2Q2019 Earnings: Modest Growth Trajectory Continues

We expect Qatari stocks under coverage to exhibit marginal YoY & QoQ earnings growth on a normalized (excluding outliers such as DHBK, IQCD & QNNS) basis in 2Q2019, barring some exceptions. Sequentially, normalized earnings should grow 3.0% in aggregate aided primarily by non-banks. DHBK, QNNS and QIBK *are estimated to contribute positively to the YoY net income growth of stocks under our coverage. On an overall basis, the Qatar Stock Exchange Index trades at a 2019 P/E of 14.2x, complemented by a dividend yield of 4.0%, in-line to modestly above the MSCI EM Index which trades at a 12.9x P/E along with a dividend yield of 3.0%. After dividends season came to an end (end of 1Q2019), the QSE Index has increased by 3.9% beating MSCI EM Index (down 1.1%) aided in part by the market-wide stock split. Longer-term, we remain bullish on the Qatari stock market given attractive fundamental drivers and a significant spending program that should provide tailwinds for growth.*

Highlights

- **We estimate banks under coverage (ex-QNBK) to experience a YoY EPS growth of 11.1% largely due to a base effect attributed to Doha Bank (DHBK) (excluding DHBK, growth would amount to 3.4%), while the sequential flattish performance (+0.8%) is mitigated by Qatar Islamic Bank (QIBK).** ***The YoY aggregate growth in profitability is driven by lower provisions, countering weak net operating income.*** **Qatar Islamic Bank (QIBK)** is expected to contribute positively to the YoY profitability performance based on our figures. We expect QIBK to continue its positive performance with its bottom-line gaining by 5.7% due to a sharp drop in provisions. On the other hand, we pencil in flattish net operating income. As far as **Doha Bank (DHBK)** is concerned, we foresee continued weak figures as a result of margin pressure and weak non-funded income. The estimated YoY surge (base effect) in profitability is due to halving of provisions as provisions were exceptionally high in 2Q2018.
- **We estimate a YoY drop of 23.3% in the bottom-line of diversified non-financials under coverage due to IQCD (excluding IQCD, growth would be 10.3%), while forecasting a decline of 4.3% QoQ.** Based on our assumptions, **Industries Qatar (IQCD)** leads the significant decline in net income on a YoY basis followed by **Qatar Electricity & Water Co. (QEWS)**. Regarding **IQCD, we predict a flattish 2Q2019 QoQ but YoY comparisons will continue to look difficult; steel remains the X factor and strong iron ore prices should keep denting profitability.** We model in revenue (steel)/group net income of QR1.30bn/QR681.5mn, which implies decline of 45.1% YoY but flattish performance (+1.1%) QoQ. By segment: (1) steel prices are down YoY but up moderately QoQ. Importantly, iron ore prices have continued their upward march (reaching their highest levels since 2014 due to Vale supply issues) up ~20% QoQ (+~60% YTD) leading to further margin compression; steel GMs have continued to fall and came in 9.2% in 1Q2019 (vs. 28.2% in 1Q2018) and we expect further downside in 2Q2019. (2) Petchem prices remain significantly lower YoY and are also down slightly QoQ. (3) Urea prices did tick up ~5% in 2Q2019 and are now up close to 10% YoY. As far as **QEWS** is concerned, **2Q2019 should reflect normal seasonality with net income up 10.3% QoQ but YoY comparisons should be challenging given lower tariff/offtake forecasts.** Revenue should follow a similar trajectory, down 14.9% YoY but up 8.0% QoQ. As we have noted previously, RAF B, which already witnessed lowered tariffs under a 12-year contract extension from July 2018, also faces lower offtake this year given Umm Al Houl (which is running at full capacity). Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates this year.
- **Risks:** Estimates can be impacted by one-offs, greater or lower provisions for banks and investment income/capital gains (losses). Volatile oil prices and geo-political tensions remains a substantial risk to regional equities and have a direct impact on stocks under coverage.

