

## Ahli Bank (ABQK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR52.90	Target Price	QR54.00
Implied Upside	2.1%		

### Changing Estimates; Reducing Target Price to QR54.00

**Ahli Bank is one of Qatar's smallest lenders with a focus on the corporate and retail sectors.** As of FY2013, ABQK had a ~3% market share of loans and deposits (among listed banks). Focused on Qatar, along with a strategic shareholder (Qatar Foundation), ABQK's management has set forth a 5-year strategy targeting a 5% to 7% market share in loans and deposits.

#### Highlights

- **We estimate net income to grow by a CAGR of 12.1% (2013-2016e).** We expect net interest income along with net fees and commissions to drive future growth in profitability. We pencil in CAGRs (2013-2016e) of 11.6% and 9.9% for net interest income and fees and commissions, respectively. We base our assumptions on NIM compression in 2014 and 2015 and an increase from 2016 and onward. Fees are expected to grow as the bank generates more business given planned and ongoing infrastructure projects. ABQK is expected to end 2014 with a net income of QR582.5mn, or a robust growth of 13.6%. This growth comes on the back of a 10.0% growth in net interest income, 15.0% growth in fees and a surge in investment income (small in absolute terms). Moreover, we foresee core banking income (excluding investment income and dividends) growing by a decent 9.8% in 2014. Going forward, we estimate modest NIM compression (~19bps) in 2015 due to competitive market conditions. As such, net interest income is forecasted to grow by 7.7% only. Hence, we forecast a growth of 5.8% in 2015 earnings. Regarding 2016, net income is modeled to grow by 17.2% on the back of higher loan growth, expansion in NIMs and growth in fees. On the efficiency side, we maintain the cost-to-income, on average, in the lower-30s. We foresee ABQK expanding its loans and deposits by CAGRs (2013-2016e) of 18.0% and 14.3%, respectively

#### Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Improvement in the stock's trading liquidity; 2) Visible progress in the realization of management's strategy and 3) A consistent rise in market share.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain ABQK a Market Perform but we lower the price target to QR54.00 vs. QR57.20 previously.** ABQK trades at a FY2015e P/B and P/E of 2.0x and 13.8x, respectively.
- **Risks:** 1) Declining oil prices remains the biggest risk to ABQK and the banking sector; 2) Ahli Bank's market share gains do not materialize and 3) concentration risk and general risks rising from regional socio-political issues.

#### Key Financial Data and Estimates

	2013	2014e	2015e	2016e
EPS (QR)	3.18	3.62	3.83	4.48
EPS Growth (%)	13.01	13.64	5.80	17.19
P/E (x)	16.6	14.6	13.8	11.8
BVPS (QR)	21.6	25.2	26.9	28.8
P/B (x)	2.5	2.1	2.0	1.8
DPS (QR)	0.0	2.0	2.5	3.0
Dividend Yield (%)	0.0	3.8	4.7	5.7

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

#### Key Data

Current Market Price (QR)	52.90
Dividend Yield (%)	3.8
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	57.00/41.62
3-m Average Volume ('000)	2.6
Mkt. Cap. (\$ bn/QR bn)	2.4/8.7
Shares Outstanding (mn)	165.2
FO Limit* (%)	25.0
Current FO* (%)	0.1
1-Year Total Return (%)	22.8
Fiscal Year End	December 31

Source: Bloomberg (as of December 17, 2014), \*Qatar Exchange (as of December 17, 2014); Note: FO is foreign ownership

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## Revising Estimates

We adjust some of our assumptions for 2014 and 2015 and reduce our price target. We changed our net interest income on a marginal basis for 2014 while maintaining loan growth at 20.2%. We further decrease NIMs in 2015 since we assume moderate margin pressure along with lower-than-expected loan growth. Previously we had assumed a 20.0% growth in loans for 2015. However, we revise the loan growth to 14.0%. Our changes in estimates are based on our cautious outlook on 2015. The change in non-interest income is mainly attributed to better-than-expected fees and investment gains. We have significantly lowered our investment gains estimate for 2015. We pencil in a CAGR of 12.1% (2013-2016e) for net income (slightly less than the 15.0% growth in 2009-2013) vs. 15.2% previously. We arrive at the new growth rate by taking a measured stance on net interest income due to heavy competition in the banking sector. Moreover, we forecast higher provisions going forward due to a possible slowdown in the business environment

**Based on our revised estimates, the WEV method yields a price target of QR54.00 vs. QR57.20 previously. The only change we made to the assumptions in our valuation model is assuming a sustainable ROE of 17.0% vs. 20.0% previously. Despite falling oil prices, Qatar remains relatively insulated compared to its GCC neighbors. However, if oil prices remain depressed for an extended period, our estimates could be further revised downward.**

