Expected Growth in Full-Year Earnings & Dividends Provide a Platform for QSE Recovery

Keeping with the YoY positive trend witnessed since 4Q2023, we forecast 4Q2024 earnings to grow 4.8% YoY for our coverage universe. Sequentially we see earnings declining by 12.1%. This follows a 7.8%/11.1% YoY/QoQ expansion in 3Q2024 aggregate QSE earnings. *We see most of the YoY growth in 4Q2024 coming from banks, due to a combination of costs containment, flat- to- lower provisions and flattish margins, partially offset primarily by* ***Industries Qatar (IQCD).*** *However, banks lead the decline sequentially, mainly attributable to large credit provisions and impairments.* ***Based on our 2024 estimates, our coverage universe will grow aggregate earnings by 6.6% and total dividend payout by 1.5% (4.8% DY).***

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 December PMI, at 52.9 and equal to the 4Q average, confirms the positive growth momentum in the non-oil economy since the beginning of the year.*

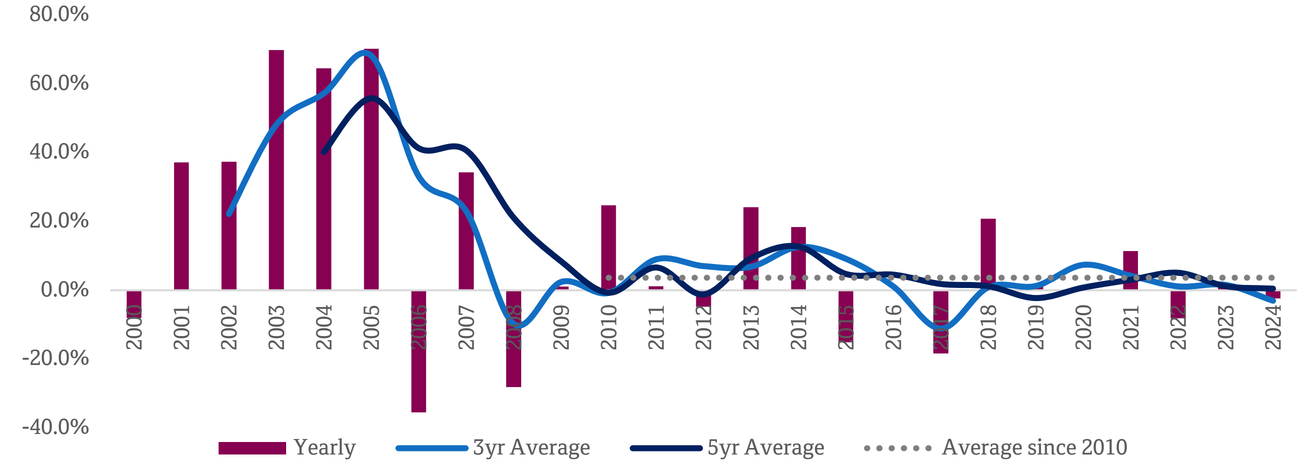
Meanwhile, ***the global economy, through this phase of multi-decade high interest rates, has stayed resilient even as it hums below the average LT growth rate****. US resilience has offset weaknesses in China and Europe.* ***The global economy is seen slowing down further this year to a growth rate of 3.0% from an estimated 3.2% in 2024*** *(Bloomberg consensus). Resumption of rate cuts by major global central banks is key to ensuring that growth is sustained as inflationary pressures continue to abate though the stickiness in the prints imply a slower rate cut path, while concerns over DM government debts could limit policy effectiveness, particularly on the longer end. The resilience in the global economy is being reflected in equities performance but the re-spiking of yields is a cautionary signal. While the ACWI ended 4Q2024 down 1.2%, it climbed 15.7% in CY2024, even as the benchmark US 10-year treasury yield finished higher by 71bps. Stocks primarily benefitted from the AI/tech trade, resumption of global interest rate cuts, a resilient US economy/labor market, corporate reforms/yen weakening in Japan and stimuli by Beijing. The ACWI hit new historical highs on several occasions during 2024.*

