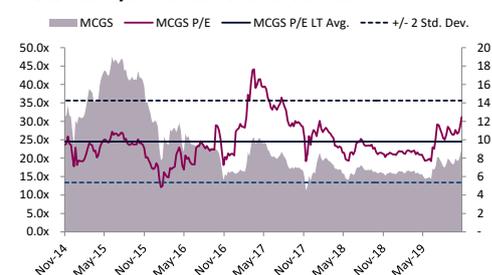
Current Market Price (QR)	8.72
Dividend Yield (%)	3.3
Bloomberg Ticker	MCGS QD EQUITY
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector	Healthcare Serv.
52wk High/52wk Low (QR)	9.20 / 5.31
3-m Average Volume ('000)	606.7
Mkt. Cap. (\$ bn/QR bn)	0.7 / 2.5
Shares Outstanding (mn)	281.4
FO Limit* (%)	49.0
Current FO* (%)	18.8
1-Year Total Return (%)	42.7
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	0.3%	2.9%	2.3%	2.6%	9.2%
Gross Profit	2.8%	(0.7%)	3.0%	5.0%	9.8%
EBITDA	(0.1%)	(3.4%)	5.4%	4.7%	15.3%
EBIT	(2.0%)	(8.1%)	3.0%	5.1%	28.6%
PAT/EPS	N/M	5.6%	4.0%	6.0%	26.6%
DPS	N/M	(25.0%)	4.1%	6.0%	26.6%
CFPS	N/M	(25.1%)	(0.2%)	(1.6%)	10.3%
Operating Ratios					
Gross Margin	43.0%	41.5%	41.8%	42.8%	43.0%
Gross Margin, Excluding Depreciation & Amortization	43.0%	41.5%	41.8%	42.8%	43.0%
EBITDA Margin	24.8%	23.3%	24.0%	24.5%	25.8%
EBIT Margin	18.8%	16.8%	16.9%	17.3%	20.4%
Net Margin	17.0%	17.5%	17.7%	18.3%	21.3%
Working Capital Ratios					
Inventory Days	59	76	70	70	70
Average Collection Period	37	30	30	30	30
Payable Days	98	88	84	84	83
	39	41	44	44	44
Finance Ratios					
Debt-Equity Ratio	3%	3%	5%	5%	5%
Net Debt-Equity Ratio	-7%	-6%	-5%	-3%	0%
Net Debt-to-Capital	-7%	-7%	-5%	-3%	0%
Net Debt-to-EBITDA	(0.6)	(0.6)	(0.4)	(0.2)	(0.0)
Interest Coverage	54.4	76.2	19.8	24.2	35.9
Return Ratios					
ROIC	8.5%	7.7%	7.8%	8.2%	10.3%
ROE	8.0%	8.3%	8.6%	9.1%	11.3%
ROA	6.8%	7.0%	6.8%	7.2%	8.9%
FCF Yield	4.4%	4.1%	3.0%	3.0%	2.6%
Liquidity Ratios					
Current Ratio	2.1	1.9	1.6	1.5	1.3
Quick Ratio	1.8	1.7	1.4	1.3	1.1
Valuation					
EV/Sales	5.1	4.9	4.9	4.8	4.4
EV/EBITDA	19.4	20.4	20.3	19.5	17.1
EV/EBIT	26.9	29.4	28.7	27.5	21.6
P/E	24.6	21.0	27.9	26.3	20.8
P/CF	14.2	18.9	18.9	19.3	17.5
P/BV	2.4	2.4	2.4	2.4	2.3
Dividend Yield	4.3%	6.3%	3.6%	3.8%	4.8%
FCF Yield	4.4%	4.1%	3.0%	3.0%	2.6%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (QR mn)

	2017	2018	2019e	2020e	2021e
Revenue	470,621	484,211	495,386	508,337	555,185
COGS	268,101	283,162	288,300	290,913	316,405
Gross Profit	202,520	201,050	207,086	217,424	238,780
SG&A	85,880	88,397	88,355	93,126	95,454
Depreciation	28,191	31,370	35,033	36,312	30,184
Operating Income	88,449	81,282	83,698	87,986	113,141
EBITDA	116,640	112,652	118,731	124,298	143,325
(Loss)/ Gain from Disposal of Property and Equipment	0	0	0	0	0
Provision Expenses	-16,166	-3,052	-487	0	0
Other Income	11,235	8,891	9,917	10,027	10,344
<i>Rental Income</i>	<i>2,902</i>	<i>2,698</i>	<i>4,080</i>	<i>4,080</i>	<i>4,283</i>
<i>Dividend Income</i>	<i>2,656</i>	<i>2,819</i>	<i>2,575</i>	<i>2,652</i>	<i>2,732</i>
<i>Write back of Prior Year Accruals</i>	<i>3,218</i>	<i>959</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Others</i>	<i>2,459</i>	<i>2,415</i>	<i>3,263</i>	<i>3,295</i>	<i>3,328</i>
Fair Value Gain from Investment Properties	0	0	0	0	0
Total Other Income	-4,932	5,839	9,430	10,027	10,344
Net Finance Income (Expense)	-732	366	-2,313	-1,717	-1,571
Net Profit Before Management Fees and Income	82,785	87,486	90,816	96,297	121,914
Management Fees	-2,783	-2,975	-2,897	-3,072	-3,889
Income Tax	0	0	0	0	0
Non-Controlling Interests	0	0	0	0	0
Net Income	80,002	84,511	87,919	93,225	118,026
<i>Net Profit Margin</i>	<i>17.0%</i>	<i>17.5%</i>	<i>17.7%</i>	<i>18.3%</i>	<i>21.3%</i>
<i>Shares Outstanding (mn)</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>	<i>281,441</i>
EPS	0.28	0.30	0.31	0.33	0.42
DPS	0.40	0.30	0.31	0.33	0.42

Balance Sheet (QR mn)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	52,053	53,638	53,638	53,638	36,638
S/T Deposits	50,066	40,000	42,818	25,304	20,198
Accounts Receivable & Prepayments	83,815	63,825	64,500	66,186	72,286
Other Receivables and Prepayments	15,267	29,534	25,803	26,477	28,918
Due From Related Parties	0	0	0	0	0
Inventories	27,543	23,087	23,506	23,719	25,798
Total Current Assets	228,745	210,085	210,265	195,326	183,838
Financial assets at FVOCI	45,619	52,059	56,709	56,709	56,709
Right-of-Use Assets	0	0	66,593	62,014	57,435
Property, Plant & Equipment	909,271	942,705	965,880	988,669	1,035,480
Non-Current Assets	954,890	994,764	1,089,181	1,107,391	1,149,624
Total Assets	1,183,634	1,204,849	1,299,447	1,302,717	1,333,462
Short-Term Debt	14,472	14,974	33,347	30,950	33,273
Lease Liabilities	0	0	3,235	3,068	2,894
Accounts Payable & Accruals	29,683	32,718	33,312	33,614	36,559
Other Payables	46,451	41,561	41,646	41,779	42,496
Dividends Payable/Payable to shareholders	18,880	21,404	23,522	24,941	26,188
Current Liabilities	109,486	110,657	135,061	134,352	141,411
Non-Current Liabilities					
Lease Liabilities	0	0	62,863	59,629	56,236
Retentions Payable	0	0	2,146	2,166	2,355
Long-Term Debt	19,708	16,032	16,833	17,675	18,559
Employees End-of-Service Benefits	52,692	60,176	63,185	66,345	69,662
Non-Current Liabilities	72,399	76,208	145,028	145,814	146,812
Total Liabilities	181,885	186,865	280,089	280,166	288,223
Total Shareholder's Equity	1,001,749	1,017,984	1,019,358	1,022,551	1,045,239
Minority Interest	0	0	0	0	0
Liabilities & Shareholder's Equity	1,183,634	1,204,849	1,299,447	1,302,717	1,333,462

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

Qatar Electricity & Water Company (QEWS)

Recommendation	MARKET PERFORM	Risk Rating	R-2
Share Price	QR15.80	Target Price	QR17.00
Implied Upside	7.6%		

Still Awaiting the Spark; Remain Market Perform

We remain Market Perform and have modestly tweaked our estimates after QEWS' 3Q2019 results. While 3Q2019 revenue was slightly ahead of our model, margins continued to contract, prompting us to reduce our forward earnings estimates moderately. As we pointed out in our previous reports, QEWS' medium-term outlook remains muted with lower committed offtake from RAF B (which is already facing lower tariffs in its contract renewal) expected to persist into 2020. Further, cost of gas for RAF B is also higher under the new contract, pressuring margins. Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates this year. Overall EPS should fall 17.9% this year before increasing 3.5% in 2020 and we think the stock remains in search of a catalyst medium term. **We continue to like the company as a long-term play with a relatively defensive business model.** QEWS still enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E starting by 2022-2023; Siraj solar project starting in 2021, etc.). Beyond Paiton (Indonesia), we do not have color on other major Nebras projects, which could lead to growth relative to our model.

