Global Risks Overshadow Earnings Season; Qatar's Yield Play Cushions Valuations

We forecast 1Q2025 earnings to decline 2.7% YoY for our coverage universe. Sequentially we see earnings growing by 13.7%. *We see most of the YoY decline in 1Q2025 coming from* ***Industries Qatar (IQCD).*** *Excluding IQCD, aggregate earnings increase 1.3% YoY. Banks (excluding* ***CBQK****) could increase earnings by 4.2%, due to a combination of costs containment, flat- to- lower provisions and some improvement in margins. Including CBQK, banks' earnings are modeled to be flattish. Non-banks lead the increase in aggregate earnings sequentially, mainly attributable to* ***QEWS****.*

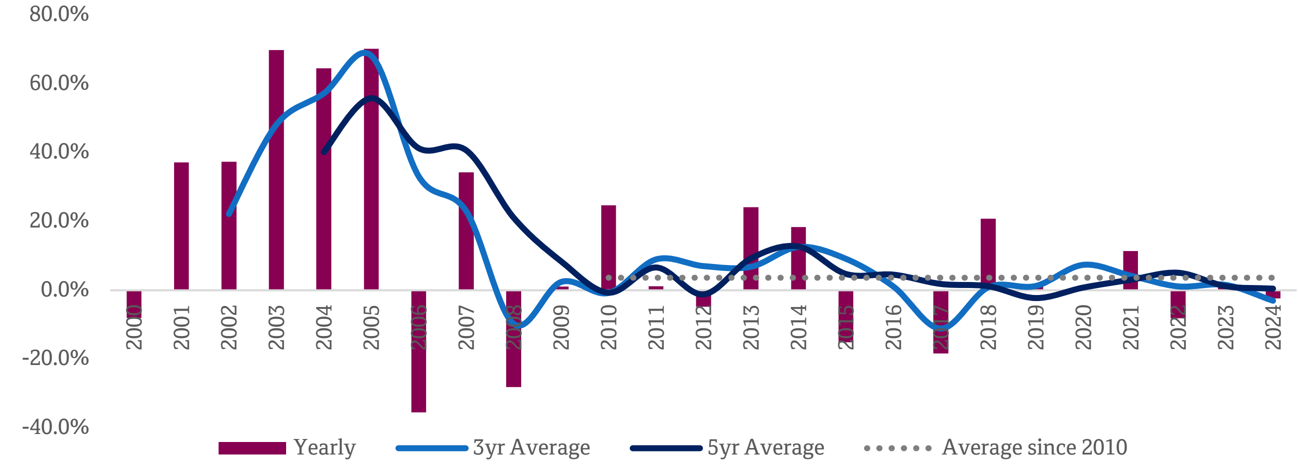
We remain constructive on Qatari equities as the mainstay LNG/fundamental story anchors the Qatari economy/equities directly/indirectly, *augmented by ramping up of the North Field project and the recently upgraded capacity expansion target – a significant portion of Qatar's expected annual LNG capacity increase is already signed-off in long-term supply contracts. In the non-oil/gas economy,* ***continued government efforts to grow/diversify the economy provide another platform for more companies to grow their earnings – with persistently strong tourism numbers since 2022 firmly supporting Qatar's target to attract 6mn/year visitors by 2030****. Moreover, the latest March 2025 PMI, at 52.0 vs. 51.0 in February, confirms the positive growth momentum in the non-oil economy since the beginning of the year.*

Meanwhile, ***the global economy that has been resilient through this phase of multi-decade high interest rates, even as it hums below the average LT growth rate, faces a new tariff-tantrum reality that has since raised stagflation fears****. The ACWI ended 1Q2025 down 1.7% (CY2024: +15.7%), but has since fallen 11.4% YTD (ending April 7th) primarily due to the April 2nd "Liberation Day" tariff whiplash. Locally,* ***the QSE finished lower by 3.2% in 1Q2025 (vs -0.4% in 4Q2024; -2.4% in CY2024),*** *underperforming the regional index that rose 0.8% in 1Q2025 (CY2024: +2.0%).* ***So far, regional markets have outperformed YTD (ending April 7th): though declining 6.4%, they have fared better than global markets that have sunk to correction levels, with the ACWI down 11.4%. Overall, foreign institutions (excluding GCC/Arab investors) were $328mn and $241mn net short Qatari equities in 1Q2025 (vs. $218mn net short in 4Q2024) and CY2024 (vs. $72mn net long in CY2023), respectively.*** *With the QCB following the Fed in cutting interest rates, we see a boost to the Qatari economy/equities.* ***According to the Bloomberg consensus, Qatar's GDP is expected to grow by 2.8% this year, up from 2.4% in 2024.*** *However, we note asset price volatility could significantly affect global markets in the short- to medium-term given the new tariffs.* ***Closer to home, geopolitical escalations and introduction of the 15% global minimum corporate tax rate for multinationals are additional headwinds for our market.*** *However, we are positive longer term on the Qatari market and* ***we believe that near-term market dislocations could present attractive opportunities for long-term investors*** *due to the following reasons:*

