ABQK Alert – 2Q2023 Profit In-Line With Estimates; Earnings Driven By NIM Expansion; Stay Reduce

- **ABQK reports in-line 2Q2023 earnings.** Ahli Bank's (ABQK) net profit increased by 11.4% YoY (-24.2% QoQ) to QR155.1mn, in-line with our estimate of QR150.9mn (variation of +2.8%).
- **The YoY increase in earnings was due to expansion in NIMs and investment income.** NIMs expanded by ~10bps to 2.64%. Hence, net interest income increased by 9.9% YoY (-1.5% QoQ). ABQK booked investment income of QR9.2mn vs. investment losses of QR12.8% in 2Q2022. The sequential decline in the bottom-line was due to a surge in credit provisions, in-line with historical trends.
- **Operating efficiency remained at healthy levels; generated positive JAWs.** The bank's C/I ratio improved to 23.2% in 2Q2023 vs. 24.6% in 2Q2022 (24.3% in 1Q2023). The YoY improvement in the C/I ratio was a result of strong growth in revenue and cost containment. ABQK generated YoY positive JAWs of 6.3% (+4.7% sequentially)
- **Asset quality remained healthy and manageable.** NPLs remained flat vs. FY2022 (-1.4% QoQ). At the same time, the NPL ratio declined from 2.55% in FY2022 to 2.46% in 2Q2023 (flat QoQ). Coverage of Stage 3 loans is a healthy 87%. Moreover, ABQK increased its buffers for Stage 2 loans by 25.2% YTD, raising coverage of Stage 2 loans from 14% in FY2022 to 16% in 2Q2023.
- **1H2023 CoR came in higher vs. 1H2022.** ABQK's credit provisions in 2Q2023 increased by 13.5% YoY (+83.8% sequentially) to QR126.4mn. Moreover, CoR (annualized) elevated from 89bps in 1H2022 to 105bps in 1H2023.
- **Net loans and deposits receded sequentially.** Net loans declined by 4.5% sequentially to QR35.1bn. Deposits also receded sequentially by 0.5% to QR30.5bn.
- **Capitalization remains strong.** ABQK ended 2Q2023 with a CET1 & Tier-1 of 16.6%/19.4%, respectively.
- **Recommendation & valuation:** ABQK trades at a P/TB of 1.4x based on our 2023 estimates. We maintain our Reduce rating and PT at QR3.283/share.

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QNB FINANCIAL SERVICES

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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