

Aggregate Earnings Poised For Recovery In 2024 After Stable 2023

- **Solid long-term fundamentals and tailwinds should propel back-to-back double-digit growth in aggregate earnings in 2024 and 2025.** With the hugely successful FIFA World Cup Qatar 2022 now behind us plus the moderation in hydrocarbon prices, we expect high base effects to kick in. Thus, we expect weighted EPS for Qatari companies edging up 0.3% in FY2023. However, we see a strong recovery with QSE-weighted EPS expected to rise 16.3% and 11.3% in FY2024 and FY2025, respectively.
- **We expect domestic activity to remain strong with a GDP growth of 2.7% in 2023 and 2.5% in 2024, according to Bloomberg consensus estimates.** Real GDP grew by a higher-than-expected 4.8% for FY2022, compared to 1.6% for FY2021. Importantly, Qatar is set to continue to benefit from major twin surpluses on its current and fiscal balances, while inflation will moderate further to around 3% this year and 2.5% next year. Qatar's economic outlook is supported by its huge LNG expansion, sustained domestic demand and various ongoing sporting, business and other tourism related events benefiting from the successful hosting of the World Cup.
- **The QSE remains attractive on strong fundamentals.** While we expect the market to remain volatile, we continue to remain positive longer-term on the Qatari market due to the following reasons: **(1)** Sanctions by Western countries on Russia are still causing global oil and gas supply concerns, despite the Eurozone, most at risk, remaining fortuitously resilient than initially feared. While the recent US banking crisis has increased global recession fears with oil and gas prices teetering at their lows since late 2021 (although recent OPEC+ cuts will likely provide a floor), China's reopening negates some of these effects. Overall, still decent oil and gas prices should lead to higher government revenue/surplus for Qatar, enable flexibility in government expenditures and improve overall money supply (liquidity). **(2)** Furthermore, with the recent successful hosting of the World Cup, perceived as one of the best editions and putting Qatar in the global spotlight, we are of the view that pockets of Qatari stock market should benefit from this success. Some of the impact has been immediate, with Qatar registering record visitor arrivals thus far this year. **(3)** Over the medium- to long-term, the North Field Gas Expansion, a nascent but growing tourism/sporting sector and Qatar National Vision 2030 investments will continue to be major growth drivers for local companies. **(4)** On top of Qatar's macro strengths, Qatari companies enjoy robust balance sheets backed by low leverage and decent RoEs, while Qatari banks stand out with their exceptional capital adequacy ratios, healthy NPLs, strong provision coverage and high profitability. This should help as global monetary conditions remain tight. **(5)** The proposal by the QIA and GRSIA (announced last month) to restructure their local equity portfolios, worth up to \$3bn under a separate entity in a bid to increase market liquidity, is a potential tailwind for the overall stock market. Such a move could lead to a minimum of \$500mn in inflows according to market estimates. Additionally, also in May, the QIA committed up to QR1bn over five years to establish a permanent market-making program. This program builds on the successful initial initiative launched in September, and is set to run over the next five years covering about 90% of the QSE market capitalization.
- **We highlight our thesis on the banking sector given its importance to the Qatari economy and the equity market:** We expect a challenging 2023 for stocks under coverage (ex-QNB Group) as banks tread through a competitive environment coupled with aggressive rate hikes that commenced in 2021. Moreover, we are of the view that margins are expected to remain under pressure across the sector as liabilities have been repricing ahead of loans. On the other hand, we expect bottom-line growth to be driven by a combination of flat to slightly lower provisions, cost containment and non-funded income. Loan growth so far YTD has been muted with total loans down 0.5% until April. Public sector loans are down by 2.3% as the government continues to repay its debt. However, private sector loans are up by 0.2%. We expect single-digit loan growth in 2023 driven by the private sector with activity expected to pick up in 2H2023. From a valuation perspective, Qatar banks are relatively attractive to GCC peers on P/B to RoE basis. Qatari banks are trading at a P/B of 1.4x with a RoE of 12.8% vs. UAE (P/B: 1.4x, RoE: 13.4%), Kuwait (P/B: 1.4x, RoE: 11.6%) and KSA (P/B: 1.9x, RoE: 13.4%).
- **In the banking sector, excluding QNB Group, which we do not cover, we like QIBK (Rating: Accumulate; TP: QR24.18), CBQK (Rating: Outperform; TP: QR7.479) and MARK (Rating: Accumulate; TP: QR3.112).**
 - **We stay Accumulate on QIBK given its solid outlook underpinned by attractive valuation.** After a solid FY2022, we maintain our earnings CAGR of 11.5% (2022-27e). We believe the stock has rerated and is trading at attractive levels. QIBK is trading at a P/B of 1.6x, which implies decent upside, in our view. We note that the stock's 5-year median P/B is 2.3x (5-year high P/B of 3.1x and 5-year low of 1.8x). Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e: 17.9% 2024e: 18.0% & 2025e: 18.2%); moreover, the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium. QIBK is still expected to generate superior RoE/RoRWAs vs. peers (>17%/>2.0%) in the medium-term.
 - **CBQK's valuation is undemanding vs. potential growth and we reiterate our Outperform rating.** We maintain our 2022-27e earnings CAGR of 12.0% and sustainable RoE of 14.8%. The stock still remains attractive with undemanding multiples. CBQK is trading at a 2023/24 P/TB of 1.1x/1.0x based on our estimates. The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 12.0% (2022-27e). Moreover, the market is pricing in a sustainable RoE of 12.8%, which is lower than our forecast.
 - **MARK needs a catalyst but we stay Accumulate for now.** Given MARK's asset quality situation, the stock is trading at 2023e/24e P/B of 1.1x (lower than its historical 5-year median of 2.2x/high of 2.5x). MARK has underperformed its peers on an YTD and 1-year TTR basis. We note that while MARK's current relative valuation looks attractive, the stock needs a strong catalyst. However, we are of the view that once management settles its NPLs problem, the stock is poised to rally. MARK still boasts robust capitalization levels and is cost efficient.

- In terms of our top-picks among the non-banks, we like QGTS (Rating: Accumulate; TP: QR4.10) and QNNS (Rating: Accumulate; TP: QR11.20).
 - 2023 could be a watershed year for QGTS or Nakilat if it is selected as one of the ship owners involved in Qatar’s massive LNG expansion program. Considering Nakilat’s strategic importance, (QGTS ships ~75-80% of Qatar’s current LNG exports) and impressive track record in Qatar’s existing LNG shipping value chain, we expect QGTS to be a major beneficiary and secure a meaningful share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to QGTS’ target price and an award of 20-25 ships could markedly boost our price target and estimates. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections in 2023. We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT growth expected in Qatar’s LNG sector. Irrespective of the volatility of the LNG shipping market, Nakilat’s business should remain relatively unaffected given the LT nature of its charters. Nakilat’s fleet continues to provide QGTS with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of Nakilat’s vessels vs. maximum debt life of 25 years (last debt maturing 2033), could allow for value-enhancement.
 - Our investment thesis on Milaha remains unchanged as it offers compelling long-term upside. The stock, since we first started coverage in 2011, has usually traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio. This remains the case currently, with Milaha’s “non-core” assets (Nakilat + Investment book), along with its net cash position, making up close to 100% of QNNS’ market cap. This implies that investors continue to get Milaha’s “core” or operating businesses for almost free. However, what has changed is that Milaha is enjoying several catalysts, which has helped in making progress toward the stock’s rerating. We note the level of oil prices (despite volatility and recent weakness), recovery in sentiment and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help Milaha’s earnings trajectory and highlight its growth story to investors. Moreover, if QGTS (Milaha’s 36.3%-owned associate) is able to secure a meaningful share of around 20-25 new vessels for the massive North Field expansion program, it could lead to significant upside for Nakilat, and consequentially, Milaha investors.
- Risks:** Estimates can be impacted by one-off events, greater or lower provisions for banks and investment income/capital gains. Oil and gas price volatility remain a substantial risk to regional equity prices and have a direct detrimental impact on stocks under coverage.

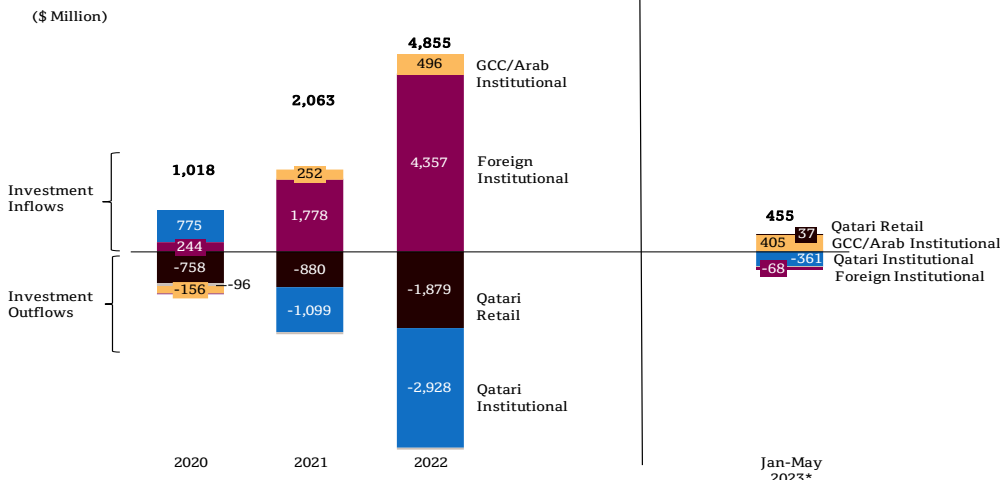
Key Financial Data and Estimates

Ticker	Company	LTM Div. Yield	EPS (QR)				Growth			
			2022	2023e	2024e	2025e	2022	2023e	2024e	2025e
Banks										
ABQK	Ahli Bank	5.0%	0.28	0.31	0.33	0.37	5.2%	10.4%	8.8%	10.1%
CBQK	Commercial Bank of Qatar	4.2%	0.61	0.70	0.79	0.85	23.9%	14.8%	13.2%	7.8%
DHBK	Doha Bank	4.7%	0.18	0.21	0.25	0.29	13.6%	16.9%	19.7%	17.5%
DUBK	Dukhan Bank	4.1%	0.23	0.23	0.28	0.32	1.84%	3.3%	17.3%	14.7%
MARK	Masraf Al Rayan	3.8%	0.14	0.15	0.19	0.23	-22.4%	12.8%	25.9%	21.2%
QIBK	Qatar Islamic Bank	3.5%	1.57	1.75	1.96	2.21	13.7%	11.0%	12.0%	13.1%
QIHK	Qatar International Islamic Bank	4.0%	0.62	0.68	0.75	0.81	8.1%	10.3%	9.7%	7.9%
Diversified										
GISS	Gulf International Services	5.5%	0.16	0.19	0.22	0.24	435.5%	24.8%	13.6%	10.0%
GWCS	Gulf Warehousing Co.	2.9%	0.41	0.37	0.47	0.49	6.5%	-9.3%	25.9%	4.8%
IGRD	Estithmar Holding	0.0%	0.11	0.02	0.09	0.16	-14.8%	-81.3%	333.8%	87.0%
IQCD	Industries Qatar	9.4%	1.46	0.78	0.91	0.97	9.0%	-46.4%	16.9%	6.6%
MCGS	Medicare Group	3.9%	0.28	0.28	0.33	0.37	0.1%	0.4%	16.0%	13.0%
QEWS	Qatar Electricity & Water	5.5%	1.56	1.43	1.44	1.48	16.6%	-7.8%	0.1%	3.2%
QGTS	Qatar Gas & Transport	3.3%	0.26	0.28	0.31	0.34	6.3%	8.6%	10.9%	9.1%
QNNS	Qatar Navigation/Milaha	3.4%	0.89	1.01	1.13	1.22	39.9%	13.4%	11.6%	8.2%
VFQS	Vodafone Qatar	5.5%	0.12	0.13	0.13	0.14	53.4%	6.7%	6.1%	6.4%
Not Under coverage (Bloomberg estimates)										
ORDS	Ooredoo	4.1%	0.74	0.91	0.95	1.01	N/M	23.5%	3.8%	6.9%
QNBK	QNB Group	3.8%	1.44	1.57	1.69	1.87	8.6%	9.1%	7.8%	10.8%
Mean		4.7%	1.05	1.02	1.12	1.23	11.7%	0.3%	16.3%	11.3%

Source: Company reports, QNBFS Research, Bloomberg

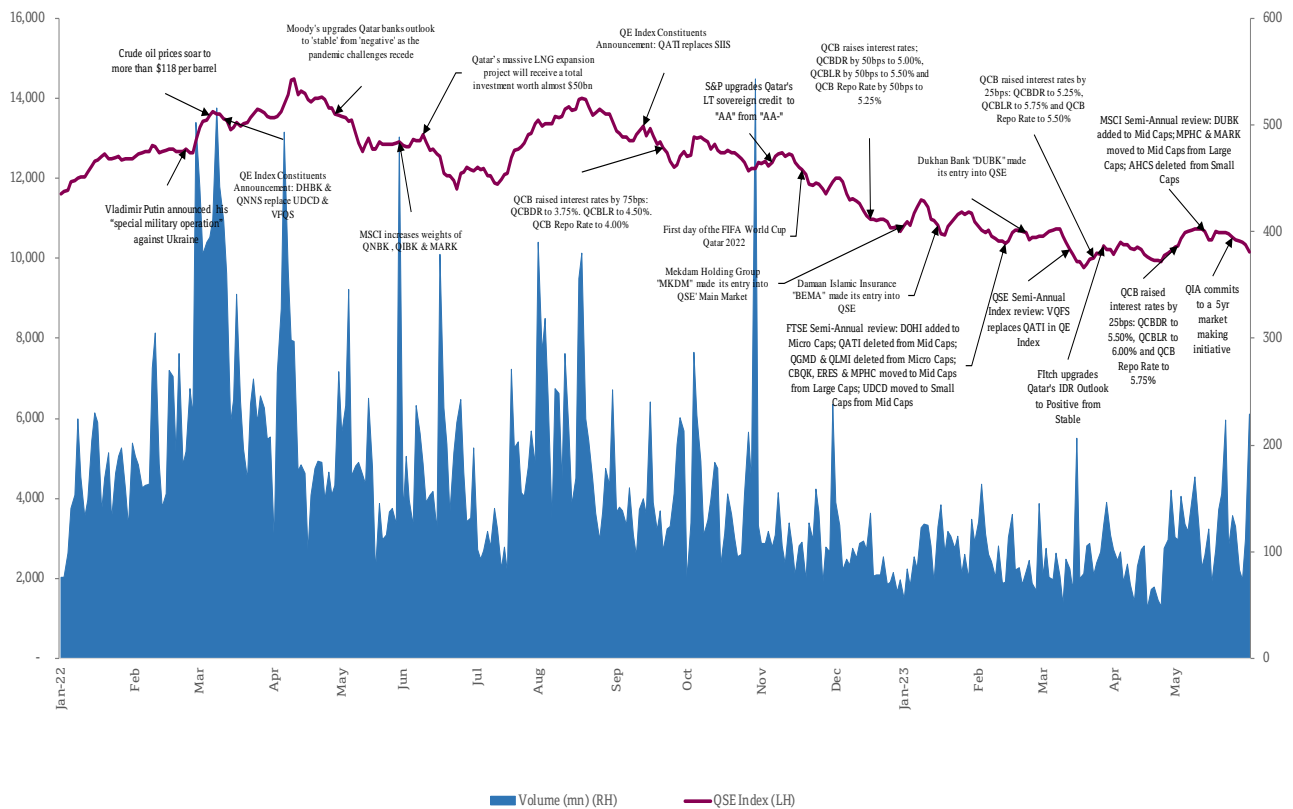
- Stock market performance has been subdued thus far but the QSE Index has rebounded from its lows.** The global equity complex (ACWI) closed the first quarter of 2023 in the black, up 6.8%, mostly driven by large-cap tech. Meanwhile, the QSE (-4.4% in 1Q2023) and regional peers were weighed down by softening oil and gas prices, with the QSE hitting its two-year low on March 20th although it has since recovered. Overall QSE investment flows between January and May 2023 stood at \$455mn. Investment flows reached a record \$4.86bn in 2022, more than double 2021 flows. GCC Institutional investors were the main buyers from January to May 2023 with \$405mn in inflows.

Investment Flows



Source: QSE; QNBFS Research

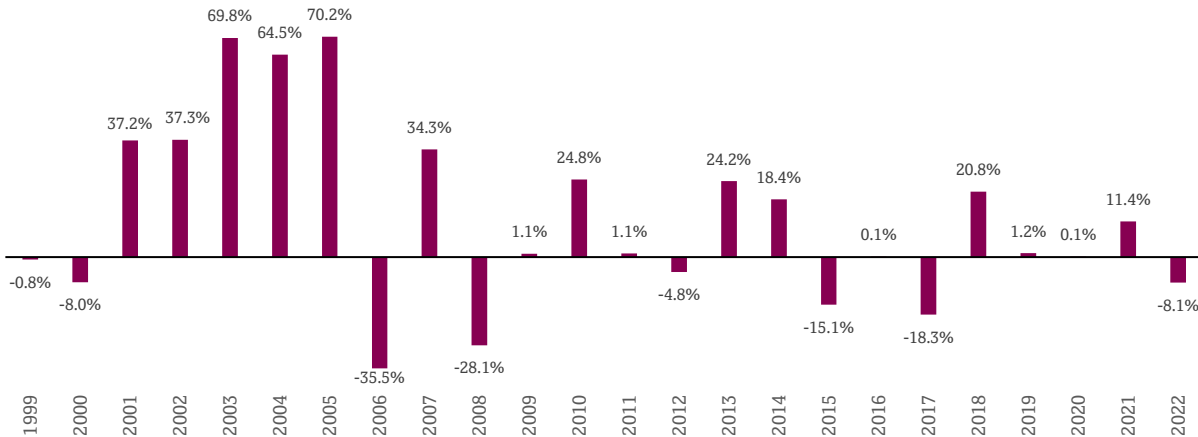
QSE Index Performance, Volume & Major Events



Source: QSE, QNBFS Research

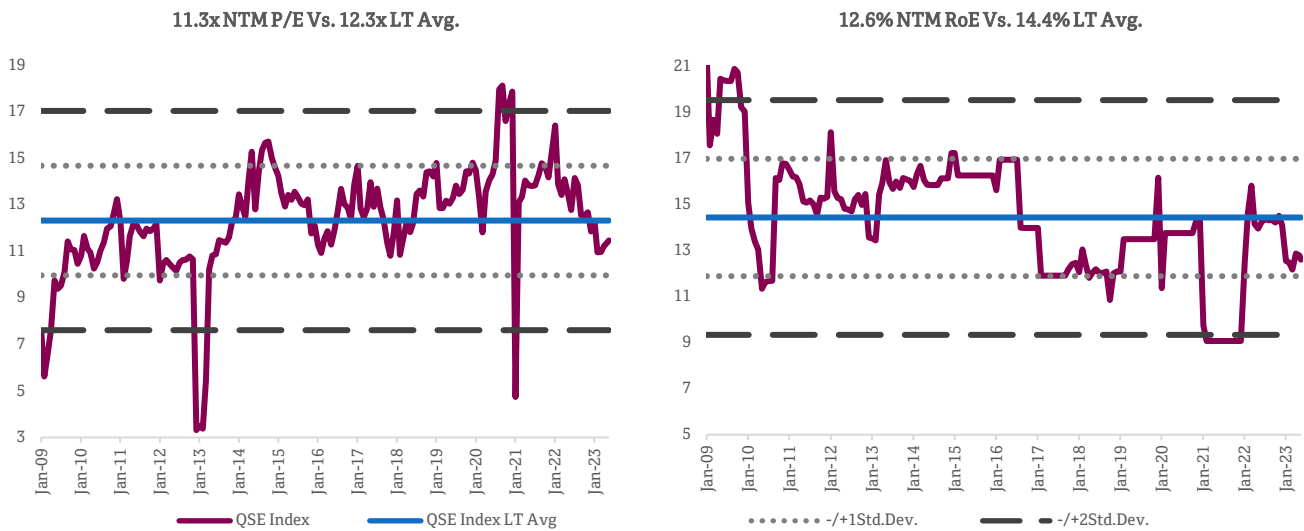
- **Valuations are looking cheaper historically:** We cannot rule out near-term volatility but stay positive longer-term on Qatari equities given their defensive characteristics backed by their strong fundamentals. The QSE's aggregate valuation metrics look attractive considering we do not see any marked near-term earnings recession, even as the economy moderates. We note the QSE's current PE is lower than its historical average. Moreover, from a technical viewpoint, the QSE has not experienced two consecutive down years since 2001 – it has, on average, returned 19.6% the year following a negative annual performance, though with a wide range of between 0.1% and 37.2%.

Qatar Stock Exchange Historical Price Returns



Source: Bloomberg, QNB FS Research

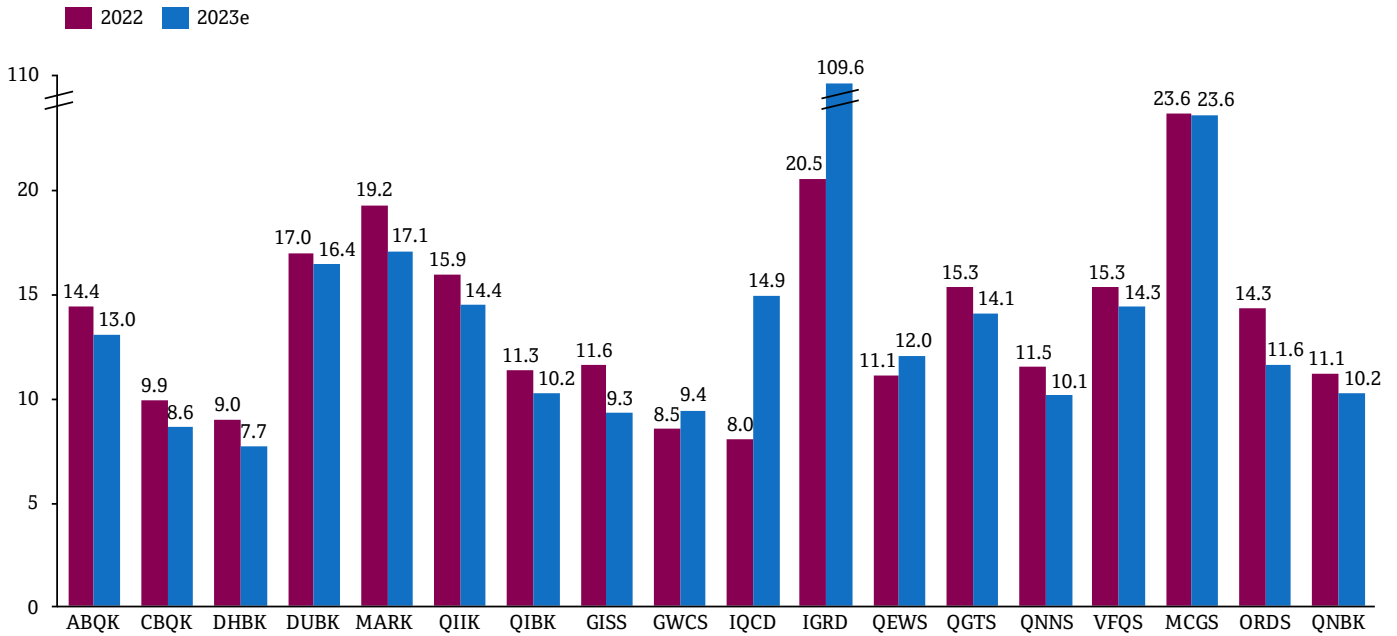
QE Index P/E (x) Vs. ROE (%)



Source: Bloomberg, QNBFS Research

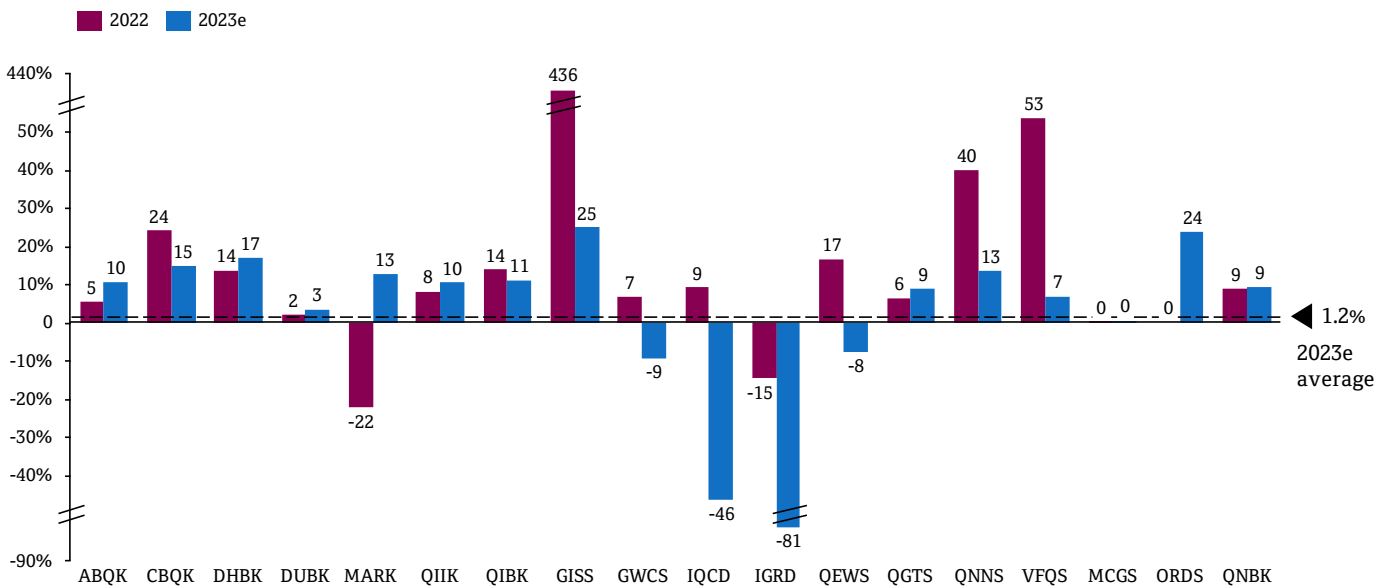
- At 11.3x NTM P/E multiple, the QSE is trading below its long-term average valuation of 12.3x. This, however, corresponds with the NTM RoE of 12.6% trading below its LT average of 14.4%. This trend is likely to characterize the market for the near-term until estimates of returns start to pick up again as we expect for FY2024. Consequently, we expect the market to recover as returns estimates start to improve. Both metrics remain within one standard deviation of their long run average, which likely means the market is undervalued, albeit not significantly. This makes the market ideal for individual stock picking with high-quality companies expected to outperform especially given a relatively soft near-term outlook and higher cost of capital.

P/E Multiples For Select Qatari Stocks



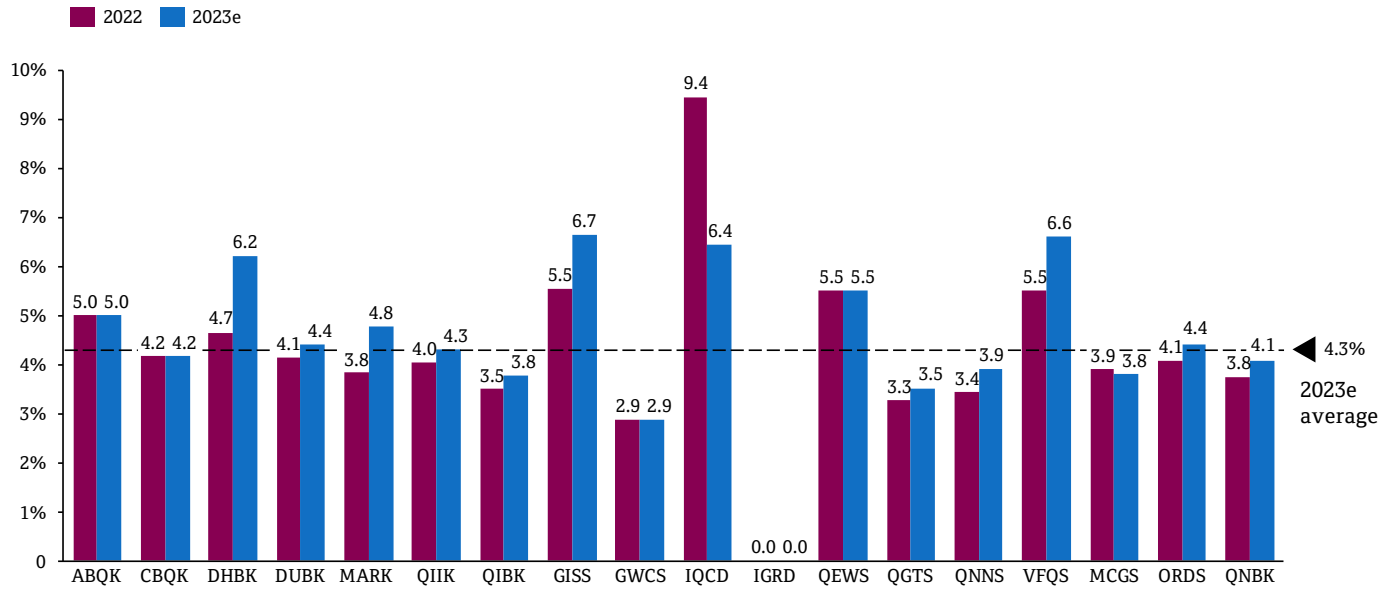
Source: Bloomberg, QNBFS Research

EPS Growth For Select Qatari Stocks



Source: Bloomberg, QNBFS Research

Dividend Yield For Select Qatari Stocks



Source: Bloomberg, QNBFS Research

COMPANY UPDATES: BANKS

Ahli Bank (ABQK)

Recommendation	Reduce	Risk Rating	R-4
Share Price	QR4.000	Target Price	QR3.283
Implied Upside	(17.9%)		

Multiples Remain Elevated; Stay Reduce

We maintain our earnings CAGR of 9.8% during 2022-2027e on margin expansion, cost containment and normalization of CoR. Moreover, we maintain our target price of QR3.283 and our Reduce rating. ABQK trades at a 1.4x P/B and a 13.0x P/E based on our 2023 estimates. Moreover, the stock trades at a PEG of 1.3x (which is relatively expensive) based on our 5-year earnings CAGR of 9.8%.

Highlights

- **ABQK reported a net profit of QR204.6mn in 1Q2023 (broadly in-line with our estimate of QR196.3mn; 4.3% variation), growing by 6.9% YoY (flat sequentially).** The YoY increase in earnings was due to a large expansion in NIMs. NIMs expanded by ~52bps to 2.74%. Hence, net interest income increased by 29.4% YoY (-17.1% QoQ). However, the surge in credit provisions capped further gains in the bottom-line. Our 9.8% earnings CAGR (2022-27e) is based on our assumption of net operating income picking up, along with a normalization in CoR.
- **Efficiency ratio continues to remain healthy, with positive JAWs.** C/I ratio improved to 24.3% in 1Q2023 vs. 26.1% in 1Q2022 (25.6%/25.0% in FY2020 & 2021 and 22.4% in 2022). Moreover, we maintain our efficiency ratio estimates of 20.1% (2023e), 19.2% (2024e) and 18.1% (2025e). This is supported by an uptick in revenue growth while opex remains contained.
- **Asset quality improved most likely due to reclassification of Stage 3 loans to Stage 2 and we do not expect further pressure going forward.** NPL ratio declined from 3.74% in FY2021 to 2.55% in 2022 and 2.40% in 1Q2023. Moreover, NPLs (QR927.9mn) remained stable at the end of 1Q2023. The coverage ratio of Stage 3 loans also improved from 60% in FY2021 to 87% at the end of 1Q2023 (2022: 87%). We are of the view that management will continue on increasing provisioning levels until the coverage of Stage 3 loans reaches 100%.
- **CoR to remain elevated and we do not foresee it at the historical 44bps levels again over our forecast period.** ABQK generated a CoR (annualized) of 71bps in 1Q2023 vs. 54bps in 1Q2022 (44bps in 2018/2019, 70bps in 2020, 87bps in 2021 and 110bps in 2022). We still expect CoR to normalize around the 130bps level vs. 70bps previously.
- **Net loans are estimated to grow by a CAGR of 5.6% (2022-27e) vs. 6.0% previously; loan growth is expected from the corporate segment.** ABQK's net loans expanded by 7.9% at the end of 1Q2023 to QR36.7bn. Moreover, deposits followed suit and grew by 5.9% during the same period. LDR (based on stable source of funds) came in at 98%. We maintain our view that the LDR could steadily decrease to 94% by 2027e.
- **Capitalization is strong and we expect it to remain as such.** ABQK ended 1Q2023 with CET1 & Tier-1 ratios of 16.6%/19.4%, respectively.

Catalysts

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

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our target price of QR3.283/sh. and our Reduce rating.** ABQK trades at FY2023e P/B and P/E of 1.4x and 13.0x, respectively.
- **Risks:** 1) Oil price volatility and 2) stale stock price due to lack of liquidity.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.278	0.307	0.334	0.367
Growth (%)	5.2	10.4	8.8	10.1
P/E (x)	14.4	13.0	12.0	0.0
BVPS (QR)	2.7	2.8	2.9	3.1
P/B (x)	1.5	1.4	1.4	1.3
RoE (%)	10.8	11.4	11.9	12.5
DPS (QR)	0.200	0.200	0.225	0.250
Dividend Yield (%)	5.0	5.0	5.6	6.3

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

Key Data

Current Market Price (QR)	4.000
Dividend Yield (%)	5.0
Bloomberg Ticker	ABQK QD
ADR/GDR Ticker	N/A
Reuters Ticker	AABQ.QA
ISIN	QA0001200748
Sector	Banks & Fin. Svc
52wk High/52wk Low (QR)	4.42/3.90
3-m Average Volume ('000)	48.0
Mkt. Cap. (\$ bn/QR bn)	2.8/10.2
Shares Outstanding (mn)	2,551.15
FO Limit* (%)	49.0
Current FO* (%)	0.0
1-Year Total Return (%)	1.1
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Detailed Financial Statements

(In QR mn)	2022	2023e	2024e	2025e	2026e
Net Interest Income	1,277	1,474	1,592	1,753	1,909
Fees & Commissions	167	161	172	177	174
FX Income	60	48	55	60	73
Other Income	(5)	(5)	35	45	44
Non-Interest Income	222	203	262	282	292
Total Revenue	1,498	1,677	1,854	2,035	2,201
Operating Expenses	(336)	(336)	(356)	(368)	(395)
Net Operating Income	1,162	1,341	1,498	1,667	1,806
Net Provisions & Impairments	(390)	(493)	(581)	(661)	(753)
Net Profit (Reported)	772	847	918	1,006	1,053
Interest Expense on AT1 Perp. Security	(44)	(44)	(44)	(44)	(44)
Social & Sports Contribution Fund	(19)	(21)	(23)	(25)	(26)
Net Profit (Attributable)	709	782	851	937	983

Source: Company data, QNB FS Research

(In QR mn)	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	1,807	1,862	2,159	2,464	2,260
Interbank Loans	3,768	3,760	4,312	3,694	4,297
Net Investments	8,339	8,716	9,747	11,183	10,542
Net Loans	34,032	37,605	39,197	41,049	42,971
Other Assets	398	396	407	420	433
Net PP&E	230	222	213	203	193
Total Assets	48,575	52,562	56,034	59,014	60,697
Liabilities					
Interbank Deposits	3,988	5,687	6,184	5,821	5,104
Customer Deposits	28,954	31,038	33,211	35,204	37,668
Term Loans	6,941	6,906	7,320	8,052	7,650
Other Liabilities	718	683	731	986	979
AT1 Perpetual Securities	1,092	1,092	1,092	1,092	1,092
Total Liabilities	41,693	45,407	48,538	51,155	52,493
Total Shareholders' Equity	6,883	7,155	7,496	7,859	8,204
Total Liabilities & Shareholders' Equity	48,575	52,562	56,034	59,014	60,697

Source: Company data, QNB FS Research

	2022	2023e	2024e	2025e	2026e
Profitability (%)					
RoE	10.8	11.4	11.9	12.5	12.5
NIM	2.8	3.1	3.1	3.2	3.4
RoRWA	1.9	2.0	2.1	2.2	2.1
Efficiency (%)					
Cost-to-Income (Headline)	22.4	20.1	19.2	18.1	17.9
Cost-to-Income (Core)	22.3	19.9	19.5	18.5	18.3
Liquidity (%)					
LDR	94.8	99.1	96.7	94.9	94.8
Loans/Assets	70.1	71.5	70.0	69.6	70.8
Cash & Interbank Loans-to-Total Assets	19.8	18.7	20.0	19.6	19.2
Asset Quality (%)					
NPL Ratio	2.55	2.61	2.65	2.70	2.60
Coverage Ratio	199	226	256	280	335
Cost of Risk	110	125	133	144	153
Capitalization (%)					
Tier-1 Ratio	18.8	18.8	18.6	18.2	18.2
CAR	20.0	20.0	19.8	19.4	19.4
Growth (%)					
Net Interest Income	18.3	15.4	8.0	10.1	8.9
Net Operating Income	15.0	15.4	11.8	11.2	8.4
Net Income	5.2	10.4	8.8	10.1	4.9
Loans	1.4	10.5	4.2	4.7	4.7
Deposits	3.7	7.2	7.0	6.0	7.0
RWAs	2.1	4.1	5.5	7.0	4.0

Source: Company data, QNB FS Research

Commercial Bank of Qatar (CBQK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR5.998	Target Price	QR7.479
Implied Upside	24.7%		

Valuation Undemanding vs. Potential Growth; Stay Outperform

We maintain our 2022-27e earnings CAGR of 12.0% and sustainable RoE of 14.8% based on our current estimates. Moreover, we maintain our target price of QR7.479/sh. and our Outperform rating. The stock still remains attractive with undemanding multiples. CBQK is trading at a 2023/24 P/TB of 1.1x/1.0x based on our estimates. The stock is also trading at a PEG of 0.7x (which is inexpensive) based on our 5-year earnings CAGR of 12.0% (2022-27e). Moreover, the market is pricing in a sustainable RoE of 12.8%, which is lower than our forecast.

Highlights

- 1Q2023 bottom-line was largely driven by non-funded income and flat provisions & impairments; however, hyperinflation accounting shaved off 5% from earnings.** Commercial Bank of Qatar (CBQK) reported a net profit of QR751.3mn in 1Q2023, growing by 17.9% YoY (23.2% sequentially).
- RoE is still estimated to increase from 13.5% in 2022 to 14.3% in 2023e (we were modeling 15.0% previously for 2023).** After 2022, RoE is still expected to increase beyond 14%. Management is targeting 13-15% during 2022-26 (although we believe RoE could slightly increase above the upper end of guidance depending on CoR). For now, we maintain our sustainable RoE at 14.8% vs. 16.2% previously, mainly due to our revised CoR levels.
- NIMs are expected contract in 2023 on the back of CoFs.** We still believe NIMs to contract by ~10bps to 2.82% in 2023 and then pick up to 2.90% in 2024. NIMs were flat YoY at 2.75% in 1Q2023. However, it contracted by ~21bps sequentially.
- Legacy NPLs remain and are mainly real estate in nature; management is guiding for the NPL ratio to decrease to 2.5% by 2026.** NPL ratio increased from 4.9% in FY2022 to 5.0% in 1Q2023 on the back of a decrease in loans; NPL formation was negative, which is a positive. Coverage of Stage 3 loans improved from 62% in FY2021 to 71% in FY2022/1Q2023. ECLs for Stage 2 loans increased by 10.8% vs. FY2022 and coverage remained at 9%. Going forward, expect asset quality to improve, driven by conservative underwriting and recoveries. Management will also raise the coverage of Stage 3 loans to 100%.
- CoR in 2023 is expected at 120-135bps as per management's guidance and should normalize in the range of 60-80bps by 2026.** 1Q2023 provisions for credit losses dropped by 32.3% YoY (-43.1% sequentially) to QR160.0mn, while CoR (annualized) decreased from 92bps in 1Q2022 to 65bps. It should be noted that quarterly annualized CoR is not an indicator for full year CoR. Having said this, management continues on being prudent/conservative by booking large provisions. We maintain our estimates for CoR of 112bps in 2023 and 99bps in 2024. We still estimate CoR to decline to 88bps by 2025 and 83bps (2026). We remain on the conservative side and do not model CoR to reach 60bps.
- Diversification of loan book remains on track; management is guiding for 25/16% public sector/real estate mix.** During 1Q2023, net loans continued their negative trajectory with reduction in acceptances and loans from Abank. Net loans receded by 3.6% sequentially to QR94.4bn. Moreover, deposits continued to decline, contracting by 8.5% QoQ to QR76.1bn. Moreover, in-line with management's strategy, % of govt. loans to total loans increased from 2016's 10% to 16% in FY2022/1Q2023 (decreased from 2021's 18% due to govt. repayments), while real estate loans dropped from 28% to 20% during the same period. We maintain our estimate for net loan growth of 2.9%/5.7% in 2023/24e.
- CET1 ratio is expected at 13.0%-14.0% (2022-26) as per management's guidance.**

Catalysts

- Significant RoE expansion & robust bottom-line growth

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our PT at QR7.479 our Outperform rating.** CBQK is trading at a 2023e P/TB and P/E of 1.1x and 8.6x, respectively.
- Risks:** 1) Weakness in Turkish Lira & Hyperinflation & 2) Higher than expected CoR

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS	0.607	0.697	0.789	0.850
EPS Growth (%)	23.9	14.8	13.2	7.8
P/E (x)	9.9	8.6	7.6	7.1
Tangible BVPS (QR)	4.9	5.3	5.9	6.4
P/TBV (x)	1.2	1.1	1.0	0.9
RoE (%)	13.5	14.4	14.9	14.5
DPS (QR)	0.250	0.250	0.300	0.300
Dividend Yield (%)	4.2	4.2	5.0	5.0

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

Key Data

Current Market Price (QR)	5.998
Dividend Yield (%)	4.2
Bloomberg Ticker	CBQK QD
ADR/GDR Ticker	-
Reuters Ticker	COMB.QA
ISIN	QA0007227752
Sector*	Banks & Fin Svcs.
52wk High/52wk Low (QR)	8.099/4.800
3-m Average Volume (mn)	2,829.0
Mkt. Cap. (\$ bn/QR bn)	6.7/24.3
Shares Outstanding (mn)	4,047.25
FO Limit* (%)	100.0
Current FO* (%)	25.6
1-Year Total Return (%)	(12.4)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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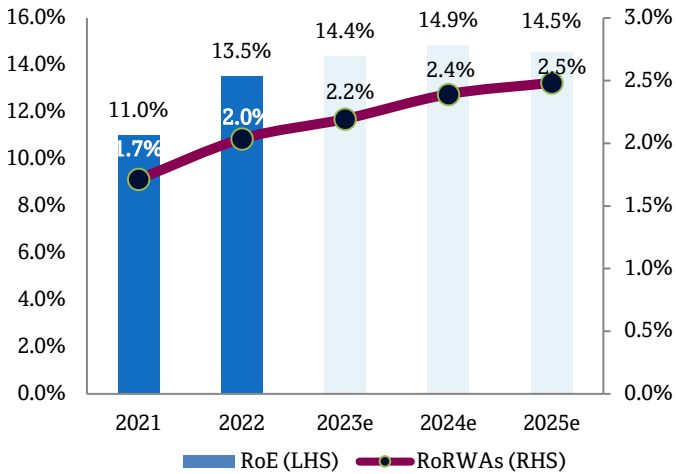
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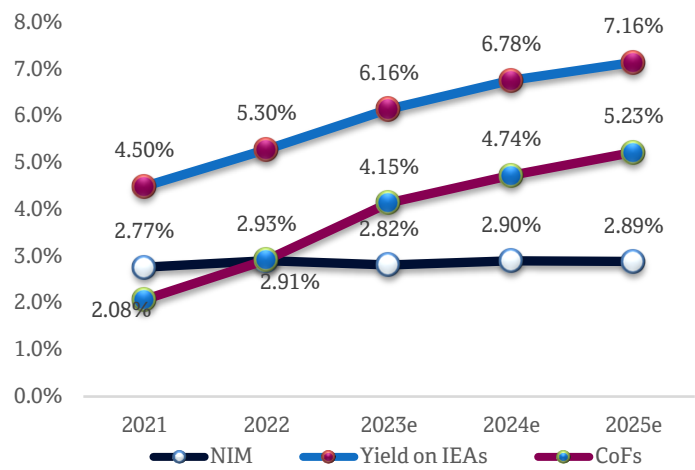
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RoE & RoRWAs Modeled to Increase in a Healthy Manner