- **Qatar is relatively safe from US tariffs.** Risks to global growth have risen considerably in the past week following tariffs announced by the US. When it comes to Qatar, we note that the US has a favorable trade balance with Qatar, limiting the direct impact that the new tariffs/baseline 10% tariff could have on Qatar. This means, unlike most countries, the impact on Qatar is second-order in nature rather than direct. Despite Fed Chair Jerome Powell remaining cautious about the rate path due to tariff-induced inflation risks, the market has upwardly revised its rate cut bets, with at least four cuts now priced-in by the end of the year compared with just two expected in January. **Furthermore, Qatar has always been a yield play and more so now that interest rates are coming down.** We reckon that Qatari companies have solid financial metrics and strong dividend profiles/yields that will become relatively more attractive as central banks lower interest rates.
- **Supply-demand dynamics of oil/gas has become volatile in the near term as OPEC+ announced a supply hike 3x larger than anticipated for May.** Medium term, sanctions by Western countries on Russia, OPEC+ actions, regional geopolitical developments and expected stimulus by China (world's largest oil importer) bode well for demand. With Qatar utilizing a conservative oil price forecast ($60/bbl) in its budgeting, below the oil market price on average even at the current depressed levels, it builds natural budget buffers and positively serves Qatar's finances. This enables flexibility in government spending and improves credit availability within the economy.
- **With the successful hosting of the World Cup, perceived as one of the best editions and putting Qatar in the global spotlight, we are of the view that pockets of the Qatari stock market should benefit from this success.** Qatar has continued to grow its sports & MICE tourism brands. The impact has been immediate, with Qatar registering record 5.08mn visitor arrivals in 2024 and well on track to hit the 6mn/year visitors target by 2030.
- Over the medium- to long-term, **the North Field Gas Expansion, a nascent but growing tourism/sporting sector and QNV2030 investments to make Qatar an advanced economy,** will continue to be major growth drivers for our companies. The demand for Qatar's gas should remain strong for the foreseeable future on the back of geopolitical developments, specifically in Europe, with demand for LNG expected to peak between mid-2030s and mid-2040s.
- **IQCD follows QNBK in share buybacks; interim dividends & IPOs/listings could add momentum. With several QSE companies boasting strong balance sheets but beset with lower valuations, we are beginning to see new initiatives aimed at enhancing shareholder value. QNB Group** approved a QR2.9bn share buyback program in September 2024 – it had bought back 91.37mn shares by 08 April 2025. Recently, **IQCD** also followed suit and announced a QR1.0bn share buyback program in February 2025. QNBK led the market when it initiated interim dividends; and it is possible that other companies, as already the case with IQCD, could also follow the share buyback initiative. Moreover, new rules allowing the distribution of interim dividends by QSE-listed firms could further enhance Qatar's appeal to local and foreign investors. For the first time, **10 companies paid interim dividends related to 1H2024: QNBK, QIBK, QIIK, DUBK and QE-affiliated companies (IQCD, MPHC, QAMC, QFLS, QEWS and QGTS).** We believe this number could expand in 2025. In addition, a resurgence in IPOs could be on the horizon, with **GISS** on track to list a portion of Al Koot, its insurance business, in 2025.
- On top of Qatar's macro strengths, **Qatari companies enjoy robust balance sheets backed by low leverage and decent RoEs. Specifically, Qatari banks stand out with their exceptional capital adequacy ratios, strong provision coverage and high profitability**. The resumption of monetary loosening should further bolster the attractiveness of the Qatari equity market as a yield play.

Anchoring our overall convictions are Qatari valuations, looking attractive historically and relative to peers, especially given that we see earnings continuing to grow for the foreseeable future. We stay bullish longer term on Qatari equities given their defensive characteristics backed by their strong fundamentals. Moreover, from a technical viewpoint, with all three return measures (yearly, 3yr & 5yr) below trend, it is not inconceivable for QSE to end 2025 higher.

