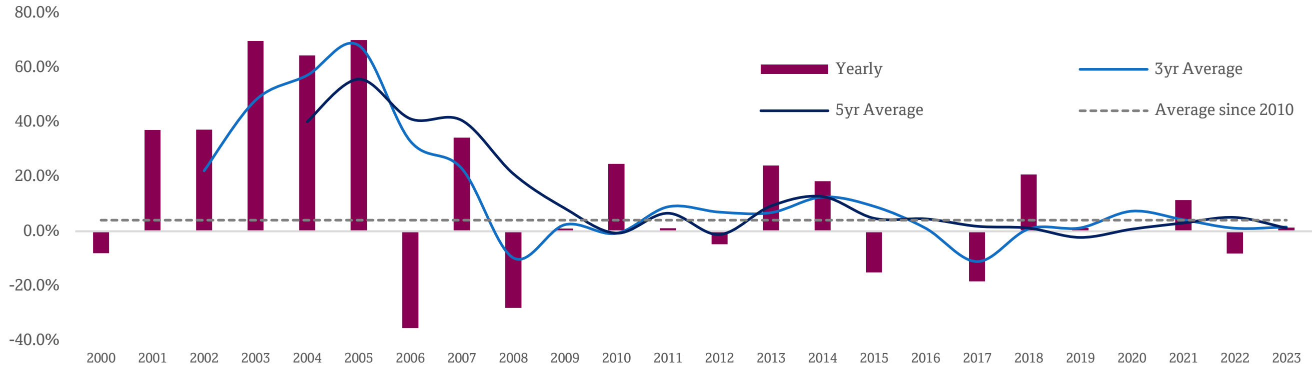
Earnings Should Continue To Expand; Attractive Valuation Underpinned By Improving Relative Yields

Building on the YoY positive trend since 4Q2023, we forecast 3Q2024 earnings growth of 2.6% YoY and 7.5% QoQ for our coverage universe. This follows a 5.2% YoY expansion and a 3.6% QoQ contraction in 2Q2024 aggregate QSE earnings. *We see most of the YoY growth in 3Q2024 coming from banks, due to a combination of costs containment, flat-to-lower provisions and modest changes in margins, partially offset by Industries Qatar (IQCD). Again, banks provide most of the growth sequentially, on modest NIM expansion, non-funded income, lower opex and flat-to-lower provisions.* ***We remain constructive on Qatari equities as the mainstay LNG/fundamental story anchors the Qatari economy/equities directly/indirectly,*** *augmented by ramping up of the North Field project and the recently upgraded capacity expansion target – a significant portion of Qatar's expected annual LNG capacity increase is already signed-off in long-term supply contracts. In the non-oil/gas economy,* ***continued government efforts to grow/diversify the economy provide another platform for more companies to grow their earnings – with persistently strong tourism numbers since 2022 firmly supporting Qatar's target to attract 6mn/year visitors by 2030****. Moreover, the latest September PMI, at 51.7, confirms the positive growth momentum in the non-oil economy since the beginning of the year. On balance, the global economy has stayed resilient through this phase of multi-decade high interest rates, as US resilience has offset weaknesses in China and Europe. Meanwhile, the resumption of rate cuts by four of the five major global central banks is key to ensuring that global growth is sustained at desirable levels as inflationary pressures continue to abate. With the QCB following the Fed in cutting interest rates we see a boost to Qatari equities, specifically banks. The strength in the global economy is reflected in global equities' performance with the ACWI ending 3Q2024 firmly in the black, up 6.2% (vs +2.4% in 2Q2024; +17.2% in 9M2024), benefitting from the continuation of the AI/tech trade, resumption of global interest rate cuts and stimuli by the PBOC – the ACWI has hit new historical highs on several occasions since the beginning of the year.* ***Locally, the QSE continued to recover, up 6.5% in 3Q2024 (vs +1.2% in 2Q2024; -2.0% in 9M2024),*** *outperforming the regional index that rose 5.7% in 3Q2024. Overall, foreign institutions (excluding GCC/Arab investors) were $148mn net long Qatari equities in 3Q2024 (vs. $326mn net short in 2Q2024 and $22mn net short in 9M2024); in 2023, foreign institutions were $72mn net long Qatari equities.* ***We note asset price volatility has picked up globally, more so regionally, in the last few weeks primarily due to Middle East geopolitical escalations and this could act as a meaningful headwind for our market – regional markets have fallen by 2.0% on average over the last two weeks (ending 4th October) vs. ACWI's +1.2% gain.*** *However, we remain positive longer term on the Qatari market and* ***we believe that near-term market dislocations could present attractive opportunities for long-term investors*** *due to the following reasons:*