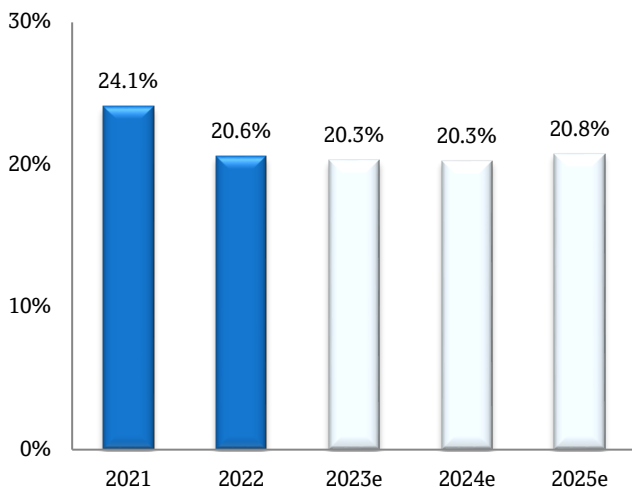


Source: Company data, QNB FS Research

While 2023 Margins to Come Under Pressure on High CoFs

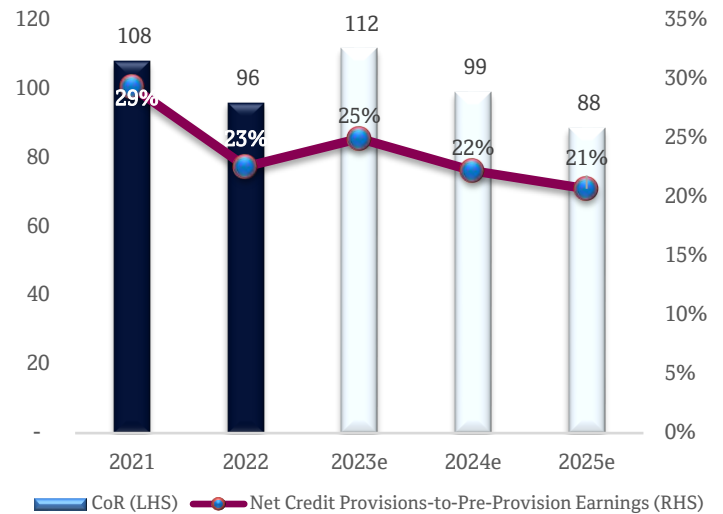


C/I Ratio to Remain Superior

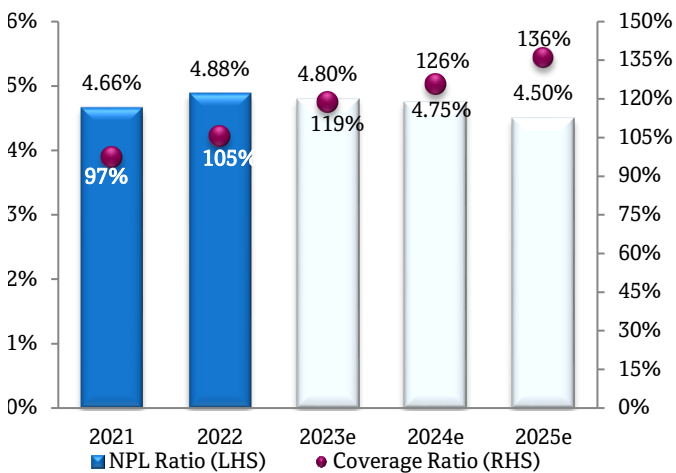


Source: Company data, QNB FS Research; C/I is on a normalized basis

CoR is Expected to Remain Elevated in the Medium Term



NPLs are Legacy and Mainly RE Loans



Source: Company data, QNB FS Research

Coverage of Stage 3 Loans is Expected to Reach 100%

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	75,266,515	18,807,063	4,939,267	99,012,845
ECLs	155,126	1,735,138	3,488,111	5,378,375
Stages % of Loans	76%	19%	5%	
Stages % of ECLs	3%	32%	65%	
Coverage Ratio	0%	9%	71%	

Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e
Net Interest Income	3,702	4,106	4,167	4,370	4,550
Fees & Commissions	928	790	830	880	783
FX Income	309	415	438	473	506
Other Income	(38)	201	466	431	458
Non-Interest Income	1,199	1,406	1,734	1,784	1,747
Total Revenue	4,900	5,512	5,900	6,154	6,297
Operating Expenses	(1,150)	(1,134)	(1,198)	(1,248)	(1,307)
Net Operating Income	3,750	4,378	4,702	4,906	4,990
Net Provisions & Impairments	(1,438)	(1,263)	(1,327)	(1,195)	(1,122)
Net Profit Before Taxes	2,313	3,115	3,375	3,711	3,867
Tax	(9)	(114)	(41)	(45)	(46)
Net Profit Before Minority Interest	2,304	3,000	3,335	3,667	3,821
Minority Interest	(0)	0	0	0	0
Non-Recurring Income/(Loss)		(189)	(150)	(100)	0
Net Profit (Headline/Reported)	2,304	2,811	3,185	3,567	3,821
Interest on Tier-1 Note	(264)	(284)	(284)	(284)	(284)
Social & Sports Contribution Fund	(58)	(70)	(80)	(89)	(96)
Net Profit (Attributable)	1,983	2,457	2,822	3,194	3,442

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	17,915	8,030	10,180	8,822	9,528
Interbank Loans	10,942	20,844	18,759	15,008	16,808
Net Investments	26,723	29,835	30,346	31,865	34,219
Net Loans	98,003	98,016	100,864	106,605	112,813
Investment In Associates	2,961	3,102	3,246	3,397	3,554
Other Assets	2,567	2,613	3,026	2,772	2,933
Net PP&E	2,753	3,050	3,280	3,285	3,295
OREO	3,524	3,564	3,564	3,564	3,564
Goodwill & Intangible Assets	75	66	10	10	10
Total Assets	165,464	169,121	173,275	175,326	186,725
Liabilities					
Interbank Deposits	17,777	24,054	26,340	20,110	21,090
Customer Deposits	81,958	83,167	84,831	88,224	95,282
Term Loans	31,005	26,656	27,989	30,424	31,945
Tier-1 Perpetual Notes	5,820	5,820	5,820	5,820	5,820
Other Liabilities	10,651	9,724	6,786	7,058	6,670
Total Liabilities	147,211	149,421	151,766	151,635	160,806
Total Shareholders' Equity	18,253	19,699	21,509	23,691	25,918
Total Liabilities & Shareholders' Equity	165,464	169,121	173,275	175,326	186,725
RWAs	115,914	125,475	131,689	135,352	145,645

Source: Company data, QNB FS Research

Ratios/Key Indicators	2021	2022	2023e	2024e	2025e
Profitability (%)					
RoTE (Attributable)	11.0	13.5	14.4	14.9	14.5
RoAA (Attributable)	1.2	1.5	1.6	1.8	1.9
RoRWA	1.7	2.0	2.2	2.4	2.5
NIM (% of IEAs)	2.77	2.91	2.82	2.90	2.89
NIM (% of RWAs)	3.20	3.40	3.24	3.27	3.28
NIM (% of AAs)	2.32	2.45	2.43	2.51	2.51
Spread	2.4	2.4	2.0	2.0	1.9
Efficiency (%)					
Cost-to-Income (Headline)	24.1	20.6	20.3	20.3	20.8
Cost-to-Income (Core)	24.2	20.9	21.5	21.5	22.0
Liquidity (%)					
LDR	120	118	119	121	118
LDR (Including Stable Source of Funding)	87	89	89	90	89
Loans/Assets	59	58	58	61	60
Cash & Interbank Loans-to-Total Assets	17.4	17.1	16.7	13.6	14.1
Deposits to Assets	50	49	49	50	51
Wholesale Funding to Loans	50	52	54	47	47
IEAs to IBLs (x)	1.18	1.27	1.22	1.23	1.22
Asset Quality (%)					
NPL Ratio	4.7	4.9	4.8	4.8	4.5
NPLs to Shareholders' Equity	26.2	25.6	23.9	22.7	20.9
NPL to Tier-1 Capital	25.7	25.9	25.3	25.3	24.3
Coverage Ratio	97	105	119	126	136
ALL/Average Loans	4.6	5.2	5.8	6.1	6.3
Cost of Risk (bps)	108	96	112	99	88
Capitalization (%)					
CET1 Ratio	11.7	11.6	11.6	12.0	12.2
Tier-1 Ratio	16.0	15.6	15.4	15.7	15.7
CAR	18.1	17.3	17.2	17.5	17.4
Leverage (x)	9.1	8.6	8.1	7.4	7.2
Growth (%)					
Net Interest Income	19.4	10.9	1.5	4.9	4.1
Non-Interest Income	30.3	17.3	23.3	2.9	-2.0
Total Revenue	21.9	12.5	7.0	4.3	2.3
Operating Expenses	5.5	-1.4	5.6	4.1	4.8
Net Operating Income	28.0	16.7	7.4	4.3	1.7
Net Provisions & Impairments	-11.0	-12.1	5.0	-9.9	-6.1
Net Income (Headline)	77.1	22.0	13.3	12.0	7.1
Net Income (Attributable)	89.6	23.9	14.8	13.2	7.8
Loans	1.3	0.0	2.9	5.7	5.8
Deposits	8.1	1.5	2.0	4.0	8.0
Assets	7.7	2.2	2.5	1.2	6.5
RWAs	0.3	8.2	5.0	2.8	4.8

Source: Company data, QNB FS Research

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.610	Target Price	QR1.883
Implied Upside	17.0%		

RoE Below CoE Remains an Overhang on the Stock; Stay Accumulate

We maintain our 2023 and 2024 net income estimates of QR650.1mn and QR778.5mn, respectively. The lower estimates are mainly driven by higher CoR and tightening of spreads; we maintain our estimates for CoR of 162bps (2023e), 144bps (2024e) and 130bps (2025e). Our earnings estimates (2022-27e) are expected to lead to an average RoE generation of 10.15% (10.95% previously) over our forecast horizon vs. low-to-mid-single digit RoEs since 2016. We expect the bank to generate economic profits from 2028 and onward. Hence, RoE is still expected to be below CoE over 2023 to 2027. The stock trades at a 48% discount to its 2023e BV due to asset quality issues. As such, DHBK has significantly underperformed its peers. We maintain our Accumulate rating and QR1.883 PT. We note that DHBK's beginning BVPS (2023) contributes 176% to our price target (as the present value of economic profits is negative).

Highlights

- DHBK reported attributable net profit of QR208.6mn in 1Q2023 vs. QR401.4mn in 1Q2022 (net loss of QR167.5mn in 4Q2022).** The drop, on a YoY basis, was attributed to a sharp drop in net interest income (-23.6%) and non-funded income (-19.4%). We lower our 2023 and 2024 estimates by 5.0% and 3.4% to QR650.1mn and QR778.5mn, respectively. Changes in estimates are mainly driven by higher CoR and lower net interest income (tightening of spreads).
- CoR to remain on the high side; management is targeting 120-130bps by 2027; 1Q2023 CoR increased to 135bps vs. 120bps in 1Q2022.** DHBK generated a 2022 CoR of 153bps vs. 211bps in 2021 (196bps in 2020). 2023 CoR is still estimated to be around ~160bps (in-line with guidance), steadily dropping to 121bps by 2027 (still on the high side) as management needs to build further provisions in order to 1) raise coverage of Stage 3 loans from 65% in 1Q2023 to 85% and 2) mitigate any unforeseen impairments.
- RoE continues to remain weak and significantly below CoE; 1Q2023 annualized RoE came in at 8.3%.** RoE came in at 5.4% in FY2022, in-line with 2018-2021. We main our forecast for 2023/24 RoE of 6.2%/7.1%
- C/I ratio is expected to remain around the 30% levels.** C/I ratio stood at 35.5%/28.0% in 1Q2023/22 (30.7% in FY2022). Going forward, we still maintain DHBK's C/I ratio to hover around the 30% levels. However, management is guiding to <25% by 2027.
- Asset quality remains a concern as management may further downgrade Stage 2 loans; NPLs are legacy.** DHBK's NPLs remained flat at QR4.0bn in 1Q2023 vs. FY2022, as the majority of NPLs are of a legacy nature. Moreover, the NPL ratio increased from 6.43% in FY2022 to 6.58% in 1Q2023 (this is mainly due to a reduction in loans). Further, the coverage ratio for Stage 3 loans increased from 61% in FY2022 to 65% in 1Q2023 (vs. 51% in FY2021); DHBK is targeting 85% coverage of Stage 3 loans. Stage 2 loans contribute 32% to total loans, highest vs. its peers. On average (2019-2022), DHBK wrote-off 13.0% of loans (QR8.9bn). Management is guiding for an NPL ratio of 6.0% for 2022 and 4.5-5% in 2024-2027.
- Net loans continue to recede on the back of government repayments; we still expect single digit growth going forward, in-line with management guidance.** Net loans declined by 2.5% to QR56.6bn in 1Q2023 vs. FY2022. On the other hand, private sector loans displayed flat performance. We maintain our loan book CAGR of 5.0% in 2022-27e as the bank's lending appetite picks up after completing its de-risking exercise.
- De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended 1Q2023 with a CET1 ratio of 12.9% and a Tier-1 ratio of 18.2%. We still maintain our estimate for CET1 ratio to hover ~13% level in our forecast horizon.

Catalysts

- Future stock price gains depend on a resumption of confidence in the bank's performance and realization of management's goals & objectives.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our QR1.883 and Accumulate rating.** DHBK is trading at a 2023e P/B and P/E of 0.5x and 7.7x, respectively.
- Risks:** 1) Asset quality 2) Execution risks remain for management's new strategy.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS (QR)	0.179	0.210	0.251	0.295
Growth	13.6	16.9	19.7	17.5
P/E (x)	9.0	7.7	6.4	5.5
BVPS (QR)	3.25	3.39	3.54	3.68
P/B (x)	0.5	0.5	0.5	0.4
RoE (%)	5.4	6.5	7.4	8.3
DPS (QR)	0.075	0.100	0.150	0.175
Dividend Yield (%)	4.7	6.2	9.3	10.9

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.610
Dividend Yield (%)	4.7
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	2.785/1.528
3-m Average Volume (mn)	3,395.5
Mkt. Cap. (\$ bn/QR bn)	1.4/5.0
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	11.4
1-Year Total Return (%)	(37.9)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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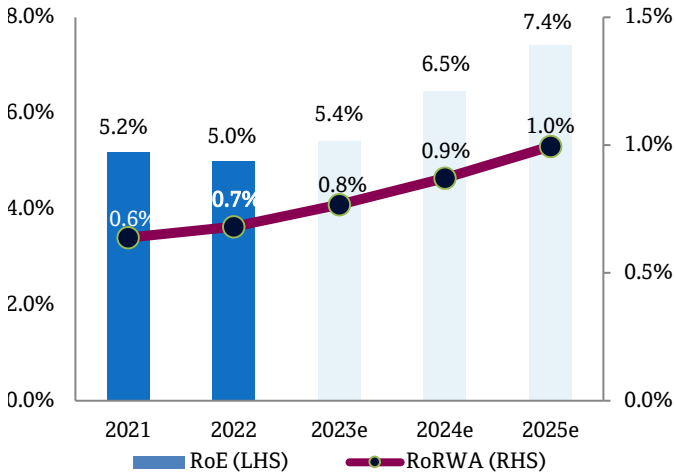
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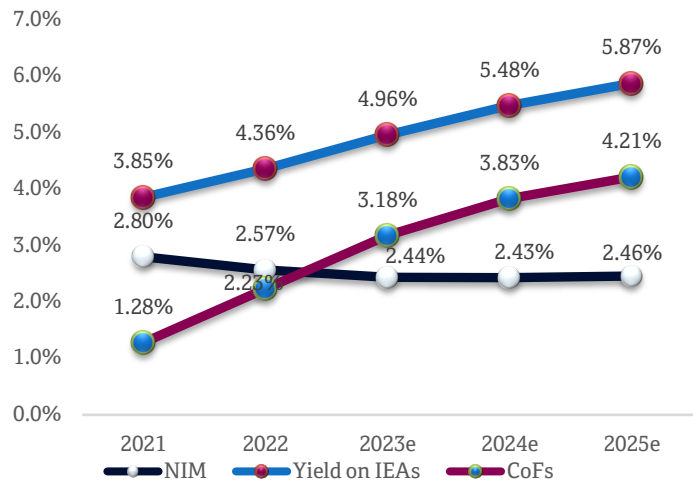
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RoE Remains <CoE During Forecast Horizon; RoRWAs is Weak

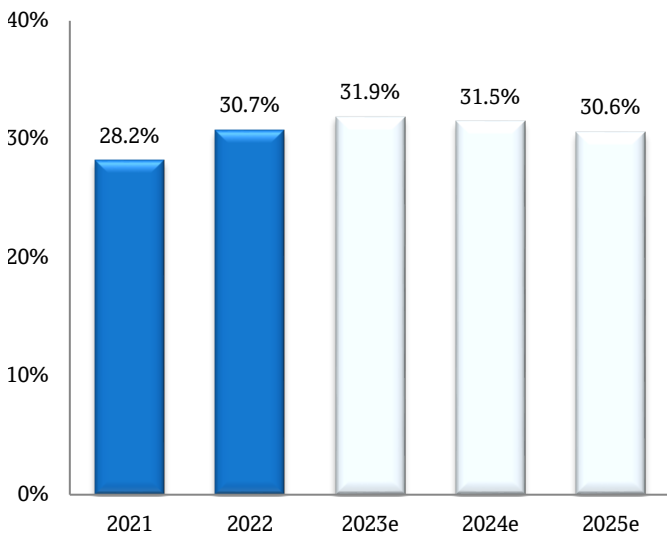


Source: Company data, QNB FS Research

While Margins to Remain Under Pressure on High CoFs

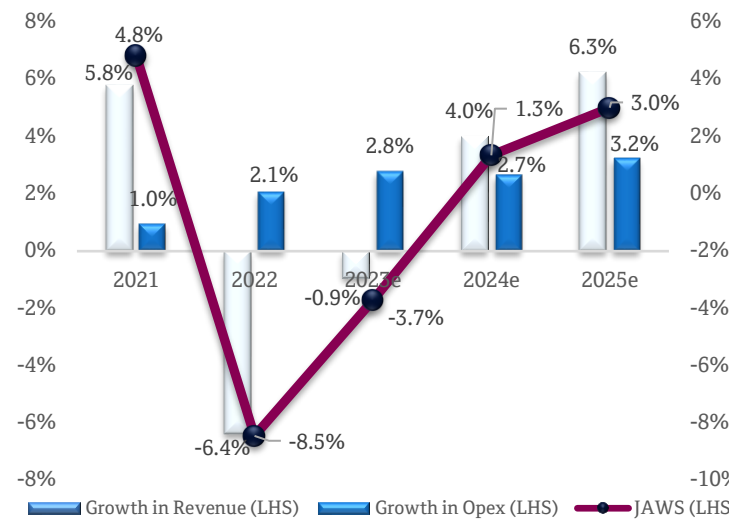


C/I Ratio to Hover @ ~Current Levels as Revenue & Opex Move in Lock Step

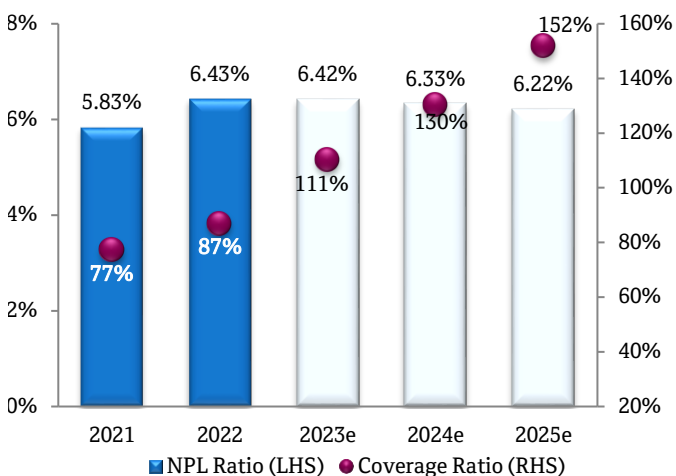


Source: Company data, QNB FS Research

While Generating Marginal JAWS Post 2023



NPL Ratio Spiked Mainly on Contracting & RE Loans



Source: Company data, QNB FS Research

Stage 2 Loans is Highest Domestically

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	36,884,195	19,532,821	3,974,568	60,391,584
ECLs	75,390	1,078,325	2,588,255	3,741,970
Stages % of Loans	61.1%	32.3%	6.6%	
Stages % ECLs	2.0%	28.8%	69.2%	
Coverage Ratio	0.2%	5.5%	65.1%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	2,320	2,585	2,322	2,206	2,286	2,417
Fees & Commissions	304	303	371	390	405	438
FX Income	106	154	153	160	155	168
Other Income	207	65	63	126	150	161
Non-Interest Income	617	522	587	675	710	767
Total Revenue	2,937	3,107	2,909	2,881	2,997	3,184
Operating Expenses	(868)	(876)	(894)	(919)	(943)	(974)
Net Operating Income	2,069	2,231	2,015	1,963	2,054	2,210
Net Provisions	(1,365)	(1,485)	(1,201)	(1,051)	(1,002)	(1,012)
Net Profit Before Tax	704	746	814	912	1,051	1,199
Tax	(1)	(43)	(48)	(50)	(58)	(66)
Net Profit (Reported/Headline)	703	704	765	862	993	1,133
Interest on Tier-1 Note	(203)	(197)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(18)	(19)	(22)	(25)	(28)
Attributable Net Profit	482	490	556	650	778	915
EPS	0.156	0.158	0.179	0.210	0.251	0.295

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	6,895	5,887	3,668	3,880	4,074	4,585
Interbank Loans	3,674	5,365	8,651	7,802	8,167	6,602
Net Investments	24,667	25,083	24,964	25,652	27,266	29,256
Net Loans	65,450	62,667	58,079	60,016	62,822	66,023
Other Assets	2,168	1,412	1,618	1,451	1,267	1,398
Net PP&E	686	689	665	662	660	657
Total Assets	103,540	101,103	97,645	99,463	104,256	108,522
Liabilities						
Interbank Deposits	23,037	22,511	19,239	20,005	21,190	19,708
Customer Deposits	55,054	50,356	50,130	51,734	54,321	57,308
Term Loans	8,545	11,629	11,408	10,849	11,499	13,799
Other Liabilities	3,110	2,351	2,790	2,380	2,281	2,292
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	93,746	90,847	87,566	88,967	93,291	97,108
Total Shareholders' Equity	9,795	10,256	10,079	10,496	10,965	11,414
Total Liabilities & Shareholders' Equity	103,540	101,103	97,645	99,463	104,256	108,522
Risk Weighted Assets	71,908	71,898	73,175	76,189	80,277	84,213

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Attributable)	5.2	5.0	5.4	6.5	7.4	8.3
RoAA (Attributable)	0.7	0.7	0.8	0.9	1.0	1.1
RoRWA (Attributable)	0.6	0.7	0.8	0.9	1.0	1.1
NIM (% of IEAs)	2.42	2.80	2.57	2.44	2.43	2.46
NIM (% of RWAs)	3.07	3.60	3.20	2.95	2.92	2.94
NIM (% of AAs)	2.19	2.53	2.34	2.24	2.24	2.27
Spread	2.1	2.6	2.1	1.8	1.7	1.7
Efficiency (%)						
Cost-to-Income (Headline)	29.5	28.2	30.7	31.9	31.5	30.6
Cost-to-Income (Core)	31.5	28.4	31.0	32.9	32.7	31.9
Liquidity (%)						
LDR (stable sources of funds)	103	101	94	96	95	93
Loans/Assets	63.2	62.0	59.5	60.3	60.3	60.8
Cash & Interbank Loans-to-Total Assets	10.2	11.1	12.6	11.7	11.7	10.3
Deposits to Assets	53.2	49.8	51.3	52.0	52.1	52.8
Wholesale Funding to Loans	48.3	54.5	52.8	51.4	52.0	50.8
IEAs to IBLs	1.2	1.2	1.3	1.3	1.2	1.2
Asset Quality (%)						
NPL Ratio	5.98	5.83	6.43	6.42	6.33	6.22
NPL to Shareholders' Equity	42.0	37.3	39.3	39.5	39.5	39.7
NPL to Tier 1 Capital	43.9	39.5	40.6	40.8	40.8	41.0
Coverage Ratio	81.4	77.5	87.0	110.5	130.4	152.2
ALL/Average Loans	4.8	4.4	5.4	7.3	8.5	9.8
Cost of Risk (%)	196	211	153	162	143	132
Capitalization (%)						
CET1 Ratio	13.0	13.5	13.3	13.3	13.2	13.1
Tier-1 Ratio	18.6	19.0	18.8	18.6	18.2	17.9
CAR	19.8	20.2	19.9	19.7	19.4	19.0
Tier-1 Leverage (x)	12.9	13.5	14.1	14.2	14.0	13.9
Growth (%)						
Net Interest Income	17.1	11.4	-10.2	-5.0	3.6	5.7
Non-Interest Income	-18.7	-15.4	12.4	15.2	5.2	7.9
Total Revenue	7.2	5.8	-6.4	-0.9	4.0	6.3
Opex	-7.2	1.0	2.1	2.8	2.7	3.2
Net Operating Income	14.7	7.8	-9.7	-2.6	4.6	7.6
Net Income (Headline/Reported)	-6.8	0.1	8.8	12.6	15.3	14.0
Net Income (Attributable)	-6.3	1.5	13.6	16.9	19.7	17.5
Loans	-0.5	-4.3	-7.3	3.3	4.7	5.1
Deposits	-5.8	-8.5	-0.4	3.2	5.0	5.5
Assets	-4.3	-2.4	-3.4	1.9	4.8	4.1
RWAs	-9.3	0.0	1.8	4.1	5.4	4.9

Source: Company data, QNB FS Research

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.858	Target Price	QR3.810
Implied Upside/(Downside)	(1.3%)		

Stock Has Rallied Since Initiating Coverage; Further Upside Capped

After 1Q2023 results, we maintain our earnings CAGR of 12.3% (2022-27e). Since we initiated coverage on Wednesday, 26 April 2023, the stock has rallied by 19.3%. Moreover, the stock is trading at a P/TB of 1.7x (in-line with the market) and the market is pricing in a sustainable RoE of 13.4%, in-line with our forecast. As such, we retain our PT of QR3.810/share on DUBK. The stock was listed in mid-February 2023 with a valuation of 1.8x P/B and a price of QR4.35. Since its listing, DUBK stock sharply corrected, but has significantly recovered some of its losses. Hence, we are of the view that there is limited room for further upside. As such, we maintain our Market Perform rating.

Highlights

- DUBK's 1Q2023 bottom-line increased YoY and sequentially as a result of a sharp drop in provisions.** Dukhan Bank (DUBK) reported a net income of QR414.0mn in 1Q2023, increasing by 5.6%/140.3% YoY/QoQ. The YoY increase in profitability was driven by an 83.6% drop in provisions and impairments as revenue was weak (-16.2%) as a result of margin pressure. Sequentially, earnings surged due to an 89.6% drop in provisions & impairments.
- Revenue declined by 16.2% YoY as a result of margin pressure.** Net interest & investment income declined by 21.7%/6.0% YoY/QoQ to QR481.0mn. NIM contracted by 47bps/11bps YoY/QoQ to ~1.96% as result of the increase in CoFs outpacing yields.
- Loans and deposits both contracted sequentially, most likely due to public sector repayments of credit facilities.** Net loans receded by 2.0% sequentially to QR74.1bn. Moreover, deposits contracted by 6.1% QoQ to QR70.0bn in 1Q2023. We maintain our 6.8% loan book CAGR (2022-27e).
- NIMs continued its negative trajectory in 1Q2023.** NIMs declined by 47/11bps to ~1.96% YoY/QoQ. The growth in CoFs was larger than the growth in yields on interest earning assets.
- NPL ratio in 1Q2023 was flat at 5.15% vs. FY2022; on a positive note, NPL formation was negative.** The bank's NPLs grew by 50.4% in 2021 and 24.2% in 2022 to reach NPL ratios of 4.20%/5.15%. However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 Loans declined from 83% in FY2022 to 69% at the end of 1Q2023.
- Net credit provisions significantly dropped as a result of recoveries.** DUBK booked gross credit provisions of QR120.9mn in 1Q2023 vs. recoveries of QR113.6mn, resulting in net credit provisions of QR7.4mn vs. net credit provisions of QR179.8mn in 1Q2022 (4Q2022: QR281.9mn). Hence, CoR was practically Obps. However, we are still of the view that CoR could increase steadily as the bank builds precautionary buffers and should normalize at around the ~90bps level.
- The bank's efficiency ratio weakened due to weak revenue.** DUBK's C/I ratio moved up to 29.6% in 1Q2023 vs. 23.7% in 1Q2022 (4Q2022: 29.2%). We still expect the efficiency ratio to significantly improve over our forecast horizon driven by a combination of growth in revenue and costs containment.
- DUBK maintains healthy capitalization levels.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended 1Q2023 with CET1/Tier-1 ratios of 15.1/17.6%. Hence, we maintain our assumption that the bank's capital position will not deviate from historical levels.

Catalysts

- Progress in delivering on growth objectives and earnings acceleration beyond our estimates could drive stock price gains.**

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR3.810 and our Market Perform rating.** DUBK is trading at a 2023e P/TB and P/E of 1.7x and 16.5x, respectively.
- Risks:** 1) Geo-political factors and 2) Unexpected asset quality deterioration.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.227	0.235	0.276	0.316
EPS Growth (%)	1.8	3.3	17.3	14.7
P/E (x)	17.1	16.5	14.1	12.3
Tangible BVPS (QR)	2.2	2.3	2.4	2.6
P/TBV (x)	1.7	1.7	1.6	1.5
RoE (%)	10.6	10.5	11.9	12.9
DPS (QR)	0.160	0.170	0.180	0.190
Dividend Yield (%)	4.1	4.4	4.7	4.9

Source: QNB FS Research, Company data; EPS is based on current shares outstanding excluding treasury shares

Key Data

Current Market Price (QR)	3.858
Dividend Yield (%)	4.1
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.00/2.70
3-Month Average Volume (mn)	14,553.5
Mkt. Cap. (\$ bn/QR bn)	5.5/20.2
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	3.3
Return Vs. Listing Price (%)	(11.3)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *QSE (as of June 11, 2023); Note: FO is foreign ownership

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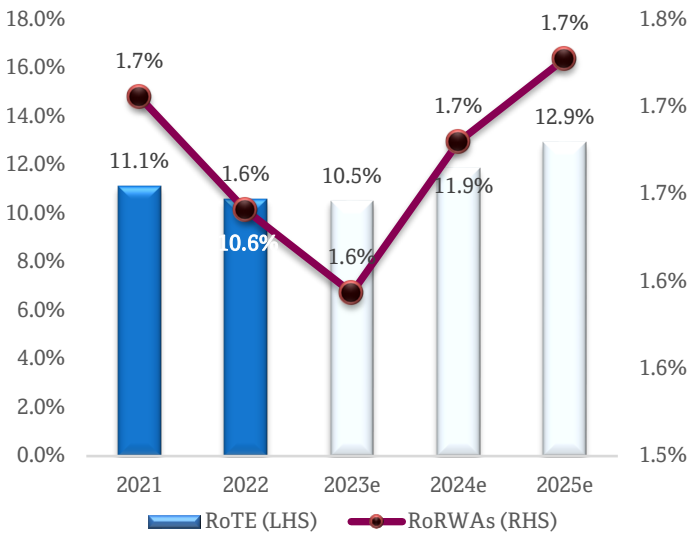
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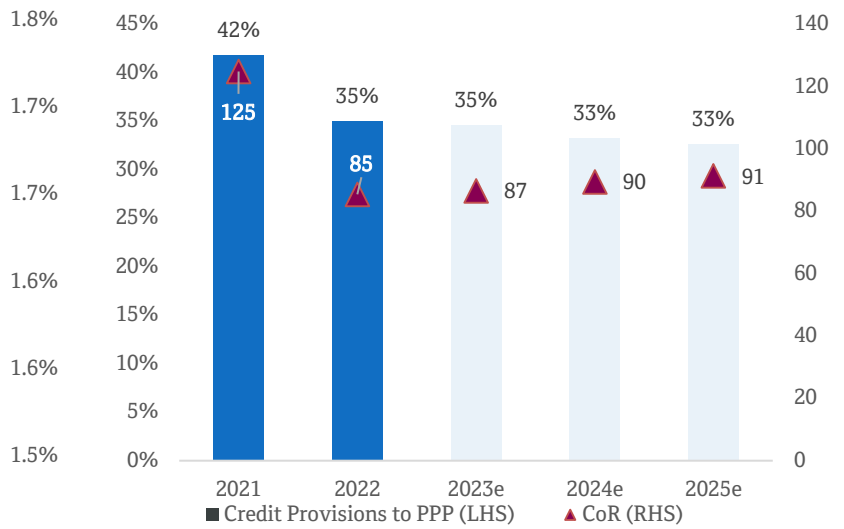
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RoE/RoRWAs to Steadily Improve...

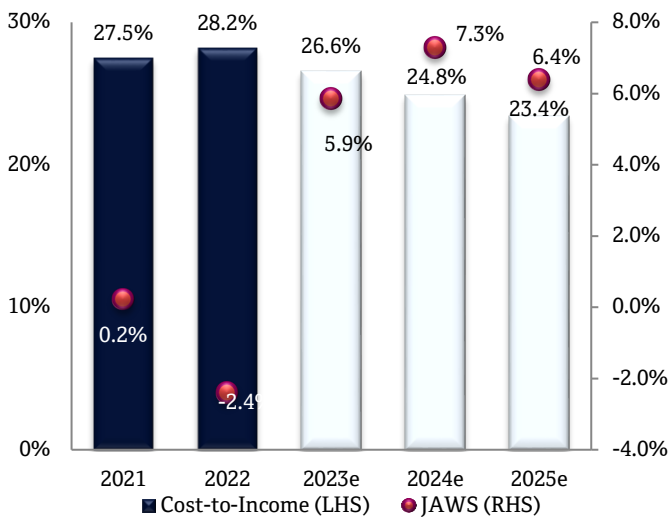


Source: Company data, QNB FS Research

CoR Normalizes



Efficiency to Improve

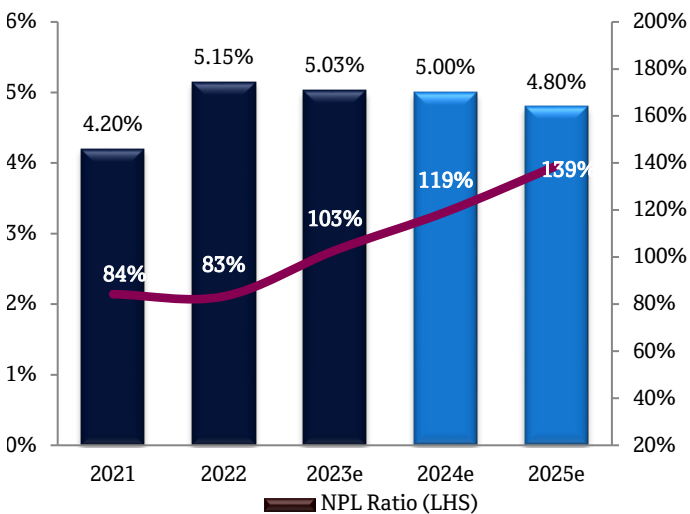


Source: Company data, QNB FS Research

Leading to Strong Net Operating Income



Majority of NPLs are Legacy



Source: Company data, QNB FS Research

Stage 3 Loans Require More Provisions

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	61,336,363	12,231,976	3,991,008	77,559,347
ECLs	87,631	589,179	2,735,711	3,412,521
Staging of Loans (%)	79.1%	15.8%	5.15%	
Staging of ECLs (%)	2.6%	17.3%	80.2%	
Coverage Ratio	0.1%	4.8%	68.5%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	2,358	2,345	2,143	2,182	2,486	2,739
Fees & Commissions	188	159	211	236	248	273
FX Income	143	170	223	235	251	271
Other Income	33	176	88	119	116	128
Non-Interest Income	364	505	522	589	616	672
Total Revenue	2,723	2,850	2,665	2,772	3,102	3,412
Operating Expenses	(749)	(782)	(750)	(736)	(770)	(798)
Net Operating Income	1,974	2,067	1,915	2,035	2,331	2,613
Net Provisions & Impairments	(955)	(872)	(660)	(708)	(787)	(853)
Net Profit Before Taxes and Non-Recurri	1,018	1,195	1,255	1,327	1,544	1,760
Taxes	(1)	(2)	(2)	(2)	(3)	(3)
Non-Recurring Items	(450)	-	-	-	-	-
Net Profit (Reported/Headline)	567	1,193	1,253	1,325	1,542	1,757
Payment on Tier-1 Sukuk	-	(33)	(71)	(71)	(71)	(71)
Social & Sports Contribution Fund				(33)	(39)	(44)
Net Profit (Attributable)	567	1,160	1,182	1,221	1,432	1,642
EPS (based on adjustment for treasury shares)	0.109	0.223	0.227	0.235	0.276	0.316

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	3,368	7,246	6,425	7,112	6,003	6,483
Interbank Loans	5,892	5,559	1,500	3,975	4,229	3,630
Net Investments	16,661	20,800	20,432	21,862	23,611	25,485
Net Loans	58,537	75,222	75,677	79,500	84,584	90,760
Investment In Associates	84	63	64	65	65	66
Other Assets	309	431	866	795	846	545
Net PP&E	372	280	264	235	206	175
Investments In Real Estate	3	135	135	135	135	135
Goodwill	443	443	443	443	443	443
Other Intangibles	628	549	471	392	314	235
Total Assets	86,297	110,727	106,276	114,513	120,436	127,957
Liabilities						
Interbank Deposits	18,948	16,755	14,871	18,162	18,076	18,563
Customer Deposits	53,882	77,426	74,545	79,018	84,549	91,313
Term Loans	0	0	0	0	0	0
Tier-1 Perpetual Sukuk	-	1,821	1,821	1,821	1,821	1,821
Other Liabilities	1,963	2,559	2,523	2,608	2,536	2,100
Total Liabilities	74,793	98,561	93,761	101,608	106,982	113,797
Total Shareholders' Equity	11,504	12,166	12,515	12,905	13,453	14,161
Total Liabilities & Shareholders' Equity	86,297	110,727	106,276	114,513	120,436	127,957
Risk Weighted Assets	65,091	70,985	73,065	80,159	90,327	99,807

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE	5.7	11.1	10.6	10.5	11.9	12.9
RoAA	0.7	1.2	1.1	1.1	1.2	1.3
RoRWAs	0.9	1.7	1.6	1.6	1.7	1.7
NIM (% of IEAs)	3.13	2.64	2.21	2.19	2.33	2.40
NIM (% of RWAs)	3.85	3.45	2.97	2.85	2.92	2.88
NIM (% of AAs)	2.89	2.38	1.97	1.98	2.12	2.21
Spread	2.82	2.42	1.95	1.87	2.03	2.07
Efficiency (%)						
Cost-to-Income (Headline)	27.5	27.5	28.2	26.6	24.8	23.4
Cost-to-Income (Core)	27.7	28.1	28.6	27.3	25.4	23.9
Liquidity (%)						
LDR	109	97	102	101	100	99
Loans/Assets	67.8	67.9	71.2	69.4	70.2	70.9
Liquid Assets-to-Total Assets	30.0	30.3	26.7	28.8	28.1	27.8
Deposits to Assets	62.4	69.9	70.1	69.0	70.2	71.4
Wholesale Funding to Loans	32.4	22.3	19.7	22.8	21.4	20.5
IEAs to IBLs	119	110	116	113	114	114
Asset Quality (%)						
NPL Ratio	3.6	4.2	5.1	5.0	5.0	4.8
NPL's to Shareholders' Equity	18.9	26.9	32.5	32.6	33.3	32.9
NPL to Tier-1 Capital	22.0	26.7	32.3	30.4	29.4	27.6
Coverage Ratio	84.4	84.3	83.3	102.8	119.2	138.8
ALL/Average Loans	2.9	3.6	4.0	5.0	5.8	6.5
Cost of Risk (bps)	163	125	85	87	90	91
Capitalization (%)						
CET1 Ratio	15.2	14.7	14.7	15.0	14.9	15.1
Tier-1 Ratio	15.2	17.3	17.2	17.2	16.9	16.9
CAR	16.4	18.4	18.3	18.3	18.0	18.0
Leverage (x)	7.5	9.1	8.5	8.9	9.0	9.0
Growth (%)						
Net Interest Income	62.2	-0.6	-8.6	1.8	13.9	10.2
Non-Interest Income	-2.1	38.7	3.4	12.8	4.5	9.2
OPEX	4.9	4.4	-4.1	-1.9	4.6	3.6
Net Operating Income	77.4	4.8	-7.4	6.3	14.5	12.1
Net Income (Attributable)	-25.9	104.8	1.8	3.3	17.3	14.7
Loans	12.7	28.5	0.6	5.1	6.4	7.3
Deposits	12.5	43.7	-3.7	6.0	7.0	8.0
Assets	11.9	28.3	-4.0	7.8	5.2	6.2
RWAs	13.6	9.1	2.9	9.7	12.7	10.5

Source: Company data, QNB FS Research

Masraf Al Rayan (MARK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.612	Price Target	QR3.112
Implied Upside	19.1%		

Stock Needs a Catalyst; Stay Accumulate For Now

Factoring in 1Q2023 results, we maintain our estimates for 2023 and 2024. Thus, our RoE estimates for 2023/2024 remains unchanged at 6.7/8.2%. Hence, we maintain MARK's price target at QR3.112/share and our Accumulate rating. Given MARK's asset quality situation, the stock is trading at 2023e/24e P/B of 1.1x/1.1x (lower than its historical 5-year median of 2.2x and its high of 2.5x). The stock has underperformed its peers on an YTD and 1-year TTR basis. We note that while MARK's current relative valuation looks attractive, the stock needs a strong catalyst.

Highlights

- We still expect double-digit growth in earnings:** We still estimate MARK's bottom-line to grow from 2022's QR1.26bn to QR2.74bn by 2027e. The bank's earnings should be driven by CoR normalizing (although CoR is expected to remain elevated).
- MARK's 1Q2023 net profit fell short of our estimates on the account of high CoFs:** Masraf Al Rayan reported a net profit of QR385.0mn in 1Q2023 (lower than our estimate of QR518.0mn), declining by 21.1% YoY. We note sequential results (1Q2023 vs. 4Q2022) are not strictly comparable due to restatements.
- The drop in 1Q2023 profitability was mainly attributable to a large jump in CoFs.** CoFs increased from ~1.39% in 1Q2022 to ~4.36% in 1Q2023. As such, MARK's NIM contracted from 2.32% in 1Q2022 to 1.80% in 1Q2023.
- 1Q2023 annualized RoE came in at 6.9% vs. 8.6% in 1Q2022; RoE is battered and it will take a while to recover.** RoE declined from 11.3% in 2021 to 5.8% in 2022 (pre-merger RoE hovered at the 16% level). It will take a long time for RoE to pick up despite double-digit growth in earnings; thus, we maintain our RoE estimates for 2023/2024 at 6.7/8.2%.
- Although MARK's primary exposure is to the public sector, asset quality has faced headwinds with NPLs spiking; the bulk/majority of NPLs appear to be attributed to the construction and real estate segments.** Pre-merger, the NPL ratio hovered around 1% but has increased to 6.2% by the end of 1Q2023. NPLs surged from QR1.92bn in FY2021 to QR7.45bn in 1Q2023 (NPL formation of QR5.53bn). Moreover, Stage 2 loans as a % of total loans increased from 2021's 14% to 25% as of 1Q2023. At the same time, coverage of Stage 3 loans increased from 46% in FY2022 to 50% in 1Q2023.
- CoR to stay on the high side in the near-to-medium term as MARK builds buffers to reach a coverage ratio of >100%; credit provisions jumped by 20.7% to QR328.2mn YoY in 1Q2023.** CoR spiked from 87bps in 1Q2022 to 109bps in 1Q2023. We maintain our estimates of CoR at 114bps for 2023 and 92bps in 2024 (2025: 82bps) as management increases coverage of Stage 3 loans. We expect CoR to normalize at ~60bps by 2027.
- Loans and deposits both dropped sequentially in 1Q2023; loans are still estimated to increase by a CAGR of 5.6% in 2022-27e.** Net loans decreased by 1.1% QoQ to QR116.5bn, while deposits declined by 3.7% sequentially to QR93.7bn. We maintain our estimates and still expect loans to increase from 2022's QR117.9bn to QR154.4bn by the end of 2027. We expect loan growth to be driven by the public sector.
- CET1 to remain robust and highest among its peers.** MARK ended 1Q2023 with CET1/Tier-1 ratios of 19.0%/20.0%.

