4Q2018 Earnings: Robust Earnings Growth Promises Strong Dividends

***We expect Qatari stocks under coverage to maintain their earnings growth momentum in 4Q2018 with a +18.3% YoY increase, despite some sequential softness (-7.6%). IQCD, DHBK and VFQS** are estimated to contribute positively to the YoY net income growth of stocks under our coverage. On an overall basis, the Qatar Stock Exchange Index trades at a 2019 P/E of 13.3x, complemented by a dividend yield of 4.5%, while the MSCI GCC Index trades at a 12.5x P/E along with a dividend yield of 4.6%. The Qatari Index has made a strong comeback in 2018 rising 36.0% and 43.0% (on a total return or TR basis) from its lows reached on November 30, 2017. It also surpassed modestly its pre-embargo level on a price basis while gaining 11.2% in TR terms. Increased FOLs (and the resultant foreign flows) led by **QNBK & QIBK** and higher average oil prices have been the primary catalysts driving the index to be the top GCC performer in 2018. Going forward, we think Qatari stocks may need positive earnings and dividends surprises to carry the rally into 2019 in the short-term. Longer-term, we remain bullish on the Qatari stock market given attractive fundamental drivers and a significant spending program that should provide tailwinds for growth.*

Highlights

- **QSE equities offer attractive dividend yields vs. the region.** DHBK offers one of the best yields (9.0%) in the region even with an estimated dividend cut to QR2.0/sh. vs. QR3.0/sh. in 2017. Moreover, KCBK is yielding 6.4%, QIIK (5.9%), GISS (5.8%), QGTS (5.7%) and IQCD (5.1%).
- **We estimate banks under coverage (ex-QNBK) to experience a YoY increase of 17.5% largely due to a base effect stemming from DHBK (excluding DHBK, we estimate profitability to increase by 11.1%), while the QoQ drop (12.5%) is generally driven by higher provisions. Doha Bank (DHBK)** is expected to contribute positively to the YoY profitability performance based on our figures. We expect **DHBK's** bottom-line to surge in 4Q2018 due to halving of its provisions as the bank booked large provisions in 4Q2017 (largest in DHBK's operating history). On an operating level, DHBK remains weak with continued margin pressure and weak non-funded income. Moreover, we expect **Commercial Bank of Qatar (CBQK)** to continue its positive performance as the bank has made a successful turnaround and significantly lowered provisions while trimming opex. We pencil in a net income of QR408.9mn vs. QR344.7mn in 4Q2017 (QR404.6mn in 3Q2018), driven by lower provisions as CBQK has already provisioned for legacy NPLs.
- **We estimate a YoY jump of 19.2% in the bottom-line of diversified non-financials under coverage, while forecasting a marginal decline of 1.8% QoQ.** Based on our assumptions, **Industries Qatar (IQCD)** leads the significant growth in net income on a YoY basis followed by **Vodafone Qatar (VFQS)**. Regarding **IQCD, strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible.** (1) For steel, as we have mentioned previously, 3Q2018 gross margins came under pressure hitting their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 (21.5% in 2Q2018). Iron ore prices remain elevated, while selling prices could face headwinds due to regional oversupply/discounting and inventory dump in the fourth quarter. Going forward, electricity charges are also slated to go up. Consequently, we expect 4Q2018 steel gross margins at 15.0%, while prices are down moderately YoY/QoQ. (2) PE realizations are also under pressure. (3) Urea, on the other hand, is up nicely YoY and sequentially, and could drive results although prices have started to come down since early December. We note our estimates do not include any potential impairment charges. As far as **VFQS** is concerned, the company should continue its trend of positive earnings in 4Q2018; our forecasts are in-line with management's 2018 guidance. Revenue should grow 1% YoY and 12% QoQ, with the sequential boost driven by seasonality and handset sales. Profitability YoY continues to benefit from favorable license amortization costs comparison with VFQS' license extension for an additional 40 years (until 2068) helping reduce annual license amortization costs from QR403mn to QR84mn.
- **Risks:** Estimates can be impacted by one-offs, greater or lower provisions for banks and investment income/capital gains (losses). Volatile oil prices and geo-political tensions remains a substantial risk to regional equities and have a direct impact on stocks under coverage.