Second Quarter 2019 Estimates

	EPS (QR)			Revenue (QR mn)		
	2Q2019e	YoY	QoQ	2Q2019e	YoY	QoQ
Ahli Bank (ABQK)	0.077	0.7%	0.6%	268.8	-3.0%	2.4%
Al Khalij Commercial Bank (KCBK)	0.048	4.8%	-1.5%	298.4	-1.0%	3.2%
Commercial Bank of Qatar (CBQK)	0.112	0.4%	4.9%	907.8	-5.1%	-3.6%
Doha Bank (DHBK)	0.088	205.5%	-11.2%	643.0	-3.6%	1.2%
Gulf International Services (GISS)	0.014	7.1%	5.0%	733.6	5.0%	2.0%
Gulf Warehousing Co. (GWCS)	0.103	2.6%	1.6%	305.7	-1.5%	0.7%
Industries Qatar (IQCD)	0.113	-45.1%	1.1%	1,295.9	-21.2%	2.7%
Investment Holding Group (IGRD)	0.010	-10.0%	-49.0%	94.3	-13.5%	-2.0%
Masraf Al Rayan (MARK)	0.073	2.3%	0.5%	719.1	1.0%	1.4%
Qatar Electricity & Water (QEWS)	0.310	-18.5%	10.3%	582.5	-14.9%	8.0%
Qatar Gas & Transport (QGTS)	0.043	4.7%	1.0%	880.9	-0.8%	1.6%
Qatar International Islamic Bank (QIIK)	0.162	6.0%	-8.1%	358.7	2.5%	5.2%
Qatar Islamic Bank (QIBK)	0.313	5.7%	8.0%	1,161.0	0.2%	1.0%
Qatar Navigation (QNNS)	0.147	349.7%	-39.7%	560.0	0.7%	-20.9%
Vodafone Qatar (VFQS)	0.011	52.8%	9.7%	544.5	4.8%	1.8%
Total (excl. DHBK, IQCD, QNNS)		**1.0%**	**3.0%**	**6,855.3**	**-1.6%**	**1.5%**
Total		**-4.9%**	**-1.2%**	**9,354.2**	**-4.9%**	**0.0%**

Source: QNB FS Research; Note: EPS based on current number shares

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Diversified)

Stock	2Q2018	1Q2019	2Q2019e	% Δ YoY	% Δ QoQ	Key Themes
GISS	24.78	25.28	**26.54**	**7.1%**	**5.0%**	**We continue to forecast earnings improvement YoY and QoQ.** On back of its positive earnings performance in 1Q2019, we expect GISS to maintain its momentum in 2Q. We do note GISS' quarterly net income remains volatile and difficult to predict given its four disparate segments and razor-thin margins. For 2Q2019, we expect revenue/net income of QR733.6mn/QR26.5mn. YoY, we expect top-line improvement in insurance (major new medical insurance contracts started in 1Q2019; regaining of lost accounts in the energy/medical segments), while other segments are expected to be flattish. QoQ, insurance should again be a pocket of strength along stability in drilling/other segments. *Our overall thesis remains the same – 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 drilling to pull itself out of losses suffered during 2016-19 by 2020 in light of demand due to the proposed North Field expansion and given our assumption of high fleet utilization & modest cost savings.* ***GISS' stock is up 38% since our initial upgrade on March 24 vs. the QSE Index's 6% gain; we maintain our Outperform rating with a QR2.10 price target.***
GWCS	58.96	59.55	**60.51**	**2.6%**	**1.6%**	**We expect QR305.7mn/QR60.5mn in top-line/net income.** We expect revenue to remain stable vs. historical trends (-1.5% YoY, +0.7% QoQ). Earnings should continue to show modest improvement (+2.6% YoY, +1.6% QoQ). *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; GWCS' 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 1.5% in 2017 to 9.6% in 2018, reaching 16.2% in 2023. Dividend yield of 3.8% for 2018 should grow to 5.7% by 2023. With major capex already done, there could be upside to dividends medium-term.* ***We maintain our Accumulate rating on GWCS with a QR5.10 price target.***
IQCD	1,241.71	674.04	**681.54**	**(45.1%)**	**1.1%**	**We predict a flattish 2Q2019 QoQ but YoY comparisons will continue to look difficult; steel remains the X factor and strong iron ore prices should keep denting profitability.** We model in revenue (steel)/group net income of QR1.30bn/QR681.5mn, which implies decline of 45.1% YoY but flattish performance (+1.1%) QoQ. By segment: (1) steel prices are down YoY but up moderately QoQ. Importantly, iron ore prices have continued their upward march (reaching their highest levels since 2014 due to Vale supply issues) up ~20% QoQ (+~60% YTD) leading to further margin compression; steel GMs have continued to fall and came in 9.2% in 1Q2019 (vs. 28.2% in 1Q2018) and we expect further downside in 2Q2019. (2) Petchem prices remain significantly lower YoY and are also down slightly QoQ. (3) Urea prices did tick up ~5% in 2Q2019 and are now up close to 10% YoY. We do note shutdowns in QAFAC, QAPCO and QAFCO eroded close to QR200mn in earnings YoY in 1Q2019. These shutdowns have ended, for the most part, except at QAFCO which has planned maintenance on a rolling basis going forward. However, the impact of lower steel margins should pretty much offset volume improvements leading to our sequentially flattish net income estimate. ***We retain our QR10.50 price target and Market Perform rating****; we believe, while earnings will come under pressure in 2019, investors will seek answers regarding deployment of IQCD's cash pile and the company's strategy. Expansion/acquisition-related newsflow and upside in earnings/dividends could be key for charting the way forward.*