Highlights

- **QEWS posts 3.8% YoY decrease but 6.5% QoQ increase in 3Q2019 net profit, in-line with our estimate:** 3Q2019 net profit of QR330.7mn was in-line with our estimate of QR320.3mn (variation of +3.2%). Revenue (power+water+leases) surprised positively, coming in at QR641.8mn (-4.4% YoY, 6.2% QoQ) and was 5.2% ahead of our estimate. Direct costs, especially the cost of gas, once again surprised on the downside with cash GMs shrinking to 45.6% from 53.0% in 3Q2018 and 48.8% in 2Q2019. Increased power dispatch requirements from RAF B/B2 along with continuing higher gas costs for RAF B's renewal contract are pressuring margins. JV income bounced nicely, up 83.8% YoY and 13.6% QoQ to QR188.5mn. YoY growth in JV income was fueled by a one-off charge (~QR57mn) due to QPower's seawater dispute in 3Q2018 along with increased availability from Um Al Houll that became fully operational in Jul./Aug. 2018. Higher seasonal availability at the JV plants drove QoQ growth in JV income. 3Q2018 also benefited from other income of ~QR59mn (sale of RAF A.)
- **QNB FS forecasts: we forecast 2019 revenue/EPS of QR2.3bn/QR1.15 and 2020 revenue/EPS of QR2.4bn/QR1.19.**
- **QEWS still enjoys decent EBITDA margins and dividend/FCF yields.** Despite modeled compression, QEWS retains decent EBITDA margins (2019-2023 avg.: ~42%). Over 2018-2023, we expect dividend yields to average 4.9% and FCF yields to average 7.2% (despite a 2018 dip as QEWS invested \$252mn into Fac. D). ROEs average around 12.7% over 2019-2023.

Catalysts

- **New opportunities currently not in our model:** Besides Umm Al Houll (Facility D), our model does not account for other domestic JV expansions (like Facility E; Siraj, etc.) which will lead to LT upside. **Facility E, which is Um Al Houll's size** (power: 2,000-2,500 MW & water: 100-130 MIGD), should be commissioned before summer 2022. Siraj should start operations in 2Q2021 (350 MW) with a possible expansion to 700 MW by 2Q2022. Beyond Paiton in Indonesia, we do not have color on other major Nebras projects, which could lead to growth vs. our model. Ultimately, our JV income forecasts could be conservative – we are expecting 10.9% growth from QR542.2mn in 2018 to QR601.4mn in 2019 and a 2.7% CAGR over 2019-2023.

Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-year PT is QR17.00.** 2019 & 2020 P/E's are 13.8x and 13.3x, respectively. We rate QEWS a Market Perform.
- **Risks: Geopolitical risks** cannot be modeled. Besides **risks in international expansion, domestic projects could also get delayed/shelved.** It is possible **Kahramaa renegotiates existing contracts** and recent discussions on K-Factors gives us pause. We note the recent lower-than-expected rates for RAF B involve a contract renewal on a fully depreciated plant. However, contract terms are proprietary and we cannot rule out unforeseen declines in tariffs/offtake. The next contract renewal, however, is not until August 2022 (RAF B1). **Operational risks include availability of capacity below contracted levels,** which could lead to penalties.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
Revenue (QR mn)	2,601	2,346	2,390	2,436
<i>Revenue Growth</i>	<i>-15.3%</i>	<i>-9.8%</i>	<i>1.9%</i>	<i>1.9%</i>
EPS (QR)	1.40	1.15	1.19	1.26
<i>EPS Growth</i>	<i>-4.9%</i>	<i>-17.9%</i>	<i>3.5%</i>	<i>6.4%</i>
P/E (x)	11.3	13.8	13.3	12.5
DPS (QR)	0.78	0.78	0.78	0.78
ROE	14.7%	13.0%	12.9%	13.0%

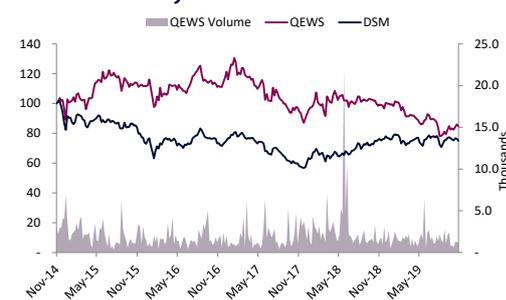
Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	15.80
Current Dividend Yield (%)	4.9
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWC.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	18.90/14.30
3-m Average Volume ('000)	306.4
Mkt. Cap. (\$ bn/QR bn)	4.8/17.4
EV (\$ bn/QR bn)	5.7/20.8
Shares Outstanding (bn)	1.10
FO Limit* (%)	49.0
Current FO* (%)	12.8
1-Year Total Return (%)	(12.1)
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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3Q2019 Results Overview

QEWS posts 3.8% YoY decrease but 6.5% QoQ increase in 3Q2019 net profit, in-line with our estimate: The company's 3Q2019 net profit of QR330.7mn was in-line with our estimate of QR320.3mn (variation of +3.2%). Revenue (power+water+leases) surprised on the upside, coming in at QR641.8mn (-4.4% YoY, 6.2% QoQ) and was 5.2% ahead of our estimate. Direct costs, especially the cost of gas, once again surprised on the downside with cash GMs shrinking to 45.6% from 53.0% in 3Q2018 and 48.8% in 2Q2019. Increased power dispatch requirements from RAF B/B2 along with continuing higher gas costs for RAF B's renewal contract are pressuring margins. Despite the lower GMs for quarter, JV income bounced nicely, up 83.8% YoY and 13.6% QoQ to QR188.5mn. YoY growth in JV income was fueled by a one-off charge (~QR57mn) due to QPower's seawater dispute in 3Q2018 along with increased availability from Um Al Houll that became fully operational in July/August 2018. Higher seasonal availability at the JV companies drove QoQ growth in JV income. 3Q2018 also benefited from other income of ~QR59mn due to the sale of RAF A.

Overall, according to the company, availability (payment to QEWS is based on availability) remained high with power plant availability (including JVs) at 97.63% in 9M2019 (vs. 98.68% in 9M2018) and water plant availability (again, with JVs) at 99.56% in 9M2019 (99.43% YTD 2018).

Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Valuation										
EV/EBITDA - Consolidated	13.7	12.9	12.3	12.5	14.4	20.3	19.2	18.2	18.0	17.8
EV/EBIT	19.6	18.1	16.6	17.7	18.4	28.8	27.0	25.3	25.4	25.4
P/E	11.4	11.6	11.8	10.8	11.3	13.8	13.3	12.5	12.4	12.3
P/CF	7.8	9.4	8.4	10.4	8.4	11.9	11.6	11.5	11.4	11.4
P/BV	2.6	2.4	2.1	1.9	1.7	1.8	1.7	1.6	1.6	1.5
Dividend Yield	4.7%	4.7%	4.7%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
FCF Yield	(2.8%)	4.7%	7.1%	9.2%	6.0%	6.8%	7.2%	7.7%	7.7%	7.7%

Source: Bloomberg, QNB FS estimates

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	CAGR ('19-'23)
Growth Rates											
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(9.8%)	1.9%	1.9%	1.0%	1.0%	1.4%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.2%)	2.9%	3.0%	(1.1%)	(1.1%)	0.9%
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	3.6%	3.2%	(1.5%)	(1.5%)	0.9%
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.0%)	4.7%	4.0%	(2.6%)	(2.7%)	0.8%
JV Income	3.6%	4.1%	(25.1%)	85.4%	(4.4%)	10.9%	(1.3%)	7.2%	2.5%	2.5%	2.7%
PBT	11.0%	(2.0%)	(1.9%)	8.8%	(4.5%)	(17.6%)	3.5%	6.4%	0.8%	0.9%	2.9%
Net Income/EPS	10.5%	(1.9%)	(1.7%)	9.5%	(4.9%)	(17.9%)	3.5%	6.4%	0.8%	0.9%	2.9%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(29.7%)	2.4%	1.0%	0.8%	0.0%	1.1%
FCFPS	NM	NM	50.5%	30.9%	(35.1%)	13.6%	5.9%	6.6%	0.6%	(0.4%)	3.1%
Operating Ratios											
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	48.5%	49.0%	49.5%	48.5%	47.5%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	41.3%	42.0%	42.5%	41.5%	40.4%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	29.1%	29.9%	30.5%	29.4%	28.3%	
Net Margin	52.8%	50.3%	47.5%	52.6%	59.1%	53.8%	54.6%	57.0%	57.0%	56.9%	
Finance Ratios											
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.4	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.2	0.2	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.7	3.7	4.0	4.0	4.1	
Return Ratios											
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.4%	4.5%	4.6%	4.4%	4.2%	
ROE	22.6%	20.4%	17.8%	18.0%	14.7%	13.0%	12.9%	13.0%	12.5%	12.0%	
ROA	11.8%	11.2%	9.7%	10.2%	8.4%	7.7%	7.8%	8.1%	8.0%	7.9%	
FCF Yield	-2.8%	4.7%	7.1%	9.2%	6.0%	6.8%	7.2%	7.7%	7.7%	7.7%	
Liquidity Ratios											
Current Ratio	1.2	1.5	2.1	2.3	1.6	0.9	1.0	1.1	1.3	1.4	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	0.9	1.0	1.1	1.2	1.4	