Catalysts

- 1) Normalizing CoR, which results in strong RoE ahead of expectations.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our QR3.112 PT and Accumulate rating.** MARK is trading at P/TB and P/E of 1.1x and 17.1x on our 2023 estimates, respectively.
- Risks:** 1) Geopolitical factors & 2) Greater-than-expected increase in credit costs.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS Attributable (QR)	0.14	0.15	0.19	0.23
EPS Growth (%)	-22.4	12.8	25.9	21.2
P/E (x)	19.2	17.1	13.5	11.2
Tangible BVPS (QR)	2.30	2.35	2.42	2.51
P/TBV (x)	1.1	1.1	1.1	1.0
RoE (%)	5.8	6.7	8.2	9.6
DPS (QR)	0.100	0.125	0.150	0.175
Dividend Yield (%)	3.8	4.8	5.7	6.7

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

Key Data

Current Market Price (QR)	2.612
Dividend Yield (%)	3.8
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000AOM8VM3
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.838/2.427
3-m Average Volume (mn)	13,586.1
Mkt. Cap. (\$ bn/QR bn)	6.7/24.3
Shares Outstanding (mn)	9,300
FO Limit* (%)	100.0
Current FO* (%)	14.8
1-Year Total Return (%)	(42.4)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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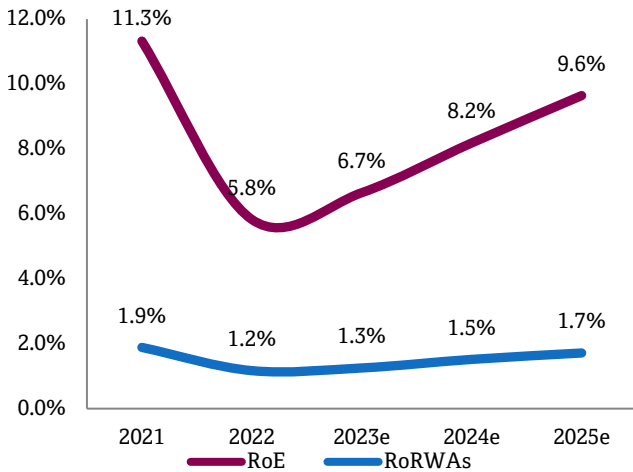
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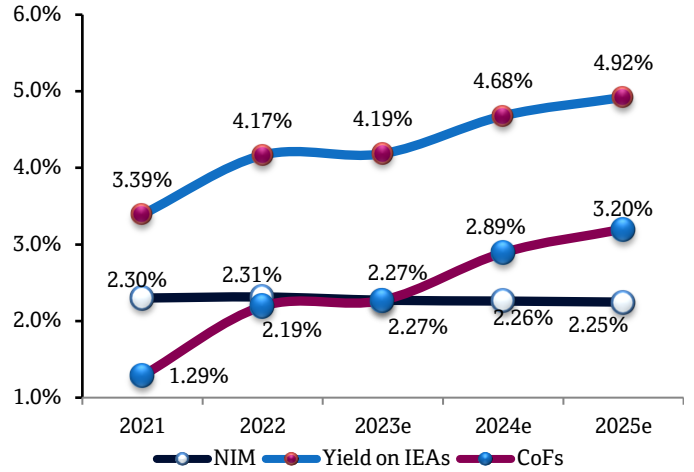
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RoE & RoRWAs to Steadily Improve; RoE to Remain < CoE

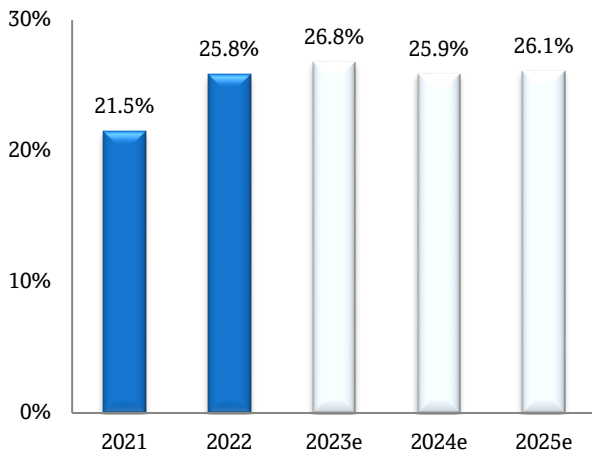


Source: Company data, QNB FS Research

While Margins to Remain Under Pressure

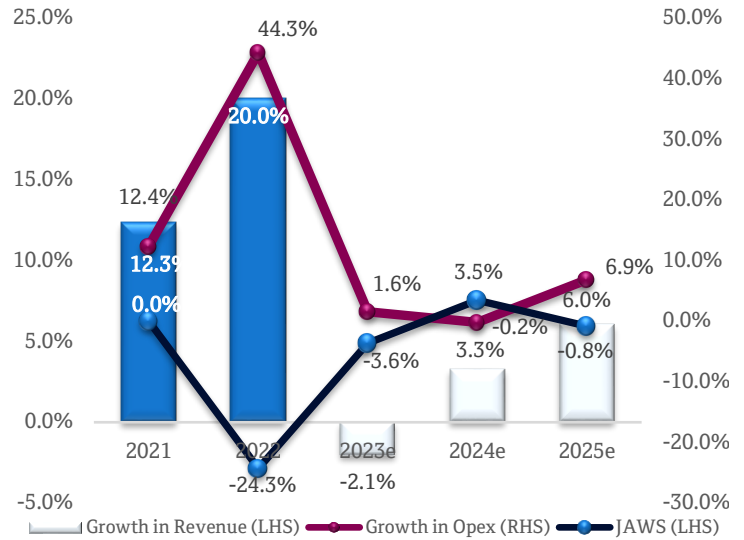


C/I Ratio to Remain at Current Levels Due to Cost Containment

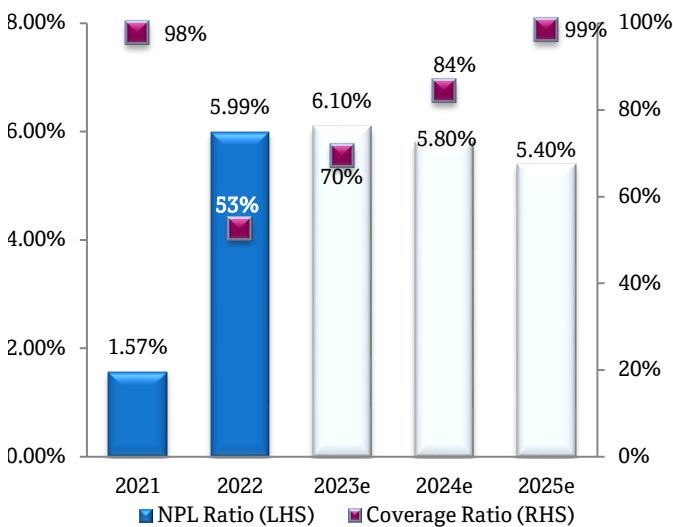


Source: Company data, QNB FS Research; 2021 & 2022 C/I excludes one-time integration costs

While Generating Negative-to-Neutral JAWS



NPL Ratio Spiked on The Back of Contracting & Real Estate Loans



Source: Company data, QNB FS Research

Coverage of Stage 3 Loans (NPLs) Remains at a Low of 50%

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	83,248,020	30,026,391	7,451,394	120,725,805
ALLs	44,752	433,540	3,725,019	4,203,311
Stages %				
Loans	69.0%	24.9%	6.2%	
Coverage Ratio	0.05%	1.44%	50%	

Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	3,113	3,607	3,528	3,611	3,799	3,984
Fees & Commissions	324	432	401	441	494	569
FX Income	173	271	288	309	328	351
Other Income	19	46	47	42	48	50
Non-Interest Income	516	748	736	793	871	969
Total Revenue	3,629	4,355	4,265	4,404	4,670	4,953
Operating Expenses	(780)	(1,126)	(1,143)	(1,141)	(1,219)	(1,288)
Net Operating Income	2,849	3,229	3,121	3,263	3,451	3,665
Net Provisions & Impairments	(1,097)	(1,710)	(1,572)	(1,324)	(1,111)	(1,048)
Net Profit Before Taxes & Minority Interest	1,752	1,519	1,550	1,939	2,340	2,617
Tax	(5)	(22)	(23)	(29)	(35)	(39)
Net Profit Before Minority Interest	1,747	1,497	1,527	1,910	2,305	2,578
Minority Interest	(13)	(19)	(19)	(24)	(29)	(33)
Non-Recurring Items	(16)	(134)	-	-	-	-
Net Profit (Reported/Headline)	1,718	1,344	1,508	1,886	2,276	2,546
Interest Expense on AT1 Bond	(48)	(46)	(46)	(46)	(46)	(46)
Social & Sports Contribution Fund	(43)	(36)	(38)	(47)	(57)	(64)
Net Profit (Attributable)	1,627	1,263	1,424	1,793	2,173	2,436

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023e	2024e	2025e	2026e
Assets						
Cash & Balances with Central Bank	5,221	5,088	5,312	5,465	5,957	6,434
Interbank Loans	9,156	6,109	7,102	6,230	7,369	4,334
Net Investments	32,753	31,477	34,975	32,204	36,194	39,075
Net Loans	120,880	117,859	118,365	124,608	133,979	144,483
Investment In Associates	349	346	355	365	375	382
Other Assets	3,280	4,074	4,068	3,937	3,806	3,898
Net PP&E	715	902	954	994	1,055	1,103
Goodwill & Intangibles	1,802	1,679	1,679	1,679	1,679	1,679
Total Assets	174,155	167,533	172,808	175,483	190,414	201,388
Liabilities						
Interbank Deposits	23,247	28,805	26,196	17,249	19,423	17,335
Customer Deposits	106,956	97,292	102,156	109,307	119,145	128,676
Sukuks & Borrowings	13,436	11,525	13,830	17,565	20,375	22,820
Other Liabilities	5,850	5,629	5,830	5,912	5,214	5,459
AT1 Notes	1,000	1,000	1,000	1,000	1,000	1,000
Total Liabilities	150,488	144,251	149,013	151,033	165,157	175,290
Minority Interest	200	198	217	242	271	303
Total Shareholders' Equity	23,467	23,084	23,578	24,208	24,986	25,795
Total Liabilities & Shareholders' Equity	174,155	167,533	172,808	175,483	190,414	201,388
Risk Weighted Assets	104,741	111,079	116,127	120,206	133,290	142,986

Source: Company data, QNB FS Research

Ratios/KPIs	2021	2022	2023e	2024e	2025e	2026e
Profitability (%)						
RoE	11.3	5.8	6.7	8.2	9.6	10.5
RoAA	1.1	0.7	0.8	1.0	1.2	1.2
RoRWA	1.9	1.2	1.3	1.5	1.7	1.8
NIM (% of IEAs)	2.30	2.31	2.27	2.26	2.25	2.19
NIM (% of RWAs)	3.61	3.34	3.11	3.06	3.00	2.88
NIM (% of AAs)	2.11	2.11	2.07	2.07	2.08	2.03
Spread	2.1	2.0	1.9	1.8	1.7	1.6
Efficiency (%)						
Cost-to-Income (Headline)	21.5	25.8	26.8	25.9	26.1	26.0
Cost-to-Income (Core)	21.6	26.0	27.1	26.1	26.4	26.3
Liquidity (%)						
LDR (Loans to Stable Sources of Funds)	100	108	102	98	96	95
Loans/Assets	69.4	70.3	68.5	71.0	70.4	71.7
Cash & Interbank Loans-to-Total Assets	8.3	6.7	7.2	6.7	7.0	5.3
Deposits to Assets	61.4	58.1	59.1	62.3	62.6	63.9
Wholesale Funding to Loans	30.3	34.2	33.8	27.9	29.7	27.8
IEAs to IBLs	118.1	118.9	118.5	120.6	118.9	118.9
Asset Quality (%)						
NPL Ratio	1.57	5.99	6.10	5.80	5.40	5.00
NPL to Shareholders' Equity	8.19	31.60	31.98	31.39	30.58	29.67
NPL to Tier 1 Capital	9.04	33.70	32.96	31.36	29.70	28.09
Coverage Ratio	97.8	52.7	69.6	84.5	98.6	112.1
ALL/Average Loans	1.7	2.6	3.9	4.6	5.1	5.4
Cost of Risk (bps)	87	127	114	92	82	71
Capitalization (%)						
CET1 Ratio	19.4	18.6	18.8	19.3	18.6	18.4
Tier-1 Ratio	20.3	19.5	19.7	20.2	19.3	19.1
CAR	21.2	20.3	20.5	21.0	20.1	19.9
Leverage (x)	7.4	7.3	7.3	7.2	7.6	7.8
Growth (%)						
Net Interest Income	12.4	15.9	-2.2	2.4	5.2	4.9
Non-Interest Income	11.9	45.1	-1.6	7.6	9.9	11.3
Opex	12.3	44.3	1.6	-0.2	6.9	5.7
Net Operating Income	12.4	13.4	-3.3	4.5	5.8	6.2
Net Income (Reported)	-21.0	-21.7	12.2	25.1	20.7	11.8
Net Income (Attributable)						
Loans	40.2	-2.5	0.4	5.3	7.5	7.8
Deposits	55.2	-9.0	5.0	7.0	9.0	8.0
Assets	43.7	-3.8	3.1	1.5	8.5	5.8
RWAs	54.8	6.1	4.5	3.5	10.9	7.3

Source: Company data, QNB FS Research

Qatar International Islamic Bank (QIIB)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR9.889	Target Price	QR10.438
Implied Upside	5.8%		

Growth Priced In; Maintain Market Perform & QR10.438 PT

We maintain our expected 5-year earnings CAGR of 10.8% (2022-27e) for Qatar International Islamic Bank (QIIB) after its 1Q2023 results. We also retain our Market Perform rating and our TP of QR10.438 as growth in earnings is already priced-in. The stock is now trading at 2023 P/B of 2.0x, in-line with its 5-year median. As a result, we see limited upside, as we believe QIIB is trading around its fair value. At these levels, it would imply that QIIB is trading at a 25% premium to QIBK (2023e P/B 1.6x) and it should be noted that QIBK has better profitability and asset quality indicators. Further, the market is pricing in a sustainable RoE of 17%, above our estimate of 16.0% (17% sustainable RoE is very challenging to achieve, in our view).

Highlights

- **QIIB's 1Q2023 came in-line with estimates; 1Q2023 bottom-line increased by 7.1% YoY (82.4% QoQ) to QR315.9mn. For the time being, our estimates remain unchanged.** Qatar International Islamic Bank reported a net income of QR315.9mn in 1Q2023, in-line with our estimate of QR310.2mn. The YoY increase in profitability was mainly driven by margin expansion despite a 92.6% surge in provisions and impairments. Sequentially, earnings followed historical trends and surged on the back of a 65.7% drop in provisions and impairments.
- **Healthy RoE generator (>CoE):** QIIB reported annualized RoE of 18.1% in 1Q2023 vs. 17.8% in 1Q2022 (annualized RoE is not an indicator for year-end RoE). We still forecast RoE to reach 16.6% by 2026e from 14.3% in 2022. Moreover, we estimate RoRWAs to increase from 1.9% in 2022 (1.8% in 2021) to a strong 2.2% by 2026e.
- **The bank remains cost efficient and has one of the lowest C/I ratios domestically and in the GCC, consistently generating positive JAWs.** QIIB's cost-to-income ratio remained at a very healthy level, declining from 19.3% in 1Q2022 to 17.2% in 1Q2023 (4Q2022: 18.7%). We still expect the C/I ratio to hover around ~18.0%.
- **Net loans are still expected to grow by a 5-year CAGR (2022-27e) of 6.4%.** Net loans remained flat at QR35.0bn QoQ. On the other hand, deposits contracted by 2.4% sequentially to reach QR35.8bn in 1Q2023. Thus, QIIB's LDR (excluding stable sources of funds) was a healthy 95%. We expect the LDR to hover around the 95% levels.
- **1Q2023 CoR significantly increased vs. 1Q2022.** QIIB booked net credit provisions of QR53.7mn in 1Q2023 vs. QR28.8mn in 1Q2022 and QR130.8mn in 4Q2022 (in-line with historical trends, provisions sharply drop sequentially in 1Q). 1Q2023 CoR increased to 59bps from 29bps in 1Q2022. We maintain our 2023 CoR estimate of 81bps and still expect CoR to steadily improve to 72bps by 2026e.
- **Asset quality continued to come under pressure, mainly attributed to some SMEs.** NPL ratio jumped from 2.79% in FY2022 to 3.02% in 1Q2023 (2.57% in FY2021), while NPLs increased by 8.0%. On a positive note, coverage of Stage 3 loans was a strong 91% vs. 93% in FY2022 (FY2021: 75%). Moreover, management continued building buffers for Stage 3 loans. As such, allowance for loan losses (Stage 3) increased by 5% vs. FY2022 and contributes 63% of allowance for loan losses. Going forward, we forecast coverage ratio to continue to increase as management books precautionary provisions.
- **Capitalization remains healthy.** QIIB ended 1Q2023 with a robust Tier-1 ratio of 17.2%. CET1 ratio also increased to 12.9% vs. 12.0% in 2022 and 11.3% in FY2021. We still expect management to maintain a healthy capital position in the near future.

Catalysts

- 1) We need to see increasing momentum in reported results, in our view (historical 5-year earnings CAGR was only 4.4%).

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Market Perform rating and price target of QR10.438.** QIIB is trading at a 2023e P/TB and P/E of 2.0x and 14.4x, respectively.
- **Risks:** 1) Exposure to the real estate and consumer segments creates concentration risk, which could result in further impairments and 2) Geopolitical risks.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.621	0.685	0.751	0.811
EPS Growth (%)	8.1	10.3	9.7	7.9
P/E (x)	15.9	14.4	13.2	12.2
Tangible BVPS (QR)	4.6	4.9	5.2	5.5
P/TBV (x)	2.2	2.0	1.9	1.8
RoE (%)	14.3	14.9	15.4	15.6
DPS (QR)	0.400	0.425	0.475	0.500
Dividend Yield (%)	4.0	4.3	4.8	5.1

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

Key Data

Current Market Price (QR)	9.889
Dividend Yield (%)	4.0
Bloomberg Ticker	QIIB QD
ADR/GDR Ticker	N/A
Reuters Ticker	QIIB.QA
ISIN	QA0006929879
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	12.940/9.000
3-m Average Volume (000)	871.0
Mkt. Cap. (\$ bn/QR bn)	4.1/15.0
Shares Outstanding (mn)	1,513.7
FO Limit* (%)	100.0
Current FO* (%)	19.6
1-Year Total Return (%)	(10.7)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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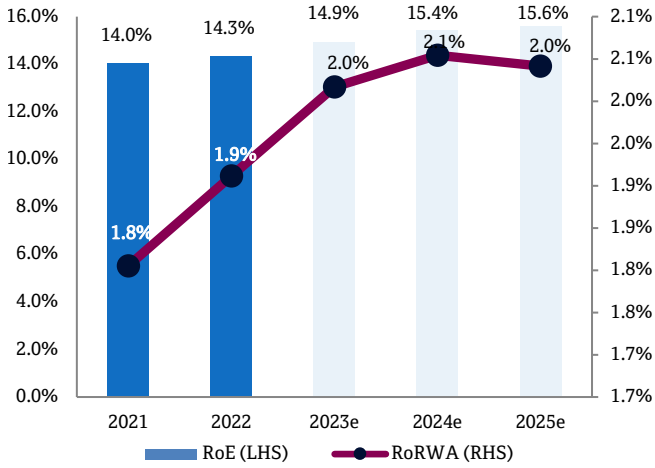
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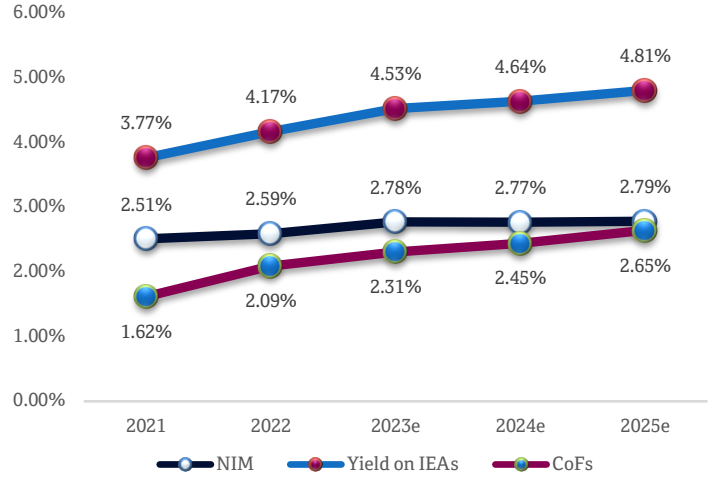
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RoE & RoRWAs to Steadily Improve & Remain Healthy; RoE > CoE

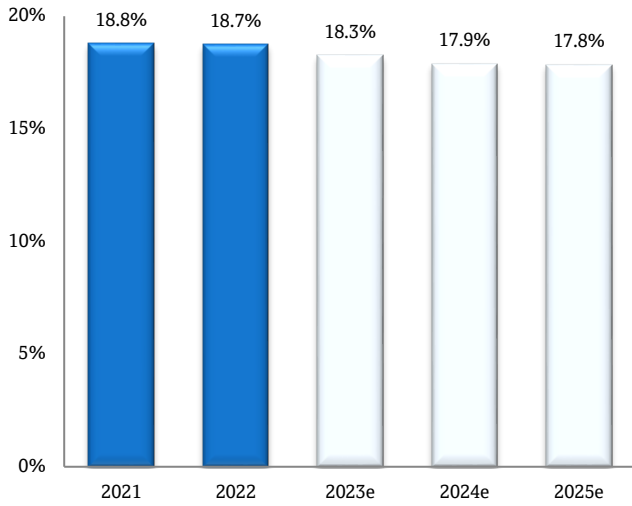


Source: Company data, QNB FS Research

While Margins to Stabilize After 2023

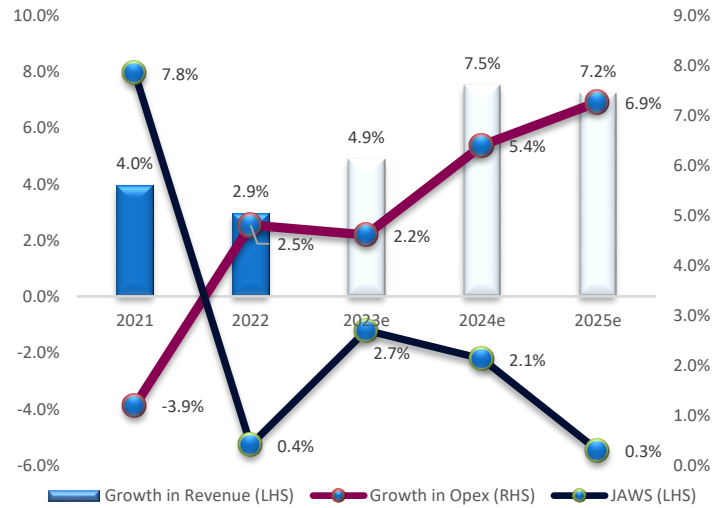


C/I Ratio One of The Lowest Domestically & Regionally

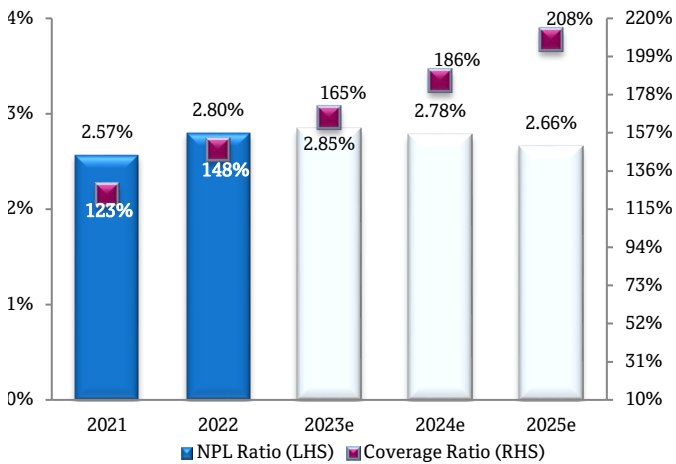


Source: Company data, QNB FS Research

While Generating Neutral-to-Positive JAWS



NPL Ratio Spiked Mainly on The Back of a Few SME Loans



Coverage of Stage 3 Loans (NPLs) is a Strong 91%

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	32,393,813	3,105,005	1,104,310	36,603,128
ECLs	316,772	240,984	1,005,519	1,563,275
Stages % Loans	88.5%	8.5%	3.0%	
Stages % ECLs	20.3%	15.4%	64.3%	
Coverage Ratio	1.0%	7.8%	91.1%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	1,422	1,434	1,423	1,481	1,580	1,703
Fees & Commissions	203	250	298	321	360	369
FX Income	48	42	85	68	63	70
Other Income	3	16	(13)	10	18	26
Non-Interest Income	253	308	370	399	442	464
Total Revenue	1,675	1,742	1,793	1,880	2,021	2,167
Operating Expenses	(341)	(328)	(336)	(343)	(362)	(387)
Net Operating Income	1,335	1,414	1,457	1,537	1,660	1,780
Net Provisions & Impairments	(397)	(411)	(382)	(363)	(382)	(411)
Net Profit (Headline/Reported)	938	1,003	1,075	1,174	1,277	1,370
Payment on Tier-1 Sukuk	(108)	(108)	(108)	(108)	(108)	(108)
Social & Sports Contribution Fund	(23)	(25)	(27)	(29)	(32)	(34)
Net Profit (Attributable)	806	870	940	1,037	1,137	1,227

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	2,776	2,670	2,491	2,702	2,865	2,978
Interbank Loans	10,508	13,426	9,760	12,064	11,683	13,368
Net Investments	5,852	7,220	7,752	8,372	8,833	9,456
Net Loans	40,514	37,031	35,022	36,557	38,943	41,777
Investment In Associates	345	264	192	182	173	167
Other Assets	351	252	275	239	271	247
Net PP&E	242	231	231	222	264	262
Investments In Real Estate	724	697	669	669	669	669
Total Assets	61,314	61,792	56,393	61,008	63,702	68,924
Liabilities						
Interbank Deposits	13,128	9,922	6,918	8,602	8,417	10,816
Customer Deposits	36,352	38,646	36,706	39,166	41,516	43,799
Term Loans	2,566	3,543	2,794	2,794	2,794	2,794
Tier-1 Perpetual Sukuk	2,092	2,092	2,092	2,092	2,092	2,092
Other Liabilities	944	979	900	940	976	1,007
Total Liabilities	55,082	55,182	49,411	53,594	55,795	60,508
Total Shareholders' Equity	6,231	6,610	6,983	7,414	7,908	8,416
Total Liabilities & Shareholders' Equity	61,314	61,792	56,393	61,008	63,702	68,924
Risk Weighted Assets	47,132	49,250	49,109	53,687	57,014	63,203

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE	13.4	14.0	14.3	14.9	15.4	15.6
RoAA	1.4	1.4	1.6	1.8	1.8	1.9
RoRWA	1.8	1.8	1.9	2.0	2.1	2.0
NIM (% of IEAs)	2.60	2.51	2.59	2.78	2.77	2.79
NIM (% of RWAs)	3.24	2.97	2.89	2.88	2.85	2.83
NIM (% of AAs)	2.41	2.33	2.41	2.52	2.53	2.57
Spread	2.20	2.15	2.08	2.22	2.20	2.16
Efficiency (%)						
Cost-to-Income (Headline)	20.3	18.8	18.7	18.3	17.9	17.8
Cost-to-Income (Core)	20.5	19.1	18.7	18.4	18.1	18.1
Liquidity (%)						
LDR	104	88	89	87	88	90
Loans/Assets	66.1	59.9	62.1	59.9	61.1	60.6
Cash & Interbank Loans-to-Total Assets	21.7	26.0	21.7	24.2	22.8	23.7
Deposits to Assets	59.3	62.5	65.1	64.2	65.2	63.5
Wholesale Funding to Loans	38.7	36.4	27.7	31.2	28.8	32.6
IEAs to IBLs	129	129	136	128	133	128
Asset Quality (%)						
NPL Ratio	1.6	2.6	2.8	2.9	2.8	2.7
NPL to Shareholders' Equity	10.4	14.8	14.6	14.7	14.4	14.0
NPL to Tier-1 Capital	8.8	12.8	12.8	13.0	12.8	12.5
Coverage Ratio	128.9	123.1	147.7	165.3	185.7	208.2
ALL/Average Loans	2.0	2.9	3.9	4.6	5.1	5.5
Cost of Risk (bps)	59	95	81	80	79	77
Capitalization (%)						
CET1 Ratio	11.2	11.3	12.0	11.8	12.0	11.6
Tier-1 Ratio	15.6	15.6	16.3	15.7	15.6	14.9
CAR	16.5	16.7	17.7	17.1	17.0	16.3
Leverage (x)	9.8	9.3	8.1	8.2	8.1	8.2
Growth (%)						
Net Interest Income	13.3	0.8	-0.8	4.1	6.7	7.8
Non-Interest Income	57.7	21.5	20.2	7.8	10.6	5.1
OPEX	-0.2	-3.9	2.5	2.2	5.4	6.9
Net Operating Income	24.2	6.0	3.0	5.5	8.0	7.3
Net Income (Attributable)	-5.0	7.9	8.1	10.3	9.7	7.9
Loans	9.5	-8.6	-5.4	4.4	6.5	7.3
Deposits	16.4	6.3	-5.0	6.7	6.0	5.5
Assets	7.9	0.8	-8.7	8.2	4.4	8.2
RWAs	15.6	4.5	-0.3	9.3	6.2	10.9

Source: Company data, QNB FS Research

Qatar Islamic Bank (QIBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR17.82	Target Price	QR24.18
Implied Upside	35.7%		

Attractive Entry Point as Valuation Remains Compelling; Accumulate

After 1Q2023 results, we maintain our earnings CAGR of 11.5% (2022-27e). As such, we retain our PT of QR24.18/share on QIBK. We believe the stock has significantly rerated and is trading at attractive levels. QIBK is trading at a P/B of 1.6x on our 2023 estimates, which implies decent upside, in our view. We note that the stock's 5-year median P/B is 2.3x (5-year high P/B of 3.1x and 5-year low of 1.8x). Hence, we maintain our Accumulate rating on the name. Our thesis stays unchanged: QIBK's fundamentals continue to remain robust with strong RoE generation (2021: 18.2%, 2022: 18.1%, 2023e: 17.9%, 2024e: 18.0% & 2025e: 18.2%); moreover, the bank is cost efficient, has a strong Tier-1 position and a superior asset quality profile vs. its peers. As such, we believe the stock warrants a premium. QIBK is still expected to generate superior RoE/RoRWAs vs. peers (>17%/>2.0%) in the medium-term.

Highlights

- **QIBK reported 1Q2023 net profit of QR905.3mn.** Net profit climbed up 5.9% YoY (-21.6% QoQ).
- **Large drop in net provisions drove the bottom-line YoY.** Total 1Q2023 revenue receded by 5.6% YoY due to a drop in net interest & investment income (-5.8% YoY) and a decline in non-funded income (-4.2% YoY), while opex increased by 5.4% YoY. On the other hand, a sharp drop in provisions & impairments (-38.8%) led to a 5.9% YoY increase in the bottom-line. Sequentially, a surge in provisions & impairments (up 107.2%) and a 7.0% drop in net interest & investment income resulted in a 21.6% decrease in the bottom-line.
- **Robust RoE and RoRWA trajectory to continue; 1Q2023 RoE came in at 16%:** QIBK boasts one of the highest RoEs & RoRWAs among its domestic and regional peers. The bank's RoE jumped from 15.2% in FY2016 to 18.1% in FY2022, despite the large amounts of provisions booked during the COVID-19 pandemic era along with precautionary provisions due to QIBK's prudent risk approach. We maintain our RoE estimates of 17.9% in 2023, 18.0% in 2024 and 18.2% in 2025. QIBK also has superior RoRWAs, which are well above 2.0%. QIBK generated RoRWAs of 2.8% in 2022 and we still expect this metric to increase to 3.2% by 2027.
- **QIBK remains one of the most cost-efficient banks in the GCC & continues to generate positive JAWs.** The bank's C/I ratio dropped from 30.8% in 2015 to 17.4% in 2022 (1Q2023: 18.8%). Moreover, QIBK generated robust JAWs of 8.7% on average (2017-2022). We maintain our C/I ratios of 16.8%/16.4% in 2023/2024.
- **Net loans receded by 1.4% given public sector repayments; however, gross loans, excluding the public sector, ticked up by ~1.7% vs. FY2022.** Net loans declined by 1.4% to QR117.6bn vs. FY2022. Deposits followed suit and moved down by 3.7% to QR117.9bn as QIBK shed expensive deposits. We still expect net loans to grow by 6.7% in 2023.
- **CoR to remain elevated given management's conservative risk management nature but we do not expect it to revert back to ~100bps levels (2020 & 2021).** Net credit provisions sharply dropped by 38.3% YoY in 1Q2023 (+296.6% sequentially) to QR317.2mn. CoR improved from 157bps in 1Q2022 to 102bps in 1Q2023. Moreover, CoR also declined from 104bps in 2021 to 92bps in 2022. We maintain our estimate of CoR 84bps for 2023e. We expect CoR to normalize at 70bps by 2025e. A decent chunk of CoR is coming from Stage 1 loans as management is upping its buffers. 57% of ECLs is attributed to Stage 1 loans.
- **Asset quality remains superior; we still do not expect any headwinds going forward.** NPL ratio remained flat at 1.5% in 1Q2023 vs. FY2022. During the same time, NPL formation was negative, which is a positive (dropping by 6.8% after dropping by 19.5% vs. FY2021). Coverage of Stage 3 loans was a strong 95%. We still expect the NPL ratio to further improve over the coming years.
- **Capitalization remains strong.** QIBK ended 1Q2023 with robust CET1 and Tier-1 ratios at 15.6% and 18.5%, respectively. We still expect management to maintain these levels going forward, while generating superior RoEs.

Catalysts

- **For QIBK shares to regain momentum, we need to see dividend upside.** Investor sentiment also generally needs to become more constructive regarding the banking sector and Qatari equities.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target at QR24.18 and our Accumulate rating.** QIBK is trading at a 2023e P/TB and P/E of 1.6x and 10.2x, respectively.
- **Risks:** 1) Increase in credit costs and 2) Exposure to the real estate segment.

Key Financial Data and Estimates

(In QR mn)	2022	2023e	2024e	2025e
EPS (QR)	1.57	1.75	1.96	2.21
EPS Growth (%)	13.7	11.0	12.0	13.1
P/E (x)	11.3	10.2	9.1	8.1
Tangible BVPS (QR)	9.8	10.9	12.2	13.6
P/TBV (x)	1.8	1.6	1.5	1.3
RoE (%)	18.1	17.9	18.0	18.2
DPS (QR)	0.625	0.675	0.725	0.800
Dividend Yield (%)	3.5	3.8	4.1	4.5

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

Key Data

Current Market Price (QR)	17.82
Dividend Yield (%)	3.5
Bloomberg Ticker	QIBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QISB.QA
ISIN	QA0006929853
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	27.98/17.26
3-m Average Volume (mn)	1,557.7
Mkt. Cap. (\$ bn/QR bn)	11.6/42.1
Shares Outstanding (mn)	2,362.93
FO Limit* (%)	100.0
Current FO* (%)	14.9
1-Year Total Return (%)	(18.3)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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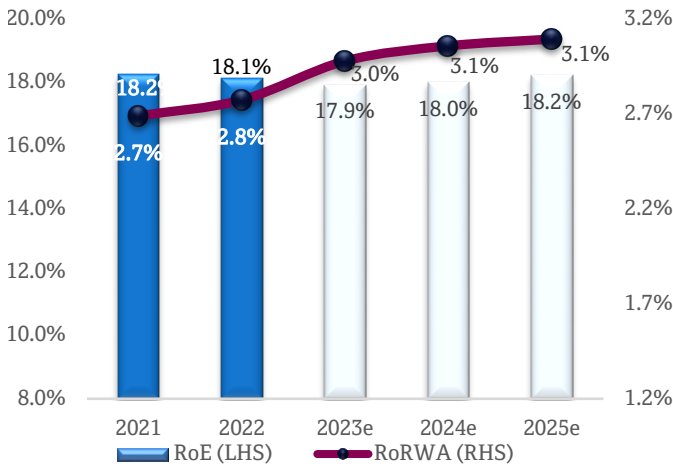
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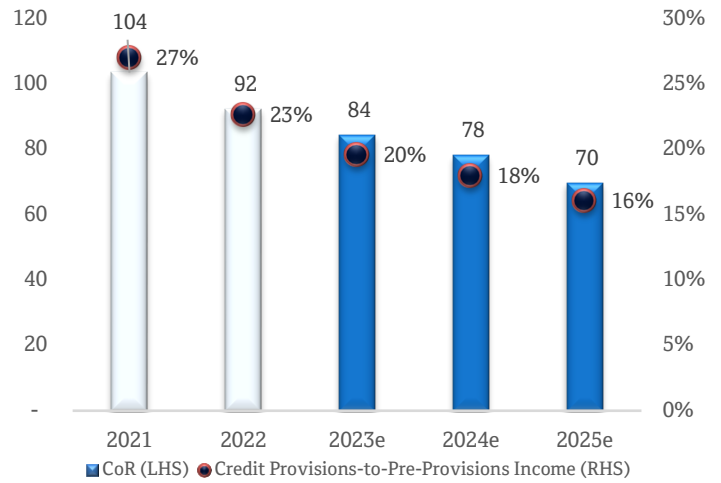
saugata.sarkar@qnbfs.com.qa

Robust RoE and RoRWAs Generator

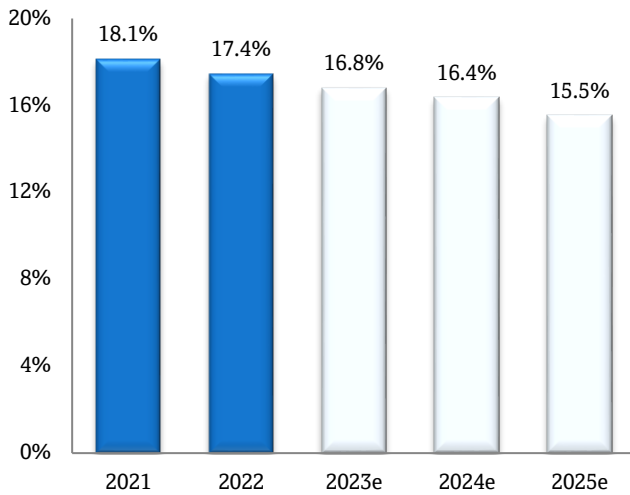


Source: Company data, QNB FS Research

With Healthy CoR Levels

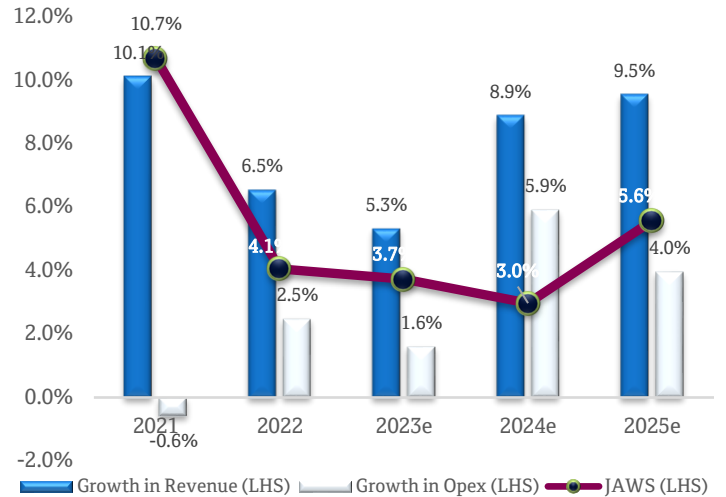


Efficiently Managed Bank

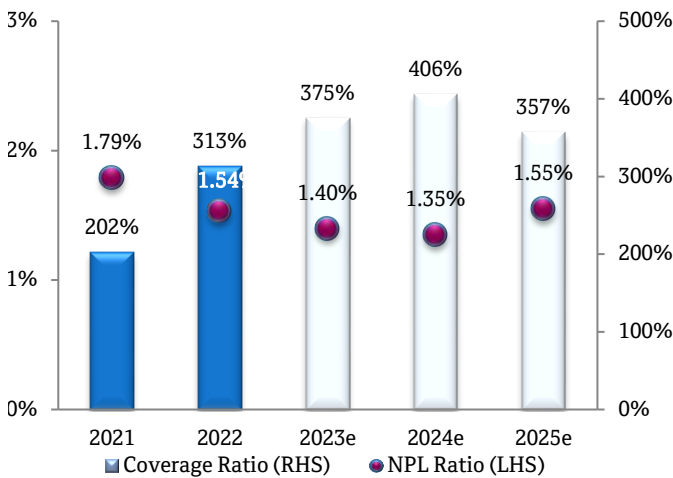


Source: Company data, QNB FS Research

While Generating Strong Revenue Growth and Positive JAWs



Superior Asset Quality



Source: Company data, QNB FS Research

Strong Coverage of Stage 3 Loans

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	98,612,878	23,361,056	1,883,407	123,857,341
ECLs	3,583,446	898,453	1,796,760	6,278,659
Stages % of Loans	79.6%	18.9%	1.5%	
Stages % ECLS	57.1%	14.3%	28.6%	
Coverage Ratio	4%	4%	95%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	4,350	4,774	4,999	5,392	5,887	6,618
Fees & Commissions	661	726	810	855	942	904
FX Income	76	200	122	131	148	126
Other Income	353	289	451	345	343	371
Non-Interest Income	1,090	1,215	1,383	1,330	1,433	1,402
Total Revenue	5,439	5,990	6,382	6,723	7,321	8,020
Operating Expenses	(1,092)	(1,085)	(1,112)	(1,130)	(1,197)	(1,245)
Net Operating Income	4,348	4,904	5,270	5,593	6,124	6,775
Net Provisions & Impairments	(1,316)	(1,342)	(1,235)	(1,128)	(1,115)	(1,135)
Net Profit Before Taxes & Non-Recurring	3,032	3,563	4,034	4,465	5,008	5,640
Tax	(7)	(10)	(11)	(12)	(14)	(16)
Net Profit Before Minority Interest	3,024	3,553	4,023	4,452	4,994	5,625
Minority Interest	41	2	(18)	(27)	(60)	(67)
Non-Recurring/Unusual Gains/(Losses)	0	0	0	0	0	0
Net Profit (Headline)	3,065	3,555	4,005	4,425	4,934	5,557
Interest On Tier-1 Sukuk	(205)	(196)	(188)	(188)	(188)	(188)
Social & Sports Contribution Fund	(77)	(89)	(100)	(111)	(123)	(139)
Net Profit (Attributable)	2,783	3,270	3,717	4,127	4,623	5,230

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Assets						
Cash & Balances with Central Bank	8,357	7,177	7,951	7,834	8,038	9,392
Interbank Loans	6,913	7,461	3,188	3,819	5,585	4,672
Net Investments	33,248	44,380	45,774	52,210	55,592	52,491
Net Loans	119,072	128,409	119,285	127,304	139,625	155,735
Investment In Associates	1,134	1,140	1,130	1,170	1,211	1,250
Other Assets	1,937	1,709	2,576	2,481	2,561	2,230
Net PP&E	462	570	558	539	522	516
Investment In Real Estate	2,863	2,854	3,321	3,358	3,396	3,434
Goodwill & Intangible Assets	370	218	218	218	218	218
Total Assets	174,356	193,916	184,001	198,934	216,748	229,938
Liabilities						
Interbank Deposits	13,828	19,856	17,382	21,665	22,921	16,217
Customer Deposits	118,144	131,095	122,371	130,570	141,015	156,527
Sukuk Financing	14,059	14,063	12,453	12,702	15,243	16,005
Other Liabilities	5,120	3,491	3,868	3,395	3,878	3,913
Tier-1 Sukuk	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	155,150	172,504	160,075	172,331	187,057	196,662
Minority Interest	903	676	669	695	755	823
Total Shareholders' Equity	18,304	20,736	23,257	25,908	28,936	32,453
Total Liabilities & Shareholders' Equity	174,356	193,916	184,001	198,934	216,748	229,938
Risk Weighted Assets	121,582	134,045	138,570	151,190	169,063	181,651

Source: Company data, QNB FS Research

Key Indicators/KPIs	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Tangible)	16.6	18.2	18.1	17.9	18.0	18.2
RoAA	1.6	1.8	2.0	2.2	2.2	2.3
RoRWA	2.5	2.7	2.8	3.0	3.1	3.1
NIM (% of IEAs)	2.87	2.90	2.97	3.16	3.15	3.29
NIM (% of RWAs)	3.75	3.74	3.67	3.72	3.68	3.77
NIM (% of AAs)	2.57	2.59	2.65	2.82	2.83	2.96
Spread	2.52	2.66	2.67	2.77	2.77	2.89
Efficiency (%)						
Cost-to-Income (Headline)	20.1	18.1	17.4	16.8	16.4	15.5
Cost-to-Income (Core)	21.2	18.9	18.7	17.7	17.1	16.3
Liquidity (%)						
LDR	100.8	98.0	97.5	97.5	99.0	99.5
Loans/Assets	68.3	66.2	64.8	64.0	64.4	67.7
Cash & Interbank Loans-to-Total Assets	8.8	7.5	6.1	5.9	6.3	6.1
Deposits to Assets	67.8	67.6	66.5	65.6	65.1	68.1
Wholesale Funding to Loans	23.4	26.4	25.0	27.0	27.3	20.7
IEAs to IBLs	120.9	117.1	122.2	120.8	118.5	124.2
Asset Quality (%)						
NPL Ratio	1.4	1.8	1.5	1.4	1.4	1.6
NPL to Shareholder's Equity	9.6	11.5	8.3	7.3	6.9	7.9
NPL to Tier 1 Capital	7.9	10.1	7.4	6.8	6.8	8.0
Coverage Ratio	226.8	202.4	313.0	375.2	406.0	357.0
ALL/Average Loans	3.1	3.5	4.2	4.7	5.1	5.3
Cost of Risk	105	104	92	84	78	70
Capitalization (%)						
CET1 Ratio	14.9	14.7	15.8	15.5	15.0	15.3
Tier-1 Ratio	18.2	17.7	18.7	18.2	17.4	17.5
CAR	19.4	18.9	19.9	19.4	18.6	18.7
Leverage (x)	9.5	9.4	7.9	7.7	7.5	7.1
Growth (%)						
Net Interest Income	12.7	9.8	4.7	7.9	9.2	12.4
Non-Interest Income	12.3	11.5	13.8	-3.8	7.7	-2.2
Total Revenue	12.6	10.1	6.5	5.3	8.9	9.5
OPEX	-0.9	-0.6	2.5	1.6	5.9	4.0
Net Operating Income	16.6	12.8	7.4	6.1	9.5	10.6
Net Income (Attributable)	0.3	17.5	13.7	11.0	12.0	13.1
Loans	4.7	7.8	-7.1	6.7	9.7	11.5
Deposits	5.8	11.0	-6.7	6.7	8.0	11.0
Assets	6.6	11.2	-5.1	8.1	9.0	6.1
RWAs	10.1	10.3	3.4	9.1	11.8	7.4

Source: Company data, QNB FS Research

COMPANY UPDATES: DIVERSIFIED

Gulf Warehousing Company (GWCS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.475	Target Price	QR4.855
Implied Upside	39.7%		

Attractive Valuation But Needs A Catalyst; Stay Accumulate

Despite healthy top-line/EBITDA growth, we forecast earnings to decline 9.3% in 2023. Start-up of new projects around September/4Q2023, such as Al Wukair phase 2, LVQ phase 6 (chemicals warehouse facility) and Flag Oman (warehouse), add to the revenue momentum in 2023 (offsetting moderate weakness post the WC) and in 2024. However, significantly higher finance charges, along with higher depreciation expenses, should take a bite out of earnings in 2023. Earnings acceleration in 2024 and emerging details on medium-term growth prospects could act as positive catalysts for the stock going forward. As we have pointed out previously, the 50% cut in DPS from QR0.20 in 2019 to QR0.10 over 2020-2022, and the resultant near-halving of the payout ratio from 47% in 2019 to ~25% over 2020-2022, has depressed stock price performance. While we do not envision an increase in DPS in 2023, we do continue to believe GWCS' relative underperformance could reverse going forward, especially in light of the company's growth catalysts and attractive valuation. We note several potential projects not in our model: (1) Al Wukair phase 3 – management could move forward, assuming favorable demand for phase 2 (already ~60% pre-sold), which could lead to ~6% earnings acceleration. (2) Newly-formed subsidiary, GWC Energy, is set to tap both the offshore and the onshore-integrated shipping, logistics and marine services segment in Qatar/GCC and could benefit from increased North Field activity as Qatar significantly expands its LNG capacity from 77 MTPA to 126 MTPA by 2026. (3) Growth and expansion outside of Qatar, for example, freight forwarding in the KSA and the UAE. We continue to rate GWCS an Accumulate with a price target of QR4.855. The stock continues to suffer from a lack of liquidity, which we feel needs to be addressed.

