

## 3Q2018 Earnings: Growth Momentum Continues Despite the Blockade

We expect 3Q2018 earnings for Qatari stocks under coverage to exhibit strong performance YoY (+27.0%) and QoQ (+4.6%) QoQ due to base effect for banks. IQCD, CBQK and VFQS are estimated to contribute positively YoY to the aggregate bottom-line of stocks under coverage. Given the overall market's significant outperformance, we may need positive earnings surprises to fuel the rally going forward. For the time being, valuations seem reasonable vs. the region's forward price-to-earnings multiples, while dividend yields remain at par with the region. On an overall basis, the Qatar Stock Exchange Index trades at a 2019 P/E of 11.8x, complemented by a dividend yield of 4.5%, while the MSCI GCC Index trades at a 12.0x P/E along with a dividend yield of 4.3%. The Qatari Index has bounced back 27.6% and 34.1% (on a total return basis) from its lows reached on November 30, 2017. The index is almost flat on a price basis and is up 4.2% (TR) from its pre-embargo level (total return: +21.4% YTD). Market recovery since mid-March has been driven by increased FOLs (and the resultant foreign flows) led by QNBK and is being sustained by improving oil prices. Medium-term, a lack of persistent catalysts, weakness in EM/EM currencies and volatility due to an ongoing global trade war could act as impediments. 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 increase of 13.5% largely due to a base effect stemming from CBQK (excluding CBQK, we estimate profitability to decrease by only 3.1%), while the QoQ growth (+1.9%) is driven by Doha Bank's (DHBK) base effect. Commercial Bank of Qatar (CBQK) is expected to contribute positively to the YoY profitability performance based on our figures. We expect CBQK to report strong earnings in 3Q2018 as the bank has made a successful turnaround and significantly lowered provisions while trimming opex. We pencil in a net income of QR426.2mn vs. QR79.4mn in 3Q2017 (QR450.4mn in 2Q2018; QoQ decline is based on historical trends), driven by decent net interest income, cost control (C/I ratio of 33.6% vs. 35.8% in 3Q2017) and significantly lower provisions (more than halved vs. last year. We also expect margins to remain stable. Moreover, we expect Qatar Islamic Bank (QIBK) to continue its positive performance. We pencil in a +8.9% YoY growth in its bottom-line driven by net operating income (+5.6%), a drop in provisions and impairments (-12.5% YoY) as the bank booked high provisions in 3Q2017. The sequential drop in profitability is estimated to stem from lower figures across the board as 2Q2018 was a strong quarter and not sustainable, in our view. Regarding DHBK, we expect continued provisions & impairments along with margin pressure and weak non-funded income to adversely impact profitability YoY. The estimated YoY drop in profitability is due to higher provisions as the bank continues to book provisions on its GCC operations, along with further margin pressure. However, we pencil in a sequential surge in profitability as a result of lower provisions (provisions spiked in 2Q2018 and we do not expect a repeat in the 3<sup>rd</sup> quarter).
- We estimate a YoY jump of 46.0% in the bottom-line of diversified non-financials under coverage, while forecasting a decent gain of 7.6% QoQ. Based on our assumptions, Industries Qatar (IQCD) leads the significant growth in net income on a YoY basis, while Vodafone Qatar (VFQS) and Nakilat (QGTS) also contribute to the growth in overall net income. Regarding IQCD, 3Q2018 group (steel + petchems + fert.) revenue should grow nicely YoY but decline slightly QoQ despite strength in fertilizers; net income should grow YoY/QoQ. We note YoY comparisons should be positive across the board with the possible exception of PE realizations. Sequentially: (1) the level of steel revenue will continue to remain high as IQCD sells (from 4Q2017 onward) billets previously earmarked for steel bar production in its Dubai operations. However, QoQ revenue should come down due to lower inventory release and seasonality/project completions but we expect margins to improve. (2) Fertilizers should grow given the healthy uptick in urea prices. (3) Softening sequential PE prices could cause a modest decline in the petchems segment. As far as VFQS is concerned, the company should continue its trend of positive earnings in 3Q2018; top-line should be up nicely YoY given higher postpaid mix increasing ARPUs despite lower overall subs. Revenue should, however, be flattish QoQ. Earnings should be in the green as expected vs. last year and flattish QoQ. For QGTS, we forecast revenue/net income to grow YoY and QoQ. We model wholly-owned ship revenue to remain flattish YoY and QoQ but addition of JV income helps increase the growth in adjusted revenue. The significant YoY jump in net income is primarily due to JV income given increase in charter rates impacting some JVs, addition of 2 vessels in the Maran JV in March and addition of a FSRU. The sequential growth in net income is helped by one additional day in the third quarter and increase in JV income.
- Risks:** Estimates can be impacted by one-offs, greater or lower provisions for banks and investment income/capital gains (losses). Volatile oil prices remain a substantial risk to regional equities and have a direct impact on stocks under coverage.

