

4 August 2011

## Buy

**Target price**  
 QR98.44

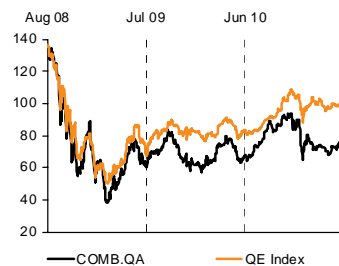
**Price**  
 QR75.50

**Short term (0-60 days)**  
 n/a

**Market view**  
 No Weighting

### Price performance

|                | (1M)  | (3M)  | (12M) |
|----------------|-------|-------|-------|
| Price (QR)     | 72.10 | 73.80 | 71.40 |
| Absolute (%)   | 4.7   | 2.3   | 5.7   |
| Rel market (%) | 3.9   | 3.3   | -11.8 |
| Rel sector (%) | 2.8   | 0.4   | -15.6 |


**Market capitalisation**  
 QR18.68bn (€3.59bn)

**Average (12M) daily turnover**  
 QR20.17m (€3.24m)

 Sector: QE Bank Index  
 RIC: COMB.QA, CBQK QD  
 Priced QR75.50 at close 2 Aug 2011.  
 Source: Bloomberg

### Analyst

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# Comm Bank of Qatar

## Proving its point

**CBQ has long said it can grow in the public sector, that it will benefit from growth expanding beyond the public sector, and that profitability can be improved. Not only did it achieve all of this in 2Q11, but management's outlook suggests there is more ahead.**

### Key forecasts

|                           | FY09A | FY10A | FY11F | FY12F | FY13F |
|---------------------------|-------|-------|-------|-------|-------|
| Reported PTP (QRm)        | 1,359 | 1,635 | 1,886 | 2,125 | 2,393 |
| Reported net profit (QRm) | 1,524 | 1,635 | 1,886 | 2,125 | 2,393 |
| Reported EPS (QR)         | 6.57  | 7.05  | 7.72  | 8.34  | 9.39  |
| Normalised EPS (QR)       | 5.84  | 7.05  | 7.72  | 8.34  | 9.39  |
| Dividend per share (QR)   | 5.73  | 7.00  | 5.68  | 5.86  | 6.66  |
| Normalised PE (x)         | 12.90 | 10.70 | 9.77  | 9.05  | 8.04  |
| Price/book value (x)      | 1.60  | 1.57  | 1.44  | 1.37  | 1.30  |
| Dividend yield (%)        | 7.59  | 9.27  | 7.52  | 7.76  | 8.82  |
| Return on avg equity (%)  | 14.10 | 15.20 | 15.80 | 15.50 | 17.50 |

 Accounting standard: IFRS  
 Source: Company data, Rasmala forecasts

year to Dec, fully diluted

### Good beat, and great reasons

CBQ's 2Q11 headline net income of QR509m was up 25% yoy and 14% qoq, beating our forecast by 8%. The main driver was a dramatic acceleration in loan growth to a middling 19% yoy, but an impressive 14% qoq growth, beating our forecast by 10%. We believe this strength was across most sectors, but particularly real estate development, public sector and consumer lending. Although loan commitments declined, CBQ also offered guidance that 2H11 loan growth should match 1Q11, suggesting 2011 loan growth of at least 35% yoy.

### Good loan growth driving net interest income and fee income

CBQ has been at pains to emphasise balance sheet management as an effort to maintain spreads, and this has been possible via strong deposit funding (although this had to be topped off with a decline in net liquid assets). As a result, growth ran through to the net interest income line, which rose 7% qoq and exceeded our expectations by 2%. Strong loan growth also filtered through to the fee & commission line. This rose 26% qoq, vs our expectation of a net decline, partially as a result of the strong acceleration but also as a result of the jump in trade letters, which jumped 33% from a weak 1Q11.

