

CBQK Alert – 3Q2022 Profit Falls Short of Estimates on Higher Opex; Core Banking Income Remains Healthy

- **CBQK's 3Q2022 falls short of estimates:** Commercial Bank of Qatar (CBQK) reported a net income of QR769.0mn in 3Q2022 (below our estimate of QR835.7mn; variation of -8.0%), declining by 4.4% YoY (-3.3% sequentially). Revenue came in at QR1.37bn vs. our estimate of QR1.38bn.
- **Non-cash net monetary loss from Turkish hyperinflation remained insignificant in 3Q2022 and 9M2022.** CBQK booked non-cash net monetary loss of QR29.3mn in 3Q2022, shaving off 3.7% from the bottom-line. In 9M2022, the bank booked QR98.5mn, deducting 4.3% from net profit. As of September 2022, CBQK's Turkish subsidiary made up ~7% of its total assets. Excluding the impact of hyperinflation, earnings would have been flat both YoY and sequentially.
- **Bottom-line was impacted by credit provisions and impairments; core banking income was strong.** CBQK booked revenue of QR1.37bn in 3Q2022, increasing by 3.7%% YoY (flat sequentially). When we exclude income from associates and investment income/losses, core revenue increases by 9.4% YoY (it should be noted the bank generated investment losses of QR106.7mn in 3Q2022). Net interest income and fees were robust, while f/x income was significantly down. Core revenue also increased QoQ by 5.6%.
- **Income from associates improved YoY (flat sequentially).** Income from associates surged to QR59.7mn vs. QR33.2mn in 3Q2021.
- **Margins were aided by asset repricing.** CBQK's 9M2022 net interest margin increased by 7bps YoY to 2.71% vs. 2.64% in 9M2021. Net interest income was robust, gaining by 11.5% YoY (+5.8% QoQ) to QR1.06bn.
- **Credit provisions surged as CBQK exercised prudence.** Provisions jumped YoY (45.4%) to QR204.7mn (-22.9% QoQ). 9M2022 annualized CoR increased to 92bps vs. 71bps in 9M2021.
- **Legacy NPLs remain; no NPL formation in 3Q2022.** NPLs decreased QoQ by 3.2% (down 3.0% YTD) to QR4.6bn in 3Q2022. Moreover, the NPL ratio improved to 4.53% vs. 4.55% in 2Q2022 and 4.71% in FY2021. Coverage of Stage 3 loans improved to 69% vs. 66% in 2Q2022 and 62% in FY2021
- **Loans declined sequentially on government repayments of credit facilities; private sector loans increased.** Net loans decreased by 2.8% sequentially (flat YTD) to QR98.4bn. Moreover, deposits continued to decline; contracting by 3.5% QoQ (+5.2% YTD) to QR86.2bn.
- **Capital position remained strong.** The bank's CAR came in at 17.0% in 3Q2022.
- **Valuation and recommendation.** CBQK trades at a P/B and P/E of 1.5x/1.3x and 12.3x/9.8x on our 2022/2023 estimates. For now, we maintain our PT of QR8.904/share and our Outperform rating.

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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