

## Ahli Bank (ABQK)

Recommendation	Market Perform	Risk Rating	R-4
Share Price	QR38.00	Target Price	QR39.00
Implied Upside	+2.6%		

### Revising Estimates, Maintaining PT at QR39.00; Fairly Valued

*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 reported weak 2016 figures; in-line with our estimates.** Ahli Bank posted a net profit of QR637.7mn, in-line with our estimate of QR657.4mn (variation, -3.9%). The variation was solely due to higher than expected investment impairments which came in at QR43.5mn vs. our estimate of QR17.0mn.
- **ABQK's bottom-line was impacted by weak figures across the board.** Ahli Bank's net profit decreased by 2.5% as a result of a decline in net interest income and non-interest income. *Net interest income declined by 3.5% due to strong margin pressure as the NIM contracted by 36bps to 2.24%. Cost of funds increased by 57bps while yield on assets increased by 9bps.* The increase in cost of funds was due to a 24.6% increase in interest bearing deposits as the bank improved its liquidity position by lowering its LDR to 99% from 110% (2015). Moreover, weak f/x and investment income weighed negatively on non-interest income.
- **After a challenging 2016, we expect ABQK's performance to improve in 2017 and 2018.** We pencil in bottom-line growth of 5.5% for 2017 to QR666.7mn, driven by a 4.2% growth in net interest income and a drop in investment impairments. We expect NIMs (2.07% vs. 2.24% in 2016) to remain under pressure as the bank would have to raise more interest bearing deposits in order to maintain its LDR at ~98%. Concerning 2018, we model in a 9.6% growth in net profit to QR730.5mn. We assume this growth could be driven by strong performance across the board as the macro/operating environment recovers.
- **We estimate a loan book CAGR of 11.0% (2016-21) vs. 17.2% (2011-16).** Our loans growth assumption is lower than historical due to two factors; 1) the bank needs to maintain its LDR below 2016's 99% which indicates raising deposits aggressively and 2) we do not assume the macro/operating environment will replicate pre-2015 market conditions.

#### 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.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain ABQK's price target at QR39.00 and Market Perform Rating.** ABQK trades at a FY2017e P/B and P/E of 1.4x and 10.9x, respectively. Moreover, the stock trades at PEG of 1.1x (based on a 2016-21e CAGR of 10.3%), indicating the stock is trading around its fair value.
- **Risks:** 1) Volatility in oil prices remains the biggest risk to regional equities; 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

	2016	2017e	2018e	2019e
EPS (QR)	3.31	3.49	3.83	11.00
Growth (%)	-2.5	5.5	9.6	187.3
P/E (x)	11.5	10.9	9.9	8.9
BVPS (QR)	25.5	27.4	30.1	32.9
P/B (x)	1.5	1.4	1.3	1.2
DPS (QR)	1.00	1.00	1.31	1.58
Dividend Yield (%)	2.6	2.6	3.5	4.1

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

#### Key Data

Current Market Price (QR)	38.00
Dividend Yield (%)	2.6
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	48.00/37.75
3-m Average Volume ('000)	3.7
Mkt. Cap. (\$ bn/QR bn)	2.0/7.2
Shares Outstanding (mn)	190.8
FO Limit* (%)	25.0
Current FO* (%)	0.1
1-Year Total Return (%)	(9.4)
Fiscal Year End	December 31

Source: Bloomberg (as of January 30, 2017), \*Qatar Exchange (as of January 29, 2017); Note: FO is foreign ownership

#### Shahan Keushgerian

+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

#### Saugata Sarkar

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

Key Ratios	2016	2017e	2018e	2019e
<b>Profitability (%)</b>				
RoAE (Attributable)	13.4	13.2	13.3	13.5
NIM	2.2	2.1	2.1	2.1
RoRWA (Attributable)	2.2	2.0	2.0	2.0
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	30.7	30.3	28.4	27.7
Cost-to-Income (Core)	31.7	31.2	29.3	28.8
<b>Liquidity (%)</b>				
LDR	98.6	98.3	97.0	97.3
Loans/Assets	70.4	70.7	70.0	69.8
Cash & Interbank Loans-to-Total Assets	22.2	21.5	22.2	22.6
<b>Asset Quality (%)</b>				
NPL Ratio	0.82	0.90	0.94	1.10
Coverage Ratio	150.6	127.6	126.9	113.2
Cost of Risk	N/M	6	14	17
<b>Capitalization (%)</b>				
Tier 1 Ratio	14.1	15.0	14.7	14.3
CAR	14.2	15.2	14.9	14.4
<b>Growth (%)</b>				
Net Interest Income	-3.5	4.2	10.2	14.0
Net Operating Income	-6.0	4.6	12.6	11.2
Net Income	-2.5	5.5	9.6	11.1
Loans	11.7	9.7	10.9	12.4
Deposits	24.2	10.0	12.5	12.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	2016	2017e	2018e	2019e
Net Interest Income	735	766	844	962
Fees & Commissions	169	174	188	169
FX Income	17	20	22	20
Other Income	38	36	40	53
<b>Non-Interest Income</b>	<b>224</b>	<b>231</b>	<b>250</b>	<b>242</b>
<b>Total Revenue</b>	<b>959</b>	<b>997</b>	<b>1,094</b>	<b>1,205</b>
Operating Expenses	(294)	(302)	(311)	(334)
<b>Net Operating Income</b>	<b>664</b>	<b>695</b>	<b>783</b>	<b>871</b>
Net Provisions & Investment Impairment	(33)	(28)	(53)	(59)
<b>Net Profit (Headline/Reported)</b>	<b>632</b>	<b>667</b>	<b>731</b>	<b>812</b>
Social & Sports Contribution Fund	(16)	(17)	(18)	(20)
<b>Net Profit (Attributable)</b>	<b>616</b>	<b>650</b>	<b>712</b>	<b>792</b>

Source: Company data, QNBFS estimates

<b>Balance Sheet (In QR mn)</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
<b>Assets</b>				
Cash & Balances with Central Bank	1,789	2,098	2,023	2,644
Interbank Loans	3,262	2,947	3,923	4,411
Net Investments	5,571	6,436	7,204	7,914
Net Loans	26,861	29,466	32,693	36,760
Other Assets	407	471	556	662
Net PP&E	275	281	292	308
<b>Total Assets</b>	<b>38,165</b>	<b>41,699</b>	<b>46,691</b>	<b>52,699</b>
<b>Liabilities</b>				
Interbank Deposits	1,276	1,663	1,829	3,067
Customer Deposits	27,248	29,973	33,720	37,766
Term Loans & Other Borrowings	3,880	3,880	3,880	3,880
Other Liabilities	901	959	1,517	1,699
<b>Total Liabilities</b>	<b>33,305</b>	<b>36,475</b>	<b>40,946</b>	<b>46,413</b>
<b>Shareholder's Equity</b>				
<b>Total Shareholder's Equity</b>	<b>4,860</b>	<b>5,224</b>	<b>5,746</b>	<b>6,287</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>38,165</b>	<b>41,699</b>	<b>46,691</b>	<b>52,699</b>

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

### Contacts

#### Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafsoosi@qnbfs.com.qa](mailto:zaid.alnafsoosi@qnbfs.com.qa)

#### QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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