

## Qatar 2019: An Outstanding 2018 Sets the Stage for a Positive 2019

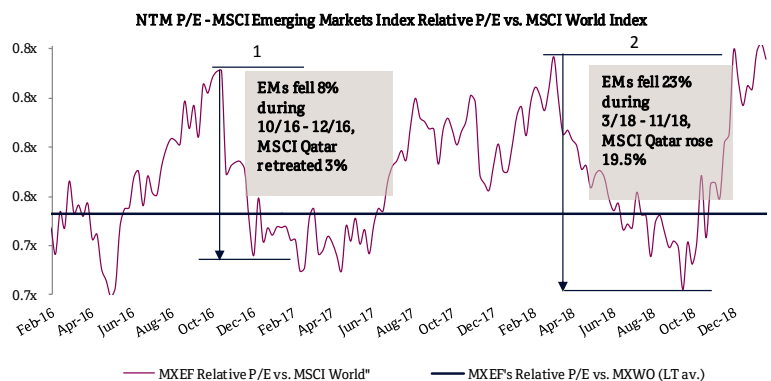
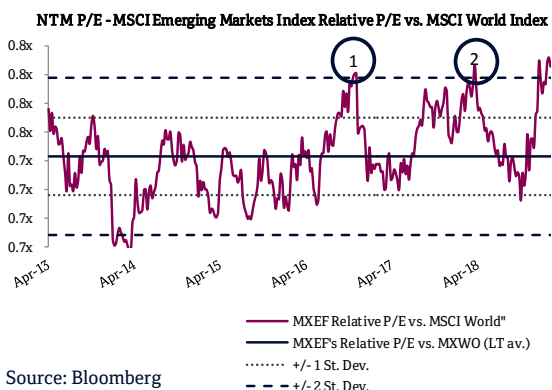
*Backed by 2018's robust earnings growth, we think dividend expectations/realizations could help Qatari equities stay in a positive trend during the early part of 2019. Throughout this year, a resilient macro backdrop and solid growth expectations both on the macro and the micro levels should mark Qatari stocks as relative safe havens for international investors, while many emerging countries (EM) struggle with decelerating growth and deteriorating current account and/or fiscal balances. Besides Qatar's macro strengths, DSM's beta of 0.67 vs the MSCI EM Index justifies its defensive characteristics. On top of the net foreign investor inflow of \$2.6bn in 2018, we anticipate the QSE to keep attracting foreign net flows in 2019 as already evidenced by net buying of \$328mn in the first six weeks of the year. MSCI Qatar's reasonable valuations – both on a historic basis and relative to other EMs – are important factors feeding foreign investor appetite. Qatari-listed companies' intention to reduce the nominal value of their shares to QAR1 from current QR10 via 10-for-1 split may become a long-term driver for the market by possibly expanding its investor base and increasing its daily trading turnover gradually in the coming years.*

- **The Qatari stock market exceeded expectations handily in 2018.** Following an 18.3% decline in 2017, the QE Index made a strong comeback in 2018 rising 25.9% on a total return (TR) basis and ranked as the top performing equity market in the GCC region as well as among the major stocks markets of the world. DSM's 2018 rise was particularly remarkable in a year when the MSCI EM Index and the MSCI World Index were down by 16.6% and 10.4%, respectively. The blockade's minimal impact on Qatar's economy and its listed companies, and robust dividends at the beginning of the year were followed by foreign ownership limit (FOL) increases to 49% for major QSE-listed equities (**QNBK, IQCD, QIBK, QEWS, BRES, MPHC, QFLS and GISS**). These factors, coupled with an estimated 13.9% EPS growth for 2018 (16% for our coverage), were the main drivers behind Qatari stocks' 2018 outperformance. Net foreign investors' flows of \$2.6bn attributable to MSCI and FTSE rebalancing of passive funds into the QSE-listed names were major tailwinds supporting the QSE in 2018.
- **Going forward, we remain optimistic on the Qatari equity market in 2019.** After an expected 10.0% rise in DPS for 2018 (only 1% excluding IQCD's DPS growth), we anticipate a 3.9% DPS increase for 2019 and a 5.9% growth for 2020. Within our coverage universe, we forecast a (DSM-weighted) 4.0% increase in aggregate earnings as of 2019 to be tracked by a more robust 2020 with 9.4%. We also foresee Qatari equities to post better ROE metrics for 2019 and 2020 than their GCC peers (13.9/14.3% vs. regional peer medians at 12.9/13.9%). We have compiled net income expectations of key Qatari equities that we cover. Our Qatari coverage list constituted a significant ~80% of the overall total market capitalization (ex. QNB Group) of the Qatar Exchange. Factors that can negatively impact our thesis include further deterioration of global economic growth prospects, regional geo-political issues, significant decline in oil prices, increase in volatility, exit of hot money from emerging/frontier markets, etc. From our Qatari coverage universe, we favor **QGTS, QEWS and GWCS**.
  - **QGTS (ACCUMULATE; QR21.00 TP).** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance & anticipated growth in the LNG market. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.
  - **QEWS (ACCUMULATE; QR209.00 TP).** We continue to like the company as a long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E, the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.
  - **GWCS (ACCUMULATE; QR51.00 TP).** We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.3% in 2018, reaching 19.1% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.7% by 2023. With major capex already done, there could be DPS upside medium-term.
- **Solid macro backdrop and accelerating growth continues to support Qatari equities: We anticipate Qatari assets to positively diverge especially from rest of the emerging markets,** which are likely to suffer from rising debt costs in 2019 and availability of new debt both on macro and micro levels. Our economics & strategy team forecasts Qatar's GDP growth to accelerate from 1.6% in 2017 to 2.6% as of 2018 and further to 3.2% as of 2019. The expected rise in growth is attributable to both hydrocarbon and non-hydrocarbon sectors. While hydrocarbon growth is anticipated to speed up from an expected 0.2% in 2018 to 0.7%, the non-hydrocarbon sector expansion is also anticipated to rise from 5% to 5.3% in 2019. Strength in construction, agriculture, manufacturing, transportation and storage sectors backed by strong consumer demand are likely to be the primary drivers of a higher growth in 2019. **Given the IMF's recent reduction in its 2019 global growth estimates for the second time over the last two months, global outlook continues to be subdued, regardless of the Fed's recent dovish statements. Nevertheless, Qatar is**

likely to be one of the few countries that promises a GDP acceleration in 2019. Apart from this growth, Qatar's other major macroeconomic metrics are quite strong for 2019 as well, with current account surplus estimated as 7% and fiscal surplus to reach 6.2% of the GDP, with the initiation of VAT.

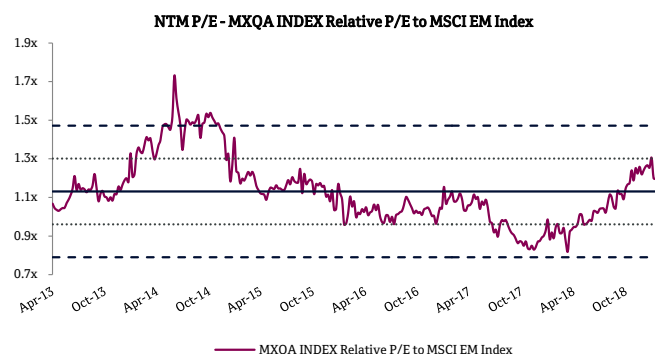
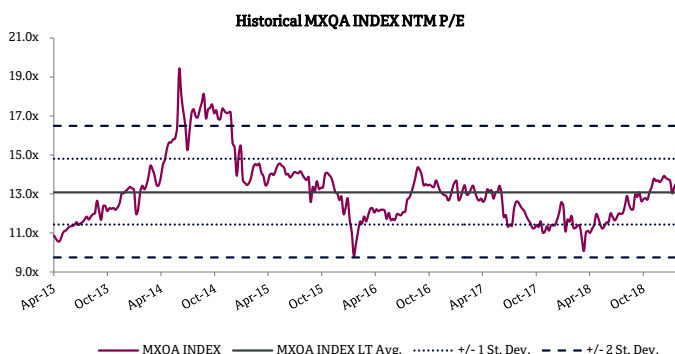
- **In the longer term, Qatar's economy should benefit from a number of recent measures.** Investment should be bolstered by new projects related to the expansion of LNG production and projects aimed at ensuring self-sufficiency and sustainability as well as an expected new law to open up more sectors to 100% foreign ownership. Therefore, we expect underlying growth rate of both the hydrocarbon and non-hydrocarbon sectors to continue rising into the medium term.
- **Flight to quality tends to be an important driver for Qatari equities.** We observe Qatari equities tend to outperform during volatile times, yet when the risk appetite increases, investor preferences tend toward recently oversold EM markets, as observed during Jan'18 and Jan'19 rallies. Following the Jan'19 rally, MSCI EM Index's relative P/E to MSCI World Index trades above its 2x standard deviation, indicating that EM valuations might be overstretched. Unless a substantial increase in EM corporate earnings takes place within 1H19, we expect another downward correction in EM markets in the coming months as was the case in Nov'16 and Apr-Nov'2018. Expectations for a more dovish Fed have driven global equities during Jan'19, leading the MSCI EM index to rise by 7.9% ytd, slightly surpassing the MSCI World Index's 7.6%. **After the Fed's January 31 FOMC statement declaring it would be patient for future rate hikes as well as hinting an adjustment to its ongoing balance sheet contraction if necessary, we think the MSCI EM Index, currently 0.8% below its January 31 close, is probably already baking in much of the good news.** While the Fed's neutral stance may prevent a faster-than-expected macroeconomic slowdown, we think as long as the Fed does not switch to accommodative policies, stock markets will continue to suffer from anemic growth in 2019. Besides, Jan'19 has been exceptionally calm in other points of concern such as global trade war fears, geopolitical risk factors or emerging market volatilities, etc. However, last couple of years' experience reminds us that such calm periods tend to be succeeded with potentially unfavorable news flow for global equities.

## Emerging Markets vs. MSCI World Index vs. MSCI Qatar



- **Despite 2018's robust performance, MSCI Qatar still trades close to its averages vs. EMs.** MSCI Qatar 2019 P/E 13.2x is in-line its 5-year average of 13.1x. Furthermore, compared to MSCI EM Index's 2019E P/E of 11.9x, MSCI Qatar trades at a 10.6% premium, which is slightly above its 5-year average premium of 9.1%, but below its 1x standard deviation.

## MSCI Qatar's Forward-Looking PE



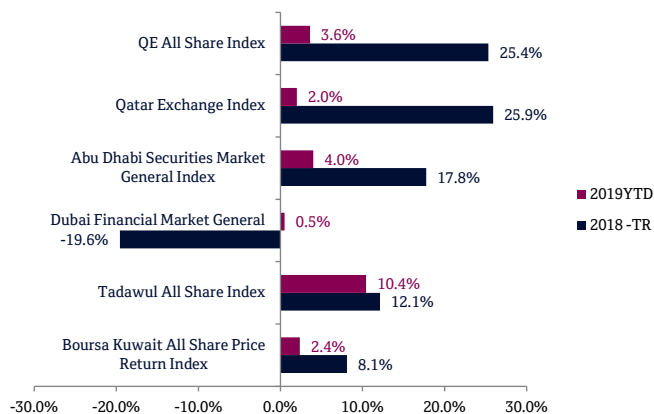
- **Not inexpensive but well-deserved valuations.** Qatar Stock Exchange Index (DSM) currently trade at 13.2x of 2019e P/E (slightly surpassing its long-term average of 13.0x), complemented by a dividend yield of 4.3%, while regional peer median 2019E P/E is at 12.3x along with a dividend yield of 5.3%. Qatari stocks trade at premium multiples to their EM and GCC peers, which we think is justified, given the country's strong macro back drop, which could create room for earnings upgrades on a micro level in the coming quarters. Strong fiscal balances allow the government to fuel the economy with government spending, a noteworthy edge in a world where most of the countries suffer from declining growth rates and deteriorating macro dynamics.

## Forward Valuations and Profitability Metrics for Regional Indices

| Index                                      | P/E          |              | Dividend Yield % |             |             | P/B         |             |             | ROE (%)      |              |              |
|--|--------------|--------------|------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
|  | 2019         | 2020         | 2018             | 2019        | 2020        | 2018        | 2019        | 2020        | 2018         | 2019         | 2020         |
| Qatar Exchange Index                       | 13.2x        | 12.1x        | 4.2%             | 4.3%        | 4.6%        | 1.6x        | 1.6x        | 1.5x        | 13.9%        | 13.9%        | 14.3%        |
| QE All Share Index                         | 13.1x        | 12.0x        | 3.7%             | 3.7%        | 4.0%        | 1.5x        | 1.7x        | 1.6x        | 15.1%        | 15.1%        | 15.2%        |
| Tadawul All Share Index                    | 15.3x        | 13.9x        | 3.3%             | 3.5%        | 3.8%        | 1.9x        | 1.8x        | 1.7x        | 12.9%        | 12.9%        | 13.0%        |
| Dubai Financial Market General Index       | 6.2x         | 6.1x         | 5.5%             | 6.1%        | 6.4%        | 0.9x        | 0.8x        | 0.8x        | 12.6%        | 12.6%        | 11.9%        |
| Abu Dhabi Securities Market General Index  | 12.3x        | 11.6x        | 4.7%             | 5.3%        | 5.6%        | 1.5x        | 1.6x        | 1.6x        | 14.1%        | 14.1%        | 14.9%        |
| Boursa Kuwait All Share Price Return Index | 10.1x        | 8.7x         | 3.8%             | 5.8%        | 6.6%        | 1.2x        | 1.1x        | 1.0x        | 12.9%        | 12.9%        | 13.9%        |
| <b>Average</b>                             | <b>11.4x</b> | <b>10.4x</b> | <b>4.2%</b>      | <b>4.9%</b> | <b>5.3%</b> | <b>1.4x</b> | <b>1.4x</b> | <b>1.3x</b> | <b>13.5%</b> | <b>13.5%</b> | <b>13.8%</b> |
| <b>Median</b>                              | <b>12.3x</b> | <b>11.6x</b> | <b>3.8%</b>      | <b>5.3%</b> | <b>5.6%</b> | <b>1.5x</b> | <b>1.6x</b> | <b>1.6x</b> | <b>12.9%</b> | <b>12.9%</b> | <b>13.9%</b> |

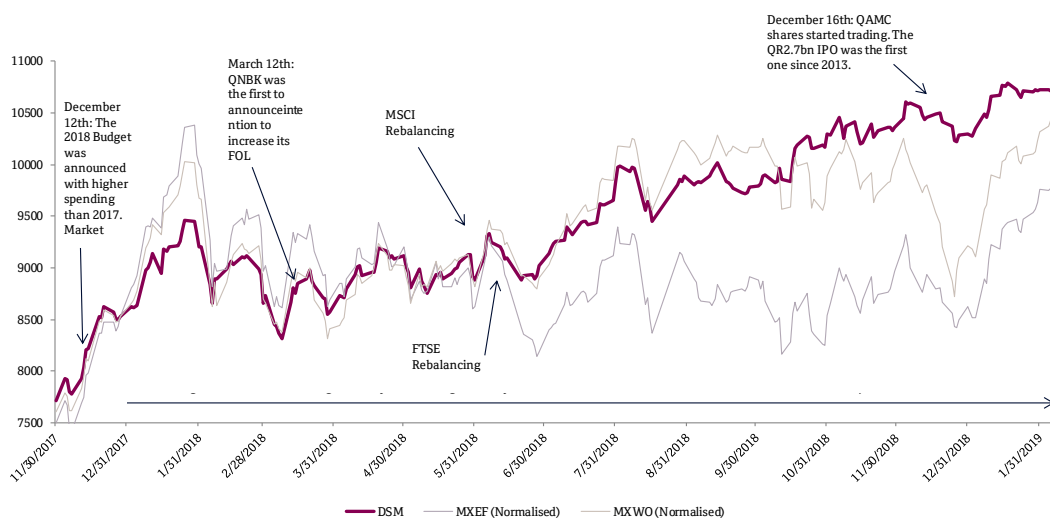
Source: Bloomberg, QNB FS Research

## Qatar & Reginal Markets 2018 Total Return Performance and 2019 YTD Price Performance



Source: Bloomberg

## QE Index Performance (2018 – YTD 2019)



Source: Bloomberg, QNB FS Research

## Key Qatari Stocks Under Coverage

| Ticker                     | Analyst            | Mkt. Cap.<br>(QR mn) | Div. Yield | Prices (QR) |        | Recommendation | Implied Return | Investment Thesis   |
|----------------------------|--------------------|----------------------|------------|-------------|--------|----------------|----------------|---|
|                            |                    |                      |            | Last        | Target |                |                |   |
| Banks & Financial Services |                    |                      |            |             |        |                |                |   |
| ABQK                       | Shahan Keushgerian | 6,416                | 3.3%       | 30.50       | 33.00  | MARKET PERFORM | 8.2%           | The only catalyst for the name is an increase in liquidity as the stock is closely held.  |
| KCBK                       | Shahan Keushgerian | 4,126                | 6.5%       | 11.46       | 15.00  | MARKET PERFORM | 30.9%          | The name trades at a 30% discount to its book value. A significant catalyst for the stock is further progress in management's strategy: 1) an expansion of attributable RoE beyond 12% (2019e and 2020e RoE: 10.7% and 11.1%, respectively) vs. its cost of equity of 12.6%. We expect KCBK to generate a RoE of 12.6% by 2022, 2) The upcoming market-wide 10-for-1 stock split could inject some liquidity in to the name, which has historically faced thin trading volumes and 3) M&A activity.   |
| CBQK                       | Shahan Keushgerian | 16,472               | 3.7%       | 40.70       | 43.00  | MARKET PERFORM | 5.7%           | CBQK posted encouraging results in 2018 making progress in meeting its objectives as set forth in its five-year strategy. Stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result rallied 48% on a 1-year TTR basis, outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a 2019e P/TB of 1.0x vs. 30% discount to book previously. We forecast double-digit growth in 2019 and 2020 net income and now have better visibility on enhanced RoE generation. We increase our PT to QR43.00 by lowering our cost of equity to reflect our sector wide view of improving risk premiums. Also for CBQK, we have upped our sustainable RoE from 11.1% to 11.5% over our forecast horizon.   |
| DHBK                       | Shahan Keushgerian | 6,713                | 4.6%       | 21.65       | 26.00  | MARKET PERFORM | 20.1%          | DHBK has been the worst performing bank stock in Qatar due to concerns on asset quality emanating from the contracting segment loans and GCC operations. On a 1-year TTR basis, the stock is down 28%. Stock price improvement depends on a resumption of confidence in company performance. DHBK recommended cash DPS of QR1.00 (yielding 4.6%) vs. QR3.00 in 2017. In our view, the cut in DPS was necessary in order to prevent the CET1 ratio from dropping below 10%. Had the bank maintained a DPS of QR3.00, CET1 would have dropped to 9.5%. We expect marginal increases in the DPS going forward but not to the extent of its historical trend.   |
| MARK                       | Shahan Keushgerian | 30,008               | 5.0%       | 40.01       | 34.00  | MARKET PERFORM | (15.0%)        | MARK has the best asset quality among Qatari banks with a NPL ratio of 0.80%, one of the highest RoEs of ~16% and robust capitalization at 19%. However, valuations remain overstretched, with the name trading at 2.2x P/B. The market is pricing a fundamental P/B (2.2x) and a sustainable RoE (17.7%) vs. our estimates (P/B: 1.8x & RoE: 15.8%).   |
| QIIK                       | Shahan Keushgerian | 10,298               | 5.9%       | 68.03       | 63.00  | MARKET PERFORM | (7.4%)         | We view QIIK as a dividend play with an attractive yield of 5.9%. The stock remains expensive, trading at PEG of 1.4x based on a bottom-line CAGR of 7.8% (2018-2023e). Catalysts for the name include: 1) Increase in FoL to 49% from 25% and/or 2) Increase in traded volumes.  |
| QIBK                       | Shahan Keushgerian | 37,289               | 3.2%       | 157.81      | 129.00 | MARKET PERFORM | (18.3%)        | In our view, QIBK's turnaround/restructuring phase is already priced in the stock. Moreover, fundamentals continue to remain robust with attractive EPS growth forecast over the 2019-22e horizon. However, QIBK is trading at a steep premium to its historical P/B of 1.6x. As such, we believe the company will have to show accelerating performance to maintain momentum in its stock price. The name rallied on the back of an increase in FoL (49%), which resulted its weight increasing in both MSCI EM and FTSE EM Indices.   |
| Industrials                |                    |                      |            |             |        |                |                |   |
| IQCD                       | Saugata Sarkar     | 85,971               | 3.5%       | 142.10      | 126.00 | MARKET PERFORM | (11.3%)        | Strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible. We continue to believe with the stock enjoying solid momentum, upside in earnings/dividends are key for charting the way forward. Given IQCD continues to operate above capacity and with no major capex on the horizon, earnings growth remains purely a function of commodity price forecasts. Considering its strong 2018 performance will soon be in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019. In this regard, early indications are positive and could lead to upside vs. our 1.3% EPS decline forecast for 2019. Strong FCF generation should support dividends going forward despite high payout ratio vs. historical. |
| QEWS                       | Saugata Sarkar     | 20,372               | 4.0%       | 185.20      | 209.00 | ACCUMULATE     | 12.9%          | QEWS' stock did not keep pace with the overall growth in the stock market last year given tepid 2Q/3Q results; for 4Q2018, we expect a seasonally weak quarter. However, we continue to like the company as a long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. LT catalysts (which we have not yet factored into our estimates) abound, including additional expansions domestically (like Facility E; the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.   |
| Transportation             |                    |                      |            |             |        |                |                |   |
| QNNS                       | Shahan Keushgerian | 7,909                | 5.1%       | 69.06       | 81.00  | MARKET PERFORM | 17.3%          | We continue to believe that QNNS' business is levered to Qatar's economic growth through: 1) offshore oil & gas (18% of 2017 revenue); 2) the construction sector (14%); 3) import and export activities/logistics (33%); 4) the LNG and LPG shipping markets (15%); 5) the property market (6%) and 6) an investment portfolio invested in Qatari blue chip equities (11%).  |
| GWCS                       | Saugata Sarkar     | 2,461                | 4.5%       | 42.00       | 51.00  | ACCUMULATE     | 21.4%          | We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.3% in 2018, reaching 19.1% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.7% by 2023. With major capex already done, there could be DPS upside medium-term.   |

Source: Bloomberg, QNB FS Research; Note: upside based on February 7, 2019 closing prices

## Key Qatari Stocks Under Coverage

Continued...

| Ticker                 | Analyst        | Mkt. Cap.<br>(QR mn) | Div.<br>Yield | Prices (QR) |       | Recommendation | Implied<br>Return | Investment Thesis  |
|------------------------|----------------|----------------------|---------------|-------------|-------|----------------|-------------------|--|
| Transportation - cont. |                |                      |               |             |       |                |                   |  |
| GISS                   | Saugata Sarkar | 3,057                | -             | 16.45       | 19.00 | MARKET PERFORM | 15.5%             | While 2018 impairments could bite, investors should focus on 2019 turnaround and beyond. GISS stock has drifted down 10% since we changed our rating to Market Perform vs. a 5% increase in the QSE Index. Our view on the upcoming results remains unchanged – results should show growth YoY/QoQ, on an operating basis, but net income could get impacted if we see any rig impairments. We continue to model in a resumption of dividends with QR1 in DPS (6.1% yield) expected for 2018. However, a loss could easily eliminate the dividend and further pressure the stock. While 2018 results are important, we continue to look beyond and point to our expectation of solid earnings growth in 2019 primarily driven by drilling, albeit from a modest base. We do expect the drilling segment to pull itself out of losses suffered during 2016-2018 by 2H2019 in light of increasing demand due to the proposed North Field expansion and given our assumption of high utilization of existing rigs, startup of rig utilization contracts for additional rigs (similar to the Seadrill deal announced in July) and modest cost savings. |
| QGTS                   | Saugata Sarkar | 10,997               | 5.0%          | 19.85       | 21.00 | ACCUMULATE     | 5.8%              | Nakilat's results remain fairly predictable, which is a testament to the company's solid and stable business especially when it comes to its wholly-owned ship segment. We do not expect 2018 results to be any different. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.  |
| Telecom                |                |                      |               |             |       |                |                   |  |
| VFQS                   | Saugata Sarkar | 6,958                | -             | 8.23        | 8.50  | MARKET PERFORM | 3.3%              | We expect VFQS to report an overall strong 4Q2018; possible resumption of dividends could be a positive. We continue to like the company's momentum in postpaid (3Q2018 revenue up 36% YoY driven by subs increasing 24% and ARPU growing 8%) fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast a resumption in dividends in 2018 after an almost 4-year hiatus; indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 10.4x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is markedly more expensive than peers.  |
| Overall Average        |                |                      | 3.9%          |             | 6.4%  |                |                   |  |
| Overall Median         |                |                      | 4.3%          |             | 7.0%  |                |                   |  |

Source: Bloomberg, QNB FS Research; Note: upside based on February 7, 2019 closing prices

## Key Financial Data and Estimates

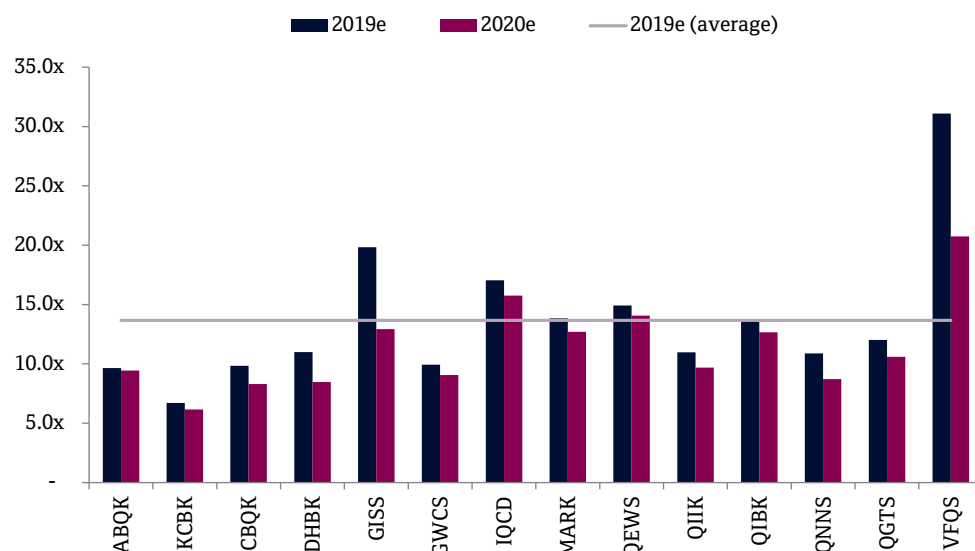
| Ticker                       | Company                              | Share<br>Price (QR) | Div.<br>Yield | EPS    |         |       |       | Growth       |              |              |                 |
|------------------------------|--------------------------------------|---------------------|---------------|--------|---------|-------|-------|--------------|--------------|--------------|-----------------|
|                              |                                      |                     |               | 2017a  | 2018e/a | 2019e | 2020e | 2018e/a      | 2019e        | 2020e        | 2019e (average) |
| ABQK                         | Ahli Bank QSC                        | 30.5                | 3.3%          | 3.04   | 3.17    | 3.16  | 3.23  | 4.3%         | (0.3%)       | 2.2%         | 5.8%            |
| KCBK                         | Al Khalij Commercial Bank PQSC       | 11.46               | 6.5%          | 1.38   | 1.54    | 1.71  | 1.86  | 11.6%        | 11.0%        | 8.8%         | 5.8%            |
| CBQK                         | Commercial Bank PQSC/The             | 40.7                | 3.7%          | 0.90   | 3.52    | 4.14  | 4.90  | 290.7%       | 17.8%        | 18.4%        | 5.8%            |
| DHBK                         | Doha Bank QPSC                       | 21.65               | 4.6%          | 3.02   | 1.97    | 1.97  | 2.56  | (34.8%)      | 0.1%         | 29.9%        | 5.8%            |
| GISS                         | Gulf International Services          | 16.45               | -             | 0.46   | 0.35    | 0.83  | 1.27  | (24.8%)      | 139.8%       | 53.4%        | 5.8%            |
| GWCS                         | Gulf Warehousing Co                  | 42                  | 4.5%          | 3.68   | 4.04    | 4.23  | 4.64  | 9.8%         | 4.6%         | 9.7%         | 5.8%            |
| IQCD                         | Industries Qatar QSC                 | 142.1               | 3.5%          | 5.48   | 8.44    | 8.34  | 9.02  | 54.1%        | (1.3%)       | 8.2%         | 5.8%            |
| MARK                         | Masraf Al Rayan QSC                  | 40.01               | 5.0%          | 2.70   | 2.84    | 2.89  | 3.15  | 5.2%         | 1.8%         | 9.0%         | 5.8%            |
| QEWIS                        | Qatar Electricity & Water Co QSC     | 185.2               | 4.0%          | 14.69  | 13.29   | 12.42 | 13.17 | (9.6%)       | (6.5%)       | 6.0%         | 5.8%            |
| QIIB                         | Qatar International Islamic Bank QSC | 68.03               | 5.9%          | 5.50   | 5.46    | 6.20  | 7.02  | (0.7%)       | 13.6%        | 13.2%        | 5.8%            |
| QIBK                         | Qatar Islamic Bank SAQ               | 157.81              | 3.2%          | 9.31   | 10.79   | 11.51 | 12.46 | 15.9%        | 6.7%         | 8.3%         | 5.8%            |
| QNNS                         | Qatar Navigation QSC                 | 69.06               | 5.1%          | 5.48   | 4.40    | 6.35  | 7.92  | (19.7%)      | 44.2%        | 24.7%        | 5.8%            |
| QGTS                         | Qatar Gas Transport Co Ltd           | 19.85               | 5.0%          | 1.53   | 1.57    | 1.65  | 1.87  | 2.9%         | 4.9%         | 13.4%        | 5.8%            |
| VFQS                         | Vodafone Qatar                       | 8.23                | -             | (0.30) | 0.14    | 0.26  | 0.40  | nmf          | 95.9%        | 50.0%        | 5.8%            |
| <b>Average</b>               |                                      |                     | <b>3.9%</b>   |        |         |       |       | <b>23.5%</b> | <b>23.7%</b> | <b>18.2%</b> |                 |
| <b>Median</b>                |                                      |                     | <b>4.3%</b>   |        |         |       |       | <b>4.3%</b>  | <b>5.8%</b>  | <b>11.5%</b> |                 |
| <b>DSM-Weighted Coverage</b> |                                      |                     |               |        |         |       |       | <b>16.0%</b> | <b>4.0%</b>  | <b>9.4%</b>  |                 |

