

3Q2021 Earnings Preview: Robust Earnings Growth Trajectory as Pandemic Effects Subside

We expect Qatari stocks under coverage to exhibit both a YoY and sequential recovery in earnings on a normalized basis in 3Q2021 (excluding outliers such as IQCD and CBQK). In aggregate, normalized earnings should increase by 7.3% YoY and 7.1% QoQ; the YoY growth in normalized earnings is attributable to an improved operating environment in 3Q2021 vs. 3Q2020 (strict counter-COVID-19 measures were in place during 3Q2020). On the other hand, the expected QoQ increase is supported by a further recovery in commodity prices. IQCD should make a notable positive contribution to the sequential net income performance of stocks under our coverage. On a YoY basis, IQCD and CBQK should post a substantial surge in earnings, mainly due to a low base effect (last year, IQCD was affected by weak commodity prices, while CBQK endured losses from associates and large provisions). As we had expected, the QE Index started to gain momentum in 3Q2021 buoyed by improving oil prices, the Qatari cabinet's approval to allow up to 100% foreign ownership in four major banks (QNBK, QIBK, CBQK and MARK) and improving relations with prior blockading countries. MSCI/FTSE-related flows as FOL increases are implemented and increasing optimism about the upcoming dividend season should continue to provide legs to this rally. Furthermore, with the FIFA World Cup Qatar 2022 finally around the corner, we believe the Qatari stock market will benefit from the sheen of this unprecedented success enjoyed by Qatar on the global stage. Over the medium-to-long-term, the North Field Expansion Project and 2030 Qatar National Vision investments continue to be major growth drivers for local companies. On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed with low leverage and decent RoEs, whereas Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. With coronavirus continuing to affect the real economy (albeit to a much lesser extent), global emerging market equities as well as Qatari stocks could stay volatile. We continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals and reasonable valuations, coupled with Qatar's effectively handled vaccination program, which reduces COVID-19 variant risks substantially.

Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience strong earnings YoY, growing by 19.0% largely attributed to Commercial Bank of Qatar or CBQK (base effect). Excluding CBQK, aggregate bank earnings could increase by 4.6% YoY. The increase in the aggregate bottom-line is driven by stable margins (as NIMs expanded in FY2020), cost containment and flat-to-lower provisions & impairments. Moreover, we expect earnings to grow 3.2% sequentially. CBQK is expected to contribute heavily to the YoY profitability performance based on our figures. Strong revenue, specifically non-funded income, should drive earnings on a YoY basis as CBQK reported large losses from associates in 3Q2020. Moreover, we estimate strong fees, along with lower provisions, to aid the surge in the bottom-line. We estimate a 149.3% YoY uptick in CBQK's profitability, driven by robust revenue. We are of the view that the impairment exercise of UAB will be completed in FY2021. CBQK's management has been delivering on its 5-year strategy objectives, which we think is positive. CBQK stock has rallied 41% since we upgraded the stock on March 1, 2021.
- We estimate a YoY rise of 143.9% in the bottom-line of diversified non-financials under coverage mainly due to a low base effect and higher commodity prices driven by Industries Qatar (IQCD). Excluding IQCD, earnings growth remains robust (+14.1% YoY). On a sequential basis, aggregate earnings of diversified non-financials could increase by 9.3%, supported by the positive trajectory of commodity prices. Based on our assumptions, IQCD should be a significant performer in 3Q2021, on a YoY basis. Since we upgraded the stock to an Outperform with a QR16.40 price target, IQCD has appreciated 20% beating the QE Index's 5% return handily. In terms of 3Q2021 results, IQCD should continue its positive momentum and remain a standout performer benefiting from its 25%-acquisition of QAFCO and improved pricing generally across the board. In fertilizers, urea prices went above the \$500/MT mark in July given strong demand and tight supply; while prices retreated to \$485/MT in August/September, we expect fundamental trends to continue to support them in light of expected Chinese export restrictions and strong seasonal demand from India. We note urea is now up to \$620/MT in early October auguring well for 4Q2021 results. Petrochemical prices that began to ease in May after benefiting from the US winter storm, have again started to strengthen from late July given capacity shutdowns due to Hurricane Ida. LDPE prices have continued to strengthen into September and are now above the \$1,500/MT mark for the Far East benchmark price that we track. Finally, for steel, prices remain significantly higher YoY and up sequentially in 3Q2021. On the other hand, iron ore prices have continued to ease sequentially. However, we note IQCD has built some higher-priced iron ore inventory in 1H2021 that could lead to margin compression in 3Q2021 for the steel segment. Net-net, we remain optimistic on the company's 3Q2021 and 2021 earnings performance; we continue to foresee a significant increase in DPS for 2021, which is a positive catalyst for this stock.
- Risks:** Estimates can be impacted by one-offs, provisions for banks & investment income/capital gains (losses). Volatile oil prices, the economic fallout of the global pandemic & geo-political tensions remain as substantial risk factors to regional equities and may have a direct impact on stocks under coverage.

3rd Quarter 2021 Estimates

	EPS (QR)			Revenue (QR mn)		
	3Q2021e	YoY	QoQ	3Q2021e	YoY	QoQ
Ahli Bank (ABQK)	0.089	4.4%	76.8%	351.71	10.2%	-4.1%
Al Khalij Commercial Bank (KCBK)	0.051	1.4%	0.0%	381.19	-2.2%	2.9%
Commercial Bank of Qatar (CBQK)	0.156	149.3%	-12.9%	1,202.17	41.7%	-9.0%
Doha Bank (DHBK)	0.093	6.1%	22.7%	784.65	-0.5%	5.9%
Gulf International Services (GISS)	0.009	N/M	265.7%	793.19	12.2%	9.2%
Gulf Warehousing Co. (GWCS)	0.094	-10.3%	2.0%	327.75	0.1%	0.8%
Industries Qatar (IQCD)	0.383	397.2%	11.7%	3,885.61	144.3%	20.9%
Masraf Al Rayan (MARK)	0.078	1.7%	3.5%	902.86	5.7%	-5.1%
Qatar Electricity & Water (QEWS)	0.357	5.1%	-4.9%	688.99	-1.0%	14.8%
Qatar Gas & Transport (QGTS)	0.061	-3.7%	7.1%	1,008.16	-1.9%	1.7%
Qatar International Islamic Bank (QIIB)	0.186	3.3%	6.7%	452.45	0.7%	-3.2%
Qatar Islamic Bank (QIBK)	0.359	7.5%	0.5%	1,455.60	3.8%	-1.6%
Qatar Navigation/Milaha (QNNS)	0.150	103.2%	21.1%	706.71	46.6%	1.2%
Vodafone Qatar (VFQS)	0.016	43.7%	-3.6%	592.47	9.8%	2.6%
Total (excl. CBQK & IQCD from EPS)		7.3%	7.1%	13,533.5	29.9%	5.5%
Total		62.7%	6.3%			

Source: QNB FS Research; Note: EPS based on current number of shares

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.