Locally, ***the QSE finished marginally lower by 0.4% in 4Q2024 (vs +6.5% in 3Q2024; -2.4% in CY2024),*** *underperforming the regional index that rose 0.6% in 4Q2024 (CY2024: +2.0%). So far, regional markets have outperformed, rising 0.8% since the beginning of the year (ending 10th January) vs. the ACWI's 0.9% decline.* ***Overall, foreign institutions (excluding GCC/Arab investors) were $218mn and $241mn net short Qatari equities in 4Q2024 (vs. $148mn net long in 3Q2024) and CY2024 (vs. $72mn net long in CY2023), respectively.*** *With the QCB following the Fed in cutting interest rates, we see a boost to the Qatari economy/equities.* ***According to the Bloomberg consensus, Qatar's GDP is expected to grow by 2.7% this year, up from 1.5% in 2024.*** *However, we note asset price volatility could pick up due to the uncertainty posed by the Trump presidency around tariffs and if inflation proves stickier than feared.* ***Closer to home, geopolitical escalations and introduction of the 15% global minimum corporate tax rate for multinationals are additional headwinds for our market.*** *However, we are 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 cumulative 100bps cut in 2024, as risks to growth are rising while inflation risks are receding – the market expects roughly two Fed rate cuts by the end of the year.** Locally, the QCB followed the Fed, slashing the local benchmark rates by a cumulative 115bps since the beginning of last year, 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.
- **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 expected stimulus by China (world's largest oil importer). With Qatar utilizing a conservative oil price forecast ($60/bbl) in its budgeting, below the oil market price on average, it builds natural budget buffers and bodes well for Qatar's finances. This 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 in 2024 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 QNV2030 investments to make Qatar an advanced economy,** 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.
- **Share 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: QNBK, QIBK, QIIK, DUBK and QE-affiliated companies (IQCD, MPHC, QAMC, QFLS, QEWS and QGTS).** We believe this number could expand in 2025. **(2) QNB Group** went further by announcing/approving a QR2.9bn share buyback program in September – it had bought back 38.33mn shares by 29 December 2024. 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 list a portion of Al Koot, its insurance business, in 2025.
- On top of Qatar's macro strengths, **Qatari companies enjoy robust balance sheets backed by low leverage and decent RoEs. Specifically, 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 continuing to grow for the foreseeable future. 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 inconceivable for QSE to end 2025 higher.

Qatar Stock Exchange Historical Price Returns



Source: QSE, Bloomberg, QNB FS Research

4th Quarter 2024 Estimates

				Net Income (QR mn)/EPS (QR)				Revenue (QR mn)		
	Price (QR)	Recommendation	Target (QR)	4Q2024e		YoY	QoQ	4Q2024e	YoY	QoQ
Ahli Bank (ABQK)	3.447	Market Perform	3.573	251.70	0.099	13.8%	-4.7%	473.30	3.7%	-8.5%
Baladna (BLDN)	1.293	Outperform	1.719	49.67	0.026	10.2%	22.4%	295.49	4.0%	11.8%
Commercial Bank of Qatar (CBQK)	4.250	Outperform	5.244	664.64	0.164	-9.4%	-13.7%	1,296.58	-8.9%	2.6%
Doha Bank (DHBK)	2.037	Accumulate	1.883	212.68	0.069	49.1%	-17.6%	716.36	3.1%	2.3%
Dukhan Bank (DUBK)	3.698	Market Perform	3.810	207.91	0.040	6.7%	-41.8%	640.46	-8.0%	-3.1%
Gulf International Services (GISS)	3.252	Outperform	3.900	226.32	0.122	N/M	4.7%	1,178.65	30.0%	2.2%
Gulf Warehousing Co. (GWCS)	3.379	Accumulate	3.900	32.67	0.056	-30.7%	-30.0%	407.59	9.3%	-8.0%
Industries Qatar (IQCD)	13.150	Accumulate	15.00	1,101.4	0.182	-22.8%	-7.3%	3,728.1	32.8%	3.2%
Estithmar Holding (IGRD)	1.830	Accumulate	2.172	74.84	0.022	65.8%	-34.7%	1,317.58	90.9%	0.7%
Masraf Al Rayan (MARK)	2.462	Market Perform	2.623	272.82	0.029	27.4%	-45.3%	872.73	10.0%	-7.0%
Qatar Electricity & Water (QEWS)	15.600	Accumulate	21.00	388.70	0.353	-12.1%	-23.7%	779.98	6.3%	-6.5%
Qatar Gas & Transport (QGTS)	4.165	Outperform	5.600	434.66	0.078	18.0%	-2.6%	908.68	0.6%	0.0%
Qatar International Islamic Bank (QIIK)	10.700	Market Perform	10.44	209.87	0.139	11.8%	-45.5%	504.12	3.3%	-4.5%
Qatar Islamic Bank (QIBK)	20.700	Accumulate	22.45	1,346.09	0.570	7.7%	12.2%	1,796.59	2.5%	5.8%
Qatar Fuel Co (QFLS)	14.900	Accumulate	18.59	271.81	0.273	0.0%	-6.1%	7,897.37	6.1%	7.7%
Qatar Navigation/Milaha (QNNS)	10.660	Outperform	13.30	258.91	0.228	61.4%	-10.4%	666.04	-6.8%	-4.5%
QLM Life & Medical Insurance (QLMI)	2.055	Accumulate	2.371	22.08	0.063	-4.9%	72.7%	326.98	5.3%	8.7%
Vodafone Qatar (VFQS)	1.864	Outperform	2.300	145.91	0.035	-1.4%	1.4%	812.72	0.0%	1.4%
Medicare Group (MCGS)	4.590	Accumulate	5.524	27.48	0.092	68.3%	4.1%	139.44	7.3%	12.9%
Meeza (MEZA)	3.147	Accumulate	4.025	13.11	0.020	-7.7%	8.2%	97.53	-12.7%	21.8%
Total				6,213.30		4.8%	-12.1%	24,856.30	10.4%	2.9%