nmf: Not Meaningful, NA: Not Applicable

Source: Bloomberg, QNB FS Research

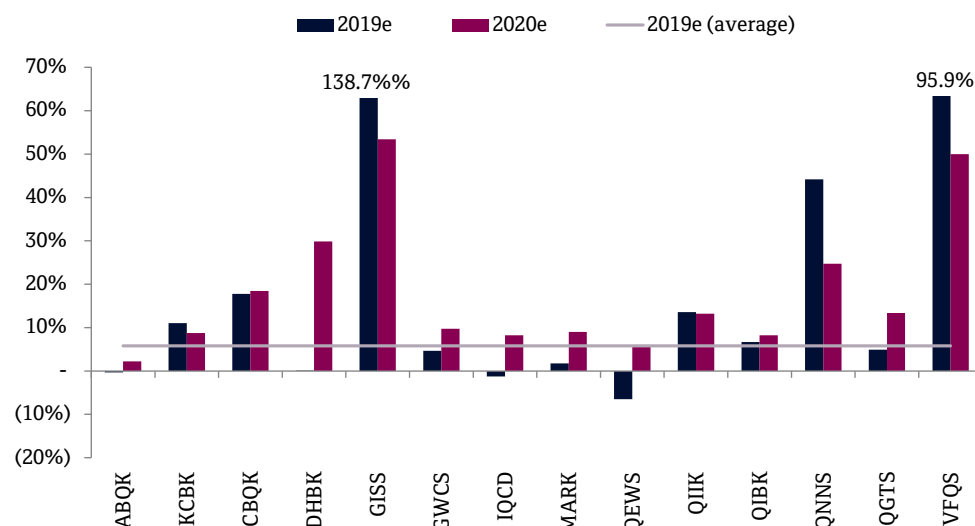


### Forward P/E Multiples for our Qatari Coverage Universe



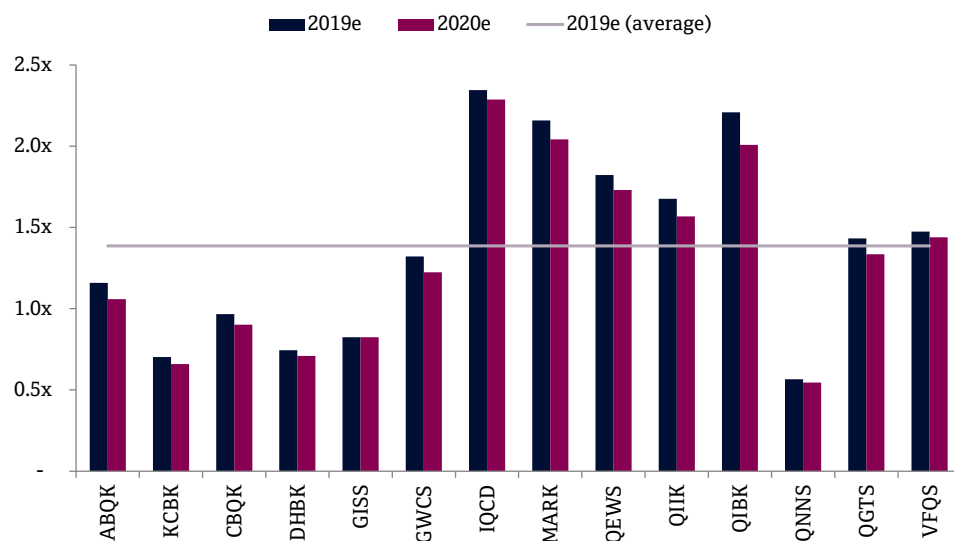
Source: Bloomberg, QNB FS Research

### EPS Growth for our Qatari Coverage Universe



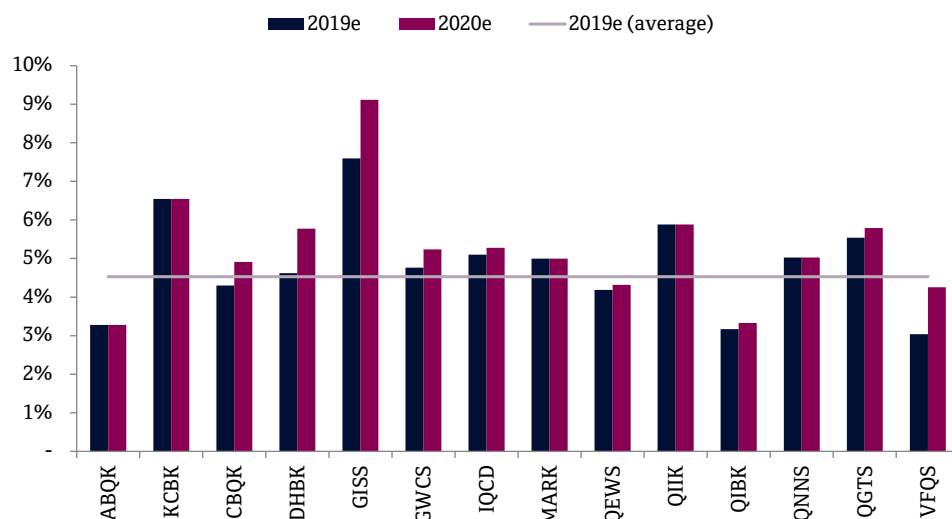
Source: Bloomberg, QNB FS Research

### Forward P/B Multiples for our Qatari Coverage Universe



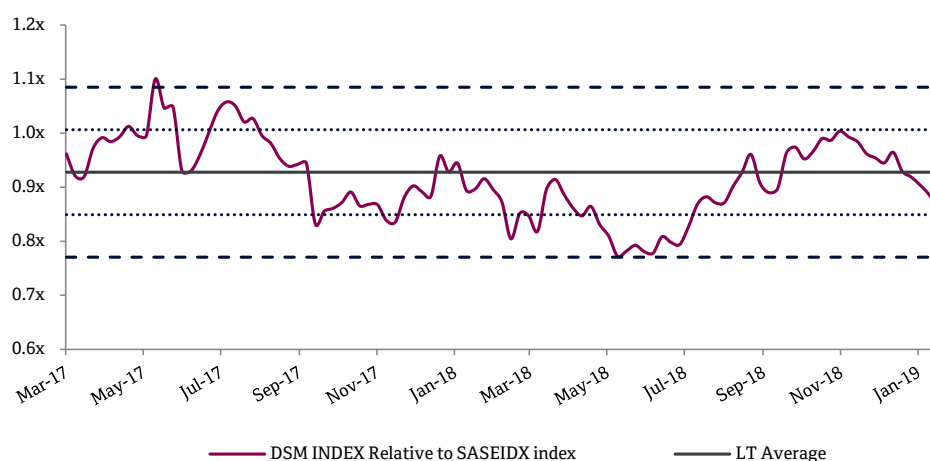
Source: Bloomberg, QNB FS Research

### Dividend Yield for our Qatari Coverage Universe



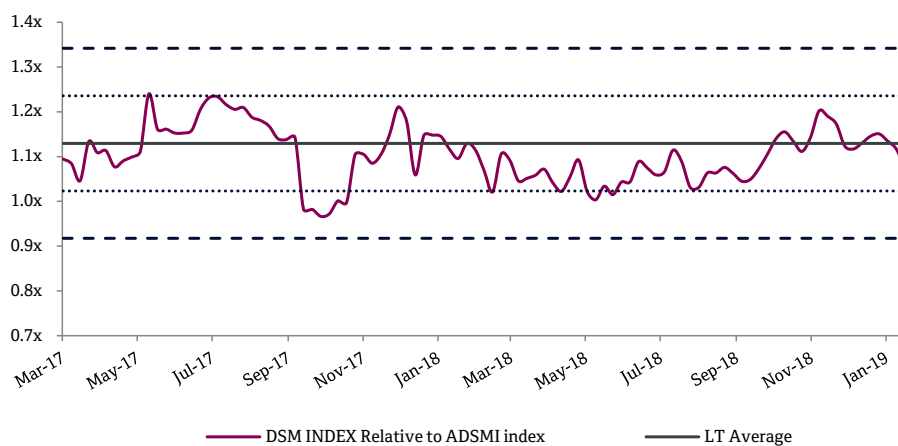
Source: Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Saudi Index



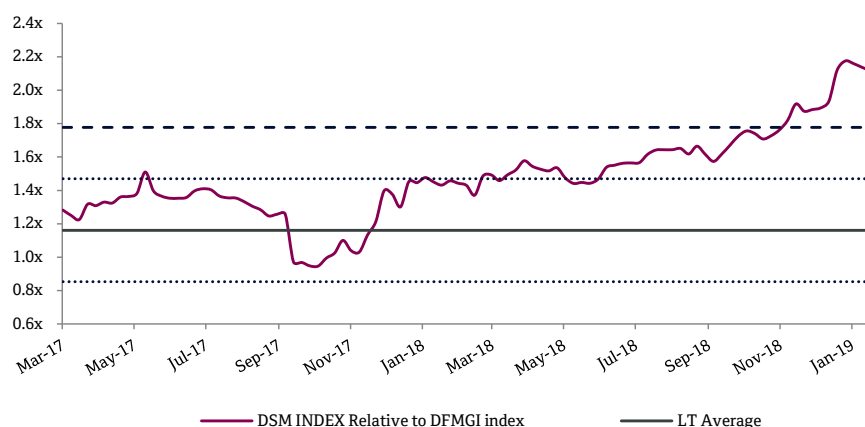
Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Abu Dhabi Index



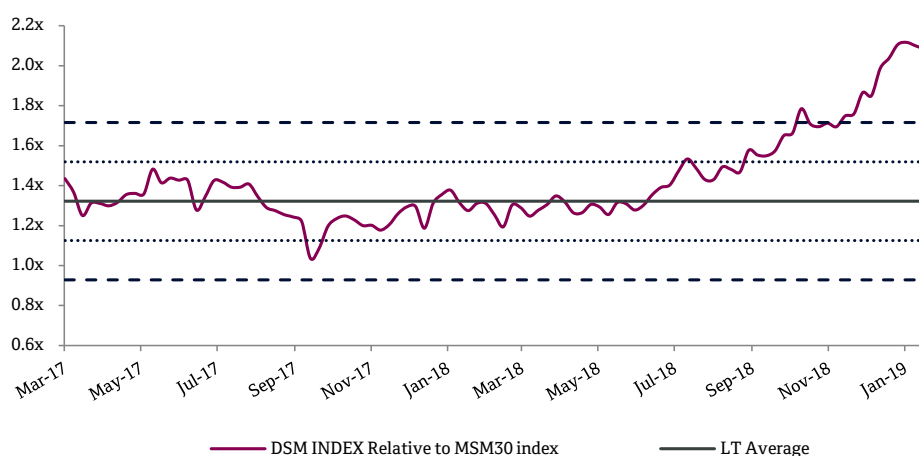
Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Dubai Index



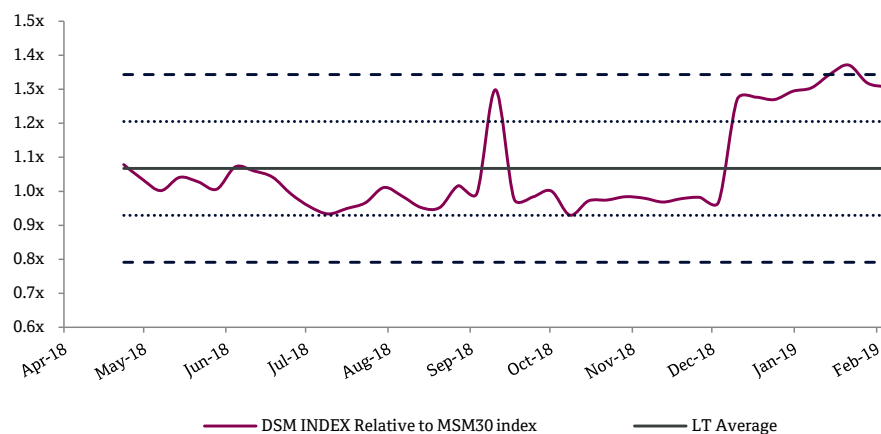
Source: Bloomberg, QNB FS Research

### QE Index Forward P/E Relative to Muscat Index



Source: Bloomberg, QNB FS Research

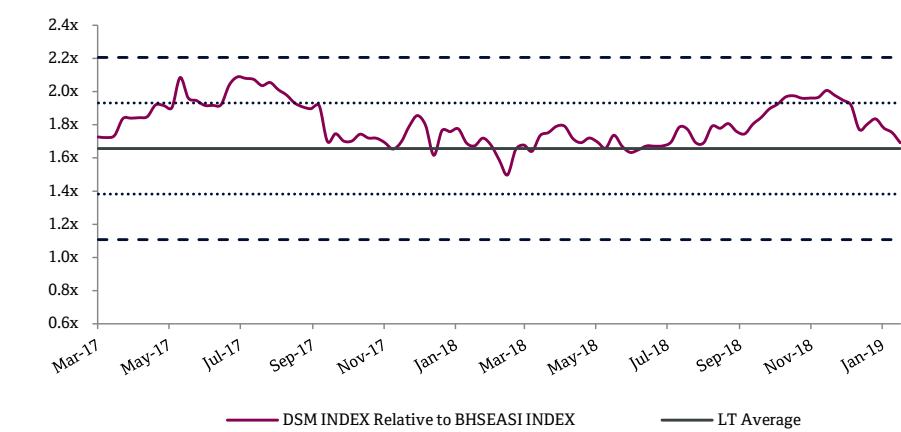
### QE Index Forward P/E Relative to Boursa Kuwait Index



Source: Bloomberg, QNB FS Research



**QE Index Forward P/E Relative to Bahrain Index**



Source: Bloomberg, QNB FS Research

## COMPANY UPDATES

# Ahli Bank (ABQK)

|                |                |              |         |
|----------------|----------------|--------------|---------|
| Recommendation | MARKET PERFORM | Risk Rating  | R-4     |
| Share Price    | QR30.50        | Target Price | QR33.00 |
| Implied Upside | +8.2%          |              |         |

## Investment Income & Lower Opex Drives 2018 YoY Bottom-Line Growth

**Ahli Bank is one of Qatar's smallest lenders with a focus on the corporate and retail sectors.** ABQK has a ~3% market share of loans and deposits (among listed banks). Focused on Qatar, along with a strategic shareholder (Qatar Foundation), ABQK's management has set forth a strategy targeting a 5% to 7% market share in loans and deposits.

### Highlights

- **ABQK's 4Q2018 YoY growth in bottom-line driven by investment income & lower opex.** ABQK posted a net profit of QR127.7mn (in-line with our estimate of QR127.9mn), gaining by 5.1% YoY (-30.8% sequentially).
- **DPS in-line with estimates.** The company announced DPS of QR1.00/sh. (yielding 3.3%), unchanged vs. 2017 and 10% in bonus shares.
- **Margins continued to compress.** Net interest income dropped by 3.4% YoY (-0.6% QoQ) to QR204.4mn. NIM compressed by 8bps YoY and sequentially to 2.23%. The contraction was attributed to CoFs rising more than yield on assets. CoFs surged by 76bps YoY (+7bps QoQ) to 3.34%, while yield on assets increased by only 33bps YoY (-12bps QoQ) to 4.83%. ABQK ended 2018 with a NIM of 2.23% (down by 7bps).
- **Efficiency ratio remained at acceptable levels, generated positive JAWS.** In 2018, total revenue increased by 5.4% while opex decreased by 3.1%, resulting in positive JAWS (8.5%). Core C/I ratio (excluding investment income) improved YoY at 29.5% vs. 30.8%.
- **Asset quality deteriorated.** NPL ratio moved to 1.69% vs. 1.18% in 3Q2018 (1.00% in FY2017), while the coverage ratio of stage 3 loans was 70%.
- **CoR almost doubled.** ABQK's CoR jumped to 44bps in 2018 vs. 24bps in 2017.
- **Capitalization remains strong.** ABQK's CET1 ratio remained unchanged at 15.8% at the end of 2018 vs. 2017.
- **Net loans and deposits contracted YoY and sequentially.** ABQK's net loans dropped by 5.7% YoY (-4.7% QoQ), while deposits contracted by 7.9% YoY (-8.2% QoQ). As such, the LDR moved up to 124% vs. 119% in 3Q2018 (121% in end-2017). However, LDR (based on stable source of funds) was at an optimal level of 97%. The drop in loans and deposits was mainly attributable to the public sector.

### Catalysts

- 1) Improvement in the stock's trading liquidity.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain ABQK's price target at QR33.00 and Market Perform Rating.** ABQK trades at a FY2019e P/B and P/E of 1.2x and 9.4x, respectively.
- **Risks:** 1) Ahli Bank's market share gains do not materialize and 3) concentration risk and general risks rising from regional socio-political issues.

### Key Financial Data and Estimates

|                    | 2018 | 2019e | 2020e | 2021e |
|--------------------|------|-------|-------|-------|
| EPS (QR)           | 3.16 | 3.23  | 3.55  | 3.97  |
| Growth (%)         | -0.2 | 2.2   | 9.7   | 12.0  |
| P/E (x)            | 9.6  | 9.4   | 8.6   | 7.7   |
| BVPS (QR)          | 26.1 | 26.3  | 28.8  | 31.6  |
| P/B (x)            | 1.3  | 1.2   | 1.1   | 1.0   |
| DPS (QR)           | 1.00 | 1.00  | 1.00  | 1.50  |
| Dividend Yield (%) | 3.3  | 3.3   | 3.3   | 4.9   |

Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

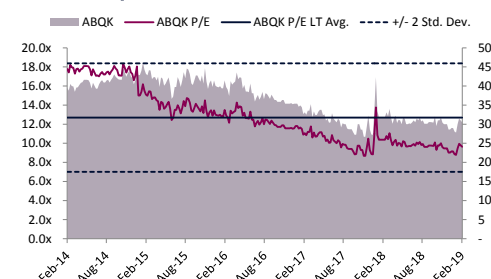
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 30.50                      |
| Dividend Yield (%)        | 3.3%                       |
| Bloomberg Ticker          | ABQK QD EQUITY             |
| Reuters Ticker            | AABQ.QA                    |
| ISIN                      | QA0001200748               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 35.71 / 27.30              |
| 3-m Average Volume ('000) | 3.7                        |
| Mkt. Cap. (\$ bn/QR bn)   | 1.8 / 6.4                  |
| Shares Outstanding (mn)   | 210.4                      |
| FO Limit* (%)             | 25.0                       |
| Current FO* (%)           | 0.2                        |
| 1-Year Total Return (%)   | (1.8)                      |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

### Shahan Keushgerian

+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

| Key Ratios                             | 2018  | 2019e | 2020e | 2021e |
|--|-------|-------|-------|-------|
| <b>Profitability (%)</b>               |       |       |       |       |
| RoAE (Attributable)                    | 12.3  | 12.3  | 12.9  | 13.2  |
| NIM                                    | 2.2   | 2.3   | 2.4   | 2.5   |
| RoRWA (Attributable)                   | 2.1   | 2.1   | 2.2   | 2.3   |
| <b>Efficiency (%)</b>                  |       |       |       |       |
| Cost-to-Income (Headline)              | 28.1  | 29.0  | 28.1  | 27.3  |
| Cost-to-Income (Core)                  | 29.5  | 29.6  | 28.5  | 27.7  |
| <b>Liquidity (%)</b>                   |       |       |       |       |
| LDR                                    | 123.6 | 123.0 | 122.5 | 118.9 |
| Loans/Assets                           | 67.6  | 71.9  | 70.2  | 71.7  |
| Cash & Interbank Loans-to-Total Assets | 23.1  | 17.8  | 19.4  | 17.8  |
| <b>Asset Quality (%)</b>               |       |       |       |       |
| NPL Ratio                              | 1.69  | 1.82  | 1.73  | 1.51  |
| Coverage Ratio                         | 133.5 | 123.6 | 142.4 | 175.3 |
| Cost of Risk                           | 44    | 33    | 30    | 24    |
| <b>Capitalization (%)</b>              |       |       |       |       |
| Tier 1 Ratio                           | 15.8  | 16.7  | 17.1  | 17.1  |
| CAR                                    | 16.9  | 17.7  | 18.1  | 18.1  |
| <b>Growth (%)</b>                      |       |       |       |       |
| Net Interest Income                    | -0.6  | 2.5   | 10.4  | 9.9   |
| Net Operating Income                   | 9.2   | -0.8  | 9.3   | 10.2  |
| Net Income                             | 4.0   | 2.2   | 9.7   | 12.0  |
| Loans                                  | -5.7  | 4.5   | 6.6   | 8.7   |
| Deposits                               | -7.9  | 5.0   | 7.0   | 12.0  |

Source: Company data, QNB FS Research

| Income Statement (In QR mn)            | 2018         | 2019e        | 2020e        | 2021e        |
|--|--------------|--------------|--------------|--------------|
| Net Interest Income                    | 829          | 850          | 938          | 1,031        |
| Fees & Commissions                     | 185          | 197          | 203          | 211          |
| FX Income                              | 25           | 27           | 28           | 31           |
| Other Income                           | 62           | 32           | 24           | 30           |
| <b>Non-Interest Income</b>             | <b>272</b>   | <b>256</b>   | <b>255</b>   | <b>271</b>   |
| <b>Total Revenue</b>                   | <b>1,101</b> | <b>1,106</b> | <b>1,193</b> | <b>1,302</b> |
| Operating Expenses                     | (309)        | (321)        | (335)        | (356)        |
| <b>Net Operating Income</b>            | <b>792</b>   | <b>785</b>   | <b>858</b>   | <b>946</b>   |
| Net Provisions & Investment Impairment | (126)        | (105)        | (112)        | (110)        |
| <b>Net Profit (Headline/Reported)</b>  | <b>666</b>   | <b>680</b>   | <b>746</b>   | <b>836</b>   |
| Social & Sports Contribution Fund      | (17)         | (17)         | (19)         | (21)         |
| <b>Net Profit (Attributable)</b>       | <b>649</b>   | <b>663</b>   | <b>728</b>   | <b>815</b>   |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | 2018          | 2019e         | 2020e         | 2021e         |
|---|---------------|---------------|---------------|---------------|
| <b>Assets</b>                                       |               |               |               |               |
| Cash & Balances with Central Bank                   | 2,405         | 1,740         | 1,985         | 2,224         |
| Interbank Loans                                     | 4,100         | 2,282         | 3,040         | 2,313         |
| Net Investments                                     | 5,862         | 6,328         | 7,067         | 7,628         |
| Net Loans   | 27,301        | 28,529        | 30,403        | 33,046        |
| Other Assets  | 486           | 571           | 578           | 661           |
| Net PP&E  | 248           | 239           | 225           | 243           |
| <b>Total Assets</b>                                 | <b>40,403</b> | <b>39,689</b> | <b>43,298</b> | <b>46,116</b> |
| <b>Liabilities</b>                                  |               |               |               |               |
| Interbank Deposits                                  | 5,729         | 3,602         | 4,679         | 3,466         |
| Customer Deposits                                   | 22,090        | 23,194        | 24,818        | 27,796        |
| Term Loans & Other Borrowings                       | 6,126         | 6,432         | 6,883         | 7,227         |
| Other Liabilities                                   | 957           | 928           | 869           | 973           |
| <b>Total Liabilities</b>                            | <b>34,902</b> | <b>34,156</b> | <b>37,248</b> | <b>39,461</b> |
| <b>Shareholder's Equity</b>                         |               |               |               |               |
| <b>Total Shareholders' Equity</b>                   | <b>5,501</b>  | <b>5,533</b>  | <b>6,050</b>  | <b>6,655</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>40,403</b> | <b>39,689</b> | <b>43,298</b> | <b>46,116</b> |

Source: Company data, QNB FS Research

# Commercial Bank of Qatar (CBQK)

| Recommendation | MARKET PERFORM | Risk Rating      | R-3     |
|----------------|----------------|------------------|---------|
| Share Price    | QR40.70        | New Target Price | QR43.00 |
| Implied Upside | +5.7%          | Old Target Price | QR35.00 |

## Encouraging 2018; Upping PT to QR43.00/sh.

**CBQK posted encouraging results in 2018 making progress in meeting its objectives as set forth in its five-year strategy.** Stock price performance, thus far, has rewarded investors' optimism in the company's change in strategy and as a result rallied aggressively, outperforming its banking peers (QNBK & QIBK being the exception). The stock is trading at a 2019e P/TB of 1.0x vs. 30% discount to book previously. We forecast double-digit growth in 2019 and 2020 net income and now have better visibility on enhanced RoE generation. **We increase our PT to QR43.00 by lowering our cost of equity to reflect our sector wide view of improving risk premiums. Also for CBQK, we have upped our sustainable RoE from 11.1% to 11.5% over our forecast horizon.** We make minor changes to our estimates for 2019 and 2020 (next page), while the bottom-line remains unchanged vs. our previous estimates.

### Highlights

- **CBQK's 2018 bottom-line soared YoY (base effect) driven by a sharp drop in credit costs.** CBQK reported a net profit of QR1.7bn vs. QR603.6mn in 2017, surging YoY mainly attributed to a material drop in provisions & impairments. Total revenue was flat due to non-funded income mitigating weak net interest income.
- **NIM marginally declined due to funding pressure.** NIM contracted by 6bps YoY to 2.13% due to CoFs outpacing growth in yield on assets. CoFs gained by 93bps, while yield on assets increased by 75bps.
- **NPLs declined; CoR significantly improved, as expected.** NPLs dropped by 7.3% to QR4.89bn, while the NPL ratio declined to 5.59% vs. 5.65% in 2017 (majority of NPLs are legacy). Net provisions and impairments dropped by 52.1% to QR835.5mn vs. QR1.7bn in 2017. Moreover, CoR improved to 102bps vs. 195bps in FY2017. *Management has been de-risking its books provisioning legacy NPLs. As such, CoR is expected to further decline in 2019 (~80bps) and 2020 (~60bps).*
- **Operating efficiency continued its positive trajectory, generating strong JAWS.** CBQK posted opex of QR1.2bn, down 11.5% YoY while total revenue was flat. Hence the C/I ratio fell to 31.9% vs. 36.0% in FY2017 (48.0% in 2016). Moreover, the bank generated positive JAWs of 11.5% in 2018 (+25.8%: 2017). *Improving efficiency is part of CBQK's strategy by reducing the C/I ratio to the low-30% and they have been delivering.*
- **Loans and deposits continued contracting; loan portfolio diversification is a positive.** Net loans dropped by 6.1% YoY to QR83.7bn, while customer deposits declined by 8.1% YoY to QR71.3bn. The contraction in loans was partly due to the depreciation in Turkish Lira and due to the settlement of the temporary government overdraft in 2Q2018 (after the issuance of sovereign bonds). Management diversified the loan book as part of its strategy/objectives; real estate and contracting loans receded by 10.9% and 31.8% YoY, respectively. Hence, real estate and contracting loans currently make up 25.1% (26.4% in 2017) and 5.2% (7.1% in 2017) of the loan portfolio, respectively.
- **CET1 weakened in FY2018 because of IFRS 9 one-time charge of QR1.3bn, management is guiding to 11%-11.5% CET1 ratio.** CBQK's CET1 ratio declined to 10.5% in 2018 vs. 11.2% in 2017. Excluding the dividends from CET1, the ratio would be lower by 50bps at 10%. Based on our estimates we expect the bank to generate a CET1 ratio of 11.0% in 2019, 2020 and 2021. This scenario is possible even with marginal increases in DPS.

### Catalysts

- Delivering better profitability metrics than expected/estimated.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We change our Price Target to QR43/sh. and maintain our Market Perform rating.** CBQK is trading at a 2019e P/TB and P/E of 1.0x and 9.8x, respectively. The market is pricing a sustainable RoE of 10.9% vs. our forecast of 11.5%.
- **Risks:** 1) Failing to achieve goals & objectives from 5-year plan & 2) Volatility in Turkish Lira.

### Key Financial Data and Estimates

|                    | FY2018 | FY2019e | FY2020e | FY2021e |
|--------------------|--------|---------|---------|---------|
| EPS (QR)           | 3.52   | 4.14    | 4.90    | 5.36    |
| EPS Growth (%)     | 286.4  | 17.8    | 18.4    | 9.2     |
| P/E (x)            | 11.6   | 9.8     | 8.3     | 7.6     |
| TBVPS (QR)         | 38.8   | 41.6    | 44.7    | 48.0    |
| P/TB (x)           | 1.0    | 1.0     | 0.9     | 0.8     |
| DPS (QR)           | 1.50   | 1.75    | 2.00    | 2.50    |
| Dividend Yield (%) | 3.7    | 4.3     | 4.9     | 6.1     |

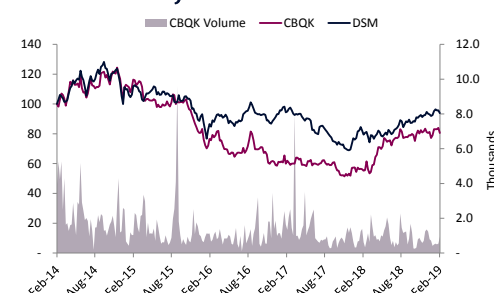
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

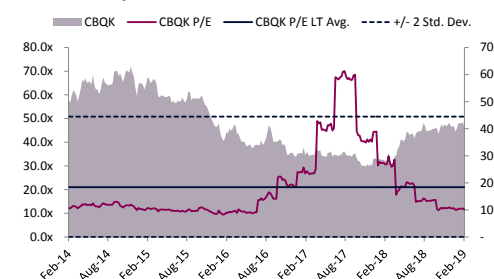
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 40.70                      |
| Dividend Yield (%)        | 3.7%                       |
| Bloomberg Ticker          | CBQK QD EQUITY             |
| Reuters Ticker            | CBQK.QA                    |
| ISIN                      | QA0007227752               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 42.50 / 27.00              |
| 3-m Average Volume ('000) | 159.4                      |
| Mkt. Cap. (\$ bn/QR bn)   | 4.5 / 16.5                 |
| Shares Outstanding (mn)   | 404.7                      |
| FO Limit* (%)             | 49.0                       |
| Current FO* (%)           | 15.4                       |
| 1-Year Total Return (%)   | 50.6                       |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

### Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

| Ratios                                  | FY2018 | FY2019e | FY2020e | FY2021e |
|---|--------|---------|---------|---------|
| <b>Profitability (%)</b>                |        |         |         |         |
| RoE (Tangible)                          | 8.3    | 10.4    | 11.5    | 11.6    |
| RoAA (Attributable)                     | 1.0    | 1.2     | 1.3     | 1.3     |
| RoRWA (Attributable)                    | 3.1    | 1.9     | 1.8     | 1.2     |
| NIM (% of IEAs)                         | 2.13   | 2.22    | 2.19    | 2.14    |
| NIM (% of RWAs)                         | 2.15   | 2.27    | 2.29    | 2.24    |
| NIM (% of AAs)                          | 1.82   | 1.88    | 1.88    | 1.86    |
| Spread                                  | 1.6    | 1.6     | 1.5     | 1.3     |
| <b>Efficiency (%)</b>                   |        |         |         |         |
| Cost-to-Income (Headline)               | 31.9   | 30.3    | 29.6    | 29.5    |
| Cost-to-Income (Core)                   | 33.3   | 32.1    | 31.6    | 31.4    |
| <b>Liquidity (%)</b>                    |        |         |         |         |
| LDR                                     | 117    | 116     | 118     | 114     |
| LDR (including CDs)                     | 88     | 86      | 87      | 85      |
| Loans/Assets                            | 62     | 61      | 62      | 63      |
| Cash & Interbank Loans-to-Total Assets  | 12.0   | 12.2    | 12.3    | 13.0    |
| Deposits to Assets                      | 53     | 53      | 52      | 56      |
| Wholesale Funding to Loans              | 46     | 48      | 49      | 44      |
| IEAs to IBLs                            | 117    | 115     | 114     | 115     |
| <b>Asset Quality (%)</b>                |        |         |         |         |
| NPL Ratio                               | 5.6    | 5.0     | 4.5     | 4.0     |
| NPLs to Shareholder's Equity            | 30.6   | 27.0    | 24.5    | 22.5    |
| NPLs to Tier 1 Capital                  | 30.8   | 27.4    | 25.0    | 23.2    |
| Coverage Ratio                          | 78.6   | 86.7    | 92.8    | 96.8    |
| ALL/Average Loans                       | 4.3    | 4.4     | 4.3     | 4.1     |
| Cost of Risk                            | 1.02   | 0.81    | 0.66    | 0.64    |
| <b>Capitalization (%)</b>               |        |         |         |         |
| Tier 1 Ratio                            | 14.0   | 14.3    | 14.1    | 13.6    |
| CAR                                     | 15.5   | 15.8    | 15.7    | 15.2    |
| Tier 1 Capital to Assets                | 11.7   | 11.7    | 11.6    | 11.4    |
| Tier 1 Capital to Loans                 | 19.0   | 19.1    | 18.8    | 17.9    |
| Tier 1 Capital to Deposits              | 22.2   | 22.2    | 22.1    | 20.4    |
| Leverage (x)                            | 8.4    | 8.4     | 8.4     | 8.6     |
| <b>Growth (%)</b>                       |        |         |         |         |
| Net Interest Income                     | -1.4   | 5.5     | 6.8     | 7.1     |
| Non-Interest Income                     | 3.3    | 10.1    | 6.7     | 6.5     |
| Total Revenue                           | 0.1    | 7.0     | 6.8     | 6.9     |
| Operating Expenses                      | -11.5  | 1.8     | 4.3     | 6.5     |
| Net Operating Income                    | 6.5    | 9.4     | 7.8     | 7.0     |
| Net Provisions & Investment Impairments | -52.1  | -7.0    | -13.1   | 3.1     |
| Net Income (Headline/Reported)          | 175.5  | 15.2    | 16.1    | 8.2     |
| Net Income (Attributable)               | 296.4  | 17.8    | 18.5    | 9.2     |
| Loans                                   | -6.1   | 5.1     | 8.2     | 11.4    |
| Deposits                                | -8.1   | 6.0     | 7.0     | 15.0    |
| Assets                                  | -2.4   | 5.9     | 7.8     | 8.5     |
| RWAs                                    | -2.8   | 3.5     | 8.0     | 10.0    |

