QNBFS Alert – KCBK Reports Weak 2Q2017 as Expected; Estimates In-Line

- **2Q2017 net profit in-line with our estimates; weak set of results as expected.** Al Khalij Commercial Bank (KCBK) reported a net profit of QR158.9mn in 2Q2017 vs. QR160.9mn in 1Q2017 (QR164.1mn in 2Q2016), in-line our estimates of QR164.4mn (-3.4% variation). KCBK reported total revenue of QR297.7mn, in-line with our estimate (QR289.1mn, +3.0% variation). Moreover, net operating income also came in-line at QR209.9mn vs. our estimate of QR204.4mn (+2.7% differential).
- **KCBK's net profit receded by 1.3% QoQ due to lackluster non-funded income and higher opex.** The bank posted non-funded income of QR32.4mn (QR81.2mn in 1Q2017), dropping by 60.2% due to f/x losses and investment losses. On the other hand, opex gained by 4.9% to QR87.8mn. As such the C/I ratio moved up to 29.5% vs. 26.8% in 1Q2017. Profitability on a YoY basis retreated by 3.2% on the back of a 50.2% drop in non-funded income and higher credit provisions. Provisions for credit losses came in at QR50.7mn vs. QR26.4mn.
- **Margins significantly improved.** Net interest income jumped by 14.9% and16.9% QoQ and YoY to QR265.3mn, respectively. Net interest margin expanded by 28bps and 30bps QoQ and YoY to 1.93%, respectively.
- **Net Loans and deposits declined.** Net loans decreased by 1.7% QoQ (flat YTD) to QR35.2bn. Further, deposits declined by 5.5% QoQ (-1.8% YTD) to QR32.4bn. As such KCBK's LDR remained elevated at 108% vs. 104% in 1Q2017 (106% in FY2016). *Indicating, liquidity is still an issue for KCBK.*
- **Asset quality further worsened but remains manageable.** The bank's NPLs increased by 10.8% and 18.3% QoQ and YTD to QR644.4mn. As such, the NPL ratio jumped to 1.79% vs. 1.59% in 1Q2017 (1.52% at the end of 2016). However, coverage ratio reached 113%, which is positive
- **Capitalization remained healthy.** KCBK ended 2Q2017 with a CAR of 15.7% vs. 15.8% in 2016.
- **Recommendation and valuation:** The stock trades at a P/TB of 0.8x on our 2017 estimates. For now we maintain our Market Perform rating.

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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