

July 28, 2010

THE COMMERCIAL BANK OF QATAR (COMB.QA)

12-Month Fair Value: QR 92.80

Last Close (28 July 2010): QR 69.50

Recommendation: Buy - Risk Level: 3

- The Commercial Bank of Qatar (CBQ) reported a net profit of QR 408 million in 2Q2010, 23% above 2Q2009, but slightly (0.5%) below 1Q2010. Operating income (including share of results of associates) stood at QR 671 million in 2Q2010, 3.5% below 2Q2009, 5% above 1Q2010, and matching our forecast for 2Q2010.
- Net interest income stood at QR 432 million in 2Q2010, 1% below 2Q2009 but 6% above 1Q2010. Income from fees and commissions stood at QR 142 million, 15% below 2Q2009 and 13% below 1Q2010. Share of results of associates stood at QR 46 million in 2Q2010, the highest quarterly level since the start of 2009, reflecting a 31% increase compared with 2Q2009. Total costs dropped by 2.5% y-on-y and 4% q-on-q, following a 2% q-on-q drop in 1Q2010. The cost-to-income ratio improved to 28% in 2Q2010 compared with 30.6% in 1Q2010. Net provisioning charges stood at QR 49 million in 2Q2010, much higher than the QR 12 million of 1Q2010, but lower than the QR 115 million quarterly average of 2009. Investment provisions continued to weigh on the bottom line, amounting to QR 26 million in 2Q2010, compared with QR 22 million in 1Q2010 and an average quarterly figure of QR 45 million in 2009. Income before provisions (IBP) stood at QR 483 million in 2Q2010, 4% below 2Q2009, 9% above 1Q2010, and 2% above our forecast.
- Loan growth recovered in 2Q2010, registering 5.5%, the highest quarterly growth since 4Q2008. Deposit growth continued to be good, standing at 5.6% in 2Q2010, following a 9.7% growth in 1Q2010. Asset quality indicators improved in 2Q2010. During 2Q2010, CBQ changed the NPL definition from above 180 days overdue to above 90 days overdue. Adjusted NPLs in fact dropped by 3% in 2Q2010 to stand at QR 912 million by the end of June 2010, representing 2.67% of gross loans, compared with 2.91% at the end of March 2010. The NPL coverage ratio improved from 80% at the end of March 2010 to 91% at the end of June 2010.
- CBQ's results were in line with our expectations in terms of earnings. We also look positively at the recovery in loan growth and the improvement in asset quality indicators that happened in 2Q2010. Overall, we believe this is a good set of results. We maintain our fair value estimate for CBQ at QR 92.80, which is 34% above the bank's latest closing price (QR 69.50), hence, our recommendation on the stock is a "Buy".

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Related Research

- CBQ Initiation of Coverage - 23 June 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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