Source: Company data, QNB FS Research



| Income Statement (In QR mn)                  | FY2018       | FY2019e      | FY2020e      | FY2021e      |
|--|--------------|--------------|--------------|--------------|
| Net Interest Income                          | 2,482        | 2,620        | 2,797        | 2,994        |
| Fees & Commissions                           | 757          | 810          | 891          | 954          |
| FX Income                                    | 202          | 227          | 193          | 208          |
| Other Income                                 | 237          | 281          | 323          | 337          |
| <b>Non-Interest Income</b>                   | <b>1,197</b> | <b>1,318</b> | <b>1,407</b> | <b>1,499</b> |
| <b>Total Revenue</b>                         | <b>3,679</b> | <b>3,938</b> | <b>4,204</b> | <b>4,493</b> |
| Operating Expenses                           | (1,173)      | (1,195)      | (1,246)      | (1,327)      |
| <b>Net Operating Income</b>                  | <b>2,506</b> | <b>2,743</b> | <b>2,958</b> | <b>3,166</b> |
| Net Provisions & Impairments                 | (836)        | (777)        | (675)        | (696)        |
| <b>Net Profit Before Taxes</b>               | <b>1,670</b> | <b>1,966</b> | <b>2,283</b> | <b>2,470</b> |
| Non-Recurring Income                         | 0            | 0            | 0            | 0            |
| <b>Net Profit After Non-Recurring Income</b> | <b>1,670</b> | <b>1,966</b> | <b>2,283</b> | <b>2,470</b> |
| Tax  | (7)          | (50)         | (58)         | (63)         |
| <b>Net Profit Before Minority Interest</b>   | <b>1,670</b> | <b>1,966</b> | <b>2,283</b> | <b>2,470</b> |
| Minority Interest                            | (0)          | (0)          | (0)          | (0)          |
| <b>Net Profit (Headline/Reported)</b>        | <b>1,663</b> | <b>1,916</b> | <b>2,225</b> | <b>2,408</b> |
| Interest on Tier-1 Note                      | (240)        | (240)        | (240)        | (240)        |
| Social & Sports Contribution Fund            | (42)         | (48)         | (56)         | (60)         |
| <b>Net Profit (Attributable)</b>             | <b>1,382</b> | <b>1,628</b> | <b>1,929</b> | <b>2,107</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | FY2018         | FY2019e        | FY2020e        | FY2021e        |
|---|----------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |                |                |                |                |
| Cash & Balances with Central Bank                   | 6,716          | 7,031          | 7,280          | 8,372          |
| Interbank Loans                                     | 9,469          | 10,416         | 11,665         | 13,415         |
| Net Investments                                     | 22,108         | 24,334         | 26,978         | 28,487         |
| Net Loans   | 83,702         | 87,941         | 95,133         | 105,935        |
| Investment In Associates                            | 2,096          | 2,190          | 2,292          | 2,400          |
| Other Assets  | 5,373          | 5,638          | 5,414          | 3,178          |
| Net PP&E  | 2,719          | 2,667          | 2,736          | 2,815          |
| OREO  | 2,605          | 2,605          | 2,605          | 2,605          |
| Goodwill & Other Intangibles                        | 283            | 228            | 174            | 130            |
| <b>Total Assets</b>                                 | <b>135,071</b> | <b>143,050</b> | <b>154,278</b> | <b>167,338</b> |
| <b>Liabilities</b>                                  |                |                |                |                |
| Interbank Deposits                                  | 13,821         | 15,134         | 18,201         | 15,100         |
| Customer Deposits                                   | 71,321         | 75,601         | 80,893         | 93,027         |
| Term Loans  | 24,300         | 26,730         | 28,869         | 31,178         |
| Tier-1 Perpetual Notes                              | 4,000          | 4,000          | 4,000          | 4,000          |
| Other Liabilities                                   | 5,629          | 4,536          | 4,045          | 4,465          |
| <b>Total Liabilities</b>                            | <b>119,071</b> | <b>126,001</b> | <b>136,007</b> | <b>147,770</b> |
| <b>Shareholders' Equity</b>                         |                |                |                |                |
| Total Shareholders' Equity                          | 15,999         | 17,049         | 18,270         | 19,568         |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>135,071</b> | <b>143,050</b> | <b>154,278</b> | <b>167,338</b> |

Source: Company data, QNB FS Research

# Al Khalij Commercial Bank (KCBK)

|                |                |              |         |
|----------------|----------------|--------------|---------|
| Recommendation | MARKET PERFORM | Risk Rating  | R-3     |
| Share Price    | QR11.46        | Target Price | QR15.00 |
| Implied Upside | +30.9%         |              |         |

## Expect CoR to Consistently Drop Going Forward

**KCBK posted 2018 net income of QR608.4m, in-line with our estimate of QR609.0mn.** The result was +11.7% Y-o-Y, mostly due to a material decline in provisions. Total revenue declined as a result of the current operating environment. However, NIM improvement was visible. Loans & deposits contracted YoY, but liquidity remained strong with LDR at 92%. Cost of Risk improved to 60bps and we predict further improvement in 2019 and beyond. DPS came in-line with our forecast at QR0.75, offering an above market average yield of 6.5% at current levels. The upcoming market-wide 10-for-1 stock split could inject some liquidity into the name, which has historically faced thin trading volumes. We retain our Market Perform rating and QR15.00 Price Target on KCBK.

### Highlights

- **KCBK's 2018 attributable net income increased by 11.7% on the back of a 40.3% drop in provisions & impairments, while total revenue exhibited weak performance.** KCBK reported net income of QR608.4mn, in-line with our estimate of QR609.0mn. The bank's revenue declined by 5.9% as a result of net interest income. Given the current operating environment, we are of the view that growth in 2019's bottom-line could also be driven by an improvement in CoR.
- **Opex containment persisted but drop in revenue led to an uptick in C/I ratio.** Revenue declined by 5.9%, while opex receded by 1.6%. As a result, KCBK generated negative JAWS. Moreover, C/I ratio moved up to 28.8% in FY2018 vs. 27.6% in FY2017. We do note the current efficiency ratio is acceptable and still in-line with management's target of less than 30%.
- **Margins inched up as the bank shed expensive deposits.** NIMs marginally moved up by 2bps YoY to 1.81%. Yields expanded by 58bps YoY to 4.22%, outpacing CoFs. CoFs increased by 50bps YoY to 2.71%, leading to the gains in margins. It is worth mentioning that interest bearing deposits declined by 13.8% YoY.
- **Gross loans and deposits declined.** Gross loans contracted by 8.9% YoY to QR32.7bn while deposits dropped by 12.5% to QR28.6bn. Nevertheless, the liquidity position remained strong with LDR (based on stable sources of funds) amounting to 92%. The bank divested non-core loans in order to sharpen focus on preferred segments.
- **Asset quality improved, CoR dropped.** The bank's NPLs dropped by 11.9%. As such, the NPL ratio declined to 1.88% vs. 1.94% at the end of 2017. Moreover, the coverage ratio (coverage of stage 3 loans/NPLs) moved up to 83% vs. 79% in 3Q2018. We expect the coverage ratio to continuously increase as management exercises prudent risk control. CoR also improved, receding to 60bps vs. 84bps in 2017. We foresee further improvement in CoR, penciling in 46bps in 2019.
- **Tier-1 remained strong, although slightly lower.** The bank's CET-1 and Tier-1 ratios declined to 13.0% (14.2% in 2017) and 15.6% (16.7% in 2017), respectively. Moreover, KCBK ended 2018 with a CAR of 16.7% (15.8% in 2017). We expect capitalization to remain robust in 2019 and the coming years.

### Catalysts

- **Visible progress in management's strategy:** 1) an expansion of attributable RoE beyond 12% (2019e and 2020e RoE: 10.7% and 11.1%, respectively), 2) improvement in the liquidity of the stock and 3) M&A activity.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target at QR15.00.** KCBK trades at P/TB and P/E of 0.7x and 6.7x on our 2019 estimates, respectively.
- **Risks:** 1) Geopolitical factors/issues, 2) KCBK's market share gains do not materialize, 3) possible asset quality concerns and 4) concentration risk.

### Key Financial Data and Estimates

|                    | FY2018 | FY2019e | FY2020e | FY2021e |
|--------------------|--------|---------|---------|---------|
| EPS (QR)           | 1.54   | 1.71    | 1.86    | 2.09    |
| EPS Growth (%)     | 11.7   | 11.0    | 8.8     | 12.7    |
| P/E (x)            | 7.5    | 6.7     | 6.2     | 5.5     |
| Tangible BVPS (QR) | 15.1   | 15.9    | 17.0    | 18.3    |
| P/TB (x)           | 0.8    | 0.7     | 0.7     | 0.6     |
| DPS (QR)           | 0.75   | 0.75    | 0.75    | 1.00    |
| Dividend Yield (%) | 6.5    | 6.5     | 6.5     | 8.7     |

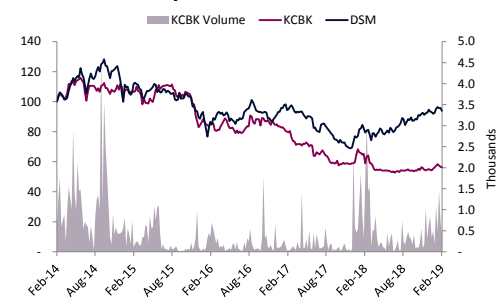
Source: Company financials, QNB FS Research; Note: All data based on current number of shares

### Key Data

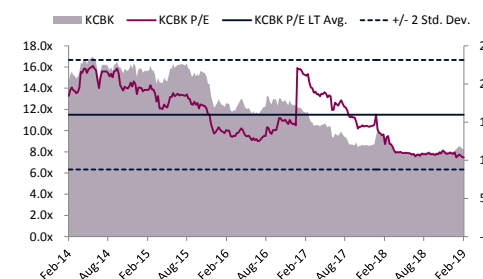
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 11.46                      |
| Dividend Yield (%)        | 6.5%                       |
| Bloomberg Ticker          | KCBK QD EQUITY             |
| Reuters Ticker            | KCBK.QA                    |
| ISIN                      | QA000A0M6MD5               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 13.25 / 10.70              |
| 3-m Average Volume ('000) | 125.8                      |
| Mkt. Cap. (\$ bn/QR bn)   | 1.1 / 4.1                  |
| Shares Outstanding (mn)   | 360.0                      |
| FO Limit* (%)             | 49.0                       |
| Current FO* (%)           | 10.9                       |
| 1-Year Total Return (%)   | 1.5                        |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

### Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

| Income Statement (In QR mn)                              | FY2018       | FY2019e      | FY2020e      | FY2021e      |
|--|--------------|--------------|--------------|--------------|
| Net Interest Income                                      | 915          | 943          | 1,026        | 1,129        |
| Fees & Commissions                                       | 190          | 182          | 166          | 186          |
| FX Income  | 38           | 40           | 42           | 40           |
| Other Income   | 0            | 12           | 23           | 25           |
| <b>Non-Interest Income</b>                               | <b>228</b>   | <b>234</b>   | <b>231</b>   | <b>250</b>   |
| <b>Total Revenue</b>                                     | <b>1,143</b> | <b>1,177</b> | <b>1,257</b> | <b>1,379</b> |
| Operating Expenses                                       | (329)        | (335)        | (343)        | (363)        |
| <b>Net Operating Income</b>                              | <b>814</b>   | <b>842</b>   | <b>915</b>   | <b>1,017</b> |
| Net Provisions & Impairments                             | (190)        | (155)        | (173)        | (188)        |
| <b>Net Profit Before Taxes &amp; Non-Recurring Items</b> | <b>624</b>   | <b>687</b>   | <b>742</b>   | <b>829</b>   |
| Non-Recurring Income                                     | -            | -            | -            | -            |
| <b>Net Profit Before Tax</b>                             | <b>624</b>   | <b>687</b>   | <b>742</b>   | <b>829</b>   |
| Tax  | (16)         | (17)         | (19)         | (21)         |
| <b>Net Profit (Headline/Reported)</b>                    | <b>608</b>   | <b>669</b>   | <b>724</b>   | <b>808</b>   |
| Interest Payment on AT1 Note                             | (55)         | (55)         | (55)         | (55)         |
| Social & Sports Contribution Fund                        | (15)         | (17)         | (18)         | (20)         |
| <b>Net Profit (Attributable)</b>                         | <b>538</b>   | <b>598</b>   | <b>650</b>   | <b>733</b>   |

Source: Company financials, QNB FS Research

| Balance Sheet (In QR mn)                            | FY2018        | FY2019e       | FY2020e       | FY2021e       |
|---|---------------|---------------|---------------|---------------|
| <b>Assets</b>                                       |               |               |               |               |
| Cash & Balances with Central Bank                   | 2,881         | 3,782         | 3,404         | 3,932         |
| Interbank Loans                                     | 6,085         | 6,619         | 4,425         | 5,617         |
| Net Investments                                     | 10,663        | 11,537        | 10,349        | 9,867         |
| Net Loans   | 31,309        | 33,112        | 35,935        | 39,743        |
| Other Assets  | 687           | 662           | 683           | 795           |
| Net PP&E  | 335           | 355           | 375           | 397           |
| Goodwill & Other Intangibles                        | 143           | 133           | 119           | 119           |
| <b>Total Assets</b>                                 | <b>52,102</b> | <b>56,200</b> | <b>55,290</b> | <b>60,469</b> |
| <b>Liabilities</b>                                  |               |               |               |               |
| Interbank Deposits                                  | 9,495         | 10,097        | 6,725         | 7,867         |
| Customer Deposits                                   | 28,601        | 31,519        | 34,040        | 37,444        |
| Term Loans & Borrowings                             | 5,568         | 5,568         | 5,568         | 5,568         |
| Other Liabilities                                   | 1,861         | 2,143         | 1,702         | 1,872         |
| AT1 Perpetual Bonds                                 | 1,000         | 1,000         | 1,000         | 1,000         |
| <b>Total Liabilities</b>                            | <b>46,526</b> | <b>50,326</b> | <b>49,036</b> | <b>53,752</b> |
| <b>Total Shareholders' Equity</b>                   | <b>5,577</b>  | <b>5,874</b>  | <b>6,254</b>  | <b>6,717</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>52,102</b> | <b>56,200</b> | <b>55,290</b> | <b>60,469</b> |

Source: Company financials, QNB FS Research

## Doha Bank (DHBK)

|                |                |                  |         |
|----------------|----------------|------------------|---------|
| Recommendation | MARKET PERFORM | Risk Rating      | R-3     |
| Share Price    | QR21.65        | New Target Price | QR26.00 |
| Implied Upside | +20.1%         |                  |         |

### 2019 CoR & Bottom-line Expected to be In-Line with 2018

DHBK has been the worst performing bank stock in Qatar due to concerns on asset quality emanating from the contracting segment loans and GCC operations. On a 1-year TTR basis, the stock is down 28.5%.

#### Highlights

- **DHBK's 2018 bottom-line drops on the back of margin pressure, weak non-funded income and a sharp increase in CoR.** DHBK reported a headline net profit of QR830.2mn vs. QR1.1bn in 2017, dropping by 25.2% YoY. This was attributed to a drop in net interest income (7.7%), weak non-funded income (drop in fees and investment losses) and a surge in provisions for credit losses.
- **Provisions for credit losses remained elevated and are expected to continue to do so in 2019.** DHBK booked credit provisions of QR951.7mn vs. QR592.5mn in 2017, which translates into CoR of 149bps & 95bps (81bps in 2016), respectively. Provisions in 2019 are expected to hover around the 2018 level, as DHBK will book more provisions on its GCC (Kuwait & UAE) operations. As such, 60% of total provisions are allocated to GCC. We pencil in CoR of 147bps (2019), 129bps (2020) and 95bps (2021).
- **Spreads and margins compressed in 2018.** Net interest income dropped by 7.7% to QR2.2bn. DHBK's net interest margin contracted by 26bps. The compression in the NIM was due to CoFs gaining by 53bps, while yield on assets increasing by only 26bps. We are of the opinion that CoFs aggressively increased as the bank needed to protect its funding and liquidity position.
- **Operating efficiency improved.** DHBK's opex dropped by 10.3% while revenue declined by 8.8%. Hence, the C/I ratio improved to 35.5% vs. 36.2% in 2017 (39.2% in 2016). We estimate further cuts in opex for 2019.
- **Asset quality continued to worsen, NPL ratio expected to reach 6% in 2019.** DHBK's asset quality deteriorated with the bank's NPLs gaining by 17.5% QoQ (+68.3% YoY) to QR3.8bn. Moreover, the NPL ratio moved to 5.85% from 5.05% in 3Q2018 (3.61% in FY2017). The coverage ratio for Stage 3 loans declined to 98% vs. 106% in the previous quarter and 119% in 2Q2018. The majority of Stage 2 loans (31% of total loans) are comprised of the contracting segment, which remains a challenge.
- **Gross loans gained traction while deposits dropped on a YoY basis.** Gross loans grew by 3.8% YoY to QR65.0bn while deposits expanded by 6.9% QoQ (-6.7% YoY) to QR55.5bn. Hence, the bank's LDR improved to 108% from 114% in 3Q2018 (101%: end of 2017). However, LDR (based on stable sources of funds) remained healthy at 92% vs. 91% in 2017. The sequential 6.9% jump in deposits was driven by the public sector. We forecast mid-single digit growth for loans and flattish deposits in 2019.
- **IFRS 9 negatively impacted CET1, wiping out QR1.37bn in risk reserves.** DHBK's CET1 ratio receded to 10.3% at the end of 2018 vs. 12.3% in 2017, still above the minimum limit of 9.0%. We forecast CET1 ratio of 10.0% in the coming few years as the bank manages its RWA's optimally.
- **Cut in DPS is a positive.** DHBK recommended cash DPS of QR1.00 (yielding 4.6%) vs. QR3.00 in 2017. In our view, the cut in DPS was necessary in order to prevent the CET1 ratio from dropping below 10%. Had the bank maintained a DPS of QR3.00, CET1 would have dropped to 9.5%. We expect marginal increases in the DPS going forward but not to the extent of its historical trend.

#### Catalysts

- Stock price improvement depends on a resumption of confidence in company performance.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation:** DHBK is trading at a 2019e P/B and P/E of 0.7x and 11.0x, respectively.
- **Risks:** 1) Geopolitical factors and 2) Contracting segment

#### Key Financial Data and Estimates

|                    | 2018  | 2019e | 2020e | 2021e |
|--------------------|-------|-------|-------|-------|
| EPS                | 1.97  | 1.97  | 2.56  | 3.47  |
| Growth             | -34.8 | 0.1   | 29.9  | 35.7  |
| P/E (x)            | 11.0  | 11.0  | 8.5   | 6.2   |
| BVPS (QR)          | 28.2  | 29.1  | 30.5  | 32.7  |
| P/B (x)            | 0.8   | 0.7   | 0.7   | 0.7   |
| DPS (QR)           | 1.00  | 1.00  | 1.25  | 1.25  |
| Dividend Yield (%) | 4.6   | 4.6   | 5.8   | 5.8   |

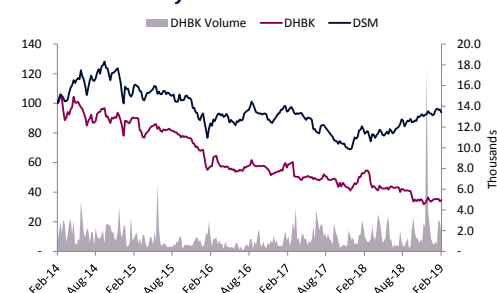
Source: Company data, QNB FS Research

#### Key Data

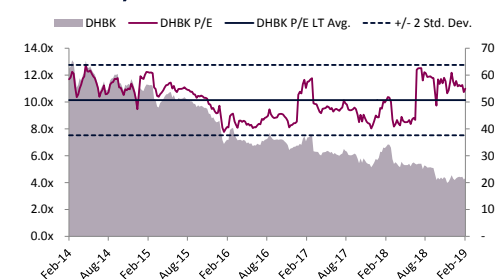
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 21.65                      |
| Dividend Yield (%)        | 4.6%                       |
| Bloomberg Ticker          | DHBK QD EQUITY             |
| Reuters Ticker            | DOBK.QA                    |
| ISIN                      | QA0006929770               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 34.98 / 19.75              |
| 3-m Average Volume ('000) | 636.4                      |
| Mkt. Cap. (\$ bn/QR bn)   | 1.8 / 6.7                  |
| Shares Outstanding (mn)   | 310.0                      |
| FO Limit* (%)             | 49.0                       |
| Current FO* (%)           | 10.9                       |
| 1-Year Total Return (%)   | (28.5)                     |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

#### Relative Price Performance vs. Market Indices



#### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

#### Shahan Keushgerian

+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

#### Saugata Sarkar, CFA, CAIA

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

| Income Statement (In QR mn)           | FY2018       | FY2019e      | FY2020e      | FY2021e      |
|---------------------------------------|--------------|--------------|--------------|--------------|
| <b>Net Interest Income</b>            | <b>2,081</b> | <b>2,171</b> | <b>2,368</b> | <b>2,581</b> |
| Fees & Commissions                    | 388          | 376          | 389          | 369          |
| FX Income                             | 115          | 120          | 126          | 127          |
| Other Income                          | 51           | 97           | 90           | 85           |
| <b>Non-Interest Income</b>            | <b>554</b>   | <b>593</b>   | <b>605</b>   | <b>581</b>   |
| <b>Total Revenue</b>                  | <b>2,635</b> | <b>2,765</b> | <b>2,972</b> | <b>3,162</b> |
| Operating Expenses                    | (937)        | (897)        | (918)        | (962)        |
| <b>Net Operating Income</b>           | <b>1,698</b> | <b>1,868</b> | <b>2,055</b> | <b>2,200</b> |
| Net Provisions & Impairments          | (864)        | (1,013)      | (1,007)      | (857)        |
| <b>Net Profit Before Tax</b>          | <b>834</b>   | <b>855</b>   | <b>1,048</b> | <b>1,343</b> |
| Tax                                   | (4)          | (4)          | (5)          | (6)          |
| <b>Net Profit (Headline/Reported)</b> | <b>830</b>   | <b>851</b>   | <b>1,043</b> | <b>1,337</b> |
| Interest on Tier-1 Note               | (220)        | (240)        | (250)        | (260)        |
| Social & Sports Contribution Fund     | (21)         | (21)         | (26)         | (33)         |
| <b>Attributable Net Profit</b>        | <b>589</b>   | <b>589</b>   | <b>767</b>   | <b>1,043</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | FY2018        | FY2019e        | FY2020e        | FY2021e        |
|---|---------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |               |                |                |                |
| Cash & Balances with Central Bank                   | 7,586         | 6,788          | 7,869          | 6,658          |
| Interbank Loans                                     | 6,230         | 7,550          | 8,135          | 6,632          |
| Net Investments                                     | 20,552        | 24,447         | 27,931         | 32,757         |
| Net Loans   | 59,798        | 62,921         | 67,796         | 73,689         |
| Other Assets  | 1,345         | 1,584          | 1,028          | 1,117          |
| Net PP&E  | 621           | 576            | 563            | 552            |
| <b>Total Assets</b>                                 | <b>96,132</b> | <b>103,866</b> | <b>113,322</b> | <b>121,405</b> |
| <b>Liabilities</b>                                  |               |                |                |                |
| Interbank Deposits                                  | 19,463        | 25,888         | 29,718         | 29,415         |
| Customer Deposits                                   | 55,460        | 56,569         | 60,529         | 66,582         |
| Term Loans  | 5,577         | 6,246          | 7,183          | 8,620          |
| Other Liabilities                                   | 2,899         | 2,150          | 2,421          | 2,663          |
| Tier-1 Perpetual Note                               | 4,000         | 4,000          | 4,000          | 4,000          |
| <b>Total Liabilities</b>                            | <b>87,399</b> | <b>94,854</b>  | <b>103,852</b> | <b>111,280</b> |
| <b>Total Shareholders' Equity</b>                   | <b>8,733</b>  | <b>9,013</b>   | <b>9,470</b>   | <b>10,125</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>96,132</b> | <b>103,866</b> | <b>113,322</b> | <b>121,405</b> |

Source: Company data, QNB FS Research

| Ratios                                 | FY2018 | FY2019e | FY2020e | FY2021e |
|--|--------|---------|---------|---------|
| <b>Profitability (%)</b>               |        |         |         |         |
| RoAE (Attributable)                    | 5.5    | 6.7     | 8.5     | 11.0    |
| RoAA (Attributable)                    | 0.9    | 0.9     | 1.0     | 1.1     |
| RoRWA (Attributable)                   | 0.8    | 0.7     | 0.9     | 1.2     |
| NIM (% of IEAs)                        | 2.46   | 2.41    | 2.40    | 2.39    |
| NIM (% of RWAs)                        | 2.67   | 2.75    | 2.83    | 2.87    |
| NIM (% of AAs)                         | 2.19   | 2.17    | 2.18    | 2.20    |
| Spread                                 | 2.3    | 2.2     | 2.2     | 2.1     |
| <b>Efficiency (%)</b>                  |        |         |         |         |
| Cost-to-Income (Headline)              | 35.5   | 32.4    | 30.9    | 30.4    |
| Cost-to-Income (Core)                  | 35.4   | 33.0    | 31.2    | 30.7    |
| <b>Liquidity (%)</b>                   |        |         |         |         |
| LDR                                    | 107.8  | 111.2   | 112.0   | 110.7   |
| Loans/Assets                           | 62.2   | 60.6    | 59.8    | 60.7    |
| Cash & Interbank Loans-to-Total Assets | 14.4   | 13.8    | 14.1    | 10.9    |
| Deposits to Assets                     | 57.7   | 54.5    | 53.4    | 54.8    |
| Wholesale Funding to Loans             | 41.9   | 51.1    | 54.4    | 51.6    |
| IEAs to IBLs                           | 1.1    | 1.1     | 1.1     | 1.1     |
| <b>Asset Quality (%)</b>               |        |         |         |         |
| NPL Ratio                              | 5.85   | 6.00    | 5.75    | 4.50    |
| NPLs to Shareholder's Equity           | 43.5   | 45.9    | 45.2    | 35.9    |
| NPLs to Tier 1 Capital                 | 47.8   | 50.4    | 49.9    | 39.4    |
| Coverage Ratio                         | 137.6  | 145.4   | 155.4   | 195.0   |
| ALL/Average Loans                      | 8.2    | 9.0     | 9.3     | 9.1     |
| Cost of Risk                           | 149    | 147     | 129     | 95      |
| <b>Capitalization (%)</b>              |        |         |         |         |
| Tier-1 Ratio                           | 15.5   | 15.1    | 14.6    | 14.1    |
| CAR                                    | 16.6   | 16.2    | 15.8    | 15.3    |
| Tier 1 Capital to Assets               | 12.4   | 11.8    | 11.1    | 10.9    |
| Tier 1 Capital to Loans                | 20.0   | 19.4    | 18.6    | 17.9    |
| Tier 1 Capital to Deposits             | 21.5   | 21.6    | 20.8    | 19.9    |
| Leverage (x)                           | 11.0   | 11.5    | 12.0    | 12.0    |
| <b>Growth (%)</b>                      |        |         |         |         |
| Net Interest Income                    | -7.7   | 4.3     | 9.0     | 9.0     |
| Non-Interest Income                    | -12.4  | 7.1     | 2.0     | -3.9    |
| Total Revenue                          | -8.8   | 4.9     | 7.5     | 6.4     |
| Opex                                   | -10.3  | -4.3    | 2.3     | 4.8     |
| Net Operating Income                   | -7.9   | 10.0    | 10.0    | 7.1     |
| Net Income (Headline/Reported)         | -25.2  | 2.5     | 22.6    | 28.1    |
| Net Income (Attributable)              | -31.6  | 0.0     | 30.1    | 36.0    |
| Loans                                  | 0.0    | 5.2     | 7.7     | 8.7     |
| Deposits                               | -6.7   | 2.0     | 7.0     | 10.0    |
| Assets                                 | 2.8    | 8.0     | 9.1     | 7.1     |
| RWAs                                   | -2.2   | 5.0     | 6.3     | 8.5     |

Source: Company data, QNB FS Research



# Gulf International Services (GISS)

| Recommendation | MARKET PERFORM | Risk Rating          | R-4     |
|----------------|----------------|----------------------|---------|
| Share Price    | QR16.45        | Current Target Price | QR19.00 |
| Implied Upside | 15.5%          |                      |         |

## 2018 Impairments Could Bite; Focus on 2019; Market Perform

**Potential rig impairment (s) could mask sequential operating earnings growth in 4Q2018.** GISS stock has drifted down 10% since we changed our rating to [Market Perform](#) vs. a 5% increase in the QSE Index. Our view on the upcoming results remains unchanged – results should show growth YoY/QoQ, on an operating basis, but net income could get impacted if we see any rig impairments. We continue to model in a resumption of dividends with QR1 in DPS (6.1% yield) expected for 2018. However, a loss could easily eliminate the dividend and further pressure the stock. While 2018 results are important, we continue to look beyond and point to our expectation of solid earnings growth in 2019 primarily driven by drilling, albeit from a modest base. GISS' story consists of a sum of moving parts, not entirely predictable and fairly volatile. We do not expect this to change. However, we do expect the drilling segment to pull itself out of losses suffered during 2016-2018 by 2H2019 in light of increasing demand due to the proposed North Field expansion and given our assumption of high utilization of existing rigs, startup of rig utilization contracts for additional rigs (similar to the Seadrill deal announced in July) and modest cost savings. We stay Market Perform for now and could potentially revisit our rating after results announcement.

### Highlights

- We still expect QoQ earnings improvement in 4Q2018 barring any impairments.** We expect 4Q2018 revenue/net income of QR686.0mn/QR24.8mn. Our detailed forecasts are on the next page. **We note we do not forecast any impairment; two offshore rigs, Al-Doha and Msheireb, are old and are currently not being used with GDI looking to deploy them outside of Qatar (in Asia). Success of this strategy is yet to be seen and a year-end 2018 impairment cannot be ruled out.** We continue to model in a resumption of dividends with QR1 in DPS expected for 2018. However, a loss could easily eliminate the dividend. Given its razor-thin margins, GISS is subject to significant quarterly earnings volatility.
- Looking beyond 2018, drilling is emerging from choppy waters and we expect a resumption of profitability from 2H2019 despite higher interest costs.** We continue to model 7 offshore rigs to be deployed, in-line with current trend. As we have pointed out previously, in July, GDI signed a contract with Seadrill for the utilization of Seadrill's offshore drilling rig, West Tucana; GDI will use this backup in a rig utilization contract lasting 440 days (with options for further extensions), in which GDI will manage the rig/crew provided by Seadrill and earn a service fee. We continue to model in an additional rig under a similar arrangement in 2H2019, increasing this fleet to 3 rigs in 2020, 4 rigs in 2021 and 5 rigs in 2H2022 before gradually reducing the size of this fleet. Such contracts allow GISS to address demand growth in drilling without additional debt-driven capex. However, it is possible some of these rigs are deployed under a JV and/or are brought in-house. On the **costs** front, GISS is taking steps to streamline GDI's operations and we expect 10% savings in cash direct costs and SG&A by 2021. *Net-net, we expect GDI's loss to narrow from QR125.0mn (2018) to QR51.5mn in 2019 and turn into a QR7.3mn net profit in 2020.*
- Group NI should grow from QR64.3mn (EPS: QR0.35) in 2018 to QR154.1mn (QR0.83) in 2019.** 82% of this growth is to be driven by drilling. Insurance and aviation contribute 6% and 4%, respectively, while catering is flattish. Again, there are no impairment charges in our model.