Source: Bloomberg, QNB FS estimates

Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Revenue	2,601	2,346	2,390	2,436
Cost of Sales, Excluding Depreciation	(1,120)	(1,208)	(1,219)	(1,230)
Gross Profit	1,481	1,138	1,171	1,206
General & Administrative Expenses	(176)	(170)	(168)	(170)
EBITDA	1,305	968	1,003	1,035
Deferred Income	0	0	0	0
Depreciation & Amortization	(287)	(286)	(290)	(293)
EBIT	1,017	682	714	742
Finance Costs, Net	(189)	(193)	(116)	(106)
Dividend Income & Gain on Sale of AFS	112	140	84	88
Other & Miscellaneous Income/Expense & Share of Profits from JVs	624	661	654	696
Share of Associates	0	0	0	0
Profit After Tax (Continuing Operations)	1,565	1,290	1,335	1,421
Discontinued Operations				
Minority Interest	(29)	(29)	(30)	(31)
Profit for Shareholders	1,537	1,262	1,305	1,389
EPS (QR)	1.40	1.15	1.19	1.26

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Non-Current Assets				
Property, Plant & Equipment	5,750	5,547	5,345	5,150
Available-for-Sale Investments	1,559	1,919	1,919	1,919
Finance Lease Receivables	1,118	1,000	895	801
JV Loans and Investments in JVs	4,718	5,180	5,599	5,959
Other Non-Current assets	150	104	96	88
Total Non-Current Assets	13,294	13,749	13,854	13,916
Current Assets				
Finance Lease Receivables & Others	139	138	138	138
Inventories	142	149	150	152
Accounts Receivables & Prepayments	492	533	543	554
Cash and Short-Term Deposits	4,118	1,880	2,069	2,332
Total Current Assets	4,891	2,700	2,901	3,175
Total Assets	18,185	16,450	16,755	17,092
Equity				
Equity to the Parent	10,456	9,674	10,126	10,663
Minority Interest	258	265	273	281
Total Equity	10,713	9,939	10,399	10,944
Non-Current Liabilities				
Loans and Borrowings	4,366	3,475	3,360	3,240
Employees' End of Service Benefits	69	71	73	75
Other Payables		23	23	23
Derivatives	16	37	37	37
Total Non-Current Liabilities	4,451	3,606	3,493	3,375
Current Liabilities				
Accounts Payables & Others	572	584	618	607
Loans and Borrowings	2,444	2,316	2,240	2,160
Derivatives	5	5	5	5
Total Current Liabilities	3,021	2,905	2,863	2,772
Equity and Liabilities	18,185	16,450	16,755	17,092

Source: Company data, QNB FS estimates

Qatar Fuel (WOQOD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR22.39	Current Target Price	23.40
Implied Upside	4.5%		

3Q2019 Results: Healthy Volume Growth & Barely in-line EPS; MP

3Q2019 results show that WOQOD's retail business continues to grow rapidly both on fuel and non-fuel fronts due to the ongoing gas station network expansion. Jet fuel volume growth also continues at 6% YoY/ 11.6% QoQ in 3Q2019. Jet fuel is WOQOD's prime product, accounting for 50.2% of total fuel sold as of 9M2019. Qatar Airways' order of over 300 aircraft is likely to more than double its fleet; therefore, we believe it is the foremost long-term driver for WOQOD's bottom-line growth. However, considering 1) QFLS' strong YTD share price performance, 2) Our modest EPS growth expectations (3.1% for 2019e and 4.5% for 2020e), 3) Rich valuation metrics and 4) The lack of short-term catalysts to drive the stock further, we maintain our Market Perform rating and our target price at QR23.40.

Highlights

- **WOQOD posted 3Q2019 net income/EPS of QR323.5m/QR0.325, flat% YoY and +46.1% QoQ, a little shy of our net income estimate of QR344mn** (variance: -5.9%). In 9M2019, WOQOD reported net profit of QR871.8mn vs. QR825.5mn in 9M2018. EPS amounted to QR0.88 in 9M2019 as compared to QR0.83 in 9M2018 with a 5.6% rise YoY.
- **Healthy volume growth both QoQ and YoY:** Within 3Q2019, WOQOD's total fuel sales reached 2.76bnLt, which is up by 1.6% QoQ and 8.4% YoY. 9M2019 total volume was 7.83bnLt, which was also 1.6% up YoY. Jet fuel continues to drive volume growth, increasing 11.6% QoQ and 6.0% YoY to 1.41bnLt in 3Q2019 (9M2019 jet fuel sales were 3.93bnLt, up 6.8% YoY). In 3Q2019, gasoline & super gasoline sales volumes increased 4.5% YoY reaching a total of 0.65bnLt. Diesel sales on the other hand, continued to fall by 8.5% YoY to 0.7bnLt, despite a 10.6% rise QoQ.
- **Gross profits were a tad below our expectations** (variance: -4.5%). In 3Q2019, WOQOD recorded QR5.74bn in revenue, declining 6.8% YoY and 2.1% QoQ due to lower product prices. We focus on gross profits instead of revenue as the top line for WOQOD, as the company receives a fixed margin per liter for most of its products. On the other hand, gross profits (QR369.3mn in 3Q2019) were down 2.6% YoY but up 39.6% QoQ thanks to higher volumes vs. 2Q2019.
- **Retail business continues to grow steadily.** With five new stations opened in 3Q2019, WOQOD's retail gas stations reached 90 as of Sep'19 vs. 84 at end-2018. WOQOD's retail franchise has expanded by 70% since 2017 (when the company had 53 branches). The new stations are gaining traction and accordingly, WOQOD's total retail fuel volumes grew by 25.4% YoY in 3Q2019 (27.6% YoY as of 9M2019). Again, supported by retail network growth, Sidra and APC revenues rose 16.8% YoY to QR108mn in 3Q2019 (14.8% YoY as of 9M2019). WOQOD plans to reach 112 petrol stations by the end of 2019, up 33% vs. 2018. Therefore, we expect retail fuel and non-fuel revenue growth to continue in 2020.
- **G&A was slightly above our expectations** (variance: 7.3%). While 3Q2019 G&A was 7.3% higher YoY, 9M2019 G&A of QR298.4mn was still 1.9% lower YoY.

Catalysts

1) Qatar Airways fleet expansion. 2) Qatar's LNG vessel fleet expansion. 3) A potential increase in DPS.

Recommendation, Valuation and Risks

- **We continue to rate QFLS as Market Perform and our 12-month target price of QR23.40 implies a 4.5% upside potential based on a weighted average of DCF, international peer comparison and local market P/E.** QFLS' 2019e and 2020e P/E multiples imply 12% and 9% premiums to the international fuel distributors peer group, respectively. Moreover, its EV/EBITDA multiples are at 37% and 45% premiums.
- **Risks:** 1) Margin erosion in fuel products. 2) Concentration risk. 3) Geopolitical risks.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.97	1.17	1.20	1.26
P/E (x)	23.4	19.4	18.8	18.0
EV/EBITDA (x)	17.7	16.9	15.4	14.2
DPS (QR)	0.80	0.80	0.80	0.82
DY (%)	3.6%	3.6%	3.6%	3.6%

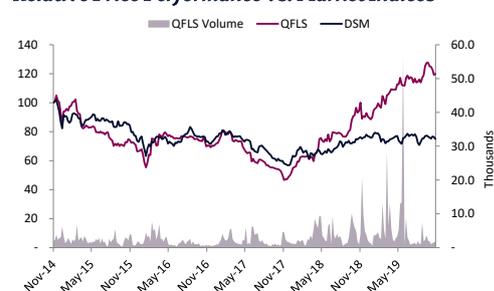
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