Qatar Stock Exchange Historical Price Returns



Source: QSE, Bloomberg, QNB FS Research

1st Quarter 2025 Estimates

					Net Income	EPS (QR)			Revenue (QR mn)		
	Price (QR)	Recommendation	Target (QR)	Return	1Q2025e		YoY	QoQ	1Q2025e	YoY	QoQ
Ahli Bank (ABQK)	3.366	Market Perform	3.573	6.1%	229.91	0.090	5.4%	-6.0%	475.28	2.2%	13.1%
Baladna (BLDN)*	1.149	Accumulate	1.630	41.9%	42.63	0.021	-11.7%	-3.1%	340.37	8.8%	18.9%
Commercial Bank of Qatar (CBQK)	4.149	Outperform	5.244	26.4%	671.43	0.166	-16.2%	-2.8%	1,256.75	-5.4%	29.3%
Doha Bank (DHBK)	1.934	Accumulate	1.883	-2.6%	257.94	0.083	11.5%	60.2%	696.29	5.6%	11.2%
Dukhan Bank (DUBK)	3.410	Market Perform	3.730	9.4%	435.29	0.083	2.9%	116.4%	669.08	2.1%	-9.4%
Gulf International Services (GISS)	2.960	Outperform	3.900	31.8%	214.84	0.116	33.3%	55.2%	1,202.33	28.0%	9.5%
Gulf Warehousing Co. (GWCS)	3.028	Accumulate	3.800	25.5%	37.55	0.064	-26.2%	51.0%	380.18	1.2%	-2.8%
Industries Qatar (IQCD)	12.17	Accumulate	15.20	24.9%	1,029.7	0.170	-19.6%	6.1%	3,445.1	18.3%	3.1%
Estithmar Holding (IGRD)*	2.327	Accumulate	2.231	-4.1%	129.91	0.035	16.3%	89.4%	1,354.74	70.1%	7.4%
Masraf Al Rayan (MARK)	2.168	Market Perform	2.623	21.0%	376.95	0.041	-7.2%	72.2%	798.26	-12.7%	5.8%
Qatar Electricity & Water (QEWS)	14.60	Accumulate	20.00	37.0%	370.44	0.337	16.3%	63.1%	697.90	1.5%	-4.8%
Qatar Gas & Transport (QGTS)	4.586	Outperform	5.600	22.1%	403.35	0.073	-3.9%	11.4%	895.65	0.1%	-1.0%
Qatar International Islamic Bank (QIIK)	9.891	Market Perform	11.26	13.8%	357.06	0.236	6.5%	62.4%	498.32	6.1%	-8.2%
Qatar Islamic Bank (QIBK)	20.00	Accumulate	22.45	12.3%	1,019.70	0.432	6.8%	-23.9%	1,704.95	5.7%	-6.8%
Qatar Fuel Co (QFLS)	14.47	Accumulate	18.59	28.5%	269.03	0.271	10.5%	-4.3%	7,327.25	7.2%	8.9%
Qatar Navigation/Milaha (QNNS)	10.87	Outperform	13.30	22.4%	331.08	0.291	-9.3%	61.8%	728.42	-2.5%	2.8%
QLM Life & Medical Insurance (QLMI)	1.995	Accumulate	2.371	18.8%	18.46	0.053	5.9%	81.3%	321.29	15.0%	-7.6%
Vodafone Qatar (VFQS)	1.990	Outperform	2.300	15.6%	153.94	0.036	2.6%	-5.9%	809.38	0.4%	0.8%
Medicare Group (MCGS)	4.545	Accumulate	5.524	21.5%	23.08	0.082	16.7%	-3.9%	135.51	4.2%	-3.9%
Meeza (MEZA)	2.942	Accumulate	4.025	36.8%	14.77	0.023	26.7%	-19.9%	96.21	14.3%	-16.2%
Mekdam Holdings (MKDM)*	2.815	Accumulate	3.400	20.8%	11.36	0.071	8.1%	-14.0%	145.13	0.2%	0.8%
Total					6,398.4		-2.7%	13.7%	23,978.4	8.3%	4.8%