### 3QCY2018 Estimates

	EPS (QR)			Revenue (QR mn)		
	3Q2018e	YoY	QoQ	3Q2018e	YoY	QoQ
Ahli Bank (ABQK)	0.85	1.1%	0.4%	267.9	3.1%	-3.3%
Al Khalij Commercial Bank (KCBK)	0.45	21.1%	-2.3%	297.7	-7.5%	-1.2%
Commercial Bank of Qatar (CBQK)	1.05	N/M	-5.4%	949.7	4.8%	-0.7%
Doha Bank (DHBK)	0.62	-42.5%	N/M	667.6	-8.9%	0.1%
Gulf International Services (GISS)	0.11	N/M	-17.7%	672.5	8.4%	-1.5%
Gulf Warehousing Co. (GWCS)	0.98	10.6%	-2.5%	302.5	26.0%	-2.5%
Industries Qatar (IQCD)	2.13	72.6%	3.9%	1,438.6	25.2%	-12.6%
Masraf Al Rayan (MARK)	0.71	-1.1%	0.2%	722.1	4.1%	1.4%
Qatar Electricity & Water (QEWS)	4.11	-9.6%	8.2%	697.9	-15.5%	2.0%
Qatar Gas & Transport (QGTS)	0.43	20.3%	4.6%	777.3	-11.3%	-12.5%
Qatar International Islamic Bank (QIIB)	1.56	0.3%	2.1%	319.9	3.5%	-8.6%
Qatar Islamic Bank (QIBK)	2.81	8.9%	-5.1%	1,119.6	4.1%	-3.4%
Qatar Navigation (QNNS)	0.91	9.1%	N/M	512.0	0.4%	-7.9%
Vodafone Qatar (VFQS)	0.04	N/M	2.8%	514.0	19.7%	-1.0%
<b>Total</b>		<b>27.0%</b>	<b>4.6%</b>	<b>9,259.6</b>	<b>3.4%</b>	<b>-4.6%</b>

Source: QNBFS Research; Note: EPS based on current number shares

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

Stock	3Q2017	2Q2018	3Q2018e	% Δ YoY	% Δ QoQ	Key Themes
GISS	6.37	24.78	20.40	N/M	(17.7%)	<b>We expect YoY growth in revenue and net income.</b> Relative to last year, we expect insurance segment to drive top-line growth; sequentially drilling/insurance revenue is projected to show growth but aviation/catering could be a drag. Yearly growth in net income to be again driven by insurance, while loss attributable to drilling should also come down. On a QoQ basis, again insurance and drilling should contribute to the earnings uptick. Since we upgraded GISS to an Accumulate on September 18, the stock has rallied 24% vs. a flat QSE Index, a 3% increase in oil-proxy IQCD and an 8% increase in Brent.
GWCS	51.99	58.96	57.48	+10.6%	(2.5%)	<b>Robust yearly growth in revenue/earnings but seasonality could crimp QoQ comparisons.</b> Increasing utilization in Bu Sulba, growth in contract logistics/transportation and freight forwarding should drive business momentum on a yearly basis. The summer lull should cause a decline in QoQ revenue, while we expect margins to remain flattish sequentially leading to a similar QoQ decline in net income.
IQCD	747.81	1,241.71	1,290.63	+72.6%	+3.9%	<b>3Q2018 group (steel + petchems + fert.) revenue should grow nicely YoY but decline slightly QoQ despite strength in fertilizers; net income should grow YoY/QoQ.</b> YoY comparisons should be positive across the board with the possible exception of PE realizations. Sequentially: (1) the level of steel revenue will continue to remain high as IQCD sells (from 4Q2017 onward) billets previously earmarked for steel bar production in its Dubai operations. However, QoQ revenue should come down due to lower inventory release and seasonality/project completions but we expect margins to improve. (2) Fertilizers should grow given the healthy uptick in urea prices. (3) Softening sequential PE prices could cause a modest decline in the petchems segment.
QEWS	500.82	418.17	452.62	(9.6%)	+8.2%	<b>YoY comparisons continue to be impacted by RAF A decommissioning but QoQ metrics show growth.</b> On the revenue side, YoY comparisons are challenging (down 16%) given the de-commissioning of RAF A in end-2017; RAF A made up 9%/16% of QEWS' net power/water capacity as of 2017. Moreover, some reduction in revenue is due to RAF B as QEWS can no longer record capacity charges on this fully-depreciated plant. Some impact is also likely from RAF A1 with Kahramaa imposing a lower base-line K-Factor for gas charges (vs. a higher estimate previously assumed by QEWS in 2017). Sequentially, revenue should grow 2% aided by increased availability requirements during summer. On the earnings side, the YoY decline is reduced to around 10% given lower margins at the older RAF A plant and reduced depreciation offsetting lower capacity charges due to RAF B. Sequentially, EPS should grow a healthy 8%.
QGTS	198.07	216.02	238.30	+20.3%	+4.6%	<b>We forecast revenue/net income to grow YoY and QoQ.</b> Wholly-owned ship revenue remains flattish YoY and QoQ but addition of JV income helps increase the growth in adjusted revenue. The significant YoY jump in net income is primarily due to JV income given increase in charter rates impacting some JVs, addition of 2 vessels in the Maran JV in March and addition of a FSRU. QoQ growth in net income is helped by one additional day in the third quarter and increase in JV income.
QNNS	95.46	37.36	104.10	+9.1%	N/M	<b>YoY gain is due to blockade in 3Q2017 (base effect); QoQ surge is due to the company booking QR100mn in impairments on vessels.</b> Post-blockade, QNNS has ramped up operations at MM&L and the company is exhibiting some improvement in its operations.