Key Data

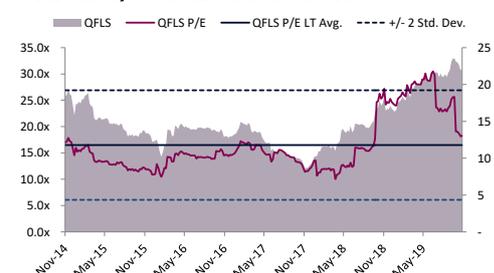
Current Market Price (QR)	22.39
Dividend Yield (%)	3.6
Bloomberg Ticker	QFLS QD EQUITY
Reuters Ticker	QFLS.QA
ISIN	QA0001200771
Sector	Oil & Gas Distribution
52wk High/52wk Low (QR)	23.83 / 15.70
3-m Average Volume ('000)	457.1
Mkt. Cap. (\$ bn/QR bn)	6.1 / 22.3
Shares Outstanding (mn)	994.3
FO Limit* (%)	49.0
Current FO* (%)	11.4
1-Year Total Return (%)	34.1
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	26.6%	33.3%	0.4%	3.4%	6.4%
Gross Profit	2.1%	(2.6%)	(0.2%)	3.2%	2.0%
EBITDA	14.7%	0.7%	9.3%	7.4%	4.6%
EBIT	16.0%	2.4%	9.1%	7.7%	4.7%
PAT/EPS	N/M	20.3%	3.1%	4.5%	3.0%
DPS	N/M	0.0%	0.0%	3.1%	0.0%
CFPS	N/M	(24.1%)	(21.0%)	7.4%	8.3%
Operating Ratios					
Gross Margin	6.8%	5.0%	4.9%	4.9%	4.7%
Gross Margin, Excluding Depreciation & Amortization	6.8%	5.0%	4.9%	4.9%	4.7%
EBITDA Margin	6.0%	4.5%	4.9%	5.1%	5.0%
EBIT Margin	5.6%	4.3%	4.7%	4.9%	4.8%
Net Margin	5.5%	5.0%	5.1%	5.2%	5.0%
Working Capital Ratios					
	(45)	(32)	(33)	(33)	(33)
Inventory Days	9	7	7	7	7
Average Collection Period	66	50	49	49	49
Payable Days	111	89	89	89	89
Finance Ratios					
Debt-Equity Ratio	0%	0%	0%	0%	0%
Net Debt-Equity Ratio	-62%	-62%	-60%	-60%	-60%
Net Debt-to-Capital	-161%	-162%	-152%	-149%	-153%
Net Debt-to-EBITDA	(4.2)	(4.7)	(4.4)	(4.3)	(4.3)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	13.8%	12.4%	12.9%	13.3%	13.3%
ROE	13.6%	14.4%	14.2%	14.2%	14.0%
ROA	7.8%	8.4%	8.4%	8.5%	8.3%
FCF Yield	7.2%	0.6%	0.8%	4.2%	4.7%
Liquidity Ratios					
Current Ratio	1.6	1.7	1.7	1.7	1.7
Quick Ratio	1.5	1.6	1.6	1.6	1.6
Valuation					
EV/Sales	1.1	0.8	0.8	0.7	0.7
EV/EBITDA	17.7	16.9	15.4	14.2	13.4
EV/EBIT	18.9	17.8	16.3	15.0	14.1
P/E	23.4	19.4	18.8	18.0	17.5
P/CF	10.1	13.3	16.8	15.6	14.4
P/BV	3.2	2.8	2.7	2.6	2.5
Dividend Yield	6.3%	4.8%	3.5%	3.6%	3.6%
FCF Yield	7.2%	0.6%	0.8%	4.2%	4.7%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (QR mn)

	2017	2018	2019e	2020e	2021e
Revenue	17,372	23,149	23,233	24,030	25,562
COGS	16,193	22,001	22,087	22,848	24,356
Gross Profit	1,179	1,149	1,146	1,182	1,206
SG&A	360	319	301	292	288
Depreciation	69	53	60	62	64
Operating Income	750	777	785	829	854
EBITDA	1,043	1,050	1,148	1,234	1,290
(Loss)/ gain from disposal of Property and equipment	0	0	0	0	0
Other Income	242	320	277	283	281
<i>Rental Income</i>	144	140	136	140	144
<i>Dividend Income</i>	63	83	85	89	93
<i>Vessels rental income</i>	0	0	0	0	0
<i>Miscellaneous income</i>	35	97	56	54	44
Fair value gain from investment properties	0	0	0	0	0
Total Other Income	242	320	277	283	281
Net Finance Income (Expense)	104	147	173	178	191
Net profit before management fees and income †	1,096	1,244	1,235	1,289	1,327
Income Tax	0	0	0	0	0
Non controlling interests	-132	-84	-39	-40	-40
Net Income	964	1,160	1,196.1	1,250	1,287
<i>Net Profit Margin</i>	5.5%	5.0%	5.1%	5.2%	5.0%
<i>Shares Outstanding (mn)</i>	994	994	994	994	994
EPS	0.97	1.17	1.20	1.26	1.29
DPS	0.80	0.80	0.80	0.82	0.82

Note: EPS based on current number of shares

Balance Sheet (QR mn)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	3,172	3,164	3,164	3,164	3,164
S/T Deposits	1,191	1,831	1,934	2,116	2,406
Accounts Receivable & Prepayments	2,296	2,518	2,472	2,556	2,720
Other Receivables and Prepayments	448	220	221	229	243
Due From Related Parties	529	434	427	441	470
Inventories	414	422	424	438	467
Total Current Assets	8,051	8,589	8,642	8,945	9,470
Retentions receivable	0	0	0	0	0
Financial assets at fair value through other comprehensiv	1,631	1,485	1,518	1,518	1,518
Property, Plant & Equipment	1,707	2,661	2,939	3,171	3,373
Non-Current Assets	4,380	5,185	5,541	5,821	6,073
Total Assets	12,431	13,775	14,183	14,766	15,544
Short-Term Debt	0	0	0	0	0
Accounts Payable & Accruals	4,939	5,140	5,160	5,338	5,690
Other Payables	0	0	0	0	0
Finance lease liability	0	6	6	6	6
Current Liabilities	4,939	5,146	5,167	5,344	5,697
Due to related parties	0	233	234	242	258
Long-Term Debt	0	25	27	28	29
Employees end of service benefits	131	92	96	101	106
Non-Current Liabilities	131	350	357	371	393
Total Liabilities	5,069	5,496	5,523	5,715	6,090
Total Shareholder's Equity	7,072	8,031	8,402	8,781	9,171
Minority Interest	290	247	259	270	282
Liabilities & Shareholder's Equity	12,431	13,775	14,183	14,766	15,544

Source: Company data, QNB FS Research

Qatar Gas Transport Co./Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.47	Target Price	QR2.60
Implied Upside	5.3%		

Smooth Sailing Ahead; Reiterate Accumulate and QR2.60

We recently increased our estimates and price target on QGTS shares factoring in its recent purchase of JV vessels and 3Q2019 results. The company's 3Q2019 results reflected positive momentum across key metrics. While adjusted revenue continued to improve, management remained on track in rationalizing costs and enhancing operational efficiencies. Moreover, as we pointed out in our recent [Alert](#), Nakilat's acquisition of its remaining 49.9% stake in a JV (with OSG) consisting of 4 LNG ships, should provide a near-term boost to numbers. We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Going forward, in terms of catalysts, we continue to believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. QGTS' fleet continues to provide the company 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 QGTS' vessels vs. maximum debt life of 25 years (last debt maturing 2033), creates refinancing opportunities to increase fleet size. Thus, we think further JV deals in LNG ships and FSRUs are likely especially considering current attractive market fundamentals, which should continue to provide QGTS with growth avenues. Medium-term, we believe the shipyard business, which although cyclical in nature (as highlighted in its 3Q2019 performance), could further improve. We continue to rate Nakilat an Accumulate with a target price of QR2.60.

Highlights

- **QGTS' bottom-line rises 17.7% YoY and 5.2% QoQ in 3Q2019 and comes in-line with our forecast.** Nakilat's 3Q2019 earnings of QR252.0mn was in-line with our estimate of QR249.3mn (variation of +1.1%). Operating metrics were also in-line with our forecasts: (1) Revenue from wholly-owned ships of QR774.8mn (0.1% YoY, 1.9% QoQ) was in-line with our estimate of QR769.0mn (difference of +0.8%). (2) Adjusted revenue of QR895.0mn (0.6% YoY, 0.6% QoQ) was also in-line with our estimate of QR902.5mn (-0.8% divergence). (3) Adjusted EBITDA of QR701.3mn (3.0% YoY, 1.0% QoQ) was also in-line with our modeled figure of QR706.8mn (difference of -0.8%). While JV income of QR106.4mn (5.0% YoY, -8.3% QoQ) was 10.9% shy of our estimate of QR119.5mn, this was partially offset by lower finance charges of QR280.4mn (-8.2% YoY, -3.1% QoQ), which beat our forecast of QR291.0mn by 3.7%. The miss in JV income was because of weaker performance by the shipyard business with stronger shipping rates dampening repair activity.
- **We have recently increased our earnings estimates by an average of ~5% over 2020-2022.** We factor in the new acquisition that increases QGTS' wholly-owned fleet from 25 to 29 LNG ships. As the deal closed early October, we anticipate moderate impact to 2019 estimates as well.

Catalysts

- **Expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver.** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market.

Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR2.60.** QGTS trades at attractive multiples vs. peers despite higher EBITDA margins & FCF yields.
- **Risks: (1)** Blockade remains an overhang but business impact has been limited thus far. Shipping is ultimately the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2)** There is a risk existing LNG contracts are renegotiated but at current rates this looks unlikely. Overall, 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. The likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	0.16	0.18	0.20	0.24
P/E (x)	15.4	14.0	12.1	10.1
DPS (QR)	0.10	0.10	0.10	0.11
Dividend Yield	4.0%	4.0%	4.0%	4.5%

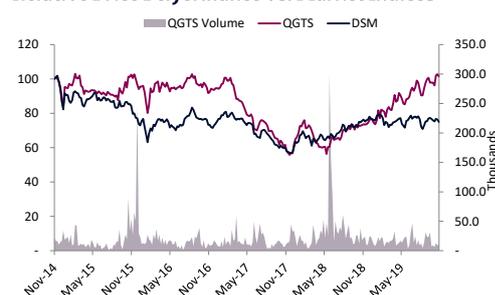
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	2.47
Current Dividend Yield (%)	4.0
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	2.51/1.71
3-m Average Volume ('mn)	3.1
Mkt. Cap. (\$ bn/QR bn)	3.8/13.7
EV (\$ bn/QR bn)	8.4/30.6
Shares Outstanding (mn)	5,540.3
FO Limit* (%)	49.0
Current FO* (%)	13.3
1-Year Total Return (%)	48.7
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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3Q2019 Review

QGTs' bottom-line rises 17.7% YoY and 5.2% QoQ in 3Q2019 and comes in-line with our forecast. Nakilat's 3Q2019 earnings of QR252.0mn was in-line with our estimate of QR249.3mn (variation of +1.1%). Operating metrics were also in-line with our forecasts: (1) Revenue from wholly-owned ships of QR774.8mn (0.1% YoY, 1.9% QoQ) was in-line with our estimate of QR769.0mn (difference of +0.8%). (2) Adjusted revenue of QR895.0mn (0.6% YoY, 0.6% QoQ) was also in-line with our estimate of QR902.5mn (-0.8% divergence). (3) Adjusted EBITDA of QR701.3mn (3.0% YoY, 1.0% QoQ) was also in-line with our modeled figure of QR706.8mn (difference of -0.8%). While JV income of QR106.4mn (5.0% YoY, -8.3% QoQ) was 10.9% shy of our estimate of QR119.5mn, this was partially offset by lower finance charges of QR280.4mn (-8.2% YoY, -3.1% QoQ), which beat our forecast of QR291.0mn by 3.7%. The miss in JV income was because of lower performance by the shipyard business with stronger shipping rates dampening repair activity.