### Few new NPLs means improving loan quality ratios

Nor was that the end of the story. Net NPLs declined from 240bp in 1Q11 to 215bp in 2Q11, albeit reflecting modestly rising absolute levels combined with strong growth. This fed through to lower provisions and still a higher coverage ratio.

### Strong results leave our forecasts looking conservative

Our growth forecast for 2011 in particular now looks overly conservative. However, more important, this goes a long way to establish proof of principle for CBQ being a premium growth story. We believe this more than justifies our price target and recommendation on the stock as a sharply discounted bank with top-tier growth prospects. Nevertheless, the stock remains much more popular with international investors than locals, and until foreign ownership limits are raised, it remains debateable how quickly the valuation discount will clear. Our recommendation remains Buy despite recent modest outperformance.

### Important disclosures can be found in the Disclosures Appendix.

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**Table 1 : 2Q11 results vs historicals and forecasts**

| QRm                                       | 2Q10A         | 1Q11A         | 2Q11A         | 2Q11E         | yoy        | qoq        | vs Rasmala est |
|---|---------------|---------------|---------------|---------------|------------|------------|----------------|
| <b>Balance sheet</b>                      |               |               |               |               |            |            |                |
| Loans & Islamic financing                 | 33,347        | 34,808        | 39,788        | 36,236        | 19%        | 14%        | 10%            |
| Interbank assets                          | 3,357         | 5,239         | 6,241         | 4,711         |            |            |                |
| Financial instruments                     | 9,326         | 12,355        | 12,696        | 12,320        | 36%        | 3%         | 3%             |
| Cash & CB deposits                        | 5,389         | 2,312         | 2,802         | 3,624         |            |            |                |
| Other assets                              | 5,944         | 6,067         | 6,192         | 6,102         | 4%         | 2%         | 1%             |
| <b>Total assets</b>                       | <b>57,363</b> | <b>60,780</b> | <b>67,719</b> | <b>62,993</b> | <b>18%</b> | <b>11%</b> | <b>8%</b>      |
| Customer deposits & Islamic funding       | 30,414        | 31,339        | 35,787        | 33,614        | 18%        | 14%        | 6%             |
| Dues to banks                             | 4,109         | 3,375         | 6,098         | 2,689         | 48%        | 81%        | 127%           |
| Capital market liabilities                | 9,932         | 11,015        | 11,153        | 11,015        | 12%        | 1%         | 1%             |
| Other operating items                     | 1,354         | 2,108         | 1,201         | 2,261         | -11%       | -43%       | -47%           |
| <b>Total liabilities</b>                  | <b>45,809</b> | <b>47,837</b> | <b>54,239</b> | <b>49,579</b> | <b>18%</b> | <b>13%</b> | <b>9%</b>      |
| Net liquid assets                         | 4,636         | 4,176         | 2,945         | 5,645         |            |            |                |
| <b>Shareholders' equity</b>               | <b>11,554</b> | <b>12,944</b> | <b>13,480</b> | <b>13,414</b> | <b>17%</b> | <b>4%</b>  | <b>0%</b>      |
| NPL ratio                                 | 2.04%         | 2.40%         | 2.15%         | 2.40%         |            |            |                |
| <b>Income Statement</b>                   |               |               |               |               |            |            |                |
| <b>Net interest &amp; Islamic returns</b> | <b>432</b>    | <b>445</b>    | <b>477</b>    | <b>469</b>    | <b>10%</b> | <b>7%</b>  | <b>2%</b>      |
| Fees & commissions                        | 142           | 145           | 183           | 141           | 29%        | 26%        | 30%            |
| FX & derivative                           | 32            | 29            | 32            | 35            | 0%         | 9%         | -10%           |
| Other operating income                    | 14            | 11            | 13            | 11            | -5%        | 19%        | 14%            |
| Core non-interest                         | 187           | 185           | 227           | 187           | 21%        | 23%        | 21%            |
| Trading & investments                     | (20)          | 36            | 8             | 15            | -138%      | -78%       | -50%           |
| <b>Total non-interest income</b>          | <b>167</b>    | <b>221</b>    | <b>235</b>    | <b>203</b>    | <b>41%</b> | <b>6%</b>  | <b>16%</b>     |
| <b>Total banking income</b>               | <b>599</b>    | <b>665</b>    | <b>712</b>    | <b>672</b>    | <b>19%</b> | <b>7%</b>  | <b>6%</b>      |
| Total operating expenses                  | (188)         | (206)         | (217)         | (208)         | 16%        | 6%         | 4%             |
| Provisioning                              | (49)          | (53)          | (35)          | (41)          | -29%       | -34%       | -15%           |
| Other adjustments                         | 46            | 40            | 49            | 48            |            |            |                |
| Profit before tax                         | 408           | 446           | 509           | 470           | 25%        | 14%        | 8%             |
| <b>Attributable income</b>                | <b>408</b>    | <b>446</b>    | <b>509</b>    | <b>470</b>    | <b>25%</b> | <b>14%</b> | <b>8%</b>      |
| <b>Headline net income</b>                | <b>408</b>    | <b>446</b>    | <b>509</b>    | <b>470</b>    | <b>25%</b> | <b>14%</b> | <b>8%</b>      |
| <b>Comprehensive income</b>               | <b>359</b>    | <b>417</b>    | <b>536</b>    | <b>470</b>    | <b>49%</b> | <b>29%</b> | <b>14%</b>     |