Highlights

- 1Q2023 net profit came in at QR61.5mn (6.4% YoY, -6.0% QoQ), which was 5.5% shy of our estimate of QR65.1mn. Considering that GWCS moderately beat our revenue estimate, the downside this quarter came from lower-than-expected margins. 1Q2023 gross margin came in 29.2% vs. 29.5% in both 1Q2022 and 4Q2022. The reported gross margin came in below our estimate of 29.4%. GWCS also reported an EBITDA margin of 33.8% in 1Q2023 vs. 32.6% in 1Q2022 and 32.4% in 4Q2022.
- We expect earnings to decline 9.3% in 2023 to QR217.3mn before increasing 25.9% to QR273.4mn in 2024. Our current model calls for revenue to grow 4.8% from QR1,518.9mn to QR1,592.3mn in 2023, a 4.7% increase vs. our previous forecast. We also expect EBITDA to jump 9.2% YoY from QR480.8mn in 2022 to QR525.1mn, which implies an increase in EBITDA margins from 31.7% to 33.0% in 2023 (33.8% in 1Q2023). Despite healthy growth in revenue and margins, we expect an earnings decline this year as finance charges are projected to significantly increase 80.7% from QR47.9mn in 2022 to QR86.6mn in 2023. This, along with an 18.2% increase in depreciation, sends earnings down 9.3% this year. For 2024, we expect growth across the board as the full impact of Al Wukair phase 2, LVQ phase 6 and Flag Oman flow through.

Catalysts

- For GWCS to rerate, we need to see a pickup in newsflow catalysts along with liquidity. Al Wukair phase 3 could be a source of upside, while the new energy services business could be a game-changer if the company is able to secure some North Field-related contracts. Investors could also perceive international expansions, such as relatively recent forays into Oman, the KSA and the UAE, positively. Any uptick in DPS could also be catalyst given the stock's below-market yield but a significant increase is unlikely given potential projects in the pipeline, in our view.

Recommendation, Valuation and Risks

- We rate GWCS as an Accumulate with a price target of QR4.855. GWCS trades at P/Es of 9.4x and 7.4x for 2023 & 2024, respectively, which is attractive relative to its historical median of 11.7x.
- Risks: LT growth in warehousing demand in Qatar remains uncertain. Execution risks persist especially for international expansions. Geopolitical risks cannot be modeled.

Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
Revenue (QR mn)	1,519	1,592	1,723	1,754
Growth	16%	5%	8%	2%
EPS (QR)	0.41	0.37	0.47	0.49
Growth	7%	-9%	26%	5%
P/E (x)	8.5x	9.4x	7.4x	7.1x
DPS (QR)	0.10	0.10	0.11	0.12

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

Key Data

Current Market Price (QR)	3.475
Dividend Yield (%)	2.9
Bloomberg Ticker	GWCS QD
ADR/GDR Ticker	N/A
Reuters Ticker	GWCS.QA
ISIN	QA000A0KD6H9
Sector*	Transportation
52wk High/52wk Low (QR)	4.970/2.900
3-m Average Volume (mn)	1.1
Mkt. Cap. (\$ bn/QR bn)	0.6/2.0
EV (\$ bn/QR bn)	1.1/4.1
Shares Outstanding (mn)	586.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	4.4
1-Year Total Return (%)	(27.5)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Estimate Revisions

QNB FS Estimates Revisions

In QR Millions	Current			▲	Previous			▲	Current		
	2022	2023	2023		2024	2024	2025		2025	2025	2025
Revenue	1,518.9	1,592.3	1,520.4	4.7%	1,723.3	1,633.4	5.5%	1,753.8	1,691.8	3.7%	
Gross Profit	599.6	645.2	597.2	8.0%	703.7	637.5	10.4%	706.9	655.1	7.9%	
Gross Margin	39.5%	40.5%	39.3%		40.8%	39.0%		40.3%	38.7%		
EBITDA	480.8	525.1	473.6	10.9%	577.6	507.8	13.7%	577.2	520.8	10.8%	
EBITDA Margin	31.7%	33.0%	31.2%		33.5%	31.1%		32.9%	30.8%		
Depreciation & Amortization	(172.0)	(203.4)	(169.2)	20.2%	(209.6)	(191.2)	9.6%	(213.9)	(192.6)	11.1%	
EBIT	308.7	321.7	304.4	5.7%	368.0	316.6	16.2%	363.3	328.2	10.7%	
EBIT Margin	20.3%	20.2%	20.0%		21.4%	19.4%		20.7%	19.4%		
Interest Expense	(47.9)	(86.6)	(56.0)	54.5%	(75.2)	(43.9)	71.3%	(57.4)	(32.5)	76.5%	
Net Income	239.6	217.3	226.0	-3.8%	273.4	250.3	9.2%	286.5	273.3	4.8%	
Net Margin	15.8%	13.6%	14.9%		15.9%	15.3%		16.3%	16.2%		

Source: Company data, QNB FS estimates

Valuation and Key Ratios

Valuation Metrics

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Valuation												
EV/EBITDA	10.6x	9.7x	7.3x	7.4x	7.7x	8.1x	7.9x	7.2x	6.0x	5.3x	4.7x	4.1x
P/E	9.9x	9.5x	9.0x	8.2x	8.6x	9.1x	8.5x	9.4x	7.4x	7.1x	7.0x	6.9x
P/CF	4.5x	6.1x	5.5x	5.9x	4.6x	5.8x	5.8x	4.3x	4.3x	3.9x	3.8x	3.8x
P/FCF	N/M	46.1x	7.2x	12.1x	48.7x	-52.9x	-24.5x	23.5x	5.2x	4.7x	4.6x	4.5x
P/BV	1.3x	1.3x	1.2x	1.1x	1.1x	1.0x	0.9x	0.9x	0.8x	0.7x	0.7x	0.6x
Dividend Yield	4.6%	4.9%	5.5%	5.8%	2.9%	2.9%	2.9%	2.9%	3.2%	3.5%	3.7%	4.0%
FCF Yield	-24.8%	2.2%	14.0%	8.2%	2.1%	-1.9%	-4.1%	4.3%	19.1%	21.1%	21.7%	22.0%

Source: Company data, QNB FS estimates

Ratio Analysis

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Growth (%)												
Revenue	7.8%	15.5%	25.6%	-0.8%	1.0%	5.7%	16.5%	4.8%	8.2%	1.8%	1.4%	1.4%
Cash Gross Profit	8.6%	19.4%	22.4%	-1.3%	-4.1%	1.1%	7.7%	7.6%	9.1%	0.5%	-0.1%	0.0%
EBITDA	11.5%	20.1%	26.5%	-2.7%	-3.4%	-1.7%	6.1%	9.2%	10.0%	-0.1%	-0.8%	-0.7%
EBIT	11.1%	20.3%	18.5%	-0.6%	-2.0%	-3.4%	6.5%	4.2%	14.4%	-1.3%	-2.3%	-2.3%
Net Profit	11.1%	4.8%	5.3%	10.0%	-5.4%	-4.7%	6.5%	-9.3%	25.9%	4.8%	2.2%	0.5%
Cash Flow Per Share	1033.7%	-25.6%	10.5%	-7.6%	30.1%	-21.2%	0.1%	33.8%	1.5%	8.5%	2.5%	1.0%
Free Cash Flow Per Share	N/M	N/M	544.8%	-41.1%	-75.1%	N/M	116.0%	N/M	348.5%	10.5%	3.0%	1.2%
Dividends Per Share	6.7%	6.2%	11.8%	5.3%	-50.0%	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%
Profitability (%)												
Gross Margin	46.9%	48.4%	47.2%	47.0%	44.7%	42.7%	39.5%	40.5%	40.8%	40.3%	39.7%	39.1%
EBITDA Margin	38.0%	39.5%	39.8%	39.1%	37.4%	34.8%	31.7%	33.0%	33.5%	32.9%	32.2%	31.5%
EBIT Margin	25.4%	26.5%	25.0%	25.1%	24.3%	22.2%	20.3%	20.2%	21.4%	20.7%	20.0%	19.2%
Net Margin	24.2%	22.0%	18.4%	20.4%	19.1%	17.3%	15.8%	13.6%	15.9%	16.3%	16.5%	16.3%
RoAE	14.0%	13.9%	14.0%	14.4%	12.7%	11.3%	11.1%	9.4%	11.0%	10.6%	10.0%	9.4%
RoAA	6.2%	5.6%	5.7%	6.4%	5.9%	5.3%	5.3%	4.4%	5.5%	5.8%	6.0%	6.0%
BEP	6.5%	6.8%	7.8%	7.9%	7.6%	6.9%	6.8%	6.6%	7.4%	7.4%	7.3%	7.1%
RoAIC	6.0%	7.8%	10.0%	9.7%	8.9%	7.9%	7.8%	7.9%	9.7%	10.0%	10.0%	8.7%
RoACE	7.0%	7.7%	9.2%	9.2%	8.8%	8.0%	7.9%	7.8%	8.8%	9.0%	8.9%	8.7%
Liquidity												
Current Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.0x	1.3x	1.3x	1.5x	1.7x	2.3x
Quick Ratio	2.0x	1.5x	1.8x	1.5x	1.4x	1.1x	1.0x	1.2x	1.3x	1.4x	1.7x	2.3x
Cash Ratio	0.9x	0.6x	0.9x	0.6x	0.5x	0.3x	0.2x	0.3x	0.3x	0.4x	0.6x	1.0x
Debt Ratios												
Debt-to-Equity	1.2x	1.1x	1.0x	0.8x	0.8x	0.8x	0.8x	0.8x	0.6x	0.4x	0.3x	0.2x
Long-Term Debt-to-Equity	1.1x	1.0x	0.9x	0.7x	0.7x	0.6x	0.6x	0.6x	0.5x	0.3x	0.2x	0.2x
EBITDA Interest Coverage	8.4x	7.2x	5.8x	6.1x	8.7x	9.4x	10.0x	6.1x	7.7x	10.1x	13.4x	17.1x
Net Debt-to-EBITDA	4.3x	3.7x	2.6x	2.5x	2.8x	3.1x	3.2x	2.9x	2.1x	1.4x	0.8x	0.2x
Debt-to-Capital	0.6x	0.5x	0.5x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x	0.3x	0.2x	0.2x

Source: Company data, QNB FS estimates

1Q2023 Review: Modestly Weaker-Than-Expected 1Q2023 On Lower Margins

GWCS' 1Q2023 net profit grew 6.4% YoY but declined 6.0% sequentially and came in below our estimate:

- **Modest 5.5% miss vs. our earnings estimate** – Gulf Warehousing Company's (GWCS) 1Q2023 net profit came in at QR61.5mn (6.4% YoY, -6.0% QoQ), which was 5.5% shy of our estimate of QR65.1mn. Considering that GWCS moderately beat our revenue estimate, the downside this quarter came from lower-than-expected margins.
- **The company's 1Q2023 top-line came in at QR412.7mn, up 17.5% YoY and 0.9% QoQ.** Revenue was 3.4% ahead of our model of QR399.2mn. The logistics segment posted revenue of QR271.6mn (22.2% YoY, -3.0% QoQ; 66% of total revenue), with its sequential decline possibly caused by a falloff in World Cup-related business from its 4Q2022 highs. Segment revenue from logistics modestly missed our forecast. Freight forwarding top-line of QR138.0mn (9.8% YoY, 9.6% QoQ; 33% of total revenue) beat our model handily. Given that the freight business is generally lower-margin, this explains the weaker-than-expected profitability for the quarter.
- **1Q2023 gross margin came in 29.2% vs. 29.5% in both 1Q2022 and 4Q2022.** The reported gross margin came in below our estimate of 29.4%. GWCS also reported an EBITDA margin of 33.8% in 1Q2023 vs. 32.6% in 1Q2022 and 32.4% in 4Q2022.

Detailed Financial Statements

Income Statement (In QR mn)	FY2022e	FY2023e	FY2024e	FY2025e	FY2026e	FY2027e
Revenue	1,519	1,592	1,723	1,754	1,778	1,803
<i>YoY Growth</i>	16%	5%	8%	2%	1%	1%
Direct Costs	(919)	(947)	(1,020)	(1,047)	(1,072)	(1,098)
Gross Profit	600	645	704	707	706	706
<i>Gross Margin</i>	39%	41%	41%	40%	40%	39%
General and Administrative Expenses	(119)	(120)	(126)	(130)	(133)	(137)
EBITDA	481	525	578	577	573	569
<i>YoY Growth</i>	6%	9%	10%	0%	-1%	-1%
<i>EBITDA Margin</i>	32%	33%	34%	33%	32%	32%
Depreciation and Amortization	(172)	(203)	(210)	(214)	(218)	(222)
EBIT	309	322	368	363	355	347
<i>YoY Growth</i>	7%	4%	14%	-1%	-2%	-2%
<i>EBIT Margin</i>	20%	20%	21%	21%	20%	19%
Net Finance Costs and Other Income	(57)	(97)	(86)	(67)	(53)	(43)
PBT	252	224	282	296	302	304
Taxes	(2)	(2)	(2)	(2)	(2)	(2)
Net Income	249	223	280	294	300	302
Minority Interest	10	6	7	7	7	8
Net Income to Equity	240	217	273	286	293	294
<i>YoY Growth</i>	7%	-9%	26%	5%	2%	1%
<i>Net Margin</i>	16%	14%	16%	16%	16%	16%
EPS (QR)	0.41	0.37	0.47	0.49	0.50	0.50
DPS (QR)	0.10	0.10	0.11	0.12	0.13	0.14
<i>Payout Ratio</i>	24%	27%	24%	25%	26%	28%

Source: Company data, QNB FS estimates

Detailed Financial Statements

Balance Sheet (In QR mn)	FY2022e	FY2023e	FY2024e	FY2025e	FY2026e	FY2027e
Non-Current Assets						
PP&E, WIP & Right of Use Assets	3,596	3,776	3,654	3,529	3,399	3,265
Investment Properties	41	42	42	43	43	43
Intangible Assets & Goodwill	117	116	116	116	116	115
Available-for-Sale Investments/Other	18	18	18	18	18	18
Total Non-Current Assets	3,772	3,952	3,831	3,705	3,576	3,442
Current Assets						
Inventories	16	16	18	18	19	19
Trade and Other Receivables	748	742	800	817	828	840
Bank Balances and Cash	238	290	287	337	457	631
Total Current Assets	1,002	1,048	1,105	1,172	1,303	1,490
Total Assets	4,774	5,000	4,936	4,877	4,879	4,932
Total Shareholders' Equity						
Non-Controlling interests	12	18	25	32	39	47
Non-Current Liabilities						
Lease Liabilities & Others	208	223	238	254	269	285
Loans and Borrowings	1,269	1,482	1,167	915	718	652
Employee Benefits & Others	58	62	67	71	76	80
Total Non-Current Liabilities	1,535	1,767	1,473	1,240	1,063	1,017
Current Liabilities						
Trade Payables	95	95	102	105	107	110
Loans and Borrowings	523	333	315	253	197	66
Accruals, Provisions & Other Payables	351	376	404	416	426	436
Lease Liabilities	11	11	10	10	10	9
Retention Payable	15	15	15	15	15	15
Total Current Liabilities	996	830	846	799	755	636
Total Liabilities	2,531	2,598	2,319	2,039	1,818	1,653
Total Equity & Liabilities	4,774	5,000	4,936	4,877	4,879	4,932

Source: Company data, QNB FS estimates

Estithmar Holding (IGRD)

Recommendation	MARKET PERFORM	Risk Rating	R-4
Share Price	QR2.187	Target Price	QR2.236
Implied Upside	2.3%		

Activity Slows More-Than-Expected; Retain Market Perform

We recently made significant forecast adjustments to our [previous model](#) following the release of IGRD's FY2022 and 1Q2023 results, along with its March 2023 investor presentation. We note this was bound to be the case given IGRD's limited operating data history: the group was only reverse-listed last year in May plus its two new segments (healthcare and ventures/tourism) did not have any operating profile. This was further complicated by the fact that the limited operating history of its traditional businesses (services and contracting & industries) was heavily skewed by the abnormal business conditions building up to the 2022 FIFA World Cup tournament. **Notably, for the medium-term, we recently upwardly revised our healthcare estimates while downwardly revising our forecasts for the other three divisions (ventures/tourism, services and contracting & industries).** We note, however, there are upside risks to the tourism/venture unit given the Maldives project lined up – that project is not in our base model. While we believe the medium-term impact of the Maldives project to be positive, in the near-term, we are a bit concerned that additional capital required to finance the project will be highly dilutive – management estimates the project will require a capital injection of roughly \$343mn (QR1.25bn) with operations expected to open in FY2025. **While it is positive that we upwardly revised our medium-term healthcare estimates, given that the unit commands higher margins and premium valuation multiples, it was not enough to offset the declines in other divisions. Also, a slower-than-expected ramping up of new businesses weigh down on our near term projections.** While we have held the stock in our R-4 risk bucket – implying an above-average risk profile – primarily due to execution risk, we still believe management will deliver on their promise of above-average growth in the medium-term.

Highlights

- During 1Q2023, Estithmar's results fell shy of our model both at the top- and the bottom-line. While margins came in better-than-expected, the top-line miss led to lower-than-expected earnings. Earnings increased 10.2%/166.4% YoY/QoQ to QR101.2mn but was below our estimate of QR125.7mn; net income was helped by uncharacteristically strong margins in the contracting & services segment. Revenue was off the mark, declining 9.5%/36.2% YoY/QoQ to QR766.8bn vs. our estimate of Q1.26bn. **With overall revenue lower, group net margin was surprisingly stronger at 13.4% vs. our 9.6% estimate driven by contracting & industries,** which registered a markedly higher net margin of 30.6% vs 3.9% expected. Management stated this was driven by one-offs and margins are expected to normalize in future. Specifically, IGRD's construction & industries division's net margin was -2.5% in 1Q2022 and 2.8% in 4Q2022, and it averaged 4.0% between FY2019-22.
- For FY23 we expect group revenue to fall 31.8% to QR2.89bn primarily due to a marked slowdown in traditional businesses' activity, while the slow ramp up in new business units will fall short in offsetting this weakness. In 1Q2023, traditional businesses' revenue exhibited a marked decline from last year's World Cup-induced boom. The contracting & industries segment registered a 16.7%/41.8% YoY/QoQ revenue decline to QR362.7mn, while the services segment revenue fell 7.4%/46.4% YoY/QoQ to QR397.7mn in 1Q2023. We see contracting & industries and services revenue decline by 39.2% and 30.8% in FY2023, respectively. We are, however, encouraged by management's efforts to organically grow the contracting & industries business by picking up new contracts/work in Saudi Arabia.
- We see group net profit falling 78.8% in FY2023 and recovering by 333.8% in FY2024 and then climb again in FY2025 by 87.0%. This will be on the back of a revenue increase of 31.9% in FY2024 and 25.3% in FY2025. We do not see any dividends flowing to shareholders until FY2024/25.

Catalysts

- Significant catalysts: (1) Positive sales & operation updates of The View (Hospital) and Al Maha (Tourism) (2) Opening of Korean Medical Center (KMC) expected later this year (3) New product launches/offshore expansion**

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We rate IGRD Market Perform with a 12-month TP of QR2.236 implying 2.3% upside potential, using SoTP EBITDA Exit Multiple valuation. We continue to like the new IGRD model with future growth geared towards higher-margin sectors of healthcare, tourism and services, which are set to more than offset the slowdown in construction and industries. These growth areas are supported by the macro backdrop where Qatar is striving to reach "advanced economy" status by 2030. This, along with the fact that IGRD's founders are very entrepreneurial, gives us confidence in the prospects of this emerging giant. We note, however, that near-term negative base effects and dilution impact could affect the share price adversely.
- Key risks: (1) Dilution risk (2) Execution risk and slow ramping up of new projects (3) High base set by World Cup-related activities in traditional segments of the business (4) Conglomerate discount.**

Key Financial Data and Estimates

Group	2022	2023E	2024E	2025E	2026E
EPS (QR)	0.107	0.020	0.087	0.162	0.174
P/E (x)	20.53	N/M	25.26	13.51	12.60
EV/EBITDA (x)	16.18	22.46	14.44	10.22	9.96
DPS (QR)	-	-	0.03	0.10	0.15
DY (%)	0.0%	0.0%	1.6%	4.4%	6.7%

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

Key Data

Current Market Price (QR)	2.187
Dividend Yield (%)	0.00%
Bloomberg Ticker	IGRD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IGRD.QA
ISIN	QA0006UVF886
Sector*	Industrials
52wk High/52wk Low (QR)	2.469/1.423
3-m Average Vol. ('mn)	16.9
Mkt. Cap. (\$'bn/QR'bn)	2.0/7.4
Shares Outstanding (mn)	3,404.0
FO Limit* (%)	49.0
Current Institutional FO* (%)	1.2
1-Year Total Return (%)	36.7
Fiscal Year-End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Summary Valuation (QR Million)

Group/SoTP	2022	2023E	2024E	2025E	2026E	2027E
Revenue	4,237.0	3,272.1	4,224.1	5,220.3	5,511.1	5,703.0
EBITDA	517.7	430.5	643.1	888.9	914.9	899.8
Operating Profit	395.9	216.2	452.5	719.3	763.8	765.0
Tax	3.4	2.4	19.0	42.2	64.7	68.7
NOPAT	392.5	213.9	433.5	677.1	699.1	696.4
Add D&A	121.8	214.3	190.6	169.7	151.1	134.7
Less Capex	1,284.2	117.8	137.5	166.4	176.2	182.6
Less Working Capital Changes	-	(105.7)	72.9	109.5	20.6	25.1
FFCF	(769.8)	416.1	413.7	570.9	653.5	623.4
WACC		10.63%	11.67%	11.28%	11.11%	10.80%
Discount Factor		1.01	1.13	1.25	1.38	1.52
FFCF discounted		412.6	367.0	456.9	472.3	410.0
Sustainable Growth Rate	3.2%					

EBITDA Exit Multiple Valuation	
Terminal EBITDA (discounted)	617.5
EV/EBITDA weighted	11.5
Terminal Value	7,099.8
Sum of FCF PV	2,118.8
Implied Fair EV	10,177.3
Net Debt	1,727.7
Minorities	(9.1)
Equity Value	8,458.6
# outstanding shares ('m)	3,404.0
12M Target Share Price	QR2.236
Upside/ (downside)	1.0%

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

Sensitivity Analysis

WACC	Equity Value at EBITDA Exit Multiple of:					WACC	FV per Share (QR) at EBITDA Exit Multiple of:				
	9.4x	10.4x	10.2x	12.4x	13.4x		9.4x	10.4x	10.2x	12.4x	13.4x
8.5%	7,386.5	8,167.7	8,962.8	9,771.9	10,595.0	8.5%	2.170	2.399	2.633	2.871	3.112
9.5%	7,173.7	7,933.1	8,706.1	9,492.6	10,292.8	9.5%	2.107	2.330	2.558	2.789	3.024
10.8%	6,968.7	7,707.1	8,458.6	9,223.5	10,001.5	10.8%	2.047	2.264	2.485	2.710	2.938
11.5%	6,771.1	7,489.19	8,220.2	8,964.0	9,720.8	11.5%	1.989	2.200	2.415	2.633	2.856
12.5%	6,580.5	7,279.1	7,990.3	8,713.9	9,450.1	12.5%	1.933	2.138	2.347	2.560	2.776

Source: QNB FS Research; Note: All data based on current number of shares; Note: Valuation before applying a conglomerate discount

Fair Value Attribution

Segment	Peer Multiple	Exit EBITDA	EV (QR'm)	Equity (QR'm)	FV/Share (QR)	% of Total
Healthcare	18.6	222.9	3,470.3	3,363.5	0.988	39.8%
Ventures/Tourism	13.2	137.9	1,950.0	1,441.7	0.424	17.0%
Services	8.2	389.2	3,572.9	3,013.3	0.885	35.6%
Contracting & Industries	7.4	149.7	1,184.1	432.5	0.127	5.1%
Cash				198.5	0.058	2.3%
Minorities				9.1	0.003	0.1%

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

Consolidated Financial Statements & Forecasts

Income Statement (QR Million)

Group	2022	2023E	2024E	2025E	2026E	2027E
Revenue	4,237.0	2,888.8	3,811.6	4,776.1	5,032.4	5,202.2
Services	2,300.3	1,590.9	1,762.6	1,952.3	2,162.2	2,270.3
Contracting & Industries	2,386.4	1,451.0	1,510.5	1,572.4	1,636.9	1,704.0
Healthcare	37.1	70.5	656.6	1,266.6	1,278.8	1,291.1
Ventures/Tourism	103.9	159.7	294.4	429.0	433.3	437.6
Corporate/Eliminations	(590.6)	(383.3)	(412.5)	(444.2)	(478.7)	(500.8)
Gross Profit	620.0	511.4	784.5	1,091.0	1,152.7	1,195.3
EBITDA	517.7	373.0	580.1	820.1	840.9	825.8
Operating Profit	395.9	158.7	389.5	650.4	689.8	691.1
Net Profit	325.0	68.8	298.3	557.7	598.0	600.6
EPS	0.107	0.020	0.087	0.162	0.174	0.174
DPS	-	-	0.035	0.097	0.147	0.148

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

Balance Sheet (QR Million)

Group	2022	2023E	2024E	2025E	2026E	2027E
Property, Plant & Equipment	1,975.4	1,819.0	1,652.5	1,503.6	1,370.4	1,251.3
Investment properties	90.8	90.8	90.8	90.8	90.8	90.8
Intangibles	6.0	134.6	125.3	116.7	108.6	101.2
Goodwill	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0	3,240.0
Right-of-use assets	98.9	80.7	65.8	53.7	43.8	35.7
Financial assets @ FVTPL	31.0	31.0	31.0	31.0	31.0	31.0
Retention receivables	43.8	26.7	27.7	28.9	30.1	31.3
Total Non-Current Assets	5,486.0	5,422.7	5,233.2	5,064.7	4,914.7	4,781.3
Inventories	233.9	166.0	220.3	277.5	290.9	299.9
Accounts receivable and other debit balances	1,306.5	868.7	1,239.2	1,430.1	1,525.5	1,587.3
Due from related party	490.8	490.8	490.8	490.8	490.8	490.8
Contract assets	951.7	578.7	602.4	627.1	652.8	-
Retentions receivable	92.1	56.0	58.3	60.7	63.1	65.7
Cash and bank balances	167.5	345.8	522.6	967.3	1,279.7	2,151.4
Total Current Assets	3,242.5	2,505.9	3,133.6	3,853.4	4,303.0	4,595.2
TOTAL ASSETS	8,728.5	7,928.6	8,366.8	8,918.0	9,217.7	9,376.5
Capital	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0	3,404.0
Legal reserve	56.9	56.9	86.3	141.4	200.5	259.8
Other reserve	3.9	3.9	3.9	3.9	3.9	3.9
Reserve for renewal of FF&E	0.5	1.2	2.4	3.6	3.6	3.6
Retained earnings	1,003.4	1,069.7	1,209.6	1,361.1	1,375.9	1,390.7
Equity attributable to equity holders of the parent	4,468.8	4,535.7	4,706.3	4,914.1	4,988.0	5,062.2
Non-controlling interests	(9.1)	(8.3)	(4.6)	2.2	9.5	16.8
Total Shareholders' Equity	4,459.6	4,527.4	4,701.7	4,916.3	4,997.4	5,079.0
Provision or employees' end of service benefits	99.6	119.5	157.7	197.6	208.2	215.2
Interest bearing loans and borrowings	915.8	915.8	915.8	915.8	915.8	915.8
Loans from related parties	28.8	28.8	28.8	28.8	28.8	28.8
Retentions payable	1.3	1.3	1.3	1.3	1.3	1.3
Lease liabilities	69.4	54.0	37.8	20.7	2.7	0.0
Total Non-Current Liabilities	1,114.9	1,119.4	1,141.4	1,164.2	1,156.8	1,161.1
Due to related parties	110.1	110.1	110.1	110.1	110.1	110.1
Accounts payable and other credit balances	2,003.0	1,261.0	1,430.2	1,582.1	1,689.7	1,758.3
Contract liabilities	125.2	69.2	77.3	80.1	82.9	85.8
Interest bearing loans and borrowings	671.6	671.6	671.6	671.6	671.6	671.6
Lease liabilities	24.7	19.2	13.4	7.4	1.0	0.0
Income tax payable	3.5	0.7	3.1	5.8	6.2	6.2
Dividend payable	-	-	117.9	330.6	502.1	504.3
Bank overdraft	216.0	150.0	100.0	50.0	-	-
Total Current Liabilities	3,154.1	2,281.8	2,523.7	2,837.6	3,063.5	3,136.4
Total Liabilities	4,268.9	3,401.2	3,665.1	4,001.8	4,220.3	4,297.5
TOTAL SHE & LIABILITIES	8,728.5	7,928.6	8,366.8	8,918.0	9,217.7	9,376.5

Source: Company Data, QNB FS Research

Cash Flow Statement (QR Million)

Group	2022	2023E	2024E	2025E	2026E	2027E
Cash generated from operating activities	534.5	300.8	256.8	652.6	738.0	1,398.4
Net cash generated from operating activities	425.8	295.7	248.7	635.8	717.5	1,377.4
Net cash used in investing activities	(1,133.0)	(29.6)	-	-	-	-
Net cash generated from financing activities	817.1	(20.8)	(22.0)	(141.0)	(355.0)	(505.7)
Changes in cash	109.9	245.2	226.8	494.7	362.5	871.7
Opening cash	(159.3)	(49.4)	195.8	422.6	917.3	1,279.7
Closing cash	(49.4)	195.8	422.6	917.3	1,279.7	2,151.4

Source: Company Data, QNB FS Research;

Key Ratios

Ratios	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
PE Ratio	20.5	109.6	25.3	13.5	12.6	12.5	11.9	11.3	11.0
PEG Ratio	(1.4)	(1.3)	0.1	0.2	1.7	28.5	2.0	2.2	3.8
P/CF	3.1	5.4	6.4	2.5	2.2	1.2	2.1	2.1	2.1
P/BV	0.37	0.36	0.35	0.33	0.33	0.32	0.32	0.31	0.31
Debt-Equity Ratio	43%	41%	38%	34%	32%	32%	31%	31%	30%
Net Debt/Equity	38.7%	32%	26%	14%	6%	-11%	-16%	-20%	-23%
Net Debt-to-Capital	31.5%	26%	21%	12%	5%	-9%	-13%	-17%	-20%
Net Debt/EBITDA	3.3	3.9	2.1	0.8	0.4	(0.7)	(1.0)	(1.2)	(1.4)
Interest Coverage	5.9	1.8	4.4	7.5	8.1	8.2	8.6	9.0	9.3
EV/EBITDA	16.2	22.5	14.4	10.2	10.0	10.1	9.9	9.7	9.6
EV/Sales	2.0	2.9	2.2	1.8	1.7	1.6	1.6	1.5	1.5
EV/EBIT	21.2	52.8	21.5	12.9	12.1	12.1	11.5	11.0	10.8
ROIC	7.2%	3.0%	7.0%	11.8%	12.7%	15.2%	16.6%	17.9%	18.9%
ROE	7.6%	1.5%	6.3%	11.2%	11.8%	11.7%	12.2%	12.6%	12.8%
ROA	3.9%	0.9%	3.5%	6.2%	6.4%	6.3%	6.6%	6.8%	6.8%
FCF Yield	-11.5%	3.3%	3.0%	8.2%	9.3%	18.5%	10.0%	10.2%	10.4%
Dividend Yield	0.0%	0.0%	1.6%	4.4%	6.7%	6.8%	7.2%	7.5%	7.7%
Current Ratio	1.0	1.1	1.2	1.4	1.4	1.5	1.5	1.6	1.6
Quick Ratio	1.0	1.0	1.2	1.3	1.3	1.4	1.4	1.5	1.5
Inventory Days	24	25	27	27	27	27	27	27	27
Average Collection Period	113	110	119	109	111	111	112	112	113
Payable Days	202	194	172	157	159	160	161	162	163

Source: QNB FS Research

Industries Qatar (IQCD)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR11.65	Target Price	QR14.30
Implied Upside	22.7%		

Risk-Reward Positive Despite Earnings Drop; Accumulate

We maintain our target price of QR14.30 and our Accumulate rating on IQCD. We recently reduced our earnings estimates by an average of ~14% over 2023-2027. IQCD reported weaker-than-expected 1Q2023 results with its fertilizer EBITDA margin, driven by higher cost inventory, again retreating to their lowest level (~35%) seen in at least three years. While we believe fertilizer EBITDA margin already reached rock-bottom levels in 1Q2023 and overall group margins should recover going forward, urea prices remain weak and are down high-single-digits thus far in 2Q2023 vs. 1Q2023 (down almost 60% YoY). Urea prices do seem to be recovering modestly MoM in May vs. April ahead of the Indian monsoon season but the overall demand picture remains somber and prices could well slip below \$300/MT levels in the near-term. PE prices also remain sluggish despite the Chinese reopening given additional supply concerns and a weak global outlook. Steel rebar prices have also been weaker thus far in 2Q2023; while domestic demand is anticipated to improve post the World Cup, margins could be weak given increased sales of intermediate products much like 1Q2023. **On an overall basis across segments, we do expect prices to stabilize and/or improve in 2H2023. While we recently reduced our estimates across the board, our numbers could well be conservative, which could create upside risks to our forecasts. From a valuation perspective, IQCD is trading at 14.9x its estimated 2023 EPS, which is below its historical median of ~18x, implying limited downside. We think investors could consider accumulating IQCD at these levels given its favorable risk-reward characteristics and attractive dividend yield (6.4%/6.9% for 2023/2024).**

Highlights

- **We project 2023 earnings to decline 46.4% from QR8.8bn in 2022 to QR4.7bn, followed by a resumption of growth with 2024 net income growing 16.9% to QR5.5bn.** Group EBITDA (on a proportionate basis) is expected to decline 37.7% from QR11.0bn in 2022 to QR6.8bn in 2023, before gaining 10.5% to QR7.6bn (2024). **Post 1Q2023, we expect stable/rising trajectory for earnings/EBITDA assuming the inventory-related downside surprise in fertilizer EBITDA margin is behind us.** After significant declines this year, we expect prices to stabilize/gain in 2024 unless there is significant recession-related demand destruction.
- **DPS is projected to decline to QR0.75 (6.4% yield) in 2023 before increasing to QR0.80 (6.9%) in 2024; LT dividend payouts should remain high.** This translates to an average payout of roughly 92% vs. a historical payout average of ~79% between 2018-2022. **While payouts are high, IQCD retains a very strong balance sheet with cash/share of QR2.3 that can support dividends.** We note that IQCD has also paid more than 100% of its income in dividends back in 2020.
- **Bulletproof balance sheet with QR13.9bn in cash/bank balances & zero long-term debt. We note that IQCD has sufficient cash to fund its entire capex outlay of QR11.0bn over 2023-2027.** The company, on a proportionate basis, generated operating CF of QR1.2bn and FCF of QR0.8bn in 1Q2023. Net-net, given IQCD's strong balance sheet, we expect the company to withstand difficult market conditions, while retaining sufficient dry powder to take advantage of potential acquisition opportunities in the future. IQCD's strong FCF generating ability (QR0.77/share on average over 2023-2027, with an average yield of 6.6%), along with its large cash balances, also provide investors with lower DPS volatility.

Catalysts

- **In terms of longer-term catalysts, the QR4.4bn Ammonia-7 project, which is also the world's largest Blue ammonia train, is expected to add 400 KTPA of sellable ammonia by 2026.** The Ammonia-7 project should also boost the company's ESG credentials. Also, in a smaller deal (roughly QR455mn net cost), IQCD expects to increase its direct stake in Qatar Vinyl Co. (QVC) to 44.8% from May 2026 from its current indirect stake (via QAPCO) of 25.52% by funding its share of the construction of a new Polyvinyl Chloride (PVC) plant. Moreover, similar to the QAFCO deal, IQCD could look to acquire Total's 20% stake in QAPCO, which could also be perceived positively by investors. The purchase of the remaining 50% of QAFAC could also be a possibility.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We rate IQCD an Accumulate with a PT of QR14.30.** The stock trades at P/E of 14.9x/12.8x (2023/2024).
- **Risks:** Oil/urea prices influence IQCD's operations and investor sentiment. Geopolitical risks remain and cannot be modeled.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e	2026e
Revenue (QR mn)	18,794	11,989	12,270	12,581	13,582
EPS (QR)	1.46	0.78	0.91	0.97	1.02
P/E	8.0x	14.9x	12.8x	12.0x	11.4x
EV/EBITDA	7.8x	16.1x	14.9x	14.3x	12.8x
Dividend Yield	9.4%	6.4%	6.9%	7.7%	8.2%

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

Key Data

Current Market Price (QR)	11.65
Dividend Yield (%)	9.4
Bloomberg Ticker	IQCD QD
ADR/GDR Ticker	N/A
Reuters Ticker	IQCD.QA
ISIN	QA000A0KD6K3
Sector*	Industrials
52wk High/52wk Low (QR)	18.90/11.59
3-m Average Volume ('mn)	3.2
Mkt. Cap. (\$ bn/QR bn)	19.4/70.5
EV (\$ bn/QR bn)	16.0/58.5
Shares Outstanding (mn)	6,050.0
FO Limit* (%)	49.0
Institutional FO* (%)	7.5
1-Year Total Return (%)	(29.1)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Estimate Revisions

Revenue, EBITDA, Net Income, EPS & DPS

Group (QR Million Unless Stated)	Current 2023	Previous 2023	▲	Current 2024	Previous 2024	▲	Current 2025	Previous 2025	▲	Current 2026	Previous 2026	▲
Revenue	17,223	18,058	(4.6%)	17,961	18,748	(4.2%)	18,305	19,040	(3.9%)	19,289	20,319	(5.1%)
EBITDA	6,833	8,439	(19.0%)	7,553	8,754	(13.7%)	7,836	8,907	(12.0%)	8,322	9,780	(14.9%)
Net Income	4,724	6,089	(22.4%)	5,520	6,373	(13.4%)	5,887	6,510	(9.6%)	6,192	7,197	(14.0%)
EPS (QR)	0.78	1.01	(22.4%)	0.91	1.05	(13.4%)	0.97	1.08	(9.6%)	1.02	1.19	(14.0%)
DPS (QR)	0.75	0.80	(6.3%)	0.80	0.85	(5.9%)	0.90	0.90	0.0%	0.95	1.00	(5.0%)

Revenue (QR Million) - Group	Current 2023	Previous 2023	▲	Current 2024	Previous 2024	▲	Current 2025	Previous 2025	▲	Current 2026	Previous 2026	▲
Total Group	17,223	18,058	(4.6%)	17,961	18,748	(4.2%)	18,305	19,040	(3.9%)	19,289	20,319	(5.1%)
Petrochemical	5,234	5,356	(2.3%)	5,691	5,792	(1.7%)	5,724	5,757	(0.6%)	5,707	5,728	(0.4%)
Fertilizer	7,972	8,958	(11.0%)	8,194	9,192	(10.9%)	8,403	9,417	(10.8%)	9,286	10,609	(12.5%)
Steel	4,017	3,745	7.3%	4,076	3,764	8.3%	4,178	3,865	8.1%	4,296	3,982	7.9%

EBITDA (QR Million) - Group	2023	2023	▲	2024	2024	▲	2025	2025	▲	2026	2026	▲
Total Group	6,833	8,439	(19.0%)	7,553	8,754	(13.7%)	7,836	8,907	(12.0%)	8,322	9,780	(14.9%)
Petrochemical	2,261	2,679	(15.6%)	2,533	2,836	(10.7%)	2,548	2,811	(9.3%)	2,534	2,787	(9.1%)
Fertilizer	3,264	4,440	(26.5%)	3,593	4,554	(21.1%)	3,716	4,658	(20.2%)	4,167	5,469	(23.8%)
Steel	799	989	(19.2%)	907	997	(9.0%)	1,044	1,067	(2.2%)	1,087	1,149	(5.4%)

Net Income (QR Million) - Group	2023	2023	▲	2024	2024	▲	2025	2025	▲	2026	2026	▲
Total Group	4,724	6,089	(22.4%)	5,520	6,373	(13.4%)	5,887	6,510	(9.6%)	6,192	7,197	(14.0%)
Petrochemical	1,601	2,018	(20.7%)	1,853	2,157	(14.1%)	1,866	2,128	(12.3%)	1,847	2,099	(12.0%)
Fertilizer	2,168	3,233	(32.9%)	2,593	3,340	(22.3%)	2,806	3,436	(18.3%)	3,082	4,072	(24.3%)
Steel	596	781	(23.7%)	702	784	(10.4%)	838	849	(1.3%)	880	926	(5.0%)
Corporate/Unallocated	359	56	537.8%	371	92	302.3%	377	96	292.2%	384	100	282.6%

Source: Company data, QNB FS Research

Key Metrics

Segment Revenue, EBITDA, Net Income, Pricing and Sales Volumes

Revenue (QR Million) - Group	2021	2022	2023	2024	2025	2026	2027
Total Group	20,150	25,770	17,223	17,961	18,305	19,289	20,387
Petrochemical	5,981	6,976	5,234	5,691	5,724	5,707	6,318
Fertilizer	10,283	14,532	7,972	8,194	8,403	9,286	9,633
Steel	3,886	4,262	4,017	4,076	4,178	4,296	4,436

EBITDA (QR Million) - Group	2021	2022	2023	2024	2025	2026	2027
Total Group	10,140	10,960	6,833	7,553	7,836	8,322	8,945
Petrochemical	3,055	3,083	2,261	2,533	2,548	2,534	2,922
Fertilizer	6,122	6,402	3,264	3,593	3,716	4,167	4,345
Steel	882	1,086	799	907	1,044	1,087	1,138

Net Income (QR Million) - Group	2021	2022	2023	2024	2025	2026	2027
Total Group	8,089	8,815	4,724	5,520	5,887	6,192	7,057
Petrochemical	2,479	2,460	1,601	1,853	1,866	1,847	2,231
Fertilizer	5,107	5,349	2,168	2,593	2,806	3,082	3,356
Steel	716	889	596	702	838	880	930
Corporate/Unallocated	(214)	117	359	371	377	384	540

Revenue (QR Million)	2021	2022	2023	2024	2025	2026	2027
Petrochemicals & Fuel Additives							
LDPE	3,058	3,161	2,513	2,575	2,709	2,485	2,866
LLDPE	1,076	1,256	1,034	1,055	1,109	989	1,170
Methanol	609	471	312	495	525	543	560
MTBE	629	1,319	1,019	1,202	1,002	1,300	1,326
Petrochemical & Fuel Additives Revenue	5,980	6,974	5,234	5,691	5,724	5,707	6,318
Fertilizer							
Ammonia	1,154	1,742	626	648	666	1,255	1,304
Urea	8,994	12,821	7,150	7,350	7,541	7,835	8,133
Fertilizer Revenue	10,283	14,532	7,972	8,194	8,403	9,286	9,633
Steel							
Steel Bars	2,844	2,966	2,352	2,388	2,452	2,526	2,614
Steel Revenue	3,886	4,262	4,017	4,076	4,178	4,296	4,436

Wtd Average Selling Prices (\$/MT)	2021	2022	2023	2024	2025	2026	2027
Petrochemicals & Fuel Additives							
LDPE	1,508	1,378	1,096	1,123	1,181	1,219	1,250
LLDPE	1,202	1,139	1,004	1,024	1,076	1,109	1,136
Methanol	351	307	260	267	283	293	302
MTBE	736	1,007	952	971	1,020	1,050	1,071
Fertilizer							
Ammonia	542	922	350	362	372	387	402
Urea	463	618	336	345	354	368	382
Steel							
Rebar	698	728	570	578	594	612	633

Sales Volume (MT' 000)	2021	2022	2023	2024	2025	2026	2027
Petrochemicals & Fuel Additives							
LDPE	557	630	630	630	630	560	630
LLDPE	246	303	283	283	283	245	283
Methanol	477	421	329	510	510	510	510
MTBE	235	360	294	340	270	340	340
Fertilizer							
Ammonia	585	519	492	492	492	892	892
Urea	5,333	5,698	5,853	5,853	5,853	5,853	5,853
Steel							
Steel Bar	1,119	1,119	1,134	1,134	1,134	1,134	1,134
DRI/HBI	134	119	-	-	-	-	-
Billets	304	36	407	407	407	407	407

Source: Company data, QNB FS Research

1Q2023 Review: Soft Fertilizer Margin Drives Weak Results

IQCD reported QR1.17bn in 1Q2023 earnings (-56.9% YoY/-34.1% QoQ) – Industries Qatar's (IQCD) 1Q2023 earnings also fell shy of our QR1.36bn estimate by 14.4%. 1Q2023 fertilizer EBITDA margin fell from ~43% in 4Q2022 (~50% in 1Q2022) to ~35%, falling below our 40% forecast, and contributing to the majority of the earnings miss. IQCD's 1Q2023 urea realization of \$352/MT (down ~47% YoY and ~39% QoQ) was actually modestly ahead of our modeled forecast of \$340/MT leading to a slight beat on the fertilizer top-line. Thus, the margin deterioration is entirely due to higher fertilizer direct costs, which is surprising given the progressive fall in urea prices during 1Q2023. As fertilizer gas feedstock costs are based on YTD urea pricing, the miss in fertilizer EBITDA margin implies higher-cost inventory and indeed the company points to unfavorable inventory movements linked to higher sales volumes in its press release. Finally, lower-than-expected earnings from steel-segment-associate Foulath, along with a slight miss by the wholly-owned steel operations combined to offset a modest beat in petchems and upside from interest income/other income.