Positive momentum continues across key metrics: Management cited better performance of LNG and LPG vessels for the improvement in adjusted revenue. While JV income was down sequentially, YoY growth continued with 3Q2018 JV income impacted by a one-off tax adjustment at Teekay. Operating costs also improved 8.3% YoY and 0.9% QoQ driven by costs optimization. G&A costs also continued their decline (-0.7% YoY, -0.8% QoQ) due to process enhancement and cost optimization initiatives.

QNB FS Estimates and Comparisons

Income Statement							
In QR mn Except Otherwise Noted	3Q2018	2Q2019	3Q2019	3Q2019e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	774.328	760.651	774.837	769.010	0.8%	0.1%	1.9%
Operating Costs	(177.605)	(164.429)	(162.910)	(164.568)	-1.0%	-8.3%	-0.9%
Gross Profit	596.723	596.222	611.927	604.442	1.2%	2.5%	2.6%
<i>Gross Margin</i>	77.1%	78.4%	79.0%	78.6%			
Income from Marine and Agency Services	13.702	13.312	13.779	14.000	-1.6%	0.6%	3.5%
General and Administrative Expenses	(31.026)	(31.055)	(30.822)	(31.150)	-1.1%	-0.7%	-0.8%
EBITDA	579.399	578.479	594.884	587.292	1.3%	2.7%	2.8%
Depreciation & Amortization	(189.999)	(188.818)	(190.308)	(190.706)	-0.2%	0.2%	0.8%
EBIT	389.400	389.661	404.576	396.586	2.0%	3.9%	3.8%
<i>EBIT Margin</i>	50.3%	51.2%	52.2%	51.6%			
Share of Operating Profits from Joint Ventures	101.406	116.037	106.431	119.518	-10.9%	5.0%	-8.3%
Finance Costs	(305.450)	(289.464)	(280.396)	(291.021)	-3.7%	-8.2%	-3.1%
Interest, Dividend income & Profit from Islamic Banks	20.353	18.486	16.965	19.000	-10.7%	-16.6%	-8.2%
Vessel Sub-Chartering & Other Income	8.656	5.121	4.744	5.500	-13.7%	-45.2%	-7.4%
Profit Before Tax	214.365	239.841	252.320	249.582	1.1%	17.7%	5.2%
Profit After Tax	214.365	239.841	252.320	249.582	1.1%	17.7%	5.2%
Minority Interest	(0.257)	(0.254)	(0.281)	(0.264)	6.3%	9.3%	10.6%
Net Income to Equity	214.108	239.587	252.039	249.318	1.1%	17.7%	5.2%
<i>Net Profit Margin</i>	27.7%	31.5%	32.5%	32.4%			
EPS (QR)	0.04	0.04	0.05	0.05	1.1%	17.7%	5.2%
Adjusted EBITDA	680.805	694.516	701.315	706.810	-0.8%	3.0%	1.0%
Adjusted Revenue	889.436	890.000	895.047	902.528	-0.8%	0.6%	0.6%
Particulars	3Q2018	2Q2019	3Q2019	3Q2019e			
Adj. EBITDA Margin	76.5%	78.0%	78.4%	78.3%			
Gross Margin	77.1%	78.4%	79.0%	78.6%			
EBIT Margin	50.3%	51.2%	52.2%	51.6%			
G & A % of Sales	4.0%	4.1%	4.0%	4.1%			
Depreciation & Amortization % of Sales	24.5%	24.8%	24.6%	24.8%			

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Key Growth Metrics

Growth Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033	CAGR '17-'33
Growth Ratios (In %)													
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	9.7%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.9%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	3.8%	9.0%	3.8%	1.0%	0.9%	1.5%	1.3%	1.1%	1.1%	2.0%
Gross Profit	0.1%	0.4%	1.1%	4.6%	9.8%	0.0%	0.0%	(0.9%)	0.0%	0.0%	0.0%	0.0%	0.9%
EBITDA	(1.1%)	0.5%	1.0%	4.7%	9.6%	0.1%	0.1%	(0.9%)	0.1%	0.1%	0.1%	0.1%	0.9%
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	5.1%	8.9%	4.8%	1.3%	0.3%	1.8%	1.6%	1.3%	1.3%	2.3%
EBIT	(6.5%)	0.7%	2.2%	5.4%	9.1%	0.1%	0.1%	(1.4%)	0.1%	0.1%	0.1%	0.1%	1.0%
EPS	(2.9%)	(11.3%)	5.3%	9.8%	15.9%	19.1%	8.4%	5.0%	12.0%	9.4%	5.6%	4.9%	8.2%
CFPS	(9.9%)	16.7%	(6.4%)	56.1%	(7.3%)	4.9%	5.3%	7.5%	3.6%	6.5%	4.2%	3.8%	5.9%
FCFPS	(4.9%)	22.0%	(22.1%)	21.5%	37.4%	5.1%	5.5%	0.4%	10.5%	7.6%	5.0%	(0.6%)	5.5%
DPS	(20.0%)	0.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	15.4%	6.7%	4.8%	4.0%	6.2%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Ratio Analysis

Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033
Growth Ratios (In %)												
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	9.7%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	3.8%	9.0%	3.8%	1.0%	0.9%	1.5%	1.3%	1.1%	1.1%
Gross Profit	0.1%	0.4%	1.1%	4.6%	9.8%	0.0%	0.0%	(0.9%)	0.0%	0.0%	0.0%	0.0%
EBITDA	(1.1%)	0.5%	1.0%	4.7%	9.6%	0.1%	0.1%	(0.9%)	0.1%	0.1%	0.1%	0.1%
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	5.1%	8.9%	4.8%	1.3%	0.3%	1.8%	1.6%	1.3%	1.3%
EBIT	(6.5%)	0.7%	2.2%	5.4%	9.1%	0.1%	0.1%	(1.4%)	0.1%	0.1%	0.1%	0.1%
EPS	(2.9%)	(11.3%)	5.3%	9.8%	15.9%	19.1%	8.4%	5.0%	12.0%	9.4%	5.6%	4.9%
CFPS	(9.9%)	16.7%	(6.4%)	56.1%	(7.3%)	4.9%	5.3%	7.5%	3.6%	6.5%	4.2%	3.8%
FCFPS	(4.9%)	22.0%	(22.1%)	21.5%	37.4%	5.1%	5.5%	0.4%	10.5%	7.6%	5.0%	(0.6%)
DPS	(20.0%)	0.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	15.4%	6.7%	4.8%	4.0%
Operating Ratios (In %)												
Gross Margin	76.6%	77.2%	77.8%	78.8%	78.8%	78.8%	78.8%	77.9%	77.9%	77.8%	77.6%	77.5%
EBITDA Margin	74.0%	74.6%	75.2%	76.2%	76.2%	76.2%	76.2%	75.4%	75.4%	75.4%	75.3%	75.3%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	77.9%	77.8%	78.6%	78.7%	78.2%	78.5%	78.7%	79.6%	80.1%
EBIT Margin	49.0%	49.5%	50.5%	51.5%	51.2%	51.2%	51.2%	50.4%	50.4%	50.3%	50.3%	50.3%
Net Margin	31.1%	27.7%	29.1%	30.9%	32.6%	38.8%	42.1%	44.1%	49.4%	54.0%	73.5%	85.1%
Finance Ratios												
Net Debt-to-EBITDA	8.3	7.8	7.5	7.1	6.0	5.5	5.0	4.6	4.0	3.4	0.3	-1.8
Debt-Equity Ratio	4.1	3.5	2.9	2.8	2.4	2.0	1.7	1.4	1.1	0.9	0.2	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.3	1.9	1.6	1.3	1.1	0.9	0.7	0.0	-0.2
Interest Coverage	1.3	1.3	1.3	1.4	1.5	1.6	1.7	1.7	2.0	2.3	5.6	39.0
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.2	2.3	2.5	2.6	3.0	3.4	8.4	58.4
Return Ratios (In %)												
ROIC	5.6%	5.7%	5.8%	5.8%	6.4%	6.5%	6.5%	6.6%	6.7%	6.8%	7.0%	6.9%
ROAE	19.7%	15.1%	13.9%	13.6%	14.5%	15.6%	15.2%	14.4%	14.7%	14.6%	13.0%	12.0%
ROAA	3.1%	2.8%	3.0%	3.2%	3.5%	4.2%	4.7%	5.0%	5.7%	6.3%	9.1%	10.6%
Liquidity Ratios												
Current Ratio	2.0	1.6	1.4	1.5	1.4	1.4	1.4	1.2	1.2	1.2	1.3	2.5
Quick Ratio	2.0	1.6	1.4	1.5	1.4	1.4	1.3	1.2	1.2	1.2	1.3	2.5
Valuation												
EV/EBITDA-Adjusted	11.5	12.0	11.4	10.8	9.6	8.7	8.2	7.8	7.2	6.6	3.9	2.3
EV/EBIT	21.6	20.8	20.0	18.8	16.6	15.8	15.1	14.6	13.7	12.8	8.1	5.0
P/E	14.3	16.2	15.4	14.0	12.1	10.1	9.3	8.9	7.9	7.3	5.3	4.6
P/CF	12.2	10.4	11.1	7.1	7.7	7.3	7.0	6.5	6.3	5.9	4.7	4.2
P/B	2.6	2.3	2.0	1.8	1.7	1.5	1.3	1.2	1.1	1.0	0.7	0.5
Dividend Yield	4.0%	4.0%	4.0%	4.0%	4.0%	4.5%	4.9%	5.3%	6.1%	6.5%	8.9%	10.5%
FCF Yield	7.9%	9.6%	7.5%	9.1%	12.5%	13.1%	13.8%	13.9%	15.3%	16.5%	20.9%	22.5%