Source: QNB FS Research

Highlights

Banks

- **Stock price performance of banks, YTD, has dropped in-line with the QSE Index; the banking sector index decreased by 6.9%, while the QSE Index declined by 6.4%; the drop in the indices is mainly attributable to uncertainty surrounding the markets given the new tariffs.** We are still of the view that booking flat-to-lower CoR vs. 2024 and modest expansion in NIMs, should aid the sector's bottom-line.
- **From a valuation perspective, Qatari banks are expensive vs. KSA/UAE, but significantly cheap vs. KW. However, Qatari banks retain relatively higher upside to RoE (i.e., Qatari banks could potentially boost their ROEs) vs. KSA/UAE, which would make them attractive from 2026 and onward.** Qatari banks are trading at a P/B of 1.3x with a RoE of 12.5% vs. the KSA (P/B: 1.2x, RoE: 13.6%), UAE (P/B: 1.2x, RoE: 15.6%) and Kuwait (P/B: 1.5x, RoE: 7.5%). ***We are of the view that a positive outlook on 2025 asset quality could serve as a catalyst as asset quality remains a concern for investors, especially for mid-sized banks given that NPLs have spiked along with Stage 2 loans (although Stage 2 loans started to show signs of improvement). More clarity from banks' managements on the period it would take to clean its books would be another positive. Moreover, announcements of projects that would involve credit-off take from domestic banks could also be promising.***
- **We estimate banks under coverage – excluding QNB Group (QNBK), which is not part of our coverage – to experience flattish YoY earnings growth, mainly due to weak performance from Commercial Bank of Qatar (CBQK). On the other hand, Qatar Islamic Bank (QIBK), Doha Bank (DHBK) and Qatar International Islamic Bank (QIIK) are estimated to contribute positively to aggregate earnings, (excluding CBQK, aggregate earnings are penciled to grow by 4.2%).** The YoY aggregate performance is due to a combination of costs containment and some improvement in margins. Sequentially, earnings are expected to follow historical trends; bottom-line is estimated to increase by 8.8%, mainly attributable to lower credit provisions and impairments.
    - **QIBK** continues to enjoy robust fundamentals with strong double-digit RoE generation (FY2025e/26e RoE: 16%), efficient costs management (2025e/26e C/I: 16.5%/16.0%)) and continuous margin expansion. **QIBK is modeled to grow its net profit by 6.8% YoY**

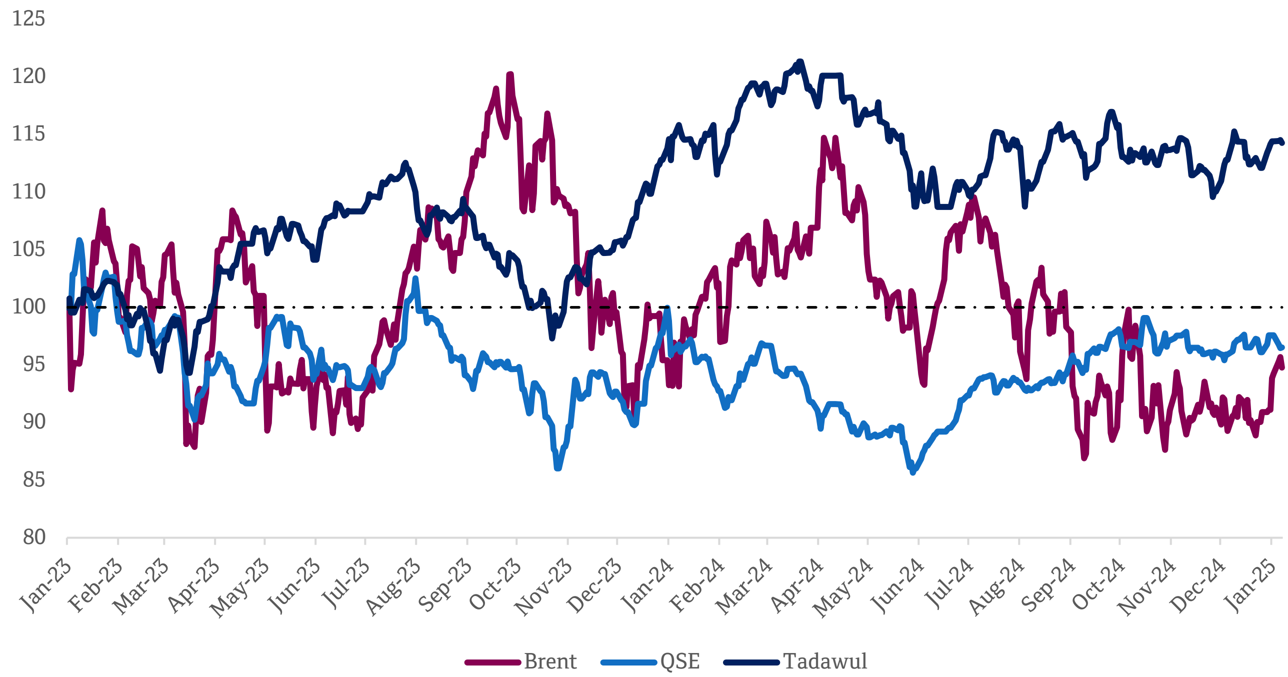
in 1Q2025, despite some margin pressure, driven by healthy non-funded income and costs containment Sequentially, QIBK's net profit is modeled to decline 23.9% (in-line with historical trends) given an increase in provisions/impairments. The name is trading at an attractive 2025e/26e P/TB 1.6x/1.4x vs. its 5-year low of 1.7x, high of 2.9x and average of 2.1x.