- **Price realizations fell across the board YoY but improved sequentially for steel and petchems; sales volumes improved for steel and fertilizers but retreated for petchems.** 1Q2023 overall sales volumes improved ~3% and ~10%, respectively, on a YoY and QoQ basis. Overall price realizations ratcheted down ~35% YoY and ~22% QoQ. Production volumes also increased ~11% YoY from 3.9 MTPA in 1Q2022 to 4.4 MTPA, while 1Q2023 production volumes also gained ~1% QoQ from 4.3 MTPA. Utilization rates climbed to 105% vs. 94% in 1Q2022 and 104% in 4Q2022.
- **Petchems, the only outperformer in 1Q2023, with segment top-line and profitability besting our forecasts given moderate upside in LDPE sales volumes along with slightly better-than-expected pricing.** 1Q2023 segment revenue of ~QR1.36bn (~-26% YoY, ~-8% QoQ) was roughly 2% higher than our model on modestly better-than-expected volumes for LDPE, along with moderately higher-than-modeled price realizations across the board for PE & FA, except MTBE. Segment earnings of QR382.47mn fell 43.1% YoY and 1.5% QoQ, and was 14.0% ahead of our model. EBITDA margins came in ~40% for 1Q2023 vs. around 45% in 1Q2022 and 41% in 4Q2022. Product prices, while down significantly YoY across the board, firmed up sequentially as expected on the back of better fundamentals. Sales volumes were down ~4% YoY/~11% QoQ, with the roughly 8% increase in LDPE volumes shoring up the segment's YoY sales volumes. Production volumes gained roughly 7% YoY aided by higher availability of facilities but fell ~3% QoQ.
- **Fertilizer EBITDA margin disappointed, dropping back to 3Q2022's ~35% level, which was the lowest level seen in at least three years.** Revenue and income of QR2.24bn and QR511.09mn decreased 43.8% and 70.7%, YoY, respectively. Sequentially, segment revenue was down 34.6% and earnings declined 56.8%. Segment top-line was 3.7% above our model but earnings were short by 30.5%; to explain this decline in profitability, in its press release, IQCD pointed to higher operating costs because of unfavorable inventory movements linked to higher sales volumes. 1Q2023 EBITDA margin declined to ~35% vs. approximately 50% in 1Q2022 and 43% in 4Q2022. According to the company, urea prices decreased ~47% YoY and ~39% QoQ from \$661/MT in 1Q2022 and \$579/MT in 4Q2022 to \$352/MT in 1Q2023; realized urea prices were approximately 4% higher than our modeled estimate. Urea prices have come down from decade highs in 1H2022 given downward pressure on grain, energy, other commodity prices and overall inflation. IQCD also pointed to the restart-up of European production following shutdowns in 2022 amid the Russia-Ukraine crises. IQCD's production volumes were up ~11% YoY but flattish sequentially; sales volumes grew ~3% YoY and ~6% QoQ.
- **Steel segment revenue beat our forecast on a jump in volumes but profitability was below our estimates as income from associate (Foulath) weakened.** Steel revenue came in at QR1.23bn (-5.5% YoY, 64.2% QoQ), which was 30.5% ahead of our model. Segment income of QR133.99mn (-48.7% YoY, 16.4% QoQ) was, however, 37.0% shy of our forecast of QR212.79mn. We note that income from associates, primarily from Foulath that produces and sell iron oxide pellets, came in at QR64.13mn (12.0% YoY, -59.4% QoQ and 44.8% below our forecast of QR116.19mn). The segment also faced higher volume-related operating expenses and lower other income. EBITDA margins fell to ~15% in 1Q2023 vs. roughly 24% in 1Q2022 and 22% in 4Q2022. According to the company, steel realizations dipped by ~16% YoY but gained around 6% QoQ. IQCD pointed to constructive demand-supply dynamics, both in Qatar and internationally, in aiding the sequential growth in steel prices. We do note that steel prices were somewhat lower than our forecasts – the company reported rebar realizations of \$647/MT in 1Q2023 vs. \$724/MT in 1Q2022, \$623/MT in 4Q2022 and our expectation of \$716/MT. Sales volumes increased ~12% YoY and shot up ~55% sequentially; volumes were significantly stronger than our model, especially in billets, with domestic demand being helped by construction activities returning gradually to mid-2022 levels. Production volumes were up roughly up 17% YoY/7% QoQ. Production volumes, since the beginning of 2022 for DRI/HBI, were aided by the re-startup of the DR-2 facility in 1Q2022 that has 1,500 KTPA of capacity (as opposed to the 800 KTPA-DR-1 facility it replaced).

QNB FS 1Q2023 Estimates and Comparisons

Income Statement (QR Million)	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
Revenue	5,280.579	4,169.832	3,467.196	3,099.963	11.8%	-34.3%	-16.9%
Cost of Sales (Ex. D &A)	(2,842.653)	(2,570.136)	(2,425.194)	(1,732.259)	40.0%	-14.7%	-5.6%
Gross Profit	2,437.926	1,599.696	1,042.002	1,367.704	-23.8%	-57.3%	-34.9%
General & Admin. Expenses	(175.822)	(193.952)	(166.532)	(154.998)	7.4%	-5.3%	-14.1%
Selling & Distribution Costs	(31.240)	(21.043)	(13.767)	(18.600)	-26.0%	-55.9%	-34.6%
EBITDA	2,230.864	1,384.701	861.703	1,194.106	-27.8%	-61.4%	-37.8%
Depreciation & Amortization	(375.042)	(374.668)	(329.378)	(377.478)	-12.7%	-12.2%	-12.1%
EBIT	1,855.822	1,010.033	532.325	816.628	-34.8%	-71.3%	-47.3%
Finance Costs	(5.494)	(6.800)	(7.253)	(7.208)	0.6%	32.0%	6.7%
Share of Results from Associates	57.249	157.782	64.128	116.192	-44.8%	12.0%	-59.4%
Share of Results of JVs	672.594	388.449	382.473	335.473	14.0%	-43.1%	-1.5%
Other Income	123.830	218.812	195.318	100.600	94.2%	57.7%	-10.7%
Profit Before Tax	2,704.001	1,768.276	1,166.991	1,361.685	-14.3%	-56.8%	-34.0%
Tax	(0.145)	(0.114)	(0.384)	(0.088)	337.4%	164.8%	236.8%
Profit After Tax	2,703.856	1,768.162	1,166.607	1,361.597	-14.3%	-56.9%	-34.0%
Minority Interest	(0.238)	0.453	(0.682)	(0.120)	469.0%	186.6%	-250.6%
Profit for Equity Holders	2,703.618	1,768.615	1,165.925	1,361.477	-14.4%	-56.9%	-34.1%
Net Margin	51.2%	42.4%	33.6%	43.9%			
EPS (in QR)	0.45	0.29	0.19	0.23	-14.4%	-56.9%	-34.1%
Cost of Sales	53.8%	61.6%	69.9%	55.9%			
Gross Margin %	46.2%	38.4%	30.1%	44.1%			
G&A % Sales	3.3%	4.7%	4.8%	5.0%			
Selling Expenses % Sales	0.6%	0.5%	0.4%	0.6%			
EBITDA %	42.2%	33.2%	24.9%	38.5%			
D&A % Sales	7.1%	9.0%	9.5%	12.2%			
EBIT %	35.1%	24.2%	15.4%	26.3%			
Net Margin %	51.2%	42.4%	33.6%	43.9%			

Source: Company data, QNB FS Research

QNB FS 1Q2023 Segment Estimates and Comparisons

In QR Millions

Steel	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E
Revenue	1,300.068	1,159.139	1,054.591	748.040	1,228.299	941.567	30%
Profit Before Tax	261.211	359.527	152.943	115.105	133.986	212.794	-37%
NM %	20.09%	31.02%	14.50%	15.39%	10.91%	22.60%	
Revenue Q/Q	34%	-11%	-9%	-29%	64%	26%	
Profit Before Tax Q/Q	199%	38%	-57%	-25%	16%	85%	
Revenue Y/Y	6%	18%	50%	-23%	-6%	-28%	
Profit Before Tax Y/Y	1%	52%	15%	32%	-49%	-19%	
Petrochemicals	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023	1Q2023	A Vs. E
Revenue	1,835.000	2,017.000	1,639.000	1,483.000	1,362.000	1,335.481	2%
Profit Before Tax	672.594	831.054	568.336	388.449	382.473	335.473	14%
NM %	36.65%	41.20%	34.68%	26.19%	28.08%	25.12%	
Revenue Q/Q	42%	10%	-19%	-10%	-8%	-10%	
Profit Before Tax Q/Q	120%	24%	-32%	-32%	-2%	-14%	
Revenue Y/Y	33%	16%	5%	15%	-26%	-27%	
Profit Before Tax Y/Y	11%	-6%	-16%	27%	-43%	-50%	
Fertilizers	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023	1Q2023	A Vs. E
Revenue	3,980.511	3,972.022	3,157.431	3,421.792	2,238.897	2,158.396	4%
Profit Before Tax	1,745.172	1,561.848	858.375	1,183.317	511.093	734.934	-30%
NM %	43.84%	39.32%	27.19%	34.58%	22.83%	34.05%	
Revenue Q/Q	6%	0%	-21%	8%	-35%	-37%	
Profit Before Tax Q/Q	-24%	-11%	-45%	38%	-57%	-38%	
Revenue Y/Y	147%	78%	17%	-9%	-44%	-46%	
Profit Before Tax Y/Y	193%	65%	-33%	-48%	-71%	-58%	
Total Revenue	7,115.579	7,148.161	5,851.022	5,652.832	4,829.196	4,435.444	9%
YoY Growth	69%	44%	18%	-6%	-32%	-38%	
QoQ Growth	18%	0.5%	-18%	-3%	-15%	-22%	
Steel	18%	16%	18%	13%	25%	21%	
Petrochemicals	26%	28%	28%	26%	28%	30%	
Fertilizers	56%	56%	54%	61%	46%	49%	
Total Profit Before Tax (Ex. Unallocated)	2,678.977	2,752.429	1,579.654	1,686.871	1,027.552	1,283.201	-20%
Steel	10%	13%	10%	7%	13%	17%	
Petrochemicals	25%	30%	36%	23%	37%	26%	
Fertilizers	65%	57%	54%	70%	50%	57%	
Group Net Income	2,703.618	2,728.633	1,613.788	1,768.615	1,165.925	1,361.477	-14%
Segment Profit Before Tax/Group NI	99%	101%	98%	95%	88%	94%	
Unallocated Net Income	24.64	(23.80)	34.13	81.74	138.37	78.28	77%

Source: Company data, QNB FS Research

Ratio Analysis

Key Ratios & Valuation Metrics

Particulars	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Growth Ratios (In %)											
Revenue - Proportionate Group	3.6%	14.7%	(15.9%)	(17.4%)	77.4%	27.9%	(33.2%)	4.3%	1.9%	5.4%	5.7%
Revenue - Reported	(1.0%)	25.1%	(12.0%)	45.2%	91.5%	32.6%	(36.2%)	2.3%	2.5%	8.0%	3.6%
Gross Profit	(31.8%)	24.1%	(75.7%)	803.5%	193.1%	2.2%	(44.4%)	9.5%	4.8%	10.1%	4.2%
EBITDA - Proportionate Group	(4.1%)	31.5%	(41.3%)	3.3%	170.6%	8.1%	(37.7%)	10.5%	3.7%	6.2%	7.5%
EBITDA - Reported	(38.4%)	35.9%	(93.6%)	3326.4%	229.6%	2.8%	(49.2%)	11.3%	5.5%	11.8%	4.7%
EBIT	(48.3%)	51.1%	N/M	N/M	1152.9%	2.7%	(61.5%)	23.6%	11.7%	10.7%	14.5%
JV Income	51.9%	48.8%	(43.8%)	(51.1%)	132.7%	(0.8%)	(34.9%)	15.8%	0.7%	(1.0%)	20.8%
PBT	12.2%	51.7%	(48.8%)	(28.3%)	338.4%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
PAT	12.2%	51.7%	(48.8%)	(28.4%)	338.8%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
Net Income	12.2%	51.7%	(48.8%)	(29.7%)	346.8%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
EPS	12.2%	51.7%	(48.8%)	(29.7%)	346.8%	9.0%	(46.4%)	16.9%	6.6%	5.2%	14.0%
DPS	25.0%	20.0%	(33.3%)	(17.5%)	203.0%	10.0%	(31.8%)	6.7%	12.5%	5.6%	10.5%
Operating Ratios (In %)											
Gross Margin	20.2%	20.0%	5.5%	34.4%	52.6%	40.5%	35.4%	37.8%	38.6%	39.4%	39.6%
EBITDA Margin - Proportionate Gr	33.0%	37.8%	26.4%	33.0%	50.3%	42.5%	39.7%	42.1%	42.8%	43.1%	43.9%
EBITDA Margin - Reported	14.6%	15.9%	1.2%	27.4%	47.2%	36.6%	29.1%	31.6%	32.5%	33.7%	34.1%
EBIT Margin	9.8%	11.8%	(4.3%)	5.6%	36.9%	28.6%	17.3%	20.9%	22.7%	23.3%	25.7%
Net Margin	71.6%	86.9%	50.5%	24.5%	57.1%	46.9%	39.4%	45.0%	46.8%	45.6%	50.2%
Working Capital Ratios (Days)											
Inventory days	142.7	135.3	140.4	146.6	108.9	101.4	125.0	125.0	125.0	125.0	125.0
Average collection period	98.8	63.3	64.3	78.5	79.6	37.7	50.0	50.0	50.0	50.0	50.0
Payable days	115.2	104.6	93.9	105.7	108.2	69.7	90.0	90.0	90.0	90.0	90.0
Finance Ratios											
Net Debt-Equity Ratio	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage	45.1	351.1	-19.0	11.2	206.4	227.2	65.8	82.1	96.5	112.4	135.5
Return Ratios (In %)											
ROE	9.9%	14.2%	7.5%	5.4%	20.5%	21.0%	11.8%	13.5%	14.1%	14.6%	16.2%
ROA	9.4%	13.6%	7.2%	5.0%	19.1%	19.6%	11.1%	12.7%	13.3%	13.7%	15.2%
Liquidity Ratios											
Current Ratio	7.8	10.4	11.2	8.9	10.1	10.7	10.2	9.6	9.2	8.9	9.0
Quick Ratio	6.8	9.2	9.7	7.6	9.2	9.3	8.9	8.2	7.9	7.5	7.7
Valuation											
EV/Reported EBITDA	92.8	65.0	1,009.9	30.4	8.4	7.8	16.1	14.9	14.3	12.8	12.0
EV/EBIT	139.0	87.6	(274.0)	147.8	10.8	10.0	27.2	22.6	20.4	18.5	15.9
P/E	21.3	14.0	27.4	38.9	8.7	8.0	14.9	12.8	12.0	11.4	10.0
P/BV	2.1	2.0	2.1	2.1	1.8	1.7	1.8	1.7	1.7	1.7	1.6
Dividend Yield	4.3%	5.2%	3.4%	2.8%	8.6%	9.4%	6.4%	6.9%	7.7%	8.2%	9.0%
FCF Yield	3.8%	8.3%	5.3%	4.3%	10.5%	12.6%	5.5%	4.1%	6.2%	7.8%	9.2%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	7,400	14,169	18,794	11,989	12,270	12,581	13,582	14,069
Cost of Sales, Excluding D&A	(4,856)	(6,715)	(11,174)	(7,750)	(7,629)	(7,720)	(8,231)	(8,494)
Gross Profit	2,543	7,454	7,620	4,239	4,640	4,861	5,352	5,575
G&A Expenses	(481)	(712)	(680)	(681)	(687)	(693)	(699)	(705)
Selling Expenses	(35)	(59)	(68)	(70)	(72)	(74)	(76)	(77)
EBITDA	2,028	6,683	6,872	3,488	3,882	4,094	4,577	4,793
Depreciation & Amortization	(1,610)	(1,450)	(1,498)	(1,416)	(1,322)	(1,236)	(1,414)	(1,170)
EBIT	418	5,233	5,374	2,071	2,560	2,858	3,163	3,622
Finance Costs	(37)	(25)	(24)	(31)	(31)	(30)	(28)	(27)
Share of Results of Joint Ventures	1,065	2,479	2,460	1,601	1,853	1,866	1,847	2,231
Other Income, Expenses, Taxes & Minorities	365	402	1,004	1,083	1,139	1,193	1,211	1,230
Profit for Shareholders	1,810	8,089	8,815	4,724	5,520	5,887	6,192	7,057
EPS (QR)	0.30	1.34	1.46	0.78	0.91	0.97	1.02	1.17
Group Revenue	11,361	20,150	25,770	17,223	17,961	18,305	19,289	20,387
Group EBITDA	3,748	10,140	10,960	6,833	7,553	7,836	8,322	8,945

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Non-Current Assets								
PP&E & PUD	13,718	12,696	11,877	13,141	15,029	15,733	15,429	15,088
Investment Properties	-	-	-	-	-	-	-	-
Investment in Associates	1,475	1,577	1,890	2,162	2,472	2,827	3,192	3,568
Investment in Joint Ventures	6,916	6,823	7,097	7,286	7,505	7,725	7,944	8,207
Available-for-Sale Investments	-	-	-	-	-	-	-	-
Right-of Use Assets & Others	227	189	242	238	238	238	238	238
Total Non-Current Assets	22,335	21,284	21,106	22,827	25,243	26,523	26,802	27,102
Current Assets								
Inventories	1,945	2,004	3,105	2,654	2,606	2,644	2,819	2,909
Accounts Rec. & Prepayments	1,587	3,090	1,943	1,642	1,676	1,723	1,861	1,927
Due from Related Parties	869	1,494	1,535	979	1,002	1,027	1,109	1,149
Financial Assets at FVTPL	348	349	397	397	397	397	397	397
Cash and Bank Balances	8,801	14,086	16,919	14,175	12,560	12,097	12,142	12,844
Total Current Assets	13,550	21,023	23,899	19,847	18,241	17,888	18,328	19,226
Total Assets	35,885	42,308	45,005	42,674	43,484	44,412	45,130	46,328
Equity								
Total Equity	33,613	39,510	42,020	39,977	40,822	41,722	42,315	43,448
Non-Current Liabilities								
Loans and Borrowings	-	-	-	-	-	-	-	-
EOS Benefits & Lease Liabilities	745	724	761	754	754	754	754	754
Total Non-Current Liabilities	745	724	761	754	754	754	754	754
Current Liabilities								
Accounts Payables & Accruals	1,403	1,991	2,132	1,911	1,876	1,904	2,029	2,094
Due to Related Parties, Lease Liabilities & Others	88	83	92	32	32	32	32	32
Loans and Borrowings	37	-	-	-	-	-	-	-
Total Current Liabilities	1,527	2,073	2,224	1,943	1,908	1,935	2,061	2,126
Equity and Liabilities	35,885	42,308	45,005	42,674	43,484	44,412	45,130	46,328

Source: Company data, QNB FS Research

Medicare Group (MCGS)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR6.650	Target Price	QR7.144
Implied Upside	7.4%		

Trimming Estimates But Defensive Attributes Support Our Market Perform Rating

We have recently marginally trimmed our top-line growth estimates for Medicare after a below-forecast FY2022 even as 1Q2023 revenue came marginally above estimates. We maintain our Market Perform rating as the slight downgrade in growth expectations were marginally offset by the improving cost of capital outlook. Moreover, changes in peer multiples had a net marginal positive effect. Also, we trimmed our margins, after they came under pressure during 1Q2023 primarily due to imported inflation in medications and surgical costs. Management contends that these cost pressures will normalize in the near future, however. We note the stock price has had huge swings since our [initiation](#) note in November, in line with general market gyrations, but has recovered nicely in the last couple weeks and is now trading within our estimated fair value range. Our overall thesis remains: Prevailing tailwinds and headwinds combine for a balanced/neutral outlook in the short- to medium-term for Medicare. In the medium- to longer-term, it is likely that tailwinds, primarily due to positive demographics, become dominant. While Medicare has proven to be an attractive dividend play over the years, this yield allure is being weighed down by improving cross asset yields. Nonetheless, MCGS is a cash-cow, with a high cash conversion ratio. The board and management have been generous, with most of the bottom-line paid to shareholders as dividends. We also like its lower risk profile owing to its product offering and strong balance sheet, which in turn, supports a continued stable dividend flow. However, the forecast period looks rather pedestrian due to competition dynamics and limited fruition of previously-announced expansion plans.

Highlights

- Medicare Group's 1Q2023 net profit rose 9.4% to QR18.8mn YoY but declined 18.7% QoQ, missing our estimate of QR22.3mn by 16.0%. A jump in cost of sales by 11.5% YoY (6.8% sequentially) to QR82.8mn, primarily driven by an unanticipated 18.3% YoY (18.4% QoQ) spike in medications and surgical costs, saw its GP margin shrinking to 35.3% from 36.7% in 1Q2022 (4Q2022: 39.2%); gross margin came in lower than our modeled estimate. This was due to inflationary pressures that have been pervasive globally – management reckons that this will normalize soon. MCGS had averaged a GP margin of 38.0% for the past eight quarters.
- MCGS's revenue rose 9.1% YoY and 0.5% QoQ to QR128.1mn, largely in line with our expectations of QR126.3mn. While 1Q is traditionally weaker than the preceding 4Q, the sequential 0.5% marginal increase in revenue registered in 1Q2023 was due to demand – primarily elective procedures as per management's guidance – that was pushed out from 4Q2022 during the World Cup into 1Q2023. All else being equal, we do not see this repeating in future.
- We recently revised down marginally our revenue projection for FY2023 to QR504.9mn from QR511.1mn. Similarly, our net profit forecast is now lower at QR79.5mn from QR96.7mn, weighed down further by increased cost pressures as we trim our gross margin expectations to 38.2% from 40.1%.
- We reiterate our Market Perform rating. Meanwhile, MCGS could get a boost once there is more clarity on when it will receive a cash windfall following the Court of Appeal judgement in its favor against the National Health Insurance Company (Seha) on 24 January. MCGS was awarded a total of QR130.7mn. It had written down QR76.2mn of the original QR114.1mn Seha receivable but the court ruling implies that MCGS will receive an additional QR16.6mn of damages/comprehensive compensation. We estimate a net positive impact of QR0.33/share but this is not in our base model. Recent newsflow where the Court of Cassation referred back the case to the Court of Appeal – following Seha's challenge of the January 24 Court of Appeal judgement – means the process will be drawn out and less certainty is now built in the quantum and timing of the payment. We estimate a net impact of QR0.13/share should MCGS decide to completely write-off the Seha receivable.

Catalysts

- Catalysts: (1) Phased rollout of the "new" Seha/health insurance policy (2) Initiative by the QIA to increase market liquidity (3) Increase in FOL to 100% from 49% (4) Inpatient beds expansion plans, though drawn-out than initially planned (5) Contingent receivable cash windfall from Medicare's court case (vs. the government on "old" Seha).

Recommendation, Valuation and Risks

- Recommendation and Valuation: We have Market Perform rating and a 12-month TP of QR7.144, which implies a 7.4% upside potential. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and Relative-Valuation methodologies. Several macro and micro themes cancel out each other to render a relatively neutral prognosis on MCGS's near-term outlook. In the short- to medium-term, we see the following variables driving the outlook: bed capacity & occupancy levels, service level & product quality, public health policy, increased healthcare spend, low beta, tariff controls and competition from both the private and public players. In the medium- to longer-term, above-average population growth, disease burden and expected change in the composition of expats (to a more white-collar workforce), will become more dominant in shaping prospects.
- Key risks: (1) Further delays to planned bed-expansion plans (2) Further write-downs/offsets of the Seha receivable (3) Escalating competitive pressure as both private and public bed-count increases (4) Low stock liquidity (5) Rising global/local yields (6) Global disease outbreak.

Key Financial Data and Estimates

Medicare Group	2022A	2023E	2024E	2025E	2026E
EPS (QR)	0.28	0.28	0.33	0.37	0.41
DPS (QR)	0.26	0.25	0.29	0.33	0.37
P/E (x)	23.6	23.6	20.3	18.0	16.4
EV/EBITDA (x)	19.1	18.6	16.4	14.9	13.4
DY (%)	3.9%	3.8%	4.4%	5.0%	5.5%

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

Key Data

Current Market Price	QR6.650
Dividend Yield (%)	3.9
Bloomberg Ticker	MCGS QD
ADR/GDR Ticker	N/A
Reuters Ticker	MCGS.QA
ISIN	QA0006929754
Sector*	Healthcare
52wk High/52wk Low	7.695/5.505
3-m Average Vol. (mn)	0.3
Mkt. Cap. (\$ bn/QR bn)	0.5/1.9
EV (\$ bn/QR bn)	0.5/2.0
Shares O/S (mn)	281.4
FO Limit* (%)	100.0
FO (Institutional)* (%)	20.2
1-Year Total Return (%)	-2.9
Fiscal Year-End	December 31

Source: Bloomberg (as of 11 June, 2023); *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Valuation Summary
Weighted Valuation

Methodology	Weight in Valuation	Upside/Downside Potential
DCF	35.0%	-13.3%
EEM	30.0%	27.3%
Dividend Discount Model	5.0%	-38.9%
Relative Valuation	30.0%	
International Sector Peers	20.0%	
P/E, FY2023e	5.0%	17.7%
P/FCF, FY2022	5.0%	-30.0%
P/BV, FY2022	5.0%	101.7%
LTM Div. Yield	5.0%	93.7%
Local Comparisons	10.0%	
DSM Index P/E @ 12.1x, FY2023e	5.0%	-49.8%
DSM Index LTM Div. Yield @ 4.7%	5.0%	-20.2%
Weighted Average Upside Potential		7.4%

Source: QNB FS Research

Condensed Financial Statements & Forecasts
Income Statement (QR)

MCGS INCOME STATEMENT	2022A	2023E	2024E	2025E	2026E
REVENUE	487,165,561	504,900,286	518,832,833	543,692,419	569,372,264
GROSS PROFIT	185,409,085	192,731,318	203,565,728	217,213,637	231,474,251
EBITDA	102,150,287	105,464,920	116,851,483	126,698,925	137,092,300
OPERATING PROFIT	73,704,284	77,060,354	88,754,344	98,752,355	109,151,910
PROFIT FOR THE PERIOD	79,164,805	79,463,949	92,157,234	104,157,085	114,287,492

Source: Company data, QNB FS Research

Balance Sheet (QR)

MCGS BALANCE SHEET	2022A	2023E	2024E	2025E	2026E
Property, Plant and Equipment	1,032,712,543	1,047,435,968	1,029,615,840	1,012,313,259	995,395,943
Right-of-Use Assets	37,592,055	34,974,044	32,356,033	29,738,022	27,120,011
Financial Investments at FVTOCI	69,730,395	69,730,395	69,730,395	69,730,395	69,730,395
Investment Properties	26,233,810	26,233,810	26,233,810	26,233,810	26,233,810
Total Non-Current Assets	1,166,268,803	1,178,374,217	1,157,936,078	1,138,015,486	1,118,480,159
Inventories	30,586,104	32,625,153	33,525,433	35,131,785	36,791,140
Accounts Receivable and Prepayments	118,063,533	120,635,440	122,655,951	126,261,111	129,985,227
Cash and Bank Balances	42,150,235	6,943,263	24,433,858	44,832,212	68,598,012
Total Current Assets	190,799,872	160,203,856	180,615,242	206,225,108	235,374,379
Total Assets	1,357,068,675	1,338,578,072	1,338,551,320	1,344,240,595	1,353,854,538
EQUITY AND LIABILITIES					
Share Capital	281,441,000	281,441,000	281,441,000	281,441,000	281,441,000
Legal Reserve	116,010,669	123,957,063	133,172,787	143,588,495	155,017,244
Fair Value Reserve	18,365,451	18,365,451	18,365,451	18,365,451	18,365,451
Revaluations Surplus	549,025,726	549,025,726	549,025,726	549,025,726	549,025,726
Retained Earnings	75,356,136	68,617,165	77,737,191	85,933,129	92,193,308
Total Equity	1,040,198,982	1,041,406,405	1,059,742,154	1,078,353,801	1,096,042,730
Interest Bearing Loans	54,396,528	37,575,275	23,642,683	11,206,931	2,001,087
Lease Liabilities	40,692,837	39,407,796	38,163,336	36,958,175	35,791,071
Employees' End of Service Benefits	77,292,252	79,107,657	80,923,062	82,792,710	84,730,850
Total Non-Current Liabilities	172,381,617	156,090,729	142,729,081	130,957,816	122,523,009
Accounts Payables & Accruals	118,503,116	122,592,217	123,808,890	128,211,840	132,696,298
Interest Bearing Loans	24,043,006	16,608,093	10,449,953	4,953,410	884,471
Lease Liabilities	1,941,954	1,880,629	1,821,241	1,763,727	1,708,031
Total Current Liabilities	144,488,076	141,080,939	136,080,084	134,928,977	135,288,800
Total Liabilities	316,869,693	297,171,667	278,809,165	265,886,793	257,811,809
Total Equity and Liabilities	1,357,068,675	1,338,578,072	1,338,551,320	1,344,240,595	1,353,854,538

Source: Company data, QNB FS Research

Cash Flow Statement (QR)

MCGS CASH FLOW STATEMENT	2022A	2023E	2024E	2025E	2026E
Cash Flow from Operating Activities	102,928,555	88,117,472	117,348,986	128,598,137	139,442,775
Cash Flow from Investing Activities	(59,721,426)	(37,618,379)	(5,014,561)	(4,192,608)	(5,626,395)
Cash Flow from Financing Activities	(53,303,967)	(95,802,903)	(94,843,830)	(104,007,175)	(110,050,580)
Change in Cash	(10,096,838)	(45,303,810)	17,490,595	20,398,354	23,765,800
Opening Cash	52,247,073	52,247,073	6,943,263	24,433,858	44,832,212
Cash End of Period	42,150,235	6,943,263	24,433,858	44,832,212	68,598,012

Source: Company data, QNB FS Research

Key Ratios

MCGS RATIOS	2022A	2023E	2024E	2025E	2026E
GROWTH METRICS					
Revenue	0.7%	3.6%	2.8%	4.8%	4.7%
Gross Profit	0.4%	3.9%	5.6%	6.7%	6.6%
EBITDA	-2.0%	3.2%	10.8%	8.4%	8.2%
Operating Profit	-3.2%	4.6%	15.2%	11.3%	10.5%
Net Profit	0.1%	0.4%	16.0%	13.0%	9.7%
OPERATING RATIOS					
Gross Margin	38.1%	38.2%	39.2%	40.0%	40.7%
EBITDA Margin	21.0%	20.9%	22.5%	23.3%	24.1%
EBIT Margin	15.1%	15.3%	17.1%	18.2%	19.2%
Net Profit Margin	16.3%	15.7%	17.8%	19.2%	20.1%
RETURN RATIOS					
RoE	7.6%	7.6%	8.7%	9.7%	10.4%
RoIC	6.6%	6.8%	8.0%	9.1%	10.2%
RoA	5.4%	5.8%	6.6%	7.3%	8.1%
VALUATION RATIOS					
EV/Sales	4.0	3.9	3.7	3.5	3.2
EV/EBITDA	19.1	18.6	16.4	14.9	13.4
EV/EBIT	26.5	25.4	21.6	19.1	16.9
PE Ratio	23.6	23.6	20.3	18.0	16.4
PEG Ratio	2.5	1.8	1.5	1.5	1.6
P/CF	18.2	21.2	15.9	14.6	13.4
P/B	1.8	1.8	1.8	1.7	1.7
Dividend Yield	3.9%	3.8%	4.4%	5.0%	5.5%
FCF Yield	3.1%	2.5%	5.9%	6.4%	7.0%
LEVERAGE RATIOS					
Debt/Equity Ratio	11.6%	9.2%	7.0%	5.1%	3.7%
Net Debt/Equity Ratio	7.6%	8.5%	4.7%	0.9%	-2.6%
Net Debt/Capital Ratio	7.9%	8.6%	4.8%	1.0%	-2.7%
Net Debt/EBITDA	77.3%	83.9%	42.5%	7.9%	-20.6%
Interest coverage	35.8	17.0	24.5	35.4	51.5
LIQUIDITY RATIOS					
Current Ratio	1.3	1.1	1.3	1.5	1.7
Quick Ratio	1.1	0.9	1.1	1.3	1.5
WORKING CAPITAL DAYS					
Inventory Days	157	157	157	157	157
Average Collection Period	110	110	110	110	110
Payables Days	143	143	143	143	143

Source: Company data, QNB FS Research

Qatar Electricity & Water Company (QEWS)

Recommendation	ACCUMULATE	Risk Rating	R-2
Share Price	QR17.25	Target Price	QR22.00
Implied Upside	27.5%		

Solid Long-Term Play Awaiting A Growth Spark; Maintain Accumulate

We keep our price target at QR22.00 and maintain our Accumulate rating. While upside to our target price remains compelling, we believe the company needs to surpass our estimates on a consistent basis for the stock to break out of its range. QEWS reported generally weaker-than-expected results for 1Q2023, excluding a one-off gain of QR77.7mn on sale of Siraj Energy. Despite this, we recently updated our model and raised our earnings estimates by an average of 4.9% over 2023e-2027e vs. our previous projections (that were a bit too conservative). We continue to like QEWS as a long-term play with a relatively defensive business model, especially in light of current market conditions. QEWS enjoys decent EBITDA margins and dividend/FCF yields. LT catalysts (which are not in our model) abound, including additional domestic expansions (like Facility E in 2025-2026, etc.). Nebras remains on the hunt for growth and has plans to increase its capacity (currently ~1.8 GW on an equity-adjusted basis) significantly, with 0.8 GW under construction/development (not in our model).

Highlights

- **QEWS reported 1Q2023 net income of QR400.7mn (EPS: QR0.36), up 3.1% YoY but down 13.1% QoQ, which was in-line with our estimate of QR398.7mn.** Earnings, however, included a QR77.7mn gain on sale of Siraj Energy, which was expected during the quarter but was not in our model. Excluding this, 1Q2023 earnings came in at QR323.0mn.
- **This year will continue to be impacted by the RAF B1 extension.** The new PPA, valid until end-2029, for RAF B1 (376 MW, 100% interest, roughly 17% of consolidated power capacity) was agreed in principle in March. As newer PPAs usually exhibit reduced tariff/higher gas costs, we continue to factor in lower profitability for 2023.
- **We expect a conservative EPS CAGR of 0.2% over 2022-2027e.** We recently raised our estimates, over our forecast horizon, by around 4.9% relative to our previous model. The biggest change to our estimates came from assumption of higher revenue given the company's 1Q2023 performance (change in revenue recognition at RAF B, which makes up ~28% of consolidated power capacity) offset by higher net finance costs, especially over 2024-2027, given higher rates and debt levels.
- **QEWS enjoys decent EBITDA margins & dividend/FCF yields.** Despite modeled compression, QEWS retains solid EBITDA margins (2022-27 avg.: ~37%). Over 2022-27, we expect dividend yields to average 5.8%, while FCF yields should average 9.6% over the same period. ROEs average 10.2% for 2022-27. We note we are fairly conservative with our margin assumptions so there is room for upside to our estimates.

Catalysts

- **New opportunities currently not in our model: Facility E** (55% stake; power: 2,600 MW & water: 100 MIGD) is currently in the bidding stage and should be operational around 2025, reaching full capacity in 2026. **Nebras also has roughly 0.8 GW net capacity under construction/development that is not incorporated in our model.** Ultimately, our earnings forecasts could be conservative.

Recommendation, Valuation and Risks

- **Recommendation & valuation: We continue to rate QEWS an Accumulate with a PT of QR22.00.** QEWS trades at P/E multiples of 12.0x for both 2023 and 2024, which is attractive relative to its historical five-year average of 13.0x. Dividend yields are also attractive at 5.5% for 2023/2024.
- **Risks: Geopolitical risks** cannot be modeled. Besides **foreign expansion risks, domestic projects could also be delayed. Operational risks include availability of capacity below contracted levels,** which could lead to penalties.

Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
Revenue (QR mn)	2,721	2,857	2,901	2,924
Revenue Growth	10.0%	5.0%	1.5%	0.8%
EPS (QR)	1.56	1.43	1.44	1.48
EPS Growth	16.6%	-7.8%	0.1%	3.2%
P/E (x)	11.1	12.0	12.0	11.6
DPS (QR)	0.95	0.95	0.95	1.00
ROE	11.3%	10.4%	10.1%	10.0%

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

Key Data

Current Market Price (QR)	17.25
Dividend Yield (%)	5.5
Bloomberg Ticker	QEWS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QEWQ.QA
ISIN	QA0006929812
Sector*	Industrials
52wk High/52wk Low (QR)	20.00/16.00
3-m Average Volume ('000)	401.2
Mkt. Cap. (\$ bn/QR bn)	5.2/19.0
EV (\$ bn/QR bn)	6.2/22.5
Shares Outstanding (bn)	1.10
FO Limit* (%)	49.0
Institutional FO* (%)	9.3
1-Year Total Return (%)	(1.0)
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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1Q2023 Review: Earnings Miss Excluding Siraj Sale Gain

QEWS reports 1Q2023 net income of QR400.7mn (EPS: QR0.36), up 3.1% YoY but down 13.1% QoQ, which was in-line with our estimate of QR398.7mn (0.5% divergence). Reported earnings, however, included a QR77.7mn gain on sale of Siraj Energy, which was expected during the quarter but was not in our model.

- **Excluding this one-off item, 1Q2023 earnings came in at QR323.0mn.** Higher-than-expected cash direct costs, along with lower-than-expected JV income, more than offset upside in revenue and better-than-expected G&A expenses/depreciation & amortization costs. We note YoY comparisons generally remain skewed given the Nebras purchase/consolidation in July.
- **Total revenue for 1Q2023 came in at QR658.0mn, up 16.5% YoY but down 18.8% QoQ and also 5.9% ahead of our estimate of QR621.3mn.** The change in accounting for RAF B – where earlier QEWS used to recognize revenue/gas costs based on the sent-out water and power and is now recognizing it based on its committed offtake according to IFRS requirements – contributed in increasing both the top-line and gas costs. Revenue from power of QR321.0mn (26.1% YoY, -16.9% QoQ) and from water of QR318.0mn (9.4% YoY, -21.4% QoQ) exceeded our forecasts by 7.0% and 5.2%, respectively. However, direct cash costs of QR372.7mn (28.7% YoY, 2.9% QoQ) grew faster than revenue and exceeded our estimate of QR319.4mn. Consequently, cash gross margin fell to 43.4% from 48.7% in 1Q2022/55.3% in 4Q2022 and our estimate of 48.6%.
- **G&A and depreciation expenses were positive surprises but were offset by lower-than-expected JV income.** G&A expenses of QR55.1mn (49.9% YoY, -65.1% QoQ) came in 27.3% below our estimate of QR75.7mn; we note YoY comparisons are generally skewed across the board given the Nebras purchase in July and G&A in 4Q2022 included a QR83.1mn impairment loss (QR63.4mn for RAF B1 and QR19.7mn for the Dukhan plant). D&A costs of QR87.8mn (17.5% YoY, -16.7% QoQ) also beat our estimate of QR117.4mn by 25.1%. JV income of QR112.8mn (22.0% YoY, -59.7% QoQ), however, fell below our model of QR214.8mn. Finance costs of QR136.7mn (331.7% YoY, 20.8% QoQ) was 17.2% ahead of our estimate of QR116.6mn and dividend income of QR91.2mn (down 33.1% YoY) was 22.5% below our model of QR117.7mn. We do note that, as expected, QEWS paid off its \$550mn loan, which was used to help fund the \$530mn Nebras purchase, during the quarter; as a result, total debt dropped 18.2% QoQ from QR11.1bn in 4Q2022 to 9.1bn in 1Q2023.