### Catalysts

- Stock price improvement depends on a resumption of confidence in company performance.** GISS stock continues to remain in a "show me" mode.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We rate GISS a Market Perform with a TP of QR19.** GISS trades at 2019 & 2020 EV/EBITDA multiples of 7.5x and 6.7x, respectively.
- Risks: Geopolitical risks** cannot be modeled. Given the low level of absolute earnings along with paper-thin net margins (9M2018: 2.0%), **quarterly earnings could be subject to significant volatility.** **Debt levels are relatively high** (9M2018: QR5.1bn/5.2x 2018 net-debt-to-EBITDA) but manageable in light of 1.3x interest coverage and expected reduction in leverage going forward, in our view. Further **decline in rig rates/ utilizations** could pressure shares. GISS also faces **concentration risk** given its exposure to QP/affiliates.

### Key Financial Data and Estimates

|               | 2017 | 2018e | 2019e | 2020e |
|---------------|------|-------|-------|-------|
| EPS (QR)      | 0.46 | 0.35  | 0.83  | 1.27  |
| P/E (x)       | 36.0 | 47.6  | 19.8  | 12.9  |
| EV/EBITDA (x) | 9.3  | 8.7   | 7.5   | 6.7   |
| DPS (QR)      | 0.00 | 1.00  | 1.25  | 1.50  |
| DY            | 0.0% | 6.1%  | 7.6%  | 9.1%  |

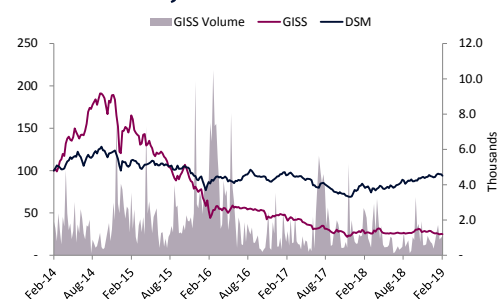
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

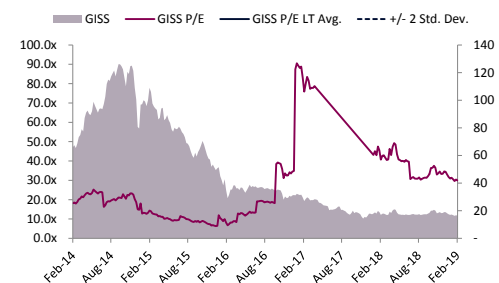
|                           |                |
|---------------------------|----------------|
| Current Market Price (QR) | 16.45          |
| Dividend Yield (%)        | 0%             |
| Bloomberg Ticker          | GISS QD EQUITY |
| Reuters Ticker            | GISS.QA        |
| ISIN                      | QA000A0Q6LH4   |
| Sector                    | Industrials    |
| 52wk High/52wk Low (QR)   | 21.50 / 16.10  |
| 3-m Average Volume ('000) | 184.6          |
| Mkt. Cap. (\$ bn/QR bn)   | 0.8 / 3.1      |
| Shares Outstanding (mn)   | 185.8          |
| FO Limit* (%)             | 49.0           |
| Current FO* (%)           | 8.5            |
| 1-Year Total Return (%)   | (3.1)          |
| Fiscal Year End           | December 31    |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa



## 4Q2018 Preview

### QNB FS Estimates and Comparisons

| In QR mn      | 4Q2018e | 4Q2017A | 3Q2018A | YoY    | QoQ    | 2018e   | 2017    | YoY    |
|---------------|---------|---------|---------|--------|--------|---------|---------|--------|
| Revenue       | 686.0   | 609.9   | 650.7   | 12.5%  | 5.4%   | 2,647.1 | 2,485.9 | 6.5%   |
| Gross Profit  | 124.5   | 159.0   | 90.2    | -21.7% | 38.0%  | 436.3   | 450.8   | -3.2%  |
| EBITDA        | 211.9   | 193.8   | 184.4   | 9.3%   | 14.9%  | 774.2   | 756.7   | 2.3%   |
| EBIT          | 91.7    | 110.6   | 67.3    | -17.1% | 36.3%  | 298.5   | 257.4   | 16.0%  |
| Net Income    | 24.8    | 62.8    | 5.2     | -60.5% | 375.3% | 64.3    | 85.0    | -24.4% |
| EPS (QR)      | 0.13    | 0.34    | 0.03    | -60.5% | 375.3% | 0.35    | 0.46    | -24.4% |
| DPS (in QR)   |         |         |         |        |        | 1.00    | 0.00    |        |
| Gross Margin  | 18.2%   | 26.1%   | 13.9%   |        |        | 16.5%   | 18.1%   |        |
| EBITDA Margin | 30.9%   | 31.8%   | 28.3%   |        |        | 29.2%   | 30.4%   |        |
| EBIT Margin   | 13.4%   | 18.1%   | 10.3%   |        |        | 11.3%   | 10.4%   |        |

Source: Company data, QNB FS Research

## Key Metrics

### Key Growth Rates/CAGRs

| Particulars         | 2015    | 2016    | 2017     | 2018    | 2019   | 2020  | 2021  | 2022  | 2023  | CAGR ('18-'23) |
|---------------------|---------|---------|----------|---------|--------|-------|-------|-------|-------|----------------|
| <b>Growth Rates</b> |         |         |          |         |        |       |       |       |       |                |
| Revenue             | 6.6%    | (28.2%) | (16.8%)  | 6.5%    | 4.5%   | 1.5%  | 1.6%  | 1.7%  | 1.5%  | 2.1%           |
| Gross Profit        | 1.2%    | (56.2%) | (14.9%)  | (3.2%)  | 22.9%  | 12.6% | 5.2%  | 5.7%  | 4.6%  | 10.0%          |
| EBITDA              | (24.1%) | (44.2%) | (1.7%)   | 2.3%    | 13.7%  | 7.6%  | 3.2%  | 3.6%  | 3.0%  | 6.2%           |
| EBIT                | (39.7%) | (78.2%) | 34.0%    | 16.0%   | 36.0%  | 16.5% | 6.4%  | 7.1%  | 5.6%  | 13.8%          |
| PAT/EPS             | (43.2%) | (91.6%) | 26.9%    | (24.4%) | 139.8% | 53.4% | 18.5% | 17.8% | 14.1% | 42.4%          |
| DPS                 | (81.8%) | 0.0%    | (100.0%) | N/M     | 25.0%  | 20.0% | 16.7% | 14.3% | 12.5% | 17.6%          |
| CFPS                | 25.3%   | (35.1%) | (23.0%)  | (13.1%) | 37.4%  | 5.4%  | 4.0%  | 3.5%  | 3.1%  | 9.9%           |
| FCFPS               | N/M     | (59.3%) | 37.0%    | 9.4%    | 58.8%  | 6.0%  | 3.9%  | 3.3%  | 2.7%  | 13.2%          |

Source: Bloomberg, QNB FS Research

### Valuation Metrics

| Particulars      | 2015  | 2016 | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|-------|------|-------|-------|-------|-------|-------|-------|-------|
| <b>Valuation</b> |       |      |       |       |       |       |       |       |       |
| EV/Sales         | 1.7   | 2.4  | 2.8   | 2.6   | 2.4   | 2.3   | 2.2   | 1.9   | 1.7   |
| EV/EBITDA        | 5.1   | 9.2  | 9.3   | 8.7   | 7.5   | 6.7   | 6.3   | 5.6   | 4.9   |
| EV/EBIT          | 8.0   | 36.8 | 27.4  | 22.7  | 16.2  | 13.5  | 12.2  | 10.5  | 9.0   |
| P/E              | 3.8   | 45.7 | 36.0  | 47.6  | 19.8  | 12.9  | 10.9  | 9.3   | 8.1   |
| P/CF             | 2.1   | 3.2  | 4.2   | 4.8   | 3.5   | 3.3   | 3.2   | 3.1   | 3.0   |
| P/BV             | 0.8   | 0.8  | 0.8   | 0.8   | 0.8   | 0.8   | 0.8   | 0.8   | 0.7   |
| Dividend Yield   | 6.1%  | 6.1% | 0.0%  | 6.1%  | 7.6%  | 9.1%  | 10.6% | 12.2% | 13.7% |
| FCF Yield        | 20.5% | 8.4% | 11.5% | 12.5% | 19.9% | 21.1% | 21.9% | 22.6% | 23.2% |

Source: Bloomberg, QNB FS Research

## Segment Details

### Key Segment Details

| In QR mn  |                      | 2017         | 2018e        | 2019e        | 2020e        | 2021e        |
|---|----------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>                                    |                      | <b>2,486</b> | <b>2,647</b> | <b>2,766</b> | <b>2,808</b> | <b>2,852</b> |
| <i>Gulf Drilling International (GDI)</i>          |                      | 1,175        | 1,215        | 1,273        | 1,276        | 1,279        |
| <i>Gulf Helicopters Company (GHC)</i>             |                      | 532          | 531          | 544          | 558          | 572          |
| <i>Amwaj Catering Company (AHC)</i>               |                      | 453          | 447          | 459          | 472          | 486          |
| <i>Al Koot Insurance &amp; Reinsurance (AKIR)</i> |                      | 326          | 454          | 490          | 502          | 515          |
| <b>Net Income</b>                                 |                      | <b>85</b>    | <b>64</b>    | <b>154</b>   | <b>236</b>   | <b>280</b>   |
|   | <b>Net Margin</b>    | <b>3%</b>    | <b>2%</b>    | <b>6%</b>    | <b>8%</b>    | <b>10%</b>   |
| <b>Drilling</b>                                   |                      | <b>(102)</b> | <b>(125)</b> | <b>(51)</b>  | <b>7</b>     | <b>29</b>    |
|   | <i>Net Margin</i>    | -9%          | -10%         | -4%          | 1%           | 2%           |
| <b>Helicopters</b>                                |                      | <b>145</b>   | <b>120</b>   | <b>124</b>   | <b>134</b>   | <b>144</b>   |
|   | <i>Net Margin</i>    | 27%          | 23%          | 23%          | 24%          | 25%          |
| <b>Catering</b>                                   |                      | <b>17</b>    | <b>20</b>    | <b>20</b>    | <b>30</b>    | <b>36</b>    |
|   | <i>Net Margin</i>    | 4%           | 4%           | 4%           | 6%           | 7%           |
| <b>Insurance</b>                                  |                      | <b>71</b>    | <b>85</b>    | <b>90</b>    | <b>94</b>    | <b>101</b>   |
|   | <i>Net Margin</i>    | 22%          | 19%          | 18%          | 19%          | 20%          |
| <b>EBITDA</b>                                     |                      | <b>757</b>   | <b>774</b>   | <b>881</b>   | <b>948</b>   | <b>978</b>   |
|   | <b>EBITDA Margin</b> | <b>30%</b>   | <b>29%</b>   | <b>32%</b>   | <b>34%</b>   | <b>34%</b>   |
| <b>Drilling</b>                                   |                      | <b>426</b>   | <b>419</b>   | <b>510</b>   | <b>554</b>   | <b>562</b>   |
|   | <i>EBITDA Margin</i> | 36%          | 34%          | 40%          | 43%          | 44%          |
| <b>Helicopters</b>                                |                      | <b>241</b>   | <b>219</b>   | <b>221</b>   | <b>231</b>   | <b>241</b>   |
|   | <i>EBITDA Margin</i> | 45%          | 41%          | 41%          | 41%          | 42%          |
| <b>Catering</b>                                   |                      | <b>33</b>    | <b>36</b>    | <b>36</b>    | <b>46</b>    | <b>51</b>    |
|   | <i>EBITDA Margin</i> | 7%           | 8%           | 8%           | 10%          | 11%          |
| <b>Insurance</b>                                  |                      | <b>73</b>    | <b>86</b>    | <b>92</b>    | <b>96</b>    | <b>102</b>   |
|   | <i>EBITDA Margin</i> | 22%          | 19%          | 19%          | 19%          | 20%          |

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Ratios

| Particulars   | 2015    | 2016    | 2017     | 2018    | 2019   | 2020  | 2021  | 2022  | 2023  |
|---|---------|---------|----------|---------|--------|-------|-------|-------|-------|
| <b>Growth Rates</b>                                 |         |         |          |         |        |       |       |       |       |
| Revenue   | 6.6%    | (28.2%) | (16.8%)  | 6.5%    | 4.5%   | 1.5%  | 1.6%  | 1.7%  | 1.5%  |
| Gross Profit  | 1.2%    | (56.2%) | (14.9%)  | (3.2%)  | 22.9%  | 12.6% | 5.2%  | 5.7%  | 4.6%  |
| EBITDA  | (24.1%) | (44.2%) | (1.7%)   | 2.3%    | 13.7%  | 7.6%  | 3.2%  | 3.6%  | 3.0%  |
| EBIT  | (39.7%) | (78.2%) | 34.0%    | 16.0%   | 36.0%  | 16.5% | 6.4%  | 7.1%  | 5.6%  |
| PAT/EPS   | (43.2%) | (91.6%) | 26.9%    | (24.4%) | 139.8% | 53.4% | 18.5% | 17.8% | 14.1% |
| DPS   | (81.8%) | 0.0%    | (100.0%) | N/M     | 25.0%  | 20.0% | 16.7% | 14.3% | 12.5% |
| CFPS  | 25.3%   | (35.1%) | (23.0%)  | (13.1%) | 37.4%  | 5.4%  | 4.0%  | 3.5%  | 3.1%  |
| FCFPS   | N/M     | (59.3%) | 37.0%    | 9.4%    | 58.8%  | 6.0%  | 3.9%  | 3.3%  | 2.7%  |
| <b>Operating Ratios</b>                             |         |         |          |         |        |       |       |       |       |
| Gross Margin  | 29.1%   | 17.7%   | 18.1%    | 16.5%   | 19.4%  | 21.5% | 22.3% | 23.2% | 23.9% |
| Gross Margin, Excluding Depreciation & Amortization | 40.7%   | 36.7%   | 37.9%    | 34.2%   | 36.3%  | 38.2% | 38.7% | 39.3% | 39.7% |
| EBITDA Margin                                       | 33.1%   | 25.8%   | 30.4%    | 29.2%   | 31.8%  | 33.8% | 34.3% | 35.0% | 35.5% |
| EBIT Margin   | 21.1%   | 6.4%    | 10.4%    | 11.3%   | 14.7%  | 16.8% | 17.7% | 18.6% | 19.3% |
| Net Margin  | 19.2%   | 2.2%    | 3.4%     | 2.4%    | 5.6%   | 8.4%  | 9.8%  | 11.4% | 12.8% |
| <b>Finance Ratios</b>                               |         |         |          |         |        |       |       |       |       |
| Debt-Equity Ratio                                   | 1.3     | 1.5     | 1.4      | 1.3     | 1.3    | 1.2   | 1.1   | 0.9   | 0.8   |
| Net Debt-Equity Ratio                               | 1.1     | 1.1     | 1.1      | 1.1     | 1.0    | 1.0   | 0.9   | 0.7   | 0.5   |
| Net Debt-to-Capital                                 | 0.5     | 0.5     | 0.5      | 0.5     | 0.5    | 0.5   | 0.5   | 0.4   | 0.3   |
| Net Debt-to-EBITDA                                  | 3.0     | 5.5     | 5.6      | 5.2     | 4.4    | 3.8   | 3.5   | 2.9   | 2.3   |
| Interest Coverage                                   | 11.2    | 1.5     | 1.5      | 1.3     | 1.6    | 2.0   | 2.3   | 2.6   | 3.0   |
| <b>Return Ratios</b>                                |         |         |          |         |        |       |       |       |       |
| ROIC  | 9.7%    | 2.1%    | 2.9%     | 3.4%    | 4.9%   | 5.9%  | 6.5%  | 6.9%  | 7.3%  |
| ROE   | 20.4%   | 1.8%    | 2.3%     | 1.7%    | 4.2%   | 6.4%  | 7.6%  | 8.2%  | 8.5%  |
| ROA   | 7.1%    | 0.6%    | 0.8%     | 0.6%    | 1.5%   | 2.4%  | 2.9%  | 3.4%  | 3.9%  |
| FCF Yield   | 20.5%   | 8.4%    | 11.5%    | 12.5%   | 19.9%  | 21.1% | 21.9% | 22.6% | 23.2% |
| <b>Liquidity Ratios</b>                             |         |         |          |         |        |       |       |       |       |
| Current Ratio                                       | 0.9     | 1.2     | 1.0      | 1.4     | 1.3    | 1.3   | 1.3   | 0.7   | 1.1   |
| Quick Ratio   | 0.9     | 1.1     | 1.0      | 1.2     | 1.2    | 1.2   | 1.1   | 0.7   | 1.0   |
| <b>Valuation</b>                                    |         |         |          |         |        |       |       |       |       |
| EV/Sales  | 1.7     | 2.4     | 2.8      | 2.6     | 2.4    | 2.3   | 2.2   | 1.9   | 1.7   |
| EV/EBITDA   | 5.1     | 9.2     | 9.3      | 8.7     | 7.5    | 6.7   | 6.3   | 5.6   | 4.9   |
| EV/EBIT   | 8.0     | 36.8    | 27.4     | 22.7    | 16.2   | 13.5  | 12.2  | 10.5  | 9.0   |
| P/E   | 3.8     | 45.7    | 36.0     | 47.6    | 19.8   | 12.9  | 10.9  | 9.3   | 8.1   |
| P/CF  | 2.1     | 3.2     | 4.2      | 4.8     | 3.5    | 3.3   | 3.2   | 3.1   | 3.0   |
| P/BV  | 0.8     | 0.8     | 0.8      | 0.8     | 0.8    | 0.8   | 0.8   | 0.8   | 0.7   |
| Dividend Yield                                      | 6.1%    | 6.1%    | 0.0%     | 6.1%    | 7.6%   | 9.1%  | 10.6% | 12.2% | 13.7% |
| FCF Yield   | 20.5%   | 8.4%    | 11.5%    | 12.5%   | 19.9%  | 21.1% | 21.9% | 22.6% | 23.2% |

Source: Company data, QNB FS Research

## Detailed Financial Statements

### Income Statement

| In QR mn                    | 2017        | 2018e       | 2019e       | 2020e       | 2021e       |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue                     | 2,486       | 2,647       | 2,766       | 2,808       | 2,852       |
| COGS                        | 2,035       | 2,211       | 2,229       | 2,204       | 2,217       |
| <b>Gross Profit</b>         | <b>451</b>  | <b>436</b>  | <b>536</b>  | <b>604</b>  | <b>635</b>  |
| SG&A                        | 244         | 225         | 228         | 229         | 230         |
| Total Other Income          | 23          | 57          | 66          | 66          | 66          |
| Net Finance Income(Expense) | (145)       | (205)       | (220)       | (204)       | (190)       |
| <b>Net Income</b>           | <b>85</b>   | <b>64</b>   | <b>154</b>  | <b>236</b>  | <b>280</b>  |
| <b>EBITDA</b>               | <b>757</b>  | <b>774</b>  | <b>881</b>  | <b>948</b>  | <b>978</b>  |
| <b>EPS</b>                  | <b>0.46</b> | <b>0.35</b> | <b>0.83</b> | <b>1.27</b> | <b>1.51</b> |
| <b>DPS</b>                  | <b>0.00</b> | <b>1.00</b> | <b>1.25</b> | <b>1.50</b> | <b>1.75</b> |

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

### Balance Sheet

| In QR mn  | 2017          | 2018e         | 2019e         | 2020e        | 2021e        |
|---|---------------|---------------|---------------|--------------|--------------|
| <b>Current Assets</b>                           |               |               |               |              |              |
| Cash & Cash Equivalents                         | 931           | 964           | 803           | 730          | 651          |
| HFT Investments/ST Investments                  | 221           | 323           | 323           | 323          | 323          |
| Insurance & Accounts Receivables/Prepayments    | 695           | 813           | 859           | 873          | 891          |
| Due From Related Parties                        | 463           | 457           | 457           | 457          | 457          |
| Inventories                                     | 202           | 229           | 230           | 227          | 229          |
| <b>Total Current Assets</b>                     | <b>2,513</b>  | <b>2,786</b>  | <b>2,672</b>  | <b>2,611</b> | <b>2,551</b> |
| <b>Non-Current Assets</b>                       |               |               |               |              |              |
| Investment Properties                           | -             | -             | -             | -            | -            |
| Goodwill & Intangibles                          | 305           | 304           | 304           | 304          | 304          |
| Property, Plant & Equipment                     | 7,220         | 6,998         | 6,788         | 6,589        | 6,401        |
| <b>Non-Current Assets</b>                       | <b>7,915</b>  | <b>7,589</b>  | <b>7,379</b>  | <b>7,180</b> | <b>6,992</b> |
| <b>Total Assets</b>                             | <b>10,428</b> | <b>10,375</b> | <b>10,052</b> | <b>9,791</b> | <b>9,543</b> |
| <b>Current Liabilities</b>                      |               |               |               |              |              |
| Short-Term Debt                                 | 898           | 563           | 480           | 480          | 419          |
| Insurance Payables, Accounts Payable & Accruals | 1,493         | 1,461         | 1,533         | 1,548        | 1,579        |
| Due to Related Parties                          | 8             | 29            | 29            | 29           | 29           |
| <b>Current Liabilities</b>                      | <b>2,400</b>  | <b>2,054</b>  | <b>2,043</b>  | <b>2,058</b> | <b>2,028</b> |
| <b>Non-Current Liabilities</b>                  |               |               |               |              |              |
| Employees End of Service Benefits               | 103           | 143           | 143           | 143          | 143          |
| Long-Term Debt                                  | 4,248         | 4,440         | 4,159         | 3,879        | 3,659        |
| <b>Non-Current Liabilities</b>                  | <b>4,350</b>  | <b>4,583</b>  | <b>4,302</b>  | <b>4,022</b> | <b>3,803</b> |
| <b>Total Liabilities</b>                        | <b>6,750</b>  | <b>6,637</b>  | <b>6,345</b>  | <b>6,080</b> | <b>5,831</b> |
| <b>Shareholders' Equity</b>                     |               |               |               |              |              |
| <b>Total Shareholder's Equity</b>               | <b>3,679</b>  | <b>3,738</b>  | <b>3,707</b>  | <b>3,711</b> | <b>3,712</b> |
| <b>Liabilities &amp; Shareholder's Equity</b>   | <b>10,428</b> | <b>10,375</b> | <b>10,052</b> | <b>9,791</b> | <b>9,543</b> |

Source: Company data, QNB FS Research

# Gulf Warehousing Company (GWCS)

|                       |                   |                             |                |
|-----------------------|-------------------|-----------------------------|----------------|
| <b>Recommendation</b> | <b>ACCUMULATE</b> | <b>Risk Rating</b>          | <b>R-4</b>     |
| <b>Share Price</b>    | <b>QR42.00</b>    | <b>Current Target Price</b> | <b>QR51.00</b> |
| <b>Implied Upside</b> | <b>21.4%</b>      |                             |                |

## Solid 2018; Changing to Accumulate W/ Unchanged QR51 PT

We have tweaked our estimates after GWCS' strong 4Q2018 results – our overall estimate changes were modest and we retain our price target of QR51. GWCS stock had appreciated around 4% since our [preview report](#) driven by the company's [results announcement](#) and proposed dividend increase. Given the stock's rise, we changed our rating from Outperform to Accumulate on January 29<sup>th</sup>. We retain our bullish investment thesis on GWCS – the company has withstood the blockade well with its freight forwarding segment showing significant growth in 2018; the company's logistics business also remains robust driven by contract logistics and increasing occupancy in Bu Sulba. Growth post Bu Sulba (~90% occupancy) will decline, but as we had flagged previously, GWCS should start generating substantial FCF with FCF yield increasing from 1.8% in 2017 to 11.3% in 2018, reaching 19.1% in 2023. Dividend yield of 4.5% for 2018 should grow to 6.7% by 2023. With major capex already done, there could be DPS upside medium-term.

### Highlights

- 2018 performance:** GWCS posted 4Q2018 revenue/EBITDA/EPS of QR311.4mn/QR126.2mn/QR1.09 vs. our estimates of QR295.1mn/QR115.7mn/QR1.00: Revenue grew 8.8% YoY/4.2% QoQ (+5.5% vs. QNB FS est.); EBITDA increased 20.8% YoY/9.0% QoQ (+9.1% vs. QNB FS est.); EPS rose 9.3% YoY/10.6% QoQ (+8.3% vs. QNB FS est.). The company's gross revenue reached QR1.23bn in end-2018 in comparison with QR981.4mn in FY2017, while EPS increased to QR4.04 in FY2018 from QR3.68 in FY2017. In FY2018, GWCS posted net profit of QR236.8mn, up 9.9% YoY. The revenue beat, along with higher margins as the mix shifted away from freight forwarding to the higher margin logistics segment, helped drive the growth in the bottom-line. Overall, GWCS reported modest upside to our estimates, something we had anticipated in our [preview alert](#). GWCS' board also recommended a 12% increase to QR1.90 DPS for 2018 vs. QR1.70 in 2017. While we were modeling QR1.80 DPS for 2018, we had alluded to the fact that QR1.90 was also possible. *For more details, please see next page.*
- For 2019, we see modest top-line growth along with a 5% rise in earnings.** We have lowered our 2019 revenue/EPS estimates by 1% from QR1.27bn/QR4.26 to QR1.26bn/QR4.23. This implies a change of our 2019 EPS growth estimate from 8% previously to 5%. Given the better-than-expected earnings performance in 2018, we have chosen to be somewhat conservative in our future projections. We note our EPS growth estimate is below management guidance of high-single digits. *For a comparison of our previous vs. new estimates, please see next page.*

### Catalysts

- Newsflow on new projects:** (1) The Al Asmakh logistics park management agreement could add to LT revenue; moreover, Ras Abu Fontas could add 8k SQM to warehouse space by 2020. (2) Corporate restructurings could create boost outsourced logistics solutions. (3) 4PL remains a growth area. (4) International/regional expansion could diversify operations.

### Recommendation, Valuation and Risks

- Recommendation and valuation:** We rate GWCS as an Accumulate with a price target of QR51. Stock trades at P/E of 9.9x and 9.1x for 2019 & 2020, respectively.
- Risks:** include low occupancy in Bu Sulba and customer retention challenges in LVQ/Bu Sulba. Top-line growth after 2018 is potentially capped given the upcoming mega logistics project (only open to Qatari individuals/100%-Qatari owned companies) in south Qatar.

### Key Financial Data and Estimates

|                           | FY2017       | FY2018       | FY2019e      | FY2020e      |
|---------------------------|--------------|--------------|--------------|--------------|
| <b>Revenue (QR mn)</b>    | <b>981</b>   | <b>1,232</b> | <b>1,263</b> | <b>1,306</b> |
| <i>Growth</i>             | <i>16%</i>   | <i>26%</i>   | <i>2%</i>    | <i>3%</i>    |
| <b>EBITDA (QR mn)</b>     | <b>388</b>   | <b>471</b>   | <b>477</b>   | <b>496</b>   |
| <i>Growth</i>             | <i>20%</i>   | <i>21%</i>   | <i>1%</i>    | <i>4%</i>    |
| <b>Net Income (QR mn)</b> | <b>215</b>   | <b>237</b>   | <b>248</b>   | <b>272</b>   |
| <b>EPS (QR)</b>           | <b>3.68</b>  | <b>4.04</b>  | <b>4.23</b>  | <b>4.64</b>  |
| <i>Growth</i>             | <i>5%</i>    | <i>10%</i>   | <i>5%</i>    | <i>10%</i>   |
| <b>P/E (x)</b>            | <b>11.4x</b> | <b>10.4x</b> | <b>9.9x</b>  | <b>9.1x</b>  |
| <b>DPS (QR)</b>           | <b>1.70</b>  | <b>1.90</b>  | <b>2.00</b>  | <b>2.20</b>  |
| <i>Dividend Yield</i>     | <i>4.0%</i>  | <i>4.5%</i>  | <i>4.8%</i>  | <i>5.2%</i>  |
| <b>ROE</b>                | <b>13.7%</b> | <b>14.1%</b> | <b>13.8%</b> | <b>14.0%</b> |

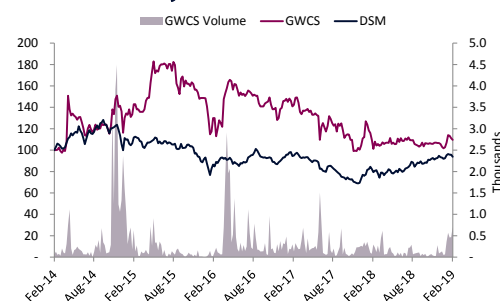
Source: Company data, QNB FS Research; Note: All per share data based on current number of shares

### Key Data

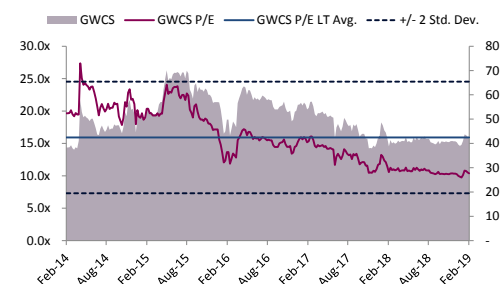
|                           |                |
|---------------------------|----------------|
| Current Market Price (QR) | 42.00          |
| Dividend Yield (%)        | 4.5%           |
| Bloomberg Ticker          | GWCS QD EQUITY |
| Reuters Ticker            | GWCS.QA        |
| ISIN                      | QA000A0KD6H9   |
| Sector                    | Transport      |
| 52wk High/52wk Low (QR)   | 45.00 / 35.70  |
| 3-m Average Volume ('000) | 51.6           |
| Mkt. Cap. (\$ bn/QR bn)   | 0.7 / 2.5      |
| Shares Outstanding (mn)   | 58.6           |
| FO Limit* (%)             | 49.0           |
| Current FO* (%)           | 26.9           |
| 1-Year Total Return (%)   | 13.2           |
| Fiscal Year End           | December 31    |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## 4Q2018/2018 Review & Estimate Changes

### 4Q2018/2018 Actual vs. Estimates

|                      | 4Q2018 | 4Q2018e | 4Q2017 | 3Q2018 | A Vs. E | YoY   | QoQ   | 2018     | 2018e    | 2017   | A Vs. E | YoY   |
|----------------------|--------|---------|--------|--------|---------|-------|-------|----------|----------|--------|---------|-------|
| Revenue              | 311.37 | 295.14  | 286.24 | 298.77 | 5.5%    | 8.8%  | 4.2%  | 1,232.20 | 1,215.98 | 981.36 | 1.3%    | 25.6% |
| Gross Profit         | 114.33 | 101.63  | 111.70 | 100.95 | 12.5%   | 2.4%  | 13.3% | 417.96   | 405.27   | 364.36 | 3.1%    | 14.7% |
| EBITDA               | 126.21 | 115.68  | 104.50 | 115.84 | 9.1%    | 20.8% | 9.0%  | 471.05   | 460.51   | 373.42 | 2.3%    | 26.1% |
| Net Income to Equity | 63.60  | 58.74   | 58.20  | 57.49  | 8.3%    | 9.3%  | 10.6% | 236.76   | 231.89   | 215.46 | 2.1%    | 9.9%  |
| EPS                  | 1.09   | 1.00    | 0.99   | 0.98   | 8.3%    | 9.3%  | 10.6% | 4.04     | 3.96     | 3.68   | 2.1%    | 9.9%  |
| DPS                  |        |         |        |        |         |       |       | 1.90     | 1.80     | 1.70   | 5.6%    | 11.8% |
| Gross Margin         | 36.7%  | 34.4%   | 39.0%  | 33.8%  |         |       |       | 33.9%    | 33.3%    | 37.1%  |         |       |
| EBITDA Margin        | 40.5%  | 39.2%   | 36.5%  | 38.8%  |         |       |       | 38.2%    | 37.9%    | 38.1%  |         |       |
| Net Margin           | 20.4%  | 19.9%   | 20.3%  | 19.2%  |         |       |       | 19.2%    | 19.1%    | 22.0%  |         |       |