Fourth Quarter 2018 Estimates

	EPS (QR)			Revenue (QR mn)			DPS (QR)	
	4Q2018e	YoY	QoQ	4Q2018e	YoY	QoQ	2018e	Yield
Ahli Bank (ABQK)	0.61	5.2%	-30.7%	272.2	2.0%	5.5%	1.00	3.6%
Al Khalij Commercial Bank (KCBK)	0.39	44.0%	4.1%	267.0	-5.8%	-0.9%	0.75	6.4%
Commercial Bank of Qatar (CBQK)	1.01	18.6%	1.1%	911.5	0.5%	4.4%	1.50	3.7%
Doha Bank (DHBK)	0.60	N/M	-30.0%	670.6	-9.4%	0.9%	2.00	9.0%
Gulf International Services (GISS)	0.13	-60.5%	N/M	686.0	12.5%	5.4%	1.00	5.8%
Gulf Warehousing Co. (GWCS)	1.00	0.9%	2.2%	295.1	8.6%	-1.2%	1.80	4.4%
Industries Qatar (IQCD)	2.12	33.9%	-2.6%	1,458.0	0.2%	-4.9%	7.00	5.1%
Masraf Al Rayan (MARK)	0.66	6.5%	-12.2%	736.0	1.5%	3.0%	2.00	4.8%
Qatar Electricity & Water (QEWS)	2.77	0.1%	-11.3%	617.1	-12.6%	-8.1%	7.75	4.2%
Qatar Gas & Transport (QGTS)	0.39	-10.7%	0.0%	891.3	5.4%	0.2%	1.05	5.7%
Qatar International Islamic Bank (QIIK)	1.06	21.3%	-36.2%	296.9	-0.8%	-12.4%	4.00	5.9%
Qatar Islamic Bank (QIBK)	2.78	4.2%	-3.4%	1,128.5	21.9%	0.3%	5.25	3.3%
Qatar Navigation (QNNS)	0.91	-3.0%	1.4%	724.1	-13.3%	30.1%	3.47	5.1%
Vodafone Qatar (VFQS)	0.05	N/M	45.1%	541.1	1.0%	11.9%	0.10	1.2%
Total		**18.3%**	**-7.6%**	**9,495.4**	**0.9%**	**1.8%**		**4.9%**

Source: QNBFS Research; Note: EPS based on current number shares; Note: Yield information based on January 7, 2019 closing prices

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

Stock	4Q2017	3Q2018	4Q2018e	% Δ YoY	% Δ QoQ	Key Themes
GISS	62.78	5.22	**24.82**	**(60.5%)**	**375.3%**	**We still expect earnings improvement in 4Q2018 barring any impairments.** We expect 4Q2018 revenue/net income of QR686.0mn/QR24.8mn. We note we do not forecast any impairment; two offshore rigs, Al-Doha and Msheireb, are old and are currently not being used with GDI looking to deploy them outside of Qatar (in Asia). Success of this strategy is yet to be seen and a year-end 2018 impairment cannot be ruled out. We continue to model in a resumption of dividends with QR1 in DPS (DY: 5.8%) expected for 2018. Stock price improvement depends on a resumption of confidence in company performance. GISS stock continues to remain in a "show me" mode. We still model in strong overall EPS growth next year, primarily driven by drilling, albeit from a modest base. GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile. We do not expect this to change. However, we do expect drilling to pull itself out of losses suffered in 2016-2018 by 2H2019 in light of increasing demand due to the proposed North Field expansion and given our assumption of high utilization of existing rigs, startup of rig utilization contracts for additional rigs (similar to the Seadrill deal announced in July) and modest cost savings. *We rate GISS a Market Perform with a QR19 price target. Given its razor-thin margins, GISS is subject to significant quarterly earnings volatility.*
GWCS	58.20	57.49	**58.74**	**0.9%**	**2.2%**	**We have slightly tweaked our forecasts upward for 2018 with revenue/EPS going from QR1.20bn/QR3.93 to QR1.22bn/QR3.96.** We continue to expect QR1.80 in DPS for 2018 vs. QR1.70 for 2017. *We remain of the view that modest upside to our estimates, including DPS, is possible.* GWCS stock has been range-bound in the high-30s-low 40s since early 2018 and remains in search of a catalyst. We do note GWCS has withstood the blockade well with its freight forwarding segment showing significant growth; the company's logistics business also remains robust driven by contract logistics and increasing Bu Sulba occupancy. In our view, EPS growth of 8-10% over the next three years and low-mid teens FCF yield should attract longer-term investors into the name. *We maintain GWCS as an Outperform with a price target of QR51.*
IQCD	957.74	1,316.29	**1,282.69**	**33.9%**	**(2.6%)**	**Strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible.** (1) For steel, as we have mentioned previously, 3Q2018 gross margins came under pressure hitting their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 (21.5% in 2Q2018). Iron ore prices remain elevated, while selling prices could face headwinds due to regional oversupply/discounting and inventory dump in the fourth quarter. Going forward, electricity charges are also slated to go up. Consequently, we expect 4Q2018 steel gross margins at 15.0%, while prices are down moderately YoY/QoQ. (2) PE realizations are also under pressure. (3) Urea, on the other hand, is up nicely YoY and sequentially and could drive results although prices have started to come down since early December. We note our estimates do not include any potential impairment charges. It is no secret that the company is facing challenges with its 31.03%-owned Saudi Steel Associate, SOLB. The BV of this associate is QR37.8mn as of June 2018 (IQCD recorded a QR101.3mn impairment charge related to this associate in 2017). The company also recorded a QR28mn ECL in 1H2018 and has a contingent liability of QR479.1mn. We note that management did not record any impairment charge for SOLB in 1H2018 as its "Value in Use" exceeded the BV of QR37.8mn. *We maintain our QR126 PT and retain our Market Perform rating and continue to believe that with the stock enjoying solid momentum, upside in earnings/dividends are key for charting the way forward.*