QNB FS 1Q2023 Estimates and Comparisons

Income Statement (QR mn)							
Particulars	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
Revenue	564.868	809.983	658.049	621.343	5.9%	16.5%	-18.8%
Electricity	254.587	386.225	320.993	299.968	7.0%	26.1%	-16.9%
Water	290.733	404.473	317.968	302.143	5.2%	9.4%	-21.4%
Lease Income from JVs and Associates	19.548	19.285	19.088	19.233	-0.8%	-2.4%	-1.0%
Cost of Sales (Ex. Depreciation)	(289.513)	(362.087)	(372.729)	(319.430)	16.7%	28.7%	2.9%
Gross Profit	275.355	447.896	285.320	301.914	-5.5%	3.6%	-36.3%
General and Administrative Expenses	(36.759)	(157.832)	(55.086)	(75.722)	-27.3%	49.9%	-65.1%
EBITDA	238.596	290.064	230.234	226.192	1.8%	-3.5%	-20.6%
Depreciation (CoS)	(70.832)	(108.729)	(81.453)	(104.923)	-22.4%	15.0%	-25.1%
Depreciation (G&A)	(2.015)	5.174	(4.475)	(10.498)	-57.4%	122.1%	N/M
Amortization	(1.899)	(1.919)	(1.916)	(1.934)	-0.9%	0.9%	-0.2%
Depreciation & Amortization	(74.746)	(105.474)	(87.844)	(117.355)	-25.1%	17.5%	-16.7%
EBIT	163.850	184.590	142.390	108.836	30.8%	-13.1%	-22.9%
Finance Costs	(31.659)	(113.177)	(136.675)	(116.608)	17.2%	331.7%	20.8%
Interest income	25.168	73.862	76.338	79.860	-4.4%	203.3%	3.4%
Finance Costs, Net	(6.491)	(39.315)	(60.337)	(36.748)	64.2%	829.5%	53.5%
Dividend Income	136.340	-	91.247	117.747	-22.5%	-33.1%	
Other & Misc. Income / Exp.	6.917	33.588	106.853	7.304	1362.9%	1444.8%	218.1%
JV Income	92.405	280.120	112.766	214.845	-47.5%	22.0%	-59.7%
Profit from Discontinued Operations		3.223	19.019				490.1%
Profit Before Tax	393.021	462.206	411.938	411.985	0.0%	4.8%	-10.9%
Tax		0.680	(2.385)	(2.266)	5.3%		N/M
Profit after Tax	393.021	462.886	409.553	409.719	0.0%	4.2%	-11.5%
Minority Interest	(4.327)	(2.050)	(8.890)	(11.062)	-19.6%	105.5%	333.7%
Net Income	388.694	460.836	400.663	398.657	0.5%	3.1%	-13.1%
<i>Net Margin</i>	<i>68.8%</i>	<i>56.9%</i>	<i>60.9%</i>	<i>64.2%</i>			
EPS (QR)	0.35	0.42	0.36	0.36	0.5%	3.1%	-13.1%
	1Q2022	4Q2022	1Q2023	1Q2023e			
Cost of Sales	51.3%	44.7%	56.6%	51.4%			
SG&A	6.5%	19.5%	8.4%	12.2%			
EBITDA margin	42.2%	35.8%	35.0%	36.4%			
Operating Margin	29.0%	22.8%	21.6%	17.5%			
Net Margin	68.8%	56.9%	60.9%	64.2%			
GM	48.7%	55.3%	43.4%	48.6%			

Source: Company data, QNB FS Research

Estimate Revisions

QNB FS Estimates Revisions

Income Statement (QR mn)	Current	Previous	▲	Current	Previous	▲	Current	Previous	▲
	2023e	2023e		2024e	2024e		2025e	2025e	
Revenue	2,857.447	2,679.231	6.7%	2,901.321	2,724.014	6.5%	2,924.350	2,749.143	6.4%
Cost of Sales (Excluding Depreciation)	(1,571.060)	(1,460.181)	7.6%	(1,595.183)	(1,498.208)	6.5%	(1,637.088)	(1,539.520)	6.3%
Gross Profit	1,286.387	1,219.050	5.5%	1,306.139	1,225.806	6.6%	1,287.262	1,209.623	6.4%
General & Administrative Expenses, Excl. D&A	(218.360)	(218.360)	0.0%	(221.713)	(222.010)	-0.1%	(223.473)	(224.058)	-0.3%
EBITDA	1,068.027	1,000.690	6.7%	1,084.426	1,003.796	8.0%	1,063.790	985.565	7.9%
Depreciation	(343.334)	(344.000)	-0.2%	(342.476)	(343.140)	-0.2%	(341.619)	(342.282)	-0.2%
Amortization	(7.622)	(7.806)	-2.4%	(7.621)	(7.806)	-2.4%	(7.619)	(7.806)	-2.4%
EBIT	717.071	648.884	10.5%	734.329	652.850	12.5%	714.551	635.477	12.4%
Finance Costs & Lease Expense	(479.183)	(377.820)	26.8%	(456.182)	(323.883)	40.8%	(417.863)	(295.502)	41.4%
Interest Income & Share of Interest Income from JVs	297.734	197.120	51.0%	303.689	201.062	51.0%	309.763	205.084	51.0%
Finance Costs - Net	(181.448)	(180.700)	0.4%	(152.493)	(122.820)	24.2%	(108.100)	(90.418)	19.6%
Dividend Income and Gain on Sale of AFS	118.092	127.103	-7.1%	116.878	133.458	-12.4%	124.562	140.131	-11.1%
Other & Misc. Income / Expense	122.475	125.000	-2.0%	65.350	57.508	13.6%	67.474	59.377	13.6%
Share of profits of JV Companies & Associates	829.787	859.575	-3.5%	862.315	879.860	-2.0%	880.596	897.457	-1.9%
Profit from Discontinued Operations	19.019	-							
Profit before Tax	1,624.995	1,579.862	2.9%	1,626.379	1,600.855	1.6%	1,679.083	1,642.022	2.3%
Tax	(9.408)	(8.689)	8.3%	(9.416)	(8.805)	6.9%	(9.721)	(9.031)	7.6%
Profit after Tax	1,615.587	1,571.173	2.8%	1,616.963	1,592.050	1.6%	1,669.362	1,632.991	2.2%
Minority Interest	(37.482)	(76.987)	-51.3%	(37.514)	(78.010)	-51.9%	(38.729)	(80.017)	-51.6%
Profit for Equity Holders	1,578.105	1,494.185	5.6%	1,579.449	1,514.040	4.3%	1,630.633	1,552.975	5.0%
Net Profit Margin	55.2%	55.8%		54.4%	55.6%		55.8%	56.5%	
Shares O/S (mn)	1,100	1,100		1,100	1,100		1,100	1,100	
Basic and Diluted EPS	1.43	1.36	5.6%	1.44	1.38	4.3%	1.48	1.41	5.0%
DPS	0.95	0.80	18.8%	0.95	0.85	11.8%	1.00	0.85	17.6%
Dividend Payout Ratio	66.2%	58.9%		66.2%	61.8%		67.5%	60.2%	
Margins/Ratios	2023e	2023e		2024e	2024e		2025e	2025e	
Gross Margin	45.0%	45.5%		45.0%	45.0%		44.0%	44.0%	
EBITDA Margin	37.4%	37.3%		37.4%	36.8%		36.4%	35.8%	
EBIT Margin	25.1%	24.2%		25.3%	24.0%		24.4%	23.1%	

Source: QNB FS Research

Valuation and Key Ratios

Valuation Metrics

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Valuation														
EV/EBITDA - Consolidated	14.8	13.9	13.3	13.5	15.6	21.0	21.9	16.3	18.9	18.8	17.9	17.5	16.9	16.2
EV/EBIT	21.1	19.6	17.9	19.1	20.0	29.9	32.6	22.1	26.4	28.0	26.4	26.0	25.1	24.2
P/E	12.4	12.6	12.3	11.7	12.3	13.4	16.4	12.9	11.1	12.0	12.0	11.6	11.3	11.0
P/CF	8.6	10.3	9.2	11.4	9.2	15.0	10.7	11.6	11.1	12.4	9.8	9.4	9.3	9.1
P/BV	2.8	2.6	2.3	2.1	1.8	1.9	1.9	1.6	1.3	1.3	1.2	1.2	1.1	1.1
Dividend Yield	4.3%	4.3%	4.3%	4.5%	4.5%	4.5%	3.7%	4.6%	5.5%	5.5%	5.5%	5.8%	6.1%	6.4%
FCF Yield	(2.5%)	4.3%	6.5%	8.5%	5.5%	5.4%	8.9%	7.3%	10.4%	7.3%	9.5%	9.8%	10.0%	10.3%

Source: Bloomberg, QNB FS Research

Key Growth Rates/CAGRs/Ratios

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	CAGR ('22-'27)
Growth Rates															
Revenue	(0.2%)	2.9%	4.0%	(1.0%)	(15.3%)	(8.2%)	8.3%	(4.3%)	10.0%	5.0%	1.5%	0.8%	1.1%	1.1%	1.9%
Gross Profit	(1.8%)	1.9%	3.6%	(3.3%)	(15.8%)	(23.6%)	4.2%	5.2%	7.6%	(3.6%)	1.5%	(1.4%)	(0.3%)	(0.1%)	(0.8%)
EBITDA - Consolidated	(2.5%)	5.4%	2.8%	(4.9%)	(15.8%)	(25.8%)	(8.2%)	24.4%	(4.3%)	1.0%	1.5%	(1.9%)	(0.6%)	(0.4%)	(0.1%)
EBIT	(3.5%)	7.3%	7.2%	(9.3%)	(7.2%)	(33.1%)	(12.5%)	37.2%	(7.7%)	(5.0%)	2.4%	(2.7%)	(0.8%)	(0.5%)	(1.3%)
JV Income	3.6%	4.1%	(8.9%)	52.3%	(4.4%)	48.7%	(31.7%)	3.5%	17.4%	24.0%	3.9%	2.1%	2.3%	2.8%	6.7%
PBT	11.0%	(2.0%)	2.5%	4.2%	(4.5%)	(8.0%)	(17.9%)	26.0%	17.6%	(7.3%)	0.1%	3.2%	2.9%	2.8%	0.3%
Net Income/EPS	10.5%	(1.9%)	2.8%	4.8%	(4.9%)	(8.0%)	(18.1%)	26.8%	16.6%	(7.8%)	0.1%	3.2%	2.9%	2.8%	0.2%
DPS	10.0%	0.0%	0.0%	3.3%	0.0%	0.0%	(18.7%)	27.0%	18.8%	0.0%	0.0%	5.3%	5.0%	4.8%	3.0%
CFPS	30.7%	(16.6%)	11.7%	(19.1%)	24.2%	(38.8%)	40.1%	(7.9%)	4.6%	(10.6%)	27.1%	3.4%	1.9%	2.1%	4.1%
FCFPS	N/M	N/M	50.5%	30.9%	(35.1%)	(1.7%)	65.2%	(18.2%)	42.9%	(29.9%)	29.9%	3.7%	2.0%	2.2%	(0.3%)
Operating Ratios															
Gross Margin	59.5%	58.9%	58.7%	57.3%	56.9%	47.3%	45.6%	50.1%	49.0%	45.0%	45.0%	44.0%	43.4%	42.9%	
EBITDA Margin - Consolidated	51.8%	53.1%	52.5%	50.4%	50.2%	40.5%	34.4%	44.6%	38.9%	37.4%	37.4%	36.4%	35.8%	35.3%	
EBIT Margin	36.3%	37.8%	38.9%	35.7%	39.1%	28.5%	23.0%	33.0%	27.7%	25.1%	25.3%	24.4%	24.0%	23.6%	
Net Margin	52.8%	50.3%	49.7%	52.6%	59.1%	59.2%	44.8%	59.3%	62.9%	55.2%	54.4%	55.8%	56.8%	57.8%	
Finance Ratios															
Debt-Equity Ratio	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.7	0.6	0.5	0.5	0.4	0.4	
Net Debt-Equity Ratio	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	
Interest Coverage	9.7	9.4	8.1	6.1	4.5	2.8	4.0	7.1	2.6	1.5	1.6	1.7	1.8	1.8	
Return Ratios															
ROIC	8.8%	9.2%	8.5%	7.4%	5.9%	4.1%	3.7%	4.7%	2.9%	3.0%	3.1%	3.0%	2.9%	2.9%	
ROE	22.6%	20.4%	18.6%	18.0%	14.7%	14.1%	11.9%	12.4%	11.3%	10.4%	10.1%	10.0%	9.9%	9.9%	
ROA	11.8%	11.2%	10.1%	10.2%	8.4%	8.1%	6.8%	7.9%	6.2%	6.2%	6.1%	6.3%	6.4%	6.5%	
FCF Yield	-2.5%	4.3%	6.5%	8.5%	5.5%	5.4%	8.9%	7.3%	10.4%	7.3%	9.5%	9.8%	10.0%	10.3%	
Liquidity Ratios															
Current Ratio	1.2	1.5	2.1	2.3	1.6	1.4	1.4	1.6	1.8	1.5	1.6	1.7	1.8	1.9	
Quick Ratio	1.1	1.4	1.9	2.2	1.6	1.4	1.4	1.6	1.8	1.5	1.6	1.6	1.8	1.9	
Valuation															
EV/EBITDA - Consolidated	14.8	13.9	13.3	13.5	15.6	21.0	21.9	16.3	18.9	18.8	17.9	17.5	16.9	16.2	
EV/EBIT	21.1	19.6	17.9	19.1	20.0	29.9	32.6	22.1	26.4	28.0	26.4	26.0	25.1	24.2	
P/E	12.4	12.6	12.3	11.7	12.3	13.4	16.4	12.9	11.1	12.0	12.0	11.6	11.3	11.0	
P/CF	8.6	10.3	9.2	11.4	9.2	15.0	10.7	11.6	11.1	12.4	9.8	9.4	9.3	9.1	
P/BV	2.8	2.6	2.3	2.1	1.8	1.9	1.9	1.6	1.3	1.3	1.2	1.2	1.1	1.1	
Dividend Yield	4.3%	4.3%	4.3%	4.5%	4.5%	4.5%	3.7%	4.6%	5.5%	5.5%	5.5%	5.8%	6.1%	6.4%	
FCF Yield	(2.5%)	4.3%	6.5%	8.5%	5.5%	5.4%	8.9%	7.3%	10.4%	7.3%	9.5%	9.8%	10.0%	10.3%	

Source: Bloomberg, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Revenue	2,721	2,857	2,901	2,924
Cost of Sales, Excluding Depreciation	(1,387)	(1,571)	(1,595)	(1,637)
Gross Profit	1,334	1,286	1,306	1,287
General & Administrative Expenses, Excl. Depreciation & Amortization	(276)	(218)	(222)	(223)
EBITDA	1,058	1,068	1,084	1,064
Deferred Income	0	0	0	0
Depreciation & Amortization	(303)	(351)	(350)	(349)
EBIT	754	717	734	715
Finance Costs, Net	(111)	(181)	(152)	(108)
Dividend Income & Gain on Sale of AFS	161	118	117	125
Other & Miscellaneous Income/Expense & Income from JVs/Associates	945	952	928	948
Profit Before Tax	1,750	1,606	1,626	1,679
Income Tax Expense	(2)	(9)	(9)	(10)
Profit After Tax (Continuing Operations)	1,747	1,597	1,617	1,669
Discontinued Operations	3	19		
Minority Interest	(40)	(37)	(38)	(39)
Profit for Shareholders	1,711	1,578	1,579	1,631
EPS (QR)	1.56	1.43	1.44	1.48

Source: Company data, QNB FS estimates

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Non-Current Assets				
Property, Plant & Equipment	6,084	5,816	5,549	5,282
Available-for-Sale Investments	2,323	2,189	2,299	2,368
Finance Lease Receivables	765	656	546	437
JV Loans and Investments in JVs/Associates	8,905	9,112	9,325	9,540
Other Non-Current assets	344	875	857	840
Total Non-Current Assets	18,420	18,648	18,576	18,467
Current Assets				
Finance Lease Receivables & Others	400	296	296	296
Inventories	94	106	108	111
Accounts Receivables & Prepayments	779	861	874	881
Cash and Short-Term Deposits	8,117	5,683	5,859	5,963
Total Current Assets	9,389	6,947	7,138	7,251
Total Assets	27,809	25,595	25,714	25,718
Equity				
Total Equity	15,457	15,520	16,064	16,660
Non-Current Liabilities				
Loans and Borrowings	6,921	5,268	4,979	4,481
Employees' End of Service Benefits	88	89	90	91
Lease Liabilities	55	54	53	51
Derivatives	63	67	67	67
Total Non-Current Liabilities	7,126	5,478	5,188	4,691
Current Liabilities				
Accounts Payables & Others	932	1,055	1,072	1,100
Loans and Borrowings	4,154	3,372	3,220	3,098
Derivatives & Lease Liabilities	140	170	170	170
Total Current Liabilities	5,226	4,597	4,462	4,367
Equity and Liabilities	27,809	25,595	25,714	25,718

Source: Company data, QNB FS estimates

Qatar Gas Transport Company/Nakilat (QGTS)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR3.971	Target Price	QR4.100
Implied Upside	3.2%		

Accumulate In Anticipation of North Field Ship Awards

We recently increased our estimates following better-than-anticipated 1Q2023 results. As we have stated before, 2023 could be a watershed year for Nakilat if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program. We remind investors that QatarEnergy is expanding Qatar's LNG capacity from 77 MTPA to 110 MTPA (first production: 4Q2025) and further to 126 MTPA a couple of years later. To cater to this expansion, back in April/June 2020, QatarEnergy signed major LNG shipbuilding capacity agreements with Chinese and South Korean companies to build 100+ LNG vessels worth +QR70bn at that time. Furthermore, in 1Q2021, QatarEnergy issued an invitation to tender package to ship owners for the chartering of LNG carriers in relation to this project; QatarEnergy intends to assign selected ship owners from this tender to the shipyards' construction slots reserved in China and South Korea. So far, newsflow/industry chatter indicate several ship charter agreements have been awarded already. Considering Nakilat's strategic importance, (QGTS ships ~75-80% of Qatar's current LNG exports) and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a major beneficiary and secure a meaningful share of new contracts. We also estimate that every incremental vessel (@100%) adds ~1% to QGTS' target price and an award of 20-25 ships could markedly boost our price target and estimates. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections in 2023.

Highlights

- **QGTS beats our 1Q2023 earnings estimate on lower-than-expected depreciation expense:** Nakilat's 1Q2023 net income of QR395.5mn increased 3.6% YoY and 30.2% QoQ, beating our estimate of QR374.2mn by 5.7%.
- **We project an 8.6% growth with net income growing from QR1,438.9mn in 2022 to QR1,563.3mn in 2023.** Our previous forecast called for an earnings growth rate of 1.9%. While we recently revised Nakilat's 2023 earnings upward by 3.3% vs. our previous estimate, the acceleration in YoY growth is partly due to [lower-than-expected 2022 results](#) on a sudden uptick in 4Q2022 depreciation charges (due to completion of a 5-year dry-dock cycle in 2022). Investors were reassured when 1Q2023 depreciation fell back to normal levels that, according to management, should persist throughout 2023 as the company embarks on a new dry-dock cycle along with streamlined recording of depreciation. This should help boost momentum in 2023 earnings.
- **Deleveraging, despite increased rates, and growth in JVs (especially the shipyard and the fabrication business) drive future earnings growth.** For 2023, the aforementioned fall in depreciation contributes ~90% of earnings growth. For 2024-2026, lower finance charges make up roughly 80% of overall earnings growth, while growth in JV income make up ~20%. Our current model assumes no further fleet additions.
- **High leverage but backed by watertight charter agreements; we do not foresee issues in debt servicing or repayments.** Nakilat has QR18.8bn (\$5.1bn) in debt (85% of its current market cap) as of 1Q2023. QGTS made QR1.0bn in principal repayments in 2022 (debt fell 5.3%) and we expect another QR979.6mn in repayments this year. For next year, ~QR2.4bn is coming due in two loans but we expect a portion of this to be refinanced. Further, two major bank-loan bullet payments, totaling ~QR7.7bn, are due in 2025 (originally ~QR10bn was due but QGTS refinanced QR2.5bn of this in 2022) but we expect QGTS to refinance most of this amount. We model principal repayments + finance charges to average QR2.4bn over 2023-33, which is easily covered by OCF (average QR2.8bn over 2023-33) and FCF before finance charges (2023-33 average QR3.1bn); we continue to assume the entire debt is paid off by 2033. Nakilat's high leverage remains manageable as debt is mostly secured by watertight charter agreements for its existing fleet.
- **Potential fleet expansion of 20-25 vessels should not be a cause for concern in terms of debt servicing or dividend payments.** Considering the current \$260mn price tag for LNG ship new builds, if we assume an increase of 20-25 vessels related to the NF expansion, QGTS will have to take on new debt of ~QR15.1bn-QR18.9bn (at 80% D/E). This could potentially send Nakilat's 2025 net debt-to-equity ratio to 2.1x to 2.4x vs. an average of 1.8x over 2020-2022 and 0.7x by 2025. However, this debt would also be secured by LT charters and hence, not a cause for concern for either debt servicing or dividend payments. We could also see a portion of this fleet increase through JV structures, keeping the related debt ring-fenced/off the books.

Catalysts

- **We should find out whether QGTS wins a piece of the LNG expansion contract later this year.** We stay bullish on Nakilat, which is the best avenue for equity investors to participate in the LT growth expected in Qatar's LNG sector. Irrespective of the volatility of the LNG shipping market, Nakilat's business should remain relatively unaffected given the LT nature of its charters. Nakilat's fleet continues to provide QGTS with stable, contractually sustainable cash flow that allow for a healthy residual income stream for equity investors after providing for debt service. Moreover, the 40-year life of Nakilat's vessels vs. maximum debt life of 25 years (last debt maturing 2033), could allow for value-enhancement.

Recommendation, Valuation and Risks

- **Recommendation & valuation:** Our 1-Year target is QR4.100 and we rate QGTS an Accumulate.
- **Risks:** (1) We expect QGTS shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts. (2) There is a risk existing LNG contracts are renegotiated – 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. However, the likelihood of this is low given investment grade-rated bonds and contagion in other GRE-related bond issues.

Key Financial Data and Estimates

	FY2022	FY2023e	FY2024e	FY2025e
EPS (QR)	0.26	0.28	0.31	0.34
P/E (x)	15.3	14.1	12.7	11.6
DPS (QR)	0.13	0.14	0.15	0.16
Dividend Yield	3.3%	3.5%	3.8%	4.0%

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

Key Data

Current Market Price (QR)	3.971
Current Dividend Yield (%)	3.3
Bloomberg Ticker	QGTS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QGTS.QA
ISIN	QA000A0KD6L1
Sector*	Transportation
52wk High/52wk Low (QR)	4.230/3.100
3-m Average Volume ('mn)	3.9
Mkt. Cap. (\$ bn/QR bn)	6.0/22.0
EV (\$ bn/QR bn)	10.0/36.4
Shares Outstanding (mn)	5,540.0
FO Limit* (%)	100.0
Current Institutional FO* (%)	15.4
1-Year Total Return (%)	4.7
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Our Analysis Shows ~1% Boost to Our Target Price For Every LNG Vessel Added Under the North Field Program

2023 could be a watershed year for Nakilat if it is selected as one of the ship owners involved in Qatar's massive LNG expansion program. Considering Nakilat's strategic importance and impressive track record in Qatar's existing LNG shipping value chain, we expect QGTS to be a major beneficiary of this expansion. We also estimate that every incremental vessel (@100%) adds ~1% to Nakilat's target price and an award of 20-25 ships could significantly affect our price target and estimates. We note we assume roughly \$90,000/day in charter rates, which is lower than the company's existing wholly-owned fleet's (the original 25 vessels) charter rates that exceed \$90,000/day. We forecast initial contract terms of 25 years after which we assume a 10-year extension at a 30% haircut in revenue. As usual, we do not forecast any terminal value. Given typical lead-times for LNG ship construction, we should expect to hear about final ship owner selections later this year.

We also note that QGTS could additionally benefit if it is selected for managing a portion of the expansion fleet. We point out that Nakilat possesses significant in-house ship management expertise and is already managing 25 LNG vessels (21 wholly-owned), a FSRU and four LPG carriers.

In terms of risks, we expect Nakilat's shares to come under pressure in the unlikely scenario that the company does not secure a meaningful portion of the new LNG shipping contracts. We do note our current price target of QR4.100 and estimates do not include any impact of this expansion program. Given the scale of this expansion program (100+ ships) and Nakilat's excellent track record, it would be surprising if QGTS was not able to secure 20+ vessels under the new program.

Each Additional LNG Vessel Could Add ~1% to Nakilat's Target Price

# of Vessels	1
Capex/Ship (\$ mn)	260
Useful Life	40
Depreciation/Year (\$ mn)	7
Depreciation/Year (QR mn)	24
Residual Value of Vessel (s) in Year 35 (QR mn)	118
Debt %	80.0%
Debt (\$ mn)	208
Equity (\$ mn)	52

Periods	1	2	3	4	5	10	15	25	30	35
Revenue (QR mn)	120	120	120	120	120	121	121	123	86	87
Revenue (\$ mn)	33	33	33	33	33	33	34	34	24	24
Average Capacity in m ³	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000
Daily Charter Rate/Vessel (in \$)	90,067	90,157	90,000	90,337	90,428	90,881	91,336	92,001	64,836	65,161
EBITDA (QR mn)	81	85	85	85	85	85	85	86	54	53
EBITDA Margin	67.5%	70.7%	70.7%	70.6%	70.6%	70.4%	70.3%	70.0%	62.1%	61.7%
Taxes (Social & Sports Fund Contribution)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)
Changes in Working Capital	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	(4)	(4)	(4)	(4)	(7)	(7)	(7)	(7)	(7)	(7)
Free Cash Flow to Firm	76	80	80	80	76	76	77	77	46	45
PV of FCF	71	69	64	60	53	37	26	13	5	4
Cumulative PV of FCF	71	140	204	264	317	541	698	886	919	942

PV of Cash Flows	942
Add:	
Cash Balances	0
PV of BV of Fleet (Fully-Owned)	10
Less:	
Debt Balances	757
Fair Value of Equity	194
Incremental Target Price (Per Share)	0.03
Current Target Price (No Expansion)	4.100
% Upside/(Downside)	0.8%
Shares O/S (Mn)	5,540

Source: QNB FS Research

1Q2023 Review: In-Line Operations With Lower Depreciation Leads To Modest 1Q2023 Beat

QGTS beats our 1Q2023 earnings estimate on lower-than-expected depreciation expense: Nakilat's 1Q2023 net income of QR395.5mn increased 3.6% YoY and 30.2% QoQ, beating our estimate of QR374.2mn by 5.7%.

- **Revenue from wholly-owned ships** of QR878.8mn (0.6% YoY, -2.1% QoQ) was bang in-line with our estimate of QR882.0mn (variation of -0.4%).
- **Adjusted revenue** (wholly-owned ships + marine & agency services + JV income) of QR1.06bn (1.9% YoY, -2.8% QoQ) was also in-line with our estimate of QR1.07bn (again a -0.4% variance).
- **EBITDA** of QR676.3mn (-0.5% YoY, 2.7% QoQ) was 0.6% ahead of our forecast of QR672.6mn given slightly lower-than-expected **cash operating costs** of the wholly-owned fleet (cash gross margins rose to 77.9% vs. our model of 77.4% and 78.9%/76.6% in 1Q2022/4Q2022) and growth in **income from marine & agency services** (22.4% YoY, -12.3% QoQ; 22.1% ahead of our model); **G&A** expenses of QR21.5mn (4.6% YoY, -51.4% QoQ; in-line with our estimate of QR21.2mn) fell significantly sequentially, as expected, from its 4Q2022 high that included expenses related to several COVID-19-related postponed projects concerning IT infrastructure, maintenance, travel, conferences, etc.
- **Adjusted EBITDA** (EBITDA + JV income) of QR847.9mn (1.1% YoY, 0.9% QoQ) was right in-line with our estimate of QR847.5mn, with slightly lower-than-expected JV income offsetting the modest upside seen in EBITDA.
- **Depreciation** of QR200.2mn (-7.9% YoY, -30.2% QoQ) was 9.5% below our forecast of QR221.2mn. Depreciation fell given completion of a 5-year dry-dock cycle in 2022 and the beginning of a new one in 2023. We had expected depreciation to fall but underestimated the extent of its decline.
- **JV income** of QR171.6mn (7.9% YoY, -5.6% QoQ) was 1.9% below our estimate of QR174.9mn. Overall, JV income continues its buoyant trend due to improving shipyard performance (which posted a net profit of QR91.2mn in 2022 after posting net losses of QR36.2mn and QR25.5mn in 2021 and 2020, respectively), along with addition of the 3rd/4th LNG vessels in Nakilat's Global Shipping JV in Oct. 2021/Jan. 2022.
- Finally, **finance costs** of QR308.3mn (18.6% YoY, 4.7% QoQ) was 3.5% ahead of our estimate of QR297.9mn. Interest costs increased due to gains in LIBOR rates on the unhedged portion (~ 30%) of QGTS' debt, offset by scheduled repayment of loans. However, net finance charges were in line with our model as **interest, dividend & other income** of QR56.4mn (176.7% YoY, 25.7% QoQ) came in 22.6% above our forecast of QR46.0mn driven by higher rates on term deposits and increase in dividend income on investment securities.

QNB FS 1Q2023 Estimates and Comparisons

Income Statement							
In QR mn Except Otherwise Noted	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
Revenue from Wholly-Owned Vessels	873.928	897.228	878.760	881.980	-0.4%	0.6%	-2.1%
Operating Costs	(184.165)	(209.905)	(194.195)	(199.057)	-2.4%	5.4%	-7.5%
Gross Profit	689.763	687.323	684.565	682.923	0.2%	-0.8%	-0.4%
<i>Gross Margin</i>	78.9%	76.6%	77.9%	77.4%			
Income from Marine and Agency Services	10.785	15.055	13.197	10.812	22.1%	22.4%	-12.3%
General and Administrative Expenses	(20.535)	(44.186)	(21.470)	(21.151)	1.5%	4.6%	-51.4%
EBITDA	680.013	658.192	676.292	672.584	0.6%	-0.5%	2.7%
Depreciation of Property and Equipment	(217.404)	(286.648)	(200.170)	(221.230)	-9.5%	-7.9%	-30.2%
EBIT	462.609	371.544	476.122	451.354	5.5%	2.9%	28.1%
<i>EBIT Margin</i>	52.9%	41.4%	54.2%	51.2%			
Share of Operating Profits from Joint Ventures	158.949	181.745	171.582	174.930	-1.9%	7.9%	-5.6%
Finance Costs	(259.967)	(294.593)	(308.343)	(297.878)	3.5%	18.6%	4.7%
Interest, Dividend income & Profit from Islamic Banks	20.373	44.865	56.382	45.987	22.6%	176.7%	25.7%
Profit Before Tax	381.964	303.561	395.743	374.392	5.7%	3.6%	30.4%
Profit After Tax	381.964	303.561	395.743	374.392	5.7%	3.6%	30.4%
Minority Interest	(0.129)	0.240	(0.255)	(0.145)	75.7%	97.7%	-206.3%
Net Income to Equity	381.835	303.801	395.488	374.247	5.7%	3.6%	30.2%
<i>Net Profit Margin</i>	43.7%	33.9%	45.0%	42.4%			
EPS (QR)	0.07	0.05	0.07	0.07	5.7%	3.6%	30.2%
Adjusted EBITDA	838.962	839.937	847.874	847.514	0.0%	1.1%	0.9%
Adjusted Revenue	1,043.662	1,094.028	1,063.539	1,067.722	-0.4%	1.9%	-2.8%

Particulars	1Q2022	4Q2022	1Q2023	1Q2023e
Adj. EBITDA Margin	80.4%	76.8%	79.7%	79.4%
Gross Margin	78.9%	76.6%	77.9%	77.4%
EBIT Margin	52.9%	41.4%	54.2%	51.2%
G & A % of Sales	2.3%	4.9%	2.4%	2.4%
Depreciation & Amortization % of Sales	24.9%	31.9%	22.8%	25.1%

Source: Company data, QNB FS Research

Estimate Revisions

QNB FS Estimates Revisions

In QR mn	Current				Previous	Current				Previous	
	2021	2022	2023	2023		2024	2024	2025	2025		
Revenue from Wholly-Owned Vessels	3,541	3,550	3,564	3,553	0.3%	3,568	3,553	0.4%	3,572	3,553	0.5%
Growth	0.7%	0.3%	0.4%	0.2%		0.1%	0.0%		0.1%	0.0%	
Operating Costs	(746)	(764)	(775)	(743)	4.4%	(777)	(743)	4.6%	(778)	(743)	4.8%
Growth	1.7%	2.4%	1.4%	0.2%		0.2%	0.0%		0.2%	0.0%	
Gross Profit	2,795	2,786	2,790	2,810	-0.7%	2,792	2,810	-0.7%	2,794	2,810	-0.6%
GM %	78.9%	78.5%	78.3%	79.1%		78.2%	79.1%		78.2%	79.1%	
Income from Marine and Agency Services	49	55	57	57	0.5%	59	59	0.5%	61	60	0.5%
General and Administrative Expenses	(97)	(112)	(106)	(96)	9.6%	(108)	(98)	10.1%	(111)	(100)	10.7%
EBITDA	2,746	2,729	2,741	2,770	-1.1%	2,742	2,770	-1.0%	2,744	2,770	-1.0%
EBITDA Margin %	77.6%	76.9%	76.9%	78.0%		76.9%	78.0%		76.8%	78.0%	
Depreciation of Property and Equipment	(895)	(947)	(832)	(901)	-7.7%	(835)	(905)	-7.7%	(839)	(908)	-7.7%
EBIT	1,851	1,783	1,909	1,869	2.1%	1,907	1,866	2.2%	1,905	1,862	2.3%
Share of Operating Profits from Joint Ventures	494	689	671	665	0.9%	713	681	4.7%	754	746	1.0%
Finance Costs	(1,049)	(1,139)	(1,208)	(1,100)	9.8%	(1,070)	(980)	9.2%	(935)	(803)	16.4%
Interest, Dividend income & Profit from Islamic Banks	58	107	192	79	142.1%	184	81	127.5%	168	82	104.1%
Vessel Sub-Chartering & Other Income	-	-	-	-		-	-		-	-	
Profit Before Tax	1,354	1,439	1,564	1,514	3.3%	1,734	1,648	5.3%	1,892	1,887	0.3%
Taxes											
Profit After Tax	1,354	1,439	1,564	1,514	3.3%	1,734	1,648	5.3%	1,892	1,887	0.3%
Minority Interest	(1)	(0)	(1)	(1)	-16.5%	(1)	(1)	-15.0%	(1)	(1)	-19.0%
% of PAT	-0.1%	0.0%	-0.1%	-0.1%		-0.1%	-0.1%		-0.1%	-0.1%	
Profit for Equity Holders	1,353	1,439	1,563	1,513	3.3%	1,733	1,646	5.3%	1,891	1,886	0.3%
Net Profit Margin	38.2%	40.5%	43.9%	42.6%		48.6%	46.3%		52.9%	53.1%	
Growth	16.7%	6.3%	8.6%	1.9%		10.9%	8.8%		9.1%	14.6%	
EPS	0.24	0.26	0.28	0.27	3.3%	0.31	0.30	5.3%	0.34	0.34	0.3%
Growth	16.7%	6.3%	8.6%	1.9%		10.9%	8.8%		9.1%	14.6%	
DPS	0.12	0.13	0.14	0.13	7.7%	0.15	0.14	7.1%	0.16	0.15	6.7%
Payout Ratio	49.1%	50.1%	49.6%	47.6%		48.0%	47.1%		46.9%	44.1%	
Growth	9.1%	8.3%	7.7%	0.0%		7.1%	7.7%		6.7%	7.1%	
Adjusted EBITDA	3,240	3,419	3,413	3,436	-0.7%	3,456	3,452	0.1%	3,497	3,517	-0.5%
Growth	3.6%	5.5%	-0.2%	0.7%		1.3%	0.5%		1.2%	1.9%	
Adjusted Revenue	4,084	4,295	4,293	4,275	0.4%	4,340	4,292	1.1%	4,387	4,359	0.6%
Growth	3.3%	5.2%	0.0%	0.6%		1.1%	0.4%		1.1%	1.6%	

Source: QNB FS Research

Valuation and Key Ratios

Growth Metrics

Growth Ratios (In %)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033	CAGR 21-'33
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	0.1%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	(0.0%)	1.1%	1.1%	0.5%	1.2%	1.1%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	0.4%	0.0%	0.0%	0.1%	0.1%	0.0%
EBITDA -Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	(0.2%)	1.3%	1.2%	0.6%	1.4%	1.2%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	7.1%	(0.1%)	(0.1%)	(0.1%)	(0.1%)	0.2%
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	(2.6%)	6.2%	5.7%	2.1%	5.5%	5.7%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	6.0%	(11.4%)	(12.6%)	(13.9%)	(56.4%)	(16.0%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.6%	10.9%	9.1%	4.5%	8.6%	6.7%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(13.0%)	0.4%	7.6%	3.4%	6.7%	4.7%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(17.8%)	5.5%	8.1%	3.9%	2.8%	4.1%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	5.0%	4.3%	5.9%

Source: Company data, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Key Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2033
Growth Ratios (In %)												
Revenue - Wholly Owned	0.7%	(0.4%)	0.2%	3.4%	11.1%	0.7%	0.3%	0.4%	0.1%	0.1%	0.1%	0.1%
Revenue - Adjusted	2.0%	(6.1%)	1.8%	7.6%	4.6%	3.3%	5.2%	(0.0%)	1.1%	1.1%	0.5%	1.2%
Gross Profit	0.1%	0.4%	1.1%	3.5%	12.8%	0.4%	(0.3%)	0.1%	0.1%	0.1%	0.1%	0.1%
EBITDA	(1.1%)	0.5%	1.0%	3.9%	14.3%	0.4%	(0.6%)	0.4%	0.0%	0.0%	0.1%	0.1%
EBITDA - Adjusted	1.1%	(7.2%)	3.1%	9.3%	5.9%	3.6%	5.5%	(0.2%)	1.3%	1.2%	0.6%	1.4%
EBIT	(6.5%)	0.7%	2.2%	(2.3%)	22.1%	0.3%	(3.7%)	7.1%	(0.1%)	(0.1%)	(0.1%)	(0.1%)
Income from JVs	11.1%	(38.7%)	16.9%	40.8%	(30.1%)	26.5%	39.7%	(2.6%)	6.2%	5.7%	2.1%	5.5%
Finance Charges/Interest Expense	(0.9%)	(1.3%)	0.0%	(0.1%)	(2.9%)	(7.8%)	8.6%	6.0%	(11.4%)	(12.6%)	(13.9%)	(56.4%)
EPS	(2.9%)	(11.3%)	5.3%	12.4%	15.8%	16.7%	6.3%	8.6%	10.9%	9.1%	4.5%	8.6%
CFPS	(9.9%)	16.7%	(6.4%)	15.9%	79.3%	(27.2%)	29.6%	(13.0%)	0.4%	7.6%	3.4%	6.7%
FCFPS	(4.9%)	22.0%	(22.1%)	10.9%	114.9%	(24.3%)	25.3%	(17.8%)	5.5%	8.1%	3.9%	2.8%
DPS	(20.0%)	0.0%	0.0%	0.0%	10.0%	9.1%	8.3%	7.7%	7.1%	6.7%	5.0%	4.3%
Operating Ratios (In %)												
Gross Margin	76.6%	77.2%	77.8%	78.0%	79.1%	78.9%	78.5%	78.3%	78.2%	78.2%	78.2%	78.2%
EBITDA Margin	74.0%	74.6%	75.2%	75.6%	77.8%	77.6%	76.9%	76.9%	76.9%	76.8%	76.7%	76.6%
Adj. EBITDA Margin	76.8%	75.9%	76.9%	78.1%	79.1%	79.3%	79.6%	79.5%	79.6%	79.7%	79.9%	80.2%
EBIT Margin	49.0%	49.5%	50.5%	47.7%	52.5%	52.3%	50.2%	53.6%	53.4%	53.3%	52.8%	52.5%
Net Margin	31.1%	27.7%	29.1%	31.6%	33.0%	38.2%	40.5%	43.9%	48.6%	52.9%	68.6%	81.3%
Finance Ratios												
Net Debt-to-EBITDA	8.3	7.8	7.5	7.9	6.6	6.0	5.2	4.8	4.3	3.8	0.9	-1.1
Debt-Equity Ratio	4.1	3.5	2.9	3.1	3.0	2.3	1.7	1.5	1.2	1.1	0.4	0.0
Net Debt-Equity Ratio	3.6	3.0	2.5	2.8	2.5	1.9	1.3	1.1	0.9	0.7	0.1	-0.1
Debt-to-Capital	80.3%	77.7%	74.1%	75.6%	74.7%	69.4%	62.6%	59.5%	55.3%	51.3%	28.6%	0.0%
Interest Coverage	1.3	1.3	1.3	1.3	1.6	1.8	1.6	1.6	1.8	2.0	3.9	14.6
EBITDA Interest Coverage	1.9	1.9	2.0	2.0	2.4	2.6	2.4	2.3	2.6	2.9	5.7	21.2
Return Ratios (In %)												
ROIC	5.6%	5.7%	5.8%	5.4%	6.6%	6.5%	5.9%	6.4%	6.5%	6.5%	6.6%	7.5%
ROAE	19.7%	15.1%	13.9%	14.5%	16.6%	17.1%	14.4%	13.4%	13.7%	13.8%	12.3%	12.0%
ROAA	3.1%	2.8%	3.0%	3.2%	3.6%	4.2%	4.5%	4.9%	5.5%	6.0%	8.0%	10.2%
Valuation												
EV/EBITDA-Adjusted	14.5	15.2	14.5	13.8	12.8	11.8	10.6	10.3	9.8	9.2	6.7	5.1
EV/EBIT	27.2	26.3	25.3	27.0	21.6	20.7	20.3	18.4	17.7	17.0	12.8	10.0
P/E	23.1	26.0	24.7	22.0	19.0	16.3	15.3	14.1	12.7	11.6	8.9	7.5
P/CF	19.6	16.8	17.9	15.5	8.6	11.8	9.1	10.5	10.5	9.7	7.9	6.9
P/B	4.2	3.7	3.2	3.2	3.1	2.5	2.0	1.8	1.7	1.5	1.1	0.9
Dividend Yield	2.5%	2.5%	2.5%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	5.3%	6.0%
FCF Yield	4.9%	6.0%	4.6%	5.1%	11.1%	8.4%	10.5%	8.6%	9.1%	9.8%	12.3%	13.6%

Source: Company data, QNB FS Research; Note: Adjusted revenue includes wholly-owned revenue, income from marine & agency services and income from JVs, while Adjusted EBITDA includes income from JVs

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Revenue – Wholly-Owned Ships	3,550	3,564	3,568	3,572
Direct Costs	(764)	(775)	(777)	(778)
Gross Profit	2,786	2,790	2,792	2,794
Income from Marine & Agency Services	55	57	59	61
General and Administrative Expenses	(112)	(106)	(108)	(111)
EBITDA	2,729	2,741	2,742	2,744
Depreciation	(947)	(832)	(835)	(839)
EBIT	1,783	1,909	1,907	1,905
Share of Profits from Joint Ventures	689	671	713	754
Finance Costs	(1,139)	(1,208)	(1,070)	(935)
Interest, Dividend & Profit from Islamic Banks	107	192	184	168
Vessels Sub-Chartering & Other Income	0	0	0	0
Profit Before Tax	1,439	1,564	1,734	1,892
Income Tax Expense	0	0	0	0
Profit After Tax	1,439	1,564	1,734	1,892
Minority Interest	(0)	(1)	(1)	(1)
Profit for Equity Shareholders	1,439	1,563	1,733	1,891
EPS (QR)	0.26	0.28	0.31	0.34
Adjusted Revenue	4,295	4,293	4,340	4,387
Adjusted EBITDA	3,419	3,413	3,456	3,497

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Non-Current Assets				
Property, Plant and Equipment	21,327	20,691	19,956	19,216
Investment in Joint Venture Companies	5,290	5,668	6,009	6,365
Loans to Joint Venture Companies	68	68	68	68
Equity Investments	139	140	140	140
Total Non-Current Assets	26,824	26,567	26,173	25,789
Current Assets				
Receivables, Inventories and Due from Joint Ventures	812	799	800	801
Cash and Bank Balances	4,560	4,600	4,432	4,630
Total Current Assets	5,372	5,399	5,233	5,431
Total Assets	32,196	31,967	31,405	31,220
Equity				
Equity Attributable to the Parent	11,249	12,155	13,174	14,296
Minority Interest	6	7	8	9
Total Equity	11,255	12,162	13,182	14,305
Non-Current Liabilities				
Borrowings	17,722	16,328	15,080	13,691
Lease Liability, Provision for End of Service Benefits and Other Liabilities	480	415	352	288
Total Non-Current Liabilities	18,202	16,743	15,431	13,979
Current Liabilities				
Borrowings	1,085	1,499	1,249	1,389
Accounts Payables/Accruals, Due to Joint Ventures & Others	1,655	1,563	1,543	1,547
Total Current Liabilities	2,740	3,062	2,792	2,936
Equity and Liabilities	32,196	31,967	31,405	31,220

Source: Company data, QNB FS Research

Milaha/Qatar Navigation (QNNS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR10.21	Target Price	QR11.20
Implied Upside	9.7%		

Still Valued Less Than Sum-Of-Its-Parts; Reiterate Accumulate

We are updating our model to reflect better-than-expected 1Q2023 results. Our investment thesis on the stock remains unchanged with Milaha offering compelling long-term upside. Following solid performance in 2022, with its normalized earnings up 35.2% YoY, QNNS posted 0.8% YoY/49.9% QoQ earnings growth in 1Q2023 driven by strength in offshore (MO) and capital (MC) segments. We remain bullish on the QNNS growth story. **The stock, since we first started coverage in 2011, has usually traded at a significant discount to its sum-of-the-parts, sometimes worth only the value of its investment stake in Nakilat and its equity/bond portfolio.** This remains the case currently, with Milaha's "non-core" assets (Nakilat + Investment book), along with its net cash position, making up close to 100% of QNNS' market cap. This implies that investors continue to get Milaha's "core" or operating businesses for almost free. However, what has changed is that Milaha is enjoying several catalysts, which has helped in making progress toward the stock's rerating. We note the level of oil prices (despite volatility and recent weakness), recovery in sentiment and the massive North Field Expansion project, are all positive tailwinds. Lack of large impairments in the future should also help Milaha's earnings trajectory and highlight its growth story to investors. **Moreover, if QGTS (Milaha's 36.3%-owned associate) is able to secure a meaningful share of around 20-25 new vessels for the massive North Field expansion program, it could lead to significant upside for Nakilat, and consequentially, Milaha investors.** We reiterate our Accumulate rating and our QR11.20 price target on Milaha.