Source: Company data, QNB FS estimates; Note: Adjusted revenue includes wholly-owned revenue, operating profits from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Detailed Financial Statements

Income Statement

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Revenue – Wholly-Owned Ships	3,063	3,167	3,473	3,476
Direct Costs	(679)	(672)	(735)	(737)
Gross Profit	2,384	2,495	2,738	2,740
Income from Marine & Agency Services	54	53	55	56
General and Administrative Expenses	(134)	(135)	(147)	(147)
EBITDA	2,304	2,414	2,646	2,648
Depreciation	(758)	(783)	(868)	(869)
EBIT	1,547	1,631	1,778	1,779
Share of Profits from Joint Ventures	396	426	446	592
Finance Costs	(1,173)	(1,190)	(1,215)	(1,146)
Interest, Dividend & Profit from Islamic Banks	87	88	92	92
Vessels Sub-Chartering & Other Income	34	24	34	34
Profit After Tax	892	980	1,135	1,352
Minority Interest	(1)	(1)	(1)	(2)
Profit for Equity Shareholders	891	978	1,134	1,350
EPS (QR)	0.16	0.18	0.20	0.24
Adjusted Revenue	3,513	3,646	3,973	4,124
Adjusted EBITDA	2,701	2,840	3,092	3,241

Balance Sheet

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Non-Current Assets				
Property, Plant and Equipment	21,840	23,133	22,334	21,535
Investment in Joint Venture Companies	4,613	3,859	4,277	4,549
Loans to Joint Venture Companies	105	228	228	228
Available-for-Sale Investments	144	118	118	118
Total Non-Current Assets	26,703	27,338	26,957	26,430
Current Assets				
Receivables, Inventories and Due from Joint Ventures	398	1,352	1,473	1,474
Cash and Bank Balances	2,463	3,748	3,624	3,736
Total Current Assets	2,861	5,100	5,096	5,210
Total Assets	29,564	32,439	32,054	31,640
Equity				
Equity Attributable to the Parent	6,933	7,480	8,209	9,155
Minority Interest	5	6	8	9
Total Equity	6,938	7,487	8,217	9,164
Non-Current Liabilities				
Borrowings	18,867	19,755	18,527	17,206
Fair Value of Interest Rate Swaps	1,643	1,526	1,408	1,291
Provision for End of Service Benefits	116	212	212	212
Total Non-Current Liabilities	20,626	21,492	20,146	18,708
Current Liabilities				
Borrowings	928	1,017	1,070	1,163
Accounts Payables/Accruals & Due to Related Parties	773	2,164	2,363	2,370
Fair Value of Interest Rate Swaps	300	279	257	236
Total Current Liabilities	2,000	3,459	3,690	3,768
Equity and Liabilities	29,564	32,439	32,054	31,640

Source: Company data, QNB FS estimates

Qatar Islamic Bank (QIBK)

Recommendation	REDUCE	Risk Rating	R-3
Share Price	QR15.22	Target Price	QR12.90
Implied Upside	(15.2%)		

Strong 3Q2019; Valuation Remains Stretched

Qatar Islamic Bank (QIBK) reported QR700.2mn in 3Q2019, beating our estimate (+7.9% variation) on the back of higher-than-expected non-funded income. Net profit grew by 16.2% YoY driven by net interest & investment income (+5.2% YoY), non-funded income (+29.0%), flat opex and a small decrease in provisions (4.4%). QIBK's margins compressed YoY and sequentially while the bank's positive RoE trajectory continued (19.3%). Moreover, QIBK remained cost efficient while generating positive JAWs. Furthermore, asset quality and capitalization levels remained healthy.

Highlights

- Net profit jumped by 16.2% YoY (+6.8% QoQ) driven by net interest & investment income, fees & commissions along with flat opex and lower provisions.** QIBK reported net profit of QR790.0mn in 3Q2019, gaining by 16.2% YoY, beating our estimate (+7.9% variation). The beat was solely due to non-funded income coming in much higher than what we had anticipated. Net operating income (in-line with estimates) increased by 12.4% due to strong growth in revenue (net interest & investment income and fees) along with flat opex. Moreover, net income increased because of a 4.4% decline in provisions and impairments. Non-funded income was strong mainly due to fee income, which was unusually large and in our view, not sustainable. The sequential growth in the bottom-line was mainly due to a 15.6% drop in provisions & impairments.
- Margins remained under pressure YoY and sequentially.** The bank generated net interest margin of ~3.0% in 3Q2019, contracting YoY by 10bps. This was a result of growth in CoFs outpacing growth in yields on assets. On a QoQ basis, NIM also compressed by ~10bps as CoFs expanded by ~20bps, while yields gained by 10bps.
- Positive RoE trajectory continues.** QIBK boasts one of the highest RoEs among its peers. The bank's RoE (annualized) increased from 18.0% in 3Q2018 to 19.3% in 3Q2019.
- QIBK remained cost-efficient generating positive JAWs.** The bank's C/I ratio receded to 23.0% vs. 25.2% in 3Q2018 (23.8% in 2Q2019). Moreover, QIBK generated JAWs of 9.3% and 3.6% YoY and QoQ, respectively.
- Net loans sequentially remained flat, while deposits declined.** Net loans remained flat QoQ at QR107.0bn (+4.7% YTD). On the other hand, deposits dropped by 0.9% QoQ (+6.0% YTD) to QR106.6bn. QIBK's LDR (based on stable sources of funds) improved to 90% vs. 93% in FY2018.
- Asset quality remains healthy.** NPL ratio remained at 1.2% in 3Q2019 vs. 2Q2019 and FY2018. During the same time, NPLs increased modestly by 4.2% QoQ (+3.6% YTD). On the other hand, coverage ratio of Stage 3 loans (NPLs) was a strong 100%.
- Capitalization remained strong.** QIBK's CET1 and Tier-1 ratios remained robust at 13.5% and 17.2%, respectively.

Catalysts

- Given that QIBK is trading at an elevated premium to its historical P/B of 1.6x, we believe the company will have to show accelerating performance to maintain momentum in its stock price.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR12.90 and Reduce rating.** QIBK is trading at a 2020e P/TB and P/E of 2.0x and 12.3x, respectively. Valuation remains rich at these levels.
- Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2018	2019e	2020e	2021e
EPS (QR)	1.05	1.15	1.24	1.34
EPS Growth (%)	15.9	9.6	7.8	7.9
P/E (x)	14.5	13.2	12.3	11.4
Tangible BVPS (QR)	6.4	7.0	7.8	8.6
P/TBV (x)	2.4	2.2	2.0	1.8
DPS (QR)	0.50	0.50	0.53	0.58
Dividend Yield (%)	3.3	3.3	3.4	3.8

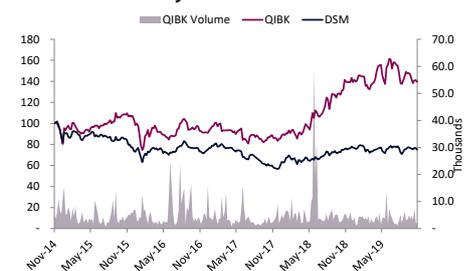
Source: Company data, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	15.22
Dividend Yield (%)	3.3
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	17.70/14.16
3-m Average Volume ('000)	820.9
Mkt. Cap. (\$ bn/QR bn)	9.9/36.0
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	49.0
Current FO* (%)	10.8
1-Year Total Return (%)	2.8
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Detailed Financial Statements