Stock	4Q2017	3Q2018	4Q2018e	% Δ YoY	% Δ QoQ	Key Themes
QEWS	304.79	343.83	**305.03**	**0.1%**	**(11.3%)**	**Seasonally weak quarter with YoY comparisons to be impacted for the last time by RAF A decommissioning.** Yearly/QoQ comparisons are challenging (top-line down 13% YoY and -8% QoQ, while EPS flattish YoY but down 11% sequentially) given the de-commissioning of RAF A in end-2017 and seasonality; RAF A made up 9%/16% of QEWS' net power/water capacity as of 2017. Moreover, some reduction in revenue is due to RAF B given the lower revised tariff structure for this fully-depreciated plant. Some impact is also likely from RAF A1 with Kahramaa imposing a lower base-line K-Factor for gas charges (vs. a higher estimate previously assumed by QEWS in 2017). On the earnings side, YoY flat performance is attributable to lower margins at the older RAF A plant and QR46mn in one-off expenses in 4Q2017. The sequential fall in EPS is due to the aforementioned factors impacting revenue/GMs along with higher interest expenses that are projected up 46% YoY/10% QoQ. Finally, we project flat DPS of QR7.75 for 2018. QEWS' stock did not keep pace with the overall growth in the stock market last year given tepid 2Q/3Q results but we continue to like the company as a solid long-term play with a defensive business model. We rate QEWS an Accumulate with a QR209 price target. *QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields.* LT catalysts abound, including additional expansions domestically (like Facility E; a solar project called Siraj, etc.). Beyond Paiton in Indonesia, we do not have color on other Nebras projects, which could lead to growth relative to our model.
QGTS	239.83	214.11	**214.11**	**(10.7%)**	**0.0%**	**Operating metrics should continue to show improvement.** On a YoY basis, adjusted revenue/adjusted EBITDA should post 5%/7% growth rates. However, 4Q2017 also included QR65mn in realized gains on investments, while 4Q2018 finance costs are expected up 5%. Net-net, this leads to an 11% YoY decline in net income. Sequentially, net income should be flattish with the QoQ increase in finance charges offset by operating items. Notwithstanding some quarterly variability, QGTS' wholly-owned business remains steady and predictable. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver (potentially another 30+ conventional vessels). Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve. *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. Our rating on QGTS is Accumulate with a price target of QR21.*