- **Global interest rate cuts have resumed in earnest, with the Fed instituting a jumbo 50bps cut in September, its first cut in four years as risks to growth are rising while inflation risks are now in balance.** Locally, the QCB followed the Fed, slashing local benchmark rates by 55bps, which bodes well for the local economy. **Qatar has always been a yield play and more so now that interest rates are coming down.** We believe that Qatari companies have solid financial metrics and strong dividend profiles/yields that will become relatively more attractive as central banks lower interest rates.
- **Buy backs, interim dividends & IPOs/listings. With several QSE companies boasting strong balance sheets but beset with lower valuations, we are beginning to see new initiatives aimed at enhancing shareholder value. (1)** New rules allowing the distribution of interim dividends by QSE-listed firms could further enhance Qatar's appeal to local and foreign investors. For the first time, 10 companies paid interim dividends related to 1H2024: QNB, QIBK, QIIK, DUBK and QE-affiliated companies (IQCD, MPHC, QAMC, QFLS, QEWS and QGTS). Interim dividends should help entice investors, as they will be able to benefit from dividend-related cash flows sooner. **(2)** QNB Group went further by announcing/approving a QR2.9bn share buyback program in September. QNBK led the market when it initiated interim dividends; thus, it is possible that other companies could also follow the share buyback initiative. **(3)** Also, a resurgence in IPOs could be on the horizon, with GISS on track to separately list Al Koot, its insurance business.
- **Supply-demand dynamics of oil/gas remain attractive in the short- to medium-term** on the back of sanctions by Western countries on Russia, OPEC+ actions, regional geopolitical developments and seasonal global demand. Despite the weakness observed lately in oil prices, recent political developments have provided a floor for oil prices, which bodes well for Qatar's finances and enables flexibility in government spending and improves credit availability within the economy.
- **With the successful hosting of the World Cup, perceived as one of the best editions and putting Qatar in the global spotlight, we are of the view that pockets of the Qatari stock market should benefit from this success.** Qatar has continued to grow its sports & MICE tourism brands. The impact has been immediate, with Qatar registering record visitor arrivals since the beginning of the year and well on track to hit the 6mn/year visitors target by 2030.
- Over the medium- to long-term, **the "upgraded" North Field Gas Expansion, a nascent but growing tourism/sporting sector and Qatar National Vision 2030 investments** will continue to be major growth drivers for our companies. The demand for Qatar's gas should remain strong for the foreseeable future on the back of geopolitical developments, specifically in Europe, with demand for LNG expected to peak between mid-2030s and mid-2040s.
- On top of Qatar's macro strengths, **Qatari companies enjoy robust balance sheets backed by low leverage and decent RoEs, while Qatari banks stand out with their exceptional capital adequacy ratios, strong provision coverage and high profitability**. The resumption of monetary loosening should further bolster the attractiveness of the Qatari equity market as a yield play.

Anchoring our overall convictions are Qatari valuations, looking attractive historically and relative to peers, especially given that we see earnings recovering on the horizon. We stay bullish longer term on Qatari equities given their defensive characteristics backed by their strong fundamentals. Moreover, from a technical viewpoint, with all three return measures (yearly, 3yr & 5yr) below trend, it is not unreasonable to expect the QSE is due a leg up in 2024. QSE's 3Q2024 outperformance is a step in the right direction.

