

Commercial Bank of Qatar CP: QAR 66.3 FV: QAR 77.7 Rating: Accumulate

Big miss on the back of trading losses in AlternatifBank's investment book due to market conditions during the quarter as well as higher provisioning charges. Q3-13 includes for the first time the consolidation of AB and hence balance sheet growth both on a Q-o-Q and Y-o-Y basis is not like-for-like.

- **Net income above our expectations:** CBQ's Q3-13 net profit of QAR 218 mn was down 49% Y-o-Y and 46% Q-o-Q, and coming well below our forecast of QAR 552 mn and Bloomberg consensus of QAR508 mn.
- **Q-o-Q decrease in non-interest income:** non-interest income of QAR 179 mn, down by 53% Q-o-Q, came way below our estimate of QAR 337 mn. Giving that the bank's fair value reserve in the equity section were negative in Q2-13 (-185 mn), we were expecting lower non-interest income, but results came below our expectations. The bank couldn't offset high its high reliance on trading income (16% in Q2-13) by other non-operating income. The consolidation of AB further distorted the situation; AB's core banking non-interest income was offset by losses in the trading book during the turbulent market conditions in July and August, resulting in an overall loss of QAR 23mn.
- **Provisions higher than our expectations:** CBQ recorded much higher provisions, both bad credit charges and investment impairments, of QAR 230mn, above our estimates of QAR 93 mn, which is translated to provisioning costs of 107 bps on an annualized basis, higher-than-expected, and higher than 89bps recorded in Q2-12. CBQ recorded further provisions against the major account outside of Qatar that the bank booked as non-performing in Q1. Worth noting that AB contributed to 30% of total provisions. NPL ratio declined slightly in Q-o-Q to 3.3% in Q3-13 (from 3.5% last quarter), following a large NPL inflow during the second quarter due to a domestic real estate account. Investment provisions relate to investments in emerging markets (Indian equities), which saw some fluctuations in prices during Q3-13, these prices have already improved but can't be reversed because of accounting standards.
- **Small expansion in NIM:** Group net interest spreads have improved by 4bps, increasing from 2.54% in Q2-13 to 2.58% this quarter, due to the consolidation of AB. According to the press release, net interest margins in Qatar have also slightly improved Q-o-Q, and there was a small but positive Q-o-Q growth in net interest income in Qatar. Management has declared its intention to issue QAR 2 bn perpetual bonds in a private placement and that the bank has a committed party that is willing to subscribe to the note at very competitive rates, which alleviate concerns about increasing cost of funds in 2014.
- **Balance sheet growth:** Positive growth in Qatar operations loan growth, up 3% Q-o-Q (+12% YTD), despite Q3-13 being usually slow due to seasonality, and deposits grew by 7% Q-o-Q, (21% YTD). CBQ's loan to deposit ratio remains high at 112%.
- **Equity Position:** Consolidated CAR as at Q3-13 was also relatively weak at 12.5%, post acquisition of AB, down from 15.5% last quarter. The management has proposed to raise QAR2bn from T1 perpetual notes which would increase its CAR by 220bps which is only the first step towards addressing CBQ's capital concerns and CBQ plans further initiatives over the coming months. We note group equity was negatively impacted by the value of a put option (QR590mn) held by the Anadolu Group on the 25% stake it retains in AB.
- **FV change:** Despite that bottom line miss was quite large, it was mainly due to non-core banking income. In addition to that, the announcement of a T1 bond possibly secures high dividend outlook. We adjust our fair value on CBQ from SAR 87.4 to SAR 77.7, following the release of Q3-13 results, with earnings forecasts mainly decreased as we factor higher impairment charges and lower non-interest income. The stock is trading at cheap multiples, with a PB13 of 1.1x and PE13x of 9.1x, and high dividend yield of 8.2%. Though we believe there is a lack of strong positive catalyst for the stock in the ST, but fundamentally we continue to view CBQ's valuation as undervalued, hence we keep our Accumulate rating.

QAR mn	Q2-13A	Q3-13 A	Q3-13 E	Vs ASIB Est
Income Statement				
Net Interest Income	460	642	672	-4%
Non-Interest Income	387	179	337	-47%
Total Banking Income	847	821	1,009	-19%
Operating Expenses	259	403	388	4%
Pre-Provisions Profits	589	418	621	-33%
Provisions	125	230	93	147%
Profit Before Taxes	464	188	528	-64%
Associates	54	93	24	NM
Net Profit	518	281	552	-49%
Balance Sheet				
Loans	52,000	64,890	62,985	3%
Total Deposits	46,900	57,709	57,145	1%

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