

Ahli Bank (ABQK)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR31.00	Target Price	QR33.00
Implied Upside	+6.4%		

In-Line 3Q2018; Lower Provisions Drive YoY & QoQ Bottom-Line Growth

Ahli Bank is one of Qatar's smallest lenders with a focus on the corporate and retail sectors. ABQK has 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 strategy targeting a 5% to 7% market share in loans and deposits.

Highlights

- ABQK's 3Q2018 YoY and sequential growth in bottom-line driven by lower provisions.** ABQK posted a net profit of QR184.6mn (in-line with our estimate of QR177.9mn, +3.8% variation), gaining by 4.9% YoY (+4.2% sequentially).
- Margins continued to compress.** Net interest income dropped by 2.1% YoY (-3.6% QoQ) to QR205.6mn. NIM compressed by 4bps and 5bps YoY and sequentially to 2.32%, respectively. The contraction was attributed to CoFs rising more than yield on assets. CoFs moved up by 58bps YoY (+35bps QoQ) to 3.26%, while yield on assets increased by only 30bps YoY (+10bps QoQ) to 4.95%.
- Efficiency ratio remained at acceptable levels, generated neutral JAWS.** On 9 months basis, total revenue increased by 2.4% while opex increased by 2.8% resulting in neutral JAWS. The C/I ratio remained flat YoY at 28.2% vs. 28.5% (28.0% in 2Q2018).
- Asset quality remains healthy.** NPL ratio to 1.18% vs. 1.25% in 2Q2018 (0.99% FY2017), while the coverage ratio improved to 114% vs. 95% in 2Q2018. As per IFRS 9 stage 1 loans represent 94% of total loans, which is a positive indicator.
- Capitalization remains strong.** ABQK's CET1 ratio rested at 15.8% at the end of 3Q2018 vs. 15.8% in FY2017.
- Growth in deposits outpaced loans.** ABQ's net loans moved up by 1.3% QoQ (-1.0% YTD), while deposits expanded by 4.7% QoQ (+0.4% YTD). As such the LDR dropped to 119% vs. 123% in 2Q2018 (121% end of 2017).

Catalysts

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

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain ABQK's price target at QR33.00 and Market Perform Rating.** ABQK trades at a FY2018e P/B and P/E of 1.3x and 9.7x, respectively. Moreover, the stock trades at PEG of 1.2x (based on a 2017-22e CAGR of 7.5%), indicating the stock is trading around its fair value.
- Risks:** 1) 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

	2017	2018e	2019e	2020e
EPS (QR)	3.17	3.21	3.42	3.78
Growth (%)	0.6	1.2	6.6	10.6
P/E (x)	10.2	9.7	9.1	8.2
BVPS (QR)	25.2	24.0	26.3	29.0
P/B (x)	1.2	1.3	1.2	1.1
DPS (QR)	0.95	1.00	1.00	1.50
Dividend Yield (%)	3.1	3.2	3.2	4.8

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

Key Data

Current Market Price (QR)	31.00
Dividend Yield (%)	3.2
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Financial
52wk High/52wk Low (QR)	42.37/24.29
3-m Average Volume ('000)	4.0
Mkt. Cap. (\$ bn/QR bn)	1.8/6.5
Shares Outstanding (mn)	210.4
FO Limit* (%)	25.0
Current FO* (%)	0.2
1-Year Total Return (%)	+6.1
Fiscal Year End	December 31

Source: Bloomberg (as of October 21, 2018), *Qatar Exchange (as of October 21, 2018); Note: FO is foreign ownership

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Detailed Financial Statements

Key Ratios	2017	2018e	2019e	2020e
Profitability (%)				
RoAE (Attributable)	12.6	13.0	13.6	13.7
NIM	2.3	2.3	2.4	2.4
RoRWA (Attributable)	2.1	2.1	2.1	2.2
Efficiency (%)				
Cost-to-Income (Headline)	30.6	30.4	29.5	28.9
Cost-to-Income (Core)	30.8	30.7	29.7	29.1
Liquidity (%)				
LDR	120.6	119.0	116.6	114.9
Loans/Assets	72.6	74.9	73.4	73.7
Cash & Interbank Loans-to-Total Assets	19.7	15.0	16.4	15.9
Asset Quality (%)				
NPL Ratio	1.31	1.18	1.32	1.28
Coverage Ratio	108.4	100.0	94.2	107.8
Cost of Risk	24	25	28	28
Capitalization (%)				
Tier 1 Ratio	15.3	15.3	15.6	15.6
CAR	15.5	16.4	16.8	16.8
Growth (%)				
Net Interest Income	13.5	2.3	8.4	10.2
Net Operating Income	9.1	3.9	8.4	10.1
Net Income	1.3	5.5	6.6	10.6
Loans	7.7	1.6	7.8	8.4
Deposits	-12.0	3.0	10.0	10.0

Source: Company data, QNBFS Research

Income Statement (In QR mn)	2017	2018e	2019e	2020e
Net Interest Income	834	854	926	1,020
Fees & Commissions	174	182	195	201
FX Income	23	24	21	24
Other Income	13	23	18	20
Non-Interest Income	210	229	234	245
Total Revenue	1,044	1,083	1,159	1,265
Operating Expenses	(319)	(329)	(342)	(365)
Net Operating Income	725	754	817	900
Net Provisions & Investment Impairment	(85)	(79)	(98)	(104)
Net Profit (Headline/Reported)	640	675	719	796
Social & Sports Contribution Fund	(16)	(17)	(18)	(20)
Net Profit (Attributable)	624	658	701	776

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	2017	2018e	2019e	2020e
Assets				
Cash & Balances with Central Bank	1,980	1,828	2,038	2,182
Interbank Loans	2,202	1,176	1,901	1,717
Net Investments	6,100	6,059	6,662	7,445
Net Loans	28,936	29,395	31,682	34,343
Other Assets	407	558	634	653
Net PP&E	259	255	257	265
Total Assets	39,883	39,271	43,174	46,605
Liabilities				
Interbank Deposits	3,982	2,402	3,252	2,955
Customer Deposits	23,987	24,707	27,177	29,895
Term Loans & Other Borrowings	5,817	5,875	6,169	6,600
Other Liabilities	804	1,235	1,033	1,046
Total Liabilities	34,590	34,219	37,631	40,497
Shareholder's Equity				
Total Shareholders' Equity	5,294	5,052	5,543	6,108
Total Liabilities & Shareholders' Equity	39,883	39,271	43,174	46,605

Source: Company data, QNBFS 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

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