

Ahli Bank (ABQK)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR3.700	Target Price	QR3.573
Implied Upside	(3.4%)		

2Q2024 Earnings Moderately Below Estimates; Profit Driven by NIMs

ABQK 2Q2024 earnings come below estimates. Ahli Bank's (ABQK) net profit increased by 6.3% YoY (declined by 24.4% QoQ) to QR164.9mn, modestly below our estimate of QR172.0mn (variation of -4.1%). Net-net, the bottom-line was driven by margin expansion and to some extent non-funded income. A surge in provisions & impairments prevented the bottom-line from increasing further than 6.3%; net operating income was strong, growing by 21.2%.

Highlights

- **The YoY increase in earnings was due to net interest income; fees and f/x income was strong but had an immaterial impact on the bottom-line.** Net interest income increased by 22.1% YoY, while, fees and f/x income increased by 10.1% and 51.3%, respectively. This resulted in revenue and net operating income to increase by 19.4% and 21.2% YoY and QoQ, respectively.
- **Margins expanded YoY, but compressed sequentially.** NIM increased by 6bps YoY as the drop in yields was lower than the drop in CoFs.
- **1H2024 annualized RoE was flat vs. 1H2023.** ABQK generated 1H2024 RoE of 10.7% vs. 10.5% in 1H2023, which remains well below its cost of equity.
- **ABQK remains cost-efficient.** The bank's C/I ratio decreased from 23.2% in 2Q2023 to 22.0% in 2Q2024 (20.6% in 1Q2024). The YoY decrease in the C/I ratio was a result of growth in revenue outpacing growth in opex.
- **Asset quality is continuously under pressure, but is manageable for now; majority of provisions were booked to Stage 2 loans.** NPLs increased by 11.7% QoQ (+10.5% vs. FY2023). Hence, the NPL ratio increased from 2.47% in 1Q2024 to 2.75% in 2Q2024 (FY2023: 2.48%). Coverage of Stage 3 loans declined from 83% in 1Q2024 to 77% in 2Q2024 (FY2023: 86%). Moreover, ABQK increased its buffers for Stage 2 loans by 8.4% sequentially (23.0% vs. FY2023) and Stage 2 ECLs contribute 53% to total provisions; coverage of Stage 2 loans is a significant 18%.
- **Credit Provisions surged both YoY and sequentially.** ABQK's credit provisions in 2Q2024 surged by 32.6% YoY (+20.7% sequentially) to QR167.6mn, which prevented the bottom-line from growing more than 6.3%.
- **Net loans continued to decline, while deposits continue to improve.** Net loans sequentially declined by 0.2% (-1.2% YTD) to QR34.3bn. On the other hand, deposits moved up by 0.8% (+4.2% YTD) to QR30.9bn.
- **Capitalization remains strong and well above the QCB limits.** ABQK ended 1Q2024 with CET1 & Tier-1 ratios of 17.7%/20.5%, respectively.

Catalysts

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

Recommendation, Valuation and Risks

- **Recommendation and valuation: we maintain our target price of QR3.573/sh. and our Market Perform rating.** ABQK trades at FY2024e P/B and P/E of 1.3x and 11.2x, respectively.
- **Risks:** 1) Oil price volatility and 2) stale stock price due to lack of liquidity.

Key Financial Data and Estimates

(In QR mn)	2023	2024e	2025e	2026e
EPS Attributable (QR)	0.303	0.329	0.357	0.388
Growth (%)	8.9	8.8	8.5	8.7
P/E (x)	12.2	11.2	10.4	9.5
BVPS (QR)	2.8	2.9	3.0	3.1
P/B (x)	1.3	1.3	1.2	1.2
RoE (%)	11.2	11.7	12.4	13.0
DPS (QR)	0.250	0.250	0.275	0.300
Dividend Yield (%)	6.8	6.8	7.4	8.1

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

Key Data

Current Market Price (QR)	3.700
Dividend Yield (%)	6.8
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Svc
52wk High/52wk Low (QR)	4.176/3.333
3-m Average Volume ('000)	111.0
Mkt. Cap. (\$ bn/QR bn)	2.6/9.4
Shares Outstanding (mn)	2,551.15
FO Limit* (%)	49.0
Current FO* (%)	0.0
1-Year Total Return (%)	(2.7)
Fiscal Year End	December 31

Source: Bloomberg (as of July 18, 2024), *Qatar Exchange (as of July 18, 2024); Note: FO is foreign ownership

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Detailed Financial Statements