Highlights

- Milaha posted 1Q2023 earnings of QR363.3mn, up 0.8% vs. QR360.4mn in 1Q2022 and up 124.1% QoQ as compared to QR162.1mn in 4Q2022. Reported earnings/EPs of QR363.3mn/QR0.32 exceeded our estimate of QR333.2mn/QR0.29 (variation of 9.0%). We note QNNS recorded a QR80.2mn impairment in 4Q2022 and excluding that, on a normalized basis, Milaha posted a 49.9% QoQ earnings growth. Relative to our model, Milaha Offshore, Milaha Capital and Milaha Trading posted better-than-expected earnings on a normalized basis, while Milaha Gas & Petrochem and Milaha Maritime & Logistics came in below our model.
- Earnings should grow at a 5.6% CAGR (2022-2028e) excluding impairments/one-offs vs. a CAGR of -0.2% over 2015-2022. Roughly, 24% of this six-year growth in "clean" earnings should be driven by Milaha's operating businesses or its "core", led by growth in offshore. MO, which makes up ~16% of the six-year growth in earnings should benefit due to the strong growth in O&G activities in Qatar and Milaha's focus on scaling up specialized subsea services and maintenance, modification & operations. Milaha's 49%-owned JV, QTerminals, should show a 4.3% CAGR (2022-2028e) and make up ~10% of the six-year growth in earnings given volume uptick/phase II expansion at the Hamad Port. The biggest drag on earnings growth could be the maritime & logistics segment (MM&L), excluding QTerminals, that is expected to post a close to 8% cumulative earnings decline over our forecast period. MML has faced significant headwinds with container shipping rates coming off their early 2022 highs and while rates declined significantly in 1Q2023, management expects them to remain fairly stable for the rest of the year. A whopping 76% of the growth in future earnings is driven by "non-core" items, including Nakilat (7.2% CAGR), which propels almost 60% of Milaha's earnings growth. The remaining ~17% is driven by MC based on stable real estate income and improving yields on Milaha's investment portfolio.

Catalysts

- We remain bullish longer-term on the QNNS growth story. (1) The company's exposure to Qatar's oil and gas sector, primarily through its offshore segment (MO), could boost momentum through earnings growth and newsflow. (2) An improvement in maritime & logistics (MM&L) segment's profitability, above their depressed levels, could also help. (3) Nakilat remains the biggest value driver, both through its earnings growth and through its potential to secure new NF expansion-related LNG shipping contracts. (4) QNNS also has the ability to boost its dividends given its strong balance sheet (maintains net cash of QR402.2mn as of 1Q2023) and solid FCF profile (despite increased capex requirements in offshore); we currently expect a 14.3% increase in DPS from QR0.35 in 2022 to QR0.40 in 2023.

Recommendation, Valuation and Risks

- Recommendation & valuation:** We recommend an Accumulate rating QNNS. We value Milaha using a SOTP methodology, which comprises of these major parts: 1) Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT); 2) A DCF-based value for QNNS' 36.3% stake in Nakilat (QGTS: Accumulate/QR4.100 TP); 3) A P/E-based value for Milaha's 49.0%-owned JV QTerminals; 4) Investment (stocks & bonds) portfolio at its 1Q2023 value; and 5) Real estate investment properties at a 30% discount to 1Q2023 FV. We also apply a 30% conglomerate discount.
- Risks:** Milaha stock remains in a "show-me" mode - always optically undervalued relative to its SOTP, it has often struggled to receive much credit beyond its stake in Nakilat and its investment/real estate portfolio. For the stock to rerate, investors need to continue to see earnings/EBITDA acceleration without significant impairments muddling up the story. Other risks remain, including: (1) Weakness/volatility in oil prices; (2) Execution/integration issues with major fleet additions/acquisitions; (3) Fall in local equity/RE prices; (3) A slowdown in Qatar's economy; and (4) Geopolitical crisis in the MENA region.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e	2026e	2027e
EPS (Excluding Impairments & One-Offs)	1.04	1.01	1.13	1.22	1.31	1.37
EPS Growth (%)	35.2	(2.5)	11.6	8.2	6.9	5.0
P/E (x)	9.8	10.1	9.0	8.4	7.8	7.4
EV/EBITDA (x)	13.1	12.9	11.9	11.2	10.5	9.9
FCF Yield (%)	6.8	7.3	8.3	8.8	9.3	9.7
DPS (QR)	0.35	0.40	0.45	0.50	0.55	0.60
RoE (%)	7.7	7.0	7.4	7.7	7.8	7.8

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

Key Data

Current Market Price (QR)	10.21
Current Dividend Yield (%)	3.4
Bloomberg Ticker	QNNS QD
ADR/GDR Ticker	N/A
Reuters Ticker	QNNC.QA
ISIN	QA0007227695
Sector*	Transportation
52wk High/52wk Low (QR)	12.66/7.755
3-m Average Volume ('00)	906.7
Mkt. Cap. (\$ bn/QR bn)	3.2/11.6
EV (\$ bn/QR bn)	3.1/11.2
Shares Outstanding (mn)	1,136.2
FO Limit* (%)	49.0
Current Institutional FO* (%)	14.1
1-Year Total Return (%)	21.0
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Valuation – Our Price Target Implies a 9.7% Appreciation Potential

Our target price of QR11.20/share implies an upside of 9.7% from the current market price. We value Milaha using a SOTP methodology, which comprises of these major parts:

- 1) Separate DCF-based values for the core businesses (MO, MM&L, MG&P and MT);
- 2) A DCF-based value for QNNS' 36.25% stake in Nakilat (QGTS: Accumulate/QR4.100 Target Price);
- 3) A P/E-based value for Milaha's 49.00%-owned JV called QTerminals;
- 4) Investment (stocks & bonds) portfolio at its 1Q2023 value; and
- 5) Real estate investment properties at a 30% discount to 1Q2023 FV.

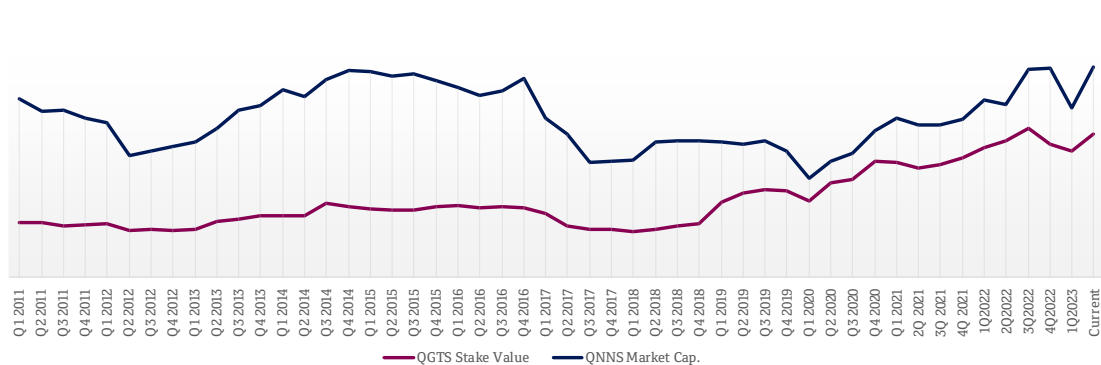
We also apply a conglomerate discount of 30%.

Valuation Summary

SOTP	Methodology	Equity Value (QR mn)	EV/Share	% of Total
Milaha Offshore	DCF	2,010	1.80	11.0%
Milaha Maritime & Logistics	DCF	562	0.50	3.1%
Milaha Gas & Petrochem	DCF	963	0.80	5.2%
Milaha Trading	DCF	105	0.10	0.6%
Milaha Core	DCF	3,639	3.20	19.8%
Investments	1Q2023 Market/Book Value	2,993	2.60	16.3%
Real Estate - Investment Properties	1Q2023 Estimated Fair Value (30% Discount)	1,450	1.30	7.9%
Associates - Nakilat (36.3% Stake)	QNBFS Price Target of QR4.100	8,233	7.20	44.9%
Associates - Other	1Q2023 Book Value (Estimated)	252	0.20	1.4%
JVs - QTerminals (49.0% Stake)	P/E (2023 Peers P/E of 11x)	1,508	1.30	8.2%
JVs - Gulf LPG	1Q2023 Book Value (Estimated)	161	0.10	0.9%
Loans to LNG Companies	1Q2023 Book Value	107	0.10	0.6%
Equity Value		18,344	16.00	100.0%
Conglomerate Discount (30%)		5,503	(4.80)	
Price Target		12,841	11.20	
Current Price			10.21	
Upside/(Downside)			9.7%	

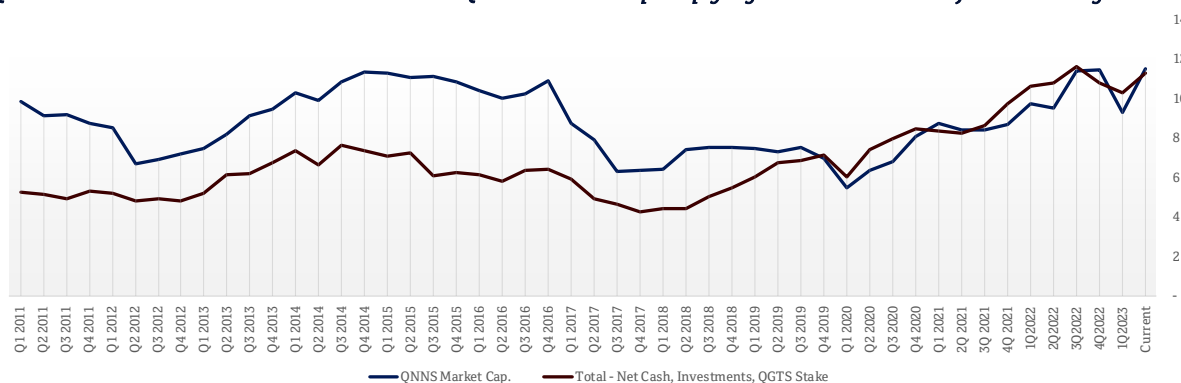
Source: Company data, QNB FS Research

QGTS Stake Alone is ~70% of Milaha's Market Cap. (QR bn)



Source: Bloomberg, QNB FS Research

QGTS+Investments+Net Cash Almost ~100% QNNS Market Cap. Implying Almost Zero Value for Remaining Assets (QR bn)



Source: Bloomberg, QNB FS Research

1Q2023 Review: Beats 1Q2023 Earnings Estimate On Strength in Offshore/Capital

Milaha posted 1Q2023 earnings of QR363.3mn, up 0.8% vs. QR360.4mn in 1Q2022 and up 124.1% QoQ as compared to QR162.1mn in 4Q2022. Reported earnings/EPS of QR363.3mn/QR0.32 exceeded our estimate of QR333.2mn/QR0.29 (variation of 9.0%). We note QNNS recorded a QR80.2mn impairment in 4Q2022 and excluding that, on a normalized basis, Milaha posted a 49.9% QoQ earnings growth. Relative to our model, Milaha Offshore, Milaha Capital and Milaha Trading posted better-than-expected earnings on a normalized basis, while Milaha Gas & Petrochem and Milaha Maritime & Logistics came in below our model.

Strength in margins helped propel results from Milaha Offshore/Capital.

- **Milaha Offshore** – according to the company, higher operating efficiency, coupled with higher-margin projects, helped drive results; operating margin expanded to 20.5% from 5.4% in 1Q2022 and 7.9% in 4Q2022 blunting the lower-than-expected growth in segment top-line. As a result, 1Q2023 net income of QR61.3mn (627.2% YoY, 399.0% QoQ) exceeded our forecast of QR32.2mn by 90.3%.
- **Milaha Capital** – recorded QR119.7mn in 1Q2023 net income (16.8% YoY, 387.8% QoQ); earnings exceeded our model of QR92.3mn by 29.8%. Sequentially, the first quarter generally exhibits significant growth given most of Milaha Capital's investment/dividend income is recorded in 1Q. Moreover, the segment only recorded QR341,000 in provision for impairment of trade receivables in 1Q2023 vs. QR16.1mn in 1Q2022, helping YoY earnings growth.
- **Milaha Trading** – continued to remain profitable with earnings of QR2.9mn in 1Q2023 vs. a loss of QR2.2mn in 1Q2022 and a profit of QR1.3mn in 4Q2022; we were expecting segment earnings of QR2.1mn for 1Q2023. The company stated that YoY profitability increased due to expansion of its vessel chandlery business and integrated higher-margin offerings.
- **Milaha Gas & Petrochem** – despite a modestly stronger-than-expected performance from its 36.3%-associate Nakilat, MG&P posted earnings of QR155.9mn (-5.2% YoY, 61.6% QoQ), which came in 10.4% below our estimate of QR173.9mn. Worse-than-expected core profitability, along with downside from other associates and JVs, crimped segment earnings despite Nakilat's earnings beat. We note QNNS recorded a QR79.4mn impairment in this segment in 4Q2022, implying that normalized segment earnings actually declined 11.4% QoQ.
- **Milaha Maritime & Logistics** – a drop in container shipping container shipping rates from near-record highs seen in 1Q2022 impacted segment earnings, 1Q2023 net income falling to QR24.1mn (-72.8% YoY, -18.2% QoQ). Net income also came in 28.4% below our estimate of QR33.6mn. This segment incurred a modest QR779,000 impairment in 4Q2022, implying normalized QoQ earnings decline of 20.3%.

QNB FS 1Q2023 Estimates and Comparisons

Revenue (in QR '000)	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
MM&L	366,012	310,238	246,344	289,142	-14.8%	-32.7%	-20.6%
MO	289,849	302,963	308,563	320,595	-3.8%	6.5%	1.8%
MG&P	53,011	58,724	57,368	57,315	0.1%	8.2%	-2.3%
MC	208,375	115,021	172,003	178,736	-3.8%	-17.5%	49.5%
MT	67,199	82,951	57,926	81,806	-29.2%	-13.8%	-30.2%
Corporate Adjustments			2				
Total	984,446	869,897	842,206	927,594	-9.2%	-14.4%	-3.2%
Eliminations	(71,702)	(147,473)	(75,960)	(67,561)	12.4%	5.9%	-48.5%
Total Net	912,744	722,424	766,246	860,033	-10.9%	-16.1%	6.1%

Net Income (in QR '000)	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
MM&L	88,282	29,387	24,051	33,575	-28.4%	-72.8%	-18.2%
MO	8,431	12,286	61,312	32,220	90.3%	627.2%	399.0%
MG&P	164,331	96,444	155,865	173,937	-10.4%	-5.2%	61.6%
MC	102,532	24,550	119,743	92,264	29.8%	16.8%	387.8%
MT	(2,227)	1,309	2,940	2,053	43.2%	N/M	124.6%
Total	361,349	163,976	363,911	334,049	8.9%	0.7%	121.9%
Minorities	(939)	(1,849)	(626)	(868)	-27.9%	-33.3%	-66.1%
NI to Equity	360,410	162,127	363,285	333,181	9.0%	0.8%	124.1%

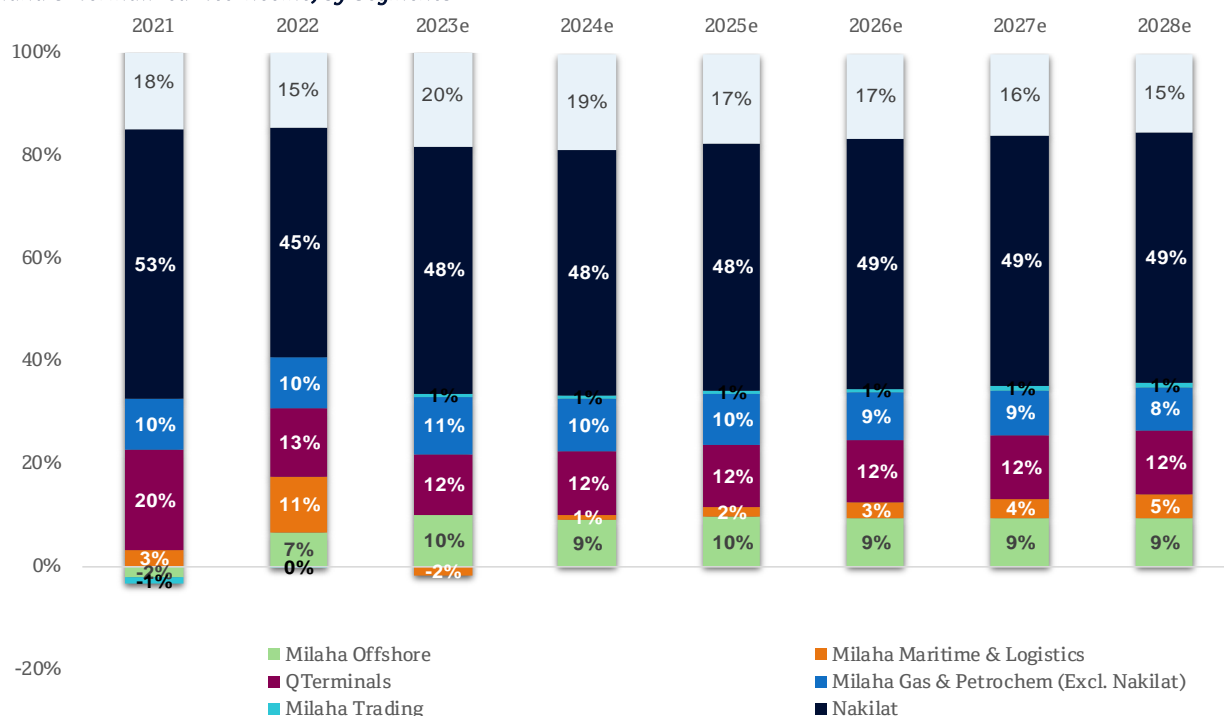
Impairment of PP&E/Vessels/Intangibles		(80,204)					
NI to Equity, Ex. Impairment	360,410	242,331	363,285	333,181	9.0%	0.8%	49.9%

EPS	0.32	0.14	0.32	0.29	9.0%	0.8%	124.1%
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Net Income (in QR '000)	1Q2022	4Q2022	1Q2023	1Q2023e	A Vs. E	YoY	QoQ
MM&L Normalized	88,282	30,166	24,051	33,575	-28.4%	-72.8%	-20.3%
MO Normalized	8,431	12,286	61,312	32,220	90.3%	627.2%	399.0%
MG&P Normalized	164,331	175,869	155,865	173,937	-10.4%	-5.2%	-11.4%
MC Normalized	102,532	24,550	119,743	92,264	29.8%	16.8%	387.8%
MT Normalized	(2,227)	1,309	2,940	2,053	43.2%	-232.0%	124.6%
NI to Equity, Ex. Impairment	360,410	242,331	363,285	333,181	9.0%	0.8%	49.9%

Source: Company data, QNB FS Research

Milaha's Normalized Net Income, by Segments



Source: Company data, QNB FS Research

Key Ratios & Valuation

Growth Metrics

Key Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
Growth (%)									
Revenue	(6.49)	22.78	18.01	(12.22)	4.58	3.35	3.24	3.16	3.18
Gross Profit	(0.66)	(0.06)	21.59	(2.99)	4.24	3.37	3.69	3.39	3.55
EBITDA	0.20	(3.87)	38.05	(0.90)	5.38	3.88	4.44	3.77	3.94
EBIT	(1.35)	(9.26)	92.46	(4.82)	6.16	3.44	4.44	3.23	3.51
Net Profit	(89.19)	1,125.18	39.85	13.41	11.60	8.21	6.91	5.02	4.80
Net Profit (Excluding Impairments & One-Offs)	4.27	2.15	35.18	(2.54)	11.60	8.21	6.91	5.02	4.80

Profitability (%)

Gross Margin	54.32	44.21	45.56	50.35	50.19	50.20	50.42	50.53	50.71
EBITDA Margin	28.48	22.29	26.08	29.44	29.67	29.82	30.17	30.35	30.57
EBIT Margin	12.30	9.09	14.82	16.07	16.31	16.33	16.52	16.53	16.58
Net Margin	2.61	26.01	30.83	39.83	42.50	44.51	46.09	46.92	47.66
RoE	0.42	5.10	6.58	7.00	7.45	7.68	7.82	7.83	7.84
RoE (Excluding Impairments & One-Offs)	6.04	6.13	7.66	7.00	7.45	7.68	7.82	7.83	7.84
RoAA	0.34	4.20	5.66	6.19	6.74	7.05	7.23	7.28	7.33

Efficiency

Fixed Asset Turnover	0.62	0.89	1.12	1.01	1.05	1.07	1.10	1.13	1.15
Total Asset Turnover	0.13	0.16	0.18	0.16	0.16	0.16	0.16	0.16	0.15
Sales-to-Net Working Capital	29.91	35.67	10.42	7.75	7.57	7.50	7.42	7.35	7.30
Receivables-to-Payables	1.00	0.97	1.24	1.58	1.59	1.59	1.60	1.60	1.61
Capex-to-Sales (%)	9.77	8.00	6.89	9.49	9.49	9.59	9.71	9.84	9.96

Liquidity (x)

Current Ratio	1.16	1.54	1.96	2.96	3.94	4.12	4.31	4.46	4.60
Quick Ratio	1.11	1.47	1.89	2.86	3.81	3.99	4.18	4.33	4.47
Cash Ratio	0.25	0.47	0.92	1.47	1.84	2.01	2.18	2.30	2.42

Leverage Ratios

Net Debt/Equity (%)	12.73	6.03	(2.56)	(3.92)	(5.21)	(6.35)	(7.36)	(8.14)	(8.82)
Net Debt-to-Capital (%)	11.34	5.82	(2.59)	(3.98)	(5.41)	(6.70)	(7.81)	(8.67)	(9.43)
Net Debt-to-EBITDA	2.70	1.43	(0.48)	(0.78)	(1.03)	(1.26)	(1.47)	(1.64)	(1.79)
Interest Coverage Ratio (x)	3.33	3.48	8.22	7.80	11.78	18.62	24.19	30.83	41.45

Source: Company data, QNB FS Research

Relative Valuation

Valuation Multiples	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
P/E (x)	196.3	16.0	11.5	10.1	9.0	8.4	7.8	7.4	7.1
P/E Excluding Impairments & One-Offs (x)	13.6	13.3	9.8	10.1	9.0	8.4	7.8	7.4	7.1
P/B (x)	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5
EV/EBITDA (x)	20.7	20.1	13.1	12.9	11.9	11.2	10.5	9.9	9.3
Dividend Yield (%)	2.9	2.9	3.4	3.9	4.4	4.9	5.4	5.9	6.4
FCFF Yield (%)	7.4	6.9	6.8	7.3	8.3	8.8	9.3	9.7	10.2

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Revenue	3,285	2,884	3,016	3,117
COGS	(1,789)	(1,432)	(1,502)	(1,552)
Gross Profit	1,497	1,452	1,513	1,564
SG&A	(640)	(603)	(619)	(635)
EBITDA	857	849	895	929
Depreciation & Amortization	(370)	(386)	(403)	(421)
EBIT	487	463	492	509
Net Interest Income (Expense)	(44)	(33)	(9)	11
Share of Results From JVs	179	171	193	207
Share of Results From Associates	542	558	618	674
Impairments & Others	(146)	1	0	0
Net Profit Before Taxes & Minority Interest	1,017	1,160	1,294	1,400
Taxes	(1)	(9)	(10)	(10)
Net Profit Before Minority Interest	1,016	1,151	1,285	1,390
Minority Interest	(4)	(3)	(3)	(3)
Net Profit	1,013	1,149	1,282	1,387
Net Profit Excluding Impairments & One-Offs	1,178	1,149	1,282	1,387

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2022	FY2023e	FY2024e	FY2025e
Current Assets				
Cash & Cash Equivalents	1,467	1,577	1,461	1,640
Loan to a Related Party	0	0	0	0
Equity Investments at FVTPL	502	528	549	571
Trade & Other Receivables	1,036	968	1,009	1,046
Inventories	115	100	105	108
Total Current Assets	3,120	3,173	3,124	3,365
Non-Current Assets				
Other Assets	312	313	312	308
Investment Securities at FVOCI	2,567	2,617	2,722	2,831
Investment In Associates	7,548	7,844	8,180	8,572
Investments in JVs	1,025	1,059	1,098	1,139
Intangible Assets	16	15	14	13
Investment Property	884	904	925	946
Property, Vessels & Equipment	2,841	2,865	2,890	2,914
Total Non-Current Assets	15,193	15,618	16,140	16,723
Total Assets	18,313	18,791	19,264	20,088
Current Liabilities				
Trade & Other Payables	755	614	634	658
Loans, Borrowings & Lease Liabilities	838	458	159	159
Total Current Liabilities	1,593	1,073	793	816
Non-Current Liabilities				
Loans & Borrowings	299	542	465	387
Others	337	339	339	339
Total Non-Current Liabilities	637	881	803	726
Total Liabilities	2,229	1,954	1,596	1,542
Minority Interest	42	45	48	51
Shareholders' Equity	16,042	16,792	17,620	18,496
Total Liabilities & Shareholders' Equity	18,313	18,791	19,264	20,088

Source: Company data, QNB FS Research

Vodafone Qatar (VFQS)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.819	Target Price	QR2.070
Implied Upside	13.8%		

Improving Performance Could Further Boost Stock Price Momentum

We reiterate our price target of QR2.070 and maintain our Accumulate rating. VFQS continues to deliver impressive and profitable growth, posting CAGRs (2018-2022) of 9.9%, 20.5%, 43.7% and 18.9%, respectively, for revenue, EBITDA, EPS and DPS. We note over the previous five years or so, Vodafone Qatar's shares have rerated from nosebleed valuation territory to in-line-to-moderately expensive levels. Thus, VFQS has grown into its valuation but this has meant that its significant operational and earnings improvements have largely not had much impact on the stock price. This is despite the stock's rally this year with VFQS trading close to its 52-week high. We believe that it is possible for the stock to break out of its trading range as its dividend yield has finally become compelling – VFQS approved QR0.10 in DPS for 2022 (DY: 5.5%) – and we expect DPS to climb 20% YoY to QR0.12 (DY: 6.6%) this year. The company's longer-term growth prospects as a 2nd operator in a market of Qatar's size and dynamics (population size of 3.0mn in May 2023, along with a mobile penetration of 171% as of March 2023; VFQS already has revenue market share of 28.5% and subscriber market share of 40.7% as of 1Q2023, with postpaid and prepaid market shares of 41.3% and 40.5%, respectively) is more of an open question. We continue to believe there is some room for improvement (as of 1Q2023, VFQS has an EBITDA margin of 41.3% vs. ORDS' 50.7%, an ARPU of QR74 vs. ORDS' QR93.4, along with 573K high-ARPU/margin postpaid customers relative to Ooredoo's 813K postpaid subscribers). Going forward, as VFQS demonstrates progress in closing some of this gap beyond our modeled expectations, the stock could have more room to run. With FCF yields increasing from 4.5% in 2022 to 12.1% in 2027, we believe there could be upside to DPS, which could also act as a catalyst for the stock.

Highlights

- 1Q2023 earnings of QR133.4mn (24.2% YoY, -20.6% QoQ) was 4.4% below our estimate of QR139.5mn. Moderate revenue upside, relative to our model, was offset by slightly lower margins vs. our forecast. We had expected continued earnings growth YoY and a decline vs. 4Q2022 (aided by the WC) – reported results were in-line with our expectations.
- 1Q2023 top-line driven by uptick in managed services, handset and postpaid: Revenue of QR775.9mn (6.2% YoY, -12.8% QoQ), was 2.5% ahead of our forecast of QR756.9mn. This was driven by a 12.3% YoY growth in total service revenue to ~QR687mn (managed services and postpaid outperformed), offsetting the ~26% YoY decline in equipment sales to QR89mn (handsets were strong but projects revenue was weak as expected).
- Continued progress in costs optimization remains evident as VFQS reported 1Q2023 EBITDA margin of 41.3% vs. 41.2% in 1Q2022 and 39.9% in 4Q2022. We were forecasting an EBITDA margin of 42.2% in 1Q2023. Quarterly EBITDA of QR320.2mn grew 6.4% YoY but declined 9.8% QoQ and was in-line with our estimate of QR319.4mn (0.3% divergence).
- We model strong earnings/EBITDA growth for 2023. After increasing 21.4% in 2022, we model total revenue to grow 2.5% in 2023. Consistent with 1Q2023, we expect total service revenue (up 5.5%) to drive momentum, primarily due to managed services while postpaid is flatish and prepaid declines. Equipment revenue should decline 15.2% as projects-related equipment revenue, which generated ~QR220mn in 2022, falls. EBITDA should also be up 6.4% in 2023, following 2022's 19.7% growth, boosting the EBITDA margin from 2022's 40.2% to 41.8%. Net income should increase 6.7% in 2023 after rocketing 53.4% in 2022. Revenue growth, along with costs improvements, should help earnings. With WC-related spending in the rear-view mirror, we expect 2023-capital intensity at 17.6% vs. 21.5% in 2022. We note our estimates are consistent with management guidance.

Catalysts

- VFQS continues to deliver on its growth metrics. Longer-term, postpaid (~71% of 1Q2023 mobile service revenue), 5G, managed services, fixed, broadband, enterprise and bundled ICT solutions should boost growth. While capex levels were elevated due to 5G and WC-related coverage/capacity expansion, dividend and FCF yields should improve.

Recommendation, Valuation and Risks

- Recommendation and valuation: We rate VFQS as an Accumulate with a PT of QR2.070. The stock is trading at EV/EBITDA multiples of 6.1x for 2023 and 5.8x for 2024.
- Risks: 1) Increased competition leading to ARPU erosion and/or market share loss; 2) Weakening of postpaid, broadband, fixed-line and managed services traction/stickiness and 3) Fall in population/industry growth rates.

Key Financial Data and Estimates

	CY2022	CY2023e	CY2024e	CY2025e	CY2026e
Revenue (QR mn)	3,066	3,141	3,232	3,307	3,381
EPS (QR)	0.12	0.13	0.13	0.14	0.15
EV/EBITDA	6.7x	6.1x	5.8x	5.4x	5.1x
Dividend Yield	5.5%	6.5%	7.1%	7.7%	8.2%

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

Key Data

Current Market Price (QR)	1.819
Dividend Yield (%)	5.5
Bloomberg Ticker	VFQS QD
ADR/GDR Ticker	N/A
Reuters Ticker	VFQS.QA
ISIN	QA000A0Q5NE9
Sector*	Telecoms
52wk High/52wk Low (QR)	1.897/1.500
3-m Average Volume ('000)	3.5
Mkt. Cap. (\$ bn/QR bn)	2.1/7.7
EV (\$ bn/QR bn)	2.3/8.3
Shares Outstanding (mn)	4,227.0
FO Limit* (%)	49.0
Institutional FO* (%)	7.0
1-Year Total Return (%)	20.3
Fiscal Year End	December 31

Source: Bloomberg (as of June 11, 2023), *Qatar Exchange (as of June 11, 2023); Note: FO is foreign ownership

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Key Metrics & Forecasts

Key Metrics

	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023E	CY2024E	CY2025E	CY2026E	CY2027E
Mobile Subscribers (000s)											
Pre-Paid Subs	1,071	1,325	1,243	1,208	1,412	1,537	1,576	1,583	1,590	1,594	1,596
YoY Growth	(11.9%)	23.7%	(6.1%)	(2.9%)	16.9%	8.9%	2.5%	0.4%	0.4%	0.3%	0.1%
Post-Paid Subs	319	396	494	454	522	569	583	598	613	628	644
YoY Growth	24.6%	24.0%	24.8%	(8.0%)	14.9%	9.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Total Mobile Subs	1,390	1,720	1,737	1,662	1,934	2,106	2,159	2,181	2,203	2,222	2,240
YoY Growth	(5.6%)	23.7%	1.0%	(4.3%)	16.4%	8.9%	2.5%	1.0%	1.0%	0.9%	0.8%
Mobile ARPU (QR)											
Pre-Paid ARPU	70	66	42	39	36	33	29	28	28	28	28
YoY Growth	(12.9%)	(5.8%)	(35.6%)	(8.7%)	(7.4%)	(8.0%)	(13.4%)	(1.0%)	(0.5%)	(0.5%)	(0.5%)
Post-Paid ARPU	203	200	189	186	202	195	188	190	191	192	193
YoY Growth	0.4%	(1.3%)	(5.5%)	(1.6%)	8.6%	(3.5%)	(3.5%)	0.8%	0.8%	0.6%	0.6%
Blended Mobile ARPU	100	100	84	84	81	77	71	72	73	74	75
YoY Growth	(2.8%)	0.6%	(16.1%)	(0.3%)	(3.9%)	(4.3%)	(7.5%)	1.0%	1.3%	1.2%	1.3%
Mobile Service Revenue (QR mn)											
Pre-Paid Service Revenue	976	855	656	563	550	596	530	536	536	535	533
YoY Growth	(18.9%)	(12.4%)	(23.2%)	(14.1%)	(2.4%)	8.4%	(11.1%)	1.2%	(0.1%)	(0.1%)	(0.3%)
Post-Paid Service Revenue	692	846	1,021	1,067	1,148	1,302	1,299	1,344	1,389	1,432	1,477
YoY Growth	19.8%	22.3%	20.6%	4.5%	7.6%	13.4%	(0.2%)	3.4%	3.3%	3.1%	3.1%
Total Mobile Service Revenue	1,668	1,701	1,677	1,630	1,697	1,898	1,829	1,880	1,924	1,967	2,010
YoY Growth	(6.4%)	2.0%	(1.4%)	(2.8%)	4.1%	11.8%	(3.6%)	2.8%	2.4%	2.2%	2.2%
Other Service Revenue (Managed S	184	202	272	391	533	719	931	959	979	998	1,018
YoY Growth	22.3%	9.8%	34.1%	43.8%	36.4%	34.9%	29.6%	3.0%	2.0%	2.0%	2.0%
Total Service Revenue (QR mn)	1,852	1,904	1,949	2,021	2,230	2,617	2,761	2,840	2,903	2,965	3,028
YoY Growth	(4.1%)	2.8%	2.4%	3.7%	10.4%	17.3%	5.5%	2.9%	2.2%	2.1%	2.1%
Other Revenue (Incl. Handsets & Ha	146	197	176	179	296	449	381	392	404	416	428
YoY Growth	16.7%	35.0%	(11.0%)	1.7%	65.4%	51.9%	(15.2%)	3.0%	3.0%	3.0%	3.0%
Total Revenue (QR mn)	1,998	2,101	2,125	2,200	2,526	3,066	3,141	3,232	3,307	3,381	3,457
YoY Growth	(2.9%)	5.1%	1.1%	3.5%	14.8%	21.4%	2.5%	2.9%	2.3%	2.2%	2.2%
EBITDA (QR mn)	538	584	709	808	1,031	1,234	1,313	1,360	1,403	1,447	1,492
EBITDA Margin	26.9%	27.8%	33.4%	36.7%	40.8%	40.2%	41.8%	42.1%	42.4%	42.8%	43.2%
YoY Growth	16.0%	8.5%	21.4%	14.0%	27.5%	19.7%	6.4%	3.5%	3.2%	3.1%	3.1%
Net Income (QR mn)	(256)	118	144	185	327	502	536	569	605	637	669
Net Margin	(12.8%)	5.6%	6.8%	8.4%	13.0%	16.4%	17.1%	17.6%	18.3%	18.9%	19.3%
YoY Growth	(31.6%)	N/M	22.0%	28.8%	76.9%	53.4%	6.7%	6.1%	6.4%	5.3%	4.9%
Distributable Profit (QR mn)	146	202	228	269	412	589	620	653	689	722	753
YoY Growth		37.9%	12.8%	18.1%	53.0%	43.1%	5.3%	5.2%	5.6%	4.7%	4.3%
Capex (QR mn)	368	489	637	411	408	660	554	485	427	398	390
Capex Intensity	18.4%	23.3%	30.0%	18.7%	16.1%	21.5%	17.6%	15.0%	12.9%	11.8%	11.3%
YoY Growth	10.9%	32.8%	30.3%	(35.5%)	(0.8%)	61.7%	(16.0%)	(12.4%)	(12.1%)	(6.7%)	(2.1%)

Source: Company data, QNB FS Research

Ratio Analysis

Key Ratios & Valuation Metrics

Growth Rates	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022	CY2023E	CY2024E	CY2025E	CY2026E	CY2027E	CAGR	
												2018-22	2022-27
Revenue	-2.9%	5.1%	1.1%	3.5%	14.8%	21.4%	2.5%	2.9%	2.3%	2.2%	2.2%	9.9%	2.4%
Gross Profit	1.3%	2.9%	0.3%	9.1%	14.0%	21.7%	4.2%	3.1%	2.6%	2.5%	2.5%	11.0%	3.0%
EBIT	33.5%	N/M	38.6%	22.0%	49.7%	48.6%	9.2%	4.4%	4.1%	3.6%	3.7%	39.3%	5.0%
EBITDA	16.0%	8.5%	21.4%	14.0%	27.5%	19.7%	6.4%	3.5%	3.2%	3.1%	3.1%	20.5%	3.9%
Net Income	31.6%	N/M	22.0%	28.8%	76.9%	53.4%	6.7%	6.1%	6.4%	5.3%	4.9%	43.7%	5.9%
Distributable Profit		37.9%	12.8%	18.1%	53.0%	43.1%	5.3%	5.2%	5.6%	4.7%	4.3%	30.7%	5.0%
DPS			0.0%	0.0%	20.0%	66.7%	20.0%	8.3%	7.7%	7.1%	6.7%	18.9%	9.9%
CFPS	29.6%	43.7%	2.7%	-7.6%	28.9%	20.1%	24.2%	-6.7%	3.3%	3.0%	3.2%	10.1%	4.9%
FCPS	158.8%	80.7%	-19.3%	0.1%	138.7%	-19.8%	111.6%	-2.5%	13.7%	8.1%	5.6%	11.5%	21.8%
Operating Ratios													
Gross Margin	64.0%	62.6%	62.1%	65.5%	65.0%	65.2%	66.3%	66.5%	66.6%	66.8%	67.0%		
EBIT Margin	(11.2%)	7.6%	10.4%	12.2%	15.9%	19.5%	20.8%	21.1%	21.5%	21.8%	22.1%		
EBITDA Margin	26.9%	27.8%	33.4%	36.7%	40.8%	40.2%	41.8%	42.1%	42.4%	42.8%	43.2%		
Net Margin	(12.8%)	5.6%	6.8%	8.4%	13.0%	16.4%	17.1%	17.6%	18.3%	18.9%	19.3%		
Capex Intensity	18.4%	23.3%	30.0%	18.7%	16.1%	21.5%	17.6%	15.0%	12.9%	11.8%	11.3%		
Finance Ratios													
Debt - Equity Ratio	18.3%	17.9%	18.1%	18.3%	15.5%	14.9%	13.5%	9.9%	6.8%	4.8%	2.8%		
Net Debt - Equity Ratio	13.9%	9.1%	11.4%	14.4%	11.4%	11.0%	6.0%	3.2%	(1.0%)	(5.8%)	(10.8%)		
Net Debt-to-Capital	12.2%	8.4%	10.3%	12.6%	10.2%	9.9%	5.7%	3.1%	(1.0%)	(6.1%)	(12.1%)		
Cash Interest Coverage	18.1x	16.7x	11.4x	12.5x	28.1x	25.5x	18.1x	20.8x	26.2x	32.9x	40.5x		
Ave. Effective Borrowing rate %	3.6%	4.3%	7.6%	7.9%	5.1%	6.7%	10.9%	13.3%	15.7%	18.2%	26.0%		
Return Ratios													
ROIC	(4.2%)	2.9%	3.8%	4.7%	6.8%	9.8%	10.6%	11.3%	12.0%	12.6%	13.3%		
ROE	(5.7%)	2.6%	3.2%	4.1%	7.1%	10.4%	10.9%	11.4%	12.1%	12.6%	13.2%		
ROA	(4.1%)	1.8%	2.0%	2.7%	4.8%	6.8%	7.1%	7.7%	8.2%	8.7%	9.2%		
Dividend Payout %		179.4%	147.1%	114.2%	77.5%	84.1%	94.6%	96.6%	97.8%	99.5%	101.1%		
Valuation													
EV/Sales	4.2x	3.9x	3.9x	3.8x	3.3x	2.7x	2.5x	2.4x	2.3x	2.2x	2.1x		
EV/EBITDA	15.4x	13.9x	11.6x	10.3x	8.0x	6.7x	6.1x	5.8x	5.4x	5.1x	4.8x		
EV/EBIT	N/M	51.0x	37.2x	31.0x	20.4x	13.7x	12.2x	11.5x	10.8x	10.1x	9.4x		
P/E	N/M	65.3x	53.5x	41.5x	23.5x	15.3x	14.3x	13.5x	12.7x	12.1x	11.5x		
P/BV	1.7x	1.7x	1.7x	1.7x	1.7x	1.6x	1.6x	1.5x	1.5x	1.5x	1.5x		
Dividend Yield	0.0%	2.7%	2.7%	2.7%	3.3%	5.5%	6.6%	7.1%	7.7%	8.2%	8.8%		
FCF Yield	1.6%	2.9%	2.4%	2.4%	5.7%	4.5%	9.6%	9.4%	10.6%	11.5%	12.1%		
Liquidity Ratios													
Current Ratio	0.7x	0.4x	0.6x	0.4x	0.4x	0.5x	0.5x	0.5x	0.6x	0.6x	0.8x		
Quick Ratio	0.6x	0.4x	0.6x	0.4x	0.4x	0.4x	0.5x	0.5x	0.5x	0.6x	0.7x		

Source: Company data, QNB FS Research

1Q2023 Review: In-Line 1Q2023 Results Highlights Continued Growth Traction

VFQS' 1Q2023 net profit grew 24.2% YoY but declined 20.6% sequentially and modestly came in below our estimate:

- **Vodafone Qatar's (VFQS) net profit of QR133.4mn in 1Q2023 was 4.4% below our estimate of QR139.5mn.** A moderate upside in revenue relative to our model was offset by modestly lower margins vs. our estimates. We had expected continued growth on a yearly basis and a decline vs. 4Q2022, which benefitted from the World Cup – reported results were in-line with our expectations.
- **Quarterly revenue of QR775.9mn (6.2% YoY, -12.8% QoQ) came in 2.5% ahead of our top-line forecast of QR756.9mn.** Mobile subs came in-line at 2.1mn (up 4.1% YoY), while overall service revenue of ~QR687mn (up 12.3% YoY) was modestly ahead of our model. Performance was helped by continued growth in postpaid and fixed broadband (GigaHome), managed services, IoT and equipment & related services.
- **1Q2023 top-line driven by uptick in managed services, handset and postpaid revenue:** Total revenue was driven by a 12.3% YoY growth in total service revenue to ~QR687mn, offsetting the ~26% YoY decline in equipment sales to QR89mn. Of this QR687mn pie, managed services (related to projects) outperformed and aided the ~52% YoY growth in managed services/fixed/others (roaming, wholesale, etc.) segment to roughly QR225mn. The remaining QR461mn accrued from mobile services, which was flattish YoY, boosted by postpaid revenue of ~QR327mn that increased 3.4% YoY posting its 9th consecutive quarter of YoY growth – a testament to the significant progress VFQS has made in penetrating the postpaid segment. While equipment revenue was weak, according to management, handsets revenue came in strong offsetting an expected decline in projects-related equipment revenue.
- **Continued progress in costs optimization remains evident as VFQS reported 1Q2023 EBITDA margin of 41.3% vs. 41.2% in 1Q2022 and 39.9% in 4Q2022.** We were forecasting an EBITDA margin of 42.2% in 1Q2023. Quarterly EBITDA of QR320.2mn grew 6.4% YoY but declined 9.8% QoQ and was in-line with our estimate of QR319.4mn (0.3% divergence).