Source: QNB FS Research

Full-Year 2024 Estimates

	Revenue (QR mn)			Net Income (QR mn)			EPS (QR)		P/E		DPS (QR)			
	FY2023	FY2024e	YoY	FY2023	FY2024e	YoY	FY2023	FY2024e	2023	2024e	FY2023	Yield	FY2024e	Yield
Ahli Bank (ABQK)	1,588.99	1,893.22	19.1%	771.91	832.70	7.9%	0.303	0.326	11.4	10.6	0.250	7.3%	0.250	7.3%
Baladna (BLDN)	1,056.76	1,154.51	9.3%	109.63	191.96	75.1%	0.058	0.101	22.4	12.8	0.070	5.4%	0.081	6.3%
Commercial Bank of Qatar (CBQK)	5,783.66	5,210.66	-9.9%	2,651.25	2,647.02	-0.2%	0.655	0.654	6.5	6.5	0.250	5.9%	0.250	5.9%
Doha Bank (DHBK)	2,829.36	2,745.27	-3.0%	560.24	690.51	23.3%	0.181	0.223	11.3	9.1	0.075	3.7%	0.075	3.7%
Dukhan Bank (DUBK)	2,444.03	2,580.22	5.6%	1,197.68	1,243.93	3.9%	0.229	0.238	16.2	15.6	0.160	4.3%	0.160	4.3%
Gulf International Services (GISS)	3,538.49	4,234.44	19.7%	391.79	798.90	103.9%	0.211	0.430	15.4	7.6	0.150	4.6%	0.175	5.4%
Gulf Warehousing Co. (GWCS)	1,508.30	1,599.08	6.0%	215.04	179.69	-16.4%	0.367	0.307	9.2	11.0	0.110	3.3%	0.110	3.3%
Industries Qatar (IQCD)	11,744.03	13,039.27	11.0%	4,720.14	4,621.45	-2.1%	0.780	0.764	16.9	17.2	0.780	5.9%	0.760	5.8%
Estithmar Holding (IGRD)	2,919.08	4,273.07	46.4%	347.75	410.58	18.1%	0.102	0.121	17.9	15.2	0.000	0.0%	0.000	0.0%
Masraf Al Rayan (MARK)	3,537.25	3,650.41	3.2%	1,369.43	1,476.01	7.8%	0.147	0.159	16.7	15.5	0.100	4.1%	0.100	4.1%
Qatar Electricity & Water (QEWS)	2,911.22	3,045.34	4.6%	1,551.44	1,577.62	1.7%	1.410	1.434	11.1	10.9	0.860	5.5%	0.860	5.5%
Qatar Gas & Transport (QGTS)	3,565.15	3,618.18	1.5%	1,557.83	1,710.08	9.8%	0.281	0.309	14.8	13.5	0.140	3.4%	0.150	3.6%
Qatar International Islamic Bank (QIIK)	1,974.42	1,982.67	0.4%	1,036.30	1,119.75	8.1%	0.685	0.740	15.6	14.5	0.450	4.2%	0.475	4.4%
Qatar Islamic Bank (QIBK)	6,521.41	6,728.43	3.2%	3,978.93	4,277.20	7.5%	1.684	1.810	12.3	11.4	0.725	3.5%	0.750	3.6%
Qatar Fuel Co (QFLS)	27,932.51	29,169.78	4.4%	983.96	1,043.11	6.0%	0.990	1.049	15.1	14.2	0.900	6.0%	0.950	6.4%
Qatar Navigation/Milaha (QNNS)	2,941.79	2,797.06	-4.9%	1,030.20	1,176.29	14.2%	0.907	1.035	11.8	10.3	0.375	3.5%	0.400	3.8%
QLM Life & Medical Insurance (QLMI)	1,123.64	1,202.29	7.0%	743.72	750.25	0.9%	0.212	0.214	9.7	9.6	0.125	6.1%	0.125	6.1%
Vodafone Qatar (VFQS)	3,110.82	3,199.63	2.9%	540.04	583.00	8.0%	0.128	0.138	14.6	13.5	0.110	5.9%	0.120	6.4%
Medicare Group (MCGS)	486.31	521.91	7.3%	65.70	63.51	-3.3%	0.233	0.226	19.7	20.3	0.220	4.8%	0.220	4.8%
Meeza (MEZA)	422.92	356.97	-15.6%	60.22	55.11	-8.5%	0.093	0.085	33.9	37.1	0.081	2.6%	0.081	2.6%
Total	87,940.13	93,002.43	5.8%	23,883.20	25,448.70	6.6%					Mkt. Cap. Weighted DY	4.7%		4.8%
											Mean DY	4.5%		4.7%