(In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,666	3,400	3,542	3,793	4,154	4,612
Fees & Commissions	519	518	576	652	711	709
FX Income	176	139	259	130	145	157
Other Income	291	106	142	178	222	294
Non-Interest Income	986	763	978	960	1,078	1,160
Total Revenue	3,652	4,162	4,519	4,753	5,232	5,771
Operating Expenses	(1,089)	(1,106)	(1,161)	(1,132)	(1,212)	(1,302)
Net Operating Income	2,563	3,057	3,358	3,621	4,020	4,469
Net Provisions & Impairments	(448)	(785)	(720)	(694)	(765)	(973)
Net Profit Before Taxes & Non-Recurring Items	2,116	2,271	2,638	2,927	3,255	3,496
Tax	(10)	(18)	2	(18)	(20)	(21)
Net Profit Before Minority Interest	2,105	2,253	2,641	2,910	3,236	3,475
Minority Interest	44	155	115	90	(19)	(21)
Non-Recurring/Unusual Gains/(Losses)	5	(2)	0	0	0	0
Net Profit (Headline)	2,155	2,405	2,755	3,000	3,216	3,454
Interest On Tier-1 Sukuk	(135)	(205)	(205)	(205)	(205)	(205)
Social & Sports Contribution Fund	(54)	(60)	(69)	(75)	(80)	(86)
Net Profit (Attributable)	1,966	2,140	2,481	2,720	2,931	3,163

Source: Company data, QNB FS Research

(In QR mn)	2016	2017	2018	2019e	2020e	2021e
Assets						
Cash & Balances with Central Bank	5,447	5,546	7,299	6,507	9,191	6,862
Interbank Loans	10,150	4,876	6,424	6,979	5,743	5,091
Net Investments	19,959	30,402	31,146	32,765	36,080	40,324
Net Loans	98,171	102,613	102,210	107,371	114,867	127,283
Investment In Associates	875	669	568	574	587	598
Other Assets	3,354	3,156	3,489	3,308	4,046	4,623
Net PP&E	517	511	479	469	479	480
Investment In Real Estate	930	1,944	1,231	1,169	1,203	1,238
Assets of a Subsidiary Held for Sale	0	246	0	0	0	0
Goodwill & Intangible Assets	432	411	386	343	300	257
Total Assets	139,834	150,375	153,232	159,485	172,495	186,755
Liabilities						
Interbank Deposits	13,607	17,191	17,234	13,541	10,429	6,705
Customer Deposits	95,397	101,815	100,598	108,445	122,542	137,248
Sukuk Financing	6,791	7,057	9,145	10,974	11,523	12,099
Other Liabilities	4,041	3,432	5,516	4,338	4,044	4,804
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	123,835	133,495	136,493	141,297	152,539	164,855
Minority Interest	1,761	1,591	1,319	1,229	1,248	1,269
Total Shareholders' Equity	14,238	15,289	15,420	16,959	18,708	20,631
Total Liabilities & Shareholders' Equity	139,834	150,375	153,232	159,485	172,495	186,755

Source: Company data, QNB FS Research

Key Indicators/KPIs	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE	14.7	15.0	16.2	17.6	17.3	16.9
RoAA	1.5	1.5	1.6	1.7	1.8	1.8
RoRWA	1.9	2.0	2.3	2.5	2.4	2.3
NIM (% of IEAs)	2.22	2.60	2.60	2.69	2.78	2.85
NIM (% of RWAs)	2.54	3.16	3.27	3.47	3.47	3.36
NIM (% of AAs)	2.00	2.34	2.33	2.43	2.50	2.57
Spread	1.87	2.23	2.19	2.22	2.28	2.25
Efficiency (%)						
Cost-to-Income (Headline)	29.8	26.6	25.7	23.8	23.2	22.6
Cost-to-Income (Core)	32.2	27.0	26.2	24.4	24.0	23.5
Liquidity (%)						
LDR	102.9	100.8	101.6	99.0	93.7	92.7
Loans/Assets	70.2	68.2	66.7	67.3	66.6	68.2
Cash & Interbank Loans-to-Total Assets	11.2	6.9	9.0	8.5	8.7	6.4
Deposits to Assets	68.2	67.7	65.7	68.0	71.0	73.5
Wholesale Funding to Loans	20.8	23.6	25.8	22.8	19.1	14.8
IEAs to IBLs	123.8	123.8	122.9	122.4	117.7	120.7
Asset Quality (%)						
NPL Ratio	1.0	1.2	1.2	1.3	1.2	1.2
NPL to Shareholder's Equity	7.0	7.9	8.2	8.4	7.7	7.7
NPL to Tier 1 Capital	5.8	6.5	6.7	7.2	6.9	7.1
Coverage Ratio	80.2	99.1	173.9	182.1	215.9	231.5
ALL/Average Loans	0.8	1.1	1.9	2.2	2.5	2.7
Cost of Risk	22	44	45	54	48	47
Capitalization (%)						
Tier 1 Ratio	16.2	16.9	17.8	17.6	16.5	15.2
CAR	16.7	17.3	18.8	18.7	17.5	16.2
Tier 1 Capital to Assets	12.2	12.4	12.3	12.4	12.1	11.9
Tier 1 Capital to Loans	17.4	18.1	18.5	18.4	18.2	17.5
Tier 1 Capital to Deposits	17.9	18.3	18.8	18.3	17.1	16.3
Leverage (x)	9.8	9.8	9.9	9.4	9.2	9.1
Growth (%)						
Net Interest Income	3.9	27.5	4.2	7.1	9.5	11.0
Non-Interest Income	19.2	-22.7	28.2	-1.8	12.4	7.6
Total Revenue	7.6	14.0	8.6	5.2	10.1	10.3
OPEX	4.3	1.5	5.0	-2.6	7.1	7.4
Net Operating Income	9.1	19.2	9.9	7.8	11.0	11.2
Net Income (Attributable)	6.0	8.9	15.9	9.6	7.8	7.9
Loans	12.2	4.5	-0.4	5.0	7.0	10.8
Deposits	4.2	6.7	-1.2	7.8	13.0	12.0
Assets	9.8	7.5	1.9	4.1	8.2	8.3
RWAs	0.2	4.7	-3.3	5.5	13.4	15.6

Source: Company data, QNB FS Research

Widam Food (WDAM)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR6.39	Current Target Price	QR8.20
Implied Upside	28.1%		

3Q2019 Results On Track, Maintain Accumulate

Widam's 3Q2019 results show that the company is on track with our FY2019 estimates. We continue to anticipate Widam's 2019e EPS to decline by 14.2% over 2018's. In 2020, given the lack of one-off items depressing EPS growth in 2019, we expect WDAM's EPS to rise by 18.0% YoY. The Strategic Food Security Projects disclosed by the Ministry of Municipality and Environment (MME) in March 2019 envisages that local production of red meat could go up from the current 18% to 30% by 2023. Widam, the leading livestock and red meat provider of Qatar and a key contributor to Qatar's National Food Security Program, is likely to be the top beneficiary of increasing local production, which should enjoy higher profitability vs. imports. Widam is also increasing its slaughterhouse capacity from 3,100 heads/day to 5,100 per day by 2020. Moreover, the company offers attractive dividend yields of 7.0% for 2019 and 2020. **Despite these positives, headline EPS should decline this year providing investors an avenue to accumulate these shares ahead of dividend distribution and earnings recovery in 2020.**

Highlights

- **WDAM posted 3Q2019 net income/EPS of QR14.2mn/QR0.08, down 25.7% YoY and 39.5% QoQ.** In 9M2019, WDAM reported net profit of QR63.39mn vs. QR79.65mn in 9M2018, declining 20.4% YoY, which was primarily due to the discontinued Al Rkiya operation. During 2Q2019, Widam discontinued its Al Rkiya farm, disposing off all its biological assets at a net loss of QR13.8mn. EPS amounted to QR0.35 in 9M2019 vs. QR0.44 in 9M2018.
- **Gross profits rose by 6.3% YoY in 3Q2019 aided by improved cost of sales.** While Widam's revenue remained barely flat YoY with a 0.5% decline YoY, a 13.1% contraction in its cost of sales drove the gross profit growth, despite a 20.5% YoY contraction in government compensation. Sequentially, both revenue and gross profit was down (32.5% and 36.1%, respectively) as live sheep imports from Australia ceased due to the hot weather during the summer months.
- **G&A rose by 50.8% YoY and 45.7% QoQ, as expected, reaching QR45.9mn.** While breakdown of G&A is only available in year-end results, we believe the rise in 3Q2019 G&A should be attributable to non-recurring items. Other income (QR3.1mn as of 3Q2019) was lower 9.1% YoY given the lack of 2018's one-off items coupled with lower income on bank deposits (down 8.7% YoY).
- **We continue to anticipate Widam's 2019e EPS to decline by 14.2% over 2018. In 2020, given the lack of these one-off items, we expect WDAM's EPS to rise by 18.0% YoY.**
- **Widam plans to increase its slaughterhouse capacity significantly from 3,100 heads/day to 5,100 in 2020** (assuming some rationalization of its existing capacity). The company plans to open one of the largest slaughterhouses in the Middle East at Al Wakrah/Doha during 2020 with a slaughtering capacity of 3,500 heads/day.
- **Widam offers a superior dividend yield, compared to both its international peers and other Qatari stocks.** In-line with 2018, we expect Widam to distribute QR0.45/share in dividends for both 2019 & 2020, which equates to a dividend yield of 7.0%.

