

QNBFS Alert – CBQK 4Q2013 Net Income Up 7% QoQ

- **Weak 4Q2013 profitability on the back of significant provisions and expenses.** CBQK posted a net profit of QR300mn vs. our estimate of QR419mn (Bloomberg consensus: QR428mn), up by ~7% QoQ (down ~33% YoY). Net profit on a YoY basis declined primarily on the back of significant increases in provisions and expenses. The bank booked provisions of QR267mn in 4Q2013 vs. QR101mn in 4Q2012 (3Q2013: QR231mn). Net interest income dipped by 2% QoQ (+37% YoY) to reach QR632mn. Commercial Bank registered non-interest income (including income from associates) of QR464mn in 4Q2013 vs. QR274mn in 3Q2013 which translates into a growth of 69% QoQ (+15% YoY). This robust performance was mainly due to higher fees & commissions and higher foreign exchange income. Operating expenses (mainly attributed to ABank) hindered the growth stemming from net operating income. Expenses surged by 45% and 83% QoQ and YoY, respectively. Moreover, the bank's cost-to-income ratio deteriorated in 4Q2013 (48%) vs. 37% in 4Q2012.
- **The bank announced a cash dividend of QR2.0/share (DY: 2.7%) vs. our estimate of QR5.50/share and a 20% bonus share issue.** While the cut makes business sense, we await further color from management to determine the dividend policy going forward.
- **Loans significantly expanded QoQ and YoY.** CBQK's loan book grew by 3% QoQ (+38% YoY). Moreover, deposits followed suit and expanded by 9% QoQ (+52% YoY). As such, the LDR rested at 106% vs. 112% in 3Q2013 (117% at the end of 2012). The growth in loans and deposits is a one-time occurrence due to the consolidation of ABank. ABank contributed 17% and 13% to overall loans and deposits, respectively. Finally, CBQK's investment portfolio expanded by 25% QoQ (+59% YoY).
- **Asset quality worsened.** CBQK's NPL ratio marginally deteriorated QoQ to 3.6% vs. 3.3% in 3Q2013 (1.1% at the end of 2012). Moreover, the bank issued Tier 1 Capital Notes (QR2bn) which improved the CAR to 14.1% vs. 12.5% in 9M2013 (2012:17.0%)
- **We maintain our target price of QR87.59/share and rate the stock an Outperform.** While reported 4Q2013 results were below our estimates, we believe that the reduction in dividends along with the additional provisioning undertaken during the quarter should benefit the bank's expansion strategy/profitability going forward.

Recommendations

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

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

Risk Ratings

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

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

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