Source: Company data, QNB FS Research

### Estimate Changes

|                     | 2019e        | 2020e        | 2021e        | 2022e        | 2023e        |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>      | <b>1,263</b> | <b>1,306</b> | <b>1,353</b> | <b>1,383</b> | <b>1,392</b> |
| Revenue - Previous  | 1,270        | 1,316        | 1,406        | 1,447        | 1,476        |
| Change Vs. Previous | -1%          | -1%          | -4%          | -4%          | -6%          |
| Growth              | 2%           | 3%           | 4%           | 2%           | 1%           |
| <b>NI</b>           | <b>248</b>   | <b>272</b>   | <b>296</b>   | <b>316</b>   | <b>331</b>   |
| NI - Previous       | 250          | 269          | 298          | 317          | 334          |
| Change Vs. Previous | -1%          | 1%           | -1%          | 0%           | -1%          |
| Growth              | 5%           | 10%          | 9%           | 7%           | 5%           |
| <b>EPS</b>          | <b>4.23</b>  | <b>4.64</b>  | <b>5.06</b>  | <b>5.40</b>  | <b>5.65</b>  |
| EPS - Previous      | 4.26         | 4.59         | 5.09         | 5.41         | 5.69         |
| Change Vs. Previous | -1%          | 1%           | -1%          | 0%           | -1%          |
| Growth              | 5%           | 10%          | 9%           | 7%           | 5%           |
| <b>DPS</b>          | <b>2.00</b>  | <b>2.20</b>  | <b>2.40</b>  | <b>2.60</b>  | <b>2.80</b>  |
| DPS - Previous      | 2.00         | 2.10         | 2.30         | 2.45         | 2.60         |
| Change Vs. Previous | 0%           | 5%           | 4%           | 6%           | 8%           |
| Growth              | 5%           | 10%          | 9%           | 8%           | 8%           |

Source: Company data, QNB FS Research

## Key Metrics

### Valuation Metrics

|                  | 2016   | 2017  | 2018  | 2019e | 2020e | 2021e | 2022e | 2023e |
|------------------|--------|-------|-------|-------|-------|-------|-------|-------|
| <b>Valuation</b> |        |       |       |       |       |       |       |       |
| EV/EBITDA        | 11.9x  | 10.0x | 7.9x  | 7.3x  | 6.5x  | 5.7x  | 4.9x  | 4.3x  |
| P/E              | 12.0x  | 11.4x | 10.4x | 9.9x  | 9.1x  | 8.3x  | 7.8x  | 7.4x  |
| P/CF             | 5.5x   | 7.3x  | 6.8x  | 6.0x  | 5.6x  | 5.2x  | 4.9x  | 4.7x  |
| P/BV             | 1.6x   | 1.5x  | 1.4x  | 1.3x  | 1.2x  | 1.1x  | 1.1x  | 1.0x  |
| Dividend Yield   | 3.8%   | 4.0%  | 4.5%  | 4.8%  | 5.2%  | 5.7%  | 6.2%  | 6.7%  |
| FCF Yield        | -20.5% | 1.8%  | 11.3% | 13.9% | 16.0% | 17.1% | 18.4% | 19.1% |

Source: Bloomberg, QNB FS Research

## Ratio Analysis

### Ratio Analysis

|                          | 2016    | 2017   | 2018   | 2019e | 2020e | 2021e | 2022e | 2023e |
|--------------------------|---------|--------|--------|-------|-------|-------|-------|-------|
| <b>Growth (%)</b>        |         |        |        |       |       |       |       |       |
| Revenue                  | 7.8%    | 15.5%  | 25.6%  | 2.5%  | 3.4%  | 3.5%  | 2.3%  | 0.7%  |
| Cash Gross Profit        | 8.6%    | 17.2%  | 18.6%  | 1.3%  | 3.4%  | 3.3%  | 2.1%  | 0.6%  |
| EBITDA                   | 11.5%   | 20.1%  | 21.3%  | 1.4%  | 3.9%  | 3.7%  | 2.3%  | 0.6%  |
| EBIT                     | 11.1%   | 20.3%  | 17.3%  | 1.2%  | 3.7%  | 3.5%  | 1.9%  | 0.0%  |
| Net Profit               | 11.1%   | 4.8%   | 9.9%   | 4.6%  | 9.7%  | 9.0%  | 6.8%  | 4.6%  |
| Cash Flow Per Share      | 1033.7% | -25.6% | 8.3%   | 12.5% | 8.3%  | 6.4%  | 6.6%  | 3.5%  |
| Free Cash Flow Per Share | nmf     | nmf    | 527.5% | 23.9% | 14.5% | 7.1%  | 7.4%  | 3.9%  |

### Profitability (%)

|               |       |       |       |       |       |       |       |       |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gross Margin  | 46.9% | 47.5% | 44.9% | 44.4% | 44.4% | 44.3% | 44.2% | 44.2% |
| EBITDA Margin | 38.0% | 39.5% | 38.2% | 37.8% | 38.0% | 38.0% | 38.1% | 38.0% |
| EBIT Margin   | 25.4% | 26.5% | 24.8% | 24.4% | 24.5% | 24.5% | 24.4% | 24.2% |
| Net Margin    | 24.2% | 22.0% | 19.2% | 19.6% | 20.8% | 21.9% | 22.9% | 23.8% |
| RoAE          | 14.0% | 13.7% | 14.1% | 13.8% | 14.0% | 14.2% | 14.0% | 13.7% |
| RoAA          | 6.1%  | 5.7%  | 6.3%  | 6.8%  | 7.7%  | 8.6%  | 9.5%  | 10.3% |
| BEP           | 6.4%  | 6.9%  | 8.2%  | 8.5%  | 9.0%  | 9.6%  | 10.1% | 10.4% |
| RoAIC         | 6.0%  | 7.7%  | 9.7%  | 10.2% | 11.2% | 12.2% | 13.1% | 13.8% |
| RoACE         | 7.0%  | 7.6%  | 8.9%  | 9.2%  | 9.8%  | 10.5% | 11.1% | 11.6% |

### Liquidity

|               |      |      |      |      |      |      |      |      |
|---------------|------|------|------|------|------|------|------|------|
| Current Ratio | 2.0x | 1.5x | 1.8x | 1.7x | 1.7x | 1.7x | 1.7x | 2.5x |
| Quick Ratio   | 2.0x | 1.5x | 1.8x | 1.7x | 1.7x | 1.7x | 1.7x | 2.5x |
| Cash Ratio    | 0.9x | 0.6x | 0.9x | 0.8x | 0.8x | 0.9x | 0.9x | 1.3x |

### Debt Ratios

|                          |      |      |      |      |      |      |       |       |
|--------------------------|------|------|------|------|------|------|-------|-------|
| Debt-to-Equity           | 1.2x | 1.1x | 1.0x | 0.8x | 0.6x | 0.4x | 0.3x  | 0.1x  |
| Long-Term Debt-to-Equity | 1.1x | 0.9x | 0.8x | 0.6x | 0.5x | 0.3x | 0.1x  | 0.1x  |
| EBITDA Interest Coverage | 8.4x | 7.2x | 5.6x | 6.1x | 7.5x | 9.8x | 13.5x | 21.7x |
| Net Debt-to-EBITDA       | 4.3x | 3.7x | 2.7x | 2.1x | 1.5x | 0.9x | 0.3x  | -0.3x |
| Debt-to-Capital          | 0.6x | 0.5x | 0.5x | 0.4x | 0.4x | 0.3x | 0.2x  | 0.1x  |

Source: Company data, QNB FS Research



## Detailed Financial Statements

| Income Statement (In QR mn)         | FY2017      | FY2018       | FY2019e      | FY2020e      | FY2021e      | FY2022e      |
|-------------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>                      | <b>981</b>  | <b>1,232</b> | <b>1,263</b> | <b>1,306</b> | <b>1,353</b> | <b>1,383</b> |
| <i>YoY Growth</i>                   | 16%         | 26%          | 2%           | 3%           | 4%           | 2%           |
| Direct Costs                        | (515)       | (679)        | (702)        | (727)        | (754)        | (772)        |
| <b>Gross Profit</b>                 | <b>467</b>  | <b>554</b>   | <b>561</b>   | <b>580</b>   | <b>599</b>   | <b>611</b>   |
| <i>Gross Margin</i>                 | 48%         | 45%          | 44%          | 44%          | 44%          | 44%          |
| General and Administrative Expenses | (79)        | (83)         | (83)         | (84)         | (84)         | (85)         |
| <b>EBITDA</b>                       | <b>388</b>  | <b>471</b>   | <b>477</b>   | <b>496</b>   | <b>514</b>   | <b>526</b>   |
| <i>YoY Growth</i>                   | 20%         | 21%          | 1%           | 4%           | 4%           | 2%           |
| <i>EBITDA Margin</i>                | 40%         | 38%          | 38%          | 38%          | 38%          | 38%          |
| Depreciation and Amortization       | (128)       | (166)        | (169)        | (176)        | (183)        | (189)        |
| <b>EBIT</b>                         | <b>260</b>  | <b>305</b>   | <b>309</b>   | <b>320</b>   | <b>331</b>   | <b>337</b>   |
| <i>YoY Growth</i>                   | 20%         | 17%          | 1%           | 4%           | 3%           | 2%           |
| <i>EBIT Margin</i>                  | 26%         | 25%          | 24%          | 25%          | 24%          | 24%          |
| Net Finance Costs and Other Income  | (45)        | (67)         | (61)         | (48)         | (35)         | (21)         |
| <b>Net Income to Equity</b>         | <b>215</b>  | <b>237</b>   | <b>248</b>   | <b>272</b>   | <b>296</b>   | <b>317</b>   |
| <i>YoY Growth</i>                   | 5%          | 10%          | 5%           | 10%          | 9%           | 7%           |
| <i>Net Margin</i>                   | 22%         | 19%          | 20%          | 21%          | 22%          | 23%          |
| <b>EPS (QR)</b>                     | <b>3.68</b> | <b>4.04</b>  | <b>4.23</b>  | <b>4.64</b>  | <b>5.06</b>  | <b>5.40</b>  |
| <b>DPS (QR)</b>                     | <b>1.70</b> | <b>1.90</b>  | <b>2.00</b>  | <b>2.20</b>  | <b>2.40</b>  | <b>2.60</b>  |
| <i>Payout Ratio</i>                 | 46%         | 47%          | 47%          | 47%          | 47%          | 48%          |

| Balance Sheet (In QR mn)              | FY2017       | FY2018       | FY2019e      | FY2020e      | FY2021e      | FY2022e      |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-Current Assets</b>             |              |              |              |              |              |              |
| PP&E and Projects in Progress         | 2,729        | 2,647        | 2,552        | 2,433        | 2,306        | 2,174        |
| Investment Properties                 | 37           | 38           | 38           | 38           | 38           | 38           |
| Leasehold Property & Associates       | -            | -            | -            | -            | -            | -            |
| Intangible Assets & Goodwill          | 119          | 131          | 124          | 116          | 108          | 101          |
| Available-for-Sale Investments        | -            | 18           | 18           | 18           | 18           | 18           |
| <b>Total Non-Current Assets</b>       | <b>2,886</b> | <b>2,834</b> | <b>2,731</b> | <b>2,605</b> | <b>2,471</b> | <b>2,331</b> |
| <b>Current Assets</b>                 |              |              |              |              |              |              |
| Inventories                           | 11           | 11           | 11           | 12           | 12           | 12           |
| Trade and Other Receivables           | 525          | 420          | 432          | 439          | 448          | 451          |
| Bank Balances and Cash                | 352          | 427          | 417          | 438          | 462          | 492          |
| <b>Total Current Assets</b>           | <b>888</b>   | <b>858</b>   | <b>861</b>   | <b>889</b>   | <b>923</b>   | <b>956</b>   |
| <b>Total Assets</b>                   | <b>3,774</b> | <b>3,692</b> | <b>3,592</b> | <b>3,493</b> | <b>3,394</b> | <b>3,287</b> |
| <b>Equity &amp; Liabilities</b>       |              |              |              |              |              |              |
| <b>Total Shareholders' Equity</b>     | <b>1,636</b> | <b>1,732</b> | <b>1,862</b> | <b>2,010</b> | <b>2,170</b> | <b>2,338</b> |
| Non-Controlling interests             | (4)          | (3)          | (3)          | (3)          | (3)          | (3)          |
| <b>Non-Current Liabilities</b>        |              |              |              |              |              |              |
| Loans and Borrowings                  | 1,525        | 1,462        | 1,187        | 919          | 637          | 341          |
| Employee Benefits                     | 31           | 37           | 43           | 49           | 55           | 61           |
| <b>Total Non-Current Liabilities</b>  | <b>1,556</b> | <b>1,499</b> | <b>1,230</b> | <b>968</b>   | <b>692</b>   | <b>402</b>   |
| <b>Current Liabilities</b>            |              |              |              |              |              |              |
| Trade Payables                        | 53           | 37           | 40           | 41           | 41           | 42           |
| Loans and Borrowings                  | 261          | 222          | 255          | 268          | 282          | 296          |
| Accruals, Provisions & Other Payables | 203          | 195          | 196          | 199          | 200          | 201          |
| Retention Payable                     | 68           | 11           | 11           | 11           | 11           | 11           |
| <b>Total Current Liabilities</b>      | <b>585</b>   | <b>464</b>   | <b>502</b>   | <b>518</b>   | <b>534</b>   | <b>549</b>   |
| <b>Total Liabilities</b>              | <b>2,142</b> | <b>1,963</b> | <b>1,732</b> | <b>1,486</b> | <b>1,227</b> | <b>952</b>   |
| <b>Total Equity &amp; Liabilities</b> | <b>3,774</b> | <b>3,692</b> | <b>3,592</b> | <b>3,493</b> | <b>3,394</b> | <b>3,287</b> |

Source: Company data, QNB FS Research

# Industries Qatar (IQCD)

| Recommendation | MARKET PERFORM | Risk Rating          | R-3      |
|----------------|----------------|----------------------|----------|
| Share Price    | QR142.10       | Current Target Price | QR126.00 |
| Implied Upside | (11.3%)        |                      |          |

## Urea Drives A Strong Finish to 2018; Market Perform

**Strength in urea prices should boost 4Q2018 results; DPS is expected to jump from QR5 (2017) to QR7 with upside possible.** We continue to believe with IQCD stock enjoying solid momentum, upside in earnings/dividends are key for charting the way forward. Given IQCD continues to operate above capacity and with no major capex on the horizon, earnings growth remains purely a function of commodity price forecasts. Considering its strong 2018 performance will soon be in the rear-view mirror and tepid/neutral trends in steel and petrochemicals, we think IQCD will need a material boost in urea realizations to post earnings growth in 2019. **In this regard, early indications are positive and could lead to upside vs. our 1.3% EPS decline forecast for 2019.**

### Highlights

- For 4Q2018, we estimate revenue/EPS of QR1.46bn/QR2.12, flattish and up 34% YoY, respectively. (1) For **steel**, as we have mentioned previously, 3Q2018 gross margins came under pressure hitting their lowest mark in 7 quarters at 15.3% vs. 17.3% in 3Q2017 (21.5% in 2Q2018). Iron ore prices remain elevated, while selling prices could face headwinds due to regional oversupply/discounting and inventory dump in the fourth quarter. Going forward, electricity charges are also slated to go up. Consequently, we expect 4Q2018 steel gross margins at 15.0%, while prices are down moderately YoY/QoQ. (2) In **petrochemicals**, PE realizations are also under pressure. (3) **Urea**, on the other hand, is up nicely YoY/sequentially and could drive results although prices have started to come down since early December. **We note our estimates do not include any potential impairment charges.** It is no secret that the company is facing challenges with its 31.03%-owned Saudi Steel Associate, SOLB. The BV of this associate is QR37.8mn as of June 2018 (IQCD recorded a QR101.3mn impairment charge related to this associate in 2017). The company also recorded a QR28mn ECL in 1H2018 and has a contingent liability of QR479.1mn. We note that management did not record any impairment charge for SOLB in 1H2018 as its "Value in Use" exceeded the BV of QR37.8mn. **While we are expecting QR7 in DPS for 2018, we are optimistic of a further hike in dividends to QR8 (60% YoY increase).**
- Maintaining 2019 and 2020 estimates for now.** After a 54.1% EPS increase projected for 2018, we expect earnings to moderately decline by 1.3% in 2019 before resuming a growth rate of 8.2% in 2020. Our 2019 estimates reflect our more conservative stance on steel especially relative to strong fundamentals seen in 1H2018, further strength in urea realizations along with margin improvement and slightly muted YoY outlook on PE.
- Strong FCF generation support dividends despite high payout ratio vs. historicals.** IQCD's FCF (OCF + Cash dividends from JVs-steel capex), should come in at QR4.8bn in 2018 and should average QR5.1bn over 2017 to 2026 with an average dividend cover of 1.2x. Payouts could remain high at an avg. of ~83% in 2018-2026 (91% payout in 2017).
- Balance sheet remains strong.** With minimal capex needs, strategic deployment of cash remains key; IQCD has 3Q2018 group cash/debt of QR12.1bn/QR0.2bn.

### Catalysts

- With the stock enjoying solid momentum, upside in earnings/dividends could be key for charting the way forward.

### Recommendation, Valuation and Risks

- Recommendation & valuation:** We rate IQCD a Market Perform with a PT of QR126. IQCD is fully valued @ 17.0x and 15.8x P/E for 2019 and 2020, respectively.
- Risks:** Volatility in oil prices remain a risk to equity prices and have a direct detrimental impact on IQCD's operations. Geopolitical risks remain and cannot be modeled.

### Key Financial Data and Estimates

|                       | FY2017 | FY2018e | FY2019e | FY2020e |
|-----------------------|--------|---------|---------|---------|
| Group Revenue (QR mn) | 14,345 | 16,466  | 16,588  | 16,984  |
| EPS (QR)              | 5.48   | 8.44    | 8.34    | 9.02    |
| DPS (QR)              | 5.00   | 7.00    | 7.25    | 7.50    |
| RoE (%)               | 9.7    | 14.2    | 13.8    | 14.5    |
| P/E (x)               | 25.9   | 16.8    | 17.0    | 15.8    |
| EV/EBITDA (x)         | 21.7   | 14.4    | 14.6    | 13.5    |
| Dividend Yield %      | 3.5    | 4.9     | 5.1     | 5.3     |

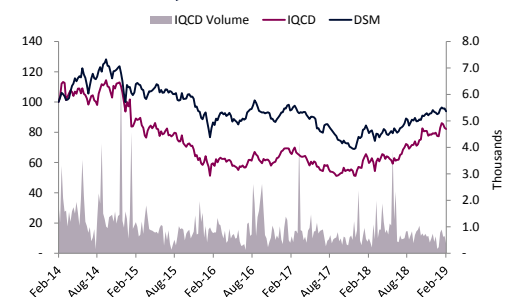
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

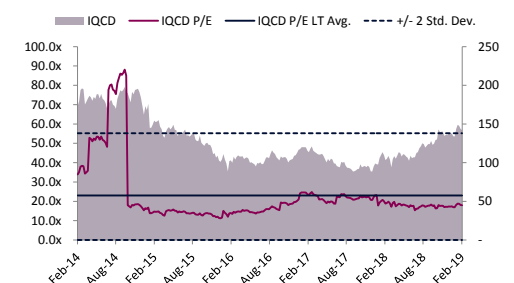
|                           |                |
|---------------------------|----------------|
| Current Market Price (QR) | 142.10         |
| Dividend Yield (%)        | 3.5%           |
| Bloomberg Ticker          | IQCD QD EQUITY |
| Reuters Ticker            | IQCD.QA        |
| ISIN                      | QA000A0KD6K3   |
| Sector                    | Industrials    |
| 52wk High/52wk Low (QR)   | 149.00 / 92.10 |
| 3-m Average Volume ('000) | 114.6          |
| Mkt. Cap. (\$ bn/QR bn)   | 23.6 / 86.0    |
| Shares Outstanding (mn)   | 605.0          |
| FO Limit* (%)             | 49.0           |
| Current FO* (%)           | 7.3            |
| 1-Year Total Return (%)   | 44.7           |
| Fiscal Year End           | December 31    |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## 4Q2018 Preview

### QNB FS Estimates and Comparisons

| In QR mn                  | 4Q2018e | 4Q2017  | 3Q2018  | YoY    | QoQ    | 2018e   | 2017    | YoY   |
|---------------------------|---------|---------|---------|--------|--------|---------|---------|-------|
| Revenue                   | 1,458.0 | 1,454.6 | 1,533.8 | 0.2%   | -4.9%  | 6,015.0 | 4,628.5 | 30.0% |
| Gross Profit              | 218.7   | 281.3   | 235.3   | -22.2% | -7.1%  | 1,196.6 | 935.0   | 28.0% |
| EBITDA                    | 155.0   | 213.7   | 180.3   | -27.5% | -14.0% | 959.0   | 678.0   | 41.4% |
| EBIT                      | 95.1    | 155.8   | 120.4   | -39.0% | -21.0% | 721.1   | 452.5   | 59.3% |
| Share of Results of JVs   | 1,154.2 | 818.5   | 1,073.4 | 41.0%  | 7.5%   | 4,079.9 | 2,606.6 | 56.5% |
| Profit for Equity Holders | 1,282.7 | 957.7   | 1,316.3 | 33.9%  | -2.6%  | 5,108.6 | 3,315.4 | 54.1% |
| EPS (in QR)               | 2.12    | 1.58    | 2.18    | 33.9%  | -2.6%  | 8.44    | 5.48    | 54.1% |
| DPS (in QR)               |         |         |         |        |        | 7.00    | 5.00    | 40.0% |
| Gross Margin              | 15.0%   | 19.3%   | 15.3%   |        |        | 19.9%   | 20.2%   |       |
| EBITDA Margin             | 10.6%   | 14.7%   | 11.8%   |        |        | 15.9%   | 14.6%   |       |
| EBIT Margin               | 6.5%    | 10.7%   | 7.8%    |        |        | 12.0%   | 9.8%    |       |

Source: Company data, QNB FS Research

### Detailed Financial Statements

| Income Statement (In QR mn)               | FY2016        | FY2017        | FY2018e       | FY2019e       |
|---|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                            | <b>4,674</b>  | <b>4,628</b>  | <b>6,015</b>  | <b>5,962</b>  |
| Cost of Sales, Excluding D&A              | (3,304)       | (3,694)       | (4,818)       | (4,918)       |
| <b>Gross Profit</b>                       | <b>1,370</b>  | <b>935</b>    | <b>1,197</b>  | <b>1,043</b>  |
| G&A Expenses                              | (231)         | (199)         | (153)         | (157)         |
| Selling Expenses                          | (39)          | (58)          | (84)          | (101)         |
| <b>EBITDA</b>                             | <b>1,101</b>  | <b>678</b>    | <b>959</b>    | <b>785</b>    |
| Depreciation & Amortization               | (225)         | (225)         | (238)         | (238)         |
| <b>EBIT</b>                               | <b>876</b>    | <b>453</b>    | <b>721</b>    | <b>547</b>    |
| Finance Costs                             | (13)          | (10)          | (2)           | -             |
| <b>Share of Results of Joint Ventures</b> | <b>1,716</b>  | <b>2,607</b>  | <b>4,080</b>  | <b>4,201</b>  |
| Other Income/Expenses                     | 376           | 266           | 309           | 295           |
| <b>Profit for Shareholders</b>            | <b>2,955</b>  | <b>3,315</b>  | <b>5,109</b>  | <b>5,043</b>  |
| <b>EPS (QR)</b>                           | <b>4.88</b>   | <b>5.48</b>   | <b>8.44</b>   | <b>8.34</b>   |
| <b>Group Revenue</b>                      | <b>13,750</b> | <b>14,345</b> | <b>16,466</b> | <b>16,588</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                                      | FY2016        | FY2017        | FY2018e       | FY2019e       |
|---|---------------|---------------|---------------|---------------|
| <b>Non-Current Assets</b>                                     |               |               |               |               |
| PP&E and Projects Under Development                           | 3,671         | 3,520         | 3,420         | 3,343         |
| Investment Properties   | -             | -             | -             | -             |
| Investment in Associates                                      | 1,451         | 1,439         | 1,403         | 1,353         |
| Investment in Joint Ventures                                  | 18,343        | 18,848        | 18,948        | 19,048        |
| Available-for-Sale Investments                                | 674           | 534           | -             | -             |
| Catalysts & Others  | -             | -             | -             | -             |
| <b>Total Non-Current Assets</b>                               | <b>24,139</b> | <b>24,341</b> | <b>23,772</b> | <b>23,744</b> |
| <b>Current Assets</b>   |               |               |               |               |
| Inventories   | 1,244         | 1,444         | 1,452         | 1,482         |
| Accounts Receivables & Prepayments                            | 1,054         | 1,253         | 1,285         | 1,274         |
| Due from Related Parties                                      | 674           | 650           | 662           | 656           |
| Held for Trading Investments, Assets Held for Sale and Others | 4             | 4             | 374           | 374           |
| Cash and Bank Balances  | 8,072         | 7,789         | 9,412         | 10,124        |
| <b>Total Current Assets</b>                                   | <b>11,047</b> | <b>11,140</b> | <b>13,185</b> | <b>13,910</b> |
| <b>Total Assets</b>   | <b>35,186</b> | <b>35,481</b> | <b>36,956</b> | <b>37,654</b> |
| <b>Equity</b>   | <b>27,070</b> | <b>27,862</b> | <b>29,817</b> | <b>30,499</b> |
| <b>Total Equity</b>   | <b>33,514</b> | <b>34,239</b> | <b>35,964</b> | <b>36,646</b> |
| <b>Non-Current Liabilities</b>                                |               |               |               |               |
| Loans and Borrowings  | 226           | -             | -             | -             |
| End of Service Benefits & Others                              | 215           | 199           | 199           | 199           |
| <b>Total Non-Current Liabilities</b>                          | <b>441</b>    | <b>199</b>    | <b>199</b>    | <b>199</b>    |
| <b>Current Liabilities</b>                                    |               |               |               |               |
| Accounts Payables & Accruals                                  | 674           | 776           | 752           | 768           |
| Due to Related Parties & Others                               | 106           | 41            | 41            | 41            |
| Loans and Borrowings  | 451           | 226           | -             | -             |
| <b>Total Current Liabilities</b>                              | <b>1,231</b>  | <b>1,043</b>  | <b>794</b>    | <b>809</b>    |
| <b>Equity and Liabilities</b>                                 | <b>35,186</b> | <b>35,481</b> | <b>36,956</b> | <b>37,654</b> |

Source: Company data, QNB FS Research

# Masraf Al Rayan (MARK)

|                |                |              |         |
|----------------|----------------|--------------|---------|
| Recommendation | MARKET PERFORM | Risk Rating  | R-3     |
| Share Price    | QR40.01        | Price Target | QR34.00 |
| Implied Upside | (15.0%)        |              |         |

## Net Reversals Drive 2018 Bottom-Line; We Pencil in Single Digit Growth in 2019 Bottom-Line

**Masraf Al Rayan (MARK) reported net income of QR2.1bn, in-line with our estimate of QR2.1bn.** The company's bottom-line increased by 5.0% YoY due to net reversals of QR22.1mn (vs. net provisions & impairments of QR113.4mn in 2017, ahead of IFRS 9 implementation) as net operating income receded by 1.8%. Moreover, cost-to-income ratio moved up to 24.0% vs. 21.1% in 2017 due to revenue marginally increasing by 1.8%, while opex jumping by 15.8%. On the other hand, capitalization remained robust with CET1 at 18.7%. MARK announced cash DPS of QR2.00 (unchanged vs. 2017), yielding 5.0%. We retain our Market Perform rating and QR34.00 Price Target on MARK.

### Highlights

- MARK's 2018 bottom-line increased YoY on the back of net reversals.** MARK reported net income of QR2.1bn (in-line with our estimates), increasing by 5.0% YoY. The bank booked net reversals of QR22.1mn vs. net provisions and impairments of QR113.4mn in 2017. Net operating income (before provisions) receded by 1.8% YoY due to marginal growth in revenue being offset by aggressive opex.
- DPS came in-line with our estimate.** The bank announced DPS of QR2.00 (unchanged vs. 2017), yielding 5.0% and payout ratio of 72%.
- Margins remained under pressure.** Net interest margin decreased by 8bps YoY to 2.39%. Tightening of the NIM was led by a rise in cost of funds exceeding the increase in yield on assets. Cost of funds increased by 50bps YoY to 2.68%, whereas yield on assets increased by 35bps to 4.60%. *The drop in margins is in-line with our expectations.*
- C/I ratio moved up on the back of higher opex growth relative to revenue increase.** MARK ended 2018 with a C/I ratio of 24.0% vs. 21.1% in 2017. This was due to revenue marginally increasing by 1.9%, while opex jumping by 15.8%. Moreover, the bank generated negative JAWS of 13.9% in 2018 (-12.8% in 2017).
- Asset quality worsened, but remains negligible.** NPL ratio moved to 0.83% vs. 0.47% in 2017, while absolute NPLs almost doubled to QR604.0mn. Coverage ratio of stage 3 loans (impaired or non-performing) improved to 50% vs. 44% at the end of 3Q2018. One-time impairment charges because of IFRS 9 had minimal impact on MARK's CET1 ratio; CET1 ratio remained robust at 18.7% vs. 19.2% in 2017.
- Net loans and deposits fared better vs. its peers.** Net loans displayed flat performance YoY at QR72.2bn, while deposits decreased by 1.5% YoY to QR61.6bn. Thus, MARK's LDR remained elevated and at 117% vs. 115% in FY2017. *We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile/lower LDR.*

### Catalysts

- News flow and or strategy in growing the business.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR34/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.2x and 14.3x on our 2019 estimates, respectively. *The market is pricing a fundamental P/B (2.2x) and a sustainable RoE (17.7%) vs. our estimates (P/B: 1.8x & RoE: 15.8%).* The name trades at a PEG of 2.6x based on 5.4% CAGR (2018-23e).
- Risks:** 1) Geopolitical factors, 2) More than expected increase in credit costs and 3) Losing market share in the government segment.