(In QR mn)	2022	2023	2024e	2025e	2026e
Net Interest Income	1,277	1,401	1,500	1,600	1,705
Fees & Commissions	167	147	157	149	162
FX Income	60	34	45	54	60
Other Income	(5)	7	30	36	38
Non-Interest Income	222	188	231	239	260
Total Revenue	1,498	1,589	1,731	1,839	1,965
Operating Expenses	(336)	(362)	(388)	(413)	(445)
Net Operating Income	1,162	1,227	1,343	1,425	1,521
Net Provisions & Impairments	(390)	(391)	(437)	(446)	(460)
Net Profit (Reported)	772	837	906	979	1,060
Interest Expense on AT1 Perp. Security	(44)	(44)	(44)	(44)	(44)
Social & Sports Contribution Fund	(19)	(21)	(23)	(24)	(27)
Net Profit (Attributable)	709	772	840	911	990
EPS (Attributable)	0.278	0.303	0.329	0.357	0.388

Source: Company data, QNB FS Research

(In QR mn)	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	1,807	1,855	1,966	2,279	2,438
Interbank Loans	3,768	14,760	4,017	3,837	4,484
Net Investments	8,339	8,382	9,010	9,905	10,009
Net Loans	34,032	34,754	36,520	38,369	40,764
Other Assets	398	490	473	491	515
Net PP&E	230	223	215	207	211
Total Assets	48,575	60,464	52,200	55,088	58,422
Liabilities					
Interbank Deposits	3,988	15,001	5,059	5,245	6,323
Customer Deposits	28,954	29,645	30,712	32,555	34,834
Term Loans	6,941	6,951	7,368	7,884	7,490
Other Liabilities	718	622	614	684	766
AT1 Perpetual Securities	1,092	1,092	1,092	1,092	1,092
Total Liabilities	41,693	53,311	44,845	47,459	50,505
Total Shareholders' Equity	6,883	7,153	7,355	7,628	7,917
Total Liabilities & Shareholders' Equity	48,575	60,464	52,200	55,088	58,422
RWAs	38,337	37,961	39,555	42,206	45,244
BVPS	2.70	2.80	2.88	2.99	3.10

Source: Company data, QNB FS Research

Ratios	2022	2023	2024e	2025e	2026e
Profitability (%)					
RoE	10.8	11.2	11.7	12.4	13.0
RoRWA	1.9	2.0	2.2	2.2	2.3
RoA	1.5	1.4	1.5	1.7	1.7
NIM (% of IEAs)	2.8	2.7	2.8	3.2	3.2
NIM (% of RWAs)	3.4	3.7	3.9	3.9	3.9
NIM (Risk-Adjusted)	1.7	1.7	1.8	2.1	2.2
Yield on IEAs	4.5	6.2	5.9	5.4	5.6
CoFs	2.1	4.9	4.5	3.1	3.2
Spread	2.4	1.3	1.4	2.4	2.4
NPM	31.1	22.7	24.9	30.5	30.6
JAWs	11.5	-1.5	1.7	-0.4	-0.7
Efficiency (%)					
Cost-to-Income (Headline)	22.4	22.8	22.4	22.5	22.6
Cost-to-Income (Core)	22.3	22.8	22.8	22.9	23.0
Liquidity (%)					
LDR (Headline)	118	117	119	118	117
LDR (Stable Sources of Funds)	95	95	96	95	96
Loans to Assets	70	57	70	70	70
Liquid Assets Ratio	20	34	20	20	20
Cash & Interbank Loans-to-Total Assets	11	27	11	11	12
Wholesale Funding to Loans	32	63	34	34	34
Asset Quality (%)					
NPL Ratio	2.55	2.48	2.45	2.48	2.45
Coverage Ratio	199	234	266	282	313
Cost of Risk	110	100	105	102	99
Capitalization (%)					
CET1 Ratio	16.0	16.7	16.5	16.1	15.7
AT1 Ratio	2.8	2.9	2.8	2.6	2.4
Tier-1 Ratio	18.8	19.6	19.3	18.7	18.1
CAR	20.0	20.8	20.5	19.9	19.3
Growth (%)					
Net Interest Income	18.3	9.7	7.0	6.7	6.6
Non-Interest Income	-17.4	-15.1	22.9	3.2	9.1
Revenue	11.2	6.1	8.9	6.2	6.9
OPEX	-0.3	7.6	7.2	6.6	7.6
Net Operating Income	15.0	5.6	9.4	6.1	6.7
Net Income (Attributable)	5.2	8.9	8.8	8.5	8.7
Loans	1.4	2.1	5.1	5.1	6.2
Deposits	3.7	2.4	3.6	6.0	7.0
Assets	1.0	24.5	-13.7	5.5	6.1
Net Investments	-3.2	0.5	7.5	9.9	1.1
RWAs	2.1	-1.0	4.2	6.7	7.2

Source: Company data, QNB FS Research

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

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