### Scenario Analysis

Scenario Analysis	Bear	Base	Bull
Sustainable RoAE	16.0%	17.0%	20.0%
G	4.0%	5.0%	5.0%
Ke	12.0%	11.0%	10.0%
<b>P/B</b>	<b>1.50</b>	<b>2.00</b>	<b>3.00</b>
<b>Fair Value</b>	<b>40.00</b>	<b>54.00</b>	<b>81.00</b>

Source: QNBFS estimates

### Major Estimate Changes

	2014e			2015e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	748	754	0.8	870	812	-6.6
Non Interest Income	180	187	4.1	192	196	2.1
Net Operating Income	612	648	5.8	713	690	-3.2
Net Income	588	597	1.6	681	632	-7.2

Source: QNBFS estimates

### 4Q2014 Estimate

	4Q2013	3Q2014	4Q2014	Change QoQ (%)	Change YoY (%)
Net Interest Income	184	192	204	6.0	11.0
Non Interest Income	38	38	45	19.8	18.4
Net Operating Income	152	161	167	3.8	9.9
Net Income	112	155	139	(10.4)	24.3

Source: Company data, QNBFS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	2013	2014e	2015e	2016e
Net Interest Income	685	754	812	953
Fees & Commissions	123	142	149	164
FX Income	25	20	22	24
Dividend Income	7	3	5	5
Gains from Investment Securities	4	17	16	17
Other Income	4	5	5	5
Non-Interest Income	164	187	196	215
<b>Total Income</b>	<b>850</b>	<b>942</b>	<b>1,008</b>	<b>1,169</b>
Operating Expenses	(274)	(294)	(318)	(351)
Net Provisions & Investment Impairment	(50)	(50)	(58)	(76)
<b>Net Profit</b>	<b>526</b>	<b>597</b>	<b>632</b>	<b>741</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	2013	2014e	2015e	2016e
<b>Assets</b>				
Cash & Balances with Central Bank	1,195	1,365	1,297	1,193
Interbank Loans	2,206	3,330	3,559	4,268
Net Investments	5,018	4,537	5,204	5,712
Net Loans	17,312	20,814	23,728	28,456
Other Assets	268	375	427	512
Net PP&E	178	246	244	243
<b>Total Assets</b>	<b>26,177</b>	<b>30,667</b>	<b>34,460</b>	<b>40,384</b>
<b>Liabilities</b>				
Interbank Deposits	1,785	2,771	2,982	4,570
Customer Deposits	19,958	22,753	25,938	29,829
Term Loans	182	182	182	182
Other Liabilities	688	796	908	1,044
<b>Total Liabilities</b>	<b>22,614</b>	<b>26,502</b>	<b>30,010</b>	<b>35,625</b>
<b>Shareholder's Equity</b>				
Share Capital	1,271	1,652	1,652	1,652
Statutory Reserves	1,338	1,338	1,338	1,338
Risk Reserves	383	395	451	541
Fair Value Reserves	28	47	47	47
Proposed Bonus Shares	381	-	-	-
Proposed Dividends	0	330	413	496
Retained Earnings	162	402	550	687
<b>Total Shareholder's Equity</b>	<b>3,563</b>	<b>4,165</b>	<b>4,451</b>	<b>4,760</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>26,177</b>	<b>30,667</b>	<b>34,460</b>	<b>40,384</b>

Source: Company data, QNBFS estimates

**Key Ratios**

	2013	2014e	2015e	2016e
<b>Profitability (%)</b>				
RoAE	15.0	15.5	14.7	16.1
NIM	3.2	2.9	2.7	2.7
RoAA	2.2	2.1	1.9	2.0
RoRWA	3.1	2.9	2.7	2.7
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	32.3	31.2	31.6	30.1
Cost-to-Income (Core)	32.7	31.9	32.2	30.6
<b>Liquidity (%)</b>				
LDR	86.7	91.5	91.5	95.4
Loans/Assets	66.1	67.9	68.9	70.5
Cash & Interbank Loans-to-Total Assets	13.5	15.8	14.6	13.9
<b>Asset Quality (%)</b>				
NPL Ratio	1.43	1.25	1.28	1.32
Coverage Ratio	125.3	128.3	125.1	126.1
Cost of Risk	0.0	0.3	0.3	0.3
<b>Capitalization (%)</b>				
Tier 1 Ratio	19.4	17.9	16.5	14.7
CAR	21.4	19.0	17.5	15.5
<b>Growth (%)</b>				
Net Interest Income	27.8	10.0	7.7	17.3
Total Operating Income	23.0	10.8	7.1	15.9
Net Income	13.0	13.6	5.8	17.2
Loans	23.5	20.2	14.0	19.9
Deposits	43.0	14.0	14.0	15.0

Source: Company data, QNBFS estimates

### Recommendations

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

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

### Risk Ratings

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

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

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