- **DHBK is also estimated to significantly contribute to aggregate earnings growth.** DHBK is expected to grow its 1Q2025 profitability by 11.5% YoY (base effect). Sequentially, the bottom-line is modeled to grow by 60.2% (in-line with historical trends) due to flat provisions & impairments and an improvement in net operating income. Based on our estimates, DHBK could generate FY2025e/26e RoE of 6.5%/7.0%, which is significantly lower than its CoE. The name trades at 2025e/26e P/B of 0.5x, which is a material discount to its book value.

Diversified

- **We estimate a YoY decrease of 4.9% and a sequential increase of 19.6% in the bottom-line of diversified non-financials under coverage. The YoY decline is attributable to Industries Qatar (IQCD), Milaha (QNNS) and Nakilat (QGTS), while the QoQ increase is driven primarily by Qatar Electricity & Water (QEWS), QNNS and Gulf International Services (GISS).**
  - **We expect IQCD's earnings to climb sequentially but remain below year-ago levels.** We expect IQCD to post a YoY earnings decline of 19.6% but report a sequential 6.1% uptick in net income. We note that 4Q2024 earnings, however, did include QR143.7mn of bargain purchase/FV gains as QAFAC was reclassified as a 50%-owned subsidiary from a joint venture. Accordingly, excluding these one-offs, we expect IQCD's 1Q2025 earnings to grow at a faster clip of 24.6% QoQ. Looking at the company's results by segment, we expect a doubling of petrochemical & fuel additives' earnings QoQ given weak performance in 4Q2024. We remind investors that segment EBITDA margin dropped to its lowest mark last year of 26% in 4Q2024 on higher operating costs; IQCD was impacted by higher cost inventory as production declined due to unplanned shutdowns, while year-end accruals also negatively affected segment profitability. For 1Q2025, segment results should also show growth, YoY, albeit at a more measured pace of mid-single digit increase. Prices should generally be down YoY/QoQ, except for Methanol while volumes should be up sequentially given 4Q2024's unplanned shutdowns. We expect EBITDA margin to remain flattish YoY at 38% but grow significantly vs. 4Q2024's 26%. In fertilizers, Middle East urea prices have strengthened YTD, with average prices exceeding the $400/MT mark modestly in 1Q2024. Urea gained up to the $445/MT levels in February due to seasonality but has since come off due to lower-than-expected Indian demand and increasing EU production. However, average realizations are still pegged to be strong (up ~10% YoY/QoQ) and should benefit IQCD's 1Q2025 earnings. Segment earnings are projected to decline significantly YoY as IQCD enjoyed an EBITDA margin of 49% in 1Q2024, its highest level in three years, benefitting from lower operating costs. We model 1Q2025 fertilizer EBITDA margin at 43% vs. 49%/44% in 1Q2024/4Q2024. Finally, in the steel segment, we model segment earnings to decrease YoY but increase QoQ. With the salvo of retaliatory tariffs creating uncertainty and threatening a global recession, the trajectory of IQCD's earnings from 2Q2025 remains up for debate.
- **Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks and investment income/capital gains (losses). Volatile oil & gas prices & geo-political tensions remain major risk factors to regional equities and have a direct detrimental impact on stocks under coverage.

QSE Price Performance Vs. Brent and KSA [Rebased to 100]



Source: Bloomberg, QNB FS Research

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

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

Contacts

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
Senior Research Analyst
+974 4476 6589
phibion.makuwerere@qnbfs.com.qa