Qatar Stock Exchange Historical Price Returns



Source: QSE, Bloomberg, QNB FS Research

3rd Quarter 2024 Estimates

					EPS (QR)/Net Income (QR mn)				Revenue (QR mn)		
	Price (QR)	Recommendation	Target (QR)	Return	3Q2024e		YoY	QoQ	3Q2024e	YoY	QoQ
Ahli Bank (ABQK)	3.710	Market Perform	3.573	-3.7%	0.102	260.6	2.0%	58.0%	445.92	9.2%	2.0%
Baladna (BLDN)	1.333	Outperform	1.767	32.6%	0.025	48.2	116.5%	-7.7%	285.30	11.5%	1.2%
Commercial Bank of Qatar (CBQK)	4.288	Outperform	5.244	22.3%	0.201	813.4	0.3%	5.7%	1,324.79	-5.8%	0.1%
Doha Bank (DHBK)	1.688	Accumulate	1.883	11.6%	0.080	247.9	5.6%	23.3%	674.76	-15.0%	0.8%
Dukhan Bank (DUBK)	3.759	Market Perform	3.810	1.4%	0.071	368.5	6.2%	2.0%	622.26	12.9%	-0.2%
Gulf International Services (GISS)	3.100	Outperform	3.900	25.8%	0.119	221.7	65.8%	13.6%	1,072.50	16.6%	11.4%
Gulf Warehousing Co. (GWCS)	3.479	Accumulate	4.025	15.7%	0.081	47.2	-11.0%	-4.6%	378.53	8.3%	1.6%
Industries Qatar (IQCD)	13.07	Accumulate	14.00	7.1%	0.168	1,019.1	-15.4%	-3.1%	2,708.9	-4.4%	-2.8%
Estithmar Holding (IGRD)	1.779	Accumulate	2.310	29.8%	0.032	109.3	6.1%	-0.1%	814.46	9.3%	-4.2%
Masraf Al Rayan (MARK)	2.374	Market Perform	2.623	10.5%	0.051	472.0	-0.2%	23.3%	966.37	-6.3%	4.5%
Qatar Electricity & Water (QEWS)	15.70	Accumulate	19.00	21.0%	0.332	365.0	7.2%	1.1%	806.38	1.0%	8.4%
Qatar Gas & Transport (QGTS)	4.250	Outperform	5.600	31.8%	0.077	424.1	2.2%	3.6%	1,114.79	-0.7%	1.3%
Qatar International Islamic Bank (QIIK)	10.31	Market Perform	10.44	1.3%	0.255	385.5	6.6%	20.5%	528.66	-2.7%	9.8%
Qatar Islamic Bank (QIBK)	20.95	Accumulate	22.45	7.2%	0.492	1,161.8	5.6%	4.7%	1,700.21	2.4%	4.9%
Qatar Navigation/Milaha (QNNS)	11.20	Outperform	13.30	18.8%	0.234	266.3	19.9%	1.2%	701.56	-2.1%	2.1%
Vodafone Qatar (VFQS)	1.832	Outperform	2.220	21.2%	0.036	154.2	16.6%	7.8%	802.30	7.3%	3.0%
Medicare Group (MCGS)	4.366	Accumulate	5.524	26.5%	0.070	19.8	41.2%	N.M	117.23	7.3%	-9.0%
Meeza (MEZA)	3.395	Accumulate	4.025	18.6%	0.025	16.4	0.5%	-10.1%	97.50	9.0%	2.4%
Total							2.6%	7.5%	15,162.4	0.5%	2.0%

