

## Commercial Bank of Qatar (CBQK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR6.590	Target Price	QR7.42
Implied Upside	12.6%		

**RoE Trajectory Better Than Previously Expected; Raising PT to QR7.42**  
We forecast 2020-25e earnings CAGR of 27.5% vs. our previous CAGR estimate of 23.7%. (2020-2025). The double-digit growth and acceleration is partially attributable to a base effect as 2020 earnings were depressed, along with management's ability to deliver strong core banking income. Hence, our new sustainable RoE rises to 14.3% vs. 12.5% previously. We still forecast provisions and impairments could drop by a CAGR of 13.3% (2020-25e) vs. an increase of 12.4% (2015-20) and CoR to normalize around ~50bps levels. The stock has rerated and trading at a 2021 P/TB 1.4x vs. a 20% discount to its BV in the beginning of the year. Having said that, we believe there is room for more upside. The stock is trading at a P/TB 1.2x/1.1x on our 2022/2023 estimates, which remains attractive. We increase our PT to QR7.42 but lower our rating from Outperform to Accumulate because of the recent rerating of the stock.

### Highlights

- **9M2021 bottom-line** was driven by strong core banking income and lack of losses from trading & associates and flat provisions & impairments; CBQK remains resilient. Commercial Bank of Qatar (CBQK) reported a record-high 9M2021 net profit of QR2.13bn, surging by 84.7% YoY.
- **Goodwill impairments on UAB (40.0% stake) should come to end in 4Q2021 and significantly lower net income sequentially (however, a YoY surge is expected as 4Q2020 net income was severely depressed). We expect 4Q2021 net profit to clock in at QR356.7mn (-55.7%). NBO (34.9% stake) could also face goodwill impairments over the coming 3 to 5 years as its market value is significantly below the book value on CBQK's balance sheet.** Management will book further impairments on UAB in 4Q2021. CBQK carried goodwill attributed to UAB of QR1.4bn in 2018. In 2019 & 2020, CBQK impaired QR413.9mn and QR591.2mn, respectively. Hence, ~QR394mn of goodwill remains. We model the remaining impairments of ~QR394mn in 4Q2021, ending this exercise. We do note ~QR574mn is being recorded as goodwill for NBO, which if impaired, could depress the bank's earnings going forward.
- **RoE is expected to increase from 6.0% in 2020 to 11.9% in 2021e vs. 10% previously.** After 2021, we model RoE to increase beyond 13%. Management is targeting 13-15% during 2022-26. Our new sustainable RoE is 14.3% vs. 12.5% previously.
- **Margins expanded due to strong management of CoFs.** NIMs (9M2021 annualized) increased by ~13bps to 2.64%, as drop in yields was lower than the drop in CoFs. We expect NIMs to increase to 2.70% in 2021.
- **Asset quality improved; majority of NPLs are legacy.** NPLs remained stable at QR4.3bn at the end of 9M2021, while the NPL ratio decreased to 3.98% vs. 4.33% in FY2020. Coverage of Stage 3 loans improved, increasing from 66% in FY2020 to 75% in 9M2021. Going forward, we expect asset quality to improve further, driven by prudent underwriting and recoveries.
- **CoR (9M2021 annualized) was flat YoY; management continues to de-risk the loan book.** 9M2021 provisions for credit losses increased by 14.1% YoY to QR556.0mn while CoR remained flat at 71/69bps. Moreover, management has improved CoR from 2017's 195bps. Guidance for 2021 CoR is 70 to 80bps. We model in a CoR of 79bps for 2021 and 71bps in 2022, which is in-line with management's guidance. We estimate CoR to decline to 52bps by 2025.
- **Operating efficiency continued its positive trajectory, delivering on its 5-year strategy.** CBQK's C/I ratio significantly improved, falling from 2016's 48.0% to 26.0% in FY2020 and 24.8% (on a normalized basis) in 9M2021.
- **Diversification of loan book remains on track.** During 9M2021, net loans increased by 4.5% from FY2020 to QR101.1bn. Moreover, deposits expanded by 6.5% during the same period to QR80.7bn. Moreover, in-line with management's strategy, % of govt. loans to total loans increased from 2016's 10% to 19% in 9M2021, while real estate loans dropped from 28% to 19% during the same period. We adopt a conservative approach and estimate net loan growth of 5.1% in 2021 (gross loan growth of 6.0%). Our loan growth assumptions have not changed; we pencil in a 2020-25e CAGR of 6.0% vs. 4.8% (2015-20).
- **CET1 ratio came in higher than management's guidance of 11-11.5%; \$500mn AT1 further bolstered Tier-1 position.** CBQK's CET1 ratio increased to 12.2% in FY2020 vs. 11.1% in FY2019 (10.5% in FY2018). Based on our estimates, we expect the bank to generate a CET1 ratio of 12.9% in 2021 (Tier-1: 17.8%), 13.1% in 2022 (Tier-1: 17.7%) & 13.5% in 2023 (Tier-1: 18%).