Source: Company data, Rasmala forecasts

## Income statement

| QRm                              | FY09A       | FY10A       | FY11F       | FY12F       | FY13F       |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net interest income              | 1661        | 1778        | 1885        | 2041        | 2271        |
| Non-interest income              | 770.1       | 656.4       | 860.2       | 990.7       | 1137        |
| <b>Total income</b>              | <b>2431</b> | <b>2434</b> | <b>2745</b> | <b>3032</b> | <b>3408</b> |
| Operating costs                  | -759.5      | -787.3      | -877.3      | -1001       | -1125       |
| Goodwill (amort/impaird)         | n/a         | n/a         | n/a         | n/a         | n/a         |
| Other costs                      | 0.00        | -0.00       | -0.00       | -0.00       | 0.00        |
| <u>Pre-prov operating profit</u> | 1671        | 1647        | 1868        | 2032        | 2283        |
| Provisions charges               | -465.6      | -166.5      | -171.4      | -139.1      | -160.0      |
| <u>Post-prov op prof</u>         | 1206        | 1480        | 1696        | 1892        | 2123        |
| Associates (pre-tax)             | 152.9       | 155.2       | 189.2       | 232.3       | 269.5       |
| Other pre-tax items              | -0.00       | 0.00        | 0.00        | 0.00        | -0.00       |
| <b>Reported PTP</b>              | <b>1359</b> | <b>1635</b> | <b>1886</b> | <b>2125</b> | <b>2393</b> |
| Taxation                         | -34.2       | -36.7       | -54.0       | -60.9       | -68.6       |
| Minority interests               | 0.00        | 0.00        | 0.00        | 0.00        | 0.00        |
| Preference dividends             | 0.00        | 0.00        | 0.00        | 0.00        | 0.00        |
| Other post-tax items             | 198.9       | 36.6        | 54.0        | 60.9        | 68.6        |
| <b>Reported net profit</b>       | <b>1524</b> | <b>1635</b> | <b>1886</b> | <b>2125</b> | <b>2393</b> |
| Tot normalised items             | 164.8       | -0.20       | 0.00        | 0.00        | 0.00        |
| Normalised PTP                   | 1359        | 1635        | 1886        | 2125        | 2393        |
| Normalised net profit            | 1359        | 1635        | 1886        | 2125        | 2393        |