Catalysts

1) EPS recovery in 2020 and 2) A potential increase in 2020-2021 dividend payout ratios & DPS.

Recommendation, Valuation and Risks

- **We rate Widam as Accumulate and our 12-month target price of QR8.20 implies a 28.1% upside potential.** WDAM's 2019e and 2020e P/E multiples imply 32% and 25% discounts respectively to its international peer group, while its EV/EBITDA multiples are at 12% and 7% discounts. On the other hand, WDAM's 2019-2020e dividend yields of 7.0% is notably above the international peer group average of 2.0% for 2019e and 2.7% for 2020e as well as Qatari stocks' averages of 4.1% and 4.3% respectively.

Risks: 1) Supply issues hurting imports and 2) Geopolitical risks.

Key Financial Data and Estimates

	2017	2018	2019e	2020e
EPS (QR)	0.60	0.60	0.52	0.61
P/E (x)	10.7	10.6	12.4	10.5
EV/EBITDA (x)	8.3	8.9	8.6	8.1
DPS (QR)	0.43	0.45	0.45	0.45
DY (%)	6.7%	7.0%	7.0%	7.0%

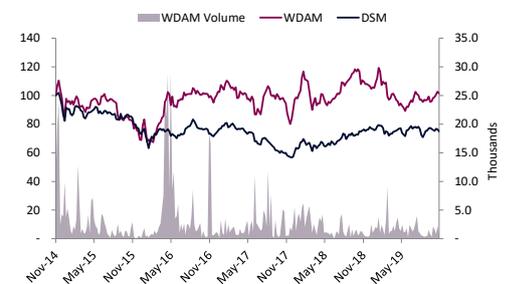
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

Key Data

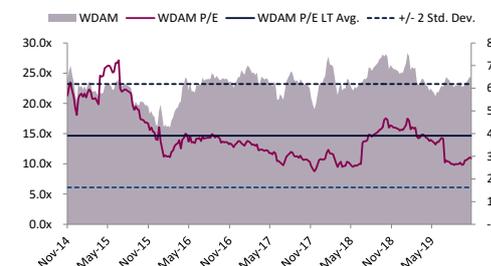
Current Market Price (QR)	6.39
Dividend Yield (%)	7.0
Bloomberg Ticker	WDAM QD EQUITY
Reuters Ticker	WDAM.QA
ISIN	QA000A0KD6N7
Sector	Agricultural Prod.
52wk High/52wk Low (QR)	7.80 / 5.62
3-m Average Volume ('000)	198.1
Mkt. Cap. (\$ bn/QR bn)	0.3 / 1.2
Shares Outstanding (mn)	180.0
FO Limit* (%)	49.0
Current FO* (%)	24.8
1-Year Total Return (%)	(2.4)
Fiscal Year End	December 31

Source: Bloomberg (as of October 31, 2019), *Qatar Exchange (as of October 31, 2019); Note: FO is foreign ownership

Relative Price Performance vs. Market Indices



Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

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Ratio Analysis

Key Metrics

Particulars	2017	2018	2019e	2020e	2021e
Growth Rates					
Revenue	11.6%	4.1%	7.7%	2.6%	3.2%
Gross Profit	12.4%	(0.6%)	5.0%	2.1%	2.5%
EBITDA	7.6%	(6.6%)	4.8%	5.6%	3.3%
EBIT	8.3%	(6.6%)	4.9%	5.6%	3.3%
PAT/EPS	N/M	0.3%	(14.2%)	18.0%	3.4%
DPS	N/M	5.9%	0.0%	0.0%	0.0%
CFPS	N/M	(18.2%)	(2.7%)	38.0%	3.3%
Operating Ratios					
Gross Margin	29.8%	28.4%	27.7%	27.6%	27.4%
Gross Margin, Excluding Depreciation & Amortization	29.8%	28.4%	27.7%	27.6%	27.4%
EBITDA Margin	20.7%	18.6%	18.1%	18.6%	18.6%
EBIT Margin	20.6%	18.5%	18.0%	18.5%	18.5%
Net Margin	21.8%	21.0%	16.7%	19.2%	19.3%
Working Capital Ratios					
Inventory Days	76	112	120	126	131
Average Collection Period	4	7	8	9	10
Payable Days	199	212	218	224	227
Finance Ratios					
Debt-Equity Ratio	0%	0%	1%	1%	1%
Net Debt-Equity Ratio	-87%	-81%	-77%	-76%	-74%
Net Debt-to-Capital	-664%	-419%	-331%	-310%	-291%
Net Debt-to-EBITDA	(2.9)	(3.1)	(2.8)	(2.8)	(2.8)
Interest Coverage	N/M	N/M	N/M	N/M	N/M
Return Ratios					
ROIC	29.8%	26.1%	27.0%	26.8%	26.2%
ROE	31.6%	29.7%	25.3%	28.1%	27.4%
ROA	17.6%	16.6%	14.0%	15.7%	15.6%
FCF Yield	7.9%	6.4%	6.1%	8.6%	8.9%
Liquidity Ratios					
Current Ratio	2.2	2.2	2.2	2.2	2.3
Quick Ratio	2.1	2.2	2.1	2.1	2.2
Valuation					
EV/Sales	1.7	1.7	1.6	1.5	1.4
EV/EBITDA	8.3	8.9	8.6	8.1	7.7
EV/EBIT	8.4	9.0	8.7	8.1	7.7
P/E	10.7	10.6	12.4	10.5	10.2
P/CF	12.1	14.8	15.2	11.0	10.7
P/BV	3.4	3.2	3.1	2.9	2.8
Dividend Yield	5.1%	6.1%	7.0%	7.0%	7.0%
FCF Yield	7.9%	6.4%	6.1%	8.6%	8.9%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (QR mn)

	2017	2018	2019e	2020e	2021e
Revenue	495,742	515,916	555,602	570,285	588,587
COGS	774,916	931,564	935,041	966,148	997,028
Depreciation	4,112	3,464	4,626	4,742	4,860
Government Compansation	430,853	565,725	538,074	557,805	574,422
Gross Profit	147,567	146,614	154,010	157,200	161,121
SG&A	48,904	54,107	58,019	55,694	56,251
Depreciation	545	504	504	529	556
Operating Income	98,117	92,002	95,486	100,977	104,314
EBITDA	102,775	95,970	100,617	106,248	109,730
EBITDA Margin %	20.7%	18.6%	18.1%	18.6%	18.6%
Gain from change in fair value less costs to sell of biological assets	0	768	0	0	0
Provision Expenses	0	0	0	0	0
FX gains (losses)	434	-28	622	0	0
Other Income	9,529	15,651	10,691	8,670	9,033
Total Other Income	9,963	16,391	11,313	8,670	9,033
Financial Expenses	0	0	0	0	0
Net profit before discontinued operations	108,080	108,393	106,800	109,647	113,347
Discontinued operations	0	0	-13,846	0	0
Non controlling interests	0	0	0	0	0
Net Income	108,080	108,393	92,954	109,647	113,347
<i>Net Profit Margin</i>	<i>21.8%</i>	<i>21.0%</i>	<i>16.7%</i>	<i>19.2%</i>	<i>19.3%</i>
<i>Shares Outstanding (mn)</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>	<i>180,000</i>
EPS	0.60	0.60	0.52	0.61	0.63
DPS	0.43	0.45	0.45	0.45	0.45

Note: EPS based on current number of shares

Balance Sheet (QR mn)

	2017	2018	2019e	2020e	2021e
Cash & Cash Equivalents	47,704	15,561	17,117	17,117	17,117
S/T Deposits	250,000	280,000	268,362	281,688	293,783
Accounts Receivable & Prepayments	260,690	280,737	302,333	315,610	328,964
Due From Related Parties	0	0	0	0	0
Biological assets/ Agricultural produce	1,286	18,074	0	0	0
Inventories	8,955	18,309	19,213	22,499	25,950
Total Current Assets	568,636	612,681	607,026	636,914	665,814
Right of use assets	0	0	10,661	11,129	11,600
Financial assets at fair value through other comprehensive income	6,175	4,000	4,000	4,000	4,000
Property, Plant & Equipment	17,552	18,599	24,248	25,461	26,734
Non-Current Assets	46,569	40,231	57,424	60,030	62,746
Total Assets	615,205	652,912	664,449	696,944	728,560
Short-Term Debt	483	483	507	532	559
Accounts Payable & Accruals	260,364	273,362	271,427	280,457	289,421
Other Payables	0	0	0	0	0
Finance lease liability	0	0	6,722	6,050	5,445
Current Liabilities	260,846	273,844	278,655	287,038	295,424
Islamic borrowings	754	272	270	279	288
Long-Term Debt	0	0	3,296	2,966	2,670
Employees end of service benefits	11,604	13,368	15,372	16,140	16,947
Non-Current Liabilities	12,359	13,640	18,937	19,385	19,905
Total Liabilities	273,205	287,484	297,593	306,424	315,328
Total Shareholder's Equity	342,000	365,428	366,856	390,520	413,232
Minority Interest	0	0	0	0	0
Liabilities & Shareholder's Equity	615,205	652,912	664,449	696,944	728,560

Source: Company data, QNB FS Research

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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