**VFQS should continue its trend of positive earnings in 3Q2018.** Top-line should be up nicely YoY given higher postpaid mix increasing ARPUs despite lower overall subs. Revenue should, however, be flattish QoQ. Earnings should be in the green as expected vs. last year and flattish QoQ.

VFQS	(96.41)	31.24	<b>32.13</b>	N/M	<b>+2.8%</b>
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QNBFS Research, company data

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

Stock	3Q2017	2Q2018	3Q2018e	% Δ YoY	% Δ QoQ	Key Themes
ABQK	175.94	177.15	<b>177.94</b>	<b>+1.1%</b>	<b>+0.4%</b>	<b>We expect profitability to move up moderately YoY.</b> Based on our assumptions, we expect net profit to move up by only 1.1% due to a jump in provisions. On the other hand, pre-provisions income is modeled to grow based on net interest income coupled with lower opex. On a QoQ basis, we estimate a flat bottom-line due to weaker non-funded income (historical trend).
KCBK	133.74	165.84	<b>162.00</b>	<b>+21.1%</b>	<b>(2.3%)</b>	<b>We expect YoY growth in bottom-line to be driven by lower provisions.</b> The YoY jump in profitability is a result of a sharp drop in provisions as the bank booked heavy provisions in 3Q2017. We note 2016 and 2017 was the peak of provisions for the bank and this is expected to normalize in 2018 and 2019. On the other hand, the drop in the bottom-line QoQ is primarily due to impairments of investments vs. a reversal in 2Q2018.
CBQK	79.39	450.36	<b>426.21</b>	N/M	<b>(5.4%)</b>	<b>We do not expect any major surprises; CBQK is poised to deliver a decent set of results.</b> We estimate the YoY surge in CBQK's bottom-line to be driven by net interest income, a slight decline in opex and a large drop in provisions. However, the surge is also attributable to a base effect. The QoQ decline is due to weak non-funded income and an uptick in provisions.
DHBK	333.13	89.35	<b>191.61</b>	<b>(42.5%)</b>	N/M	<b>We expect continued provisions &amp; impairments along with margin pressure and weak non-funded income to adversely impact profitability YoY.</b> The estimated YoY drop in profitability is due to higher provisions as the bank continues to book provisions on its GCC operations and further margin pressure. We pencil in a sequential surge in profitability as a result of lower provisions.
MARK	542.01	534.83	<b>536.15</b>	<b>(1.1%)</b>	<b>+0.2%</b>	<b>We expect provisions to affect profitability YoY and sequentially.</b> On a YoY basis, a drop in profitability is due to provisions vs. net reversals in 3Q2017. However, pre-provisions income is estimated to gain by only 1.4% on the back of a jump in opex (recent historical trends). On the other hand, flat profitability QoQ is attributed to growth in provisions outweighing the growth in net operating income.
QIIK	234.87	230.75	<b>235.49</b>	<b>+0.3%</b>	<b>+2.1%</b>	<b>QIIK should follow historical trends.</b> We estimate a flat bottom-line YoY due to higher provisions, while the QoQ increase is due to both lower opex (historical trend) and provisions. Moreover, we expect further margin pressure in the 3 <sup>rd</sup> quarter as CoFs increases more than yields.
QIBK	610.10	700.08	<b>664.13</b>	<b>+8.9%</b>	<b>(5.1%)</b>	<b>We expect QIBK to continue its positive performance.</b> We pencil in a +8.9% YoY growth in the bottom-line driven by net operating income (+5.6%) a drop in provisions and impairments (-12.5% YoY) as the bank booked high provisions in 3Q2017. The sequential drop in profitability is estimated to stem from lower figures across the board as 2Q2018 was a strong quarter and not sustainable, in our view.

Source: QNBFS 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*

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

### Risk Ratings

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

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

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