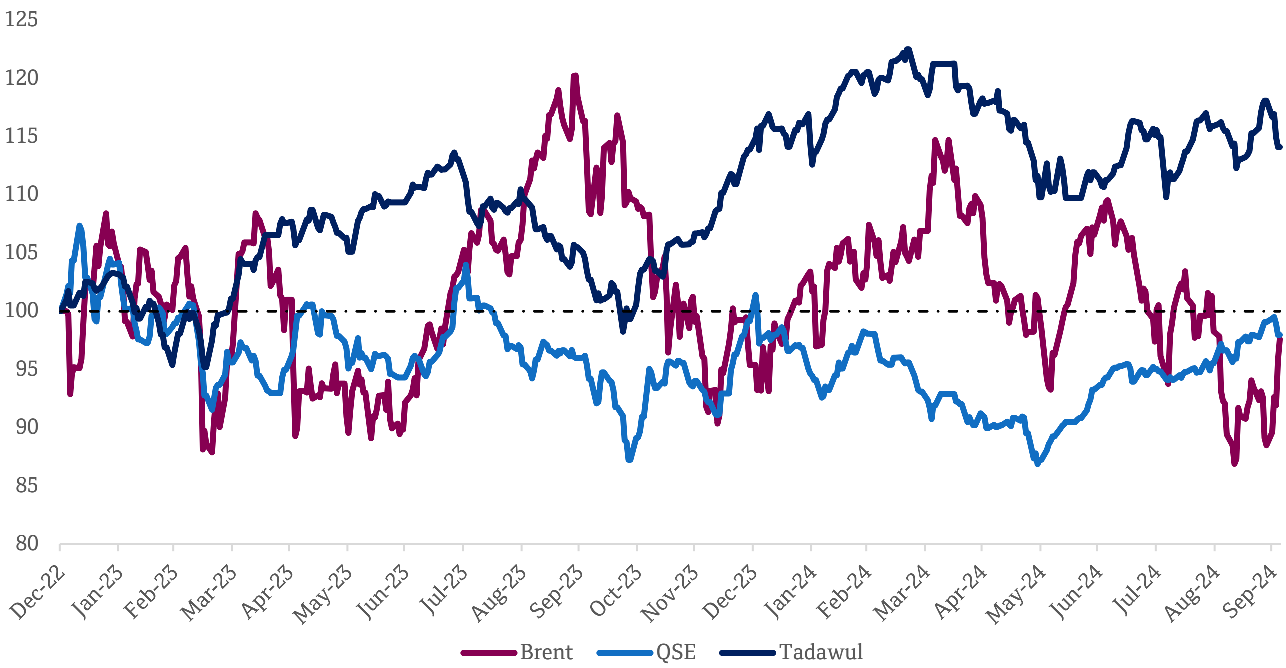
Source: QNB FS Research

Highlights

- **Stock price performance of banks, thus far YTD, has fared better than the QSE Index.** We are still of the view that booking flat-to-lower CoR vs. 2023 and modest expansion in NIMs should significantly aid the sector's bottom-line.
- **From a valuation perspective, Qatari banks are slightly expensive vs. KSA/UAE. However, Qatari banks retain relatively higher upside to RoE (i.e., Qatari banks could potentially boost their ROEs) vs. KSA/UAE, which would make them attractive from 2025 and onward.** Qatari banks are trading at a P/B of 1.2x with a RoE of 11.3% vs. the KSA (P/B: 1.3x, RoE: 13.5%), UAE (P/B: 1.2x, RoE: 15.0%) and Kuwait (P/B: 1.3x, RoE: 8.4%). *We are of the view that a positive outlook on 2024/2025 asset quality could serve as a catalyst as asset quality remains a concern for investors, especially for mid-sized banks given that NPLs have spiked along with Stage 2 loans. More clarity from banks' managements on the period it would take to clean its books would be another positive. Moreover, announcements of projects that would involve credit-off take from domestic banks could also bode well. Furthermore, with interest rates dropping, dividend yields of certain banks could look relatively attractive.*
- **We estimate banks under coverage – excluding QNB Group (QNBK), which is not part of our coverage – to experience YoY earnings growth of 3.5%, mainly due to strong performance from Qatar Islamic Bank (QIBK), Qatar International Islamic Bank (QIIK) and Dukhan Bank (DUBK).** The YoY aggregate performance is due to a combination of costs containment, flat- to- lower provisions and modest changes in margins. Sequentially, earnings are estimated to move up by 12.1%, mainly attributable to a combination of modest NIM expansion, non-funded income, lower opex and flat-to-lower provisions.
    - **QIBK** continues to enjoy robust fundamentals with strong double-digit RoE generation (9M2024e annualized RoE: 17.1%), efficient costs management (3Q2024e C/I: 16.6%) and modest margin expansion. **QIBK is modeled to grow its net profit by 5.6% YoY in 3Q2024 driven by some margin improvement, non-funded income and lower provisions.** The name is trading at an attractive 2024/25e P/TB 1.8/1.6x vs. its 5-year low of 1.6x, high of 3.0x and average of 2.2x.
    - **QIIK is also estimated to significantly contribute to aggregate earnings growth.** QIIK is expected to grow its 3Q2024 profitability by 6.6% YoY on the back of lower provisions and higher non-funded income. Sequentially, bottom-line is modeled to surge by 20.5% (in-line with historical trends) due to margin expansion, non-funded income, lower opex and provisions. Based on our estimates, QIIK could generate 9M2024e (annualized) RoE of 18.7%. The name trades at 2024e P/B of 2.0x, which is an 11% premium to QIBK.