Stock	4Q2017	3Q2018	4Q2018e	% Δ YoY	% Δ QoQ	Key Themes
VFQS	(28.61)	26.72	**38.77**	**N/M**	**45.1%**	**VFQS should continue its trend of positive earnings in 4Q2018.** Our forecasts are in-line with management's 2018 guidance. Revenue should grow 1% YoY and 12% QoQ, with the sequential boost driven by seasonality and handset sales. Profitability YoY continues to benefit from favorable license amortization costs comparison with VFQS' license extension for an additional 40 years (until 2068) helping reduce annual license amortization costs from QR403mn to QR84mn. Sequentially, earnings growth is helped by the top-line. We continue to like VFQS' momentum in postpaid fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast resumption in dividends in 2018 after an almost 4-year hiatus; *indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. We stay Market Perform on VFQS with a price target of QR8.5.*

Source: QNBFS Research, company data

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

Stock	4Q2017	3Q2018	4Q2018e	% Δ YoY	% Δ QoQ	Key Themes
ABQK	121.56	184.61	**127.92**	**+5.2%**	**(30.7%)**	**We expect profitability to move up moderately YoY.** Based on our assumptions, we expect net profit to move up by 5.2% due to significantly lower impairments on investments. On a QoQ basis, we estimate a large drop in the bottom-line due to higher provisions vs. 3Q (historical trend). *We maintain our Market Perform rating and PT at QR33.*
KCBK	96.96	134.07	**139.62**	**+44.0%**	**+4.1%**	**We expect YoY growth in bottom-line to be driven by lower provisions.** The YoY surge in profitability is a result of a sharp drop in provisions as the bank booked heavy provisions in 4Q2017. We note 2016 and 2017 was the peak of provisions for the bank and this is expected to normalize in 2019. Moreover, gains in the bottom-line QoQ are primarily due to lower impairments on investments (KCBK booked large impairments on investments in 3Q2018). *For the time being, we maintain our Market Perform rating and PT at QR15.*
CBQK	344.67	404.56	**408.93**	**+18.6%**	**+1.1%**	**We do not expect any major surprises; CBQK is poised to deliver a decent set of results.** We estimate the YoY increase in CBQK's bottom-line to be driven by a 31% drop in provisions. Non-funded income is estimated to improve while margins are expected to remain under pressure. The QoQ uptick is also due to lower provisions. *We maintain our Market Perform rating and PT of QR35*.
DHBK	61.42	266.77	**186.80**	**N/M**	**(30.0%)**	**We expect continued weak figures as a result of margin pressure and weak non-funded income, but YoY surge is attributable to a sharp drop in provisions.** The estimated YoY surge in profitability is due to halving of provisions as the bank booked large provisions in 4Q2017 (largest in bank's operating history). On an operating level, DHBK remains weak as the bank focuses on risk management. We pencil in a sequential drop in profitability as a result of higher provisions. *For the time being, we maintain our Market Perform rating and PT at QR28.*

Stock	4Q2017	3Q2018	4Q2018e	% Δ YoY	% Δ QoQ	Key Themes
MARK	466.25	566.00	**496.70**	**+6.5%**	**(12.2%)**	**Lower provisions to drive profitability YoY.** On a YoY basis, the gain in profitability is due to lower provisions as MARK booked large provisions in 4Q2017 ahead of IFRS 9 implementation. On the other hand, drop in profitability QoQ is attributed to provisions vs. net reversals in 3Q2018. *We maintain our Market Perform rating and PT at QR34.*
QIIK	132.08	251.16	**160.21**	**+21.3%**	**(36.2%)**	**QIIK should follow historical trends.** We estimate a jump in earnings YoY due to lower provisions & impairments (in-line with historical trends; in the 4th quarter provisions decline YoY), while the QoQ decrease is due to both higher opex (historical trend) and provisions. Moreover, we expect further margin pressure in the 4th quarter as CoFs increases more than yields. *We maintain our Market Perform rating and PT of QR63.*
QIBK	630.21	679.99	**656.73**	**+4.2%**	**(3.4%)**	**We expect QIBK to continue its positive performance.** We pencil in a +4.2% YoY growth in the bottom-line driven by net operating income (+28.5%). However, growth is restrained due to higher provisions & impairments (in-line with historical trends). The sequential drop in profitability is estimated to stem from higher provisions on investments. *For the time being, we maintain our Market Perform rating and PT at QR104.*

Source: QNBFS Research, company data

Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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