Stock	2Q2018	1Q2019	2Q2019e	% Δ YoY	% Δ QoQ	Key Themes
IGRD	8.89	15.68	**8.00**	**(10.0%)**	**(49.0%)**	**Weaker 2Q2019 (with an estimated 10% decline in EPS, YoY) should be offset by new orders in 2H2019, in our opinion.** We anticipate lower revenue for IGRD in 2Q2019 (13.5%, YoY) , which is likely to be compensated during 2H2019 thanks to the QR265mn of new orders received in April'19. We note these new orders account for 62% of 2018's revenue. On the other hand, the lack of 2Q2018's net extraordinary losses of QR3.2mn (arising from QR31.9mn of provisions allocated for slow moving inventory, doubtful accounts and other provisions, which were partially mitigated by QR28.75mn of revaluation gains), should help lower the net income contraction to 10% YoY in 2Q2019. *We think new management's hands-on approach is expected to bear fruit in 2019 in terms of lower costs and higher revenue.* ***We continue to rate IGRD as Outperform and our 12 month target price as QR0.75.***
QEWS	418.17	309.07	**340.78**	**(18.5%)**	**10.3%**	**2Q2019 should reflect normal seasonality with net income up 10.3% QoQ but YoY comparisons should be challenging given lower tariff/offtake forecasts.** Revenue should follow a similar trajectory, down 14.9% YoY but up 8.0% QoQ. As we have noted previously, RAF B, which already witnessed lowered tariffs under a 12-year contract extension from July 2018, also faces lower offtake this year given Umm Al Houl (which is running at full capacity). Moreover, RAF B1/B2 are going through a contractually agreed dip in tariff rates this year. *Our thesis on QEWS remains intact – We continue to like the company as a LT play with a relatively defensive business model. QEWS still enjoys decent EBITDA margins and 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.* ***We continue to maintain our Accumulate rating on the shares with a price target of QR18.40.***
QGTS	227.72	235.99	**238.43**	**4.7%**	**1.0%**	**2Q2019 should continue to show stable trends.** On a YoY basis, adjusted revenue/net income of QR880.9mn / QR238.4mn should be flattish/+4.7%. However, on a sequential basis, adjusted revenue and net income should both be stable, up 1.6% and 1.0%, respectively. YoY earnings should benefit from higher JV income (2 conventional LNG vessels added at Maran in March 2018 and one FSRU added in June 2018, along with continued traction in the shipyard business). *We remain bullish on QGTS and consider it as the best avenue for equity investors to participate in the long-term growth expected in Qatar's LNG sector. Going forward, in terms of catalysts, we continue to 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.* ***For now, we maintain our Accumulate rating and price target of QR2.40.***
QNNS	37.36	278.49	**168.01**	**N/M**	**(39.7%)**	**We expect a surge 2Q2019's net income vs. 2Q2018 due to a lack of vessel impairments (we do not forecast impairments); 2Q is generally a low quarter for QNNS due to lack of dividend income.** We anticipate net income to surge YoY driven by lack of impairments in 2Q2019 (we do not forecast impairments). QNNS reported vessels impairments of QR99.6mn in 2Q2018. The QoQ drop in the bottom-line is mainly driven by the lack of dividend income as the company books significant dividends in the first quarter. ***We are Market Perform on the name for now with a QR8.10 target price.***

