

2Q2022 Earnings Preview: Healthy 2Q2022 Earnings Overshadowed by Global Crisis

We expect 2Q2022 earnings for Qatari stocks under coverage to grow 6.2% YoY on a normalized basis (excluding outliers DHBK, QNNS & IQCD). If we include the outliers, earnings are poised to grow by 16.8%. On the other hand, on a QoQ basis, normalized earnings should recede by 1.6% (excluding outlier QNNS). The YoY growth in normalized earnings is attributable to a continuously improving operating environment in 2Q2022 vs. 2Q2021 as oil and gas prices have surged and significant COVID-19 restrictions have been lifted. Having said this, the Russia-Ukraine conflict has dragged on longer than initially expected and adversely affected global markets. However, YTD, the QE Index has outperformed major global indices, although it erased most of its gains; the QE Index is still in the green while global indices have tumbled more than 20%. Our Thesis remains unchanged; Qatar's position as a global safe haven along with its \$-pegged currency and global-powerhouse status in natural gas (LNG) should shield it from the repercussions stemming from global geopolitical tensions. Latest World Bank projections upwardly revised Qatar's 2022 GDP growth to 4.9%, while global GDP was downgraded to 2.9%. While we expect the market to remain volatile, we continue to be positive longer-term on the Qatari market due to the following reasons: **(1) Robust oil and gas prices:** Further sanctions (vs. 1Q2022) by Western countries on Russia are still causing global oil and gas supply concerns, which in turn is having a major impact on global oil and gas prices. Strong oil and gas prices should lead to higher government revenues for Qatar, enable flexibility in government expenditures, and improve overall money supply (liquidity). **(2) Furthermore,** with the FIFA World Cup Qatar 2022 on the horizon, we believe the Qatari stock market will benefit from the success enjoyed by Qatar on the global stage. **(3) 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. **While we cannot rule out near-term volatility in the market, we continue to remain bullish longer-term on Qatari stocks given their defensive characteristics backed by their strong fundamentals. Net-net, we expect strong results from Qatari companies in 2022; but as long as the Russia-Ukraine conflict does not deescalate soon, Qatar and global indices will remain volatile.**

Highlights

- We estimate banks under coverage, ex-QNB Group (QNBK) which we do not cover, to experience healthy earnings YoY, growing by 8.1% driven by healthy revenue, cost management and lower provisions (although we expect provisions to still remain on the high side). Aggregate growth in earnings is attributed to Doha Bank (DHBK, which had a depressed bottom-line in 2Q2021), Qatar Islamic Bank (QIBK, which has been reporting robust earnings) and Commercial Bank of Qatar or CBQK. Moreover, on a sequential basis, we expect a growth of only 1.0% as DHBK prevents further aggregate growth (in-line with historical trends). On a YoY basis, DHBK's profitability is expected to surge because of healthy net operating income and a large drop in provisions (we believe DHBK booked the bulk of its provisions over the past couple of years). CBQK is cheap and remains our top pick in Qatar (TP: QR7.995/share with an upside of 22%), trading at a P/B of 1.2x on our 2023 estimates combined with an estimated RoE of 15/16% in 2023/2024. Moreover the stock is trading at PEG of 0.7x based on a 2021-26e earnings CAGR of 15.8% (which is very cheap). CBQK will apply hyperinflationary accounting (as a result of Alternatif Bank) in the 2nd quarter which would result in an insignificant loss booked under other expenses (guidance on impairment for FY2022 from hyperinflation is estimated ~QR100mn-QR150mn). As such, we expect the bank's bottom-line to grow by 3.8% YoY in 2Q2022. Excluding this charge, earnings are estimated to grow by 12.1%. **However, we are of the view that 2Q2022 earnings will not be a major factor in determining performance but an end to global geopolitical issues should be a determining factor. On a side note, CBQK increased its FOL to 100% and has also met the cutoff for MSCI & FTSE; hence, the stock's weight will be increased in the next rebalancing.** So far, QNBK, QIBK and MARK have had their weights raised in the aforementioned indices.
- We estimate a YoY rise of 24.6% in the bottom-line of diversified non-financials under coverage mainly due to higher commodity prices and significant earnings acceleration shown by Industries Qatar (IQCD) and a base effect stemming from Qatar Navigation/Milaha (QNNS). Excluding QNNS and IQCD, earnings growth remains healthy, rising by 10.2% YoY. **On a sequential basis, combined earnings of diversified non-financials could recede by 5.7% due to QNNS reporting large dividend income in the first quarter vs. nil in the second quarter;** on a normalized basis, excluding QNNS, earnings could decrease by 3.6%. **In 2Q2022, IQCD should continue to post impressive growth on a YoY basis and hold the line sequentially.** Product prices, while generally robust on a YoY basis, are clearly showing signs of systemic weakening as recession fear looms and the US dollar soars. For the quarter, flattish volumes should be more than offset by moderately lower prices. However, QoQ improvement in fertilizer margins, which faced higher-priced inventories in 1Q2022, should help soften the sequential decline in earnings.
- Risks:** Estimates can be impacted by one-offs, impairments/write-downs for non-financial companies, provisions for banks & investment income/capital gains (losses). Volatile oil prices & geo-political tensions remain as risk factors to regional equities and have a direct impact on stocks under coverage.

2nd Quarter 2022 Estimates

	EPS (QR)			Revenue (QR mn)		
	2Q2022e	YoY	QoQ	2Q2022e	YoY	QoQ
Ahli Bank (ABQK)	0.056	17.0%	-25.6%	318.77	-13.1%	-2.3%
Commercial Bank of Qatar (CBQK)	0.186	3.8%	7.1%	1,421.16	7.6%	3.4%
Doha Bank (DHBK)	0.109	43.9%	-16.0%	776.33	4.8%	-6.0%
Gulf International Services (GISS)	0.033	N/M	-27%	842.82	16.0%	0.9%
Gulf Warehousing Co. (GWCS)	0.098	6.2%	-0.8%	358.40	10.2%	2.0%
Industries Qatar (IQCD)	0.438	26.4%	-2.1%	5,098.93	58.6%	-3.4%
Masraf Al Rayan (MARK)	0.062	2.0%	N/M	1,065.21	11.9%	-0.9%
Qatar Electricity & Water (QEWS)	0.330	-12.1%	-6.6%	629.83	4.9%	11.5%
Qatar Gas & Transport (QGTS)	0.066	16.7%	-3.7%	1,032.69	4.6%	-1.1%
Qatar International Islamic Bank (QIIB)	0.178	2.7%	-8.4%	413.47	-11.6%	0.3%
Qatar Islamic Bank (QIBK)	0.381	6.4%	5.2%	1,595.03	7.8%	-0.5%
Qatar Navigation/Milaha (QNNS)	0.230	85.6%	-27.6%	810.18	16.0%	-11.2%
Vodafone Qatar (VFQS)	0.022	36.9%	-13.2%	714.54	23.7%	-2.2%
Growth (Excl. DHBK [YoY], QNNS [YoY & QoQ], IQCD [YoY])		6.2%	-1.6%			
Total		16.8%	-2.9%	15,077.3	21.0%	-1.7%

Source: QNB FS Research

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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