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

| QRm                               | FY09A        | FY10A        | FY11F        | FY12F        | FY13F        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net loans to customers            | 31929        | 33567        | 38972        | 44883        | 52023        |
| Other int earn assets             | 15391        | 14261        | 17927        | 18627        | 19248        |
| Goodwill                          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| Oth non-int earn assets           | 5623         | 5989         | 6148         | 6958         | 7640         |
| <b>Total assets</b>               | <b>57317</b> | <b>62520</b> | <b>66944</b> | <b>74507</b> | <b>83593</b> |
| Total customer deposits           | 26639        | 34188        | 36230        | 41815        | 48571        |
| Oth int-bearing liabs             | 17316        | 14547        | 14961        | 15908        | 17033        |
| Non int-bearing liab              | 2685         | 2873         | 2767         | 3123         | 3591         |
| <b>Total liabilities</b>          | <b>46640</b> | <b>51608</b> | <b>53959</b> | <b>60846</b> | <b>69195</b> |
| Share capital                     | 10677        | 10912        | 12985        | 13661        | 14398        |
| Reserves                          | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| <b>Total equity (excl min)</b>    | <b>10677</b> | <b>10912</b> | <b>12985</b> | <b>13661</b> | <b>14398</b> |
| Minority interests                | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| <b>Total liab &amp; sh equity</b> | <b>57317</b> | <b>62520</b> | <b>66944</b> | <b>74507</b> | <b>83593</b> |
| Risk weighted assets              | 48240        | 49821        | 57843        | 66617        | 77213        |
| Est non-perf loans                | n/a          | n/a          | n/a          | n/a          | n/a          |
| Specific provisions               | -549.4       | -709.8       | -773.2       | -835.0       | -911.5       |
| General provisions                | n/a          | n/a          | n/a          | n/a          | n/a          |

Source: Company data, Rasmala forecasts

year ended Dec

## Capital

| QRm                       | FY09A  | FY10A  | FY11F | FY12F  | FY13F  |
|---------------------------|--------|--------|-------|--------|--------|
| Risk weighted assets      | 48240  | 49821  | 57843 | 66617  | 77213  |
| Reported net profit       | 1524   | 1635   | 1886  | 2125   | 2393   |
| Opening risk assets       | 63582  | 48240  | 49821 | 57843  | 66617  |
| Closing risk assets       | 48240  | 49821  | 57843 | 66617  | 77213  |
| Change in risk assets     | -15342 | 1581   | 8023  | 8774   | 10596  |
| Capital required          | -1534  | 158.1  | 802.3 | 877.4  | 1060   |
| Free capital flow         | 3058   | 1477   | 1083  | 1247   | 1333   |
| Ordinary dividend paid    | -1299  | -1588  | -1405 | -1451  | -1648  |
| Share buy back/spec div   | 0.00   | 0.00   | 0.00  | 0.00   | 0.00   |
| Equity / preference issue | 1615   | 0.00   | 1615  | 0.00   | 0.00   |
| Cash flow from financing  | 315.5  | -1588  | 209.2 | -1451  | -1648  |
| Net capital flow          | 3373   | -110.6 | 1293  | -203.2 | -315.3 |
| Tier 1 capital            | 8299   | 8294   | 9869  | 10383  | 10943  |
| Tier 1 capital ratio (%)  | 17.2   | 16.6   | 17.1  | 15.6   | 14.2   |

Source: Company data, Rasmala forecasts

year to Dec

## Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Valuation and risks to target price

**Comm Bank of Qatar (RIC: COMB.QA, Rec: Buy, CP: QR75.50, TP: QR98.44):** We base our valuation on a three-stage DDM: a three-year stage of explicit forecasts, a 10-year stage of trend forecasts, and a terminal stage based on a GGM. Downside risks include a significant rise in NPLs, as only 15% of lending is to the public sector, with consumer, real estate and construction accounting for 48% collectively. A rise in competition could spur compression in interest margins. Deteriorating market conditions could hamper UAE-based UAB's growth, reducing CBQ's overall ROE prospects.

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