### Catalysts

- Increasing FOL to 100% could be a medium-term catalyst.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We raise our PT to QR7.42 but lower our rating to Accumulate.** CBQK is trading at a 2022e P/TB and P/E of 1.2x and 10.3x, respectively.
- **Risks:** 1) Weakness in Turkish Lira & 2) Goodwill impairments in NBO.

### Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS	0.258	0.529	0.641	0.707
EPS Growth (%)	-39.6	104.8	21.2	10.2
P/E (x)	25.5	12.5	10.3	9.3
Tangible BVPS (QR)	4.4	4.9	5.4	5.9
P/TBV (x)	1.5	1.4	1.2	1.1
RoE (%)	7.2	13.1	14.5	14.4
DPS (QR)	0.100	0.150	0.200	0.250
Dividend Yield (%)	1.5	2.3	3.0	3.8

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

### Key Data

Current Market Price (QR)	6.590
Dividend Yield (%)	1.5
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	6.647/4.140
3-m Average Volume (mn)	2.09
Mkt. Cap. (\$ bn/QR bn)	7.3/26.7
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	49.0
Current FO* (%)	23.7
1-Year Total Return (%)	49.9

Fiscal Year End December 31

Source: Bloomberg (as of November 17, 2021), \*Qatar Exchange (as of November 17, 2021); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021e	2022e	2023e
Net Interest Income	2,482	2,963	3,100	3,659	3,934	4,151
Fees & Commissions	757	915	811	957	1,038	1,091
FX Income	202	281	296	267	288	259
Other Income	248	181	(180)	305	249	249
<b>Non-Interest Income</b>	<b>1,208</b>	<b>1,377</b>	<b>927</b>	<b>1,528</b>	<b>1,575</b>	<b>1,599</b>
<b>Total Revenue</b>	<b>3,690</b>	<b>4,340</b>	<b>4,027</b>	<b>5,187</b>	<b>5,509</b>	<b>5,751</b>
Operating Expenses	(1,173)	(1,228)	(1,096)	(1,454)	(1,495)	(1,562)
<b>Net Operating Income</b>	<b>2,517</b>	<b>3,112</b>	<b>2,931</b>	<b>3,733</b>	<b>4,014</b>	<b>4,189</b>
Net Provisions & Impairments	(836)	(1,068)	(1,615)	(1,235)	(939)	(838)
<b>Net Profit Before Taxes</b>	<b>1,681</b>	<b>2,044</b>	<b>1,316</b>	<b>2,499</b>	<b>3,075</b>	<b>3,351</b>
Tax	(7)	(23)	(15)	(10)	(37)	(40)
<b>Net Profit Before Minority Interest</b>	<b>1,674</b>	<b>2,021</b>	<b>1,301</b>	<b>2,489</b>	<b>3,038</b>	<b>3,311</b>
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)
<b>Net Profit (Headline/Reported)</b>	<b>1,674</b>	<b>2,021</b>	<b>1,301</b>	<b>2,489</b>	<b>3,038</b>	<b>3,311</b>
Interest on Tier-1 Note	(240)	(240)	(223)	(284)	(366)	(366)
Social & Sports Contribution Fund	(42)	(50)	(33)	(62)	(76)	(83)
<b>Net Profit (Attributable)</b>	<b>1,392</b>	<b>1,731</b>	<b>1,046</b>	<b>2,142</b>	<b>2,596</b>	<b>2,862</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019	2020e	2021e	2022e	2023e
Cash & Balances with Central Bank	6,730	6,075	8,279	12,278	6,700	6,487
Interbank Loans	9,475	12,396	10,401	12,481	11,358	10,427
Net Investments	22,206	26,844	25,778	26,862	29,763	32,758
Net Loans	84,642	88,009	96,698	100,480	107,766	115,195
Investment In Associates	4,513	4,021	3,117	2,815	2,853	2,906
Other Assets	1,754	2,569	3,005	3,014	3,233	3,456
Net PP&E	2,719	2,854	3,158	3,213	3,242	3,271
OREO	2,605	4,531	2,995	2,995	2,995	2,995
Goodwill & Intangible Assets	283	236	175	175	175	175
<b>Total Assets</b>	<b>134,928</b>	<b>147,536</b>	<b>153,606</b>	<b>164,312</b>	<b>168,084</b>	<b>177,670</b>
<b>Liabilities</b>						
Interbank Deposits	13,950	22,531	20,007	16,408	14,805	20,215
Customer Deposits	71,786	76,297	75,790	81,853	87,009	92,665
Term Loans	24,451	21,568	27,233	30,501	32,636	28,720
Tier-1 Perpetual Notes	4,000	4,000	4,000	5,821	5,821	5,821
Other Liabilities	4,884	5,385	8,406	9,822	5,917	6,301
<b>Total Liabilities</b>	<b>119,071</b>	<b>129,780</b>	<b>135,435</b>	<b>144,404</b>	<b>146,188</b>	<b>153,721</b>
<b>Total Shareholders' Equity</b>	<b>15,856</b>	<b>17,756</b>	<b>18,170</b>	<b>19,908</b>	<b>21,897</b>	<b>23,949</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>134,928</b>	<b>147,536</b>	<b>153,606</b>	<b>164,312</b>	<b>168,084</b>	<b>177,670</b>