### Key Financial Data and Estimates

|                    | FY2018 | FY2019e | FY2020e | FY2021e |
|--------------------|--------|---------|---------|---------|
| EPS (QR)           | 2.84   | 2.89    | 3.15    | 3.51    |
| EPS Growth (%)     | 5.0    | 1.9     | 8.7     | 11.7    |
| P/E (x)            | 14.1   | 13.8    | 12.7    | 11.4    |
| Tangible BVPS (QR) | 17.7   | 18.5    | 19.6    | 21.0    |
| P/TB (x)           | 2.3    | 2.2     | 2.0     | 1.9     |
| DPS (QR)           | 2.00   | 2.00    | 2.00    | 2.25    |
| Dividend Yield (%) | 5.0    | 5.0     | 5.0     | 5.6     |

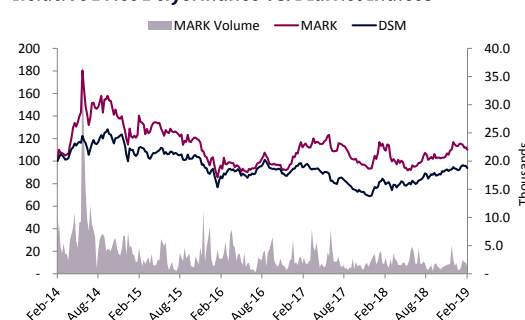
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

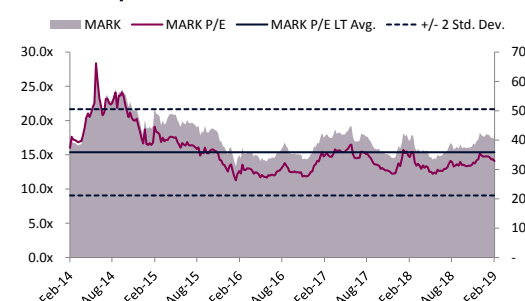
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 40.01                      |
| Dividend Yield (%)        | 5.0%                       |
| Bloomberg Ticker          | MARK QD EQUITY             |
| Reuters Ticker            | MARK.QA                    |
| ISIN                      | QA000A0M8VM3               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 42.65 / 33.01              |
| 3-m Average Volume ('000) | 389.8                      |
| Mkt. Cap. (\$ bn/QR bn)   | 8.2 / 30.0                 |
| Shares Outstanding (mn)   | 750.0                      |
| FO Limit* (%)             | 49.0                       |
| Current FO* (%)           | 13.3                       |
| 1-Year Total Return (%)   | 6.2                        |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

### Shahan Keushgerian

+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

| Income Statement (In QR mn)                            | FY2018       | FY2019e      | FY2020e      | FY2021e      |
|--|--------------|--------------|--------------|--------------|
| Net Interest Income                                    | 2,268        | 2,337        | 2,553        | 2,841        |
| Fees & Commissions                                     | 315          | 326          | 356          | 384          |
| FX Income  | 152          | 162          | 173          | 190          |
| Other Income   | 53           | 56           | 57           | 68           |
| <b>Non-Interest Income</b>                             | <b>521</b>   | <b>544</b>   | <b>586</b>   | <b>642</b>   |
| <b>Total Revenue</b>                                   | <b>2,788</b> | <b>2,881</b> | <b>3,139</b> | <b>3,483</b> |
| Operating Expenses                                     | (668)        | (686)        | (727)        | (787)        |
| <b>Net Operating Income</b>                            | <b>2,120</b> | <b>2,195</b> | <b>2,412</b> | <b>2,695</b> |
| Net Provisions & Impairments                           | 22           | (8)          | (36)         | (42)         |
| <b>Net Profit Before Taxes &amp; Minority Interest</b> | <b>2,142</b> | <b>2,187</b> | <b>2,376</b> | <b>2,654</b> |
| Tax  | (2)          | (3)          | (3)          | (3)          |
| <b>Net Profit Before Minority Interest</b>             | <b>2,140</b> | <b>2,184</b> | <b>2,373</b> | <b>2,650</b> |
| Minority Interest                                      | (9)          | (13)         | (14)         | (16)         |
| <b>Net Profit (Headline/Reported)</b>                  | <b>2,130</b> | <b>2,171</b> | <b>2,359</b> | <b>2,635</b> |
| Social & Sports Contribution Fund                      | (53)         | (54)         | (59)         | (65)         |
| <b>Net Profit (Attributable)</b>                       | <b>2,077</b> | <b>2,117</b> | <b>2,300</b> | <b>2,569</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | FY2018        | FY2019e        | FY2020e        | FY2021e        |
|---|---------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |               |                |                |                |
| Cash & Balances with Central Bank                   | 3,027         | 3,232          | 3,280          | 3,007          |
| Interbank Loans                                     | 1,496         | 3,003          | 3,982          | 3,481          |
| Net Investments                                     | 19,005        | 20,920         | 23,323         | 24,976         |
| Net Loans   | 72,164        | 75,076         | 79,639         | 87,015         |
| Investment In Associates                            | 526           | 539            | 553            | 569            |
| Other Assets  | 887           | 751            | 733            | 801            |
| Net PP&E  | 189           | 193            | 214            | 217            |
| <b>Total Assets</b>                                 | <b>97,294</b> | <b>103,715</b> | <b>111,724</b> | <b>120,064</b> |
| <b>Liabilities</b>                                  |               |                |                |                |
| Interbank Deposits                                  | 16,484        | 18,641         | 21,145         | 20,564         |
| Customer Deposits                                   | 61,569        | 64,647         | 68,332         | 75,165         |
| Other Liabilities                                   | 5,768         | 6,323          | 7,329          | 8,332          |
| <b>Total Liabilities</b>                            | <b>83,820</b> | <b>89,611</b>  | <b>96,806</b>  | <b>104,062</b> |
| <b>Total Shareholders' Equity</b>                   | <b>13,277</b> | <b>13,894</b>  | <b>14,694</b>  | <b>15,763</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>97,294</b> | <b>103,715</b> | <b>111,724</b> | <b>120,064</b> |

Source: Company data, QNB FS Research



| Ratios   | FY2018 | FY2019e | FY2020e | FY2021e |
|--|--------|---------|---------|---------|
| <b>Profitability (%)</b>                         |        |         |         |         |
| RoE Attributable (Based on Beginning Book Value) | 15.7   | 15.9    | 16.6    | 17.5    |
| RoAA (Attributable)                              | 2.1    | 2.1     | 2.1     | 2.2     |
| RoRWA (Attributable)                             | 3.3    | 3.3     | 3.4     | 3.4     |
| NIM (% of IEAs)                                  | 2.39   | 2.46    | 2.51    | 2.58    |
| NIM (% of RWAs)                                  | 3.61   | 3.65    | 3.77    | 3.78    |
| NIM (% of AAs)                                   | 2.27   | 2.33    | 2.37    | 2.45    |
| Spread   | 1.9    | 1.8     | 1.7     | 1.6     |
| <b>Efficiency (%)</b>                            |        |         |         |         |
| Cost-to-Income (Headline)                        | 24.0   | 23.8    | 23.2    | 22.6    |
| Cost-to-Income (Core)                            | 24.4   | 24.3    | 23.6    | 23.0    |
| <b>Liquidity (%)</b>                             |        |         |         |         |
| LDR  | 117.2  | 116.1   | 116.5   | 115.8   |
| Loans/Assets                                     | 74.2   | 72.4    | 71.3    | 72.5    |
| Cash & Interbank Loans-to-Total Assets           | 4.6    | 6.0     | 6.5     | 5.4     |
| Deposits to Assets                               | 63.3   | 62.3    | 61.2    | 62.6    |
| Wholesale Funding to Loans                       | 28.1   | 30.8    | 33.4    | 30.8    |
| IEAs to IBLs                                     | 123.5  | 121.9   | 120.9   | 121.1   |
| <b>Asset Quality (%)</b>                         |        |         |         |         |
| NPL Ratio  | 0.83   | 0.88    | 0.90    | 1.00    |
| NPLs to Shareholder's Equity                     | 4.55   | 4.79    | 4.92    | 5.56    |
| NPLs to Tier 1 Capital                           | 5.05   | 5.62    | 5.71    | 6.49    |
| Coverage Ratio                                   | 97.5   | 91.7    | 89.1    | 77.6    |
| ALL/Average Loans                                | 0.8    | 0.8     | 0.8     | 0.8     |
| Cost of Risk                                     | -0.02  | 0.03    | 0.04    | 0.04    |
| <b>Capitalization (%)</b>                        |        |         |         |         |
| Tier 1 Ratio                                     | 18.7   | 18.5    | 17.7    | 17.2    |
| CAR  | 19.2   | 19.0    | 18.2    | 17.7    |
| Tier 1 Capital to Assets                         | 12.3   | 11.4    | 11.3    | 11.3    |
| Tier 1 Capital to Loans                          | 16.6   | 15.8    | 15.9    | 15.5    |
| Tier 1 Capital to Deposits                       | 19.4   | 18.3    | 18.5    | 18.0    |
| Leverage (x)                                     | 7.3    | 7.5     | 7.6     | 7.6     |
| <b>Growth (%)</b>                                |        |         |         |         |
| Net Interest Income                              | 0.2    | 3.0     | 9.3     | 11.3    |
| Non-Interest Income                              | 10.1   | 4.5     | 7.7     | 9.6     |
| OPEX   | 15.8   | 2.7     | 6.0     | 8.3     |
| Net Operating Income                             | -1.8   | 3.5     | 9.9     | 11.8    |
| Net Income (Attributable)                        | 5.0    | 1.9     | 8.7     | 11.7    |
| Loans  | 0.1    | 4.0     | 6.1     | 9.3     |
| Deposits   | -1.5   | 5.0     | 5.7     | 10.0    |
| Assets   | -5.5   | 6.6     | 7.7     | 7.5     |
| RWAs   | 3.5    | 0.2     | 11.6    | 10.1    |

Source: Company data, QNB FS Research



# Qatar Electricity & Water Company (QEWS)

|                |            |                      |          |
|----------------|------------|----------------------|----------|
| Recommendation | ACCUMULATE | Risk Rating          | R-2      |
| Share Price    | QR185.20   | Current Target Price | QR209.00 |
| Implied Upside | 12.9%      |                      |          |

## A Seasonally Soft 4Q2018; LT Growth Leads to Accumulate Rating

We maintain our Accumulate rating on QEWS. 3Q2018 was weaker-than-expected and RAF B's extension (for 12 years) came at lower-than-anticipated rates. For 4Q2018, we expect a seasonally weak quarter. QEWS' stock did not keep pace with the overall growth in the stock market last year given tepid 2Q/3Q results but we continue to like the company as a solid long-term play with a defensive business model. QEWS enjoys a solid long-term growth profile with attractive EBITDA margins and compelling dividend/FCF yields. **LT catalysts abound, including additional expansions domestically (like Facility E, the Siraj solar project, etc.). Beyond Paiton (Indonesia), we do not have color on other Nebras projects, which could lead to growth relative to our model.**

### Highlights

- For 4Q2018, we estimate revenue/EPS of QR617.1m/QR2.77, down 13% and flattish YoY, respectively. We expect a seasonally weak quarter with YoY comparisons to be impacted for the last time by RAF A decommissioning. Yearly/QoQ comparisons are challenging (top-line down 13% YoY and -8% QoQ, while EPS flattish YoY but down 11% sequentially) given the decommissioning of RAF A in end-2017 and seasonality; RAF A made up 9%/16% of QEWS' net power/water capacity (2017). Moreover, some revenue reduction is due to RAF B given the lower revised tariff for this fully-depreciated plant. Some impact is also due to RAF A1 with Kahramaa imposing a lower base-line K-Factor for gas charges (vs. a higher estimate assumed by QEWS in 2017). On the EPS side, YoY flat performance is due to lower margins at the older RAF A plant and QR46mn in one-off expenses in 4Q2017. The QoQ fall in EPS is because of the aforementioned factors impacting revenue/GMs along with higher interest charges that are projected up 46% YoY/10% QoQ. **Finally, we expect flat 2018 DPS of QR7.75.**
- We continue to like QEWS as a solid long-term play with a defensive business model. Essentially a capacity provider, QEWS takes on insignificant demand/costs/funding risks holding secure contracted assets with long-term (~25 years) fuel agreements/PWPAs and committed funding. This also leads to visible cash flows and a stable operating profile. The State of Qatar (through various entities) owns 60% of the company.
- Market leader in Qatar with international expansion gathering steam. Essentially a monopoly, QEWS owns stakes in all domestic IWPPs/IPP/ITPs. Moreover, the company has diversified internationally with around 14% of its net income expected to be driven by 60%-owned international JV (Nebras) in 2018. Nebras has operations in Indonesia, Jordan and Oman and is actively seeking opportunities in MENA and SE Asia.
- Despite a subdued 2019, QEWS still enjoys a solid LT growth profile with attractive EBITDA margins and compelling dividend/FCF yields. After declining 2017-2019, we expect EBITDA CAGR of 4.2% over 2019-2023; FCF should grow 4.8% over the same period driven by Um Al Houl and inflation-driven capacity charge increases. Despite modeled compression, QEWS should still maintain solid EBITDA margins (2019-2023 avg.: ~46%). Over 2018-2023, we expect dividend yield to average 4.4% and FCF yield to average 7.3% (despite a dip in 2018 as QEWS invested \$252mn into the Facility D JV). ROEs average around 12.4% over 2019-2023.

### Catalysts

- New opportunities currently not in our model: Besides Um Al Houl, our model does not account for additional expansions domestically (like Facility E, a solar project called Siraj, etc.) which will lead to LT upside. Beyond Paiton in Indonesia, we do not have color on other Nebras projects, which could lead to growth relative to our model.

### Recommendation, Valuation and Risks

- Recommendation & valuation:** Our 1-year PT is QR209. Shares have generated 36% in 5-year total returns, outpacing the DSM Index (15%).
- Risks:** Geopolitical risks cannot be modeled. Besides risks in international expansion, there is always a chance domestic projects get delayed/shelved. It is possible Kahramaa substantially renegotiates the terms of existing contracts and recent discussions on K-Factors gives us pause; however, this is not an imminent risk. We note the recent lower-than-expected rates for RAF B involve a contract extension on a fully-depreciated plant. Operational risks include availability of capacity below contracted levels, which could lead to penalties.

### Key Financial Data and Estimates

|                 | FY2017 | FY2018e | FY2019e | FY2020e |
|-----------------|--------|---------|---------|---------|
| Revenue (QR mn) | 3,071  | 2,633   | 2,609   | 2,673   |
| Revenue Growth  | -1.0%  | -14.3%  | -0.9%   | 2.4%    |
| EPS (QR)        | 14.69  | 13.29   | 12.42   | 13.17   |
| EPS Growth      | 4.8%   | -9.6%   | -6.5%   | 6.0%    |
| P/E (x)         | 12.6   | 13.9    | 14.9    | 14.1    |
| DPS (QR)        | 7.75   | 7.75    | 7.75    | 8.00    |
| ROE             | 18.0%  | 13.7%   | 12.2%   | 12.3%   |

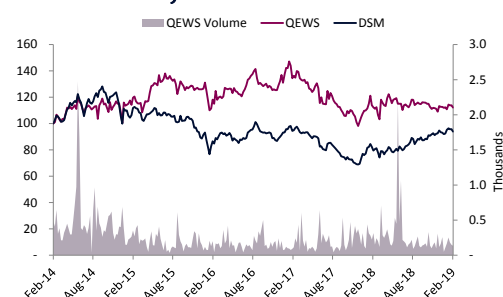
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

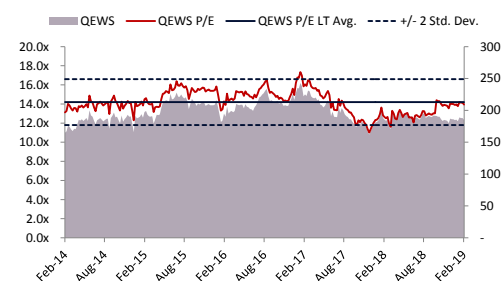
|                           |                 |
|---------------------------|-----------------|
| Current Market Price (QR) | 185.20          |
| Dividend Yield (%)        | 4.1%            |
| Bloomberg Ticker          | QEWS QD EQUITY  |
| Reuters Ticker            | QEWQ.QA         |
| ISIN                      | QA0006929812    |
| Sector                    | Industrials     |
| 52wk High/52wk Low (QR)   | 205.25 / 170.01 |
| 3-m Average Volume ('000) | 34.1            |
| Mkt. Cap. (\$ bn/QR bn)   | 5.6 / 20.4      |
| Shares Outstanding (mn)   | 110.0           |
| FO Limit* (%)             | 49.0            |
| Current FO* (%)           | 12.6            |
| 1-Year Total Return (%)   | 4.2             |
| Fiscal Year End           | December 31     |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## 4Q2018 Preview

### QNB FS Estimates and Comparisons

| In QR mn      | 4Q2018e | 4Q2017 | 3Q2018 | YoY    | QoQ    | 2018e    | 2017     | YoY    |
|---------------|---------|--------|--------|--------|--------|----------|----------|--------|
| Revenue       | 617.10  | 706.37 | 671.47 | -12.6% | -8.1%  | 2,632.73 | 3,070.74 | -14.3% |
| Gross Profit  | 307.92  | 339.43 | 355.74 | -9.3%  | -13.4% | 1,495.39 | 1,759.17 | -15.0% |
| EBITDA        | 243.67  | 267.26 | 309.28 | -8.8%  | -21.2% | 1,292.63 | 1,549.05 | -16.6% |
| JV Income     | 137.23  | 119.07 | 102.54 | 15.3%  | 33.8%  | 519.86   | 566.86   | -8.3%  |
| Net Income    | 305.03  | 304.79 | 343.83 | 0.1%   | -11.3% | 1,461.42 | 1,616.18 | -9.6%  |
| EPS (in QR)   | 2.77    | 2.77   | 3.13   | 0.1%   | -11.3% | 13.29    | 14.69    | -9.6%  |
| Gross Margin  | 49.9%   | 48.1%  | 53.0%  |        |        | 56.8%    | 57.3%    |        |
| EBITDA Margin | 39.5%   | 37.8%  | 46.1%  |        |        | 49.1%    | 50.4%    |        |
| Net Margin    | 49.4%   | 43.1%  | 51.2%  |        |        | 55.5%    | 52.6%    |        |

Source: Company data, QNB FS Research

## Valuation and Key Ratios

### Valuation Metrics

| Particulars              | 2014   | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e | 2021e | 2022e | 2023e |
|--------------------------|--------|------|------|------|-------|-------|-------|-------|-------|-------|
| <b>Valuation</b>         |        |      |      |      |       |       |       |       |       |       |
| EV/EBITDA - Consolidated | 15.7   | 14.8 | 14.1 | 14.4 | 17.0  | 18.4  | 17.0  | 15.8  | 14.7  | 13.6  |
| EV/EBIT                  | 22.5   | 20.8 | 19.0 | 20.4 | 23.7  | 27.1  | 24.7  | 22.5  | 20.7  | 19.0  |
| P/E                      | 13.3   | 13.6 | 13.2 | 12.6 | 13.9  | 14.9  | 14.1  | 13.2  | 12.5  | 11.8  |
| P/CF                     | 9.2    | 11.0 | 9.9  | 12.2 | 10.4  | 12.7  | 11.9  | 11.7  | 11.2  | 10.7  |
| P/BV                     | 3.0    | 2.8  | 2.5  | 2.3  | 1.9   | 1.8   | 1.7   | 1.6   | 1.5   | 1.5   |
| Dividend Yield           | 4.0%   | 4.0% | 4.0% | 4.2% | 4.2%  | 4.2%  | 4.3%  | 4.5%  | 4.6%  | 4.7%  |
| FCF Yield                | (2.4%) | 4.0% | 6.0% | 7.9% | 4.8%  | 7.0%  | 7.6%  | 7.7%  | 8.1%  | 8.5%  |

Source: Bloomberg, QNB FS Research

### Key Growth Rates/CAGRs/Ratios

| Particulars                  | 2014   | 2015    | 2016  | 2017    | 2018e   | 2019e   | 2020e | 2021e | 2022e | 2023e | CAGR ('19-'23) |
|------------------------------|--------|---------|-------|---------|---------|---------|-------|-------|-------|-------|----------------|
| <b>Growth Rates</b>          |        |         |       |         |         |         |       |       |       |       |                |
| Revenue                      | (0.2%) | 2.9%    | 4.0%  | (1.0%)  | (14.3%) | (0.9%)  | 2.4%  | 2.5%  | 2.5%  | 2.5%  | 2.5%           |
| Gross Profit                 | (1.8%) | 1.9%    | 3.6%  | (3.3%)  | (15.0%) | (8.4%)  | 4.4%  | 4.4%  | 3.4%  | 3.5%  | 3.9%           |
| EBITDA - Consolidated        | (2.5%) | 5.4%    | 2.8%  | (4.9%)  | (16.6%) | (10.1%) | 4.7%  | 4.7%  | 3.6%  | 3.6%  | 4.2%           |
| EBIT                         | (3.5%) | 7.3%    | 7.2%  | (9.3%)  | (15.7%) | (14.6%) | 6.4%  | 6.4%  | 4.7%  | 4.7%  | 5.5%           |
| PBT                          | 11.0%  | (2.0%)  | 2.5%  | 4.2%    | (9.1%)  | (6.5%)  | 6.0%  | 6.8%  | 5.7%  | 5.5%  | 6.0%           |
| PAT/EPS                      | 10.5%  | (1.9%)  | 2.8%  | 4.8%    | (9.6%)  | (6.5%)  | 6.0%  | 6.8%  | 5.7%  | 5.5%  | 6.0%           |
| DPS                          | 10.0%  | 0.0%    | 0.0%  | 3.3%    | 0.0%    | 0.0%    | 3.2%  | 3.1%  | 3.0%  | 2.9%  | 3.1%           |
| CFPS                         | 30.7%  | (16.6%) | 11.7% | (19.0%) | 16.7%   | (17.5%) | 6.9%  | 1.2%  | 4.7%  | 4.5%  | 4.3%           |
| FCFPS                        | NM     | NM      | 50.5% | 31.1%   | (39.1%) | 45.7%   | 7.7%  | 1.4%  | 5.3%  | 5.0%  | 4.8%           |
| <b>Operating Ratios</b>      |        |         |       |         |         |         |       |       |       |       |                |
| Gross Margin                 | 59.5%  | 58.9%   | 58.7% | 57.3%   | 56.8%   | 52.5%   | 53.5% | 54.5% | 55.0% | 55.5% |                |
| EBITDA Margin - Consolidated | 51.8%  | 53.1%   | 52.5% | 50.4%   | 49.1%   | 44.5%   | 45.5% | 46.5% | 47.0% | 47.5% |                |
| EBIT Margin                  | 36.3%  | 37.8%   | 38.9% | 35.7%   | 35.1%   | 30.3%   | 31.4% | 32.6% | 33.3% | 34.0% |                |
| Net Margin                   | 52.8%  | 50.3%   | 49.7% | 52.6%   | 55.5%   | 52.4%   | 54.2% | 56.5% | 58.2% | 59.9% |                |
| <b>Finance Ratios</b>        |        |         |       |         |         |         |       |       |       |       |                |
| Debt-Equity Ratio            | 0.8    | 0.7     | 0.7   | 0.7     | 0.5     | 0.5     | 0.4   | 0.4   | 0.3   | 0.3   |                |
| Net Debt-Equity Ratio        | 0.5    | 0.4     | 0.4   | 0.3     | 0.3     | 0.2     | 0.1   | 0.1   | 0.0   | (0.0) |                |
| Interest Coverage            | 9.7    | 9.4     | 8.1   | 6.1     | 4.1     | 3.4     | 3.7   | 4.1   | 4.6   | 5.1   |                |
| <b>Return Ratios</b>         |        |         |       |         |         |         |       |       |       |       |                |
| ROIC                         | 8.8%   | 9.2%    | 8.5%  | 7.4%    | 5.6%    | 4.7%    | 5.0%  | 5.2%  | 5.3%  | 5.4%  |                |
| ROE                          | 22.6%  | 20.4%   | 18.6% | 18.0%   | 13.7%   | 12.2%   | 12.3% | 12.4% | 12.4% | 12.4% |                |
| ROA                          | 11.8%  | 11.2%   | 10.1% | 10.2%   | 8.4%    | 7.8%    | 8.1%  | 8.5%  | 8.8%  | 9.1%  |                |
| FCF Yield                    | -2.4%  | 4.0%    | 6.0%  | 7.9%    | 4.8%    | 7.0%    | 7.6%  | 7.7%  | 8.1%  | 8.5%  |                |
| <b>Liquidity Ratios</b>      |        |         |       |         |         |         |       |       |       |       |                |
| Current Ratio                | 1.2    | 1.5     | 2.1   | 2.3     | 2.0     | 2.2     | 2.2   | 2.4   | 2.6   | 2.8   |                |
| Quick Ratio                  | 1.1    | 1.4     | 1.9   | 2.2     | 1.9     | 2.0     | 2.1   | 2.3   | 2.5   | 2.7   |                |

Source: Bloomberg, QNB FS Research

## Detailed Financial Statements

| Income Statement (In QR mn)                                      | FY2017       | FY2018e      | FY2019e      | FY2020e      |
|--|--------------|--------------|--------------|--------------|
| <b>Revenue</b>   | <b>3,071</b> | <b>2,633</b> | <b>2,609</b> | <b>2,673</b> |
| Cost of Sales, Excluding Depreciation                            | (1,312)      | (1,137)      | (1,239)      | (1,243)      |
| <b>Gross Profit</b>  | <b>1,759</b> | <b>1,495</b> | <b>1,370</b> | <b>1,430</b> |
| General & Administrative Expenses                                | (210)        | (203)        | (208)        | (213)        |
| <b>EBITDA</b>  | <b>1,549</b> | <b>1,293</b> | <b>1,162</b> | <b>1,217</b> |
| Deferred Income  | 0            | 0            | 0            | 0            |
| Depreciation & Amortization                                      | (453)        | (369)        | (373)        | (377)        |
| <b>EBIT</b>  | <b>1,096</b> | <b>924</b>   | <b>789</b>   | <b>840</b>   |
| Finance Costs, Net   | (164)        | (114)        | (152)        | (146)        |
| Dividend Income & Gain on Sale of AFS                            | 95           | 111          | 122          | 134          |
| Other & Miscellaneous Income/Expense & Share of Profits from JVs | 613          | 570          | 635          | 649          |
| Share of Associates  | 0            | 0            | 0            | 0            |
| Profit Before Tax  | 1,639        | 1,490        | 1,393        | 1,477        |
| Income Tax Expense   | 0            | 0            | 0            | 0            |
| <b>Profit After Tax (Continuing Operations)</b>                  | <b>1,639</b> | <b>1,490</b> | <b>1,393</b> | <b>1,477</b> |
| Discontinued Operations  |              |              |              |              |
| Minority Interest  | (23)         | (29)         | (27)         | (29)         |
| <b>Profit for Shareholders</b>                                   | <b>1,616</b> | <b>1,461</b> | <b>1,366</b> | <b>1,449</b> |
| <b>EPS (QR)</b>  | <b>14.69</b> | <b>13.29</b> | <b>12.42</b> | <b>13.17</b> |

| Balance Sheet (In QR mn)             | FY2017        | FY2018e       | FY2019e       | FY2020e       |
|--------------------------------------|---------------|---------------|---------------|---------------|
| <b>Non-Current Assets</b>            |               |               |               |               |
| Property, Plant and Equipment        | 5,745         | 5,434         | 5,169         | 4,901         |
| Available-for-Sale Investments       | 702           | 1,384         | 1,384         | 1,384         |
| Finance Lease Receivables            | 1,249         | 1,141         | 1,043         | 954           |
| JV Loans and Investments in JVs      | 3,136         | 5,021         | 5,367         | 5,719         |
| Other Non-Current assets             | 330           | 340           | 332           | 324           |
| <b>Total Non-Current Assets</b>      | <b>11,161</b> | <b>13,321</b> | <b>13,296</b> | <b>13,282</b> |
| <b>Current Assets</b>                |               |               |               |               |
| Finance Lease Receivables & Others   | 120           | 135           | 135           | 135           |
| Inventories                          | 231           | 234           | 255           | 255           |
| Accounts Receivables & Prepayments   | 849           | 577           | 572           | 586           |
| Cash and Short-Term Deposits         | 3,436         | 3,040         | 3,369         | 3,611         |
| <b>Total Current Assets</b>          | <b>4,635</b>  | <b>3,986</b>  | <b>4,330</b>  | <b>4,587</b>  |
| <b>Total Assets</b>                  | <b>15,797</b> | <b>17,307</b> | <b>17,626</b> | <b>17,869</b> |
| <b>Equity</b>                        |               |               |               |               |
| Equity to the Parent                 | 8,978         | 10,658        | 11,172        | 11,768        |
| Minority Interest                    | 250           | 246           | 241           | 237           |
| <b>Total Equity</b>                  | <b>9,228</b>  | <b>10,903</b> | <b>11,413</b> | <b>12,005</b> |
| <b>Non-Current Liabilities</b>       |               |               |               |               |
| Loans and Borrowings                 | 4,442         | 4,327         | 4,110         | 3,699         |
| Employees' End of Service Benefits   | 74            | 84            | 93            | 103           |
| Derivatives                          | 27            | 5             | 5             | 5             |
| <b>Total Non-Current Liabilities</b> | <b>4,543</b>  | <b>4,416</b>  | <b>4,209</b>  | <b>3,807</b>  |
| <b>Current Liabilities</b>           |               |               |               |               |
| Accounts Payables & Others           | 586           | 561           | 577           | 630           |
| Loans and Borrowings                 | 1,424         | 1,423         | 1,423         | 1,423         |
| Derivatives                          | 15            | 4             | 4             | 4             |
| <b>Total Current Liabilities</b>     | <b>2,026</b>  | <b>1,988</b>  | <b>2,004</b>  | <b>2,057</b>  |
| <b>Equity and Liabilities</b>        | <b>15,797</b> | <b>17,307</b> | <b>17,626</b> | <b>17,869</b> |

Source: Company data, QNB FS Research

## Qatar Gas Transport Co./Nakilat (QGTS)

|                       |                   |                             |                |
|-----------------------|-------------------|-----------------------------|----------------|
| <b>Recommendation</b> | <b>ACCUMULATE</b> | <b>Risk Rating</b>          | <b>R-3</b>     |
| <b>Share Price</b>    | <b>QR19.85</b>    | <b>Current Target Price</b> | <b>QR21.00</b> |
| <b>Implied Upside</b> | <b>5.8%</b>       |                             |                |

### Significant LT Upside Not In the Model; Accumulate

*Nakilat's results remain fairly predictable, which is a testament to the company's solid and stable business especially when it comes to its wholly-owned ship segment. We do not expect 2018 results to be any different. In terms of catalysts, we believe expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver. Currently our model does not assume any fleet expansion and we will incorporate such expansion once more details are revealed. We foresee significant upward revision to our estimates and price target once we factor in this expansion. Also, QGTS is targeting FSRUs with one vessel already added to the fleet. We note that the company's ships have 40-years of life vs. maximum debt life of 25 years (last debt maturing 2033), creating refinancing opportunities to increase fleet size. Medium-term, we believe the shipyard business, which is no longer loss making, could further improve.*

### Highlights

- **4Q2018 operating metrics should continue to show improvement.** On a YoY basis, adjusted revenue/adjusted EBITDA should post 5%/7% growth rates. However, 4Q2017 also included QR65mn in realized gains on investments, while 4Q2018 finance costs are expected up 5%. Net-net, this leads to an 11% YoY decline in net income. Sequentially, net income should be flattish with the QoQ increase in finance charges offset by operating items. Notwithstanding some quarterly variability, QGTS' wholly-owned business remains steady and predictable. For DPS, we continue to expect QR1.05, up modestly vs QR1.00 in 2017.
- **Our projections call for around 5% EPS growth in 2019.** Adjusted revenue should increase around 1% in 2019 with a very modest gain in adjusted-EBITDA margins to 76.9% from 76.6% in 2018. As we have pointed out previously, for 2019, we expect flattish interest charges despite a 6% decline in debt given our forecast of higher interest rates. However, if interest rates do not go up as originally envisioned, a scenario that looks increasingly likely given the Fed's recent statements and market forecasts, we see decent upside to our 2019 estimates.

### Catalysts

- **Expansion of Qatar's LNG output from 77 MTPA to 110 MTPA is a significant driver.** We continue to favor Nakilat, #1 owner/operator of LNG vessels globally, as a LT play geared to Qatari LNG's dominance and anticipated growth in the LNG market.

