

## QNBFS Alert – CBQK 1Q2016 Results Weaker Than Expected

- **CBQK reports weaker than expected results.** Commercial Bank of Qatar (CBQK) reported a net profit of QR288.1mn QoQ, falling short of expectations (our estimate of QR389.4mn vs. BBG median of QR377mn). The miss was primarily due to a loss from ABank and sharp rise in net provisions impairments. However, net interest income was in-line at QR624.3mn vs. our estimate of QR639.2mn (-2.3% variation). Moreover, opex was also in-line at QR421.0mn vs. our estimate of QR423.3mn. *We also put our 2016 and 2017 estimates for CBQK under review pending our conversation with CBQK's management.*
- **Net profit increased QoQ, mainly driven by profit from associates (loss in 4Q2015) and investment income; on a YoY basis numbers were weak across the board.** CBQK reported a net profit of QR288.1mn, increasing by 130.9% QoQ (down 36.3% YoY). Profitability was driven by positive performance from associates as profit from associates increased to QR30.0mn vs. a loss of QR42.5mn in 4Q2015 (profit of QR99.5mn in 1Q2015). This was attributed to CBQK's UAE-based associate United Arab Bank (UAB) which reported a net income of AED45.1mn for 1Q2016. Moreover, investment income surged to QR44.3mn vs. QR14.6mn in 4Q2015 (QR30.2mn in 1Q2015).
- **Margins further contracted.** CBQK's net interest margin receded by 7bps (QoQ) and 20bps (YoY) to 2.33%
- **Provisions remained on the high side.** The bank booked net provisions and investment impairments of QR279.4mn vs. our estimate of QR178.0mn. Net provisions declined by 4.0% QoQ (+58.5% YoY).
- **Asset quality deteriorated.** NPL ratio increased to 4.50% vs. 4.17% in FY2015. On the other hand, the coverage ratio improved to 76% from 71% at the end of 2015.
- **OPEX improved QoQ, although still inefficient.** CBQK reported opex of QR421.0mn, declining by 6.3% QoQ (+5.1% YoY). Thus, cost-to-income improved to 43.9% vs. 52.9% in 4Q2015 (38.1% in 1Q2015).
- **Loans decreased.** Net loans decreased by 1.4% YTD to QR75.5bn while deposits grew by 3.4% YTD to QR72.1bn. consequently, the bank's LDR improved to 105% in 1Q2016 vs. 110% in 4Q2015 (117% in 1Q2015).
- **CAR improved.** CBQK ended 1Q2016 with a CAR of 15% (helped by a second round of AT1 QR2bn issuance) vs. 13.5% at the end of 2015.

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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