Stock	2Q2018	1Q2019	2Q2019e	% Δ YoY	% Δ QoQ	Key Themes
VFQS	31.25	43.54	**47.75**	**52.8%**	**9.7%**	**VFQS should continue its trend of positive earnings in 2Q2019.** Revenue should grow 4.8% YoY and 1.8% QoQ, while the significant yearly growth in earnings is driven by revenue/costs improvement. *Our view on the stock remains unchanged – we continue to like the company's momentum in postpaid 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. Despite these positive moves, profitability metrics remain subdued with ROIC to remain below WACC until at least CY2023.* ***We maintain our rating/price target of Market Perform/QR1.70 given rich valuation.***

Source: QNB FS Research, company data

Net Income (QR mn) of Key Qatari Stocks Under Coverage (Financials)

Stock	2Q2018	1Q2019	2Q2019e	% Δ YoY	% Δ QoQ	Key Themes
ABQK	177.15	177.45	**178.47**	**0.7%**	**0.6%**	**We expect flattish profitability YoY and sequentially; margins to remain under pressure.** Based on our assumptions, we expect net profit to move up by 0.7% YoY due to lower provisions and lower opex. On a QoQ basis, we estimate a flattish bottom-line due to higher provisions vs. 1Q2019 (historical trend). ***We maintain our Market Perform rating and price target at QR3.00.***
KCBK	165.84	176.39	**173.80**	**4.8%**	**(1.5%)**	**We expect YoY growth in bottom-line to be driven by lower provisions.** The YoY growth in profitability is a result of a 23% drop in provisions. We note 2016 and 2017 was the peak of provisions for the bank and it started to normalize in 2018 and we expect a further decline in 2019. We note drop in the bottom-line QoQ is primarily due to weak non-funded & higher opex (in-line with historical trends). ***For the time being, we maintain our Market Perform rating and price target at QR1.50.***
CBQK	450.36	431.07	**452.27**	**0.4%**	**4.9%**	**Margins remain under pressure while flat bottom-line is mitigated by lower provisions, in our view.** We estimate flattish YoY bottom-line, mitigated by a significant drop in provisions as the bank fully provisioned for its legacy portfolio in 2017 and 2018. Margins are expected to remain under pressure, however. The QoQ increase in earnings is also due to lower provisions. ***We maintain our Market Perform rating and target price of QR4.30.***
DHBK	89.35	307.49	**272.95**	**N/M**	**(11.2%)**	**We foresee continued weak figures as a result of margin pressure and weak non-funded income; QoQ drop is attributable to a growth in provisions.** The estimated YoY surge (base effect) in profitability is due to halving of provisions as provisions were exceptionally high in 2Q2018. Sequentially, we expect profitability to decline as a result of higher provisions as DHBK is estimated to book more provisions in 2019 vs. 2018. ***For the time being, we maintain our Market Perform rating and target price at QR2.60.***
MARK	534.83	544.24	**547.13**	**2.3%**	**0.5%**	**We estimate a modest growth in profitability YoY.** On a YoY basis, MARK's performance is due to higher non-funded income, lower opex and lower provisions mitigating weak net interest & investment income. ***In terms of our recommendation, we maintain our Market Perform rating and price target at QR3.40.***

QIIK	230.75	266.05	**244.56**	**6.0%**	**(8.1%)**	**QIIK should follow historical trends.** We estimate a 6.0% jump in earnings YoY driven by core banking income (in-line with historical trends), while the QoQ drop is due to higher opex and provisions vs. the 1st quarter (in-line with historical trends). ***We maintain our Market Perform rating and target price of QR6.30.***
QIBK	700.08	685.23	**740.15**	**5.7%**	**8.0%**	**We expect QIBK to continue its positive performance.** We pencil in a 5.7% YoY growth in its bottom-line driven by a sharp drop in provisions (generally the trend historically). QIBK's sequential earnings growth is also driven by a drop in provisions. ***For the time being, we maintain our Market Perform rating and price target at QR12.90.***

Source: QNB FS Research, company data

Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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