

CBQK Alert – 2Q2022 Profit Ahead of Estimates; Impact from Turkish Hyperinflation Accounting Immaterial So Far

- **CBQK's 2Q2022 ahead of estimates:** Commercial Bank of Qatar (CBQK) reported a net income of QR795.27mn in 2Q2022 (beating our estimate of QR751.98mn; variation of +5.8%), increasing by 9.8% YoY (+13.2% sequentially).
- **RoE improved significantly.** CBQK generated an annualized RoE of 16.4% for 1H2022 vs. 10.9% in FY2021. We still expect strong RoE generation going forward.
- **Non-cash net monetary loss from Turkish hyperinflation was insignificant in 2Q2022 and 1H2022.** CBQK booked non-cash net monetary loss of QR4.0mn in 2Q2022, shaving off only 0.5% from the bottom-line. In 1H2022, the bank booked QR69.2mn, deducting 4.6% from net profit. As of June 2022, CBQK's Turkish subsidiary made up ~7% of its total assets.
- **Bottom-line was driven by net interest income and cost management.** CBQK booked revenue of QR1.37bn in 1Q2022, increasing by 3.7%% YoY (flat sequentially). When we exclude income from associates and investment income/losses, core revenue increases by 7.0% YoY (it should be noted the bank generated investment losses of QR70.0mn in 2Q2022). Net interest income and f/x income were robust, while fees were significantly down. Core revenue receded by 2.5% QoQ as a result of 42.1% drop in fees.
- **Income from associates improved both YoY and sequentially.** Income from associates surged to QR59.7mn vs. QR35.8mn in 2Q2021 (QR46.7mn in 1Q2022).
- **Margins were aided by management of CoFs and asset repricing.** CBQK's 1H2022 net interest margin increased by 9bps YoY to 2.69% vs. 2.60% in 1H2021.
- **Credit provisions increased as CBQK exercised prudence.** Provisions increased YoY (31.0%) to QR265.6mn (+12.5 QoQ). 1H2022 annualized CoR increased to 95bps vs. 80bps in 1H2021.
- **Legacy NPLs remain; new NPL formation was immaterial.** NPLs increased QoQ by 2.3% to QR4.8bn in 2Q2022. On the other hand, the NPL ratio improved to 4.55% vs. 4.59% in 1Q2022 and 4.71% in FY2021.
- **Loans and deposits gained traction both sequentially and YTD.** Net loans increased by 2.9% sequentially (+3.3% YTD) to QR101.2bn. Moreover, deposits expanded by 5.7% QoQ (+9.0% YTD) to QR89.3bn.
- **Capital position remained strong.** The bank's CAR came in at 17.5% in 2Q2022.
- **Valuation and recommendation.** CBQK trades at a P/B and P/E of 1.4x/12.1x on our 2022 estimates. For now, we maintain our PT of QR7.995/share and our Accumulate rating.

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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

Saugata Sarkar, CFA, CAIA
 Head of Research
 +974 4476 6534
 saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
 +974 4476 6509
 shahan.keushgerian@qnbfs.com.qa

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