Source: Company data, QNB FS Research

Ratios/Key Indicators	2018	2019	2020	2021e	2022e	2023e
<b>Profitability (%)</b>						
RoE	10.2	12.0	7.2	13.1	14.5	14.4
RoAA	1.0	1.2	0.7	1.3	1.6	1.7
RoRWA	1.5	1.7	1.1	2.1	2.5	2.6
NIM (% of IEAs)	2.12	2.45	2.40	2.70	2.74	2.71
NIM (% of RWAs)	2.15	2.56	2.66	3.13	3.23	3.25
NIM (% of AAs)	1.82	2.10	2.06	2.30	2.37	2.40
Spread	1.6	1.9	2.0	2.3	2.2	2.1
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	31.8	28.3	27.2	28.0	27.1	27.2
Cost-to-Income (Core)	33.3	28.7	25.7	29.1	27.7	27.8
<b>Liquidity (%)</b>						
LDR	118	115	128	123	124	124
LDR (Including Stable Source of Funding)	88	90	94	89	90	95
Loans/Assets	63	60	63	61	64	65
Cash & Interbank Loans-to-Total Assets	12.0	12.5	12.2	15.1	10.7	9.5
Deposits to Assets	53	52	49	50	52	52
Wholesale Funding to Loans	45	50	49	47	44	42
IEAs to IBLs	117	116	122	125	129	128
<b>Asset Quality (%)</b>						
NPL Ratio	5.6	4.9	4.3	3.9	3.8	3.2
NPL to Shareholders' Equity	30.8	25.3	23.8	20.5	19.8	16.4
NPL to Tier 1 Capital	30.8	26.4	23.9	19.3	19.5	16.9
Coverage Ratio	79	82	102	131	143	165
ALL/Average Loans	4.3	4.1	4.6	5.2	5.6	5.5
Cost of Risk (bps)	102	67	88	79	71	61
<b>Capitalization (%)</b>						
Tier 1 Ratio	14.0	14.4	15.7	17.8	17.7	18.0
CAR	15.5	16.4	17.8	19.9	19.8	20.0
Tier 1 Capital to Assets	11.8	11.5	11.8	12.8	13.2	13.1
Tier 1 Capital to Loans	18.7	19.3	18.7	21.0	20.6	20.2
Tier 1 Capital to Deposits	22.1	22.3	23.9	25.7	25.6	25.1
Leverage (x)	8.5	8.3	8.5	8.3	7.7	7.4
<b>Growth (%)</b>						
Net Interest Income	-1.4	19.4	4.6	18.0	7.5	5.5
Non-Interest Income	4.2	14.0	-32.7	64.9	3.0	1.5
Total Revenue	0.4	17.6	-7.2	28.8	6.2	4.4
Operating Expenses	-11.5	4.7	-10.7	32.6	2.8	4.4
Net Operating Income	7.0	23.6	-5.8	27.4	7.5	4.4
Net Provisions & Impairments	-52.1	27.8	51.3	-23.5	-24.0	-10.7
Net Income (Headline)	177.3	20.7	-35.6	91.2	22.1	9.0
Net Income (Attributable)	299.5	24.3	-39.6	104.8	21.2	10.2
Loans	-5.0	4.0	9.9	3.9	7.3	6.9
Deposits	-7.5	6.3	-0.7	8.0	6.3	6.5
Assets	-2.5	9.3	4.1	7.0	2.3	5.7
RWAs	-2.8	3.7	-1.9	2.4	6.0	3.4

Source: Company data, QNB FS 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*

<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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