Source: QNB FS Research

Highlights

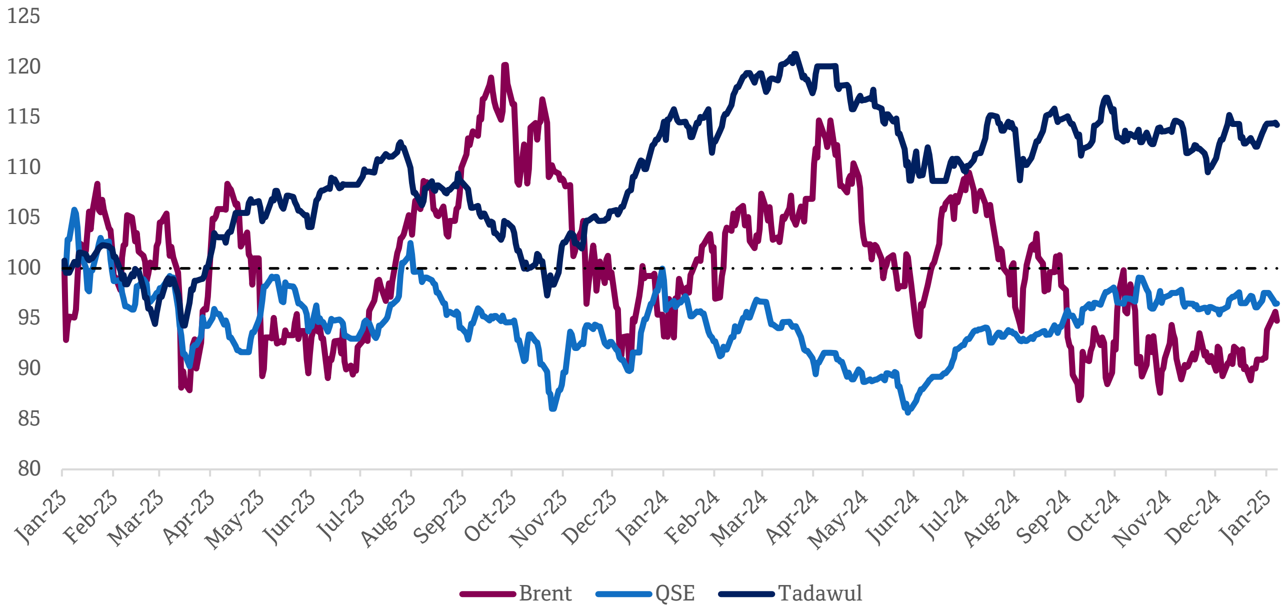
Banks

- **Stock price performance of banks, ending 2024, has outperformed the QSE Index; the banking sector index increased by 3.4%, while the QE Index dipped by 2.4%.** We are still of the view that booking flat-to-lower CoR vs. 2024 and modest expansion in NIMs, should significantly aid the sector's bottom-line.
- **From a valuation perspective, Qatari banks are inexpensive vs. KSA/KW. However, Qatari banks retain relatively higher upside to RoE (i.e., Qatari banks could potentially boost their ROEs) vs. KSA/UAE/KW, which would make them attractive from 2025 and onward.** Qatari banks are trading at a P/B of 1.3x with a RoE of 13.4% vs. the KSA (P/B: 1.8x, RoE: 14.3%), UAE (P/B: 1.3x, RoE: 15.0%) and Kuwait (P/B: 1.5x, RoE: 8.8%). ***We are of the view that a positive outlook on 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, which so far has not shown signs of improvement. 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 be promising. 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 7.5%, mainly due to strong performance from Qatar Islamic Bank (QIBK), Doha Bank (DHBK) and Masraf Al Rayan (MARK).** The YoY aggregate performance is due to a combination of costs containment, flat- to- lower provisions and flattish margins. Sequentially, earnings are expected to follow historical trends; bottom-line is estimated to decrease by 15.2%, mainly attributable to large credit provisions and impairments.
    - **QIBK** continues to enjoy robust fundamentals with strong double-digit RoE generation (9M2024 annualized RoE: 17.1%; FY2024e: 17%), efficient costs management (9M2024 C/I: 17.3%) and continuous margin expansion. **QIBK is modeled to grow its net profit by 7.7% YoY in 4Q2024 driven by costs containment and a large drop in provisions/impairments.** Sequentially, QIBK's net profit is modeled to grow 12.2%, driven by flat margins, strong non-funded income (fees and f/x income) and a drop in provisions/impairments. The name is trading at an attractive 2024/25e P/TB 1.8x/1.6x vs. its 5-year low of 1.6x, high of 3.0x and average of 2.2x.
    - **DHBK is also estimated to significantly contribute to aggregate earnings growth.** DHBK is expected to grow its 4Q2024 profitability by 49.1% YoY (base effect) due to the absence of a litigation loss of QR161.6mn, which took place in 4Q2023. Sequentially, the bottom-line is modeled to drop by 17.6% (in-line with historical trends) due to an increase in provisions & impairments. Based on our estimates, DHBK could generate FY2024e RoE of 6.7%, which is significantly lower than its CoE. The name trades at 2024/25e P/B of 0.6x/0.5x, which is a material discount to its book value.