QNB FS 1Q2023 Estimates and Comparisons

INCOME STATEMENT	1QCY22 A	4QCY22 A	1QCY23 A	1QCY23 E	A Vs. E	YoY	QoQ
<i>(In QR mn Unless Specified)</i>							
Revenue	730.614	889.745	775.878	756.885	2.5%	6.2%	-12.8%
	<i>YoY Growth (%)</i>	<i>24.8%</i>	<i>14.0%</i>	<i>6.2%</i>	<i>3.6%</i>		
Direct Costs (Interconnection & Other Opex)	(259.355)	(314.577)	(268.365)	(256.584)	4.6%	3.5%	-14.7%
	<i>as a % of Total Revenue (%)</i>	<i>35.5%</i>	<i>35.4%</i>	<i>34.6%</i>	<i>33.9%</i>		
Gross Profit (Loss)	471.259	575.168	507.513	500.301	1.4%	7.7%	-11.8%
	<i>Gross Margin (%)</i>	<i>64.5%</i>	<i>64.6%</i>	<i>65.4%</i>	<i>66.1%</i>		
Other Expenses (Employee and Other Expenses)	(170.382)	(220.275)	(187.294)	(180.895)	3.5%	9.9%	-15.0%
	<i>as a % of Total Revenue (%)</i>	<i>23.3%</i>	<i>24.8%</i>	<i>24.1%</i>	<i>23.9%</i>		
Depreciation and Amortization	(171.605)	(157.803)	(158.927)	(149.418)	6.4%	-7.4%	0.7%
Total Operating Expenses	(341.987)	(378.078)	(346.221)	(330.313)	4.8%	1.2%	-8.4%
EBITDA	300.877	354.893	320.219	319.405	0.3%	6.4%	-9.8%
	<i>EBITDA Margin (%)</i>	<i>41.2%</i>	<i>39.9%</i>	<i>41.3%</i>	<i>42.2%</i>		
Operating Profit (Loss) - EBIT	129.272	197.090	161.292	169.988	-5.1%	24.8%	-18.2%
	<i>EBIT Margin (%)</i>	<i>17.7%</i>	<i>22.2%</i>	<i>20.8%</i>	<i>22.5%</i>		
Interest Income	0.882	2.067	3.113	1.707	82.3%	252.9%	50.6%
Interest Expense/Lease Interest Expense	(11.083)	(14.828)	(17.579)	(17.119)	2.7%	58.6%	18.6%
Other Income/Expense	(11.688)	(16.357)	(13.435)	(15.029)	-10.6%	14.9%	-17.9%
Profit (Loss) Before Tax	107.383	167.972	133.391	139.547	-4.4%	24.2%	-20.6%
Net Profit (loss) - Adjusted	107.383	167.972	133.391	139.547	-4.4%	24.2%	-20.6%
	<i>Net Margin (%)</i>	<i>14.7%</i>	<i>18.9%</i>	<i>17.2%</i>	<i>18.4%</i>		
	<i>Net Profit YoY Growth</i>	<i>62.7%</i>	<i>32.3%</i>	<i>24.2%</i>	<i>30.0%</i>		
EPS (QR)	0.03	0.04	0.03	0.03	-4.4%	24.2%	-20.6%

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	CY2020	CY2021	CY2022	CY2023e	CY2024e	CY2025e	CY2026e	CY2027e
Revenue	2,200	2,526	3,066	3,141	3,232	3,307	3,381	3,457
Direct Costs	(759)	(885)	(1,068)	(1,059)	(1,084)	(1,103)	(1,122)	(1,142)
Gross Profit	1,440	1,641	1,998	2,083	2,148	2,204	2,259	2,315
Other Expenses, Excluding D&A	(632)	(611)	(764)	(770)	(789)	(800)	(811)	(823)
EBITDA	808	1,031	1,234	1,313	1,360	1,403	1,447	1,492
Depreciation & Amortization	(539)	(628)	(635)	(660)	(677)	(693)	(711)	(729)
EBIT	269	403	599	653	682	710	736	763
Interest Income	2	1	6	13	13	14	14	14
Interest Expense	(65)	(37)	(48)	(72)	(65)	(54)	(44)	(37)
Other Income/Expense	(21)	(40)	(54)	(58)	(61)	(65)	(69)	(72)
Profit Before Tax	185	327	502	536	569	605	637	669
Income Tax Expense								
Profit for Shareholders	185	327	502	536	569	605	637	669
EPS (QR)	0.04	0.08	0.12	0.13	0.13	0.14	0.15	0.16
DPS (QR)	0.05	0.06	0.10	0.12	0.13	0.14	0.15	0.16

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	CY2020	CY2021	CY2022	CY2023e	CY2024e	CY2025e	CY2026e	CY2027e
Non-Current Assets								
Property, Plant and Equipment	1,647	1,638	1,885	2,023	2,088	2,093	2,066	2,027
Intangible Assets	4,280	4,169	4,050	3,917	3,771	3,611	3,438	3,249
Rights of Use Assets	372	291	430	415	415	415	415	415
Trade and Other Receivables	27	92	298	259	267	273	279	286
Total Non-Current Assets	6,325	6,190	6,662	6,614	6,541	6,393	6,197	5,976
Current Assets								
Inventory	22	35	38	48	50	51	52	53
Contract Assets & Costs	25	42	52	49	49	49	49	49
Trade and Other Receivables	279	347	483	435	447	458	469	479
Cash and Cash Equivalents	175	190	187	367	333	391	533	689
Total Current Assets	501	613	760	899	879	950	1,103	1,270
Total Assets	6,826	6,803	7,422	7,514	7,420	7,342	7,300	7,246
Equity								
Total Equity	4,489	4,596	4,833	4,933	4,980	5,020	5,050	5,068
Non-Current Liabilities								
Trade and Other Payables	29	0	0	0	0	0	0	0
Lease Liabilities	283	197	315	308	302	295	289	282
Provisions	72	83	102	105	108	110	113	115
Long-Term Borrowings	613	506	512	492	342	242	142	117
Total Non-Current Liabilities	997	786	929	905	751	647	543	514
Current Liabilities								
Trade and Other Payables	1,022	1,099	1,311	1,364	1,400	1,436	1,469	1,502
Lease Liabilities	113	115	141	140	140	139	138	137
Short-Term Borrowings	207	206	207	173	150	100	100	25
Total Current Liabilities	1,341	1,420	1,660	1,676	1,690	1,675	1,707	1,664
Total Liabilities	2,338	2,207	2,589	2,581	2,441	2,322	2,250	2,178
Equity and Liabilities	6,826	6,803	7,422	7,514	7,420	7,342	7,300	7,246

Source: Company data, QNB FS Research

APPENDIX: 1Q2023 EARNINGS REVIEW

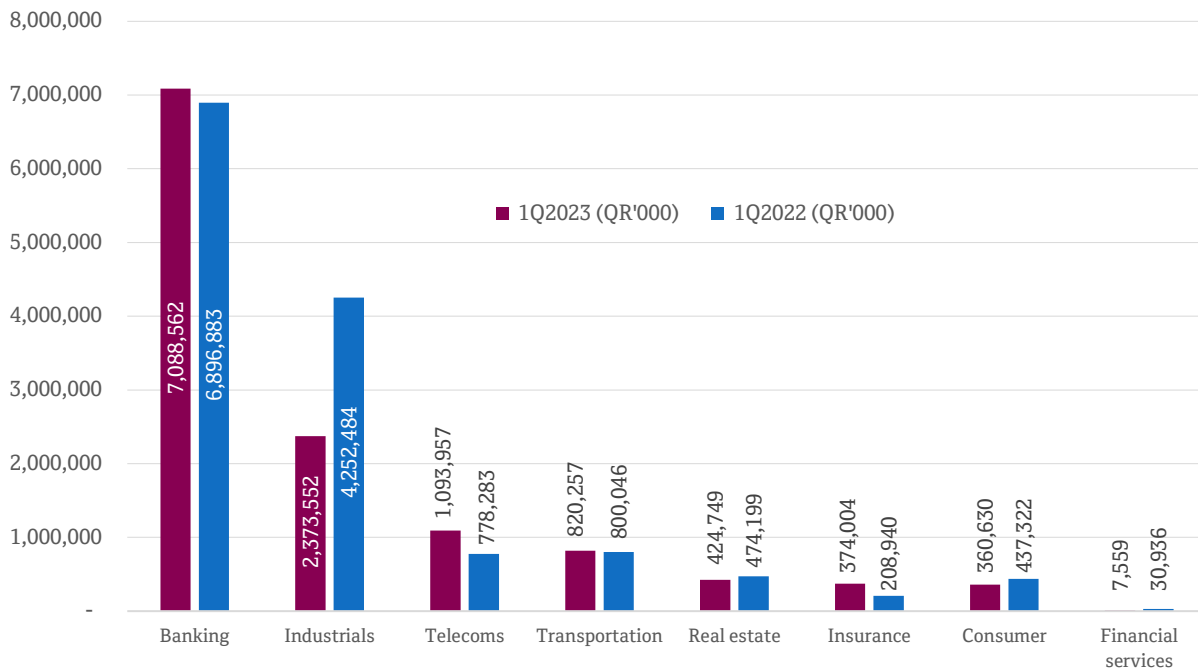
1Q2023 Profits Fall YoY Due to IQCD Offsetting Pockets of Strength in Telcos/Banks

Listed companies on the Qatar Stock Exchange reported a 9.6% YoY decline in earnings to QR12.5bn during 1Q2023 dragged down by Industrials (primarily Industries Qatar or IQCD), while adjusted QoQ net profit surged 28.7% to QR12.1bn driven by a strong performance from the banking sector. Excluding the significant YoY decline in IQCD's earnings, we note aggregate earnings actually ticked up 1.8% YoY driven by telecoms, banks, insurance and transportation. Aggregate revenue edged lower by 0.3% YoY to QR44.6bn with a deficit in industrials largely offset by banks and consumers. Adjusted QoQ revenue decreased by 7.6% weighed down by industrials and consumers; revenue generally declined across the board sequentially except for modest increases in transportation and financial services. Aggregate NP margin came in at 28.2% compared with 31.0% in 1Q2022. Banks remained the biggest contributor to the QSE's aggregate earnings at 56.5% (1Q2022: 49.7%) followed by industrials (18.9% vs. 30.6% in 1Q2022) and telecoms (8.7% vs. 5.6% in 1Q2022). Similarly, banks recorded the strongest NP margin at 46.8% compared with 32.4% in 4Q2022 and 49.7% in 1Q2022.

Snapshot of the 1Q2023 Earnings Season

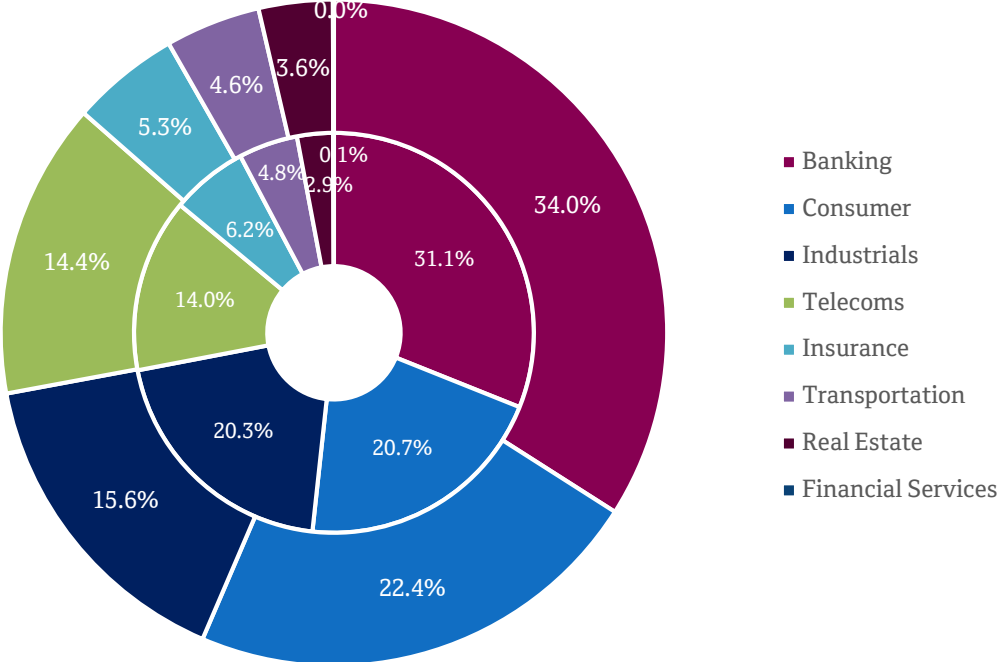
- Half (4Q2022: five) of the eight sectors exhibited negative earnings growth YoY
- As expected, like the previous quarter, Banks account for bulk of the earnings
- Telecoms maintain strong growth momentum; Insurance recovers
- Industrials accounted for most of the earnings decline
- 12 companies registered double-digit or more of earnings growth YoY
- Only two companies out of the 50-listed recorded losses; one in 1Q2022
- 22 companies recorded YoY earnings decline

QSE Sector Earnings: 1Q2023 vs. 1Q2022



Source: QSE, QNBFS Research

QSE Sector Revenue Contribution: 1Q2023 (outer core) vs. 1Q2022 (inner core)



Source: QSE, QNBFS Research

1Q2023 Net Profit for QSE-listed Companies (QR'000)

Sector	Company	1Q2023	1Q2022
Banking	Qatar National Bank	3,881,745	3,616,015
	Qatar Islamic Bank	905,341	855,147
	The Commercial Bank	751,297	637,079
	Dukhan Bank	413,961	392,141
	Masraf Al Rayan	384,954	487,720
	Qatar International Islamic Bank	315,916	294,862
	Doha Bank	208,634	401,445
	Al Ahli Bank	204,596	191,452
	Qatar First Bank	22,118	21,022
Banking Total		7,088,562	6,896,883
Consumer	Qatar Fuel	223,214	262,803
	Al Meera Consumer Goods	43,189	43,205
	Zad Holding	41,729	42,835
	Baladna	20,018	25,896
	Medicare Group	18,810	17,194
	Mannai Corp	12,153	31,779
	Mekdam Holding Group	9,679	9,478
	Salam International Investment	6,946	9,116
	Qatar Cinema & Film Distribution	1,995	1,538
	Qatari German Co. for Medical Devices	270	525
	Widam Food Company	(17,373)	(7,047)
Consumer Total		360,630	437,322
Financial services	Qatar Oman Investment	4,553	3,301
	National Leasing	4,095	2,950
	Inma Holding	1,288	6,403
	Dlala Brokerage & Investment Holding	(2,376)	18,282
Financial services Total		7,559	30,936
Industrials	Industries Qatar	1,165,925	2,703,618
	Qatar Electricity & Water	400,663	388,694
	Mesaieed Petrochemical Holding	268,624	442,909
	Estithmar Holding	101,214	91,847
	Qatar Aluminium Manufacturing	92,624	239,604
	Gulf International Services	90,235	112,144
	Aamal Holding	87,495	73,618
	Qatar National Cement	64,102	77,354
	Qatari Investors Group	54,474	81,928
	Qatar Industrial Manufacturing	48,197	40,767
Industrials Total		2,373,552	4,252,484
Insurance	Qatar Insurance	173,153	24,344
	Doha Insurance	65,585	34,597
	Qatar General Insurance & Reinsurance	44,990	59,474
	Qatar Islamic Insurance	29,297	27,338
	Al Khaleej Takaful Insurance	27,280	20,487
	QLM Life & Medical Insurance	20,029	29,126
	Damaan Islamic Insurance	13,670	13,574
Insurance Total		374,004	208,940
Real estate	Barwa Real Estate	235,486	228,937
	Ezdan Holding Group	91,042	153,601
	United Development	88,022	80,288
	Mazaya Real Estate Development	10,199	11,373
Real estate Total		424,749	474,199
Telecoms	Ooredoo	960,566	670,900
	Vodafone Qatar	133,391	107,383
Telecoms Total		1,093,957	778,283
Transportation	Nakilat	395,488	381,835
	Qatar Navigation/Milaha	363,285	360,410
	Gulf Warehousing	61,484	57,801
Transportation Total		820,257	800,046
Grand Total		12,543,270	13,879,092

Source: QSE, QNBFS Research

Banking Sector

Valuation Remains Attractive

Highlights:

- **The banking sector posted mixed results in 1Q2023.** For 1Q2023, the banking sector posted a 2.8% YoY growth in aggregate headline net income. However, on a normalized basis (excluding DHBK & MARK), earnings grew by 8.1%.
- **The Banks & Financial Services Index fared better than the QSE Index and dipped by only 1.5% (QSE Index: -4.4%) in 1Q2023.**
- **The banking sector is currently trading at a P/B multiple of 1.5x with an average RoE of 12.7% vs. 1.9x KSA (RoE: 14.8%), 1.3x UAE (RoE: 14.4%) and 1.4x Kuwait (RoE: 10.7%) which is attractive. The sector offers a dividend yield of 3.8% vs. the QSE's DY of 4.7%.**

Revenue:

- **Aggregate revenue gained by 9.2% YoY in 1Q2023 to QR15.2bn, driven mainly by QNB Group (being the sector's largest contributor).** Aggregate growth was a mixed bag as banks grew their revenue by margin expansion and/or non-funded income. DHBK, MARK and DUBK experienced significant margin pressure.
- **Aggregate revenue declined by 2.2% QoQ in 1Q2023.** Aggregate decline was mainly attributable to margin compression and to some extent, weak non-funded income.
- **NIMs, on a YoY basis on average, improved, while it contracted on a sequential basis.** In aggregate, net interest margin improved by ~19bps to 2.41% YoY vs. a compression of ~25bps QoQ. The YoY expansion was due to the repricing of assets following interest rate hikes that began early-2022. QNBK's margins were robust YoY (flat QoQ). However, DHBK's and MARK's NIMs contracted by 51bps and 46bps YoY, respectively. Meanwhile, NIMs contracted sequentially due to continuous rate hikes in the second half of 2022 – banks reprice their assets with a lag whereas funding costs move largely in lockstep with rate hikes.

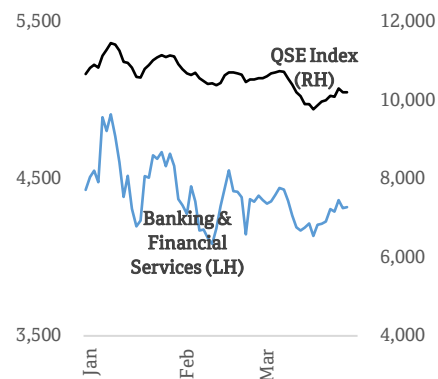
Earnings:

- **Aggregate 1Q2023 net income edged up by 2.8% YoY to QR7.1bn due to large drops from DHBK (48.0%) and MARK (21.1%).** Excluding MARK and DHBK, normalized net profit would have increased by a strong 8.1%. The normalized bottom-line drivers were mixed. Some banks booked flat to lower provisions while others generated healthy net operating income. It is important to note that CBQK reported significantly lower hyperinflation losses. On the other hand, DHBK and MARK experienced weak net operating income due to margin compression
- **Aggregate net income of banks surged by 41.2% QoQ in 1Q2023.** This was partially due to losses generated from DHBK and MARK in 4Q2022. Excluding DHBK and MARK, earnings increased by 24.8%, mainly due to a sharp drop in provisions & impairments (generally in-line with historical trends).

Balance Sheet:

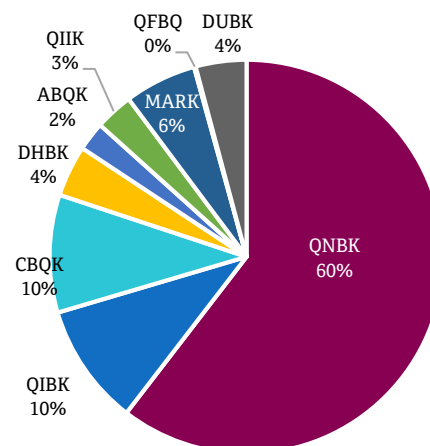
- **Loans experienced a decrease of 0.4% YTD.** The loan book came at QR1.34trn in 1Q2023 vs. QR1.35trn in FY2022. **Highest YTD growth was seen from ABQK (up 7.9%) and QNBK that witnessed its loan book inching up by 0.3% landing at QR809.8bn.** The rest of the banks' loan books shrank as the public sector continued repaying credit facilities.
- **All banks witnessed their deposits drop YTD with ABQK (up 5.9%) being the exception.** Aggregate deposits decreased by 2.6% YTD to reach QR1.30trn, driven mainly by QNBK as it has the largest deposit book domestically (~63% market share). The bank's deposits receded by 1.8% YTD. CBQK/DUBK incurred the largest drop by 8.5%/6.1%.
- **Capitalization levels of Qatar banks remained robust.** Sector average capital adequacy ratio came in at a robust 19.2%. All the banks generated strong CARs.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ
QNBK*	Qatar National Bank	3,616,015	2,875,817	3,881,745	7.3%	35.0%
QIBK	Qatar Islamic Bank	855,147	1,154,965	905,341	5.9%	-21.6%
CBQK*	Commercial Bank of Qatar	637,079	609,782	751,297	17.9%	23.2%
DHBK	Doha Bank	401,445	(167,538)	208,634	-48.0%	N/M
ABQK	Al Ahli Bank	191,452	204,887	204,596	6.9%	-0.1%
QIIK	Qatar International Islamic Bank	294,862	173,219	315,916	7.1%	82.4%
MARK	Masraf Al Rayan	487,720	(15,676)	384,954	-21.1%	N/M
QFBQ	Lesha Bank	21,022	11,920	22,118	5.2%	85.6%
DUBK	Dukhan Bank	392,141	172,303	413,961	5.6%	140.3%
	Total	6,896,883	5,019,679	7,088,562	2.8%	41.2%
	Total (Excluding DHBK & MARK)	6,007,718	5,202,893	6,494,974	8.1%	24.8%

Source: Company data; Note: Net Income is in QR'000 and are headline net income figures; *QNBK & CBQK 1Q2022 adjusted for hyperinflation monetary loss

Industrials Sector

Skewed High Base-effects Overshadow 1Q2023 Performance

Highlights:

- The sector top- and bottom-line have both started the year on the back foot in 1Q2023. Overall, we see earnings moderation for the diversified industrials complex primarily due to base effects created by hosting of the FIFA World Cup and weakness seen in energy & commodity prices. As credit markets tighten, overall strength in Qatari industrial companies' balance sheets should minimize both operating and financial risks.
- The Industrials Index recovered by 5.7% (QE Index: -4.4%) in 1Q2023 after falling by 16.1% in 4Q2022.
- Total traded value of QR9.1bn in 1Q2023 is a 12.2% increase on QR8.1bn traded in 4Q2022.
- Currently at a P/E ratio of 14.9x, Industrials are trading below their five-year median of 16.4x.

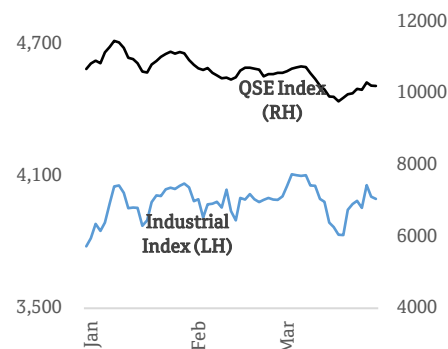
Revenue:

- Sector revenue declined 23.1% YoY in 1Q2023 to QR7.0bn, weighed down by IQCD's revenue, which fell 34.3%; IQCD accounted for 49.8% of sector revenue.
- Sequentially, comparable revenue fell by 19.3% in 1Q2023 (excluding GISS). All companies recorded lower revenue with IQCD and IGRD contributing to most of the sector decline.

Earnings:

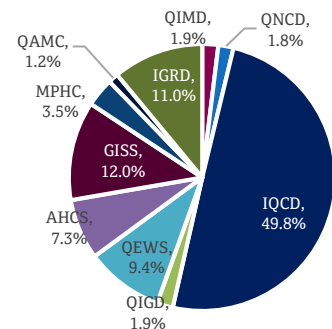
- The sector's comparable 1Q2023 net profit fell 44.2%/20.8% YoY/QoQ with IQCD accounting for bulk of the decline in line with the drop in its top-line as well as weaker margins – GISS is excluded from the QoQ analysis. IQCD also propelled QoQ earnings comparisons downward.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ*
QIMD	Qatar Industrial Manufacturing Co.	40,767	16,096	48,197	18.2%	199.4%
QNCN	Qatar National Cement Co.	77,354	56,371	64,102	-17.1%	13.7%
IQCD	Industries Qatar	2,703,618	1,768,615	1,165,925	-56.9%	-34.1%
QIGD	Qatari Investors Holding	81,928	39,984	54,474	-33.5%	36.2%
QEWS	Qatar Electricity & Water Co.	388,694	460,836	400,663	3.1%	-13.1%
AHCS	Aamal Co.	73,618	91,786	87,495	18.8%	-4.7%
GISS*	Gulf International Services	112,144	23,970	90,235	-19.5%	N/A
MPHC	Mesaieed Petrochemical Holding Co.	442,909	296,279	268,624	-39.4%	-9.3%
QAMC	Qatar Aluminium Manufacturing Co.	239,604	116,047	92,624	-61.3%	-20.2%
IGRD	Estithmar Holding Group	91,847	37,990	101,214	10.2%	166.4%
Total		4,252,484	2,907,974	2,373,552	-44.2%	-20.8%

Source: Company data; Note: Net Income is in QR'000

*QoQ comparison excludes GISS as 4Q2022 results are not comparable

Consumer Goods & Services Sector

Broadly Weaker Margins See Yearly Sector Earnings Decline

Highlights:

- **Mekdam Holding Group (MKDM)** transferred its listing to the QSE main market in the first couple of days of 2023, increasing the constituents of the consumer goods & services sector to 11. In 1Q2023, overall sector revenue growth was positive/negative YoY/QoQ but bottom-line growth was weaker/stronger YoY/QoQ.
- While the sector is likely to moderate in line with the GDP this year, in the medium-term, government policies – augmented by a strong government fiscal performance – aimed at diversifying the economy away from hydrocarbons should provide a platform for both top- and bottom-line growth for the sector. Notably, some pockets of the sector are set to benefit from government/Qatar Tourism (QT) efforts in actively promoting Qatar as an ideal tourist destination for families on the back of successfully hosting the FIFA World Cup 2022. Some of these efforts are already paying off as Qatar welcomed QR1.16mn visitors in 1Q2023, a 267% YoY increase.
- **The Consumer Goods & Services Index inched down 0.6% (QSE Index: -4.4%) in 1Q2023.** Sector traded value in 1Q2023 dropped by 7.1% to QR2.5bn vs. QR2.7bn in 4Q2022.
- **The consumer goods & services sector has a median P/E ratio of 18.7x over the last five years but it is currently trading at 23.1x.**

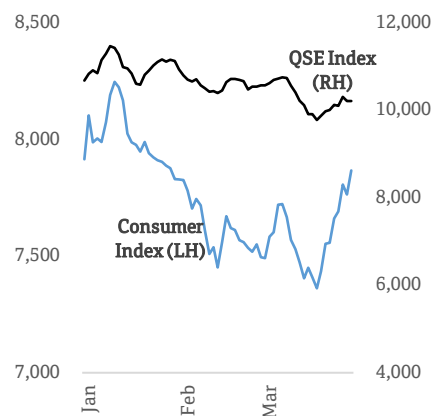
Revenue:

- **Sector revenue grew by 8.2% YoY to QR10.0bn in 1Q2023, while declining 9.5% QoQ.** In both instances, Qatar Fuel was a big influence given its outsized weight within the sector. Eight out of the 11 companies in the sector saw growth YoY but on the flipside, nine companies registered a decline QoQ due to seasonality coupled with the World Cup-related high base.

Earnings:

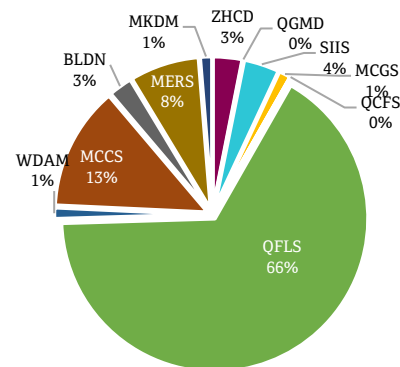
- **The sector's 1Q2023 net profit declined 17.5% YoY to QR360.6mn with QFLS, MCCS and WDAM contributing the bulk of the decline.** Only three out of the 11 companies in the sector registered an earnings increase. Sequentially, sectoral bottom-line climbed 94.7% primarily due to MCCS turning a significant loss of QR309.5mn in 4Q2022 into a profit of QR12.2mn in 1Q2023.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ
ZHCD	Zad Holding	42,835	62,879	41,729	-2.58%	-33.64%
QGMD	Qatari German Co. for Medical Devices	525	-399	270	-48.62%	N/M
SIIS	Salam International Investment	9,116	27,755	6,946	-23.81%	-74.98%
MCGS	Medicare Group	17,194	23,124	18,810	9.40%	-18.66%
QCFS	Qatar Cinema & Film Distribution	1,538	466	1,995	29.67%	328.47%
QFLS	Qatar Fuel	262,803	307,216	223,214	-15.06%	-27.34%
WDAM	Widam Food Company	-7,047	-39,794	-17,373	146.51%	-56.34%
MCCS	Mannai Corporation	31,779	-309,510	12,153	-61.76%	N/M
BLDN	Baladna	25,896	24,997	20,018	-22.70%	-19.92%
MERS	Al Meera Consumer Goods & Services	43,205	75,412	43,189	-0.04%	-42.73%
MKDM	Mekdam Holding Group	9,478	13,034	9,679	27.98%	97.51%
Total		437,322	185,181	360,630	-17.54%	94.74%

Source: Company data; Note: Net Income is in QR'000

Insurance Sector

Conventional Names Drive Profitability Even as Revenue Falls

Highlights:

- Conventional insurance companies' drive overall sector profitability with industry heavyweight QATI accounting for bulk of net profit during 1Q2023. Overall conventional insurance companies (QATI, DOHI, QLMI and QGRI) net profit soared by 105.9% YoY, while Islamic insurance companies (AKHI, QISI and BEMA) witnessed a yearly rise in net profit by 14.4% during 1Q2023.
- Mandatory health insurance is being implemented in a phased manner. However, The Ministry of Public Health (MoPH) announced in January 2023 the implementation of the first phase of the mandatory health insurance for visitors to Qatar, which started from February 1, 2023. This is in accordance with the Law No. (22) of 2021 regarding the regulation of health care services in Qatar. The MoPH explained that the mandatory health insurance for all visitors covers emergency and accident services only, with a premium of QR50 per month on initial issuance and upon extension of the visa.
- The Insurance Index dropped 14.2% (QSE Index: -4.4%) in 1Q2023 after it fell by 15.5% in 4Q2022.
- Trading interest in the sector skyrocketed as traded volume shot up 94.9% QoQ in 1Q2023.

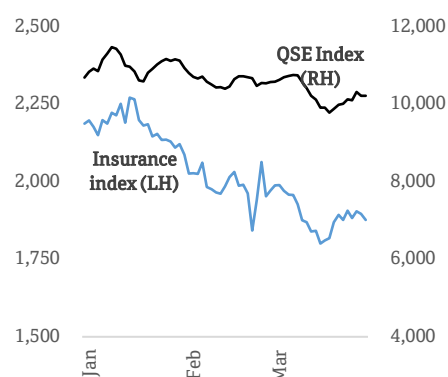
Revenue:

- The insurance sector's revenue in 1Q2023 went down 15.5% YoY to QR2.35bn from QR2.78bn, driven mainly by a fall in QATI's insurance revenue (-27.0%). Conventional insurance companies accounted for 91.5% of overall insurance revenue during 1Q2023, while Islamic insurance companies accounted for only 8.5%.
- Conventional insurance companies' revenue moved down 17.3% YoY to QR2.15bn from QR2.60bn, while Islamic insurance companies' revenue increased by 9.1% (AKHI up 24.1%) during 1Q2023 to reach QR200.6mn from QR183.9mn achieved during 1Q2022.

Earnings:

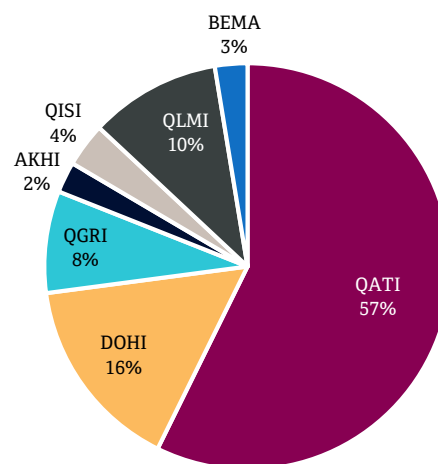
- The sector's 1Q2023 net profit increased substantially by 79.0% YoY to reach QR374.0mn, compared to a net profit of QR208.9mn for 1Q2022.
- QATI and DOHI were the main contributors to the overall rise in sector bottom-line. QATI net profit shot up by 611.3% YoY, while the other star performer for 1Q2023 DOHI grew net profit by 89.6% YoY. QATI net profit growth was driven mainly by a significant upside in investment income, even as insurance revenue declined and a loss on discontinued operations (of Gibraltar-based subsidiaries underwriting UK motor insurance) was a drag on the bottom-line.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Insurance Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	1Q2023	YoY
QATI	Qatar Insurance	24,344	173,153	611.3%
DOHI	Doha Insurance	34,597	65,585	89.6%
QGRI	Qatar General Insurance & Reinsurance	59,474	44,990	(24.4%)
AKHI	Al Khaleej Takaful Group	20,487	27,280	33.2%
QISI	Qatar Islamic Insurance	27,338	29,297	7.2%
QLMI	Qatar Life & Medical Insurance	29,126	20,029	(31.2%)
BEMA	Damaan Islamic Insurance Company	13,574	13,670	0.7%
Total		208,940	374,004	79.0%

Source: Company data; Note: Net Income is in QR'000 and QATI earnings are headline net income figures

Telecoms Sector

Earnings Growth Despite 4Q2022 World Cup Boost

Highlights:

- The telecoms sector aggregate top-line grew YoY but declined sequentially, as expected, post the FIFA World Cup with Ooredoo and Vodafone Qatar both recording their highest-ever quarterly revenue from Qatar in 4Q2022.
- The telecoms sector was able to sustain its earnings with profitability increasing on a yearly basis. Sequential earnings growth also benefited from one-offs at ORDS.
- The Telecoms Index jumped 9.1% from 4Q2022 to 1Q2023 outpacing its 4Q2022 growth of 3.2% and outshining the QSE Index that experienced a fall of 4.4%.
- Total traded value for the sector grew to QR1.25bn in 1Q2023, a 1.8% growth vs. 4Q2022, which stood at QR1.23bn.
- Currently at a P/E ratio of 13.8x, the telecoms sector is trading below its five-year median of 20.4x.

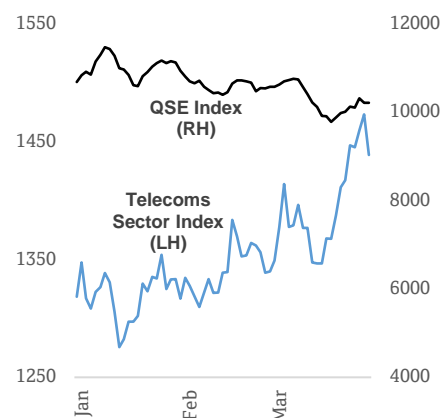
Revenue:

- For 1Q2023, aggregate sector revenue grew 2.2% YoY to QR6.4bn driven by growth in the sector giant Ooredoo's revenue (up 1.6%) to QR5.6bn and supported by Vodafone Qatar's 6.2% YoY increase to QR775.9mn. Ooredoo reported higher revenue from services and sale of telecommunications equipment, leading to its revenue growth. ORDS management pointed to local currency revenue growth across majority of their markets. Vodafone Qatar's revenue was mainly backed by continued growth in postpaid and fixed broadband (GigaHome), managed services, IoT and equipment & related services.
- Sequentially, revenue dropped 4.8% in 1Q2023 due to a 3.6% lower revenue QoQ exhibited by ORDS and a 12.8% decline in revenue seen by VFQS. Both the sector players, as expected, faced sequential revenue decline from Qatar post the World Cup.

Earnings:

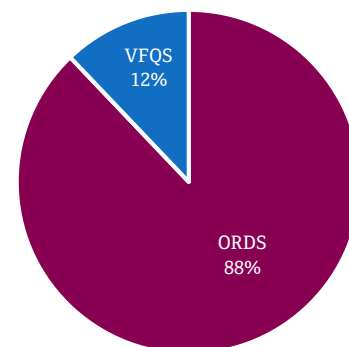
- The sector's 1Q2023 aggregate net profit rose 40.6% YoY to QR1.1bn. The YoY increase in earnings was mostly driven by ORDS, which benefited from several one-offs including a ~QR446mn benefit from a positive outcome from NMTC's legal case. However, Ooredoo's normalized earnings grew from ~QR689mn in 1Q2022 to ~QR795mn in 1Q2023.
- Sequentially, sectoral bottom-line surged 128.1% in 1Q2023 as Ooredoo more than tripled its earnings from 4Q2022 that faced higher impairment charges, whereas Vodafone's earnings dropped 20.6% following the contraction seen by its top-line.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ
ORDS	Ooredoo	670,900	311,538	960,566	43.2%	208.3%
VFQS	Vodafone Qatar	107,383	167,972	133,391	24.2%	(20.6%)
	Total	778,283	479,510	1,093,957	40.6%	128.1%

Source: Company data; Note: Net Income is in QR'000

Real Estate Sector

Higher Rentals Support Sector as WC Boom Starts to Fade

Highlights:

- Higher rentals resulting from the resurgence of housing demand from the FIFA World Cup Qatar 2022 supports the real estate sector in the short- to medium-term, even as occupancy rates and demand soften after the successful completion of this global sporting event.
- The Real Estate Index declined 7.8% (QSE Index: -4.4%) in 1Q2023 after it fell by 14.4% in 4Q2022.
- Trading activity in the sector dropped as traded value fell 25.1% to QR1.39bn from QR1.86bn.

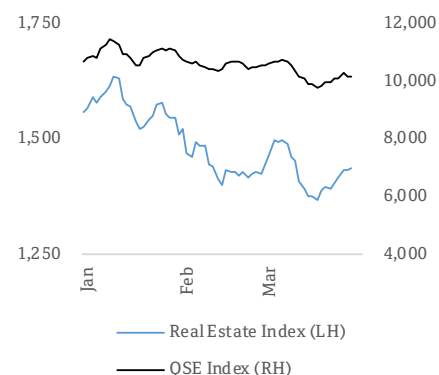
Revenue:

- The real estate sector's 1Q2023 revenue went up 23.3% YoY to reach QR1.6bn driven mainly by gains from UDCD and ERES. Sequentially, revenue went down 14.1% in 1Q2023 mainly driven by BRES and ERES.

Earnings:

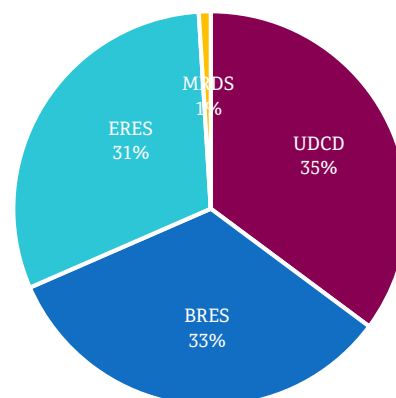
- The sector's 1Q2023 net profit declined 10.4% YoY to QR424.7mn weighed down by ERES and MRDS.
- Sequentially, sectoral bottom-line increased 21.4% in 1Q2023 driven mainly by ERES, which grew its earnings to a positive QR91.0mn, from a loss of QR234.3mn during 4Q2022. BRES and UDCD earnings dropped by 40.5% and 51.0%, respectively, in 1Q2023. However, MRDS recorded a 15.7% earnings growth in 1Q2023.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ
UDCD	United Development Co.	80,288	179,570	88,022	9.63%	(50.98%)
BRES	Barwa Real Estate Co.	228,937	395,835	235,486	2.86%	(40.51%)
ERES	Ezdan Real Estate Co.	153,601	(234,292)	91,042	(40.73%)	N/M
MRDS	Mazaya Qatar Real Estate Dev.	11,373	8,816	10,199	(10.32%)	15.70%
Total		474,199	349,929	424,749	(10.43%)	21.38%

Source: Company data; Note: Net income is in QR'000

Transportation Sector

Attractive Growth Drivers Along With YoY Earnings Growth

Highlights:

- **The transportation sector should benefit from macro drivers as well as various capex investments providing a positive catalyst for earnings growth.** QGTS is a potential major player, on the shipping front, in the LNG expansion initiated by QatarEnergy (first production in 4Q2025), while GWCS is on track to commence Phase 2 of its Al Wukair logistics facility and start a new project in Oman later this year. Milaha should also benefit from its significant ownership of Nakilat, along with momentum from its offshore operations and stable growth elsewhere.
- **The Transportation Index dropped 7.9% (QSE Index: -4.4%) in 1Q2023** after it dropped by 6.1% in 4Q2022.
- **Traded value in the sector dropped considerably** by 35.5% QoQ to QR886.9mn from QR1.37bn.
- **The transportation sector is currently trading at a P/E multiple of 14.3x vs. a five-year median of 13.8x.**

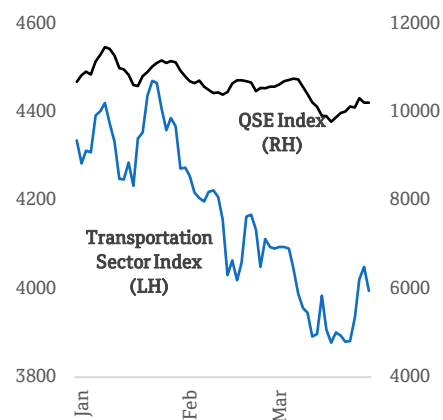
Revenue:

- **The transportation sector's 1Q2023 revenue dropped 3.8% YoY to QR2.1bn** weighed down by a significant decline in Milaha's top-line (-16.1%), which faced a lower 1Q in container shipping rates. Gulf Warehousing's revenue jumped up 17.5% driven by growth in both logistics and freight forwarding, while Nakilat's wholly-owned LNG shipping business remained stable as usual, with revenue up 0.6%.
- **Sequentially, revenue grew 1.4% in 1Q primarily due to a 6.1% increase in Milaha's revenue,** which enjoyed the usual sequential uptick in dividend income. Aggregate revenue growth was also supported by slight growth seen in GWCS (0.9%), which outweighed the drop seen by QGTS (-2.1%).

Earnings:

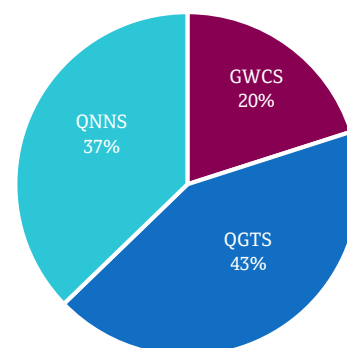
- **The sector's 1Q net profit increased 2.5% YoY** to QR820.3mn from QR800.0mn.
- **Sequentially, sectoral bottom-line surged by 54.4% in 1Q2023** since 4Q2022 reported significantly lower earnings of QR531.3mn, dragged down by impairments at Milaha and higher-than-expected dry-docking related depreciation charges at QGTS; 1Q2023 earnings also benefited from dividend income earned by Milaha.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ
GWCS	Gulf Warehousing Co.	57,801	65,382	61,484	6.4%	(6.0%)
QGTS	Nakilat	381,835	303,801	395,488	3.6%	30.2%
QNNS	Qatar Navigation	360,410	162,127	363,285	0.8%	124.1%
	Total	800,046	531,310	820,257	2.5%	54.4%

Source: Company data; Note: Net Income is in QR'000

Financial Services Sector

Sector Moves Toward Recovery After Huge Losses in 4Q2022

Highlights:

- **The financial services sector shows great improvement from 4Q2022 as the sector's overall revenue and earnings expanded in 1Q2023.** Although the sector performed well sequentially, it experienced a decline in performance as compared to 1Q2022. DBIS is yet to fully recover from the provisions and impairments reported in the previous quarters while IHGS started the year on a subdued note as annualized revenue more than halved. Both lost market share YoY even as overall trading activity subsided on the Qatar Exchange.
- **The Banks & Financial Services Index dropped 2.5% (QSE Index: -4.4%) in 1Q2023.**

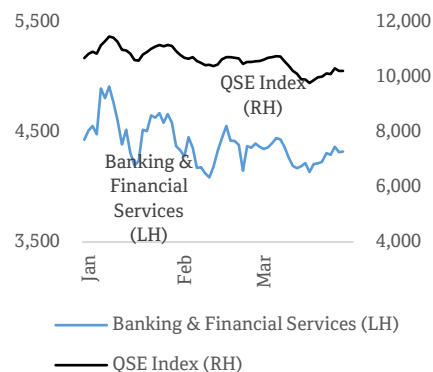
Revenue:

- **The financial services sector's revenue contracted by 23.5% YoY to QR22.1mn driven by a substantial drop from DBIS and IHGS.** DBIS reported revenue of QR3.9mn, which is a 50.5% decline from QR8.0mn seen in 1Q2022. IHGS's top-line fell by 67.0% to QR3.1mn from QR9.4mn of the same quarter last year. On the other hand, NLCS and QOIS both exhibited growth in their top-lines – NLCS up 29.2% to QR9.3mn and QOIS up 32.4% to QR5.8mn. Although two out of four companies showed an increase in their revenue, it was not enough to offset the sizeable drop seen by the other two.
- **Sequentially, revenue jumped 47.2% in 1Q2023 as NLCS, QOIS and IHGS posted growth while DBIS was the only company to register a drop.** NLCS grew its revenue by 18.6%, IHGS by 7.6% but DBIS's revenue shrunk 11.7%.

Earnings:

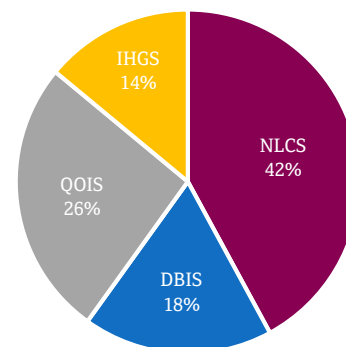
- **The sector reported a net profit of QR7.6mn in 1Q2023 vs. a net profit of QR30.9mn in 1Q2022 and a net loss of QR36.5mn in 4Q2022.** NLCS and QOIS recorded growth of 38.8% and 37.9%, respectively, because of higher revenue and lower expenses seen by both companies. However, IHGS saw its net profit shrink significantly by 79.9% as its revenue declined considerably.
- **Sequentially, sectoral bottom-line recovered from a loss as all companies displayed improvement.** IHGS saw its net profit grow by 219.5% and NLCS grew its earnings by 47.9%. Further, QOIS flipped losses to gains while DBIS shrunk its losses.

Sector Index Performance for 1Q2023



Source: Bloomberg

1Q2023 Sector Revenue Contribution



Source: QSE

Net Income

Ticker	Company	1Q2022	4Q2022	1Q2023	YoY	QoQ
NLCS	National Leasing Holding	2,950	2,768	4,095	38.8%	47.9%
DBIS	Dlala Brokerage & Investment Holding	18,282	(38,267)	(2,376)	N/M	(93.8%)
QOIS	Qatar & Oman Investment	3,301	(1,359)	4,553	37.9%	N/M
IHGS	Inma Holding	6,403	403	1,288	(79.9%)	219.5%
Total		30,936	(36,454)	7,559	(75.6%)	N/M

Source: Company data; Note: Net income is in QR'000

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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