### Recommendation, Valuation and Risks

- **Recommendation & valuation: Our 1-Year target is QR21.** QGTS trades at attractive multiples vs. peers despite higher EBITDA margins & FCF yields.
- **Risks: (1)** Blockade is an overhang but business impact has been limited thus far. Shipping ultimately remains the charterers' concern and comprehensive insurance policies (incl. war insurance) cover QGTS for political stress events under force majeure clauses for 36 months (plus 6 months in many cases). Blockage of the Strait of Hormuz/Gulf of Suez is unlikely. Charterers will also bear any costs of potential rerouting. **(2)** There is a risk existing LNG contracts get renegotiated as they are at a premium to spot (for wholly-owned fleet). We note this premium has fallen markedly over the last 12 months. Overall, we do not rule out potential contract restructuring, with QGTS accepting slightly lower charter rates in return for increasing their lengths from 25 to 35+ years. However, bargaining power rests with Qatargas and Nakilat may have no choice but to accept worse contract terms. The likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

### Key Financial Data and Estimates

|                | FY2016 | FY2017 | FY2018e | FY2019e |
|----------------|--------|--------|---------|---------|
| EPS (QR)       | 1.72   | 1.53   | 1.57    | 1.65    |
| P/E (x)        | 11.5   | 13.0   | 12.6    | 12.0    |
| DPS (QR)       | 1.00   | 1.00   | 1.05    | 1.10    |
| Dividend Yield | 5.0%   | 5.0%   | 5.3%    | 5.5%    |

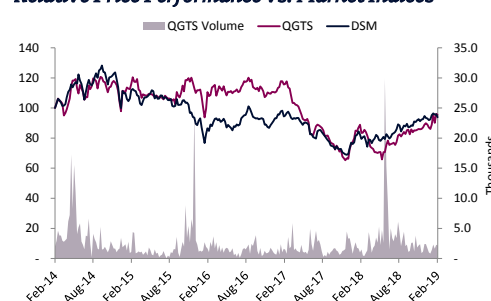
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

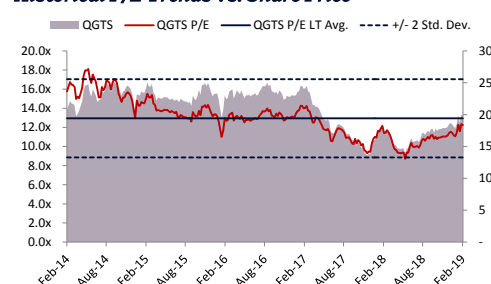
|                           |                |
|---------------------------|----------------|
| Current Market Price (QR) | 19.85          |
| Dividend Yield (%)        | 5.1%           |
| Bloomberg Ticker          | QGTS QD EQUITY |
| Reuters Ticker            | QGTS.QA        |
| ISIN                      | QA000A0KD6L1   |
| Sector                    | Transport      |
| 52wk High/52wk Low (QR)   | 21.10 / 13.55  |
| 3-m Average Volume ('000) | 362.5          |
| Mkt. Cap. (\$ bn/QR bn)   | 3.0 / 11.0     |
| Shares Outstanding (mn)   | 554.0          |
| FO Limit* (%)             | 49.0           |
| Current FO* (%)           | 14.1           |
| 1-Year Total Return (%)   | 22.0           |
| Fiscal Year End           | December 31    |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## 4Q2018 Preview

### QNB FS Estimates and Comparisons

| In QR mn                                       | 4Q2018e | 4Q2017 | 3Q2018 | YoY    | QoQ   | 2018e   | 2017    | YoY   |
|--|---------|--------|--------|--------|-------|---------|---------|-------|
| Revenue from Wholly-Owned Vessels              | 776.2   | 769.3  | 774.3  | 0.9%   | 0.2%  | 3,076.9 | 3,057.1 | 0.6%  |
| Gross Profit                                   | 597.2   | 588.7  | 596.7  | 1.4%   | 0.1%  | 2,380.8 | 2,359.6 | 0.9%  |
| EBITDA   | 579.5   | 573.8  | 579.4  | 1.0%   | 0.0%  | 2,307.8 | 2,281.4 | 1.2%  |
| EBIT   | 389.5   | 381.2  | 389.4  | 2.2%   | 0.0%  | 1,551.1 | 1,513.4 | 2.5%  |
| Share of Operating Profits from Joint Ventures | 101.2   | 62.0   | 101.4  | 63.2%  | -0.2% | 394.3   | 339.0   | 16.3% |
| Net Income to Equity                           | 214.1   | 239.8  | 214.1  | -10.7% | 0.0%  | 872.3   | 846.2   | 3.1%  |
| EPS (QR)                                       | 0.39    | 0.43   | 0.39   | -10.7% | 0.0%  | 1.57    | 1.53    | 3.1%  |
| DPS (QR)                                       |         |        |        |        |       | 1.05    | 1.00    | 5.0%  |
| Adjusted Revenue                               | 891.3   | 845.6  | 889.4  | 5.4%   | 0.2%  | 3,526.5 | 3,451.3 | 2.2%  |
| Adjusted EBITDA                                | 680.7   | 635.8  | 680.8  | 7.1%   | 0.0%  | 2,702.1 | 2,620.4 | 3.1%  |
| Gross Margin                                   | 76.9%   | 76.5%  | 77.1%  |        |       | 77.4%   | 77.2%   |       |
| EBITDA Margin                                  | 74.7%   | 74.6%  | 74.8%  |        |       | 75.0%   | 74.6%   |       |
| EBIT Margin                                    | 50.2%   | 49.6%  | 50.3%  |        |       | 50.4%   | 49.5%   |       |
| Net Margin                                     | 27.6%   | 31.2%  | 27.7%  |        |       | 28.4%   | 27.7%   |       |
| Adjusted EBITDA Margin                         | 76.4%   | 75.2%  | 76.5%  |        |       | 76.6%   | 75.9%   |       |

Source: Company data, QNB FS estimates

## Key Metrics

|                             | 2016    | 2017    | 2018    | 2019   | 2020   | 2025   | 2030   | 2033   | CAGR<br>'17-'33 |
|-----------------------------|---------|---------|---------|--------|--------|--------|--------|--------|-----------------|
| <b>Growth Ratios (In %)</b> |         |         |         |        |        |        |        |        |                 |
| Revenue - Wholly Owned      | 0.7%    | (0.4%)  | 0.6%    | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%            |
| Revenue - Adjusted          | 2.0%    | (6.1%)  | 2.2%    | 1.2%   | 1.5%   | 1.4%   | 1.3%   | 1.3%   | 1.3%            |
| Gross Profit                | 0.1%    | 0.4%    | 0.9%    | (0.0%) | (0.0%) | (0.0%) | (0.0%) | (0.0%) | 0.0%            |
| EBITDA                      | (1.1%)  | 0.5%    | 1.2%    | 0.1%   | 0.1%   | 0.0%   | 0.0%   | 0.0%   | 0.1%            |
| EBITDA -Adjusted            | 1.1%    | (7.2%)  | 3.1%    | 1.5%   | 1.8%   | 1.7%   | 1.5%   | 1.5%   | 1.5%            |
| EBIT                        | (6.5%)  | 0.7%    | 2.5%    | 0.1%   | 0.1%   | (0.0%) | (0.0%) | (0.0%) | 0.1%            |
| EPS                         | (2.9%)  | (11.3%) | 3.1%    | 4.9%   | 13.4%  | 9.3%   | 6.0%   | 5.2%   | 7.4%            |
| CFPS                        | (9.9%)  | 16.7%   | (18.5%) | 33.1%  | 9.3%   | 6.4%   | 4.5%   | 4.1%   | 5.4%            |
| FCFPS                       | (4.9%)  | 22.0%   | (26.1%) | 40.5%  | 9.7%   | 6.6%   | 4.6%   | 4.2%   | 5.3%            |
| DPS                         | (20.0%) | 0.0%    | 5.0%    | 4.8%   | 4.5%   | 29.6%  | 6.0%   | 5.2%   | 6.8%            |

Source: Company data, QNB FS estimates



## Ratio Analysis

### Key Metrics

|                                | 2016    | 2017    | 2018    | 2019   | 2020   | 2025   | 2030   | 2033   |
|--------------------------------|---------|---------|---------|--------|--------|--------|--------|--------|
| <b>Growth Ratios (In %)</b>    |         |         |         |        |        |        |        |        |
| Revenue - Wholly Owned         | 0.7%    | (0.4%)  | 0.6%    | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   |
| Revenue - Adjusted             | 2.0%    | (6.1%)  | 2.2%    | 1.2%   | 1.5%   | 1.4%   | 1.3%   | 1.3%   |
| Gross Profit                   | 0.1%    | 0.4%    | 0.9%    | (0.0%) | (0.0%) | (0.0%) | (0.0%) | (0.0%) |
| EBITDA                         | (1.1%)  | 0.5%    | 1.2%    | 0.1%   | 0.1%   | 0.0%   | 0.0%   | 0.0%   |
| EBITDA -Adjusted               | 1.1%    | (7.2%)  | 3.1%    | 1.5%   | 1.8%   | 1.7%   | 1.5%   | 1.5%   |
| EBIT                           | (6.5%)  | 0.7%    | 2.5%    | 0.1%   | 0.1%   | (0.0%) | (0.0%) | (0.0%) |
| EPS                            | (2.9%)  | (11.3%) | 3.1%    | 4.9%   | 13.4%  | 9.3%   | 6.0%   | 5.2%   |
| CFPS                           | (9.9%)  | 16.7%   | (18.5%) | 33.1%  | 9.3%   | 6.4%   | 4.5%   | 4.1%   |
| FCFPS                          | (4.9%)  | 22.0%   | (26.1%) | 40.5%  | 9.7%   | 6.6%   | 4.6%   | 4.2%   |
| DPS                            | (20.0%) | 0.0%    | 5.0%    | 4.8%   | 4.5%   | 29.6%  | 6.0%   | 5.2%   |
| <b>Operating Ratios (In %)</b> |         |         |         |        |        |        |        |        |
| Gross Margin                   | 76.6%   | 77.2%   | 77.4%   | 77.3%  | 77.2%  | 76.7%  | 76.2%  | 75.9%  |
| EBITDA Margin                  | 74.0%   | 74.6%   | 75.0%   | 75.0%  | 75.0%  | 74.7%  | 74.4%  | 74.2%  |
| Adj. EBITDA Margin             | 76.8%   | 75.9%   | 76.6%   | 76.9%  | 77.1%  | 77.8%  | 78.7%  | 79.2%  |
| EBIT Margin                    | 49.0%   | 49.5%   | 50.4%   | 50.4%  | 50.4%  | 50.1%  | 49.8%  | 49.6%  |
| Net Margin                     | 31.1%   | 27.7%   | 28.4%   | 29.7%  | 33.7%  | 52.2%  | 72.9%  | 85.2%  |
| <b>Finance Ratios</b>          |         |         |         |        |        |        |        |        |
| Net Debt-to-EBITDA             | 8.3     | 7.8     | 7.5     | 7.1    | 6.6    | 4.0    | 0.9    | -1.1   |
| Debt-Equity Ratio              | 4.1     | 3.5     | 2.7     | 2.4    | 2.1    | 0.9    | 0.3    | 0.0    |
| Net Debt-Equity Ratio          | 3.6     | 3.0     | 2.4     | 2.1    | 1.9    | 0.8    | 0.1    | -0.1   |
| Interest Coverage              | 1.3     | 1.3     | 1.3     | 1.3    | 1.4    | 2.2    | 5.4    | 36.3   |
| EBITDA Interest Coverage       | 1.9     | 1.9     | 1.9     | 1.9    | 2.1    | 3.3    | 8.0    | 54.4   |
| <b>Return Ratios (In %)</b>    |         |         |         |        |        |        |        |        |
| ROIC                           | 5.6%    | 5.7%    | 5.7%    | 5.9%   | 6.1%   | 6.6%   | 7.2%   | 7.5%   |
| ROAE                           | 19.7%   | 15.1%   | 13.3%   | 12.3%  | 13.0%  | 13.9%  | 13.6%  | 13.2%  |
| ROAA                           | 3.1%    | 2.8%    | 2.9%    | 3.1%   | 3.6%   | 6.3%   | 9.9%   | 12.2%  |
| <b>Liquidity Ratios</b>        |         |         |         |        |        |        |        |        |
| Current Ratio                  | 2.0     | 2.0     | 1.7     | 1.5    | 1.5    | 1.3    | 1.2    | 3.7    |
| Quick Ratio                    | 2.0     | 2.0     | 1.6     | 1.5    | 1.5    | 1.3    | 1.2    | 3.7    |
| <b>Valuation</b>               |         |         |         |        |        |        |        |        |
| EV/EBITDA-Adjusted             | 10.6    | 11.0    | 10.4    | 9.9    | 9.4    | 6.8    | 4.1    | 2.5    |
| EV/EBIT                        | 19.8    | 19.0    | 18.1    | 17.5   | 16.8   | 12.9   | 8.4    | 5.4    |
| P/E                            | 11.5    | 13.0    | 12.6    | 12.0   | 10.6   | 6.8    | 4.9    | 4.1    |
| P/CF                           | 9.8     | 8.4     | 10.3    | 7.7    | 7.1    | 5.2    | 4.1    | 3.6    |
| P/B                            | 2.1     | 1.9     | 1.5     | 1.4    | 1.3    | 0.9    | 0.6    | 0.5    |
| Dividend Yield                 | 5.0%    | 5.0%    | 5.3%    | 5.5%   | 5.8%   | 8.8%   | 12.4%  | 14.5%  |
| FCF Yield                      | 9.8%    | 11.9%   | 8.8%    | 12.4%  | 13.6%  | 18.5%  | 23.9%  | 27.1%  |

Source: Company data, QNB FS estimates

## Detailed Financial Statements

### Income Statement

| Income Statement (In QR mn)                    | FY2017       | FY2018e      | FY2019e      | FY2020e      |
|--|--------------|--------------|--------------|--------------|
| <b>Revenue – Wholly-Owned Ships</b>            | <b>3,057</b> | <b>3,077</b> | <b>3,080</b> | <b>3,083</b> |
| Direct Costs                                   | (697)        | (696)        | (700)        | (703)        |
| <b>Gross Profit</b>                            | <b>2,360</b> | <b>2,381</b> | <b>2,380</b> | <b>2,380</b> |
| Income from Marine & Agency Services           | 55           | 55           | 56           | 57           |
| General and Administrative Expenses            | (133)        | (128)        | (126)        | (125)        |
| <b>EBITDA</b>                                  | <b>2,281</b> | <b>2,308</b> | <b>2,311</b> | <b>2,312</b> |
| Depreciation                                   | (768)        | (757)        | (757)        | (758)        |
| <b>EBIT</b>                                    | <b>1,513</b> | <b>1,551</b> | <b>1,553</b> | <b>1,554</b> |
| Share of Profits from Joint Ventures           | 339          | 394          | 432          | 481          |
| Finance Costs                                  | (1,172)      | (1,194)      | (1,191)      | (1,119)      |
| Interest, Dividend & Profit from Islamic Banks | 64           | 85           | 85           | 86           |
| Vessels Sub-Chartering & Other Income          | 103          | 37           | 37           | 37           |
| <b>Profit Before Tax</b>                       | <b>847</b>   | <b>873</b>   | <b>916</b>   | <b>1,039</b> |
| Income Tax Expense                             | 0            | 0            | 0            | 0            |
| <b>Profit After Tax</b>                        | <b>847</b>   | <b>873</b>   | <b>916</b>   | <b>1,039</b> |
| Minority Interest                              | (1)          | (1)          | (1)          | (1)          |
| <b>Profit for Equity Shareholders</b>          | <b>846</b>   | <b>872</b>   | <b>915</b>   | <b>1,037</b> |
| <b>EPS (QR)</b>                                | <b>1.53</b>  | <b>1.57</b>  | <b>1.65</b>  | <b>1.87</b>  |
| <b>Adjusted Net Revenue</b>                    | <b>3,451</b> | <b>3,526</b> | <b>3,568</b> | <b>3,621</b> |
| <b>Adjusted EBITDA</b>                         | <b>2,620</b> | <b>2,702</b> | <b>2,743</b> | <b>2,793</b> |

Source: Company data, QNB FS estimates

### Balance Sheet

| Balance Sheet (In QR mn)                             | FY2017        | FY2018e       | FY2019e       | FY2020e       |
|--|---------------|---------------|---------------|---------------|
| <b>Non-Current Assets</b>                            |               |               |               |               |
| Property, Plant and Equipment                        | 22,392        | 21,735        | 21,039        | 20,343        |
| Investment in Joint Venture Companies                | 4,144         | 4,502         | 4,632         | 4,752         |
| Loans to Joint Venture Companies                     | 99            | 82            | 82            | 82            |
| Available-for-Sale Investments                       | 109           | 139           | 139           | 139           |
| <b>Total Non-Current Assets</b>                      | <b>26,744</b> | <b>26,458</b> | <b>25,892</b> | <b>25,316</b> |
| <b>Current Assets</b>                                |               |               |               |               |
| Receivables, Inventories and Due from Joint Ventures | 400           | 586           | 587           | 587           |
| Cash and Bank Balances                               | 2,775         | 2,590         | 2,342         | 2,169         |
| <b>Total Current Assets</b>                          | <b>3,175</b>  | <b>3,176</b>  | <b>2,929</b>  | <b>2,757</b>  |
| <b>Total Assets</b>                                  | <b>29,919</b> | <b>29,635</b> | <b>28,821</b> | <b>28,072</b> |
| <b>Equity</b>  |               |               |               |               |
| Equity Attributable to the Parent                    | 5,922         | 7,210         | 7,674         | 8,232         |
| Minority Interest                                    | 4             | 5             | 7             | 8             |
| <b>Total Equity</b>                                  | <b>5,926</b>  | <b>7,216</b>  | <b>7,681</b>  | <b>8,241</b>  |
| <b>Non-Current Liabilities</b>                       |               |               |               |               |
| Borrowings   | 19,789        | 18,638        | 17,450        | 16,337        |
| Fair Value of Interest Rate Swaps                    | 2,478         | 1,738         | 1,614         | 1,490         |
| Provision for End of Service Benefits                | 148           | 121           | 121           | 121           |
| <b>Total Non-Current Liabilities</b>                 | <b>22,416</b> | <b>20,498</b> | <b>19,185</b> | <b>17,948</b> |
| <b>Current Liabilities</b>                           |               |               |               |               |
| Borrowings   | 832           | 1,158         | 1,189         | 1,113         |
| Accounts Payables/Accruals & Due to Related Parties  | 746           | 763           | 767           | 771           |
| <b>Total Current Liabilities</b>                     | <b>1,578</b>  | <b>1,921</b>  | <b>1,956</b>  | <b>1,884</b>  |
| <b>Equity and Liabilities</b>                        | <b>29,919</b> | <b>29,635</b> | <b>28,821</b> | <b>28,072</b> |

Source: Company data, QNB FS estimates

# Qatar International Islamic Bank (QIIK)

|                       |                       |                     |                |
|-----------------------|-----------------------|---------------------|----------------|
| <b>Recommendation</b> | <b>MARKET PERFORM</b> | <b>Risk Rating</b>  | <b>R-4</b>     |
| <b>Share Price</b>    | <b>QR68.03</b>        | <b>Target Price</b> | <b>QR63.00</b> |
| <b>Implied Upside</b> | <b>(7.4%)</b>         |                     |                |

## Pure Dividend Play

**Qatar International Islamic Bank (QIIK) reported a 2018 net profit of QR805.1mn, in-line with our estimate of QR818.0mn (-1.6% variation).** QIIK's net profit increased by 6.4% YoY due to strong growth in net interest income along with flat opex, which resulted in a 9.4% rise in net operating income. However, the full benefit of this operating performance improvement did not flow through to the bottom-line given a 53.3% surge in net provisions and impairments. The board also announced a DPS of QR4.00, in-line with our estimate. The stock yields a strong 5.9% and payout of 75%. We maintain our Market Perform rating and PT of QR63.00/share.

### Highlights

- **QIIK reports in-line 2018 net profit.** QIIK generated attributable net profit of QR805.1mn growing by 6.4% YoY, in-line with our estimate of QR818mn (-1.6% variation).
- **Net income was driven by strong net interest income and flat opex; however, further earnings growth was impeded by a surge in net credit provisions and impairments.** Net interest income increased by 9.5% YoY and with opex remaining flat, led to a 9.4% growth in net operating income. On the other hand, net provisions & impairments surged by 53.3%, lowering the growth in net income to 6.4%.
- **No surprises on the dividends front with QIIK recommending QR4 in DPS, flat with 2017 and in line with our model.** Announced DPS implies a DY of 5.9% and a payout of 75%.
- **Margins remained stable in 2018.** NIM inched up by only 2bps YoY to 2.70% due to yield on assets and CoFs practically moving in-line. Yield on assets increased by 21bps YoY, while CoFs moved up by 20bps YoY.
- **The bank remains efficient and finally generated positive JAWS.** Revenue grew by 6.8% YoY while opex remained flat, resulting in positive JAWS of 6.9%. Moreover, cost-to-income ratio improved to 24.9% vs. 26.7% in 2017.
- **Net loans and deposits contracted in 2018 but liquidity improved.** QIIK's loan book declined by 15.1% YoY to QR27.5bn. Moreover, deposits dropped by 4.2% to QR31.1bn. Hence, LDR significantly improved, receding to 88% (100% at the end of 2017). The sharp drop in loans is attributable to the public sector, which took place in 2Q2018. Moreover, loans to the real estate segment decreased by 11.4%. Regarding deposits, the public sector contributed QR8.4bn vs. 2.7bn in 2017 as deposits from corporates dropped by 65.7%.
- **Asset quality has deteriorated vs. 2017...** QIIK's NPL ratio accelerated to 2.13% vs. 1.38% in 2017; NPLs gained by 32.1% YoY to QR598mn. Moreover, CoR jumped to 22bps vs. 9bps in 2017.
- **...but capitalization remains strong.** QIIK ended 2018 with a CET1 ratio of 15.7% (vs. 14.7% in 2017) and Tier-1 of 18.4% (vs. 17.9% in 2017).

### Catalysts

- **Catalysts include:** 1) Increase in FOL to 49% from 25% and/or 2) increase in traded volumes.

### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR63.00.** QIIK is trading at a 2019e P/TB and P/E of 1.7x and 11.1x, respectively. The stock offers an attractive DY of 5.8%.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could further result in impairments.

### Key Financial Data and Estimates

|                    | FY2018 | FY2019e | FY2020e | FY2021e |
|--------------------|--------|---------|---------|---------|
| EPS (QR)           | 5.46   | 6.20    | 7.02    | 7.65    |
| EPS Growth (%)     | 2.1    | 13.5    | 13.1    | 9.1     |
| P/E (x)            | 12.4   | 11.0    | 9.7     | 8.9     |
| Tangible BVPS (QR) | 38.4   | 40.4    | 43.3    | 46.8    |
| P/TB (x)           | 1.8    | 1.7     | 1.6     | 1.5     |
| DPS (QR)           | 4.00   | 4.00    | 4.00    | 4.00    |
| Dividend Yield (%) | 5.9    | 5.9     | 5.9     | 5.9     |

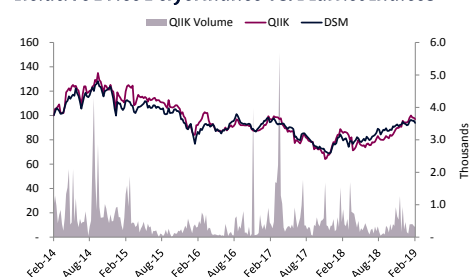
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

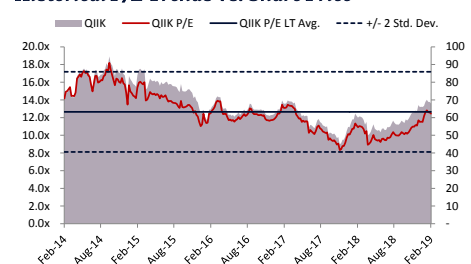
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 68.03                      |
| Dividend Yield (%)        | 5.9%                       |
| Bloomberg Ticker          | QIIK QD EQUITY             |
| Reuters Ticker            | QIIK.QA                    |
| ISIN                      | QA0006929879               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 70.98 / 49.05              |
| 3-m Average Volume ('000) | 92.7                       |
| Mkt. Cap. (\$ bn/QR bn)   | 2.8 / 10.3                 |
| Shares Outstanding (mn)   | 151.4                      |
| FO Limit* (%)             | 25.0                       |
| Current FO* (%)           | 11.9                       |
| 1-Year Total Return (%)   | 22.1                       |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

### Shahan Keushgerian

+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa



## Detailed Financial Statements

| Income Statement (In QR mn)           | FY2018       | FY2019e      | FY2020e      | FY2021e      |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Net Interest Income                   | 1,164        | 1,265        | 1,385        | 1,504        |
| Fees & Commissions                    | 129          | 131          | 122          | 131          |
| FX Income                             | 11           | 41           | 42           | 37           |
| Other Income                          | 1            | 5            | 25           | 51           |
| <b>Non-Interest Income</b>            | <b>141</b>   | <b>177</b>   | <b>189</b>   | <b>219</b>   |
| <b>Total Revenue</b>                  | <b>1,305</b> | <b>1,442</b> | <b>1,574</b> | <b>1,723</b> |
| Operating Expenses                    | (325)        | (332)        | (346)        | (371)        |
| <b>Net Operating Income</b>           | <b>979</b>   | <b>1,110</b> | <b>1,228</b> | <b>1,353</b> |
| Net Provisions & Impairments          | (97)         | (116)        | (111)        | (140)        |
| <b>Net Profit (Headline/Reported)</b> | <b>882</b>   | <b>994</b>   | <b>1,117</b> | <b>1,213</b> |
| Payment on Tier-1 Sukuk               | (55)         | (55)         | (55)         | (55)         |
| Social & Sports Contribution Fund     | (22)         | (25)         | (28)         | (30)         |
| <b>Net Profit (Attributable)</b>      | <b>805</b>   | <b>914</b>   | <b>1,034</b> | <b>1,128</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | FY2018        | FY2019e       | FY2020e       | FY2021e       |
|---|---------------|---------------|---------------|---------------|
| <b>Assets</b>                                       |               |               |               |               |
| Cash & Balances with Central Bank                   | 2,736         | 2,928         | 2,811         | 3,007         |
| Interbank Loans                                     | 12,801        | 9,356         | 6,373         | 6,295         |
| Net Investments                                     | 4,890         | 5,458         | 6,529         | 6,976         |
| Net Loans   | 27,463        | 29,237        | 31,864        | 34,973        |
| Investment In Associates                            | 388           | 378           | 373           | 368           |
| Other Assets  | 821           | 690           | 806           | 877           |
| Net PP&E  | 280           | 277           | 200           | 194           |
| Investment in Real Estate                           | 882           | 876           | 967           | 958           |
| <b>Total Assets</b>                                 | <b>50,260</b> | <b>49,200</b> | <b>49,922</b> | <b>53,648</b> |
| <b>Liabilities</b>                                  |               |               |               |               |
| Interbank Deposits                                  | 11,554        | 8,717         | 6,343         | 7,026         |
| Customer Deposits                                   | 31,130        | 32,531        | 35,133        | 37,593        |
| Other Borrowings                                    | 0             | 0             | 0             | 0             |
| Tier-1 Sukuk  | 1,000         | 1,000         | 1,000         | 1,000         |
| Other Liabilities                                   | 746           | 813           | 878           | 940           |
| <b>Total Liabilities</b>                            | <b>44,430</b> | <b>43,061</b> | <b>43,354</b> | <b>46,558</b> |
| <b>Total Shareholders' Equity</b>                   | <b>5,830</b>  | <b>6,139</b>  | <b>6,567</b>  | <b>7,090</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>50,260</b> | <b>49,200</b> | <b>49,922</b> | <b>53,648</b> |

Source: Company data, QNB FS Research

| Ratios                                       | FY2018 | FY2019e | FY2020e | FY2021e |
|--|--------|---------|---------|---------|
| <b>Profitability (%)</b>                     |        |         |         |         |
| RoE Attributable (Based on Beginning Equity) | 13.8   | 15.7    | 16.8    | 17.2    |
| RoAA (Attributable)                          | 1.7    | 1.8     | 2.1     | 2.2     |
| RoRWA (Attributable)                         | 2.2    | 2.4     | 2.7     | 2.6     |
| NIM (% of IEAs)                              | 2.7    | 2.7     | 2.9     | 3.2     |
| NIM (% of RWAs)                              | 3.3    | 3.4     | 3.6     | 3.5     |
| NIM (% of AAs)                               | 2.4    | 2.5     | 2.8     | 2.9     |
| Spread                                       | 2.2    | 2.0     | 1.8     | 1.9     |
| <b>Efficiency (%)</b>                        |        |         |         |         |
| Cost-to-Income (Headline)                    | 24.9   | 23.1    | 22.0    | 21.5    |
| Cost-to-Income (Core)                        | 25.1   | 23.2    | 22.4    | 22.2    |
| <b>Liquidity (%)</b>                         |        |         |         |         |
| LDR  | 88.2   | 89.9    | 90.7    | 93.0    |
| Loans/Assets                                 | 54.6   | 59.4    | 63.8    | 65.2    |
| Cash & Interbank Loans-to-Total Assets       | 30.9   | 25.0    | 18.4    | 17.3    |
| Deposits to Assets                           | 61.9   | 66.1    | 70.4    | 70.1    |
| Wholesale Funding to Loans                   | 42.1   | 29.8    | 19.9    | 20.1    |
| IEAs to IBLs                                 | 126.3  | 139.7   | 142.5   | 132.9   |
| <b>Asset Quality (%)</b>                     |        |         |         |         |
| NPL Ratio                                    | 2.1    | 2.3     | 2.4     | 2.2     |
| NPLs to Shareholder's Equity                 | 10.3   | 10.9    | 11.9    | 11.1    |
| NPLs to Tier 1 Capital                       | 8.6    | 9.0     | 9.6     | 8.9     |
| Coverage Ratio                               | 91.9   | 92.8    | 87.6    | 96.0    |
| ALL/Average Loans                            | 1.7    | 2.0     | 2.1     | 2.1     |
| Cost of Risk                                 | 22     | 24      | 19      | 19      |
| <b>Capitalization (%)</b>                    |        |         |         |         |
| Tier 1 Ratio                                 | 18.4   | 20.0    | 20.3    | 19.5    |
| CAR  | 19.1   | 20.7    | 21.0    | 19.5    |
| Tier 1 Capital to Assets                     | 13.8   | 15.2    | 16.3    | 16.5    |
| Tier 1 Capital to Loans                      | 25.3   | 25.5    | 25.5    | 25.4    |
| Tier 1 Capital to Deposits                   | 22.3   | 22.9    | 23.1    | 23.6    |
| Leverage (x)                                 | 8.6    | 8.0     | 7.6     | 7.6     |
| <b>Growth (%)</b>                            |        |         |         |         |
| Net Interest Income                          | 9.5    | 8.7     | 9.5     | 8.6     |
| Non-Interest Income                          | -16.7  | 25.5    | 6.8     | 16.0    |
| OPEX   | -3.2   | 2.1     | 4.1     | 7.1     |
| Net Operating Income                         | 9.4    | 13.3    | 10.7    | 10.2    |
| Net Income (Attributable)                    | 6.4    | 13.6    | 13.1    | 9.1     |
| Loans  | -15.5  | 6.5     | 9.0     | 9.8     |
| Deposits                                     | -4.2   | 4.5     | 8.0     | 7.0     |
| Assets                                       | 7.8    | -2.1    | 1.5     | 7.5     |
| RWAs   | 11.8   | -1.1    | 6.8     | 14.2    |

Source: Company data, QNB FS Research

# Qatar Islamic Bank (QIBK)

|                |                |              |          |
|----------------|----------------|--------------|----------|
| Recommendation | MARKET PERFORM | Risk Rating  | R-3      |
| Share Price    | QR157.81       | Target Price | QR129.00 |
| Implied Upside | (18.3%)        |              |          |

## Strong Fundamentals; Valuations Remain Rich at Current Levels

After 2018's results, we tweak our estimates modestly and increase our PT to QR129/sh.. The bank's financial performance was strong in 2017 and 2018 despite the blockade. While 2018 results were in-line with our forecast, QIBK's fundamentals continue to remain robust with attractive EPS growth forecast over the 2019-22e horizon.

