

QNBFS Alert – CBQK 4Q2017 Profits Surge on Sharp Drop in Provisions; Announces DPS QR1.0

- **CBQK 4Q2017 profitability on an operating basis in-line (ex-provisions); bottom-line beats estimates on the account of lower than expected provisions.** Commercial Bank of Qatar (CBQK) reported net income of QR344.7mn in 4Q2017 vs. QR79.4mn in 3Q2017 (QR1.4mn in 4Q2016). On the other hand, CBQK reported net operating income (ex-provisions and impairments) of QR594.5mn, inline with our estimate of QR627mn (-5% variation).
- **Drop in Opex and provisions led to the bottom-line surge QoQ; On a YoY basis, strong net interest income, income from associates and a sharp drop in opex led to the growth.** Opex dropped by 3.6% QoQ while provisions contracted by 49.0% which led to the surge in the bottom-line. Total revenue was flat QoQ at QR907mn. On a YoY basis, net interest income gained by 26.4%, CBQK generated income from associates of QR32.1mn vs. a loss QR205.0mn while opex retracted by 32.9%. Hence, significantly contributing to the bottom-line.
- **CBQK announced dividends which was a positive surprise.** The bank announced DPS of QR1.00 (nil in 2016) which translates in to a yield of 3.4%.
- **The bank's operating efficiency further improved, generating positive JAWs.** CBQK posted opex of QR312.9mn, dropping by 3.6% and 32.9% QoQ and YoY, respectively. Hence the C/I ratio declined to 34.5% vs. 35.8% in 2Q2017 (71.1%% in 4Q2016). Moreover, CBQK managed to finally generate positive JAWs of 25.8% in FY2017. *Enhancing the bank's C/I by bringing it down to the mid 30s% was a key objective of management, which they have been delivering on.*
- **Margins sequentially and on a YoY basis improved.** Net Interest Income gained by 12.4% QoQ to QR682.8mn in 4Q2017 (+26.4% YoY). NIMs moved up by ~19bps QoQ (+37bps YoY) to 2.34%. This improvement was due to higher repricing on IEAs vs. CoFs.
- **Asset quality remained under pressure.** NPLs moved up by 5.5% QoQ (+29.8% YoY) to QR5.6bn, while the NPL ratio remained at 5.6% vs. 3Q2017 (5.0% in FY2016). On the other hand, coverage ratio moved up to 81% at the end of 2017 from 79% in FY2016.
- **Loan growth was strong which we see as a positive; LDR remains elevated, however.** Net loans climbed up by 5.4% QoQ (+14.6% YoY) to QR89.1bn. Deposits followed suit, growing by 5.9% QoQ (+9.5% YoY) to QR77.6bn due to public sector support. As such, the bank's LDR at 115% QoQ vs. 110% in FY2016. *The bank had guided for 8-10% loan growth for 2017 and exceeded their guidance which is promising.*
- **Valuation and recommendation.** CBQK trades at a P/B and P/E of 0.7x and 6.0x on our 2018 estimates, respectively. We maintain our market perform rating and PT of QR29.00/share for the time being .

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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