

# QNBFS Alert – FOL Increase in the Works; 2015 Estimates Likely to be Revised Down

**What happened:** CBQ management held a conference call discussing 2014 results yesterday (Tuesday March 3<sup>rd</sup>).

**FOL to be raised -- a potential positive.** CBQ's management indicated they plan on increasing the bank's FOL to 49% from 25%. As of yesterday, foreigners owned 15.2% of CBQ's shares. This is a positive step and will likely increase the stock's weight in MSCI Qatar and MSCI EM.

**Financial discussion and outlook:** In-line with our expectation, management confirmed that the impaired real estate loan will be made good in 1H2015. As such, we expect the NPL ratio drop to 2.5% in 2015 vs. 3.79% in 2014. Consequently, the coverage ratio would significantly improve from 2014's 74.3%. Expect the coverage ratio to reach ~100% in 2015.

- Management addressed the LDR issue at hand. QCB has officially asked banks to maintain a LDR (only deposits excluding long-term funds will figure into the denominator) of 100% max. Banks must comply by 1-Jan-2018. CBQ's management is still in discussions with the QCB to soften this strict requirement so that long-term funds can be included in the denominator. It should be noted that the new formula could lead to banks funding longer-term projects with short-term deposits, potentially creating a duration mismatch in the future.
- The bank may issue Tier-1 or Tier-2 bonds this year. The placement could be potentially made open to both private and/or public investors. Management did not reveal the value of the paper.
- Management did not give explicit guidance about loan growth. ***Based on their tone, we expect single digit growth of 8%-9%.***
- Management shed high cost deposits in 2014 and plans to raise low-cost deposits. As such, they expect NIMs to be stable in 2015 at ~2.7%.
- Cost of risk (CoR) is expected to remain unchanged at 0.9% in 2015.
- Operating expenses are expected to grow in-line with domestic inflation.
- CBQ's investment portfolio decreased by 21.0% in 2014, mainly due to maturities and sale of government bonds. Management plans to build its investment book in 2015.

**Conclusion:** After yesterday's con. call, we are likely to revise our estimates downward. Some of the change will be due to flow-through of the slight earnings miss in 4Q2014. Also we are likely to revise our NIMs, provisions and CoR.

**We maintain our Price Target of QR76.00/share and our rating of Market Perform for now.**

**Recommendations**

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

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

**Risk Ratings**

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

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

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