### Highlights

- Attributable net profit jumped by 15.9% YoY driven by non-funded income, cost containment and lower provisions.** QIBK reported net profit of QR2.48bn in FY2018, gaining by 15.9% YoY, in-line with our estimate (+3.8% variation). Net operating income gained by 9.9% as a result of growth in revenue outpacing that of opex. Moreover, net income increased as a result of an 8.4% decline in provisions and impairments. Non-funded income grew by an aggressive 28.2% on the back of f/x income which soared by 86.4% to QR259.2mn (largest amount generated in its operating history due to one-off deals; this is not sustainable in our view).
- DPS came in-line with our estimate.** QIBK recommended cash DPS of QAR5.00 (unchanged vs. 2017), yielding 3.2%.
- Margins and spreads remained flat YoY.** The bank generated net interest margin of 2.6% in 2018, unchanged vs. 2017. This was a result of cost of funds and yields increasing by the same pace. Moreover, the spread was flat at 2.2%.
- Positive RoE trajectory continues.** QIBK boasts one of the highest RoEs among its peers. The bank's RoE increased from 11.3% in 2013 to 16.2% in 2018.
- QIBK's operating efficiency remained healthy, generating positive JAWs.** The bank's C/I ratio dipped to 25.7% vs. 26.6% in FY2017 (29.8% in FY2016). Moreover, QIBK generated JAWs of 3.6% as revenue grew by 8.6% YoY while opex went up by 5.0%.
- Gross loans inched up while deposits receded.** Gross loans increased by 1.5% YoY to QR112.4bn. On the other hand, deposits declined by 1.2% YoY to QR100.6bn. Deposits dropped due to the public and corporate segments, while deposits from the retail segment expanded by 10.1%. QIBK's LDR (based on stable sources of funds) remained healthy at 93% vs. 94% in 2017.
- Asset quality remains healthy.** NPL ratio marginally increased to 1.21% vs. 1.16% in FY2017. During the same time, NPLs increased insignificantly by 4.2% YoY to QR1.26bn. However, the coverage ratio of Stage 3 loans (NPLs) was a strong 105%. CoR remained unchanged at 45bps in 2018.
- IFRS 9 impact negligible, capitalization remained robust.** QIBK's CET1 and Tier-1 ratios remained strong and increased to 13.9% (13.3% in 2017) and 17.8% (16.9% in 2017), respectively.

### Catalysts

- Given that QIBK is trading at a premium to its historical P/B of 1.6x, we believe the company will have to show accelerating performance to maintain momentum in its stock price.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR129.00 and Market Perform rating.** QIBK is trading at a 2019e P/TB and P/E of 2.3x and 13.7x, respectively. Valuations remain rich at these levels.
- Risks:** 1) Increase in credit costs and 2) Exposure to real estate segment.

### Key Financial Data and Estimates

|                    | FY2018 | FY2019e | FY2020e | FY2021e |
|--------------------|--------|---------|---------|---------|
| EPS (QR)           | 10.79  | 11.51   | 12.46   | 13.05   |
| EPS Growth (%)     | 15.9   | 6.7     | 8.3     | 4.7     |
| P/E (x)            | 14.6   | 13.7    | 12.7    | 12.1    |
| Tangible BVPS (QR) | 63.6   | 70.0    | 77.3    | 85.0    |
| P/TB (x)           | 2.5    | 2.3     | 2.0     | 1.9     |
| DPS (QR)           | 5.00   | 5.00    | 5.25    | 5.75    |
| Dividend Yield (%) | 3.2    | 3.2     | 3.3     | 3.6     |

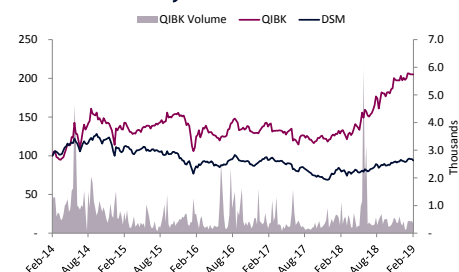
Source: Company data, QNB FS Research; Note: All data based on current number of shares

### Key Data

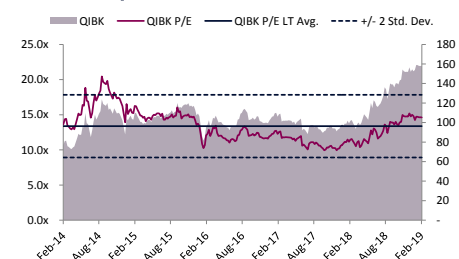
|                           |                            |
|---------------------------|----------------------------|
| Current Market Price (QR) | 157.81                     |
| Dividend Yield (%)        | 3.2%                       |
| Bloomberg Ticker          | QIBK QD EQUITY             |
| Reuters Ticker            | QIBK.QA                    |
| ISIN                      | QA0006929853               |
| Sector                    | Banks & Financial Services |
| 52wk High/52wk Low (QR)   | 160.40 / 92.00             |
| 3-m Average Volume ('000) | 76.9                       |
| Mkt. Cap. (\$ bn/QR bn)   | 10.2 / 37.3                |
| Shares Outstanding (mn)   | 236.3                      |
| FO Limit* (%)             | 49.0                       |
| Current FO* (%)           | 11.2                       |
| 1-Year Total Return (%)   | 62.8                       |
| Fiscal Year End           | December 31                |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



### Historical P/E Trends vs. Share Price



Source: Bloomberg, QNB FS Research

### Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

### Saugata Sarkar, CFA, CAIA

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

## Detailed Financial Statements

| Income Statement (In QR mn)                   | FY2018       | FY2019e      | FY2020e      | FY2021e      |
|---|--------------|--------------|--------------|--------------|
| Net Interest Income                           | 3,542        | 3,838        | 4,139        | 4,504        |
| Fees & Commissions                            | 576          | 625          | 681          | 679          |
| FX Income                                     | 259          | 181          | 203          | 219          |
| Other Income                                  | 142          | 215          | 216          | 280          |
| <b>Non-Interest Income</b>                    | <b>978</b>   | <b>1,022</b> | <b>1,100</b> | <b>1,179</b> |
| <b>Total Revenue</b>                          | <b>4,519</b> | <b>4,860</b> | <b>5,239</b> | <b>5,683</b> |
| Operating Expenses                            | (1,161)      | (1,211)      | (1,290)      | (1,386)      |
| <b>Net Operating Income</b>                   | <b>3,358</b> | <b>3,648</b> | <b>3,949</b> | <b>4,297</b> |
| Net Provisions                                | (720)        | (702)        | (761)        | (969)        |
| <b>Net Profit Before Taxes &amp; Minority</b> | <b>2,638</b> | <b>2,946</b> | <b>3,188</b> | <b>3,329</b> |
| Tax   | 2            | (18)         | (19)         | (20)         |
| <b>Net Profit Before Minority Interest</b>    | <b>2,641</b> | <b>2,928</b> | <b>3,169</b> | <b>3,309</b> |
| Minority Interest                             | 115          | (3)          | (19)         | (20)         |
| <b>Net Profit (Headline/Reported)</b>         | <b>2,755</b> | <b>2,925</b> | <b>3,150</b> | <b>3,289</b> |
| Interest on Tier-1 Sukuk                      | (205)        | (205)        | (205)        | (205)        |
| Social & Sports Contribution Fund             | (69)         | (73)         | (79)         | (82)         |
| <b>Net Profit (Attributable)</b>              | <b>2,481</b> | <b>2,647</b> | <b>2,866</b> | <b>3,002</b> |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn)                            | FY2018         | FY2019e        | FY2020e        | FY2021e        |
|---|----------------|----------------|----------------|----------------|
| <b>Assets</b>                                       |                |                |                |                |
| Cash & Balances with Central Bank                   | 7,299          | 8,547          | 9,054          | 6,761          |
| Interbank Loans                                     | 6,424          | 6,906          | 5,695          | 5,049          |
| Net Investments                                     | 31,146         | 33,641         | 37,064         | 41,381         |
| Net Loans   | 102,210        | 106,243        | 113,909        | 126,217        |
| Investment In Associates                            | 568            | 574            | 587            | 598            |
| Other Assets  | 3,489          | 3,716          | 4,021          | 4,594          |
| Net PP&E  | 479            | 472            | 481            | 482            |
| Investment in Real Estate                           | 1,231          | 1,021          | 1,048          | 1,075          |
| Goodwill & Other Intangibles                        | 386            | 343            | 300            | 257            |
| <b>Total Assets</b>                                 | <b>153,232</b> | <b>161,462</b> | <b>172,160</b> | <b>186,413</b> |
| <b>Liabilities</b>                                  |                |                |                |                |
| Interbank Deposits                                  | 17,234         | 17,201         | 13,170         | 9,888          |
| Customer Deposits                                   | 100,598        | 106,835        | 120,724        | 135,210        |
| Sukuk Financing                                     | 9,145          | 9,877          | 10,371         | 10,889         |
| Other Liabilities                                   | 5,516          | 5,342          | 3,984          | 4,732          |
| Tier-1 Sukuk  | 4,000          | 4,000          | 4,000          | 4,000          |
| <b>Total Liabilities</b>                            | <b>136,493</b> | <b>143,254</b> | <b>152,248</b> | <b>164,720</b> |
| <b>Total Shareholders' Equity</b>                   | <b>15,420</b>  | <b>16,886</b>  | <b>18,571</b>  | <b>20,332</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>153,232</b> | <b>161,462</b> | <b>172,160</b> | <b>186,413</b> |

Source: Company data, QNB FS Research

| Ratios   | FY2018 | FY2019e | FY2020e | FY2021e |
|--|--------|---------|---------|---------|
| <b>Profitability (%)</b>                         |        |         |         |         |
| RoE Attributable (Based on Beginning Book Value) | 16.2   | 17.2    | 17.0    | 16.2    |
| RoAA (Attributable)                              | 1.6    | 1.7     | 1.7     | 1.7     |
| RoRWA (Attributable)                             | 2.3    | 2.4     | 2.4     | 2.2     |
| NIM (% of IEAs)                                  | 2.60   | 2.74    | 2.79    | 2.80    |
| NIM (% of RWAs)                                  | 3.27   | 3.49    | 3.44    | 3.29    |
| NIM (% of AAs)                                   | 2.33   | 2.44    | 2.48    | 2.51    |
| Spread   | 2.19   | 2.20    | 2.23    | 2.11    |
| <b>Efficiency (%)</b>                            |        |         |         |         |
| Cost-to-Income (Headline)                        | 25.7   | 24.9    | 24.6    | 24.4    |
| Cost-to-Income (Core)                            | 26.2   | 25.8    | 25.5    | 25.4    |
| <b>Liquidity (%)</b>                             |        |         |         |         |
| LDR  | 101.6  | 99.4    | 94.4    | 93.3    |
| Loans/Assets                                     | 66.7   | 65.8    | 66.2    | 67.7    |
| Cash & Interbank Loans-to-Total Assets           | 9.0    | 9.6     | 8.6     | 6.3     |
| Deposits to Assets                               | 65.7   | 66.2    | 70.1    | 72.5    |
| Wholesale Funding to Loans                       | 25.8   | 25.5    | 20.7    | 16.5    |
| IEAs to IBLs                                     | 122.9  | 119.6   | 116.9   | 119.6   |
| <b>Asset Quality (%)</b>                         |        |         |         |         |
| NPL Ratio  | 1.2    | 1.3     | 1.2     | 1.2     |
| NPLs to Shareholder's Equity                     | 8.2    | 8.4     | 7.7     | 7.7     |
| NPLs to Tier 1 Capital                           | 6.7    | 7.4     | 6.9     | 7.0     |
| Coverage Ratio                                   | 173.9  | 180.8   | 214.1   | 230.0   |
| ALL/Average Loans                                | 1.9    | 2.2     | 2.5     | 2.7     |
| Cost of Risk (bps)                               | 45     | 50      | 49      | 48      |
| <b>Capitalization (%)</b>                        |        |         |         |         |
| Tier 1 Ratio                                     | 17.8   | 16.8    | 16.3    | 15.2    |
| CAR  | 18.8   | 17.8    | 17.3    | 16.2    |
| Tier 1 Capital to Assets                         | 12.3   | 11.8    | 12.0    | 12.0    |
| Tier 1 Capital to Loans                          | 18.5   | 17.9    | 18.2    | 17.7    |
| Tier 1 Capital to Deposits                       | 18.8   | 17.8    | 17.1    | 16.5    |
| Leverage (x)                                     | 9.9    | 9.6     | 9.3     | 9.2     |
| <b>Growth (%)</b>                                |        |         |         |         |
| Net Interest Income                              | 4.2    | 8.4     | 7.8     | 8.8     |
| Non-Interest Income                              | 28.2   | 4.5     | 7.7     | 7.1     |
| OPEX   | 5.0    | 4.3     | 6.5     | 7.5     |
| Net Operating Income                             | 9.9    | 8.6     | 8.2     | 8.8     |
| Net Income (Attributable)                        | 15.9   | 6.7     | 8.3     | 4.7     |
| Loans  | -0.4   | 3.9     | 7.2     | 10.8    |
| Deposits   | -1.2   | 6.2     | 13.0    | 12.0    |
| Assets   | 1.9    | 5.4     | 6.6     | 8.3     |
| RWAs   | -3.3   | 6.8     | 11.8    | 15.6    |

Source: Company data, QNB FS Research

# Vodafone Qatar (VFQS)

|                |                |                      |        |
|----------------|----------------|----------------------|--------|
| Recommendation | MARKET PERFORM | Risk Rating          | R-4    |
| Share Price    | QR8.23         | Current Target Price | QR8.50 |
| Implied Upside | 3.3%           |                      |        |

## A Return to Profitability in 2018; Market Perform

*We expect VFQS to report an overall strong 4Q2018; possible resumption of dividends could be a positive. We continue to like the company's momentum in postpaid (3Q2018 revenue up 36% YoY driven by subs increasing 24% and ARPU growing 8%) fueled by traction in Flex, Red and enterprise plans. With control moving to Qatar Foundation (50% owner), we expect traction in the postpaid segment to continue, along with a renewed push into fixed-line services. Moreover, we continue to forecast a resumption in dividends in 2018 after an almost 4-year hiatus; indeed our 2018 DPS forecast of QR0.10 a share could prove to be conservative. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023. VFQS trades at 10.4x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is markedly more expensive than peers. We maintain our rating/PT of Market Perform/QR8.50 given expensive valuation.*

### Highlights

- VFQS should continue its trend of positive earnings in 4Q2018.** Our forecasts are in-line with management's 2018 guidance. Revenue should grow 1% YoY and 12% QoQ, with the sequential boost driven by seasonality and handset sales. Profitability YoY continues to benefit from favorable license amortization costs comparison with VFQS' license extension for an additional 40 years (until 2068) helping reduce annual license amortization costs from QR403mn to QR84mn. Sequentially, earnings growth is helped by the top-line. In terms of dividends, we continue to forecast a resumption in dividends in 2018; our forecast of QR0.10 a share could prove to be conservative.
- We project revenue/EBITDA/net income of QR2.1bn/QR582mn/QR114mn for 2018.** Our forecasts are in-line with management guidance.
- For 2019, we expect earnings to almost double to QR224mn driven by revenue growth and margin expansion.** We also project revenue/EBITDA of QR2.3bn/QR707mn, which imply increases of 9% and 22%, respectively. We expect EBITDA margins to expand from 28.0% in 2018 to 31.1% in 2019. We also expect capex intensity to decrease from 22.0% in 2018 to 20.8% in 2019. Finally, we project DPS of QR0.25 in 2019.

### Catalysts

- With QF assuming majority ownership of VFQS, we expect increased traction in higher-value mobile segments and fixed broadband.** However, this effect is hard to quantify. Moreover, we are not convinced if VFQS could ever reach the scale to sport EBITDA margins in the mid-40s range (In 3Q2018, ORDS reported 52% EBITDA margins at a QR2bn quarterly revenue run-rate).

### Recommendation, Valuation and Risks

- Recommendation and valuation: We rate VFQS a Market Perform with a PT of QR8.50.** VFQS trades at 10.4x and 8.7x CY2019 and CY2020 EV/EBITDA, respectively, which is significantly more expensive than its regional peers.
- Risks: 1) Increased competition** leading to ARPU erosion and/or market share loss; **2) Weakening of postpaid and fixed-line** traction/stickiness and **3) Fall in population/industry growth** rates.

### Key Financial Data and Estimates

|                 | CY2017 | CY2018e | CY2019e | CY2020e |
|-----------------|--------|---------|---------|---------|
| Revenue (QR mn) | 1,998  | 2,076   | 2,271   | 2,464   |
| EPS (QR)        | (0.30) | 0.14    | 0.26    | 0.40    |
| EV/EBITDA       | 14.1x  | 12.9x   | 10.4x   | 8.7x    |
| Dividend Yield  |        | 1.2%    | 3.0%    | 4.3%    |

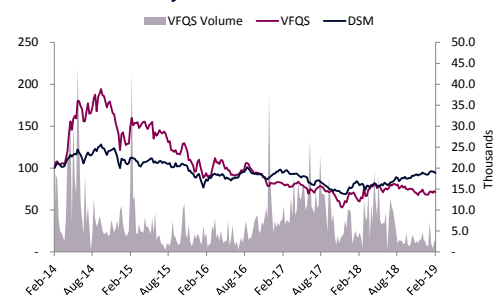
Source: Company data, QNB FS estimates; Note: All data based on current number of shares

### Key Data

|                           |                   |
|---------------------------|-------------------|
| Current Market Price (QR) | 8.23              |
| Dividend Yield (%)        | 0.0%              |
| Bloomberg Ticker          | VFQS QD EQUITY    |
| Reuters Ticker            | VFQS.QA           |
| ISIN                      | QA000A0Q5NE9      |
| Sector                    | Telecommunication |
| 52wk High/52wk Low (QR)   | 9.76 / 6.85       |
| 3-m Average Volume ('000) | 572.5             |
| Mkt. Cap. (\$ bn/QR bn)   | 1.9 / 7.0         |
| Shares Outstanding (mn)   | 845.4             |
| FO Limit* (%)             | 49.0              |
| Current FO* (%)           | 6.3               |
| 1-Year Total Return (%)   | 18.4              |
| Fiscal Year End           | December 31       |

Source: Bloomberg (as of February 7, 2019), \*Qatar Exchange (as of February 7, 2019); Note: FO is foreign ownership

### Relative Price Performance vs. Market Indices



Saugata Sarkar, CFA, CAIA  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## 4Q2018 Preview

### QNB FS Estimates and Comparisons

| In QR mn                       | 4QCY18 E | 4QCY17 | 3QCY18 | YoY  | QoQ | CY2018 E | CY2017  | YoY  |
|--------------------------------|----------|--------|--------|------|-----|----------|---------|------|
| Subscribers (000)              | 1,400    | 1,390  | 1,381  | 1%   | 1%  | 1,400    | 1,390   | 1%   |
| ARPU (QR)                      | 103      | 105    | 103    | -2%  | 0%  | 104      | 100     | 4%   |
| Revenue                        | 541.1    | 535.8  | 483.6  | 1%   | 12% | 2,075.9  | 1,998.4 | 4%   |
| Gross Profit (Loss)            | 343.1    | 343.6  | 313.3  | 0%   | 10% | 1,307.8  | 1,279.4 | 2%   |
| EBITDA                         | 156.4    | 171.0  | 141.8  | -9%  | 10% | 581.9    | 538.3   | 8%   |
| Operating Profit (Loss) - EBIT | 52.1     | (18.4) | 37.5   | N/M  | 39% | 158.4    | (224.2) | N/M  |
| Net Profit (Loss)              | 38.8     | (28.6) | 26.7   | N/M  | 45% | 114.2    | (256.4) | N/M  |
| EPS (QR)                       | 0.05     | (0.03) | 0.03   | N/M  | 45% | 0.14     | (0.30)  | N/M  |
| DPS (QR)                       |          |        |        |      |     | 0.10     | 0.00    | N/M  |
| Gross Margin                   | 63.4%    | 64.1%  | 64.8%  |      |     | 63.0%    | 64.0%   |      |
| EBITDA Margin                  | 28.9%    | 31.9%  | 29.3%  |      |     | 28.0%    | 26.9%   |      |
| EBIT Margin                    | 9.6%     | -3.4%  | 7.8%   |      |     | 7.6%     | -11.2%  |      |
| Net Margin                     | 7.2%     | -5.3%  | 5.5%   |      |     | 5.5%     | -12.8%  |      |
| Depreciation and Amortization  | 104.3    | 189.4  | 104.3  | -45% | 0%  | 423.5    | 762.5   | -44% |

Source: Company data, QNB FS estimates



## Ratio Analysis

### Key Ratios and Valuation Metrics

| Growth Rates                    | FY2017  | CY2017  | CY2018E | CY2019E | CY2020E | CY2021E | CY2022E | CY2023E |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenue                         | -2.9%   | -2.9%   | 3.9%    | 9.4%    | 8.5%    | 4.4%    | 2.9%    | 2.2%    |
| Gross Profit                    | 11.4%   | 1.3%    | 2.2%    | 12.0%   | 11.0%   | 6.0%    | 4.4%    | 3.0%    |
| EBIT                            | 41.4%   | 33.5%   | N/M     | 83.1%   | 45.1%   | 20.9%   | 13.1%   | 8.5%    |
| EBITDA                          | 33.8%   | 16.0%   | 8.1%    | 21.5%   | 18.5%   | 10.5%   | 7.2%    | 4.9%    |
| Net Income                      | 42.2%   | 31.6%   | N/M     | 95.9%   | 50.0%   | 23.4%   | 16.0%   | 11.7%   |
| DPS                             |         |         |         | 150.0%  | 40.0%   | 14.3%   | 12.5%   | 11.1%   |
| CFPS                            | 39.0%   | 29.6%   | 12.8%   | 34.4%   | 9.9%    | 10.0%   | 4.7%    | 3.4%    |
| FCPS                            | 165.9%  | 158.8%  | -16.3%  | 163.3%  | 26.9%   | 29.2%   | 22.8%   | 9.4%    |
| Operating Ratios                |         |         |         |         |         |         |         |         |
| Gross Margin                    | 64.1%   | 64.0%   | 63.0%   | 64.5%   | 66.0%   | 67.0%   | 68.0%   | 68.5%   |
| EBIT Margin                     | (11.8%) | (11.2%) | 7.6%    | 12.8%   | 17.1%   | 19.8%   | 21.7%   | 23.1%   |
| EBITDA Margin                   | 26.1%   | 26.9%   | 28.0%   | 31.1%   | 34.0%   | 36.0%   | 37.5%   | 38.5%   |
| Net Margin                      | (13.1%) | (12.8%) | 5.5%    | 9.9%    | 13.6%   | 16.1%   | 18.1%   | 19.8%   |
| Capex Intensity                 | 15.1%   | 18.4%   | 22.0%   | 20.8%   | 19.2%   | 17.6%   | 14.8%   | 13.7%   |
| Finance Ratios                  |         |         |         |         |         |         |         |         |
| Debt - Equity Ratio             | 20.3%   | 18.3%   | 18.0%   | 15.0%   | 14.6%   | 14.3%   | 9.4%    | 3.1%    |
| Net Debt - Equity Ratio         | 16.7%   | 13.9%   | 11.9%   | 8.4%    | 6.2%    | 3.8%    | 0.2%    | (3.8%)  |
| Net Debt-to-Capital             | 14.3%   | 12.2%   | 10.7%   | 7.8%    | 5.9%    | 3.7%    | 0.2%    | (3.9%)  |
| Cash Interest Coverage          | 19.0x   | 18.1x   | 16.8x   | 17.6x   | 19.6x   | 21.7x   | 27.9x   | 54.2x   |
| Ave. Effective Borrowing rate % | 3.0%    | 3.6%    | 4.2%    | 5.7%    | 6.0%    | 6.0%    | 7.5%    | 11.8%   |
| Return Ratios                   |         |         |         |         |         |         |         |         |
| ROIC                            | (4.3%)  | (4.2%)  | 2.7%    | 4.8%    | 6.7%    | 8.0%    | 9.1%    | 10.2%   |
| ROE                             | (5.8%)  | (5.7%)  | 2.5%    | 4.7%    | 6.9%    | 8.4%    | 9.5%    | 10.3%   |
| ROA                             | (4.1%)  | (4.1%)  | 1.8%    | 3.4%    | 5.0%    | 6.1%    | 7.1%    | 8.1%    |
| Dividend Payout %               |         |         | 74.0%   | 94.5%   | 88.2%   | 81.7%   | 79.2%   | 78.8%   |
| Valuation                       |         |         |         |         |         |         |         |         |
| EV/Sales                        | 3.8x    | 3.8x    | 3.6x    | 3.2x    | 2.9x    | 2.8x    | 2.6x    | 2.5x    |
| EV/EBITDA                       | 14.4x   | 14.1x   | 12.9x   | 10.4x   | 8.7x    | 7.7x    | 7.0x    | 6.5x    |
| EV/EBIT                         | N/M     | N/M     | 47.4x   | 25.4x   | 17.3x   | 14.1x   | 12.1x   | 10.8x   |
| P/E                             | N/M     | N/M     | 60.9x   | 31.1x   | 20.7x   | 16.8x   | 14.5x   | 13.0x   |
| P/BV                            | 1.5x    | 1.6x    | 1.5x    | 1.5x    | 1.4x    | 1.4x    | 1.4x    | 1.3x    |
| Dividend Yield                  | 0.0%    | 0.0%    | 1.2%    | 3.0%    | 4.3%    | 4.9%    | 5.5%    | 6.1%    |
| Liquidity Ratios                |         |         |         |         |         |         |         |         |
| Current Ratio                   | 0.7x    | 0.7x    | 0.8x    | 0.8x    | 0.9x    | 1.0x    | 0.9x    | 0.8x    |
| Quick Ratio                     | 0.6x    | 0.6x    | 0.8x    | 0.8x    | 0.9x    | 1.0x    | 0.9x    | 0.8x    |

Source: Company data, QNB FS estimates



## Detailed Financial Statements

| Income Statement (In QR mn)    | FY2016        | FY2017        | CY2017        | CY2018e      | CY2019e      | CY2020e      | CY2021e      | CY2022e      |
|--------------------------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                        | 2,119         | 2,059         | 1,998         | 2,076        | 2,271        | 2,464        | 2,572        | 2,647        |
| Direct Costs                   | (935)         | (740)         | (719)         | (768)        | (806)        | (838)        | (849)        | (847)        |
| <b>Gross Profit</b>            | <b>1,184</b>  | <b>1,319</b>  | <b>1,279</b>  | <b>1,308</b> | <b>1,465</b> | <b>1,626</b> | <b>1,723</b> | <b>1,800</b> |
| Other Expenses, Excluding D&A  | (784)         | (782)         | (741)         | (726)        | (758)        | (789)        | (797)        | (807)        |
| <b>EBITDA</b>                  | <b>401</b>    | <b>537</b>    | <b>538</b>    | <b>582</b>   | <b>707</b>   | <b>838</b>   | <b>926</b>   | <b>993</b>   |
| Depreciation & Amortization    | (816)         | (780)         | (762)         | (423)        | (417)        | (417)        | (417)        | (417)        |
| <b>EBIT</b>                    | <b>(415)</b>  | <b>(243)</b>  | <b>(224)</b>  | <b>158</b>   | <b>290</b>   | <b>421</b>   | <b>509</b>   | <b>575</b>   |
| Interest Income                | 0             | 2             | 2             | 5            | 6            | 5            | 7            | 9            |
| Interest Expense               | (19)          | (28)          | (30)          | (35)         | (40)         | (43)         | (43)         | (36)         |
| Other Income/Expense           | (32)          | (0)           | (4)           | (14)         | (32)         | (48)         | (59)         | (69)         |
| Profit Before Tax              | (466)         | (269)         | (256)         | 114          | 224          | 336          | 414          | 480          |
| Income Tax Expense             |               |               |               |              |              |              |              |              |
| <b>Profit for Shareholders</b> | <b>(466)</b>  | <b>(269)</b>  | <b>(256)</b>  | <b>114</b>   | <b>224</b>   | <b>336</b>   | <b>414</b>   | <b>480</b>   |
| <b>EPS (QR)</b>                | <b>(0.55)</b> | <b>(0.32)</b> | <b>(0.30)</b> | <b>0.14</b>  | <b>0.26</b>  | <b>0.40</b>  | <b>0.49</b>  | <b>0.57</b>  |
| <b>DPS (QR)</b>                | <b>0.00</b>   | <b>0.00</b>   | <b>0.00</b>   | <b>0.10</b>  | <b>0.25</b>  | <b>0.35</b>  | <b>0.40</b>  | <b>0.45</b>  |

Source: Company data, QNB FS estimates

## Detailed Financial Statements

| Balance Sheet (In QR mn)             | FY2016       | FY2017       | CY2017       | CY2018e      | CY2019e      | CY2020e      | CY2021e      | CY2022e      |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-Current Assets</b>            |              |              |              |              |              |              |              |              |
| Property, Plant and Equipment        | 1,249        | 1,233        | 1,202        | 1,331        | 1,481        | 1,631        | 1,761        | 1,831        |
| Intangible Assets                    | 5,235        | 4,782        | 4,461        | 4,366        | 4,270        | 4,175        | 4,079        | 3,984        |
| Trade and Other Receivables          | 34           | 25           | 25           | 30           | 34           | 37           | 38           | 39           |
| <b>Total Non-Current Assets</b>      | <b>6,518</b> | <b>6,040</b> | <b>5,688</b> | <b>5,726</b> | <b>5,785</b> | <b>5,842</b> | <b>5,879</b> | <b>5,855</b> |
| <b>Current Assets</b>                |              |              |              |              |              |              |              |              |
| Inventory                            | 13           | 13           | 36           | 15           | 17           | 17           | 18           | 19           |
| Trade and Other Receivables          | 330          | 357          | 302          | 336          | 377          | 393          | 418          | 434          |
| Cash and Cash Equivalents            | 130          | 169          | 199          | 280          | 311          | 406          | 518          | 464          |
| <b>Total Current Assets</b>          | <b>474</b>   | <b>539</b>   | <b>536</b>   | <b>631</b>   | <b>705</b>   | <b>817</b>   | <b>955</b>   | <b>917</b>   |
| <b>Total Assets</b>                  | <b>6,992</b> | <b>6,579</b> | <b>6,225</b> | <b>6,357</b> | <b>6,490</b> | <b>6,659</b> | <b>6,834</b> | <b>6,772</b> |
| <b>Equity</b>                        |              |              |              |              |              |              |              |              |
| <b>Total Equity</b>                  | <b>4,923</b> | <b>4,654</b> | <b>4,472</b> | <b>4,586</b> | <b>4,719</b> | <b>4,835</b> | <b>4,943</b> | <b>5,073</b> |
| <b>Non-Current Liabilities</b>       |              |              |              |              |              |              |              |              |
| Trade and Other Payables             | 48           | 50           | 52           | 60           | 68           | 74           | 77           | 79           |
| Provisions                           | 62           | 114          | 105          | 108          | 123          | 134          | 139          | 143          |
| Long-Term Borrowings                 | 1,023        | 946          | 818          | 827          | 708          | 708          | 708          | 474          |
| <b>Total Non-Current Liabilities</b> | <b>1,132</b> | <b>1,110</b> | <b>976</b>   | <b>995</b>   | <b>899</b>   | <b>915</b>   | <b>924</b>   | <b>697</b>   |
| <b>Current Liabilities</b>           |              |              |              |              |              |              |              |              |
| Trade and Other Payables             | 937          | 816          | 777          | 776          | 872          | 909          | 967          | 1,002        |
| Short-Term Borrowings                | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total Current Liabilities</b>     | <b>937</b>   | <b>816</b>   | <b>777</b>   | <b>776</b>   | <b>872</b>   | <b>909</b>   | <b>967</b>   | <b>1,002</b> |
| <b>Total Liabilities</b>             | <b>2,069</b> | <b>1,925</b> | <b>1,753</b> | <b>1,771</b> | <b>1,770</b> | <b>1,824</b> | <b>1,891</b> | <b>1,699</b> |
| <b>Equity and Liabilities</b>        | <b>6,992</b> | <b>6,579</b> | <b>6,225</b> | <b>6,357</b> | <b>6,490</b> | <b>6,659</b> | <b>6,834</b> | <b>6,772</b> |

Source: Company data, QNB FS estimates

### 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       |

### Contacts

#### Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@qnbfs.com.qa](mailto:mehmet.aksoy@qnbfs.com.qa)

#### Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### Zaid al-Nafoosi, CMT, CFTe

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafoosi@qnbfs.com.qa](mailto:zaid.alnafoosi@qnbfs.com.qa)

#### QNB Financial Services Co. W.L.L.

Contact Center: (+974) 4476 6666

PO Box 24025

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