    - **DUBK is estimated to experience high single-digit growth in its 3Q2024 bottom-line (in-line with historical trends)** driven by improvement in margins and flat opex. As such, the bank is expected to generate a healthy RoE of 13.0%, which is greater than its cost of equity. Sequentially, the bottom-line is expected to move up by 2.0% driven by non-funded income, flat opex and flat provisions. The stock is currently trading around its fair value with a 2024/25e P/TB of 1.6/1.5x.

- **We estimate modest YoY/QoQ increase of 1.3%/1.8% in the bottom-line of diversified non-financials under coverage. The YoY gain is driven by Gulf International (GISS) and Baladna (BLDN), while the QoQ increase is driven primarily by GISS. IQCD weighs down peers both YoY and sequentially.**
    - **While we expect IQCD to post a YoY decline in 3Q2024 net income, sequential earnings could grow on a normalized basis given firmer urea and LDPE prices.** We expect IQCD to post a YoY earnings decline of 15.4%, along with a sequential 3.1% drop in net income. 2Q2024 earnings, however, did include QR142.7mn in one-off income in the steel segment; excluding this, 3Q2024 earnings could grow 11.8% QoQ. Looking at results by segment, we expect growth in petrochemical earnings with LDPE pricing up YoY/QoQ, while PE volumes should remain fairly stable YoY/QoQ as we do not expect any major shutdowns during 3Q2024. For fertilizers, we expect a modest YoY growth in urea sales volumes but a ~10% decline sequentially – we remind investors that 2Q2024 urea sales were boosted by a pushout of shipments from 1Q2024. Urea prices, on an average, have firmed up sequentially and we expect IQCD's realizations to grow around 10% QoQ to ~$315/MT in 3Q2024; prices should still be lower YoY, however. We expect 3Q2024 fertilizer EBITDA margins to modestly tick up from the 37% level reported in 2Q2024 but remain well below the 48% recorded in 3Q2023. As a result, we expect a significant yearly decline in fertilizer earnings but a slight growth sequentially. Finally, in the steel segment, rebar prices have declined roughly mid-single digits YoY/QoQ and we model segment earnings to decline significantly YoY but grow on a normalized basis sequentially excluding the previously mentioned one-off income.
- **Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks and investment income/capital gains (losses). Volatile oil & gas prices & geo-political tensions remain major risk factors to regional equities and have a direct detrimental impact on stocks under coverage.

QSE Price Performance Vs. Brent and KSA [Rebased to 100]



Source: Bloomberg, 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*		Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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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