    - **MARK is forecasted to experience a 27.4% YoY uptick in its 4Q2024 bottom-line (in-line with historical trends),** driven by margin expansion and flattish opex. As such, the bank is expected to generate a RoE of 6.7%, which is very low and less than its cost of equity. Sequentially, the bottom-line is expected to decline by 45.3% driven by margin pressure and a surge in provisions as the bank continue to build buffers for Stage 2 & 3 loans. The stock is currently trading ~7% shy of its fair value with a 2024/25e P/TB of 1.0x.
- **We highlight that Qatari banks offer compelling dividend yields**. Based on our estimates, we expect the banking sector (ex-QNBK), which we do not cover to yield 4.4/4.9% in 2024/25e. Commercial Bank of Qatar (CBQK) offers a DY of 5.9/6.5% in 2024/25e while MARK offers 4.1/5.1% in 2024/25e. Having said this, the majority of banks are expected to offer healthy dividend yields.

Diversified

- **We estimate modest YoY increase of 2.1% and sequential decline of 8.6% in the bottom-line of diversified non-financials under coverage. The YoY gain is driven primarily by Gulf International Services (GISS), Milaha (QNNS) and Nakilat (QGTS), while the QoQ decline is driven primarily by Qatar Electricity & Water (QEWS) and IQCD. IQCD weighs down peers both YoY and sequentially.**
    - **We think IQCD could post a subdued 4Q2024.** We expect IQCD to post a YoY earnings decline of 22.8%, along with a sequential 7.3% drop in net income. 4Q2023 earnings, however, did include QR550mn in one-off reversal of impairment in the steel segment (the DR-2 facility); excluding this, 4Q2024 earnings could grow 25.6% YoY. Looking at results by segment, we expect significant growth in petrochemical & fuel additives earnings YoY, with LDPE pricing up low double-digits YoY, while volumes should expand as 4Q2023 experienced maintenance-related shutdowns in the fuel additives segment. Sequentially, segment earnings could ease given marginal increases in prices, along with stable volumes, being offset by a moderate increase in costs. For fertilizers, we expect a modest YoY decline in urea sales volumes, along with moderately lower prices combining to lower profitability YoY. We expect 4Q2024 fertilizer EBITDA margins to modestly tick down to 45% from the 46% level reported in 4Q2023 but remain above the 44% recorded in 3Q2024. The sequential growth in EBITDA margin could be, however, offset by a QoQ decline in volumes as fertilizer facilities typically undergo maintenance shutdowns in the 4th quarter. Thus, fertilizer earnings could ease modestly on a QoQ basis. Finally, in the steel segment, we model segment earnings to increase YoY on a normalized basis (excluding the QR550mn provision reversal) but decline modestly QoQ. ***We also expect IQCD to declare QR0.76 in DPS for 2024 vs. QR0.78 in 2023, which translates into an attractive yield of 5.8%.***
- **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*	
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 *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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

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